VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY

ANNUAL FINANCIAL STATEMENTS

OF VOLKSWAGEN FINANCIAL SERVICES AG – HOLDING

2013

Balance sheet

OF VOLKSWAGEN FINANCIAL SERVICES AG, BRAUNSCHWEIG, AS AT 31.12.2013

€ 000	31.12.2013	31.12.2012
Assets		
A. Fixed assets		
I. Intangible assets	8,047	8,716
II. Tangible assets	23,130	19,016
III.Financial assets	10,410,533	10,244,745
	10,441,710	10,272,477
B. Current assets		
I. Receivables and		
other assets	2,239,818	1,231,478
II. Cash in hand and		
bank balances	1,200	256,421
	2,241,018	1,487,899
C. Prepaid expenses	**2,766**	**3,763**
Total assets	**12,685,494**	**11,764,139**
Equity and liabilities		
A. Equity		
I. Subscribed capital	441,280	441,280
II. Capital reserve	4,709,041	4,709,041
III. Revenue reserves	99,469	99,469
IV. Accumulated profit	1,705	1,705
	5,251,495	5,251,495
B. Provisions	328,547	301,224
C. Liabilities	7,105,452	6,211,420
Total equity and liabilities	**12,685,494**	**11,764,139**

Income statement

OF VOLKSWAGEN FINANCIAL SERVICES AG, BRAUNSCHWEIG, FROM 1.1. TO 31.12.2013

€ 000	2013	2012
General administration expenses	155,111	118,116
Other operating income	712,679	689,161
Other operating expenses	688,311	690,744
Net income from equity investments	1,059,012	660,984
Financial result	−27,001	−64,771
Result from ordinary business activities	**901,268**	**476,514**
Taxes on income and earnings (€ 283,563,000 debited by the parent company; previous year: € 306,600,000)	284,030	306,762
Profits transferred under a profit transfer agreement	617,238	169,752
Net income	-	-
Profit brought forward	1,705	1,705
Accumulated profit	**1,705**	**1,705**

Notes

TO THE FINANCIAL STATEMENTS OF VOLKSWAGEN FINANCIAL SERVICES AG, BRAUNSCHWEIG, AS AT 31.12.2013

1. General comments regarding the annual financial statements

Pursuant to § 267 Para. 3 sentence 1 and 2 HGB, our company must be classified as a large corporation. These annual financial statements have thus been prepared in accordance with the accounting regulations applicable to large corporations under the German Commercial Code.

Volkswagen Financial Services AG makes personnel available to its German Group companies for consideration under staff leasing agreements.

Cross-divisional departments are assigned to Volkswagen Financial Services AG. All related overheads are passed on to the German Group companies by means of internal cost allocations. Furthermore, Volkswagen Financial Services AG provides both IT services and internal services for Group companies. The respective costs are also passed on to the given entity by means of internal cost allocation.

The allocated costs related to staff leasing agreements, IT services and internal services as well as the general administration expenses related to cross-divisional departments are reported in other operating expenses. All income from cost allocations is shown in other operating income.

To improve the clarity of the presentation, individual items in the balance sheet and the income statement have been grouped together. These items are shown separately in the notes.

The income statement has been prepared in accordance with the cost of sales method customary in the Volkswagen Group to improve international comparability.

2. Accounting policies

The accounting policies applied the previous year have been adopted unchanged.

Purchased intangible and tangible assets are measured at cost less depreciation or amortisation. Intangible assets have a useful life of three to five years and tangible assets have a useful life of three to thirteen years.

Low-value assets are written off in full and recognised as disposals in the year of acquisition.

Investments in affiliates and other equity investments are measured at cost.

Write-downs are taken if any of the fixed assets measured in accordance with these standards are likely to be permanently impaired at the reporting date.

Receivables and other assets are carried at their respective nominal values.

There are several pension commitments that differ in terms of their structure. There are pension commitments that are not financed through external borrowings as well as those that are financed through Volkswagen Pension Trust e.V.

The pension commitments funded through Volkswagen Pension Trust e.V. concern so-called “equity-linked pension commitments”, which are measured at the securities’ fair value pursuant to § 253 Para. 1 sentence 3 HGB because the amount of the pension liabilities is determined solely on the basis of that measurement. In accordance with § 246 Para. 2 HGB, the securities are offset against the provisions covered under the fund.

Other pension liabilities also concern equity-linked commitments. As plan assets, the securities measured at fair value are offset against the corresponding provisions.

The pension provisions not funded through borrowings from external sources are recognised at the present value based on Dr. Klaus Heubeck’s current 2005G mortality tables.

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

The following material actuarial principles and measurement assumptions are used to determine the pension provisions:

Discount rate:	4.89%
Expected rate of salary increases:	3.32%
Expected rate of pension increases:	1.80%
Employee turnover rate:	0.75%

Adequate provisions corresponding to the amount required to settle the respective obligation are recognised for uncertain liabilities and existing risks.

All liabilities are reported at the amount required to settle the respective obligation. Pro rata discounts on bonds are accrued.

Receivables and liabilities in foreign currencies with a residual maturity up to one year are translated at the average spot rate on the reporting date. The forward rate is used for currency futures.

Derivative financial instruments are used solely for hedging purposes. Derivative financial instruments (interest rate swaps and forward exchange transactions) are measured by applying the general measurement provisions under the German Commercial Code. The company recognises hedging relationships to the extent legally permissible.

3. Notes to the balance sheet

The breakdown of the fixed assets reported in the balance sheet and any changes in these assets during the reporting period follow from the table of assets. The list of shareholdings in the company is attached to the notes in an annex and is also available at www.vwfsag.com/listofholdings2013.

Of the € 2,717,623,000 in loans to affiliates, € 125,000,000 are subordinated.

The loans to investees are subordinated.

Under a profit and loss transfer agreement, Volkswagen AG, Wolfsburg, as the parent company generally accounts for deferred taxes.

Receivables and other assets break down as follows:

€ 000	31.12.2013	31.12.2012
1. Receivables from affiliates (of which from the shareholder: € 4,677,000; previous year: € 6,849,000)	1,357,411	823,116
2. Receivables from long-term investees and investors	864,532	337,373
3. Other assets	17,875	70,989
	2,239,818	**1,231,478**

The receivables from affiliates include loan receivables and interest (€ 105,744,000); receivables under profit and loss transfer agreements (€ 864,479,000) and tax allocations (€ 20,492,000), receivables from a cash deposit (€ 139,546,000) as well as term deposits and interest (€ 93,148,000).

Receivables from long-term investees and investors include term deposits and interest in the amount of € 531,769,000 as well as loans and interest in the amount of € 332,410,000.

The other assets mainly comprise receivables from deferred interest on swaps executed to hedge the bonds and loans issued.

Prepaid expenses contain € 9,000 in discounts from the issuing of bonds and € 2,757,000 in prepaid warranty insurance and maintenance costs relating to the following year.

At € 4,709,041,000, capital reserves (§ 272 Para. 2 no. 4 HGB) in the financial year ended were unchanged compared with the previous year.

Of the revenue reserves, as before € 44,128,000 concern statutory reserves and € 55,341,000 concern other revenue reserves.

The provisions contain the following items:

€ 000	31.12.2013	31.12.2012
1. Provisions for pensions and similar obligations, not fund-based:	131,246	115,342
including offsetting of the unit-linked pension obligation:		
Fund-based pension provisions	80,714	66,911
Fund assets as plan assets (cost: € 83,897,000)	−80,714	−66,911
2. Other provisions	197,301	185,882
including the offsetting of the employee time asset bond:		
Provisions for time asset bonds	39,045	34,169
Fund assets as plan assets (cost: € 41,466,000)	−39,045	−34,169
	328,547	**301,224**

The other provisions were essentially recognised for personnel costs totalling € 117,341,000 (previous year: € 113,621,000), contract risks arising from operating activities totalling € 40,200,000 (previous year: € 36,100,000) and outstanding invoices in the amount of € 18,092,000 (previous year: € 17,232,000).

The liabilities consist of the following:

€ 000	31.12.2013	31.12.2012
1. Bonds (of which with a remaining maturity up to 1 year: € 3,000,000,000; previous year: € 200,000,000)	3,300,000	3,200,000
2. Liabilities to financial institutions (of which with a remaining maturity up to 1 year: € 0; previous year: € 19,191,000)	-	19,191
3. Trade payables (remaining maturity up to 1 year)	17,328	19,099
4. Liabilities to affiliates (of which to the shareholder: € 377,351,000; previous year: € 308,008,000) (of which with a remaining maturity up to 1 year: € 1,320,838,000; previous year: € 929,752,000)	3,553,304	2,516,996
5. Other liabilities (of which resulting from taxes: € 6,655,000; previous year: € 5,666,000) (of which related to social security: € 1,586,000; previous year: € 1,297,000) (remaining maturity up to 1 year: € 210,404,000; previous year: € 430,782,000)	234,820	456,134
	7,105,452	**6,211,420**

The bonds comprise listed debentures that were issued under the Debt Issuance Programme of Volkswagen Financial Services AG.

The liabilities to the shareholder mainly concern € 217,238,000 in profit transfers, € 58,557,000 in income taxes paid and € 61,623,000 in VAT taxes paid as part of the tax group for VAT purposes.

The other liabilities contain € 114,099,000 in apportioned interest under the bonds issued.

Statement of changes in fixed assets of Volkswagen Financial Services AG, Braunschweig, for 2013

	GROSS CARRYING AMOUNTS					
€ 000	Brought forward 1.1.2013	Additions	Disposals	Transfers	Balance 31.12.2013	
I. Intangible assets						
Software	35,472	4,389	–	–	39,861	
II. Tangible assets						
Operating and office equipment	67,630	13,444	1,909	–	79,165	
III. Financial assets						
Investments in affiliates	7,272,280	732,666	605,000	–	7,399,946	
Loans to affiliates	2,722,415	472	5,264	–	2,717,623	
Other equity investments	254,389	41,914	–	–	296,303	
Loans to other long-term investees and investors	20,000	–	–	–	20,000	
Total financial assets	**10,269,084**	**775,052**	**610,264**	**–**	**10,433,872**	
Total fixed assets	**10,372,186**	**792,885**	**612,173**	**–**	**10,552,898**	

	VALUATION ALLOWANCES						NET CARRYING AMOUNTS	
	Brought forward 1.1.2013	Additions	Disposals	Transfers	Write-ups	Balance 31.12.2013	Balance 31.12.2013	Balance 31.12.2012
	26,756	5,058	–	–	–	31,814	8,047	8,716
	48,614	9,328	1,907	–	–	56,035	23,130	19,016
	24,339	–	–	–	1,000	23,339	7,376,606	7,247,941
	–	–	–	–	–	–	2,717,623	2,722,415
	–	–	–	–	–	–	296,303	254,389
	–	–	–	–	–	–	20,000	20,000
	24,339	**–**	**–**	**–**	**1,000**	**23,339**	**10,410,533**	**10,244,745**
	99,709	**14,386**	**1,907**	**–**	**1,000**	**111,188**	**10,441,710**	**10,272,477**

In the financial year, the carrying amount of one affiliate was adjusted upwards. The corresponding income is contained in the financial result.

4. Notes to the income statement

Personnel expenses comprise the following:

€ 000	2013	2012
Salaries	376,367	355,172
Social security, post-employment and other employee benefit costs	71,246	69,770
of which post-employment costs	(17,567)	(16,188)
Offsetting under staff leasing agreements	−297,667	−295,198
	149,946	**129,744**

The allocated costs pursuant to staff leasing agreements are shown in the other operating expenses in order to report the respective personnel expenses as part of the general administration expenses. All income from cost allocations is shown in other operating income.

The other operating income contains income of € 45,000 from currency translation, and the other operating expenses contain expenses of € 48,000 from currency translation.

Net income from equity investments breaks down as follows:

€ 000	2013	2012
Expenses from loss transfers	126,183	21,576
Income from profit transfer agreements (from affiliates)	1,173,195	673,560
Income from equity investments (from investments in joint ventures)	12,000	9,000
	1,059,012	**660,984**

The financial result breaks down as follows:

€ 000	2013	2012
Income from other securities and long-term loans (of which from affiliates: € 123,335,000; previous year: € 130,701,000)	124,146	132,760
Other interest and similar income (of which from affiliates: € 8,731,000; previous year: € 10,052,000) (of which interest income from discounting: € 91,000; previous year: € 108,000)	12,765	12,164
Interest and similar expenses (of which to affiliates: € 31,193,000; previous year: € 30,445,000) (of which € 9,800,000 from the unwinding of discounts on provisions; previous year: € 7,151,000)	164,912	186,695
Write-downs of financial assets (from affiliates)	-	23,000
Write-ups of financial assets (from affiliates)	1,000	-
	–27,001	**–64,771**

A total of € 2,171,000 in interest expenses for the fund-based pension provisions were offset against the equivalent income from the measurement of the attendant fund assets. A total of € 387,000 in interest income from the discounting of provisions for time asset bonds (previous year: € 1,163,000 in interest expense from the unwinding of discounts) were offset against the equivalent expenses from the measurement of the overtime deferred compensation fund.

The annual result was affected by income of € 20,168,000 not related to the accounting period (previous year: € 19,725,000) and expenses of € 14,246,000 not related to the accounting period (previous year: € 5,400,000) arising mainly from offset personnel expenses, general overheads and the reversal of provisions. Both the income and the expenses not related to the accounting period are contained in the other operating income/expenses.

Our services generally do not give rise to any cost of materials as defined in § 275 Para. 2 no. 5 HGB.

5. Other notes

Derivative transactions were undertaken solely to hedge interest rate risks and currency risks. Market values are determined on the basis of market information available at the reporting date using appropriate IT-based evaluation methods.

The nominal and market values comprise the following:

	NOMINAL VALUES		MARKET VALUES			
€ 000	31.12.2013	31.12.2012	31.12.2013		31.12.2012	
			positive	negative	positive	negative
Interest rate swaps	1,300,000	1,300,000	23,660	2,547	44,074	–
Currency futures contracts	182,845	61,510	978	1,439	223	–

The following table shows the underlying transactions that were hedged as at 31.12.2013, to the extent that they were combined into micro-hedges, as well as the risks hedged thereby:

€ 000		Assets	Liabilities	Total	Amount of the hedged risks
Interest rate risks	Micro-hedge	–	1,300,000	1,300,000	–
Currency risks	Micro-hedge	182,845	–	182,845	–
Total		**182,845**	**1,300,000**	**1,482,845**	**–**

Micro-hedges are being accounted for since 1.1.2010 in accordance with the German Accounting Law Modernisation Act (BilMOG). This entails hedging interest rate risks from the issuing of bonds by means of payer and receiver swaps as part of micro-hedges such that the changes in the value of the bonds and swaps offset each other. Transactions are generally designated as micro-hedges as long as the hedge is effective. This means that the intention to maintain the hedge until final maturity is always given. The prospective test of effectiveness is based on either IFRSs (if possible under IFRS criteria for hedge accounting) or on the critical term match method. The retrospective measurement of effectiveness is based on the regression analysis. Currency risks from the issuing of loans in foreign currencies to companies belonging to Volkswagen Financial Services AG outside of the euro zone are generally hedged by means of forward exchange transactions. The critical term match method is used to measure the effectiveness of these micro-hedges.

No provision for expected losses had to be recognised due to interest and currency risks as at 31.12.2013 (previous year: € 398,000).

The liabilities under warranties are € 13,248,421,000 and mainly concern guarantees toward creditors of affiliates (€ 13,241,224,000) under these debentures and other refinancing programmes. The probability of a loss is rather low because these are Group companies. Liabilities from sureties toward affiliates are € 7,197,000. The cash deposit in the amount of € 139,546,000 shown under receivables was pledged to collateralise dealer financing in Russia, Portugal and the United Kingdom. This gave rise to a provision for risks of € 6,000,000, which was recognised under provisions.

Other financial obligations (purchase obligations) pursuant to § 285 no. 3a HGB amount to € 49,079,000.

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

A control and profit transfer agreement has been in effect between Volkswagen AG and Volkswagen Financial Services AG since 1.1.1995.

There are also profit and loss transfer agreements between Volkswagen Financial Services AG and both Volkswagen Bank GmbH and Volkswagen Leasing GmbH. Control and profit/loss transfer agreements are in place with Volim Volkswagen Immobilien Vermietgesellschaft VW-/Audi-Händlerbetriebe mbH, Volkswagen Versicherung AG, Volkswagen Financial Services Beteiligungsgesellschaft mbH, Volkswagen-Versicherungsdienst GmbH, Volkswagen Versicherungsvermittlung GmbH and 4Collection GmbH.

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

Our company's annual financial statements are included in the consolidated financial statements of Volkswagen Financial Services AG, Wolfsburg, which are drawn up according to the International Financial Reporting Standards and published in the Federal Gazette.

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

On the annual average, Volkswagen Financial Services AG had 4,867 employees and 110 trainees. The 4,867 employees include 3,539 full-time employees and 1,328 part-time employees.

The emoluments of the Board of Management of Volkswagen Financial Services AG were € 7,294,000 in 2013. Total emoluments of former members of the Board of Management and their surviving dependants amounted to € 422,000. The provisions recognised for this group of people in connection with current pensions and pension entitlements amount to € 9,788,000.

The company paid € 131,000 in remuneration to the Supervisory Board.

6. Corporate bodies of Volkswagen Financial Services AG

The Board of Management is comprised as follows:

FRANK WITTER
Chairman of the Board of Management
Corporate Steering
IT (until 30.06.2013), Insurance
China/India/ASEAN (from 01.01.2013)

DR. MARIO DABERKOW (FROM 01.07.2013)
Information Technology and Processes

FRANK FIEDLER
Finance

CHRISTIANE HESSE
Human Resources and Organisation

DR. MICHAEL REINHART
Risk Management
Credit Analysis

LARS-HENNER SANTELMANN
Sales and Marketing
Regions Germany (from 01.01.2013), Europe, International, South America (from 01.01.2013 to 31.07.2013)
Latin America (from 01.08.2013)

The Supervisory Board is comprised as follows:

HANS DIETER PÖTSCH
Chairman
Member of the Board of Management of Volkswagen AG
Finance and Controlling

PROF. DR. HORST NEUMANN
Deputy Chairman
Member of the Board of Management of Volkswagen AG
Human Resources and Organisation

MICHAEL RIFFEL
Deputy Chairman
General Secretary of the General Works Council of Volkswagen AG

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

DR. JÖRG BOCHE
Executive Vice President of Volkswagen AG
Group Treasurer

WALDEMAR DROSDZIOK
Chairman of the Joint Works Council of Volkswagen Financial Services AG
and Volkswagen Bank GmbH

CHRISTIAN KLINGLER
Member of the Board of Management of Volkswagen AG
Sales and Marketing

DETLEF KUNKEL
General Secretary/Principal Representative of IG Metall Braunschweig

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

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

AXEL STROTBEK
Member of the Board of Management
AUDI AG
Finance and Organisation

JÖRG THIELEMANN
Head of Customer Service Retail North/East of Volkswagen Bank GmbH

7.

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

Braunschweig, 7 February 2014

The Board of Management

Frank Witter	Dr. Mario Daberkow	Frank Fiedler
Christiane Hesse	Dr. Michael Reinhart	Lars-Henner Santelmann

Independent Auditors' Report

We have audited the annual financial statements - comprising the balance sheet, the income statement and the notes - including the accounting and the management report of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig, which is combined with the Group management report, for the financial year from 1 January to 31 December 2013. The accounting and preparation of the annual financial statements and the combined management report according to German commercial law are the responsibility of the company's Board of Management. Our responsibility is to express an opinion on the annual financial statements, including the accounting, and the combined management report based on our audit.

We conducted our audit of the annual financial statements in accordance with section 317 of the German Commercial Code (HGB) and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with principles of proper accounting and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Board of Management, as well as evaluating the overall presentation of the annual financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, which is based on the findings of the audit, the annual financial statements are in compliance with legal provisions and give a true and fair view of the net assets, financial situation and results of the operations of the company in accordance with the principles of proper accounting. The combined management report is consistent with the annual financial statements, provides a suitable understanding of the company's situation and suitably presents the opportunities and risks of future development.

Hannover, 7 February 2014

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Harald Kayser	Ralf Schmitz
Auditor	Auditor

VOLKSWAGEN FINANCIAL SERVICES AG

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