VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY

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

2018

Key Figures

VOLKSWAGEN FINANCIAL SERVICES AG

€ million	June 30, 2018	Dec. 31, 2017
Total assets	73,628	68,953
Loans to and receivables from customers attributable to		
Retail financing	16,068	16,269
Dealer financing	3,949	3,584
Leasing business	19,236	18,809
Lease assets	12,300	11,571
Equity	7,987	7,624

€ million	H1.2018	H1.2017
Operating profit[1]	329	201
Profit before tax[1]	352	179

Percent	June 30, 2018	Dec. 31, 2017
Equity ratio[2]	10.8	11.1

Number	June 30, 2018	Dec. 31, 2017
Employees	8,449	8,555
Germany	5,238	5,198
International	3,211	3,357

1 Previous year restated as explained in the disclosures on the leasing business in the United Kingdom and Irish markets, in the disclosures on the separately recognized derivatives in the United Kingdom market as well as on the discontinued operations in the section entitled “Restated Prior-Year Figures” in the notes.
2 Equity/Total assets.

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

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

Report on Economic Position

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

The Board of Management of Volkswagen Financial Services AG considers the course of business in the year 2018 to date to have been positive. Operating profit generated in the first half of the year exceeded the figure achieved in the corresponding period in 2017.

As a result of the reorganization of the legal entities on September 1, 2017, the profit or loss components for the derecognized companies for the period January 1 to June 30, 2017 had to be reclassified to profit/loss from discontinued operations in the IFRS income statement. The prior year-comparative figures in the income statement have therefore been restated accordingly.

New business worldwide recorded positive growth in the current year to date.

In the first six months of 2018, Volkswagen Financial Services AG lifted its business volume year-on-year, particularly in Germany.

At the end of the first half of 2018 the global share of total deliveries to customers of the Group (penetration) represented by leased and financed vehicles was on a level with the previous year at 18.1% (19.1%).

Funding costs were at a similar level to those incurred in the previous year despite the higher volume of business.

Credit risks remained on a constant level during the first six months of the financial year 2018. In the first half of 2018, further growth was achieved in the volume of loans and receivables on the back of the established sales promotion program with the brands and continuous expansion of the fleet business. This development was aided by continuing stabilization in the economic environment in European markets in particular. In total, the credit risk in the overall portfolio of Volkswagen Financial Services AG remained stable.

Steady contract growth in the residual value portfolio has been evident over the first six months of 2018, the main growth driver being the markets in Germany and Poland. Main factors behind this development are the implemented growth programs, solid growth of the global economy and further expansion in the fleet business, especially in the Europe region.

At Group level, liquidity risk remained stable overall, despite some volatility, and was kept within the limit. As of June 30, 2018, utilization of the liquidity risk limit at Volkswagen Financial Services AG was 56%.

In the case of interest rate risk, the utilization of the limit as of June 30, 2018 came to 79% and was thus roughly at the level reported for the beginning of the year.

CHANGES IN EQUITY INVESTMENTS

As of February 1, 2018, Volkswagen Pon Financial Services B.V., Amersfoort, Netherlands, in which Volkswagen Financial Services holds a 60% equity investment, acquired the two Dutch leasing companies Lexpoint Lease B.V., Hoofddorp, and Arena Lease B.V., Venlo, thereby expanding its portfolio by approximately 2,000 contracts.

Effective March 1, 2018, Volkswagen-Versicherungsdienst GmbH, Braunschweig, sold 85% of the shares in Volkswagen-Versicherungsdienst GmbH, Vienna, Austria, to Porsche Bank AG, Salzburg, Austria.

Volkswagen Financial Services AG acquired a majority interest in Softbridge PT S.A., Lisbon, Portugal, ("Softbridge") with effective March 22, 2018. Softbridge holds 90% of the shares in VTXRM Software Factory Lda, Lisbon, Portugal. To complement its lead product "Accipiens", VTXRM offers a central software solution for finance and leasing companies as well as services such as software development, licensing, maintenance and customizing using various technologies.

In April 2018, Volkswagen Financial Services AG transferred all the shares in Mobility Trader GmbH, Berlin, to Mobility Trader Holding GmbH, Berlin, a newly established wholly owned subsidiary of Volkswagen Financial Services AG. Mobility Trader GmbH, Berlin, operates "heycar" in Germany, a non-captive used vehicle marketplace specializing in the online marketing of premium used vehicles.

Based on a purchase agreement dated May 2, 2018, Volkswagen Financial Services AG acquired 100% of the shares in the shelf company Elegant Compass Rent a Car A.E., Ilioupolis, Greece. The company was then renamed Volkswagen Financial Services Hellas A.E., Ilioupolis, Greece, with the planned purpose of selling operational leasing products for retail customers.

In May 2018, Volkswagen Versicherungsdienst GmbH, Braunschweig, Germany, a wholly owned subsidiary of Volkswagen Financial Services AG, sold its 51% equity investment in Volkswagen Insurance Service (Great Britain) Ltd. (VIS UK), Milton Keynes, Great Britain, to Volkswagen Financial Services (UK) Ltd. (VWFS UK), Milton Keynes, UK, a wholly owned subsidiary of Volkswagen Bank GmbH, Braunschweig, Germany.

In the first half of 2018, Volkswagen Financial Services AG increased the capital of the following companies to strengthen their capital resources:

- Volkswagen Møller Bilfinans A/S, Oslo, Norway
- Mobility Trader GmbH, Berlin, Germany
- Volkswagen Finance Luxemburg II S.A., Strassen, Luxembourg
- Volkswagen Financial Services Holding Argentina S.R.L., Buenos Aires

There were no other significant capital increases.

GENERAL ECONOMIC DEVELOPMENT

The global economy continued its solid growth in the first six months of 2018. The average expansion rate of gross domestic product (GDP) was up year-on-year in both the advanced and the emerging market economies. The majority of energy and commodity prices increased compared with the prior-year period amid a still comparatively low interest rate level. Growing upheaval in trade policy at international level led to substantially increased uncertainty.

As a whole, the economies of Western Europe recorded solid growth from January to June 2018, albeit with a slight decline in momentum. This trend was seen in the majority of both the Northern and Southern European countries.

With a favorable situation on the labor market, the growth trend in Germany continued in the period under review, though both business and consumer sentiment has deteriorated slightly over recent months.

In the economies of Central Europe, growth rates remained relatively high in the first half of 2018. In Eastern Europe, the higher energy price level compared to the prior-year period boosted economic growth. Russia's economy slowly continued its economic recovery.

Amid persistent structural deficits and political challenges, the growth rate of South Africa's GDP was steady in the first half of 2018 compared to the same period of the previous year.

The pace of growth in the US economy increased again in the course of the reporting period, with considerable stimulus being provided by private domestic demand. Given the stable situation in the labor market and the expected inflation trend, the US Federal Reserve decided to gradually raise its key interest rate. Momentum decreased in both Canada and Mexico compared to the prior-year period.

Brazil left behind the economic downswing and continued the economic growth seen in the preceding quarters; the situation in South America's largest economy nevertheless remained tense. Argentina's economic situation worsened considerably over the first half of the year amid persistently high inflation. Given the difficult situation, the government requested financial aid from the International Monetary Fund.

The high growth momentum in the Chinese economy remained virtually unchanged during the reporting period. India expanded strongly, outperforming most emerging markets. Japan registered weaker GDP growth than in the same period of the previous year.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Automotive financial services were in high demand in the first half of 2018, which was primarily due to the positive development of the overall market for passenger cars and the persistently low key interest rates in the main currency areas.

Higher vehicle sales, particularly in Western and Central Europe, gave a boost to the European market. Financing and leasing were the options preferred by customers, especially for purchases of new vehicles. After-sales products such as inspection contracts, maintenance and spare parts agreements and automotive-related insurance were also in high demand in the first six months of 2018.

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

Demand for financing and insurance products in South Africa was steady.

In the US and Mexican markets, automotive financial services remained very popular in the period from January to June 2018.

The Brazilian market picked up pace and saw a continuation of the recovery in the demand for automobiles that began during 2017. However, the consumer credit business and sales of the country-specific financial services product Consorcio, a lottery-style savings plan, remained stable in the first half of 2018. The Argentinian market also built on the previous year's positive development. In addition to traditional financing and leasing products, a new form of financing established itself that is tied to the index of inflation.

Demand for automotive financial services across the Asia-Pacific region was mixed in the first half of 2018. In China, the proportion of loan-financed vehicle purchases rose compared with the prior-year period. Despite increasing restrictions on registrations in metropolitan areas, there is considerable potential to acquire new customers for automotive-related financial services, particularly in the interior of the country. The demand for automotive financial services rose in the Indian market, while it tapered off slightly in Japan.

The demand for financial services in the Commercial Vehicles Business Area also varied from region to region. The positive trend from 2017 continued in China, and particularly in Western Europe. The truck and bus business and the related financial services market have stabilized in Brazil.

TRENDS IN THE PASSENGER CAR MARKETS

Global demand for passenger cars increased in the period from January to June 2018 (+3.5%). It thus exceeded the comparable prior-year figure for the ninth year in a row. While demand in Western Europe and North America only saw a slight increase, the Asia-Pacific, South America, as well as Central and Eastern Europe regions enjoyed a marked growth in demand in some cases.

In Western Europe, demand for passenger cars in the reporting period was slightly up overall on the prior-year level due to the positive development in the second quarter. New vehicle registrations were mixed in the largest single markets. Attractive incentive programs in particular led to a double-digit growth rate in the Spanish market. In France, the increase in passenger car sales was underpinned by the positive macroeconomic environment. By contrast, new registrations in Italy declined slightly overall due to falling private demand. This was influenced, among other things, by the political uncertainty during the formation of a new government. In the UK, new registrations fell considerably short of the previous years' high levels. However, the negative effects of the change in vehicle tax as of April 1, 2017 were alleviated by a positive second quarter. The uncertain outcome of the Brexit negotiations between the EU and UK also continued to weigh on demand. The share of new registrations for diesel vehicles (passenger cars) in Western Europe slipped to 37.7 (46.0)% in the reporting period.

In Germany, the number of new passenger car registrations in the first six months of 2018 increased year-on-year. This was the second-best half-year figure since 1999. In addition to the continuing positive economic situation, sales incentives from dealers, particularly in the form of an environmental bonus, underpinned the very high level of sales. This positive performance was driven exclusively by the large increase in private registrations.

In the Central and Eastern Europe region, demand for passenger cars showed another significant year-on-year rise during the reporting period. The EU markets in Central Europe mostly recorded positive rates of change. The number of new passenger car registrations also rose further in Eastern Europe. This was due in particular to the strong rise in the Russian market – bolstered by government programs to promote sales.

On the South African passenger car market, new registrations stagnated in the first six months of 2018 at the weak level seen in the prior-year period. The new political environment following the change of president had little positive impact.

In North America, sales of passenger cars and light commercial vehicles (up to 6.35 tonnes) in the first half of 2018 were slightly up on the prior-year level. In the USA, market growth was driven by the favorable labor market and the greater purchasing power of consumers. The shift in demand from traditional passenger cars to light commercial vehicles such as SUV and pickup models continued in the reporting period. The Canadian automotive market fell just short of the previous year's all-time high due to a slight decline in the second quarter. In Mexico, the number of vehicles sold was considerably lower than the record figure seen in the same period of the previous year.

In the markets of the South America region, new registrations for passenger cars and light commercial vehicles in the first six months of 2018 witnessed a significant improvement on the previous year's low level. Brazil's recovery in the demand for automobiles, which had begun in 2017, maintained its rapid pace. However, the number of new vehicle registrations was still markedly lower than the record level achieved in 2013. Argentina recorded a considerable increase in demand for passenger cars and light commercial vehicles. However, the worsening macroeconomic situation in the second quarter curbed this growth.

The Asia-Pacific region recorded by far the highest absolute increase in demand once more in the first half of 2018. Once again, the growth driver was the Chinese passenger car market, the expansion of which was faster than average, despite the abolition of the tax break for vehicles with engine sizes of up to 1.6 l at the end of 2017 as well as the announcement of a general reduction of import duties from 25% to 15%. The sustained high demand for models from the SUV segment was primarily responsible for the positive impact on growth. Passenger car sales in India also reached a new record high. The strong growth was particularly due to the improved situation caused by the standardized goods and services tax introduced throughout the country on July 1, 2017, coupled with attractive price and financing options. In contrast, the Japanese passenger car market remained moderately down on the comparable prior-year volume. The decline was attributable, among other things, to the subsiding impact stemming from the introduction of new models.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

Global demand for light commercial vehicles was down on the previous year in the period from January to June 2018.

Despite the uncertain outcome of the Brexit negotiations between the EU and UK, new registrations in Western Europe were slightly higher than the prior-year level. Demand in Germany was also up year-on-year in the reporting period.

Registrations of light commercial vehicles in Central and Eastern Europe recorded a noticeable increase compared with the previous year. Registrations in Russia between January and June 2018 were likewise perceptibly higher than in the previous year.

In North and South America, the light vehicle market is reported as part of the passenger car market, which includes both passenger cars and light commercial vehicles.

In the Asia-Pacific region, demand for light commercial vehicles declined noticeably compared with the previous year. Registration volumes in China, the region's dominant market and the greatest market worldwide, fell sharply year-on-year. The number of new vehicle registrations in India, Indonesia and Thailand saw a strong increase versus the previous year.

In the markets that are relevant for the Volkswagen Group, global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes was above the prior-year figure between January and June 2018.

Demand in Western Europe saw a slight increase over the 2017 level. New registrations in Germany, Western Europe's largest market, were slightly lower year-on-year in the first half of 2018. While demand in the United Kingdom saw a moderate decline, it rose significantly in Italy, Spain and France.

In the Central and Eastern Europe region, the positive economic performance led to significantly higher registration volumes compared with the previous year. Above all, demand in Russia recorded a sizeable increase on the back of the continued recovery of the economy and demand for replacement vehicles.

The volume of registrations in South America was sharply higher than in the first half of 2017. In Brazil, the region's largest market, demand for trucks grew very sharply compared with the low figure for the prior-year period as a consequence of the economic recovery. A considerable increase in registration volumes was also seen in Argentina.

Demand for buses in the markets that are relevant for the Volkswagen Group was moderately above the prior-year level in the period from January to June 2018. The markets in Brazil as well as in Central and Eastern Europe contributed in particular to this growth.

FINANCIAL PERFORMANCE

As a result of the reorganization of the legal entities in the Volkswagen Financial Services AG Group on September 1, 2017, the income and expense components for the derecognized companies have been reclassified in the income statement for the comparative period to profit/loss from discontinued operations in accordance with IFRS requirements. The overall presentation has therefore been adjusted accordingly and all prior-year comparative figures relating to financial performance have been restated.

The disclosures on financial performance relate to the changes compared with the corresponding period in 2017.

The companies in the Volkswagen Financial Services AG Group performed well in the first half of 2018. At €329 million (+63.5%), operating profit exceeded the figure achieved in the corresponding period in the previous year. Interest income from lending transactions and marketable securities of €982 million (–1.3%), net income from leasing transactions of €479 million (–0.4%) and interest expenses of €520 million (–0.7%) were all slightly below the prior-year level. In contrast, net income from service contracts of €84 million (+56.7%) and net income from insurance transactions of €79 million (+37.2%) were well above the figures achieved in the corresponding period in the previous year.

The provision for credit risks amounted to €127 million, significantly below the level in the prior-year period. Credit risks to which the Volkswagen Financial Services AG Group is exposed as a result of various critical situations (economic crises, impact of block on sales) in Italy, Russia, Brazil, Mexico, India and the Republic of Korea were accounted for in the reporting period by recognizing valuation allowances. These valuation allowances were maintained at the same level in the first half of 2018.

Net fee and commission income amounted to €60 million (–2.7%), a slight decline on the prior-year level.

From the current fiscal year, the following income statement line items have been created within operating profit or loss to adjust the breakdown in line with the standard market presentation: net gain or loss on hedges, net gain or loss on financial instruments measured at fair value and net gain or loss on disposal of financial assets measured at fair value not recognized in profit or loss; for this reason, there are no comparative prior-year figures for these items.

General and administrative expenses were up slightly on the prior-year level at €901 million.

Net other operating income was well below the prior-year level at €132 million (–43.0%), particularly reflecting a negative impact from foreign currency measurement (other than hedges).

The share of profits and losses of equity-accounted joint ventures was below the level of the prior-year period at €28 million (–13.3%).

As a result of the net loss on miscellaneous financial assets of €3 million (previous year: loss of €53 million) and the other income and expense components, the profit from continuing operations, net of tax, generated by the Volkswagen Financial Services AG Group rose compared with the corresponding period in the previous year to €247 million (+96.9%).

The German companies continued to account for the highest business volumes with 57.3% of all contracts, forming a strong and solid foundation.

NET ASSETS AND FINANCIAL POSITION

The disclosures on net assets and financial position relate to the changes compared with the balance sheet date of December 31, 2017.

Lending Business

At €65.3 billion in total, loans to and receivables from customers and lease assets – which make up the core business of the Volkswagen Financial Services AG Group – accounted for approximately 88.7% of the Group's total assets. The positive trend reflected, in particular, the expansion of business in Germany.

The volume of retail financing lending fell by €0.2 billion to €16.1 billion (– 1,2 %). The number of new contracts was 439 thousand (+1.9% compared with the restated figure for the first half of 2017). As a consequence, the number of current contracts rose to 2,201 thousand (+1.5%).

The lending volume in dealer financing – which comprises loans to and receivables from Group dealers in connection with financing for inventory vehicles, as well as working capital and investment loans – increased to €3.9 billion (+10.2%).

Receivables from leasing transactions were up 2.3% year-on-year to €19.2 billion. Lease assets recorded growth of €0.7 billion to €12.3 billion (+6.3%).

A total of 356 thousand new leasing contracts were signed in the reporting period, surpassing the figure for the first half of 2017 (+1.5%). The number of leased vehicles as of June 30, 2018, was 1,617 thousand, a year-on-year increase of 3.8%. As in previous years, the largest contribution came from Volkswagen Leasing GmbH, which had a contract portfolio of 1,445 (1,386) thousand lease vehicles.

Total assets of the Volkswagen Financial Services AG Group rose to €73.6 billion (+6.8%). This growth is primarily the result of the increase in loans to and receivables from customers and in lease assets and hence reflects the business expansion over the reporting period.

The number of service and insurance contracts as of June 30, 2018 was 4,579 (4,796) thousand. The total of 875 thousand new contracts was below the figure for the first half of 2017 (–6.3%).

KEY FIGURES BY SEGMENT AS OF JUNE 30, 2018

Thousands	Germany	China	Mexico	Brazil	Other companies[1]	VW FS AG Group
Current contracts	**4,815**	**1,163**	**703**	**451**	**1,266**	**8,397**
Retail financing	–	1,163	240	386	413	2,201
Leasing business	1,354	–	78	6	180	1,617
Service/insurance	3,461	–	386	59	673	4,579
New contracts	**921**	**248**	**137**	**94**	**270**	**1,670**
Retail financing	–	248	38	78	75	439
Leasing business	293	–	17	1	45	356
Service/insurance	628	–	83	15	150	875
€ million						
Loans to and receivables from customers attributable to						
Retail financing	–	7,178	1,186	2,086	5,618	16,068
Dealer financing	7	471	517	401	2,553	3,949
Leasing business	17,483	–	422	38	1,293	19,236
Lease assets	10,518	–	127	14	1,641	12,300
Investment[2]	2,146	–	6	1	455	2,608
Operating profit	61	113	44	74	37	329
Percent						
Penetration[3]	41.1	12.6	50.8	35.2	–	18.1

1 The Other Companies segment covers the following markets: Australia, France, India, Italy, Japan, Korea, Poland, Portugal and Russia. It also includes the VW FS AG holding company, the holding and financing companies in the Netherlands, France and Belgium, EURO Leasing companies in Germany, Denmark and Poland, Volkswagen Insurance Brokers GmbH, Volkswagen Versicherung AG and consolidation effects.
2 Corresponds to additions to lease assets classified as noncurrent assets.
3 Ratio of new contracts for new Group vehicles under retail financing and leasing business to deliveries of Group vehicles, based on Volkswagen Financial Services AG's consolidated entities.

Deposit Business and Borrowings

The significant liability items were liabilities to banks in the amount of €10.9 billion (–1.1%), liabilities to customers amounting to €12.7 billion (+30.8%) and notes and commercial paper issued of €34.2 billion (+5.3%).

Equity

The subscribed capital remained unchanged at €441 million in the reporting period. Equity in accordance with IFRSs was €8.0 (7.6) billion. This resulted in an equity ratio of 10.8% based on total assets of €73.6 billion.

Report on Opportunities and Risks

REPORT ON OPPORTUNITIES

Macroeconomic Opportunities

The Board of Management of Volkswagen Financial Services AG expects further economic growth in the majority of markets to be accompanied by a moderate increase in deliveries to customers of the Volkswagen Group. Volkswagen Financial Services AG supports this positive trend by providing financial services products designed to promote sales.

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

Strategic Opportunities

As well as continuing its international focus by tapping new markets, Volkswagen Financial Services AG believes that developing innovative products that are tailored to customers' changing mobility requirements offers additional opportunities. Growth areas such as mobility products and service offerings are being systematically developed and expanded. Further opportunities may be created by launching established products in new markets.

The digitalization of our business represents a significant opportunity for Volkswagen Financial Services AG. The aim is to ensure that all key products are also available online around the world by 2020, thereby enabling the Company to enhance efficiency. By expanding digital sales channels, we are promoting direct sales and facilitating the development of a platform for used vehicle finance. We are thereby addressing the changing needs of our customers and strengthening our competitive position.

RISK REPORT

There were no material changes in the reporting period to the details set out in the report on opportunities and risks in the 2017 Annual Report.

Human Resources Report

Volkswagen Financial Services AG had 8,255 active employees worldwide as of June 30, 2018. In addition to the active workforce in the first half of 2018, Volkswagen Financial Services AG had 85 employees who had reached the passive phase of their partial retirement agreements, and 109 vocational trainees. The total number of employees at Volkswagen Financial Services AG as of June 30, 2018 was therefore 8,449, a decrease of 1.2% compared to the headcount of 8,555 at the end of 2017.

The significantly lower employee numbers compared with the first half of 2017 resulted from the restructuring of the legal entities within the Volkswagen Financial Services AG Group.

The headcount increase of 61 in Germany was primarily attributable to the recruitment of specialists. Currently, 5,238 people are employed in Germany.

Based on economic considerations, 352 employees of Volkswagen Servicios S.A. de C.V., Puebla, Mexico, which is an unconsolidated company, are included in the overall workforce figures.

Report on Expected Developments

The Board of Management of Volkswagen Financial Services AG expects the global economy to record slightly weaker growth in 2018. We believe risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will continue to be hurt by geopolitical tensions and conflicts. We therefore expect somewhat weaker momentum than in 2017 in both the advanced economies and the emerging markets. We expect the strongest rates of expansion in Asia's emerging economies.

We expect trends in the passenger car markets in the individual regions to be mixed in 2018. Overall, growth in global demand for new vehicles will probably be slower than in 2017. We anticipate that unit sales volumes in Western Europe will fall slightly short of those seen in the previous year. In the German passenger car market, we estimate that the market volume will be on a level with the previous year. Passenger car demand is expected to substantially exceed the prior-year figures in markets in Central and Eastern Europe. The volume of demand in the markets for passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America is likely to be slightly lower than in the prior year. We expect demand in the South American markets for passenger cars and light commercial vehicles to grow perceptibly as a whole compared with the previous year. The passenger car markets in the Asia-Pacific region look set to continue their growth trajectory in 2018, albeit at a weaker pace.

We expect trends in the markets for light commercial vehicles in the individual regions to be mixed again in 2018. Overall, we envisage a slight dip in demand.

In the markets for mid-sized and heavy trucks that are relevant for the Volkswagen Group and in the relevant markets for buses, new registrations in 2018 are set to rise slightly above the prior-year level.

We believe that automotive financial services will continue to be very important for vehicle sales worldwide in 2018.

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

In the medium term, we anticipate moderate interest rate increases in the majority of interest rate zones.

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

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

We anticipate that the trend toward an increase in new contracts and growth in the portfolio of current contracts from previous years will continue. In addition, we assume that we will be able to keep our 2018 penetration rate at 2017 levels in a vehicle market generally expected to expand more slowly. We expect the business volume to increase slightly.

Assuming that margins remain stable, the operating profit in fiscal year 2018 is expected to be at the level achieved in fiscal year 2017.

The forecast earnings growth and stable capital adequacy are expected to lead to a steady return on equity in 2018 compared with the previous year. We expect the cost/income ratio in 2018 to be at the level of the previous year.

This report contains forward-looking statements on the future business development of Volkswagen Financial Services AG. These statements are based on assumptions relating to the development of the economic and legal environment in individual countries and economic regions in terms of the global economy and of the financial and automotive markets, which we have made on the basis of the information available to us and which we currently consider to be realistic. The estimates given entail a degree of risk, and the actual developments may differ from those forecast. Any unexpected fall in demand or economic stagnation in the key sales markets of the Volkswagen Group will have a corresponding impact on the development of our business. The same applies in the event of material changes in exchange rates against the euro. In addition, expected business development may vary if the assessments of the key performance indicators and of risks and opportunities presented in the 2017 Annual Report develop differently to our current expectations, or additional risks and opportunities or other factors emerge that affect the development of our business.

Interim Consolidated Financial Statements (Condensed)

Income Statement
of the Volkswagen Financial Services AG Group

€ million	Note	Jan. 1 – June 30, 2018	Jan. 1 – June 30, 2017 restated[1]	Change in percent
Interest income from lending transactions and marketable securities		982	995	–1.3
Income from leasing transactions		4,493	4,224	6.4
Depreciation, impairment losses and other expenses from leasing transactions		–4,015	–3,743	7.3
Net income from leasing transactions		479	481	–0.4
Interest expense		–520	–523	–0.7
Income from service contracts		649	779	–16.7
Expenses from service contracts		–565	–726	–22.1
Net income from service contracts		84	53	56.7
Income from insurance transactions		154	126	22.1
Expenses from insurance transactions		–75	–69	9.6
Net income from insurance business		79	57	37.2
Provision for credit loss risks		–127	–277	–54.4
Fee and commission income		302	141	X
Fee and commission expenses		–243	–80	X
Net fee and commission income		60	61	–2.7
Net gain or loss on hedges		27	–	X
Net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income		36	–	X
General and administrative expenses	1	–901	–877	2.7
Other operating income		396	331	19.7
Other operating expenses		–264	–99	X
Net other operating income		132	231	–43.0
Operating profit		**329**	**201**	**63.5**
Share of profits and losses of equity-accounted joint ventures		28	33	–13.3
Net gain or loss on miscellaneous financial assets		–3	–53	–93.6
Other financial gains or losses		–2	–2	13.4
Profit before tax		**352**	**179**	**96.6**
Income tax expense		–105	–54	96.0
Profit from continuing operations, net of tax		**247**	**125**	**96.9**
Profit from discontinued operations, net of tax		–	432	X
Profit after tax		**247**	**558**	**–55.7**
Profit after tax attributable to noncontrolling interests		0	–	X
Profit after tax attributable to Volkswagen AG		247	558	–55.7
German GAAP profit/loss attributable to Volkswagen AG in the event of loss absorption/profit transfer		–396	138	X

1 Previous year restated as explained in the disclosures on the leasing business in the United Kingdom and Irish markets, in the disclosures on the separately recognized derivatives in the United Kingdom market as well as on the discontinued operations and changes to the presentation of the income statement in the section entitled “Restated Prior-Year Figures” in the notes.

Statement of Comprehensive Income of the Volkswagen Financial Services AG Group

€ million	Jan. 1 – June 30, 2018	Jan. 1 – June 30, 2017
Profit after tax	**247**	**558**
Pension plan remeasurements recognized in other comprehensive income		
Pension plan remeasurements recognized in other comprehensive income, before tax	–5	37
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	2	–11
Pension plan remeasurements recognized in other comprehensive income, net of tax	–4	26
Fair value valuation of other participations and securities (equity instruments) that will not be reclassified to profit or loss, net of tax	–	0
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax	0	–1
Items that will not be reclassified to profit or loss	**–4**	**25**
Exchange differences on translating foreign operations		
Gains/losses on currency translation recognized in other comprehensive income	–108	–167
Transferred to profit or loss	–	–
Exchange differences on translating foreign operations, before tax	–108	–167
Deferred taxes relating to exchange differences on translating foreign operations	–	–
Exchange differences on translating foreign operations, net of tax	–108	–167
Hedging		
Fair value changes recognized in other comprehensive income (OCI I)	–24	–10
Transferred to profit or loss (OCI I)	18	0
Cash flow hedges (OCI I), before tax	–6	–10
Deferred taxes relating to cash flow hedges (OCI I)	1	3
Cash flow hedges (OCI I), net of tax	–4	–7
Fair value changes recognized in other comprehensive income (OCI II)	–	–
Transferred to profit or loss (OCI II)	–	–
Cash flow hedges (OCI II), before tax	–	–
Deferred taxes relating to cash flow hedges (OCI II)	–	–
Cash flow hedges (OCI II), net of tax	–	–
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss		
Fair value changes recognized in other comprehensive income	–1	–16
Transferred to profit or loss	1	1
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, before tax	–1	–15
Deferred taxes relating to fair value valuation of securities and receivables (debt instruments) recognized in other comprehensive income	0	6
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, net of tax	0	–10
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss, net of tax	–10	–12
Items that may be reclassified to profit or loss	**–123**	**–196**
Other comprehensive income, before tax	–130	–168
Deferred taxes relating to other comprehensive income	3	–2
Other comprehensive income, net of tax	**–127**	**–170**
Total comprehensive income	**120**	**387**
Total comprehensive income attributable to Volkswagen AG	120	387

€ million	Jan. 1 – June 30, 2018	Jan. 1 – June 30, 2017
Classification of total comprehensive income attributable to Volkswagen AG		
Continuing operations	120	–13
Discontinued operations	–	400

Balance Sheet
of the Volkswagen Financial Services AG Group

€ million	Note	June 30, 2018	Dec. 31, 2017	Change in percent
Assets				
Cash reserve		34	40	–15.0
Loans to and receivables from banks		2,110	1,444	46.1
Loans to and receivables from customers attributable to				
Retail financing		16,068	16,269	–1.2
Dealer financing		3,949	3,584	10.2
Leasing business		19,236	18,809	2.3
Other loans and receivables		13,771	11,143	23.6
Total loans to and receivables from customers		53,024	49,804	6.5
Derivative financial instruments		460	555	–17.1
Marketable securities		258	257	0.4
Equity-accounted joint ventures		664	631	5.2
Miscellaneous financial assets		426	373	14.2
Intangible assets	2	59	59	0.0
Property and equipment	2	281	265	6.0
Lease assets	2	12,300	11,571	6.3
Investment property		10	10	0.0
Deferred tax assets		1,038	1,035	0.3
Current tax assets		444	137	X
Other assets		2,519	2,772	–9.1
Total		**73,628**	**68,953**	**6.8**

€ million	Note	June 30, 2018	Dec. 31, 2017	Change in percent
Equity and liabilities				
Liabilities to banks		10,866	10,982	–1.1
Liabilities to customers		12,650	9,673	30.8
Notes, commercial paper issued		34,161	32,453	5.3
Derivative financial instruments		110	211	–47.9
Provisions for pensions and other post-employment benefits		366	360	1.7
Underwriting provisions and other provisions		918	888	3.4
Deferred tax liabilities		262	447	–41.4
Current tax liabilities		701	348	X
Other liabilities		1,318	1,613	–18.3
Subordinated capital		4,288	4,354	–1.5
Equity		7,987	7,624	4.8
Subscribed capital		441	441	–
Capital reserves		2,600	2,600	–
Retained earnings		5,750	5,264	9.2
Other reserves		–806	–683	18.0
Equity attributable to noncontrolling interests		2	2	0
Total		**73,628**	**68,953**	**6.8**

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

				OTHER RESERVES						
					Hedging transactions					
€ million	Subscribed capital	Capital reserves	Retained earnings	Currency translation	Cash flow hedges (OCI I)	Deferred hedging costs (OCI II)	Equity and debt instruments	Equity-accounted investments	Non-controlling interests	Total equity
Balance as of Jan. 1, 2017	**441**	**10,449**	**6,564**	**–514**	**10**	**–**	**36**	**–35**	**–**	**16,951**
Profit after tax	–	–	558	–	–	–	–	–	–	558
Other comprehensive income, net of tax	–	–	26	–167	–7	–	–9	–13	–	–170
Total comprehensive income	**–**	**–**	**583**	**–167**	**–7**	**–**	**–9**	**–13**	**–**	**387**
Capital increases	–	1,000	–	–	–	–	–	–	–	1,000
Other changes[1]	–	–	–138	–	–	–	–	–	–	–138
Balance as of June 30, 2017	**441**	**11,449**	**7,009**	**–681**	**3**	**–**	**26**	**–47**	**–**	**18,200**
Balance before adjustment on Jan. 1, 2018	**441**	**2,600**	**5,264**	**–633**	**7**	**–**	**2**	**–59**	**2**	**7,624**
Change in accounting treatment as a result of IFRS 9	–	–	–152	–	–	–	0	–	0	–152
Balance as of Jan. 1, 2018	**441**	**2,600**	**5,112**	**–633**	**7**	**–**	**2**	**–59**	**2**	**7,472**
Profit after tax	–	–	247	–	–	–	–	–	0	247
Other comprehensive income, net of tax	–	–	–4	–108	–4	–	0	–10	0	–127
Total comprehensive income	**–**	**–**	**243**	**–108**	**–4**	**–**	**0**	**–10**	**0**	**120**
Capital increases	–	–	–	–	–	–	–	–	–	–
Other changes[2]	–	–	395	–	–	–	–	–	–	395
Balance as of June 30, 2018	**441**	**2,600**	**5,750**	**–741**	**3**	**–**	**1**	**–69**	**2**	**7,987**

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

Cash Flow Statement
of the Volkswagen Financial Services AG Group

€ million	Jan. 1 – June 30, 2018	Jan. 1 – June 30, 2017
Profit after tax	**247**	**558**
Depreciation, amortization, impairment losses and reversals of impairment losses	1,037	1,646
Change in provisions	58	27
Change in other noncash items	88	670
Gain/loss on disposal of financial assets and items of property and equipment	–34	0
Net interest expense and dividend expense[1]	–808	–1,882
Other adjustments	1	–1
Change in loans to and receivables from banks	–696	–179
Change in loans to and receivables from customers	–3,369	–4,329
Change in lease assets	–1,821	–2,518
Change in other assets related to operating activities	206	–121
Change in liabilities to banks	0	1,851
Change in liabilities to customers	2,990	–1,144
Change in notes, commercial paper issued	1,822	1,905
Change in other liabilities related to operating activities	–285	217
Interest received	1,327	2,528
Dividends received[1]	1	11
Interest paid	–520	–656
Income taxes paid	–207	–279
Cash flows from operating activities	**37**	**–1,696**
Proceeds from disposal of investment property	–	–
Acquisition of investment property	–	–
Proceeds from disposal of subsidiaries and joint ventures	30	0
Acquisition of subsidiaries and joint ventures	–75	–28
Proceeds from disposal of other assets	1	2
Acquisition of other assets	–36	–33
Change in investments in marketable securities	–6	130
Cash flows from investing activities	**–86**	**71**
Proceeds from changes in capital	–	1,000
Distribution/profit transfer to Volkswagen AG	–	–130
Loss assumed by Volkswagen AG	82	–
Change in cash funds attributable to subordinated capital	–35	704
Cash flows from financing activities	**47**	**1,574**
Cash and cash equivalents at end of prior period	**40**	**1,478**
Cash flows from operating activities	37	–1,696
Cash flows from investing activities	–86	71
Cash flows from financing activities	47	1,574
Effect of exchange rate changes	–4	2
Cash and cash equivalents at end of period	**34**	**1,429**

1 Prior-year figures adjusted for profit and loss transfers.

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

Notes to the Interim Consolidated Financial Statements

of the Volkswagen Financial Services AG Group for the Period Ended June 30, 2018

General Information

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

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

Basis of Presentation

VW FS AG prepared its consolidated financial statements for the year ended December 31, 2017 in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), and the interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRS IC) as well as in accordance with the additional disclosures required by German commercial law under section 315a(1) of the Handelsgesetzbuch (HGB – German Commercial Code). These interim consolidated financial statements for the period ended June 30, 2018 have therefore also been prepared in accordance with IAS 34 and represent a condensed version compared with the full consolidated financial statements. No review of these interim financial statements has been carried out by an independent auditor.

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

Restated Prior-Year Figures

LEASING BUSINESS IN THE UNITED KINGDOM AND IRISH MARKETS

To standardize the presentation in the consolidated financial statements for the year ended December 31, 2017, some of the receivables reported as retail financing in the United Kingdom and Irish markets were for the first time reported as receivables from leasing transactions. In this regard, in the UK market, the portfolio-based valuation allowances relating to the risk of early termination previously included in the net carrying amount of loans/receivables from retail financing were separately recognized as derivative financial instruments on the liabilities side.

The prior-year income statement has been restated as follows as a result of the changes arising from the leasing business in the United Kingdom and Irish markets:

€ million	Jan. 1 – June 30, 2017 before restated figures	Restated leasing business	Jan. 1 – June 30, 2017 after restated leasing business
Interest income from lending transactions	2,083	–352	1,731
Income from leasing transactions and service contracts	7,692	352	8,045
Net income from leasing transactions before provision for credit risks	662	352	1,014
Net income from lending, leasing and insurance transactions before provision for credit risks	2,147	–	2,147
Provision for credit risks from lending and leasing business	–259	18	–241
Net income from lending, leasing and insurance transactions after provision for credit risks	1,888	18	1,906
Net gain/loss on the measurement of derivative financial instruments and hedged items	17	–18	0
Profit before tax	**796**	**–**	**796**
Income tax expense	–238	–	–238
Profit from continuing operations, net of tax	**558**	**–**	**558**
Profit from discontinued operations, net of tax	–	–	–
Profit after tax	**558**	**–**	**558**
Profit after tax attributable to Volkswagen AG	558	–	558

DISCONTINUED OPERATIONS: EUROPEAN LENDING AND DEPOSITS BUSINESS

As a result of the reorganization of the legal entities in the Volkswagen Financial Services AG Group on September 1, 2017, the prior-year comparative figures for the derecognized companies in the discontinued operations (European lending and deposits business) have been reclassified in the IFRS income statement to profit/loss from discontinued operations. Please refer to the details in note (2) of the notes to the consolidated financial statements in the 2017 Annual Report for further disclosures relating to the derecognized companies.

The figures in the prior-year income statement have been restated as follows with regard to the discontinued operations.

€ million	Jan. 1 – June 30, 2017 after restated leasing business	Discontinued operations	Jan. 1 – June 30, 2017 after restated leasing business/discontinued operations
Interest income from lending transactions	1,731	–736	996
Income from leasing transactions and service contracts	8,045	–3,104	4,940
Expenses from leasing transactions and service contracts	–5,579	2,145	–3,434
Depreciation of and impairment losses on lease assets and investment property	–1,451	417	–1,035
Net income from leasing transactions before provision for credit risks	1,014	–543	471
Interest expense	–656	129	–527
Income from insurance transactions	126	–	126
Expenses from insurance transactions	–69	0	–69
Net income from insurance business	58	0	57
Net income from lending, leasing and insurance transactions before provision for credit risks	2,147	–1,150	997
Provision for credit risks from lending and leasing business	–241	–36	–277
Net income from lending, leasing and insurance transactions after provision for credit risks	1,906	–1,186	720
Fee and commission income	276	–135	141
Fee and commission expenses	–247	167	–80
Net fee and commission income	30	31	61
Net gain/loss on the measurement of derivative financial instruments and hedged items	0	7	7
Share of profits and losses of equity-accounted joint ventures	36	–3	33
Net loss on marketable securities and miscellaneous financial assets	–43	–10	–53
General and administrative expenses	–1,122	234	–887
Other operating income	385	21	406
Other operating expenses	–396	288	–108
Net other operating income	–10	309	299
Profit before tax	**796**	**–617**	**179**
Income tax expense	–238	185	–54
Profit from continuing operations, net of tax	**558**	**–432**	**125**
Profit from discontinued operations, net of tax	–	432	432
Profit after tax	**558**	**–**	**558**
Profit after tax attributable to Volkswagen AG	558	–	558

CHANGES TO THE PRESENTATION OF THE INCOME STATEMENT

The presentation of the consolidated income statement for Volkswagen Financial Services AG has been modified following the implementation of both mandatory changes to accounting policies and voluntary changes to improve the presentation of the results of the Group.

The following table shows a reconciliation of the prior-year comparative figures from the previous presentation of the income statement to the new presentation, broken down by reconciliation columns according to the reason for the change.

Previous presentation	Jan. 1 – June 30, 2017 after restated leasing business/discontinued operations	ADJUSTMENT OF THE PRESENTATION FOR: Reversal of provisions	Service contracts	Other adjustments	Jan. 1 – June 30, 2017 restated	Amended presentation
Interest income from lending transactions	996	–	–	–1	995	Interest income from lending transactions and marketable securities
Income from leasing transactions and service contracts	4,940	63	–779	–	4,224	Income from leasing transactions
Expenses from leasing transactions and service contracts	–3,434	–	–309	–	–3,743	Depreciation, impairment losses and other expenses from leasing transactions
Depreciation of and impairment losses on lease assets and investment property	–1,035	–	1,035	–	–	
Net income from leasing transactions before provision for credit risks	471	63	–53	–	481	Net income from leasing transactions
Interest expense	–527	–	–	4	–523	Interest expense
	–	–	779	–	779	Income from service contracts
	–	–	–726	–	–726	Expenses from service contracts
	–	–	53	–	53	Net income from service contracts
Income from insurance transactions	126	–	–	–	126	Income from insurance transactions
Expenses from insurance transactions	–69	–	–	–	–69	Expenses from insurance transactions
Net income from insurance business	57	–	–	–	57	Net income from insurance business
Net income from lending, leasing and insurance transactions before provision for credit risks	997	63	–	3	–	
Provision for credit risks from lending and leasing business	–277	–	–	–	–277	Provision for credit loss risks
Net income from lending, leasing and insurance transactions after provision for credit risks	720	63	–	3	–	
Fee and commission income	141	0	–	–	141	Fee and commission income
Fee and commission expenses	–80	–	–	–	–80	Fee and commission expenses
Net fee and commission income	61	–	–	–	61	Net fee and commission income
Net gain/loss on the measurement of derivative financial instruments and hedged items	7	–	–	–7	–	
	–	–	–	–	–	Net gain or loss on hedges
	–	–	–	–	–	Net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income
Share of profits and losses of equity-accounted joint ventures	33	–	–	–33	–	
Net gain/loss on marketable securities and miscellaneous financial assets	–53	–	–	53	–	
General and administrative expenses	–887	7	–	4	–877	General and administrative expenses
Other operating income	406	–69	–	–6	331	Other operating income
Other operating expenses	–108	–	–	8	–99	Other operating expenses
Net other operating income/expenses	299	–69	–	2	231	Net other operating income/expenses
					201	**Operating profit**

Previous presentation	Jan. 1 – June 30, 2017 after restated leasing business/discontinued operations	ADJUSTMENT OF THE PRESENTATION FOR: Reversal of provisions	Service contracts	Other adjustments	Jan. 1 – June 30, 2017 restated	Amended presentation
	–	–	–	33	33	Share of profits and losses of equity-accounted joint ventures
	–	–	–	–53	–53	Net gain or loss on miscellaneous financial assets
	–	–	–	–2	–2	Other financial gains or losses
Profit before tax	**179**	**–**	**–**	**–**	**179**	**Profit before tax**
Income tax expense	–54	–	–	–	–54	Income tax expense
Profit from continuing operations, net of tax	**125**	**–**	**–**	**–**	**125**	**Profit from continuing operations, net of tax**
Profit from discontinued operations, net of tax	432	–	–	–	432	Profit from discontinued operations, net of tax
Profit after tax	**558**	**–**	**–**	**–**	**558**	**Profit after tax**
Profit after tax attributable to Volkswagen AG	558	–	–	–	558	Profit after tax attributable to Volkswagen AG
German GAAP profit/loss attributable to Volkswagen AG in the event of loss absorption/profit transfer	138	–	–	–	138	German GAAP profit/loss attributable to Volkswagen AG in the event of loss absorption/profit transfer

The basis of the changes to the presentation of the income statement is described in the table below.

Basis for reconciliation column	Description
Reversal of provisions	Up to fiscal year 2018, income from the reversal of provisions and of accrued liabilities was always recognized under other operating income. From fiscal year 2018, income from the reversal of provisions and of accrued liabilities is allocated to net income from leasing transactions or general and administrative expenses on the income statement, depending on where the original expense had been recognized in previous fiscal years. The prior-year figures have been restated accordingly. The reclassification of the reversal of provisions improves the presentation of the income statement for the VW FS AG Group.
Service contracts	Implementation of a voluntary change in accounting policy as permitted by IAS 8.14b) to improve the presentation of the net income/expense from service contracts. a) Net income/expense from service contracts was previously included in the income statement under net income from leasing transactions before provision for credit risks. As service contracts do not arise solely in connection with leases, the associated income/expense is now presented separately under net income from service contracts. b) As a consequence of separating out the net income/expense from service contracts, the expenses from leasing transactions previously reported under expenses from leasing transactions and service contracts can now be combined with depreciation of and impairment losses on lease assets and investment property in a new income statement item referred to as “Depreciation, impairment losses and other expenses from leasing transactions”, thereby improving the presentation of the net income from leasing transactions in the same way as the other net income items on the face of the income statement.
Other adjustments	Implementation of a voluntary change in accounting policy as permitted by IAS 8.14b) to improve the presentation of the net income/loss from operating activities as a subtotal referred to as “Operating profit/loss”. Net income/expenses and net gains/losses that are not allocated to operating profit/loss or the existing “Share of profits and losses of equity-accounted joint ventures” or “Net gain or loss on miscellaneous financial assets” line items have been recognized under the new “Other financial gains or losses” item.

Accounting Policies

VW FS AG has applied all financial reporting standards adopted by the EU and which are subject to mandatory application from January 1, 2018.

IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 Financial Instruments revises the financial reporting provisions governing the classification and measurement of financial assets, impairment of financial assets and hedge accounting.

Financial assets are classified and measured on the basis of the business model operated by an entity and the structure of its cash flows. On initial recognition, a financial asset is classified as "at amortized cost", "at fair value through other comprehensive income" or "at fair value through profit or loss". The procedure for classifying and measuring financial liabilities under IFRS 9 is largely unchanged compared with the current accounting requirements under IAS 39.

The model for determining impairment and recognizing the provision for credit risks is changing from an incurred loss model to an expected loss model. The expected loss model breaks down the provision for credit risks into three stages. Financial assets that are newly acquired or issued and that are not deemed to be underperforming or non-performing on the date of initial recognition are allocated to stage 1. Stage 1 includes expected defaults that could arise from potential default events within the subsequent twelve months. In the case of financial assets in which the credit risk has increased significantly since acquisition or issue but in which the financial asset is not underperforming (stage 2) and non-performing financial assets (stage 3), the provision for credit risks is recognized on the basis of the remaining maturity of the financial asset (lifetime expected loss). In addition, interest income on financial assets classified as stage 3 is recognized on the basis of the net carrying amount, i.e. amortized cost less recognized impairment losses, in contrast to the rules applicable to stages 1 and 2. The change in the measurement methodology to an expected loss model described above leads to an increase in the provision for credit risks. This increase in the provisions for credit risks results firstly from the requirement to recognize a provision for credit risks for performing financial assets that have not been affected by a significant increase in credit risk since initial recognition. Secondly, the increase arises from the requirement to recognize a provision for credit risks on the basis of the total expected time to maturity for financial assets that have been affected by a significant increase in credit risk since initial recognition.

As regards hedge accounting, IFRS 9 introduces wider designation options and the need to implement more complex recognition and measurement logic. IFRS 9 also removes the quantitative limits for the effectiveness test.

Overall, IFRS 9 also gives rise to significantly more extensive disclosures in the notes.

The following tables show the main effects of the new accounting requirements under IFRS 9 concerning the classification and measurement of financial assets and the impairment of financial assets.

Within the “Derivative financial instruments designated as hedges” class, there have been no reclassifications to or from other classes as a consequence of IFRS 9.

CHANGES IN BALANCE SHEET CARRYING AMOUNTS AS OF JANUARY 1, 2018 AS A RESULT OF IFRS 9

€ million	DEC. 31, 2017 Before adjustments	Adjustments	JAN. 1, 2018 After adjustments
Assets			
Cash reserve	40	–	40
Loans to and receivables from banks	1,444	–1	1,443
Loans to and receivables from customers attributable to			
Retail financing	16,269	–5	16,264
Dealer financing	3,584	–6	3,577
Leasing business	18,809	–157	18,652
Other loans and receivables	11,143	–27	11,116
Total loans to and receivables from customers	49,804	–194	49,610
Derivative financial instruments	555	–	555
Marketable securities	257	0	257
Equity-accounted joint ventures	631	–7	625
Miscellaneous financial assets	373	–	373
Deferred tax assets	1,035	47	1,082
Current tax assets	137	–	137
Other assets	2,772	–6	2,765
Equity and liabilities			
Liabilities to banks	10,982	–	10,982
Liabilities to customers	9,673	–	9,673
Notes, commercial paper issued	32,453	–	32,453
Derivative financial instruments	211	–	211
Deferred tax liabilities	447	–15	432
Current tax liabilities	348	–	348
Other liabilities	1,613	4	1,617
Subordinated capital	4,354	–	4,354
Equity	7,624	–151	7,473
Retained earnings	5,264	–151	5,113

In addition to the adjustments set out in the table, the revised requirements relating to the recognition of the provision for credit risks also had an impact on the measurement of lease assets. The effect of the adjustment on the carrying amount of lease assets amounted to €1 million. This initial application effect has been recognized in other comprehensive income after taking into account deferred taxes.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES MEASURED AT FAIR VALUE CLASS: RECONCILIATION FROM IAS 39 TO IFRS 9 AS OF JANUARY 1, 2018

€ million	Measured at fair value, IAS 39 Carrying amount Dec. 31, 2017	RECLASSIFICATIONS From measured at amortized cost Fair value Dec. 31, 2017	RECLASSIFICATIONS To measured at amortized cost Fair value Dec. 31, 2017	Measured at fair value, IFRS 9 Carrying amount Jan.1, 2018
Assets				
Cash reserve	–	–	–	–
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	–	495	–	495
Derivative financial instruments	62	–	–	62
Marketable securities	257	–	–	257
Equity-accounted joint ventures	–	–	–	–
Miscellaneous financial assets	0	–	–	0
Current tax assets	–	–	–	–
Other assets	–	–	–	–
Total	**319**	**495**	**–**	**814**
Equity and liabilities				
Liabilities to banks	–	–	–	–
Liabilities to customers	–	–	–	–
Notes, commercial paper issued	–	–	–	–
Derivative financial instruments	77	–	–	77
Current tax liabilities	–	–	–	–
Other liabilities	–	–	–	–
Subordinated capital	–	–	–	–
Total	**77**	**–**	**–**	**77**

FINANCIAL ASSETS AND FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST CLASS: RECONCILIATION FROM IAS 39 TO IFRS 9 AS OF JANUARY 1, 2018

	Measured at amortized cost, IAS 39		RECLASSIFICATIONS: From measured at fair value				RECLASSIFICATIONS: To measured at fair value		Measured at amortized cost, IFRS 9	
€ million	Carrying amount Dec. 31, 2017	Fair value Dec. 31, 2017	Fair value Dec. 31, 2017	Carrying amount adjustment Jan. 1, 2018	Provision for credit risks adjustment Jan. 1, 2018	Carrying amount Jan.1, 2018	Carrying amount Dec. 31, 2017	Fair value Dec. 31, 2017	Carrying amount Jan.1, 2018	**Fair value Jan. 1, 2018**
Assets										
Cash reserve	40	40	–	–	–	–	–	–	40	40
Loans to and receivables from banks	1,444	1,444	–	–	–	–	–	–	1,444	1,444
Loans to and receivables from customers	49,804	49,893	–	–	–	–	499	495	49,306	49,397
Derivative financial instruments	–	–	–	–	–	–	–	–	–	–
Marketable securities	–	–	–	–	–	–	–	–	–	–
Equity-accounted joint ventures	–	–	–	–	–	–	–	–	–	–
Miscellaneous financial assets	–	–	–	–	–	–	–	–	–	–
Current tax assets	50	50	–	–	–	–	–	–	50	50
Other assets	1,034	1,034	–	–	–	–	–	–	1,034	1,034
Total	**52,373**	**52,462**	**–**	**–**	**–**	**–**	**499**	**495**	**51,874**	**51,966**
Equity and liabilities										
Liabilities to banks	10,982	11,013	–	–	–	–	–	–	10,982	11,013
Liabilities to customers	9,673	9,703	–	–	–	–	–	–	9,673	9,703
Notes, commercial paper issued	32,453	32,453	–	–	–	–	–	–	32,453	32,453
Derivative financial instruments	–	–	–	–	–	–	–	–	–	–
Current tax liabilities	40	40	–	–	–	–	–	–	40	40
Other liabilities	672	675	–	–	–	–	–	–	672	675
Subordinated capital	4,354	3,685	–	–	–	–	–	–	4,354	3,685
Total	**58,173**	**57,570**	**–**	**–**	**–**	**–**	**–**	**–**	**58,173**	**57,570**

PROVISION FOR CREDIT RISKS ON FINANCIAL ASSETS: RECONCILIATION FROM IAS 39 TO IFRS 9 AS OF JANUARY 1, 2018

€ million	From financial assets measured at fair value through OCI, IAS 39	From financial assets measured at amortized cost, IAS 39	No measurement category under IAS 39	Total
To financial assets measured at fair value through profit or loss, IFRS 9				
Dec. 31, 2017	–	3	–	3
Adjustments	–	–3	–	–3
Jan. 1, 2018	–	–	–	–
To financial assets measured at fair value through other comprehensive income, IFRS 9 (equity instruments)				
Dec. 31, 2017	–	–	–	–
Adjustments	–	–	–	–
Jan. 1, 2018	–	–	–	–
To financial assets measured at fair value through other comprehensive income, IFRS 9 (debt instruments)				
Dec. 31, 2017	–	–	–	–
Adjustments	0	–	–	0
Jan. 1, 2018	0	–	–	0
To financial assets measured at amortized cost, IFRS 9				
Dec. 31, 2017	–	1,241	–	1,241
Adjustments	–	95	–	95
Jan. 1, 2018	–	1,337	–	1,337
To lease receivables				
Dec. 31, 2017	–	–	561	561
Adjustments	–	–	157	157
Jan. 1, 2018	–	–	717	717
To credit commitments				
Dec. 31, 2017	–	–	–	–
Adjustments	–	–	4	4
Jan. 1, 2018	–	–	4	4
To financial guarantees				
Dec. 31, 2017	–	–	–	–
Adjustments	–	–	0	0
Jan. 1, 2018	–	–	0	0
Total as of Jan. 1, 2018	**0**	**1,337**	**721**	**2,058**

CARRYING AMOUNTS OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS: RECONCILIATION FROM IAS 39 TO IFRS 9 AS OF JANUARY 1, 2018

€ million	IAS 39 carrying amount Dec. 31, 2017	Reclassifications	IFRS 9 adjustments	IFRS 9 carrying amount Jan. 1, 2018	Change in retained earnings Jan. 1, 2018
Financial assets measured at fair value through profit or loss, IAS 39	**62**				
Additions					
Available-for-sale financial assets, IAS 39		29	–	29	–
Financial assets measured at amortized cost, IAS 39		499	–3	495	3
Deductions					
Financial assets measured at amortized cost, IFRS 9		–	–	–	–
Financial assets measured at fair value through other comprehensive income, IFRS 9		–	–	–	–
Financial assets measured at fair value through profit or loss, IFRS 9				**586**	

CARRYING AMOUNTS OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: RECONCILIATION FROM IAS 39 TO IFRS 9 AS OF JANUARY 1, 2018

€ million	IAS 39 carrying amount Dec. 31, 2017	Reclassifications	IFRS 9 adjustments	IFRS 9 carrying amount Jan. 1, 2018	Change in retained earnings Jan. 1, 2018
Available-for-sale financial assets, IAS 39	**257**				
Additions					
Financial assets measured at amortized cost, IAS 39		–	–	–	–
Financial assets measured at fair value through profit or loss, IAS 39		–	–	–	–
Deductions					
Financial assets measured at amortized cost, IFRS 9		–	–	–	–
Financial assets measured at fair value through profit or loss, IFRS 9		29	–	29	–
Financial assets measured at fair value through other comprehensive income, IFRS 9				**228**	

CARRYING AMOUNTS OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST: RECONCILIATION FROM IAS 39 TO IFRS 9 AS OF JANUARY 1, 2018

€ million	IAS 39 carrying amount Dec. 31, 2017	Reclassifications	IFRS 9 adjustments	IFRS 9 carrying amount Jan. 1, 2018	Change in retained earnings Jan. 1, 2018
Financial assets measured at amortized cost, IAS 39	**33,548**				
Additions					
Available-for-sale financial assets, IAS 39		–	–	–	–
Financial assets measured at fair value through profit or loss, IAS 39		–	–	–	–
Deductions					
Financial assets measured at fair value through other comprehensive income, IFRS 9		–	–	–	–
Financial assets measured at fair value through profit or loss, IFRS 9		499	–	499	–
Financial assets measured at amortized cost, IFRS 9				**33,049**	

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 revises the financial reporting requirements for revenue recognition. There was no impact on the VW FS AG Group from the changeover as of January 1, 2018 because the previous procedures already complied with the new regulations under IFRS 15.

OTHER ACCOUNTING POLICIES

The discount rate applied for pension provisions in Germany reported in these interim consolidated financial statements was 1.9%, which was unchanged on the rate used in the consolidated financial statements for the year ended December 31, 2017. The discount rate in Germany therefore did not give rise to any changes in pension provisions, in associated deferred taxes, or in the actuarial losses related to pension provisions recognized under retained earnings within equity.

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

To adjust the presentation of the income statement in line with standard practice in the market, the following items will be reported within operating profit or loss from the current fiscal year onward: net gain or loss on hedges, net gain or loss on financial instruments measured at fair value, and net gain or loss on the measurement of foreign currency loans/receivables and liabilities, together with the net gains and losses on the corresponding underlying transactions. For this reason, there are no comparative prior-year figures for the following income statement line items within operating profit or loss: net gain or loss on hedges and net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income.

Otherwise, the same consolidation methods and accounting policies as those applied in the 2017 consolidated financial statements have generally been used in the preparation of the interim consolidated financial statements and the calculation of the prior-year comparative figures. A detailed description of these methods and policies was published in the notes to the consolidated financial statements in the 2017 Annual Report. In addition, the effects of new standards were described in detail under New and Revised IFRSs Not Applied. The 2017 Consolidated Financial Statements can also be accessed on the Internet at www.vwfs.com/ar17.

Basis of Consolidation

In addition to VW FS AG, the consolidated financial statements cover all significant German and non-German subsidiaries, including structured entities, controlled directly or indirectly by VW FS AG. This is the case if VW FS AG has power over potential subsidiaries directly or indirectly from voting rights or similar rights, is exposed, or has rights to, positive or negative variable returns from its involvement with the potential subsidiaries, and has the ability to use its power to influence those returns. Effective March 1, 2018, Volkswagen-Versicherungsdienst GmbH, Braunschweig, sold 85% of the shares in its subsidiary Volkswagen-Versicherungsdienst GmbH, Vienna, to Porsche Bank AG, Salzburg. On the same date, Volkswagen-Versicherungsdienst GmbH, Vienna, ceased to be fully consolidated in the VW FS AG Group because of the associated loss of control. The end of full consolidation and remeasurement of the remaining shares at fair value gave rise to an income of €29 million, which has been reported under other operating income. For reasons of the materiality, the remaining 15% shareholding is included in the consolidated financial statements at cost and reported under miscellaneous financial assets.

Interim Consolidated Financial Statements Disclosures

1. General and Administrative Expenses

€ million	Jan. 1 – June 30, 2018	Jan. 1 – June 30, 2017 restated[1]
Personnel expenses	–367	–401
Non-staff operating expenses	–507	–444
Advertising, public relations and sales promotion expenses	–16	–7
Depreciation of and impairment losses on property and equipment, amortization of and impairment losses on intangible assets	–16	–29
Other taxes	–2	–3
Income from the reversal of provisions and accrued liabilities	7	7
Total	**–901**	**–877**

1 Prior year restated as described in the disclosures relating to the discontinued operations and to the changes to the presentation of the income statement in the section “Restated Prior-Year Figures”.

2. Changes in Selected Assets

€ million	Net carrying amount January 1, 2018[1]	Basis of consolidation additions/changes	Disposals/other changes	Depr./amort./ impairment	Net carrying amount June 30, 2018
Intangible assets	59	9	–2	6	59
Property and equipment	265	27	–1	10	281
Lease assets	11,570	4,154	–2,350	1,075	12,300

1 The amount brought forward for lease assets was adjusted by an allowance of €1 million as specified in the section “IFRS 9 – FINANCIAL INSTRUMENTS”.

3. Classes of Financial Instruments

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

- Measured at fair value
- Financial assets measured at amortized cost
- Derivative financial instruments designated as hedges
- Financial liabilities measured at amortized cost
- Credit commitments and financial guarantees
- Not within the scope of IFRS 7

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

	BALANCE SHEET ITEM		MEASURED AT FAIR VALUE		MEASURED AT AMORTIZED COST[1]		DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGES		NOT WITHIN THE SCOPE OF IFRS 7	
€ million	June 30, 2018	Dec. 31, 2017	June 30, 2018	Dec. 31, 2017	June 30, 2018	Dec. 31, 2017	June 30, 2018	Dec. 31, 2017	June 30, 2018	Dec. 31, 2017
Assets										
Cash reserve	34	40	–	–	34	40	–	–	–	–
Loans to and receivables from banks	2,110	1,444	–	–	2,110	1,444	–	–	–	–
Loans to and receivables from customers	53,024	49,804	605	–	52,402	49,804	–	–	17	–
Derivative financial instruments	460	555	61	62	–	–	398	493	–	–
Marketable securities	258	257	258	257	–	–	–	–	–	–
Equity-accounted joint ventures	664	631	–	–	–	–	–	–	664	631
Miscellaneous financial assets	426	373	0	0	–	–	–	–	426	373
Current tax assets[2]	444	137	–	–	315	50	–	–	129	86
Other assets	2,519	2,772	–	–	778	1,034	–	–	1,741	1,737
Total	**59,940**	**56,012**	**925**	**319**	**55,640**	**52,373**	**398**	**493**	**2,977**	**2,878**
Equity and liabilities										
Liabilities to banks	10,866	10,982	–	–	10,866	10,982	–	–	–	–
Liabilities to customers	12,650	9,673	–	–	12,153	9,673	–	–	497	–
Notes, commercial paper issued	34,161	32,453	–	–	34,161	32,453	–	–	–	–
Derivative financial instruments	110	211	50	77	–	–	61	134	–	–
Current tax liabilities[2]	701	348	–	–	181	40	–	–	520	308
Other liabilities	1,318	1,613	–	–	223	672	–	–	1,095	941
Subordinated capital	4,288	4,354	–	–	4,288	4,354	–	–	–	–
Total	**64,095**	**59,633**	**50**	**77**	**61,872**	**58,173**	**61**	**134**	**2,112**	**1,250**

1 Some of the loans to and receivables from customers and liabilities to customers have been designated as hedged items in fair value hedges and are therefore subject to fair value adjustments. The loans to and receivables from customers and liabilities to customers in the class "Measured at amortized cost" are therefore measured neither entirely at fair value nor entirely at amortized cost.
2 Revised presentation as a result of including financial instruments in "current tax assets" and "current tax liabilities".

The "Credit commitments and financial guarantees" class contains obligations under irrevocable credit commitments and financial guarantees amounting to €1,229 million (previous year: €1,267 million).

For the first application of IFRS 9, the carrying amounts of receivables from insurance contracts are reported in the class "Not within the scope of IFRS 7" from fiscal year 2018.

4. Fair Value Disclosures

The principles and methods of fair value measurement have generally remained unchanged compared with those applied in 2017. Detailed disclosures on the measurement principles and methods can be found in the 2017 Annual Report.

For the purposes of fair value measurement and the associated disclosures, fair values are classified using a three-level measurement hierarchy. Classification to the individual levels is dictated by the extent to which the main inputs used in determining the fair value are observable in the market or not.

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

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

Level 3 fair values are measured using valuation techniques incorporating at least one input that is not directly observable in an active market. The fair values of loans to and receivables from customers are allocated to Level 3 because these fair values are measured using inputs that are not observable in active markets. The fair values of derivative financial instruments in connection with risks of early termination are also allocated to Level 3. Inputs for determining the fair value of derivatives in connection with the risk of early termination are forecasts and estimates of used vehicle residual values for the models concerned as well as yield curves.

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

	LEVEL 1		LEVEL 2		LEVEL 3	
€ million	June 30, 2018	Dec. 31, 2017	June 30, 2018	Dec. 31, 2017	June 30, 2018	Dec. 31, 2017
Assets						
Measured at fair value						
Loans to and receivables from customers	–	–	–	–	605	–
Derivative financial instruments	–	–	61	62	–	–
Marketable securities	258	257	–	–	–	–
Miscellaneous financial assets	–	–	–	–	0	0
Derivative financial instruments designated as hedges	–	–	398	493	–	–
Total	**258**	**257**	**460**	**555**	**605**	**0**
Equity and liabilities						
Measured at fair value						
Derivative financial instruments	–	–	50	77	–	–
Derivative financial instruments designated as hedges	–	–	61	134	–	–
Total	**–**	**–**	**110**	**211**	**–**	**–**

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

€ million	Jan. 1 – June 30, 2018[1]
Balance as of Jan. 1	**495**
Foreign exchange differences	–16
Portfolio changes	129
Measured at fair value through profit or loss	–3
Balance as of June 30	**605**

1 The opening carrying amount has been restated (see IFRS 9 disclosures).

The remeasurements recognized in profit or loss amounting to a net loss of €3 million have been reported in the income statement under net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income. Of the remeasurements recognized in profit or loss, a net loss of €3 million was attributable to loans to and receivables from customers held as of the reporting date.

The risk variables relevant to the fair value of the loans to and receivables from customers are risk-adjusted interest rates. A sensitivity analysis is used to quantify the impact from changes in risk-adjusted interest rates on profit or loss after tax. If risk-adjusted interest rates as of June 30, 2018 had been 100 basis points higher, profit after tax would have been €10 million lower. If risk-adjusted interest rates as of June 30, 2018 had been 100 basis points lower, profit after tax would have been €10 million higher.

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

€ million	FAIR VALUE		CARRYING AMOUNT		DIFFERENCE	
	June 30, 2018	Dec. 31, 2017	June 30, 2018	Dec. 31, 2017	June 30, 2018	Dec. 31, 2017
Assets						
Measured at fair value						
Loans to and receivables from customers	605	–	605	–	–	–
Derivative financial instruments	61	62	61	62	–	–
Marketable securities	258	257	258	257	–	–
Miscellaneous financial assets	0	0	0	0	–	–
Measured at amortized cost						
Cash reserve	34	40	34	40	–	–
Loans to and receivables from banks	2,110	1,444	2,110	1,444	0	0
Loans to and receivables from customers	52,699	49,893	52,402	49,804	297	88
Current tax assets[1]	315	50	315	50	–	–
Other assets	778	1,034	778	1,034	–	–
Derivative financial instruments designated as hedges	398	493	398	493	–	–
Equity and liabilities						
Measured at fair value						
Derivative financial instruments	50	77	50	77	–	–
Measured at amortized cost						
Liabilities to banks	10,887	11,013	10,866	10,982	21	32
Liabilities to customers	12,170	9,703	12,153	9,673	17	30
Notes, commercial paper issued	34,189	32,453	34,161	32,453	27	0
Current tax liabilities[1]	181	40	181	40	–	–
Other liabilities	224	675	223	672	2	4
Subordinated capital	3,567	3,685	4,288	4,354	–721	–669
Derivative financial instruments designated as hedges	61	134	61	134	–	–

1 Revised presentation as a result of including financial instruments in "current tax assets" and "current tax liabilities".

Due to the short maturity and the variable interest rate linked to the market interest rate, the fair value of irrevocable credit commitments is not material. The fair value of financial guarantees is not material either.

Segment Reporting

5. Segment Reporting

The delineation between segments follows that used for internal management and reporting purposes in the VW FS AG Group. Operating profit or loss is reported as the primary key performance indicator to the chief operating decision-makers. The information made available to management for management purposes is based on the same accounting policies as those used for external financial reporting. In contrast to the figures reported for the previous year, operating profit now also includes net gain or loss on hedges, net gain or loss on financial instruments measured at fair value and net gain or loss on the measurement of foreign currency loans/receivables and liabilities (see also the disclosures on other accounting policies, page 26).

Segment reporting has been adjusted in line with the changes to internal reporting. From now on, management will follow a geographical breakdown on a market basis. Foreign branches of German subsidiaries are allocated to the markets in which they are based. The geographical markets of Germany, China, Mexico and Brazil represent the reportable segments in accordance with IFRS 8. Subsidiaries in the VW FS AG Group are aggregated within these segments. The German market includes companies in Germany and Austria in line with internal reporting.

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

All business transactions between the segments – where such transactions take place – are conducted on an arm's-length basis. There were no intersegment transactions as of the reporting date.

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

BREAKDOWN BY GEOGRAPHICAL MARKET FOR THE FIRST HALF OF 2017:

	JAN. 1 – JUNE 30, 2017							
€ million	Germany	China	Mexico	Brazil	Other segments	Segments total	Re-conciliation	Group
Interest income from lending transactions and marketable securities in respect of third parties	3	302	116	331	215	968	27	995
Income from leasing transactions with third parties	3,498	–	109	5	424	4,037	187	4,224
Intersegment income from leasing transactions	–	–	–	–	–	–	–	–
Depreciation, impairment losses and other expenses from leasing transactions	–3,173	–	–66	–1	–350	–3,590	–153	–3,743
of which impairment losses in accordance with IAS 36	–81	–	–1	–	–15	–97	–	–97
Net income from leasing transactions	325	–	43	4	74	446	34	481
Interest expense	–76	–107	–66	–151	–122	–522	–1	–523
Income from service contracts with third parties	683	–	–	1	85	769	10	779
Expenses from service contracts	–635	–	–	–1	–83	–719	–7	–726
Net income from service contracts	47	–	–	0	3	50	3	53
Net income from insurance business	–	–	–	–	–	–	57	57
Provision for credit loss risks	–44	–6	–30	–108	–17	–206	–71	–277
Fee and commission income from third parties	56	–	22	40	16	134	7	141
Fee and commission expenses	–8	–26	–6	–26	–13	–79	–1	–80
Net fee and commission income	48	–26	16	14	3	55	6	61
Net gain or loss on hedges	–	–	–	–	–	–	–	–
Net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income	–	–	–	–	–	–	–	–
General and administrative expenses	–262	–47	–37	–49	–85	–480	–397	–877
Other operating income	116	4	8	21	26	175	155	331
Other operating expenses	–75	–1	–4	–33	–6	–118	19	–99
Net other operating income/expenses	41	3	5	–12	20	57	174	231
Operating profit/loss	**83**	**119**	**46**	**29**	**92**	**369**	**–167**	**201**
Noncurrent assets	7,940	4	165	286	1,445	9,841	1,453	11,294

BREAKDOWN BY GEOGRAPHICAL MARKET FOR THE FIRST HALF OF 2018:

€ million	JAN. 1 – JUNE 30, 2018							
	Germany	China	Mexico	Brazil	Other segments	Segments total	Reconciliation	Group
Interest income from lending transactions and marketable securities in respect of third parties	3	356	125	246	208	938	44	982
Income from leasing transactions with third parties	3,862	–	95	6	456	4,419	75	4,493
Intersegment income from leasing transactions	–	–	–	–	–	–	–	–
Depreciation, impairment losses and other expenses from leasing transactions	–3,515	–	–65	–2	–358	–3,940	–75	–4,015
of which impairment losses in accordance with IAS 36	–95	–	–8	0	–19	–121	–	–121
Net income from leasing transactions	346	–	30	5	98	479	0	479
Interest expense	–60	–154	–75	–88	–119	–496	–24	–520
Income from service contracts with third parties	555	–	–	1	81	637	12	649
Expenses from service contracts	–466	–	–	–1	–91	–558	–8	–565
Net income from service contracts	90	–	–	0	–10	80	4	84
Net income from insurance business	–	–	–	–	–	–	79	79
Provision for credit loss risks	–18	–16	–28	–35	–22	–119	–7	–127
Fee and commission income from third parties	208	1	34	35	17	294	8	302
Fee and commission expenses	–171	–26	–4	–23	–19	–242	–1	–243
Net fee and commission income	37	–25	30	12	–2	52	7	60
Net gain or loss on hedges	–13	–	–	0	0	–13	40	27
Net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income	4	–	–	0	–3	1	34	36
General and administrative expenses	–355	–56	–37	–34	–98	–581	–320	–901
Other operating income	55	10	5	42	30	142	254	396
Other operating expenses	–28	–1	–6	–73	–18	–126	–138	–264
Net other operating income/expenses	28	10	–1	–32	12	16	116	132
Operating profit/loss	**61**	**113**	**44**	**74**	**65**	**357**	**–28**	**329**
Noncurrent assets	9,063	5	41	255	1,696	11,060	1,621	12,681

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

€ million	Jan. 1 – June 30, 2018	Jan. 1 – June 30, 2017
Segment revenue	**6,229**	**5,898**
Other companies	330	344
Consolidation	–38	–49
Group revenue	**6,521**	**6,193**
Segment profit or loss (operating profit or loss)	**357**	**369**
Other companies	–58	–99
Consolidation	29	–68
Operating profit	**329**	**201**
Share of profits and losses of equity-accounted joint ventures	28	33
Net gain or loss on miscellaneous financial assets	–3	–53
Other financial gains or losses	–2	–2
Profit before tax	**352**	**179**

Other Disclosures

6. Cash Flow Statement

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

7. Off-Balance-Sheet Liabilities

CONTINGENT LIABILITIES

The contingent liabilities of €338 million (December 31, 2017: €363 million) largely relate to legal disputes concerning tax matters in which the criteria for the recognition of a provision in accordance with IAS 37 are not satisfied. After an analysis of the individual cases covered by the contingent liabilities, we believe that the disclosure of further detailed information on individual proceedings, legal disputes or legal risks could seriously prejudice the course of those proceedings.

The trust assets and liabilities of the savings and trust entity belonging to the Latin American subsidiaries are not included in the consolidated balance sheet and amounted to €633 million (December 31, 2017: €768 million).

OTHER FINANCIAL OBLIGATIONS

€ million	DUE 2018	DUE 2019 – 2022	DUE from 2023	TOTAL Dec. 31, 2017
Purchase commitments in respect of				
property and equipment	20	–	–	20
intangible assets	0	–	–	0
investment property	–	–	–	–
Obligations from				
irrevocable credit and leasing commitments to customers	545	–	–	545
long-term leasing and rental contracts	22	34	5	62
Miscellaneous financial obligations	31	1	–	32

€ million	DUE by June 30, 2019	DUE July 1, 2019 – June 30, 2023	DUE from July 1, 2023	TOTAL June 30, 2018
Purchase commitments in respect of				
property and equipment	5	–	–	5
intangible assets	2	–	–	2
investment property	–	–	–	–
Obligations from				
irrevocable credit and leasing commitments to customers	507	–	–	507
long-term leasing and rental contracts	19	31	4	54
Miscellaneous financial obligations	24	0	–	24

In the case of irrevocable credit commitments, we expect the customers to draw down the facilities concerned.

8. Executive Bodies of Volkswagen Financial Services AG

Dr. Karlheinz Blessing stepped down from the Supervisory Board on April 16, 2018. With effect from June 13, 2018, Dr. Arno Antlitz became Deputy Chairman of the Supervisory Board of Volkswagen Financial Services AG.

9. Events After the Balance Sheet Date

There were no significant events in the period between June 30, 2018 and July 26, 2018.

Responsibility Statement

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

Braunschweig, July 26, 2018

Volkswagen Financial Services AG
The Board of Management

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