VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY

VOLKSWAGEN FINANCIAL SERVICES AG – HOLDING
ANNUAL FINANCIAL STATEMENTS

2017

Balance Sheet

of Volkswagen Financial Services AG, Braunschweig, as of December 31, 2017

€ thousand		Dec. 31, 2017	Dec. 31, 2016 (restated)	Dec.31, 2016
Assets				
A. Fixed assets				
I.	Intangible assets	-	11,960	11,960
II.	Property and equipment	-	44,380	44,380
III.	Financial assets	5,983,526	6,055,624	12,399,703
		5,983,526	6,111,964	12,456,043
B. Current assets				
I.	Receivables and other assets	6,022,217	6,640,373	6,640,373
II.	Cash-in-hand and bank balances	2,154	977	977
		6,024,371	6,641,350	6,641,350
C. Prepaid expenses		3,673	27,384	27,384
Total assets		12,011,570	12,780,698	19,124,777
Equity and liabilities				
A. Equity				
I.	Subscribed capital	441,280	441,280	441,280
II.	Capital reserves	2,599,687	4,104,962	10,449,041
III.	Retained earnings	99,469	99,469	99,469
IV.	Net retained earnings	1,705	1,705	1,705
		3,142,141	4,647,416	10,991,495
B. Provisions		416,417	492,452	492,452
C. Liabilities		8,453,012	7,640,830	7,640,830
Total equity and liabilities		12,011,570	12,780,698	19,124,777

1 Restated to make the previous year comparable after the demerger of the shares in Volkswagen Bank GmbH.

Income Statement

of Volkswagen Financial Services AG, Braunschweig, for the Period January 1 to December 31, 2017

€ thousand	2017	2016
Sales revenues	574,226	700,140
Cost of sales	567,376	693,016
Gross profit on sales	**6,850**	**7,124**
General and administrative expenses	262,155	248,809
Other operating income	192,282	364,417
Other operating expenses	11,841	243,324
Net income from long-term equity investments	–486,891	296,191
Financial result	168	–2,532
Taxes on income (refunded by parent €81,576 thousand; previous year, charge of €43,154 thousand)	–83,659	42,830
Result after tax	**–477,928**	**130,237**
Other taxes	3	-
Profits transferred under a profit transfer agreement	-	130,237
Losses absorbed on the basis of a profit and loss transfer agreement	477,931	-
Net income	**-**	**-**
Profit brought forward	1,705	1,705
Reduction in assets as a result of asset transfer	–8,849,353	-
Amount withdrawn from capital reserves	8,849,353	-
Net retained profits	**1,705**	**1,705**

Notes

to the Annual Financial Statements of Volkswagen Financial Services AG, Braunschweig, for the Period January 1 to December 31, 2017

1. General Information

Volkswagen Financial Services AG is classified as a large corporation as defined by section 267(3) sentences 1 and 2 of the Handelsgesetzbuch (HGB – German Commercial Code). The annual financial statements have therefore been prepared in accordance with the financial reporting framework specified for large corporations by the HGB.

The registered office of Volkswagen Financial Services AG is Braunschweig. The Company is registered in the commercial register at the Local Court of Braunschweig (commercial register number HRB 3790).

Volkswagen Financial Services AG provides personnel to the German Group companies in return for a consideration under staff leasing arrangements.

Cross-functional departments are assigned to Volkswagen Financial Services AG. The associated administrative expenses are charged to Group companies through a system of internal cost allocation. To a small extent, Volkswagen Financial Services AG also provides IT services for Group companies. Likewise, the costs of the services are allocated according to usage.

The costs that are allocated in connection with the staff leasing and the provision of IT services, together with the administrative expenses for the cross-functional departments, are recognized under cost of sales. The income derived from the allocation of staff leasing costs is reported under sales revenues.

To improve the clarity of presentation, we have aggregated individual line items in the balance sheet and income statement. These items are presented separately in the notes.

The income statement has been prepared using the cost of sales format (also known as the function of expense format) – the standard format used in the Volkswagen Group – to facilitate better international comparability.

2. Accounting Policies

The accounting policies applied in the previous year have been retained.

Intangible and tangible fixed assets were transferred to Volkswagen Financial Services Digital Solutions GmbH as a result of the spin-off of the newly defined Digital Solutions unit effective January 1, 2017.

Shares in affiliated companies, other long-term equity investments, loans to affiliated companies and loans to other long-term investees and investors are measured at cost.

Write-downs are recognized if fixed assets measured in accordance with these principles are identified as impaired on the reporting date, i.e. their fair values are found to be lower than their carrying amounts, and this impairment is expected to be permanent.

Receivables and other assets are reported at their nominal amounts. Cash-in-hand and bank balances are recognized at their nominal values.

Prepaid expenses contain expenses incurred before the reporting date if they represent expenses relating to a specified period after that date.

The Company has various pension commitments, which differ in terms of their structure. Some of the pension commitments are not externally funded and others are funded through Volkswagen Pension Trust e.V.

The commitments funded through Volkswagen Pension Trust e.V. and MAN Pension Trust e. V. are measured at the fair value of the securities in the fund in accordance with section 253(1) sentence 3 of the HGB because the amount of the obligation is determined exclusively by this value. The fair value of the securities is offset against the funded provisions in accordance with section 246(2) of the HGB.

Other pension obligations are also linked to securities funds. The securities measured at fair value are offset as plan assets against the corresponding provisions.

The pension provision that is not externally funded is recognized at present value. The 2005 G mortality tables (latest version) published by Dr. Klaus Heubeck are used as the basis for the calculations.

The pension obligations are determined annually by an independent actuary using the projected unit credit method.

Pension obligations are discounted using the discount rate determined in accordance with section 253(2) of the HGB based on the past ten years.

In the year under review, the difference determined in accordance with section 253(6) of the HGB amounted to €33,585 thousand for the pension provision not funded externally, €31,382 thousand for the commitments funded through Volkswagen Pension Trust e.V. and €186 thousand for the commitments funded through MAN Pension Trust e. V. There is no restriction on distribution under the profit and loss transfer agreement with VW AG.

The main measurement assumptions and actuarial parameters applied in the calculation of the pension provisions were as follows:

Discount rate:	3.68%
Expected rate of salary increases:	3.60%
Expected rate of pension increases:	1.50%
Employee turnover rate:	0.95%

Adequate provisions in the amount required to settle the estimated obligation are recognized to cover contingent liabilities and existing risks. Other long-term provisions were discounted using a discount rate determined on the basis of the average market interest rates of the past seven years published by Deutsche Bundesbank.

Liabilities are recognized at the settlement amount.

Foreign currency assets and liabilities are translated at the middle spot rate at the reporting date in accordance with section 256a sentence 1 of the HGB and in compliance with the historical cost convention and the principle of imparity (under which unrealized losses are recognized but unrealized gains are not). For items with a residual maturity of one year or less, the net gains or losses from translation are recognized in full in the income statement in accordance with section 256a sentence 2 of the HGB. The hedge rate is used in the case of hedges.

Derivative financial instruments are used exclusively for hedging purposes. Derivative financial instruments (interest rate swaps) are measured in accordance with general HGB measurement requirements and hedge accounting is applied to the extent permissible.

3. Balance Sheet Disclosures

The breakdown of the fixed assets aggregated in the balance sheet and the changes in these assets in the reporting period are shown in the statement of changes in fixed assets. The list of the Company’s shareholdings can be accessed at www.vwfsag.com/listofholdings2017.

There are no subordinated loans among the loans to affiliated companies and other long-term equity investments amounting to €695,888 thousand.

Other loans amounting to €453,523 thousand are subordinated.

On the basis of an existing profit and loss transfer agreement, deferred taxes are recognized by Volkswagen AG, Wolfsburg, the controlling entity in the tax group.

The breakdown of receivables and other assets is shown in the following table:

€ thousand	Dec. 31, 2017	Dec. 31, 2016
1. Receivables from affiliated companies (of which from the shareholder €518,675 thousand; previous year €170,504 thousand) (of which due in more than 1 year €1,384,428 thousand; previous year €494,464 thousand)	3,451,033	4,682,150
2. Receivables from other long-term investees and investors (of which due in more than 1 year €1,017,328 thousand; previous year €534,000 thousand)	2,567,222	1,954,688
3. Other assets (of which due in more than 1 year €0 thousand; previous year €0 thousand)	3,961	3,535
	6,022,216	**6,640,373**

The receivables from affiliated companies include loan receivables and interest of €1,737,489 thousand, receivables under existing profit and loss transfer agreements of €577,113 thousand, tax allocations of €86,542 thousand, receivables from cash deposits of €149,500 thousand, together with fixed-term deposits and interest of €854,759 thousand.

The receivables from other long-term investees and investors include fixed-term deposits and interest of €905,087 thousand together with loan and interest receivables amounting to €1,660,845 thousand.

Other assets largely comprise receivables from swap interest and receivables from the tax authorities arising from withholding tax refunds due to the Company.

Prepaid expenses include prepayments of guarantee insurance and currency forward swap premiums of €3,402 thousand relating to the subsequent year. Prepaid expenses also include a difference of €271 thousand determined in accordance with section 250(3) of the HGB.

The parent company paid €1,000,000 thousand into the capital reserves (section 272(2) no. 4 of the HGB) in the reporting period, while disposals led to the withdrawal of €8,849,353 thousand from this item. The capital reserves now stand at €2,599,687 thousand.

The revenue reserves remain unchanged, consisting of legal reserves of €44,128 thousand and other revenue reserves of €55,341 thousand. Net retained profits include profit brought forward of €1,705 thousand (previous year: €1,705 thousand).

The provisions comprise the following items:

€ thousand	Dec. 31, 2017	Dec. 31, 2016
1. Provisions for pensions and similar obligations, unfunded	190,515	202,212
including the offsetting of the unit-linked pension obligation:		
Provisions for pensions, funded	136,655	147,816
Fund assets as plan assets (cost €143,176 thousand)	–136,655	–147,816
2. Other provisions	225,902	290,240
including the offsetting of the employee time asset bond:		
Provision for time asset bond	63,860	80,218
Fund assets as plan assets (cost €74,963 thousand)	–63,860	–80,218
	416,417	**492,452**

The main items recognized within other provisions are provisions for personnel expenses amounting to €158,442 thousand (previous year: €178,195 thousand), provisions for contract risks arising from operating activities amounting to €42,500 thousand (previous year: €39,400 thousand) and provisions for outstanding invoices of €12,017 thousand (previous year: €44,957 thousand).

The breakdown of liabilities is as follows:

€ thousand	Dec. 31, 2017	Dec. 31, 2016
1. Bonds (of which due within 1 year €0 thousand; previous year: €500,000 thousand) (of which due in more than 1 year €750,000 thousand; previous year: €750,000 thousand)	750,000	1,250,000
2. Liabilities to credit institutions (of which due within 1 year €74,012 thousand; previous year: €1,236 thousand) (of which due in more than 1 year €1,124,238 thousand; previous year: €370,000 thousand) (of which due in more than 5 years €70,000; previous year: €0 thousand)	1,198,250	371,236
3. Trade payables (due within 1 year)	5,152	7,911
4. Liabilities to affiliated companies (of which to the shareholder €2,819,994 thousand; previous year €1,965,804 thousand) (of which due within 1 year €2,694,962 thousand; previous year €3,255,827 thousand) (of which due in more than 1 year €3,690,404 thousand; previous year €2,082,210 thousand) (of which due in more than 5 years €2,787,404 thousand; previous year €1,489,210 thousand)	6,385,366	5,338,037
5. Other liabilities (of which taxes €7,426 thousand; previous year €9,537 thousand) (of which relating to social security and similar obligations €2,258 thousand; previous year €2,361 thousand) (of which due within 1 year €37,821 thousand; previous year €671,823 thousand) (of which due in more than 1 year €76,422 thousand; previous year €1,822 thousand) (of which due in more than 5 years €75,000; previous year €0 thousand)	114,243	673,646
	8,453,012	**7,640,830**

The bonds comprise listed bonds issued under Volkswagen Financial Services AG's debt issuance program.

The liabilities to the shareholder relate mainly to loans of €2,745,000 thousand and the payment of income tax of €36,964 thousand.

Other liabilities include promissory note loan liabilities amounting to €76,851 thousand and commercial paper liabilities amounting to €20 thousand.

Statement of changes in fixed assets of Volkswagen Financial Services AG, Braunschweig, for 2017

	GROSS CARRYING AMOUNTS				
€ thousand	Brought forward January 1, 2017	Additions	Disposals	Transfers	Balance Dec. 31, 2017
I. Intangible assets					
Software	56,801	-	56,801	–	-
II. Property and equipment					
Operating and office equipment	108,340	-	108,340	–	-
III. Financial assets					
Shares in affiliated companies	10,922,325	2,352,225	8,866,088	–	4,408,462
Loans to affiliated companies	236,111	414,854	1,000	–	649,965
Other long-term equity investments	467,670	71,848	101,639	–	437,879
Loans to other long-term investees and investors	-	45,923	-	–	45,923
Other loans	779,953	46,906	373,336	–	453,523
Total financial assets	**12,406,059**	**2,931,756**	**9,342,063**	**–**	**5,995,752**
Total fixed assets	**12,571,200**	**2,931,756**	**9,507,204**	**–**	**5,995,752**

WRITE-DOWNS						NET CARRYING AMOUNTS	
Brought forward January 1, 2017	Additions	Disposals	Transfers	Write-ups	Balance Dec. 31, 2017	Balance Dec. 31, 2017	Balance Dec. 31, 2016
44,841	-	44,841	–	–	-	-	11,960
63,960	-	63,960	–	–	-	-	44,380
6,356	5,870	–	–	–	12,226	4,396,236	10,915,969
–	–	–	–	–	–	649,965	236,111
–	–	–	–	–	–	437,879	467,670
–	–	–	–	–	–	45,923	-
–	–	–	–	–	–	453,523	779,953
6,356	**5,870**	**–**	**–**	**–**	**12,226**	**5,983,526**	**12,399,703**
115,157	**5,870**	**108,801**	**–**	**–**	**12,226**	**5,983,526**	**12,456,043**

Write-downs of the carrying amounts of investments in affiliated companies were recognized in the reporting period. The associated cost is recognized within the financial result.

4. Income Statement Disclosures

Volkswagen Financial Services AG reports sales of €574,226 thousand (previous year: €700,140 thousand) in accordance with section 277(1) of the HGB. Of this amount, €561,129 thousand (previous year: €645,550 thousand) was generated in Germany and €13,097 thousand (previous year: €54,590 thousand) abroad.

An amount of €567,376 thousand is reported under cost of sales (previous year: €693,016 thousand).

Cost of materials within the meaning of section 275(2) no. 5 of the HGB was incurred for purchased services in an amount of €104,242 thousand (previous year: €294,170 thousand).

The breakdown of personnel expenses is as follows:

€ thousand	2017	2016
Salaries	494,268	510,212
Social security, post-employment and other employee benefit costs	109,340	92,979
of which for post-employment benefits	(39,244)	(20,605)
	603,608	**603,191**

Other operating income includes exceptional income in the form of income from the sale of shares and other long-term equity investments amounting to €143,460 thousand and from the repayment of compensation payments amounting to €24,504 thousand. In addition, currency translation accounts for other operating income of €115 thousand (previous year: €89 thousand) and other operating expenses of €68 thousand (previous year: €40 thousand). Other operating expenses furthermore include expenses of exceptional incidence relating to expenses for rating costs in an amount of €7,048 thousand.

The breakdown of net income from long-term equity investments is as follows:

€ thousand	2017	2016
Expenses from absorption of losses	630,673	328,915
Income under profit transfer agreements (from affiliated companies)	136,582	625,106
Income from other long-term equity investments (from investments in joint ventures)	7,200	–
	–486,891	**296,191**

The following table shows the breakdown of the financial result:

€ thousand	2017	2016
Income from other securities and long-term loans (of which from affiliated companies €6,328 thousand; previous year €3,242 thousand)	18,968	5,743
Other interest and similar income (of which from affiliated companies €27,783 thousand; previous year €35,400 thousand) (of which interest income from discounting €111 thousand; previous year €679 thousand)	48,693	49,252
Interest and similar expenses (of which to affiliated companies €15,524 thousand; previous year €19,827 thousand) (of which from unwinding discount on provisions €3,879 thousand; previous year €3,879 thousand)	61,623	52,510
Write-downs of financial assets (from affiliated companies)	5,870	5,017
Write-ups of financial assets (from affiliated companies)	–	–
	168	**–2,532**

Interest expenses for funded pension provisions amounting to €8,041 thousand were offset against income of the same amount arising from the measurement of the associated plan assets. The interest income from the discounting of the provision for time asset bonds in the amount of €9,625 thousand (prior year: €2,468 thousand) was offset against expenses of the same amount from the measurement of the scheme fund assets.

Net income for the year includes prior-period income of €24,128 thousand (prior year: €13,011 thousand) and prior-period expenses of €140 thousand (prior year: €621 thousand), which are largely attributable to the allocation of personnel expenses and the reversal of provisions. Prior-period income and expenses are recognized under sales, other operating income, or other operating expenses.

5. Other Disclosures

Volkswagen Financial Services AG has entered into derivative contracts to mitigate interest rate risk and currency risk. These derivatives are used solely for hedging purposes. The fair values are determined using market information as of the reporting date and with the help of suitable IT-based valuation techniques.

The breakdown of nominal values and market values is as follows:

	NOMINAL VALUES		MARKET VALUES			
€ thousand	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017		Dec. 31, 2016	
			positive	negative	positive	negative
Interest rate swaps	750,000	1,050,000	5,493	–	14,650	–
Cross-currency/currency swaps	968,763	227,557	21,980	37,938	17,566	3,005
Currency forward contracts	504,522	814,064	18,692	350	1,670	16,979

The following table shows the amount of hedged items as of December 31, 2017 for which hedge accounting has been applied, together with the level of risk mitigated by this hedge accounting:

€ thousand		Assets	Liabilities	Total	Amount of hedged risks
Interest rate risks	Micro hedge	–	750,000	750,000	6,291
Currency risks	Micro hedge	1,445,507	459,895	1,905,402	30,168
Total		**1,445,507**	**1,209,895**	**2,655,402**	**36,459**

The Company has been applying hedge accounting in accordance with the Bilanzrechtsmodernisierungsgesetz (BilMoG – German Accounting Law Modernization Act) since January 1, 2010. The net hedge presentation method is used for hedge accounting.

The interest rate risk arising from issuing loans to Group companies is mitigated by micro hedges based on receiver swaps, whereby the changes in the value of the hedged item are offset by the changes in the value of the swap. Hedge accounting is generally applied over the entire duration of the hedge. The Company therefore always satisfies the hedge accounting criterion, which requires an intention to maintain hedge accounting until the final maturity date. Prospective effectiveness testing as described in IFRSs is applied to the extent possible in accordance with IFRS criteria for hedge accounting, or the critical term match method is used. Retrospective effectiveness is measured using regression analysis. Currency risk that arises from issuing foreign currency loans to FS companies outside the eurozone is generally hedged with currency forwards, currency swaps, or cross-currency swaps. The critical term match method is used to measure the effectiveness of the hedges in this case.

As of December 31, 2017, a provision for expected losses of €2 thousand (previous year €3 thousand) had been recognized in connection with interest rate and currency risks.

The liabilities under guarantees amount to €17,189,954 thousand, the main components being guarantees to creditors of affiliated companies in the amount of €17,038,074 thousand relating to short- and medium-term bonds (money and capital market) issued by these companies and to other funding programs as well as a guarantee to the creditor of an affiliated company for future rental payments in the amount of €151,880 thousand. The probability of these guarantees being called upon is very low because the companies involved form part of the Group. Liabilities under guarantees to affiliated companies amount to €7,197 thousand. The cash deposits of €140,460 thousand reported under receivables have been pledged as collateral for local risk in France (€9,500 thousand) and in connection with dealer financing (€130,960 thousand) in Russia, Portugal and the United Kingdom. A credit risk provision of €9,040 thousand has been recognized to cover the associated risks.

Other financial obligations (purchase order obligations) as specified in section 285 no. 3a of the HGB amount to €22,041 thousand.

The share capital of €441,280 thousand is divided into 441,280,000 no-par-value shares. All the shares are held by Volkswagen AG, Wolfsburg.

A control and profit and loss transfer agreement has been in place between Volkswagen AG and Volkswagen Financial Services AG since January 1, 1995.

Volkswagen Financial Services AG also has a profit and loss transfer agreement with and Volkswagen Leasing GmbH as well as control and profit and loss transfer agreements with Volim Volkswagen Immobilien Vermietgesellschaft für VW-/Audi-Händlerbetriebe mbH, Volkswagen Versicherung AG, Volkswagen-Versicherungsdienst GmbH, Volkswagen Insurance Brokers GmbH, Rent-X GmbH, Euromobil Autovermietung GmbH, carmobility GmbH, Vehicle Trading International (VTI) GmbH and MAN Finance International GmbH.

The annual financial statements of Volkswagen Financial Services AG are published in the German Federal Gazette.

The fee paid to the auditors is disclosed in the notes to the consolidated financial statements of Volkswagen AG, Wolfsburg, and in the consolidated financial statements of Volkswagen Financial Services AG.

The fee paid to the auditors for audit services in 2017 was mostly attributable to the audit of the consolidated financial statements of Volkswagen Financial Services AG and of annual financial statements of German Group companies as well as to reviews of interim financial statements of German Group companies. Other attestation services comprised primarily comfort letters and other attestation services in connection with ABS transactions, equity investments and the reorganization of the legal entities. The other services performed by the auditors in the reporting period mainly consisted of issues relating to banking supervisory law, process optimization and information technology.

The annual financial statements of Volkswagen Financial Services AG are included in the consolidated financial statements of Volkswagen Financial Services AG, Braunschweig, which are prepared in accordance with the International Financial Reporting Standards and published in the German Federal Gazette.

The annual financial statements of Volkswagen Financial Services AG are also included in the consolidated financial statements of Volkswagen AG, Wolfsburg, which are published in the German Federal Gazette.

Volkswagen Financial Services AG had 5,588 employees, including 12 senior executives (previous year: 5,866, including 11 senior executives) and 114 vocational trainees (previous year: 113) on average in the reporting period. The 5,588 employees comprised 4,077 full-time and 1,511 part-time employees.

The remuneration of the Board of Management of Volkswagen Financial Services AG amounted to €7,229 thousand in 2017. The total payments made to former members of the Board of Management and their surviving dependents amounted to €473 thousand. The provisions recognized for this group of individuals to cover current pensions and pension entitlements amount to €11,687 thousand.

The Company paid the members of the Supervisory Board total remuneration of €38 thousand.

6. Report on Post-balance Sheet Date Events

The following significant events, which are not reflected in either the income statement or the balance sheet, occurred after the end of the fiscal year:

On January 4, 2018, Volkswagen Financial Services AG added €20,853 thousand to the capital reserves of Volkswagen Møller Bilfinans A/S, Oslo, Norway.

On January 19, 2018, Volkswagen Financial Services AG made a contribution of €20,000 thousand to the capital reserves of Mobility Trader GmbH, Berlin, Germany.

In a transaction dated January 29, 2018, Volkswagen Financial Services AG contributed €13,600 thousand to the capital reserves of Volkswagen Finance Lux II S.A., Strassen, Luxembourg.

On January 22, 2018 a borrower's note loan of €600,000 thousand was raised from external creditors.

7. Executive Bodies of Volkswagen Financial Services AG

The composition of the Board of Management is as follows:

LARS HENNER SANTELMANN
Chairman of the Board of Management
Corporate Management
Insurance (until August 31, 2017)
China/India/ASEAN, Latin America (until August 31, 2017)
China (from September 1, 2017)
Mobility Unit (from September 1, 2017)

DR. MARIO DABERKOW
Information Technology and Processes

DR. CHRISTIAN DAHLHEIM
Sales and Marketing
Germany, Europe, International
Latin America, South Africa (from September 1, 2017)
Truck & Bus Division (until August 31, 2017)

FRANK FIEDLER
Finance and Purchasing

CHRISTIANE HESSE
Human Resources and Organization

DR. MICHAEL REINHART (UNTIL AUGUST 31, 2017)
Risk Management and Credit Analysis (until August 31, 2017)

The members of the Supervisory Board are as follows:

FRANK WITTER
Chairman
Member of the Board of Management of Volkswagen AG
Finance and Controlling

DR. KARLHEINZ BLESSING (FROM AUGUST 18, 2017)
Deputy Chairman (from September 20, 2017)
Member of the Board of Management of Volkswagen AG
Human Resources and Organization

DR. JÖRG BOCHE (UNTIL AUGUST 17, 2017)
Deputy Chairman
Executive Vice President of Volkswagen AG
Head of Group Treasury

STEPHAN WOLF
Deputy Chairman
Deputy Chairman of the General and Group Works Councils of Volkswagen AG

DR. ARNO ANTLITZ
Member of the Board of Management Volkswagen Brand
Controlling and Accounting

JOACHIM DREES (FROM AUGUST 18, 2017)
Chief Executive Officer of MAN SE and MAN Truck & Bus AG

WALDEMAR DROSDZIOK (UNTIL AUGUST 17, 2017)
Chairman of the Joint Works Council of Volkswagen Financial Services AG,
Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

PROF. DR. SUSANNE HOMÖLLE (UNTIL AUGUST 18, 2017)
Chair of Banking and Finance
University of Rostock

FRED KAPPLER
Head of Group Sales
Volkswagen AG

ANDREAS KRAUß (FROM AUGUST 18, 2017)
Member of the Joint Works Council of Volkswagen Financial Services AG,
Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

SIMONE MAHLER
Deputy Chairman of the Joint Works Council of Volkswagen Financial Services AG,
Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

DR.-ING. PETER MERTENS (FROM JANUARY 1, 2018)
Member of the Board of Management of AUDI AG
Technical Development

GABOR POLONYI
Head of Fleet Customer Management for Volkswagen Leasing GmbH

PETRA REINHEIMER
General Secretary of the Joint Works Council of Volkswagen Financial Services AG,
Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

EVA STASSEK
Principal Representative of IG Metall Braunschweig

AXEL STROTBEK (UNTIL AUGUST 31, 2017)
Member of the Board of Management of AUDI AG
Finance, IT and Integrity

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Volkswagen Financial Services AG, and the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the material opportunities and risks associated with the expected development of Volkswagen Financial Services AG.

Braunschweig, February 12, 2018

The Board of Management

Lars Henner Santelmann

Dr. Mario Daberkow

Dr. Christian Dahlheim

Frank Fiedler

Christiane Hesse

Independent Auditor’s Report

To VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

AUDIT OPINIONS

We have audited the annual financial statements of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELL-SCHAFT, Braunschweig, which comprise the balance sheet as at December 31, 2017, and the statement of profit and loss for the financial year from January 1 to December 31, 2017, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, which is combined with the group management report, for the financial year from January 1 to December 31, 2017. We have not audited the content of the statement on corporate governance pursuant to § [Article] 289f Abs. [paragraph] 4 HGB [Handelsgesetzbuch: German Commercial Code] (disclosures on the proportion of women) in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

> the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2017 and of its financial performance for the financial year from January 1 to December 31, 2017 in compliance with German Legally Required Accounting Principles, and
> the accompanying management report as a whole provides an appropriate view of the Company’s position. In all material respects, the management report is consistent with the annual financial statements, complies with the German legal requirements and suitably presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of those parts of the management report listed in the "Other information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and the management report in accordance with Section 317 HGB and the EU Audit Regulation (No 537/2014) as well as German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report” section of our auditor’s report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.
In our view, the matters of most significance in our audit were as follows:

❶ Recoverability of shares in affiliated companies and other long-term equity investments
❷ Company spin-offs

Our presentation of these key audit matters has been structured in each case as follows:

① Matter and issue
② Audit approach and findings
③ Reference to further information

Hereinafter we present the key audit matters:

❶ Recoverability of shares in affiliated companies and other long-term equity investments

① Shares in other companies amounting to EUR 4,396 million (36.6% of total assets) are reported under the balance sheet item "Shares in affiliated companies" and amounting to EUR 438 million (3.6% of total assets) under the balance sheet item "Other long-term equity investments" in the annual financial statements of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT. Shares in affiliated companies and other long-term equity investments are measured in accordance with commercial law at the lower of cost or fair value. The market price of the respective financial asset – if available – is used for the purpose of determining the fair value. If no market prices are available in the particular case, the fair values of the material investments are calculated using discounted cash flow models as the present values of the expected future cash flows according to the planning projections prepared by the executive directors. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used is the individually determined cost of capital for the relevant financial asset. On the basis of the values determined and supplementary documentation, it was necessary to recognize write-downs in the total amount of EUR 5.9 million for the fiscal year.

The outcome of this valuation exercise is dependent to a large extent on the estimates made by the executive directors of the future cash flows, and on the respective discount rates and rates of growth employed. The valuation is therefore subject to material uncertainty. Against this background and due to the highly complex nature of the valuation and its material significance for the Company's assets, liabilities, and financial performance, this matter was of particular significance in the context of our audit.

② As part of our audit, we reviewed the methodology employed for the purposes of the valuation exercise, among other things. In particular, we assessed whether the fair values of the significant investments had been appropriately determined using discounted cash flow models in compliance with the relevant measurement standards. We based our assessment, among other things, on a comparison with general and sector-specific market expectations as well as on the executive directors' detailed explanations regarding the key planning value drivers underlying the expected cash flows. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value of the entity calculated using this method, we focused our testing in particular on the parameters used to determine the discount rate applied, and verified the calculation procedure.

In our view, based on the information available, the valuation parameters and underlying assumptions used by the executive directors are appropriate overall for the purpose of properly measuring shares in affiliated companies and other long-term equity investments.

③ The Company's disclosures relating to the shares in affiliated companies and other long-term equity investments are contained in section 2 "Accounting Policies" and in section 3 "Balance Sheet Disclosures" in the notes to the financial statements.

❷ Company spin-offs

① In fiscal year 2017, VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT implemented the strategic reorientation of the Volkswagen Financial Services AG subgroup resolved in 2016 from both an organizational and legal point of view and completed its split into two independent subgroups. On November 18, 2016, the supervisory board of Volkswagen AG approved the spin-off of the 100% interest in Volkswagen Bank GmbH. Following the spin-off, implemented with retrospective effect as of January 1, 2017, VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT no longer holds any shares in Volkswagen Bank GmbH. Other shareholdings, primarily the 100% interests in Volkswagen Financial Services (UK) Ltd., Milton Keynes (United Kingdom), Volkswagen Finans Sverige AB, Södertälje (Sweden) and ŠkoFIN s.r.o., Prague (Czech Republic), were transferred to Volkswagen Bank GmbH in connection with the spin-off. The spin-off resulted in a reduction of the balance sheet items "Financial assets" and "Capital reserves" by a total of EUR 8,849 million. In view of their material impact on the equity of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT in accordance with commercial law, these transactions were of particular significance in the context of our audit.

② As part of our audit, we focused on the spin-off of these companies and assessed whether the spin-offs are appropriately presented in the annual financial statements of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT. For this purpose, we examined the legal bases of the spin-off process in accordance with company law, stock corporation law and companies reorganization law, and evaluated the related contractual arrangements and the spin-off documentation, in particular the spin-off long-form audit report and the spin-off agreements. In addition, we inspected the records of the underlying resolutions as well as the corresponding commercial register excerpts and other contractual arrangements. With respect to the accounting treatment, we ensured in particular that the components of equity required to cover the reduction in net assets resulting from the spin-off were used in the correct order. By means of these and other audit procedures, we were able to satisfy ourselves overall that the accounting treatment of the restructuring was sufficiently documented and comprehensible on the basis of the available information.

③ The Company's disclosures relating to the spin-offs are contained in section 2 "Accounting Policies" and in section 3 "Balance Sheet Disclosures" in the notes to the financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f Abs. 4 HGB (disclosures on the proportion of women).

Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Management Report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.
Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error 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 annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. In addition, we

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. 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 override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' 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 the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. 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 to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance 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 also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual 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.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on April 3, 2017. We were engaged by the supervisory board on November 17, 2017. We have been the auditor of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig, without interruption since financial year 1991.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Frank Hübner.

Hannover, February 14, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Frank Hübner	Burkhard Eckes
Wirtschaftsprüfer	Wirtschaftsprüfer

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