Financial report 2018

Volkswagen International Finance N.V.

Amsterdam

Contents

Supervisory Board Report

The balance sheet total and the operating result for the financial year 2018 of Volkswagen International Finance N.V. (‘VIF’or ‘the Company’) are in line with the expected development of the Company.

The solvency and liquidity of the Company remained good. The issuance activities of VIF in the capital markets were coordinated with the parent company, Volkswagen AG.

The diesel issue, which surfaced in 2015, has been addressed by Volkswagen AG by entering into settlement agreements with the authorities in the respective countries.

In 2018, the credit rating agencies updated their rating assessments for Volkswagen AG.
Moody’s maintained the rating at P-2 / A3 (short term / long term) and changed the outlook from negative to stable while Standard & Poor’s maintained the rating at A-2 / BBB+ (short term / long term) with stable outlook.

The Management Board reported in 2018 regularly to the Supervisory Board on the developments regarding issuance activities and risk exposure. Risk limits set by the Supervisory Board were adhered to.

During the Annual General Meeting held on 7 June 2018, BDO Audit & Assurance B.V. was reelected as independent auditors for the fiscal year 2018. The independent auditors audited the annual financial statements of VIF and issued an unqualified audit opinion.

Amsterdam, 21 March 2019

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Original was signed by
Stefan Rasche, Chairman of the Supervisory Board

Management report

Business Strategy and Objectives

Volkswagen International Finance N.V. ('VIF' or 'the Company'), founded in 1977, is one of the funding vehicles of the Company's ultimate parent, Volkswagen AG ('VWAG'). VIF raises funds by issuing bonds and commercial paper in the international capital markets and lends the proceeds to Volkswagen Group companies and joint ventures. VIF provides the capital market funding as a service within Volkswagen Group thereby achieving an adequate return commensurate with the efforts and associated risks. VIF has 14 employees.

Funding

The basis for the issuing activities of the Company are the regularly updated Debt Issuance Programme (DIP) of EUR 30.0 billion, that adheres to the European Prospectus Directive standards, as well as the EUR 15.0 billion Multicurrency Commercial Paper Programme (CP Programme). VIF is issuing also under stand-alone documentation. All issues are fully guaranteed by VWAG.

Therefore, the VIF credit rating by Moody's and Standard & Poor's is derived from the VWAG credit rating. According to Moody's, VWAG's rating is set to P-2 (short-term) and A3 (long-term) with a stable outlook. Standard & Poor's assessed VWAG's creditworthiness as A-2 (short-term) and BBB+ (long-term) with a stable outlook.

Throughout 2018, VIF raised a total of EUR 5.1 billion with multi-tranched bonds as well as EUR 2.8 billion with a subordinated note (2017: EUR 11.5 billion). Furthermore, EUR 5.2 billion were issued with 105 transactions under the mentioned CP Programme (EUR 6.3 billion in 2017). The proceeds of all issues were granted to Volkswagen Group companies.

VIF also redeemed in 2018 multiple bond issues with a EUR equivalent of 2.0 billion and called a subordinated note of EUR 1.3 billion (2017: EUR 3.1 billion) and CP issues with a total EUR equivalent of 5.2 billion (2017: EUR 6.4 billion). The Company borrowed from VW Group companies EUR 0.4 billion (2017: EUR 0.2 billion) and repaid EUR 0.2 billion (2017: EUR 0.1 billion).

Financial Results

VIF realised a gain of EUR 59.6 million after tax in 2018 (2017: EUR 60.8 million). The Company generates income mainly from dividends and the Group financing business.

Results from participations in 2018 were positive with EUR 8.2 million, mainly due to dividends from its participation in Autoeuropa (2017: gain EUR 6.7 million).

Net financial income from Group financing activities amounted to EUR 40.7 million (2017: EUR 35.4 million).

In 2018, VIF did not receive any capital contribution (2017: EUR 4.0 million).

Given the fact that issuances under the DIP and CP-programmes are guaranteed by VWAG, the overall financial position of VIF is sound.

Risks

VIF is exposed to business and financial risks. Business risks comprise inter alia legal, operational, personnel, reputational and compliance risks. VIF is adhering to the Governance, Risk and Compliance Guidelines of Volkswagen AG in managing the aforementioned risks.

The main financial risks of VIF are liquidity risk, credit risk, currency risk, interest rate risk and shareholder risk.

Liquidity risk is defined as the risk of not being able to meet own payment obligations in full or when due.

Credit risk is defined as the risk of incurring losses as a result of a default of a borrower or bank.

Currency risk refers to the potential loss in open currency positions arising from adverse changes in exchange rates.

Interest rate risk occurs because of fixed and floating interest rate mismatches between asset and liability items on the balance sheet.

Shareholder risk refers to the risk that losses with a negative impact on the carrying amount of an equity investment could be incurred, following an impairment assessment of the prospects of the subsidiary.

The Supervisory Board has established narrow risk limits to restrict these risks and achieve a low risk exposure.

Risk policies

Liquidity risk is contained by extending loan amounts sourced from bond or CP-issuances to VW-Group companies at identical tenors as the funded amounts. VW Group borrowers repay their loans on the same due date when VIF's own payment obligations to the capital markets become due.

Credit risk is addressed by monitoring the financial stability of the Group borrowers and external banks. A fair value and impairment trigger assessment is performed for Group companies at least once a year or in case of need. Banks are monitored centrally at Volkswagen AG based on rating and financial analyses. Financial transactions are only conducted with approved banks.

Currency risk is limited by matching funding and lending currency amounts. In case funding and lending currency do not match derivatives are used to achieve closed positions.

Interest rate risk is contained by matching the fixed and floating interest rate terms of the funding and lending amounts. Mismatches are closed using interest rate derivatives.

Shareholder risk is monitored through impairment assessments, taking into account the economic and financial prospects of the subsidiaries. Adjustment measures are coordinated with Volkswagen AG.

For remaining mismatches the Supervisory Board has defined narrow limits. VIF uses adequate tools to assess and to monitor risks. On a monthly basis, a detailed mismatch report, containing all relevant risks, is presented to the management and the Supervisory Board. In 2018, limits were not exceeded.

Diesel issue

In September 2015, the California Air Resources Board (CARB) and the US Environmental Protection Agency (EPA) publicly announced that irregularities in relation to nitrogen oxide emissions had been discovered in emission tests on certain vehicles with diesel engines, resulting in violations of US environmental laws.
Depending on the different emissions regulations in the various countries, Volkswagen has rectified and is rectifying the diesel engine software, applied technical measures, compensated owners for reduced residual values or took back affected cars.The financial impact of this incident to the Group is dicussed in the 2018 annual report of Volkswagen AG.

Compliance with tax and regulatory requirements

The Company had its tax returns up to and including 2016 reviewed by the Dutch Tax Authorities, which resulted in a refund of EUR 1.6 million. For the current tax returns, a final assessment has not yet been received.

Due to its issuing activities in the capital markets and the listing at the Luxemburg Stock Exchange the Company is complying with the regulatory requirements regarding the yearly submission of its annnual financial statements to the Dutch Financial Market Authority (the “AFM”) and the approval requirements for its prospectuses by the Commission de Surveillance du Secteur Financier of the Grand Duchy of Luxembourg (the "CSSF").

Non-financial matters

VIF is not obliged to disclose a non-financial statement and refers to the combined, separate non-financial report of Volkswagen AG for the fiscal year 2018, which will be available on the website www.volkswagenag.com.

Expectations 2019

VIF will continue in 2019 its issuing activities in the capital markets. In line with the long-term business strategy, the Volkswagen Group plans to develop new products and to improve its position in existing markets. We expect that VWAG will keep VIF’s capital reserve on an adequate level. As several Volkswagen Group companies worldwide are going to use the attractive European funding opportunities, VIF foresees additional requests for refinancing which will be taken care of with rein-stated and increased capital market issuances under the DIP and CP-programmes.

Based on this assumption, we expect a moderate increase in total business volume for VIF in 2019. Taking into account the expected growth in business volume and the interest environment, the development of interest income should be at a similar level as in previous years. The financial statements have been prepared under the going concern assumption.

One third of the Supervisory Board of the Company is female. Currently, there are no female directors in the Management Board of the Company. The Company will deal with this in the future.
The Management Board declares to the best of their knowledge:

1. the financial statements for 2018 give a true and fair view of the assets, the liabilities, the financial position and the results of the Company; and

2. the management report gives a true and fair view of the Company’s situation as at the balance sheet date, the events that occurred during 2018 and the risks to which the Company is exposed.

Amsterdam, 21 March 2019

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Original has been signed by
Thomas Fries, Managing Director

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Original has been signed by
Vincent Delva, Managing Director

Financial statements

Balance sheet as at 31 December 2018

(after proposed profit appropriation)

		31 December 2018		**31 December 2017**	
	Ref.	EUR'000	EUR'000	EUR'000	EUR'000
Assets					
Fixed assets					
Intangible fixed assets	5	3		9	
Tangible fixed assets	5	145		162	
Shares in participations	6	165,504		137,799	
Loans to Volkswagen Group companies	7	29,975,023		26,384,490	
Total fixed assets			30,140,675		26,522,460
Current assets					
Receivables due from Volkswagen Group companies	7	10,128,917		8,962,295	
Receivables due from joint ventures of the Volkswagen Group	7	8,168		3,519	
Other assets	8	32,665		30,197	
Prepayments and accrued expenses	9	10,446		10,645	
Total current assets			10,180,196		9,006,656
Cash at banks and in hand	10		127,497		34,354
Total assets			40,448,368		35,563,470

The accompanying notes are integral parts of these financial statements.

		31 December 2018		31 December 2017	
	Ref.	EUR'000	EUR'000	EUR'000	EUR'000
Shareholders' equity and liabilities					
Shareholders' equity	11				
Issued and paid-up share capital		103,035		103,035	
Share premium reserve		12,120		12,120	
Retained earnings		142,968		153,403	
Total shareholders' equity			258,123		268,558
Provisions	12		7,506		5,575
Long-term liabilities	13				
Bonds		29,496,354		26,061,368	
Liabilities to Volkswagen Group companies		521,831		355,164	
Total long-term liabilities			30,018,185		26,416,532
Current liabilities	14				
Bonds		4,501,093		3,174,694	
Commercial papers		5,094,084		5,178,639	
Liabilities to Volkswagen Group companies		43,683		43,491	
Other liabilities		502,711		455,959	
Deferred income		22,440		18,586	
Current income tax		43		934	
Trade payables		52		21	
Accrued liabilities		448		481	
Total current liabilities			10,164,554		8,872,805
Total shareholders' equity and liabilities			40,448,368		35,563,470

The accompanying notes are integral parts of these financial statements.

Income statement for the year ended 31 December 2018

		2018		2017	
	Ref.	EUR'000	EUR'000	EUR'000	EUR'000
<u>Income</u>					
Interest income and similar income	16	895,595		781,825	
Interest expenses and similar expenses	16	(854,911)		(746,435)	
Results from shares in participations	17	8,164		6,734	
Fees received	18	1,200		1,488	
Other operating income	19	174		40,948	
Impairment of shares in participations	20	27,706		(4,812)	
Total income			77,928		79,748
<u>Expenses</u>					
Personnel expenses	21	(1,944)		(1,720)	
Amortization/ depreciation expenses	5	(43)		(81)	
Other operating expenses	22	(2,118)		(1,249)	
Additional provision for liabilities	23	(1,930)		(5,280)	
Release of provisions for liabilities	24	-		1,744	
Total expenses			(6,035)		(6,586)
Profit and (loss) before income taxes			71,893		73,162
Taxation on result on ordinary activities	29		(12,328)		(12,409)
Net profit and (loss) after taxation			59,565		60,753

The accompanying notes are integral parts of these financial statements.

Cash flow statement for the year ended 31 December 2018

	2018		2017	
	EUR'000	EUR'000	EUR'000	EUR'000
Result after taxation		59,565		60,753
Adjustments for:				
Taxation on result on ordinary activities	12,328		12,409	
Result from participations	(8,164)		(42,138)	
Interest and similar income	(895,595)		(781,825)	
Interest and similar expense	854,911		746,435	
Impairment on financial assets	(27,706)		-	
Amortisation and depreciation expenses	43		81	
		(64,183)		(65,038)
Movement in working capital				
Prepaid expenses and accrued expenses and other assets	154,104		(567)	
Other liabilities	48,681		78,812	
Deferred income	3,854		14,746	
		206,639		92,991
Cash generated from operations		202,021		88,706
Corporate income tax paid	(9,866)		(6,981)	
Net cash from operating activities		192,155		81,725
Cash flow from investment activities				
Investments in PPE	(21)		-	
Loans issued to VW Group companies and JV	(13,403,797)		(18,047,023)	
Loans from VW Group companies and JV	8,704,269		9,660,022	
Dividend received	8,164		6,734	
Interest received	841,081		723,484	
Purchase of tangible and intangible fixed assets	-		(3)	
Net cash (used in)/ from investment activities		(3,850,304)		(7,656,786)
Cash flow from financing activities				
Proceeds from borrowings and bonds inssuances	8,063,586		11,570,667	
Repayment of borrowings and bonds inssuances	(3,446,628)		(3,364,447)	
Proceeds from commercial papers	5,154,058		6,315,118	
Repayment of commercial papers	(5,235,258)		(6,373,251)	
Interest paid	(714,467)		(642,696)	
Net transfers to/from capital reserve	-		4,000	
Dividends paid	(70,000)		-	
Net cash from/ (used in)/ from financing activities		3,751,292		7,509,391
Net cash flows		93,143		(65,670)
Balance as at 1 January		34,354		100,024
Movement		93,143		(65,670)
Balance as at 31 December		127,497		34,354

The accompanying notes are integral parts of these financial statements.

Notes to the financial statements

1 General

1.1 Activities

Volkswagen International Finance N.V. (‘VIF’ or ‘the Company’), founded in 1977, is a 100% subsidiary of Volkswagen Finance Luxemburg S.A. (‘VFL’), who in turn is a 100% subsidiary of Volkswagen AG (‘VWAG’).

VIF’s registered office is located at Paleisstraat 1, 1012 RB Amsterdam, The Netherlands. VIF is registered with the Dutch Register of Commerce under No. 33148825. VIF maintains a website at www.vif.nl.

The main purpose of the Company is the financing of and participation in Group companies. VIF has access to several funding sources such as bonds, notes and commercial paper as well as intercompany loans.

All external issuances of financial instruments are guaranteed by VWAG. VIF has lent the proceeds of these borrowings to VWAG Group companies and joint ventures of VW Group.

Due to its issuing activity in the capital markets, VIF is subject to the regulatory supervision by the Dutch Financial Market Authority (Autoriteit Financiële Markten, “AFM”) and has to submit its yearly and half-yearly annual reports to the AFM.

Bonds issued by VIF are listed at the Luxemburg Stock Exchange. The bond prospectuses have been approved by the Commission de Surveillance du Secteur Financier of the Grand Duchy of Luxembourg (‘CSSF’).

1.2 Related parties

All legal entities that can be controlled, jointly controlled or significantly influenced by VIF are considered to be related parties. Also entities which can control or significantly influence the Company are considered to be related parties. In addition, statutory directors, other key management of the Company or the ultimate parent company and close relatives are regarded as related parties.

1.3 Consolidation and shares in participations

In 2014, VIF became a 100% subsidiary of Volkswagen Finance Luxemburg S.A. (‘VFL’), which itself is 100% owned by Volkswagen AG, the ultimate parent company. The consolidation, including all subsidiaries of VIF, is performed at VWAG level. These consolidated financial statements can be obtained from the Company and are also filed with the Dutch Chamber of Commerce on an annual basis.

Participations where VIF holds more than 50% of the shares are in principle consolidated at VIF level, unless the voting rights are restricted by legal agreement. In case of the participation in Volkswagen Group Saudi Arabia LLC, VIF holds 51% but there is no consolidation requirement, in line with the agreement on 6 November 2014 according to which VIF can only exercise voting rights upon specific instruction of Volkswagen Finance Luxemburg S.A.

Participations and other participating interests in which the Company exercises significant influence are stated at the lower of cost or net realisable value. The Company is considered to exercise significant influence if it holds at least 20% of the voting rights.

Participating interests in which no significant influence can be exercised are stated at acquisition cost. If an asset qualifies as impaired, it is measured at its impaired value; any write-offs are disclosed in the income statement.

The following overview contains information on the shares in participations, especially the percentage in the issued capital and the book value:

Name, registered office	Share in issued capital as percentage	Book value 31 December 2018 EUR		Local currency
	%	EUR'000		LC'000
Volkswagen Autoeuropa, Lda., Palmela, Portugal	26	132,987	EUR	132,987
Volkswagen do Brasil Indústria de Veículos Automotores Ltda., São Bernardo do Campo, Brazil	<1	0	EUR	0
Volkswagen Group Saudi Arabia LLC, Riyadh, Kingdom of Saudi Arabia	51	3,517	SAR	15,109
Volkswagen India Private Ltd., Pune, India	9	29,000	INR	2,317,289
Volkswagen International Belgium S.A, Brussels, Belgium	<1	0	EUR	0
Total investments in participations		165,504		

In 2018, Management received reports regarding the economic situation of the participations. Upon review of these reports, it was concluded that an additional impairment needed to be applied to the participation in Volkswagen Group Saudi Arabia, whereas for Volkswagen India Private Ltd., the impairments made in prior years have been reversed.
Impairment is determined by establishing the enterprise value on the basis of a discounted cash flow analysis based on the internal budget. For further details on this impairment, see note 20.

Volkswagen do Brasil Indústria de Veículos Automotores Ltda, Volkswagen International Belgium S.A. and Volkswagen India Private Ltd. are minority interest investments.

For further details on shares in participations, see note 6.

1.4 Note to the cash flow statement

Consolidated cash flows for the whole Volkswagen Group are included in the Volkswagen AG consolidated financial statements. A separate cash flow statement for the Company is not required by Dutch law. To be in line with the practice in the capital market, VIF prepares a cash flow statement, using the indirect method.

The cash items disclosed in the cash flow statement are comprised of cash and cash equivalents.
Cash flows denominated in foreign currencies have been translated at average exchange rates. Exchange differences affecting cash items are included in the respective amounts.

Cash from loans granted and interest received are included in cash from/ used in investment activities. Cash from borrowings, including interest paid and capital increases/ dividends paid/ received are included in cash from/ used in financing activities.

All other movements are included in cash used or generated from operations.

1.5 Estimates

The preparation of financial statements in conformity with the relevant rules requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. If necessary for the purposes of providing the view required under Section 362(1), Book 2, of the Dutch Civil Code, the nature of these estimates and judgements, including the related assumptions, is disclosed in the notes to the financial statement items in question. Estimates used for accounting of financial fixed assets and impairment of assets are disclosed under note 2.6 and 2.7.

2 Principles of valuation of assets and liabilities

2.1 General

The financial statements are prepared in accordance with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code and the firm pronouncements in the Guidelines for Annual Reporting in the Netherlands as issued by the Dutch Accounting Standards Board. The financial statements are presented in EUR, which is also the Company's functional currency, and have been prepared on a going concern basis.

In general, assets and liabilities are stated at the amounts at which they were acquired or incurred, or fair value. If not specifically stated otherwise, they are recognized at the amounts at which they were acquired or incurred. The balance sheet and the income statement include references to the notes.

Unless otherwise stated, amounts are shown in thousands of euros (EUR'000). All amounts shown are rounded, so minor discrepancies may arise from addition of these amounts. Negligible discrepancies could also arise in the comparison with the prior year owing to adjustments in the rounding methodology.

2.2 Comparison with prior year

The principles of valuation and determination of result remain unchanged compared to the prior year.

2.3 Foreign currencies

Functional currency

Items in the financial statements of the Company are stated with due observance of the currency of the primary economic environment in which the Company operates (the functional currency). The financial statements are presented in EUR, i.e. the functional and reporting currency of VIF.

Transactions, receivables and liabilities

Monetary assets and liabilities denominated in foreign currencies are translated at the period end-rate prevailing on the balance sheet date. Investments in participations are stated at the historical exchange rate at the date of the transaction.

Transactions denominated in foreign currencies in the reporting year are recognized in the financial statements at the exchange rate ruling at the transaction date.

In respect of any positions in the balance sheet that are covered by cross currency interest rate swaps or by foreign exchange forward contracts, the differences in values calculated at closing rates at the end of the year and contract rates are allocated to the respective principals of the loans. If the loan taken is denominated in a currency other than EUR, the respective correction is allocated to this loan. Otherwise, the corresponding loan granted is corrected.

The exchange differences resulting from the translation as of balance sheet date, are recorded in the profit and loss account.

Hedge accounting
VIF applies hedge accounting. Relationships between hedging instruments and hedged items are documented at the inception of the transaction. VIF also assesses, both at hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. This is done by comparing the critical qualitative characteristics of the hedge instrument with those of the hedged position. If there is an indication of ineffectiveness, the Company measures this potentially ineffective part by conducting a quantitative ineffectiveness analysis.

2.4 Intangible fixed assets

Intangible fixed assets are carried at historical cost less amortisation. Any impairment as at the balance sheet date is taken into account; impairment exists if the carrying amount of the asset (or the cash-generating unit to which it belongs) exceeds its recoverable amount.

Software licences acquired are capitalised at acquisition cost and amortised over the estimated economic life of three years. Expenditures incurred for the production of identifiable software products that are tailor-made for the Group are capitalised. Expenditure in connection with maintenance of computer software and expenses related to research activities are recognized in the income statement.

The useful economic life and depreciation method is evaluated as per each balance sheet date.

2.5 Tangible fixed assets

Fixed assets are valued at acquisition or production cost including directly attributable expenses, less straight-line depreciation over the estimated useful economic life, or market value if lower. Directly attributable production costs include the costs of the raw materials and consumables, and also include installation costs. The following depreciation periods are used:

Asset	**Number of years**
Office equipment	5
Transport equipment	5
Furniture and fixtures	10
Computer hardware	3

The useful economic life and depreciation method is evaluated as of each balance sheet date.

2.6 Financial fixed assets

Shares in participations
Participations and other participating interests in which the Company exercises significant influence are valued according to the net asset value method. In the event that 20% or more of the voting rights can be exercised, it may be assumed that there is significant influence.

The net asset value is calculated in accordance with the accounting principles that apply for these financial statements.
If the valuation of a participation based on the net asset is negative, it will be stated at nil.

Newly acquired participations are initially recognised based on the fair value of their identifiable assets and liabilities at acquisition date. For subsequent valuations, the principles that apply for these financial statements are used, with the values upon their initial recognition as the basis.

The amount by which the carrying amount of the participation has changed since the previous financial statements as a result of the net result achieved by the participations is recognised in the statement of income and expenses.

Participations over which no significant influence can be exercised are valued at historical cost.

If an asset qualifies as impaired, it is measured at its impaired value; any write-offs are disclosed in the income statement.

The shares in participations are specified in note 1.3.

Loans to Volkswagen Group companies and joint ventures of the Volkswagen Group

These loans to Volkswagen Group companies and joint ventures of Volkswagen Group are loans with a remaining term of more than one year. Receivables disclosed under financial assets are recognized initially at fair value of the amount owed. These receivables are subsequently measured at amortised cost. The main rule is that amortised cost equals the carrying amount of the asset net of any repayments on the principal and plus, or net of, the accumulated amortisation, calculated using the effective interest method of the difference between the amount upon initial recognition (including transaction costs) and the repayments. Straight-line amortisation in determining amortised cost is allowed as an alternative if straight-line amortisation does not lead to significant discrepancies with the effective interest method. If loans are issued at a discount or premium, the discount or premium is recognized through profit or loss over the maturities of the loans using the effective interest method. Also transaction costs are included in the initial valuation and recognized in profit or loss as part of the effective interest method. Impairment losses are deducted from amortised cost and expensed in the income statement.

2.7 Impairment of financial assets

On each balance sheet date, the Company tests whether there are any indications of assets being subject to impairment. The impairment process takes place at head quarter level, according to the discounted method, taking into account the essential figures of the actuals of the last 5 years, the forecast of the current year, cash flow forecasts and the 5-year planning figures of the counterparties. If any indications for impairment are present, the recoverable amount of the asset is determined. If this proves to be impossible, the recoverable amount of the cash-generating unit to which the asset belongs is determined. An asset is subject to impairment if its carrying amount is higher than its realisable value; the realisable value is the higher of the fair value less costs to sell and the value in use.

The fair value is determined based on the active market. Impairment is directly recognized as an expense in the income statement.

If it is established that a previously recognized impairment no longer applies or has declined, the increased carrying amount of the assets in question is not set higher than the carrying amount that would have been determined had no asset impairment been recognized.

The value of an asset in use is determined by estimation of the future net cash flows, based on continued use of the asset.

2.8 Current assets

All current assets have a maturity within one year.

Receivables due from Volkswagen Group companies and joint ventures of the Volkswagen Group

Receivables are recognized initially at fair value and subsequently measured at amortised cost.

Other assets

The swap interest receivables and income tax receivables are shown under other assets and are initially valued at cost and subsequently at their amortised cost value.

Prepayments and accrued expenses

Prepayments and accrued income are initially valued at cost and are amortised over the remaining life of the services or of the bonds.

Cash at banks and in hand

Cash at banks and in hand represents deposits at banks with a maturity of less than one year, cash in hand and bank balances. Cash at banks and in hand is carried at nominal value.

Cash and banks denominated in foreign currencies are translated at the period end-rate prevailing on the balance sheet date.

2.9 Provisions

Provisions are recognized for legally enforceable or constructive obligations that exist at the balance sheet date, and for which it is probable that an outflow of resources will be required and a reliable estimate can be made.

Provisions are measured at the best estimate of the amount that is necessary to settle the obligation as per the balance sheet date. Provisions for pension are valued on the basis of actuarial principles. The other provisions are carried at the nominal value of the expenditure that is expected to be necessary in order to settle the obligation, unless stated otherwise.

If obligations are expected to be reimbursed by a third party, such reimbursement is included as an asset in the balance sheet if it is probable that such reimbursement will be received when the obligation is settled.

2.10 Long-term liabilities

Bonds

The bonds are initially valued at fair value with subsequent measurement at their amortised cost value. All long-term bonds have a remaining maturity of more than one year. No assets were pledged as collateral by the Company.

Liabilities to Volkswagen Group companies

The liabilities to Volkswagen Group companies are initially valued at fair value and subsequently at their amortised cost value.

2.11 Current liabilities

All current liabilities have a maturity within one year.

Bonds

The bonds are initially valued at fair value and subsequently valued at their amortised cost value.

Commercial papers

The commercial papers are initially valued at their fair value and subsequently valued at their amortised cost value.

Liabilities to Volkswagen Group companies

The liabilities to Volkswagen Group companies are initially valued at their fair value and subsequently valued at their amortised cost value.

Trade payables
The trade payables are initially valued at fair value and subsequently at their amortised cost value and are payable within one year.

Other accrued liabilities
The accruals are based on sound business judgement and valued at the expected costs.

Deferred income
The deferred income concerns premiums and cost compensations and is amortised over the remaining life of the loans taken.

Current income tax
The current Dutch nominal tax rate of 25.0% has been applied. For further information, see Note 29.

2.12 Financial instruments

Loans included in financial and current assets, as well as liabilities and derivative financial instruments, are stated at amortised cost. The Company applies hedge accounting to hedging instruments when hedging interest and currency risk on borrowings and lendings. The Company documents the relationship between hedging instruments and hedged items at the inception of the transaction. Both the derivative and the hedged item are stated at amortised cost. The gain or loss relating to any ineffective portion is recognized in the income statement within finance cost. For more information about the value of the assets, assigned as hedged item, see note 7, of the liabilities see notes 13 and 14 and of the financial instruments see note 28. The Company has no derivative financial instruments other than the ones used for hedging.

Cost price hedge accounting
The Company applies cost price hedge accounting to hedge interest risk and currency-risk on borrowings. For the following instruments, (Cross currency) interest rate swaps and FX Swaps hedge accounting is applied.

In applying cost price hedge accounting, the initial recognition of, and the accounting policies for the hedging instrument are dependent on the hedged item, which has the following implications:

- if the hedged item is recognized at cost in the balance sheet, the derivative instrument is also stated at cost;
- as long as the hedged item is not yet recognized in the balance sheet, the hedging instrument is not re-measured (this applies, for instance, to hedging currency risks on future transactions);
- if the hedged item qualifies as a monetary item denominated in a foreign currency, the derivative instrument, where it has currency elements, is also stated at the period end-rate prevailing at the balance sheet date.

The ineffective portion of the hedge is recognized directly in the income statement.
Hedge effectiveness is assessed by comparing the critical characteristics of the hedge instrument with those of the hedged position. If there is an indication of ineffectiveness, the Company measures this potentially ineffective part by conducting a quantitative ineffectiveness analysis.

3 Principles determination of result

3.1 General

Result is determined as the difference between the realisable value of services rendered and the costs and other charges for the year. Results on transactions are recognized in the year in which they are realised; losses are taken as soon as they are foreseeable.

3.2 Revenue recognition

Revenue from interest income is allocated to the reporting year to which it relates. Exchange rate differences arising upon the settlement of monetary items are recognized in the income statement in the period that they arise.

3.3 Interest income and similar income and interest expenses and similar expenses

Interest income and expenses are recognized on a pro rata basis, taking account of the effective interest rate of the assets and liabilities concerned. When recognising the interest charges, the transaction cost on the loans received is taken into account.

3.4 Result from participations

Dividend to be received from participating interests not carried at net asset value and unquoted securities are recognized as soon as VIF acquires the right to it. The book value of the participations is considered annually and impairments are directly recognized in the income statement.

3.5 Other operating income and expenses

Other operating income and expenses include income or expenses that are not directly attributable to the interest income or expenses and are valued at the realisable value.

Other than in previous years, other operating income also includes retro-active sales results from participations (formerly shown in Results from participations) but excludes the service fees received from VW Group companies, now shown in a separate item in note 18. These reclassifications do not influence the result.

Other operating expenses also include general administrative expenses. These expenses were shown in a separate item in previous years. They include expenses such as personnel expenses, office expenses, consulting and audit fees, and amortisation and depreciation and are valued at cost.

Amortisation and depreciation
Intangible fixed assets are amortised and tangible fixed assets are depreciated over their expected useful lives as from the inception of their use. Future amortization and depreciation is adjusted if there is a change in estimated useful life.

Gains and losses upon the sale of tangible fixed assets are included in other operating income or other operating expenses, respectively.

Personnel expenses
Salaries, wages and social charges are taken to the income statement when due, and in accordance with employment contracts and obligations.

3.6 Taxation

Profit tax is calculated on the profit before taxation in the income statement, taking into account any losses carried forward from previous financial years (insofar as these are not included in deferred tax assets), tax-exempt items and non-deductible expenses. Account is also taken of changes in deferred tax assets and deferred tax liabilities owing to changes in the applicable tax rates.

4 Financial instruments

4.1 Market risk

General market risk due to events at Volkswagen AG

Government authorities in a number of jurisdictions worldwide have conducted and are continuing to conduct investigations of Volkswagen Group regarding findings of irregularities in relation to exhaust emissions from diesel engines in certain Volkswagen Group vehicles. The results of these and any future investigations, and criminal litigations, may have a material adverse effect on Volkswagen Group's business, financial position, results of operations and reputation, as well as the prices of its securities and its ability to make payments under its securities.

Volkswagen International Finance N.V.'s commercial success largely depends on the financial health and the reputation of the ultimate shareholder Volkswagen AG and due to the events, Volkswagen International Finance N.V. may not succeed in obtaining funds for financing requests in due time and to the extent necessary.

In addition, because of the investigation, Volkswagen International Finance N.V. as an issuer may face risks arising from legal disputes from investors claiming damages for alleged breaches of capital market laws.

Currency risk

To avoid currency risk, the loans to Volkswagen Group companies and to joint ventures of the Volkswagen Group and related funding are generally matched in currency terms. If not, currency swaps are executed to achieve the matched basis.

In cases where the matching cannot be achieved completely, the Supervisory Board has set small currency limits for individual currencies; policies are closely monitored and enforced. Consequently, currency risk is relatively remote. In 2018, the limits were not exceeded.

Interest rate risk

Based on funding requests by Volkswagen Group companies and to joint ventures, VIF issues notes to investors matching the fixed or variable interest requirement of the related parties. In cases where the investor looks for a different interest structure, VIF is using interest rate swaps or cross currency interest rate swaps to convert the interest into the structure required by the related parties.The Supervisory Board authorised VIF to run a certain interest rate risk. A limit system and tools to monitor and manage the risk have been set up. Interest mismatches are permitted within a twelve-month period only. Therefore, the risk is relatively low. In 2018, no limits were exceeded.

4.2 Credit risk

The risk of default arising from loans granted, account balances and derivative instruments involves the risk of default by counterparties.

VIF is extending loans to Volkswagen group companies and joint ventures of Volkswagen group, which are granted according to the guidelines and instructions from VWAG, the guarantor of commercial paper and capital market issuances by VIF. The default risk of VIF-borrowers has been analysed based on financial reports, planning forecasts and discussions with VWAG headquarters. Based on the analysis, the credit risk of VIF-borrowers is considered to be remote.

For VIF's external bank counterparties risk is limited by a limit system centrally managed by VWAG Group Risk Management taking into account also the credit assessments by the international rating agencies. Credit risk with external counterparties materialises from account balances, deposits and derivative transactions with a positive fair value. Given the business purpose of VIF, account balances and deposits are zero or kept to a minimum. Regarding the derivative transactions, exposure is kept within the risk limits defined by VWAG Group Risk Management.

All bonds issued by VIF are guaranteed by VWAG, mitigating the risk to investors.

4.3 Liquidity risk

Based on funding requests by VWAG related parties, VIF issues commercial paper and bonds to investors. Funds taken from investors are extended with the same maturity to VW Group borrowers.

In cases where this matching cannot be achieved the Supervisory Board has set narrow liquidity risk limits. The Company monitors the limits on a permanent basis. Against the background of the relatively narrow limits and the strong financial solidity of the Volkswagen Group, the liquidity risk is remote. In 2018, no limits were exceeded. Notes issued by VIF have the benefit of a Guarantee and Negative Pledge given by VWAG.

The Debt Issuance Program under which VIF is issuing is regularly updated to incorporate current developments. VIF continues to issue commercial paper based on the existing EUR 15.0 billion Commercial Paper Program to finance the requirements of Volkswagen group companies and joint ventures of the Volkswagen group.

To ensure flexible refinancing possibilities, Volkswagen AG has arranged for committed and uncommitted bank facilities for general corporate purposes.

5 Intangible and tangible fixed assets

Movements in intangible fixed assets are as follows:	**Intangible fixed assets (software)**	
	Total 2018	**Total 2017**
	EUR'000	EUR'000
1 January	203	203
Additions	-	-
Disposals	(183)	-
Amortisation/depreciation (accumulated)	(16)	(194)
31 December	3	9
Amortisation/depreciation current year	(6)	(10)

Movements in tangible fixed assets are as follows:

	Tangible fixed assets (other installations, business and office equipment)	
	Total 2018	**Total 2017**
	EUR'000	EUR'000
1 January	513	513
Additions	21	-
Disposals	(110)	-
Amortisation/depreciation (accumulated)	(279)	(351)
31 December	145	162
Amortisation/depreciation current year	(38)	(71)

The starting balance of 1 January 2018 shows the gross purchase value of the fixed assets. The ending balance as per 31 December 2018 shows the net book value.

6 Shares in participations (fixed assets)

Movements in shares in participations follow:

	Shares in participations	
	2018/17	**2017/16**
	EUR'000	EUR'000
Acquisition cost		
As at the beginning of the year	171,796	171,796
Additions during the year	-	-
Return of capital	-	-
As at the end of the year	171,796	171,796
Write downs		
As at the beginning of the year	(33,997)	(29,186)
Additions during the year	(1,295)	(4,811)
Reversals during the year	29,000	-
As at the end of the year	(6,292)	(33,997)
Carrying amount	165,504	137,799

For details on impairment, see note 20.

The book values of the participations can be broken down as follows:

	Shares in participations	
	2018	**2017**
	EUR’000	EUR’000
Volkswagen Autoeuropa, Lda.	132,987	132,987
Volkswagen do Brasil Indústria de Veículos Automotores Ltda.,	-	-
Volkswagen Group Saudi Arabia LLC	3,517	4,812
Volkswagen India Private Ltd.	29,000	-
Volkswagen International Belgium S.A. (1 share)	-	-
31 December	165,504	137,799

Shares in participations

The shares in participations are specified in note 1.3.

Further details to VIF’s participations are as follows:

Volkswagen Autoeuropa, Lda., Palmela, Portugal (AE)

– Incorporation on 24 June 1991.		
– Contribution to VIF: 28 November 2006 (50%), 10 December 2008 (24%)		
– Withdrawal from VIF: 27 June 2014 (48%)		
– Equity 31 December 2017	EUR’000	370,446
– Net earnings 2017	EUR’000	33,874

AE was established in 1991 as joint venture of VWAG and Ford-Werke AG under the company name Autoeuropa-Automóveis, Lda. with the goal to produce three identical but brand differentiated multi-purpose vehicles. On 1 January 1999 Volkswagen assumed 100% of AE’s ownership. AE consists of a stamping plant for body panels, paint shop and assembly facilities.

Volkswagen Group Saudi Arabia LLC, Riyadh, Kingdom of Saudi Arabia (VGSA)

- Joint venture contract signed on 13 December, 2012.		
- Incorporation: 8 April 2013.		
- Participation rate VIF: 51%		
- Equity 31 December 2015	SAR’000	55,776
- Net earnings 2015	SAR’000	(50)

Volkswagen Group Saudi Arabia, LLC’ is a joint venture with the partners VIF (51%), Automotive Technologies Alliance, LLC (39%) and Saudi Arabian Marketing & Agencies Co. Ltd. (10%). Its main purpose is the import and sales of passenger cars of the brands Volkswagen, Audi and Porsche. In 2014, VIF concluded a de-domination agreement with VFL under which VIF will execute any shareholder rights only based on instructions by VFL, i.e. the control over VGSA is no longer with VIF but with VFL and consequently VGSA has not been consolidated with VIF.

On 26 July 2017, the joint venture signed an agreement with the intention to liquidate VGSA.
Due to the liquidation process, the financial statements in 2016 and 2017 are not available.

In the course of 2017, it became apparent that the economic situation of VGSA requires a restructuring of the Saudi Arabian sales organization. This restructuring resulted to an impairment of the shareholding in VGSA of SAR 27.8 million (EUR 4.8 million equivalent).

Volkswagen India Private Ltd., Pune, India (VWIPL)

-	Incorporation: 6 February 2007		
-	Participation rate VIF: 9.01%		
-	Equity 31 March 2018	Rs'000	21,435
-	Net earnings 31 March 2018	Rs'000	(372)

Volkswagen India Private Ltd. was established 6 February 2007 and is owned by VWAG (90.99% capital rights, 0.01% voting rights) and VIF (9.01% capital rights, 99.99% voting rights). Its main purpose is the design, development, manufacturing, production, assembly, sales, distribution, export, import and/or marketing automotive vehicles and related parts, components and accessories.

In 2014, VIF concluded a de-domination agreement with VFL under which VIF will execute any shareholder and voting rights only based on instructions by VFL, i.e. the control over VWIPL is no longer with VIF but with VFL and consequently VWIPL has not been consolidated with VIF.

Based on new information, the impairment applied in previous years has been reversed, in 2018.

Besides the above listed participations VIF holds minority shareholdings in the following group companies:

Volkswagen International Belgium S.A., Brussels, Belgium (1 share), *contribution to VIF on 4 April 2007.*
Volkswagen do Brasil Indústria de Veículos Automotores Ltda., São Bernardo do Campo, Brazil (1 share), *contribution to VIF on 18 May 2017.*

7 Loans to and receivables due from Volkswagen Group companies and joint ventures of the Volkswagen Group (fixed and current assets)

Amounts due from Volkswagen Group companies and joint ventures of the Volkswagen Group included in financial fixed and current assets:

	31 December 2018			**31 December 2017**		
	Term < 1 year	**Term > 1 year**	**Total**	**Term < 1 year**	**Term > 1 year**	**Total**
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Amounts due from Volkswagen Group companies	10,128,917	29,975,023	40,103,940	8,962,295	26,384,490	35,346,785
Amounts due from joint ventures of the Volkswagen Group	8,168	-	8,168	3,519	-	3,519
	10,137,085	29,975,023	40,112,108	8,965,814	26,384,490	35,350,304

	Original currency	Average interest rate as percentage	31 December 2018 Book value	Market value
		%	EUR'000	EUR'000
Fixed asset loans to Volkswagen Group companies	EUR	3,1301	27,173,460	29,793,558
	USD	4,0843	2,146,398	2,104,274
	CNY	5,3701	355,165	326,571
	GBP	2,3402	300,000	295,261
			29,975,023	32,519,664
Current receivables due from Volkswagen Group companies	EUR	0,8111	8,521,947	8,571,747
	USD	3,8253	850,000	803,175
	CNY	4,3772	151,957	154,953
	GBP	1,5974	100,000	92,360
			9,623,904	9,622,235
Current receivables due from joint ventures of the Volkswagen Group	CZK	2,0086	8,163	8,168
Accrued and other receivables due from Volkswagen Group companies and joint ventures			505,018	505,018
			513,181	513,186
Total loans to and receivables due from Volkswagen Group companies and joint ventures of the Volkswagen Group			40,112,108	42,655,085

The market values are determined on the basis of discounted cash flows. Credit spreads were not included in the model used to determine the market value. Since all loans are to Volkswagen Group companies and joint ventures of the Volkswagen Group, the credit spread applicable to these loans is equal to the credit spread for the Volkswagen Group. For further information also see note 2.6

The weighted average interest rate is calculated for the outstanding loans as per year end, taking into account the duration in the current year.

As at 31 December 2018, the following credit spreads were applicable:

	31 Dec 2018 BPS	31 Dec 2017 BPS
For amounts payable within one year:	14,92	15,08
For amounts payable between one year and five years:	138,50	27,00
For amounts payable after five years	213,60	70,20

For comparison purposes, the loan to and receivable due from Volkswagen Group companies and joint ventures of the Volkswagen Group overview of 2017 is as follows:

	Original currency	Average interest rate as percentage	Book value	Market value
			31 December 2017	
		%	EUR’000	EUR’000
Fixed asset loans to Volkswagen Group companies	EUR	2,7507	22,508,331	25,309,761
	USD	3,1528	2,967,550	2,819,043
	CNY	5,0486	508,609	482,541
	GBP	1,7030	400,000	402,342
			26,384,490	29,013,687
Current receivables due from Volkswagen Group companies	EUR	1,0863	8,244,945	8,344,028
	GBP	0,9645	255,014	232,074
Current receivables due from joint ventures of the Volkswagen Group	CZK	0,6750	3,519	3,519
Accrued and other receivables due from Volkswagen Group companies and joint ventures			462,334	462,334
			8,965,812	9,041,955
Total loans to and receivables due from Volkswagen Group companies and joint ventures of the Volkswagen Group			35,350,302	38,055,642

8 Other assets

The account consists of the following:	31 Dec 2018	31 Dec 2017
	EUR’000	EUR’000
Interest receivable from banks	30,900	28,168
Income tax receivable	1,596	1,206
Positive fair value	159	813
Rental deposit	10	10
	32,665	30,197

The interest receivable from banks relates to the swap agreements and to deposits.
The income tax receivable relates to recoverable income- and withholding taxes.

9 Prepayments and accrued expenses

	31 Dec 2018	31 Dec 2017
	EUR'000	EUR'000
Prepaid expenses	10,446	10,645
	10,446	10,645

In the course of 2017, it became apparent that the economic situation of Volkswagen Group Sales Saudi Arabia (VWGSA) required a restructuring of the Saudi Arabian sales organization, i.e. VWGSA was to be liquidated. Part of the agreement with the Saudi Arabian partners ATA and SAMACO was that they would be compensated for their equity investment of USD 12.3 million (EUR 10.5 million) which was provided by VIF as an advance payment on their liquidation receipts.

10 Cash at banks and in hand

	31 Dec 2018	31 Dec 2017
	EUR'000	EUR'000
Cash at Volkswagen International Belgium S.A. (cash pooling)	127,497	34,354
Cash at external bank accounts	-	-
	127,497	34,354

All cash balances are at the free disposal of the Company and bear market interest rates. The credit risk for cash at external bank accounts is based on a risk assessment and within the limits defined by VWAG Group Risk Management.

11 Shareholders' equity

Share capital

On 31 December 2018, the subscribed capital of the Company amounted to EUR 104,370,000, of which an amount of EUR 103,035,000 was paid up, representing 103,035 registered and issued shares of EUR 1,000 each.

The Company has no mandatory reserves.

	Issued and paid-up share capital	Share premium reserve	Retained Earnings	Total Shareholder's Equity
	EUR'000	EUR'000	EUR'000	EUR'000
Balance as at 1 January 2017	103,035	8,120	92,650	203,805
Contribution from VFL	-	4,000	-	4,000
Dividend paid	-	-	-	-
Result for 2017	-	-	60,753	60,753
Balance as at 31 December 2017	103,035	12,120	153,403	268,558
Balance as at 1 January 2018	103,035	12,120	153,403	268,558
Contribution from VFL	-	-	-	-
Dividend paid	-	-	(70,000)	(70,000)
Result for 2018	-	-	59,565	59,565
Balance as at 31 December 2018	103,035	12,120	142,968	258,123

12 Provisions

Provision for disposal of Volkswagen Caminhões, Ltda., adjustment of prepayments and accrued expenses

The movement in provisions is as follows:

	2018	2017
	EUR'000	EUR'000
1 January	5,575	1,622
Additions	1,931	5,280
Utilisation	-	-
Dissolution	-	1,327
31 December	7,506	5,575

The balance of the provision is mainly relating to a possible impairment of TEUR 7,181 on the advance payments to the Saudi Arabian partners in Volkswagen Group Saudi Arabia and the remaining tax issues still pending for the former participation Volkswagen Caminhões, Ltda. for TEUR 324.

13 Long-term liabilities

This consists of the following:	31 Dec 2018	31 Dec 2017
	EUR'000	EUR'000
Bonds (listed and unlisted)	29,496,354	26,061,368
Liabilities to Volkswagen Group companies	521,831	355,164
	30,018,185	26,416,532

A breakdown of the long-term bonds is as follows:

	Original currency	Average interest rate as percentage	31 December 2018 Book value	31 December 2018 Market value
		%	EUR'000	EUR'000
Maturity longer than 5 years				
Bonds (listed)	EUR	3,2084	17,225,103	16,634,334
Bonds (listed)	GBP	3,7969	910,777	904,097
Maturity less than 5 years				
Bonds (listed)	EUR	2,1343	10,706,965	10,646,053
Bonds (unlisted)	USD	4,0000	653,509	659,886
Total long-term bonds			29,496,354	28,844,370

The market values for the bonds are based on the prices of the Stuttgart stock exchange. In case of non-availability, the market values are determined on the basis of discounted cash flows. Credit spreads were not included in the model used to determine the market value. For determination of the market values see note 2.10.

The weighted average interest rate is calculated for the outstanding loans as per year end, taking into account the duration in the current year.

For comparison purposes, the long-term bond overview of 2017 is as follows:

	Original currency	Average interest rate as percentage	31 December 2017 Book value	31 December 2017 Market value
		%	EUR'000	EUR'000
Maturity longer than 5 years				
Bonds (listed)	EUR	2,8675	13,466,281	14,940,936
Maturity less than 5 years				
Bonds (listed)	EUR	1,7565	11,817,806	12,299,307
Bonds (listed)	CNY	3,5000	153,748	152,660
Bonds (unlisted)	USD	4,0000	623,533	652,313
Total long-term bonds			26,061,368	28,045,216

A breakdown of the liabilities to Volkswagen Group companies is as follows:

	Original currency	Average interest rate as percentage	31 December 2018 Book value	31 December 2018 Market value
		%	EUR'000	EUR'000
Volkswagen AG	EUR	0,6095	355,164	359,259
Volkswagen International Belgium S A	EUR	0,6615	166,667	167,816
			521,831	527,075

For comparison purposes, the overview of 2017 is as follows:

	Original currency	Average interest rate as percentage	31 December 2017	
		%	Book value	Market value
Volkswagen AG	EUR	0,6095	355,164	361,041
			355,164	361,041

The credit ratings of the rating agencies are derived from VWAG's rating:

	2018		
Agency	Short-term	Long term	Outlook
Moody's	P-2	A-3	stable
Standard & Poor	A-2	BBB+	stable

	2017		
Agency	Short-term	Long term	Outlook
Moody's	P-2	A-3	negative
Standard & Poor	A-2	BBB+	stable

14 Current liabilities

This consists of the following:	**31 Dec 2018**	**31 Dec 2017**
	EUR'000	EUR'000
Bonds	4,501,093	3,174,694
Commercial papers	5,094,084	5,178,639
Other liabilities	502,711	455,959
Liabilities to Volkswagen Group companies	43,683	43,491
Deferred income	22,440	18,586
Accrued liabilities	448	481
Current income tax	43	934
Trade payables	52	21
	10,164,554	8,872,805

The breakdown of the current bonds is as follows:

	Original currency	**Average interest rate as percentage**	**31 December 2018**	
			Book value	**Market value**
		%	EUR'000	EUR'000
Bonds (listed)	EUR	0,9906	4,348,770	4,349,945
Bonds (listed)	CNY	3,5000	152,323	152,277
Total short-term bonds			4,501,093	4,502,222

For determination of the market values, see note 2.10.

For comparison purposes, the current bonds overview of 2017 is as follows:

	Original currency	Average interest rate as percentage	31 December 2017	
			Book value	Market value
		%	EUR'000	EUR'000
Bonds (listed)	EUR	2,7386	2,748,231	2,786,388
Bonds (listed)	HKD	1,5800	55,014	63,540
Bonds (unlisted)	USD	2,1250	371,449	417,422
Total short-term bonds			3,174,694	3,267,350

The breakdown of the current liabilities from issued commercial paper as per 31 December 2018 is as follows:

	Original currency	Average interest rate as percentage	31 December 2018	
			Book value	Market value
		%	EUR'000	EUR'000
Average term 12 months				
Commercial Papers	EUR	-0,0400	5,094,084	5,093,081
Total commercial papers			5,094,084	5,093,081

For comparison purposes, the overview of 2017 is as follows:

	Original currency	Average interest rate as percentage	31 December 2017	
			Book value	Market value
		%	EUR'000	EUR'000
Average term 12 months				
Commercial Papers	EUR	0,0001	5,178,639	5,183,831
Total commercial papers			5,178,639	5,183,831

The breakdown of the liabilities to Volkswagen Group companies is as follows:

	Original currency	Average interest rate as percentage	31 December 2018	
			Book value	Market value
		%	EUR'000	EUR'000
Volkswagen International Belgium S.A	EUR	0,914	43,683	34,305
			43,683	34,305

For comparison purposes, the overview of 2017 is as follows:

	Original currency	Average interest rate as percentage	31 December 2017	
			Book value	Market value
		%	EUR’000	EUR’000
Volkswagen International Belgium S.A	EUR	0,4492	43,491	41,562
			43,491	41,562

The breakdown of the other liabilities is as follows:

	31 Dec 2018	31 Dec 2017
	EUR’000	EUR’000
Loan interest payables	493,060	449,574
Swap interest payables	9,051	5,578
Fair value financial instruments	271	751
Others	330	56
	502,711	455,959

	31 Dec 2018	31 Dec 2017
	EUR’000	EUR’000
Deferred income		
Capitalised issue income	22,440	18,586
	22,440	18,586

Capitalised issue income relates to received up-front payments from cross-currency interest rate swaps, compensating the emission costs incurred on bonds.

15 Commitments not included in the balance sheet

The following revolving credit facilities are currently outstanding as at 31 December 2018:

Borrower	Currency	Amount EUR’000	Effective date	Termination date
VW International Belgium	(Multicurrency)	500,000	23.03.2010	open
VWAG	(Multicurrency)	6,000,000	19.04.2010	open
VW Finance SA	EUR	419,790	17.05.2010	open
Sko-Energo	CZK	550,000	04.10.2010	open
VW Autoeuropa	EUR	90,000	08.05.2017	26.05.2019

For comparison, the revolving credit facilities overview of 2017:

Borrower	Currency	Amount EUR'000	Effective date	Termination date
VW International Belgium	(Multicurrency)	3,000,000	23.03.2010	open
VWAG	(Multicurrency)	8,000,000	19.04.2010	open
VW Finance SA	EUR	1,500,000	17.05.2010	open
Sko-Energo	CZK	550,000	04.10.2010	open
Skofin	CZK	1,300,000	05.06.2015	open
VW Autoeuropa	EUR	50,000	03.04.2017	20.02.2018
VW Autoeuropa	EUR	200,000	08.05.2017	30.04.2018

16 Financial income and expenses

This consists of the following	2018	2017
	EUR'000	EUR'000
Interest and similar income from group companies	895,595	781,825
Interest and similar expenses to banks	(851,817)	(744,246)
Interest and similar expenses to group companies	(3,094)	(2,189)
	40,684	35,390

17 Results from shares in participations

The dividends received are as follows:	2018	2017
	EUR'000	EUR'000
Volkswagen Autoeuropa, Lda., Portugal	8,164	6,734
	8,164	6,734

18 Fees received

	2018	2017
	EUR'000	EUR'000
Service fees charged to:		
- Volkswagen Financial Services N.V.(1)	1,200	1,300
- Volkswagen AG (2)	-	150
- Global Mobility Holding B.V. (1)	-	18
- Fleet Investments B.V.	-	18
- Volkswagen Leasing SA de CV (2)	-	1
- Financial Services Japan	-	1
	1,200	1,488

(1) Compensation for the use of VIF's infrastructure and staff.

(2) Compensation for the processing and reporting of hedge effectiveness measurement calculations.

19 Other operating income

The other operating income consists of the following:

	2018	2017
	EUR'000	EUR'000
Proceeds from sales of India Private Ltd. (retro-active adjustment)	-	40,217
Changes in fair value of fx forwards	-	151
Translation gains	-	386
Miscellaneous income previous years	124	167
Income from sub-rental of office premises	50	27
	174	40,948

20 Impairment of shares in participations

The breakdown of the impairment expenses is as follows:

	2018	2017
	EUR'000	EUR'000
Volkswagen Group Saudi Arabia LLC	(1,294)	(4,812)
Volkswagen India Private Ltd., India	29,000	-
	27,706	(4,812)

In previous years, the impairment expenses were included in the 'Results from participations'.

21 Personnel expenses

The breakdown of the personnel expenses is as follows:

	2018	2017
	EUR'000	EUR'000
Salaries and wages	1,628	1,436
Social security contributions	143	125
Pension contributions	173	159
	1,944	1,720

The Company has a defined contribution pension plan that is re-insured with an insurance company.

The premium payable during the financial year is charged to the result.

22 Other operating expenses

Other operating expenses consists of the following	2018	2017
	EUR’000	EUR’000
Office expenses	720	744
Insurance	185	206
Consulting, auditing and legal fees	152	166
Temporary labour	10	-
Car expenses	44	42
Travel expenses	21	22
Training personnel	10	15
Miscellaneous expenses previous years	17	42
Bank charges	11	12
Translation losses	293	-
Changes in fair value of fx forwards	655	-
	2,118	1,249

23 Additions for provisions for liabilities

The following additions provisions for liabilities have been booked into the income statement:

	2018	2017
	EUR’000	EUR’000
Provision Advance payments ATA and SAMACO	(1,901)	(5,280)
Provision Gamma	(29)	-
	(1,930)	(5,280)

24 Releases of provisions for liabilities

The following releases of provisions for liabilities have been booked into the income statement:

	2018	2017
	EUR’000	EUR’000
Proceeds from release of Volkswagen Caminhoes accrual	-	1,327
Proceeds from release of Kulczyk Holding Accrual	-	417
	-	1,744

25 Independent auditor's fees

The following fees based on invoices and estimated work orders for assurance services incurred in the reporting year:

	2018	2017
	EUR'000	EUR'000
Audit of the financial statements	72	66
Other audit procedures	103	40
Tax services	-	-
Other non-audit services	13	-
	188	106

BDO Audit & Assurance B.V. performed the local statury audits in 2017 and 2018.
The other audit procedures relate to the audit of the group reporting packages and were performed by PricewaterhouseCoopers Accountants N.V.. The amount for Other audit procedures includes an amounf of 45TEUR for the financial year 2017.

26 Related parties

Related party transactions include:
All loans are granted to Volkswagen Group companies and joint ventures of Volkswagen Group, including the interest income generated from these financial instruments.
For transactions relating to investments in participations, see notes 1.3, 6 and 20.
For receivables due from Volkswagen Group companies, see note 7.
For cash at Volkswagen International Belgium S.A., see note 10.
For liabilities to Volkswagen Group companies, see notes 13 and 14.
For income from other services rendered to related parties, see note 18.

27 Average number of employees

In 2018, the average number of employees calculated on a full-time-equivalent basis was 13 (2017: 14). There were no employees working abroad.

28 Financial instruments

The Company's policy is to fully hedge its interest rate and exchange rate exposures.The company applies hedge accounting for all derivatives except for short term fx forwards relating to interest positions.. The current hedges are all 100% effective. during the year..

The financial instruments of the Company had the following notional amounts:

	Interest swaps	Interest/ currency swaps	FX Contracts	Total
	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2018	2,250,000	3,832,820	16,740	6,099,560
31 December 2017	1,300,000	3,425,584	20,932	4,746,516

The financial instruments of the Company had the following market values:

	Interest swaps	Interest/ currency swaps	FX contracts	Total
	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2018				
Positive market value	31,534	181,736	159	213,429
Negative fair value	(14,880)	(38,194)	(271)	(53,345)
Total market value	16,654	143,542	(112)	160,084
31 December 2017				
Positive market value	42,344	351,844	814	395,002
Negative fair value	(1,552)	-	(751)	(2,303)
Total market value	40,792	351,844	63	392,699

29 Taxation on result on ordinary activities

The taxation on result on ordinary activities can be specified as follows:

	2018	2017
	EUR'000	EUR'000
Result from ordinary activities before taxation	71,893	73,162
Of which income from participations (excluding gains/losses forward cover on dividend income and valuation result)	(33,940)	(36,859)
Result on ordinary activities	37,953	36,303
Taxation on result on ordinary activities	12,328	12,409
Effective tax rate	17.1%	17.0%
Applicable tax rate	25.0%	25.0%

30 Profit distribution

Management proposes to distribute the entire result after taxation in 2018 of EUR 59,565,057.16 out of retained earnings as a dividend to its shareholder.

31 Post balance sheet events

No post balance sheet events that require disclosure nor adjustment have occurred.

32 Directors and Supervisory Directors

Management Board:
- Thomas Fries, Amsterdam
- Vincent Delva, Brussels

The remuneration for 2018 of the Management Board amounted to EUR 460,732 (2017: EUR 407,497) and is included in the personnel expenses (see note 21).

Supervisory Board:
- Albrecht Möhle, Wasbüttel (Chairman) (until 31 October 2018)
- Stefan Rasche, Tervuren (Member) (until 31 October 2018)
  (Chairman) (as of 1 November 2018)
- Gudrun Letzel, Hannover
- Björn Reinecke, Braunschweig (as of 1 November 2018)

The members of the Supervisory Board have not received any remuneration for 2018 in their capacities as Directors of the Company (2017: nil).

Amsterdam, 21 March 2019

Management Board,

Original has been signed by
T. Fries

Original has been signed by
V. Delva

Supervisory Board,

Original has been signed by
S. Rasche

Original has been signed by
G. Letzel

Original has been signed by
B. Reinecke

Other information

Profit appropriation according to the Articles of Association

The Company’s Articles of Association provide that appropriation of accrued profit is subject to the decision of the shareholders at the general meeting of shareholders. The Company can only make distributions to the shareholders and other persons entitled up to an amount, which does not exceed the amount of the distributable reserves. The general meeting may resolve to pay dividends from legally distributable reserves.

Independent auditor's report

Independent auditor’s report

To: the shareholder and Supervisory Board of Volkswagen International Finance N.V.

A. Report on the audit of the financial statements 2018

Our opinion

We have audited the financial statements 2018 of Volkswagen International Finance N.V., based in Amsterdam (‘VIF’ or the ‘Company’).

WE HAVE AUDITED	OUR OPINION
The financial statements which comprise: 1. the balance sheet as at 31 December 2018; 2. the income statement for 2018; and 3. the notes comprising a summary of the applicable accounting policies and other explanatory information.	In our opinion the enclosed financial statements give a true and fair view of the financial position of Volkswagen International Finance N.V. as at 31 December 2018 and of its result for 2018 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the ‘Our responsibilities for the audit of the financial statements’ section of our report.

We are independent of Volkswagen International Finance N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the “Wet toezicht accountantsorganisaties” (Wta), the “Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten” (ViO) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the “Verordening gedrags- en beroepsregels accountants” (VGBA).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Based on our professional judgment we determined the materiality for the financial statements as a whole at € 404 million. The materiality has been calculated as 1% of the total assets which is the primary consideration of the users of the financial statements of the Company. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

We agreed with the Supervisory Board that misstatements in excess of € 20.2 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

VALUATION OF LOANS	OUR AUDIT APPROACH
As discussed in Note 1.1 to the financial statements, the main purpose of VIF is the financing of companies and joint ventures belonging to the Volkswagen AG group ('Volkswagen Group') through offering bonds and issuing commercial papers. The repayment of these financial liabilities is being guaranteed by Volkswagen AG. We considered the valuation of the financial instruments granted to related parties as a key audit matter due to the size of the portfolio which consists of loans to (€ 30.0 billion) and receivables due from (€ 10.1 billion) Volkswagen Group companies and joint ventures as of year-end and due to the material impact an impairment may have on the income statement. These are initially recognized at fair value and subsequently measured at amortized cost. The estimation process is considered complex, and significant judgements is made by management in ascertaining the provision for impairment. In particular, judgement arises over the determination of objective evidence of impairment which may have a reliably measurable effect on the present value of estimated future cash flows. In 2015, there were irregularities identified by US authorities relating to nitrogen oxide emissions on certain Volkswagen diesel engines. This prompted Standard & Poor's	The following procedures were performed to identify potential impairment triggers that affects the valuation of loans: 1. Discussed the impairment analysis with management and Supervisory Board and challenged the assumptions used by comparing them with external observable data (e.g., data from credit rating agencies); 2. Analyzed if there have been any impairment triggers at an individual loan level by challenging the fair values determined by management; 3. Tested the acceptability of impairment analysis method used by management by validating the mathematical accuracy and consistency of the method per counterparty. Further, we have also reviewed the latest financial information of Volkswagen AG and discuss with its external auditors to assess its ability to cover the repayment of financial securities issued by VIF in case of default. We assessed the adequacy of the disclosures in the financial statements relating to these financial instruments.

and Moody's Investor Services to downgrade the credit rating of Volkswagen AG. This has an impact to the creditworthiness of the entities within Volkswagen Group with existing loan balances due to VIF and therefore could affect the valuation of the related accounts. Based on the impairment assessment performed by VIF, management has concluded that no impairment is necessary as of year-end.	

APPROPRIATENESS OF HEDGE ACCOUNTING	OUR AUDIT APPROACH
VIF entered into derivative contracts to manage its interest rate risks and currency risks relating to the financial instruments issued by the Company as well as the loans granted to Volkswagen Group companies. VIF's portfolio consists of forward contracts, long-term interest rate swaps and cross currency swaps. As of year-end, the notional amounts of the derivative instruments totaled € 6.1 billion. As discussed in Note 2.11, VIF applies cost price hedge accounting to its derivative transactions. Management assessed that the hedge is 100% effective by comparing the critical qualitative characteristics of the hedged item and the hedging instrument (derivatives). We have identified this as a key audit matter since inappropriate application of the hedging will have an impact to the income statement.	Our audit procedures included evaluating and validating the design and operating effectiveness of controls over treasury transactions, including key reconciliation and management review of the derivative transactions with authorized banks. The following procedures were performed to ascertain that the use of hedge accounting is appropriate: 1. Discussed with management the rationale for their expectation at the inception of the hedge that the hedging relationship will be highly effective and their process for reviewing its ongoing effectiveness. 2. Reviewed the documentation and hedge effectiveness testing performed by the management to ensure that the hedged transactions comply with the hedge accounting requirements, including designation and documentation requirements.

B. Report on other information included in the annual report

Next to the financial statements and our opinion thereon, the annual report consists of other information, including:

- the Supervisory Board report
- the management report; and
- the other information on page 38.

Based on the procedures as mentioned below, we are of the opinion that the other information:

- is consistent with the financial statements and contains no material deficiencies;
- includes all information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information and based on our knowledge and understanding obtained from the audit of the financial statements or otherwise, we have considered if the other information contains material deficiencies.

With these procedures, we have complied with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Auditing Standard 720. These procedures do not have the same scope as our audit procedures on the financial statements.

Management is responsible for the preparation of the management board report and the other information on page 38 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

C. Report on other legal and regulatory requirements

Engagement

We were engaged by the Supervisory Board as auditor of Volkswagen International Finance N.V. on 29 September 2016 as of the audit for year 2016 and have operated as statutory auditor ever since that financial year.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5 (1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

D. Description of responsibilities for the financial statements

Responsibilities of management and the Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, management is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting framework mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

Misstatements can arise from errors or fraud 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 financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to errors or fraud, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit 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 the Company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's 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 our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. 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 ceasing to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.

- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

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

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the 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 or when, in extremely rare circumstances, not mentioning it is in the public interest.

Amstelveen, 21 March 2019

For and on behalf of BDO Audit & Assurance B.V.,

sgd.
drs. M.F. Meijer RA
