VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY

VOLKSWAGEN FINANCIAL SERVICES AG – HOLDING
ANNUAL FINANCIAL STATEMENTS

2018

Balance Sheet

of Volkswagen Financial Services AG, Braunschweig, as of December 31, 2018

€ thousand		Dec. 31, 2018	Dec. 31, 2017
Assets			
A. Fixed assets			
	Financial assets	8,193,715	5,983,526
		8,193,715	5,983,526
B. Current assets			
I.	Receivables and other assets	8,784,729	6,022,217
II.	Cash-in-hand and bank balances	132	2,154
		8,784,861	6,024,371
C. Prepaid expenses		9,198	3,673
Total assets		**16,987,774**	**12,011,570**
Equity and liabilities			
A. Equity			
I.	Subscribed capital	441,280	441,280
II.	Capital reserves	1,599,712	2,599,687
III.	Retained earnings	99,469	99,469
IV.	Net retained earnings	1,001,705	1,705
		3,142,166	3,142,141
B. Provisions		468,609	416,417
C. Liabilities		13,375,815	8,453,012
D. Deferred income		1,184	–
Total equity and liabilities		**16,987,774**	**12,011,570**

Income Statement

of Volkswagen Financial Services AG, Braunschweig, for the Period January 1 to December 31, 2018

€ thousand	2018	2017
Sales	538,205	574,226
Cost of sales	537,914	567,376
Gross profit on sales	**291**	**6,850**
General and administrative expenses	200,185	262,155
Other operating income	15,245	192,282
Other operating expenses	58,755	11,841
Net income from long-term equity investments	463,583	–486,891
Financial result	–228,004	168
Taxes on income (charged by parent €140,587 thousand; previous year, refund of €81,576 thousand)	140,783	–83,659
Result after tax	**–148,608**	**–477,928**
Other taxes	40	3
Profits transferred under a profit and loss transfer agreement	–	–
Losses absorbed under a profit and loss transfer agreement	148,648	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Amount withdrawn from capital reserves	1,000,000	8,849,353
Net retained profits	**1,001,705**	**1,705**

Notes

to the Annual Financial Statements of Volkswagen Financial Services AG, Braunschweig, as of December 31, 2018

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.

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 pension scheme obligations 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 Heubeck 2018 G mortality tables (latest version) 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 €37,715 thousand for the pension provision not funded externally, €44,411 thousand for the commitments funded through Volkswagen Pension Trust e. V. and €207 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:	3.21%
Expected rate of salary increases:	3.50%
Expected rate of pension increases:	1.50%
Employee turnover rate:	1.00%

Share-based payment within provisions relates to performance shares granted on the basis of preferred shares of Volkswagen AG. The obligations from share-based payments are accounted for as a cash-settled plan. These types of remuneration plans are measured at fair value during the plan term. Fair value is determined using recognized valuation techniques. The remuneration expense is part of personnel expenses under general and administrative expenses and allocated over the vesting period.

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/listofholdings2018.

There are no subordinated loans among the loans to affiliated companies and other long-term equity investments amounting to €755,218 thousand.

Other loans amounting to €2,467,955 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, 2018	Dec. 31, 2017
1. 1. Receivables from affiliated companies (of which from the shareholder €153,312 thousand; previous year €518,675 thousand) (of which due in more than 1 year €1,709,499 thousand; previous year €1,384,428 thousand)	4,425,446	3,451,033
2. Receivables from other long-term investees and investors (of which due in more than 1 year €2,275,186 thousand; previous year €1,017,328 thousand)	4,341,221	2,567,222
3. Other assets (of which due in more than 1 year €0 thousand; previous year €0 thousand)	18,062	3,961
	8,784,729	**6,022,216**

The receivables from affiliated companies include loan receivables and interest of €2,088,035 thousand, receivables under existing profit and loss transfer agreements of €390,546 thousand, tax allocations of €199,883 thousand, receivables from cash deposits of €149,500 thousand, and fixed-term deposits and interest of €1,544,433 thousand.

The receivables from other long-term investees and investors include fixed-term deposits and interest of €802,923 thousand together with loan and interest receivables amounting to €3,537,096 thousand.

Other assets largely comprise receivables from swap interest in an amount of €16,235 thousand.

Prepaid expenses include prepayments of guarantee insurance and currency forward swap premiums of €3,721 thousand relating to the subsequent year. Prepaid expenses also include a difference of €5,477 thousand determined in accordance with section 250(3) of the HGB.

The parent company paid €25 thousand into the capital reserves (section 272(2) no. 4 of the HGB) and withdrew €1,000,000 thousand from this item in the reporting period. The capital reserves now stand at €1,599,712 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, 2018	Dec. 31, 2017
1. Provisions for pensions and similar obligations, unfunded	237,267	190,515
including the offsetting of the unit-linked pension obligation:		
Provisions for pensions, funded	170,600	136,655
Fund assets as plan assets (cost €157,708 thousand)	–146,168	–136,655
2. Other provisions	231,342	225,902
including the offsetting of the employee time asset bond:		
Provision for time asset bond	72,306	63,860
Fund assets as plan assets (cost €86,177 thousand)	–72,306	–63,860
	468,609	**416,417**

The difference for the pension provisions, which is subject to restrictions on distribution in accordance with section 253(6) of the HGB, for pension provisions amounts to €82,332 thousand and is attributable to the amounts subject to restrictions on distribution relating to unfunded obligations of €37,715 thousand and funded obligations of €44,617 thousand.

The main items recognized within other provisions are provisions for personnel expenses amounting to €163,597 thousand (previous year: €158,442 thousand), provisions for contract risks arising from operating activities amounting to €45,200 thousand (previous year: €42,500 thousand) and provisions for outstanding invoices of €6,256 thousand (previous year: €12,017 thousand).

The breakdown of liabilities is as follows:

€ thousand	Dec. 31, 2018	Dec. 31, 2017
1. Bonds (of which due within 1 year €1,000,000 thousand; previous year: €0 thousand) (of which due in more than 1 year €5,100,000 thousand; previous year: €750,000 thousand) (of which due in more than 5 years €750,000 thousand; previous year: €0 thousand)	6,100,000	750,000
2. Liabilities to credit institutions (of which due within 1 year €304,464 thousand; previous year: €74,012 thousand) (of which due in more than 1 year €994,239 thousand; previous year: €1,124,238 thousand) (of which due in more than 5 years €70,000 thousand; previous year: €70,000 thousand)	1,298,703	1,198,250
3. Trade payables (due within 1 year)	4,441	5,152
4. Liabilities to affiliated companies (of which to the shareholder €2,946,669 thousand; previous year €2,819,994 thousand) (of which due within 1 year €1,435,639 thousand; previous year €2,694,962 thousand) (of which due in more than 1 year €3,745,410 thousand; previous year €3,690,404 thousand) (of which due in more than 5 years €2,794,124 thousand; previous year €2,787,404 thousand)	5,181,049	6,385,366
5. Liabilities to other long-term investees and investors (due within 1 year)	14	–
6. Other liabilities (of which taxes €7,783 thousand; previous year €7,426 thousand) (of which relating to social security and similar obligations €1,965 thousand; previous year €2,258 thousand) (of which due within 1 year €115,508 thousand; previous year €37,821 thousand) (of which due in more than 1 year €676,115 thousand; previous year €76,422 thousand) (of which due in more than 5 years €75,000; previous year €75,000 thousand)	791,608	114,243
	13,375,815	**8,453,012**

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 €177,551 thousand.

Other liabilities include promissory note loan liabilities amounting to €676,908 thousand and commercial paper liabilities amounting to €79,024 thousand.

Statement of changes in fixed assets of Volkswagen Financial Services AG, Braunschweig, for 2018

	GROSS CARRYING AMOUNTS				
€ thousand	Brought forward January 1, 2018	Additions	Disposals	Transfers	Balance Dec. 31, 2018
I. Intangible assets					
Software	–	–	–	–	–
II. Property and equipment					
Operating and office equipment	–	–	–	–	–
III. Financial assets					
Shares in affiliated companies	4,408,462	1,881,497	1,573,288	–	4,716,671
Loans to affiliated companies	649,965	57,101	–	–	707,066
Other long-term equity investments	437,879	27,085	–	–	464,964
Loans to other long-term investees and investors	45,923	36,600	34,372	–	48,151
Other loans	453,523	2,420,772	406,340	–	2,467,955
Total financial assets	**5,995,752**	**4,423,055**	**2,014,000**	**–**	**8,404,807**
Total fixed assets	**5,995,752**	**4,423,055**	**2,014,000**	**–**	**8,404,807**

DEPRECIATION						NET CARRYING AMOUNTS	
Brought forward January 1, 2018	Additions	Disposals	Transfers	Write-ups	Balance Dec. 31, 2018	Balance Dec. 31, 2018	Balance Dec. 31, 2017
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
12,226	197,818	2,852	–	–	207,192	4,509,479	4,396,236
–	–	–	–	–	–	707,066	649,965
–	3,900	–	–	–	3,900	461,064	437,879
–	–	–	–	–	–	48,151	45,923
–	–	–	–	–	–	2,467,955	453,523
12,226	**201,718**	**2,852**	**–**	**–**	**211,092**	**8,193,715**	**5,983,526**
12,226	**201,718**	**2,852**	**–**	**–**	**211,092**	**8,193,715**	**5,983,526**

Write-downs of the carrying amounts of investments in affiliated companies and other long-term equity investments 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 €538,205 thousand (previous year: €574,226 thousand) in accordance with section 277(1) of the HGB. Of this amount, €525,870 thousand (previous year: €561,129 thousand) was generated in Germany and €12,335 thousand (previous year: €13,097 thousand) abroad.

An amount of €537,914 thousand is reported under cost of sales (previous year: €567,376 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 €126,357 thousand (previous year: €104,242 thousand).

The breakdown of personnel expenses is as follows:

€ thousand	2018	2017
Salaries	468,948	494,268
Social security, post-employment and other employee benefit costs	88,100	109,340
of which for post-employment benefits	(22,629)	(39,244)
	557,048	**603,608**

Other operating income includes exceptional income from the reversal of provisions of €9,592 thousand. In addition, currency translation accounts for other operating income of €276 thousand (previous year: €115 thousand) and other operating expenses of €76 thousand (previous year: €68 thousand). Other operating expenses furthermore include expenses for rating costs in an amount of€10,117 thousand (previous year: €7,048 thousand).

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

€ thousand	2018	2017
Expenses from absorption of losses	14,818	630,673
Income under profit and loss transfer agreements (from affiliated companies)	439,775	136,582
Income from other long-term equity investments (from investments in joint ventures)	38,626	7,200
	463,583	**–486,891**

The following table shows the breakdown of the financial result:

€ thousand	2018	2017
Income from other securities and long-term loans (of which from affiliated companies €8,853 thousand; previous year €6,328 thousand)	27,166	18,968
Other interest and similar income (of which from affiliated companies €27,422 thousand; previous year €27,783 thousand) (of which interest income from discounting €0 thousand; previous year €111 thousand)	53,709	48,693
Interest and similar expenses (of which to affiliated companies €14,211 thousand; previous year €15,524 thousand) (of which from unwinding discount on provisions €3,879 thousand; previous year €3,879 thousand)	107,161	61,623
Write-downs of financial assets (write-downs for permanent impairment at affiliated companies)	201,718	5,870
Write-ups of financial assets (from affiliated companies)	–	–
	–228,004	**168**

Interest expenses for funded pension provisions amounting to €1,245 thousand (previous year: €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 €3,327 thousand (prior year: €9,625 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 €11,379 thousand (previous year: €24,128 thousand), which is largely attributable to the allocation of personnel expenses and the reversal of provisions. Prior-period income is recognized under sales or other operating income. The changeover from the 2005 G to the 2018 G mortality tables resulted in prior-period expenses of €3,814 thousand (previous year: €140 thousand); of this amount, €2,100 thousand was allocated to personnel expenses and €1,714 thousand to interest 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, 2018	Dec. 31, 2017	Dec. 31, 2018		Dec. 31, 2017	
			positive	negative	positive	negative
Interest rate swaps	4,200,000	750,000	50,996	–	5,493	–
Cross-currency/currency swaps	1,666,199	968,763	45,299	9,771	21,980	37,938
Currency forward contracts	152,039	504,522	1,565	379	18,692	350

The following table shows the amount of hedged items as of December 31, 2018 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	–	4,200,000	4,200,000	35,917
Currency risks	Micro hedge	1,338,642	26,195	1,364,837	8,512
Currency risks	Macro hedge	452,303	452,303	904,606	20,001
Total		**1,790,945**	**4,678,498**	**6,469,443**	**64,430**

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. Currency risk that arises from issuing foreign currency loans to FS companies outside the eurozone is generally hedged with currency forwards, cross currency swaps, or cross-currency interest rate swaps in micro and macro hedges. 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. The prospective effectiveness test is performed using the critical term match method. Retrospective effectiveness tests are based on the cumulative dollar offset method.

As of December 31, 2018, a provision for expected losses of €7,314 thousand (previous year €2 thousand) had been recognized in connection with interest rate and currency risks.

The contingent liabilities under guarantees amount to €20,535,126 thousand, the main components being guarantees to creditors of affiliated companies in the amount of €20,389,291 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 €145,835 thousand. The probability of these guarantees being called upon is very low because the companies involved form part of the Group. Contingent liabilities under guarantees to affiliated companies amount to €7,197 thousand. The cash deposits of €143,891 thousand reported under receivables have been pledged as collateral for local risk in France (€6,879 thousand) and in connection with dealer financing (€137,012 thousand) in Russia, Portugal, the United Kingdom, France, Norway, Poland, the Netherlands, Austria, Turkey and Germany. A credit risk provision of €5,609 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 €11,196 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 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, MAN Finance International GmbH and EURO-Leasing 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 2018 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 4,983 employees, including 12 senior executives (previous year: 5,588, including 12 senior executives) and 115 vocational trainees (previous year: 114) on average in the reporting period. The 4,983 employees comprised 3,627 full-time and 1,356 part-time employees.

The remuneration of the Board of Management of Volkswagen Financial Services AG amounted to €12,601 thousand in 2018. The total payments made to former members of the Board of Management and their surviving dependents amounted to €537 thousand. The provisions recognized for this group of individuals to cover current pensions and pension entitlements amount to €12,314 thousand.

At the end of 2018, the Supervisory Board of Volkswagen Financial Services AG resolved to adjust the remuneration system of the Board of Management with effect from January 1, 2019. The new remuneration system of the Board of Management comprises non-performance-related and performance-related components. The performance-related remuneration consists of an annual bonus with a one-year assessment period and a long-term incentive (LTI) in the form of a performance share plan with a forward-looking three-year term (share-based payment). Each performance period of the performance share plan has a term of three years. At the time the LTI is granted, the annual target amount under the LTI is converted on the basis of the initial reference price of Volkswagen's preferred shares into performance shares of Volkswagen AG, which are allocated to the respective member of the Board of Management purely for calculation purposes. A cash settlement is made at the end of the three-year term of the performance share plan. The payment amount corresponds to the number of determined performance shares, multiplied by the closing reference price at the end of the three-year period plus a dividend equivalent for the relevant term. The payment amount under the performance share plan is limited to 200% of the target amount. The beneficiaries of the performance share plan include the members of the Board of Management and other members of top management (TMK). The way the performance shares granted to them function is essentially identical.

Since the members of the Board of Management have not yet approved the performance share plan, the granting date will be after the balance sheet date. This means that the provisions of the HGB only allow the corresponding amounts to be included in the remuneration for fiscal year 2019.

The Company paid the members of the Supervisory Board a total allowance of €53 thousand.

6. Report on Post-balance Sheet Date Events

On February 7, 2019, Volkswagen Financial Services AG acquired a 60 percent interest in FleetCompany GmbH, Oberhaching, which has operations in over 70 countries worldwide under the FleetLogistics brand. The other 40 percent of the shares in the company are held by the previous sole shareholder, TÜV SÜD Auto Service GmbH, which is domiciled in Munich, a wholly owned subsidiary of TÜV SÜD AG. The two shareholders have agreed to maintain the brand neutrality of FleetLogistics. The aim is to create a complete offering for customers that combines travel and fleet management services. The investment is subject to approval by the competent antitrust authorities.

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
China region
Germany, Europe regions (as of October 1, 2018)
Mobility Unit
Sales and Marketing (as of October 1, 2018)

DR. MARIO DABERKOW
Information Technology and Processes
South America & Mexico regions (as of October 1, 2018)

DR. CHRISTIAN DAHLHEIM (UNTIL SEPTEMBER 30, 2018)
Sales and Marketing (until September 30, 2018)
Germany, Europe, International
Latin America, South Africa regions (until September 30, 2018)

FRANK FIEDLER
Finance and Purchasing

CHRISTIANE HESSE
Human Resources and Organization
International region (as of October 1, 2018)

The members of the Supervisory Board are as follows:

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

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

DR. KARLHEINZ BLESSING (UNTIL APRIL 16, 2018)
Deputy Chairman
Member of the Board of Management of Volkswagen AG
Human Resources and Organization

JOACHIM DREES
Chief Executive Officer MAN SE and MAN Truck & Bus AG

MICHAEL GROSCHE (FROM OCTOBER 1, 2018)
Head of Fleet, Mobility and Remarketing
of Volkswagen Financial Services AG

FRED KAPPLER (UNTIL SEPTEMBER 30, 2018)
Head of Group Sales
Volkswagen AG

ANDREAS KRAUß
Member of the Joint Works Council of Volkswagen Financial Services AG,
of Volkswagen Bank GmbH and Euromobil Autovermietung GmbH

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

DR.-ING. PETER MERTENS (UNTIL OCTOBER 12, 2018)
Member of the Board of Management of AUDI AG
Technical Development

GABOR POLONYI (UNTIL AUGUST 31, 2018)
Head of Fleet Customer Management for Volkswagen Financial Services Digital Solutions GmbH

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

DR. HANS PETER SCHÜTZINGER (FROM OCTOBER 1, 2018)
Chief Executive Officer of Porsche Holding GmbH, Salzburg

EVA STASSEK
Principal Representative of IG Metall Braunschweig

STEPHAN WOLF (UNITIL DECEMBER 31, 2018)
Deputy Chairman
Deputy Chairman of the General and the Group Works Council of Volkswagen AG

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 8, 2019

The Board of Management

Lars Henner Santelmann

Dr. Mario Daberkow

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 AKTIENGESELLSCHAFT, Braunschweig, which comprise the statement of financial position as at December 31, 2018, and the statement of profit or loss for the financial year from January 1 to December 31, 2018, and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig, which is combined with the group management report, for the financial year from January 1 to December 31, 2018. 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, 2018 and of its financial performance for the financial year from January 1 to December 31, 2018 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, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § [Article] 322 Abs. [paragraph] 3 Satz [sentence] 1 HGB [Handelsgesetzbuch: German Commercial Code], 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 of the management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits 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, 2018. 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 matter of most significance in our audit was as follows:

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

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 matter:

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

① Shares in other companies amounting to EUR 4,509 million (26.5% of total assets) are reported underthe balance sheet item "Shares in affiliated companies" and amounting to EUR 461 million (2.7% 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 German 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, a write-down in the total amount of EUR 201.7 million was required for the financial 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 used. The measurement 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 net assets and results of operations, this matter was of particular significance during our audit.

② As part of our audit, we evaluated the methodology employed for the purposes of the valuation, among other things. In particular, we assessed whether the fair values of the material equity 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 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 in this way, we also focused our testing on the parameters used to determine the discount rate applied, and assessed the calculation model.

Taking into consideration the information available, we believe that the valuation parameters and underlying assumptions used by the executive directors are appropriate overall for the purpose of accurately measuring shares in affiliated companies and 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" of the notes.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f (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 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. We also:

> 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 control.
> Obtain an understanding of internal control relevant to the audit of the annual financial statements and of the policies and procedures 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 opinion on the effectiveness of those 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 23, 2018. We were engaged by the supervisory board on July 24, 2018. 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 8, 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

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