Income statement disclosures

1. Sales revenue

STRUCTURE OF GROUP SALES REVENUE

€ million	2016	2015
Vehicles*	137,293	138,903
Genuine parts	15,220	14,625
Used vehicles and third-party products*	13,324	12,193
Engines, powertrains and parts deliveries	9,770	8,763
Power Engineering	3,590	3,769
Motorcycles	589	564
Leasing business	22,306	20,085
Interest and similar income	6,695	6,755
Other sales revenue	8,481	7,635
	217,267	**213,292**

* Prior-year figures adjusted.

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

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

Sales revenue from construction contracts amounted to €1,069 million (previous year: €1,206 million) and mainly related to the Power Engineering segment.

To ensure that sales revenue from company vehicles is presented consistently, sales revenue from vehicles was reclassified to sales revenue from used vehicles and third-party products. Prior-year figures have been adjusted accordingly.

2. Cost of sales

Cost of sales includes interest expenses of €1,930 million (previous year: €1,868 million) attributable to the financial services business. This item also includes impairment losses on intangible assets (primarily development costs), property, plant and equipment (primarily other equipment, operating and office equipment), and lease assets in the amount of €1,369 million (previous year: €1,391 million). The impairment losses amounting to a total of €883 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 €486 million (including €31 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 €435 million in the fiscal year (previous year: €409 million) and were generally allocated to the functions.

3. Distribution expenses

Distribution expenses amounting to €22,700 million (previous year: €23,515 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

The administrative expenses of €7,336 million (previous year: €7,197 million) mainly include nonstaff overheads and personnel costs, as well as depreciation and amortization applicable to the administrative function.

5. Other operating income

€ million	2016	2015
Income from reversal of valuation allowances on receivables and other assets	847	737
Income from reversal of provisions and accruals	3,738	2,871
Income from foreign currency hedging derivatives	1,739	1,560
Income from foreign exchange gains	2,842	3,859
Income from sale of promotional material	440	427
Income from cost allocations	1,222	1,308
Income from investment property	14	10
Gains on asset disposals and the reversal of impairment losses	363	188
Miscellaneous other operating income	1,843	1,945
	13,049	**12,905**

The increase in income from the reversal of provisions and accrued liabilities mainly results from unutilized provisions for legal risks and sales-related measures in connection with the diesel issue. 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	2016	2015
Valuation allowances on receivables and other assets	1,787	1,674
Losses from foreign currency hedging derivatives	2,964	5,083
Foreign exchange losses	3,077	3,260
Expenses from cost allocations	542	695
Expenses for termination agreements	424	502
Losses on disposal of noncurrent assets	144	106
Miscellaneous other operating expenses	7,970	8,853
	16,907	**20,171**

Miscellaneous other operating expenses include litigation expenses of €5.1 billion (previous year: €7.0 billion) in connection with the diesel issue as well as provisions of €0.4 billion for the antitrust proceedings that the European Commission opened against European truck manufacturers including MAN and Scania. 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	2016	2015
Share of profits of equity-accounted investments	3,563	4,417
of which: from joint ventures	(3,534)	(4,389)
of which: from associates	(29)	(28)
Share of losses of equity-accounted investments	66	30
of which: from joint ventures	–	(19)
of which: from associates	(66)	(11)
	3,497	**4,387**

8. Finance costs

€ million	2016	2015
Other interest and similar expenses	1,330	1,272
Interest cost included in lease payments	29	22
Interest expenses	**1,359**	**1,294**
Realized expenses of loan receivables and payables in foreign currency	**810**	**333**
Net interest on the net defined benefit liability	731	690
Interest cost on other liabilities	347	77
Interest cost on liabilities	**1,078**	**767**
Finance costs	**3,247**	**2,393**

The recognized foreign currency expenses presented in the “Other interest and similar expenses” item in previous years are presented separately in fiscal year 2016. The prior-year amounts have been reclassified accordingly.

9. Other financial result

€ million	2016	2015
Income from profit and loss transfer agreements	33	29
Cost of loss absorption	24	18
Other income from equity investments	110	1,594
Other expenses from equity investments	155	181
Income from marketable securities and loans*	–35	148
Realized income of loan receivables and payables in foreign currency	882	198
Other interest and similar income	642	780
Gains and losses from remeasurement and impairment of financial instruments	–303	–1,173
Gains and losses from fair value changes of derivatives not included in hedge accounting	–1,148	–637
Gains and losses from fair value changes of derivatives included in hedge accounting	–63	34
Other financial result	**–61**	**773**

* Including disposal gains/losses.

The recognized foreign currency income presented in the “Other interest and similar income” item in previous years is presented separately in fiscal year 2016. The prior-year amounts have been reclassified accordingly.

The decrease in other income from equity investments is primarily due to the sale of the equity interest in Suzuki in the previous year. 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, in the previous year, negative 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	2016	2015
Current tax expense, Germany	885	812
Current tax expense, abroad	2,388	2,047
Current income tax expense	**3,273**	**2,859**
of which prior-period income (–)/expense (+)	(188)	(142)
Deferred tax income (–)/expense (+), Germany	–736	–2,075
Deferred tax income (–)/expense (+), abroad	–625	–725
Deferred tax income (–)/expense (+)	**–1,361**	**–2,800**
Income tax income/expense	**1,912**	**59**

The statutory corporation tax rate in Germany for the 2016 assessment period was 15%. Including trade tax and the solidarity surcharge, this resulted in an aggregate tax rate of 29.9% (previous year: 29.8%).

A tax rate of 29.9% (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 2016 of €146 million (previous year: €302 million).

Previously unused tax loss carryforwards amounted to €17,686 million (previous year: €18,407 million). Tax loss carryforwards amounting to €11,494 million (previous year: €12,663 million) can be used indefinitely, while €4,237 million (previous year: €4,120 million) must be used within the next ten years. There are additional tax loss carryforwards amounting to €1,956 million (previous year: €1,624 million) that can be used within a period of 15 or 20 years. Tax loss carryforwards of €6,380 million (previous year: €10,478 million) were estimated not to be usable overall. Of these, €276 million (previous year: €398 million) will expire within five years, €2,341 million (previous year: €3,169 million) within 6 to 20 years and €38 million (previous year: €131 million) after more than 20 years. Tax loss carryforwards of €3,725 million (previous year: €6,779 million) that are estimated not to be usable will not expire.

The benefit arising from previously unrecognized tax losses or tax credits of a prior period that is used to reduce current tax expense in the current fiscal year amounts to €135 million (previous year: €50 million). Deferred tax expense was reduced by €211 million (previous year: €110 million) because of a benefit arising from previously unrecognized tax losses and tax credits of a prior period. Deferred tax expense resulting from the write-down of a deferred tax asset amounts to €297 million (previous year: €68 million). Deferred tax income resulting from the reversal of a write-down of deferred tax assets amounts to €304 million (previous year: €212 million).

Tax credits granted by various countries amounted to €756 million (previous year: €800 million).

No deferred tax assets were recognized for deductible temporary differences of €1,533 million (previous year: €1,643 million) and for tax credits of €353 million (previous year: €439 million) that would expire in the next 20 years, or for tax credits of €65 million (previous year: €14 million) that will not expire.

In accordance with IAS 12.39, deferred tax liabilities of €326 million (previous year: €193 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 €134 million (previous year: €259 million) at the balance sheet date.

Deferred tax expense resulting from changes in tax rates amounted to €120 million at Group level (previous year: €2 million income).

Deferred taxes in respect of temporary differences and tax loss carryforwards of €9,890 million (previous year: €8,466 million) were recognized without being offset by deferred tax liabilities in the same amount. The deferred tax assets of companies within the German tax group were recognized due to positive results in the past and are included in this analysis. The companies concerned are expecting positive tax income in the future, following losses in the reporting period or the previous year.

€5,486 million (previous year: €5,320 million) of the deferred taxes recognized in the balance sheet was credited to equity and relates to other comprehensive income. €3 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 prior-year period. Changes in deferred taxes classified by balance sheet item are presented in the statement of comprehensive income.

In the previous year, tax effects of €11 million resulting from equity transaction costs were recognized in equity.

DEFERRED TAXES CLASSIFIED BY BALANCE SHEET ITEM

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

	DEFERRED TAX ASSETS		DEFERRED TAX LIABILITIES	
€ million	**Dec. 31, 2016**	Dec. 31, 2015	**Dec. 31, 2016**	Dec. 31, 2015
Intangible assets	302	306	9,884	9,570
Property, plant and equipment, and lease assets	4,387	3,946	8,315	7,152
Noncurrent financial assets	26	24	24	23
Inventories	2,223	1,882	792	744
Receivables and other assets (including Financial Services Division)	2,107	1,577	7,273	7,188
Other current assets	2,768	3,029	92	148
Pension provisions	6,776	5,121	22	31
Liabilities and other provisions	10,746	11,532	2,750	2,241
Valuation allowances on deferred tax assets from temporary differences	–368	–330	–	–
Temporary differences, net of valuation allowances	28,967	27,087	29,152	27,097
Tax loss carryforwards, net of valuation allowances	3,365	2,455	–	–
Tax credits, net of valuation allowances	337	347	–	–
Value before consolidation and offset	**32,670**	**29,889**	**29,152**	**27,097**
of which noncurrent	(21,736)	(19,050)	(23,681)	(22,062)
Offset	25,198	24,110	25,198	24,110
Consolidation	2,284	2,248	791	1,446
Amount recognized	**9,756**	**8,026**	**4,745**	**4,433**

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 2016 of €1,912 million (previous year: €59 million) was €268 million lower (previous year: €447 million higher) than the expected tax expense of €2,180 million that would have resulted from application of a tax rate for the Group of 29.9% (previous year: 29.8%) to the earnings before tax of the Group.

RECONCILIATION OF EXPECTED TO EFFECTIVE INCOME TAX

€ million	2016	2015
Earnings before tax	7,292	–1,301
Expected income tax income (–) / expense (+) (tax rate 29.9%; previous year: 29.8%)	**2,180**	**–388**
Reconciliation:		
Effect of different tax rates outside Germany	–446	–386
Proportion of taxation relating to:		
tax-exempt income	–1,226	–1,976
expenses not deductible for tax purposes	409	2,155
effects of loss carryforwards and tax credits	35	155
permanent differences	12	43
Tax credits	–137	–84
Prior-period tax expense	234	46
Effect of tax rate changes	139	–2
Nondeductible withholding tax	437	439
Other taxation changes	275	57
Effective income tax expense	**1,912**	**59**

11. Earnings per share

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

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, the Volkswagen Finance N.V. Amsterdam (issuer). These notes matured on November 9, 2015. The terms and conditions of the notes provided for early conversion options and the exercise of such options in the prior-year period resulted in the creation of 27,091 new preferred shares. 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. On the maturity date (November 9, 2015), the outstanding volume of the two notes was converted by the issuer as required under the terms and conditions, resulting in the creation of 25,536,876 new preferred shares.

Quantity	ORDINARY 2016	ORDINARY 2015	PREFERRED 2016	PREFERRED 2015
Weighted average number of shares outstanding – basic	295,089,818	295,089,818	206,205,445	206,205,445
Weighted average number of shares outstanding – diluted	295,089,818	295,089,818	206,205,445	206,205,445

€ million	2016	2015
Earnings after tax	5,379	–1,361
Noncontrolling interests	10	10
Earnings attributable to Volkswagen AG hybrid capital investors	225	212
Earnings attributable to Volkswagen AG shareholders	5,144	–1,582
Basic earnings attributable to ordinary shares	3,021	–945
Diluted earnings attributable to ordinary shares	3,021	–945
Basic earnings attributable to preferred shares	2,123	–637
Diluted earnings attributable to preferred shares	2,123	–637

€	2016	2015
Basic earnings per ordinary share	10.24	–3.20
Diluted earnings per ordinary share	10.24	–3.20
Basic earnings per preferred share	10.30	–3.09
Diluted earnings per preferred share	10.30	–3.09

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

Capitalized borrowing costs amounted to €83 million (previous year: €78 million) and related mainly to capitalized development costs. An average cost of debt of 1.5% (previous year: 1.8%) 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	2016	2015
Financial instruments at fair value through profit or loss	–1,203	–700
Loans and receivables	4,109	5,317
Available-for-sale financial assets	–39	1,554
Financial liabilities measured at amortized cost	–3,480	–4,514
	–613	**1,657**

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

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

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

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

€ million	2016	2015
Interest income	5,401	5,540
Interest expenses	3,534	3,802
	1,867	**1,738**

IMPAIRMENT LOSSES ON FINANCIAL ASSETS BY CLASS

€ million	2016	2015
Measured at fair value	18	4
Measured at amortized cost	1,707	1,552
	1,725	**1,557**

Impairment losses relate to write-downs of financial assets, such as valuation allowances on receivables and marketable securities. Interest income on impaired financial assets amounted to €48 million in the fiscal year (previous year: €50 million).

In fiscal year 2016, €3 million (previous year: €3 million) was recognized as an expense and €67 million (previous year: €52 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.