Notes to the consolidated income statement

[8] REVENUE

The revenue generated by the KION Group in the year under review broken down by product category is as follows: > TABLE 047

Revenue by product category TABLE 047

in € million	2015	2014
New business	2,779.9	2,533.0
Service business	2,318.0	2,144.9
– Aftersales	1,347.0	1,250.4
– Rental business	524.1	486.9
– Used trucks	270.4	264.9
– Other	176.4	142.7
Total revenue	**5,097.9**	**4,677.9**

The 'Other' line item includes revenue from construction contracts amounting to €33.0 million (2014: €0.0 million).

Further information on revenue can be found in the segment report in note [41].

[9] OTHER INCOME

The breakdown of other income is as follows: > TABLE 048

Other income TABLE 048

in € million	2015	2014
Foreign currency exchange rate gains	25.2	16.2
Income from reversal of provisions	5.3	11.4
Profit from release of deferred lease profits	9.9	9.9
Gains on disposal of non-current assets	4.0	4.6
Rental income	1.3	2.9
Sundry income	53.8	48.2
Total other income	**99.6**	**93.2**

The change in foreign currency exchange rate gains and losses is attributable to exchange rate movements and includes gains and losses on hedging transactions (see also note [10]).

The sundry income that was reported predominantly included earnings from commission collected of €20.6 million (2014: €19.0 million), which are not reported under revenue. Sundry income also included income from non-consolidated subsidiaries and other equity investments totalling €9.7 million (2014: €1.4 million).

[10] OTHER EXPENSES

The breakdown of other expenses is as follows: > TABLE 049

Other expenses TABLE 049

in € million	2015	2014
Foreign currency exchange rate losses	37.2	13.7
Losses on disposal of non-current assets	1.7	10.8
Impairment of non-current assets	4.1	–
Sundry expenses	23.6	17.6
Total other expenses	**66.6**	**42.1**

The foreign currency exchange rate gains and losses include losses amounting to €1.2 million (2014: gains of €8.5 million) on derivative financial instruments used to hedge operating currency risk.

The impairment recognised on non-current assets in the reporting year of €4.1 million (2014: €0.0 million) comprised impairment losses on capitalised development costs (see also note [17]).

[11] SHARE OF PROFIT (LOSS) OF EQUITY-ACCOUNTED INVESTMENTS

The share of profit (loss) of equity-accounted investments in the reporting year amounted to a profit of €10.6 million (2014: loss of €24.8 million). In the prior year, the main influences on the share of profit (loss) of equity-accounted investments were a downturn in business and the resultant impairment loss that had to be recognised on the equity investment in Linde Hydraulics GmbH & Co. KG, Aschaffenburg (referred to below as Linde Hydraulics). The total non-cash impairment loss recognised in 2014 was €13.5 million.

Further details on equity-accounted investments can be found in note [21].

[12] FINANCIAL INCOME

Financial income breaks down as follows: > TABLE 050

The interest income from leases relates to the interest portion of lease payments in financial services transactions in which KION Group entities operate as lessors (finance leases).

The change in foreign currency exchange rate gains and losses (financing) is attributable to exchange rate movements and includes gains and losses on hedging transactions (see also note [13]).

The line item 'Net interest income from defined benefit plans' relates to the net interest income on the net assets of two pension plans in the United Kingdom in which plan assets exceed pension obligations.

On 20 July 2015, the KION Group exercised the put option that it held via Linde Material Handling GmbH, Aschaffenburg, on 20.0 per cent of the shares in Linde Hydraulics. This eliminated the corresponding call option 1 held by Weichai Power. Measurement of these two options up to the exercise date in July 2015 and measurement of the remaining call option 2 in 2015 resulted in total income of €2.4 million, which was recognised under other interest and similar income. In the previous year, the income arising from measurement of the options was €43.2 million. The impairment loss relating to the stake held in Linde Hydraulics was included in the share of profit (loss) of equity-accounted investments in 2014 (see also note [11]).

Financial income TABLE 050

in € million	2015	2014
Interest income from leases	34.8	29.6
Foreign currency exchange rate gains (financing)	5.8	4.3
Net interest income from defined benefit plans	0.9	1.1
Other interest and similar income	10.0	49.5
Total financial income	**51.4**	**84.4**

[13] FINANCIAL EXPENSES

Financial expenses break down as follows: > TABLE 051

Financial expense TABLE 051

in € million	2015	2014
Interest expense from loans	10.2	12.5
Interest expense from corporate bond	30.4	40.5
Interest cost of leases	49.9	48.1
Net interest expense from defined benefit plans	17.1	20.4
Amortisation of finance costs	1.3	10.3
Foreign currency exchange rate losses (financing)	7.0	3.5
Interest cost of non-current financial liabilities	0.7	1.8
Other interest expenses and similar charges	27.3	36.2
Total financial expense	**144.0**	**173.2**

In 2015, financial expenses decreased by a substantial €29.2 million year on year. This reduction was largely due to early repayment in 2014 of the fixed-rate tranche of the corporate bond issued in 2011, which was due to mature in 2018 and had a volume of €325.0 million, and the floating-rate tranche of the corporate bond issued in 2013, which was due to mature in 2020 and had a volume of €200.0 million. Early redemption of the two bond tranches caused interest expenses arising from capital market liabilities to reduce by €10.1 million year on year. In 2014, financial expenses had also included one-off expenses of €8.4 million in connection with the amortisation of borrowing costs and a payment of €14.8 million representing early repayment charges, which were reported in other interest expense and similar charges.

The interest cost of leases relates to the interest portion of lease payments in financial services transactions in which the material risks and rewards are borne by KION Group entities as lessees (finance leases). Sale and finance leaseback operating sub-leases (SALB-FL-OL) incurred interest expenses of €27.8 million (2014: €27.2 million). The income from corresponding customer agreements is, according to IAS 17, a component of the rental and lease payments received and is therefore reported within revenue rather than as interest income.

Net interest expense from defined benefit plans relates to the net interest cost of the net liability of pension plans applying the discount rate for plans in which pension obligations exceed plan assets.

The foreign currency exchange rate gains and losses (financing) include losses amounting to €0.3 million (2014: gains of €0.3 million) on derivative financial instruments used to hedge financial currency risk.

[14] INCOME TAXES

The income tax expense of €109.2 million (2014: expense of €80.0 million) consisted of €132.5 million in current tax expense (2014: €63.5 million) and €23.3 million in deferred tax income (2014: deferred tax expense of €16.5 million). The current tax expense included expenses of €24.9 million (2014: expenses of €6.9 million) relating to previous financial years.

At the reporting date there were income tax assets of €7.9 million receivable from tax authorities (2014: €6.6 million) and income tax liabilities of €79.8 million (2014: €31.3 million).

Deferred taxes are recognised for temporary differences between the tax base and IFRS carrying amounts. Deferred taxes are determined on the basis of the tax rates that will apply or have been announced at the realisation date in accordance with the current legal situation in each country concerned. The current corporate income tax rate in Germany is 15.0 per cent plus the solidarity surcharge (5.5 per cent of corporate income tax). Taking into account the average trade tax rate of 14.93 per cent (2014: 14.63 per cent), the combined nominal tax rate for entities in Germany was 30.75 per cent (2014: 30.5 per cent). The income tax rates for foreign companies used in the calculation of deferred taxes are between 10.0 per cent and 37.48 per cent (2014: between 10.0 per cent and 35.0 per cent).

No deferred taxes have been recognised on temporary differences of €164.2 million (2014: €88.8 million) between the net assets reported in the consolidated financial statements for the Group companies and the tax base for the shares in these Group companies (outside basis differences) because the KION Group is in a position to manage the timing of the reversal of temporary differences and there are no plans to dispose of investments in the foreseeable future.

Deferred tax assets are allocated to the following items in the statement of financial position: > TABLE 052

Deferred tax assets TABLE 052

in € million	2015	2014
Intangible assets and property, plant and equipment	97.6	136.0
Financial assets	–	0.1
Current assets	41.2	40.5
Deferred charges and prepaid expenses	0.3	0.5
Provisions	163.3	178.1
Liabilities	324.9	295.1
Deferred income	36.2	46.2
Tax loss carryforwards and interest carryforwards	73.7	62.1
Offsetting	–388.3	–400.6
Total deferred tax assets	**349.0**	**357.9**

Deferred tax liabilities are allocated to the following items in the statement of financial position: > TABLE 053

Deferred tax liabilities TABLE 053

in € million	2015	2014
Intangible assets and property, plant and equipment	442.6	483.7
Financial assets	3.5	5.0
Current assets	201.3	196.2
Deferred charges and prepaid expenses	1.0	2.1
Provisions	8.7	23.5
Liabilities	31.5	10.6
Deferred income	2.3	0.5
Offsetting	–388.3	–400.6
Total deferred tax liabilities	**302.7**	**320.9**

The deferred tax liabilities essentially relate to the purchase price allocation in the acquisition of the KION Group, particularly for intangible assets and property, plant and equipment.

In 2015, deferred taxes of minus €5.3 million were recognised in other comprehensive income (loss), resulting in a decrease in equity (2014: €62.5 million, resulting in an increase in equity). Of this amount, deferred taxes of minus €4.5 million (2014: €60.6 million) arose from the remeasurement of the defined benefit obligation. Furthermore, deferred taxes of minus €0.8 million (2014: €1.9 million) were recognised in connection with realised and unrealised changes in the fair value of derivatives in cash flow hedges (minus €2.2 million; 2014: €1.9 million) and net investment hedges (€1.4 million; 2014: €0.0 million). The purchase price allocation for Egemin Automation and the currency effects included in the currency translation adjustment resulted in a total change in deferred taxes of €8.6 million, which was recognised in other comprehensive income (loss).

In 2014, deferred taxes of €1.0 million had been reclassified from accumulated other comprehensive income (loss) to retained earnings in connection with the deconsolidation of Linde Heavy Truck Division Ltd.

In 2015, the parent company and subsidiaries that reported losses for 2015 or 2014 recognised net deferred tax assets from temporary differences and loss carryforwards totalling €85.4 million (2014: €51.6 million). These assets were considered to be unimpaired because these companies are expected to generate taxable income in future.

No deferred tax assets have been recognised on tax loss carryforwards of €115.8 million (2014: €162.0 million), on interest carryforwards of €215.8 million (2014: €262.1 million) or on other temporary differences of €0.0 million (2014: €1.2 million).

Deferred taxes are recognised on tax loss carryforwards and interest carryforwards to the extent that sufficient future taxable income is expected to be generated against which the losses can be utilised. The total amount of unrecognised deferred tax assets relating to loss carryforwards was therefore €29.3 million (2014: €34.2 million), of which €27.1 million (2014: €32.3 million) concerns tax losses that can be carried forward indefinitely.

The KION Group's corporation-tax loss carryforwards in Germany as at 31 December 2015 amounted to €156.5 million (31 December 2014: €108.2 million), while trade-tax loss carryforwards stood at €142.1 million (31 December 2014: €59.9 million). There were also foreign tax loss carryforwards totalling €142.2 million (31 December 2014: €214.4 million).

The interest that can be carried forward indefinitely in Germany as at 31 December 2015 amounted to €296.7 million (31 December 2014: €332.5 million).

The table below shows the reconciliation of expected income tax expense to effective income tax expense. The Group reconciliation is an aggregation of the individual company-specific reconciliations prepared in accordance with relevant local tax rates, taking into account consolidation effects recognised in income. The expected tax rate applied in the reconciliation is 30.75 per cent (2014: 30.5 per cent). > TABLE 054

Income taxes TABLE 054

in € million	2015	2014
Earnings before taxes	**330.2**	**258.3**
Anticipated income taxes	–101.5	–78.7
Deviations due to the trade tax base	–3.9	–5.3
Deviations from the anticipated tax rate	11.9	8.2
Losses for which deferred taxes have not been recognised	–9.5	–5.6
Change in tax rates and tax legislation	–7.2	–1.0
Non-deductible expenses	–1.9	–5.9
Tax-exempt income	2.3	2.6
Taxes relating to other periods	–24.9	–6.9
Deferred taxes relating to prior periods	28.5	7.5
Other	–3.0	5.0
Effective income taxes (current and deferred taxes)	**–109.2**	**–80.0**

[15] OTHER INCOME STATEMENT DISCLOSURES

The cost of materials rose by €189.5 million in the reporting year to €2,410.2 million (2014: €2,220.7 million).

Personnel expenses went up by €119.8 million to €1,351.7 million in 2015 (2014: €1,231.9 million). These personnel expenses included wages and salaries of €1,058.1 million (2014: €966.4 million), social security contributions of €237.8 million (2014: €215.7 million) and expenses for pensions of €55.9 million (2014: €49.7 million). The interest cost from the unwinding of the discount on estimated pension obligations is not recognised under personnel expenses and is instead reported under financial expenses as a component of interest cost of the defined benefit obligation. Pension expenses essentially comprised the pension entitlements of €34.7 million vested in 2015 (2014: €23.4 million) and unrecognised past service income of €4.3 million (2014: unrecognised past service cost of €2.6 million) arising from plan amendments and curtailments.

Impairment losses and depreciation expenses on property, plant and equipment together with impairment losses and amortisation expenses on intangible assets amounted to €401.4 million in the reporting year (2014: €367.2 million). Inventories were written down by €12.5 million (2014: €9.1 million).

The breakdown of rental and lease payments expensed in the period and arising in connection with operating leases in which KION Group entities are lessees is as follows: > TABLE 055

Lessee: Expenses recognised for operating lease payments TABLE 055

in € million	2015	2014
Procurement lease contracts	82.6	81.0
Sublease contracts	39.2	16.2
Total recognised expenses for lease payments	**121.8**	**97.1**

The expenses in connection with sub-leases relate to leases and rental agreements in which KION Group entities are both lessors and lessees. These expenses were offset by income of €46.2 million in 2015 (2014: €37.6 million).

[16] EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net income (loss) accruing to the KION GROUP AG shareholders by the weighted average number of shares outstanding during the reporting period (2015: 98,721,950 no-par-value shares; 2014: 98,692,041 no-par-value shares). The net income accruing to the shareholders of KION GROUP AG was €217.1 million (2014: €176.7 million); it is reported in the consolidated income statement. Basic earnings per share for the reporting period came to €2.20 (2014: €1.79). The 160,050 no-par-value treasury shares repurchased by KION GROUP AG were not included in this figure as at 31 December 2015 (31 December 2014: 163,562).

Diluted earnings per share are calculated by adding the potential dilutive no-par-value shares that employees can obtain for free under the employee share option programme to the weighted average number of shares outstanding during the reporting period. The calculation of diluted earnings per share was based on a weighted average of 98,740,662 no-par-value shares issued (2014: 98,693,221 no-par-value shares). Diluted earnings per share for the reporting period came to €2.20 (2014: €1.79).