

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

**Financial Statements
December 31, 2017**

VOLKSWAGEN DIESEL EMISSIONS ENVIRONMENTAL
MITIGATION TRUST FOR INDIAN TRIBE BENEFICIARIES

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Independent Auditor's Report

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

We have audited the accompanying statement of net assets of Volkswagen Diesel Environmental Mitigation Trust for Indian Tribe Beneficiaries (the "Trust") as of December 31, 2017, the related changes in net assets and cash flows for the period October 2, 2017 (inception) through December 31, 2017, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Volkswagen Diesel Emissions Environmental Mitigation Trust for Indian Tribe Beneficiaries as of December 31, 2017 and the changes in its net assets and its cash flows for the period October 2, 2017 through December 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

March 26, 2018

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

Statement of Net Assets
(Dollars in thousands)

	December 31, 2017
ASSETS	
Current assets	
Cash and Cash Equivalents (Note 3)	\$ 1,725
Marketable Securities (Note 3)	38,790
Funding Receivable (Note 5)	18,060
Other Current Assets	89
Total Current Assets	<hr/> 58,664
Fixed Assets - Net	4
Prepaid Expenses	693
TOTAL ASSETS	<hr/> 59,361
LIABILITIES	
Current Liabilities	
Accounts Payable and Other Current Liabilities	98
TOTAL LIABILITIES	<hr/> 98
NET ASSETS	<hr/> <hr/> \$ 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)

	For the period October 2, 2017 through December 31, 2017
Net Assets, beginning of period	\$ -
Increase (decrease) in net assets	
Trust Funding	59,364
Investment Income	190
Trust Expenses	(291)
Net increase in net assets	<u>59,263</u>
Net Assets, end of period	<u>\$ 59,263</u>

See Accompanying Notes to Financial Statements

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

Statement of Cash Flows
(Dollars in thousands)

For the period
October 2, 2017
through
December 31, 2017

Cash flows from (used in) operating activities		
Changes in Net Assets	\$	59,263
Adjustments to reconcile change in net assets to net cash used in operating activities		
Changes in operating assets and liabilities:		
Funding Receivable		(18,060)
Other Current Assets		(89)
Prepaid Expense		(693)
Accounts Payable and Other Current Liabilities		98
Net cash flows from (used in) operating activities		40,519
Cash flows from (used in) investing activities		
Purchase of Fixed Assets		(4)
Purchase of Marketable Securities		(61,040)
Proceeds from Sales and Maturities of Marketable Securities		22,250
Net cash flows from (used in) investing activities		(38,794)
Net change in cash		1,725
Cash and cash equivalents, beginning of period		-
Cash and cash equivalents, end of period	\$	1,725

See Accompanying Notes to Financial Statements

VOLKSWAGEN DIESEL EMISSIONS ENVIRONMENTAL MITIGATION TRUST FOR INDIAN TRIBE BENEFICIARIES

Notes to Financial Statements December 31, 2017

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
December 31, 2017**

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 its effective date on October 2, 2017 to December 31, 2017. 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 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 excludable from gross income under Treasury Regulation Section 115. See Note 7 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
December 31, 2017**

(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 December 31, 2017 and March 26, 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 December 31, 2017, cash and cash equivalents and U.S. treasury bills aggregated \$40.5 million and comprised of the following:

(in thousands)	
Cash	\$ 68
Money Market Funds	1,657
U.S. Treasury Bills	38,790
Total	<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
December 31, 2017**

(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 December 31, 2017.

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 December 31, 2017 and the valuation techniques used by the Indian Trust to determine those fair values.

(in thousands)	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Cash Equivalents:				
Money Market Funds	\$ 1,657	\$ -	\$ -	\$ 1,657
Marketable Securities:				
U.S. Treasury bills	-	38,790	-	38,790
Total	\$ 1,657	\$ 38,790	\$ -	\$ 40,447

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 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 December 31, 2017.

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

**Notes to Financial Statements
December 31, 2017**

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 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 as described in Note 2. The PLR application is pending as of December 31, 2017.

The Tribe Trust calculates taxable income in the same manner as a 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. The Trust's income tax expense for 2017 was not material.

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.

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

**Notes to Financial Statements
December 31, 2017**

(Note 7 – Continued)

The following tables are the fees and commissions due to Wilmington Trust N.A. as of December 31, 2017, and the fees and commissions charged by Wilmington Trust N.A. during the period October 2, 2017 through December 31, 2017:

As of December 31, 2017

(in thousands)

Liabilities

Accrued Investment Management Fee	\$	2
Total Liabilities	<u>\$</u>	<u>2</u>

For the Period October 2, 2017 through December 31, 2017

(in thousands)

Expenses

Trust Acceptance Fee	\$	2
Trust Administration Fee		8
Trust Investment Management Fee		3
Total Expenses	<u>\$</u>	<u>13</u>

Independent Auditor's Report on Supplemental Information

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

We have audited the financial statements of Volkswagen Diesel Environmental Mitigation Trust for Indian Tribe Beneficiaries (the "Trust") as of December 31, 2017 and the period from October 2, 2017 to December 31, 2017 and have issued our report thereon dated March 26, 2018, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the 2017 financial statements as a whole. The supplemental Trust administration actual costs versus budget schedule is presented for the purpose of additional analysis rather than to present the financial position, changes in net assets, and cash flows of the Trust and is not a required part of the financial statements.

This supplemental information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the 2017 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2017 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2017 financial statements as a whole.

Plante & Moran, PLLC

March 26, 2018

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

**Supplemental Schedule
Trust Administration Costs Actual vs. Budget
For the Period October 2, 2017 through December 31, 2017**

(in thousands)	Actual Accrual Basis	Budget	Variance
Trust Administrator Costs	\$ 13	\$ 17	\$ (4)
Trust Counsel	66	87	(21)
Trust Accountants	-	25	(25)
Tax Return Preparation	-	15	(15)
Trust Audit	-	50	(50)
Website Support	-	2	(2)
Intralinks	-	1	(1)
Insurance	8	307	(299)
Tax Counsel	26	76	(50)
Tribal Advisory Council	-	30	(30)
Contingency Expenses	-	1,025	(1,025)
Administration Cost Total	<u>113</u>	<u>1,635</u>	<u>(1,522)</u>
Technical Advisory Expenses	178	-	178
Indian Tribe Total	<u>\$ 291</u>	<u>\$ 1,635</u>	<u>\$ (1,344)</u>