Financial report June 2017 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 15 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.

In March 2017 VIF returned to the market with a multi-tranche stand-alone issue in amount of EUR 8 billion, and in June 2017 issued a EUR 3.5 billion dual-tranche hybrid bond.

During the first half year of 2017 a total equivalent of EUR 2,4 billion in bonds has been redeemed.

VIF placed under the Commercial Paper Programme 75 issues with a total equivalent of EUR 3,1 billion. An equivalent of EUR 2,4 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 2017 VIF realized earnings of EUR 57,0 million after taxes against EUR 13,3 million in the first half of 2016. The company generates income mainly from the group financing business and dividends. The interest income from group financing activities amounts to EUR 14,0 million (2016: EUR 10,5 million). Income from participations adds up to EUR 47,0 million compared to EUR 5,9 million in 2016.

For the second half of the 2017 we expect business volume and interest result to be on a similar level as in the first half.

Government authorities in a number of jurisdictions have commenced investigations 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.

In December 2016 Volkswagen AG and the US Department of Justice, the US Environmental Protection Agency (EPA) and the California Air Resources Board (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.

The majority of VIF's borrowers has either sold cars with affected diesel engines or has 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.

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

- 1. the financial statements for the first half year of 2017 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, 28 July 2017

Original has been signed by

Thomas Fries, Managing Director

Original has been signed by

Vincent Delva, Managing Director

Balance sheet as at 30 June 2017

(unaudited)

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		30 June 2017		31 December 2016	
Assets	Ref.	EUR'000	EUR'000	EUR'000	EUR'000
Fixed assets Intangible fixed assets Tangible fixed assets Shares in participations Loans to Volkswagen group		13 196 142,610		19 231 142,610	
companies		29,084,250		18,204,750	
Total fixed assets			29,227,069		18,347,610
Current assets Receivables due from Volkswagen group companies Receivables due from joint ventures of the Volkswagen		7,618,969		8,918,417	
group Other assets Prepayments and accrued		1,334 21,842		10,362 29,630	
income		54,565		713	
Total current assets			7,696,710		8,859,122
Cash at banks and in hand			122,457		100,024

Total assets	37,046,236	27,406,756

(unaudited)

	30 June 2017		31 December 2016	
Shareholders' equity and liabilities	EUR'000	EUR'000	EUR'000	EUR'000
Shareholders' equity Issued and paid-up share capital Share premium reserve Retained earnings	103,035 8,120 92,650		103,035 8,120 92,650	
Current earnings	56,981			
Total shareholders' equity		260,786		203,805
Provisions	1,622	1,622	1,622	1,622
Long-term liabilities				
Bonds	28,808,557		17,891,315	
Liabilities to Volkswagen group companies	355,164		355,164	
Total long-term liabilities		29,163,721		18,246,479
Current liabilities				
Bonds	1,309,685		3,271,885	
Commercial papers	6,037,405		5,263,293	
Liabilities to Volkswagen group	0.044		40.007	
companies Other liabilities	2,211 245,778		12,337 401,415	
Deferred income	245,778 22,168		401,415 3,840	
Current income tax	44		1,059	
Trade payables	30		39	
Accrued liabilities	2,786		982	
Total current liabilities		7,620,107		8,954,850
Total shareholders' equity and liabilities		37,046,236		27,406,756

Income statement 30 June 2017

(unaudited)

(30 June 2017		30 June 2016	
	EUR'000	EUR'000	EUR'000	EUR'000
Income				
Interest and similar income	355,158		361,259	
Other operating income	1,024		1,085	
Total income		356,182		362,344
Expenses				
Interest and similar expenses	(341,177)		(350,716)	
Other operating expenses General and administrative	(70)		(89)	
expenses	(1,522)		(1,623)	
Amortisation and depreciation				
expenses	(43)		(44)	
Total expenses		(342,812)		(352,472)
Result before taxation	-	13,370	-	9,872
Taxation		(3,340)		(2,470)
Result from participations		46,951		5,902
Result after taxation	-	56,981	-	13,304