Financial report 2019

Volkswagen International Finance N.V.

Amsterdam

Contents

Supervisory Board Report

The balance sheet total and the operating result for the financial year 2019 of Volkswagen International Finance N.V. (‘VIF’or ‘the Company’) are in line with the expected development of the Company.

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

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

In 2019, the credit rating agencies updated their rating assessments for Volkswagen AG.
Moody’s maintained the rating at P-2 / A3 (short term / long term) and the outlook with stable while Standard & Poor’s maintained the rating at A-2 / BBB+ (short term / long term) with stable outlook.

The Management Board reported in 2019 regularly to the Supervisory Board on the developments regarding issuance activities and risk exposure. Risk limits set by the Supervisory Board were adhered to.

One third of the Supervisory Board of the Company is female.

The Supervisory Board does not divide the responsibilities into sub-committies, but takes charge of all tasks that such committies traditionally would fulfil.

During the Annual General Meeting held on 11 June 2019, BDO Audit & Assurance B.V. was reelected as independent auditors for the fiscal year 2019. The independent auditors audited the annual financial statements of VIF and issued an unqualified audit opinion.

Amsterdam, 12 March 2020

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

Management report

Business Strategy and Objectives

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

Funding

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

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

VIF redeemed in 2019 multiple bond issues with a EUR equivalent of 4.5 billion (2018: EUR 2.0 billion) and CP issues with a total EUR equivalent of 5.1 billion (2018: EUR 5.2 billion). The Company borrowed from VW Group companies EUR 0.5 billion (2018: EUR 0.4 billion) and repaid EUR 0.5 billion (2018: EUR 0.2 billion).

In November 2018 VIF had issued bonds totaling EUR 4.25 billion and GBP 800 million while the Group’s US funding vehicle issued USD 8 billion, both addressing long-term funding needs of Group companies. Therefore, no new long-term funding requirements were addressed to VIF in 2019. At the same time, Volkswagen AG started to issue commercial paper in its own name under the Commercial Paper Programme and VIF reduced its commercial paper issuances.

Financial Results

VIF realised a gain of EUR 36.1 million after tax in 2019 (2018: EUR 59.6 million). The Company generates income mainly from the Group financing business and dividends.

Results from participations in 2019 were positive with EUR 11.1 million, mainly due to dividends from its participation in Autoeuropa (2018: EUR 8.2 million).

Net financial income from Group financing activities amounted to EUR 37.3 million (2018: EUR 40.7 million).

In 2019, VIF paid the result of 2018 of EUR 59.6 million as a dividend to its shareholder.

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

Risks

The Board of Managment is responsible for the internal control, the management of risks within the company and for the assessment of the effectiveness of the control systems.

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

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

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

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

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

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

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

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

Risk policies

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

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

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

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

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

For remaining mismatches the Supervisory Board has defined narrow limits. VIF uses adequate tools to assess and to monitor risks. On a monthly basis, a detailed mismatch report, containing all relevant risks, is presented to the management and the Supervisory Board. In 2019, limits were not exceeded.

Diesel issue

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

Compliance & Integrity

VIF's compliance management system is aligned with national and international laws and standards. Its objective is to encourage, reinforce and ensure compliant behavior in the Company in a lasting manner. The focus of VIF's compliance organization is on preventing corruption, breaches of trust, embezzlement, fraud and money laundering and thereby on reducing the risk of unlawful actions. The Code of Conduct is the key element for raising awareness among staff of correct behavior and finding the right contact person in cases of doubt. Where laws and regulations have been violated, VIF's whistleblower system is a suitable tool for taking appropriate action.

The Company exercises reponsibility in relation to compliance and integrity matters. The most important principles include compliance with laws and regulations, the establishment of secure processes, and dealing openly with mistakes so that they can be avoided or rectified in the future. The Company regards acting with integrity, compliance and honesty as an essential prerequisite for success. For this reason, compliance with national and international laws and regulations, internal rules and voluntary commitments is among the Company's most import principles. In terms of integrity, the Company aims to become a role model for a modern, transparent and successful enterprise.

Adherence to tax and regulatory requirements

The Company had its tax returns up to and including 2017 reviewed by the Dutch Tax Authorities. For the tax return 2018, a final assessment has not yet been received.

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

Non-financial matters

VIF is not obliged to disclose a non-financial statement and refers to the combined, separate non-financial report of Volkswagen AG for the fiscal year 2019, which will be available on the website www.volkswagenag.com.

Expectations 2020

VIF will continue in 2020 its issuing activities in the capital markets. In line with the long-term business strategy, the Volkswagen Group plans to develop new products and to improve its position in existing markets. We expect that VWAG will keep VIF's capital reserve on an adequate level. As several Volkswagen Group companies worldwide are going to use the attractive European funding opportunities, VIF foresees additional requests for refinancing which will be taken care of with reinstated and increased capital market issuances under the DIP and CP-programmes.

Based on this assumption, we expect a moderate increase in total business volume for VIF in 2020. Taking into account the expected growth in business volume and the interest environment, the development of interest income should be at a similar level as in previous years. The financial statements have been prepared under the going concern assumption.

In principle, one third of the Management Board should be female; however, currently there are only two Managing Directors in the Management Board of the Company. The Company will deal with this recommendation in the future.

The Management Board declares to the best of their knowledge:

1. the financial statements for 2019 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 2019 and the risks to which the Company is exposed.

Amsterdam, 12 March 2020

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Original has been signed by
Thomas Fries, Managing Director

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Original has been signed by
Vincent Delva, Managing Director

Financial statements

Balance sheet as at 31 December 2019

(after proposed profit appropriation)

		31 December 2019		31 December 2018	
	Ref.	EUR'000	EUR'000	EUR'000	EUR'000
Assets					
Fixed assets					
Intangible fixed assets	5	-		3	
Tangible fixed assets	5	114		145	
Shares in participations	6	165,690		165,504	
Loans to Volkswagen Group companies	7	27,753,621		29,975,023	
Total fixed assets			27,919,425		30,140,675
Current assets					
Receivables due from Volkswagen Group companies	7	2,693,997		10,128,917	
Receivables due from joint ventures of the Volkswagen Group	7	9,847		8,168	
Other assets	8	31,880		32,665	
Prepayments and accrued expenses	9	2,548		10,446	
Total current assets			2,738,272		10,180,196
Cash at banks and in hand	10		131,953		127,497
Total assets			30,789,650		40,448,368

The accompanying notes are integral parts of these financial statements.

	Ref.	31 December 2019 EUR'000	31 December 2019 EUR'000	31 December 2018 EUR'000	31 December 2018 EUR'000
Shareholders' equity and liabilities					
Shareholders' equity	11				
Issued and paid-up share capital		103,035		103,035	
Share premium reserve		12,120		12,120	
Retained earnings		119,475		142,968	
Total shareholders' equity			234,630		258,123
Provisions	12		7,506		7,506
Long-term liabilities	13				
Bonds		27,718,249		29,496,354	
Liabilities to Volkswagen Group companies		100,000		521,831	
Total long-term liabilities			27,818,249		30,018,185
Current liabilities	14				
Bonds		1,817,408		4,501,093	
Commercial papers		-		5,094,084	
Liabilities to Volkswagen Group companies		435,403		43,683	
Other liabilities		459,900		502,711	
Deferred income		15,978		22,440	
Current income tax		6		43	
Trade payables		10		52	
Accrued liabilities		560		448	
Total current liabilities			2,729,265		10,164,554
Total shareholders' equity and liabilities			30,789,650		40,448,368

The accompanying notes are integral parts of these financial statements.

Income statement for the year ended 31 December 2019

		2019		2018	
	Ref.	EUR'000	EUR'000	EUR'000	EUR'000
Income					
Interest income and similar income	16	978,115		895,595	
Interest expenses and similar expenses	16	(940,797)		(854,911)	
Results from shares in participations	17	11,120		8,164	
Fees received	18	1,300		1,200	
Other operating income	19	495		174	
Impairment of shares in participations	20	186		27,706	
Total income			50,419		77,928
Expenses					
Personnel expenses	21	(2,042)		(1,944)	
Amortization/ depreciation expenses	5	(37)		(43)	
Other operating expenses	22	(1,288)		(2,118)	
Additional provision for liabilities	23	(29)		(1,930)	
Total expenses			(3,396)		(6,035)
Profit and (loss) before income taxes			47,023		71,893
Taxation on result on ordinary activities	29		(10,951)		(12,328)
Net profit and (loss) after taxation			36,072		59,565

The accompanying notes are integral parts of these financial statements.

Cash flow statement for the year ended 31 December 2019

	2019		2018	
	EUR'000	EUR'000	EUR'000	EUR'000
Cash (used in) generated from operations				
Interest received	1,018,193		843,301	
Interest paid	(953,618)		(777,042)	
Other operating income	1,351		1,200	
Guaranty fees paid	(2,579)		(4,380)	
Paid bankcharges, general expenses & salaries	(2,949)		(3,295)	
Tax received/ paid	(7,154)		(8,526)	
Total cashflow from operations		53,244		51,258
Cash flow from investment activities				
Proceeds from participations	19,042		8,164	
Loans issued to VW Group companies & JV	(471,767)		(13,422,627)	
Collection of loans to VW Group companies & JV	10,055,443		8,704,269	
Net cash from/ used in investment activities		9,602,717		(4,710,194)
Cash flow from financing activities				
Proceeds from borrowings	498,158		8,242,280	
Repayment of borrowings	(5,033,902)		(3,460,848)	
Proceeds from Commercial Papers	-		5,155,189	
Repayment of Commercial Papers	(5,092,750)		(5,237,261)	
Derivatives	36,554		122,719	
Dividends paid	(59,565)		(70,000)	
Net cash from/ used in financing activities		(9,651,505)		4,752,079
Net cash flows		4,456		93,143
Balance as at 1 January		127,497		34,354
Movement		4,456		93,143
Balance as at 31 December		131,953		127,497

The accompanying notes are integral parts of these financial statements.

Notes to the financial statements

1 General

1.1 Activities

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

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

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

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

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

Bonds issued by VIF can be listed or unlisted. Most of the bonds outstanding as per 31 December 2019 are listed at the Luxemburg Stock Exchange. In 2019 there was one exception, being a USD bond under the 144a rule with a nominal amount of USD 750 million. The bond prospectuses of the listed bonds have been approved by the Commission de Surveillance du Secteur Financier of the Grand Duchy of Luxembourg ('CSSF').

1.2 Related parties

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

1.3 Consolidation and shares in participations

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

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

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

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

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

Name, registered office	Share in issued capital as percentage	Book value 31 December 2019 EUR	Local currency	
	%	EUR'000		LC'000
Volkswagen Autoeuropa, Lda., Palmela, Portugal	26	132,987	EUR	132,987
Volkswagen do Brasil Indústria de Veículos Automotores Ltda., São Bernardo do Campo, Brazil	<1	0	BRE	0
Volkswagen Group Saudi Arabia LLC, Riyadh, Kingdom of Saudi Arabia	51	3,517	SAR	14,814
Skoda Auto Volkswagen India Private Ltd., Pune, India	9	29,186	INR	2,339,389
Total investments in participations		165,690		

In 2019, the 1 share in Volkswagen International Belgium S.A. was sold to the now sole shareholder Volkswagen Finance Luxemburg S.A..
Volkswagen India Private Ltd., Pune, India changed its name to Skoda Auto Volkswagen India Private Ltd..

In 2019, Management received reports regarding the economic situation of the participations. Upon review of these reports, it was concluded that for Skoda Auto Volkswagen India Private Ltd., the impairments made in prior years have been reversed.
Impairment is determined by establishing the enterprise value on the basis of a discounted cash flow analysis based on the internal budget. For further details on this impairment, see note 20.

Volkswagen do Brasil Indústria de Veículos Automotores Ltda and Skoda Auto Volkswagen India Private Ltd. are minority interest investments.

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

1.4 Note to the cash flow statement

Consolidated cash flows for the whole Volkswagen Group are included in the Volkswagen AG consolidated financial statements. A separate cash flow statement for the Company is not required by Dutch law. To be in line with the practice in the capital market, VIF prepares a cash flow statement, using the direct method for the current year and for the comparative figures, whereas in the Financial Statements of previous years, the indirect method was applied. The change of method does not have any effect on the figures.

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

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

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

1.5 Estimates

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

2 Principles of valuation of assets and liabilities

2.1 General

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

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

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

2.2 Comparison with prior year

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

2.3 Foreign currencies

Functional currency

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

Transactions, receivables and liabilities

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

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

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

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

Hedge accounting

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

2.4 Intangible fixed assets

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

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

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

2.5 Tangible fixed assets

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

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

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

2.6 Financial fixed assets

Shares in participations

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

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

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

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

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

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

The shares in participations are specified in note 1.3.

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

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

2.7 Impairment of financial assets

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

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

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

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

2.8 Current assets

All current assets have a maturity within one year.

Receivables due from Volkswagen Group companies and joint ventures of the Volkswagen Group
Receivables are recognized initially at fair value and subsequently measured at amortised cost.

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

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

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

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

2.9 Provisions

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

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

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

2.10 Long-term liabilities

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

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

2.11 Current liabilities

All current liabilities have a maturity within one year.

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

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

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

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

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

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

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

2.12 Financial instruments

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

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

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

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

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

3 Principles determination of result

3.1 General

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

3.2 Revenue recognition

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

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

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

3.4 Result from participations

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

3.5 Other operating income and expenses

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

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

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

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

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

Personnel expenses

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

3.6 Taxation

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

4 Financial instruments

4.1 Market risk

General market risk due to events at Volkswagen AG

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

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

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

Currency risk

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

In cases where the matching cannot be achieved completely, the Supervisory Board has set small currency limits for individual currencies; policies are closely monitored and enforced. Consequently, currency risk is relatively remote. In 2019, the limits were not exceeded.

Interest rate risk

Based on funding requests by Volkswagen Group companies and to joint ventures, VIF issues notes to investors matching the fixed or variable interest requirement of the related parties. In cases where the investor looks for a different interest structure, VIF is using interest rate swaps or cross currency interest rate swaps to convert the interest into the structure required by the related parties.The Supervisory Board authorised VIF to run a certain interest rate risk. A limit system and tools to monitor and manage the risk have been set up. Interest mismatches are permitted within a twelve-month period only. Therefore, the risk is relatively low. In 2019, no limits were exceeded.

4.2 Credit risk

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

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

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

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

4.3 Liquidity risk

Based on funding requests by VWAG related parties, VIF issues commercial paper and bonds to investors. Funds taken from investors are extended with the same maturity to VW Group borrowers. In cases where this matching cannot be achieved the Supervisory Board has set narrow liquidity risk limits. The Company monitors the limits on a permanent basis. Against the background of the relatively narrow limits and the strong financial solidity of the Volkswagen Group, the liquidity risk is remote. In 2019, no limits were exceeded. Notes issued by VIF have the benefit of a Guarantee and Negative Pledge given by VWAG.

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

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

5 Intangible and tangible fixed assets

Movements in intangible fixed assets are as follows:	**Intangible fixed assets (software)**	
	Total 2019	**Total 2018**
	EUR'000	EUR'000
1 January	19	203
Additions	-	-
Disposals	-	(183)
Amortisation/depreciation (accumulated)	(19)	(16)
31 December	-	3
Amortisation/depreciation current year	(3)	(6)

Movements in tangible fixed assets are as follows:	**Tangible fixed assets (other installations, business and office equipment)**	
	Total 2019	**Total 2018**
	EUR'000	EUR'000
1 January	424	513
Additions	2	21
Disposals	-	(110)
Amortisation/depreciation (accumulated)	(312)	(279)
31 December	114	145
Amortisation/depreciation current year	(33)	(38)

The starting balance of 1 January 2019 shows the gross purchase value of the fixed assets. The ending balance as per 31 December 2019 shows the net book value.

6 Shares in participations (fixed assets)

Movements in shares in participations follow:

	Shares in participations	
	2019	**2018**
	EUR'000	EUR'000
Acquisition cost		
As at the beginning of the year	165,504	171,796
Additions during the year	-	-
Return of capital	-	-
As at the end of the year	165,504	171,796
Write downs		
As at the beginning of the year	-	(33,997)
Additions during the year	-	(1,295)
Reversals during the year	186	29,000
As at the end of the year	186	(6,292)
Carrying amount	165,690	165,504

For details on impairment, see note 20.

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

	Shares in participations	
	2019	**2018**
	EUR'000	EUR'000
Volkswagen Autoeuropa, Lda.	132,987	132,987
Volkswagen do Brasil Indústria de Veículos Automotores Ltda.,	-	-
Volkswagen Group Saudi Arabia LLC	3,517	3,517
Skoda Auto Volkswagen India Private Ltd.	29,186	29,000
Volkswagen International Belgium S.A.	-	-
31 December	165,690	165,504

Shares in participations

The shares in participations are specified in note 1.3.

Further details to VIF's participations are as follows:

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

– Incorporation on 24 June 1991.		
– Contribution to VIF: 28 November 2006 (50%), 10 December 2008 (24%)		
– Withdrawal from VIF: 27 June 2014 (48%)		
– Equity 31 December 2018	EUR'000	381,717
– Net earnings 2018	EUR'000	44,293

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

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

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

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

On 26 July 2017, the joint venture signed an agreement with the intention to liquidate VGSA. Due to the liquidation process, the financial statements of 2016, 2017 and 2018 are not available.

In the course of 2017, it became apparent that the economic situation of VGSA requires a restructuring of the Saudi Arabian sales organization. This restructuring resulted in an impairment of the shareholding in VGSA of an equivalent of EUR 4.8 million in 2017 and a second impairment for an equivalent of EUR 1.3 million in 2018).

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

- Incorporation: 6 February 2007		
- Participation rate VIF: 8.60%		
- Equity 31 March 2018	Rs'000	21,435
- Net earnings 31 March 2018	Rs'000	(372)

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

In 2019, Volkswagen Group Sales India Pvt. Ltd and Skoda Auto India Pvt Ltd were merged into Volkswagen India Private Ltd, which subsequently was renamed to Skoda Auto Volkswagen India Private Ltd. Due to this restructuring of the Volkswagen group companies in India, the capital- and voting rights of VIF in VWIPL have changed to 8.60% capital rights and 65.59% voting rights. Other shareholders in VWIPL are VWAG (86.88% capital rights, less than 0.01% voting rights), VFL (1% capital rights, 7.95% voting rights), Skoda Auto a.s. (3.47% capital rights, 26.5% voting rights) and Skoda Auto Deutschland GmbH (1 share, less than 0.01% voting rights).

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

Based on new information, the impairment applied in previous years has been reversed, in 2018 and in 2019.

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

Volkswagen do Brasil Indústria de Veículos Automotores Ltda., São Bernardo do Campo, Brazil (1 share), *contribution to VIF on 18 May 2017.*

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

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

	31 December 2019			**31 December 2018**		
	Term < 1 year	**Term > 1 year**	**Total**	**Term < 1 year**	**Term > 1 year**	**Total**
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Amounts due from Volkswagen Group companies	2,693,997	27,753,621	30,447,618	10,128,917	29,975,023	40,103,940
Amounts due from joint ventures of the Volkswagen Group	9,846	-	9,846	8,168	-	8,168
	2,703,844	27,753,621	30,457,465	10,137,085	29,975,023	40,112,108

	Original currency	Average interest rate as percentage	Book value	Market value
			31 December 2019	
		%	EUR'000	EUR'000
Fixed asset loans to Volkswagen Group companies	EUR	3.23	25,953,621	30,163,700
	USD	3.16	1,500,000	1,460,627
	GBP	2.31	300,000	317,672
			27,753,621	31,941,999
Current receivables due from Volkswagen Group companies	EUR	0.83	1,219,840	1,259,165
	USD	4.25	659,352	679,020
	CNY	5.37	355,164	323,276
	CZK	2.21	1,574	1,576
			2,235,930	2,263,037
Current receivables due from joint ventures of the Volkswagen Group	CZK	2.20	9,840	9,846
Accrued and other receivables due from Volkswagen Group companies and joint ventures			458,074	458,074
			467,914	467,920
Total loans to and receivables due from Volkswagen Group companies and joint ventures of the Volkswagen Group			30,457,465	34,672,956

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

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

As at 31 December 2019, the following credit spreads were applicable:

	31 Dec 2019 BPS	31 Dec 2018 BPS
For amounts payable within one year:	8.00	14.92
For amounts payable between one year and five years:	76.25	138.50
For amounts payable after five years	129.60	213.60

For comparison purposes, the loan to and receivable due from Volkswagen Group companies and joint ventures of the Volkswagen Group overview of 2018 is as follows:

	Original currency	Average interest rate as percentage	31 December 2018 Book value	Market value
		%	EUR'000	EUR'000
Fixed asset loans to Volkswagen Group companies	EUR	3.13	27,173,460	29,793,558
	USD	4.08	2,146,398	2,104,274
	CNY	5.37	355,165	326,571
	GBP	2.34	300,000	295,261
			29,975,023	32,519,664
Current receivables due from Volkswagen Group companies	EUR	0.81	8,521,947	8,571,747
	USD	3.83	850,000	803,175
	CNY	4.38	151,957	154,953
	GBP	1.60	100,000	92,360
			9,623,904	9,622,235
Current receivables due from joint ventures of the Volkswagen Group	CZK	2.01	8,163	8,168
Accrued and other receivables due from Volkswagen Group companies and joint ventures			505,018	505,018
			513,181	513,186
Total loans to and receivables due from Volkswagen Group companies and joint ventures of the Volkswagen Group			40,112,108	42,655,085

8 Other assets

The account consists of the following:	31 Dec 2019	31 Dec 2018
	EUR'000	EUR'000
Interest receivable from banks	31,164	30,900
Income tax receivable	540	1,596
Positive fair value	166	159
Rental deposit	10	10
	31,880	32,665

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

9 Prepayments and accrued expenses

	31 Dec 2019	31 Dec 2018
	EUR'000	EUR'000
Prepaid expenses	2,548	10,446
	2,548	10,446

In the course of 2017, it became apparent that the economic situation of Volkswagen Group Sales Saudi Arabia (VWGSA) required a restructuring of the Saudi Arabian sales organization, i.e. VWGSA was to be liquidated. Part of the agreement with the Saudi Arabian partners ATA and SAMACO was that they would be compensated for their original equity investment of USD 12.5 million (EUR 10.5 million) which was provided by VIF as an advance payment on their liquidation receipts. In 2019 the bank balances of VWGSA held in Saudi Arabia have been transferred to VIF. Final tax payments are assessed by the Saudi Arabian tax authorities. Once they have been paid, the final settlement with the Saudi Arabian co-investors will be established. It is expected that this settlement will occur within one year.

10 Cash at banks and in hand

	31 Dec 2019	31 Dec 2018
	EUR'000	EUR'000
Cash at Volkswagen International Belgium S.A. (cash pooling)	131,953	127,497
Cash at external bank accounts	-	-
	131,953	127,497

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

11 Shareholders' equity

Share capital

On 31 December 2019, the subscribed capital of the Company amounted to EUR 104,370,000, of which an amount of EUR 103,035,000 was paid up, representing 103,035 registered and issued shares of EUR 1,000 each.

The Company has no mandatory reserves.

	Issued and paid-up share capital	Share premium reserve	Retained Earnings	Total Shareholder's Equity
	EUR'000	EUR'000	EUR'000	EUR'000
Balance as at 1 January 2018	103,035	12,120	153,403	268,558
Dividend paid	-	-	(70,000)	(70,000)
Result for 2018	-	-	59,565	59,565
Balance as at 31 December 2018	103,035	12,120	142,968	258,123
Balance as at 1 January 2019	103,035	12,120	142,968	258,123
Dividend paid	-	-	(59,565)	(59,565)
Result for 2019	-	-	36,072	36,072
Balance as at 31 December 2019	103,035	12,120	119,475	234,630

12 Provisions

The movement in provisions is as follows:

	2019	2018
	EUR'000	EUR'000
1 January	7,506	5,575
Additions	-	1,931
31 December	7,506	7,506

The balance of the provision is mainly relating to a possible impairment of TEUR 7,181 on the advance payments to the Saudi Arabian partners in Volkswagen Group Saudi Arabia and the remaining tax issues still pending for the former participation Volkswagen Caminhões, Ltda. for TEUR 325.

13 Long-term liabilities

This consists of the following:	31 Dec 2019	31 Dec 2018
	EUR'000	EUR'000
Bonds (listed and unlisted)	27,718,249	29,496,354
Liabilities to Volkswagen Group companies	100,000	521,831
	27,818,249	30,018,185

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

	Original currency	Average interest rate as percentage	31 December 2019 Book value	31 December 2019 Market value
		%	EUR'000	EUR'000
Maturity longer than 5 years				
Bonds (listed)	EUR	3.36	14,740,463	16,679,780
Bonds (listed)	GBP	3.80	910,613	1,038,796
Maturity less than 5 years				
Bonds (listed)	EUR	2.17	12,067,173	12,532,513
Bonds (unlisted)				
Total long-term bonds			27,718,249	30,251,089

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

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

For comparison purposes, the long-term bond overview of 2018 is as follows:

	Original currency	Average interest rate as percentage	31 December 2018 Book value	31 December 2018 Market value
		%	EUR'000	EUR'000
Maturity longer than 5 years				
Bonds (listed)	EUR	3.21	17,225,103	16,634,334
Bonds (listed)	GBP	3.80	910,777	904,097
Maturity less than 5 years				
Bonds (listed)	EUR	2.13	10,706,965	10,646,053
Bonds (unlisted)	USD	4.00	653,509	659,886
Total long-term bonds			29,496,354	28,844,370

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

	Original currency	Average interest rate as percentage	31 December 2019 Book value	31 December 2019 Market value
		%	EUR'000	EUR'000
Volkswagen International Belgium S A	EUR	0.66	100,000	101,063
			100,000	101,063

For comparison purposes, the overview of 2018 is as follows:

	Original currency	Average interest rate as percentage	31 December 2018 Book value	Market value
		%	EUR'000	EUR'000
Volkswagen AG	EUR	0.61	355,164	359,259
Volkswagen International Belgium S A	EUR	0.66	166,667	167,816
			521,831	527,075

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

	2019		
Agency	Short-term	Long term	Outlook
Moody's	P-2	A3	stable
Standard & Poor	A-2	BBB+	stable

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

14 Current liabilities

This consists of the following:	**31 Dec 2019**	**31 Dec 2018**
	EUR'000	EUR'000
Bonds	1,817,408	4,501,093
Commercial papers	-	5,094,084
Other liabilities	459,900	502,711
Liabilities to Volkswagen Group companies	435,403	43,683
Deferred income	15,978	22,440
Accrued liabilities	560	448
Current income tax	6	43
Trade payables	10	52
	2,729,265	10,164,554

The breakdown of the current bonds is as follows:

	Original currency	**Average interest rate as percentage**	**31 December 2019 Book value**	**Market value**
		%	EUR'000	EUR'000
Bonds (listed)	EUR	2.00	1,149,937	1,150,690
Bonds (unlisted)	USD	3.50	667,471	677,052
Total short-term bonds			1,817,408	1,827,742

For determination of the market values, see note 2.10.

For comparison purposes, the current bonds overview of 2018 is as follows:

	Original currency	**Average interest rate as percentage**	**31 December 2018**	
			Book value	**Market value**
		%	EUR'000	EUR'000
Bonds (listed)	EUR	0.99	4,348,770	4,349,945
Bonds (listed)	CNY	3.50	152,323	152,277
Total short-term bonds			4,501,093	4,502,222

As per 31 December 2019 no Commercial Papers were outstanding.

For comparison purposes, the overview of 2018 is as follows:

	Original currency	**Average interest rate as percentage**	**31 December 2018**	
			Book value	**Market value**
		%	EUR'000	EUR'000
Average term 12 months				
Commercial Papers	EUR	-0.04	5,094,084	5,093,081
Total commercial papers			5,094,084	5,093,081

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

	Original currency	**Average interest rate as percentage**	**31 December 2019**	
			Book value	Market value
		%	EUR'000	EUR'000
Volkswagen AG	EUR	0.61	357,128	357,419
Volkswagen International Belgium S.A	EUR	0.66	78,274	78,796
			435,402	436,215

For comparison purposes, the overview of 2018 is as follows:

	Original currency	**Average interest rate as percentage**	**31 December 2018**	
			Book value	Market value
		%	EUR'000	EUR'000
Volkswagen International Belgium S.A	EUR	0.91	43,683	34,305
			43,683	34,305

The breakdown of the other liabilities is as follows:

	31 Dec 2019	31 Dec 2018
	EUR'000	EUR'000
Loan interest payables	450,855	493,060
Swap interest payables	8,781	9,051
Fair value financial instruments	202	271
Others	62	330
	459,900	502,711

	31 Dec 2019	31 Dec 2018
	EUR'000	EUR'000
Deferred income		
Capitalised issue income	15,978	22,440
	15,978	22,440

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

15 Commitments not included in the balance sheet

The following revolving credit facilities are currently outstanding as at 31 December 2019:

Borrower	Currency	Amount EUR'000	Effective date	Termination date
Sko-Energo	CZK	550,000	04.10.2010	open
VW International Belgium	EUR	500,000	29.06.2018	open
VWAG	EUR	1,000,000	19.12.2018	open
VW Autoeuropa	EUR	60,000	07.06.2019	27.03.2020
VWGRE	CZK	110,000	22.07.2019	open

For comparison, the revolving credit facilities overview as at 31 December 2018:

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

16 Financial income and expenses

This consists of the following	2019	2018
	EUR'000	EUR'000
Interest and similar income from group companies and banks	978,115	895,595
Interest and similar expenses to banks	(937,166)	(851,817)
Interest and similar expenses to group companies	(3,631)	(3,094)
	37,318	40,684

17 Results from shares in participations

The dividends received are as follows:	2019	2018
	EUR'000	EUR'000
Volkswagen Autoeuropa, Lda., Portugal	11,120	8,164
	11,120	8,164

18 Fees received

	2019	2018
	EUR'000	EUR'000
Service fees charged to:		
- Volkswagen Financial Services N.V.[1]	1,200	1,200
- Volkswagen Finance Overseas B.V.[1]	100	-
	1,300	1,200

[1] Compensation for the use of VIF's infrastructure and staff.
[2] Compensation for the processing and reporting of hedge effectiveness measurement calculations.

19 Other operating income

The other operating income consists of the following:

	2019	2018
	EUR'000	EUR'000
Translation gains	260	-
Miscellaneous income previous years	185	124
Income from sub-rental of office premises	50	50
	495	174

20 Impairment of shares in participations

The breakdown of the impairment expenses is as follows:

	2019	2018
	EUR'000	EUR'000
Volkswagen Group Saudi Arabia LLC	-	(1,294)
Skoda Auto Volkswagen India Private Ltd., India	186	29,000
	186	27,706

21 Personnel expenses

The breakdown of the personnel expenses is as follows:

	2019	2018
	EUR'000	EUR'000
Salaries and wages	1,721	1,628
Social security contributions	136	143
Pension contributions	185	173
	2,042	1,944

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

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

22 Other operating expenses

Other operating expenses consists of the following	2019	2018
	EUR'000	EUR'000
Office expenses	520	720
Insurance	150	185
Consulting, auditing and legal fees	147	152
Temporary labour	-	10
Car expenses	44	44
Travel expenses	26	21
Training personnel	7	10
Miscellaneous expenses previous years	23	17
Bank charges	10	11
Translation losses	-	293
Changes in fair value of fx forwards	361	655
	1,288	2,118

23 Additions for provisions for liabilities

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

	2019	2018
	EUR'000	EUR'000
Provision Advance payments ATA and SAMACO	-	(1,901)
Provision Gamma	(29)	(29)
	(29)	(1,930)

24 Releases of provisions for liabilities

Same as in 2018, no releases of provisions for liabilities have been booked into the income statement during the financial year 2019.

25 Independent auditor's fees

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

	2019	2018
	EUR'000	EUR'000
Audit of the financial statements	72	72
Other audit procedures	63	103
Tax services	-	-
Other non-audit services	8	13
	143	188

BDO Audit & Assurance B.V. performed the local statutory audits in 2018 and 2019.
The other audit procedures relate to the audit of the group reporting packages and were performed by PricewaterhouseCoopers Accountants N.V.. The amount for Other audit procedures 2018 includes an amounf of 45 TEUR for the financial year 2017.

26 Related parties

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

27 Average number of employees

In 2019, the average number of employees calculated on a full-time-equivalent basis was 14 (2018: 13). There were no employees working abroad.

28 Financial instruments

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

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

	Interest swaps	**Interest/ currency swaps**	**FX Contracts**	**Total**
	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2019	2,250,000	2,986,151	13,086	5,249,237
31 December 2018	2,250,000	3,832,820	16,740	6,099,560

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

	Interest swaps	**Interest/ currency swaps**	**FX contracts**	**Total**
	EUR'000	EUR'000	EUR'000	EUR'000
31 December 2019				
Positive market value	18,562	101,696	166,362	286,621
Negative fair value	(41,651)	(10,418)	(202,389)	(254,458)
Total market value	(23,089)	91,278	(36,026)	32,163
31 December 2018				
Positive market value	31,534	181,736	159	213,429
Negative fair value	(14,880)	(38,194)	(271)	(53,345)
Total market value	16,654	143,542	(112)	160,084

29 Taxation on result on ordinary activities

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

	2019	2018
	EUR'000	EUR'000
Result from ordinary activities before taxation	47,023	71,893
Of which income from participations (excluding gains/losses forward cover on dividend income and valuation result)	(11,120)	(33,940)
Result on ordinary activities	35,903	37,953
Taxation on result on ordinary activities	10,951	12,328
Effective tax rate	23.3%	17.1%
Applicable tax rate	25.0%	25.0%

30 Profit distribution

The result after taxation of EUR 36,072,170.25 has been recognized in the retained earnings. Management proposes to distribute this amount as a dividend to its shareholder.

31 Post balance sheet events

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

32 Directors and Supervisory Directors

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

The remuneration for 2019 of the Management Board amounted to EUR 468,953 (2018: EUR 460,732) and is included in the personnel expenses (see note 21).

Supervisory Board:
- Stefan Rasche, Tervuren (Chairman)
- Gudrun Letzel, Hannover
- Björn Reinecke, Braunschweig

The members of the Supervisory Board have not received any remuneration for 2019 in their capacities as Directors of the Company (2018: nil).

Amsterdam, 12 March 2020

Management Board,

Original has been signed by
T. Fries

Original has been signed by
V. Delva

Supervisory Board,

Original has been signed by
S. Rasche

Original has been signed by
G. Letzel

Original has been signed by
B. Reinecke

Other information

Profit appropriation according to the Articles of Association

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

Independent auditor’s report

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

A. Report on the audit of the financial statements 2019

Our opinion

We have audited the financial statements 2019 of Volkswagen International Finance N.V., based in Amsterdam (‘VIF’ or the ‘Company’).

WE HAVE AUDITED	OUR OPINION
The financial statements comprise: 1. the balance sheet as at 31 December 2019; 2. the income statement for 2019; and 3. the notes comprising of a summary of the accounting policies and other explanatory information.	In our opinion the accompanying financial statements give a true and fair view of the financial position of Volkswagen International Finance N.V. as at 31 December 2019 and of its result for 2019 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Basis for our opinion

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

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

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

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at € 307 million. The materiality is based on a benchmark of total assets (representing 1% of reported total assets) which we consider to be one of the principal considerations of the users of the financial statements in assessing the financial performance of the Company. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of € 15.4 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our key audit matters

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

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

VALUATION OF LOANS	OUR AUDIT APPROACH
As discussed in Note 1.1 to the financial statements, the main purpose of VIF is the financing of companies and joint ventures belonging to the Volkswagen AG group ('Volkswagen Group') through offering bonds and issuing commercial papers. The repayment of these financial liabilities is being guaranteed by Volkswagen AG. We considered the valuation of the financial instruments granted to related parties as a key audit matter due to the size of the portfolio which consists of loans to (€ 27.8 billion) and receivables due from (€ 2.7 billion) Volkswagen Group companies and joint ventures as of year-end and due to the material impact an impairment may have on the income statement. These are initially recognized at fair value and subsequently measured at amortized cost. The estimation process is considered complex, and significant judgements is made by management in ascertaining the provision for impairment. In particular, judgement arises over the determination of objective evidence of impairment which may have a reliably measurable effect on the present value of estimated future cash flows.	The following procedures were performed to identify potential impairment triggers that affects the valuation of loans: 1. Discussed the impairment analysis with management and Supervisory Board and challenged the assumptions used by comparing them with external observable data (e.g., data from credit rating agencies). 2. Analyzed if there have been any impairment triggers at an individual loan level by challenging the fair values determined by management. 3. Tested the acceptability of impairment analysis method used by management by validating the mathematical accuracy and consistency of the method per counterparty. Further, we have also reviewed the latest financial information of Volkswagen AG and discussed with its external auditors to assess its ability to cover the repayment of financial securities issued by VIF in case of default. We assessed the adequacy of the disclosures in the financial statements relating to these financial instruments.

In 2015, there were irregularities identified by US authorities relating to nitrogen oxide emissions on certain Volkswagen diesel engines. This prompted Standard & Poor's and Moody's Investor Services to downgrade the credit rating of Volkswagen AG. This has an impact to the creditworthiness of the entities within Volkswagen Group with existing loan balances due to VIF and therefore could affect the valuation of the related accounts. Based on the impairment assessment performed by VIF, management has concluded that no impairment is necessary as of year-end.	

APPROPRIATENESS OF HEDGE ACCOUNTING	OUR AUDIT APPROACH
VIF entered into derivative contracts to manage its interest rate risks and currency risks relating to the financial instruments issued by the Company as well as the loans granted to Volkswagen Group companies. VIF's portfolio consists of forward contracts, long-term interest rate swaps and cross currency swaps. As of year-end, the notional amounts of the derivative instruments totaled € 5.2 billion. As discussed in Note 2.12, VIF applies cost price hedge accounting to its derivative transactions. Management assessed that the hedge is 100% effective by comparing the critical qualitative characteristics of the hedged item and the hedging instrument (derivatives). We have identified this as a key audit matter since inappropriate application of the hedging will have an impact to the income statement.	Our audit procedures included evaluating and validating the design and operating effectiveness of controls over treasury transactions, including key reconciliation and management review of the derivative transactions with authorized banks. The following procedures were performed to ascertain that the use of hedge accounting is appropriate: 1. Discussed with management the rationale for their expectation at the inception of the hedge that the hedging relationship will be highly effective and their process for reviewing its ongoing effectiveness. 2. Reviewed the documentation and hedge effectiveness testing performed by the management to ensure that the hedged transactions comply with the hedge accounting requirements, including designation and documentation requirements.

B. Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:
- the Supervisory Board report;
- the Management report; and
- other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:
- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The management is responsible for the preparation of the other information, including the management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

C. Report on other legal and regulatory requirements

Engagement

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

No prohibited non-audit services

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

D. Description of responsibilities regarding the financial statements

Responsibilities of management and the Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to 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 objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

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

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- 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 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 entity's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.

- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. 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.

Amstelveen, 12 March 2020

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

sgd.
drs. M.F. Meijer RA
