

**Financial report 2014**

**Volkswagen International Finance N.V.**

**Amsterdam**

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## Management report

Volkswagen International Finance N.V. ('VIF') is one of the funding vehicles of Volkswagen AG ('VWAG') and its subsidiaries. VIF raises funds from the capital markets by issuing notes and lends the proceeds on to Volkswagen Group and joint venture companies. Basis for the issuing activities are the regularly updated Debt Issuance Programme (DIP) of EUR 30 billion, that adheres to the European Prospective Directive Standards, as well as the EUR 10 billion Multicurrency Commercial Paper Programme (CP Programme). All issues are guaranteed by VWAG. Therefore, the VIF rating by Moody's and Standard & Poor's is derived from the VWAG rating. According to Moody's, VWAG's rating is set to P-2 (short-term) and A3 (long-term) with a positive outlook. Standard & Poor's assessed VWAG's creditworthiness as A-1 (short-term) and A (long-term) with a stable outlook.

Major transactions included in 2014 the issuance of a Chinese Renminbi 1.2 billion bond in January. In March, EUR 3.0 billion of undated subordinated notes were issued, consisting of EUR 1.25 billion notes with a first call date in 2021 and EUR 1.75 billion with a first call date in 2026.

Throughout 2014, VIF raised a total of EUR 2.4 billion (2013: EUR 5.8 billion) issuing under the above-mentioned DIP, and EUR 163 million under the mentioned CP Programme. The proceeds of all issues were granted to Volkswagen Group companies.

VIF also redeemed multiple DIP issues with a EUR equivalent of 5.1 billion (2013: EUR 3.0 billion) and CP issues with a total EUR equivalent of 0.6 billion (2013: EUR 1.86 billion). The financing activities are carried out in different currencies and interest terms. To avoid currency and interest risks, VIF concludes interest and currency swaps.

The main business risks of VIF are the interest rate risk, currency risk, liquidity risk and credit risk. The Supervisory Board has set limits to restrict those risks. VIF uses adequate tools to assess and to monitor them. In 2014 the limits were not exceeded. Further information on the risk management of the company is included in note 4 to the financial statements.

VIF realised earnings of EUR 422.9 million after tax in 2014 against EUR 913.0 million in 2013. The company generates income mainly from the holding and the Group financing business. Result from participations adds up to EUR 404 million compared to EUR 892 million in 2013. Interest income from Group financing activities amounts to EUR 28.4 million (2013: EUR 29.0 million). This is mainly due to reduced margins and the cash pooling with the Global Treasury Platform managed by Volkswagen Group Services S.A. on a short-term basis.

Volkswagen AG, VIF's ultimate parent, reorganised its holding structure in 2014 by transferring VIF and the majority of its subsidiaries to Volkswagen Finance Luxemburg S.A. ("VFL"), so that VIF ceased to be a holding company except for minority interests in a limited number of former subsidiaries. Following the reorganisation, VIF and its former subsidiaries are direct subsidiaries of VFL, which is a wholly-owned direct subsidiary of Volkswagen AG.

One third of the Supervisory Board of the company is female. Currently, there are no female director's in the Management Board of the company. The company will investigate how to deal with this in the future.

The Management Board declares to the best of their knowledge:

1. the financial statements for 2014 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 2014 and the risks to which the company is exposed.

Amsterdam, 11 March 2015

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Original has been signed by  
T. Fries, Managing Director

.....  
Original has been signed by  
V. Delva, Managing Director

## **Financial statements**

## Balance sheet as at 31 December 2014

(after proposed profit appropriation)

	Ref.	31 December 2014		31 December 2013	
		EUR'000	EUR'000	EUR'000	EUR'000
<i>Assets</i>					
<b>Fixed assets</b>					
Tangible fixed assets	5	291		53	
Intangible fixed assets	5	8		10	
Shares in participations	6	154,096		3,932,150	
Loans to Volkswagen Group companies	7	20,599,012		25,826,757	
<b>Total fixed assets</b>			20,753,407		29,758,970
<b>Current assets</b>					
Receivables due from Volkswagen Group companies	7	11,553,857		5,915,441	
Receivables due from joint ventures of the Volkswagen Group	7	8,655		11,670	
Other assets	8	37,925		40,524	
Prepayments and accrued expenses	9	139,770		153,508	
Cash at banks and in hand	10	212,039		349,421	
<b>Total current assets</b>			11,952,246		6,470,564
<b>Total assets</b>			32,705,653		36,229,534

The accompanying notes are an integral part of these financial statements.

	Ref.	31 December 2014		31 December 2013	
		EUR'000	EUR'000	EUR'000	EUR'000
<i>Shareholders' equity and liabilities</i>					
<b>Shareholders' equity</b>	11				
Issued and paid-up share capital		103,035		103,035	
Share premium reserve		9,920		120	
Retained earnings		592,955		4,703,950	
<b>Total shareholders' equity</b>			705,910		4,807,105
<b>Long-term liabilities</b>	12				
Bonds		20,585,600		25,444,082	
Liabilities to Volkswagen Group companies		-		35,000	
<b>Total long-term liabilities</b>			20,585,600		25,479,082
<b>Current liabilities</b>	13				
Bonds		10,704,607		4,882,720	
Commercial papers		-		449,500	
Liabilities to Volkswagen Group companies		44,356		15,399	
Other liabilities		592,980		493,901	
Deferred income	14	45,876		82,660	
Current income tax		785		1,505	
Trade payables		168		52	
Accrued liabilities	14	25,371		17,610	
<b>Total current liabilities</b>			11,414,143		5,943,347
<b>Total shareholders' equity and liabilities</b>			32,705,653		36,229,534

The accompanying notes are an integral part of these financial statements.

## Income statement 2014

		2014		2013	
	Ref.	EUR'000	EUR'000	EUR'000	EUR'000
<b>Income</b>					
Interest and similar income	16	992,984		843,567	
Other operating income	17	3,288		3,209	
<b>Total income</b>			996,272		846,776
<b>Expenses</b>					
Interest and similar expenses	16	(964,625)		(814,610)	
Other operating expenses	18	(1,480)		(683)	
General and administrative expenses	19	(4,565)		(5,015)	
Amortisation and depreciation expenses		(39)		(20)	
<b>Total expenses</b>			(970,709)		(820,328)
<b>Result before taxation</b>			25,563		26,448
Taxation on result on ordinary activities	25		(6,270)		(5,977)
Result from participations	20		403,644		892,493
<b>Result after taxation</b>			422,937		912,964

The accompanying notes are an integral part of these financial statements.



## Cash flow statement 2014

		2014		2013	
	Ref.	EUR'000	EUR'000	EUR'000	EUR'000
<b>Cash flow from operating activities</b>					
Loans granted	7	(299,445)		(6,856,009)	
Loans taken	11/12	483,178		6,820,544	
<i>Net cash generated from / (used in) lending activities</i>			183,732		(35,465)
Interest received	8/15	915,364		697,869	
Interest paid	15	(876,128)		(680,128)	
<i>Net cash from interest</i>			39,236		17,741
Result from participations	20	403,648		892,493	
Other operating activities		-		3,203	
Paid expenses		(4,565)		(6,394)	
Corporate income tax paid	25	(12,462)		(7,647)	
<i>Net cash from other operating activities</i>			386,621		881,655
<b>Cash from operating activities</b>			609,589		863,932
<b>Cash flow from investment activities</b>					
Acquisitions	6	-		(39,095)	
Disposals		348,230		-	
Net transfers by VIF to/from the VIPS capital reserve		165,000		450,000	
<b>Cash from investment activities</b>			513,230		410,905
<b>Cash flow from financing activities</b>					
Capital transfers from or to share holder		9,800		(1,100,000)	
Dividends paid	10	(1,270,000)		(300)	
<b>Cash flow from financing activities</b>			(1,260,200)		(1,100,300)
<b>Net cash flow</b>			(137,381)		175,538
Cash and cash equivalents at beginning of the year			349,420		174,882
<b>Cash and cash equivalents at end of the year</b>			212,039		349,420

The accompanying notes are an integral part of these financial statements.

# Notes to the financial statements

## 1 General

### 1.1 Activities

Volkswagen International Finance N.V.'s ('VIF' or 'the company') registered office is located at Herengracht 495, 1017 BT Amsterdam, The Netherlands.

The main purpose of the company is the financing of and participation in Group companies. VIF has access to several funding sources such as bond loans, note loans and Euro Medium Term Loans as well as intercompany loans.

All external issues are guaranteed by Volkswagen AG ('VWAG'). VIF has lent the proceeds of these borrowings to Group companies.

### 1.2 Consolidation and shares in participations

In 2014 VIF became a 100% subsidiary of Volkswagen Finance Luxemburg S.A.. VIF belongs to the Volkswagen Group. The ultimate parent company of this group is VWAG, Wolfsburg, Germany. The consolidation, including all subsidiaries of VIF, is performed at VWAG level. These consolidated financial statements can be obtained from the company. Based on article 2:408 of the Dutch Civil Code VIF is exempt from consolidation.

Participations and other participating interests in which the company exercises significant influence are stated at the lower of cost and net realisable value. The company is considered to exercise significant influence if it holds at least 20% of the voting rights.

Participating interests in which no significant influence can be exercised are stated at acquisition price. If an asset qualifies as impaired, it is measured at its impaired value; any write-offs are disclosed in the income statement.

The following overview contains information on the shares in participations, especially the percentage in the issued capital and the book value:

Name, registered office	Share in issued capital as percentage	Book value 31 December 2014		
		EUR	Local currency	
	%	EUR'000		LC'000
Volkswagen Autoeuropa, Lda., Palmela, Portugal	26	132,987	EUR	132,987
Volkswagen Group Saudi Arabia Llc, Riyadh, Kingdom of Saudi Arabia	51	9,623	SAR	47,318
Volkswagen India Private Ltd., Pune, India	< 20	11,486	INR	779,593
Volkswagen Group Services S.A., Brussels, Belgium	< 20	0	EUR	0
Total investments in participations		154,096		

Management received reports regarding the economic situation of the participations. Upon review of these reports it was concluded that in one case a change in impairment had to be applied.

Impairment is determined by establishing the enterprise value on the basis of a discounted cash flow analysis based on the internal budget. For further details on this impairment see note 20.

Volkswagen Group Services S.A. and Volkswagen India Private Ltd. are minority investments.

For further details on shares in participations see note 6.

### 1.3 Merger

In 2014 Volkswagen AG, the ultimate parent company of VIF, restructured its company holdings in the Netherlands.

This transaction has been included in the Financial Statements based on the Dutch Accounting Standard 218.3. (purchase accounting method) whereas comparative figures are not adjusted. The Board of Directors approves this standard as the merger companies were under common management from the ultimate shareholder Volkswagen AG

VIF demerged 16 of its participations with a book value of EUR 3,263,931,896 as a dividend in kind to its direct parent company Global VW Automotive B.V.:

- Bentley Motors Ltd., Crewe (100 %)
- SEAT, S.A., Martorell (100 %)
- SITECH Sp. z o.o., Polkowice (100 %)
- SKODA Auto a.s., Mladà Boleslav (100 %)
- Södertälje Bil Invest AB, Södertälje (100 %)
- Volkswagen do Brasil Indústria de Veículos Automotores Ltda., São Bernardo do Campo (100 %)
- Volkswagen Group Canada, Inc., Ajax/Ontario (100 %)
- Volkswagen Group Hong Kong Ltd., Hong Kong (100 %)
- Volkswagen Group Ireland Ltd., Dublin (100 %)
- Volkswagen Group Japan K.K., Toyohashi (100 %)
- VOLKSWAGEN Group United Kingdom Ltd., Milton Keynes (100 %)
- Volkswagen International Payment Services N.V., Amsterdam (100 %)
- Volkswagen Motor Polska Sp. z o.o., Polkowice (100 %)
- Volkswagen Poznan Sp. z o.o., Poznan (100 %)
- VOLKSWAGEN SLOVAKIA a.s., Bratislava (100 %)
- Volkswagen Group Polska Sp. z o.o., Poznan (100 %)

In another step VIF sold the following companies at book value of EUR 102,715,782 to Volkswagen Finance Luxembourg S.A.

- Volkswagen Group Australia Pty. Ltd., Botany (100 %)
- OOO VOLKSWAGEN Group Rus, Kaluga (55,14 %)
- Volkswagen Group Sales India P.L., Mumbai (9 %)
- Volkswagen Group France S.A., Villers-Cotterêts (89,98%)

Of its 74% participation in Volkswagen Autoeuropa Lda. (book value EUR 248,513,719 ), 48% were sold to Volkswagen Finance Luxembourg. S.A.

Since the demerger and sales occurred at book value no gains or losses were reported in the P&L.

#### 1.4 *Note to the cash flow statement*

Consolidated cash flows for the whole Volkswagen Group are included in the Volkswagen AG consolidated financial statements, therefore a separate cash flow statement for the company is not required by Dutch law. The company has selected a hybrid variant as additional disclosure in its financial statement. The cash items disclosed in the cash flow statement are comprised of cash and cash equivalents. Cash flows denominated in foreign currencies have been translated at average estimated exchange rates. Exchange differences affecting cash items are included in the respective amounts. Cash from loans granted, bonds interest (paid and received), dividends received and income taxes are included in cash from operating activities. Dividends paid are recognised as cash used in financing activities.

#### 1.5 *Estimates*

The preparation of financial statements in conformity with the relevant rules requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. If necessary for the purposes of providing the view required under Section 362(1), Book 2, of the Dutch Civil Code, the nature of these estimates and judgements, including the related assumptions, is disclosed in the notes to the financial statement items in question. Estimates used for accounting of financial fixed assets and impairment of assets are disclosed under note 2.6 and 2.7.

## **2 Principles of valuation of assets and liabilities**

### 2.1 *General*

The financial statements are prepared in accordance with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code and the firm pronouncements in the Guidelines for Annual Reporting in the Netherlands as issued by the Dutch Accounting Standards Board. The financial statements are denominated in EUR.

In general, assets and liabilities are stated at the amounts at which they were acquired or incurred, or fair value. If not specifically stated otherwise, they are recognised at the amounts at which they were acquired or incurred. The balance sheet, income statement and cash flow statement include references to the notes.

### 2.2 *Comparison with prior year*

The principles of valuation and determination of result remain unchanged compared to the prior year.

### 2.3 *Foreign currencies*

#### *Functional currency*

Items in the financial statements of Group companies are stated with due observance of the currency of the primary economic environment in which the respective Group company operates (the functional currency). The financial statements are denominated in EUR, i.e. the functional and reporting currency of VIF.

#### *Transactions, receivables and liabilities*

Monetary assets and liabilities denominated in foreign currencies are translated at the mid-rate prevailing on the balance sheet date. Investments in participations are stated at the historical exchange rate.

Transactions denominated in foreign currencies in the reporting year are recognised in the financial statements at the exchange rate ruling at the transaction date.

In respect of any positions in the balance sheet that are covered by cross currency interest rate swaps or by foreign exchange forward contracts, the differences in values calculated at closing rates at the end of the year and contract rates are allocated to the respective principals of the loans. If the loan taken is denominated in a currency other than EUR, the respective correction is allocated to this loan. Otherwise the respective loan granted is corrected.

#### *Hedge accounting*

VIF applies hedge accounting. Relationships between hedging instruments and hedged items are documented at the inception of the transaction. VIF also assesses, both at hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. This is done by comparing the critical characteristics of the hedge instrument with those of the hedged position. If there is an indication of ineffectiveness, the company measures this potentially ineffective part by conducting a quantitative ineffectiveness analysis

### *2.4 Intangible fixed assets*

Intangible fixed assets are carried at historical cost less amortisation. Any impairment as at the balance sheet date is taken into account; an impairment exists if the carrying amount of the asset (or the cash-generating unit to which it belongs) exceeds its recoverable amount. For determining whether an impairment charge in respect of an intangible fixed asset applies, reference is made to note 2.7.

#### *Computer software*

Software licences acquired are capitalised at acquisition cost and amortised over the estimated economic life of three years. Expenditures incurred for the production of identifiable software products that are tailor-made for the Group are capitalised. Expenditure in connection with maintenance of computer software and expenses related to research activities are recognised in the income statement.

### *2.5 Tangible fixed assets*

Fixed assets are valued at acquisition or production cost including directly attributable expenses, less straight-line depreciation over the estimated useful economic life, or market value if lower. Directly attributable production costs include the costs of the raw materials and consumables, and also include installation costs. The following depreciation periods are used:

<b>Asset</b>	<b>Number of years</b>
Office equipment	5
Transport equipment	5
Furniture and fixtures	10
Computer hardware	3

### *2.6 Financial fixed assets*

#### *Shares in participations*

Participations and other participating interests in which the company exercises significant influence are stated at the lower of cost or net realisable value. The company is considered to exercise significant influence if it holds at least 20% of the voting rights.

Participating interests in which no significant influence can be exercised are stated at acquisition price. If an asset qualifies as impaired, it is measured at its impaired value; any write-offs are disclosed in the income statement.

The shares in participations are specified in note 1.2.

#### *Loans to Volkswagen Group companies and joint ventures of the Volkswagen Group*

These are loans to Volkswagen Group companies and other participating interests are loans with an original term of more than one year. Receivables disclosed under financial assets are recognised initially at fair value of the amount owed. These receivables are subsequently measured at amortised cost. The main rule is that amortised cost equals the carrying amount of the asset net of any repayments on the principal and plus, or net of, the accumulated amortisation, calculated using the effective interest method, of the difference between the amount upon initial recognition (including transaction costs) and the repayments. Straight-line amortisation in determining amortised cost is allowed as an alternative if straight-line amortisation does not lead to significant discrepancies with the effective interest method. If loans are issued at a discount or premium, the discount or premium is recognised through profit or loss over the maturities of the loans using the effective interest method. Also transaction costs are included in the initial valuation and recognised in profit or loss as part of the effective interest method. Impairment losses are deducted from amortised cost and expensed in the income statement

### 2.7 *Impairment of fixed assets*

On each balance sheet date, the company tests whether there are any indications of assets being subject to impairment. If any such indications are present, the recoverable amount of the asset is determined. If this proves to be impossible, the recoverable amount of the cash-generating unit to which the asset belongs is identified. An asset is subject to impairment if its carrying amount is higher than its recoverable value; the recoverable value is the higher of the net realisable value and the value in use.

The fair value is determined based on the active market. An impairment is directly recognised as an expense in the income statement.

If it is established that a previously recognised impairment no longer applies or has declined, the increased carrying amount of the assets in question is not set higher than the carrying amount that would have been determined had no asset impairment been recognised.

### 2.8 *Current assets*

#### *Receivables due from Volkswagen Group companies and joint ventures of the Volkswagen Group*

Receivables are recognised initially at fair value and subsequently measured at amortised cost. All receivables will be received within one year.

#### *Other assets*

The swap interest receivables and income tax receivables are shown under other assets and are valued at their amortised cost value.

#### *Prepayments and accrued income*

Prepayments and accrued income are amortised over the remaining life of the services or of the bonds.

#### *Cash at banks and in hand*

Cash at banks and in hand represents deposits at banks with a maturity of less than one year, cash in hand and bank balances.

Cash and banks denominated in foreign currencies are translated at the mid-rate prevailing on the balance sheet date.

All cash balances are at the free disposal of the company.

## 2.9 *Equity*

The company has one mandatory reserve.

## 2.10 *Long-term liabilities*

### *Bonds*

The bonds are initially valued at fair value with subsequent measurement at their amortised cost value. All long-term bonds have a maturity of over one year. No assets were pledged as collateral by the company.

### *Liabilities to Volkswagen Group companies*

The liabilities to Volkswagen Group companies are valued at their amortised cost value. All liabilities have a maturity of over one year.

## 2.11 *Current liabilities*

### *Bonds*

The bonds are valued at their amortised cost value. All short-term bonds are payable within one year.

### *Commercial papers*

The commercial papers are valued at their amortised cost value. All commercial papers are payable within one year.

### *Liabilities to Volkswagen Group companies*

The liabilities to Volkswagen Group companies are valued at their amortised cost value. All liabilities are payable within one year.

### *Deferred income*

The deferred income concerns premiums and compensations and is amortised over the remaining life of the loans taken.

### *Current income tax*

The current Dutch nominal tax rate of 25.0% has been applied. Until April 30, 2014 the company formed a fiscal unity for corporate income tax and turnover tax purposes with Volkswagen International Payment Services N.V. (VIPS). For further information see Note 14.

### *Trade payables*

The trade payables are initially valued at fair value and subsequently at their amortised cost value and are payable within one year.

### *Accrued liabilities*

The accruals are based on sound business judgement and valued at the expected costs.

## 2.12 *Financial instruments*

Loans included in financial and current assets, as well as liabilities and derivative financial instruments, are stated at amortised cost. The company applies hedge accounting to hedging instruments when hedging interest and currency risk on borrowings and lendings. Both the derivative and the hedged item are stated at amortised cost. The gain or loss relating to any ineffective portion is recognised in the income statement within finance cost. For more information

about the value of the assets, assigned as hedged item, see note 5 and 6, of the liabilities see notes 12 and 13 and of the financial instruments see note 25. The company has no derivative financial instruments other than the ones used for hedging.

#### *Cost price hedge accounting*

The company applies cost price hedge accounting to hedging interest risk and FX-risk on borrowings.

In applying cost price hedge accounting, the initial recognition of, and the accounting policies for, the hedging instrument are dependent on the hedged item, which has the following implications:

- if the hedged item is recognised at cost in the balance sheet, the derivative instrument is also stated at cost;
- as long as the hedged item is not yet recognised in the balance sheet, the hedging instrument is not remeasured (this applies, for instance, to hedging currency risks on future transactions);
- if the hedged item qualifies as a monetary item denominated in a foreign currency, the derivative instrument, where it has currency elements, is also stated at the mid-rate prevailing at the balance sheet date.

The ineffective portion of the hedge is recognised directly in the income statement.

Hedge effectiveness is assessed by comparing the critical characteristics of the hedge instrument with those of the hedged position. If there is an indication of ineffectiveness, the company measures this potentially ineffective part by conducting a quantitative ineffectiveness analysis.

### **3 Principles determination of result**

#### *3.1 General*

Result is determined as the difference between the realisable value of services rendered and the costs and other charges for the year. Results on transactions are recognised in the year in which they are realised; losses are taken as soon as they are foreseeable.

#### *3.2 Revenue recognition*

Revenue from interest income is allocated to the reporting year to which it relates. Exchange rate differences arising upon the settlement of monetary items are recognised in the income statement in the period that they arise.

#### *3.3 Interest income and similar income and interest expenses and similar expenses*

Interest income and expenses are recognised on a pro rata basis, taking account of the effective interest rate of the assets and liabilities concerned. When recognising the interest charges, the transaction cost on the loans received is taken into account.

#### *3.4 Result from participations*

Dividend to be received from participating interests not carried at net asset value and unquoted securities are recognised as soon as VIF acquires the right to it.

#### *3.5 Other operating income and expenses*

Other operating income and expenses include income or expenses that are not directly attributable to the interest income or expenses and are valued at the realisable value.



### 3.6 *General and administrative expenses*

These expenses include expenses such as personnel expenses, office expenses, consulting and audit fees, and amortisation and depreciation and are valued at cost.

#### *Amortisation and depreciation*

Intangible fixed assets are amortised and tangible fixed assets are depreciated over their expected useful lives as from the inception of their use. Future depreciation is adjusted if there is a change in estimated useful life.

Gains and losses upon the sale of tangible fixed assets are included in other operating income or other operating expenses, respectively.

#### *Personnel expenses*

Salaries, wages and social charges are taken to the income statement when due, and in accordance with employment contracts and obligations.

### 3.7 *Taxation*

Profit tax is calculated on the profit before taxation in the income statement, taking into account any losses carried forward from previous financial years (insofar as these are not included in deferred tax assets), tax-exempt items and non-deductible expenses. Account is also taken of changes in deferred tax assets and deferred tax liabilities owing to changes in the applicable tax rates.

## **4 Financial instruments**

### 4.1 *Market risk*

#### *Currency risk*

To avoid risk, the loans to Volkswagen Group companies and to joint ventures of the Volkswagen Group and related funding are generally matched in currency terms. If not, swaps are executed to achieve the matched basis.

The Supervisory Board has set small currency limits; policies are closely monitored and enforced. Consequently, currency risk is comparatively remote. In 2014 the limits were not exceeded.

#### *Interest rate risk*

The Supervisory Board authorised VIF to run a certain interest rate risk. A limit system and tools to monitor and manage the risk have been set up. Interest mismatches are permitted within a twelve-month period only. Therefore, the risk is comparatively low. In 2014 no limits were exceeded.

### 4.2 *Credit risk*

The risk of default arising from loans granted and derivative instruments involves the risk of default by counterparties. The maximum loss from derivative instruments equals their positive fair value. Risk is additionally limited by a limit system based on credit assessments by the international rating agencies.

### 4.3 *Liquidity risk*

The Supervisory Board has set certain liquidity risk limits. The company monitors the limits on a regular basis. Against the background of the comparatively narrow limits and the strong financial solidity of the Volkswagen Group the liquidity risk is remote. In 2014 no limits were exceeded. Notes issued by VIF have the benefit of a Guarantee and Negative Pledge (The Guarantee) given by Volkswagen AG (The Guarantor).

## 5 Fixed assets

	Intangible fixed assets (software)		Tangible fixed assets (other installations, business and office equipment)	
	Total 2014	Total 2013	Total 2014	Total 2013
	EUR'000	EUR'000	EUR'000	EUR'000
1 January	171	170	146	285
Additions	8	2	267	25
Disposals	-	(1)	-	(164)
Amortisation/depreciation (accumulated)	(171)	(161)	(122)	(93)
31 December	8	10	291	53
Amortisation/depreciation current year	(9)	(9)	(30)	(11)

## 6 Shares in participations (fixed assets)

Movements in shares in participations can be broken down as follows:

	Shares in participations	
	31 December 2014	31 December 2013
	EUR'000	EUR'000
1 January	3,932,150	4,343,055
Additions	-	39,095
Withdrawals	(3,777,154)	(450,000)
Impairments	(900)	-
31 December	154,096	3,932,150

For details of the additions, withdrawals and impairments see note 20.

### *Shares in participations*

The shares in participations are specified in note 1.2.

Further details to VIF's participations:

### ***Volkswagen Autoeuropa, Lda., Palmela, Portugal (AE)***

-	Incorporation on 24 June 1991.		
-	Contribution to VIF: 24 November 2006 (50%), 10 December 2008 (24%)		
-	Withdrawal from VIF: 27 June 2014(48%)		
-	Equity 31 December 2013	EUR'000	367,669
-	Net earnings 2013	EUR'000	33,973

AE was established in 1991 as joint venture of VWAG and Ford-Werke AG under the company name Autoeuropa-Automóveis, Lda. with the goal to produce three identical but brand differentiated multi-purpose vehicles. On 1 January, 1999 Volkswagen assumed 100% of AE's ownership. AE consists of a stamping plant for body panels, paint shop and assembly facilities.

**Volkswagen Group Saudi Arabia LLC, Riyadh, Kingdom of Saudi Arabia (VGSA)**

- Joint Venture Contract signed on 13 December, 2012.
- Incorporation: 8 April 2013.
- Participation rate VIF: 51%.
- Contribution to VFL: 29 June 2014 (51%)
- Equity 31 December 2013 SAR'000 92,752\*
- Net earnings 2013 SAR'000 324

'Volkswagen Group Saudi Arabia, LLC' is a joint venture with the partners VIL (51%), Automotive Technologies Alliance, LLC (39%) and Saudi Arabian Marketing & Agencies Co. Ltd.(10%). It's main purpose is the import and sales of passenger cars of the brands Volkswagen, Audi and Porsche.

Besides the above listed participations VIF holds minority shareholdings in the following group companies:

**Volkswagen India Private Ltd., Pune, India (9 %)**

**Volkswagen Group Services S.A., Brussels, Belgium (1 share)**

**7 Loans to and receivables due from Volkswagen Group companies and joint ventures of the Volkswagen Group (fixed and current assets)**

Amounts due from Volkswagen Group companies and joint ventures of the Volkswagen Group included in financial fixed and current assets:

	31 December 2014			31 December 2013		
	Total	Term > 1 year	Term < 1 year	Total	Term > 1 year	Term < 1 year
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Amounts due from Volkswagen Group companies	32,152,869	20,599,012	11,553,857	31,742,198	25,826,757	5,915,441
Amounts due from joint ventures of the Volkswagen Group	8,655	-	8,655	11,670	-	11,670
	<u>32,161,524</u>	<u>20,599,012</u>	<u>11,562,512</u>	<u>31,753,868</u>	<u>25,826,757</u>	<u>5,927,111</u>

31 December 2014

	Original currency	Average interest rate in percentage	Book value	Market value
		%	EUR'000	EUR'000
<b>Fixed asset loans to Volkswagen Group companies</b>	EUR	3,0539	17,256,816	20,336,866
	USD	2,8553	2,313,402	2,455,878
	GBP	1,1772	501,031	515,547
	CNY	3,7924	489,762	488,865
	PLN	3,9667	38,000	38,994
			20,599,012	23,836,150
<b>Current receivables due from Volkswagen Group companies</b>	EUR	3,3078	9,292,075	9,677,411
	GBP	1,3813	450,607	453,009
	PLN	3,0874	110,000	109,629
	RUB	9,1753	84,535	89,359
	USD	1,5242	1,030,234	1,039,499
<b>Current receivables due from joint ventures of the Volkswagen Group</b>	CZK	0,4850	8,653	8,655
<b>Accrued and other receivables due from Volkswagen Group companies and joint ventures</b>			586,408	586,407
			11,562,512	11,963,969
<b>Total loans to and receivables due from Volkswagen Group companies and joint ventures of the Volkswagen Group</b>			32,161,524	35,800,119

The market values are determined on the basis of discounted cash flows. Credit spreads were not included in the model used to determine the market value. Since all loans are to Volkswagen Group companies and joint ventures of the Volkswagen Group, the credit spread applicable to these loans is equal to the credit spread for the Volkswagen Group. For further information also see note 2.12

As at 31 December 2014 the following credit spreads were applicable to the Volkswagen Group:

	31 Dec 2014 BPS	31 Dec 2013 BPS
For amounts payable within one year:	17,33	12,42
For amounts payable between one year and five years:	35,00	31,75
For amounts payable after five years	54,10	64,40

For comparison purposes the overview of 2013 is as follows:

		31 December 2013		
	Original currency	Average interest rate in percentage	Book value	Market value
		%	EUR'000	EUR'000
<b>Fixed asset loans to Volkswagen Group companies</b>	EUR	3,17	21,454,083	23,362,295
	USD	2,48	3,045,108	3,209,908
	GBP	1,23	795,660	807,912
	CNY	3,52	298,685	294,702
	RUB	9,18	134,916	148,708
	PLN	3,81	101,059	104,160
	Currency part derivatives			(2,754)
			<u>25,826,757</u>	<u>27,924,931</u>
<b>Current receivables due from Volkswagen Group companies</b>	EUR	0,64	3,277,721	3,288,406
	USD	1,42	1,548,039	1,558,339
	GBP	1,88	360,341	364,419
	PLN	3,77	116,328	117,643
	SEK	1,74	114,797	115,670
<b>Current receivables due from joint ventures of the Volkswagen Group</b>	CZK	0,62	11,667	11,667
<b>Currency part derivatives</b>			26,212	26,212
<b>Accrued and other receivables due from Volkswagen Group companies and joint ventures</b>			472,006	472,005
			<u>5,927,111</u>	<u>5,954,361</u>
<b>Total loans to and receivables due from Volkswagen Group companies and joint ventures of the Volkswagen Group</b>			<u>31,753,868</u>	<u>33,879,292</u>

## 8 Other assets

	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>
	EUR'000	EUR'000
Interest receivable from banks	31,737	37,790
Income tax receivable	6,174	2,538
Rental deposit	10	11
Receivables from employees	3	17
Positive fair value	1	168
	<u>37,925</u>	<u>40,524</u>

The interest receivable from banks relates to the swap agreements and to deposits.

## 9 Prepayments and accrued expenses

	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>
	EUR'000	EUR'000
Prepaid expenses	12	1,187
Capitalised issue costs	139,758	152,321
	<u>139,770</u>	<u>153,508</u>

## 10 Cash at banks and in hand

	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>
	EUR'000	EUR'000
Cash at internal bank accounts (cash pooling)	198,389	337,545
Cash at external bank accounts	13,650	11,876
	<u>212,039</u>	<u>349,421</u>

## 11 Shareholders' equity

### Share capital

On 31 December 2014, the subscribed capital of the company amounted to EUR 104,370,000, of which an amount of EUR 103,035,000 was paid up. 103,035 registered shares of EUR 1,000 each are issued.

VIF paid the following dividends to VFL Luxembourg through out 2014:

On June 20, EUR 700 million based on a resolution dated 12 June 2014; On September 8, EUR 570 million based on a resolution dated 1 September 2014.

Furthermore VIF paid on June 30 a dividend in kind of EUR 212.9 million by transferring the shares in the participation VW Polska to VFL Luxembourg, based on a resolution dated 30 June 2014

	Issued and paid-up share capital	Share premium reserve	Retained Earnings	Total Equity
	EUR'000	EUR'000	EUR'000	EUR'000
Balance 1 January 2013	103,035	1,000,120	3,891,286	4,994,441
Repayment to Global Automotive C.V.	-	(1,000,000)	(100,000)	(1,100,000)
Dividend paid	-	-	(300)	(300)
Result for 2013	-	-	912,964	912,264
Balance 1 January 2014	103,035	120	4,703,950	4,807,105
Repayment to VFL	-	-	(3,051,016)	(3,051,016)
Contribution from VFL	-	9,800	-	9,800
Dividend paid	-	-	(1,482,916)	(1,482,916)
Result for 2014	-	-	422,937	422,937
Balance 31 December 2014	103,035	9,920	592,955	705,910

## 12 Long-term liabilities

	31 Dec 2014	31 Dec 2013
	EUR'000	EUR'000
Bonds (listed and unlisted)	20,585,600	25,444,082
Liabilities to Volkswagen Group companies	-	35,000
	20,585,600	25,479,082

A breakdown of the long-term bonds is as follows:

	Original currency	Average interest rate in percentage	31 December 2014	
			Book value	Market value
		%	EUR'000	EUR'000
<b>Maturity longer than 5 years</b>				
Bonds (listed)	EUR	3,482	7,600,000	9,865,010
Bonds (unlisted)	USD	4,000	617,741	698,131
<b>Maturity less than 5 years</b>				
Bonds (listed)	EUR	2,792	8,450,000	9,181,777
Bonds (listed)	CNY	3,020	490,990	487,700
Bonds (listed)	AUD	4,625	129,664	106,303
Bonds (listed)	NOK	3,000	104,287	87,610
Bonds (unlisted)	USD	1,830	3,192,918	3,411,021
<b>Total long-term bonds</b>			<b>20,585,600</b>	<b>23,837,552</b>

The market values are determined on the basis of discounted cash flows. Credit spreads were not included in the model used to determine the market value.

For the determination of the market values see note 7 and 2.12

For comparison purposes the overview of 2013 is as follows:

	Original currency	Average interest rate in percentage	31 December 2013	
			Book value	Market value
		%	EUR'000	EUR'000
<b>Maturity longer than 5 years</b>				
Bonds (listed)	EUR	3,34	6,950,000	7,832,812
Bonds (unlisted)	USD	3,25	906,388	979,439
<b>Maturity less than 5 years</b>				
Bonds (listed)	EUR	2,94	9,000,000	9,581,642
Bonds (listed)	GBP	1,25	299,868	303,015
Bonds (listed)	CNY	2,79	299,433	293,891
Bonds (listed)	CAN	2,25	102,243	104,599
Bonds (listed)	AUD	4,63	97,257	102,625
Bonds (listed)	NOK	3,00	89,681	92,802
Bonds (listed, convertible)	EUR	5,50	2,499,000	2,800,617
Bonds (unlisted)	USD	1,58	4,459,430	4,571,689
Bonds (unlisted)	JPY	0,74	200,387	202,409
Bonds (unlisted)	EUR	0,63	350,000	352,237
<b>Currency part derivatives</b>			<b>190,395</b>	<b>190,395</b>
<b>Total long-term bonds</b>			<b>25,444,082</b>	<b>27,408,172</b>



### 13 Current liabilities

	31 Dec 2014	31 Dec 2013
	EUR'000	EUR'000
Bonds	10,704,607	4,882,720
Other liabilities	592,980	493,901
Deferred income	45,876	82,660
Liabilities to Volkswagen Group companies	44,356	15,399
Accrued liabilities	25,371	17,610
Current income tax	785	1,505
Trade payables	168	52
Commercial papers	-	449,500
	<u>11,414,143</u>	<u>5,943,347</u>

The remaining term of the current liabilities is less than one year.

A breakdown of the short-term bonds is as follows:

	Original currency	Average interest rate in percentage	31 December 2014	
			Book value	Market value
		%	EUR'000	EUR'000
Bonds (listed)	EUR	2,139	3,950,000	4,033,037
Bonds (listed)	GBP	1,250	320,965	323,756
Bonds (listed)	CAD	2,250	121,892	108,188
Bonds (unlisted)	USD	1,288	2,014,349	2,156,319
Bonds (unlisted)	JPY	0,740	252,401	200,634
Bonds (unlisted)	EUR	0,578	350,000	351,697
Bonds (listed, convertible)	EUR	5,500	3,695,000	3,978,993
<b>Total short-term bonds</b>			<u>10,704,607</u>	<u>11,152,624</u>

For the determination of the market values see note 7 and 2.12

For comparison purposes the overview of 2013 is as follows:

	Original currency	Average interest rate in percentage	31 December 2013	
			Book value	Market value
		%	EUR'000	EUR'000
Bonds (listed)	EUR	0,53	1,875,000	1,878,388
Bonds (listed)	USD	1,04	95,570	95,798
Bonds (listed)	GBP	2,13	239,894	243,503
Bonds (unlisted)	USD	1,09	2,610,398	2,623,563
Currency part derivatives			61,858	61,858
<b>Total short-term bonds</b>			<u>4,882,720</u>	<u>4,903,110</u>

A breakdown of the liabilities to Volkswagen Group companies is as follows:

	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>
	EUR'000	EUR'000
Volkswagen Group Services S.A.	44,356	15,399
	<u>44,356</u>	<u>15,399</u>

A breakdown of the other liabilities is as follows:

	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>
	EUR'000	EUR'000
Loan interest payables	332,269	460,155
Swap interest payables	260,455	33,741
Fair value financial instruments	256	3
Social securities/wage tax	-	2
	<u>592,980</u>	<u>493,901</u>

#### **14 Deferred income and accrued liabilities**

	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>
	EUR'000	EUR'000
<b>Deferred income</b>		
Capitalised issue income	45,876	82,660
	<u>45,876</u>	<u>82,660</u>

	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>
	EUR'000	EUR'000
<b>Accrued liabilities</b>		
Provision on the disposal of Volkswagen Caminhões, Brazil	24,241	16,931
Other provisions	1,130	679
	<u>25,371</u>	<u>17,610</u>

#### **15 Commitments not included in the balance sheet**

##### *Fiscal unity*

Until April 30, 2014 the company formed a fiscal unity for corporate income tax and turnover tax purposes with Volkswagen International Payment Services N.V. (VIPS). Due to the transfer of the VIPS shares to Volkswagen Finance Luxemburg, the fiscal unity for CIT purposes was terminated. Under the Tax Collection Act, the company is jointly and severally liable for the taxes payable by the Group. Taxes are declared individually but cleared jointly.

The following revolving credit facilities are currently outstanding

Borrower	Currency	Amount T EUR	Effective date	Termination date
Autoeuropa	EUR	50,000	27.08.2014	29.05.2015
VW Leasing Polska	EUR	23,000	07.02.2012	09.02.2015
VW Leasing Polska	RUB	12,000	07.02.2012	10.02.2015
VW Group Services	EUR	3,000,000	23.03.2010	open
VWAG	EUR	2,000,000	24.03.2010	open
VW Finance SA	EUR	1,500,000	17.05.2010	open
Sko-Energo	CZK	550,000	04.10.2010	open
VIPS	EUR	600,000	21.11.2011	open
Motor Polska	PLN	173,666	01.01.2012	31.12.2015
Motor Polska	PLN	712,500	01.01.2012	31.12.2015

## 16 Financial income and expenses

	2014	2013
	EUR'000	EUR'000
Interest and similar income from group companies	992,984	843,567
Interest and similar expenses to group companies	(963,792)	(814,610)
Interest and similar expenses to banks	(834)	-
	<u>28,358</u>	<u>28,957</u>

## 17 Other operating income

	2014	2013
	EUR'000	EUR'000
Service fees charged to:		
- Volkswagen Financial Services N.V.	655	657
- Volkswagen International Payment Services N.V.	341	341
- Global VW Automotive B.V.	68	142
- Global Mobility Holding B.V.	12	12
- Volkswagen Finance Overseas B.V.	65	86
- Volkswagen Finance Cooperation B.V.	86	86
- Volkswagen Global Finance Holding B.V.	79	79
- Volkswagen Group Finance of America	28	-
Fair value income	-	848
Miscellaneous income	4	79
Income from loan cancellation	1,257	79
Translation gains	-	815
Miscellaneous income previous years	693	64
	<u>3,288</u>	<u>3,209</u>

Miscellaneous income contains TEUR 690 income tax 2013.

## 18 Other operating expenses

	<u>2014</u>	<u>2013</u>
	EUR'000	EUR'000
Expenses from swap cancellation	855	79
Fair value expenses	475	
Miscellaneous expenses previous years	72	313
Translation losses	58	-
Bank charges	20	38
Portfolio fees	-	332
	<u>1,480</u>	<u>683</u>

## 19 General and administrative expenses

	<u>2014</u>	<u>2013</u>
	EUR'000	EUR'000
Personnel expenses	2,157	1,978
Office expenses	1,065	650
Insurance	919	1,028
Consulting, auditing and legal fees	311	1,243
Car expenses	52	52
Travel expenses	32	32
Training personnel	29	5
Temporary labour	-	27
	<u>4,565</u>	<u>5,015</u>

A breakdown of the personnel expenses is as follows:

	<u>2014</u>	<u>2013</u>
	EUR'000	EUR'000
Salaries and wages	1,942	1,745
Social security contributions	119	129
Pension contributions	96	104
	<u>2,157</u>	<u>1,978</u>

The company has a defined contribution pension plan that is reinsured with an insurance company.

## 20 Result from participations

	2014	2013
	EUR'000	EUR'000
<b>Dividends received</b>		
Škoda Auto a.s., Czech Republic	207,804	258,664
Volkswagen Group United Kingdom Ltd., United Kingdom	112,428	99,657
Volkswagen Motor Polska Sp. z o.o., Poland	29,901	-
Volkswagen Autoeuropa, Lda., Portugal	22,100	38,800
Volkswagen International Payment Services N.V., the Netherlands	9,096	18,611
Volkswagen Group Japan K.K., Japan	6,607	21,856
Volkswagen Group Australia Pty Ltd., Australia	1,974	-
Volkswagen do Brasil Indústria de Veículos Automotores Ltda., Brazil	-	303,000
Volkswagen Poznań Sp. z o.o., Poland	-	74,680
Groupe Volkswagen France s.a., France	-	46,110
Sitech Sp. z o.o., Poland	-	35,184
	<b>389,910</b>	<b>896,562</b>
<b>Write-ups/devaluations</b>		
Volkswagen India Private Ltd., India	(900)	-
	<b>(900)</b>	<b>-</b>
<b>Forward cover of dividends</b>		
- Gains	1,063	345
- Losses	(904)	(1,013)
	<b>159</b>	<b>(668)</b>
<b>Miscellaneous gains/losses</b>		
Volkswagen Caminhoes Ltda, Brazil, sold in 2009	20,125	-
Kulczyk Holding S.A.	(253)	-
	<b>19,872</b>	<b>-</b>
<b>Valuation result</b>		
From the BRL provision regarding the sale of its subsidiary Volkswagen Caminhões, Brazil		
- Gain	-	<b>3,387</b>
<b>Withholding taxes</b>		
Volkswagen do Brasil Indústria de Veículos Automotores Ltda., Brazil	-	(7,729)
Volkswagen Caminhoes Ltda, Brazil, sold in 2009	(5,396)	
Volkswagen Group Japan K.K., Japan	-	941
	<b>(5,396)</b>	<b>(6,788)</b>
<b>Total income received</b>	<b>403,644</b>	<b>892,493</b>

## 21 Independent auditor's fees

The following fees based on invoices and estimated work orders for assurance from PricewaterhouseCoopers Accountants N.V., Netherlands, occurred in the reporting year:

	<u>2014</u>	<u>2013</u>
	EUR'000	EUR'000
Audit of the financial statements	62	67
Other audit procedures	87	140
	<u>149</u>	<u>207</u>

## 22 Related parties

Significant transactions with related parties are disclosed in the notes insofar as they are not transacted under normal market conditions. The nature, extent and other information is disclosed if this is required for to provide the true and fair view.

All loans are granted to other Group companies. The interest income is only received from these Group companies.

For investments in participations see note 1.2.

For receivables due from Volkswagen Group companies see note 7.

For liabilities to Volkswagen Group companies see notes 11 and 12.

For income from other services rendered to related parties see note 16.

## 23 Average number of employees

During the year 2014, the average number of employees calculated on a full-time-equivalent basis was 17 (2013: 15).

## 24 Financial instruments

The company uses derivative instruments as hedges for its interest rate and exchange rate exposures.

With approval of the Supervisory Board, VIF covered the expected dividends from participations by forward sales partially. These hedges matured in 2014.

The financial instruments of the company had the following notional amounts:

	<b>Interest swaps</b>	<b>Interest/ currency swaps</b>	<b>FX contracts</b>	<b>Total</b>
	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2014	2,920,966	3,961,090	3,770	6,885,826
31 December 2013	3,719,815	5,410,440	49,415	9,179,670

The financial instruments of the company had the following market values:

	<b>Interest swaps</b>	<b>Interest/ currency swaps</b>	<b>FX contracts</b>	<b>Total</b>
	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2014	62,173	137,665	(255)	199,583
31 December 2013	(13,716)	(253,940)	113	(267,543)

## 25 Taxation on result on ordinary activities

The taxation on result on ordinary activities can be specified as follows:

	<b>2014</b>	<b>2013</b>
	EUR'000	EUR'000
Result from ordinary activities before taxation	429,207	918,941
Of which income from participations (excluding gains/losses forward cover on dividend income and valuation result)	403,485	889,773
Result on ordinary activities	25,722	29,168
Taxation on result on ordinary activities 2014	6,270	-
Taxation on result on ordinary activities 2013	-	5,977
Taxation on result on ordinary activities	6,270	5,977
Effective tax rate	24,4%	20,5%
Applicable tax rate	25,0%	25,0%

For the year 2014 the effective tax rate differs from applicable tax rate due to withholding tax relating to the finance activities with own funds.

## 26 Directors and Supervisory Directors

Management Board:

- Thomas Fries, Amsterdam
- Vincent Delva, Brussels

The remuneration for 2014 of the Management Board amounts to EUR 449,240 (2013: EUR 377,098).

Supervisory Board:

- Dr. Jochen Stich, Salzburg (Chairman)
- Albrecht Möhle, Wasbüttel
- Gudrun Letzel, Hannover (as of 18 March 2014)

The Supervisory Board has not received any remuneration for 2014.

The Management Board has declared that to the best of its knowledge:

1. the financial statements 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 year and the risks to which the company is exposed.

Amsterdam, 11 March 2015

Management Board,

Supervisory Board,

Original has been signed by  
T. Fries

Original has been signed by  
Dr. J. Stich

Original has been signed by  
V. Delva

Original has been signed by  
A. Möhle

Original has been signed by  
G. Letzel



## Other information

## **Profit appropriation according to the Articles of Association**

The company's Articles of Association provide that appropriation of accrued profit is subject to the decision of the shareholders at the General Meeting. The company can only make distributions to the shareholders and other persons entitled up to an amount not exceeding the amount of the distributable reserves. The General Meeting may resolve to pay dividends from legally distributable reserves.

## **Profit distribution**

Management proposes retaining the total profit of the year 2014 amounting to EUR 422,937,328.30.

## **Post balance sheet events**

No post balance sheet events occurred.

## Independent auditor's report



## *Independent auditor's report*

To: the general meeting and the supervisory board of Volkswagen International Finance N.V.

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### *Report on the financial statements 2014*

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#### *Our opinion*

In our opinion the financial statements give a true and fair view of the financial position of Volkswagen International Finance N.V. as at 31 December 2014, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

#### *What we have audited*

We have audited the financial statements 2014 of Volkswagen International Finance N.V., Amsterdam ('the company').

The financial statements comprise:

- the balance sheet as at 31 December 2014;
- the income statement for the year then ended;
- the cash flow statement for the year then ended; and
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is Part 9 of Book 2 of the Dutch Civil Code.

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#### *The basis for our opinion*

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of the company in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Ref.: e0348789

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## *Our audit approach*

### *Overview*

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that may represent a risk of material misstatement due to fraud.

The main purpose of the company is the financing of companies belonging to Volkswagen AG. The company is financing these loans through bond offerings on the international capital markets. The repayment of these bonds to the investors is guaranteed by Volkswagen AG as disclosed in note 1.1 to the financial statements. Loans are issued to group companies with financial instruments in place to mitigate both the interest rate risk as well as the currency risk.

During 2014 the company sold its participations in several Volkswagen AG group companies, as further disclosed in note 6 to the financial statements, in order to focus on its core business providing loans to Volkswagen AG group companies.

### *Materiality*

The scope of our audit is influenced by the application of materiality. Our audit opinion aims on providing reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on our opinion.

Based on our professional judgement we determined the materiality for the financial statements as a whole at € 163,5 million ((2013: € 181 million). The general benchmark is 1% of total assets, based on our professional judgement we have used 0.5% of total assets, to ensure that all relevant balance sheet and income statement items are in scope. We use total assets given the company's main activity is intra-group lending. The materiality decreased in 2014 because the company sold its participations in several Volkswagen AG group companies. The company facilitates the Volkswagen AG group in its financing activities for which it receives a margin.

We also take misstatements and/or possible misstatements into account that, in our judgment, are material for qualitative reasons.

We agreed with the supervisory board that we would report to them misstatements identified during our audit above € 8,2 million (2013: € 9 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### *The scope of our audit*

The company is financing companies belonging to Volkswagen AG which activities are covered by our audit procedures. We are also in contact with the group auditor concerning the Volkswagen AG companies.



As part of our testing procedures we tested the existence of the loans by requesting the respective PwC network firms to confirm the outstanding intercompany loans.

### *Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the supervisory board, but they are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters.

<i>Key audit matter</i>	<i>How our audit addressed the matter</i>
<p><b><i>Valuation of the loans issued</i></b></p> <p>We consider the valuation of the loans issued, as disclosed in note 7 to the financial statements for a total amount of € 32,162 million as a key audit matter. This is due to the size of the loan portfolio and given that an impairment may have a material effect on the income statement.</p>	<p>Loans are initially recognized at its fair value and subsequently measured at amortized cost using the effective interest method.</p> <p>We have performed detailed audit work addressing the existence and valuation of the loans issued to Volkswagen AG companies, through testing on a sample basis the input of contracts in the company's treasury management system, confirmation procedures, margin analysis, audit of data input to calculate the fair value and reconciliation of the treasury management system with the general ledger, and assessed whether there were any impairments triggers.</p>
<p>Management did not identify any impairment triggers regarding the loans issued to Volkswagen AG companies.</p>	<p>We also did not identify any impairment triggers and therefore concur with management that no impairment losses are required to be recognized. .</p>

### *Derivative valuation*

We consider the fair value of the derivatives portfolio as disclosed in note 24 to the financial statements of € 200 million and used in its hedge effectiveness testing as a key audit matter. This is due to the nature of the portfolio that includes longer dated interest rate swaps and cross currency interest rate swaps. The market for these swaps is not always fully liquid. In addition, the recent market developments including the volatility of the currency basis spread further increases the subjectivity of the valuation of these instruments as well as the number of input factors to take into account in the valuation.

We have tested the valuation of derivatives as well as the valuation of hedged items in hedge accounting relations by testing on a sample basis the input of contracts in the company's valuation system. We have reconciled the interest rate curves and other market data with our own independent sources. We have assessed whether the settings used in the valuation system and the models used are in line with market practice. We have also assessed the mathematical accuracy of the models used.



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**Key audit matter**

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**How our audit addressed the matter**

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**Derivative accounting**

We consider the accounting for derivatives as a key audit matter. Refer to note 2.12 to the financial statements. This is due to the detailed formal and technical requirements that are applicable to the application of hedge accounting and that inappropriate application of these requirements can lead to a material effect on the income statement.

We have tested on a sample basis whether hedge documentation and hedge effectiveness testing meet the requirements of RJ 290 *Financial Instruments* and whether the hedge effectiveness test is mathematically correct. We have reconciled the outcome of the effectiveness testing for the derivative portfolio as a whole to the financial statements.

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**Responsibilities of management and the supervisory board**

Management is responsible for:

- the preparation and fair presentation of the financial statements and for the preparation of the management report, both in accordance with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

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**Our responsibilities for the audit of the financial statements**

Our responsibility is to plan and perform an audit engagement to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit has been performed with a high but not absolute level of assurance which makes it possible that we did not detect all errors and frauds.

A more detailed description of our responsibilities is set out in the appendix to our report.

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**Report on other legal and regulatory requirements**

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**Our report on the directors' report and the Other information**

Pursuant to the legal requirements of Part 9 of Book 2 of the Dutch Civil Code (concerning our obligation to report about the management report and other information):



- We have no deficiencies to report as a result of our examination whether the management report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed.
- We report that the management report, to the extent we can assess, is consistent with the financial statements.

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### ***Our appointment***

We were appointed as auditors of the company in 2006 by the management following the passing of a resolution by the shareholders and our appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 9 years.

Rotterdam, 11 March 2015  
PricewaterhouseCoopers Accountants N.V.

Original has been signed by: M.P.A. Corver RA



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## ***Appendix to our auditor's report on the financial statements 2014 of Volkswagen International Finance N.V.***

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In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

### ***The auditor's responsibilities for the audit of the financial statements***

We have exercised professional judgment and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among others of:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Concluding on the appropriateness of the management's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.