

**VOLKSWAGEN DIESEL EMISSIONS ENVIRONMENTAL  
MITIGATION TRUST FOR INDIAN TRIBE  
BENEFICIARIES**

**Financial Statements  
Six Months ended June 30, 2018**

**VOLKSWAGEN DIESEL EMISSIONS ENVIRONMENTAL  
MITIGATION TRUST FOR INDIAN TRIBE BENEFICIARIES**

Index

	<u>Page</u>
Independent Auditor's Review Report	2
Financial Statements	
Statement of Net Assets	3
Statement of Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	6
Independent Auditor's Review Report on Supplemental Information	12
Supplemental Schedule	13

## Independent Auditor's Review Report

To the Trustee  
Volkswagen Diesel Emissions Environmental  
Mitigation Trust for Indian Tribe Beneficiaries

### Report on the Financial Statements

We have reviewed the accompanying balance sheet of Volkswagen Diesel Emissions Environmental Mitigation Trust for Indian Tribe Beneficiaries (the "Trust") as of June 30, 2018 and the related statements of changes in net assets and cash flows for the six-month period then ended.

### *Management's Responsibility*

The Trust's management is responsible for the preparation and fair presentation of this interim financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with accounting principles generally accepted in the United States of America.

### *Auditor's Responsibility*

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

### *Conclusion*

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in accordance with accounting principles generally accepted in the United States of America.

### Report on Balance Sheet as of December 31, 2017

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet as of December 31, 2017 and the related statements of changes in net assets and cash flows for the period from October 2, 2017 to December 31, 2017 (not presented herein), and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 26, 2018. In our opinion, the accompanying balance sheet of the Trust as of December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Plante & Moran, PLLC*

August 10, 2018

**VOLKSWAGEN DIESEL EMISSIONS ENVIRONMENTAL  
MITIGATION TRUST FOR INDIAN TRIBE BENEFICIARIES**

**Statements of Net Assets**  
(Dollars in thousands)

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents (Note 3)	\$ 7,907	\$ 1,725
Marketable Securities (Note 3)	32,638	38,790
Funding Receivable (Note 5)	18,060	18,060
Other Current Assets	182	89
Total Current Assets	58,787	58,664
Fixed Assets - net	7	4
Prepaid Expenses	253	693
<b>TOTAL ASSETS</b>	59,047	59,361
<b>LIABILITIES</b>		
Current Liabilities		
Accounts Payable and Other Current Liabilities	384	98
<b>TOTAL LIABILITIES</b>	384	98
<b>NET ASSETS</b>	\$ 58,663	\$ 59,263

See Accompanying Notes to Financial Statements

**VOLKSWAGEN DIESEL EMISSIONS ENVIRONMENTAL  
MITIGATION TRUST FOR INDIAN TRIBE BENEFICIARIES**

**Statement of Changes in Net Assets**  
(Dollars in thousands)

	Six months Ended June 30, 2018 (Unaudited)	
<b>Net Assets, beginning of period</b>	\$	59,263
<b>Increase (decrease) in Net Assets</b>		
Trust Funding		-
Investment Income		308
Trust Expenses (Note 8)		(908)
<b>Net Increase in Net Assets</b>		<u>(600)</u>
<b>Net Assets, end of period</b>	\$	<u><u>58,663</u></u>

See Accompanying Notes to Financial Statements

**VOLKSWAGEN DIESEL EMISSIONS ENVIRONMENTAL  
MITIGATION TRUST FOR INDIAN TRIBE BENEFICIARIES**

**Statement of Cash Flows**  
(Dollars in thousands)

Six Months Ended  
June 30, 2018  
(Unaudited)

**Cash Flows from (used in) Operating Activities**

Changes in Net Assets	\$	(600)
Adjustments to Reconcile Change in Net Assets to Net Cash used in Operating Activities		
Gain on Marketable Securities		(120)
Changes in Operating Assets and Liabilities:		
Funding Receivable		-
Other Current Assets		48
Prepaid Expenses		299
Accounts Payable and Other Current Liabilities		287
Net Cash Flows Provided by Operating Activities		(86)

**Cash flows from (used in) investing activities**

Purchase of Fixed Assets		(3)
Purchase of Marketable Securities		(78,433)
Proceeds from Sales and Maturities of Marketable Securities		84,704
Net Cash Flows from (used in) Investing Activities		6,268
Net Change in Cash		6,182
Cash and Cash Equivalents, beginning of period		1,725
<b>Cash and Cash Equivalents, end of period</b>	<b>\$</b>	<b>7,907</b>

See Accompanying Notes to Financial Statements

# VOLKSWAGEN DIESEL EMISSIONS ENVIRONMENTAL MITIGATION TRUST FOR INDIAN TRIBE BENEFICIARIES

## Notes to Financial Statements June 30, 2018 and December 31, 2017 (in thousands)

### Note 1 – Description of Trust

#### *Establishment of Trust*

Volkswagen Diesel Emissions Environmental Mitigation Trust for State Beneficiaries, Puerto Rico, and the District of Columbia (the “State Trust”) and Volkswagen Diesel Emissions Environmental Mitigation Trust for Indian Tribe Beneficiaries (the “Indian Tribe Trust”), collectively the “Trusts”, have been established by order of the United States District Court for the Northern District of California in accordance with a Partial Consent Decree on October 25, 2016 (“First Partial Consent Decree” or “2.0 Liter”) in re: Volkswagen “Clean Diesel” Marketing, Sales Practices, and Products Liability Litigation, MDL No. 2672 CRB (JSC) (Dkt. No. 2103-1), among Volkswagen AG, Audi AG, Volkswagen Group of America, Inc., and Volkswagen Group of America Chattanooga Operations, LLC (collectively, the “Settling Defendants”), the United States, and the State of California. In that case, the Court also entered a Second Partial Consent Decree (Dkt. No. 3228-1) on May 17, 2017 (the “Second Partial Consent Decree” or “3.0 Liter”), among the Settling Defendants, Dr. Ing. h.c. F. Porsche AG, and Porsche Cars North America, Inc. (collectively, the “Defendants”), the United States, and the State of California.

The Defendants and Wilmington Trust, N.A. (the “Trustee”) have entered into an Environmental Mitigation Trust Agreement for State Beneficiaries (hereinafter, the “State Trust Agreement”)—i.e., for the 50 States, Puerto Rico, and the District of Columbia—and established the environmental mitigation trust described therein (the “State Mitigation Trust” or “State Trust”). They have concurrently entered into a separate Environmental Mitigation Trust Agreement for Indian Tribe Beneficiaries (hereinafter, the “Indian Tribe Trust Agreement”)—i.e., for federally-recognized Indian Tribes—and established the environmental mitigation trust described in that agreement (“Indian Tribe Mitigation Trust” or “Indian Tribe Trust”).

The State Mitigation Trust and the Indian Tribe Mitigation Trust were both approved by Court Order on September 19, 2017 (the “Approval Order”) and final fully-executed versions were filed with the Court on October 2, 2017, establishing October 2, 2017 as the Effective Date for each Trust pursuant to the terms of the Approval Order (the “Effective Date”).

The Consent Decrees required the Defendants to establish the Indian Tribe Trust to fund environmental mitigation projects that reduce emissions of nitrogen oxides (NOx) where the subject vehicles were, are, or will be operated (“Eligible Mitigation Actions”), and to pay for Trust Administration Costs as set forth in the Indian Tribe Trust Agreement.

The purpose of the Indian Tribe Trust is to expeditiously and efficiently fund Eligible Mitigation Actions to be proposed and administered by the Indian Tribe Beneficiaries (the “Beneficiaries”) subject to the requirements of the Consent Decrees and the terms of the Indian Tribe Trust Agreement and to provide funds for the administration and operations in accordance with the terms of the Indian Tribe Trust Agreement, as set forth therein. The goal of each Eligible Mitigation Action shall be to achieve reductions of NOx emissions in the United States.

#### *Funding of Trust*

The Indian Tribe Trust and the State Trust are funded with Mitigation Trust Payments (the “Settlement Funding”) according to the terms of the Consent Decree: (1) 97.99% of the Mitigation Trust Payments from the First Partial Consent Decree (2.0 Liter) is allocated to the State Mitigation Trust and 2.01% to the Indian Tribe Mitigation Trust; and (2) 97.70% of the Mitigation Trust Payments from the Second Partial Consent Decree (3.0 Liter) is allocated to the State Trust and 2.30% to the Indian Tribe Trust.

**VOLKSWAGEN DIESEL EMISSIONS ENVIRONMENTAL  
MITIGATION TRUST FOR INDIAN TRIBE BENEFICIARIES**

**Notes to Financial Statements  
June 30, 2018 and December 31, 2017  
(in thousands)**

**Note 2 – Summary of Significant Accounting and Reporting Policies**

***Basis of Presentation and Fiscal Year***

The financial statements and accompanying notes have been prepared using the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

The accompanying financial statements present the Indian Tribe Trust's changes in net assets from January 1, 2018 through June 30, 2018. The Trust's normal fiscal period is a calendar year ended December 31.

***Cash and Cash Equivalents***

Cash and cash equivalents consist of amounts held in bank accounts or money market funds.

***Marketable Securities***

Marketable securities at June 30, 2018 and December 31, 2017 consist of short term investments in U.S. Treasury bills. The Indian Tribe Trust has valued these securities at fair value.

***Property and Equipment***

Property and equipment including website development costs are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are calculated on a straight-line basis over estimated service lives of three to ten years.

***Other Assets***

Other assets consist principally of accrued investment income and prepaid expenses.

***Accounts Payable and Other Liabilities***

Accounts payable and other liabilities represent amounts due to professionals, other service providers and vendors for services rendered through the end of the period.

***Income Taxes***

The Indian Tribe Trust Agreement requires the Trustee to pursue a private letter ruling that the Indian Tribe Trust will be treated as a qualified settlement fund ("QSF") pursuant to Treasury Regulation Section 468B and that all investment income earned on the Funds held by the Indian Tribe Trust will be excludible from gross income under Treasury Regulation Section 115. See Note 6 for additional information on federal income taxes.

The Indian Tribe Trust is not subject to state income taxes under current law. Accordingly, no current state income tax liabilities and assets are recorded.

The Indian Tribe Trust recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authority, based on the technical merits of the position, review of available evidence and consultation with Trust professionals.



**VOLKSWAGEN DIESEL EMISSIONS ENVIRONMENTAL  
MITIGATION TRUST FOR INDIAN TRIBE BENEFICIARIES**

**Notes to Financial Statements  
June 30, 2018 and December 31, 2017  
(in thousands)**

**(Note 2 – Continued)**

***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities. These estimates are subject to known and unknown risks, uncertainties and other factors that could materially impact the amounts reported and disclosed in the financial statements and related footnotes. Significant estimates include estimated investment income expected to be received and fair value of marketable securities. Actual results could differ from those estimates.

***Subsequent events***

The Indian Trust evaluated events and transactions occurring between June 30, 2018 and August 10, 2018, which is the date that the financial statements were available to be issued, for disclosure and recognition purposes.

**Note 3 – Cash and Cash Equivalents and Marketable Securities**

As of June 30, 2018 and December 31, 2017, cash and cash equivalents and U.S. treasury bills aggregated \$40.5 million and comprised of the following:

(in thousands)	June 30, 2018 <u>(Unaudited)</u>	December 31, 2017 <u>(Audited)</u>
Cash	\$ 188	\$ 68
Money Market Funds	7,719	1,657
U.S. Treasury Bills	32,638	38,790
Total	<u>\$ 40,545</u>	<u>\$ 40,515</u>

**Note 4 – Fair Value Measurement**

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value. The Trust's Cash Equivalents and Marketable Securities are presented as provided by this hierarchy.

*Level 1*—In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets and liabilities that the Indian Trust has the ability to access.

*Level 2*—Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets or liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

**VOLKSWAGEN DIESEL EMISSIONS ENVIRONMENTAL  
MITIGATION TRUST FOR INDIAN TRIBE BENEFICIARIES**

**Notes to Financial Statements  
June 30, 2018 and December 31, 2017  
(in thousands)**

**(Note 4 – Continued)**

*Level 3*—Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability. These Level 3 fair value measurements are based primarily on management’s own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset or liability. The Indian Trust had no assets or liabilities that are measured with Level 3 inputs at June 30, 2018.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Indian Trust’s assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The Indian Trust also holds other financial instruments not measured at fair value on a recurring basis, including funding receivable, accounts payable and other assets. The fair value of these assets and liabilities approximates the carrying amounts in the accompanying financial statements due to the short maturity of such instruments.

The following table presents information about the Indian Trust’s assets measured at fair value on a recurring basis at June 30, 2018 and December 31, 2017 and the valuation techniques used by the Indian Trust to determine those fair values.

	June 30, 2018 (Unaudited)			
	Level 1	Level 2	Level 3	Total
(in thousands)				
Assets:				
Cash Equivalents:				
Money Market Funds	\$ 7,719	\$ -	\$ -	\$ 7,719
Marketable Securities:				
U.S. Treasury Bills	-	32,638	-	32,638
Total	<u>\$ 7,719</u>	<u>\$ 32,638</u>	<u>\$ -</u>	<u>\$ 40,357</u>
	December 31, 2017 (Audited)			
	Level 1	Level 2	Level 3	Total
(in thousands)				
Assets:				
Cash Equivalents:				
Money Market Funds	\$ 1,657	\$ -	\$ -	\$ 1,657
Marketable Securities:				
U.S. Treasury Bills	-	38,790	-	38,790
Total	<u>\$ 1,657</u>	<u>\$ 38,790</u>	<u>\$ -</u>	<u>\$ 40,447</u>

**VOLKSWAGEN DIESEL EMISSIONS ENVIRONMENTAL  
MITIGATION TRUST FOR INDIAN TRIBE BENEFICIARIES**

**Notes to Financial Statements  
June 30, 2018 and December 31, 2017  
(in thousands)**

**(Note 4 – Continued)**

The following are descriptions of the valuation methodologies used for assets measured at fair value.

- Due to their short-term liquid nature, the fair value of cash equivalents approximates carrying value.
- Marketable securities at June 30, 2018 and December 31, 2017 consist of U.S. Treasury bills. Due to their short-term maturities, the fair value of U.S. Treasury bills approximates their principal amounts.

The Indian Tribe Trust’s policy is to recognize transfers between levels of the fair value hierarchy as of the actual date of the event of change in circumstances that caused the transfer. There were no such transfers during the period ended June 30, 2018.

**Note 5 – Funding Receivable**

The Trustee allocates to the Indian Tribe Mitigation Trust the following amounts: (1) 2.01% of the Mitigation Trust Payments from the First Partial Consent Decree (2.0 Liter); and (2) 2.30% of the Mitigation Trust Payments from the Second Partial Consent Decree (3.0 Liter). The total funding from both decrees is \$59.3 million with \$54.4 million allocated to the Tribe Trust and \$4.9 million allocated to the Tribe Trust Administration Costs. The funding receivable at June 30, 2018 and December 31, 2017 comprised of the following:

(in thousands)

	2.0 Liter	3.0 Liter	Total Funding Allocation
Indian Tribe Trust Allocation	\$ 49,653	\$ 4,795	\$ 54,448
Funding Received	(33,102)	(4,795)	(37,897)
Indian Tribal Trust Allocation Receivable	16,551	-	16,551
Indian Trust Administration Cost	4,526	390	4,916
Funding Received	(3,017)	(390)	(3,408)
Indian Trust Administration Cost Receivable	1,509	-	1,509
Total Funding Receivable	<u>\$ 18,060</u>	<u>\$ -</u>	<u>\$ 18,060</u>

The Trustee expects the funding receivable to be fully funded before December 31, 2018.

**Note 6 – Income Taxes**

The Indian Tribe Mitigation Trust is intended to be a qualified settlement fund pursuant to section 468B of the Internal Revenue Code, 26 U.S.C. 468B, and related Treasury Regulations. The Trustee shall use its best efforts to submit, within six months after the Trust Effective Date, an application to obtain a Private Letter Ruling from the IRS that the Indian Tribe Trust will be treated as a qualified settlement fund and exempt from Federal Income Taxes. The Tribe Trust has filed the PLR application as described in Note 2. The PLR application is pending as of June 30, 2018.

**VOLKSWAGEN DIESEL EMISSIONS ENVIRONMENTAL  
MITIGATION TRUST FOR INDIAN TRIBE BENEFICIARIES**

**Notes to Financial Statements  
June 30, 2018 and December 31, 2017  
(in thousands)**

**(Note 6 – Continued)**

The Tribe Trust calculates taxable income in the same manner as a C corporation at a rate of 39.60% using trust income tax rates on its modified gross income. Modified gross income includes gross income pursuant to Internal Revenue Code Section 61, less administrative expenses, certain losses from the sale, exchange or worthlessness of property, and net operating losses.

**Note 7 – Related Party Transactions**

Pursuant to the First Partial Consent Decree, the Court appointed Wilmington Trust, N.A. as Trustee of the Environmental Mitigation Trust to administer the Indian Tribe Mitigation Trust. Wilmington Trust N.A. is acting in two separate and distinct roles: 1) as the Trustee of the Indian Tribe Mitigation Trust; and 2) as the Investment Manager of the Trust Asset. The fees and commissions charged by Wilmington Trust N.A. are consistent with the standard fees and commissions charged by Wilmington Trust N.A. to unrelated third parties in negotiated transactions.

The following tables are the fees and commissions due to Wilmington Trust N.A. as of June 30, 2018 and December 31, 2017, and the fees and commissions charged by Wilmington Trust N.A. during the six months ended June 30, 2018:

(in thousands)	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Liabilities		
Accrued Investment Management Fee	\$ 2	\$ 2
Total Liabilities	\$ 2	\$ 2

(in thousands)	Six Months ended June 30, 2018 (Unaudited)
Expenses	
Trust Acceptance Fee	\$ -
Trust Administration Fee	8
Trust Investment Management Fee	10
Total Expenses	\$ 18

**Note 8 – Trust Expenses**

Trust expenses are comprised of administration expenses of \$900 and investment management fees of \$8.

## Independent Auditor's Review Report on Supplemental Information

To the Trustee  
Volkswagen Diesel Emissions Environmental  
Mitigation Trust for Indian Tribe Beneficiaries

We have reviewed the interim financial statements of Volkswagen Diesel Emissions Environmental Mitigation Trust for Indian Tribe Beneficiaries (the "Trust") as of June 30, 2018 and the related statements of changes in net assets and cash flows for the six-month period then ended. Our review was made primarily for the purpose of obtaining a basis for reporting whether we are aware of any material modifications that should be made to the interim financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America through performing limited procedures. The supplemental trust administration actual costs versus budget schedule is presented for the purpose of additional analysis and is not a required part of the interim financial statements. This supplemental information has been subjected to the limited procedures applied in the review of the interim financial statements, and we did not become aware of any material modifications that should be made to such information.

*Plante & Moran, PLLC*

August 10, 2018

**VOLKSWAGEN DIESEL EMISSIONS ENVIRONMENTAL  
MITIGATION TRUST FOR INDIAN TRIBE BENEFICIARIES**

**Supplemental Schedule  
Trust Administration Costs Actual vs. Budget  
Six Month Ended June 30, 2018  
(Unaudited)**

(in thousands)	<b>Actual Accrual Basis</b>	<b>Accrual to Cash Adjustments</b>	<b>Actual Cash Basis</b>	<b>Six Months Budget</b>	<b>Variance</b>
Trust Administrator Costs	\$ 10	\$ (2)	\$ 8	\$ 12	\$ (4)
Trust Counsel	355	(243)	112	150	(38)
Trust Accountants	35	(11)	24	15	9
Tax Return Preparation	8	(4)	4	8	(4)
Trust Audit	26	(1)	25	32	(7)
Consultants	394	-	394	25	369
Intralinks	-	-	-	1	(1)
Insurance	15	-	15	-	15
Tax Counsel	27	(4)	23	5	18
Contingency Expenses	30	-	30	12	18
<b>Administration Cost Total</b>	<b>\$ 900</b>	<b>\$ (265)</b>	<b>\$ 635</b>	<b>\$ 260</b>	<b>\$ 375</b>