VOLKSWAGEN FINANCIAL SERVICES

AKTIENGESELLSCHAFT

ANNUAL REPORT
HGB

2019

Balance Sheet

of Volkswagen Financial Services AG, Braunschweig, as of December 31, 2019

€ thousand	Dec. 31, 2019	Dec. 31, 2018
Assets		
A. Fixed assets		
Financial assets	9,022,912	8,193,715
	9,022,912	8,193,715
B. Current assets		
I. Receivables and other assets	13,401,074	8,784,729
II. Cash-in-hand and bank balances	578	132
	13,401,652	8,784,861
C. Prepaid expenses	15,838	9,198
Total assets	**22,440,402**	**16,987,774**
Equity and liabilities		
A. Equity		
I. Subscribed capital	441,280	441,280
II. Capital reserves	3,216,213	1,599,712
III. Retained earnings	99,469	99,469
IV. Net retained earnings	1,705	1,001,705
	3,758,667	3,142,166
B. Provisions	547,482	468,609
C. Liabilities	18,127,715	13,375,815
D. Deferred income	6,538	1,184
Total equity and liabilities	**22,440,402**	**16,987,774**

Income Statement

of Volkswagen Financial Services AG, Braunschweig, for the Period January 1 to December 31, 2019

€ thousand	2019	2018
Sales	611,667	538,205
Cost of sales	605,748	537,914
Gross profit on sales	**5,919**	**291**
General and administrative expenses	200,004	200,185
Other operating income	8,446	15,245
Other operating expenses	16,736	58,755
Net income from long-term equity investments	–4,069	463,583
of which income under profit and loss transfer agreements	230,736	439,775
of which expenses from absorption of losses	–235,562	–14,818
Financial result	–75,183	–228,004
of which income from affiliated companies	53,466	36,275
of which expenses from affiliated companies	18,984	14,211
Taxes on income (refund of parent €13,037 thousand; previous year, charged by €140,587 thousand)	–13,271	140,783
Result after tax	**–268,356**	**–148,608**
Other taxes	0	40
Profits transferred under a profit and loss transfer agreement	–	–
Losses absorbed under a profit and loss transfer agreement	268,356	148,648
Net income	**–**	**–**
Profit brought forward	1,705	1,705
Amount withdrawn from capital reserves	0	1,000,000
Net retained profits	**1,705**	**1,001,705**

Notes

to the Annual Financial Statements of Volkswagen Financial Services AG, Braunschweig, as of December 31, 2019

1. General Information

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

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

Volkswagen Financial Services AG provides personnel to the German Group companies under staff leasing arrangements in return for an agreed remuneration.

Any cross-functional departments are located within Volkswagen Financial Services AG. The associated administrative expenses are charged to Group companies through an internal cost allocation system. To a small extent, Volkswagen Financial Services AG also provides IT services for Group companies. The costs of these services are also allocated according to usage.

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

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

The income statement has been prepared using the cost of sales format – the standard method used in the Volkswagen Group – to facilitate better international comparability.

2. Accounting Policies

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

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

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

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

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

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

The commitments funded through Volkswagen Pension Trust e.V. and MAN Pension Trust e.V. are measured at the fair value of the securities in the fund in accordance with section 253(1) sentence 3 of the HGB because the amount of the pension scheme obligations is determined exclusively by this value. The fair value of the securities is offset against the funded provisions in accordance with section 246(2) of the HGB.
Any other pension obligations are also linked to securities funds. The securities measured at fair value are offset as plan assets against the corresponding provisions.

The pension provision that is not externally funded is recognized at present value. The Heubeck 2018 G mortality tables (latest version) are used as the basis for the calculations.

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

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

In the year under review, the difference determined in accordance with section 253(6) of the HGB amounted to €34,897 thousand for the pension provision not funded externally, €46,717 thousand for the commitments funded through Volkswagen Pension Trust e. V. and €182 thousand for the commitments funded through MAN Pension Trust e. V. There is no restriction on distribution due to the profit and loss transfer agreement with Volkswagen AG.

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

Discount rate:	2.71%
Expected rate of salary increases:	3.70%
Expected rate of pension increases:	1.50%
Employee turnover rate:	1.10%

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

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

Liabilities are recognized at the settlement amount.

Foreign currency assets and liabilities are translated at the middle spot rate on the reporting date in accordance with section 256a sentence 1 of the HGB and in compliance with the historical cost convention and the principle of imparity (under which unrealized losses are recognized but unrealized gains are not).

For items with a residual maturity of one year or less, the net gains or losses from translation are recognized in full in the income statement in accordance with section 256a sentence 2 of the HGB. The hedge rate is used in the case of hedges.

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

3. Balance Sheet Disclosures

The breakdown of the fixed assets aggregated in the balance sheet and the changes in these assets in the reporting period are shown in the statement of changes in fixed assets. The list of the Company's shareholdings can be accessed at www.vwfsag.com/listofholdings2019.

There are no subordinated loans in the loans to affiliated companies or in other long-term equity investments amounting to €818,806 thousand.

The other loans amounting to €2,495,461 thousand are subordinated.

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

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

€ thousand	Dec. 31, 2019	Dec. 31, 2018
1. 1. Receivables from affiliated companies (of which from the shareholder €293,337 thousand; previous year €153,312 thousand) (of which due in more than 1 year €1,850,139 thousand; previous year €1,709,499 thousand)	8,252,855	4,425,446
2. Receivables from other long-term investees and investors (of which due in more than 1 year €1,737,340 thousand; previous year €2,275,186 thousand)	5,116,663	4,341,221
3. Other assets (of which due in more than 1 year €- thousand; previous year €- thousand)	31,556	18,062
	13,401,074	**8,784,729**

The receivables from affiliated companies include loan receivables and interest of €3,076,288 thousand, receivables under existing profit and loss transfer agreements of €425,088 thousand, tax allocations of €93,954 thousand, receivables from cash deposits of €349,500 thousand, and fixed-term deposits and interest of €3,995,986 thousand.

The receivables from other long-term investees and investors include loans and interest receivables of €3,644,634 thousand as well as fixed-term and overnight deposits and interest receivables amounting to €1,471,442 thousand.

Other assets largely comprise receivables from interest-swap contracts in an amount of €28,324 thousand.

Prepaid expenses include prepayments of guarantee insurance and currency forward swap premiums of €5,162 thousand relating to the subsequent year. Prepaid expenses also include a difference of €10,676 thousand determined in accordance with section 250(3) of the HGB.

The parent company paid €1,000,000 thousand into the capital reserves (section 272(2) no. 4 of the HGB) in the reporting period. Furthermore, the capital reserves increased by €616,501 thousand because of the contribution of shares by Volkswagen AG and Volkswagen Bank GmbH. The capital reserves now stand at €3,216,213 thousand.

The revenue reserves remain unchanged, consisting of legal reserves of €44,128 thousand and other revenue reserves of €55,341 thousand. A sum of €1,000,000 thousand was distributed to the parent company from the previous year's net retained profits.

The provisions comprise the following items:

€ thousand	Dec. 31, 2019	Dec. 31, 2018
1. Provisions for pensions and similar obligations, unfunded	287,583	237,267
including the offsetting of the unit-linked pension obligation:		
Provisions for pensions, funded	217,033	170,600
Fund assets as plan assets (cost €176,697 thousand)	–170,737	–146,168
2. Other provisions	259,899	231,342
including the offsetting of the employee time asset bond:		
Provision for time asset bond	89,235	72,306
Fund assets as plan assets (cost €100,126 thousand)	–89,235	–72,306
	547,482	**468,609**

In the year under review, the difference determined in accordance with section 253(6) of the HGB amounted to €34,897 thousand for the pension provision not funded externally, €46,717 thousand for the commitments funded through Volkswagen Pension Trust e. V. and €182 thousand for the commitments funded through MAN Pension Trust e. V. There is no restriction on distribution due to the profit and loss transfer agreement with Volkswagen AG.

The main items recognized within other provisions are provisions for personnel expenses amounting to €187,850 thousand (previous year: €163,597 thousand), provisions for contract risks arising from operating activities amounting to €48,020 thousand (previous year: €45,200 thousand) and provisions for outstanding invoices of €7,325 thousand (previous year: €6,256 thousand).

The breakdown of liabilities is as follows:

€ thousand	Dec. 31, 2019	Dec. 31, 2018
1. Bonds (of which due within 1 year €1,500,000 thousand; previous year: €1,000,000 thousand) (of which due in more than 1 year €6,850,000 thousand; previous year: €5,100,000 thousand) (of which due in more than 5 years €1,400,000 thousand; previous year: €750,000 thousand)	8,350,000	6,100,000
2. Liabilities to credit institutions (of which due within 1 year €604,634 thousand; previous year: €304,464 thousand) (of which due in more than 1 year €1,193,854 thousand; previous year: €994,239 thousand) (of which due in more than 5 years €- thousand; previous year: €70,000 thousand)	1,798,488	1,298,703
3. Trade payables (due within 1 year)	2,507	4,441
4. Liabilities to affiliated companies (of which to the shareholder €4,688,265 thousand; previous year €2,946,669 thousand) (of which due within 1 year €1,430,061 thousand; previous year €1,435,639 thousand) (of which due in more than 1 year €5,249,130 thousand; previous year €3,745,410 thousand) (of which due in more than 5 years €2,985,844 thousand; previous year €2,794,124 thousand)	6,679,191	5,181,049
5. Liabilities to other long-term investees and investors (due within 1 year)	53	14
6. Other liabilities (of which taxes €7,924 thousand; previous year €7,783 thousand) (of which relating to social security and similar obligations €2,655 thousand; previous year €1,965 thousand) (of which due within 1 year €1,221,377 thousand; previous year €115,508 thousand) (of which due in more than 1 year €76,100 thousand; previous year €676,115 thousand) (of which due in more than 5 years €-; previous year €75,000 thousand)	1,297,476	791,608
	18,127,715	**13,375,815**

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

The liabilities to the shareholder relate mainly to loans of €4,245,000 thousand and fixed-term deposits of €350,000 thousand.

Other liabilities include promissory note loan liabilities amounting to €676,905 thousand and commercial paper liabilities amounting to €564,486 thousand.

Statement of changes in fixed assets of Volkswagen Financial Services AG, Braunschweig, for 2019

	GROSS CARRYING AMOUNTS				
€ thousand	Brought forward January 1, 2019	Additions	Disposals	Transfers	Balance Dec. 31, 2019
Financial assets					
Shares in affiliated companies	4,716,671	968,468	37,932	50,566	5,697,873
Loans to affiliated companies	707,066	114,000	97,111	–	723,955
Other long-term equity investments	464,964	21,893	176,301	–50,666	259,890
Loans to other long-term investees and investors	48,151	46,700	-	–	94,851
Other loans	2,467,955	108,472	80,966	–	2,495,461
Total financial assets	**8,404,807**	**1,259,533**	**387,410**	**–**	**9,276,930**
Total fixed assets	**8,404,807**	**1,259,533**	**387,410**	**–**	**9,276,930**

DEPRECIATION, AMORTIZATION AND WRITE-DOWNS						NET CARRYING AMOUNTS	
Brought forward January 1, 2019	Additions	Disposals	Transfers	Write-ups	Balance Dec. 31, 2019	Balance Dec. 31, 2019	Balance Dec. 31, 2018
207,192	79,100	9,957	–	30,317	246,018	5,451,855	4,509,479
–	–	–	–	–	–	723,955	707,066
3,900	3,100	–	–	3,900	3,100	256,790	461,064
–	–	–	–	–	–	94,851	48,151
–	–	–	–	–	–	2,495,461	2,467,955
211,092	**82,200**	**9,957**	**–**	**34,217**	**249,118**	**9,022,912**	**8,193,715**
211,092	**82,200**	**9,957**	**–**	**34,217**	**249,118**	**9,022,912**	**8,193,715**

Write-downs and reversals of write-downs of the carrying amounts of investments in affiliated companies and other long-term equity investments were recognized in the reporting period. The income and expenses are included in the financial result.

4. Income Statement Disclosures

Volkswagen Financial Services AG reports sales of €611,667 thousand (previous year: €538,205 thousand) in accordance with section 277(1) of the HGB. Of this amount, €590,827 thousand (previous year: €525,870 thousand) was generated in Germany and €20,840 thousand (previous year: €12,335 thousand) abroad.

An amount of €605,748 thousand is reported under cost of sales (previous year: €537,914 thousand).

Cost of materials within the meaning of section 275(2) no. 5 of the HGB was incurred for purchased services in an amount of €144,538 thousand (previous year: €126,357 thousand).

The breakdown of personnel expenses is as follows:

€ thousand	2019	2018
Salaries	502,391	468,948
Social security, post-employment and other employee benefit costs	100,832	88,100
of which for post-employment benefits	(31,804)	(22,629)
	603,223	**557,048**

Other operating income includes income from the reversal of provisions of €4,002 thousand (previous year: €9,592 thousand). In addition, currency translation accounts for other operating income of €62 thousand (previous year: €276 thousand) and other operating expenses of €326 thousand (previous year: €76 thousand). Other operating expenses also include issue and rating costs of €9,810 thousand for bonds issued (previous year: €10,117 thousand).

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

€ thousand	2019	2018
Expenses from absorption of losses	235,563	14,818
Income under profit and loss transfer agreements (from affiliated companies)	230,736	439,775
Income from other long-term equity investments (from investments in joint ventures)	758	38,626
	–4,069	**463,583**

The following table shows the breakdown of the financial result:

€ thousand	2019	2018
Income from other securities and long-term loans (of which from affiliated companies €10,001 thousand; previous year €8,853 thousand)	58,845	27,166
Other interest and similar income (of which from affiliated companies €43,466 thousand; previous year €27,422 thousand) (of which interest income from discounting €- thousand; previous year €- thousand)	84,192	53,709
Interest and similar expenses (of which to affiliated companies €18,984 thousand; previous year €14,211 thousand) (of which from unwinding discount on provisions €48,947 thousand; previous year €48,807 thousand)	170,237	107,161
Write-downs of financial assets (write-downs for permanent impairment at affiliated companies)	82,200	201,718
Write-ups of financial assets (from affiliated companies)	34,217	–
	–75,183	**–228,004**

Interest expenses for funded pension provisions amounting to €9,281 thousand (previous year: €1,245 thousand) were offset against income of the same amount arising from the measurement of the associated plan assets. The interest expense from unwinding discount on the provision for time asset bonds in the amount of €4,779 thousand (previous year: interest income from discounting of €3,327 thousand) was offset against income (previous year: expense) of the same amount from the measurement of the scheme fund assets.

Net income for the year includes prior-period income of €7,131 thousand (previous year: €11,379 thousand), which is largely attributable to the allocation of personnel expenses and the reversal of provisions. Prior-period income is recognized under sales or other operating income.

5. Other Disclosures

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

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

	NOMINAL VALUES		MARKET VALUES			
€ thousand	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019		Dec. 31, 2018	
			positive	negative	positive	negative
Interest rate swaps	6,850,000	4,200,000	127,392	–	50,996	–
Cross-currency/currency swaps	1,613,961	1,666,199	26,369	33,341	45,299	9,771
Currency forward contracts	883,449	152,039	53	12,671	1,565	379

The following table shows the amount of hedged items as of December 31, 2019 for which hedge accounting has been applied, together with the level of risk mitigated by this hedge accounting:

€ thousand		Assets	Liabilities	Total	Amount of hedged risks
Interest rate risks	Micro hedge	–	6,850,000	6,850,000	68,687
Currency risks	Micro hedge	2,003,270	27,033	2,030,303	23,465
Currency risks	Micro hedge	466,772	466,772	933,544	23,763
Total		**2,470,042**	**7,343,805**	**9,813,847**	**115,915**

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

The interest rate risk arising from issuing loans to Group companies is mitigated by micro hedges based on receiver swaps, whereby the changes in the value of the hedged item are offset by the changes in the value of the swap. Currency risk that arises from issuing foreign currency loans to FS companies outside the eurozone is generally hedged with currency forwards, cross currency swaps, or cross-currency interest rate swaps in micro and macro hedges. Hedge accounting is generally applied over the entire duration of the hedge. The Company therefore always satisfies the hedge accounting criterion, which requires an intention to maintain hedge accounting until the final maturity date. The prospective effectiveness test is performed using the critical term match method. Retrospective effectiveness tests are based on the cumulative dollar offset method.

As of December 31, 2019, a provision for expected losses of €7,101 thousand (previous year €7,314 thousand) had been recognized in connection with interest rate and currency risks.

The contingent liabilities under guarantees amount to €20,736,251 thousand and are attributable to guarantees to creditors of affiliated companies in the amount of €20,590,416 thousand relating to short- and medium-term bonds (money and capital market) issued by these companies and to a guarantee to the creditor of an affiliated company for future rental payments in the amount of €145,835 thousand. The probability of these guarantees being called upon is very low because the companies involved form part of the Group. Contingent liabilities under guarantees to affiliated companies amount to €7,197 thousand. The cash deposits of €349,500 thousand reported under receivables have been pledged as collateral for local risk in France (€9,500 thousand) and in connection with dealer financing (€340,000 thousand) in Russia, Portugal, the United Kingdom, France, Norway, Poland, the Netherlands, Austria, Turkey, the Czech Republic and Germany. A credit risk provision of €6,468 thousand has been recognized to cover the associated risks.

Other financial obligations (purchase order obligations) as specified in section 285 no. 3a of the HGB amount to €11,245 thousand.

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

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

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

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

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

The fee paid to the auditor for audit services in 2019 was mostly attributable to the audit of the consolidated financial statements of Volkswagen Financial Services AG and of annual financial statements of German Group companies as well as to reviews of interim financial statements of German Group companies. Other attestation services comprised primarily comfort letters and other attestation services in connection with ABS transactions, equity investments and the reorganization of the legal entities. The other services performed by the auditor in the reporting period mainly consisted of issues relating to banking supervisory law, process optimization and information technology.

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

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

Volkswagen Financial Services AG had 5,122 employees, including eleven senior executives (previous year: 4,983, including twelve senior executives) and 120 vocational trainees (previous year: 115) on average in the reporting period. The 5,122 employees comprised 3,711 full-time and 1,411 part-time employees.

The remuneration of the Board of Management of Volkswagen Financial Services AG amounted to €8,495 thousand in 2019. As of the reporting date, 10,974 performance shares had been granted. The fair value at the grant date was €2,468 thousand. The total payments made to former members of the Board of Management and their surviving dependents amounted to €708 thousand. The provisions recognized for this group of individuals to cover current pensions and pension entitlements amount to €12,770 thousand.

At the end of 2018, the Supervisory Board of Volkswagen Financial Services AG resolved to adjust the remuneration system of the Board of Management with effect from January 1, 2019. The new remuneration system of the Board of Management comprises non-performance-related and performance-related components. The performance-related remuneration consists of an annual bonus with a one-year assessment period and a long-term incentive (LTI) in the form of a performance share plan with a forward-looking three-year term (share-based payment). Since the end of 2018, the beneficiaries of the performance share plan have included other top management members in addition to the members of the Board of Management. At the end of 2019, the group of beneficiaries was extended to include all other members of management as well as selected beneficiaries below management level. Top management members were granted performance shares for the first time at the beginning of 2019. At the beginning of 2020, all other beneficiaries will be granted performance shares for the first time. The way the performance share plan granted to these beneficiaries works is essentially the same as the performance share plan used for members of the Board of Management. At the introduction of the performance share plan, top management members were guaranteed a minimum bonus amount for the first three years on the basis of remuneration in 2018, whereas all other beneficiaries were given a guarantee for the first three years on the basis of remuneration in 2019. Each performance period of the performance share plan has a term of three years. At the time the LTI is granted, the annual target amount under the LTI is converted on the basis of the initial reference price of Volkswagen's preferred shares into performance shares of Volkswagen AG, which are allocated to the beneficiaries purely for calculation purposes. For the members of the Board of Management and top management, the number of performance shares is determined definitively on the basis of a three-year forward-looking performance period according to the degree of target attainment for the annual earnings per Volkswagen preferred share. For all other beneficiaries, this number is definitively determined on the basis of a three-year performance period with a one-year forward reference. In a deviation from this approach, the number is fixed for the other beneficiaries in 2020 initially on the basis of a one-year forward-looking performance period and in 2021 on the basis of a two-year performance period with a one-year forward reference. Settlement is in cash at the end of the performance period. The payment amount corresponds to the number of determined performance shares, multiplied by the closing reference price at the end of the period plus a dividend equivalent. The payment amount under the performance share plan is limited to 200% of the target amount.

The Company paid the members of the Supervisory Board a total allowance of €41 thousand.

6. Report on Post-balance Sheet Date Events

Promissory note loans were raised from external creditors: €50,000 thousand as of January 16, 2020 and €600,000 thousand as of January 22, 2020.

7. Executive Bodies of Volkswagen Financial Services AG

The composition of the Board of Management is as follows:

LARS HENNER SANTELMANN
Chairman of the Board of Management
Corporate Management
China region
Germany & Europe regions
Mobility Unit
Sales and Marketing

DR. MARIO DABERKOW
Information Technology and Processes
South America & Mexico regions

FRANK FIEDLER
Finance and Purchasing

CHRISTIANE HESSE
Human Resources and Organization
International region

The members of the Supervisory Board are as follows:

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

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

DANIELA CAVALLO (AS OF JANUARY 28, 2019)
Deputy Chairwoman of the General and Group Works Council of Volkswagen AG

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

MICHAEL GROSCHE
Head of Fleet, Mobility and Remarketing of Volkswagen Financial Services AG

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

DR. CHRISTIAN DAHLHEIM (AS OF FEBRUARY 1, 2020)
Head of Group Sales of Volkswagen AG

IMELDA LABBÉ (UNTIL JANUARY 31, 2020)
Head of Group After Sales, Volkswagen AG, Kassel

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

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

HANS-JOACHIM ROTHENPIELER (AS OF MAY 27, 2019)
Head of Technical Development, AUDI AG

DR. HANS PETER SCHÜTZINGER
Chief Executive Officer of Porsche Holding GmbH, Salzburg

EVA STASSEK
Principal Representative of IG Metall Braunschweig

Responsibility Statement

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

Braunschweig, Monday, February 10, 2020

The Board of Management

Lars Henner Santelmann

Dr. Mario Daberkow

Frank Fiedler

Christiane Hesse

Independent Auditor's Report

To VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig,

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

AUDIT OPINIONS

We have audited the annual financial statements of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig, which comprise the balance sheet as at December 31, 2019, and the statement of profit and loss for the financial year from January 1 to December 31, 2019, and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, which is combined with the group management report, for the financial year from January 1 to December 31, 2019. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to § [Article] 289f Abs. [paragraph] 4 HGB [Handelsgesetzbuch: German Commercial Code] (disclosures on the quota for women on executive boards).

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

> the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2019 and of its financial performance for the financial year from January 1 to December 31, 2019 in compliance with German Legally Required Accounting Principles, and

>

> the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of the statement on corporate governance referred to above.

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

Basis for the Audit Opinions

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

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1 to December 31, 2019. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matter of most significance in our audit was as follows:

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

Our presentation of this key audit matter has been structured as follows:

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

Hereinafter we present the key audit matter:

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

① Shares in other companies amounting to EUR 5,452 million (24.3% of total assets) are reported under the balance sheet item "Shares in affiliated companies" and amounting to EUR 257 million (1.1% of total assets) under the balance sheet item "Other long-term equity investments" in the annual financial statements of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT. Shares in affiliated companies and other long-term equity investments are measured in accordance with German commercial law at the lower of cost or fair value. The market price of the respective financial asset – if available – is used for the purpose of determining the fair value. If no market prices are available in the particular case, the fair values of the material investments are calculated using discounted cash flow models as the present values of the expected future cash flows according to the planning projections prepared by the executive directors. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used is the individually determined cost of capital for the relevant financial asset. On the basis of the values determined and supplementary documentation, write-downs amounting in total to EUR 82.2 million and reversals of write-downs amounting to EUR 34.2 million were required for the fiscal year.

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

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

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

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

Other Information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f Abs. 4 HGB (disclosures on the quota for women on executive boards).
Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.
In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

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

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

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

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation, and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit.
We also:

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

Based on the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on February 13, 2019. We were engaged by the supervisory board on July 10, 2019. We have been the auditor of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig, without interruption since the financial year 1991.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

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

Hanover, February 10, 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Frank Hübner	Burkhard Eckes
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

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VOLKSWAGEN FINANCIAL SERVICES

AKTIENGESELLSCHAFT

ANNUAL REPORT
HGB

2019

Balance Sheet

of Volkswagen Financial Services AG, Braunschweig, as of December 31, 2019

€ thousand	Dec. 31, 2019	Dec. 31, 2018
Assets		
A. Fixed assets		
Financial assets	9,022,912	8,193,715
	9,022,912	8,193,715
B. Current assets		
I. Receivables and other assets	13,401,074	8,784,729
II. Cash-in-hand and bank balances	578	132
	13,401,652	8,784,861
C. Prepaid expenses	15,838	9,198
Total assets	**22,440,402**	**16,987,774**
Equity and liabilities		
A. Equity		
I. Subscribed capital	441,280	441,280
II. Capital reserves	3,216,213	1,599,712
III. Retained earnings	99,469	99,469
IV. Net retained earnings	1,705	1,001,705
	3,758,667	3,142,166
B. Provisions	547,482	468,609
C. Liabilities	18,127,715	13,375,815
D. Deferred income	6,538	1,184
Total equity and liabilities	**22,440,402**	**16,987,774**

Income Statement

of Volkswagen Financial Services AG, Braunschweig, for the Period January 1 to December 31, 2019

€ thousand	2019	2018
Sales	611,667	538,205
Cost of sales	605,748	537,914
Gross profit on sales	**5,919**	**291**
General and administrative expenses	200,004	200,185
Other operating income	8,446	15,245
Other operating expenses	16,736	58,755
Net income from long-term equity investments	–4,069	463,583
of which income under profit and loss transfer agreements	230,736	439,775
of which expenses from absorption of losses	–235,562	–14,818
Financial result	–75,183	–228,004
of which income from affiliated companies	53,466	36,275
of which expenses from affiliated companies	18,984	14,211
Taxes on income (refund of parent €13,037 thousand; previous year, charged by €140,587 thousand)	–13,271	140,783
Result after tax	**–268,356**	**–148,608**
Other taxes	0	40
Profits transferred under a profit and loss transfer agreement	–	–
Losses absorbed under a profit and loss transfer agreement	268,356	148,648
Net income	**–**	**–**
Profit brought forward	1,705	1,705
Amount withdrawn from capital reserves	0	1,000,000
Net retained profits	**1,705**	**1,001,705**

Notes

to the Annual Financial Statements of Volkswagen Financial Services AG, Braunschweig, as of December 31, 2019

1. General Information

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

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

Volkswagen Financial Services AG provides personnel to the German Group companies under staff leasing arrangements in return for an agreed remuneration.

Any cross-functional departments are located within Volkswagen Financial Services AG. The associated administrative expenses are charged to Group companies through an internal cost allocation system. To a small extent, Volkswagen Financial Services AG also provides IT services for Group companies. The costs of these services are also allocated according to usage.

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

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

The income statement has been prepared using the cost of sales format – the standard method used in the Volkswagen Group – to facilitate better international comparability.

2. Accounting Policies

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

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

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

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

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

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

The commitments funded through Volkswagen Pension Trust e.V. and MAN Pension Trust e.V. are measured at the fair value of the securities in the fund in accordance with section 253(1) sentence 3 of the HGB because the amount of the pension scheme obligations is determined exclusively by this value. The fair value of the securities is offset against the funded provisions in accordance with section 246(2) of the HGB.
Any other pension obligations are also linked to securities funds. The securities measured at fair value are offset as plan assets against the corresponding provisions.

The pension provision that is not externally funded is recognized at present value. The Heubeck 2018 G mortality tables (latest version) are used as the basis for the calculations.

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

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

In the year under review, the difference determined in accordance with section 253(6) of the HGB amounted to €34,897 thousand for the pension provision not funded externally, €46,717 thousand for the commitments funded through Volkswagen Pension Trust e. V. and €182 thousand for the commitments funded through MAN Pension Trust e. V. There is no restriction on distribution due to the profit and loss transfer agreement with Volkswagen AG.

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

Discount rate:	2.71%
Expected rate of salary increases:	3.70%
Expected rate of pension increases:	1.50%
Employee turnover rate:	1.10%

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

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

Liabilities are recognized at the settlement amount.

Foreign currency assets and liabilities are translated at the middle spot rate on the reporting date in accordance with section 256a sentence 1 of the HGB and in compliance with the historical cost convention and the principle of imparity (under which unrealized losses are recognized but unrealized gains are not).

For items with a residual maturity of one year or less, the net gains or losses from translation are recognized in full in the income statement in accordance with section 256a sentence 2 of the HGB. The hedge rate is used in the case of hedges.

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

3. Balance Sheet Disclosures

The breakdown of the fixed assets aggregated in the balance sheet and the changes in these assets in the reporting period are shown in the statement of changes in fixed assets. The list of the Company’s shareholdings can be accessed at www.vwfsag.com/listofholdings2019.

There are no subordinated loans in the loans to affiliated companies or in other long-term equity investments amounting to €818,806 thousand.

The other loans amounting to €2,495,461 thousand are subordinated.

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

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

€ thousand	Dec. 31, 2019	Dec. 31, 2018
1. 1. Receivables from affiliated companies (of which from the shareholder €293,337 thousand; previous year €153,312 thousand) (of which due in more than 1 year €1,850,139 thousand; previous year €1,709,499 thousand)	8,252,855	4,425,446
2. Receivables from other long-term investees and investors (of which due in more than 1 year €1,737,340 thousand; previous year €2,275,186 thousand)	5,116,663	4,341,221
3. Other assets (of which due in more than 1 year €- thousand; previous year €- thousand)	31,556	18,062
	13,401,074	**8,784,729**

The receivables from affiliated companies include loan receivables and interest of €3,076,288 thousand, receivables under existing profit and loss transfer agreements of €425,088 thousand, tax allocations of €93,954 thousand, receivables from cash deposits of €349,500 thousand, and fixed-term deposits and interest of €3,995,986 thousand.

The receivables from other long-term investees and investors include loans and interest receivables of €3,644,634 thousand as well as fixed-term and overnight deposits and interest receivables amounting to €1,471,442 thousand.

Other assets largely comprise receivables from interest-swap contracts in an amount of €28,324 thousand.

Prepaid expenses include prepayments of guarantee insurance and currency forward swap premiums of €5,162 thousand relating to the subsequent year. Prepaid expenses also include a difference of €10,676 thousand determined in accordance with section 250(3) of the HGB.

The parent company paid €1,000,000 thousand into the capital reserves (section 272(2) no. 4 of the HGB) in the reporting period. Furthermore, the capital reserves increased by €616,501 thousand because of the contribution of shares by Volkswagen AG and Volkswagen Bank GmbH. The capital reserves now stand at €3,216,213 thousand.

The revenue reserves remain unchanged, consisting of legal reserves of €44,128 thousand and other revenue reserves of €55,341 thousand. A sum of €1,000,000 thousand was distributed to the parent company from the previous year's net retained profits.

The provisions comprise the following items:

€ thousand	Dec. 31, 2019	Dec. 31, 2018
1. Provisions for pensions and similar obligations, unfunded	287,583	237,267
including the offsetting of the unit-linked pension obligation:		
Provisions for pensions, funded	217,033	170,600
Fund assets as plan assets (cost €176,697 thousand)	–170,737	–146,168
2. Other provisions	259,899	231,342
including the offsetting of the employee time asset bond:		
Provision for time asset bond	89,235	72,306
Fund assets as plan assets (cost €100,126 thousand)	–89,235	–72,306
	547,482	**468,609**

In the year under review, the difference determined in accordance with section 253(6) of the HGB amounted to €34,897 thousand for the pension provision not funded externally, €46,717 thousand for the commitments funded through Volkswagen Pension Trust e. V. and €182 thousand for the commitments funded through MAN Pension Trust e. V. There is no restriction on distribution due to the profit and loss transfer agreement with Volkswagen AG.

The main items recognized within other provisions are provisions for personnel expenses amounting to €187,850 thousand (previous year: €163,597 thousand), provisions for contract risks arising from operating activities amounting to €48,020 thousand (previous year: €45,200 thousand) and provisions for outstanding invoices of €7,325 thousand (previous year: €6,256 thousand).

The breakdown of liabilities is as follows:

€ thousand	Dec. 31, 2019	Dec. 31, 2018
1. Bonds (of which due within 1 year €1,500,000 thousand; previous year: €1,000,000 thousand) (of which due in more than 1 year €6,850,000 thousand; previous year: €5,100,000 thousand) (of which due in more than 5 years €1,400,000 thousand; previous year: €750,000 thousand)	8,350,000	6,100,000
2. Liabilities to credit institutions (of which due within 1 year €604,634 thousand; previous year: €304,464 thousand) (of which due in more than 1 year €1,193,854 thousand; previous year: €994,239 thousand) (of which due in more than 5 years €- thousand; previous year: €70,000 thousand)	1,798,488	1,298,703
3. Trade payables (due within 1 year)	2,507	4,441
4. Liabilities to affiliated companies (of which to the shareholder €4,688,265 thousand; previous year €2,946,669 thousand) (of which due within 1 year €1,430,061 thousand; previous year €1,435,639 thousand) (of which due in more than 1 year €5,249,130 thousand; previous year €3,745,410 thousand) (of which due in more than 5 years €2,985,844 thousand; previous year €2,794,124 thousand)	6,679,191	5,181,049
5. Liabilities to other long-term investees and investors (due within 1 year)	53	14
6. Other liabilities (of which taxes €7,924 thousand; previous year €7,783 thousand) (of which relating to social security and similar obligations €2,655 thousand; previous year €1,965 thousand) (of which due within 1 year €1,221,377 thousand; previous year €115,508 thousand) (of which due in more than 1 year €76,100 thousand; previous year €676,115 thousand) (of which due in more than 5 years €-; previous year €75,000 thousand)	1,297,476	791,608
	18,127,715	**13,375,815**

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

The liabilities to the shareholder relate mainly to loans of €4,245,000 thousand and fixed-term deposits of €350,000 thousand.

Other liabilities include promissory note loan liabilities amounting to €676,905 thousand and commercial paper liabilities amounting to €564,486 thousand.

Statement of changes in fixed assets of Volkswagen Financial Services AG, Braunschweig, for 2019

	GROSS CARRYING AMOUNTS				
€ thousand	Brought forward January 1, 2019	Additions	Disposals	Transfers	Balance Dec. 31, 2019
Financial assets					
Shares in affiliated companies	4,716,671	968,468	37,932	50,566	5,697,873
Loans to affiliated companies	707,066	114,000	97,111	–	723,955
Other long-term equity investments	464,964	21,893	176,301	–50,666	259,890
Loans to other long-term investees and investors	48,151	46,700	-	–	94,851
Other loans	2,467,955	108,472	80,966	–	2,495,461
Total financial assets	**8,404,807**	**1,259,533**	**387,410**	**–**	**9,276,930**
Total fixed assets	**8,404,807**	**1,259,533**	**387,410**	**–**	**9,276,930**

DEPRECIATION, AMORTIZATION AND WRITE-DOWNS						NET CARRYING AMOUNTS	
Brought forward January 1, 2019	Additions	Disposals	Transfers	Write-ups	Balance Dec. 31, 2019	Balance Dec. 31, 2019	Balance Dec. 31, 2018
207,192	79,100	9,957	–	30,317	246,018	5,451,855	4,509,479
–	–	–	–	–	–	723,955	707,066
3,900	3,100	–	–	3,900	3,100	256,790	461,064
–	–	–	–	–	–	94,851	48,151
–	–	–	–	–	–	2,495,461	2,467,955
211,092	**82,200**	**9,957**	**–**	**34,217**	**249,118**	**9,022,912**	**8,193,715**
211,092	**82,200**	**9,957**	**–**	**34,217**	**249,118**	**9,022,912**	**8,193,715**

Write-downs and reversals of write-downs of the carrying amounts of investments in affiliated companies and other long-term equity investments were recognized in the reporting period. The income and expenses are included in the financial result.

4. Income Statement Disclosures

Volkswagen Financial Services AG reports sales of €611,667 thousand (previous year: €538,205 thousand) in accordance with section 277(1) of the HGB. Of this amount, €590,827 thousand (previous year: €525,870 thousand) was generated in Germany and €20,840 thousand (previous year: €12,335 thousand) abroad.

An amount of €605,748 thousand is reported under cost of sales (previous year: €537,914 thousand).

Cost of materials within the meaning of section 275(2) no. 5 of the HGB was incurred for purchased services in an amount of €144,538 thousand (previous year: €126,357 thousand).

The breakdown of personnel expenses is as follows:

€ thousand	2019	2018
Salaries	502,391	468,948
Social security, post-employment and other employee benefit costs	100,832	88,100
of which for post-employment benefits	(31,804)	(22,629)
	603,223	**557,048**

Other operating income includes income from the reversal of provisions of €4,002 thousand (previous year: €9,592 thousand). In addition, currency translation accounts for other operating income of €62 thousand (previous year: €276 thousand) and other operating expenses of €326 thousand (previous year: €76 thousand). Other operating expenses also include issue and rating costs of €9,810 thousand for bonds issued (previous year: €10,117 thousand).

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

€ thousand	2019	2018
Expenses from absorption of losses	235,563	14,818
Income under profit and loss transfer agreements (from affiliated companies)	230,736	439,775
Income from other long-term equity investments (from investments in joint ventures)	758	38,626
	–4,069	**463,583**

The following table shows the breakdown of the financial result:

€ thousand	2019	2018
Income from other securities and long-term loans (of which from affiliated companies €10,001 thousand; previous year €8,853 thousand)	58,845	27,166
Other interest and similar income (of which from affiliated companies €43,466 thousand; previous year €27,422 thousand) (of which interest income from discounting €- thousand; previous year €- thousand)	84,192	53,709
Interest and similar expenses (of which to affiliated companies €18,984 thousand; previous year €14,211 thousand) (of which from unwinding discount on provisions €48,947 thousand; previous year €48,807 thousand)	170,237	107,161
Write-downs of financial assets (write-downs for permanent impairment at affiliated companies)	82,200	201,718
Write-ups of financial assets (from affiliated companies)	34,217	–
	–75,183	**–228,004**

Interest expenses for funded pension provisions amounting to €9,281 thousand (previous year: €1,245 thousand) were offset against income of the same amount arising from the measurement of the associated plan assets. The interest expense from unwinding discount on the provision for time asset bonds in the amount of €4,779 thousand (previous year: interest income from discounting of €3,327 thousand) was offset against income (previous year: expense) of the same amount from the measurement of the scheme fund assets.

Net income for the year includes prior-period income of €7,131 thousand (previous year: €11,379 thousand), which is largely attributable to the allocation of personnel expenses and the reversal of provisions. Prior-period income is recognized under sales or other operating income.

5. Other Disclosures

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

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

	NOMINAL VALUES		MARKET VALUES			
€ thousand	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019		Dec. 31, 2018	
			positive	negative	positive	negative
Interest rate swaps	6,850,000	4,200,000	127,392	–	50,996	–
Cross-currency/currency swaps	1,613,961	1,666,199	26,369	33,341	45,299	9,771
Currency forward contracts	883,449	152,039	53	12,671	1,565	379

The following table shows the amount of hedged items as of December 31, 2019 for which hedge accounting has been applied, together with the level of risk mitigated by this hedge accounting:

€ thousand		Assets	Liabilities	Total	Amount of hedged risks
Interest rate risks	Micro hedge	–	6,850,000	6,850,000	68,687
Currency risks	Micro hedge	2,003,270	27,033	2,030,303	23,465
Currency risks	Micro hedge	466,772	466,772	933,544	23,763
Total		**2,470,042**	**7,343,805**	**9,813,847**	**115,915**

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

The interest rate risk arising from issuing loans to Group companies is mitigated by micro hedges based on receiver swaps, whereby the changes in the value of the hedged item are offset by the changes in the value of the swap. Currency risk that arises from issuing foreign currency loans to FS companies outside the eurozone is generally hedged with currency forwards, cross currency swaps, or cross-currency interest rate swaps in micro and macro hedges. Hedge accounting is generally applied over the entire duration of the hedge. The Company therefore always satisfies the hedge accounting criterion, which requires an intention to maintain hedge accounting until the final maturity date. The prospective effectiveness test is performed using the critical term match method. Retrospective effectiveness tests are based on the cumulative dollar offset method.

As of December 31, 2019, a provision for expected losses of €7,101 thousand (previous year €7,314 thousand) had been recognized in connection with interest rate and currency risks.

The contingent liabilities under guarantees amount to €20,736,251 thousand and are attributable to guarantees to creditors of affiliated companies in the amount of €20,590,416 thousand relating to short- and medium-term bonds (money and capital market) issued by these companies and to a guarantee to the creditor of an affiliated company for future rental payments in the amount of €145,835 thousand. The probability of these guarantees being called upon is very low because the companies involved form part of the Group. Contingent liabilities under guarantees to affiliated companies amount to €7,197 thousand. The cash deposits of €349,500 thousand reported under receivables have been pledged as collateral for local risk in France (€9,500 thousand) and in connection with dealer financing (€340,000 thousand) in Russia, Portugal, the United Kingdom, France, Norway, Poland, the Netherlands, Austria, Turkey, the Czech Republic and Germany. A credit risk provision of €6,468 thousand has been recognized to cover the associated risks.

Other financial obligations (purchase order obligations) as specified in section 285 no. 3a of the HGB amount to €11,245 thousand.

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

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

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

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

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

The fee paid to the auditor for audit services in 2019 was mostly attributable to the audit of the consolidated financial statements of Volkswagen Financial Services AG and of annual financial statements of German Group companies as well as to reviews of interim financial statements of German Group companies. Other attestation services comprised primarily comfort letters and other attestation services in connection with ABS transactions, equity investments and the reorganization of the legal entities. The other services performed by the auditor in the reporting period mainly consisted of issues relating to banking supervisory law, process optimization and information technology.

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

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

Volkswagen Financial Services AG had 5,122 employees, including eleven senior executives (previous year: 4,983, including twelve senior executives) and 120 vocational trainees (previous year: 115) on average in the reporting period. The 5,122 employees comprised 3,711 full-time and 1,411 part-time employees.

The remuneration of the Board of Management of Volkswagen Financial Services AG amounted to €8,495 thousand in 2019. As of the reporting date, 10,974 performance shares had been granted. The fair value at the grant date was €2,468 thousand. The total payments made to former members of the Board of Management and their surviving dependents amounted to €708 thousand. The provisions recognized for this group of individuals to cover current pensions and pension entitlements amount to €12,770 thousand.

At the end of 2018, the Supervisory Board of Volkswagen Financial Services AG resolved to adjust the remuneration system of the Board of Management with effect from January 1, 2019. The new remuneration system of the Board of Management comprises non-performance-related and performance-related components. The performance-related remuneration consists of an annual bonus with a one-year assessment period and a long-term incentive (LTI) in the form of a performance share plan with a forward-looking three-year term (share-based payment). Since the end of 2018, the beneficiaries of the performance share plan have included other top management members in addition to the members of the Board of Management. At the end of 2019, the group of beneficiaries was extended to include all other members of management as well as selected beneficiaries below management level. Top management members were granted performance shares for the first time at the beginning of 2019. At the beginning of 2020, all other beneficiaries will be granted performance shares for the first time. The way the performance share plan granted to these beneficiaries works is essentially the same as the performance share plan used for members of the Board of Management. At the introduction of the performance share plan, top management members were guaranteed a minimum bonus amount for the first three years on the basis of remuneration in 2018, whereas all other beneficiaries were given a guarantee for the first three years on the basis of remuneration in 2019. Each performance period of the performance share plan has a term of three years. At the time the LTI is granted, the annual target amount under the LTI is converted on the basis of the initial reference price of Volkswagen's preferred shares into performance shares of Volkswagen AG, which are allocated to the beneficiaries purely for calculation purposes. For the members of the Board of Management and top management, the number of performance shares is determined definitively on the basis of a three-year forward-looking performance period according to the degree of target attainment for the annual earnings per Volkswagen preferred share. For all other beneficiaries, this number is definitively determined on the basis of a three-year performance period with a one-year forward reference. In a deviation from this approach, the number is fixed for the other beneficiaries in 2020 initially on the basis of a one-year forward-looking performance period and in 2021 on the basis of a two-year performance period with a one-year forward reference. Settlement is in cash at the end of the performance period. The payment amount corresponds to the number of determined performance shares, multiplied by the closing reference price at the end of the period plus a dividend equivalent. The payment amount under the performance share plan is limited to 200% of the target amount.

The Company paid the members of the Supervisory Board a total allowance of €41 thousand.

6. Report on Post-balance Sheet Date Events

Promissory note loans were raised from external creditors: €50,000 thousand as of January 16, 2020 and €600,000 thousand as of January 22, 2020.

7. Executive Bodies of Volkswagen Financial Services AG

The composition of the Board of Management is as follows:

LARS HENNER SANTELMANN
Chairman of the Board of Management
Corporate Management
China region
Germany & Europe regions
Mobility Unit
Sales and Marketing

DR. MARIO DABERKOW
Information Technology and Processes
South America & Mexico regions

FRANK FIEDLER
Finance and Purchasing

CHRISTIANE HESSE
Human Resources and Organization
International region

The members of the Supervisory Board are as follows:

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

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

DANIELA CAVALLO (AS OF JANUARY 28, 2019)
Deputy Chairwoman of the General and Group Works Council of Volkswagen AG

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

MICHAEL GROSCHE
Head of Fleet, Mobility and Remarketing of Volkswagen Financial Services AG

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

DR. CHRISTIAN DAHLHEIM (AS OF FEBRUARY 1, 2020)
Head of Group Sales of Volkswagen AG

IMELDA LABBÉ (UNTIL JANUARY 31, 2020)
Head of Group After Sales, Volkswagen AG, Kassel

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

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

HANS-JOACHIM ROTHENPIELER (AS OF MAY 27, 2019)
Head of Technical Development, AUDI AG

DR. HANS PETER SCHÜTZINGER
Chief Executive Officer of Porsche Holding GmbH, Salzburg

EVA STASSEK
Principal Representative of IG Metall Braunschweig

Responsibility Statement

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

Braunschweig, Monday, February 10, 2020

The Board of Management

Lars Henner Santelmann

Dr. Mario Daberkow

Frank Fiedler

Christiane Hesse

Independent Auditor's Report

To VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig,

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

AUDIT OPINIONS

We have audited the annual financial statements of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig, which comprise the balance sheet as at December 31, 2019, and the statement of profit and loss for the financial year from January 1 to December 31, 2019, and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, which is combined with the group management report, for the financial year from January 1 to December 31, 2019. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to § [Article] 289f Abs. [paragraph] 4 HGB [Handelsgesetzbuch: German Commercial Code] (disclosures on the quota for women on executive boards).

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

> the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2019 and of its financial performance for the financial year from January 1 to December 31, 2019 in compliance with German Legally Required Accounting Principles, and
>
> the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of the statement on corporate governance referred to above.

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

Basis for the Audit Opinions

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

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1 to December 31, 2019. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matter of most significance in our audit was as follows:

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

Our presentation of this key audit matter has been structured as follows:

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

Hereinafter we present the key audit matter:

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

① Shares in other companies amounting to EUR 5,452 million (24.3% of total assets) are reported under the balance sheet item "Shares in affiliated companies" and amounting to EUR 257 million (1.1% of total assets) under the balance sheet item "Other long-term equity investments" in the annual financial statements of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT. Shares in affiliated companies and other long-term equity investments are measured in accordance with German commercial law at the lower of cost or fair value. The market price of the respective financial asset – if available – is used for the purpose of determining the fair value. If no market prices are available in the particular case, the fair values of the material investments are calculated using discounted cash flow models as the present values of the expected future cash flows according to the planning projections prepared by the executive directors. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used is the individually determined cost of capital for the relevant financial asset. On the basis of the values determined and supplementary documentation, write-downs amounting in total to EUR 82.2 million and reversals of write-downs amounting to EUR 34.2 million were required for the fiscal year.

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

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

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

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

Other Information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f Abs. 4 HGB (disclosures on the quota for women on executive boards).
Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.
In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

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

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

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

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation, and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit.
We also:

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

Based on the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on February 13, 2019. We were engaged by the supervisory board on July 10, 2019. We have been the auditor of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig, without interruption since the financial year 1991.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

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

Hanover, February 10, 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Frank Hübner	Burkhard Eckes
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

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