

# VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY

VOLKSWAGEN FINANCIAL SERVICES AG  
HALF-YEARLY FINANCIAL REPORT  
JANUARY – JUNE

*2019*

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# Key Figures

## VOLKSWAGEN FINANCIAL SERVICES AG

€ million	June 30, 2019	Dec. 31, 2018
Total assets	103,660	80,462
Loans to and receivables from customers attributable to		
Retail financing	17,757	16,676
Dealer financing	4,792	4,062
Leasing business	36,852	19,760
Lease assets	19,656	13,083
Equity	10,654	8,016
€ million	H1.2019	H1.2018
Operating profit	369	329
Profit before tax	418	352
Percent	June 30, 2019	Dec. 31, 2018
Equity ratio <sup>1</sup>	10.3	10.0
Number	June 30, 2019	Dec. 31, 2018
Employees	9,916	8,603
Germany	5,392	5,340
International	4,524	3,263

1 Equity/Total assets.

RATING (AS OF JUNE 30)	STANDARD & POOR'S			MOODY'S INVESTORS SERVICE		
	Short-term	Long-term	Outlook	Short-term	Long-term	Outlook
Volkswagen Financial Services AG	A-2	BBB+	stable	P-2	A3	stable

All figures shown in the report are rounded, so minor discrepancies may arise when amounts are added together. The comparative figures from the previous fiscal year are shown in parentheses directly after the figures for the current reporting period.

# Report on Economic Position

## OVERALL ASSESSMENT OF THE COURSE OF BUSINESS AND THE GROUP'S POSITION

Due to the reorganization of legal entities in the first half of 2019 (for details see the section "Changes in Equity Investments"), some of the changes in the balance sheet and income statement are more extensive compared to previous periods. These changes are described in the following sections.

The Volkswagen Financial Services AG Board of Management considers the 2019 year to date business development as positive. The operating result generated in the first half of the year exceeded the figure achieved in the corresponding period in 2018.

New business worldwide recorded positive growth year to date.

In the first six months of 2019, Volkswagen Financial Services AG increased its volume of business compared with the corresponding prior period, largely as a result of the reorganization of the legal entities and growth in Germany.

The global share of total deliveries to customers of the Group (penetration) represented by leased and financed vehicles was at a stable level of 25.5% (21.5%) at the end of the first half of the year.

Funding costs were well above the prior-year level. This was attributable to both higher business volumes and wider funding spreads.

In the first half of 2019, the credit risk situation improved slightly as a consequence of the reorganization of legal entities and portfolio growth. The established sales promotion programs with the brands, the ongoing expansion of the fleet business, and the integration of Volkswagen Financial Services (UK) Ltd., Milton Keynes, UK, and ŠkoFIN s.r.o., Prague, Czech Republic, led to significant growth in the volume of loans and receivables in the first half of 2019. This growth was also boosted by the stable economic environment in the European markets and the economic recovery trend in Brazil.

There was similar growth in the residual value portfolio in the first six months of the current year. This was attributable to the substantial growth resulting from company integrations, robust expansion in the global economy and further growth in the fleet business, especially in Europe.

The absolute limits for liquidity risk and interest rate risk at Volkswagen Financial Services AG were raised as a result of the initial recognition of additional entities. There was no change to the management approach, which meant that the relative levels of limit utilization as of June 30, 2019 were 59.3 (56.0)% in connection with liquidity risk, and 71.7 (78.6)% in connection with interest rate risk. Relative

limit utilization was therefore roughly at the same level as the corresponding prior-year reporting date.

## CHANGES IN EQUITY INVESTMENTS

The transfers referred to below were part of the further reorganization of Volkswagen Financial Services' legal entities.

On March 29, 2019, Volkswagen Financial Services AG took over the following entities from Volkswagen Bank GmbH:

- > Volkswagen Financial Services S.p.A., Milan, Italy
- > Volkswagen Financial Services (UK) Ltd., Milton Keynes, United Kingdom, incl. its subsidiaries  
MAN Financial Services Ltd. and Volkswagen Insurance Service (Great Britain) Ltd.,
- > Volkswagen Financial Ltd., Milton Keynes, United Kingdom,
- > ŠkoFIN s.r.o., Prague, Czech Republic, and
- > Volkswagen Serwis Ubezpieczeniowy Sp. z o.o., Warsaw, Poland.

On April 1, 2019, Volkswagen Financial Services AG contributed all the shares in ŠkoFin s.r.o., Prague, Czech Republic, and Volkswagen Serwis Ubezpieczeniowy Sp. z o.o., Warsaw, Poland, as a capital contribution to Volkswagen Finance Overseas B.V., Amsterdam, Netherlands, a wholly owned subsidiary of Volkswagen Financial Services AG.

On May 31, 2019, Volkswagen Finance 2 S.L.U., Alcobendas (Madrid), Spain, and its three subsidiaries Volkswagen Renting S.A., Alcobendas (Madrid), Spain, Volkswagen Insurance Services Correduría de Seguros S.L., Barcelona, Spain, and MAN Financial Services España S.L., Alcobendas (Madrid), Spain, were merged into Volkswagen Financial Services AG.

In addition, the following further material changes in equity investments occurred:

Volkswagen Losch Financial Services S.A., whose registered office is located in Howald, Luxembourg, commenced operating activities on January 2, 2019 as planned; the company offers leasing products in the Luxembourg market, mainly for retail customers and small fleets. Volkswagen Losch Financial Services S.A. is a joint venture, with 60% of the shares held by Volkswagen Financial Services AG, Braunschweig, and 40% by Losch Services S.à.r.l.

On February 7, 2019, Volkswagen Financial Services AG, Braunschweig, signed a purchase agreement to acquire 60% of the shares in Fleet Company GmbH, Oberhaching, from TÜV SÜD Auto Service GmbH, Munich, a wholly owned subsidiary of TÜV SÜD AG, Munich. This strategic partnership will allow Volkswagen Financial Services AG to broaden its international fleet and mobility management offering and

bring these services together under the FleetLogistics brand name. Final completion of the deal is still subject to consent from the relevant antitrust authorities.

On February 26, 2019, Volkswagen Financial Services AG signed an agreement to acquire all the shares in LogPay Financial Services GmbH (LPFS), Eschborn, from DVB Bank SE, Frankfurt. This acquisition represents further consolidation of Volkswagen Financial Services AG's commitment to automotive mobility business, allowing the company to centralize the fuel card and toll charge business while opening up considerable additional market potential in connection with payments processing related to local public transport via LogPay Mobility Services, Eschborn, a wholly owned subsidiary of LPFS. Under the new ownership structure, LPFS will also still continue to process transactions under DVB Bank's freight settlement system. The acquisition of LogPay Financial Services GmbH is subject to the approval by the anti-trust authorities.

Effective March 21, 2019, LEONIE FS DVB GmbH, Stuttgart, a wholly owned subsidiary of Daimler AG, Stuttgart, made an equity investment of 20% in Mobility Trader Holding GmbH, Berlin, by way of a capital increase. Mobility Trader Holding GmbH acts as an intermediate holding company for local companies in the heycar Group.

As of April 10, 2019, Volkswagen Pon Financial Services B.V., Amersfoort, Netherlands, in which Volkswagen Financial Services AG, Braunschweig, holds a 60% equity investment, acquired through its wholly owned subsidiary Volkswagen Leasing B.V., Amersfoort, Netherlands, the leasing company Maas Leasing B.V., Nieuwkoop, Netherlands, from J. Maas Holding B.V., Nieuwkoop, Netherlands, thereby expanding its portfolio by approximately 1,475 contracts.

Effective May 24, 2019, Maas Leasing B.V. acquired, the portfolio of the leasing company Lease Connection B.V., Gouda, Netherlands, by means of an asset deal, thereby expanding the portfolio of Volkswagen Pon Financial Services B.V., Amersfoort, Netherlands by approximately 1,215 contracts.

Mobility Trader UK Ltd., London, UK, was established as a wholly owned subsidiary of Mobility Trader Holding GmbH, Berlin, on May 24, 2019.

Effective June 28, 2019, Volkswagen Financial Services AG, Braunschweig, acquired 75.1% of the shares in PTV Truckparking B.V., Utrecht, Netherlands, from PTV Planung Transport Verkehr AG, Karlsruhe. In the course of the transaction, the company was renamed to Truckparking B.V. Truckparking B.V. operates an online platform that enables truck drivers to plan routes, find parking lots, make reservations, and communicate with other drivers. Based on this majority stake, Volkswagen Financial Services AG is continuing to expand its presence in the strategic business area parking.

As part of the corporate action approved in 2018, Volkswagen Financial Services AG paid €1 billion from its retained earnings to Volkswagen AG. During the first half of 2019, Volkswagen Financial Services AG's additional paid-in

capital was increased by means of a payment of €1 billion made by Volkswagen AG.

In the first half of 2019, Volkswagen Financial Services AG increased the equity of the following companies to strengthen their capital resources:

- > Volkswagen Financial Services South Africa (Pty) Ltd., Sandton and
- > PayByPhone Technologies Inc., Vancouver, British Columbia.

There were no further significant capital increases.

#### GENERAL ECONOMIC DEVELOPMENT

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

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

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

In the economies of Central Europe, growth rates remained relatively high in the first two quarters of 2019, while also declining in most cases. GDP growth in Eastern Europe declined. This was due in particular to the economic situation in Russia, as the region's largest economy.

The economic downturn that began in Turkey in 2018 continued in the reporting period. Amid persistent structural deficits and political challenges, the growth rate of South Africa's GDP was lower than in the same period of the previous year.

The robust growth of the US economy continued in the first half of the year, with considerable stimulus being provided by private domestic demand. The US Federal Reserve kept its key rate constant based on the stable situation in the labor market and declining inflation. Momentum decreased in both Canada and Mexico compared to the same period of 2018.

Between January and June 2019, Brazil continued the slight economic growth it had seen in preceding quarters, though the situation in South America's largest economy remained tense. Argentina's economic situation deteriorated markedly amid persistently high inflation.

With high momentum, the Chinese economy continued its growth trajectory in the reporting period. Government support provided in response to the trade policy dispute between China and the US continued in the first half of 2019. India continued to record a high pace of growth. Japan registered weaker GDP growth than in the same period of the previous year.

#### TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

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

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

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

Demand for financing and insurance products in South Africa declined slightly.

In the US and Mexican markets, automotive financial services remained very popular in the period from January to June 2019.

In Brazil, the consumer credit business and the country-specific financial services product *Consortio* – a lottery-style savings plan – benefited from the cautiously optimistic trend in 2018. In the first quarter of 2019, more than half of all new vehicle sales were covered by financial services products. In the Argentinian market, the sharp rise in interest rates following the recent economic crisis presented a challenge as far as sales of financing and leasing products were concerned.

Demand for automotive financial services across the Asia-Pacific region was mixed in the first six months of 2019. In China, the proportion of vehicle purchases financed by credit flatlined compared with the corresponding prior-year period, while growth in new contracts slowed markedly because of the decline in passenger car sales. The easing of existing restrictions on registrations in metropolitan areas, especially in the interior of the country and in respect of used vehicles, creates considerable potential for selling automotive-related financial services to new customers. The demand for financial services rose in the Indian market, while it tapered off slightly in Japan.

The demand for financial services in the Commercial Vehicles Business Area also varied from region to region. The positive trend in China in 2018 was sustained in the first half of 2019, albeit at a slower rate. In Brazil, the truck and bus

business, together with the associated financial services market, enjoyed strong growth.

#### TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

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

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

In Western Europe, passenger car demand in the reporting period fell short of the prior-year level due to the WLTP, among other factors. New vehicle registrations declined by varying degrees in the largest single markets. Passenger car sales in France fell slightly. In the United Kingdom, the passenger car market volume was moderately down on the prior-year figure. There, the uncertain outcome of the Brexit negotiations with the EU continued to weigh on demand. The passenger car markets in Italy and Spain also contracted in the reporting period. The share of new registrations for diesel vehicles in the overall passenger car market in Western Europe slipped to 33.3 (38.0)% in the period from January to June 2019.

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

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

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

In the Central and Eastern Europe region, demand for passenger cars in the reporting period was just higher than in the previous year. Developments in the individual markets of Central Europe were mixed. Following a solid start in spite of the value-added tax increase as of January 1, 2019, the Russian passenger car market continued to weaken and was slightly below the prior-year figure at the end of the first half of 2019.

Registration volumes of light commercial vehicles in Central and Eastern Europe were on a level with the previous year, while the number of vehicles sold in Russia between January and June 2019 was much lower than in the prior-year period.

Demand in the Turkish passenger car market fell dramatically from January to June 2019 compared to the first half of 2018 as a result of the deteriorating macroeconomic situation. In South Africa, the number of passenger cars sold remained moderately lower than the weak level seen in the previous year.

In North America, sales of passenger cars and light commercial vehicles (up to 6.35 tonnes) in the reporting period were down slightly on the prior-year figure. The market volume in the USA also remained slightly below the high prior-year level. The decline affected the passenger car segment in particular, while the trend in demand for light commercial vehicles such as SUV and pick-up models remained positive. In the Canadian automotive market, the downward trend seen since the second quarter of 2018 continued throughout the reporting period. The number of vehicles sold in Mexico was also perceptibly lower than the figure for the same period of the previous year.

In the markets of the South America region, new registrations for passenger cars and light commercial vehicles decreased distinctly on the whole in the first six months of 2019. While in Brazil, the recovery in the demand for automobiles continued at a high growth rate, though new registrations still fell markedly short of the record level achieved in the first half of 2013. In the Argentinian market, the deterioration in the macroeconomic situation also had a negative impact on demand for passenger cars and light commercial vehicles, with sales figures plummeting from January to June 2019.

The number of new passenger cars registered in the Asia-Pacific region in the reporting period was markedly lower than the prior-year level. This is mainly attributable to the trend in the Chinese passenger car market, where the volume of demand fell noticeably short of the previous year's level and exhibited negative growth rates until May 2019. The ongoing trade dispute between China and the USA continued to weigh on demand. In addition to the value-added tax cut in April, pull-forward effects resulting from a new emission standard introduced in China starting in early July 2019, led to a minor recovery in demand at the end of the reporting period. In the Indian passenger car market, sales in the first half of 2019 fell significantly compared with a year earlier. The vehicle market was on a level with the previous year in Japan.

Demand for light commercial vehicles in the Asia-Pacific region was up slightly on the previous year. Registration volumes in China, the region's dominant market and the largest market worldwide, also increased slightly year-on-year. The number of new vehicle registrations in India also saw a small increase versus the previous year.

#### TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

In the markets that are relevant for the Volkswagen Group, global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes was significantly higher between January and June 2019 than in the prior-year period.

In the first half of the year, demand in Western Europe climbed sharply compared with 2018. There was a sizeable increase in new registrations in Germany, Western Europe's largest market, in the first six months of 2019 compared with the prior-year period. While demand in Italy remained at the previous year's level, it rose in Spain, in France and in the United Kingdom.

The first half of 2019 saw a slight year-on-year recovery in registration volumes in the Central and Eastern Europe region. Demand in Russia decreased moderately.

There was a marked overall increase in the volume of registrations in South America compared to the first six months of 2018. In Brazil, the region's largest market, demand for trucks rose very sharply as a consequence of the economic recovery compared with the low figure for the prior-year period. By contrast, a dramatic decline in registration volumes was seen in Argentina.

In the period from January to June 2019, demand for buses in the markets that are relevant for the Volkswagen Group was significantly higher than the prior-year level. The markets in Brazil and France contributed in particular to this growth.

#### FINANCIAL PERFORMANCE

The disclosures on financial performance relate to the changes compared with the corresponding period in 2018. The significant changes were largely attributable to the reorganization of the legal entities referred to earlier.

The companies in the Volkswagen Financial Services AG Group performed well in the first half of 2019. At €369 million (+12.2%), the operating result exceeded the figure achieved in the corresponding period in the previous year. Interest income from lending transactions and marketable securities of €1,043 million (+6.2%), net income from leasing transactions of €855 million (+78.5%), interest expenses of €638 million (+22.7%) and net income from service contracts of €94 million (+11.9%) were all above prior-year levels, in some cases by a significant amount. In contrast, net income from insurance transactions totaled €79 million, which was similar to the prior-year.

The provision for credit risks amounted to €253 million, significantly higher than the prior-year period. Credit risks to which the Volkswagen Financial Services AG Group is exposed as a result of various critical situations (Brexit, economic crises, impact of block on sales) in the United Kingdom, Russia, Brazil, Mexico, India and the Republic of Korea were accounted for in the reporting period by recognizing valuation allowances. These were increased in the first half of 2019 by €65 million.

Net fee and commission income amounted to €8 million (-86.7%), a considerable decline compared to the prior-year.

General and administrative expenses were higher than the prior-year at €997 million (+10.7%).

Net other operating income was significantly above the prior-year at €191 million (+44.7%), particularly reflecting a positive impact from foreign currency measurement (other than hedges).

The share of profits and losses of equity-accounted joint ventures was lower than the prior-year period at €26 million (-7.1%).

As a result of the net profit on miscellaneous financial assets of €30 million (previous year: loss of €3 million) and the other income and expense components, the profit after tax,

generated by the Volkswagen Financial Services AG Group rose compared with the corresponding period in the previous year to €294 million (+19.0%).

The German companies continued to account for the highest business volumes with 33.6% of all contracts, forming a strong and solid foundation.

#### NET ASSETS AND FINANCIAL POSITION

The disclosures on net assets and financial position relate to the changes compared with the balance sheet date of December 31, 2018. Again, the significant changes largely resulted from the reorganization of the legal entities.

#### Lending business

At €91.2 billion in total, loans to and receivables from customers and lease assets – which make up the core business of the Volkswagen Financial Services AG Group – accounted for approximately 88.0% of the Group's total assets.

The volume of retail financing lending rose by €1.1 billion to €17.8 billion (+6.5%). The number of new contracts was 536 thousand (–0.2% compared with the adjusted figure for the first half of 2018). As a consequence, the number of current contracts rose to 2,796 thousand (+6.3%).

The lending volume in dealer financing – which is comprised of loans to and receivables from Group dealers in connection with financing for inventory vehicles, as well as working capital and investment loans – increased to €4.8 billion (+18.0%).

Receivables from leasing transactions were up 86.5% year-on-year to €36.9 billion. Lease assets recorded growth of €6.6 billion to €19.7 billion (+50.2%).

A total of 565 thousand new leasing contracts were signed in the reporting period, clearly surpassing the figure for the first half of 2018 (+41.1%). The number of leased vehicles as of June 30, 2019, was 3,124 thousand, a year-on-year increase of 77.9%. As in previous years, the largest contribution came from Volkswagen Leasing GmbH, which had a contract portfolio of 1,593 (1,445) thousand lease vehicles.

Total assets of the Volkswagen Financial Services AG Group rose to €103.7 billion (+28.8%).

The number of service and insurance contracts as of June 30, 2019 was 7,797 (5,477) thousand. The total of 1,285 thousand new contracts was above the figure for the first half of 2018 (+20.7%).

## KEY FIGURES BY SEGMENT AS OF JUNE 30, 2019

Thousands	Germany	China	United Kingdom	Mexico	Brazil	Other companies <sup>1</sup>	VW FS AG Group
<b>Current contracts</b>	<b>4,611</b>	<b>1,233</b>	<b>1,764</b>	<b>707</b>	<b>497</b>	<b>4,905</b>	<b>13,717</b>
Retail financing	-	1,204	9	239	386	957	2,796
of which: consolidated	-	1,204	9	239	386	512	2,351
Leasing business	1,393	29	996	71	9	627	3,124
of which: consolidated	1,393	-	996	71	5	354	2,818
Service/insurance	3,218	-	759	397	102	3,321	7,797
of which: consolidated	3,218	-	715	397	67	1,418	5,815
<b>New contracts</b>	<b>935</b>	<b>251</b>	<b>222</b>	<b>119</b>	<b>122</b>	<b>738</b>	<b>2,387</b>
Retail financing	-	245	5	36	96	154	536
of which: consolidated	-	245	5	36	96	88	470
Leasing business	334	5	97	17	1	111	565
of which: consolidated	334	-	97	17	-	65	513
Service/insurance	601	-	120	66	25	474	1,285
of which: consolidated	601	-	114	66	17	206	1,004
€ million							
Loans to and receivables from customers attributable to							
Retail financing	-	7,158	211	1,333	2,745	6,310	17,757
Dealer financing	9	566	4	569	592	3,052	4,792
Leasing business	18,445	-	14,780	474	28	3,125	36,852
Lease assets	12,764	-	3,046	139	10	3,697	19,656
Investment <sup>2</sup>	3,091	-	345	2	0	749	4,187
Operating profit	124	107	73	54	54	-43	369
Percent							
Penetration <sup>3</sup>	45.7	12.6	45.2	51.9	36.3	-	25.5
of which: consolidated	45.7	12.5	45.2	51.9	35.9	-	21.4

1 The Other Companies segment covers the following markets: Australia, Belgium, France, India, Italy, Japan, Korea, Poland, Portugal, Russia, Spain and Czech Republic. Relating to the number of contracts and penetration, it also covers the following markets: Argentina, the Netherlands, Norway, Switzerland, South Africa, Taiwan and Turkey. It also includes the Volkswagen Financial Services AG holding company, the holding and financing companies in Belgium, France and the Netherlands, EURO-Leasing companies in Denmark, Germany and Poland, Volkswagen Insurance Brokers GmbH, Volkswagen Versicherung AG and consolidation effects.

2 Corresponds to additions to lease assets classified as noncurrent assets.

3 Ratio of new contracts for new Group vehicles under retail financing and leasing business to deliveries of Group vehicles.

### Deposit business and borrowings

The significant liability items were liabilities to banks in the amount of €13.4 billion (+9.0%), liabilities to customers amounting to €12.3 billion (-0.7%) and notes and commercial paper issued amounting to €58.1 billion (+41.7%).

### Equity

The subscribed capital remained unchanged at €441 million in the reporting period. Equity in accordance with IFRSs was €10.7 (8.0) billion. This resulted in an equity ratio of 10.3% based on total assets of €103.7 billion.



# Report on Opportunities and Risks

## REPORT ON OPPORTUNITIES

### Macroeconomic opportunities

In the event of further but slightly slower economic growth in the majority of markets, the Board of Management of Volkswagen Financial Services AG expects the deliveries to customers of the Volkswagen Group to remain at a high level. Volkswagen Financial Services AG supports this positive trend by providing financial services products designed to promote sales.

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

### Strategic opportunities

As well as continuing its international focus by tapping into new markets, Volkswagen Financial Services AG believes that developing innovative products that are tailored to

customers' changing mobility requirements offers additional opportunities. Growth areas such as mobility products and service offerings are being systematically developed and expanded. Further opportunities may be created by launching established products in new markets.

The digitalization of its business represents a significant opportunity for Volkswagen Financial Services AG. The aim is to ensure that all key products are also available online around the world by 2020, thereby enabling the Company to enhance efficiency. By expanding digital sales channels, it is promoting direct sales and facilitating the development of a platform for used-vehicle financing. In this way, Volkswagen Financial Services AG addresses changing customer needs and reinforces its competitive position.

## RISK REPORT

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

# Human Resources Report

Volkswagen Financial Services AG had 9,706 active employees worldwide as of June 30, 2019. In addition to the active workforce in the first half of 2019, Volkswagen Financial Services AG had 85 employees who had reached the passive phase of their partial retirement agreements, and 125 vocational trainees. The total number of employees at Volkswagen Financial Services AG as of June 30, 2019 was therefore 9,916, an increase of 15% compared to the headcount of 8,603 at the end of 2018.

The markedly higher employee numbers compared to December 31, 2018 resulted from the restructuring of the legal entities within the Volkswagen Financial Services AG Group. The headcount increase of 52 in Germany was primarily attributable to the recruitment of specialists. Currently, 5,392 people are employed in Germany.

Based on economic considerations, 358 employees of Volkswagen Servicios S.A. de C.V., Puebla, Mexico, which is an unconsolidated company, are included in the overall workforce figures.

# Report on Expected Developments

Volkswagen Financial Services AG's Board of Management expects growth in the global economy to slow to some degree in 2019. We still believe that risks will continue to arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively affected by continuing geopolitical tensions and conflicts. We therefore expect both the advanced economies and the emerging markets to show weaker momentum than 2018. We anticipate the strongest rates of expansion are expected in Asia's emerging economies.

We expect trends in the passenger car markets in the individual regions to be mixed in 2019. Overall, global demand for new vehicles will probably be slightly below the prior-year level. We anticipate that the volume of new registrations for passenger cars in Western Europe will also fall slightly short of the figure seen in the previous year. After a positive performance overall in recent years, we also estimate that demand in the German passenger car market will fall slightly year-on-year. Sales of passenger cars in 2019 are expected to slightly exceed the prior-year figures in markets in Central and Eastern Europe. The volume of demand in the markets for passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America is likely to be slightly lower than in the prior year. We expect new registrations in the South American markets for passenger cars and light commercial vehicles to be on a level with the previous year overall. The passenger car markets in the Asia-Pacific region are expected to fall slightly short of the prior-year level.

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

In the markets for mid-sized and heavy trucks that are relevant for the Volkswagen Group and in the relevant markets for buses, new registrations in 2019 are expected to slightly exceed the prior-year level.

Volkswagen Financial Services AG believes that automotive financial services will continue to be very important for vehicle sales worldwide in 2019.

Forecasting the interest rate risk at Group level is only possible to a limited extent because of the need to include different interest rate zones.

It is anticipated that interest rates will remain steady in the majority of interest rate zones.

The interest rate risk is monitored continuously. Potential changes in interest rates are simulated if necessary to determine their effect on profits.

Trends in other categories of risk are currently judged to be stable.

Volkswagen Financial Services AG anticipates that, as a result of the transfer of portfolios and companies from Volkswagen Bank GmbH caused by the restructuring of the Group – particularly in the high-volume British market – new contracts, current contracts, penetration and business volume will all be significantly higher in 2019 than the levels achieved in fiscal year 2018. Based on the effects described above, the operating result for fiscal year 2019 is projected to be well above the prior-year level.

The forecasted earnings growth and stable capital adequacy are expected to lead to a steady return on equity in 2019 compared with the previous year. The cost/income ratio in 2019 is expected to be at a similar level of the previous year.

This report contains forward-looking statements on the future business development of Volkswagen Financial Services AG. These statements are based on assumptions relating to the development of the economic and legal environment in individual countries and economic regions in terms of the global economy and of the financial and automotive markets, which Volkswagen Financial Services AG has made on the basis of the information available and which it currently considers to be realistic. The estimates given entail a degree of risk, and the actual developments may differ from those forecast. Any

unexpected fall in demand or economic stagnation in the key sales markets of the Volkswagen Group will have a corresponding impact on the development of its business. The same applies in the event of material changes in exchange rates against the euro. In addition, expected business development may vary if the assessments of the key performance indicators and of risks and opportunities presented in the 2018 Annual Report develop differently to the Company's current expectations, or additional risks and opportunities or other factors emerge that affect the development of its business.

# Interim Consolidated Financial Statements (Condensed)

## Income Statement of the Volkswagen Financial Services AG Group

€ million	Note	Jan. 1 – June 30, 2019	Jan. 1 – June 30, 2018	Change in percent
Interest income from lending transactions and marketable securities		1,043	982	6.2
Income from leasing transactions		5,541	4,493	23.3
Depreciation, impairment losses and other expenses from leasing transactions		-4,686	-4,015	16.7
Net income from leasing transactions		855	479	78.5
Interest expense		-638	-520	22.7
Income from service contracts		794	649	22.3
Expenses from service contracts		-700	-565	23.9
Net income from service contracts		94	84	11.9
Income from insurance transactions		159	154	3.2
Expenses from insurance transactions		-80	-75	6.7
Net income from insurance business		79	79	0.0
Provision for credit loss risks		-253	-127	99.2
Fee and commission income		206	302	-31.8
Fee and commission expenses		-199	-243	-18.1
Net fee and commission income		8	60	-86.7
Net gain or loss on hedges		10	27	-63.0
Net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income		-24	36	X
General and administrative expenses	1	-997	-901	10.7
Other operating income		377	396	-4.8
Other operating expenses		-186	-264	-29.5
Net other operating income/expenses		191	132	44.7
<b>Operating profit</b>		<b>369</b>	<b>329</b>	<b>12.2</b>
Share of profits and losses of equity-accounted joint ventures		26	28	-7.1
Net gain or loss on miscellaneous financial assets		30	-3	X
Other financial gains or losses		-6	-2	X
<b>Profit before tax</b>		<b>418</b>	<b>352</b>	<b>18.8</b>
Income tax expense		-125	-105	19.0
<b>Profit after tax</b>		<b>294</b>	<b>247</b>	<b>19.0</b>
Profit after tax attributable to noncontrolling interests		0	0	X
Profit after tax attributable to Volkswagen AG		294	247	19.0
German GAAP profit/loss attributable to Volkswagen AG in the event of loss absorption/profit transfer		-67	-396	X

## Statement of Comprehensive Income of the Volkswagen Financial Services AG Group

€ million	Jan. 1 – June 30, 2019	Jan. 1 – June 30, 2018
<b>Profit after tax</b>	<b>294</b>	<b>247</b>
Pension plan remeasurements recognized in other comprehensive income		
Pension plan remeasurements recognized in other comprehensive income, before tax	-99	-5
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	30	2
Pension plan remeasurements recognized in other comprehensive income, net of tax	-70	-4
Fair value valuation of other participations and securities (equity instruments) that will not be reclassified to profit or loss, net of tax	-	-
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax	0	0
<b>Items that will not be reclassified to profit or loss</b>	<b>-69</b>	<b>-4</b>
Exchange differences on translating foreign operations		
Gains/losses on currency translation recognized in other comprehensive income	-16	-108
Transferred to profit or loss	-	-
Exchange differences on translating foreign operations, before tax	-16	-108
Deferred taxes relating to exchange differences on translating foreign operations	-	-
Exchange differences on translating foreign operations, net of tax	-16	-108
Hedging		
Fair value changes recognized in other comprehensive income (OCI I)	-18	-24
Transferred to profit or loss (OCI I)	10	18
Cash flow hedges (OCI I), before tax	-8	-6
Deferred taxes relating to cash flow hedges (OCI I)	1	1
Cash flow hedges (OCI I), net of tax	-6	-4
Fair value changes recognized in other comprehensive income (OCI II)	0	-
Transferred to profit or loss (OCI II)	-	-
Cash flow hedges (OCI II), before tax	0	-
Deferred taxes relating to cash flow hedges (OCI II)	0	-
Cash flow hedges (OCI II), net of tax	0	-
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss		
Fair value changes recognized in other comprehensive income	5	-1
Transferred to profit or loss	1	1
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, before tax	6	-1
Deferred taxes relating to fair value valuation of securities and receivables (debt instruments) recognized in other comprehensive income	-2	0
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, net of tax	4	0
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss, net of tax	5	-10
<b>Items that may be reclassified to profit or loss</b>	<b>-13</b>	<b>-123</b>
Other comprehensive income, before tax	-112	-130
Deferred taxes relating to other comprehensive income	29	3
<b>Other comprehensive income, net of tax</b>	<b>-83</b>	<b>-127</b>
<b>Total comprehensive income</b>	<b>211</b>	<b>120</b>
Profit/loss after tax attributable to noncontrolling interests	0	0
Total comprehensive income attributable to Volkswagen AG	211	120

## Balance Sheet of the Volkswagen Financial Services AG Group

€ million	Note	June 30, 2019	Dec. 31, 2018	Change in percent
<b>Assets</b>				
Cash reserve		50	54	-7.4
Loans to and receivables from banks		5,151	1,819	X
Loans to and receivables from customers attributable to				
Retail financing		17,757	16,676	6.5
Dealer financing		4,792	4,062	18.0
Leasing business		36,852	19,760	86.5
Other loans and receivables		12,151	18,514	-34.4
Total loans to and receivables from customers		71,551	59,012	21.2
Derivative financial instruments		771	582	32.5
Marketable securities		312	290	7.6
Equity-accounted joint ventures		713	671	6.3
Miscellaneous financial assets		456	404	12.9
Intangible assets	2	76	64	18.8
Property and equipment	2	475	295	61.0
Lease assets	2	19,656	13,083	50.2
Investment property		18	10	80.0
Deferred tax assets		1,699	1,539	10.4
Current tax assets		137	122	12.3
Other assets		2,595	2,517	3.1
<b>Total</b>		<b>103,660</b>	<b>80,462</b>	<b>28.8</b>

€ million	Note	June 30, 2019	Dec. 31, 2018	Change in percent
<b>Equity and liabilities</b>				
Liabilities to banks		13,402	12,291	9.0
Liabilities to customers		12,262	12,345	-0.7
Notes, commercial paper issued		58,128	41,029	41.7
Derivative financial instruments		361	105	X
Provisions for pensions and other post-employment benefits		472	366	29.0
Underwriting provisions and other provisions		928	909	2.1
Deferred tax liabilities		803	783	2.6
Current tax liabilities		300	420	-28.6
Other liabilities		1,437	1,176	22.2
Subordinated capital		4,913	3,023	62.5
Equity		10,654	8,016	32.9
Subscribed capital		441	441	X
Capital reserves		2,947	1,600	84.2
Retained earnings		8,165	6,812	19.9
Other reserves		-901	-839	7.4
Equity attributable to noncontrolling interests	2	2	2	0.0
<b>Total</b>		<b>103,660</b>	<b>80,462</b>	<b>28.8</b>

## Statement of Changes in Equity of the Volkswagen Financial Services AG Group

€ million	OTHER RESERVES										
	Subscribed capital	Capital reserves	Retained earnings	Currency translation	Hedging transactions					Non-controlling interests	Total equity
					Cash flow hedges (OCI I)	Deferred hedging costs (OCI II)	Equity and debt instruments	Equity-accounted investments			
<b>Balance before adjustment on Jan. 1, 2018</b>	<b>441</b>	<b>2,600</b>	<b>5,264</b>	<b>-633</b>	<b>7</b>	<b>-</b>	<b>2</b>	<b>-59</b>	<b>2</b>	<b>7,624</b>	
Change in accounting treatment as a result of IFRS 9	-	-	-152	-	-	-	0	-	0	-152	
<b>Balance as of Jan. 1, 2018</b>	<b>441</b>	<b>2,600</b>	<b>5,112</b>	<b>-633</b>	<b>7</b>	<b>-</b>	<b>2</b>	<b>-59</b>	<b>2</b>	<b>7,472</b>	
Profit after tax	-	-	247	-	-	-	-	-	0	247	
Other comprehensive income, net of tax	-	-	-4	-108	-4	-	0	-10	0	-127	
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>243</b>	<b>-108</b>	<b>-4</b>	<b>-</b>	<b>0</b>	<b>-10</b>	<b>0</b>	<b>120</b>	
Capital increases	-	-	-	-	-	-	-	-	-	-	
Other changes <sup>1</sup>	-	-	395	-	-	-	-	-	-	395	
<b>Balance as of June 30, 2018</b>	<b>441</b>	<b>2,600</b>	<b>5,750</b>	<b>-741</b>	<b>3</b>	<b>-</b>	<b>1</b>	<b>-69</b>	<b>2</b>	<b>7,987</b>	
<b>Balance as of Jan. 1, 2019</b>	<b>441</b>	<b>1,600</b>	<b>6,812</b>	<b>-759</b>	<b>3</b>	<b>-</b>	<b>1</b>	<b>-84</b>	<b>2</b>	<b>8,016</b>	
Profit after tax	-	-	294	-	-	-	-	-	0	294	
Other comprehensive income, net of tax	-	-	-70	-16	-6	0	4	5	0	-83	
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>224</b>	<b>-16</b>	<b>-6</b>	<b>0</b>	<b>4</b>	<b>5</b>	<b>0</b>	<b>211</b>	
Changes resulting from non-cash contribution by shareholder											
Volkswagen AG <sup>2</sup>	-	348	2,062	-48	0	0	-	-	-	2,361	
Capital increases	-	1,000	-	-	-	-	-	-	-	1,000	
Distribution of net retained profits	-	-	-1,000	-	-	-	-	-	-	-1,000	
Other changes <sup>3</sup>	-	-	67	-	-	-	-	-	-	67	
<b>Balance as of June 30, 2019</b>	<b>441</b>	<b>2,947</b>	<b>8,165</b>	<b>-823</b>	<b>-4</b>	<b>0</b>	<b>5</b>	<b>-79</b>	<b>2</b>	<b>10,654</b>	

1 Includes German GAAP (HGB) profit/loss attributable to Volkswagen AG in the event of loss absorption/profit transfer and changes arising because Volkswagen-Versicherungsdienst GmbH, Vienna, is no longer fully consolidated.

2 Changes as a result of a non-cash capital contribution by the shareholder Volkswagen AG (see disclosures on basis of consolidation).

3 Includes profit/loss attributable to Volkswagen AG (based on German GAAP (HGB) profit/loss) in the event of loss absorption/profit transfer.

## Cash Flow Statement of the Volkswagen Financial Services AG Group

€ million	Jan. 1 – June 30, 2019	Jan. 1 – June 30, 2018
<b>Profit after tax</b>	<b>294</b>	<b>247</b>
Depreciation, amortization, impairment losses and reversals of impairment losses	1,631	1,037
Change in provisions	95	58
Change in other noncash items	97	88
Gain/loss on disposal of financial assets and items of property and equipment	0	-34
Net interest expense and dividend income	-1,024	-808
Other adjustments	3	1
Change in loans to and receivables from banks	-2,940	-696
Change in loans to and receivables from customers <sup>1</sup>	-899	-3,765
Change in lease assets	-2,968	-1,821
Change in other assets related to operating activities	28	206
Change in liabilities to banks	190	0
Change in liabilities to customers	-3,179	2,990
Change in notes, commercial paper issued	7,937	1,822
Change in other liabilities related to operating activities	-11	-285
Interest received	1,657	1,327
Dividends received	5	1
Interest paid	-638	-520
Income taxes paid	-314	-207
<b>Cash flows from operating activities</b>	<b>-36</b>	<b>-359</b>
Proceeds from disposal of investment property	-	-
Acquisition of investment property	-	-
Proceeds from disposal of subsidiaries and joint ventures	0	30
Acquisition of subsidiaries and joint ventures	-32	-75
Proceeds from disposal of other assets	6	1
Acquisition of other assets	-39	-36
Change in investments in marketable securities	-14	-6
<b>Cash flows from investing activities</b>	<b>-79</b>	<b>-86</b>
Proceeds from changes in capital	1,000	-
Distribution to Volkswagen AG	-1,000	-
Loss assumed by Volkswagen AG <sup>1</sup>	149	478
Change in cash funds attributable to subordinated capital	-42	-35
<b>Cash flows from financing activities</b>	<b>107</b>	<b>443</b>
<b>Cash and cash equivalents at end of prior period</b>	<b>54</b>	<b>40</b>
Cash flows from operating activities	-36	-359
Cash flows from investing activities	-79	-86
Cash flows from financing activities	107	443
Effect of exchange rate changes	4	-4
<b>Cash and cash equivalents at end of period</b>	<b>50</b>	<b>34</b>

1 Prior year has been restated in line with actual loss absorption.

See note (6) for disclosures on the cash flow statement.



# Notes to the Interim Consolidated Financial Statements

of the Volkswagen Financial Services AG Group as of June 30, 2019

## General Information

Volkswagen Financial Services Aktiengesellschaft (VW FS AG) has its registered office at Gifhorner Strasse, Braunschweig, Germany, and is registered in the Braunschweig commercial register (HRB 3790).

Volkswagen AG, Wolfsburg, is the sole shareholder of the parent company, VW FS AG. Volkswagen AG and VW FS AG have entered into a control and profit-and-loss transfer agreement.

## Basis of Presentation

VW FS AG prepared its consolidated financial statements for the year ended December 31, 2018 in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), and the interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRS IC) as well as in accordance with the additional disclosures required by German commercial law under section 315a(1) of the Handelsgesetzbuch (HGB – German Commercial Code). These interim consolidated financial statements for the period ended June 30, 2019 have therefore also been prepared in accordance with IAS 34 and represent a condensed version compared with the full consolidated financial statements. No review of these interim financial statements has been carried out by an independent auditor.

Unless otherwise stated, amounts are shown in millions of euros (€ million). All amounts shown are rounded, so minor discrepancies may arise when amounts are added together.

## Accounting Policies

VW FS AG has applied all financial reporting standards adopted by the EU which are subject to mandatory application starting January 1, 2019.

### IFRS 16 LEASES

IFRS 16 amends the provisions governing the accounting treatment of leases and supersedes the previously applicable IAS 17 and the associated interpretations.

The core objective of IFRS 16 is to ensure that all leases are recognized in the balance sheet. Accordingly, the previous requirement for lessees to classify a lease as either a finance lease or operating lease has been eliminated. Instead, for all leases, lessees must generally recognize both a right-of-use asset and a lease liability in their balance sheet. At the VW FS AG Group, the lease liability is measured at the present value of the outstanding lease payments, whereby the lease payments are discounted using the lessee's incremental borrowing rate, whereas the right-of-use asset is generally measured at the amount of the lease liability plus any initial direct costs. During the term of the lease, the right-of-use asset must be depreciated and the lease liability measured using the effective interest method, taking into account the lease payments. IFRS 16 provides for exemptions for short-term leases and leases in which the underlying asset is of low value. The VW FS AG Group has elected to apply these exemptions and therefore does not recognize any right-of-use asset or lease liability for such leases. The associated lease payments continue to be recognized as an expense in the income statement. On the date of initial application, leases in which the lease term was due to expire before January 1, 2020 were classified as short-term leases regardless of the commencement date of the lease concerned. In addition, existing leases were not reassessed on the date of initial application to establish whether they represented a lease on the basis of the criteria specified in IFRS 16. Instead, contracts that were already classified as a lease under IAS 17 or

IFRIC 4 continued to be classified as such. Contracts that had already been deemed not to be a lease under IAS 17 or IFRIC 4 were retained in the same classification.

Lessors are required to account for leases largely in the same way as under the previous rules in accordance with IAS 17. Lessors still have to classify a lease as either a finance lease or an operating lease based on the allocation of opportunities and risks from the asset.

On January 1, 2019, the VW FS AG Group accounted for leases in accordance with the requirements specified in IFRS 16 using the modified retrospective method. In this method, prior-year periods have not been adjusted as the lease liability is recognized on the changeover date at the present value of the outstanding lease payments. The present value was calculated using incremental borrowing rates as of January 1, 2019. In the VW FS AG Group, the weighted average discount rate in this regard came to 3.7%. To simplify matters, the right-of-use assets are recognized at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The right-of-use assets recognized in the balance sheet are reported under those line items in which the lease's underlying assets would have been reported if these assets had been in the ownership of the VW FS AG Group. The right-of-use assets are therefore reported as of the reporting date under property and equipment or lease assets.

The following effects arose as of January 1, 2019 as a result of the initial recognition of the right-of-use assets and lease liabilities:

- > In the opening balance sheet, right-of-use assets amounting to €118 million were recognized under property and equipment. The classification of assets was adjusted as part of the introduction of IFRS 16. As a result, property and equipment in an amount of €3 million was reclassified to investment property.
- > Lease liabilities of €118 million were recognized in the opening balance sheet and reported under liabilities to customers.
- > There were no effects on equity from the initial application.

In contrast to the current procedure, in which operating lease expenses are reported in full under general and administrative expenses, only the depreciation charge in respect of the right-of-use assets is posted in general and administrative expenses under IFRS 16. Interest expense from unwinding the discount on lease liabilities is recognized under interest expenses.

The change in recognition of operating lease expenses only had a minor impact on the cash flow statement.

Moreover, there will be significantly more extensive disclosures in the notes.

As part of the introduction of IFRS 16, the presentation of right-of-use assets in connection with long-term leases with a return agreement were reclassified from other assets to lease assets. This takes into account the procedure described above whereby right-of-use assets are recognized under the same item utilized for equivalent assets owned by VW FS AG.

#### OTHER ACCOUNTING POLICIES

The discount rate applied to German pension provisions reported in these interim consolidated financial statements was 1.2% (December 31.12, 2018: 2.0%). The lower discount rate led to an increase in pension provisions, the associated deferred taxes as well as in the actuarial losses on pension provisions reported in equity under retained earnings.

The income tax expense for the interim consolidated financial statements has been calculated in accordance with IAS 34 (Interim Financial Reporting) using the average tax rate anticipated for the entire fiscal year.

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

In addition, the effects of new standards were described in detail under "New and Revised IFRSs Not Applied". The 2018 Consolidated Financial Statements can also be accessed on the Internet at [www.vwfs.com/ar18](http://www.vwfs.com/ar18).

## Basis of Consolidation

In addition to VW FS AG, the consolidated financial statements cover all significant German and non-German subsidiaries, including structured entities, controlled directly or indirectly by VW FS AG. This is the case if VW FS AG has power over potential subsidiaries directly or indirectly from voting rights or similar rights, is exposed, or has rights to, positive or negative variable returns from its involvement with the potential subsidiaries, and has the ability to use its power to influence those returns.

The VW FS AG Group's basis of consolidation expanded in the first half of 2019 as a consequence of two intragroup restructuring projects that continued the work begun in 2016 to reorganize Volkswagen financial services. As part of this restructuring, the European lending and deposits business was pooled in Volkswagen Bank GmbH and systematically separated from the other activities at Volkswagen Financial Services AG.

As of March 29, 2019, all the shares in the following nine entities were transferred from Volkswagen Bank GmbH to Volkswagen Financial Services AG. The entities were transferred to Volkswagen Financial Services AG without payment of consideration and therefore represented a non-cash capital contribution by the shareholder Volkswagen AG. As the transactions were under the common control of Volkswagen AG, the transferred assets and liabilities were measured using the existing group carrying amounts on the date of initial recognition (known as predecessor accounting).

Fully consolidated subsidiaries:

- > ŠkoFIN s.r.o., Prague
- > Volkswagen Financial Services S.p.A., Milan
- > Volkswagen Financial Services (UK) Ltd., Milton Keynes

Fully consolidated structured entities:

- > Driver UK Master S.A., Luxembourg
- > Driver UK Multi-Compartment S.A., Luxembourg

The following transferred subsidiaries are not consolidated for reasons of materiality:

- > MAN Financial Services Ltd., Swindon
- > Volkswagen Financial Ltd., Milton Keynes
- > Volkswagen Insurance Service (Great Britain) Ltd., Milton Keynes
- > Volkswagen Serwis Ubezpieczeniowy Sp. z o.o., Warsaw

The transferred entities sell financial services products in their home markets in connection with Volkswagen Group vehicles.

As of May 31, 2019, the Spanish company Volkswagen Finance 2 S.L.U., a direct subsidiary of Volkswagen AG, was merged into Volkswagen Financial Services AG. As part of this cross-border merger, all the shares in each of the following entities (former subsidiaries of Volkswagen Finance 2 S.L.U.) were transferred to Volkswagen Financial Services AG:

- > MAN Financial Services España S.L., Coslada
- > Volkswagen Renting, S.A., Alcobendas (Madrid)
- > Volkswagen Insurance Services, Correduria de Seguros, S.L., El Prat de Llobregat

The entities were merged into Volkswagen Financial Services AG without payment of consideration and therefore represented a non-cash capital contribution by the shareholder Volkswagen AG. As the transaction was under the common control of Volkswagen AG, the transferred assets and liabilities were measured using the existing group carrying amounts on the date of initial recognition (known as predecessor accounting).

The entities sell financial services products in Spain in connection with Volkswagen Group vehicles. For reasons of materiality, the entity Volkswagen Insurance Services, Correduria de Seguros, S.L. is included in the basis of consolidation at cost.

The following table shows the transferred assets and liabilities of these entities:

€ million	IFRS CARRYING AMOUNTS ON THE DATE OF INITIAL RECOGNITION		
	VW FS UK	Other companies	Total
Loans to and receivables from banks	196	175	371
Loans to and receivables from customers	15,735	3,093	18,828
Lease assets	3,190	1,448	4,638
Other assets	518	428	947
<b>Total assets</b>	<b>19,640</b>	<b>5,144</b>	<b>24,784</b>
Liabilities to banks	0	758	758
Liabilities to customers	5,893	3,704	9,596
Notes, commercial paper issued	9,400	63	9,463
Other liabilities	2,488	119	2,606
<b>Total liabilities</b>	<b>17,781</b>	<b>4,643</b>	<b>22,424</b>
<b>Net assets</b>	<b>1,859</b>	<b>501</b>	<b>2,361</b>

## Interim Consolidated Financial Statements Disclosures

### 1. General and Administrative Expenses

€ million	Jan. 1 – June 30, 2019	Jan. 1 – June 30, 2018
Personnel expenses	-401	-367
Non-staff operating expenses	-550	-507
Advertising, public relations and sales promotion expenses	-17	-16
Depreciation of and impairment losses on property and equipment, amortization of and impairment losses on intangible assets	-30	-16
Other taxes	-3	-2
Income from the reversal of provisions and accrued liabilities	5	7
<b>Total</b>	<b>-997</b>	<b>-901</b>

### 2. Changes in Selected Assets

€ million	Net carrying amount as of January 1, 2019 <sup>1</sup>	Basis of consolidation additions/changes	Disposals/other changes	Depr./amort./impairment	Net carrying amount as of June 30, 2019
Intangible assets	64	19	0	7	76
Property and equipment	412	92	-7	22	475
Lease assets	13,644	10,404	-2,861	1,531	19,656

1 The opening carrying amount has been adjusted (see IFRS 16 disclosures).

### 3. Classes of Financial Instruments

Financial instruments are divided into the following classes in the VW FS AG Group:

- > Measured at fair value
- > Measured at amortized cost
- > Derivative financial instruments designated as hedges
- > Not allocated to any measurement category
- > Credit commitments and financial guarantees (off-balance-sheet)

The following table shows a reconciliation of the balance sheet items to the classes of financial instruments:

€ million	BALANCE SHEET ITEM		MEASURED AT FAIR VALUE		MEASURED AT AMORTIZED COST <sup>1</sup>		DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGES		NOT ALLOCATED TO ANY MEASUREMENT CATEGORY	
	June 30, 2019	Dec. 31, 2018	June 30, 2019	Dec. 31, 2018	June 30, 2019	Dec. 31, 2018	June 30, 2019	Dec. 31, 2018	June 30, 2019	Dec. 31, 2018
<b>Assets</b>										
Cash reserve	50	54	–	–	50	54	–	–	–	–
Loans to and receivables from banks	5,151	1,819	50	–	5,101	1,819	–	–	–	–
Loans to and receivables from customers	71,551	59,012	310	358	34,373	38,880	–	–	36,868	19,774
Derivative financial instruments	771	582	90	71	–	–	681	510	–	–
Marketable securities	312	290	312	290	–	–	–	–	–	–
Equity-accounted joint ventures	713	671	–	–	–	–	–	–	713	671
Miscellaneous financial assets	456	404	6	6	–	–	–	–	450	398
Current tax assets	137	122	–	–	15	14	–	–	122	108
Other assets	2,595	2,517	–	–	793	829	–	–	1,802	1,689
<b>Total</b>	<b>81,736</b>	<b>65,471</b>	<b>768</b>	<b>724</b>	<b>40,333</b>	<b>41,597</b>	<b>681</b>	<b>510</b>	<b>39,954</b>	<b>22,639</b>
<b>Equity and liabilities</b>										
Liabilities to banks	13,402	12,291	–	–	13,402	12,291	–	–	–	–
Liabilities to customers	12,262	12,345	–	–	10,967	11,759	–	–	1,295	586
Notes, commercial paper issued	58,128	41,029	–	–	58,128	41,029	–	–	–	–
Derivative financial instruments	361	105	267	40	–	–	93	65	–	–
Current tax liabilities	300	420	–	–	48	181	–	–	252	239
Other liabilities	1,437	1,176	–	–	96	139	–	–	1,341	1,038
Subordinated capital	4,913	3,023	–	–	4,913	3,023	–	–	–	–
<b>Total</b>	<b>90,803</b>	<b>70,389</b>	<b>267</b>	<b>40</b>	<b>87,555</b>	<b>68,422</b>	<b>93</b>	<b>65</b>	<b>2,887</b>	<b>1,862</b>

1 Some of the loans to and receivables from customers and liabilities to customers have been designated as hedged items in fair value hedges and are therefore subject to fair value adjustments. The loans to and receivables from customers and liabilities to customers in the class “Measured at amortized cost” are therefore measured neither entirely at fair value nor entirely at amortized cost.

The “Credit commitments and financial guarantees” class contains obligations under irrevocable credit commitments and financial guarantees amounting to €1,074 million (previous year: €1,149 million).

#### 4. Fair Value Disclosures

The principles and methods of fair value measurement have generally remained unchanged compared with those applied in 2018. Detailed disclosures on the measurement principles and methods can be found in the 2018 Annual Report.

For the purposes of fair value measurement and the associated disclosures, fair values are classified using a three-level measurement hierarchy. Classification to the individual levels is dictated by the extent the main inputs used in determining the fair value are observable in the market.

Level 1 is used to report the fair value of financial instruments such as marketable securities for which a quoted price is directly observable in an active market.

Level 2 fair values are measured on the basis of inputs observable in the markets, such as exchange rates or yield curves, using market-based valuation techniques. Fair values measured in this way include those for derivatives.

Level 3 fair values are measured using valuation techniques incorporating at least one input that is not directly observable in an active market.

The fair values of receivables from banks and of loans to and receivables from customers are allocated to Level 3 because these fair values are measured using inputs that are not observable in active markets. Equity investments measured at fair value through other comprehensive income and using inputs that are not observable in the market are also reported under Level 3.

In fiscal year 2019, the fair value of derivative financial instruments in connection with the risk of early termination are also allocated to Level 3. Inputs for determining the fair value of derivatives in connection with the risk of early termination are forecasts and estimates of used vehicle residual values for the models concerned as well as yield curves.

The following table shows the allocation of financial instruments measured at fair value and derivative financial instruments designated as hedges to the three-level fair value hierarchy by class:

€ million	LEVEL 1		LEVEL 2		LEVEL 3	
	June 30, 2019	Dec. 31, 2018	June 30, 2019	Dec. 31, 2018	June 30, 2019	Dec. 31, 2018
<b>Assets</b>						
Measured at fair value						
Loans to and receivables from banks	–	–	–	–	50	–
Loans to and receivables from customers	–	–	–	–	310	358
Derivative financial instruments	–	–	90	71	–	–
Marketable securities	312	290	–	–	–	–
Miscellaneous financial assets	–	–	–	–	6	6
Derivative financial instruments designated as hedges	–	–	681	510	–	–
<b>Total</b>	<b>312</b>	<b>290</b>	<b>771</b>	<b>582</b>	<b>366</b>	<b>363</b>
<b>Equity and liabilities</b>						
Measured at fair value						
Derivative financial instruments	–	–	98	40	170	–
Derivative financial instruments designated as hedges	–	–	93	65	–	–
<b>Total</b>	<b>–</b>	<b>–</b>	<b>191</b>	<b>105</b>	<b>170</b>	<b>–</b>

The following table shows the changes in the loans to and receivables from banks, loans to and receivables from customers, and equity investments measured at fair value and allocated to Level 3.

€ million	Jan. 1 – June 30, 2019	Jan. 1 – June 30, 2018
<b>Balance as of Jan. 1</b>	<b>363</b>	<b>495</b>
Foreign exchange differences	0	–16
Portfolio changes	1	129
Measured at fair value through profit or loss	2	–3
Measured at fair value through other comprehensive income	–	–
<b>Balance as of June 30</b>	<b>366</b>	<b>605</b>

The amounts recognized in profit or loss resulting in a net gain of €2 million (previous year: net loss of €3 million) have been reported in the income statement under the item “Net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income”. The net gain of €2 million (previous year: net loss of €3 million) was attributable to loans to and receivables from banks and loans to and receivables from customers held as of the reporting date.

The risk variables relevant to the fair value of the loans to and receivables from banks and the loans to and receivables from customers are risk-adjusted interest rates. A sensitivity analysis is used to quantify the impact of changes in risk-adjusted interest rates on profit or loss after tax. If risk-adjusted interest rates as of June 30, 2019 had been 100 basis points higher, profit after tax would have been €2 million (previous year: €10 million) lower. If risk-adjusted interest rates as of June 30, 2019 had been 100 basis points lower, profit after tax would have been €2 million (previous year: €10 million) higher.

The risk variables relevant to the fair value of equity investments are the growth rate within strategic planning and the cost of equity rates.

If a 10% change were applied to the financial performance (which takes into account the relevant risk variables) of the equity investments measured at fair value through other comprehensive income, there would be no material change to equity.

The following table shows the change in derivatives measured at fair value in connection with the risk of early termination based on Level 3 measurement.

€ million	Jan. 1 – June 30, 2019
<b>Balance as of Jan. 1</b>	<b>–</b>
Foreign exchange differences	–8
Changes in basis of consolidation	168
Measured at fair value through profit or loss	10
<b>Balance as of June 30</b>	<b>170</b>

The remeasurements recognized in profit or loss amounting to €10 million have been reported in the income statement under the item “Net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income”. The net gain was accounted for entirely by derivatives held as of the reporting date.

The risk of early termination can arise from country-specific consumer protection legislation, under which customers may have the right to return used vehicles for which a lease has been signed. The impact on earnings arising from market-related fluctuations in residual values and interest rates is borne by the VW FS AG Group.



The market prices of used vehicles are the main risk variable applied to the fair value of derivatives recognized in connection with the risk of early termination. A sensitivity analysis is used to quantify the impact of changes in used vehicle prices on profit or loss after tax. If the used vehicle prices of the vehicles included in the derivatives in connection with the risk of early termination had been 10% higher as of the reporting date, profit after tax would have been €90 million higher. If the used vehicle prices of the vehicles included in the derivatives in connection with the risk of early termination had been 10% lower as of the reporting date, profit after tax would have been €118 million lower.

The table below shows the fair values of the financial instruments.

€ million	FAIR VALUE		CARRYING AMOUNT		DIFFERENCE	
	June 30, 2019	Dec. 31, 2018	June 30, 2019	Dec. 31, 2018	June 30, 2019	Dec. 31, 2018
<b>Assets</b>						
Measured at fair value						
Loans to and receivables from banks	50	–	50	–	–	–
Loans to and receivables from customers	310	358	310	358	–	–
Derivative financial instruments	90	71	90	71	–	–
Marketable securities	312	290	312	290	–	–
Miscellaneous financial assets	6	6	6	6	–	–
Measured at amortized cost						
Cash reserve	50	54	50	54	–	–
Loans to and receivables from banks	5,103	1,820	5,101	1,819	3	1
Loans to and receivables from customers	34,567	39,023	34,373	38,880	194	143
Current tax assets	15	14	15	14	–	–
Other assets	793	829	793	829	–	–
Derivative financial instruments designated as hedges	681	510	681	510	–	–
<b>Equity and liabilities</b>						
Measured at fair value						
Derivative financial instruments	267	40	267	40	–	–
Measured at amortized cost						
Liabilities to banks	13,392	12,299	13,402	12,291	–10	8
Liabilities to customers	11,051	11,777	11,023	11,759	28	18
Notes, commercial paper issued	58,275	41,098	58,128	41,029	147	69
Current tax liabilities	48	181	48	181	–	–
Other liabilities	98	140	96	139	1	1
Subordinated capital	4,245	1,990	4,913	3,023	–669	–1,034
Derivative financial instruments designated as hedges	93	65	93	65	–	–

Lease receivables had a carrying amount of €36,852 million (previous year: €19,760 million) and a fair value of €37,655 million (previous year: €19,840 million). Lease liabilities had a carrying amount of €167 million (previous year: €2 million) and a fair value of €179 million (previous year: €2 million). The increase in lease liabilities was attributable to the first-time application of IFRS 16 (see disclosures on IFRS 16).

The difference between the carrying amount and fair value of irrevocable credit commitments is not material because of the short maturity and the variable interest rate linked to the market interest rate. Nor is the difference between carrying amount and fair value of financial guarantees material.

## Segment Reporting

### 5. Segment Reporting

The delineation between segments follows that used for internal management and reporting purposes in the VW FS AG Group. The operating result is the primary key performance indicator reported to the chief operating decision-makers. The information made available to management for management purposes is based on the same accounting policies as those used for external financial reporting.

Internal management applies a market-based geographical breakdown. Foreign branches of German subsidiaries are allocated to the markets in which they are based. The geographical markets of Germany, China, the United Kingdom, Mexico and Brazil are the segments that are reportable under IFRS 8. Subsidiaries in the VW FS AG Group are aggregated within these segments. In line with internal reporting practice, the German market is composed of companies in Germany and Austria. All other companies that can be allocated to geographical markets are brought together under "Other Segments".

Companies that are not allocated to any geographical market are reported in the reconciliation. The reconciliation also includes the VW FS AG holding company, the holding and financing companies in the Netherlands, France and Belgium, EURO Leasing companies in Germany, Denmark and Poland, Volim Volkswagen Immobilien Vermietgesellschaft für VW-/Audi-Händlerbetriebe mbH, Volkswagen Insurance Brokers GmbH and Volkswagen Versicherung AG. In the internal reporting structure, this presentation ensures that there is a separation between market activities on the one hand and typical holding company or financing functions, industry business, primary insurance business and reinsurance business on the other. Effects from consolidation between the segments and from the provision for country risks are also included in the reconciliation.

All business transactions between the segments – where such transactions take place – are conducted on an arm's-length basis.

In accordance with IFRS 8, non-current assets are reported exclusive of financial instruments, deferred tax assets, post-employment benefits and rights under insurance contracts.

## BREAKDOWN BY GEOGRAPHICAL MARKET FOR THE FIRST HALF OF 2018:

€ million	JAN. 1 – JUNE 30, 2018						Recon- ciliation	Group
	Germany	China	Mexico	Brazil	Other segments	Segments total		
Interest income from lending transactions and marketable securities in respect of third parties	3	356	125	246	208	938	44	982
Income from leasing transactions with third parties	3,862	–	95	6	456	4,419	75	4,493
Intersegment income from leasing transactions	–	–	–	–	–	–	–	–
Depreciation, impairment losses and other expenses from leasing transactions	–3,515	–	–65	–2	–358	–3,940	–75	–4,015
of which impairment losses in accordance with IAS 36	–95	–	–8	0	–19	–121	–	–121
Net income from leasing transactions	346	–	30	5	98	479	0	479
Interest expense	–60	–154	–75	–88	–119	–496	–24	–520
Income from service contracts with third parties	555	–	–	1	81	637	12	649
Intersegment income from service contracts	–	–	–	–	–	–	–	–
Income from insurance business with third parties	–	–	–	–	–	–	154	154
Intersegment income from insurance business	–	–	–	–	–	–	–	–
Fee and commission income from third parties	208	1	34	35	12	289	13	302
Intersegment fee and commission income	–	–	–	–	–	–	–	–
Other amortization, depreciation and impairment losses	–6	–1	0	–2	–6	–16	0	–16
<b>Operating result</b>	<b>76</b>	<b>104</b>	<b>44</b>	<b>77</b>	<b>68</b>	<b>369</b>	<b>–40</b>	<b>329</b>

## BREAKDOWN BY GEOGRAPHICAL MARKET FOR THE FIRST HALF OF 2019:

€ million	JAN. 1 – JUNE 30, 2019								Group
	Germany	China	United Kingdom	Mexico	Brazil	Other segments	Segments total	Reconciliation	
Interest income from lending transactions and marketable securities in respect of third parties	4	361	2	147	256	232	1,002	41	1,043
Income from leasing transactions with third parties	4,025	–	643	143	7	657	5,474	67	5,541
Intersegment income from leasing transactions	–	–	–	–	–	–	–	–	–
Depreciation, impairment losses and other expenses from leasing transactions	–3,626	–	–379	–85	–3	–531	–4,623	–63	–4,686
of which impairment losses in accordance with IAS 36	–91	–	–	0	0	–30	–121	0	–121
Net income from leasing transactions	399	–	264	58	4	126	851	4	855
Interest expense	–68	–138	–78	–86	–112	–135	–618	–21	–638
Income from service contracts with third parties	612	–	35	–	1	134	782	12	794
Intersegment income from service contracts	–	–	–	–	–	–	–	–	–
Income from insurance business with third parties	–	–	–	–	–	–	–	159	159
Intersegment income from insurance business	–	–	–	–	–	–	–	–	–
Fee and commission income from third parties	81	–	1	28	37	48	195	12	206
Intersegment fee and commission income	–	–	–	–	–	–	–	–	–
Other amortization, depreciation and impairment losses	–1	–3	–1	0	–3	–10	–18	–12	–30
<b>Operating result</b>	<b>143</b>	<b>97</b>	<b>73</b>	<b>54</b>	<b>57</b>	<b>83</b>	<b>505</b>	<b>–136</b>	<b>369</b>

Information on the main products (lending and leasing business) can be taken directly from the income statement.

The breakdown of non-current assets in accordance with IFRS 8 and of the additions to non-current lease assets by geographical market is shown in the following tables:

€ million	JAN. 1 – JUNE 30, 2018			
	Germany	China	Mexico	Brazil
Noncurrent assets	10,236	5	41	245
Additions to lease assets classified as noncurrent assets	2,164	–	6	1

€ million	JAN. 1 – JUNE 30, 2019				
	Germany	China	United Kingdom	Mexico	Brazil
Noncurrent assets	12,267	24	3,099	45	269
Additions to lease assets classified as noncurrent assets	3,114	–	345	2	0

The following table shows the reconciliation of consolidated revenue, consolidated operating result and consolidated profit before tax.

€ million	Jan. 1 – June 30, 2019	Jan. 1 – June 30, 2018
<b>Segment revenue</b>	<b>7,453</b>	<b>6,232</b>
Other companies	213	176
Consolidation	–82	–33
<b>Group revenue</b>	<b>7,585</b>	<b>6,374</b>
<b>Segment profit or loss (operating result)</b>	<b>505</b>	<b>369</b>
Other companies	–116	–58
Contribution to operating profit by included companies	–12	–13
Consolidation	–9	31
<b>Operating result</b>	<b>369</b>	<b>329</b>
Share of profits and losses of equity-accounted joint ventures	26	28
Net gain or loss on miscellaneous financial assets	30	–3
Other financial gains or losses	–6	–2
<b>Profit before tax</b>	<b>418</b>	<b>352</b>

## Other Disclosures

### 6. Cash Flow Statement

VW FS AG Group's cash flow statement documents changes in cash and cash equivalents attributable to cash flows from operating, investing and financing activities. The narrow definition of cash and cash equivalents comprises only the cash reserve, which consists of cash-in-hand and central bank balances.

### 7. Off-Balance-Sheet Liabilities

#### CONTINGENT LIABILITIES

The contingent liabilities of €335 million (December 31, 2018: €303 million) relate largely to legal disputes concerning tax matters in which the criteria for the recognition of a provision in accordance with IAS 37 was not satisfied. After an analysis of the individual cases covered by the contingent liabilities, it is believed that the disclosure of further detailed information on individual proceedings, legal disputes and legal risks could seriously prejudice the course of those proceedings.

The assets and liabilities of the savings and trust entity belonging to the Latin American subsidiaries amounting to €518 million (December 31, 2018: €558 million) are not included in the consolidated balance sheet.

#### OTHER FINANCIAL OBLIGATIONS

€ million	DUE	DUE	DUE	TOTAL
	2019	2020 – 2023	from 2024	Dec. 31, 2018
Purchase commitments in respect of				
property and equipment	6	–	–	6
intangible assets	0	–	–	0
investment property	–	–	–	–
Obligations from				
irrevocable credit and leasing commitments to customers	306	–	–	306
long-term leasing and rental contracts	23	43	3	69
Miscellaneous financial obligations	18	0	–	18

€ million	DUE	DUE	DUE	TOTAL
	by June 30, 2020	July 1, 2020 – June 30, 2024	from July 1, 2024	June 30, 2019
<b>Purchase commitments in respect of</b>				
property and equipment	10	–	–	10
intangible assets	2	–	–	2
investment property	–	–	–	–
<b>Obligations from</b>				
irrevocable credit and leasing commitments to customers	403	–	–	403
long-term leasing and rental contracts	6	0	–	6
Miscellaneous financial obligations	33	0	–	33

In the case of irrevocable credit commitments, the Company expects the customers to draw down the facilities concerned.

## 8. Related Party Disclosures

Related parties within the meaning of IAS 24 are deemed to be individuals or entities who can be influenced by VW FS AG, who can exercise an influence over VW FS AG, or who are under the influence of another related party of VW FS AG.

Volkswagen AG, Wolfsburg, is the sole shareholder of VW FS AG. In addition, Porsche Automobil Holding SE, Stuttgart, controlled 53.1% of the voting rights in Volkswagen AG as of the reporting date and therefore held a majority. The Extraordinary General Meeting of Volkswagen AG held on December 3, 2009 resolved to create rights of appointment for the State of Lower Saxony. As a result of these rights, Porsche SE can no longer appoint a majority of the members of Volkswagen AG's Supervisory Board as long as the State of Lower Saxony holds at least 15% of Volkswagen AG's ordinary shares. However, Porsche SE has the power to participate in the operating policy decisions of the Volkswagen Group and is therefore deemed to be a related party within the meaning of IAS 24. According to a notification dated January 8, 2019, the State of Lower Saxony and Hannoverische Beteiligungsgesellschaft mbH, Hanover, held 20.00% of the voting rights in Volkswagen AG as of December 31, 2018 and therefore indirectly had significant influence over the VW FS AG Group. In addition, the Extraordinary General Meeting of Volkswagen AG on December 3, 2009 referred to above passed a resolution whereby the State of Lower Saxony may appoint two members of the Supervisory Board (right of appointment).

VW FS AG and its sole shareholder Volkswagen AG have a control and profit-and-loss transfer agreement.

Volkswagen AG and other related parties in Volkswagen AG group provide entities in the VW FS AG Group with funding, subject to terms and conditions on an arm's-length basis. As part of these funding transactions, Volkswagen AG and other related parties in the Volkswagen Group sold vehicles to entities in the VW FS AG Group on an arm's-length basis. These transactions are presented in the "Goods and services received" column. Volkswagen AG and its subsidiaries have also furnished collateral for the benefit of VW FS AG within the scope of the operating business.

The "Goods and services provided" column primarily contains income from leasing transactions.

The business transactions with unconsolidated subsidiaries and joint ventures of VW FS AG mainly relate to the provision of funding and services. These transactions are always conducted on an arm's-length basis, e.g. using the cost plus method for the provision of services.



The two tables below show the transactions with related parties. In these tables, the exchange rates used are the closing rate for asset and liability items, and the weighted average rates for the year for income statement items.

€ million	INTEREST INCOME		INTEREST EXPENSE		GOODS AND SERVICES PROVIDED		GOODS AND SERVICES RECEIVED	
	H1		H1		H1		H1	
	2019	2018	2019	2018	2019	2018	2019	2018
Supervisory Board	–	–	–	–	–	–	–	–
Board of Management	–	–	–	–	–	–	–	–
Volkswagen AG	1	2	–8	–5	405	315	4,734	4,155
Porsche SE	–	–	–	–	0	–	–	–
Other related parties in the consolidated entities	45	61	–67	–72	1,054	975	1,689	1,274
Non-consolidated subsidiaries	3	2	–1	–1	52	27	31	29
Joint ventures	51	44	–	–	210	178	216	177

€ million	LOANS TO AND RECEIVABLES FROM		VALUATION ALLOWANCES ON IMPAIRED LOANS AND RECEIVABLES		OF WHICH ADDITIONS IN CURRENT YEAR		LIABILITIES TO	
	June 30, 2019	Dec. 31, 2018	June 30, 2019	Dec. 31, 2018	June 30, 2019	Dec. 31, 2018	June 30, 2019	Dec. 31, 2018
	Supervisory Board	–	–	–	–	–	–	–
Board of Management	–	–	–	–	–	–	–	–
Volkswagen AG	3,065	6,920	–	–	–	–	6,588	6,595
Porsche SE	0	0	–	–	–	–	–	–
Other related parties in the consolidated entities	9,185	7,674	–	–	–	–	8,616	6,926
Non-consolidated subsidiaries	224	99	–	–	–	–	84	224
Joint ventures	5,103	5,075	–	–	–	–	169	163

The “Other related parties in the group of consolidated entities” line item includes, in addition to sister entities, joint ventures and associates that are related parties in Volkswagen AG’s group of consolidated entities. The relationships with the Supervisory Board and the Board of Management comprise relationships with the relevant groups of people at VW FS AG and the Group parent company Volkswagen AG. As in the prior year, relationships with pension plans and the State of Lower Saxony were of lesser significance.

Members of the Board of Management and Supervisory Board of VW FS AG are also members of management and supervisory boards of other entities in the Volkswagen Group with which VW FS AG sometimes conduct transactions in the normal course of business. All transactions with these related parties are carried out on an arm’s-length basis.

In the first half of 2019, standard short-term bank loans amounting to an average total of €69 million (December 31, 2018: €81 million) were granted to related parties within the scope of dealer financing.

## 9. Governing Bodies of Volkswagen Financial Services AG

With effect from January 28, 2019, Ms. Daniela Cavallo and Ms. Imelda Labbé, and with effect from May 27, 2019, Mr. Hans-Joachim Rothenpieler, were appointed to the Supervisory Board of Volkswagen Financial Services AG.

## 10. Events after the Balance Sheet Date

There were no significant events in the period between June 30, 2019 and July 19, 2019.

# Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim reporting, the condensed interim consolidated financial statements in accordance with generally accepted accounting principles give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group over the rest of the fiscal year.

Braunschweig, July 19, 2019

Volkswagen Financial Services AG  
The Board of Management



Lars Henner Santelmann



Dr. Mario Daberkow



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