Financial report 2015

Volkswagen Financial Services N.V.

Amsterdam

PricewaterhouseCoopers
Accountants N.V.
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Contents

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Supervisory Board Report

The balance sheet total and the result for the financial year 2015 of Volkswagen Financial Services N.V. ('FSNV') are in line with the expected development of the company.

The solvency and liquidity of the company remained good in spite of the recent developments in the Volkswagen Group where irregularities in relation to nitrogen oxide emissions had been discovered in emissions tests on certain vehicles with Volkswagen Group Diesel engines which surfaced in the third quarter 2015. Volkswagen Group is cooperating openly and fully with the responsible authorities to clarify the matter completely, quickly and transparently.

In the fourth quarter 2015 the rating agencies Moody's and Standard & Poor's downgraded Volkswagen Financial Services AG, the guarantor of debt issued by FSNV in the international capital markets. Moody's lowered the rating to Prime-1 / A1 (short term / long term) with negative outlook while Standard & Poor's lowered the rating to A-2 / BBB+ (short term / long term) with negative outlook.

The Management Board informed the Supervisory Board in 2015 continuously on the developments regarding issuance activities and risk exposure. Risk limits set by the Supervisory Board were adhered to.

The Annual General Meeting on June 6th, 2015 elected PricewaterhouseCoopers Accountants N.V. as independent auditors for the fiscal year 2015. The independent auditors audited the annual financial statement of FSNV and issued an unqualified audit opinion.

Due to the mandatory rotation of audit firms, another independent auditor will be nominated for the fiscal year 2016 in the Annual General Meeting.

Amsterdam, 28 April 2016

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Original was signed by
Dr. Michael Reinhart, Chairman of the Supervisory Board

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Management report

Volkswagen Financial Services N.V. ('FSNV') is one of the funding vehicles of parent company Volkswagen Financial Services AG ('FSAG') and its subsidiaries. FSNV raises funds from the capital markets by issuing notes and lends the proceeds on to Group and joint venture companies. Basis for the issuing activities are the EUR 25 billion Debt Issuance Programme ('DIP') that adheres to the European Prospective Directive Standards and is regularly updated, as well as the EUR 10 billion Commercial Paper ('CP') Programme. All issues are guaranteed by FSAG. The rating agencies lowered the credit rating of FSAG in October 2015 still maintaining an investment grade rating. According to Moody's, FSAG's rating is set to Prime-1 (short-term) and A1 (long-term) with a negative outlook. Standard & Poor's assessed FSAG's creditworthiness as A-2 (short-term) and BBB+ (long-term) with a negative outlook.

In 2015 FSNV placed issues under the DIP with a total EUR equivalent volume of 1.2 billion (2014: 2 billion), and under the CP Programme with a total EUR equivalent volume of 1.6 billion (2014: 2.8 billion). The proceeds of these issues have been granted to the Volkswagen Financial Services Group companies.

FSNV redeemed DIP issues with a total EUR equivalent volume of 1.6 billion (2014: 978 million) and CP issues with a total EUR equivalent volume of 1.9 billion (2014: 2.6 billion).

FSNV's balance sheet increased by EUR 0.8 billion to EUR 9.2 billion. The parent company injected EUR 471 million into the share premium reserve. The interest result increased by EUR 2.1 million to EUR 20.6 million due to higher own equity financing. The result after taxation amounts to EUR 13.2 million.

The adequate capitalisation and profitability of FSNV result in a good and stable solvency and liquidity position. Furthermore, given the fact that issuances under the DIP and CP-programmes are guaranteed by FSAG, the overall financial position of FSNV is sound.

The main business risks of FSNV are interest rate risk, currency risk, credit risk and liquidity risk. The Supervisory Board has set narrow limits to restrict risks. With regard to the interest rate risk FSNV maintained a closed position. The currency risk is restricted to limits between 6TEUR and 145TEUR equivalent per currency.
The risk appetite of FSNV has been defined as very low.
FSNV uses adequate tools to assess and to monitor risks. On a monthly basis, a detailed mismatch report, containing all relevant risks, is presented to the management. In 2015 the limits were not exceeded.

Credit risk with regard to the banking partners results from current accounts and derivatives. Central risk management of FSAG monitors the risk on a group level, defining counterparty limits. For current accounts the utilization of these limits is based on the nominal values, for derivatives the calculation is based on positive market value plus add-on.
Loans are extended to subsidiaries of the FSAG-Group, i.e. credit risk is limited to the ability of the subsidiaries to fulfil their repayment obligation as directed and supervised by FSAG. Given that note issuances are tenor matched with loans to FSAG-Group companies liquidity risk is considered to be remote.

Due to the overall strategy of closed positions and the strict adherence to the limits, negative impacts of potential risks on the result and the financial position of FSNV are deemed to be negligible.

In September 2015 the California Air Resources Board (CARB) and the US Environmental Protection Agency (EPA) publicly announced that irregularities in relation to nitrogen oxide emissions had been discovered in emissions tests on certain vehicles with Volkswagen Group Diesel engines.Violations of US environmental laws had occurred as a result. On September 22nd, 2015 the Volkswagen Group announced that around 11 million vehicles worldwide with type EA189 diesel engines were affected. Volkswagen is working to resolve the irregularities with technical measures.

The majority of FSNV's borrowers have either financed cars with affected diesel engines or have them in their leased car inventory. The Management Board and the Supervisory Board of FSNV discussed the issue and came to the conclusion that investors and the financial markets assess the risks FSNV is exposed to on the background of the guarantee by FSAG, since investors have full recourse to FSAG. FSNV Management has also assessed the impact of the "diesel emission issue" on the borrowers of FSNV by analysing in detail the financial situation of the borrowers as well as budget forecasts and concluded that FSNV is not exposed to higher credit risk. This is further evidenced by the fact that although the credit spreads in the capital markets widened for Volkswagen risk after the diesel emission revelations, the prices of listed bonds have come back and the paper trade slightly below the levels before the announcements.
As a result of the recent investigations, FSNV as an issuer may in the future face risks arising from legal disputes with investors claiming damages for alleged breaches of capital market laws. In the fiscal year 2015 no such dispute has occurred and consequently, there was no negative impact on the result and the financial position of the company.

The risk management systems in place have been analysed and are deemed to be fully adequate. Consequently, no changes of the systems are planned.

In line with the long-term business strategy, the Volkswagen Financial Services Group plans to develop new markets and to improve its position in existing markets. We expect that FSAG will keep FSNV's capital reserve on an adequate level. As several Volkswagen Financial Services companies worldwide are going to use the attractive European funding opportunities, FSNV foresees additional requests for refinancing which will be taken care of with increased capital market issuances under the DIP and CP-programmes. Based on this assumption we expect a moderate increase in total business volume for FSNV in 2016. Taking into account the expected growth in business volume and comparable capital reserves, the development should to be at a similar level as in previous years.

Currently, there are no female directors on the Management or Supervisory Board. The company will investigate how to deal with this in the future.

The Management Board declares to the best of their knowledge:

1. the financial statements for 2015 give a true and fair view of the assets, the liabilities, the financial position and the results of the company; and

2. the management report gives a true and fair view of the company's situation as at the balance sheet date, the events that occurred during 2015 and the risks to which the company is exposed.

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Amsterdam, 28 April 2016

Original has been signed by
Thomas Fries, Managing Director

Original has been signed by
Bernd Bode, Managing Director

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Financial statements

Balance sheet as at 31 December 2015

(after proposed appropriation of profit)

	Ref.	31 December 2015 EUR'000	31 December 2015 EUR'000	31 December 2014 EUR'000	31 December 2014 EUR'000
Assets					
Fixed assets					
Financial fixed assets:					
Shares in participations	4	1		1	
Loans to Volkswagen Group companies	4	5,135,842		4,567,377	
Loans to joint ventures of the Volkswagen Group	4	372,402		736,051	
Total fixed assets			5,508,245		5,303,429
Current assets					
Receivables due from Volkswagen Group companies	5	2,618,109		2,111,129	
Receivables due from joint ventures of the Volkswagen Group	5	1,009,109		971,001	
Loans to external parties	6	500		500	
Other assets	7	36,711		33,983	
Prepaid and deferred charges	8	7,807		12,714	
Cash at banks and in hand	9	1,495		1,735	
Total current assets			3,673,731		3,131,062
Total assets			9,181,976		8,434,491

The accompanying notes are an integral part of these financial statements.

Liabilities		31 December 2015		31 December 2014	
	Ref.	EUR'000	EUR'000	EUR'000	EUR'000
Shareholder's equity and liabilities					
Shareholder's equity	10				
Issued and paid-up share capital		454		454	
Share premium reserve		1,096,000		625,000	
Retained earnings		112,081		98,882	
Total shareholder's equity			1,208,535		724,336
Long-term liabilities					
Bonds	11	2,929,868		3,387,520	
Liabilities to Volkswagen Group companies	11	2,362,012		1,629,740	
Total long-term liabilities			5,291,880		5,017,260
Current liabilities					
Bonds	12	1,781,646		1,672,928	
Liabilities to Volkswagen Group companies	12	317,329		60,465	
Commercial papers	12	509,296		878,651	
Other liabilities	13	61,808		63,119	
Deferred income	14	11,482		17,732	
Total current liabilities			2,681,561		2,692,895
Total shareholder's equity and liabilities			9,181,976		8,434,491

The accompanying notes are an integral part of these financial statements.

Income statement for the year ended 31 December 2015

	Ref.	2015 EUR'000	2015 EUR'000	2014 EUR'000	2014 EUR'000
Income					
Interest and similar income	16	161,705		145,309	
Other operating income	17	76		5	
Total income			161,781		145,314
Expenses					
Interest and similar expenses	16	(141,745)		(126,747)	
Other operating expenses	18	(244)		(154)	
General and administrative expenses	19	(2,169)		(1,476)	
Depreciation and amortisation expenses	20	-		-	
Total expenses			(144,158)		(128,377)
Result before taxation			17,623		16,937
Taxation	25		(4,424)		(3,995)
Result after taxation			13,199		12,942

The accompanying notes are an integral part of these financial statements.

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Cash flow statement for the year ended 31 December 2015

	2015		2014	
	EUR'000	EUR'000	EUR'000	EUR'000
Operating profit		13,199		12,942
Adjustments for:				
Income tax expenses	(4,424)		(3,995)	
Interest income	(161,705)		(145,309)	
Interest expense	141,745		126,747	
		(24,384)		(22,557)
Movement in working capital				
Accrued receivables/ other assets	160		(955)	
Prepaid & deferred charges	4,907		1,111	
Other liabilities	(195)		(1,383)	
Deferred income	(6,249)		7,371	
		(1,377)		6,144
Cash (used)/ generated from operations		(12,562)		(3,471)
Corporate income tax paid	5,361		10,965	
Net cash from operating activities		(7,201)		(7,494)
Cash flow from investment activities				
Loans issued to affiliated companies and JV	(4,819,281)		(5,508,201)	
Repayment of loans to affiliated companies	5,058,513		4,056,842	
Interest received	158,556		147,046	
Net cash (used)/ from investment activities		397,788		(1,304,313)
Cash flow from financing activities				
Proceeds from borrowings	1,237,035		1,982,479	
Repayment of borrowings	(1,585,968)		(848,840)	
Proceeds from commercial papers	1,602,890		2,792,562	
Repayment of commercial papers	(1,972,245)		(2,604,911)	
Interest paid	(143,539)		(128,540)	
Proceeds from capital increase	471,000		105,000	
Net cash (used)/ from financing activities		(390,827)		1,297,750
Net cash flows		(240)		931
Balance as at 1 January		1,735		804
Movement		(240)		931
Balance as at 31 December		1,495		1,735

The accompanying notes are an integral part of these financial statements.

Notes to the financial statements

1 General

1.1 Activities

Volkswagen Financial Services N.V. ('FSNV' or 'the company') is a 100% subsidiary of Volkswagen Financial Services AG ('FSAG'), who in turn is a 100% subsidiary of Volkswagen AG ("VWAG").

FSNV's registered office is located at Paleisstraat 1, 1012 RB Amsterdam, The Netherlands. The company is registered at the Chamber of Commerce in Amsterdam with number 33172400.

The main purpose of the company is the financing of and participation in Group companies. FSNV has access to several funding sources such as bond loans, note loans and Euro Medium Term Loans as well as inter-company loans.

All external issues are guaranteed by FSAG. FSNV has lent more than 95% of the proceeds of these borrowings to Group companies or joint ventures.

1.2 Provisions

Provisions are recognised for legally enforceable or constructive obligations that exist at the balance sheet date, and for which it is probable that an outflow of resources will be required and a reliable estimate can be made.
Provisions are measured at the best estimate of the amount that is necessary to settle the obligation as per the balance sheet date. Provisions for pension are valued on the basis of actuarial principles. The other provisions are carried at the nominal value of the expenditure that is expected to be necessary in order to settle the obligation, unless stated otherwise.
If obligations are expected to be reimbursed by a third party, such reimbursement is included as an asset in the balance sheet if it is probable that such reimbursement will be received when the obligation is settled.

1.3 Related parties

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

1.4 Consolidation and shares in participations

FSNV holds one share in VW Finance Belgium SA, Brussels, Belgium with a cost price of EUR 500. The issued share is less than 20% of the total shares of VW Finance Belgium SA.

1.5 Note to the cash-flow statement

Consolidated cash flows for the whole Volkswagen Financial Services Group are included in the Volkswagen AG consolidated financial statements; therefore a separate cash flow statement for the company is not required by Dutch law.

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In 2015, the cash flow statement has been prepared using the indirect method, whereas in previous years a hybrid variant had been selected as additional disclosure in its financial statement.
Due to the change of method, the comparative 2014 cash flow has been adjusted accordingly.
The cash items disclosed in the cash flow statement are comprised of cash and cash equivalents.
Cash flows denominated in foreign currencies have been translated at average estimated exchange rates. Exchange differences affecting cash items are included in the respective amounts.
Cash from loans granted and interest received are included in cash from/ used in investment activities. Cash from borrowings, including interest paid and capital increases/ dividends paid/ received are included in cash from/ used in financing activities.
All other movements are included in cash used/ generated from operations.

1.6 Estimates

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

2 Principles of valuation of assets and liabilities

2.1 General

The financial statements are prepared in accordance with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code and the firm pronouncements in the Guidelines for Annual Reporting in the Netherlands as issued by the Dutch Accounting Standards Board. The financial statements are denominated in EUR.

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

2.2 Comparison with prior year

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

2.3 Foreign currencies

Functional currency

Items in the financial statements of group companies are stated with due observance of the currency of the primary economic environment in which the respective group company operates (the functional currency). The financial statements are denominated in EUR, i.e. the functional and reporting currency of FSNV.

Transactions, receivables and liabilities

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

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

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

Hedge accounting

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

2.4 *Intangible fixed assets*

Intangible fixed assets are carried at historical cost less amortisation. Any impairment as at the balance sheet date is taken into account; impairment exists if the carrying amount of the asset (or the cash-generating unit to which it belongs) exceeds its recoverable amount. For determining whether an impairment charge in respect of an intangible fixed asset applies, reference is made to note 2.7.

Computer software

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

2.5 *Tangible fixed assets*

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

For computer hardware a depreciation period of 3 years is used.

2.6 *Financial fixed assets*

Shares in participations

The investment in the group company is valued at the lower of cost and net realisable value.

The share in the group company is specified in note 1.4.

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

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

Receivables from joint ventures of the Volkswagen Group

Interest receivables from joint ventures of the Volkswagen Group are receivables with an original term of more than one year and are valued at their nominal value.

2.7 Impairment of fixed assets

On each balance sheet date, the company tests whether there are any indications of assets being subject to impairment. If any such indications are present, the recoverable amount of the asset is determined. If this proves to be impossible, the recoverable amount of the cash-generating unit to which the asset belongs is identified. An asset is subject to impairment if its carrying amount is higher than its realisable value; the realisable value is the higher of the fair value less costs to sell and the value in use.

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

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

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

2.8 Current assets

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

Receivables are recognised initially at fair value and subsequently measured at amortised cost. All receivables will be received within one year.

Other assets

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

Prepaid and deferred charges

Prepaid and deferred charges are initially valued at cost and are amortised over the remaining life of the services or of the bonds.

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Cash at banks and in hand

Cash at banks and in hand represents cash in hand and bank balances. Cash at banks and in hand is carried at nominal value.
Cash and banks denominated in foreign currencies are translated at the period end-rate prevailing on the *balance sheet date.*

2.9 Long-term liabilities

Bonds

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

Liabilities to banks

The liabilities to banks are initially valued at fair value with subsequent measurement at their amortised cost value. All liabilities have a maturity of over one year.

Liabilities to Volkswagen Group companies

The liabilities to Volkswagen Group companies are initially valued at fair value with subsequent measurement at their amortised cost value. All liabilities have a maturity of over one year.

Other liabilities

The swap interest payables with a run-off period of more than one year are shown under other liabilities and are valued at their amortised cost value.

2.10 Current liabilities

Bonds

The bonds are initially valued at fair value with subsequent measurement valued at their amortised cost value. All short-term bonds are payable within one year.

Liabilities to banks

The liabilities to banks are initially valued at fair value with subsequent measurement valued at their amortised cost value. All liabilities are payable within one year.

Liabilities to Volkswagen Group companies

The liabilities to affiliated companies are initially valued at fair value with subsequent measurement valued at their amortised cost value. All liabilities are payable within one year.

Other liabilities

The swap interest payables with a run-off period within one year are shown under other liabilities and are valued at their nominal value.

Deferred income

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

Deferred income tax

Deferred tax liabilities are recognised to provide for timing differences between the value of the assets and liabilities for financial reporting purposes on the one hand and for tax purposes on the other. Deferred tax liabilities are calculated based on the tax rate prevailing on the balance sheet date or the rates that will apply in the future, insofar as these have been set down by law.

Current income tax
The current Dutch nominal tax rate of 25% has been applied.

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

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

2.11 Financial instruments

Loans included in financial and current assets, as well as liabilities and derivative financial instruments, are stated at amortised cost. The company applies hedge accounting to hedging instruments when hedging interest and currency risk on borrowings and lendings. The company documents the relationship between hedging instruments and hedged items at the inception of the transaction. Both the derivative and the hedged item are stated at amortised cost. The gain or loss relating to any ineffective portion is recognised in the income statement within finance cost. For more information about the value of the assets, assigned as hedged item, see note 4 and 5, of the liabilities see notes 11 and 12 and of the financial instruments see note 24. The company has no derivative financial instruments other than the ones used for hedging.

Cost price hedge accounting
The company applies cost price hedge accounting to hedging interest risk and FX-risk on borrowings.

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

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

The ineffective portion of the hedge is recognised directly in the income statement.

Hedge effectiveness is assessed by comparing the critical characteristics of the hedge instrument with those of the hedged position. If there is an indication of ineffectiveness, the company measures this potentially ineffective part by conducting a quantitative ineffectiveness analysis.

Principles of determination of result

2.12 General

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

2.13 Revenue recognition

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

2.14 Exchange rate differences

Exchange rate differences arising upon the settlement of monetary items are recognised in the income statement in the year that they arise unless hedged (notes17 and 18).

2.15 Interest income and similar income and interest expenses and similar expenses

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

2.16 Other operating income and expenses

Other operating income and expenses include income and expenses that are not directly attributable to the interest income and expenses.

2.17 General and administrative expenses

These expenses include expenses such as personnel expenses, office expenses, consulting and audit fees and depreciation and amortisation.

Depreciation

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

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

Labour and other costs third party

Services performed by Volkswagen International Finance N.V. ('VIF') for FSNV are charged at a fixed amount. These costs include for example salaries, rental costs and general costs.

2.18 Taxation

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

3 Financial instruments and risks

3.1 Market risk

General market risk due to recent events at Volkswagen AG

Government authorities in a number of jurisdictions are conducting investigations of Volkswagen regarding findings of irregularities in relation to nitrogen oxide emissions that had been discovered in emissions tests on certain vehicles with Volkswagen Group Diesel engines. The results of these and any future investigations may have a material adverse effect on Volkswagen's business, financial position and results, the price of its securities and reputation.

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

Also, as a result of the recent investigations, Volkswagen Financial Services N.V. as an issuer may face risks arising from legal disputes with investors claiming damages for alleged breaches of capital market laws.

Currency risk

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

In cases where the matching cannot be achieved completely the Supervisory Board has set small currency limits ranging from TEUR 6 to TEUR 145 for individual currencies; matching policies are closely monitored and enforced. Consequently, currency risk is comparatively remote. In 2015 the limits were not exceeded.

Interest rate risk

Based on funding requests by FSAG subsidiaries FSNV issues notes to investors matching the fixed or variable interest requirement of the FS subsidiary. In cases where the investor looks for a different interest structure, FSNV is using interest rate swaps or cross currency interest rate swaps to convert the interest into the structure required by the FS subsidiary. The Supervisory Board authorised FSNV to run a certain interest rate risk. A limit system and tools to monitor and manage the risk have been set up. Interest mismatches are permitted within a twelve-month period only. Therefore, the risk is comparatively low. In 2015 no limits were exceeded.

3.2 Credit risk

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

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

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

3.3 *Liquidity risk*

Based on funding requests by FSAG subsidiaries, FSNV issues commercial paper and capital market notes to investors. Funds taken from investors are extended with the same maturity to FSAG-Group borrowers.
In cases where this matching cannot be achieved the Supervisory Board has set narrow liquidity risk limits. The company monitors the limits on a permanent basis. Against the background of the relatively narrow limits and the strong financial solidity of the Volkswagen Group the liquidity risk is remote. In 2015 no limits were exceeded. Notes issued by FSNV have the benefit of a Guarantee and Negative Pledge (The Guarantee) given by Volkswagen Financial Services AG (The Guarantor).

The Debt Issuance Program under which FSNV is issuing is updated to incorporate the recent developments regarding the diesel emissions irregularities. FSNV continues to issue Commercial Paper based on the existing EUR 10bn Commercial Paper Program to finance Financial Services Group companies.

Based on the diversified funding strategy Volkswagen Financial Service AG acted flexibly to refinance its activities with the increased issuance of secured bonds (ABS), direct bank deposits and bank credit facilities. Additionally Volkswagen AG has arranged a EUR 20 bn facility with a consortium of banks for general corporate purposes.

4 Financial fixed assets

Shares in participations

The company's interests in other companies comprise the following:

Company	**Local (original) currency (LC)**	**Share in issued capital as %**	**31 December 2015**		**31 December 2014**	
				EUR'000		EUR'000
VW Finance Belgium SA, Brussels.	EUR	< 5		1		1

Loans to Volkswagen Group companies and joint ventures of the Volkswagen Group included in fixed assets

A breakdown of the loans to Volkswagen Group companies and joint ventures of the Volkswagen Group is as follows:

	Original currency	Weighted average interest rate (%)	31 December 2015 Book value	31 December 2015 Market value
			EUR'000	EUR'000
Fixed asset loans to Volkswagen Group companies	EUR	0,4537	2,411,891	2,431,452
	GBP	1,3522	2,177,971	2,237,486
	SEK	0,2316	273,414	274,634
	KRW	2,3506	215,000	219,104
	CZK	0,5616	57,566	58,119
			5,135,842	5,220,795
Fixed asset loans to joint ventures of the Volkswagen Group	TRY	8,9850	60,000	53,285
	NOK	1,6040	312,402	315,213
			372,402	368,498
Total loans to Volkswagen Group companies and joint ventures of the Volkswagen Group			5,508,244	5,589,293

The market values are determined on the basis of discounted cash flows. Specific credit spreads per counterparty were not included in the model used to determine the market value. Since all loans are to Volkswagen Group companies and joint ventures of the Volkswagen Group the credit spread applicable to these loans is equal to the credit spread for the Volkswagen Group.

As at December 31 the following credit spreads were applicable to the Volkswagen Group:

	31 Dec 2015 BPS	31 Dec 2014 BPS
For amounts payable within one year:	53,25	13,33
For amounts payable between one year and five years:	210,00	32,50
For amounts payable after five years	240,00	51,90

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

	2015		
Agency	Short-term	Long term	Outlook
Moody's	Prime-1	A-1	negative
Standard & Poor	A-2	BBB+	negative

	2014		
Agency	Short-term	Long term	Outlook
Moody's	Prime-2	A-3	positive
Standard & Poor	A-1	A	stable

For comparison the loan overview of 2014:

	Original currency	Weighted average interest rate (%)	31 December 2014	
			Book value	Market value
			EUR'000	EUR'000
Fixed asset loans to Volkswagen Group companies	EUR	0,753	1,787,031	1,821,524
	GBP	1,366	2,119,250	2,181,149
	SEK	0,706	399,162	401,834
	RUB	10,789	27,368	17,896
	KRW	2,783	205,000	220,586
	CZK	0,815	29,566	30,212
			4,567,377	4,673,201
Fixed asset loans to joint ventures of the Volkswagen Group	EUR	1,381	103,772	111,080
	TRY	10,595	189,899	204,454
	NOK	2,217	442,380	448,165
			736,051	763,699
Total loans to Volkswagen Group companies and joint ventures of the Volkswagen Group			5,303,428	5,436,900

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

	Original currency	Weighted average interest rate (%)	31 December 2015 Book value	31 December 2015 Market value
			EUR'000	EUR'000
Current receivables due from Volkswagen Group companies excluding interest	GBP	1,3294	816,983	821,220
	AUD	3,2453	475,083	480,833
	SEK	0,1786	435,214	435,860
	EUR	1,0972	293,801	295,634
	CZK	0,0204	222,216	222,253
	JPY	0,0724	152,312	152,592
	KRW	2,7923	135,000	151,457
	PLN	2,2150	43,920	44,650
	RUB	10,7894	27,368	17,332
Accrued and other receivables			16,212	16,212
			2,618,109	2,638,043
Current receivables due from joint ventures of the Volkswagen Group excluding interest	TRY	10,9391	479,544	482,434
	NOK	1,6898	334,731	332,043
	EUR	0,5815	171,378	171,717
Accrued and other receivables			23,456	23,456
			1,009,109	1,009,650
Total receivables due from Volkswagen Group companies and joint ventures of the Volkswagen Group			3,627,218	3,647,693

For the determination of the market values see note 4.

As mentioned in note 2.11 the terms of all outstanding loans to Volkswagen Group companies and joint ventures of the Volkswagen Group are hedged with derivatives to the terms of the bonds and loans from Volkswagen Group companies used to fund the financing activities. As a result the company has principally no exposure to interest rate risk and currency risk.

For comparison the overview of 2014:

	Original currency	Weighted average interest rate (%)	31 December 2014 Book value	31 December 2014 Market value
			EUR'000	EUR'000
Current receivables due from Volkswagen Group companies excluding interest	EUR	1,104	589,426	594,890
	GBP	1,783	930,628	950,197
	RUB	9,740	118,818	80,069
	KRW	3,014	155,000	170,046
	SEK	0,759	209,519	213,510
	CZK	0,091	85,641	85,289
Accrued and other receivables			22,097	22,097
			2,111,129	2,116,098
Current receivables due from joint ventures of the Volkswagen Group excluding interest	NOK	1,929	360,498	338,883
	EUR	0,353	344,151	344,625
	TRY	8,472	206,186	200,277
	USD	1,068	36,986	39,666
Accrued and other receivables			23,180	23,180
			971,001	946,631
Total receivables due from Volkswagen Group companies and joint ventures of the Volkswagen Group			3,082,130	3,062,729

6 Loans to external parties

This balance sheet position contains loans to:

Company	Original currency	Interest rate	Amount In EUR	Maturity
Pon Auto Import Nederland B.V., Leusden	EUR	1,162	100,000	25-05-2016
Pon Automotive B.V., Leusden	EUR	1,162	200,000	25-05-2016
Pon Holdings B.V., Almere	EUR	1,162	200,000	25-05-2016

For comparison the overview of 2014:

Company	Original currency	Interest rate	Amount In EUR	Maturity
Pon Auto Import Nederland B.V., Leusden	EUR	1,459	150,000	25-05-2015
Pon Automotive B.V., Leusden	EUR	1,459	150,000	25-05-2015
Pon Holdings B.V., Almere	EUR	1,459	200,000	25-05-2015

These Dutch companies do not belong to the Volkswagen Group. The loans are not guaranteed by FSAG. The fair values of these loans approximate the carrying value.
The interest rates charged on the above loans are calculated on 1-year Euribor plus a margin based on market price margin for investment graded companies.

7 Other assets

	31 Dec 2015	31 Dec 2014
	EUR'000	EUR'000
Swap interest receivables from banks	33,878	30,728
Income tax receivable	2,040	2,300
Unrealized FX gains and losses	793	955
	36,711	33,983

8 Prepaid and deferred charges

	31 Dec 2015	31 Dec 2014
	EUR'000	EUR'000
Prepaid and deferred charges	7,807	12,714
	7,807	12,714

The prepaid and deferred charges mainly consist of deferred emission costs.

9 Cash at banks and in hand

	31 Dec 2015	31 Dec 2014
	EUR'000	EUR'000
Cash at internal bank accounts	933	856
Cash at external bank accounts	562	879
	1,495	1,735

All cash balances are at the free disposal of the company and do not bear any interest. The credit risk for cash at external bank accounts is based a risk assessment and within the limits defined by FSAG Group Risk Management.

10 Shareholder's equity

	Issued and paid-up share capital	*Share premium reserve*	*Retained earnings*	*Total equity*
	EUR'000	*EUR'000*	*EUR'000*	*EUR'000*
Balance as at 1 January 2014	454	520,000	85,940	606,394
Repayment of Contribution to FSAG	-	105,000	-	105,000
Result for the year 2014	-	-	12,942	12,942
Balance as at 1 January 2015	454	625,000	98,882	724,336
Contribution from FSAG	-	731,000	-	731,000
Repayment of Contribution to FSAG	-	(260,000)	-	(260,000)
Result for the year 2015	-	-	13,199	13,199
Balance as at 31 December 2015	454	1,096,000	112,081	1,208,535

The Shareholder's equity breaks down as follows:

Share capital

On 31 December 2015 the subscribed capital of the company amounted to EUR 2,270,000 of which an amount of EUR 454,000 was paid-up. 454 registered shares of EUR 1,000 each have been issued. The company has no statutory reserve.

Share premium reserve

To increase flexibility in group financing, in 2015 an amount of EUR 731 million was newly contributed by FSAG, while an amount of 260 million has been repaid. The balance of the share premium reserve at the end of 2015 amounted to EUR 1,096 million.

Retained earnings

At the end of 2015 the total retained earnings amounted to EUR 112 million. The total equity amounted to EUR 1,209 million.

11 Long-term liabilities

	31 Dec 2015	31 Dec 2014
	EUR'000	EUR'000
Bonds listed	2,112,820	3,387,520
Bonds unlisted	817,048	-
	2,929,868	3,387,520

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

	Original currency	Average interest rate in percentage	31 December 2015 Book value	31 December 2015 Market value
			EUR'000	EUR'000
Maturity within 1 to 5 years				
Bonds listed	EUR	0,159	60,000	58,741
Bonds listed	CZK	0,630	30,345	30,345
Bonds listed	CAD	2,125	77,101	65,399
Bonds listed	GBP	2,386	1,498,740	1,487,827
Bonds listed	NOK	1,969	208,268	207,935
Bonds listed	NZD	4,875	75,136	62,357
Bonds listed	SEK	0,00	163,230	159,875
Bonds unlisted	GBP	1,750	476,872	454,869
Bonds unlisted	NZD	4,250	127,223	121,497
Bonds unlisted	SEK	0,583	108,820	106,800
Bonds unlisted	NOK	1,250	104,133	102,639
Total long-term bonds			2,929,868	2,858,284

As in previous years, in 2015 FSNV again issued several new listed- and unlisted bonds. These bonds are placed under the existing EUR 25bn DIP Programme and rankpari passu with the existing issuances. At year-end 2014 there were no unlisted bonds outstanding.

Liabilities to Volkswagen Group companies excluding interest

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

	Original currency	Average interest rate in percentage	31 Dec 2015	31 Dec 2014
			EUR'000	EUR'000
Maturity longer than 5 years				
Volkswagen Financial Services AG	EUR		-	92,623
Maturity within 1 to 5 years				
Volkswagen Group Services	EUR		-	22,000
Skoda	CZK	0,364	300,427	300,427
VIF	EUR		-	49,990
VWGoAF	USD	1,744	2,061,585	1,164,700
			2,362,012	1,629,740

12 Current liabilities

	31 Dec 2015	31 Dec 2014
	EUR'000	EUR'000
Bonds listed	1,781,646	1,672,928
Bonds unlisted	-	-
	1,781,646	1,672,928

A breakdown of the current bonds is as follows:

	Original currency	Average interest rate in percentage	31 December 2015 Book value	31 December 2015 Market value
			EUR'000	EUR'000
Maturity less than 1 year				
Bonds listed	EUR	0,142	150,000	149,542
Bonds listed	SEK	0,119	484,708	486,578
Bonds listed	GBP	1,250	681,245	677,614
Bonds listed	TRY	9,063	75,555	74,404
Bonds listed	NOK	2,696	390,138	363,967
Total current bonds			1,781,646	1,752,105

Liabilities to Volkswagen Group companies

A breakdown of the current liabilities, including accrued interest to Volkswagen Group companies is as follows:

	Original currency	Average interest rate in percentage	31 Dec 2015	31 Dec 2014
			EUR'000	EUR'000
Volkswagen Group Services	EUR	0,862	22,000	57,573
Volkswagen FSAG	EUR	0,139	32,000	-
VIF	EUR	0,319	49,990	-
VWGoAF	USD	0,867	208,044	-
Accrued interest	EUR		5,295	2,892
			317,329	60,465

Commercial papers

A breakdown of the current liabilities from issued commercial paper as per 31.12.2015 is as follows:

	Original currency	Average interest rate in percentage	31 December 2015 Book value	31 December 2015 Market value
			EUR'000	EUR'000
Average term 5 months				
Commercial Papers	EUR	0,148	429,000	428,867
Commercial Papers	SEK	0,020	80,296	81,581
Total commercial papers			529,296	510,448

For comparison the overview of 2014:

	Original currency	Average interest rate in percentage	31 December 2014 Book value	31 December 2014 Market value
			EUR'000	EUR'000
Average term 6 months				
Commercial Papers	EUR	0,223	878,651	878,778
Total commercial papers			878,651	878,778

13 Other liabilities

	31 Dec 2015	31 Dec 2014
	EUR'000	EUR'000
Loan interest payable	38.558	36,343
Swap interest payable	19,950	23,958
Current income tax	2,523	1,846
Withholding tax payable	723	798
Accrued liabilities	41	98
Accounts Payable	12	76
	61,807	63,119

14 Deferred income

	31 Dec 2015	31 Dec 2014
	EUR'000	EUR'000
Capitalised issue income	11,482	17,132
	11,482	17,132

15 Commitments not included in the balance sheet

The following revolving credit facilities are currently outstanding:

Borrower	Currency	Amount in T Eur	Effective date	Termination date
LLC VW Bank Rus	RUB	8,000,000	20.02.2012	Open
VW Group Finanz OOO	RUB	2,300,000	10.12.2007	Open
VW Global Finance Holding BV	EUR	60	19.02.2009	Open
SkoFIN	CZK	4,000,000	03.09.2012	Open
MAN Financial Services OOO	RUB	3,000,000	02.07.2015	Open
VW Financial Services Russia LLC	RUB	8,000,000	02.07.2015	Open

For comparison the overview of 2014:

Borrower	Currency	Amount in T EUR	Effective date	Termination date
VW Leasing Polska	EUR	200,000	10.06.2010	10.06.2015
VW Bank Polska	EUR	200,000	22.03.2010	22.03.2015
LLC VW Bank Rus	RUB	4,000,000	20.02.2012	Open
VW Group Finanz OOO	RUB	2,300,000	10.12.2007	Open
VW Finance Overseas BV	EUR	550	19.02.2009	27.05.2015
VW Finance Cooperation BV	EUR	550	29.09.2009	27.05.2015
VW Global Finance Holding BV	EUR	60	19.02.2009	Open
Global Automotive Finance CV	EUR	800	01.02.2009	Open
SkoFIN	CZK	4,000,000	03.09.2012	Open
Banco Volkswagen SA	EUR	500,000	22.02.2010	22.02.2015

16 Financial income and expenses

	2015	2014
	EUR'000	EUR'000
Interest and similar income	161,705	145,309
Interest and similar expenses	140,745	126,747
	20,960	18,562

17 Other operating income

	2015	2014
	EUR'000	EUR'000
Miscellaneous income previous years	76	5
	76	5

The miscellaneous income previous years relates to the dissolution of accruals.

18 Other operating expenses

	2015	2014
	EUR'000	EUR'000
Translation losses	-	97
Miscellaneous expenses previous years	224	37
Bank charges	20	20
	244	154

The miscellaneous expenses previous year relate to withholding taxes.

19 General and administrative expenses

	2015	2014
	EUR'000	EUR'000
Personnel and other costs third party	1,589	777
Consulting and auditing fees	76	151
EDP expenses	128	128
SAP FI Project	268	264
General office expenses	85	131
D&O insurance	23	25
	2,169	1,476

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The personnel and other costs third party is a charge from VIF for services rendered to FSNV. Due to a re-negotiation of the Service Level Agreement, the amount charged for these services has been raised significantly.

20 Depreciation and amortisation expenses

Neither in 2015 or 2014 any depreciation and amortisation expenses occurred.

21 Independent auditor's fees

The following fees, based on invoices and estimated work orders for assurance services from PricewaterhouseCoopers Accountants N.V., occurred in the reporting year:

	2015	2014
	EUR'000	EUR'000
Audit of the financial statements	31	43
Other audit procedures	-	-
Tax services	-	-
Other non-audit services	-	-
	31	43

No other services were rendered by PricewaterhouseCoopers Accountants N.V.

22 Related parties

Significant transactions with related parties are disclosed in the notes insofar as they are not transacted under normal market conditions. The nature, extent and other information is disclosed if this is required to provide the true and fair view.

All loans are granted to other group companies, except for the loans mentioned in note 6. The interest income is mainly derived from group companies.

For receivables due from Volkswagen Group companies see note 4 and 5.

For liabilities to Volkswagen Group companies see note 11 and 12.

23 Average number of employees

The employees are supplied by VIF. The costs regarding the work performed for FSNV are included in the service charges of EUR 1,440,000 which are shown under the general and administrative expenses.

24 Financial instruments

The company's policy is to fully hedge its interest rate and exchange rate exposures.The current hedges are all 100% effective.

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

	Interest swaps	Interest/ currency swaps	FX Contracts	Total
	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2015	3,279,594	3,602,296	1,122,792	8,004,682
31 December 2014	3,050,471	3,133,398	553,707	6,737,576

The financial instruments of the company had the following positive or negative market values:

	Interest swaps	Interest/ currency swaps	FX contracts	Total
	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2015				
Positive market value	41,497	381,567	5,237	428,301
Negative fair value	(858)	(60,146)	(13,029)	(74,033)
Total market value	40,369	321,421	(7,792)	354,268
31 December 2014				
Positive market value	47,192	183,471	43,933	274,596
Negative fair value	(2,667)	(142,178)	(4,450)	(149,295)
Total market value	44,525	41,293	39,483	125,301

25 Taxation

The taxation of T EUR 4,424 on the result of T EUR 17,623 can be specified as follows:

	2015	2014
	EUR'000	EUR'000
Result before taxation	17,623	16,937
Taxation on result	4,424	3,995
Effective tax rate	25,1%	23,6%
Applicable tax rate	25%	25%

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26 Directors and supervisory directors

Management Board:

- Thomas Fries, Amsterdam
- Bernd Bode, Hannover

Supervisory Board:

- Dr. Michael Reinhart, Braunschweig (from 1 December 2015)
- Frank Fiedler, Braunschweig (unitl 30 November 2015)

The Management and Supervisory Board have not received any remuneration for 2015.

The Management Board has declared that to the best of its knowledge:

1. the financial statements give a true and fair view of the assets, the liabilities, the financial position and the results of the company; and
2. the management report gives a true and fair view of the company's situation on the balance sheet date, the events that occurred during the year and the risks to which the company is exposed.

Amsterdam, 28 April 2016

Management Board,

Original has been signed by
T. Fries

Original has been signed by
B. Bode

Supervisory Board,

Original has been signed by
Dr. M. Reinhart

Other information

Profit appropriation according to the Articles of Association

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

Proposed appropriation of profit

Management proposes to retain the 2015 profit of EUR 13,198,635.16

Post balance sheet events

No post balance sheet events that require disclosure have occurred.

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Independent auditor's report

To: the general meeting of shareholders and the supervisory board of
Volkswagen Financial Services N.V.

Report on the financial statements 2015

Our opinion

In our opinion the accompanying financial statements give a true and fair view of the financial position of Volkswagen Financial Services N.V. as at 31 December 2015, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2015 of Volkswagen Financial Services N.V., Amsterdam ('the company').

The accompanying financial statements comprise:

- the balance sheet as at 31 December 2015;
- the income statement for the year then ended;
- the cash flow statement for the year then ended; and
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is Part 9 of Book 2 of the Dutch Civil Code.

The basis for our opinion

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

We are independent of the company in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

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

Ref.: e0378496

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Our audit approach

Overview and context

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where management made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud.

We ensured that the audit team included the appropriate skills and competences which are needed for the audit of a financing company. We therefore included specialists in the area of financial instruments in our team.

The main purpose of the company is the financing of companies belonging to the Volkswagen Financial Services AG group. The company is financing these loans through bond offerings on the international capital markets. The repayment of these bonds to the investors is guaranteed by Volkswagen Financial Services AG as disclosed in note 1.1 to the financial statements. Loans are issued to group companies with financial instruments in place to mitigate interest rate risk and currency risk. The company facilitates the Volkswagen Financial Services AG group in its financing activities for which it receives a margin.

The context of our audit approach was primarily set by the possible impact on valuation of the loans issued to Volkswagen group companies following irregularities in relation to nitrogen oxide emissions on certain vehicles with Volkswagen Group diesel engines.

Materiality

The scope of our audit is influenced by the application of materiality which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

We set certain quantitative thresholds for materiality. These, together with qualitative considerations, help us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements on our opinion.

Based on our professional judgement we determined the materiality for the financial statements as a whole at €46 million (2014: €42 million) and €0.9 million (2014: €0.8 million) for the income statement line items general and administrative expenses (including personnel expenses), other operating income and expenses and income taxation. The benchmark applied is 0.5% of total assets and 5% of profit before tax for the income statement line items specified above. Due to the large amounts in the balance sheet relative to the income statement line items specified above, which is inherent to the nature of the company's business, we consider it appropriate to use two levels of quantitative materiality.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the supervisory board that we would report to them misstatements identified during our audit above €2.3 million (2014: €2.1 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the supervisory board, but they are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. We have described below the key audit matters and included a summary of the audit procedures we performed on those key audit matters.

Due to the nature of the company's business we recognise that the key audit matters which we reported in our independent auditor's report on the financial statements 2014 of the company may be long-standing and may potentially not change significantly year over year. Following our audit of the financial statements 2015 of the company we have identified one additional key audit matter which relates to the possible impact on valuation of the loans issued, following irregularities in relation to nitrogen oxide emissions on certain vehicles with Volkswagen Group diesel engines.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these key audit matters individually or on specific elements of the financial statements. Any comments we make on the results of our procedures should be read in this context.

Key audit matter	***How our audit addressed the matter***
Possible impact on valuation of the loans issued to Volkswagen AG group companies following irregularities in relation to nitrogen oxide emissions on certain vehicles with Volkswagen Group diesel engines *Note 3.1 and 4* In September 2015, irregularities in relation to nitrogen oxide emissions in the US had been discovered by the California Air Resources Board (CARB) and the US Environmental Protection Agency (EPA) in emissions tests on vehicles with Volkswagen Group diesel engines. These irregularities resulted in violations of US environmental laws. As a result of the aforementioned, rating agency Moody's Investor Services downgraded the outlook for Volkswagen AG and its subsidiaries from stable to negative. Standard & Poor's also downgraded the ratings for Volkswagen AG. The aforementioned events might have an impact on the creditworthiness of the group companies to which loans have been issued. We consider the valuation of the loans issued to	We have performed the following procedures to identify possible impairment triggers to address the valuation of the loans issued to Volkswagen companies: • tested the financial situation of the group companies to which loans have been provided by analysing their respective current financial data (such as result and equity) and their ability to repay the notional and interest payments to the company; • challenged the forecast for group companies to which loans have been provided and at Volkswagen Group level. • discussed with the group auditor how they have challenged management's assumptions underlying the cash flow forecast and which information was used in preparing the forecast. • discussed with the group auditor of Volkswagen AG the possible impact of the rating agencies' downgrading on the financial situation of Volkswagen AG and its group subsidiaries, based on information regarding going concern, liquidity and litigation. We corroborated and challenged the outcome of that discussion with the outcome of our audit work and with the information provided by management.

Key audit matter	*How our audit addressed the matter*
Volkswagen AG companies, as disclosed in note 4 to the financial statements for a total amount of €5.5 billion, as a key audit matter. This is due to the size of the loan portfolio and given that an impairment may have a material effect on the income statement. Based on the above management has performed an impairment analysis and concluded no impairment is necessary.	• tested the Volkswagen AG financial position by verifying observable data from rating agencies, developments in credit spreads and other publicly available data. • discussed and challenged the company's assumptions used in the impairment analysis with management and the supervisory board of the company by using external observable data (f.e. data from rating agencies, financial data of debtors). • tested the acceptability of the impairment analysis method used by management, by validating the mathematical accuracy and consistency of the impairment analysis method per counterparty. • analysed if there have been any impairment triggers at an individual loan level by challenging the fair value assessments prepared by management. We concur with the position taken by the management as set out in the financial statements with respect to the valuation of the loans.
Derivative valuation *Note 24* We consider the fair value of the derivatives portfolio as disclosed in note 24 to the financial statements of €354 million and used in the company's hedge effectiveness testing as a key audit matter. This is due to the nature of the portfolio that includes longer dated interest rate swaps and cross-currency interest rate swaps. The market for these swaps is not always fully liquid. In addition, the recent market developments including the volatility of the currency basis spread further increased the subjectivity of the valuation of these instruments as well as the number of input factors to take into account in the valuation.	We have tested the valuation of derivatives as well as the valuation of hedged items in hedge accounting relationships (when relevant) by testing on a sample basis the input of contracts in the company's valuation system. We have reconciled the interest rate curves and other market data with independent sources. We have determined whether the settings used in the valuation system and the models used are in line with market practice. We have also tested the mathematical accuracy of the models used.
Hedge accounting *Note 2.11* We consider hedge accounting as a key audit matter. Refer to note 2.11 to the financial statements. This is due to the detailed technical requirements that are applicable when applying hedge accounting and that inappropriate application of these requirements can lead to a material effect on the income statement.	We have tested on a sample basis whether hedge documentation and hedge effectiveness testing meet the requirements of RJ 290, *Financial instruments*, and whether the hedge effectiveness test is mathematically correct. We have reconciled the outcome of the effectiveness testing for the derivative portfolio as a whole to the financial statements.

Key audit matter	How our audit addressed the matter
Existence of the loans issued *Note 4* We consider the existence of the loans issued, as disclosed in note 4 to the financial statements for a total amount of €5.5 billion, as a key audit matter. This is due to the size of the loan portfolio.	We have performed audit work addressing the existence of the loans issued to Volkswagen group companies, through: • confirmation procedures with the counterparties of the loans; • testing input of contracts in the company's treasury management system; • margin analysis.

Responsibilities of management and the supervisory board

Management is responsible for:

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

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

The supervisory board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A more detailed description of our responsibilities is set out in the appendix to our report.

Report on other legal and regulatory requirements

Our report on the directors' report and the other information

Pursuant to the legal requirements of Part 9 of Book 2 of the Dutch Civil Code (concerning our obligation to report about the directors' report and the other information):

- we have no deficiencies to report as a result of our examination about whether the directors' report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this code, and whether the information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed;
- we report that the directors' report, to the extent we can assess, is consistent with the financial statements.

Our appointment

We were appointed as auditors of the company on 21 December 2006 by the management following the passing of a resolution by the shareholders. Our appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 10 years.

Rotterdam, 28 April 2016
PricewaterhouseCoopers Accountants N.V.

Original has been signed by: M.P.A. Corver RA

Appendix to our auditor's report on the financial statements 2015 of Volkswagen Financial Services N.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the accompanying financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among others of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.