

Financial report 2016

Volkswagen International Finance N.V.

Amsterdam

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Supervisory Board Report

The balance sheet total and the operating result for the financial year 2016 of Volkswagen International Finance N.V. ('VIF' or 'the Company') are in line with the expected development of the company.

The solvency and liquidity of the company remained good in spite of the recent developments in the Volkswagen Group where irregularities in relation to nitrogen oxide emissions had been discovered in emissions tests on certain vehicles with diesel engines which surfaced in the third quarter 2015.

In 2016 the credit rating agencies maintained their rating assessments for Volkswagen AG, which in the fourth quarter 2015 was downgraded.

Moody's lowered the rating to P-2 / A3 (short term / long term) with negative outlook while Standard & Poor's lowered the rating to A-2 / BBB+ (short term / long term) with negative outlook, as discussed in note 7.

The Management Board regularly reports to the Supervisory Board on the developments regarding issuance activities and risk exposure. Risk limits set by the Supervisory Board were adhered to.

Due to the mandatory rotation of audit firms in the Netherlands, during the Annual General Meeting on May 18th, 2016 BDO Audit & Assurance B.V. was elected as independent auditors for the fiscal year 2016. The independent auditors audited the annual financial statements of VIF and issued an unqualified audit opinion.

Amsterdam, 6 March 2017

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Original was signed by
Albrecht Möhle, Chairman of the Supervisory Board

Management report

Business Strategy

Volkswagen International Finance N.V. ('VIF' or 'the Company') is one of the funding vehicles of the subsidiaries and joint ventures of the company's ultimate parent, Volkswagen AG ('VWAG'). VIF raises funds by issuing Bonds and Commercial Paper in the international capital markets and lends the proceeds to Volkswagen Group companies and joint ventures. VIF provides the capital market funding as a service within Volkswagen Group thereby achieving an adequate return commensurate with the efforts and associated risks.

Funding

The basis for the issuing activities of the company 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 fully guaranteed by VWAG.

Therefore, the VIF credit rating by Moody's and Standard & Poor's is derived from the VWAG credit rating. According to Moody's, VWAG's rating is set to P-2 (short-term) and A3 (long-term) with a negative outlook. Standard & Poor's assessed VWAG's creditworthiness as A-2 (short-term) and BBB+ (long-term) with a negative outlook.

Due to ongoing investigations by the US-authorities on the use of irregular diesel engine software, VIF refrained from issuing Bonds in the international markets in 2016 (EUR 5.6 billion in 2015). Instead VIF intensified the issuance of Commercial Paper.

Throughout 2016, VIF raised a total of EUR 7.7 billion under the mentioned CP Programme (EUR 0.6 billion in 2015). The proceeds of all issues were granted to Volkswagen Group companies.

VIF also redeemed in 2016 multiple Bond issues with a EUR equivalent of 2.7 billion (2015: EUR 11 billion) and CP issues with a total EUR equivalent of 3.0 billion (2015: EUR 0.2 billion).

Financial Results

VIF realised a negative result of EUR 0.7 million after tax in 2016 against a gain of EUR 63.4 million in 2015. The company generates income mainly from dividends and the Group financing business. Results from participations in 2016 were negative with EUR 15.9 million, mainly due to an impairment of the participation in Volkswagen India Private Ltd., Pune (2015: gain of EUR 42.8 million). Interest income from Group financing activities amounted to EUR 22.9 million (2015: EUR 29.9 million).

On May 20th, 2016 VIF paid a dividend of EUR 563 million out of retained earnings to its parent company Volkswagen Finance Luxemburg S.A. while receiving a capital contribution of EUR 4 million on November 29th, 2016.

Given the fact that issuances under the DIP and CP-programmes are guaranteed by VWAG, the overall financial position of VIF is sound.

Risks

VIF is exposed to business and financial risks. Business risks comprise inter alia legal, operational, personnel, reputational and compliance risks. VIF is adhering to the Governance, Risk and Compliance Guidelines of Volkswagen AG in managing the aforementioned risks.

The main financial risks of VIF are liquidity risk, credit risk, currency risk, interest rate risk and shareholder risk.

Liquidity risk is defined as the risk of not being able to meet own payment obligations in full or when due.

Credit risk is defined as the danger of incurring losses as a result of a default of a borrower or bank.

Currency risk refers to the potential loss in open currency positions arising from adverse changes in exchange rates.

Interest rate risk occurs because of fixed and floating interest rate mismatches between asset and liability items on the balance sheet.

Shareholder risk refers to the risk that losses with a negative impact on the carrying amount of an equity investment could be incurred following a fair value assessment of the prospects of the subsidiary.

The Supervisory Board has established narrow risk limits to restrict these risks and achieve a low risk exposure.

Risk policies

Liquidity risk is contained by extending loan amounts sourced from bond or CP-issuances to VW-Group companies at identical tenors as the funded amounts. VW Group borrowers repay their loans on the same due date when VIF's own payment obligations to the capital markets become due.

Credit risk is addressed by monitoring the financial stability of the Group borrowers and external banks. A fair value and impairment trigger assessment is performed for Group companies at least once a year or in case of need. Banks are monitored centrally at Volkswagen AG based on rating and financial analyses. Financial transactions are only conducted with approved banks.

Currency risk is limited by matching funding and lending currency amounts. In case funding and lending currency do not match derivatives are used to achieve closed positions.

Interest rate risk is contained by matching the fixed and floating interest rate terms of the funding and lending amounts. Mismatches are closed using interest rate derivatives.

Shareholder risk is monitored using fair value assessments taking into account the economic and financial prospects of the subsidiaries. Adjustment measures are coordinated with Volkswagen AG.

For remaining mismatches the Supervisory Board has defined narrow limits. VIF uses adequate tools to assess and to monitor risks. On a monthly basis, a detailed mismatch report, containing all relevant risks, is presented to the management. In 2016 limits were not exceeded.

Expectations 2017

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 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.

In December 2016 Volkswagen AG and the US Department of Justice, the EPA and CARB agreed that Volkswagen will pay fines of approximately EUR 19 billion, settling the legal cases.

Further provisions for fines and pending legal cases in other countries are evaluated and are going to be taken into consideration.

In line with the long-term business strategy, the Volkswagen Group plans to develop new products and to improve its position in existing markets. We expect that VWAG will keep VIF's capital reserve on an adequate level. As several Volkswagen Group companies worldwide are going to use the attractive European funding opportunities, VIF foresees additional requests for refinancing which will be taken care of with reinstated and increased capital market issuances under the DIP and CP-programmes. Based on this assumption, we expect a moderate increase in total business volume for VIF in 2017. Taking into account the expected growth in business volume and the interest environment, the development of interest income should be at a similar level as in previous years.

One third of the Supervisory Board of the company is female. Currently, there are no female directors in the Management Board of the company. The company will deal with this in the future.

The Management Board declares to the best of their knowledge:

1. the financial statements for 2016 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 2016 and the risks to which the company is exposed.

Amsterdam, 6 March 2017

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Original has been signed by
Thomas Fries, Managing Director

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Original has been signed by
Vincent Delva, Managing Director

Financial statements

Balance sheet as at 31 December 2016

(after proposed profit appropriation)

	Ref.	31 December 2016		31 December 2015	
		EUR'000	EUR'000	EUR'000	EUR'000
<i>Assets</i>					
Fixed assets					
Tangible fixed assets	5	231		282	
Intangible fixed assets	5	19		12	
Shares in participations	6	142,610		164,596	
Loans to Volkswagen Group companies	7	18,204,750		21,421,320	
Total fixed assets			18,347,610		21,586,210
Current assets					
Receivables due from Volkswagen Group companies	7	8,918,417		6,413,651	
Receivables due from joint ventures of the Volkswagen Group	7	10,362		12,213	
Other assets	8	29,630		29,860	
Prepayments and accrued expenses	9	713		84	
Total current assets			8,959,122		6,455,808
Cash at banks and in hand	10		100,024		469,313
Total assets			27,406,756		28,511,331

The accompanying notes are integral parts of these financial statements.

	Ref.	31 December 2016		31 December 2015	
		EUR'000	EUR'000	EUR'000	EUR'000
<i>Shareholders' equity and liabilities</i>					
Shareholders' equity	11				
Issued and paid-up share capital		103,035		103,035	
Share premium reserve		8,120		4,120	
Retained earnings		92,650		656,330	
Total shareholders' equity			203,805		763,485
Provisions	12		1,622		1,622
Long-term liabilities	13				
Bonds		17,891,315		21,098,480	
Liabilities to Volkswagen Group companies		355,164		355,164	
Total long-term liabilities			18,246,479		21,453,644
Current liabilities	14				
Bonds		3,271,885		5,236,097	
Commercial papers		5,263,293		549,741	
Liabilities to Volkswagen Group companies		12,337		14,182	
Other liabilities		401,415		474,866	
Deferred income		3,840		15,336	
Current income tax		1,059		1,244	
Trade payables		39		86	
Accrued liabilities		982		1,028	
Total current liabilities			8,954,850		6,292,580
Total shareholders' equity and liabilities			27,406,756		28,511,331

The accompanying notes are integral parts of these financial statements.

Income statement for the year ended 31 December 2016

		2016		2015	
	Ref.	EUR'000	EUR'000	EUR'000	EUR'000
Net financial income					
Interest and similar income	16	695,901		983,239	
Interest and similar expenses	16	(673,029)		(953,302)	
Other operating income	17	2,045		1,980	
Total income			24,917		31,917
Expenses					
Other operating expenses	18	(1,277)		(1,321)	
Personnel expenses	19	(1,927)		(1,854)	
Other general and administrative expenses	20	(1,204)		(1,209)	
Amortisation and depreciation expenses		(90)		(81)	
Total expenses			(4,498)		(4,465)
Result before taxation			20,419		27,452
Taxation on result on ordinary activities	26		(5,100)		(6,860)
Result from participations	21		(15,999)		42,783
Result after taxation			(680)		63,375

The accompanying notes are integral parts of these financial statements.

Cash flow statement for the year ended 31 December 2016

	2016		2015	
	EUR'000	EUR'000	EUR'000	EUR'000
Operating profit		(680)		63,375
Adjustments for:				
Income tax expenses	5,100		(6,860)	
Result from participation	16,084		(20,200)	
Interest income	(695,901)		(983,239)	
Interest expense	673,029		953,302	
Depreciation on (in)tangible assets	90		81	
		(1,598)		(56,916)
Movement in working capital				
Accrued receivables/ other assets	230		(110,907)	
Other liabilities	105,612		432	
Deferred income	(11,496)		(30,541)	
		94,346		(141,012)
Cash (used)/ generated from operations		92,068		(134,553)
Corporate income tax paid	(6,995)		12,011	
Net cash from operating activities		85,073		(122,542)
Cash flow from investment activities				
Loans issued to affiliated companies and JV	(8,867,740)		(5,515,524)	
Repayment of loans to affiliated companies	10,961,834		10,128,529	
Dividend received	5,902		9,700	
Interest received	979,076		1,097,059	
Investment in (in)tangible assets	(45)		(77)	
Net cash (used)/ from investment activities		3,079,027		5,719,687
Cash flow from financing activities				
Proceeds from borrowings	1,156,849		5,569,673	
Repayment of borrowings	(7,973,342)		(10,381,326)	
Proceeds from commercial papers	7,732,223		794,975	
Repayment of commercial papers	(2,987,663)		(245,234)	
Interest paid	(902,456)		(1,072,159)	
Net transfers to/from capital reserve	4,000		(5,800)	
Dividends paid	(563,000)			
Net cash (used)/ from financing activities		(3,533,389)		(5,339,871)
Net cash flows		(369,289)		257,274
Balance as at 1 January		469,313		212,039
Movement		(369,289)		257,274
Balance as at 31 December		100,024		469,313

The accompanying notes are integral parts 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 Paleisstraat 1, 1012 RB Amsterdam, The Netherlands. VIF is registered with the Dutch Register of Commerce under No. 33148825.

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 and joint ventures of VWAG.

1.2 Provisions

Provisions are recognised for legally enforceable or constructive obligations that exist at the balance sheet date, and for which it is probable that an outflow of resources will be required and a reliable estimate can be made.

Provisions are measured at the best estimate of the amount that is necessary to settle the obligation as per the balance sheet date. Provisions for pension are valued on the basis of actuarial principles. The other provisions are carried at the nominal value of the expenditure that is expected to be necessary in order to settle the obligation, unless stated otherwise.

If obligations are expected to be reimbursed by a third party, such reimbursement is included as an asset in the balance sheet if it is probable that such reimbursement will be received when the obligation is settled.

1.3 Related parties

All legal entities that can be controlled, jointly controlled or significantly influenced by VIF are considered to be related parties. Also entities which can control or significantly influence the Company are considered to be related parties. In addition, statutory directors, other key management of the company or the ultimate parent company and close relatives are regarded as related parties.

1.4 Consolidation and shares in participations

In 2014, VIF became a 100% subsidiary of Volkswagen Finance Luxemburg S.A. ('VFL'), which itself is 100% owned by Volkswagen AG, the ultimate parent company. The consolidation, including all subsidiaries of VIF, is performed at VWAG level. These consolidated financial statements can be obtained from the company.

Participations where VIF holds more than 50% of the shares are in principle consolidated at VIF level, unless the voting rights are restricted by legal agreement. In case of the participation in Volkswagen Group Saudi Arabia LLC, VIF holds 51% but there is no consolidation requirement, in line with the agreement on 6th November 2014. VIF can only exercise voting rights upon specific instruction of Volkswagen Finance Luxemburg S.A.

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 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 2016		
		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	9	0	INR	0
Volkswagen Group Services S.A., Brussels, Belgium	>1	0	EUR	0
Total investments in participations		142,610		

In 2016, Management received reports regarding the economic situation of the participations. Upon review of these reports, it was concluded that additional impairment needs 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 interest investments.

For further details on shares in participations, see note 6.

1.5 Note to the cash flow statement

Consolidated cash flows for the whole Volkswagen Group are included in the Volkswagen AG consolidated financial statements. A separate cash flow statement for the company is not required by Dutch law. To be in line with Capital Market practice, VIF nonetheless prepares a cash flow statement, using the indirect method.

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 exchange rates. Exchange differences affecting cash items are included in the respective amounts.

Cash from loans granted and interest received are included in cash from/ used in investment activities. Cash from borrowings, including interest paid and capital increases/ dividends paid/ received are included in cash from/ used in financing activities.

All other movements are included in cash used/ generated from operations.

1.6 *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 presented 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.

Unless otherwise stated, amounts are shown in thousands of euros (EUR'000). All amounts shown are rounded, so minor discrepancies may arise from addition of these amounts. Negligible discrepancies could also arise in the comparison with the prior year owing to adjustments in the rounding methodology.

2.2 *Comparison with prior year*

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

In 2016, capitalized emission costs are allocated to the long term- and current bonds, whereas in prior years, they were presented as capitalised issue costs under 'prepayments and accrued expenses'.

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 presented 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 period end-rate prevailing on the balance sheet date. Investments in participations are stated at the historical exchange rate at the date of the transaction.

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 qualitative 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; 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.

The useful economic life and amortisation method is evaluated as per each balance sheet date.

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:

Asset	Number of years
Office equipment	5
Transport equipment	5
Furniture and fixtures	10
Computer hardware	3

The useful economic life and amortisation method is evaluated as per each balance sheet date.

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 1.4.

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

These loans to Volkswagen Group companies and other participating interests are loans with a remaining 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 financial fixed assets*

On each balance sheet date, the company tests whether there are any indications of assets being subject to impairment. The impairment process takes place at HQ level, according to the DCF method, taking into account the essential figures of the Actuals of the last 5 years, the forecast of the current year, cash flow forecasts and the 5-year planning figures of the counterparties. If any indications for impairment 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 realisable value; the realisable value is the higher of the fair value less costs to sell and the value in use.

The fair value is determined based on the active market. 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.

The value of an asset in use is determined by estimation of the future net cash flows, based on continued use of the asset.

2.8 *Current assets*

All current assets have a maturity within one year.

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.

Other assets

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

Prepayments and accrued expenses

Prepayments and accrued income are initially valued at cost and 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 at banks and in hand is carried at nominal value.

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

2.9 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 remaining 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 initially valued at fair value and subsequently at their amortised cost value.

2.10 Current liabilities

All current liabilities have a maturity within one year.

Bonds

The bonds are initially valued at fair value and subsequently valued at their amortised cost value.

Commercial papers

The commercial papers are initially valued at their fair value and subsequently valued at their amortised cost value.

Liabilities to Volkswagen Group companies

The liabilities to Volkswagen Group companies are initially valued at their fair value and subsequently valued at their amortised cost value.

Deferred income

The deferred income concerns premiums and cost 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. For further information, see Note 26.

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.

2.11 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. The company documents the relationship between hedging instruments and hedged items at the inception of the transaction. 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 7, of the liabilities see notes 13 and 14 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 re-measured (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 period end-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. The book value of the participations is considered annually and impairments are directly recognized in the income statement.

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

General market risk due to recent events at Volkswagen AG

Government authorities in a number of jurisdictions are conducting investigations of Volkswagen regarding findings of irregularities in relation to nitrogen oxide emissions that had been discovered in emissions tests on certain vehicles with Volkswagen Group Diesel engines. The results of these and any future investigations may have a material adverse effect on Volkswagen's business, financial position and results, the price of its securities and reputation.

Volkswagen International Finance N.V.'s commercial success largely depends on the financial health and the reputation of the ultimate shareholder Volkswagen AG and due to the recent events, Volkswagen International Finance N.V. may not succeed in obtaining funds for financing requests in due time and to the extent necessary.

Also, as a result of the recent investigation, Volkswagen International Finance N.V. as an issuer may face risks arising from legal disputes from investors claiming damages for alleged breaches of capital market laws.

Currency risk

To avoid currency 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, currency swaps are executed to achieve the matched basis.

In cases where the matching cannot be achieved completely the Supervisory Board has set small currency limits for individual currencies; policies are closely monitored and enforced. Consequently, currency risk is relatively remote. In 2016, the limits were not exceeded.

Interest rate risk

Based on funding requests by VWAG subsidiaries VIF issues notes to investors matching the fixed or variable interest requirement of the VW subsidiary. In cases where the investor looks for a different interest structure, VIF is using interest rate swaps or cross currency interest rate swaps to convert the interest into the structure required by the VW subsidiary. 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 relatively low. In 2016, no limits were exceeded.

4.2 Credit risk

The risk of default arising from loans granted, account balances and derivative instruments involves the risk of default by counterparties. VIF is extending loans to VWAG-Group companies which are operated according to the guidelines and instructions from VWAG, the guarantor of commercial paper and capital market issuances by VIF. The default risk of VIF-borrowers has been analysed based on financial reports, planning forecasts and discussions with VWAG headquarters. Based on the analysis, the credit risk of VIF-borrowers is considered to be remote.

For VIF's external bank counterparties risk is limited by a limit system centrally managed by VWAG Group Risk Management taking into account also the credit assessments by the international rating agencies. Credit risk with external counterparties materialises from account balances, deposits and derivative transactions with a positive fair value. Given the business purpose of VIF, account balances and deposits are zero or kept to a minimum. Regarding the derivative transactions, exposure is kept within the risk limits defined by VWAG Group Risk Management.

All bonds issued by VIF are guaranteed by VWAG, mitigating the risk to investors.

4.3 Liquidity risk

Based on funding requests by VWAG subsidiaries, VIF issues commercial paper and capital market notes to investors. Funds taken from investors are extended with the same maturity to VW Group borrowers.

In cases where this matching cannot be achieved the Supervisory Board has set narrow liquidity risk limits. The company monitors the limits on a permanent basis. Against the background of the relatively narrow limits and the strong financial solidity of the Volkswagen Group the liquidity risk is remote. In 2016, 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).

The Debt Issuance Program under which VIF is issuing is updated to incorporate the recent developments regarding the diesel emissions irregularities. VIF continues to issue Commercial Paper based on the existing EUR 10 bn Commercial Paper Program to finance Volkswagen Group companies.

To ensure flexible refinancing possibilities, Volkswagen AG has arranged a EUR 20 bn facility with a consortium of banks for general corporate purposes.

5 Fixed assets

	Intangible fixed assets (software)		Tangible fixed assets (other installations, business and office equipment)	
	Total 2016	Total 2015	Total 2016	Total 2015
	EUR'000	EUR'000	EUR'000	EUR'000
1 January	187	179	482	413
Additions	16	8	30	69
Disposals	-	-	-	-
Amortisation/depreciation (accumulated)	(184)	(175)	(281)	(200)
31 December	19	12	231	282
Amortisation/depreciation current year	(9)	(4)	(81)	(77)

The starting balance of 1 January 2016 shows the gross purchase value of the fixed assets. The ending balance as per 31 December 2016 shows the net book value.

6 Shares in participations (fixed assets)

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

	Shares in participations	
	2016	2015
	EUR'000	EUR'000
1 January	164,596	154,096
Additions	-	-
Withdrawals	-	-
Write-ups/ Impairments	(21,986)	10,500
31 December	142,610	164,596

For details, see note 21.

The book values of the participations can be broken down as follows:

	Shares in participations	
	2016	2015
	EUR'000	EUR'000
Volkswagen Autoeuropa, Lda.	132,987	132,987
Volkswagen Group Saudi Arabia LLC	9,623	9,623
Volkswagen India Private Ltd.	-	21,986
Volkswagen Group Services S.A. (1 share)	-	-
31 December	142,610	164,596

Shares in participations

The shares in participations are specified in note 1.4.

Further details to VIF's participations are as follows:

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 2015 EUR'000 362,989
- Net earnings 2015 EUR'000 28,122

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%
- Equity 31 December 2015 SAR'000 55,776
- Net earnings 2015 SAR'000 (50)

Volkswagen Group Saudi Arabia, LLC' is a joint venture with the partners VIF (51%), Automotive Technologies Alliance, LLC (39%) and Saudi Arabian Marketing & Agencies Co. Ltd. (10%). Its main purpose is the import and sales of passenger cars of the brands Volkswagen, Audi and Porsche. In 2014 VIF concluded a de-domination agreement with VFL under which VIF will execute any shareholder rights only based on instructions by VFL, i.e. the control over VGSA is no longer with VIF but with VFL and consequently VGSA has not been consolidated with VIF.

Volkswagen India Private Ltd., Pune, India (VWIPL)

- Incorporation: 6 February 2007
- Participation rate VIF: 9.01%
- Equity 31 March 2016 Rs'000 27,273
- Net earnings 31 March 2016 Rs'000 2,489

Volkswagen India Private Ltd. was established 6 February 2007 and is owned by VWAG (90.99% capital rights, 0.01% voting rights) and VIF (9.01% capital rights, 99.99% voting rights). Its main purpose is the design, development, manufacturing, production, assembly, sales, distribution, export, import and/or marketing automotive vehicles and related parts, components and accessories. In 2014 VIF concluded a de-domination agreement with VFL under which VIF will execute any shareholder and voting rights only based on instructions by VFL, i.e. the control over VWIPL is no longer with VIF but with VFL and consequently VWIPL has not been consolidated with VIF.

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

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 2016			31 December 2015		
	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	27,123,167	18,204,750	8,918,417	27,834,971	21,421,320	6,413,651
Amounts due from joint ventures of the Volkswagen Group	10,362	-	10,362	12,213	-	12,213
	<u>27,133,529</u>	<u>18,204,750</u>	<u>8,928,779</u>	<u>27,847,184</u>	<u>21,421,320</u>	<u>6,425,864</u>

31 December 2016

	Original currency	Average interest rate as percentage	Book value	Market value
		%	EUR'000	EUR'000
Fixed asset loans to Volkswagen Group companies	EUR	3,0133	16,628,467	18,373,693
	USD	4,2539	701,030	749,509
	CNY	5,0486	518,394	514,651
	GBP	1,0429	356,859	334,935
			18,204,750	19,972,788
Current receivables due from Volkswagen Group companies	EUR	0,8875	6,650,977	6,698,558
	USD	2,0192	1,719,860	1,730,710
	CNY	4,6632	136,025	136,950
Current receivables due from joint ventures of the Volkswagen Group	CZK	0,2750	10,362	10,362
Accrued and other receivables due from Volkswagen Group compa- nies and joint ventures			411,555	411,555
			8,928,779	8,988,135
Total loans to and receivables due from Volkswagen Group compa- nies and joint ventures of the Volkswagen Group			27,133,529	28,960,923

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 2.10

As at 31 December 2016 the following credit spreads were applicable to the Volkswagen Group:

	31 Dec 2016	31 Dec 2015
	BPS	BPS
For amounts payable within one year:	21,83	53,25
For amounts payable between one year and five years:	57,75	210,00
For amounts payable after five years	105,20	240,00

For comparison purposes the overview of 2015 is as follows:

	Original currency	Average interest rate as percentage	31 December 2015	
			Book value	Market value
			EUR'000	EUR'000
Fixed asset loans to Volkswagen Group companies	EUR	2,9656	18,544,538	19,437,231
	USD	2,8822	1,844,310	1,805,637
	CNY	4,9561	665,964	676,406
	GBP	1,2206	366,508	350,564
			21,421,320	22,269,838
Current receivables due from Volkswagen Group companies	EUR	1,9317	4,506,591	4,594,318
	USD	2,8399	735,558	741,885
	GBP	1,1506	425,592	396,194
	CNY	2,7583	211,909	211,299
	PLN	3,3180	58,047	58,264
Current receivables due from joint ventures of the Volkswagen Group	CZK	0,2893	12,213	12,213
Accrued and other receivables due from Volkswagen Group companies and joint ventures			475,954	475,955
			6,425,864	6,490,128
Total loans to and receivables due from Volkswagen Group companies and joint ventures of the Volkswagen Group			27,847,184	28,759,966

8 Other assets

	31 Dec 2016	31 Dec 2015
	EUR'000	EUR'000
Interest receivable from banks	27,230	28,370
Income tax receivable	2,156	1,023
Positive fair value	234	447
Rental deposit	10	10
Trade receivables	-	10
	29,630	29,860

The interest receivable from banks relates to the swap agreements and to deposits.
The income tax receivable relates to recoverable income- and withholding taxes.

9 Prepayments and accrued expenses

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	EUR'000	EUR'000
Prepaid expenses	713	84
	<u>713</u>	<u>84</u>

10 Cash at banks and in hand

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	EUR'000	EUR'000
Short term deposits	-	12,988
Cash at internal bank accounts (cash pooling)	100,024	456,066
Cash at external bank accounts	-	259
	<u>100,024</u>	<u>469,313</u>

All cash balances are at the free disposal of the company and do not bear any interest. The credit risk for cash at external bank accounts is based on a risk assessment and within the limits defined by VWAG Group Risk Management.

11 Shareholders' equity

Share capital

On 31 December 2016, the subscribed capital of the company amounted to EUR 104,370,000, of which an amount of EUR 103,035,000 was paid up, representing 103,035 registered and issued shares of EUR 1,000 each.

The company has no mandatory reserves.

Based on the Management Board resolution of 18th May 2016, on 20th May 2016 a dividend for an amount of EUR 563 million was paid to the shareholder VFL.

Based on the Shareholder's resolution of 25th November 2016, on 29th November 2016 VIF received a capital contribution of EUR 4 million, which was added to the Share premium reserve.

	Issued and paid-up share capital	Share premium reserve	Retained Earnings	Total Shareholder's Equity
	EUR'000	EUR'000	EUR'000	EUR'000
Balance 1 January 2015	103,035	9,920	592,955	705,910
Repayment to VFL	-	(9,800)	-	(9,800)
Contribution from VFL	-	-	-	-
Dividend paid	-	4,000	-	4,000
Result for 2015	-	-	63,375	63,375
Balance as at 1 January 2016	103,035	4,120	656,330	763,485
Dividend paid	-	-	-	-
Contribution from VFL	-	4,000	(563,000)	(563,000)
Result for 2016	-	-	(680)	(680)
Balance as at 31 December 2016	103,035	8,120	92,650	203,805

12 Provisions

Provision for disposal of Volkswagen Caminhões, Ltda.

The movement in provisions is as follows:

	2016
	EUR'000
1 January	1,622
Additions	-
Utilisation	-
Dissolution	-
31 December	1,622

The balance of the provision is mainly relating to tax issues still pending for the former participation Volkswagen Caminhões, Ltda.

For comparison purposes the overview of 2015 is as follows:

	2015
	EUR'000
1 January	24,182
Additions	-
Utilisation	-
Dissolution	(22,560)
31 December	1,622

13 Long-term liabilities

	31 Dec 2016	31 Dec 2015
	EUR'000	EUR'000
Bonds (listed and unlisted)	17,891,315	21,098,480
Liabilities to Volkswagen Group companies	355,164	355,164
	<u>18,246,479</u>	<u>21,453,644</u>

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

	Original currency	Average interest rate as percentage	31 December 2016	
			Book value	Market value
		%	EUR'000	EUR'000
Maturity longer than 5 years				
Bonds (listed)	EUR	3,1750	8,607,118	8,765,460
Maturity less than 5 years				
Bonds (listed)	EUR	2,5943	7,986,309	8,287,870
Bonds (listed)	CNY	3,5000	163,471	155,457
Bonds (listed)	HKD	1,5800	56,859	72,682
Bonds (unlisted)	USD	3,2500	1,077,558	1,216,399
Total long-term bonds			<u>17,891,315</u>	<u>18,497,868</u>

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 determination of the market values see note 2.10.

For comparison purposes, the overview of 2015 is as follows:

	Original currency	Average interest rate as percentage	31 December 2015	
			Book value	Market value
		%	EUR'000	EUR'000
Maturity longer than 5 years				
Bonds (listed)	EUR	3,133	10,836,728	10,213,074
Maturity less than 5 years				
Bonds (listed)	EUR	2,383	7,282,180	7,343,105
Bonds (listed)	CNY	3,614	311,184	293,084
Bonds (listed)	NOK	3,000	116,202	79,202
Bonds (listed)	HKD	1,580	66,494	67,307
Bonds (unlisted)	USD	2,579	2,485,692	2,638,155
Total long-term bonds			<u>21,098,480</u>	<u>20,633,927</u>

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

	Original currency	Average interest rate as percentage	31 December 2016	
			Book value	Market value
		%	EUR'000	EUR'000
Volkswagen AG	EUR	0,6095	355,164	356,374
			355,164	356,374

For comparison purposes, the overview of 2015 is as follows:

	Original currency	Average interest rate as percentage	31 December 2015	
			Book value	Market value
		%	EUR'000	EUR'000
Volkswagen AG	EUR	0,6095	355,164	340,282
			355,164	340,282

The credit ratings of the rating agencies are derived from VWAG's rating:

2016			
Agency	Short-term	Long term	Outlook
Moody's	P-2	A-3	negative
Standard & Poor	A-2	BBB+	negative
2015			
Agency	Short-term	Long term	Outlook
Moody's	P-2	A-3	negative
Standard & Poor	A-2	BBB+	negative

14 Current liabilities

	31 Dec 2016	31 Dec 2015
	EUR'000	EUR'000
Bonds	3,271,885	5,238,446
Commercial papers	5,263,293	549,741
Other liabilities	401,415	474,866
Liabilities to Volkswagen Group companies	12,337	14,182
Deferred income	3,840	15,336
Current income tax	1,059	1,244
Accrued liabilities	982	1,028
Trade payables	39	86
	8,954,850	6,294,929

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

	Original currency	Average interest rate as percentage	31 December 2016	
			Book value	Market value
		%	EUR'000	EUR'000
Bonds (listed)	EUR	1,8831	1,549,060	1,555,830
Bonds (listed)	CNY	3,7500	136,304	132,139
Bonds (listed)	NOK	3,0000	119,860	83,328
Bonds (unlisted)	USD	2,0697	1,466,661	1,561,991
Total short-term bonds			3,271,885	3,333,288

For determination of the market values, see note 2.10.

For comparison purposes the overview of 2015 is as follows:

	Original currency	Average interest rate as percentage	31 December 2015	
			Book value	Market value
		%	EUR'000	EUR'000
Bonds (listed)	EUR	2,584	3,298,860	3,305,075
Bonds (listed)	CNY	2,150	212,399	208,251
Bonds (listed)	AUD	4,625	144,492	101,798
Bonds (unlisted)	USD	1,597	1,580,346	1,730,265
Total short-term bonds			5,236,097	5,345,389

A breakdown of the current liabilities from issued commercial paper as per 31 December 2016 is as follows:

	Original currency	Average interest rate as percentage	31 December 2016	
			Book value	Market value
		%	EUR'000	EUR'000
Average term 11 months				
Commercial Papers	EUR	0,2212	4,740,426	4,735,729
	USD	1,8057	522,867	523,190
Total commercial papers			5,263,293	5,258,919

For comparison purposes the overview of 2015 is as follows:

	Original currency	Average interest rate as percentage	31 December 2015	
			Book value	Market value
		%	EUR'000	EUR'000
Average term 3 months				
Commercial Papers	EUR	0,4410	549,741	548,789
Total commercial papers			549,741	548,789

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

	Original currency	Average interest rate as percentage	31 December 2016	
			Book value	Market value
		%	EUR'000	EUR'000
Volkswagen Group Services S.A.	EUR	0,2125	12,337	10,361
			12,337	10,361

For comparison purposes, the overview of 2015 is as follows:

	Original currency	Average interest rate as percentage	31 December 2015	
			Book value	Market value
		%	EUR'000	EUR'000
Volkswagen Group Services S.A.	EUR	0,2268	14,182	12,213
			14,182	12,213

A breakdown of the other liabilities is as follows:

	31 Dec 2016	31 Dec 2015
	EUR'000	EUR'000
Loan interest payables	388,350	460,977
Swap interest payables	12,681	12,889
Fair value financial instruments	323	944
Others	61	56
	401,415	474,866

	31 Dec 2016	31 Dec 2015
	EUR'000	EUR'000
Deferred income		
Capitalised issue income	3,840	15,336
	<u>3,840</u>	<u>15,336</u>

This item relates to received up-front payments from cross-currency interest rate swaps, compensating the emission costs incurred on bonds.

15 Commitments not included in the balance sheet

The following revolving credit facilities are currently outstanding:

Borrower	Currency	Amount EUR'000	Effective date	Termination date
VW Group Services	(Multicurrency)	3,000,000	23.03.2010	open
VWAG	(Multicurrency)	6,000,000	19.04.2010	open
VW Finance SA	EUR	1,500,000	17.05.2010	open
Sko-Energo	CZK	550,000	04.10.2010	open
Skofin	CZK	1,300,000	05.06.2015	open
VW Autoeuropa	EUR	40,000	07.04.2016	20.03.2017

For comparison the overview of 2015:

Borrower	Currency	Amount EUR'000	Effective date	Termination date
VW Group Services	(Multicurrency)	3,000,000	23.03.2010	open
VWAG	(Multicurrency)	2,000,000	19.04.2010	open
VW Finance SA	EUR	1,500,000	17.05.2010	open
Sko-Energo	CZK	550,000	04.10.2010	open
Skofin	CZK	1,300,000	05.06.2015	open
VW Autoeuropa	EUR	30,000	07.07.2015	26.02.2016

16 Financial income and expenses

	2016	2015
	EUR'000	EUR'000
Interest and similar income from group companies	695,901	983,239
Interest and similar expenses to banks	(670,847)	(951,209)
Interest and similar expenses to group companies	(2,182)	(2,093)
	<u>22,872</u>	<u>29,937</u>

17 Other operating income

	2016	2015
	EUR'000	EUR'000
Service fees charged to:		
- Volkswagen Financial Services N.V. ⁽¹⁾	1,300	1,440
- Volkswagen AG ⁽²⁾	150	150
- Volkswagen International Payment Services N.V. ⁽¹⁾	-	85
- Volkswagen Group of America Finance ⁽¹⁾	19	26
- Volkswagen Global Finance Holding B.V. ⁽¹⁾	-	12
- Global Mobility Holding B.V. ⁽¹⁾	12	-
- Volkswagen Leasing SA de CV ⁽²⁾	1	-
Fair value income ⁽³⁾	306	-
Miscellaneous income previous years	136	266
Miscellaneous income	79	1
Income from sub-rental of office premises	42	-
	<u>2,045</u>	<u>1,980</u>

⁽¹⁾ Compensation for the use of VIF's infrastructure and staff.

⁽²⁾ Compensation for the processing and reporting of hedge effectiveness measurement calculations.

⁽³⁾ Fair value income deriving, from unrealized FX Forwards.

18 Other operating expenses

	2016	2015
	EUR'000	EUR'000
Translation losses	776	1,151
Miscellaneous expenses previous years	488	-
Bank charges	13	12
Fair value expenses	-	138
Other	-	20
	<u>1,277</u>	<u>1,321</u>

The miscellaneous expenses previous years relate to an adjustment of the guarantee commission charged in 2015.

19 Personnel expenses

A breakdown of the personnel expenses is as follows:

	2016	2015
	EUR'000	EUR'000
Salaries and wages	1,662	1,628
Social security contributions	124	118
Pension contributions	141	109
	<u>1,927</u>	<u>1,854</u>

The company has a defined contribution pension plan that is reinsured with an insurance company. The premium payable during the financial year is charged to the result.

20 General and administrative expenses

	2016	2015
	EUR'000	EUR'000
Office expenses	789	809
Insurance	176	172
Consulting, auditing and legal fees	137	94
Temporary labour	27	55
Car expenses	40	47
Travel expenses	31	25
Training personnel	4	7
	<u>1,204</u>	<u>1,209</u>

21 Result from participations

	2016	2015
	EUR'000	EUR'000
Dividends received		
Volkswagen Autoeuropa, Lda., Portugal	5,902	9,700
Write-ups/devaluations		
Volkswagen India Private Ltd., India	(21,986)	10,500
Miscellaneous gains/losses		
Volkswagen Caminhões Ltda, Brazil (release of provision)	-	22,583
Proceeds from sales INIS Prague (retro-active adjustment of sales price)	85	-
Total income received	<u>(15,999)</u>	<u>42,783</u>

For investments in participations, see note 1.4.

22 Independent auditor's fees

The following fees based on invoices and estimated work orders for assurance services incurred in the reporting year:

	2016	2015
	EUR'000	EUR'000
Audit of the financial statements	52	30
Other audit procedures	30	12
Tax services	-	-
Other non-audit services	-	-
	<u>82</u>	<u>42</u>

In 2015, the audit was performed by PricewaterhouseCoopers Accountants N.V. Due to mandatory rotation of audit firm, the audit in 2016 was performed by BDO Audit & Assurance B.V. The other audit procedures relate to the audit of the group reporting packages and was performed by PricewaterhouseCoopers Accountants N.V.

23 Related parties

All loans are granted to Volkswagen Group companies and joint ventures, including the interest income generated from these financial instruments.

For investments in participations, see notes 1.4, 6 and 21.

For receivables due from Volkswagen Group companies, see note 7.

For liabilities to Volkswagen Group companies, see notes 13 and 14.

For income from other services rendered to related parties, see note 17.

24 Average number of employees

During the year 2016, the average number of employees calculated on a full-time-equivalent basis was 16 (2015: 16). There were no employees working abroad.

25 Financial instruments

The company uses derivative instruments as hedges for its interest rate and exchange rate exposures. The current hedges are all 100% effective.

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

	Interest swaps	Interest/ currency swaps	FX Contracts	Total
	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2016	1,300,000	1,746,195	22,671	3,068,866
31 December 2015	2,600,000	2,778,675	1,975	5,380,650

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

	Interest swaps	Interest/ currency swaps	FX contracts	Total
	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2016				
Positive market value	54,279	238,426	234	292,939
Negative fair value	(2,781)	(36,396)	(323)	(39,500)
Total market value	51,498	202,030	(89)	253,439
31 December 2015				
Positive market value	59,994	325,034	558	385,585
Negative fair value	(3,270)	(101,292)	(944)	(105,506)
Total market value	56,724	223,741	(386)	280,079

26 Taxation on result on ordinary activities

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

	2016	2015
	EUR'000	EUR'000
Result from ordinary activities before taxation	4,420	70,235
Of which income from participations (excluding gains/losses forward cover on dividend income and valuation result)	(15,999)	42,783
Result on ordinary activities	20,419	27,452
Taxation on result on ordinary activities	5,100	6,860
Effective tax rate	115,4 %	9.8%
Applicable tax rate	25,0%	25,0%

27 Profit distribution

Management proposes to carry forward the 2016 loss of EUR 680,517.55.

28 Post balance sheet events

No post balance sheet events that require disclosure have occurred.

29 Directors and Supervisory Directors

Management Board:

- Thomas Fries, Amsterdam
- Vincent Delva, Brussels

The remuneration for 2016 of the Management Board amounts to EUR 413,105 (2015: EUR 470,031) and is included in the personnel expenses (see note 19).

Supervisory Board:

- Dr. Jochen Stich, Salzburg (Chairman) (until 31 December 2016)
- Albrecht Möhle, Wasbüttel (Member) (until 31 December 2016)
(Chairman) (as of 1 January 2017)
- Gudrun Letzel, Hannover
- Stefan Rasche, Tervuren (as of 1 January 2017)

The Supervisory Board has not received any remuneration for 2016 or 2015.

Amsterdam, 6 March 2017

Management Board,

Supervisory Board,

Original has been signed by
T. Fries

Original has been signed by
A. Möhle

Original has been signed by
V. Delva

Original has been signed by
G. Letzel

Original has been signed by
S. Rasche

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.

Independent auditor's report

To: the shareholders and Supervisory Board of Volkswagen International Finance N.V.

A. Report on the audit of the financial statements 2016

Our opinion

We have audited the financial statements 2016 of Volkswagen International Finance N.V., based in Amsterdam ('VIF' or the 'Company')

WE HAVE AUDITED	OUR OPINION
The financial statements which comprise: 1. the balance sheet as at 31 December 2016; 2. the income statement for 2016; and 3. the notes comprising a summary of the applicable accounting policies and other explanatory information.	In our opinion the enclosed financial statements give a true and fair view of the financial position of Volkswagen International Finance N.V. as at 31 December 2016 and of its result for 2016 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

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 Volkswagen International Finance N.V. 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.

Materiality

Based on our professional judgment we determined the materiality for the financial statements as a whole at € 277 million. The materiality has been calculated as 1% of the total assets which is the primary consideration of the users of the financial statements of the company. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

We agreed with the Supervisory Board that misstatements in excess of € 13 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

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

KEY AUDIT MATTER

OUR AUDIT APPROACH

Existence and valuation of loans

As discussed in Note 1.1 to the financial statements, the main purpose of VIF is the financing of companies and joint ventures belonging to the Volkswagen AG group ('Volkswagen Group') through offering bonds and issuing commercial papers. The repayment of these financial liabilities is being fully guaranteed by Volkswagen AG.

We considered the existence and valuation of the financial instruments granted to related parties as a key audit matter due to the size of the portfolio which consists of loans to (€ 18.2 billion) and receivables due from (€ 8.9 billion) Volkswagen Group companies and joint ventures as of year-end and due to the material impact an impairment may have on the income statement. These are initially recognized at fair value and subsequently measured at amortized cost.

In 2015, there were irregularities identified by US authorities relating to nitrogen oxide emissions on certain Volkswagen diesel engines. This prompted Standard & Poor's and Moody's Investor Services to downgrade the credit rating of Volkswagen AG. This has an impact to the creditworthiness of the entities within Volkswagen Group with existing loan balances due to VIF and therefore could affect the valuation of the related accounts.

Based on the impairment assessment performed by VIF, management has concluded that no impairment is necessary as of year-end.

In order to ascertain the existence of loans issued to Volkswagen Group companies, we have performed confirmation procedures with counterparties and tested the controls over the input of contracts in VIF's accounting system.

The following procedures were performed to identify potential impairment triggers that affects the valuation of loans:

1. Discussed the impairment analysis with management and Supervisory Board and challenged the assumptions used by comparing them with external observable data (e.g., data from credit rating agencies and financial data of the debtors).
2. Analyzed if there have been any impairment triggers at an individual loan level by challenging the fair values determined by management.
3. Tested the acceptability of impairment analysis method used by management by validating the mathematical accuracy and consistency of the method per counterparty.

Further, we have also reviewed the latest financial information of Volkswagen AG to assess its ability to cover the repayment of financial securities issued by VIF in case of default.

We assessed the adequacy of the disclosures in the financial statements relating to these financial instruments.

KEY AUDIT MATTER	OUR AUDIT APPROACH
<p>Appropriateness of hedge accounting As discussed in Note 2.11, VIF applies cost price hedge accounting to manage its interest rate and foreign exchange risks. Management assessed that the hedge is 100% effective by comparing the critical qualitative characteristics of the hedged item and the hedging instrument.</p> <p>We have identified this as a key audit matter since inappropriate application of the hedging will have an impact to the income statement.</p>	<p>The following procedures were performed to ascertain that the use of hedge accounting is appropriate:</p> <ol style="list-style-type: none"> 1. Discussed with management the rationale for their expectation at the inception of the hedge that the hedging relationship will be highly effective and their process for reviewing its ongoing effectiveness. 2. Reviewed the documentation and hedge effectiveness testing performed by the management to ensure that the hedged transactions comply with the hedge accounting requirements, including designation and documentation requirements.

KEY AUDIT MATTER	OUR AUDIT APPROACH
<p>Completeness of derivatives VIF entered into derivative contracts to manage its interest rate risks and currency risks relating to the loans issued to Volkswagen Group companies.</p> <p>VIF's portfolio consists of forward contracts, long-term interest rate swaps and cross currency swaps where the market is not always fully liquid.</p> <p>There is an increased level of subjectivity in determining the fair values of the instruments due to the number of input factors.</p> <p>We consider the completeness and valuation of derivatives as a key audit matter as these are related to the hedging transactions of the company.</p> <p>As of year-end, the notional amounts of the derivative instruments totaled € 3.1 billion.</p>	<p>The completeness of the derivatives was tested by verifying that the outstanding derivatives as of year-end are in line with the outstanding loan and deposit balances in nature and extent and by reviewing the results of the confirmation replies regarding the existing derivative contracts with the banks.</p> <p>We have requested the auditors of Volkswagen Group to perform the testing procedures of the valuation of derivative instruments as follows:</p> <ol style="list-style-type: none"> 1. Review the process of VIF in determining the fair values of the derivative instruments. 2. Evaluation of the model and underlying data used to develop the fair value measurement. <p>We have reviewed and discussed the results of the testing procedures performed by the auditors of Volkswagen Group to ensure that the specified audit procedures were undertaken properly and the risks identified were fully addressed.</p> <p>We assessed the adequacy of the disclosures in the financial statements relating to these derivative financial instruments.</p>

B. Report on other information included in the annual report

Next to the financial statements and our opinion thereon, the annual report consists of other information, including:

- the Supervisory Board report;
- the management report; and
- the other information on page 36.

Based on the procedures as mentioned below, we are of the opinion that the other information:

- is consistent with the financial statements and contains no material deficiencies;
- includes all information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information and based on our knowledge and understanding obtained from the audit of the financial statements or otherwise, we have considered if the other information contains material deficiencies.

With these procedures, we have complied with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Auditing Standard 720. These procedures do not have the same scope as our audit procedures on the financial statements.

Management is responsible for the preparation of the other information including the preparation of the Supervisory Board report, management report and the other information on page 36 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

C. Report on other legal and regulatory requirements

Engagement

We were engaged by the Supervisory Board as auditor of Volkswagen International Finance N.V. on 29 September 2016 as of the audit for year 2016 and have operated as statutory auditor ever since that date.

D. Description of responsibilities for the financial statements

Responsibilities of management and the Supervisory Board for the financial statements

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

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.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

Misstatements can arise from errors or fraud and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to errors or fraud, 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 errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the 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 management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events 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. However, future events or conditions may cause the company ceasing to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- 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 findings 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 mentioning it is in the public interest.

Amstelveen, 6 March 2017

For and on behalf of BDO Audit & Assurance B.V.,

sgd.
drs. M.F. Meijer RA