

VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY

VOLKSWAGEN LEASING GMBH
HALF-YEARLY FINANCIAL REPORT
JANUARY – JUNE

2019

Key Figures

€ million	June 30, 2019	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015
Lease assets	30,175	27,739	26,049	23,753	21,141
Total assets	38,694	37,486	32,218	27,767	24,549

€ million	H1.2019	H1.2017	H1.2017	H1.2016	H1.2015
Lease asset acquisitions	10,224	8,393	8,422	7,655	6,774
Leasing income	9,464	8,734	8,040	7,345	7,098

Thousands of vehicles	H1.2019	H1.2018	H1.2017	H1.2016	H1.2015
New leases	381	325	325	309	276
Lease portfolio	1,593	1,449	1,349	1,239	1,132

Report on Economic Position

GENERAL ECONOMIC DEVELOPMENT

The global economy continued its robust growth in the first six months of 2019 albeit at a slower pace. The average expansion rate of gross domestic product (GDP) in this period was down year-on-year in both the advanced and the emerging market economies. Prices for energy and other commodities decreased on average compared with the prior-year period amid a still comparatively low – albeit slightly higher – interest rate level. In connection with the upheaval in trade policy and economic uncertainty, international trade of goods waned in the first half of 2019.

As a whole, the economies of Western Europe recorded slight growth from January to June 2019, with a decline in momentum. This trend was recorded in nearly all countries in Northern and Southern Europe. The unknown outcome of the Brexit negotiations between the United Kingdom and the EU remained the primary source of uncertainty.

Amid a strong labor market, the growth trend in Germany continued at a markedly weaker pace in the period under review, with both business and consumer sentiment deteriorating further.

In the economies of Central Europe, growth rates remained relatively high in the first two quarters of 2019, while also declining in most cases.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Automotive financial services were in high demand in the first half of 2019. This was attributable to a number of factors, notably the persistently low key interest rates in the main currency areas.

Overall, the European market saw a slight contraction in the demand for vehicles in the period from January to June 2019. As a consequence, the recognition of new leases and financing agreements also declined marginally. Used vehicle sales in Europe went up slightly, although new leases and financing agreements for used vehicles contracted a little. After-sales products such as inspection, maintenance and spare parts agreements were also in high demand in the first six months of 2019; demand for automotive-related insurance grew slightly.

In Germany, the share of loan-financed or leased new vehicles remained stable at a high level in the reporting period. There was greater demand for after-sales products, and the call for integrated mobility solutions in the business customer segment also continued to rise.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

In the first half of 2019, global demand for passenger cars was weaker than in the prior-year period (–5.0%). While new registrations in the Central and Eastern Europe region narrowly exceeded the prior-year figure, the overall markets in Western Europe, Middle East, North America, South America and Asia-Pacific recorded dips.

Global demand for light commercial vehicles between January and June 2019 was up slightly on the previous year.

In Western Europe, passenger car demand in the reporting period fell short of the prior-year level due to the WLTP, among other factors. New vehicle registrations declined by varying degrees in the largest single markets. The passenger car market in Italy contracted in the reporting period. The share of new registrations for diesel vehicles in the overall passenger car market in Western Europe slipped to 33.3 (38.0)% in the period from January to June 2019.

Despite the uncertain outcome of the Brexit negotiations between the EU and UK, new light commercial vehicle registrations in Western Europe were moderately higher than the prior-year level.

In Germany, the number of passenger cars sold in the first six months of 2019 was on the high level seen in the prior-year period. In addition to the economic situation, sales incentives from dealers, particularly in the form of an environmental bonus, underpinned the stable trend.

Demand for light commercial vehicles in Germany in the reporting period was considerably higher than in the same period in 2018.

In the Central and Eastern Europe region, demand for passenger cars in the reporting period was just higher than in the previous year. Developments in the individual markets of Central Europe were mixed.

Registration volumes of light commercial vehicles in Central and Eastern Europe were on a level with the previous year period.

OVERALL ASSESSMENT OF THE COURSE OF BUSINESS AND THE COMPANY'S POSITION

In the opinion of the Management of Volkswagen Leasing GmbH, the business has performed well in 2019 to date. Volkswagen Leasing GmbH once again generated growth in its lease portfolio in the first half of the year.

The lease portfolio expanded by 9.9% and the total number

of leases was 144 thousand higher than at the end of the equivalent period in 2018. Volkswagen Leasing GmbH thereby achieved a record level for the lease portfolio of 1,593 thousand leases. However, the penetration rate based on all new Volkswagen Bank GmbH and Volkswagen Leasing GmbH financing and leasing contracts in the German market declined slightly to 59.2% (December 31, 2018: 59.9%), although it rose slightly compared with the figure as of June 30, 2018.

INTERNAL MANAGEMENT

Volkswagen Leasing GmbH is included in Volkswagen Financial Services AG's consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs). The internal management of the companies in the group is therefore based on IFRS figures. For further information please refer to the disclosures in the management report of Volkswagen Leasing GmbH for the year ended December 31, 2018.

RESULTS OF OPERATIONS

The disclosures on the results of operations relate to the changes compared with the corresponding period in 2018.

In the first half of 2019, leasing income rose by €0.8 billion to €9.5 billion. Of this increase in income, €0.2 billion was mainly attributable to ongoing lease installations and €0.4 billion to sales of used vehicles. The larger portfolio of leases will lift revenue in the coming years.

Expenses from the leasing business amounted to €5.3 billion, a year-on-year rise of €0.4 billion. This item mainly consists of the residual carrying amounts of re-marketed vehicles and the expenses from service leasing.

Depreciation and write-downs of lease assets rose to €3.4 billion as a result of volume growth (previous year: €3.1 billion). The interest expense for the funding of the leasing business saw a slight year-on-year increase of €8 million to €230 million, largely caused by a rise in funding costs.

In the first half of 2019, the result from ordinary business activities amounted to a loss of €51 million, which represented a significant improvement of €143 million compared with the corresponding period in the previous year. The

operating result in accordance with IFRS amounted to €141 million, which was up on the equivalent figure of €78 million generated in the first half of 2018.

NET ASSETS AND FINANCIAL POSITION

The disclosures on net assets and financial position relate to the changes compared with the balance sheet date of December 31, 2018.

Volkswagen Leasing GmbH continued to expand its business activities in the first half of 2019. The gross carrying amount of lease assets increased from €38.4 billion to €41.3 billion. The net carrying amount as of the reporting date was €30.2 billion (December 31, 2018: €27.7 billion), equating to a rise of €2.5 billion or 9%.

The trend in the portfolio of vehicles was also positive: the portfolio of leased vehicles increased to 1,593,000 units compared with 1,487,000 units as of the balance sheet date of December 31, 2018. Of this figure, the Italian branch in Milan accounted for approximately 51,000 vehicles and the Polish branch in Warsaw approximately 123,000 vehicles. The increase in the portfolio was due to the net effect from the addition of 381,000 new units and the disposal of 275,000 vehicles in the first six months of 2019.

The company is funded largely through bonds issued by Volkswagen Leasing GmbH and loans from affiliated companies. As of the end of June 2019, the volume of bonds issued amounted to €15.0 billion (December 31, 2018: €12.1 billion). Loans from affiliated companies amounted to €6.0 billion as of June 30, 2019 compared with €7.9 billion as of December 31, 2018.

In addition, the Company has currently placed six asset-backed security (ABS) transactions on the market to fund its leasing business. As of June 30, 2019, the volume of future lease receivables sold amounted to €4.6 billion (December 31, 2018: €4.4 billion). The volume of future lease residual values sold amounted to €8.1 billion as of June 30, 2019 (December 31, 2018: €7.7 billion).

This package of measures ensured that Volkswagen Leasing GmbH had adequate liquidity at all times during the first six months of 2019. Volkswagen Leasing GmbH has a sound liquidity base.

Report on Opportunities and Risks

REPORT ON OPPORTUNITIES

Macroeconomic opportunities

In the event of further economic growth in the majority of markets, the Management of Volkswagen Leasing GmbH expects a moderate increase in deliveries to customers of the Volkswagen Group. Volkswagen Leasing GmbH supports this positive trend by providing financial services products designed to promote sales.

The probability of a global recession is considered to be low overall. However, diminished rates of global economic growth or a period of below-average growth rates cannot be ruled out. The macroeconomic environment could also give rise to opportunities for Volkswagen Leasing GmbH if actual trends turn out to be better than forecast.

Strategic opportunities

Volkswagen Leasing GmbH believes that developing innovative products tailored to customers' changing mobility requirements offers additional opportunities. Growth areas

such as new mobility products and service offerings (parking and payment) are being systematically leveraged and expanded. Further opportunities may be created by launching established products in markets where these products have not previously been offered.

There is a significant opportunity for Volkswagen Leasing GmbH in the digitalization of its business. The aim is to ensure that all products are also available online in their respective markets by 2020. By expanding digital sales channels, the Company is addressing the changing needs of its customers and strengthening its competitive position.

RISK REPORT

There were no material changes in the reporting period to the details set out in the report on opportunities and risks in the 2018 Annual Report.

Despite the slightly muted economic growth in Europe, no new material risks for the second half of 2019 are evident at present.

Human Resources Report

The structure of the German legal entities in the Volkswagen Financial Services AG Group is such that the employees of Volkswagen Financial Services AG may be assigned to carry out their duties in the subsidiaries. As a result of this structure, 817 employees of Volkswagen Financial Services AG were assigned to the units of Volkswagen Leasing GmbH under staff leasing arrangements as of June 30, 2019 (December 31, 2018: 794).

Because of local legal requirements, employees of the Italian branches in Milan and Verona continue to hold employ-

ment contracts directly with Volkswagen Leasing GmbH. Currently, 62 people are employed in those branches (December 31, 2018: 273). The Polish leasing branch had 336 employees as of June 30, 2019 (December 31, 2018: 318).

The significant change in the number of employees working at the branch in Italy has arisen because of a reorganization of the structure of the Volkswagen Financial Services Group under company law.

Report on Expected Developments

The Management of Volkswagen Leasing GmbH expects growth in the global economy to slow somewhat in 2019. Risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will continue to be affected by geopolitical tensions and conflicts. The Company therefore expects momentum to be weaker than in 2018 in both the advanced economies and the emerging markets. The strongest rates of expansion are expected in Asia's emerging economies.

Volkswagen Leasing GmbH expects trends in the markets for passenger cars in the individual regions to be mixed in 2019. Global demand for new vehicles will probably be slightly below the prior-year level. The Company anticipates that the volume of new registrations for passenger cars in Western Europe will also fall slightly short of the figure seen in the previous year. After a positive performance overall in recent years, demand in the German passenger car market is expected to fall slightly year-on-year.

Sales of passenger cars in 2019 are expected to slightly exceed the prior-year figures in markets in Central and Eastern Europe.

Trends in the markets for light commercial vehicles in the individual regions will be mixed again in 2019; on the whole, Volkswagen Leasing GmbH expects a slight dip in demand.

The Company expects that automotive financial services will continue to be very important for vehicle sales worldwide in 2019.

In the German market and for the Volkswagen Leasing GmbH legal entity overall, the Management anticipates for fiscal year 2019 a slightly lower IFRS operating result year-on-year.

Volkswagen Leasing GmbH's lease portfolio is projected to be well above the prior-year level, partly because of a rise in new leases. A substantially higher penetration rate is forecast.

In Italy, the Management anticipates that there will be a marked year-on-year rise in new leases, the lease portfolio and the penetration rate. The operating result in accordance with IFRS is projected to be well above the prior-year figure.

In Poland, growth in new leases and in the lease portfolio is expected, with a much higher operating result in accordance with IFRS than the level achieved in the previous year. It is anticipated that the penetration rate will remain at the prior-year level.

This report contains forward-looking statements on the future business development of Volkswagen Leasing GmbH. These statements are based on assumptions relating to the development of the economic and legal environment in individual countries and economic regions in terms of the global economy and of the financial and automotive markets, which Volkswagen Leasing GmbH has made on the basis of the available information and which the Company currently considers to be realistic. The estimates given entail a degree of risk, and the actual developments may differ from those forecast. Any unexpected fall in demand or economic stagnation in the key sales markets of the Volkswagen Group will have a corresponding impact on the development of Volkswagen Leasing GmbH's business.

The same applies in the event of material changes in exchange rates against the euro. In addition, expected business development may vary if the assessments of the key performance indicators and of risks and opportunities presented in the 2018 Annual Report develop differently to the Company's current expectations, or additional risks and opportunities or other factors emerge that affect the development of its business.

Balance Sheet

of Volkswagen Leasing GmbH, Braunschweig, as of June 30, 2019

€ thousand	June 30, 2019	Dec. 31, 2018
Assets		
1. Receivables from banks		
a) Repayable on demand	2,020,148	7,988
b) Other receivables	0	0
	2,020,148	7,988
2. Receivables from customers	5,026,811	8,156,459
3. Lease assets	30,175,208	27,739,373
4. Intangible fixed assets		
a) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	3,978	4,003
b) Prepayments	727	807
	4,705	4,810
5. Property and equipment		
a) Land and buildings	33,122	33,809
b) Operating and office equipment	4,522	5,139
	37,644	38,948
6. Other assets	868,807	951,245
7. Prepaid expenses	560,538	587,559
Total assets	38,693,861	37,486,382

€ thousand	June 30, 2019	Dec. 31, 2018
Equity and liabilities		
1. Liabilities to banks		
a) Repayable on demand	39,375	88,966
b) With agreed maturity or notice period	728,348	891,979
	767,723	980,945
2. Liabilities to customers	14,421,974	16,716,105
3. Notes, commercial paper issued		
a) Bonds issued	14,969,963	12,084,292
b) Commercial paper issued	619,613	94,077
	15,589,576	12,178,369
4. Other liabilities	712,623	606,844
5. Prepaid expenses	6,187,994	5,939,743
6. Provisions		
a) Provisions for pensions and other post-employment benefits	907	2,576
b) Provisions for taxes	2,521	1,213
c) Other provisions	823,047	837,168
	826,475	840,957
7. Special tax-allowable reserve	1,031	1,060
8. Equity		
a) Subscribed capital	76,004	76,004
b) Capital reserves	145,706	145,706
c) Net accumulated losses (previous year: net retained profits)	-35,245	649
	186,465	222,359
Total equity and liabilities	38,693,861	37,486,382
1. Contingent liabilities		
Liability arising from the provision of collateral for third-party liabilities	56,740	71,838
2. Other obligations		
Irrevocable leasing commitments	2,926,705	3,032,424

Income Statement

of Volkswagen Leasing GmbH, Braunschweig,
for the period January 1 to June 30, 2019

€ thousand	Jan. 1 – June 30, 2019	Jan. 1 – June 30, 2018
1. Leasing income	9,463,856	8,733,550
2. Leasing expenses	5,299,079	4,915,615
	4,164,777	3,817,935
3. Interest income from lending and money market transactions	19,310	16,304
4. Interest expense	229,946	222,159
of which: Unwinding of discount on provisions	0	0
	-210,636	-205,855
5. Fee and commission income	120,366	120,096
6. Fee and commission expenses	324,009	290,934
	-203,643	-170,838
7. Other operating income	110,475	108,163
8. Income from the reversal of special tax-allowable reserve	29	38
9. General and administrative expenses		
a) Personnel expenses		
aa) Wages and salaries	9,412	10,968
ab) Social security, post-employment and other employee benefit costs	2,623	3,256
	12,035	14,224
b) Other administrative expenses	256,958	238,259
	268,993	252,483
10. Depreciation, amortization and writedowns		
a) Depreciation and writedowns of lease assets	3,399,452	3,144,305
b) Amortization and writedowns of intangible fixed assets, and depreciation and writedowns of property and equipment	2,474	2,316
	3,401,926	3,146,621
11. Other operating expenses	31,499	33,762
12. Writedowns of and valuation allowances on receivables and additions to provisions in the leasing business	334,465	398,508
13. Income from the reversal of writedowns of and valuation allowances on receivables and from the reversal of provisions in the leasing business	124,636	88,108
14. Result from ordinary business activities	-51,245	-193,823
15. Income tax expense	-15,351	23,170
16. Net loss	-35,894	-216,993
17. Retained profits brought forward	649	649
18. Net accumulated losses	-35,245	-216,344

Notes to the Interim Financial Statements

of Volkswagen Leasing GmbH, Braunschweig, for the period ended June 30, 2019

General Information

The annual financial statements of Volkswagen Leasing GmbH for the 2018 fiscal year were prepared in accordance with the requirements of the Handelsgesetzbuch (HGB – German Commercial Code) and the Verordnung über die Rechnungslegung der Kreditinstitute (RechKredV – German Bank Accounting Regulation). These interim financial statements have also been prepared on the same basis. No review of these interim financial statements has been carried out by an independent auditor.

Accounting Policies

The same accounting policies as those applied in the 2018 annual financial statements have generally been used in the preparation of the interim financial statements and in the calculation of the prior-year comparative figures. A detailed description of these policies was published in the notes to the annual financial statements in the 2018 Annual Report.

In accordance with section 256a sentence 1 of the HGB, foreign currency assets and liabilities are translated at the middle spot rate at the reporting date and in compliance with the historical cost convention and the principle of imparity (whereby unrealized losses are recognized but unrealized gains are not recognized). In the case of maturities of one year or less, currency translation gains and losses are recognized in their entirety in the income statement in accordance with section 256a sentence 2 of the HGB.

CHANGES IN FIXED ASSETS OF VOLKSWAGEN LEASING GMBH IN THE PERIOD JANUARY 1 TO JUNE 30, 2019

€ thousand	Net carrying amount Jan. 1, 2019	Additions	Disposals/other changes	Depreciation, amortization, write-downs	Currency translation differences	Net carrying amount June 30, 2019
I. Intangible fixed assets						
Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	4,004	1,079	0	1,100	-5	3,978
Prepayments	806	54	141	0	8	727
	4,810	1,133	141	1,100	3	4,705
II. Property and equipment						
Land and buildings	33,613	0	-144	765	3	32,995
Operating and office equipment	5,139	1,876	1,890	609	6	4,522
Assets under construction	196	92	161	0	0	127
	38,948	1,968	1,907	1,374	9	37,644
III. Lease assets						
Vehicles, technical equipment and machinery	27,626,077	10,224,242	4,275,816	3,399,452	157	30,175,208
Prepayments	113,296	0	113,296	0	0	0
	27,739,373	10,224,242	4,389,112	3,399,452	157	30,175,208
Total fixed assets	27,783,131	10,227,343	4,391,160	3,401,926	169	30,217,557

THE BREAKDOWN OF RECEIVABLES FROM BANKS IS AS FOLLOWS:

€ thousand	June 30, 2019	Dec. 31, 2018
1. Receivables from banks	2,020,148	7,988
(of which to affiliated companies €2,018,290 thousand; previous year: €1,489 thousand)		
(of which trade payables €21,793 thousand; previous year: €1,489 thousand)		
Total	2,020,148	7,988

THE BREAKDOWN OF RECEIVABLES FROM CUSTOMERS IS AS FOLLOWS:

€ thousand	June 30, 2019	Dec. 31, 2018
1. Trade receivables	1,412,004	1,165,940
2. Receivables from affiliated companies	3,602,763	6,979,538
(of which from the shareholder €923,214 thousand; previous year: €401,443 thousand)		
(of which trade payables €133,978 thousand; previous year: €78,959 thousand)		
3. Other receivables	12,044	10,981
Total	5,026,811	8,156,459

THE BREAKDOWN OF LIABILITIES IS AS FOLLOWS:

€ thousand	June 30, 2019	Dec. 31, 2018
1. Liabilities to banks	767,723	980,945
(of which to affiliated companies €92 thousand; previous year: €89,100 thousand)		
2. Liabilities to customers	14,421,974	16,716,105
(of which to affiliated companies €6,325,130 thousand; previous year: €8,580,840 thousand)		
(of which to the shareholder €1,229,434 thousand; previous year: €1,768,299 thousand)		
(of which trade payables €412,278 thousand; previous year: €528,364 thousand)		
3. Notes, commercial paper issued	15,589,576	12,178,369
4. Other liabilities	712,623	606,844
Total	31,491,896	30,482,263

THE BREAKDOWN OF NET INTEREST INCOME/EXPENSES IS AS FOLLOWS:

€ thousand	Jan. 1 – June 30, 2019	Jan. 1 – June 30, 2018
1. Interest income from lending and money market transactions (of which to affiliated companies €1,351 thousand; previous year: €3,419 thousand)	19,310	16,304
2. Interest expense (of which to affiliated companies €24,046 thousand; previous year: €17,887 thousand)	229,946	222,159
Total	-210,636	-205,855

BREAKDOWN OF INCOME BY REGION:

€ thousand	Germany	Italy	Poland	JAN. 1 – JUNE 30, 2019 Total	JAN. 1 – JUNE 30, 2018 Total
1. Leasing income					
Lease payments	2,949,001	101,992	77,326	3,128,319	2,923,816
Maintenance and service income	638,474	75,875	24,074	738,423	654,312
Used vehicle sales	4,994,960	49,527	36,308	5,080,795	4,673,674
Other	467,562	12,331	36,426	516,319	481,748
	9,049,997	239,725	174,134	9,463,856	8,733,550
3. Interest income from lending and money market transactions	3,627	455	15,228	19,310	16,304
5. Fee and commission income	118,482	-	1,884	120,366	120,096
7. Other operating income	91,503	7,280	11,692	110,475	108,163
8. Income from the reversal of special tax-allowable reserve	29	-	-	29	38
13. Income from the reversal of writedowns of and valuation allowances on receivables and from the reversal of provisions in the leasing business	89,741	23,729	11,166	124,636	88,108
Total	9,353,379	271,189	214,104	9,838,672	9,066,259

Volkswagen Leasing GmbH has undertaken to assign an amount of €1.4 billion from future lease receivables to Volkswagen Bank GmbH as collateral for lines of credit. The lines of credit relate to Volkswagen Leasing GmbH and other subsidiaries/investees of Volkswagen Financial Services AG.

Report on Post-Balance Sheet Date Events

Other than the items described above, there were no significant events after the balance sheet date of this half-yearly financial report (June 30, 2019).

Management of Volkswagen Leasing GmbH

Management as of June 30, 2019

ANTHONY BANDMANN

Chief Executive Officer

Corporate Management of Volkswagen Leasing GmbH

SILKE FINGER

Back Office Volkswagen Leasing GmbH

KNUT KRÖSCHE

Front Office Volkswagen Leasing GmbH

Audit Committee of Volkswagen Leasing GmbH

The members of the Audit Committee of Volkswagen Leasing GmbH are as follows:

WERNER FLÜGGE

Chairman

HELMUT STREIFF

Deputy Chairman

FRANK FIEDLER

Member of the Board of Management of Volkswagen Financial Services AG
Finance and Purchasing division

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the interim financial statements of Volkswagen Leasing GmbH give a true and fair view of the assets, liabilities, financial position and profit or loss of Volkswagen Leasing GmbH, and the management report includes a fair review of the development and performance of the business and the position of Volkswagen Leasing GmbH, together with a description of the material opportunities and risks associated with the expected development of Volkswagen Leasing GmbH for the remainder of this fiscal year.

Braunschweig, July 19, 2019

Volkswagen Leasing GmbH
The Management



Silke Finger



Knut Krösche



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TYPESETTING

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VOLKSWAGEN LEASING GMBH

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