Financial report June 2018

Volkswagen Financial Services N.V.

Amsterdam

Management report

Volkswagen Financial Services N.V. ('FSNV' or 'the company'), founded in 1983, is one of the funding vehicles of Volkswagen Financial Services AG, Brunswick (FSAG) and its subsidiaries. FSNV raises funds from the capital markets by issuing notes and lends the proceeds on to Group and Joint Venture companies.

Basis for the issuing activities are the € 25 billion Debt Issuance Programme that adheres to the European Prospectus Directive and a € 5 billion Multi Currency Commercial Paper Programme. All issues are guaranteed by the parent company FSAG. As per 30.6.2018 according to Moody`s, FSAG`s rating is set to P-2 (short term) and A3 (long term) with a stable outlook. Standard & Poor`s assessed FSAG`s creditworthiness as A-2 (short term) and BBB+ (long term) with a stable outlook.

Besides these programmes FSNV can utilize several uncommitted revolving credit facilities with international banks. This grants more flexibility in providing the Volkswagen group with small volumes and/or frequent tranches of funds if required.

In the first six months of 2018 the company placed under the DIP programme 3 issues with a total € equivalent of 441 million. Under the CP Programme the company placed 27 issues with a total € equivalent of € 640 million. The proceeds of these issues have been granted to the Volkswagen Financial Services Group companies.

The company redeemed DIP issues with a total € equivalent of 114 million and CP issues with a total € equivalent of 780 million.

The financing activities are carried out in different currencies and interest terms. To avoid currency and interest risks, the company concludes interest- and currency swaps. The main business risks of FSNV are interest rate risk, currency risk, liquidity risk and credit risk. The Supervisory Board has set limits to restrict those risks. FSNV uses adequate tools to assess and to monitor them.

European Union regulations transformed into Dutch Law require the presentation of half year balance sheet figures in comparison to year-end figures of the previous year. Income statement figures compare the half year result with the corresponding half year result of the previous year

Interest income in the first half of 2018 was € 5.3 million compared to € 6.2 million in the first half of 2017. Result after taxes added up to € 3.4 million in the first six months of 2018 (2017: € 4.0 million)

For the whole year 2018 we expect a continuation of the first six months' level with regard to FSNV´s business volume. Interest income and result after taxes are expected to be lower than the 2017 figures.

In September 2015, the California Air Resources Board (CARB) and the US Environmental Protection Agency (EPA) publicly announced that irregularities in relation to nitrogen oxide emissions had been discovered in emissions tests on certain vehicles with Volkswagen Group diesel engines, resulting in violations of US environmental laws. On 22nd September 2015, the Volkswagen Group announced that around 11 million vehicles worldwide with type EA189 diesel engines were affected.

Depending on the different emissions regulations in the various countries, Volkswagen will rectify the diesel engine software, apply technical measures, compensate owners for reduced residual values or buy-back affected cars.

The majority of FSNV's borrowers have either financed cars with affected diesel engines or have them in their lease car inventory. However, investors and the financial markets assess the risks FSNV is exposed to on the background of the guarantee by FSAG, since investors have full recourse to FSAG. FSNV management has also assessed the impact of the "diesel emission issue" on the borrowers of FSNV by analysing in detail the financial situation of the borrowers as well as budget forecasts and concluded that FSNV is not exposed to higher credit risk.

The Management Board declares that to the best of their knowledge:

1. the financial statements for the first half year of 2018 give a true and fair view of the assets, the liabilities, the financial position and the results of the company; and
2. the management report gives a true and fair view of the company's situation as at the balance sheet date, the events that occurred during the first half year and the risks to which the company is exposed.

Amsterdam, 23 July 2018

Original has been signed by

Thomas Fries, Managing Director Bernd Bode, Managing Director

Balance sheet as at 30 June 2018

(unaudited)

	30 June 2018		31 December 2017	
	EUR'000	EUR'000	EUR'000	EUR'000
Assets				
Fixed assets				
Financial fixed assets:				
Shares in participations	1		1	
Loans to Volkswagen group Companies	3,233,139		3,083,066	
Loans to joint ventures of the Volkswagen group	210,633		152,570	
Total fixed assets		3,443,773		3,235,637
Current assets				
Receivables due from Volkswagen group companies	1,692,447		2,338,480	
Receivables due from joint ventures of the Volkswagen group	710,158		895,000	
Loans to external parties	500		500	
Other assets	26,538		43,679	
Prepaid and deferred charges	8,595		7,649	
Total current assets		2,438,238		3,285,308
Cash at banks and in hand		6,239		4,319
Total assets		5,888,250		6,525,264

(unaudited)

	30 June 2018		31 December 2017	
	EUR'000	EUR'000	EUR'000	EUR'000
Shareholder's equity and liabilities				
Shareholder's equity				
Share capital	454		454	
Share premium reserve	1,115,000		1,115,000	
Retained earnings	128,834		128,834	
Current earnings	3,376			
Total shareholder's equity		1,247,664		1,244,288
Long-term liabilities				
Bonds	3,022,791		2,814,998	
Liabilities to Volkswagen group companies	96,066		254,310	
Total long-term liabilities		3,118,857		3,069,308
Current liabilities				
Bonds	622,741		490,706	
Commercial papers	586,375		726,045	
Liabilities to Volkswagen group companies	255,242		905,126	
Other liabilities	28,200		48,251	
Deferred income	29,171		41,540	
Total current liabilities		1,521,729		2,211,668
Total shareholder's equity and liabilities		5,888,250		6,525,264

Income statement 30 June 2018

(unaudited)

	30 June 2018		30 June 2017	
	EUR'000	EUR'000	EUR'000	EUR'000
Income				
Interest and similar income	71,748		69,019	
Interest and similar expenses	(66,432)		(62,810)	
Other operating income	-		1	
Total income		5,316		6,210
Expenses				
Other operating expenses	(16)		(20)	
General and administrative expenses	(824)		(880)	
Total expenses		(840)		(900)
Result before taxation		4,476		5,310
Taxation		(1,100)		(1,290)
Result after taxation		3,376		4,020