

Notes to the Consolidated Financial Statements

OF THE VOLKSWAGEN GROUP AS OF DECEMBER 31, 2015

Basis of presentation

Volkswagen AG is domiciled in Wolfsburg, Germany, and entered in the commercial register at the Braunschweig Local Court under No. HRB 100484. The fiscal year corresponds to the calendar year.

In accordance with Regulation No. 1606/2002 of the European Parliament and of the Council, Volkswagen AG prepared its consolidated financial statements for 2015 in compliance with the International Financial Reporting Standards (IFRSs), as adopted by the European Union. We have complied with all the IFRSs adopted by the EU and required to be applied.

The accounting policies applied in the previous year were retained, with the exception of the changes due to the new or amended standards.

In addition, we have complied with all the provisions of German commercial law that we are also required to apply, as well as with the German Corporate Governance Code. For information on notices and disclosures of changes regarding the ownership of voting rights in Volkswagen AG in accordance with the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act), please refer to the annual financial statements of Volkswagen AG.

The consolidated financial statements were prepared in euros. Unless otherwise stated, all amounts are given in millions of euros (€ million).

All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.

The income statement was prepared using the internationally accepted cost of sales method.

Preparation of the consolidated financial statements in accordance with the above-mentioned standards requires management to make estimates that affect the reported amounts of certain items in the consolidated balance sheet and in the consolidated income statement, as well as the related disclosure of contingent assets and liabilities. The consolidated financial statements present fairly the net assets, financial position and results of operations as well as the cash flows of the Volkswagen Group.

The Board of Management completed preparation of the consolidated financial statements on April 22, 2016. On that date, the period ended in which adjusting events after the reporting period are recognized.

Effects of new and amended IFRSs

Volkswagen AG has adopted all accounting pronouncements required to be applied starting in fiscal year 2015.

A number of amendments to International Financial Reporting Standards resulting from the Annual Improvements Project 2013 became effective on January 1, 2015. These relate to changes to IFRS 1, IFRS 3, IFRS 13 and IAS 40, and do not materially affect the Volkswagen Group's net assets, financial position and results of operations.

IFRIC 21 has also been required to be applied since January 1, 2015. IFRIC 21 governs the accounting for levies that do not fall within the scope of IAS 12 "Income Taxes". In particular, it provides guidance on when a liability has to be recognized for payment of a levy. This Interpretation also does not materially affect the Volkswagen Group's net assets, financial position and results of operations.

New and amended IFRSs not applied

In its 2015 consolidated financial statements, Volkswagen AG did not apply the following accounting pronouncements that have already been adopted by the IASB, but were not yet required to be applied for the fiscal year.

Standard/Interpretation	Issued by the IASB	Effective date ¹	Adopted by the EU	Expected effects	
IFRS 9	Financial Instruments	July 24, 2014	Jan. 1, 2018	No	Change in the recognition of fair value changes in financial instruments previously classified as available for sale, tendency to increase loss allowances from application of the expected loss model as opposed to the previously applied incurred loss model, additional designation options for hedge accounting, simplified effectiveness tests, increased disclosures
	Consolidated Financial Statements and Investments in Associates and Joint Ventures:				
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Sept. 11, 2014	Postponed ²	–	None
	Consolidated Financial Statements and Investments in Associates and Joint Ventures:				
IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception	Dec. 18, 2014	Jan. 1, 2016	No	None
	Joint Arrangements:				
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	May 6, 2014	Jan. 1, 2016	Yes	None
IFRS 14	Regulatory Deferral Accounts	Jan. 30, 2014	None ³	No ³	None
IFRS 15	Revenue from Contracts with Customers	May 28, 2014	Jan. 1, 2018 ⁴	No	No material effects on revenue recognition, increased disclosures
					Lessees will no longer classify leases into finance and operating leases, but will in principle recognize all leases in their balance sheets as a right-of-use asset and a lease liability. No material changes in lessor accounting for leases compared with IAS 17.
IFRS 16	Leases	Jan. 13, 2016	Jan. 1, 2019	No	Increased disclosures
IAS 1	Presentation of Financial Statements	Dec. 18, 2014	Jan. 1, 2016	Yes	No material effects
IAS 7	Statement of Cash Flows: Disclosures	Jan. 29, 2016	Jan. 1, 2017	No	Preparation of a reconciliation for liabilities from financing activities
	Income Taxes:				
IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses	Jan. 19, 2016	Jan. 1, 2017	No	No material effects

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IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization	May 12, 2014	Jan. 1, 2016	Yes	No material effects
IAS 16 and IAS 41	Agriculture: Bearer Plants	June 30, 2014	Jan. 1, 2016	Yes	None
IAS 19	Employee Benefits: Defined Benefit Plans – Employee Contributions	Nov. 21, 2013	Jan. 1, 2016	Yes	No material effects
IAS 27	Separate Financial Statements: Equity Method	Aug. 12, 2014	Jan. 1, 2016	Yes	None
	Improvements to IFRSs 2012 ⁵	Dec. 12, 2013	Jan. 1, 2016	Yes	Primarily increased segment reporting disclosures
	Improvements to IFRSs 2014 ⁶	Sept. 25, 2014	Jan. 1, 2016	Yes	Increased disclosures in accordance with IFRS 7

1 Effective date from Volkswagen AG's perspective.

2 The IASB decided on December 15, 2015 to defer the effective date indefinitely.

3 The European Commission decided on October 30, 2015 not to endorse IFRS 14. This means that IFRS 14 does not apply to the Volkswagen Group.

4 Deferred until January 1, 2018 (IASB decision of September 11, 2015).

5 Minor amendments to a number of IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16/38, IAS 24).

6 Minor amendments to a number of IFRSs (IFRS 5, IFRS 7, IAS 19, IAS 34).

Key events

On September 18, 2015, the U.S. Environmental Protection Agency (EPA) publicly announced in a “Notice of Violation” that irregularities in relation to nitrogen oxide (NO_x) emissions had been discovered in emissions tests on certain vehicles with Volkswagen Group diesel engines. It has been alleged that we had used undisclosed engine management software installed in certain four-cylinder diesel engines used in certain 2009 to 2015 model year vehicles to circumvent NO_x emissions testing regulations in the United States of America in order to comply with certification requirements. The US environmental authority of California – the California Air Resources Board (CARB) – announced its own enforcement investigation in this context. Following these announcements by EPA and CARB, authorities in various other jurisdictions worldwide commenced their own investigations.

In its ad hoc release dated September 22, 2015, the Volkswagen Group announced that there were discrepancies in relation to NO_x emissions figures in vehicles with type EA 189 four-cylinder diesel engines. Around eleven million vehicles worldwide were affected. This is attributable to the engine management software. The vehicles remain technically safe and ready to drive.

Technical solutions have been prepared for the three European variants of the type EA 189 engine affected. These solutions have been approved in principle by the German Kraftfahrtbundesamt (German Federal Motor Transport Authority) for Volkswagen AG and AUDI AG. The Group brands SEAT and ŠKODA also received approvals in principle each from their respective type approval authorities – the Ministry of Industry in Spain and the Vehicle Certification Agency in the United Kingdom.

In North America, three variants of certain four-cylinder diesel engines are affected. Due to considerably stricter NO_x limits in the USA, it is a greater technical challenge to refit the vehicles so that all applicable emissions limits can be met. Volkswagen is currently in intensive discussions with the EPA and CARB concerning remedial measures.

On November 2, 2015, the EPA issued another “Notice of Violation” alleging that irregularities had also been discovered in the software installed in vehicles with type V6 3.0l diesel engines. CARB also issued a letter announcing its own enforcement investigation in this context.

After discussions with the EPA and CARB, Audi publicly announced on November 23, 2015 that it would revise the software parameters and resubmit them for approval in the USA. The technical solutions will be implemented as soon as they have been approved by the authorities. Around 113 thousand vehicles from the 2009 to 2016 model years of the Audi, Volkswagen Passenger Cars and Porsche brands are affected in the USA and Canada.

The technical solutions worldwide currently cover software and, in some cases, hardware modifications and repurchases, depending on the series, model year and country concerned. Consequently, the Volkswagen Group has

recognized expenses directly related to the diesel issue in the total amount of €16.2 billion in operating result. This primarily entailed recognizing provisions for field activities (service measures and recalls) and for repurchases in the amount of €7.8 billion, as well as €7.0 billion for legal risks. In addition, impairment losses of €0.8 billion were recognized for assets and expenses of €0.6 billion were recognized for the sales programs directly related to the diesel issue. The carrying amount of the provisions reflects the current status of discussions with the relevant authorities and is measured as far as possible on the basis of past experience and on estimates, depending on the technical complexity of the remedial actions concerned. €0.9 billion of the expenses was recognized in distribution expenses and €7.0 billion in other operating expenses. The other expenses are attributable to cost of sales. Please refer to the "Litigation" section for a discussion of the legal risks associated with the diesel issue. The ongoing investigations mean that assessment of the circumstances is subject to estimation risk. In particular, the estimates may experience considerable change as the technical measures in the USA and Canada take shape and the legal risks crystallize.

In addition, internal risk regulations required hedging transactions to be discontinued in this context. In accordance with IAS 39.101(b), the cumulative gain or loss on the hedging instrument that has been recognized from the period when the hedge was effective remains separately in equity until the forecast transaction occurs.

Based on current information, fiscal year 2014 is not affected by the effects of the diesel issue. Even after the International Council on Clean Transportation (ICCT) study was published in May 2014, the discrepancies were initially regarded – on the basis of the facts currently known regarding the members of the Board of Management responsible at that time – as a technical problem that did not basically differ from other everyday technical problems at an automotive company. In the exhaust measurements carried out in-house at Volkswagen in the subsequent months, the test set-ups on which the ICCT study was based were repeated and the unusually high NO_x emissions confirmed. CARB was informed of this result, and at the same time the offer was made to recalibrate the type EA 189 diesel engines as part of a service measure that was already planned in the USA. This measure was evaluated and adopted by the Ausschuss für Produktsicherheit (APS – product safety committee), which includes, among others, employees from the technical development, quality assurance, sales, production, logistics, procurement and legal departments, as part of the existing processes within the Volkswagen Group. The APS thus plays a central role in the internal control system at Volkswagen AG. There are currently no reliable findings to confirm that an unlawful software modification was reported by the APS as the cause of the discrepancies to the persons responsible for preparing the 2014 annual and consolidated financial statements. Instead, at the time that the annual and consolidated financial statements were being prepared, this group of people remained under the impression that the discrepancies could be eliminated with comparatively little effort as a part of a field measure. Based on what is currently known, the actual background of the discrepancies only became clear gradually to the members of the Board of Management dealing with the matter. It was only reliably recognized in the summer of 2015 that the cause of the discrepancies was a software modification, to be qualified as a so-called "defeat device" as defined by US environmental law. This culminated in the disclosure of the "defeat device" to the EPA/CARB on September 3, 2015. According to the assessment at that time of the members of the Board of Management dealing with the matter, the scope of the costs expected as a result by the Volkswagen Group (recall costs, retrofitting costs and financial penalties), was basically not dissimilar to that of previous cases in which other vehicle manufacturers were involved, and therefore appeared to be controllable overall with a view to the business activities of the Volkswagen Group. This appraisal by Volkswagen AG was based on the assessment of a law firm brought in in the USA for approval issues, according to which similar cases in the past were resolved amicably with the US authorities. Publication of a "Notice of Violation" by the EPA on September 18, 2015, which came as a surprise to the company, on the facts and possible financial consequences, then presented the situation in a completely different light.

Basis of consolidation

In addition to Volkswagen AG, the consolidated financial statements comprise all significant German and non-German subsidiaries, including structured entities that are controlled directly or indirectly by Volkswagen AG. This is the case if Volkswagen AG obtains power over the potential subsidiaries directly or indirectly from voting rights or similar rights, is exposed, or has rights to, positive or negative variable returns from its involvement with the subsidiaries, and is able to influence those returns. In the case of the structured entities consolidated in the Volkswagen Group, Volkswagen is able to direct the material relevant activities remaining after the change in the structure even if it is not invested in the structured entity concerned and is thus able to influence the variable returns from its involvement. The structured entities are used primarily to enter into asset-backed securities transactions to refinance the financial services business and to invest surplus liquidity in special securities funds. Consolidation of subsidiaries begins at the first date on which control exists, and ends when such control no longer exists.

Subsidiaries whose business is dormant or of low volume and that are insignificant, both individually and in the aggregate, for the fair presentation of the net assets, financial position and results of operations as well as the cash flows of the Volkswagen Group are not consolidated. They were carried in the consolidated financial statements at cost net of any impairment losses and reversals of impairment losses required to be recognized.

Significant companies where Volkswagen AG is able, directly or indirectly, to significantly influence financial and operating policy decisions (associates), or that are directly or indirectly jointly controlled (joint ventures), are accounted for using the equity method. Joint ventures also include companies in which the Volkswagen Group holds the majority of voting rights, but whose articles of association or partnership agreements stipulate that important decisions may only be resolved unanimously. Insignificant associates and joint ventures are carried at cost net of any impairment losses and reversals of impairment losses required to be recognized.

The composition of the Volkswagen Group is shown in the following table:

	2015	2014
Volkswagen AG and consolidated subsidiaries		
Germany	155	158
Abroad	885	872
Subsidiaries carried at cost		
Germany	63	64
Abroad	287	216
Associates, joint ventures and other equity investments		
Germany	45	41
Abroad	69	65
	1,504	1,416

The list of all shareholdings that forms part of the annual financial statements of Volkswagen AG can be downloaded from the electronic companies register at www.unternehmensregister.de and from www.volkswagenag.com/ir by clicking on "Further mandatory Publications" under the heading "Mandatory Publications".

The following consolidated German subsidiaries with the legal form of a corporation or partnership meet the criteria set out in section 264(3) or section 264b of the Handelsgesetzbuch (HGB – German Commercial Code) due to their inclusion in the consolidated financial statements and have as far as possible exercised the option not to publish annual financial statements:

- > Audi Berlin GmbH, Berlin
- > Audi Frankfurt GmbH, Frankfurt am Main
- > Audi Hamburg GmbH, Hamburg
- > Audi Hannover GmbH, Hanover

- > Audi Leipzig GmbH, Leipzig
- > Audi Stuttgart GmbH, Stuttgart
- > Audi Zentrum München GmbH, Munich
- > Autostadt GmbH, Wolfsburg
- > AutoVision GmbH, Wolfsburg
- > Bugatti Engineering GmbH, Wolfsburg
- > Dr. Ing. h.c. F. Porsche AG, Stuttgart
- > Haberl Beteiligungs-GmbH, Munich
- > Karosseriewerk Porsche GmbH & Co. KG, Stuttgart
- > MAHAG GmbH, Munich
- > Porsche Consulting GmbH, Bietigheim-Bissingen
- > Porsche Deutschland GmbH, Bietigheim-Bissingen
- > Porsche Dienstleistungen GmbH, Stuttgart
- > Porsche Engineering Group GmbH, Weissach
- > Porsche Engineering Services GmbH, Bietigheim-Bissingen
- > Porsche Financial Services GmbH & Co. KG, Bietigheim-Bissingen
- > Porsche Financial Services GmbH, Bietigheim-Bissingen
- > Porsche Holding Stuttgart GmbH, Stuttgart
- > Porsche Leipzig GmbH, Leipzig
- > Porsche Lizenz- und Handelsgesellschaft mbH & Co. KG, Ludwigsburg
- > Porsche Logistik GmbH, Stuttgart
- > Porsche Niederlassung Berlin GmbH, Berlin
- > Porsche Niederlassung Berlin-Potsdam GmbH, Kleinmachnow
- > Porsche Niederlassung Hamburg GmbH, Hamburg
- > Porsche Niederlassung Leipzig GmbH, Leipzig
- > Porsche Niederlassung Stuttgart GmbH, Stuttgart
- > Porsche Nordamerika Holding GmbH, Ludwigsburg
- > Porsche Siebte Vermögensverwaltung GmbH, Wolfsburg
- > Porsche Connect GmbH, Stuttgart
- > Porsche Zentrum Hoppegarten GmbH, Stuttgart
- > Raffay Versicherungsdienst GmbH, Hamburg
- > SKODA AUTO Deutschland GmbH, Weiterstadt
- > Volkswagen Truck & Bus GmbH, Braunschweig
- > VfL Wolfsburg-Fußball GmbH, Wolfsburg
- > VGRD GmbH, Wolfsburg
- > Volkswagen Automobile Berlin GmbH, Berlin
- > Volkswagen Automobile Chemnitz GmbH, Chemnitz
- > Volkswagen Automobile Frankfurt GmbH, Frankfurt am Main
- > Volkswagen Automobile Hamburg GmbH, Hamburg
- > Volkswagen Automobile Hannover GmbH, Hanover
- > VOLKSWAGEN Automobile Leipzig GmbH, Leipzig
- > Volkswagen Automobile Region Hannover GmbH, Hanover
- > Volkswagen Automobile Rhein-Neckar GmbH, Mannheim
- > Volkswagen Automobile Stuttgart GmbH, Stuttgart
- > Volkswagen Gebrauchtfahrzeughandels und Service GmbH, Langenhagen
- > Volkswagen Group Real Estate GmbH & Co. KG, Wolfsburg
- > Volkswagen Immobilien GmbH, Wolfsburg
- > Volkswagen Konzernlogistik GmbH & Co. OHG, Wolfsburg
- > Volkswagen Original Teile Logistik GmbH & Co. KG, Baunatal
- > Volkswagen Osnabrück GmbH, Osnabrück
- > Volkswagen R GmbH, Wolfsburg
- > Volkswagen Sachsen GmbH, Zwickau
- > Volkswagen Vertriebsbetreuungsgesellschaft mbH, Chemnitz
- > Volkswagen Zubehör GmbH, Dreieich

CONSOLIDATED SUBSIDIARIES

On March 14, 2014, Volkswagen AG published an offer to the shareholders of Scania Aktiebolag, Södertälje, (“Scania”) to acquire all Scania A and Scania B shares. Each Scania A share conveys one vote at the general meeting, while each Scania B share conveys one-tenth of a vote. There are no other legal differences between Scania A and B shares. Volkswagen AG offered SEK 200 for each Scania share, regardless of share class. One of the conditions of the offer was that it resulted in the Volkswagen Group holding more than 90 percent of the total number of Scania shares. When the offer to the Scania shareholders was published, the present value of the put options granted amounting to approximately €6.7 billion was recognized as a current liability without affecting profit or loss. The Group’s retained earnings declined by the same amount.

Starting on May 7, 2014, Volkswagen acquired a total of 2.4 million Scania shares outside the offer (10,941 A shares and 2,400,679 B shares). This corresponds to 0.30% of Scania shares and 0.06% of the voting rights.

The condition for the Volkswagen Group to hold more than 90% of the total number of Scania shares was satisfied on May 13, 2014, and Volkswagen initiated a squeeze-out for the Scania shares that were not tendered in the course of the offer.

At the end of the second extended acceptance period on June 5, 2014, the number of shares tendered under the terms of the offer, together with the shares already held by Volkswagen either directly or indirectly, amounted to a total of 796.6 million Scania shares, comprising 398.7 million A shares and 397.8 million B shares. This corresponds to 99.57% of Scania shares and 99.66% of the voting rights.

On completion of the offer, the equity interest in Scania previously attributable to noncontrolling interest shareholders amounting to €2,123 million was required to be reclassified from noncontrolling interests to the reserves attributable to the shareholders of Volkswagen AG. The difference of €4,527 million reduced the retained earnings attributable to Volkswagen AG shareholders by the same amount.

The changes in the carrying amount of the liability of €96 million that was recognized when the offer was published, which were due primarily to exchange rate movements, were recognized in the financial result in profit or loss.

In the previous year, the shares already tendered resulted in a cash outflow of €6,535 million, net of exchange rate effects. This amount is reported within financing activities in the cash flow statement for fiscal year 2014 as an outflow from capital transactions with noncontrolling interests. At the prior-year reporting date, a liability of €78 million from put options and compensation rights granted to noncontrolling interest shareholders was recognized for the remaining shares that are subject to the squeeze-out. The court of arbitration with jurisdiction has now decided that the remaining shares will be transferred to Volkswagen. On January 14, 2015, it was confirmed to us that the period for appealing against this decision had ended. As of that date, Volkswagen controls 100% of the shares in Scania. Volkswagen AG paid out the noncontrolling interest shareholders on April 21, 2015. A judicial decision has yet to be taken on the appropriate settlement.

The other changes in the basis of consolidation are shown in the following table:

Number	Germany	Abroad
Initially consolidated		
of which: subsidiaries previously carried at cost	1	15
of which: newly acquired subsidiaries	–	5
of which: newly formed subsidiaries	2	16
	3	36
Deconsolidated		
of which: mergers	4	4
of which: liquidations	2	11
of which: sales/other	–	8
	6	23

The initial inclusion of these subsidiaries, either individually or collectively, did not have a significant effect on the presentation of the net assets, financial position and results of operations. The unconsolidated structured entities are immaterial from a Group perspective. In particular, they do not give rise to any significant risks to the Group.

INVESTMENTS IN ASSOCIATES

From a Group perspective, the associates Sinotruk (Hong Kong) Ltd., Hongkong (Sinotruk), Bertrandt AG, Ehningen (Bertrandt) and There Holding B.V., Rijswijk (There Holding) were material at the reporting date.

Sinotruk

Sinotruk is one of the largest truck manufacturers in the Chinese market. There is an agreement in place between Group companies and Sinotruk regarding a long-term strategic partnership, under which the Group participates in the local market. In addition to the partnership with Sinotruk in the volume segment, exports of MAN vehicles to China are also helping to expand access to the small, but fast-growing premium truck market. Sinotruk's principal place of business is in Hongkong, China.

As of December 31, 2015, the quoted market price of the shares in Sinotruk amounted to €251 million (previous year: €317 million).

Bertrandt

On July 2, 2014, Dr. Ing. h.c. F. Porsche AG, Stuttgart, increased its interest in Bertrandt by just under 4%. Following this acquisition, Volkswagen indirectly holds just under 29% of the voting shares of Bertrandt. There has been no change in the intention not to exercise any influence on Bertrandt's supervisory board or management board. Bertrandt has been included in the Volkswagen Group's consolidated financial statements as an equity-accounted associate from the date on which the additional shares were acquired. In the previous year, the amounts resulting from the fair value measurement of the shares amounting to €148 million that had previously been recognized outside profit or loss in the other reserves in this connection were recognized in profit or loss in the other financial result.

Bertrandt is an engineering partner to companies in the automotive and aviation industry. Its portfolio of services ranges from developing individual components through complex modules to end-to-end solutions. Bertrandt's principal place of business is in Ehningen.

As of December 31, 2015, the quoted market price of the shares in Bertrandt amounted to €327 million (previous year: €338 million).

There Holding

Audi, the BMW Group and Daimler AG each acquired a 33.3% interest in There Holding, which was formed in 2015. Effective December 4, 2015, There Holding acquired all shares in the HERE Group through a wholly owned subsidiary, There Acquisition B.V., Rijswijk (the Netherlands), for a purchase price of €2,602 million. HERE develops and sells high-resolution maps with real-time location information. The purchase price was financed largely by way of capital contributions at There Holding. Audi's share of it amounts to €668 million. The remainder of the purchase price was financed through bank loans at There Acquisition B.V. There Acquisition B.V. was renamed HERE International B.V. on January 29, 2016.

There Holding is an associate that is accounted for using the equity method. As the acquisition took place near the end of the reporting period, it was not possible to fully identify all hidden reserves and liabilities. This is expected to be done in the first quarter of 2016. In light of this, and also for reasons of materiality, There Holding was not included at the reporting date on the basis of the Group's share of profit or loss.

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€ million	Sinotruk ¹	Bertrand ²	There Holding ³
2015			
Equity interest (%)	25	29	33
Noncurrent assets	2,299	604	3,115
Current assets	4,472	341	365
Noncurrent liabilities	484	155	1,093
Current liabilities	3,204	205	384
Net assets	3,083	585	2,003
Sales revenue	4,079	935	–
Post-tax profit or loss from continuing operations	64	15	–
Post-tax profit or loss from discontinued operations	–	–	–
Other comprehensive income	–2	0	–
Total comprehensive income	62	15	–
Dividends received	5	7	–
2014			
Equity interest (%)	25	29	–
Noncurrent assets	1,922	616	–
Current assets	4,112	305	–
Noncurrent liabilities	168	168	–
Current liabilities	3,377	161	–
Net assets	2,490	592	–
Sales revenue	3,886	243	–
Post-tax profit or loss from continuing operations	70	–3	–
Post-tax profit or loss from discontinued operations	–	–	–
Other comprehensive income	–1	–	–
Total comprehensive income	69	–3	–
Dividends received	3	–	–

1 Balance sheet amounts refer to the June 30 reporting date and income statement amounts refer to the period from July 1 to June 30.

2 Balance sheet amounts refer to the September 30 reporting date. The income statement amounts for fiscal year 2015 refer to the period from October 1, 2014 to September 30, 2015, while those for fiscal 2014 refer to the period from July 2 to September 30, 2014.

3 The information relating to the balance sheet is based on the financial statement information available at the acquisition date of the HERE Group in December 2015.

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RECONCILIATION OF THE FINANCIAL INFORMATION TO THE CARRYING AMOUNT OF THE EQUITY-ACCOUNTED INVESTMENTS:

€ million	Sinotruk	Bertrand ¹	There Holding ²
2015			
Net assets at January 1	2,490	592	2,003
Profit or loss	64	15	–
Other comprehensive income	–2	0	–
Changes in reserves	5	2	–
Foreign exchange differences	555	–	–
Dividends	–28	–24	–
Net assets at December 31	3,083	585	2,003
Proportionate equity	771	169	668
Consolidation/Goodwill/Others	–452	163	–
Carrying amount of equity-accounted investments	318	332	668
2014			
Net assets at January 1	2,574	595	–
Profit or loss	70	–3	–
Other comprehensive income	–1	–	–
Changes in reserves	–	–	–
Foreign exchange differences	–136	–	–
Dividends	–18	–	–
Net assets at December 31	2,490	592	–
Proportionate equity	622	171	–
Consolidation/Goodwill/Others	–313	163	–
Carrying amount of equity-accounted investments	309	334	–

1 Reconciliation presented for Bertrandt in 2014 as of July 2, 2014, the date from which it was accounted for using the equity method.

2 In the case of There Holding, the net carrying amount at the acquisition date of the HERE Group in December 2015 is shown.

SUMMARIZED FINANCIAL INFORMATION ON INDIVIDUALLY IMMATERIAL ASSOCIATES ON THE BASIS OF THE VOLKSWAGEN GROUP'S PROPORTIONATE INTEREST:

€ million	2015	2014
Post-tax profit or loss from continuing operations	–1	4
Post-tax profit or loss from discontinued operations	–	–
Other comprehensive income	1	–2
Total comprehensive income	0	2
Carrying amount of equity-accounted investments	40	72

Unrecognized losses relating to investments in associates totaled €3 million (previous year: €– million). Contingent liabilities relating to associates amounted to €0 million (previous year: €3 million).

INTERESTS IN JOINT VENTURES

From a Group perspective, the joint ventures FAW-Volkswagen Automotive Company, Ltd., Changchun, SAIC-Volkswagen Automotive Company Ltd., Shanghai (formerly: Shanghai-Volkswagen Automotive Company Ltd., Shanghai), SAIC-Volkswagen Sales Company Ltd., Shanghai (SAIC-Volkswagen Sales Company) and Global Mobility Holding B.V., Amsterdam (Global Mobility Holding) were material at the reporting date due to their size.

FAW-Volkswagen Automotive Company

FAW-Volkswagen Automotive Company develops, produces and sells passenger cars. There is an agreement in place between Group companies and the joint venture partner China FAW Corporation Limited regarding a long-term strategic partnership. The principal place of business is in Changchun, China.

SAIC-Volkswagen Automotive Company

SAIC-Volkswagen Automotive Company develops and produces passenger cars. There is an agreement in place between Group companies and the joint venture partner Shanghai Automotive Industry Corporation regarding a long-term strategic partnership. The principal place of business is in Shanghai, China.

SAIC-Volkswagen Sales Company

SAIC-Volkswagen Sales Company sells passenger cars for SAIC-Volkswagen Automotive Company. There is an agreement in place between Group companies and the joint venture partner Shanghai Automotive Industry Corporation regarding a long-term strategic partnership. The principal place of business is in Shanghai, China.

Global Mobility Holding

Through its 50% interest in the joint venture Global Mobility Holding B.V., Amsterdam, the Netherlands (GMH), the Volkswagen Group holds a 50% indirect stake in the joint venture's subsidiary, LeasePlan Corporation N.V., Amsterdam, the Netherlands (LeasePlan). GMH's business activity consists of holding the interest in LeasePlan. LeasePlan is a Dutch financial services group whose core business is leasing and fleet management. GMH's principal place of business is in Amsterdam, the Netherlands.

In 2010, Volkswagen agreed with Fleet Investments B.V., Amsterdam, the Netherlands, an investment company belonging to the von Metzler family, that Fleet Investments would become the new co-investor in Global Mobility Holding. The previous co-investors were instructed by Volkswagen AG to transfer their shares to Fleet Investments B.V. on February 1, 2010 for the purchase price of €1.4 billion. Volkswagen AG has granted the new co-investor a put option on its shares. If this option is exercised, Volkswagen must pay the original purchase price, less purchase price reductions, plus accumulated pro rata preferred dividends. Additionally, Volkswagen AG has a preemptive right of purchase at any applicable higher fair value. The put option is accounted for at fair value.

In addition, Volkswagen has pledged claims under certificates of deposit with Bankhaus Metzler in the amount of €1.3 billion to secure a loan granted to Fleet Investments B.V. by Bankhaus Metzler. This pledge does not increase the Volkswagen Group's risk arising from the above-mentioned short position. In fiscal year 2015, the put option and the certificates of deposit were prolonged until a maximum of September 30, 2018, subject to several conditions.

On July 23, 2015, GMH sold its 100% interest in LeasePlan to a consortium of international investors. The legal transfer of the shares is subject to the condition precedent that the necessary official approvals are issued during the further course of the sale. The transaction could not be completed in the past fiscal year because official approvals are still outstanding. With respect to the final official approvals issued in January 2016, please refer to the disclosures on "Events after the balance sheet date".

Volkswagen AG did not grant additional credit lines either to the consortium of investors or to LeasePlan in connection with the intended sale of the indirect interest in LeasePlan. On completion of the transaction, the existing credit line of €1.3 billion provided by the Volkswagen Group will be cancelled.

CONSOLIDATED FINANCIAL STATEMENTS
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SUMMARIZED FINANCIAL INFORMATION ON THE MATERIAL JOINT VENTURES ON A 100% BASIS:

€ million	FAW-Volkswagen Automotive Company	SAIC-Volkswagen Automotive Company*	Global Mobility Holding	SAIC-Volkswagen Sales Company
2015				
Equity interest (%)	40.0	50.0	50.0	30.0
Noncurrent assets	7,997	6,345	12,404	486
Current assets	12,674	8,187	9,913	3,341
of which: cash, cash equivalents and time deposits	5,954	4,761	1,722	231
Noncurrent liabilities	1,424	1,471	9,855	10
of which: financial liabilities	–	–	8,757	–
Current liabilities	11,422	7,444	8,535	3,311
of which: financial liabilities	100	27	6,546	–
Net assets	7,825	5,618	3,927	506
Sales revenue	40,462	26,018	8,298	30,035
Depreciation, amortization and impairment losses	1,033	907	56	4
Interest income	64	79	780	14
Interest expenses	–	–	330	–
Pre-tax profit or loss from continuing operations	6,169	4,408	608	600
Income tax income/expense	1,464	850	165	151
Post-tax profit or loss from continuing operations	4,705	3,558	442	449
Post-tax profit or loss from discontinued operations	–	–	–	–
Other comprehensive income	–5	5	16	–
Total comprehensive income	4,700	3,563	458	449
Dividends received	2,170	2,048	114	143
2014				
Equity interest (%)	40.0	50.0	50.0	30.0
Noncurrent assets	6,913	6,402	11,251	450
Current assets	14,066	7,013	9,305	4,099
of which: cash, cash equivalents and time deposits	7,681	5,309	1,039	248
Noncurrent liabilities	1,551	1,254	8,299	2
of which: financial liabilities	–	–	7,257	–
Current liabilities	11,472	6,558	8,560	4,050
of which: financial liabilities	3	–	6,753	–
Net assets	7,956	5,603	3,697	497
Sales revenue	42,812	23,142	7,619	26,959
Depreciation, amortization and impairment losses	861	764	83	3
Interest income	84	99	794	–
Interest expenses	–	–	378	–
Pre-tax profit or loss from continuing operations	6,389	4,524	468	539
Income tax income/expense	1,675	1,149	120	135
Post-tax profit or loss from continuing operations	4,714	3,376	348	404
Post-tax profit or loss from discontinued operations	–	–	–	–
Other comprehensive income	–	–28	30	–
Total comprehensive income	4,714	3,348	378	404
Dividends received	1,400	1,328	70	103

* SAIC-Volkswagen Sales Company sells passenger cars for SAIC-Volkswagen Automotive Company. Therefore, the sales revenue reported for SAIC-Volkswagen Automotive Company was mostly generated from its business with SAIC-Volkswagen Sales Company.

CONSOLIDATED FINANCIAL STATEMENTS
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RECONCILIATION OF THE FINANCIAL INFORMATION TO THE CARRYING AMOUNT OF THE EQUITY-ACCOUNTED INVESTMENTS:

€ million	FAW-Volkswagen Automotive Company	SAIC-Volkswagen Automotive Company	Global Mobility Holding	SAIC-Volkswagen Sales Company
2015				
Net assets at January 1	7,956	5,603	3,697	497
Profit or loss	4,705	3,558	442	449
Other comprehensive income	-5	5	16	-
Changes in share capital	377	-	-	-
Changes in reserves	-377	-	-	-
Foreign exchange differences	594	548	-	38
Dividends	-5,425	-4,096	-228	-478
Net assets at December 31	7,825	5,618	3,927	506
Proportionate equity	3,130	2,809	1,964	152
Consolidation/Goodwill/Others	-212	-55	-13	-
Carrying amount of equity-accounted investments	2,918	2,754	1,950	152
2014				
Net assets at January 1	5,986	4,515	3,459	403
Profit or loss	4,714	3,376	348	404
Other comprehensive income	-	-28	30	-
Changes in share capital	236	-	-	-
Changes in reserves	-236	-	-	-
Foreign exchange differences	757	396	-	33
Dividends	-3,502	-2,656	-140	-343
Net assets at December 31	7,956	5,603	3,697	497
Proportionate equity	3,182	2,802	1,848	149
Consolidation/Goodwill/Others	-187	-141	-13	-
Carrying amount of equity-accounted investments	2,995	2,661	1,835	149

SUMMARIZED FINANCIAL INFORMATION ON INDIVIDUALLY IMMATERIAL JOINT VENTURES ON THE BASIS OF THE VOLKSWAGEN GROUP'S PROPORTIONATE INTEREST:

€ million	2015	2014
Post-tax profit or loss from continuing operations	292	281
Post-tax profit or loss from discontinued operations	-	-
Other comprehensive income	10	-9
Total comprehensive income	301	273
Carrying amount of equity-accounted investments	1,772	1,519

There were no unrecognized losses relating to interests in joint ventures. Contingent liabilities relating to joint ventures amounted to €121 million (previous year: €86 million). Cash funds of €72 million (previous year: €24 million) were deposited as collateral for asset-backed securities transactions and are therefore not available to the Volkswagen Group.

OTHER EQUITY INVESTMENTS

On August 29, 2015, an arbitration ruling was delivered to the parties in the proceedings between Suzuki Motor Corporation and Volkswagen AG. It found that Volkswagen had acted in accordance with the agreement. The arbitration court also confirmed that Suzuki was in breach of contract and, on the merits of this case, acknowledged that Volkswagen had a claim to damages. In addition, the arbitration court established that the parties had the right to give regular notice to terminate the cooperation agreement. It said that Suzuki had exercised this right, ending the partnership. According to the court, the agreements had to be interpreted in such a way that Volkswagen had to sell its equity investment in Suzuki on termination of the partnership. Volkswagen consequently sold its 19.9% equity investment to Suzuki on September 17, 2015 at the quoted market price of €3.1 billion. The sale of the shares generated income in the amount of €1.5 billion, which was recognized in the other financial result.

In February 2016, Volkswagen and Suzuki agreed a settlement in respect of the claims for damages brought by Volkswagen.

Consolidation methods

The assets and liabilities of the German and foreign companies included in the consolidated financial statements are recognized in accordance with the uniform accounting policies used within the Volkswagen Group. In the case of companies accounted for using the equity method, the same accounting policies are applied to determine the proportionate equity, based on the most recent audited annual financial statements of each company.

In the case of subsidiaries consolidated for the first time, assets and liabilities are measured at their fair value at the date of acquisition. Their carrying amounts are adjusted in subsequent years. Goodwill arises when the purchase price of the investment exceeds the fair value of identifiable net assets. Goodwill is tested for impairment once a year to determine whether its carrying amount is recoverable. If the carrying amount of goodwill is higher than the recoverable amount, an impairment loss must be recognized. If this is not the case, there is no change in the carrying amount of goodwill compared with the previous year. If the purchase price of the investment is less than the identifiable net assets, the difference is recognized in the income statement in the year of acquisition. Goodwill is accounted for at the subsidiaries in the functional currency of those subsidiaries. Any difference that arises from the acquisition of additional shares of an already consolidated subsidiary is taken directly to equity. Unless otherwise stated, the proportionate equity directly attributable to noncontrolling interests is determined at the acquisition date as the share of the fair value of the assets (excluding goodwill) and liabilities attributable to them. Contingent consideration is measured at fair value at the acquisition date. Subsequent changes in the fair value of contingent consideration do not generally result in the adjustment of the acquisition-date measurement. Acquisition-related costs that are not equity transaction costs are not added to the purchase price, but instead recognized as expenses in the period in which they are incurred.

The consolidation process involves adjusting the items in the separate financial statements of the parent and its subsidiaries and presenting them as if they were those of a single economic entity. Intragroup assets, liabilities, equity, income, expenses and cash flows are eliminated in full. Intercompany profits or losses are eliminated in Group inventories and noncurrent assets. Deferred taxes are recognized for consolidation adjustments, and deferred tax assets and liabilities are offset where taxes are levied by the same tax authority and relate to the same tax period.

Currency translation

Transactions in foreign currencies are translated in the single-entity financial statements of Volkswagen AG and its consolidated subsidiaries at the rates prevailing at the transaction date. Foreign currency monetary items are recorded in the balance sheet using the middle rate at the closing date. Foreign exchange gains and losses are recognized in the income statement. This does not apply to foreign exchange differences from loans receivable that represent part of a net investment in a foreign operation. The financial statements of foreign companies are translated into euros using the functional currency concept, under which asset and liability items are translated at the closing rate. With the exception of income and expenses recognized directly in equity, equity is translated at historical rates. The resulting foreign exchange differences are recognized in other comprehensive income until disposal of the subsidiary concerned, and are presented as a separate item in equity.

Income statement items are translated into euros at weighted average rates.

The rates applied are presented in the following table:

	€1 =	BALANCE SHEET MIDDLE RATE ON DECEMBER 31,		INCOME STATEMENT AVERAGE RATE	
		2015	2014	2015	2014
Argentina	ARS	14.13514	10.27253	10.26074	10.77234
Australia	AUD	1.48970	1.48290	1.47648	1.47240
Brazil	BRL	4.31170	3.22070	3.69160	3.12277
Canada	CAD	1.51160	1.40630	1.41760	1.46687
Czech Republic	CZK	27.02300	27.73500	27.28500	27.53583
India	INR	72.02150	76.71900	71.17522	81.06888
Japan	JPY	131.07000	145.23000	134.28651	140.37722
Mexico	MXN	18.91450	17.86790	17.59984	17.66209
People's Republic of China	CNY	7.06080	7.53580	6.97300	8.18825
Poland	PLN	4.26390	4.27320	4.18278	4.18447
Republic of Korea	KRW	1,280.78000	1,324.80000	1,255.74059	1,399.02954
Russia	RUB	80.67360	72.33700	68.00684	51.01125
South Africa	ZAR	16.95300	14.03530	14.15280	14.40652
Sweden	SEK	9.18950	9.39300	9.35448	9.09689
United Kingdom	GBP	0.73395	0.77890	0.72600	0.80643
USA	USD	1.08870	1.21410	1.10963	1.32884

Accounting policies

MEASUREMENT PRINCIPLES

With certain exceptions such as financial instruments at fair value through profit or loss, available-for-sale financial assets and provisions for pensions and other post-employment benefits, items in the Volkswagen Group are accounted for under the historical cost convention. The methods used to measure the individual items are explained in more detail below.

INTANGIBLE ASSETS

Purchased intangible assets are recognized at cost and amortized over their useful life using the straight-line method. This relates in particular to software, which is amortized over three years.

In accordance with IAS 38, research costs are recognized as expenses when incurred.

Development costs for future series products and other internally generated intangible assets are capitalized at cost, provided manufacture of the products is likely to bring the Volkswagen Group an economic benefit. If the criteria for recognition as assets are not met, the expenses are recognized in the income statement in the year in which they are incurred.

Capitalized development costs include all direct and indirect costs that are directly attributable to the development process. The costs are amortized using the straight-line method from the start of production over the expected life cycle of the models or powertrains developed – generally between two and ten years.

Amortization recognized during the year is allocated to the relevant functions in the income statement.

Brand names from business combinations usually have an indefinite useful life and are therefore not amortized. An indefinite useful life is usually the result of a brand's further use and maintenance.

Goodwill, intangible assets with indefinite useful lives and intangible assets that are not yet available for use are tested for impairment at least once a year. Assets in use and other intangible assets with finite useful lives are tested for impairment only if there are specific indications that they may be impaired. The Volkswagen Group generally applies the higher of value in use and fair value less costs to sell of the relevant cash-generating unit (brands or products) to determine the recoverable amount of goodwill and indefinite-lived intangible assets. Measurement of value in use is based on management's current planning. This planning is based on expectations regarding future global economic trends and on assumptions derived from those trends about the markets for passenger cars and commercial vehicles, market shares and the profitability of the products. The planning for the Financial Services segment is likewise prepared on the basis of these expectations, and also reflects the relevant market penetration rates and regulatory requirements. The planning for the Power Engineering segment reflects expectations about trends in the various individual markets. The planning includes reasonable assumptions about macroeconomic trends (exchange rate, interest rate and commodity price trends) and historical developments. The planning period generally covers five years. For information on the assumptions applied to the detailed planning period, please refer to the Report on Expected Developments, which is part of the Management Report. For subsequent years, plausible assumptions are made regarding future trends. The planning assumptions are adapted to reflect the current state of knowledge.

Estimation of cash flows is generally based on the expected growth trends for the markets concerned. The estimates for the cash flows following the end of the planning period are generally based on a growth rate of up to 1% p.a. (previous year: up to 1% p.a.) in the Passenger Cars and Financial Services segments, and on a growth rate of up to 1% p.a. (previous year: up to 1% p.a.) in the Power Engineering and Commercial Vehicles segments.

Value in use is determined for the purpose of impairment testing of goodwill, indefinite-lived intangible assets and finite-lived intangible assets – mainly capitalized development costs – using the following pretax weighted average cost of capital (WACC) rates, which are adjusted if necessary for country-specific discount factors:

WACC	2015	2014
Passenger Cars segment	6.5%	6.1%
Commercial Vehicles segment	7.7%	9.8%
Power Engineering segment	9.2%	12.6%

A minimum cost of equity of 8.5% (previous year: 8.6%) is used for the Financial Services segment in line with the sector-specific need to reflect third-party borrowings. If necessary, this rate is additionally adjusted for country-specific discount factors.

The WACC rates are calculated based on the risk-free rate of interest, a market risk premium and the cost of debt. Additionally, specific peer group information on beta factors and leverage are taken into account.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at cost less depreciation and – where necessary – write-downs for impairment. Investment grants are generally deducted from cost. Cost is determined on the basis of the direct and indirect costs that are directly attributable. Special tools are reported under other equipment, operating and office equipment. Property, plant and equipment is depreciated using the straight-line method over its estimated useful life. The useful lives of items of property, plant and equipment are reviewed on a regular basis and adjusted if required.

Depreciation is based mainly on the following useful lives:

	Useful life
Buildings	20 to 50 years
Site improvements	10 to 20 years
Technical equipment and machinery	6 to 12 years
Other equipment, operating and office equipment, including special tools	3 to 15 years

Impairment losses on property, plant and equipment are recognized in accordance with IAS 36 where the recoverable amount of the asset concerned has fallen below the carrying amount. Recoverable amount is the higher of value in use and fair value less costs to sell. Value in use is determined using the principles described for intangible assets. The discount rates for product-specific tools and investments are the same as the discount rates for capitalized development costs given above for each segment. If the reasons for impairments recognized in previous years no longer apply, the impairment losses are reversed up to a maximum of the amount that would have been determined if no impairment loss had been recognized.

In accordance with the principle of substance over form, assets that have been formally transferred to third parties under a sale and leaseback transaction including a repurchase option also continue to be accounted for as separate assets.

Where leased items of property, plant and equipment are used, the criteria for classification as a finance lease as set out in IAS 17 are met if all material risks and rewards incidental to ownership have been transferred to the Group company concerned. In such cases, the assets concerned are recognized at fair value or at the present value of the minimum lease payments (if lower) and depreciated using the straight-line method over the asset's useful life, or over the term of the lease if this is shorter. The payment obligations arising from the future lease payments are discounted and recorded as a liability in the balance sheet.

Where Group companies are the lessees of assets under operating leases, i.e. if not all material risks and rewards are transferred, lease and rental payments are recorded directly as expenses in profit or loss.

LEASE ASSETS

Vehicles leased out under operating leases are recognized at cost and depreciated to their estimated residual value using the straight-line method over the term of the lease. Impairment losses identified as a result of an impairment test in accordance with IAS 36 are recognized and the depreciation rate is adjusted. The forecast residual values are adjusted to include constantly updated internal and external information on residual values, depending on specific local factors and the experiences gained in the marketing of used cars. This requires management to make assumptions in particular about vehicle supply and demand in the future, as well as about vehicle price trends. Such assumptions are based either on qualified estimates or on data published by external experts. Qualified estimates are based on external data – if available – that reflects additional information that is available internally, such as historical experience and current sales data.

INVESTMENT PROPERTY

Real estate and buildings held in order to obtain rental income (investment property) are carried at amortized cost; the useful lives applied to depreciation generally correspond to those of the property, plant and equipment used by the Company itself. The fair value of investment property must be disclosed in the notes if it is carried at amortized cost. Fair value is generally estimated using an investment method based on internal calculations. This involves determining the income value for a specific building on the basis of gross income, taking into account additional factors such as land value, remaining useful life and a multiplier specific to property.

CAPITALIZATION OF BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition of qualifying assets on or after January 1, 2009 are capitalized as part of the cost of these assets. A qualifying asset is an asset that necessarily takes at least a year to get ready for its intended use or sale.

EQUITY-ACCOUNTED INVESTMENTS

The cost of equity-accounted investments is adjusted to reflect the share of increases or reductions in equity at the associates and joint ventures after the acquisition that is attributable to the Volkswagen Group, as well as any effects from purchase price allocation. Additionally, the investment is tested for impairment if there are indications of impairment and written down to the lower recoverable amount if necessary. Recoverable amount is determined using the principles described for indefinite-lived intangible assets. If the reason for impairment ceases to apply at a later date, the impairment loss is reversed to the carrying amount that would have been determined had no impairment loss been recognized.

FINANCIAL INSTRUMENTS

Financial instruments are contracts that give rise to a financial asset of one company and a financial liability or an equity instrument of another. Regular way purchases or sales of financial instruments are accounted for at the settlement date – that is, at the date on which the asset is delivered.

IAS 39 classifies financial assets into the following categories:

- > financial assets at fair value through profit or loss;
- > held-to-maturity financial assets;
- > loans and receivables; and
- > and available-for-sale financial assets.

Financial liabilities are classified into the following categories:

- > financial liabilities at fair value through profit or loss; and
- > financial liabilities measured at amortized cost.

We recognize financial instruments at amortized cost or at fair value.

The amortized cost of a financial asset or liability is the amount:

- > at which a financial asset or liability is measured at initial recognition;
- > minus any principal repayments;
- > minus any write-down for impairment or uncollectibility;
- > plus or minus the cumulative amortization of any difference between the original amount and the amount repayable at maturity (premium, discount), amortized using the effective interest method over the term of the financial asset or liability.

In the case of current receivables and liabilities, amortized cost generally corresponds to the principal or repayment amount.

Fair value generally corresponds to the market or quoted market price. If no active market exists, fair value is determined using other observable inputs as far as possible. If no observable inputs are available, fair value is determined using valuation techniques, such as by discounting the future cash flows at the market interest rate, or by using recognized option pricing models, and, as far as possible, verified by confirmations from the banks that handle the transactions.

The fair value option for financial assets and financial liabilities is not used in the Volkswagen Group.

Financial assets and financial liabilities are generally presented at their gross amounts and only offset if the Volkswagen Group currently has a legally enforceable right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Subsidiaries, associates and joint ventures that are not consolidated for reasons of materiality do not fall within the scope of IAS 39. As of fiscal year 2015, the related amounts are therefore excluded from the disclosures in accordance with IFRS 7. Other equity investments that are required by IAS 39.46(c) to be measured at cost, net of any impairment losses to be recognized, are presented as "measured at fair value". In addition, the tables under IFRS 7 were extended to incorporate a separate class for derivative financial instruments included in hedging relationships. The relevant tables and prior-year amounts were adjusted.

LOANS AND RECEIVABLES AND FINANCIAL LIABILITIES

Loans, receivables and liabilities, as well as held-to-maturity financial assets, are measured at amortized cost, unless hedged. Specifically, these relate to:

- > receivables from financing business;
- > trade receivables and payables;
- > other receivables and financial assets and liabilities;
- > financial liabilities; and
- > cash, cash equivalents and time deposits.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are either allocated specifically to this category or are financial assets that cannot be assigned to any other category.

Available-for-sale financial assets (debt instruments) are carried at fair value. Changes in fair value are recognized directly in equity, net of deferred taxes. Prolonged changes in the fair value of debt instruments (impairment losses, foreign exchange gains and losses, interest calculated using the effective interest method) are recognized in profit or loss.

Other equity investments (shares representing an ownership interest of less than 20% as a rule) are also classified as available-for-sale financial assets. They are recognized at cost in the consolidated financial statements if there is no active market for those shares and fair values cannot be reliably ascertained without undue cost or effort. The lower present value of the estimated future cash flows is recognized if there are indications of impairment. There is currently no intention to sell these financial assets. Foreign exchange gains and losses attributable to equity instruments are recognized in other comprehensive income.

DERIVATIVES AND HEDGE ACCOUNTING

Volkswagen Group companies use derivatives to hedge balance sheet items and future cash flows (hedged items). Appropriate derivatives such as swaps, forward transactions and options are used as hedging instruments. The criteria for the application of hedge accounting are that the hedging relationship between the hedged item and the hedging instrument is clearly documented and that the hedge is highly effective.

The accounting treatment of changes in the fair value of hedging instruments depends on the nature of the hedging relationship. In the case of hedges against the risk of change in the carrying amount of balance sheet items (fair value hedges), both the hedging instrument and the hedged risk portion of the hedged item are measured at fair value. Several risk portions of hedged items are grouped into a portfolio if appropriate. In the case of a fair value portfolio hedge, the changes in fair value are accounted for in the same way as for a fair value hedge of an individual underlying. Gains or losses from the remeasurement of hedging instruments and hedged items are recognized in profit or loss. In the case of hedges of future cash flows (cash flow hedges), the hedging instruments are also measured at fair value. Gains or losses from remeasurement of the effective portion of the derivative are initially recognized in the reserve for cash flow hedges directly in equity, and are only recognized in the income statement when the hedged item is recognized in profit or loss; the ineffective portion of a cash flow hedge is recognized immediately in profit or loss.

Derivatives used by the Volkswagen Group for financial management purposes to hedge against interest rate, foreign currency, commodity, or price risks, but that do not meet the strict hedge accounting criteria of IAS 39, are classified as financial assets or liabilities at fair value through profit or loss (also referred to below as “derivatives not included in hedging relationships”). This also applies to options on shares. External hedges of intragroup hedged items that are subsequently eliminated in the consolidated financial statements are also assigned to this category as a general rule. Assets and liabilities measured at fair value through profit or loss consist of derivatives or components of derivatives that are not included in hedge accounting. These relate primarily to the interest component of currency forwards used to hedge sales revenue, commodity futures and currency forwards relating to commodity futures. Gains and losses from the remeasurement and settlement of financial instruments at fair value through profit or loss are reported in the financial result.

RECEIVABLES FROM FINANCE LEASES

Where a Group company is the lessor – generally of vehicles – a receivable in the amount of the net investment in the lease is recognized in the case of finance leases, in other words where substantially all the risks and rewards are transferred to the lessee.

OTHER RECEIVABLES AND FINANCIAL ASSETS

Other receivables and financial assets (except for derivatives) are recognized at amortized cost.

IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS

Default risk on loans and receivables in the financial services business is accounted for by recognizing specific valuation allowances and portfolio-based valuation allowances.

More specifically, in the case of significant individual receivables (e.g. dealer finance receivables and fleet customer business receivables) specific valuation allowances are recognized in accordance with Group-wide standards in the amount of the incurred loss. A potential impairment is assumed in the case of a number of situations such as delayed payment over a certain period, the institution of enforcement measures, the threat of insolvency or overindebtedness, application for or the opening of bankruptcy proceedings, or the failure of reorganization measures.

Portfolio-based valuation allowances are recognized by grouping together insignificant receivables and significant individual receivables for which there is no indication of impairment into homogeneous portfolios on the basis of comparable credit risk features and allocating them by risk class. As long as no definite information is available as to which receivables are in default, average historical default probabilities for the portfolio concerned are used to calculate the amount of the valuation allowances.

As a matter of principle, specific valuation allowances are recognized on receivables outside the Financial Services segment.

Valuation allowances on receivables are regularly recognized in separate allowance accounts.

An impairment loss is recognized on available-for-sale financial assets if there is objective evidence of permanent impairment. In the case of equity instruments, evidence of impairment is taken to exist, among other things, if the fair value decreases below cost significantly (by more than 20%) or the decrease is prolonged (by more than 10% of the average market prices over one year). If impairment is identified, the cumulative loss is recognized in the reserve and charged to profit and loss. In the case of equity instruments, reversals of impairment losses are taken directly to equity. Impairment losses are recognized on debt instruments if a decrease in the future cash flows of the financial asset is expected. An increase in the risk-free interest rate or an increase in credit risk premiums is not in itself evidence of impairment.

DEFERRED TAXES

Deferred tax assets are generally recognized for tax-deductible temporary differences between the tax base of assets and their carrying amounts in the consolidated balance sheet, as well as on tax loss carryforwards and tax credits provided it is probable that they can be used in future periods. Deferred tax liabilities are generally recognized for all taxable temporary differences between the tax base of liabilities and their carrying amounts in the consolidated balance sheet.

Deferred tax liabilities and assets are recognized in the amount of the expected tax liability or tax benefit, as appropriate, in subsequent fiscal years, based on the expected enacted tax rate at the time of realization. The tax consequences of dividend payments are generally not taken into account until the resolution on appropriation of earnings available for distribution has been adopted.

Deferred tax assets that are unlikely to be realized within a clearly predictable period are reduced by valuation allowances.

Deferred tax assets for tax loss carryforwards are usually measured on the basis of future taxable income over a planning period of five fiscal years.

Deferred tax assets and deferred tax liabilities are offset where taxes are levied by the same taxation authority and relate to the same tax period.

INVENTORIES

Raw materials, consumables and supplies, merchandise, work in progress and self-produced finished goods reported in inventories are carried at the lower of cost or net realizable value. Cost is determined on the basis of the direct and indirect costs that are directly attributable. Borrowing costs are not capitalized. The measurement of same or similar inventories is generally based on the weighted average cost method.

NONCURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Under IFRS 5, noncurrent assets or groups of assets and liabilities (disposal groups) are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Such assets are carried at the lower of their carrying amount and fair value less costs to sell, and are presented separately in current assets and liabilities in the balance sheet.

Discontinued operations are components of an entity that have either been disposed of or are classified as held for sale. The assets and liabilities of operations that are held for sale represent disposal groups that must be measured and reported using the same principles as noncurrent assets held for sale. The income and expenses from discontinued operations are presented in the income statement as “profit or loss from discontinued operations” below the profit or loss from continuing operations. Corresponding disposal gains or losses are contained in the profit or loss from discontinued operations. The prior-year figures in the income statement are adjusted accordingly.

PENSION PROVISIONS

The actuarial valuation of pension provisions is based on the projected unit credit method stipulated by IAS 19 for defined benefit plans. The valuation is not only based on pension payments and vested entitlements known at the balance sheet date, but also reflects future salary and pension trends, as well as experience-based staff turnover rates. Remeasurements are recognized in retained earnings in other comprehensive income, net of deferred taxes.

PROVISIONS FOR TAXES

Tax provisions contain obligations resulting from current taxes. Deferred taxes are presented in separate items of the balance sheet and income statement. Provisions are recognized for potential tax risks on the basis of the best estimate of the liability.

OTHER PROVISIONS

In accordance with IAS 37, provisions are recognized where a present obligation exists to third parties as a result of a past event, where a future outflow of resources is probable and where a reliable estimate of that outflow can be made.

Provisions not resulting in an outflow of resources in the year immediately following are recognized at their settlement value discounted to the balance sheet date. Discounting is based on market interest rates. An average discount rate of 0.45% (previous year: 0.36%) was used in the eurozone. The settlement value also reflects cost increases expected at the balance sheet date.

Provisions are not offset against claims for reimbursement.

We recognize insurance contracts that form part of the insurance business in accordance with IFRS 4. Reinsurance acceptances are accounted for without any time delay in the year in which they arise. Provisions are generally recognized based on the cedants’ contractual duties. Estimation techniques based on assumptions about future changes in claims are used to calculate the claims provision. Other technical provisions relate to the provision for cancellations.

The share of the provisions attributable to reinsurers is calculated in accordance with the contractual agreements with the retrocessionaries and reported under other assets.

LIABILITIES

Noncurrent liabilities are recorded at amortized cost in the balance sheet. Differences between historical cost and the repayment amount are amortized using the effective interest method.

Liabilities to members of partnerships from puttable shares are recognized in the income statement at the present value of the redemption amount at the balance sheet date.

Liabilities under finance leases are carried at the present value of the lease payments.

Current liabilities are recognized at their repayment or settlement value.

REVENUE AND EXPENSE RECOGNITION

Sales revenue, interest and commission income from financial services and other operating income are recognized only when the relevant service has been rendered or the goods have been delivered, that is, when the risk has passed to the customer, the amount of sales revenue can be reliably determined and settlement of the amount can be assumed. Revenue is reported net of sales allowances (discounts, rebates, or customer bonuses). Sales revenue from financing and lease agreements is recognized using the effective interest method. If non-interest-bearing or low-interest vehicle financing arrangements are agreed, sales revenue is reduced by the interest benefits granted. Revenue from operating leases is recognized using the straight-line method over the term of the lease. Sales revenue from extended warranties or maintenance agreements is recognized when deliveries take place or services are rendered. In the case of prepayments, deferred income is recognized proportionately by reference to the costs expected to be incurred, based on experience. Revenue is recognized on a straight-line basis if there is insufficient experience. If the expected costs exceed the accrued sales revenue, a loss is recognized from these agreements.

If a contract comprises several separately identifiable components (multiple-element arrangements), these components are recognized separately in accordance with the principles outlined above.

Income from assets for which a Group company has a buy back obligation is recognized only when the assets have definitively left the Group. If a fixed repurchase price was agreed when the contract was entered into, the difference between the selling price and the present value of the repurchase price is recognized as income ratably over the term of the contract. Prior to that time, the assets are carried as inventories in the case of short contract terms and as lease assets in the case of long contract terms.

Cost of sales includes the costs incurred to generate the sales revenue and the cost of goods purchased for resale. This item also includes the costs of additions to warranty provisions. Research and development costs not eligible for capitalization in the period and amortization of development costs are likewise carried under cost of sales. Reflecting the presentation of interest and commission income in sales revenue, the interest and commission expenses attributable to the financial services business are presented in cost of sales.

Construction contracts are recognized using the percentage of completion (PoC) method, under which revenue and cost of sales are recognized by reference to the stage of completion at the end of the reporting period, based on the contract revenue agreed with the customer and the expected contract costs. As a rule, the stage of completion is determined as the proportion that contract costs incurred by the end of the reporting period bear to the estimated total contract costs (cost-to-cost method). In certain cases, in particular those involving innovative, complex contracts, the stage of completion is measured using contractually agreed milestones (milestone method). If the outcome of a construction contract cannot yet be estimated reliably, contract revenue is recognized only in the amount of the contract costs incurred to date (zero profit method). In the balance sheet, contract components whose revenue is recognized using the percentage of completion method are reported as trade receivables, net of prepayments received. Expected losses from construction contracts are recognized immediately in full as expenses by recognizing impairment losses on recognized contract assets, and additionally by recognizing provisions for amounts in excess of the impairment losses.

Dividend income is recognized on the date when the dividend is legally approved.

GOVERNMENT GRANTS

Government grants related to assets are deducted when arriving at the carrying amount of the asset and are recognized in profit or loss over the life of the depreciable asset as a reduced depreciation expense. If the Group becomes entitled to a grant subsequently, the amount of the grant attributable to prior periods is recognized in profit or loss.

Government grants related to income, i.e. that compensate the Group for expenses incurred, are recognized in profit or loss for the period in those items in which the expenses to be compensated by the grants are also recognized. Grants in the form of nonmonetary assets (e.g. the use of land free of charge or the transfer of resources free of charge) are disclosed as a memo item.

ESTIMATES AND ASSUMPTIONS BY MANAGEMENT

Preparation of the consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, and income and expenses, as well as the related disclosure of contingent assets and liabilities of the reporting period. The estimates and assumptions relate largely to the following matters:

The impairment testing of nonfinancial assets (especially goodwill, brand names, capitalized development costs and special tools) and equity-accounted investments, or investments accounted at cost, and the measurement of options on shares in companies that are not traded in an active market require assumptions about the future cash flows during the planning period, and possibly beyond it, as well as about the discount rate to be applied. The estimates made in order to separate cash flows mainly relate to future market shares, the trend in the respective markets and the profitability of the Volkswagen Group's products. In addition, the recoverability of the Group's lease assets depends in particular on the residual value of the leased vehicles after expiration of the lease term, because this represents a significant portion of the expected cash flows. More detailed information on impairment tests and the measurement parameters used for those tests can be found in the explanations on the accounting policies for intangible assets.

If there are no observable market inputs, the fair values of assets acquired and liabilities assumed in a business combination are measured using recognized valuation techniques, such as the relief-from-royalty method or the residual method.

Impairment testing of financial assets requires estimates about the extent and probability of occurrence of future events. As far as possible, estimates are derived from past experience taking into account current market data as well as rating categories and scoring information. In the case of financial services receivables, both specific and portfolio-based valuation allowances are recognized. The more detailed balance sheet disclosures on IFRS 7 (Financial Instruments) contain an overview of these specific and portfolio-based valuation allowances.

Accounting for provisions is also based on estimates of the extent and probability of occurrence of future events, as well as estimates of the discount rate. As far as possible, these are also based on past experience or external opinions. In addition, the measurement of pension provisions depends on the estimated growth in plan assets. The assumptions underlying the measurement of pension provisions are contained in note 29. Remeasurements are recognized in other comprehensive income and do not affect profit or loss reported in the income statement. Any change in the estimates of the amount of other provisions is always recognized in profit or loss. The provisions are regularly adjusted to reflect new information obtained. The use of empirical values means that additional amounts must frequently be recognized for provisions, or that unused provisions are reversed. Reversals of provisions are recognized as other operating income, whereas expenses relating to the recognition of provisions are allocated directly to the functions. Warranty claims from sales transactions are calculated on the basis of losses to date, estimated future losses and the policy on ex gratia arrangements. This requires assumptions to be made about the nature and extent of future guarantee and ex gratia claims.

Assumptions were made in respect of the warranty provisions recognized in connection with the diesel issues. These depend on the series, model year and country concerned and relate in particular to the effort, material costs and hourly wage rates involved, or to vehicle values in the case of repurchases. They are based on qualified estimates, which are based in turn on external data, and also reflect additional information available internally, such as values derived from past experience. Note 30 contains an overview of other provisions. For information on litigation and legal risks associated with the diesel issue, see also note 37. The put options and compensation rights of free float shareholders recognized within liabilities depend in particular on the outcome of the MAN award proceedings. The liability was based on estimates of the length of the award proceedings and the amount of the put options and compensation rights. The length was estimated based on the fact that proceedings take seven years on average. The amount of the put options and compensation rights of MAN's free float shareholders is derived from the cash settlement in accordance with section 305 of the Aktiengesetz (AktG – German Stock Corporation Act). The cash settlement payable was adjusted in the fiscal year due to the ruling by the Munich Regional Court.

Government grants are recognized based on an assessment as to whether there is reasonable assurance that the Group companies will fulfill the attached conditions and the grants will be awarded. This assessment is based on the nature of the legal entitlement and past experience.

Estimates of the useful life of finite-lived assets are based on past experience and are reviewed regularly. Where estimates are modified the residual useful life is adjusted and an impairment loss is recognized, if necessary.

Measuring deferred tax assets requires assumptions regarding future taxable income and the timing of the realization of deferred tax assets.

The estimates and assumptions are based on underlying assumptions that reflect the current state of available knowledge. Specifically, the expected future development of business was based on the circumstances known at the date of preparation of these consolidated financial statements and a realistic assessment of the future development of the global and sector-specific environment. Our estimates and assumptions remain subject to a high degree of uncertainty because future business developments are subject to uncertainties that in part cannot be influenced by the Group. This applies in particular to short- and medium-term cash flow forecasts and to the discount rates used.

Developments in this environment that differ from the assumptions and that cannot be influenced by management could result in amounts that differ from the original estimates. If actual developments differ from the expected developments, the underlying assumptions and, if necessary, the carrying amounts of the assets and liabilities affected are adjusted.

The moderate global economic growth slowed to 2.5% in fiscal year 2015. Our planning assumes that the global economy will grow at a rather stronger pace in 2016 than it did in the previous year. As a result, from today's perspective, we are not expecting material adjustments in the following fiscal year in the carrying amounts of the assets and liabilities reported in the consolidated balance sheet.

Estimates and assumptions by management were based in particular on assumptions relating to the development of the general economic environment, the automotive markets and the legal environment. These and further assumptions are explained in detail in the Report on Expected Developments, which is part of the Group Management Report.

Segment reporting

Segments are identified on the basis of the Volkswagen Group's internal management and reporting. In line with the Group's multibrand strategy, each of its brands (operating segments) is managed by its own board of management. The Group targets and requirements laid down by the Board of Management of Volkswagen AG must be complied with. Segment reporting comprises four reportable segments: Passenger Cars, Commercial Vehicles, Power Engineering and Financial Services. The operating segments are combined into reportable segments based on similar economic characteristics (in particular the nature of the products or services, integration in the development, production and sales processes, and similar customer groups).

The activities of the Passenger Cars segment cover the development of vehicles and engines, the production and sale of passenger cars, and the corresponding genuine parts business. As a rule, the Volkswagen Group's individual passenger car brands are combined on a consolidated basis into a single reportable segment.

The Commercial Vehicles segment primarily comprises the development, production and sale of light commercial vehicles, trucks and buses, the corresponding genuine parts business and related services.

The activities of the Power Engineering segment consist of the development and production of large-bore diesel engines, turbo compressors, industrial turbines and chemical reactor systems, as well as the production of gear units, propulsion components and testing systems.

The activities of the Financial Services segment comprise dealer and customer financing, leasing, banking and insurance activities, fleet management and mobility services.

Purchase price allocation for companies acquired is allocated directly to the corresponding segments.

At Volkswagen, segment profit or loss is measured on the basis of operating profit or loss.

In the segment reporting, the share of the profits or losses of joint ventures is contained in the share of profits and losses of equity-accounted investments in the corresponding segments.

The reconciliation contains activities and other operations that by definition do not constitute segments. It also includes the unallocated Group financing activities. Consolidation adjustments between the segments are also contained in the reconciliation.

Investments in intangible assets, property, plant and equipment, and investment property are reported net of investments under finance leases.

As a matter of principle, business relationships between the companies within the segments of the Volkswagen Group are transacted at arm's length prices.

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REPORTING SEGMENTS 2014

€ million	Passenger Cars	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
Sales revenue from external customers	150,677	24,999	3,727	22,594	201,996	462	202,458
Intersegment sales revenue	13,389	5,206	5	2,327	20,927	-20,927	-
Total sales revenue	164,065	30,205	3,732	24,920	222,922	-20,464	202,458
Depreciation and amortization	9,549	2,133	361	4,521	16,564	-125	16,439
Impairment losses	209	69	1	127	406	44	450
Reversal of impairment losses	27	1	-	4	31	-	31
Segment profit or loss (operating profit or loss)	11,578	901	44	1,917	14,439	-1,742	12,697
Share of profits and losses of equity-accounted investments	3,763	14	6	31	3,814	174	3,988
Net interest income and other financial result	-1,053	261	-8	17	-783	-1,107	-1,891
Equity-accounted investments	7,186	399	22	433	8,039	1,835	9,874
Investments in intangible assets, property, plant and equipment, and investment property	14,039	1,851	166	517	16,574	39	16,613

REPORTING SEGMENTS 2015

€ million	Passenger Cars	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
Sales revenue from external customers	158,533	24,382	3,769	26,416	213,100	192	213,292
Intersegment sales revenue	16,170	6,063	6	2,940	25,180	-25,180	-
Total sales revenue	174,703	30,445	3,775	29,357	238,279	-24,987	213,292
Depreciation and amortization	10,389	2,162	360	5,543	18,455	-136	18,319
Impairment losses	635	38	10	636	1,319	38	1,357
Reversal of impairment losses	16	1	-	3	20	1	21
Segment profit or loss (operating profit or loss)	-4,874	586	123	2,236	-1,929	-2,139	-4,069
Share of profits and losses of equity-accounted investments	4,129	10	6	21	4,166	221	4,387
Net interest income and other financial result	-1,273	-565	-10	75	-1,773	153	-1,620
Equity-accounted investments	8,032	397	-	525	8,954	1,950	10,904
Investments in intangible assets, property, plant and equipment, and investment property	15,085	2,426	198	476	18,185	50	18,234

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RECONCILIATION

€ million	2015	2014
Segment sales revenue	238,279	222,922
Unallocated activities	984	1,245
Group financing	43	34
Consolidation	-26,014	-21,744
Group sales revenue	213,292	202,458
Segment profit or loss (operating profit or loss)	-1,929	14,439
Unallocated activities	161	46
Group financing	49	9
Consolidation	-2,349	-1,797
Operating result	-4,069	12,697
Financial result	2,767	2,097
Consolidated earnings before tax	-1,301	14,794

BY REGION 2014

€ million	Germany	Europe/Other markets*	North America	South America	Asia-Pacific	Total
Sales revenue from external customers	39,372	83,485	27,619	13,868	38,113	202,458
Intangible assets, property, plant and equipment, lease assets and investment property	78,147	32,665	17,489	3,324	2,548	134,174

* Excluding Germany.

BY REGION 2015

€ million	Germany	Europe/Other markets*	North America	South America	Asia-Pacific	Total
Sales revenue from external customers	42,248	90,287	35,384	10,148	35,225	213,292
Intangible assets, property, plant and equipment, lease assets and investment property	81,711	34,824	22,595	2,658	3,207	144,994

* Excluding Germany.

Allocation of sales revenue to the regions follows the destination principle.

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:

€ million	DEFERRED TAX ASSETS		DEFERRED TAX LIABILITIES	
	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

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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.

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Quantity	ORDINARY		PREFERRED	
	2015	2014	2015	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.

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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.

BALANCE SHEET DISCLOSURES

12. Intangible assets

CHANGES IN INTANGIBLE ASSETS IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2014

€ million	Brand names	Goodwill	Capitalized development costs for products under development	Capitalized development costs for products currently in use	Other intangible assets	Total
Cost						
Balance at Jan. 1, 2014	17,088	23,730	5,087	19,224	8,352	73,481
Foreign exchange differences	-53	-161	2	30	15	-166
Changes in consolidated Group	-	8	-	-	53	62
Additions	-	-	3,652	949	360	4,961
Transfers	10	-	-2,306	2,307	16	26
Disposals	-	-	8	1,100	504	1,611
Balance at Dec. 31, 2014	17,045	23,577	6,428	21,409	8,292	76,752
Amortization and impairment						
Balance at Jan. 1, 2014	59	0	24	10,085	4,070	14,238
Foreign exchange differences	10	0	0	17	6	32
Changes in consolidated Group	-	-	-	-	3	3
Additions to cumulative amortization	10	-	0	2,948	1,050	4,009
Additions to cumulative impairment losses	-	-	10	67	13	91
Transfers	-	-	-7	7	1	1
Disposals	-	-	-	1,031	505	1,536
Reversal of impairment losses	-	-	13	8	-	20
Balance at Dec. 31, 2014	79	0	14	12,085	4,639	16,818
Carrying amount at Dec. 31, 2014	16,967	23,577	6,413	9,324	3,654	59,935

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CHANGES IN INTANGIBLE ASSETS IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2015

€ million	Brand names	Goodwill	Capitalized development costs for products under development	Capitalized development costs for products currently in use	Other intangible assets	Total
Cost						
Balance at Jan. 1, 2015	17,045	23,577	6,428	21,409	8,292	76,752
Foreign exchange differences	16	64	-27	52	-189	-85
Changes in consolidated Group	-	5	-	-	43	48
Additions	-	-	4,043	978	506	5,526
Transfers	-	-	-3,652	3,652	16	17
Disposals	-	-	11	2,410	138	2,559
Balance at Dec. 31, 2015	17,062	23,646	6,781	23,681	8,529	79,699
Amortization and impairment						
Balance at Jan. 1, 2015	79	0	14	12,085	4,639	16,818
Foreign exchange differences	-7	0	0	39	-83	-50
Changes in consolidated Group	-	-	-	-	14	14
Additions to cumulative amortization	4	-	-	3,098	989	4,091
Additions to cumulative impairment losses	-	-	31	133	21	186
Transfers	-	-	-8	8	-2	-2
Disposals	-	-	-	2,396	105	2,501
Reversal of impairment losses	-	-	-	1	-	1
Balance at Dec. 31, 2015	76	-	37	12,968	5,472	18,553
Carrying amount at Dec. 31, 2015	16,986	23,646	6,744	10,713	3,058	61,147

Other intangible assets comprise in particular concessions, purchased customer lists and dealer relationships, industrial and similar rights, and licenses in such rights and assets.

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The allocation of the brand names and goodwill to the operating segments is shown in the following table:

€ million	2015	2014
Brand names by operating segment		
Porsche	13,823	13,823
Scania Vehicles and Services	1,059	1,036
MAN Truck & Bus	1,127	1,127
MAN Diesel & Turbo	415	415
Ducati	404	404
Other	158	162
	16,986	16,967
Goodwill by operating segment		
Porsche	18,825	18,825
Scania Vehicles and Services	3,044	2,978
MAN Truck & Bus	607	595
MAN Diesel & Turbo	250	250
Ducati	290	290
ŠKODA	150	146
Porsche Holding Salzburg	197	191
Other	284	303
	23,646	23,577

The recoverability test for recognized goodwill is based on value in use. Recoverability is not affected by a variation in the growth forecast with respect to the perpetual annuity or in the discount rate of +/-0.5 percentage points.

Of the total research and development costs incurred in 2015, €5,021 million (previous year: €4,601 million) met the criteria for capitalization under IFRSs.

The following amounts were recognized in profit or loss:

€ million	2015	2014
Research and non-capitalized development costs	8,591	8,519
Amortization of development costs	3,263	3,026
Research and development costs recognized in the income statement	11,853	11,545

13. Property, plant and equipment

CHANGES IN PROPERTY, PLANT AND EQUIPMENT IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2014

€ million	Land, land rights and buildings, including buildings on third-party land	Technical equipment and machinery	Other equipment, operating and office equipment	Payments on account and assets under construction	Total
Cost					
Balance at Jan. 1, 2014	26,277	35,159	49,297	6,158	116,891
Foreign exchange differences	43	161	495	15	713
Changes in consolidated Group	139	-1	9	19	166
Additions	894	1,511	4,005	5,150	11,560
Transfers	1,256	2,065	1,364	-4,696	-11
Disposals	120	1,021	1,249	40	2,430
Balance at Dec. 31, 2014	28,489	37,873	53,922	6,607	126,890
Depreciation and impairment					
Balance at Jan. 1, 2014	10,939	25,091	38,447	26	74,503
Foreign exchange differences	36	122	405	4	567
Changes in consolidated Group	32	-2	3	-	32
Additions to cumulative depreciation	934	2,491	4,079	5	7,509
Additions to cumulative impairment losses	6	26	98	13	143
Transfers	8	-20	20	-6	3
Disposals	47	929	1,051	0	2,027
Reversal of impairment losses	1	-	1	5	8
Balance at Dec. 31, 2014	11,906	26,779	42,000	36	80,721
Carrying amount at Dec. 31, 2014	16,582	11,095	11,921	6,570	46,169
of which assets leased under finance leases					
Carrying amount at Dec. 31, 2014	276	11	13	-	299

Future finance lease payments due, and their present values, are shown in the following table:

€ million	2015	2016-2019	from 2020	Total
Finance lease payments	56	222	318	596
Interest component of finance lease payments	23	64	113	200
Carrying amount of liabilities	34	158	204	396

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CHANGES IN PROPERTY, PLANT AND EQUIPMENT IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2015

€ million	Land, land rights and buildings, including buildings on third-party land	Technical equipment and machinery	Other equipment, operating and office equipment	Payments on account and assets under construction	Total
Cost					
Balance at Jan. 1, 2015	28,489	37,873	53,922	6,607	126,890
Foreign exchange differences	35	22	56	113	226
Changes in consolidated Group	129	37	44	0	210
Additions	992	1,777	4,283	5,748	12,800
Transfers	1,565	1,746	1,383	-4,713	-18
Disposals	173	1,620	1,446	38	3,277
Balance at Dec. 31, 2015	31,036	39,836	58,243	7,717	136,832
Depreciation and impairment					
Balance at Jan. 1, 2015	11,906	26,779	42,000	36	80,721
Foreign exchange differences	12	29	35	-6	69
Changes in consolidated Group	44	33	38	-	115
Additions to cumulative depreciation	948	2,691	4,539	-	8,178
Additions to cumulative impairment losses	6	107	382	58	553
Transfers	-1	71	-65	-1	3
Disposals	125	1,561	1,284	0	2,970
Reversal of impairment losses	0	1	1	7	10
Balance at Dec. 31, 2015	12,789	28,148	45,645	79	86,661
Carrying amount at Dec. 31, 2015	18,247	11,688	12,597	7,638	50,171
of which assets leased under finance leases					
Carrying amount at Dec. 31, 2015	345	12	36	-	393

Options to purchase buildings and plant leased under the terms of finance leases exist in most cases, and are also expected to be exercised.

Future finance lease payments due, and their present values, are shown in the following table:

€ million	2016	2017 – 2020	from 2021	Total
Finance lease payments	60	240	408	707
Interest component of finance lease payments	20	67	149	236
Carrying amount of liabilities	40	173	258	471

For assets leased under operating leases, payments recognized in the income statement amounted to €1,463 million (previous year: €1,330 million). With respect to internally used assets, €1,306 million (previous year: €1,171 million) of this figure is attributable to minimum lease payments and €51 million (previous year: €50 million) to contingent lease payments. The payments of €106 million (previous year: €109 million) under subleases primarily relate to minimum lease payments.

Government grants of €120 million (previous year: €110 million) were deducted from the cost of property, plant and equipment, and noncash benefits received amounting to €18 million (previous year: €0 million) were not capitalized as the cost of assets.

Real property liens of €657 million (previous year: €628 million) are pledged as collateral for financial liabilities related to land and buildings.

14. Lease assets and investment property

CHANGES IN LEASE ASSETS AND INVESTMENT PROPERTY IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2014

€ million	Leasing assets	Investment property	Total
Cost			
Balance at Jan. 1, 2014	29,878	633	30,511
Foreign exchange differences	2,052	31	2,084
Changes in consolidated Group	547	–	547
Additions	13,998	100	14,098
Transfers	8	–18	–10
Disposals	9,703	10	9,713
Balance at Dec. 31, 2014	36,780	736	37,516
Depreciation and impairment			
Balance at Jan. 1, 2014	7,619	205	7,824
Foreign exchange differences	466	8	474
Changes in consolidated Group	125	–	125
Additions to cumulative depreciation	4,907	15	4,922
Additions to cumulative impairment losses	121	29	150
Transfers	1	–4	–3
Disposals	4,039	3	4,042
Reversal of impairment losses	3	–	3
Balance at Dec. 31, 2014	9,195	251	9,446
Carrying amount at Dec. 31, 2014	27,585	485	28,070

The following payments from noncancelable leases and rental agreements were expected to be received over the coming years:

€ million	2015	2016–2019	from 2020	Total
Lease payments	3,253	3,528	1	6,782

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CHANGES IN LEASE ASSETS AND INVESTMENT PROPERTY IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2015

€ million	Leasing assets	Investment property	Total
Cost			
Balance at Jan. 1, 2015	36,780	736	37,516
Foreign exchange differences	1,750	23	1,773
Changes in consolidated Group	10	1	11
Additions	18,265	15	18,280
Transfers	0	2	2
Disposals	11,687	16	11,702
Balance at Dec. 31, 2015	45,118	761	45,879
Depreciation and impairment			
Balance at Jan. 1, 2015	9,195	251	9,446
Foreign exchange differences	411	4	415
Changes in consolidated Group	3	1	4
Additions to cumulative depreciation	6,035	15	6,050
Additions to cumulative impairment losses	619	–	619
Transfers	0	–1	–1
Disposals	4,315	5	4,321
Reversal of impairment losses	3	8	10
Balance at Dec. 31, 2015	11,945	257	12,202
Carrying amount at Dec. 31, 2015	33,173	504	33,677

Lease assets include assets leased out under the terms of operating leases and assets covered by long-term buy-back agreements.

Investment property includes apartments rented out and leased dealerships with a fair value of €927 million (previous year: €890 million). Fair value is estimated using an investment method based on internal calculations (Level 3 of the fair value hierarchy). Operating expenses of €50 million (previous year: €53 million) were incurred for the maintenance of investment property in use. Expenses of €1 million (previous year: €3 million) were incurred for unused investment property.

The following payments from noncancelable leases and rental agreements are expected to be received over the coming years:

€ million	2016	2017 – 2020	from 2021	Total
Lease payments	3,722	4,398	42	8,162

15. Equity-accounted investments and other equity investments

CHANGES IN EQUITY-ACCOUNTED INVESTMENTS AND OTHER EQUITY INVESTMENTS IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2014

€ million	Equity- accounted investments	Other equity investments	Total
Gross carrying amount at Jan. 1, 2014	8,014	4,177	12,191
Foreign exchange differences	205	12	217
Changes in consolidated Group	335	-1,001	-666
Additions	36	292	329
Transfers	-	0	0
Disposals	0	96	96
Changes recognized in profit or loss	3,987	-	3,987
Dividends	-2,997	-	-2,997
Other changes recognized in other comprehensive income	376	630	1,005
Balance at Dec. 31, 2014	9,955	4,014	13,968
Impairment losses			
Balance at Jan. 1, 2014	80	237	316
Foreign exchange differences	1	-1	0
Changes in consolidated Group	-	-5	-5
Additions	-	172	172
Transfers	-	-	-
Disposals	-	72	72
Reversal of impairment losses	-	-	-
Balance at Dec. 31, 2014	80	331	411
Carrying amount at Dec. 31, 2014	9,874	3,683	13,557

**CHANGES IN EQUITY-ACCOUNTED INVESTMENTS AND OTHER EQUITY INVESTMENTS IN THE PERIOD JANUARY 1 TO
DECEMBER 31, 2015**

€ million	Equity- accounted investments	Other equity investments	Total
Gross carrying amount at Jan. 1, 2015	9,955	4,014	13,968
Foreign exchange differences	187	9	197
Changes in consolidated Group	–	–67	–67
Additions	740	253	993
Transfers	44	–44	–
Disposals	36	3,174	3,210
Changes recognized in profit or loss	4,386	–	4,386
Dividends	–4,683	–	–4,683
Other changes recognized in other comprehensive income	392	342	733
Balance at Dec. 31, 2015	10,985	1,333	12,318
Impairment losses Balance at Jan. 1, 2015	80	331	411
Foreign exchange differences	1	–2	–2
Changes in consolidated Group	–	–3	–3
Additions	–	38	38
Transfers	–	–	–
Disposals	–	4	4
Reversal of impairment losses	–	0	0
Balance at Dec. 31, 2015	81	358	439
Carrying amount at Dec. 31, 2015	10,904	974	11,878

Equity-accounted investments include joint ventures in the amount of €9,546 million (previous year: €9,159 million) and associates in the amount of €1,358 million (previous year: €715 million).

€335 million of the changes in the consolidated Group between equity-accounted investments and other equity investments in the previous year related to the reclassification of the shares in Bertrandt because of the change in the method of inclusion. The acquisition of the additional shares in Bertrandt in the amount of €40 million was previously reported under additions of other equity investments. The additions of equity-accounted investments in the fiscal year are mainly attributable to There Holding. The disposals of other equity investments are mainly the result of the sale of the Suzuki shares. Further details can be found in the disclosures in the section entitled “Basis of consolidation”.

Of the other changes recognized in other comprehensive income, €391 million (previous year: €379 million) is attributable to joint ventures and €1 million (previous year: €–3 million) to associates. They are mainly the result of foreign exchange differences in the amount of €393 million (previous year: €397 million), pension plan remeasurements in the amount of €–8 million (previous year: €–6 million) and losses on the fair value measurement of cash flow hedges in the amount of €6 million (previous year: €–23 million).

16. Noncurrent and current financial services receivables

€ million	CARRYING AMOUNT			FAIR VALUE	CARRYING AMOUNT			FAIR VALUE
	Current	Noncurrent	Dec. 31, 2015	Dec. 31, 2015	Current	Noncurrent	Dec. 31, 2014	Dec. 31, 2014
Receivables from financing business								
Customer financing	21,991	44,985	66,976	68,452	21,163	41,681	62,844	64,778
Dealer financing	14,738	1,832	16,570	16,539	13,343	1,570	14,913	14,897
Direct banking	212	2	214	214	198	1	198	199
	36,941	46,819	83,760	85,205	34,704	43,252	77,956	79,873
Receivables from operating leases	273	–	273	273	281	–	281	281
Receivables from finance leases	9,674	16,365	26,040	26,041	9,413	14,625	24,038	24,296
	46,888	63,185	110,073	111,518	44,398	57,877	102,275	104,450

The receivables from customer financing and finance leases contained in financial services receivables of €110.1 billion (previous year: €102.3 billion) decreased by €18 million as a result of a fair value adjustment from portfolio hedging (previous year: increase of €39 million).

The receivables from customer and dealer financing are secured by vehicles or real property liens.

The receivables from dealer financing include €45 million (previous year: €98 million) receivable from unconsolidated affiliated companies.

The receivables from finance leases – almost entirely in respect of vehicles – were or are expected to generate the following cash flows as of December 31, 2014 and December 31, 2015:

€ million	2015	2016 – 2019	from 2020	Total
Future payments from finance lease receivables	10,074	15,474	84	25,632
Unearned finance income from finance leases (discounting)	–661	–929	–4	–1,594
Present value of minimum lease payments outstanding at the reporting date	9,413	14,545	80	24,038

€ million	2016	2017 – 2020	from 2021	Total
Future payments from finance lease receivables	10,320	17,184	135	27,639
Unearned finance income from finance leases (discounting)	–646	–949	–4	–1,600
Present value of minimum lease payments outstanding at the reporting date	9,674	16,234	131	26,040

Accumulated valuation allowances for uncollectible minimum lease payments receivable amount to €90 million (previous year: €97 million).

17. Noncurrent and current other financial assets

€ million	CARRYING AMOUNT			CARRYING AMOUNT		
	Current	Noncurrent	Dec. 31, 2015	Current	Noncurrent	Dec. 31, 2014
Positive fair value of derivatives	2,081	2,246	4,326	1,551	2,047	3,598
Marketable securities	–	1,387	1,387	–	1,546	1,546
Receivables from loans, bonds, profit participation rights (excluding interest)	4,286	2,169	6,455	3,533	2,170	5,704
Miscellaneous financial assets	3,677	928	4,604	2,608	735	3,343
	10,043	6,730	16,773	7,693	6,498	14,190

Other financial assets include receivables from related parties of €6,010 million (previous year: €5,055 million). Other financial assets and noncurrent marketable securities amounting to €1,897 million (previous year adjusted: €1,945 million) were furnished as collateral for financial liabilities and contingent liabilities. There is no original right of disposal or pledge for the furnished collateral on the part of the collateral taker.

There are restrictions on the disposal of the certificates of deposit amounting to €1.3 billion reported in noncurrent securities (see the disclosures on “Interests in joint ventures”). In addition, the miscellaneous financial assets include cash and cash equivalents that serve as collateral (mainly under asset-backed securities transactions).

The positive fair values of derivatives relate to the following items:

€ million	Dec. 31, 2015	Dec. 31, 2014
Transactions for hedging		
foreign currency risk from assets using fair value hedges	310	212
foreign currency risk from liabilities using fair value hedges	190	190
interest rate risk using fair value hedges	681	681
interest rate risk using cash flow hedges	19	4
foreign currency and price risk from future cash flows (cash flow hedges)	1,735	1,690
Hedging transactions	2,936	2,778
Assets related to derivatives not included in hedging relationships	1,391	820
	4,326	3,598

The positive fair value of transactions for hedging price risk from future cash flows (cash flow hedges) amounted to €0 million (previous year: €1 million).

Positive fair values of €1 million (previous year: €1 million) were recognized from transactions for hedging interest rate risk (fair value hedges) used in portfolio hedges.

Further details on derivative financial instruments as a whole are given in note 34.

18. Noncurrent and current other receivables

€ million	CARRYING AMOUNT			CARRYING AMOUNT		
	Current	Noncurrent	Dec. 31, 2015	Current	Noncurrent	Dec. 31, 2014
Other recoverable income taxes	3,930	259	4,189	3,474	290	3,764
Miscellaneous receivables	1,438	1,081	2,518	1,605	1,365	2,970
	5,367	1,340	6,707	5,080	1,654	6,734

Miscellaneous receivables include assets to fund post-employment benefits in the amount of €71 million (previous year: €75 million). This item also includes the share of the technical provisions attributable to reinsurers amounting to €78 million (previous year: €87 million).

Current other receivables are predominantly non-interest-bearing.

19. Tax assets

€ million	CARRYING AMOUNT			CARRYING AMOUNT		
	Current	Noncurrent	Dec. 31, 2015	Current	Noncurrent	Dec. 31, 2014
Deferred tax assets	–	8,026	8,026	–	5,878	5,878
Tax receivables	1,029	395	1,424	1,010	468	1,479
	1,029	8,421	9,451	1,010	6,346	7,357

€6,239 million (previous year: €4,718 million) of the deferred tax assets is due within one year.

20. Inventories

€ million	Dec. 31, 2015	Dec. 31, 2014
Raw materials, consumables and supplies	4,021	3,941
Work in progress	3,927	3,552
Finished goods and purchased merchandise	23,083	20,156
Current lease assets	3,861	3,679
Prepayments	156	139
	35,048	31,466

At the same time as the relevant revenue was recognized, inventories in the amount of €162,353 million (previous year: €158,108 million) were included in cost of sales. Valuation allowances recognized as expenses in the reporting period amounted to €932 million (previous year: €785 million). Vehicles amounting to €230 million (previous year: €207 million) were assigned as collateral for partial retirement obligations.

21. Trade receivables

€ million	Dec. 31, 2015	Dec. 31, 2014
Trade receivables from		
third parties	8,570	9,142
affiliated companies	265	230
joint ventures	2,253	2,037
associates	40	58
other investees and investors	5	4
	11,132	11,472

The fair values of the trade receivables correspond to the carrying amounts.

The trade receivables include receivables from construction contracts accounted for using the percentage of completion (PoC) method. These are calculated as follows:

€ million	Dec. 31, 2015	Dec. 31, 2014
Contract costs and proportionate contract profit/loss of construction contracts	1,236	1,327
Progress billings	-41	-66
Exchange rate effects	-4	6
PoC receivables, gross	1,191	1,267
Prepayments received	-969	-1,065
PoC receivables, net	222	202

Other payments received on account of construction contracts in the amount of €344 million (previous year: €375 million), for which no construction costs have yet been incurred, are recognized under other liabilities.

22. Marketable securities

The marketable securities serve to safeguard liquidity. Marketable securities are quoted, mainly short-term fixed-income securities and shares allocated to the available-for-sale financial instruments category.

23. Cash, cash equivalents and time deposits

€ million	Dec. 31, 2015	Dec. 31, 2014
Bank balances	20,656	18,815
Checks, cash-in-hand, bills and call deposits	216	309
	20,871	19,123

Bank balances are held at various banks in different currencies and include time deposits, for example.

24. Equity

The subscribed capital of Volkswagen AG is composed of no-par value bearer shares with a notional value of €2.56. As well as ordinary shares, there are preferred shares that entitle the bearer to a €0.06 higher dividend than ordinary shares, but do not carry voting rights.

The Annual General Meeting on April 19, 2012 resolved to create authorized capital of up to €110 million, expiring on April 18, 2017, for the issue of new ordinary bearer shares or preferred shares based. In June 2014, Volkswagen AG issued 10,471,204 new preferred shares (with a notional value of €27 million), with the result that the remaining authorized capital amounts to €83 million. In 2014, Volkswagen AG recorded a cash inflow of €2,000 million from the capital increase, less transaction costs of €20 million.

The Annual General Meeting on April 22, 2010 resolved to create contingent capital in the amount of up to €102 million expiring on April 21, 2015 that could be used to issue up to €5 billion in bonds with warrants and/or convertible bonds. To date, Volkswagen has used this contingent capital as follows:

- › In November 2012, via a subsidiary, Volkswagen International Finance N.V. Amsterdam/the Netherlands (issuer), Volkswagen AG placed a €2.5 billion mandatory convertible note that entitled and obliged holders to subscribe for Volkswagen preferred shares. The preemptive rights of existing shareholders were disappplied. The convertible note bore a coupon of 5.50% and matured on November 9, 2015.
- › In June 2013, Volkswagen placed another €1.2 billion mandatory convertible note to supplement the mandatory convertible note issued in November 2012. The features of this mandatory convertible note corresponded to those of the mandatory convertible note issued in November 2012. It was issued at a price of 105.64% of the principal amount. Additionally, accrued interest (€1 million) was received and deferred. This mandatory convertible note also matured on November 9, 2015.

The convertible notes were settled by issuing new preferred shares no later than at maturity. The issuer was entitled to convert the mandatory convertible notes at any time at the minimum conversion price. The note terms and conditions also provided for early conversion options. This voluntary conversion right was exercised in the reporting period. In 2015, a further 27,091 preferred shares were created through exercise of the voluntary conversion right. At the maturity date, November 9, 2015, the remaining amount of both notes was converted by the issuer as required. A further 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. In this context, it was necessary to reclassify the principal amount of €65 million from the capital reserves to subscribed capital.

Following the voluntary and mandatory conversion of mandatory convertible notes in the reporting period, the subscribed capital is composed of 295,089,818 no-par value ordinary shares and 206,205,445 no-par value preferred shares, and amounts to €1,283 million (December 31, 2014: €1,218 million).

The Annual General Meeting on May 5, 2015 resolved to create authorized capital of up to €179 million, expiring on May 4, 2020, to issue new preferred bearer shares.

On March 14, 2014, Volkswagen AG published an offer to the shareholders of Scania Aktiebolag, Södertälje, ("Scania") to acquire all Scania shares. The offer was completed on May 13, 2014 and Volkswagen initiated a squeeze-out for the Scania shares that were not tendered in the course of the offer. Scania shares were delisted from the NASDAQ OMX Stockholm at the end of June 5, 2014. The Group's retained earnings were reduced by the total value of the offer amounting to €6,650 million as a capital transaction with noncontrolling interest shareholders recognized directly in equity. At the same time, the equity interest in Scania previously attributable to the noncontrolling interest shareholders in Scania amounting to €2,123 million was reclassified from noncontrolling interests to the reserves attributable to the shareholders of Volkswagen AG. For information on the acquisition of the noncontrolling interests in Scania, see also the disclosures on the basis of consolidation.

In March 2014, Volkswagen AG placed unsecured subordinated hybrid notes with an aggregate principal amount of €3 billion via a subsidiary, Volkswagen International Finance N.V. Amsterdam/the Netherlands (VIF). The perpetual hybrid notes were issued in two tranches and can be called by VIF. The first call date for the first tranche (€1.25 billion and a coupon of 3.750%) is after seven years, and the first call date for the second tranche (€1.75 billion and a coupon of 4.625%) is after twelve years. In March 2015, Volkswagen AG placed further unsecured subordinated hybrid notes with an aggregate principal amount of €2.5 billion via VIF. The perpetual hybrid notes were issued in two tranches and can be called by VIF. The first call date for the first tranche (€1.1 billion and a coupon of 2.50%) is after seven years, and the first call date

for the second tranche (€1.4 billion and a coupon of 3.50%) is after 15 years. Interest may be accumulated depending on whether a dividend is paid to Volkswagen AG shareholders. Under IAS 32, the hybrid notes must be classified in their entirety as equity. The capital raised was recognized in equity, less a discount and transaction costs and net of deferred taxes. The interest payments payable to the noteholders will be recognized directly in equity, net of income taxes.

CHANGE IN ORDINARY AND PREFERRED SHARES AND SUBSCRIBED CAPITAL

	SHARES		€	
	2015	2014	2015	2014
Balance at January 1	475,731,296	465,237,989	1,217,872,118	1,191,009,252
Capital increase	–	10,471,204	–	26,806,282
Conversion of mandatory convertible notes	25,563,967	22,103	65,443,756	56,584
Balance at December 31	501,295,263	475,731,296	1,283,315,873	1,217,872,118

The capital reserves comprise the share premium totaling €14,225 million (previous year: €14,290 million) from capital increases, the share premium of €219 million from the issuance of bonds with warrants and an amount of €107 million appropriated on the basis of the capital reduction implemented in 2006. In the previous year, the capital reserves increased by €1,959 million due to the implementation of a capital increase. As the mandatory convertible notes that had been issued were converted in fiscal year 2015, an amount of €65,443,756 (previous year: €56,584) was reclassified from the capital reserves to subscribed capital (see also note 11). No amounts were withdrawn from the capital reserves.

DIVIDEND PROPOSAL

In accordance with section 58(2) of the Aktiengesetz (AktG – German Stock Corporation Act), the dividend payment by Volkswagen AG is based on the net retained profits reported in the annual financial statements of Volkswagen AG prepared in accordance with the German Commercial Code. Based on these annual financial statements of Volkswagen AG, net retained profits of €69 million are eligible for distribution following the withdrawal of €5,580 million from the revenue reserves. The Board of Management and Supervisory Board will propose to the Annual General Meeting that a total dividend of €68 million, i.e. €0.11 per ordinary share and €0.17 per preferred share, be paid from the net retained profits. Shareholders are not entitled to a dividend payment until it has been resolved by the Annual General Meeting.

A dividend of €4.80 per ordinary share and €4.86 per preferred share was distributed in fiscal year 2015.

NONCONTROLLING INTERESTS

As of December 31, 2015, total noncontrolling interests amounted to €210 million (previous year: €198 million). The noncontrolling interests in equity are attributable primarily to shareholders of RENK AG and AUDI AG and are immaterial individually and in the aggregate.

25. Noncurrent and current financial liabilities

The details of noncurrent and current financial liabilities are presented in the following table:

€ million	CARRYING AMOUNT			CARRYING AMOUNT		
	Current	Noncurrent	Dec. 31, 2015	Current	Noncurrent	Dec. 31, 2014
Bonds	19,891	42,454	62,346	19,586	42,852	62,438
Commercial paper and notes	10,428	16,369	26,797	10,053	13,787	23,840
Liabilities to banks	16,018	11,101	27,119	11,109	9,692	20,801
Deposits business	25,357	1,141	26,498	24,353	980	25,333
Loans and miscellaneous liabilities	578	1,795	2,373	429	743	1,172
Bills of exchange	–	–	–	–	–	–
Finance lease liabilities	40	431	471	34	362	396
	72,313	73,292	145,604	65,564	68,416	133,980

The deposits from direct banking business contained in the financial liabilities of €145.6 billion (previous year: €134.0 billion) decreased by €– million (previous year: €0.1 million) as a result of a fair value adjustment from portfolio hedging.

26. Noncurrent and current other financial liabilities

€ million	CARRYING AMOUNT			CARRYING AMOUNT		
	Current	Noncurrent	Dec. 31, 2015	Current	Noncurrent	Dec. 31, 2014
Negative fair values of derivative financial instruments	4,799	3,905	8,703	2,991	2,390	5,381
Interest payable	668	70	739	709	43	752
Miscellaneous financial liabilities	4,883	1,926	6,809	3,943	1,521	5,464
	10,350	5,901	16,251	7,643	3,954	11,597

The negative fair values of derivatives relate to the following items:

€ million	Dec. 31, 2015	Dec. 31, 2014
Transactions for hedging		
foreign currency risk from assets using fair value hedges	71	24
foreign currency risk from liabilities using fair value hedges	106	286
interest rate risk using fair value hedges	71	115
interest rate risk using cash flow hedges	16	20
foreign currency and price risk from future cash flows (cash flow hedges)	6,970	4,168
Hedging transactions	7,234	4,614
Liabilities related to derivatives not included in hedging relationships	1,469	767
	8,703	5,381

The negative fair value of transactions for hedging price risk from future cash flows (cash flow hedges) amounted to €166 million (previous year: €69 million).

Negative fair values of €44 million (previous year: €49 million) were recognized from transactions for hedging interest rate risk (fair value hedges) used in portfolio hedges.

Further details on derivative financial instruments as a whole are given in note 34.

27. Noncurrent and current other liabilities

€ million	CARRYING AMOUNT			CARRYING AMOUNT		
	Current	Noncurrent	Dec. 31, 2015	Current	Noncurrent	Dec. 31, 2014
Payments received on account of orders	3,994	150	4,144	3,402	146	3,548
Liabilities relating to						
other taxes	1,973	435	2,408	2,044	545	2,590
social security	486	29	515	466	23	489
wages and salaries	4,293	663	4,956	4,963	527	5,490
Miscellaneous liabilities	3,267	3,628	6,896	3,269	2,996	6,265
	14,014	4,905	18,919	14,143	4,238	18,382

28. Tax liabilities

€ million	CARRYING AMOUNT			CARRYING AMOUNT		
	Current	Noncurrent	Dec. 31, 2015	Current	Noncurrent	Dec. 31, 2014
Deferred tax liabilities	–	4,433	4,433	–	4,774	4,774
Provisions for taxes	1,301	3,940	5,241	2,791	3,215	6,007
Tax payables	330	–	330	256	–	256
	1,630	8,373	10,004	3,048	7,989	11,037

€369 million (previous year: €121 million) of the deferred tax liabilities is due within one year.

29. Provisions for pensions and other post-employment benefits

Provisions for pensions are recognized for commitments in the form of retirement, invalidity and dependents' benefits payable under pension plans. The benefits provided by the Group vary according to the legal, tax and economic circumstances of the country concerned, and usually depend on the length of service and remuneration of the employees.

Volkswagen Group companies provide occupational pensions under both defined contribution and defined benefit plans. In the case of defined contribution plans, the Company makes contributions to state or private pension schemes based on legal or contractual requirements, or on a voluntary basis. Once the contributions have been paid, there are no further obligations for the Volkswagen Group. Current contributions are recognized as pension expenses of the period concerned. In 2015, they amounted to a total of €1,978 million (previous year: €1,815 million) in the Volkswagen Group. Of this figure, contributions to the compulsory state pension system in Germany amounted to €1,500 million (previous year: €1,410 million).

In the case of defined benefit plans, a distinction is made between pensions funded by provisions and externally funded plans.

The pension provisions for defined benefits are measured by independent actuaries using the internationally accepted projected unit credit method in accordance with IAS 19, under which the future obligations are measured on the basis of the ratable benefit entitlements earned as of the balance sheet date. Measurement reflects actuarial assumptions as to discount rates, salary and pension trends, employee turnover rates, longevity and increases in healthcare costs, which were determined for each Group company depending on the economic environment. Remeasurements arise from differences between what has actually occurred and the prior-year assumptions as well as from changes in assumptions. They are recognized in other comprehensive income, net of deferred taxes, in the period in which they arise.

Multi-employer pension plans exist in the Volkswagen Group in the United Kingdom, Switzerland, Sweden, the Netherlands and Japan. These plans are defined benefit plans. A small proportion of them are accounted for as defined contribution plans, as the Volkswagen Group is not authorized to receive the information required in order to account for them as defined benefit plans. Under the terms of the multi-employer plans, the Volkswagen Group is not liable for the obligations of the other employers. In the event of its withdrawal from the plans or their winding-up, the proportionate share of the surplus of assets attributable to the Volkswagen Group will be credited or the proportionate share of the deficit attributable to the Volkswagen Group will have to be funded. In the case of the defined benefit plans accounted for as defined contribution plans, the Volkswagen Group's share of the obligations represents a small proportion of the total obligations. No probable significant risks arising from multi-employer defined benefit pension plans that are accounted for as defined contribution plans have been identified. The expected contributions to those plans will amount to €22 million for fiscal year 2016.

Owing to their benefit character, the obligations of the US Group companies in respect of post-employment medical care in particular are also carried under provisions for pensions and other post-employment benefits. These post-employment benefit provisions take into account the expected long-term rise in the cost of healthcare. €19 million (previous year: €16 million) was recognized in fiscal year 2015 as an expense for health care costs. The related carrying amount as of December 31, 2015 was €222 million (previous year: €245 million).

The following amounts were recognized in the balance sheet for defined benefit plans:

€ million	Dec. 31, 2015	Dec. 31, 2014
Present value of funded obligations	12,098	11,983
Fair value of plan assets	9,769	9,224
Funded status (net)	2,329	2,759
Present value of unfunded obligations	25,118	26,957
Amount not recognized as an asset because of the ceiling in IAS 19	17	15
Net liability recognized in the balance sheet	27,464	29,731
of which provisions for pensions	27,535	29,806
of which other assets	71	75

SIGNIFICANT PENSION ARRANGEMENTS IN THE VOLKSWAGEN GROUP

For the period after their active working life, the Volkswagen Group offers its employees benefits under attractive, modern occupational pension arrangements. Most of the arrangements in the Volkswagen Group are pension plans for employees in Germany classified as defined benefit plans under IAS 19. The majority of these obligations are funded solely by recognized provisions. These plans are now largely closed to new members. To reduce the risks associated with defined benefit plans, in particular longevity, salary increases and inflation, the Volkswagen Group has introduced new defined benefit plans in recent years whose benefits are funded by appropriate external plan assets. The above-mentioned risks have been largely reduced in these pension plans. The proportion of the total defined benefit obligation attributable to pension obligations funded by plan assets will continue to rise in the future. The significant pension plans are described in the following.

German pension plans funded solely by recognized provisions

The pension plans funded solely by recognized provisions comprise both contribution-based plans with guarantees and final salary plans. For contribution-based plans, an annual pension expense dependent on income and status is converted into a lifelong pension entitlement using annuity factors (guaranteed modular pension entitlements). The annuity factors include a guaranteed rate of interest. At retirement, the modular pension entitlements earned annually are added together. For final salary plans, the underlying salary is multiplied at retirement by a percentage that depends on the years of service up until the retirement date.

The present value of the guaranteed obligation rises as interest rates fall and is therefore exposed to interest rate risk.

The pension system provides for lifelong pension payments. The companies bear the longevity risk in this respect. This is accounted for by calculating the annuity factors and the present value of the guaranteed obligation using the latest generational mortality tables – the “Heubeck 2005 G” mortality tables – which already reflect future increases in life expectancy.

To reduce the inflation risk from adjusting the regular pension payments by the rate of inflation, a pension adjustment that is not indexed to inflation was introduced for pension plans where this is permitted by law.

German pension plans funded by external plan assets

The pension plans funded by external plan assets are contribution-based plans with guarantees. In this case, an annual pension expense dependent on income and status is either converted into a lifelong pension entitlement using annuity factors (guaranteed modular pension entitlement) or paid out in a single lump sum or in installments. In some cases, employees also have the opportunity to provide for their own retirement through deferred compensation. The annuity factors include a guaranteed rate of interest. At retirement, the modular pension entitlements earned annually are added together. The pension expense is contributed on an ongoing basis to a separate pool of assets that is administered independently of the Company in trust and invested in the capital markets. If the plan assets exceed the present value of the obligations calculated using the guaranteed rate of interest, surpluses are allocated (modular pension bonuses).

Since the assets administered in trust meet the IAS 19 criteria for classification as plan assets, they are deducted from the obligations.

The amount of the pension assets is exposed to general market risk. The investment strategy and its implementation are therefore continuously monitored by the trusts' governing bodies, on which the companies are also represented. For example, investment policies are stipulated in investment guidelines with the aim of limiting market risk and its impact on plan assets. In addition, asset-liability management studies are conducted if required so as to ensure that investments are in line with the obligations that need to be covered. The pension assets are currently invested primarily in fixed-income or equity funds. The main risks are therefore interest rate and equity price risk. To mitigate market risk, the pension system also provides for cash funds to be set aside in an equalization reserve before any surplus is allocated.

The present value of the obligation is the present value of the guaranteed obligation after deducting the plan assets. If the plan assets fall below the present value of the guaranteed obligation, a provision must be recognized in that amount. The present value of the guaranteed obligation rises as interest rates fall and is therefore exposed to interest rate risk.

In the case of lifelong pension payments, the Volkswagen Group bears the longevity risk. This is accounted for by calculating the annuity factors and the present value of the guaranteed obligation using the latest generational mortality tables – the “Heubeck 2005 G” mortality tables – which already reflect future increases in life expectancy. In addition, the independent actuaries carry out annual risk monitoring as part of the review of the assets administered by the trusts.

To reduce the inflation risk from adjusting the regular pension payments by the rate of inflation, a pension adjustment that is not indexed to inflation was introduced for pension plans where this is permitted by law.

Calculation of the pension provisions was based on the following actuarial assumptions:

%	GERMANY		ABROAD	
	2015	2014	2015	2014
Discount rate at December 31	2.70	2.30	4.36	4.35
Payroll trend	3.42	3.33	3.27	3.43
Pension trend	1.70	1.80	2.46	2.60
Employee turnover rate	1.01	0.99	3.80	3.38
Annual increase in healthcare costs	–	–	5.03	4.67

These assumptions are averages that were weighted using the present value of the defined benefit obligation.

With regard to life expectancy, consideration is given to the latest mortality tables in each country.

The discount rates are generally defined to reflect the yields on prime-rated corporate bonds with matching maturities and currencies. The iBoxx AA 10+ Corporates index was taken as the basis for the obligations of German Group companies. Similar indices were used for foreign pension obligations.

The payroll trends cover expected wage and salary trends, which also include increases attributable to career development.

The pension trends either reflect the contractually guaranteed pension adjustments or are based on the rules on pension adjustments in force in each country.

The employee turnover rates are based on past experience and future expectations.

The following table shows changes in the net defined benefit liability recognized in the balance sheet:

€ million	2015	2014
Net liability recognized in the balance sheet at January 1	29,731	21,709
Current service cost	1,104	728
Net interest expense	688	786
Actuarial gains (-)/losses (+) arising from changes in demographic assumptions	-23	4
Actuarial gains (-)/losses (+) arising from changes in financial assumptions	-2,904	8,145
Actuarial gains (-)/losses (+) arising from experience adjustments	190	114
Income/expenses from plan assets not included in interest income	-164	324
Change in amount not recognized as an asset because of the ceiling in IAS 19	-7	7
Employer contributions to plan assets	654	616
Employee contributions to plan assets	-6	-6
Pension payments from company assets	808	783
Past service cost (including plan curtailments)	9	25
Gains (-) or losses (+) arising from plan settlements	2	0
Changes in consolidated Group	1	0
Other changes	-15	-12
Foreign exchange differences from foreign plans	-34	-43
Net liability recognized in the balance sheet at December 31	27,464	29,731

The change in the amount not recognized as an asset because of the ceiling in IAS 19 contains an interest component, part of which was recognized in the financial result in profit or loss, and part of which was recognized outside profit or loss directly in equity.

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The change in the present value of the defined benefit obligation is attributable to the following factors:

€ million	2015	2014
Present value of obligations at January 1	38,939	29,657
Current service cost	1,104	728
Interest cost	996	1,153
Actuarial gains(-)/losses (+) arising from changes in demographic assumptions	-23	4
Actuarial gains(-)/losses (+) arising from changes in financial assumptions	-2,904	8,145
Actuarial gains(-)/losses (+) arising from experience adjustments	190	114
Employee contributions to plan assets	33	38
Pension payments from company assets	808	783
Pension payments from plan assets	292	235
Past service cost (including plan curtailments)	9	25
Gains (-) or losses (+) arising from plan settlements	-4	-24
Changes in consolidated Group	2	0
Other changes	-8	-21
Foreign exchange differences from foreign plans	-19	139
Present value of obligations at December 31	37,215	38,939

Changes in the relevant actuarial assumptions would have had the following effects on the defined benefit obligation:

Present value of defined benefit obligation if		DEC. 31, 2015		DEC. 31, 2014	
		€ million	Change in percent	€ million	Change in percent
Discount rate	is 0.5 percentage points higher	34,103	-8.36	35,573	-8.64
	is 0.5 percentage points lower	40,787	9.60	42,830	9.99
Pension trend	is 0.5 percentage points higher	39,081	5.01	41,024	5.35
	is 0.5 percentage points lower	35,444	-4.76	37,046	-4.86
Payroll trend	is 0.5 percentage points higher	37,693	1.28	39,487	1.41
	is 0.5 percentage points lower	36,772	-1.19	38,466	-1.22
Longevity	increases by one year	38,242	2.76	40,066	2.89

The sensitivity analysis shown above considers the change in one assumption at a time, leaving the other assumptions unchanged versus the original calculation, i.e. any correlation effects between the individual assumptions are ignored.

To examine the sensitivity of the defined benefit obligation to a change in assumed longevity, the estimates of mortality were reduced as part of a comparative calculation to the extent that doing so increases life expectancy by approximately one year.

The average duration of the defined benefit obligation weighted by the present value of the defined benefit obligation (Macaulay duration) is 19 years (previous year: 19 years).

The present value of the defined benefit obligation is attributable as follows to the members of the plan:

€ million	2015	2014
Active members with pension entitlements	21,148	22,490
Members with vested entitlements who have left the Company	1,754	1,781
Pensioners	14,314	14,669
	37,215	38,939

The maturity profile of payments attributable to the defined benefit obligation is presented in the following table, which classifies the present value of the obligation by the maturity of the underlying payments:

€ million	2015	2014
Payments due within the next fiscal year	1,098	1,031
Payments due between two and five years	4,420	4,212
Payments due in more than five years	31,697	33,696
	37,215	38,939

Changes in plan assets are shown in the following table:

€ million	2015	2014
Fair value of plan assets at January 1	9,224	7,970
Interest income on plan assets determined using the discount rate	308	366
Income/expenses from plan assets not included in interest income	-164	324
Employer contributions to plan assets	654	616
Employee contributions to plan assets	27	33
Pension payments from plan assets	292	235
Gains (+) or losses (-) arising from plan settlements	5	23
Changes in consolidated Group	1	0
Other changes	7	-9
Foreign exchange differences from foreign plans	10	182
Fair value of plan assets at December 31	9,769	9,224

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The investment of the plan assets to cover future pension obligations resulted in income in the amount of €144 million (previous year: €690 million).

Employer contributions to plan assets are expected to amount to €599 million (previous year: €546 million) in the next fiscal year.

Plan assets are invested in the following asset classes:

€ million	DEC. 31, 2015			DEC. 31, 2014		
	Quoted prices in active markets	No quoted prices in active markets	Total	Quoted prices in active markets	No quoted prices in active markets	Total
Cash and cash equivalents	289	–	289	304	–	304
Equity instruments	313	–	313	292	–	292
Debt instruments	1,513	0	1,513	1,601	0	1,601
Direct investments in real estate	2	96	98	2	87	89
Derivatives	–19	–	–19	–4	–	–4
Equity funds	1,424	50	1,475	2,110	62	2,172
Bond funds	4,682	99	4,781	3,437	96	3,533
Real estate funds	257	–	257	234	–	234
Other funds	496	2	499	460	4	464
Other instruments	24	540	564	18	519	537

47.0% (previous year: 38.1%) of the plan assets are invested in German assets, 29.1% (previous year: 30.2%) in other European assets and 24.0% (previous year: 31.7%) in assets in other regions.

Plan assets include €15 million (previous year: €26 million) invested in Volkswagen Group assets and €8 million (previous year: €18 million) in Volkswagen Group debt instruments.

The following amounts were recognized in the income statement:

€ million	2015	2014
Current service cost	1,104	728
Net interest on the net defined benefit liability	690	788
Past service cost (including plan curtailments)	9	25
Gains (–) or losses (+) arising from plan settlements	2	0
Net income (–) and expenses (+) recognized in profit or loss	1,804	1,541

The above amounts are generally included in the personnel costs of the functions in the income statement. Net interest on the net defined benefit liability is reported in finance costs.

30. Noncurrent and current other provisions

€ million	Obligations arising from sales	Employee expenses	Litigation and legal risks	Miscellaneous provisions*	Total
Balance at Jan. 1, 2014	18,537	5,380	1,380	7,044	32,341
Foreign exchange differences	214	29	19	40	303
Changes in consolidated Group	3	3	1	0	6
Utilized	7,045	3,030	238	2,061	12,373
Additions/New provisions	9,715	1,678	363	2,785	14,541
Unwinding of discount/effect of change in discount rate	77	229	12	1	319
Reversals	962	198	232	759	2,151
Balance at Dec. 31, 2014	20,539	4,091	1,306	7,049	32,986
of which current	10,090	1,753	426	4,805	17,075
of which noncurrent	10,448	2,338	880	2,244	15,910
Balance at Jan. 1, 2015	20,539	4,091	1,306	7,049	32,986
Foreign exchange differences	214	-19	-143	32	83
Changes in consolidated Group	0	0	0	1	2
Utilized	7,517	1,429	236	1,901	11,082
Additions/New provisions	19,270	1,668	7,697	2,747	31,382
Unwinding of discount/effect of change in discount rate	5	-22	4	4	-9
Reversals	1,185	142	219	858	2,404
Balance at Dec. 31, 2015	31,326	4,148	8,409	7,075	50,958
of which current	17,075	1,733	2,073	4,908	25,788
of which noncurrent	14,251	2,415	6,336	2,168	25,170

* Prior-year figures adjusted due to the separate presentation of the provisions for litigation and legal risks.

The obligations arising from sales contain provisions covering all risks relating to the sale of vehicles, components and genuine parts through to the disposal of end-of-life vehicles. They primarily comprise warranty obligations, calculated on the basis of losses to date and estimated future losses. They also include provisions for discounts, bonuses and similar allowances which are incurred after the balance sheet date, but for which there is a legal or constructive obligation attributable to sales revenue before the balance sheet date.

The increase in obligations arising from sales is largely due to the recognition of provisions for the implementation of field measures and of repurchases in connection with the diesel issue. Please refer to the “Key events” section for further information.

Provisions for employee expenses are recognized for long-service awards, time credits, partial retirement arrangements, severance payments and similar obligations, among other things.

The increase in the provisions for litigation and legal risks results primarily from the provisions recognized in connection with the diesel issue to cover currently known legal risks, including appropriate legal defense and legal advice expenses amounting to €7.0 billion. These are subject to what are in part considerable estimation risks because the comprehensive and extensive investigations are still at an early stage, the factors involved are so complex, and the discussions with the authorities are still ongoing. In addition, the provisions for litigation and legal risks contain amounts relating to a large number of legal disputes and official proceedings in which Volkswagen Group companies become involved in Germany and internationally in the course of their operating activities. In particular, such legal disputes and other proceedings may occur in relation to suppliers, dealers, customers, employees, or investors. Please refer to the “Litigation” section for a discussion of the legal risks.

Miscellaneous provisions relate to a wide range of identifiable specific risks, price risks and uncertain obligations, which are measured in the amount of the expected settlement value.

Miscellaneous provisions include provisions amounting to €459 million (previous year: €417 million) relating to the insurance business.

31. Put options and compensation rights granted to noncontrolling interest shareholders

This balance sheet item consists primarily of the present value of the cash settlement in accordance with section 305 of the Aktiengesetz (AktG – German Stock Corporation Act) offered to MAN shareholders in connection with the control and profit and loss transfer agreement, including the basic interest rate in accordance with section 247 of the Bürgerliches Gesetzbuch (BGB – German Civil Code) assumed until the end of the award proceedings. The Annual General Meeting of MAN SE approved the conclusion of a control and profit and loss transfer agreement between MAN SE and Volkswagen Truck & Bus GmbH, a subsidiary of Volkswagen AG, in June 2013. The agreement sets out that the noncontrolling interest shareholders of MAN SE are entitled to either a cash settlement in accordance with section 305 of the AktG amounting to €80.89 per tendered ordinary or preferred share, or cash compensation in accordance with section 304 of the AktG in the amount of €3.07 per ordinary or preferred share (after corporate taxes, before the shareholder's individual tax liability) for each full fiscal year. In July 2013, award proceedings were instituted to review the appropriateness of the cash settlement set out in the agreement in accordance with section 305 of the AktG and the cash compensation in accordance with section 304 of the AktG. In July 2015, the Munich Regional Court ruled in the first instance that the amount of the cash settlement payable to the noncontrolling interest shareholders of MAN should be increased from €80.89 to €90.29; at the same time, the amount of the cash compensation was confirmed. The ruling is not yet legally effective, and both parties to the proceedings have since appealed. Volkswagen continues to maintain that the results of the valuation are correct. The appropriateness of the valuation was confirmed by the audit firms and by the court-appointed auditor of the agreement. As a precaution, the measurement was adjusted to the higher settlement payable, resulting in an expense of €437 million, which was recognized in the other financial result.

32. Trade payables

€ million	Dec. 31, 2015	Dec. 31, 2014
Trade payables to		
third parties	20,051	19,250
affiliated companies	165	122
joint ventures	82	66
associates	156	87
other investees and investors	7	5
	20,460	19,530

ADDITIONAL BALANCE SHEET DISCLOSURES IN ACCORDANCE WITH IFRS 7 (FINANCIAL INSTRUMENTS)

CARRYING AMOUNT OF FINANCIAL INSTRUMENTS BY IAS 39 MEASUREMENT CATEGORY

€ million	Dec. 31, 2015	Dec. 31, 2014*
Financial assets at fair value through profit or loss	1,881	1,240
Loans and receivables	128,198	119,130
Available-for-sale financial assets	15,219	13,929
Financial liabilities at fair value through profit or loss	2,399	1,147
Financial liabilities measured at amortized cost	177,074	163,032

* Prior-year figures adjusted.

RECONCILIATION OF BALANCE SHEET ITEMS TO CLASSES OF FINANCIAL INSTRUMENTS

The following table shows the reconciliation of the balance sheet items to the relevant classes of financial instruments, broken down by the carrying amount and fair value of the financial instruments.

The fair value of financial instruments measured at amortized cost, such as receivables and liabilities, is calculated by discounting using a market rate of interest for a similar risk and matching maturity. For reasons of materiality, the fair value of current balance sheet items is generally deemed to be their carrying amount.

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RECONCILIATION OF BALANCE SHEET ITEMS TO CLASSES OF FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2014*

€ million	MEASURED AT FAIR VALUE	MEASURED AT AMORTIZED COST		DERIVATIVE FINANCIAL INSTRUMENTS WITHIN HEDGE ACCOUNTING	NOT WITHIN SCOPE OF IFRS 7	BALANCE SHEET ITEM AT DEC. 31, 2014
	Carrying amount	Carrying amount	Fair value	Carrying amount	Carrying amount	
Noncurrent assets						
Equity-accounted investments	–	–	–	–	9,874	9,874
Other equity investments	3,067	–	–	–	616	3,683
Financial services receivables	–	57,877	60,052	–	–	57,877
Other financial assets	763	4,451	4,496	1,284	–	6,498
Current assets						
Trade receivables	–	11,472	11,472	–	–	11,472
Financial services receivables	–	44,398	44,398	–	–	44,398
Other financial assets	478	6,141	6,141	1,073	–	7,693
Marketable securities	10,861	–	–	–	–	10,861
Cash, cash equivalents and time deposits	–	19,123	19,123	–	–	19,123
Noncurrent liabilities						
Noncurrent financial liabilities	–	68,416	70,238	–	–	68,416
Other noncurrent financial liabilities	655	1,564	1,568	1,735	–	3,954
Current liabilities						
Put options and compensation rights granted to noncontrolling interest shareholders	–	3,703	3,822	–	–	3,703
Current financial liabilities	–	65,564	65,564	–	–	65,564
Trade payables	–	19,530	19,530	–	–	19,530
Other current financial liabilities	492	4,652	4,652	2,499	–	7,643

* Prior-year figures adjusted.

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RECONCILIATION OF BALANCE SHEET ITEMS TO CLASSES OF FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2015

€ million	MEASURED AT FAIR VALUE	MEASURED AT AMORTIZED COST		DERIVATIVE FINANCIAL INSTRUMENTS WITHIN HEDGE ACCOUNTING	NOT WITHIN SCOPE OF IFRS 7	BALANCE SHEET ITEM AT DEC. 31, 2015
	Carrying amount	Carrying amount	Fair value	Carrying amount	Carrying amount	
Noncurrent assets						
Equity-accounted investments	–	–	–	–	10,904	10,904
Other equity investments	211	–	–	–	763	974
Financial services receivables	–	63,185	64,630	–	–	63,185
Other financial assets	996	4,484	4,492	1,249	–	6,730
Current assets						
Trade receivables	–	11,132	11,132	–	–	11,132
Financial services receivables	–	46,888	46,888	–	–	46,888
Other financial assets	885	7,963	7,963	1,196	–	10,043
Marketable securities	15,007	–	–	–	–	15,007
Cash, cash equivalents and time deposits	–	20,871	20,871	–	–	20,871
Noncurrent liabilities						
Noncurrent financial liabilities	–	73,292	73,844	–	–	73,292
Other noncurrent financial liabilities	1,325	1,996	1,998	2,580	–	5,901
Current liabilities						
Put options and compensation rights granted to noncontrolling interest shareholders	–	3,933	3,783	–	–	3,933
Current financial liabilities	–	72,313	72,313	–	–	72,313
Trade payables	–	20,460	20,460	–	–	20,460
Other current financial liabilities	1,074	5,551	5,551	3,725	–	10,350

Uniform valuation techniques and inputs are used to measure fair value. The fair value of Level 2 and 3 financial instruments is measured in the individual divisions on the basis of Group-wide specifications. The measurement techniques used are explained in the disclosures on “accounting policies”. The fair value of put options and compensation rights granted to noncontrolling interest shareholders is calculated using a present value model based on the cash settlement determined by the Munich Regional Court in the award proceedings, including cash compensation, as well as the minimum statutory interest rate and a risk-adjusted discount rate for a matching maturity. For further information, please see note 31. The fair value of Level 3 receivables was measured by reference to individual expectations of losses;

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these are based to a significant extent on the Company's assumptions about counterparty credit quality. Financial services receivables are allocated to Level 3 because their fair value was measured using inputs that are not observable in an active market.

The following table contains an overview of the financial assets and liabilities measured at fair value by level:

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE BY LEVEL

€ million	Dec. 31, 2014*	Level 1	Level 2	Level 3
Noncurrent assets				
Other equity investments	3,067	2,922	–	146
Other financial assets	763	–	739	24
Current assets				
Other financial assets	478	–	469	9
Marketable securities	10,861	10,861	–	–
Noncurrent liabilities				
Other noncurrent financial liabilities	655	–	481	174
Current liabilities				
Other current financial liabilities	492	–	417	75

* Prior-year figures adjusted.

€ million	Dec. 31, 2015	Level 1	Level 2	Level 3
Noncurrent assets				
Other equity investments	211	117	–	94
Other financial assets	996	–	976	20
Current assets				
Other financial assets	885	–	879	6
Marketable securities	15,007	15,007	–	–
Noncurrent liabilities				
Other noncurrent financial liabilities	1,325	–	1,142	183
Current liabilities				
Other current financial liabilities	1,074	–	778	296

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FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES MEASURED AT AMORTIZED COST BY LEVEL

€ million	Dec. 31, 2014*	Level 1	Level 2	Level 3
Fair value of financial assets measured at amortized cost				
Financial services receivables	104,450	–	–	104,450
Trade receivables	11,472	–	11,290	182
Other financial assets	10,637	669	5,326	4,642
Cash, cash equivalents and time deposits	19,123	18,653	471	–
Fair value of financial assets measured at amortized cost	145,682	19,321	17,086	109,274
Fair value of financial liabilities measured at amortized cost				
Put options and compensation rights granted to noncontrolling interest shareholders	3,822	–	–	3,822
Trade payables	19,530	–	19,530	–
Financial liabilities	135,802	22,334	113,406	62
Other financial liabilities	6,220	270	5,882	69
Fair value of financial liabilities measured at amortized cost	165,374	22,604	138,817	3,954

* Prior-year figures adjusted.

€ million	Dec. 31, 2015	Level 1	Level 2	Level 3
Fair value of financial assets measured at amortized cost				
Financial services receivables	111,518	–	–	111,518
Trade receivables	11,132	–	10,975	157
Other financial assets	12,455	677	6,203	5,576
Cash, cash equivalents and time deposits	20,871	20,467	405	–
Fair value of financial assets measured at amortized cost	155,977	21,144	17,583	117,251
Fair value of financial liabilities measured at amortized cost				
Put options and compensation rights granted to noncontrolling interest shareholders	3,783	–	–	3,783
Trade payables	20,460	–	20,460	–
Financial liabilities	146,156	23,675	122,420	61
Other financial liabilities	7,550	269	7,185	95
Fair value of financial liabilities measured at amortized cost	177,949	23,944	150,066	3,940

DERIVATIVE FINANCIAL INSTRUMENTS WITHIN HEDGE ACCOUNTING BY LEVEL

€ million	Dec. 31, 2014	Level 1	Level 2	Level 3
Noncurrent assets				
Other financial assets	1,284	–	1,284	–
Current assets				
Other financial assets	1,073	–	1,073	–
Noncurrent liabilities				
Other noncurrent financial liabilities	1,735	–	1,731	4
Current liabilities				
Other current financial liabilities	2,499	–	2,499	–

€ million	Dec. 31, 2015	Level 1	Level 2	Level 3
Noncurrent assets				
Other financial assets	1,249	–	1,249	–
Current assets				
Other financial assets	1,196	–	1,196	–
Noncurrent liabilities				
Other noncurrent financial liabilities	2,580	–	2,573	7
Current liabilities				
Other current financial liabilities	3,725	–	3,725	–

The allocation of fair values to the three levels in the fair value hierarchy is based on the availability of observable market prices. Level 1 is used to report the fair value of financial instruments for which a price is directly available in an active market. Examples include marketable securities and other equity investments measured at fair value. Fair values in Level 2, for example of derivatives, are measured on the basis of observable market inputs using market-based valuation techniques. In particular, the inputs used include exchange rates, yield curves and commodity prices that are observable in the relevant markets and obtained through pricing services. Level 3 fair values are calculated using valuation techniques that incorporate inputs that are not observable in active markets. In the Volkswagen Group, long-term commodity futures are allocated to Level 3 because the prices available on the market must be extrapolated for measurement purposes. This is done on the basis of observable inputs obtained for the different commodities through pricing services. Options on equity instruments and residual value protection models are also reported in Level 3. Equity instruments are measured primarily using the relevant business plans and entity-specific discount rates. The significant inputs used to measure fair value for the residual value protection models include forecasts and estimates of used vehicle residual values for the appropriate models.

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CHANGES IN BALANCE SHEET ITEMS MEASURED AT FAIR VALUE BASED ON LEVEL 3

€ million	Financial assets measured at fair value	Financial liabilities measured at fair value
Balance at Jan. 1, 2014	231	218
Foreign exchange differences	22	0
Total comprehensive income	17	91
recognized in profit or loss	7	87
recognized in other comprehensive income	10	5
Additions (purchases)	-49	-
Sales and settlements	-23	-47
Transfers into Level 2	-21	-13
Balance at Dec. 31, 2014	178	249
Total gains or losses recognized in profit or loss	7	-87
Net other operating expense/income	-	-
of which attributable to assets/liabilities held at the reporting date	-	-
Financial result	7	-87
of which attributable to assets/liabilities held at the reporting date	-17	-78

€ million	Financial assets measured at fair value	Financial liabilities measured at fair value
Balance at Jan. 1, 2015	178	249
Foreign exchange differences	7	0
Total comprehensive income	0	385
recognized in profit or loss	-1	372
recognized in other comprehensive income	0	13
Additions (purchases)	-53	-
Sales and settlements	-12	-99
Transfers into Level 2	0	-56
Balance at Dec. 31, 2015	119	479
Total gains or losses recognized in profit or loss	-1	-372
Net other operating expense/income	-	-
of which attributable to assets/liabilities held at the reporting date	-	-
Financial result	-1	-372
of which attributable to assets/liabilities held at the reporting date	-1	-98

The transfers between the levels of the fair value hierarchy are reported at the respective reporting dates. The transfers out of Level 3 into Level 2 comprise commodity futures for which observable quoted prices are now available for measurement purposes due to the decline in their remaining maturities; consequently, no extrapolation is required. There were no transfers between other levels of the fair value hierarchy.

Commodity prices are the key risk variable for the fair value of commodity futures. Sensitivity analyses are used to present the effect of changes in commodity prices on earnings after tax and equity.

If commodity prices for commodity futures classified as Level 3 had been 10% higher (lower) as of December 31, 2015, earnings after tax would have been €6 million (previous year: €20 million) higher (lower) and equity would have been €2 million (previous year: €4 million) higher (lower).

The key risk variable for measuring options on equity instruments held by the Company is the relevant enterprise value. Sensitivity analyses are used to present the effect of changes in risk variables on earnings after tax.

If the assumed enterprise values had been 10% higher, earnings after tax would have been €1 million (previous year: €1 million) higher. If the assumed enterprise values had been 10% lower, earnings after tax would have been €1 million (previous year: €2 million) lower.

Residual value risks result from hedging agreements with dealers under which earnings effects caused by market-related fluctuations in residual values that arise from buy-back obligations under leases are borne in part by the Volkswagen Group.

The key risk variable influencing the fair value of the options relating to residual value risks is used car prices. Sensitivity analyses are used to quantify the effects of changes in used car prices on earnings after tax.

If the prices for the used cars covered by the residual value protection model had been 10% higher as of December 31, 2015, earnings after tax would have been €219 million higher. If the prices for the used cars covered by the residual value protection model had been 10% lower as of December 31, 2015, earnings after tax would have been €219 million lower.

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OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

The following tables contain information about the effects of offsetting in the balance sheet and the potential financial effects of offsetting in the case of instruments that are subject to a legally enforceable master netting arrangement or a similar agreement.

€ million	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	AMOUNTS THAT ARE NOT SET OFF IN THE BALANCE SHEET		Net amount at Dec. 31, 2014
				Financial instruments	Collateral received	
Derivatives	3,598	–	3,598	–1,938	–87	1,572
Financial services receivables	102,574	–299	102,275	–	–31	102,244
Trade receivables	11,576	–104	11,472	0	–305	11,166
Marketable securities	10,861	–	10,861	–	–	10,861
Cash, cash equivalents and time deposits	19,123	–	19,123	–	–	19,123
Other financial assets	14,282	–6	14,276	0	–	14,276

€ million	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	AMOUNTS THAT ARE NOT SET OFF IN THE BALANCE SHEET		Net amount at Dec. 31, 2015
				Financial instruments	Collateral received	
Derivatives	4,326	–	4,326	–2,201	–123	2,002
Financial services receivables	110,396	–323	110,073	–	–16	110,057
Trade receivables	11,243	–111	11,132	0	–231	10,901
Marketable securities	15,007	–	15,007	–	–	15,007
Cash, cash equivalents and time deposits	20,871	–	20,871	–	–	20,871
Other financial assets	12,670	–11	12,658	–	–	12,658

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€ million	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	AMOUNTS THAT ARE NOT SET OFF IN THE BALANCE SHEET		Net amount at Dec. 31, 2014
				Financial instruments	Collateral pledged	
Put options and compensation rights granted to noncontrolling interest shareholders	3,703	–	3,703	–	–	3,703
Derivatives	5,381	–	5,381	–1,907	–51	3,422
Financial liabilities	133,980	–	133,980	–	–2,081	131,898
Trade payables	19,634	–104	19,530	0	–	19,529
Other financial liabilities	6,522	–306	6,216	–	–	6,216

€ million	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	AMOUNTS THAT ARE NOT SET OFF IN THE BALANCE SHEET		Net amount at Dec. 31, 2015
				Financial instruments	Collateral pledged	
Put options and compensation rights granted to noncontrolling interest shareholders	3,933	–	3,933	–	–	3,933
Derivatives	8,703	–	8,703	–2,178	–12	6,514
Financial liabilities	145,604	–	145,604	–	–3,587	142,018
Trade payables	20,571	–111	20,460	0	–	20,460
Other financial liabilities	7,882	–335	7,547	–	–	7,547

The “Financial instruments” column shows the amounts that are subject to a master netting arrangement but were not set off because they do not meet the criteria for offsetting in the balance sheet. The “Collateral received” and “Collateral pledged” columns show the amounts of cash collateral and collateral in the form of financial instruments received and pledged for the total assets and liabilities that do not meet the criteria for offsetting in the balance sheet.

CHANGES IN CREDIT RISK VALUATION ALLOWANCES ON FINANCIAL ASSETS

€ million	Specific valuation allowances	Portfolio-based valuation allowances	2015	Specific valuation allowances	Portfolio-based valuation allowances	2014
Balance at Jan. 1	2,269	1,665	3,933	2,237	1,433	3,670
Exchange rate and other changes	-115	-6	-121	-8	20	12
Changes in consolidated Group	-19	-4	-23	23	24	48
Additions	702	628	1,330	703	371	1,074
Utilization	356	-	356	396	-	396
Reversals	362	290	652	300	175	475
Reclassification	23	-23	0	8	-8	0
Balance at Dec. 31	2,142	1,970	4,112	2,269	1,665	3,933

The valuation allowances mainly relate to the credit risks associated with the financial services business.

FACTORING AND ASSET-BACKED SECURITIES TRANSACTIONS

The trade receivables include transferred receivables in the total amount of €-million (previous year: €4 million) that were not derecognized in their entirety because the credit risk remains with the Volkswagen Group. The total purchase price received of €-million (previous year: €1 million) is reported in financial liabilities. The fair values of the receivables and liabilities are not materially different to their carrying amounts.

Asset-backed securities transactions amounting to €23,245 million (previous year: €19,301 million) entered into to refinance the financial services business are included in bonds, commercial paper and notes, and liabilities from loans. The corresponding carrying amount of the receivables from the customer and dealer financing and the finance lease business amounted to €26,415 million (previous year: €21,485 million). Collateral of €34,717 million (previous year: €28,192 million) in total was furnished as part of asset-backed securities transactions. The expected payments were assigned to structured entities and the equitable liens in the financed vehicles were transferred. These asset-backed securities transactions did not result in the receivables from financial services business being derecognized, as the Group retains nonpayment and late payment risks. The difference between the assigned receivables and the related liabilities is the result of different terms and conditions and the share of the securitized paper and notes held by the Volkswagen Group itself, as well as the proportion of vehicles financed within the Group.

Most of the public and private asset-backed securities transactions of the Volkswagen Group can be repaid in advance (clean-up call) if less than 9% or 10%, as appropriate, of the original transaction volume is outstanding. The assigned receivables cannot be assigned again or pledged elsewhere as collateral. The claims of the holders of commercial paper and notes are limited to the assigned receivables and the receipts from those receivables are earmarked for the repayment of the corresponding liability.

As of December 31, 2015, the fair value of the assigned receivables still recognized in the balance sheet was €25,161 million (previous year: €22,102 million). The fair value of the related liabilities was €23,000 million (previous year: €19,480 million) at that reporting date.

The Volkswagen Financial Services AG Group is contractually obliged under certain conditions to transfer funds to the structured entities that are included in its consolidated financial statements. Since the receivables are transferred to the special purpose entity by way of undisclosed assignment, the situation may occur in which the receivable has already been reduced in a legally binding manner at the originator, for example if the obligor effectively offsets it against receivables owed to it by a company belonging to the Volkswagen Group. In this case, collateral must be furnished for the resulting compensation claims against the special purpose entity, for example if the rating of the Group company concerned declines to a contractually agreed reference value.

OTHER DISCLOSURES

33. Cash flow statement

Cash flows are presented in the cash flow statement classified into cash flows from operating activities, investing activities and financing activities, irrespective of the balance sheet classification.

Cash flows from operating activities are derived indirectly from earnings before tax. Earnings before tax are adjusted to eliminate noncash expenditures (mainly depreciation, amortization and impairment losses) and income. Other noncash income and expense results mainly from measurement effects in connection with financial instruments and to fair value changes relating to hedging transactions (see note 9). This results in cash flows from operating activities after accounting for changes in working capital, which also include changes in lease assets and in financial services receivables.

Investing activities include additions to property, plant and equipment and equity investments, additions to capitalized development costs and investments in securities and loans.

Financing activities include outflows of funds from dividend payments and redemption of bonds, inflows from the capital increase and issuance of bonds, and changes in other financial liabilities. Please refer to note 24 for information on the inflows from the issuance of hybrid capital amounting to €2,457 million (previous year: from the issuance of new preferred shares in the amount of €1,980 million and the issuance of hybrid capital in the amount of €2,952 million) contained in the capital contributions.

The changes in balance sheet items that are presented in the cash flow statement cannot be derived directly from the balance sheet, as the effects of currency translation and changes in the consolidated Group are noncash transactions and are therefore eliminated.

In 2015, cash flows from operating activities include interest received amounting to €6,619 million (previous year: €6,129 million) and interest paid amounting to €2,440 million (previous year: €3,397 million). In addition, the share of profits and losses of equity-accounted investments (note 7) includes dividends amounting to €4,683 million (previous year: €2,997 million).

Dividends amounting to €2,294 million (previous year: €1,871 million) were paid to Volkswagen AG shareholders.

€ million	Dec. 31, 2015	Dec. 31, 2014
Cash, cash equivalents and time deposits as reported in the balance sheet	20,871	19,123
Time deposits	-410	-489
Cash and cash equivalents as reported in the cash flow statement	20,462	18,634

Time deposits are not classified as cash equivalents. Time deposits have a contractual maturity of more than three months. The maximum default risk corresponds to its carrying amount.

34. Financial risk management and financial instruments

1. HEDGING GUIDELINES AND FINANCIAL RISK MANAGEMENT PRINCIPLES

The principles and responsibilities for managing and controlling the risks that could arise from financial instruments are defined by the Board of Management and monitored by the Supervisory Board. General rules apply to the Group-wide risk policy; these are oriented on the statutory requirements and the “Minimum Requirements for Risk Management by Credit Institutions”.

Group Treasury is responsible for operational risk management and control of risks from the financial instruments it itself administers. The main functions of the MAN and PHS subgroups are included in Group Treasury’s operational risk management and control for risks relating to financial instruments, while the Scania subgroup is only included to an extremely limited extent. All of these subgroups also have their own risk management structures. The Executive Committee for Liquidity and Foreign Currency is regularly informed about current financial risks. In addition, the Group Board of Management and the Supervisory Board are regularly updated on the current risk situation.

For more information, please see the management report on page 185-186.

2. CREDIT AND DEFAULT RISK

The credit and default risk arising from financial assets involves the risk of default by counterparties, and therefore comprises at a maximum the amount of the claims under carrying amounts receivable from them and the irrevocable credit commitments. The maximum potential credit and default risk is reduced by collateral held and other credit enhancements in the amount of €74,115 million (previous year: €66,555 million). The collateral held relates solely to financial assets carried at amortized cost and mainly serves to secure financial services receivables and trade receivables. Collateral comprises vehicles and assets transferred as security, as well as guarantees and real property liens. Cash collateral is also used in hedging transactions. The risk arising from nonderivative financial instruments is also accounted for by recognizing bad debt losses. Significant cash and capital investments, as well as derivatives, are only entered into with national and international banks of good credit standing. Risk is additionally limited by a limit system based primarily on the equity base of the counterparties concerned and on credit assessments by international rating agencies. Financial guarantees issued also give rise to credit and default risk. The maximum potential credit and default risk is calculated from the amount Volkswagen would have to pay if claims were to be asserted under the guarantees. The corresponding amounts are presented in the Liquidity risk section.

There were no material concentrations of risk at individual counterparties or counterparty groups in the past fiscal year due to the global allocation of the Group’s business activities and the resulting diversification. There was hardly any change in the concentration of credit and default risk exposures to the German public banking sector as a whole that has arisen from Group-wide cash and capital investments as well as derivatives: the portion attributable to this sector was 9.7% at the end of 2015 compared with 12.1% (adjusted) at the end of 2014. Any existing concentration of risk is assessed and monitored both at the level of individual counterparties or counterparty groups and with regard to the countries in which these are based, in each case using the share of all credit and default risk exposures accounted for by the risk exposure concerned.

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CREDIT AND DEFAULT RISK RELATING TO FINANCIAL ASSETS BY GROSS CARRYING AMOUNT

€ million	Neither past due nor impaired	Past due and not impaired	Impaired	Dec. 31, 2015	Neither past due nor impaired	Past due and not impaired	Impaired	Dec. 31, 2014
Measured at amortized cost								
Financial services receivables	108,171	2,442	2,881	113,493	99,795	2,548	3,036	105,379
Trade receivables	8,508	2,503	554	11,565	8,682	2,664	532	11,879
Other receivables	12,368	59	279	12,705	10,800	53	183	11,035
	129,047	5,003	3,713	137,764	119,278	5,265	3,751	128,293

There are no past due financial instruments measured at fair value in the Volkswagen Group. In fiscal year 2015, marketable securities measured at fair value with a cost of €15 million (previous year: €97 million) were individually impaired. In addition, portfolio-based impairment losses are recognized in respect of the financial services receivables presented above that are not past due and not individually impaired, as well as of the financial services receivables presented above that are past due and not individually impaired.

CREDIT RATING OF THE GROSS CARRYING AMOUNTS OF FINANCIAL ASSETS THAT ARE NEITHER PAST DUE NOR IMPAIRED

€ million	Risk class 1	Risk class 2	Dec. 31, 2015	Risk class 1	Risk class 2	Dec. 31, 2014
Measured at amortized cost						
Financial services receivables	91,651	16,520	108,171	86,099	13,696	99,795
Trade receivables	8,333	175	8,508	8,546	137	8,682
Other receivables	12,185	183	12,368	10,765	35	10,800
Measured at fair value	18,118	–	18,118	13,593	–	13,593
	130,288	16,878	147,166	119,003	13,868	132,871

The Volkswagen Group performs a credit assessment of borrowers in all loan and lease agreements, using scoring systems for the high-volume business and rating systems for corporate customers and receivables from dealer financing. Receivables rated as good are contained in risk class 1. Receivables from customers whose credit rating is not good but have not yet defaulted are contained in risk class 2.

MATURITY ANALYSIS OF THE GROSS CARRYING AMOUNTS OF FINANCIAL ASSETS THAT ARE PAST DUE AND NOT IMPAIRED

€ million	PAST DUE BY			GROSS CARRYING AMOUNT
	up to 30 days	30 to 90 days	more than 90 days	Dec. 31, 2014
Measured at amortized cost				
Financial services receivables	1,977	549	23	2,548
Trade receivables	1,237	790	637	2,664
Other receivables	22	7	24	53
Measured at fair value	–	–	–	–
	3,236	1,346	683	5,265

€ million	PAST DUE BY			GROSS CARRYING AMOUNT
	up to 30 days	30 to 90 days	more than 90 days	Dec. 31, 2015
Measured at amortized cost				
Financial services receivables	1,777	637	28	2,442
Trade receivables	1,234	671	598	2,503
Other receivables	27	10	22	59
Measured at fair value	–	–	–	–
	3,039	1,317	648	5,003

Collateral that was accepted for financial assets in the current fiscal year was recognized in the balance sheet in the amount of €90 million (previous year: €94 million). This mainly relates to vehicles.

3. LIQUIDITY RISK

The solvency and liquidity of the Volkswagen Group are ensured at all times by rolling liquidity planning, a liquidity reserve in the form of cash, confirmed credit lines and the issuance of securities on the international money and capital markets. The volume of confirmed credit lines was increased significantly by a syndicated credit line entered into in the amount of €20 billion.

Local cash funds in certain countries (e.g. Brazil, Argentina, Ukraine, Malaysia, India and Taiwan) are only available to the Group for cross-border transactions subject to exchange controls. There are no significant restrictions over and above these.

The following overview shows the contractual undiscounted cash flows from financial instruments.

MATURITY ANALYSIS OF UNDISCOUNTED CASH FLOWS FROM FINANCIAL INSTRUMENTS

€ million	REMAINING CONTRACTUAL MATURITIES			2015	REMAINING CONTRACTUAL MATURITIES			2014
	under one year	within one to five years	over five years		under one year	within one to five years	over five years	
Put options and compensation rights granted to noncontrolling interest shareholders	3,406	–	–	3,406	3,185	–	–	3,185
Financial liabilities	74,217	66,347	13,377	153,941	67,634	63,296	12,011	142,941
Trade payables	20,456	4	–	20,460	19,526	4	–	19,530
Other financial liabilities	5,550	1,940	69	7,560	4,652	1,470	94	6,216
Derivatives	77,686	73,684	10	151,380	61,623	51,265	207	113,094
	181,316	141,976	13,456	336,747	156,619	116,034	12,312	284,965

When calculating cash outflows related to put options and compensation rights, it was assumed that shares would be tendered at the earliest possible repayment date.

Derivatives comprise both cash flows from derivative financial instruments with negative fair values and cash flows from derivatives with positive fair values for which gross settlement has been agreed. The cash outflows from derivatives for which gross settlement has been agreed are matched in part by cash inflows. These cash inflows are not reported in the maturity analysis. If these cash inflows were also recognized, the cash outflows presented would be substantially lower.

The cash outflows from irrevocable credit commitments are presented in note 38, classified by contractual maturities.

As of December 31, 2015, the maximum potential liability under financial guarantees amounted to €1,638 million (previous year adjusted: €1,399 million). Financial guarantees are assumed to be due immediately in all cases. They relate primarily to the pledge of claims under certificates of deposit with Bankhaus Metzler amounting to €1.3 billion (previous year: €1.4 billion) to secure a loan granted to Fleet Investments B.V. by Bankhaus Metzler (see disclosures on the basis of consolidation/joint ventures). This was disclosed under “Contingent liabilities” in the previous year. The prior-period disclosure was adjusted accordingly.

4. MARKET RISK

4.1 Hedging policy and financial derivatives

During the course of its general business activities, the Volkswagen Group is exposed to foreign currency, interest rate, commodity price, equity price and fund price risk. Corporate policy is to limit or eliminate such risk by means of hedging. All necessary hedging transactions with the exception of the Scania, MAN and Porsche Holding GmbH (Salzburg) sub-groups are executed or coordinated centrally by Group Treasury. There were no significant risk concentrations in the past fiscal year.

The following table shows the gains and losses on hedges:

€ million	2015	2014
Hedging instruments used in fair value hedges	779	523
Hedged items used in fair value hedges	–700	–445
Ineffective portion of cash flow hedges	–46	36

The ineffective portion of cash flow hedges represents the income and expenses from changes in the fair value of hedging instruments that exceed the changes in the fair value of the hedged items but that are documented to be within the permitted range of 80% to 125% overall when measuring effectiveness. Such income or expenses are recognized directly in the financial result.

In 2015, €3,864 million (previous year: €298 million), in both cases reducing earnings, from the cash flow hedge reserve was transferred to the other operating result, while €3 million (previous year: €2 million, increasing earnings) was transferred to the financial result, reducing earnings, and €90 million (previous year: €27 million), in both cases reducing earnings, was included in the cost of sales.

The Volkswagen Group uses two different methods to present market risk from nonderivative and derivative financial instruments in accordance with IFRS 7. For quantitative risk measurement, interest rate and foreign currency risk in the Volkswagen Financial Services subgroup are measured using a value-at-risk (VaR) model on the basis of a historical simulation, while market risk in the other Group companies is determined using a sensitivity analysis. The value-at-risk calculation indicates the size of the maximum potential loss on the portfolio as a whole within a time horizon of 40 days, measured at a confidence level of 99%. To provide the basis for this calculation, all cash flows from nonderivative and derivative financial instruments are aggregated into an interest rate gap analysis. The historical market data used in calculating value at risk covers a period of 1,000 trading days. The sensitivity analysis calculates the effect on equity and profit or loss by modifying risk variables within the respective market risks.

4.2 Market risk in the Volkswagen Group (excluding Volkswagen Financial Services)

4.2.1 Foreign currency risk

Foreign currency risk in the Volkswagen Group (excluding Volkswagen Financial Services) is attributable to investments, financing measures and operating activities. Currency forwards, currency options, currency swaps and cross-currency swaps are used to limit foreign currency risk. These transactions relate to the exchange rate hedging of all material payments covering general business activities that are not made in the functional currency of the respective Group companies. The principle of matching currencies applies to the Group's financing activities.

Hedging transactions entered into in 2015 as part of foreign currency risk management related primarily to the Australian dollar, the Brazilian real, sterling, the Chinese renminbi, the Indian rupee, the Japanese yen, the Canadian dollar, the Mexican peso, the Polish zloty, the Russian ruble, the Swedish krona, the Swiss franc, the Singapore dollar, the South African rand, the South Korean won, the Taiwan dollar, the Czech koruna, the Hungarian forint and the US dollar.

All nonfunctional currencies in which the Volkswagen Group enters into financial instruments are included as relevant risk variables in the sensitivity analysis in accordance with IFRS 7.

If the functional currencies concerned had appreciated or depreciated by 10% against the other currencies, the exchange rates shown below would have resulted in the following effects on the hedging reserve in equity and on earnings after tax. It is not appropriate to add together the individual figures, since the results of the various functional currencies concerned are based on different scenarios.

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€ million	DEC. 31, 2015		DEC. 31, 2014	
	+10%	-10%	+10%	-10%
Exchange rate				
EUR/USD				
Hedging reserve	1,969	-2,160	1,515	-1,678
Profit/loss after tax	135	5	-94	204
EUR/GBP				
Hedging reserve	1,849	-1,850	1,320	-1,321
Profit/loss after tax	-46	48	-39	40
EUR/CNY				
Hedging reserve	1,015	-1,071	966	-1,031
Profit/loss after tax	69	-21	17	27
EUR/CHF				
Hedging reserve	439	-442	459	-453
Profit/loss after tax	-4	6	-9	7
EUR/JPY				
Hedging reserve	248	-241	-26	29
Profit/loss after tax	1	-7	-15	13
EUR/SEK				
Hedging reserve	112	-113	60	-60
Profit/loss after tax	-78	78	-35	35
EUR/KRW				
Hedging reserve	158	-161	90	-91
Profit/loss after tax	-27	31	-12	13
CZK/GBP				
Hedging reserve	170	-170	130	-130
Profit/loss after tax	1	-1	0	0
EUR/CAD				
Hedging reserve	110	-101	80	-74
Profit/loss after tax	9	-16	-1	-3
EUR/AUD				
Hedging reserve	92	-92	94	-90
Profit/loss after tax	-1	1	-2	0
EUR/HUF				
Hedging reserve	0	0	-96	96
Profit/loss after tax	-78	78	0	0
BRL/USD				
Hedging reserve	-1	1	-10	10
Profit/loss after tax	77	-77	5	-5
MXN/USD				
Hedging reserve	-48	48	3	-3
Profit/loss after tax	-20	20	1	-1
GBP/USD				
Hedging reserve	62	-62	56	-56
Profit/loss after tax	-1	1	1	-1

4.2.2 Interest rate risk

Interest rate risk in the Volkswagen Group (excluding Volkswagen Financial Services) results from changes in market interest rates, primarily for medium- and long-term variable interest receivables and liabilities. Interest rate swaps and cross-currency swaps are entered into to hedge against this risk primarily under fair value or cash flow hedges, and depending on market conditions. Intragroup financing arrangements are mainly structured to match the maturities of their refinancing. Departures from the Group standard are subject to centrally defined limits and monitored on an ongoing basis.

Interest rate risk within the meaning of IFRS 7 is calculated for these companies using sensitivity analyses. The effects of the risk-variable market rates of interest on the financial result and on equity are presented, net of tax.

If market interest rates had been 100 bps higher as of December 31, 2015, equity would have been €71 million (previous year: €108 million) lower. If market interest rates had been 100 bps lower as of December 31, 2015, equity would have been €69 million (previous year: €106 million) higher.

If market interest rates had been 100 bps higher as of December 31, 2015, earnings after tax would have been €81 million (previous year: €43 million) higher. If market interest rates had been 100 bps lower as of December 31, 2015, earnings after tax would have been €95 million (previous year: €55 million) lower.

4.2.3 Commodity price risk

Commodity price risk in the Volkswagen Group (excluding Volkswagen Financial Services) primarily results from price fluctuations and the availability of nonferrous metals and precious metals, as well as of coal, CO₂ certificates and rubber. Forward transactions and swaps are entered into to limit these risks.

Hedge accounting in accordance with IAS 39 was applied in some cases to the hedging of commodity risk associated with aluminum and coal.

Commodity price risk within the meaning of IFRS 7 is presented using sensitivity analyses. These show the effect on earnings after tax and equity of changes in risk variables in the form of commodity prices.

If the commodity prices of the hedged nonferrous metals, coal and rubber had been 10% higher (lower) as of December 31, 2015, earnings after tax would have been €75 million (previous year: €126 million) higher (lower).

If the commodity prices of the hedging transactions accounted for using hedge accounting had been 10% higher (lower) as of December 31, 2015, equity would have been €41 million (previous year: €55 million) higher (lower).

4.2.4 Equity and bond price risk

The Spezialfonds (special funds) launched using surplus liquidity and the equity interests measured at fair value are subject in particular to equity price and bond price risk, which can arise from fluctuations in quoted market prices, stock exchange indices and market rates of interest. The changes in bond prices resulting from variations in the market rates of interest are quantified in sections 4.2.1 and 4.2.2, as are the measurement of foreign currency and other interest rate risks arising from the special funds and the equity interests measured at fair value. As a rule, we counter the risks arising from the special funds by ensuring a broad diversification of products, issuers and regional markets when investing funds, as stipulated by our Investment Guidelines. In addition, we use exchange rate hedges in the form of futures contracts when market conditions are appropriate.

As part of the presentation of market risk, IFRS 7 requires disclosures on how hypothetical changes in risk variables affect the price of financial instruments. Potential risk variables here are in particular quoted market prices or indices, as well as interest rate changes as bond price parameters.

If share prices had been 10% higher as of December 31, 2015, equity would have been €53 million (previous year: €259 million) higher. If share prices had been 10% lower as of December 31, 2015, equity would have been €61 million (previous year: €275 million) lower.

4.3 Market risk at Volkswagen Financial Services

Exchange rate risk in the Volkswagen Financial Services subgroup is mainly attributable to assets that are not denominated in the functional currency and from refinancing within operating activities. Interest rate risk relates to refinancing without matching maturities and the varying interest rate elasticity of individual asset and liability items. The risks are limited by the use of currency and interest rate hedges.

Microhedges and portfolio hedges are used for interest rate hedging. Fixed-rate assets and liabilities included in the hedging strategy are recognized at fair value, as opposed to their original subsequent measurement at amortized cost. The resulting effects in the income statement are offset by the corresponding gains and losses on the interest rate hedging instruments (swaps). Currency hedges (currency forwards and cross-currency swaps) are used to mitigate foreign currency risk. All cash flows in foreign currency are hedged.

As of December 31, 2015, the value at risk was €179 million (previous year: €98 million) for interest rate risk and €196 million (previous year: €112 million) for foreign currency risk.

The entire value at risk for interest rate and foreign currency risk at the Volkswagen Financial Services subgroup was €245 million (previous year: €179 million).

5. METHODS FOR MONITORING HEDGE EFFECTIVENESS

In the Volkswagen Group, hedge effectiveness is assessed prospectively using the critical terms match method and using statistical methods in the form of a regression analysis. Retrospective analysis of effectiveness uses effectiveness tests in the form of the dollar offset method or a regression analysis.

Under the dollar offset method, the changes in value of the hedged item expressed in monetary units are compared with the changes in value of the hedging instrument expressed in monetary units.

Where regression analysis is used, the change in value of the hedged item is presented as an independent variable, and that of the hedging instrument as a dependent variable. Hedge relationships are classified as effective if they have sufficient coefficients of determination and slope factors.

NOTIONAL AMOUNT OF DERIVATIVES

€ million	REMAINING TERM			TOTAL NOTIONAL AMOUNT	TOTAL NOTIONAL AMOUNT
	under one year	within one to five years	over five years	Dec. 31, 2015	Dec. 31, 2014
Notional amount of hedging instruments used in cash flow hedges:					
Interest rate swaps	1,989	6,685	190	8,864	5,154
Currency forwards	43,433	59,154	–	102,587	84,243
Currency options	7,244	15,745	–	22,989	16,246
Currency swaps	6,725	628	–	7,353	4,938
Cross-currency swaps	238	1,170	354	1,762	1,615
Commodity futures contracts	413	358	–	771	858
Notional amount of other derivatives:					
Interest rate swaps	21,090	46,614	17,611	85,316	76,188
Interest rate option contracts	–	–	–	–	–
Currency forwards	15,893	9,490	1	25,383	6,774
Other currency options	–	45	–	45	137
Currency swaps	9,644	230	–	9,874	8,734
Cross-currency swaps	1,886	6,418	112	8,417	8,935
Commodity futures contracts	931	586	–	1,517	1,994

In addition to the derivatives used for hedging foreign currency, interest rate and price risk, the Group held options and other derivatives on equity instruments at the reporting date with a notional amount of €1.4 billion (previous year: €1.5 billion) whose remaining maturity is under one year.

Existing cash flow hedges in the notional amount of €-million (previous year: €18 million) were discontinued because of a reduction in the projections. €-million (previous year: €0 million) was transferred from the cash flow hedge reserve to the financial result, decreasing earnings. In addition, hedges were terminated due to internal risk regulations. For further information, please refer to the “Key events” section.

Items hedged under cash flow hedges are expected to be realized in accordance with the maturity buckets of the hedges reported in the table.

The fair values of the derivatives are estimated using market data at the balance sheet date as well as by appropriate valuation techniques. The following term structures were used for the calculation:

in %	EUR	CHF	CNY	CZK	GBP	JPY	KRW	SEK	USD
Interest rate for six months	-0.0782	-0.6232	2.9434	0.3599	0.6146	0.1589	1.6629	-0.2853	0.6792
Interest rate for one year	-0.0773	-0.6828	3.1097	0.4530	0.7208	0.1350	1.6174	-0.2833	0.8597
Interest rate for five years	0.3280	-0.3050	3.2400	0.6200	1.5910	0.1688	1.7350	0.7190	1.7263
Interest rate for ten years	1.0000	0.2500	3.4200	1.0150	1.9930	0.4238	1.9325	1.6200	2.1870

35. Capital management

The Group’s capital management ensures that its goals and strategies can be achieved in the interests of shareholders, employees and other stakeholders. In particular, management focuses on generating the minimum return on invested assets in the Automotive Division that is required by the capital markets, and on increasing the return on equity in the Financial Services Division. In the process, it aims overall to achieve the highest possible growth in the value of the Group and its divisions for the benefit of all the Company’s stakeholder groups.

In order to maximize the use of resources in the Automotive Division and to measure the success of this, we have for a number of years been using a value-based management system, with value contribution as an absolute performance measure and return on investment (ROI) as a relative indicator.

Value contribution is defined as the difference between operating profit after tax and the opportunity cost of invested capital. The opportunity cost of capital is calculated by multiplying the market cost of capital by average invested capital. Invested capital is calculated by taking the operating assets reported in the balance sheet (property, plant and equipment, intangible assets, lease assets, inventories and receivables) and deducting non-interest-bearing liabilities (trade payables and payments on account received). Average invested capital is derived from the balance at the beginning and the end of the reporting period. The Automotive Division generated a negative value contribution of €-5,935 million in the reporting period; this represents a significant deterioration compared with the prior-year figure because of the charges relating to the special items recognized in operating result.

The return on investment (ROI) is defined as the return on invested capital for a particular period based on the operating result after tax. If the return on investment exceeds the market cost of capital, there is an increase in the value of the invested capital and a positive value contribution. In the Group, we have defined a minimum required rate of return on invested capital of 9%, which applies to both the business units and the individual products and product lines. The return on investment therefore serves as a consistent target in operational and strategic management and is used to measure target attainment for the Automotive Division, the individual business units, and projects and products. The return on investment achieved for the Automotive Division in the reporting period was -0.2%. This was significantly lower than both our cost of capital of 6.8% and our minimum required rate of return of 9% due to the special items recognized in operating result.

Due to the specific features of the Financial Services Division, its management focuses on return on equity, a special target linked to invested capital. This measure is calculated as the ratio of earnings before tax to average equity. Average equity is calculated from the balance at the beginning and the end of the reporting period. In addition, the goals of the

Financial Services Division are to meet the banking supervisory authorities' regulatory capital requirements, to procure equity for the growth planned in the coming fiscal years and to support its external rating by ensuring capital adequacy. To ensure compliance with prudential requirements at all times, a planning procedure integrated into internal reporting has been put in place at Volkswagen Financial Services, allowing the required equity to be continuously determined on the basis of actual and expected business performance. In the reporting period, this again ensured that regulatory minimum capital requirements were always met both at Group level and at the level of subordinate companies' individual, specific capital requirements.

The return on investment and value contribution in the Automotive Division as well as the return on equity in the Financial Services Division are shown in the following table:

€ million	2015	2014
Automotive Division¹		
Operating result after capital	-203	11,734
Invested capital (average)	84,289	78,889
Return on investment (ROI) in %	-0.2	14.9
Cost of capital in %	6.8	7.7
Opportunity cost of invested capital	5,732	6,074
Value contribution²	-5,935	5,660
Financial Services Division		
Earnings before tax	2,333	1,965
Average equity	19,140	15,714
Return on equity before tax in %	12.2	12.5
Equity ratio in %	11.9	11.3

1 Including proportionate inclusion of the Chinese joint ventures and allocation of consolidation adjustments between the Automotive and Financial Services Divisions; excluding effects on earnings and assets from purchase price allocation.

2 The value contribution corresponds to the Economic Value Added (EVA®). EVA® is a registered trademark of Stern Stewart & Co.

36. Contingent liabilities

€ million	Dec. 31, 2015	Dec. 31, 2014
Liabilities under guarantees	334	674
Liabilities under warranty contracts	77	58
Assets pledged as security for third-party liabilities*	20	12
Other contingent liabilities	2,159	2,359
	2,590	3,103

* Prior-year figures adjusted.

The trust assets and liabilities of the savings and trust entities belonging to the South American subsidiaries not included in the consolidated balance sheet amount to €702 million (previous year: €802 million).

In the case of liabilities from guarantees, the Group is required to make specific payments if the debtors fail to meet their obligations.

Financial guarantee contracts within the meaning of IFRS 7 are now presented in the Liquidity risk section in note 34 and are no longer included in liabilities from guarantees. Starting in fiscal year 2015, the pledge of claims under certificates of deposit with Bankhaus Metzler to secure a loan granted to Fleet Investments B.V. by Bankhaus Metzler is presented under liquidity risks in note 34. In the previous year, this was contained in assets pledged as security for third-party liabilities. The prior-year disclosure was adjusted accordingly.

The other contingent liabilities are attributable primarily to potential liabilities arising from matters relating to taxes and customs duties, as well as to litigation and proceedings relating to suppliers, dealers, customers and employees.

The other contingent liabilities at €1 billion contain potential settlements under product-related claims, investor lawsuits, and possible fines or other monetary sanctions resulting from administrative proceedings and proceedings involving other administrative-type authorities in connection with the diesel issue, provided that the criteria for disclosing a contingent liability have been met. As a general principle, they do not include any class action lawsuits and criminal investigations/misdemeanour proceedings related to the diesel issue filed outside of the USA and Canada, as well as specific portions of investor lawsuits which meet the definition of a contingent liability but could not, as a rule, be disclosed because it is impossible to measure the amount involved. These proceedings are still at a very early stage, meaning that in a number of cases the plaintiffs have so far not specified the basis of their claims and/or there is insufficient certainty about the number of plaintiffs or the amounts being claimed.

In 2011, the European Commission opened antitrust proceedings against European truck manufacturers including MAN and Scania. In November 2014, the European Commission sent a statement of objections to MAN, Scania and the other truck manufacturers concerned, in which it informed the truck manufacturers of the objections raised against them and gave them the right to comment extensively on the objections raised and to exercise other rights of defense before any decision is reached. Because the investigation is still ongoing and due to the associated uncertainties, Volkswagen is not currently in a position to predict the decisions of the authorities and thus any potential fines.

As permitted by IAS 37.92, in order not to prejudice the outcomes of the proceedings and the interests of the Company, we have not made any further disclosures about estimates in connection with the financial effects of, and disclosures about, uncertainty regarding the timing or amount of contingent liabilities in connection with the diesel issue and investigations by the European Commission. Further information can be found in note 37 "Litigation".

37. Litigation

In the course of their operating activities, Volkswagen AG and the companies in which it is directly or indirectly invested become involved in a great number of legal disputes and official proceedings in Germany and internationally. In particular, such legal disputes and other proceedings may occur in relation to suppliers, dealers, customers, employees, or investors. For the companies involved, these may result in payment or other obligations. Above all in cases where US customers in particular assert claims for vehicle defects individually or by way of a class action, highly cost-intensive measures may have to be taken and substantial compensation or punitive damages paid. Corresponding risks also result from US patent infringement proceedings.

Risks may also emerge in connection with the adherence to regulatory requirements. This particularly applies in the case of regulatory vagueness that may be interpreted differently by Volkswagen and the agencies responsible for the respective regulations. In addition, legal risks can arise from the criminal activities of individual persons, which even the best compliance system can never completely prevent.

Where transparent and economically viable, adequate insurance cover is taken out for these risks. For the identifiable and measurable risks, appropriate provisions are recognized and information about contingent liabilities is disclosed. As some risks cannot be assessed or can only be assessed to a limited extent, the possibility of loss or damage not being covered by the insured amounts and provisions cannot be ruled out. This particularly applies to legal risk assessment regarding the diesel issue.

Diesel Issue

On September 18, 2015, the U.S. Environmental Protection Agency (EPA) publicly announced in a “Notice of Violation” that irregularities in relation to nitrogen oxide (NO_x) emissions had been discovered in emissions tests on certain vehicles with Volkswagen Group diesel engines. It has been alleged that we had used undisclosed engine management software installed in certain four-cylinder diesel engines used in certain 2009 to 2015 model year vehicles to circumvent NO_x emissions testing regulations in the United States of America in order to comply with certification requirements. The US environmental authority of California – the California Air Resources Board (CARB) – announced its own enforcement investigation in this context.

Volkswagen admitted to irregularities in this context. In its ad hoc release dated September 22, 2015, the Volkswagen Group announced that noticeable discrepancies between the figures achieved in testing and in actual road use had been identified in around eleven million vehicles worldwide with certain diesel engines. The vast majority of these engines are Type EA 189 Euro 5 engines. On November 2, 2015, the EPA issued another “Notice of Violation” alleging that irregularities had also been discovered in the software installed in vehicles with type V6 TDI 3.0l diesel engines. CARB also issued a letter announcing its own enforcement investigation in this context. Audi has confirmed that a total of three auxiliary emission control devices were inadequately disclosed in the course of the US approval documentation. Around 113 thousand vehicles from the 2009 to 2016 model years with certain six-cylinder diesel engines are affected.

On January 4, 2016, the U.S. Department of Justice (DOJ), on behalf of the EPA, filed a civil complaint against Volkswagen AG, AUDI AG and other companies of the Volkswagen Group. The claims asserted under civil law are founded on the alleged use of illegal (Defeat Device) software in violation of the American Clean Air Act. The complaint’s allegations relate to both the four-cylinder and the six-cylinder diesel engines. On January 12, 2016, it was announced that CARB intends to seek civil fines for alleged violations of the California Health & Safety Code and various CARB regulations.

The allegations described are subject to extensive ongoing discussions between Volkswagen and the EPA or CARB, respectively, also including a rigorous review of relevant technical concepts. The investigations have not been completed at the present time.

In addition to internal inquiries, Volkswagen AG commissioned an official external investigation by US law firm Jones Day for this purpose. This will be an independent and comprehensive investigation that will address the diesel issue. The Supervisory Board of Volkswagen AG is ensuring that Jones Day can carry out its clarification work independently. Jones Day is updating the Company on the current results of its investigation on an ongoing basis.

The Supervisory Board of Volkswagen AG has formed a special committee to coordinate all activities in this context for the Supervisory Board.

Based on decisions dated October 15, 2015, the Kraftfahrtbundesamt (KBA – German Federal Motor Transport Authority) ordered the Volkswagen Passenger Cars, Volkswagen Commercial Vehicles and SEAT brands to recall all of the diesel vehicles that had been issued with vehicle type approval by the KBA from among the 11 million affected. The recall concerns the member states of the European Union (EU28). On December 10, 2015 a similar decision was issued regarding Audi vehicles with the EA 189 engine. The timetable and action plan forming the basis for the recall order correspond to the proposals presented in advance by Volkswagen. Depending on the technical complexity of the remedial actions, this means that Volkswagen has been recalling the affected vehicles, of which there are around 8.5 million in total in the EU 28 countries, to the service workshops since January 2016. Based on current knowledge, the remedial actions differ in scope depending on the engine variant. The technical solutions cover software and in some cases hardware modifications, depending on the series and model year. The details of the remedial actions will be agreed in close cooperation with the KBA, which must approve them in advance. Discussions are currently underway with the authorities in the other EU member states with the aim of ensuring that no legal actions above and beyond this will be taken in this connection by public authorities in the other member states. The Group brands SEAT and ŠKODA also received approvals in principle each from their respective type approval authorities – the Ministry of Industry in Spain and the Vehicle Certification Agency in the United Kingdom. In some countries outside the EU – among others Switzerland, Australia and Turkey – national type approval is based on prior recognition of the EC/ECE type approval. We are also in close contact with the authorities in these countries in order to coordinate the corresponding actions.

In addition, there is an intensive exchange of information with the authorities in the USA and Canada, where Volkswagen’s planned actions in relation to the four-cylinder and the six-cylinder diesel engines will also have to be approved.

Due to considerably stricter NO_x limits in the USA, it is a greater technical challenge to refit the vehicles so that all applicable emissions limits can be met.

Potential consequences for Volkswagen's results of operations, financial position and net assets could emerge primarily in the following legal areas:

1. Criminal and administrative proceedings all over the world (excluding the USA/Canada)

In addition to the approval processes with the responsible registration authorities, criminal investigations/misdemeanour proceedings have been opened (for example, by the public prosecutor's office in Braunschweig, Germany) and/or administrative proceedings have been announced in some countries (for example, by the Bundesanstalt für Finanzdienstleistungsaufsicht BaFin – the German Federal Financial Supervisory Authority). The public prosecutor's office in Braunschweig is investigating the core issue of the criminal investigations. Whether this will result in fines for the Company, and if so what their amount might be, is currently subject to estimation risks. According to Volkswagen's estimates so far, the large majority of proceedings have less than a 50% probability of success. Contingent liabilities have therefore been disclosed in cases where they can be assessed and for which the chance of success was deemed not implausible.

2. Product-related lawsuits worldwide (excluding the USA/Canada)

In principle, it is possible that customers in the affected markets will file civil lawsuits against Volkswagen AG and other Volkswagen Group companies. In addition, it is possible that importers and dealers could assert claims against Volkswagen AG and other Volkswagen Group companies, e.g. through recourse claims. As well as individual lawsuits, class action lawsuits are possible in various jurisdictions (albeit not in Germany).

In this context, various lawsuits are pending against Volkswagen AG and other Volkswagen Group companies at present.

Class action proceedings against Volkswagen AG and other Volkswagen Group companies are pending in various countries such as Australia, Israel, Italy, United Kingdom and the Netherlands. The proceedings in the Netherlands are focused on taking evidence only. The other class action proceedings are lawsuits aimed among other things at asserting damages. The amount of these damages cannot yet be quantified due to the early stage of the proceedings. In South Korea various mass proceedings are pending (individual lawsuits in which several hundred litigants have aggregated). These lawsuits are filed to assert damages and to rescind the purchase contract including repayment of the purchase price. Volkswagen does not estimate the litigants' prospect of success to be more than 50% in any of the aforementioned proceedings aimed at asserting damages. Contingent liabilities have therefore been disclosed in those cases where that can be assessed and for which the chance of success was deemed not implausible.

Furthermore, individual lawsuits and similar proceedings are pending against Volkswagen AG and other Volkswagen Group companies in numerous countries. In Germany and Austria, individual lawsuits in the two-digit range are pending, most of which are aimed at asserting damages or rescinding the purchase contract. According to Volkswagen's estimates so far, the litigants' prospect of success is below 50% in the vast majority of the individual lawsuits. Contingent liabilities have therefore been disclosed for those lawsuits that can be assessed and for which the chance of success was deemed not implausible.

It is too early to estimate how many customers will take advantage of the option to file lawsuits in the future, beyond the existing lawsuits, or what their prospects of success will be. On the one hand, the final results of the external investigation by Jones Day are not yet known. On the other hand, the public prosecutors' investigations are also still ongoing.

Volkswagen is working intensively to finalize the remedial actions described above. For the 21 engines, implementation already started in the fourth week of January 2016.

Volkswagen is pursuing the clear aim of not adversely affecting engine performance, fuel consumption and CO₂ emissions in implementing the planned measures.

3. Lawsuits filed by investors worldwide (excluding the USA/Canada)

Investors from Germany and abroad have announced that they are examining the possibility of pursuing claims for damages against Volkswagen AG due to the movements in Volkswagen AG's share price following publication of the EPA's

“Notices of Violation”. Volkswagen AG had already been served with lawsuits that in particular claim damages due to alleged misconduct in capital market communications. In some cases, applications were simultaneously made to instigate proceedings in accordance with the Kapitalanleger-Musterverfahrensgesetz (Capital Markets Model Case Act). Volkswagen is of the opinion that it duly complied with its capital market obligations. Therefore, no provisions have been recognized. Furthermore, contingent liabilities were disclosed for a portion of the submitted claims. The majority of the claims either could not be assessed at the time or the chance of success was deemed unlikely.

4. Proceedings in the USA/Canada

Following the publication of the EPA’s notices of violation, Volkswagen AG and other Volkswagen Group companies have been the subject of intense scrutiny, ongoing investigations (civil and criminal) and civil litigation. Volkswagen AG and other Volkswagen Group companies have received subpoenas and inquiries from state attorneys general and other governmental authorities and are responding to such investigations and inquiries.

In addition, Volkswagen AG and other Volkswagen Group companies in the USA/Canada are facing litigation on a number of different fronts relating to the matters described in the EPA’s “Notices of Violation”.

On January 4, 2016, the U.S. Department of Justice (DOJ), Civil Division, on behalf of the EPA, initiated a civil penalty lawsuit against Volkswagen AG, AUDI AG and certain other Volkswagen Group companies. The action seeks statutory penalties under the US Clean Air Act, as well as certain injunctive relief.

On January 12, 2016, it was announced that CARB intends to seek civil fines for alleged violations of the California Health & Safety Code and various CARB regulations.

The DOJ has also opened a criminal investigation. This focuses on allegations that various federal law criminal offenses were committed.

A large number of putative class action lawsuits by affected customers and dealers have been filed in US federal courts and consolidated for pretrial coordination purposes in a federal court multidistrict litigation proceeding in the State of California. The claims primarily relate to compensation for material damage. The DOJ civil penalty lawsuit referenced above has also been consolidated for pretrial coordination purposes in this California multidistrict litigation proceeding.

Additionally, in the USA, some putative class actions have been filed; some individual customers’ lawsuits have been filed; and some state or municipal claims have been filed in state courts. The attorneys general of four US states (West Virginia, Texas, New Mexico and New Jersey) have commenced litigation in state courts and allege that Volkswagen Group of America inappropriately advertised clean diesels and that customers were misled into purchasing Volkswagen diesel vehicles as a result. The United States Federal Trade Commission (FTC) has also made similar accusations against the Volkswagen Group of America in its lawsuit from March 29, 2016.

In addition to lawsuits described above, for which provisions have been recognized, a number of lawsuits for damages have been filed on behalf of a putative class of purchasers of Volkswagen AG American Depository Receipts, alleging a suffered drop in price purportedly resulting from the matters described in the EPA’s “Notices of Violation”.

These lawsuits have also been consolidated in the federal multidistrict litigation proceeding in the State of California described above. Volkswagen is of the opinion that it duly complied with its capital market obligations. Therefore, no provisions have been recognized. In addition, contingent liabilities have not been disclosed as they currently cannot be measured.

5. Risk assessment regarding the diesel issue

To protect against the currently known legal risks, including suitable expenses for defense and legal advice related to the diesel issue, existing information and assessments at the time indicated the need to generate provisions in the amount of €7.0 billion. A sum amounting to €1 billion has also been reported for contingent liabilities, insofar as these can be adequately measured at this stage. The provisions recognized, the contingent liabilities disclosed and the other latent legal risks are partially subject to substantial estimation risks given the complexity of the individual factors, the ongoing regulatory approval process with the authorities and the fact that the independent and exhaustive investigations have not yet been completed. In addition, negotiations are currently being conducted with the authorities in the USA concerning possible investments in environmental projects and e-mobility. The investments are expected to amount to approximately €1.8 billion. Their content and timing have yet to be defined.

Additional important legal cases

ARFB Anlegerschutz UG (haftungsbeschränkt), Berlin, brought an action against Porsche Automobil Holding SE, Stuttgart, Germany, and Volkswagen AG for claims for damages allegedly assigned to it in the amount of approximately €2.26 billion. The plaintiff asserts that these claims are based on alleged breaches by the defendants of legislation to protect the capital markets in connection with Porsche's acquisition of Volkswagen shares in 2008. With its April 2016 ruling, the district court of Hannover submitted numerous goals for discovery to the higher regional court in Celle in an attempt to prompt a model case decision. In all other cases, the claims were thrown out for being inadmissible. In various cases since 2010, investors initiated conciliation proceedings for other alleged damages – including claims against Volkswagen AG – that amounted to approximately €4.6 billion in total and also related to transactions at that time. In each case, Volkswagen rejected the claims asserted and refused to participate in any conciliation proceedings.

In 2011, the European Commission opened antitrust proceedings against European truck manufacturers including MAN and Scania. In November 2014, the European Commission sent a statement of objections to MAN, Scania and the other truck manufacturers concerned, in which it informed the truck manufacturers of the objections raised against them and gave them the right to comment extensively on the objections raised and to exercise other rights of defense before any decision is reached. Given the fact that the issues are still being clarified, it is too early to judge whether the European Commission's investigation will result in financial liabilities for MAN and Scania and, if so, to assess their amount. As a consequence, neither MAN nor Scania has recognized provisions or disclosed contingent liabilities.

The Annual General Meeting of MAN SE approved the conclusion of a control and profit and loss transfer agreement between MAN SE and Volkswagen Truck & Bus GmbH (formerly Truck & Bus GmbH), a subsidiary of Volkswagen AG, in June 2013. In July 2013, award proceedings were instituted to review the appropriateness of the cash settlement set out in the agreement in accordance with section 305 of the Aktiengesetz (AktG – German Stock Corporation Act) and the cash compensation in accordance with section 304 of the AktG. It is not uncommon for noncontrolling interest shareholders to institute such proceedings. In July 2015, the Munich Regional Court ruled in the first instance that the amount of the cash settlement payable to the noncontrolling interest shareholders of MAN should be increased from €80.89 to €90.29; at the same time, the amount of the cash compensation was confirmed. Both applicants and Volkswagen Truck & Bus GmbH have appealed to the Higher Regional Court in Munich. Volkswagen continues to maintain that the results of the valuation are correct. The appropriateness of the valuation was confirmed by the audit firms engaged by the parties and by the court-appointed auditor of the agreement. The assessment of liability for put options and compensation rights granted to noncontrolling interest shareholders was adjusted in turn.

In line with IAS 37.92, no further statements have been made concerning estimates of financial impact or about uncertainty regarding the amount or maturity of provisions and contingent liabilities, particularly in relation to the diesel issue and the European Commission's investigation. This is so as to not compromise the results of the proceedings or the interests of the Company.

38. Other financial obligations

€ million	PAYABLE	PAYABLE	PAYABLE	TOTAL
	2015	2016 – 2019	from 2020	Dec. 31, 2014
Purchase commitments in respect of				
property, plant and equipment	8,524	1,826	–	10,350
intangible assets	555	585	–	1,140
investment property	2	–	–	2
Obligations from				
loan commitments to unconsolidated subsidiaries	131	–	149	279
irrevocable credit commitments to customers	3,540	129	356	4,025
long-term leasing and rental contracts	899	2,351	2,472	5,721
Miscellaneous other financial obligations	4,651	1,005	112	5,768

€ million	PAYABLE	PAYABLE	PAYABLE	TOTAL
	2016	2017 – 2020	from 2021	Dec. 31, 2015
Purchase commitments in respect of				
property, plant and equipment	7,214	1,169	–	8,383
intangible assets	1,163	143	–	1,306
investment property	8	–	–	8
Obligations from				
loan commitments to unconsolidated subsidiaries	558	2	–	560
irrevocable credit commitments to customers	4,602	0	94	4,696
long-term leasing and rental contracts	997	2,466	2,444	5,908
Miscellaneous other financial obligations	3,290	1,059	200	4,549

Other financial obligations from long-term leasing and rental contracts are partly offset by expected income from subleases of €989 million (previous year: €968 million).

The miscellaneous other financial obligations contain obligations under an irrevocable credit commitment in the amount of €1.3 billion to LeasePlan with a term until December 2018. The loan has not been drawn down to date.

Furthermore, negotiations regarding the diesel issue are currently being conducted with the authorities in the USA concerning possible investments in environmental projects and e-mobility. The investments are expected to amount to approximately €1.8 billion. Their content and timing have yet to be defined.

39. Total audit fees of the Group auditors

Under the provisions of the Handelsgesetzbuch (HGB – German Commercial Code), Volkswagen AG is obliged to disclose the total audit fee of the Group auditors in Germany.

€ million	2015	2014
Financial statement audit services	15	13
Other assurance services	6	6
Tax advisory services	0	0
Other services	6	11
	27	30

40. Total expense for the period

€ million	2015	2014
Cost of materials		
Cost of raw materials, consumables and supplies, purchased merchandise and services	143,700	132,514
Personnel expenses		
Wages and salaries	29,301	27,684
Social security, post-employment and other employee benefit costs	6,967	6,151
	36,268	33,834

41. Average number of employees during the year

	2015	2014
Performance-related wage-earners	230,720	225,454
Salaried staff	286,125	276,249
	516,845	501,703
of which in the passive phase of partial retirement	(6,483)	(8,011)
Vocational trainees	17,321	17,145
	534,166	518,848
Employees of Chinese joint ventures	70,221	64,575
	604,387	583,423

42. Events after the balance sheet date

The final approvals for the sale of LeasePlan to an international consortium of investors were issued by the competent authorities in January 2016. Legal transfer of the LeasePlan shares to the consortium was completed on March 21, 2016.

The total value of the transaction was approximately €3.7 billion plus interest in the amount of €31.5 million. In 2016, this had a positive effect of €2.2 billion on investing activities and net liquidity and, taking into account the disposal of equity-accounted investment in GMH, resulted in a low three-digit million euro range for the Volkswagen Group, which is reported in the financial result. On completion of the transaction, the existing credit line of €1.3 billion provided by the Volkswagen Group was cancelled.

43. Related party disclosures in accordance with IAS 24

Related parties as defined by IAS 24 are natural persons and entities that Volkswagen AG has the ability to control or on which it can exercise significant influence, or natural persons and entities that have the ability to control or exercise significant influence on Volkswagen AG, or that are influenced by another related party of Volkswagen AG.

Porsche SE reached an agreement with Suzuki Motor Corporation at the end of September 2015 to acquire 1.5% of Volkswagen AG's ordinary shares via an off-market transaction. At 52.2%, Porsche SE held the majority of the voting rights in Volkswagen AG as of the reporting date. The creation of rights of appointment for the State of Lower Saxony was resolved at the Extraordinary General Meeting of Volkswagen AG on December 3, 2009. As a result, Porsche SE cannot appoint the majority of the members of Volkswagen AG's Supervisory Board for as long as the State of Lower Saxony holds at least 15% of Volkswagen AG's ordinary shares. However, Porsche SE has the power to participate in the operating policy decisions of the Volkswagen Group and is therefore classified as a related party as defined by IAS 24.

The contribution of Porsche SE's holding company operating business to Volkswagen AG on August 1, 2012 has the following effects on the agreements between Porsche SE, Volkswagen AG and companies of the Porsche Holding Stuttgart Group that existed prior to the contribution and were entered into on the basis of the Comprehensive Agreement and its related implementation agreements:

- > Volkswagen AG continues to indemnify Porsche SE against certain financial guarantees issued by Porsche SE to creditors of the companies belonging to the Porsche Holding Stuttgart Group up to the amount of its share in the capital of Porsche Holding Stuttgart, which amounts to 100% since the contribution as of August 1, 2012. Porsche Holding Finance plc, Dublin, Ireland, was contributed to the Volkswagen Group in the course of the transfer of Porsche SE's holding company operating business. Since August 1, 2012, the indemnification therefore includes financial guarantees issued by Porsche SE to creditors of Porsche Holding Finance plc in relation to interest payments on and the repayment of bonds in the aggregate amount of €310 million. As part of the contribution of Porsche SE's holding company operating business to Volkswagen AG, Volkswagen AG undertook to assume standard market liability compensation effective August 1, 2012 for guarantees issued to external creditors, whereby it is indemnified internally.
- > Volkswagen AG continues to indemnify Porsche SE internally against claims by the Einlagensicherungsfonds (German deposit protection fund) after Porsche SE submitted an indemnification agreement required by the Bundesverband Deutscher Banken (Association of German Banks) to the Einlagensicherungsfonds in August 2009. Volkswagen AG has also undertaken to indemnify the Einlagensicherungsfonds against any losses caused by measures taken by the latter in favor of a bank in which Volkswagen AG holds a majority interest.

- > Under certain conditions, Porsche SE continues to indemnify Porsche Holding Stuttgart, Porsche AG and their legal predecessors against tax liabilities that exceed the obligations recognized in the financial statements of those companies relating to periods up to and including July 31, 2009. In return, Volkswagen AG has undertaken to pay to Porsche SE any tax benefits or tax refunds of Porsche Holding Stuttgart, Porsche AG and their legal predecessors and subsidiaries for tax assessment periods up to July 31, 2009. Based on the results of the external tax audit for the assessment periods 2006 to 2008 that has now been completed, a compensation obligation running into the low triple-digit millions of euros would arise for Volkswagen AG. New information emerging in the future from the external tax audit that commenced at the end of 2015 for the 2009 assessment period could result in an increase or decrease in the potential compensation obligation.

Under the terms of the Comprehensive Agreement, Porsche SE and Volkswagen AG had granted each other put and call options with regard to the remaining 50.1% interest in Porsche Holding Stuttgart held by Porsche SE until the contribution of its holding company operating business to Volkswagen AG. Both Volkswagen AG (if it had exercised its call option) and Porsche SE (if it had exercised its put option) had undertaken to bear the tax burden resulting from the exercise of the options and any subsequent activities in relation to the equity investment in Porsche Holding Stuttgart (e.g. from recapture taxation on the spin-off in 2007 and/or 2009). If tax benefits had accrued to Volkswagen AG, Porsche Holding Stuttgart, Porsche AG, or their respective subsidiaries as a result of recapture taxation on the spin-off in 2007 and/or 2009, the purchase price to be paid by Volkswagen AG for the transfer of the outstanding 50.1% equity investment in Porsche Holding Stuttgart if the put option had been exercised by Porsche SE would have been increased by the present value of the tax benefit. This arrangement was taken over under the terms of the contribution agreement to the effect that Porsche SE has a claim against Volkswagen AG for payment in the amount of the present value of the realizable tax benefits from any recapture taxation of the spin-off in 2007 as a result of the contribution. It was also agreed under the terms of the contribution that Porsche SE will indemnify Volkswagen AG, Porsche Holding Stuttgart and their subsidiaries against taxes if measures taken by or not taken by Porsche SE result in recapture taxation for 2012 at these companies in the course of or following implementation of the contribution. In this case, too, Porsche SE is entitled to assert a claim for payment against Volkswagen AG in the amount of the present value of the realizable tax benefits that arise at the level of Volkswagen AG or one of its subsidiaries as a result of such a transaction.

Further agreements were entered into and declarations were issued in connection with the contribution of Porsche SE's holding company operating business to Volkswagen AG, in particular:

- > Porsche SE issued various guarantees to Volkswagen AG in the course of the contribution relating to Porsche Holding Stuttgart, Porsche AG and its other transferred investees. Among other things, these relate to the proper issuance of and full payment for shares and capital contributions, and/or to the ownership of the shares of Porsche Holding Stuttgart and Porsche AG.
- > Under the terms of the contribution of its holding company operating business, Porsche SE also issued guarantees to Volkswagen AG for other assets transferred and liabilities assumed. In doing so, Porsche SE guarantees that these have not been assigned and are, in principle, free from third-party rights up to the date of completion of the contribution.
- > As a general principle, Porsche SE's liabilities for these guarantees are restricted to the consideration paid by Volkswagen AG.
- > Porsche SE indemnifies its contributed subsidiaries, Porsche Holding Stuttgart, Porsche AG and their subsidiaries against liabilities to Porsche SE that relate to the period up to and including December 31, 2011 and that exceed the obligations recognized in the financial statements of those companies for that period.
- > Porsche SE indemnifies Porsche Holding Stuttgart and Porsche AG against obligations arising from certain legal disputes; this includes the costs of an appropriate legal defense.

- › Moreover, Porsche SE indemnifies Volkswagen AG, Porsche Holding Stuttgart, Porsche AG and their subsidiaries against half of the taxes (other than taxes on income) arising at those companies in conjunction with the contribution that would not have been incurred in the event of the exercise of the call option on the shares of Porsche Holding Stuttgart that continued to be held by Porsche SE until the contribution. Volkswagen AG therefore indemnifies Porsche SE against half of such taxes that it incurs. In addition, Porsche Holding Stuttgart is indemnified against half of the land transfer tax and other costs triggered by the merger.
- › Additionally, Porsche SE and Porsche AG agreed to allocate any subsequent VAT receivables or liabilities from transactions in the period up to December 31, 2009 to the company entitled to the receivable or incurring the liability.
- › A range of information, conduct and cooperation obligations were agreed by Porsche SE and the Volkswagen Group.

According to a notification dated January 5, 2016, the State of Lower Saxony and Hannoversche Beteiligungsgesellschaft mbH, Hanover, held 20.00% of the voting rights of Volkswagen AG on December 31, 2015. As mentioned above, the General Meeting of Volkswagen AG on December 3, 2009 also resolved that the State of Lower Saxony may appoint two members of the Supervisory Board (right of appointment).

Members of the Board of Management and Supervisory Board of Volkswagen AG are members of supervisory and management boards or shareholders of other companies with which Volkswagen AG has relations in the normal course of business. All transactions with related parties are conducted on an arm's length basis.

The following tables present the amounts of supplies and services transacted, as well as outstanding receivables and liabilities, between consolidated companies of the Volkswagen Group and related parties.

RELATED PARTIES

€ million	SUPPLIES AND SERVICES RENDERED		SUPPLIES AND SERVICES RECEIVED	
	2015	2014	2015	2014
Porsche SE	12	24	5	6
Supervisory Board members	7	5	4	4
Board of Management members	1	1	0	12
Unconsolidated subsidiaries	944	989	886	767
Joint ventures and their majority interests	11,785	15,352	1,429	1,388
Associates and their majority interests	126	198	826	575
Pension plans	3	3	0	0
Other related parties	0	0	0	0
State of Lower Saxony, its majority interests and joint ventures	5	5	2	4

€ million	RECEIVABLES (INCLUDING COLLATERAL) FROM		LIABILITIES (INCLUDING OBLIGATIONS) TO	
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014
Porsche SE	334	356	110	14
Supervisory Board members	0	0	165	218
Board of Management members	0	0	81	69
Unconsolidated subsidiaries	1,015	673	1,418	815
Joint ventures and their majority interests	7,495	6,295	2,343	2,127
Associates and their majority interests	40	69	518	168
Pension plans	1	1	8	7
Other related parties	–	–	25	27
State of Lower Saxony, its majority interests and joint ventures	0	0	0	1

The tables above do not contain the dividend payments of €4,704 million (previous year: €2,997 million) received from the joint ventures and associates or the dividends of €719 million (previous year: €599 million) paid to Porsche SE.

€148 million (previous year: €5 million) of the related party receivables were written down in the fiscal year.

In addition, the Volkswagen Group has furnished guarantees to external banks on behalf of related parties in the amount of €262 million.

The changes in supplies and services received from and rendered to joint ventures and their majority interests are primarily attributable to deliveries to the Chinese joint ventures.

The supplies and services received from Porsche SE relate mainly to standard market liability compensation for guarantees assumed. The supplies and services rendered to Porsche SE relate mainly to interest income on loans granted. The supplies and services received from Board of Management members in the previous year related mainly to shares tendered as part of the offer to Scania shareholders.

The receivables from Porsche SE mainly comprise loan receivables. The obligations to Porsche SE consist mainly of term deposits.

Obligations to joint ventures and their majority interests contain miscellaneous financial obligations under an irrevocable credit commitment in the amount of €1.3 billion to LeasePlan with a term until December 2018.

As in the previous year, obligations to members of the Supervisory Board amounting to €165 million (previous year: €218 million) relate primarily to interest-bearing bank balances of Supervisory Board members that were invested at standard market terms and conditions at Volkswagen Group companies.

Obligations to the Board of Management comprise outstanding balances for bonuses payable to Board of Management members in the amount of €36,244,616 (previous year: €53,686,233) and amounts of €39,433,417 (previous year: €12,373,058) granted on the termination of employment relationships with Board of Management members.

In addition to the amounts shown above, the following expenses were recognized for the members of the Board of Management and Supervisory Board of the Volkswagen Group in the course of their activities as members of these bodies:

€	2015	2014
Short-term benefits	65,404,667	77,704,758
Post-employment benefits	3,375,923	4,409,573
Termination benefits	41,132,431	12,809,128
	109,913,021	94,923,459

By resolution of the Supervisory Board of Volkswagen AG, 30% of the variable remuneration for fiscal year 2015 for the Board of Management members active on the date of the resolution was withheld and its disposal made subject to the Company's future share price performance. The resolution was not required to be reflected in the calculation of short-term employee benefits under IFRSs because it was only passed after the fiscal year had ended.

The employee representatives on the Supervisory Board are also entitled to a regular salary as set out in their employment contracts. This is based on the provisions of the Betriebsverfassungsgesetz (BetrVG – German Works Constitution Act) and represents an appropriate remuneration for their functions and activities in the Company. The same also applies to the representative of the senior executives on the Supervisory Board.

The post-employment benefits relate to additions to pension provisions for current members of the Board of Management.

The termination benefit commitments relate to Messrs. Östling, Winterkorn, Klingler and Pötsch.

Disclosures on the pension provisions for members of the Board of Management and more detailed explanations of the remuneration of the Board of Management and the Supervisory Board can be found in note 45 and in the remuneration report, which is part of the management report.

44. German Corporate Governance Code

On November 20, 2015, the Board of Management and Supervisory Board of Volkswagen AG issued their declaration of conformity with the German Corporate Governance Code as required by section 161 of the Aktiengesetz (AktG – German Stock Corporation Act) and made it permanently available to the shareholders of Volkswagen AG on the Company's website at www.volkswagenag.com/ir.

On December 3, 2015, the Board of Management and Supervisory Board of AUDI AG likewise issued their declaration of conformity with the German Corporate Governance Code and made it permanently available to the shareholders at www.audi.com/cgk-declaration.

In December 2015, the Executive Board and Supervisory Board of MAN SE issued their declaration of conformity with the German Corporate Governance Code as required by section 161 of the AktG and made it permanently available to the shareholders at www.corporate.man.eu/en.

The Executive and Supervisory Boards of Renk AG issued a declaration of conformity on December 11, 2015 and made it permanently available to the shareholders at www.renk.biz/corporated-governance.html.

45. Remuneration of the Board of Management and the Supervisory Board

€	2015	2014
Board of Management remuneration		
Non-performance-related remuneration	28,288,098	11,389,074
Performance-related remuneration	34,956,362	54,166,233
	63,244,460	65,555,308
Supervisory Board remuneration		
Fixed remuneration components	660,976	808,500
Variable remuneration components	35,977	11,340,950
	696,953	12,149,450

The non-performance-related remuneration of the Board of Management comprises fixed remuneration and fringe benefits. In addition to the basic level of remuneration, the fixed remuneration also includes differing levels of remuneration for appointments assumed at Group companies. In addition, Mr. Diess received €5,000,000 and Mr. Renschler received €11,478,000 as compensation for the loss of benefits due to the change of employer. The fringe benefits result from the grant of noncash benefits and include in particular the use of operating assets such as company cars and the payment of insurance premiums. Taxes due on these noncash benefits were mainly borne by Volkswagen AG. The performance-related remuneration comprises a business performance bonus, which relates to business performance in the reporting period and in the preceding year, and, since 2010, a Long-Term Incentive (LTI) plan, which is based on the reporting period and the previous three fiscal years. Members of the Board of Management can also be awarded bonuses that reflect their individual performance.

The performance-related remuneration measured in accordance with German GAAP includes the amounts withheld from the active Board of Management members whose disposal is subject to the Company's future share price performance. These are reported at their fair value of €4,218,566. The amount withheld led to the creation of 50,703 virtual preferred shares.

On December 31, 2015, the pension provisions for members of the Board of Management in accordance with IFRSs amounted to €86,601,704 (previous year: €138,046,434). Current pensions are index-linked in accordance with the index-linking of the highest collectively agreed salary insofar as the application of section 16 of the Gesetz zur Verbesserung der betrieblichen Altersversorgung (BetrAVG – German Company Pension Act) does not lead to a larger increase.

Members of the Board of Management were paid interest-free advances in the amount of €175,000 (previous year: €480,000), which will be set off against performance-related remuneration in the following year.

Former members of the Board of Management and their surviving dependents received €51,306,960 (previous year: €22,792,616). This includes the amounts agreed to be paid to Messrs. Östling, Winterkorn, Klingler and Pötsch in connection with their departure from the Board of Management. Mr. Östling received non-performance-related remuneration of €567,885 and performance-related remuneration of €1,612,398 for the period from March 1 to August 31, 2015. Non-performance-related remuneration of €2,588,241 and performance-related remuneration of €6,691,011 for the period from September 26, 2015 to December 31, 2016 was recognized for Mr. Winterkorn. Taking into account the two-year cap to be applied, Mr. Klingler received non-performance-related remuneration of €2,435,488 and performance-related remuneration of €11,937,939 for the period from September 26, 2015 to December 31, 2017. Mr. Pötsch received non-performance-related remuneration of €3,015,800 and performance-related remuneration of €12,283,669 for the period from October 8, 2015 to December 31, 2017. The amount was granted net of Supervisory Board remuneration received in the period up to December 31, 2017.

Pension provisions in accordance with IFRSs for former members of the Board of Management amounted to €242,675,809 (previous year: €165,668,945).

The individual remuneration of the members of the Board of Management and the Supervisory Board is explained in the remuneration report in the management report (see page 67). A comprehensive assessment of the individual bonus components of the LTI is also to be found there.

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Wolfsburg, April 22, 2016

Volkswagen Aktiengesellschaft
The Board of Management



Matthias Müller



Karlheinz Blessing



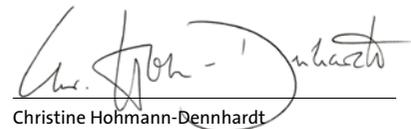
Herbert Diess



Francisco Javier Garcia Sanz



Jochem Heizmann



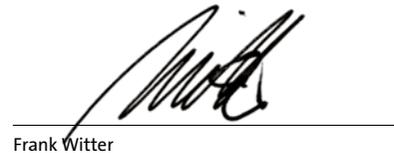
Christine Hohmann-Dennhardt



Andreas Renschler



Rupert Stadler



Frank Witter

Auditor's Report

On completion of our audit, we issued the following unqualified auditors' report dated April 22, 2016. This report was originally prepared in German. In case of ambiguities the German version takes precedence:

Auditor's Report

We have audited the consolidated financial statements prepared by the VOLKSWAGEN AKTIENGESELLSCHAFT, Wolfsburg, comprising income statement and statement of comprehensive income, the balance sheet, the statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of the VOLKSWAGEN AKTIENGESELLSCHAFT, Wolfsburg, for the business year from January 1 to December 31, 2015. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handels-gesetzbuch": German Commercial Code) are the responsibility of the parent Company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Without qualifying our opinion, we draw attention to the information provided and statements made in section "Key events" of the notes to the consolidated financial statements and in section "The Emissions Issue" of the combined management report with regard to the emission issue, the underlying causes, the involvement of members of the board of management as well as the impact on these financial statements.

Based on the presented first results of the various measures taken to investigate the issue, which underlie these financial statements, there is no validation that members of the board of management were aware of the deliberate manipulation of engine management software before summer 2015. Nevertheless, should as a result of the ongoing investigation new knowledge be obtained showing that members of the board of management were informed earlier, this could eventually have an impact on the annual and consolidated financial statements and on the combined management report for the fiscal year 2015 and the comparative figures for 2014.

The provisions for warranties and legal risks recorded in the financial year 2015 totalling €14.8 billion are based on the presented state of knowledge. Due to the large number of the technical solutions necessary and the inevitable uncertainties associated with the current and expected litigation it cannot be excluded that a future assessment of the risks may be different.

Hanover, April 22, 2016

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Norbert Winkeljohann
Wirtschaftsprüfer
(German Public Auditor)

Frank Hübner
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