

Financial report June 2016

Volkswagen International Finance N.V.

Amsterdam

Management report

Volkswagen International Finance N.V. ('VIF' or 'the company') is one of the funding vehicles of Volkswagen AG, Wolfsburg (VWAG) and its subsidiaries. VIF raises funds from the capital markets by issuing notes and lends the proceeds on to group and joint venture companies. Basis for the issuing activities are the EUR 30 billion Debt Issuance Programme (DIP) that adheres to the European Prospective Directive Standards and a EUR 10 billion Multi-Currency Commercial Paper Programme (CP Programme). All issues are guaranteed by VWAG. 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.

Within the first six months of 2016 under the DIP, VIF did not place any new bonds. In this period a total equivalent of EUR 1,7 billion in bonds has been redeemed.

VIF placed under the Commercial Paper Programme 80 issues with a total equivalent of EUR 3,9 billion. An equivalent of EUR 0,9 billion has been redeemed.

The proceeds of all issues mentioned above were granted to Volkswagen group companies.

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

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

Within the first half year 2016 VIF realized earnings of EUR 13,3 million after taxes against EUR 20,2 million in the first half of 2015. The company generates income mainly from the group financing business and dividends. The interest income from group financing activities amounts to EUR 10,5 million (2015: EUR 15,7 million). Income from participations adds up to EUR 5,9 million compared to EUR 9,7 million in 2015.

For the second half of the 2016 we expect business volume and interest result to be on a similar level as in the first half.

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

The majority of VIF's borrowers have either sold cars with affected diesel engines or have them in their inventory. The Management Board and the Supervisory Board of VIF discussed the issue and came to the conclusion that investors and the financial markets assess the risks VIF is exposed to on

the background of the guarantee by Volkswagen AG, since investors have full recourse to Volkswagen AG.

VIF Management has also assessed the impact of the “diesel emission issue” on the borrowers of VIF by analyzing in detail the financial situation of the borrowers as well as budget forecasts and concluded that VIF is not exposed to higher credit risk. This is further evidenced by the fact that although the credit spreads in the capital markets widened for Volkswagen risk after the diesel emission revelations, the prices of listed bonds have come back and the paper trade slightly below the levels before the announcements.

As a result of the recent investigations, VIF as an issuer may in the future face risks arising from legal disputes with investors claiming damages for alleged breaches of capital market laws.

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

1. the financial statements for the first half year of 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 the first half year and the risks to which the company is exposed.

Amsterdam, 29 July 2016

Original has been signed by
Thomas Fries, Managing Director

Original has been signed by
Vincent Delva, Managing Director

Balance sheet as at 30 June 2016

(unaudited)

		30 June 2016		31 December 2015	
	Ref.	EUR'000	EUR'000	EUR'000	EUR'000
Assets					
Fixed assets					
Intangible fixed assets		12		12	
Tangible fixed assets		266		282	
Shares in participations		164,596		164,596	
Loans to Volkswagen group companies		18,996,303		21,421,320	
Total fixed assets			19,161,177		21,586,210
Current assets					
Receivables due from Volkswagen group companies		8,072,841		6,413,651	
Receivables due from joint ventures of the Volkswagen group		-		12,213	
Other assets		32,593		29,860	
Prepayments and accrued income		58,574		144,061	
Cash at banks and in hand		92,395		469,313	
Total current assets			8,256,403		7,069,098
Total assets			27,417,580		28,655,308

(unaudited)

	30 June 2016		31 December 2015	
	EUR'000	EUR'000	EUR'000	EUR'000
<i>Shareholders' equity and liabilities</i>				
Shareholders' equity				
Issued and paid-up share capital	103,035		103,035	
Share premium reserve	4,120		4,120	
Retained earnings	93,330		656,330	
Current earnings	13,304		-	
Total shareholders' equity		213,789		763,485
Provisions	1,622	1,622	1,622	1,622
Long-term liabilities				
Bonds	18,736,238		21,240,108	
Liabilities to Volkswagen group companies	355,164		355,164	
Total long-term liabilities		19,091,402		21,595,272
Current liabilities				
Bonds	4,701,246		5,238,446	
Commercial papers	3,148,252		549,741	
Liabilities to Volkswagen group companies	884		14,182	
Other liabilities	251,274		474,866	
Deferred income	5,570		15,336	
Current income tax	1,079		1,244	
Trade payables	95		86	
Accrued liabilities	2,367		1,028	
Total current liabilities		8,110,767		6,294,929
Total shareholders' equity and liabilities		27,417,580		28,655,308

Income statement 30 June 2016

(unaudited)

	30 June 2016		30 June 2015	
	EUR'000	EUR'000	EUR'000	EUR'000
Income				
Interest and similar income	361,259		505,113	
Other operating income	1,085		704	
Total income		362,344		505,817
Expenses				
Interest and similar expenses	(350,716)		(489,386)	
Other operating expenses	(89)		(813)	
General and administrative expenses	(1,623)		(1,722)	
Amortisation and depreciation expenses	(44)		(32)	
Total expenses		(352,472)		(491,953)
Result before taxation		9,872		13,864
Taxation		(2,470)		(3,360)
Result from participations		5,902		9,703
Result after taxation		13,304		20,207