VOLKSWAGEN LEASING
GMBH

The key to mobility.

ANNUAL REPORT 2008

Volkswagen Leasing GmbH at a glance

in € million	2008	2007	2006	2005	2004
Investments in leased assets	7,059	6,386	5,761	5,270	5,178
Leased assets	11,627	10,930	10,661	10,027	9,027
Total assets	12,675	12,721	11,267	10,267	9,914
Sales	7,117	6,563	5,848	5,302	5,171

in thousands of vehicles	2008	2007	2006	2005	2004
New contracts	326	280	253	224	232
Current contracts	762	703	664	623	595

The business development includes the data for Europcar Fleet Services GmbH, which was merged with Volkswagen Leasing GmbH as at 1 January 2005.

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ECONOMIC ENVIRONMENT

Global economy

The upturn of the global economy continued until the middle of 2008. However, the dramatic intensification of the international financial market an economic crisis in the year's second half triggered recessionary trends in the major industrialised countries and a noticeable loss of economic momentum in the emerging countries. The substantial decline in prices for commodities and energy slowed previously rising inflation rates worldwide. Overall global economic growth was only about 1.7 % (previous year: 3.5 %).

In Western Europe, growth declined substantially in the second half of 2008, giving rise to recessionary developments in many countries. On average, GDP grew 0.9 % (previous year: 2.7 %). The unemployment rate in the euro zone fell to a record low of 7.2 % at the start of 2008. While the euro climbed to new heights relative to both the US dollar and the yen in the middle of the year, it dropped dramatically in subsequent months. At 4.7 % (previous year: 6.4 %), growth in Central and Eastern Europe remained quite solid but lost some of its momentum in the year's second half.

In Germany, economic growth in 2008 slowed to 1.3 % (previous year: 2.5 %). While the export industry continued to provide most of the impetus for growth despite the expensive euro, private consumption remained weak as a result of declining purchasing power and mounting economic uncertainty. Not even the positive development in the labour market did anything to alter this development. In October 2008, the employment figure fell below three million for the first time in 16 years.

Financial and automobile markets

At the end of September 2008, the global banking system had to weather the biggest challenge in its history as a result of the US mortgage crisis which broke out in 2007. Only support measures by national governments all over the world prevented it from collapsing; The Federal Republic of Germany alone enacted a financial market stabilisation fund of up to € 480 billion. The crisis of the system sparked a sweeping consolidation process which, in several countries, led to states making equity investments in banks, insurance companies and investment firms or to bank mergers. In the United States, the developments forced previously prestigious investment firms to sell themselves, file for bankruptcy or give up their investment banking status.

The ramifications of the crisis also affected the German vehicle leasing companies in 2008. While the captive leasing companies managed to increase the number of new contracts significantly by 10.9 % to 419,000 in the first half of the year, demand fell in the second half of the year as a result of rising uncertainty among consumers. At the same time, the industry's refinancing costs rose intermittently due to the dramatic deterioration in the international financial markets. Against this backdrop, numerous captives had to rely more heavily on the European Central Bank (ECB) or their corporate parent for refinancing.

The threat of a looming recession compounded the pressure on the financial markets, sparking a sharp decline worldwide in the fourth quarter of 2008.

In 2008, worldwide passenger car sales fell to 55.6 million vehicles, down 5.9 % from the record number of registrations the previous year. The ramifications of the international financial market crisis became more intense in the course of the year. In turn, this amplified consumers' reluctance to make purchases, owing also to the tight situation on the credit markets. Massive increases in the prices for commodities and energy in the first six months of the year compounded these developments.

North America and Western Europe, in particular, recorded above-average declines. In Central and Eastern Europe, South America as well as Asia Pacific, the positive development held steady for a while but did weaken substantially in the year's second half. Worldwide automobile production fell in the 2008 financial year by 3.9 % to 69.2 million units, of which passenger cars accounted for 57.5 million (– 4.8 %).

In Western Europe, the demand for passenger cars fell by 8.4 % to 13.6 million vehicles. At almost 53.0 % (previous year: 53.3 %), the share of diesel vehicles remained as high as the previous year due to high petrol prices. The markets with the largest volumes – Spain (– 28.1 %), Italy (– 13.4 %) and the United Kingdom (– 11.3 %) – were hit particularly hard by the financial market crisis and posted dramatic declines in sales. In France (– 0.7 %), the tax incentives aimed at fuelling demand for low CO_2 cars that had been enacted at the start of the year prevented a major downturn in the market. In Central and Eastern Europe in contrast, the number of newly registered vehicles rose yet again but the growth momentum clearly slowed in the year's second half. As in the previous year, Russia (+ 15.5 %) and the Ukraine (+ 14.9 %) were the main growth drivers. The passenger car markets in the Central European member states of the EU posted growth of 4.7 %. Passenger car sales in Turkey during the reporting period were substantially lower year on year (– 14.4 %).

At 3.4 million automobiles, in 2008 the German automotive market fell 1.6 % below the previous year's level. While the total of 335,000 new registrations of commercial vehicles was as high as the previous year (+ 0.3 %), demand for passenger cars dropped to its lowest level since reunification. The overall contraction of the passenger car market by 1.8 % to 3.1 million vehicles was mainly due to high petrol prices and consumer's uncertainty regarding both the ramifications of the financial market crisis and the details of the future CO_2-based automotive tax.

Among German manufacturers, weak demand at home and abroad led to declines from the previous year's records in both domestic production (– 2.7 % to 6.0 million automobiles) and exports (– 3.5 % to 4.5 million automobiles).

Despite the difficult conditions however, the Volkswagen Group managed in 2008 to enhance its market share in Germany to 33.6 % (previous year: 32.7 %) and to further expand its market leadership.

TASKS AND ORGANISATION OF VOLKSWAGEN LEASING GMBH

Key objectives

The establishment of Volkswagen Leasing GmbH in 1966 laid the foundation for automobile leasing in Germany. As part of the Group's Financial Services division, today the company performs all operational tasks required for the leasing transactions of private and business customers as well as fleet management within the Volkswagen Group.

The company's primary business focus is on commercial customers, which are divided into individual commercial buyers and fleet customers. Private customers account for approximately 8.5 % of the entire leasing contract portfolio.

Within the fleet business, Volkswagen Leasing GmbH offers its customers a comprehensive range of services of complete fleet management solutions in addition to pure finance leasing. The range of services includes fleet planning, administration, analysis and controlling. With a portfolio of approximately 269,000 leasing contracts and a further 250,000 service management contracts, the company continues to be the market leader in the fleet business in Germany.

For refinancing, Volkswagen Leasing GmbH to a large extent makes use of the opportunities provided on the global capital markets through bond issues and transactions based on asset-backed securities (ABS). Despite the financial market crisis, the company's refinancing was ensured at all times.

Organisation of Volkswagen Leasing GmbH

In Germany, Volkswagen Leasing GmbH's operating business is transacted in full by employees of Volkswagen Financial Services AG, who work for the company under staff leasing agreements.

The branches of Volkswagen Leasing GmbH in Germany are operated as Audi Leasing, SEAT Leasing, and Škoda Leasing to support the respective brands and as AutoEuropa Leasing to support the non-captive business and caravan and motorcycle leasing. In addition, the company maintains branches in Italy, which have their own personnel.

The leasing business as a financial service requiring prior approval was included in § 1 Para. 1a German Banking Act (Kreditwesengesetz) by means of the 2009 Annual Tax Act. Given its activities, Volkswagen Leasing GmbH is thus subject to both the German Banking Act and the Federal Financial Supervisory Authority (BaFin). Aside from disclosure requirements, this also compels Volkswagen Leasing GmbH to fulfil certain requirements pertaining to proper business procedures under § 25a German Banking Act and to its annual financial statements. Effective 30 December 2008, Volkswagen Leasing GmbH filed a report regarding its exercise of certain business activities in accordance with § 64j German Banking Act. Volkswagen Leasing GmbH has initiated a project for implementing such regulatory requirements.

ANALYSIS OF THE COMPANY'S BUSINESS PERFORMANCE AND POSITION

Business performance

In the 2008 financial year, Volkswagen Leasing GmbH succeeded yet again – despite the difficult economic climate – in continuing its evolution along a positive trajectory and expanding its strong position as a mobility services provider within the Volkswagen Group.

The company's current contract portfolio, leased assets as well as sales revenue all rose yet again. As at the reporting date, its portfolio of leased vehicles had climbed from 703,000 to 762,000 units (+ 8.4 %). The company's Italian branch in Milan, Italy, accounts for 15,000 vehicles of this total (previous year: approximately 13,000 vehicles). This inventory increase results from the addition of 326,000 vehicles, compared to disposal of 267,000 vehicles. Our growth was driven by the fleet customer segment as well as the continued positive development of the leasing business with Volkswagen employees. As at 31.12.2008, the company had approximately 48,000 leasing contracts for Volkswagen employees in its portfolio.

The new Audi residual value insurance model – a tool for protecting Audi dealerships against potential residual value risks from lease returns – was introduced effective 1 October 2008 in an exclusive collaboration with AUDI AG. It enables dealers to insure themselves against up to 100 % of the residual value forecast risk in return for payment of a low premium. Audi Leasing expects its financial participation in these insurance costs to trigger a substantial increase in the Audi Leasing penetration rate.

Fleet business

The market leadership of fleet leasing in this customer segment has expanded yet again despite ever intensifying competition and continued trends toward consolidation, further increasing the segment's significance for the company.

In sales, our activities focused successfully on intensive customer service, the establishment of a standardised and efficient tender management process as well as the implementation of competitive fleet management concepts and employee motivation models for key accounts. In so doing, Volkswagen Leasing GmbH continues to evolve from a pure finance leasing company into an automotive mobility provider.

It succeeded in following the previous year's positive trajectory in its business with German authorities at the state and federal level.

Overall, the company in 2008 was awarded 8.4 % more of the bids it submitted in fleet leasing than in the previous year.

The activities of Volkswagen Leasing GmbH are closely integrated with those of the Group brands and the dealer organisations of the Volkswagen Group. Among other things, this enables the company to design interesting product packages at particularly attractive terms.

The Volkswagen passenger car brand's Twin Car product, which is tailored specifically to drivers of company cars in fleet leasing, has developed positively since its launch in mid-2007. At 1,300 vehicles, the portfolio had more than tripled by year's end compared to the previous year.

Volkswagen Leasing also launched the "Maintenance and Parts Services 50" campaign in mid-2007 in cooperation with Volkswagen's passenger car brand as part of its offensive to promote its services. Customers whose contracts include this promotional rate are granted a rebate of up to 50 % on the regular monthly rate for maintenance and parts services. The percentage of customers who have taken advantage of this maintenance and part services rebate when closing a finance lease has increased by more than 60 % since July 2007.

Volkswagen Leasing GmbH once again demonstrated its competence in all matters related to fleets when it introduced the FleetCompetence Bonus, which offers an ideal solution for small and medium-sized fleets, and the FleetCompetence Individual package, which offers optimal services for large fleets. Two alternative petrol card systems that satisfy fleet customers' specific requirements constitute the centrepiece of these FleetCompetence programmes. Additionally, these cards can be used to settle all repair shop services that are covered under their leases using a non-cash procedure.

Our new electronic driver's licence verification system, which is offered as a stand-alone service, helps fleet managers to carry out statutory verification duties in connection with their liability as owners.

Especially the positive development of the service products has boosted our portfolio of current contracts by 89,000 to a new total of 519,000 – an increase of 20.7 %.

Individual customer business

We succeeded in further expanding our leasing portfolio in the individual commercial customer segment to 343,000 vehicles despite the decline in the number of newly registered cars in Germany.

Predictable mobility costs are becoming increasingly significant for both commercial and private individual customers against the backdrop of the continued decline in real wages. The offers of Volkswagen Leasing GmbH provide the ideal starting point for achieving the desired financial flexibility.

Our product range includes additional service components besides pure finance leasing. In 2008, interesting leasing offers for Polo, Golf, Golf Plus and Touran customers included the comprehensive worry-free deals that comprise an attractive leasing package along with PrämieLight insurance as well as extended warranty insurance.

A comprehensive car insurance package is indispensable to worry-free mobility; in particular this includes protection against insufficient coverage in case of vehicle loss and total loss. Insurers often pay only the cash value once the replacement value cover has expired even though the sales value of the new vehicle may be higher. The customer can preclude this shortfall in coverage by means of so-called GAP insurance, which has been an integral part of the company's PrämieLight and PrämieLight PLUS insurance products since September 2005. By purchasing leasing instalment insurance with PrämieLight PLUS, up to twelve months of instalments will be paid in the case of unemployment.

Assets and financial position

In the financial year just ended, Volkswagen Leasing GmbH was able to expand its business activities despite the development of the German economy. The company's business trends become clear when viewed over several years, using the development of current contracts as a benchmark – a standard applied in the leasing sector. As the activities of the leasing companies originally active within the Volkswagen Financial Services AG Group were transferred to Volkswagen Leasing GmbH in recent years, we have combined the figures related to Volkswagen Leasing GmbH and Europcar Fleet Services GmbH to enable a comparison to be made:

DEVELOPMENT OF VEHICLE CONTRACT VOLUME

in thousands of contracts

2008		2007		2006		2005		2004	
New contracts	Current contracts	New contracts	Current contracts	New contracts	Current contracts	New contracts	Current contracts	New contracts	Current contracts
326	762	280	703	253	664	224	623	232	595

Investments in Volkswagen Leasing GmbH rose by € 0.7 billion to € 7.1 billion (previous year: € 6.4 billion) as a result of growing numbers of new contracts. At the same time, the gross book value of the leased assets increased from € 17.0 billion to € 18.3 billion. The net book value was € 11.6 billion (previous year: € 10.9 billion). This corresponds to an increase of € 0.7 billion or 6.4 %.

The equity ratio remained steady at 1.7 %.

In recent years, Volkswagen Leasing GmbH placed eleven asset-backed securities transactions (ABS transactions) on the market to refinance its lending business. As at the balance sheet date, the volume of future leasing receivables financed through the ABS transactions was € 2.4 billion (previous year: € 2.6 billion).

The company refinances itself largely through loans and funds that Volkswagen Financial Services AG obtains and raises in the capital markets and subsequently passes on to Volkswagen Leasing GmbH. The loan volume of Volkswagen Leasing GmbH as at the reporting date was € 3.9 billion (previous year: € 4.7 billion). Our sister company Volkswagen Bank GmbH also made € 0.7 billion in short-term refinancing funds available.

To finance its leased assets, Volkswagen Leasing GmbH also issued its own debentures in the amount of € 2.85 billion and placed commercial paper worth € 0.2 million.

This set of measures ensured the liquidity of Volkswagen Leasing GmbH at all times in the financial year just ended despite the financial market crisis. The company's liquidity base is stable – notwithstanding the ongoing financial market crisis.

Volkswagen Financial Services AG made an additional € 1.5 billion in refinancing funds available to Volkswagen Leasing GmbH in January 2009.

The latter acquired Vehicle Trading International (VTI) GmbH, Brunswick, effective 1.1.2009. This company is of secondary significance to the assets and financial position of Volkswagen Leasing GmbH.

Results of operations

Sales revenue in the financial year ended rose by € 0.6 billion to € 7.1 billion. This revenue growth is accounted for by € 0.3 billion of increased revenue from current leasing contracts, as well as a € 0.3 billion increase in proceeds from the sale of previously leased vehicles (€ 3.3 billion). The larger portfolio of contracts will cause revenue to rise in the next years.

The cost of sales climbed by € 0.1 billion to € 7.0 billion, essentially as a result of the year-on-year increase in the residual book values of vehicle disposals. This figure includes depreciation, commissions, residual book values and the expenses from service leasing.

The restructuring of the German Volkswagen Financial Services AG Group companies as of 1.7.2007 has entailed a change in the classification of cost of sales, selling and distribution expenses and administration expenses due to the improved cost allocation.

Volkswagen Leasing GmbH generated a gross result of € 131 million in the financial year just ended (previous year: € – 304 million). The improvement by € 435 million over the previous year is largely due to higher revenue from the disposal of used cars resulting from the higher depreciation that was possible in previous years as well as the lower depreciation in the reporting period.

The other operating income primarily includes subsidies for special leasing campaigns and the "worry-free" products, in the amount of € 153 million (previous year: € 168 million).

There has been just a slight increase in the refinancing costs of Volkswagen Leasing GmbH despite the crisis in the financial markets and the attendant loss of investor confidence, which has pushed up both interest rates and spreads. The financing of our leasing business gave rise to interest expense of € 346 million (previous year: € 342 million).

The financial year just ended saw a loss from ordinary business activities of € 105 million (previous year: € 540 million), which is essentially attributable to the effects of utilising a tax option for benefiting from accelerated depreciation with regard to vehicle additions in the 2006 and 2007 financial years. After offsetting contributions to taxes on income, this loss will be absorbed by the parent company under the existing profit transfer agreement.

RISK REPORT

Strategy and standards

Ongoing risk monitoring, transparent and direct communication with the Board of Management and integrating newly acquired findings into operational risk management form the foundation for the best possible utilisation of market potentials based on the deliberate and effective control of the total risk of Volkswagen Leasing GmbH.

To ensure appropriate and consistent treatment of risks within Volkswagen Leasing GmbH, the company has established risk management guidelines, which take its risk strategy into account.

Together with the Board of Management of Volkswagen Leasing GmbH, the Board of Management of Volkswagen Financial Services AG has been pursuing a risk strategy in connection with its mid-term planning for years that conforms to minimum risk management requirements and is consistent with the company's business strategy. This strategy is reviewed at least once a year, adjusted as necessary and discussed with the Supervisory Board.

The established risk strategy also applies to Volkswagen Leasing GmbH; it contains strategic determinations of all material risks. In addition to residual value risks and risks of counterparty default – credit risks, in particular – market price risks, liquidity risks as well as operational risks are also reviewed in detail.

At-risk transactions are assessed and controlled based on these risk management guidelines. Additionally, the following principles determine the company's risk environment and strategy:

- The Board of Management determines the risk potential.
- The risk potential of Volkswagen Financial Services AG is generally moderate. Only predictable and workable risks are incurred. An avoidance or mitigation strategy is applied to operational and liquidity risks.
- Risks from new or modified products, new sales channels and/or new markets are subject to a fixed evaluation and approval process.
- Risk is spread across customers, products and countries.
- Risk provision is based on a risk-oriented value adjustment policy.
- Processes and responsibilities for granting leases are subject to guidelines applicable to the different divisions and are decided in accordance with an approval process subject to credit limits.
- Credit risks are factored into the pricing.
- Loans are granted solely after appropriate identity and credit checks.

Decisions regarding the assumption or avoidance of risks are supported by the use of suitable control instruments, such as credit assessment procedures or early warning systems.

Risk management essentially involves the identification, analysis and quantification of possible risks, as well as risk assessment and the resulting determination of steering measures.

A risk manual is central to the company's risk management system. All risks are reviewed as to their materiality at least once a year and, if necessary, the relevant assessments are revised and expanded by new risk factors. The risk manual describes the risk management system in detail.

Risks in all divisions are identified, monitored, evaluated, aggregated and reported in the form of an annual risk map. In addition to defining the likelihood of risks actually occurring and assessing their possible negative effects, the risk map also contains information about existing procedures and rules, areas of responsibility and derived measures.

Residual value risks are included in the regular review of Volkswagen Financial Services AG's risk-bearing capacity. Hence there is no need for separately modelling Volkswagen Leasing GmbH's risk-bearing capacity.

Group Risk Management reports the risk of counterparty default, residual value and market price risks as well as operational risks by submitting a risk management report to the Board of Management and the Supervisory Board at least once a quarter.

Volkswagen Leasing GmbH uses a system for measuring, monitoring and controlling its risk positions, which is documented and refined on an ongoing basis by means of guidelines.

The suitability of individual system elements is reviewed regularly in a risk-oriented manner by the Internal Audit department of Volkswagen Financial Services AG and by external auditors as part of the audit of the annual financial statements.

Structure and organisation

The staff and control functions for Volkswagen Leasing GmbH are organised in the following units of Volkswagen Financial Services AG: Controlling/Legal Services/Internal Audit/Accounting/Group Risk Management/Risk Assessment Procedures and Basel II as well as Treasury. Volkswagen Financial Services AG executes all risk management activities for Volkswagen Leasing GmbH.

The risk management guidelines are laid down by the Board of Management of Volkswagen Leasing GmbH.

In their capacity as neutral and independent areas, Group Risk Management and the department responsible for risk measurement and Basel II report directly to the Board of Management of Volkswagen Leasing GmbH.

On behalf of the Boards of Management of Volkswagen Financial Services AG and Volkswagen Leasing GmbH and taking due account of regulatory requirements, Internal Audit at Volkswagen Financial Services AG independently and in a risk-oriented manner audits the operational and business procedures of Volkswagen Leasing GmbH and its domestic and foreign branches for which contractual auditing rights are in place.

This activity is based on an annual audit plan, which is drawn up on the basis of the legal provisions in a risk-oriented manner. Internal Audit of Volkswagen Financial Services AG informs the Board of Management of Volkswagen Leasing GmbH of the result of the audits carried out by submitting audit reports and an annual summary report. Implementation of the measures and recommendations agreed in the audit reports is monitored by Internal Audit of Volkswagen Financial Services AG.

Risk types

Volkswagen Leasing GmbH defines risk as any uncertainty about future developments that might have a negative impact on the company's economic situation. Depending on its source, this risk can itself be divided into different types of risk. At the same time, the company constantly analyses and assesses the opportunities that arise from consciously entering into risks. The risks to which Volkswagen Leasing GmbH is exposed are categorised in the following groups:

- Risk of counterparty default:
  – Credit risk
- Residual value risk
- Market price risk:
  – Interest rate risk
- Liquidity risk
- Operational risk

Risk of counterparty default

Risk of counterparty default is taken to mean possible losses in value due to non-payment by a customer or deterioration of a customer's creditworthiness.

Credit risk

Definition

Credit risks, which also include risks of counterparty default relating to leasing contracts, represent by far the largest component of the risk positions among the risks of counterparty default.

Parameters/risk strategy

A core competence of Volkswagen Leasing GmbH lies in utilising opportunities from assuming risks of counterparty default resulting from leasing transactions in the automobile business. The goal is to optimise the opportunity/risk ratio.

Risk assessment

Scoring systems for private and commercial customers (small and medium-sized enterprises) are integrated into Volkswagen Leasing GmbH's purchasing systems. They provide an objective basis for decisions on granting leases and leasing decisions made by the technical departments. Transactions with comparable risks are placed in uniform risk categories using a risk category scale. This ensures similar processing of leasing enquiries/applications of equal risk content in the purchasing process. The definition of cut-offs related to the acceptance or further review of a transaction supports the implementation of our purchasing policy.

Volkswagen Financial Services AG's rating procedures are used to assess the creditworthiness of corporate customers. The assessment includes both the key performance indicators from annual financial statements as well as qualitative factors – such as the outlook for future business development, the quality of management, the climate in both the market and industry, as well as the customer's payment behaviour.

The result of the rating provides a material basis for decisions on the approval and prolongation of leasing commitments. The definition of competencies and the monitoring of the corporate portfolio were also based on the results of ratings.

An even greater individualisation of the rating procedure is planned for the future in view of market- or portfolio-specific circumstances.

Application of product approval processes, regular portfolio analyses, planning rounds and business financial reviews ensure timely identification of new risks and/or changes in risk.

All our leasing activities are appropriately hedged against risk, duly considering the customer's credit rating. The types of collateral accepted, assessment procedures, assessment principles, and the valuations for the respective collateral are set forth in Group-wide collateral valuation guidelines.

Risk management and monitoring

Appropriate processes are used to monitor all loans in regards to the underlying economic conditions and collateral, compliance with limits, contractual obligations as well as both external and internal requirements.

Furthermore, credit risks are also managed by applying approval limits, which are determined on a case-by-case basis. The local decision makers can exercise discretion within these limits.

Analyses of the portfolios are performed at the portfolio level for risk monitoring purposes. The credit rating procedures that ensure the functionality and validity of the procedures are also monitored.

Risk communication

The company's exposure to risk is reported as part of the risk management report.

The risk management report contains a variety of disclosures regarding the significant structural risk characteristics of Volkswagen Leasing GmbH at the portfolio level. Recommendations as to possible actions are included in the report's disclosures as necessary. Noteworthy individual exposures are also discussed.

Residual value risk

Definition

A residual value risk exists when the estimated market value of a leased asset at the time of disposal upon expiration of a contract is less than the residual value calculated at the time the contract was closed. However, it is also possible to realise more than the calculated residual value at the time the leased asset is disposed of.

Direct and indirect residual value risks are differentiated relative to the bearer of the residual value risks. A direct residual value risk is present when the residual value risk is borne by Volkswagen Leasing GmbH or one of its branches. An indirect residual value risk is present if the residual value risk has been transferred to a third party based on the guaranteed residual value (e. g. customers, dealerships). The initial risk is that the counterparty guaranteeing the residual value might default. If the guarantor of the residual value defaults, the leased asset and hence the residual value risk are transferred to Volkswagen Leasing GmbH.

Parameters/risk strategy

The residual value risk management feedback control system requires regular residual value forecasts and continuous risk assessments in regards to direct residual value risks only. Proactive marketing activities are derived from the measurement results in order to optimise earnings from the assumption of residual value risks. The marketing results so obtained are considered in the review of the residual value guidelines.

Risk identification and assessment

Direct residual value risks are identified for the first time based on the product approval process.

Risks are quantified regularly throughout the year by means of evaluations and analyses on a contract-by-contract basis. The contracted residual values are compared to attainable market values that are generated from both the data of external service providers and our own marketing data.

The difference between the calculated residual value and the forecast for the used car constitutes the risk/opportunity ratio upon expiry of a contract.

A variety of procedures are used to forecast residual values in this connection. Internal and external data regarding the development of residual values subject to differential weighting are considered in the residual value forecasts depending on local specificities and historical data derived from the marketing of used cars.

The difference between the forecast value of the used car and the calculated residual value yields the residual value risk/opportunity.

Risk management and monitoring
Group Risk Management regularly reviews the adequacy of the risk provisions as well as the residual value risk potential as part of risk management.

Opportunities from residual values are not considered when setting up risk provisions.

Given risk distribution, as at the assessment date the risks incurred may not always be hedged in full at the level of the individual contract while it is in effect. Previously identified risks must be written down to the lower net realisable value.

The resulting residual value risk potential is used to take a variety of measures as part of proactive risk management in order to limit the residual value risk.

Residual value recommendations regarding new business must take both prevailing market conditions and future drivers into account.

In order to reduce the risks upon expiry of a contract, the sales channels must be reviewed continuously such that the best possible result may be achieved at the time the vehicles are sold.

Group Risk Management monitors residual value risks within Volkswagen Leasing GmbH.

The numbers reported in connection with residual value risks (portfolio assessment, marketing results, maturity tables, market data etc.) are subject to plausibility checks.

Risk communication
Group Risk Management reports on the situation regarding residual value risks as part of the risk management report.

In Germany, indirect residual value risks are measured analogous to direct residual value risks and the findings are communicated to the Boards of Management of Volkswagen Financial Services AG and Volkswagen Leasing GmbH in a separate report.

Events having significant effects on risk exposures are communicated to the Board of Management using an ad hoc reporting system.

Market price risk
Market price risk refers to the potential loss resulting from disadvantageous changes in market prices or parameters that influence prices. At Volkswagen Leasing GmbH, this risk is limited to interest rate risk.

Interest rate risk

Definition
Interest rate risks include potential losses from changes in market rates. These risks arise from refinancing at non-matching maturities and from the different interest rate elasticities of individual assets and liabilities.

Parameters/risk strategy
Interest rate risks may only be incurred subject to approved limits as well as regular assessment and monitoring.

Risk assessment
Interest rate risks are determined for Volkswagen Leasing GmbH as part of quarterly monitoring using the value-at-risk (VaR) method based on a 10-day holding period and a confidence level of 99 %. This model is based on a historical simulation and calculates potential losses taking 250 historical market fluctuations (volatilities) into account.

While the VaR so determined for monitoring purposes serves to assess potential losses under normal market conditions, forward-looking analyses are also performed using extreme scenarios. Interest rate positions are subjected to stress tests comprising extraordinary changes in interest rates and worst case scenarios and are subsequently analysed in terms of the at-risk potentials using the simulated results. In this connection, changes in the present value are also quantified and monitored monthly using the + 130 and – 190 basis points interest rate shock scenarios defined by the Federal Financial Supervisory Authority (BaFin).

The calculation of interest rate risks uses option models to account for early repayments under termination rights.

Risk management and monitoring
The Treasury unit of Volkswagen Financial Services AG is responsible for risk management based on the resolutions of the Asset Liability Committee (ALC). Risk Controlling is tasked with monitoring interest rate risks.

Risk communication
The Board of Management is notified of the company's current exposure to interest rate risks as part of the risk management report.

Liquidity risk

Definition
The liquidity risk describes a company's risk of not being able to discharge its payment obligations in due time or in full. This requires distinguishing the withdrawal risk in connection with the unexpected utilisation of leasing commitments and the refinancing risk that takes into account that required follow-up financing cannot be provided.

Parameters/risk strategy
The prime objective of cash flow management at Volkswagen Leasing GmbH is to ensure the ability to pay at all times.

The refinancing of Volkswagen Leasing GmbH is essentially executed by way of capital market and asset-backed securities programmes as well as loans granted by Volkswagen Financial Services AG.

The liquidity risk strategies are determined in accordance with both the Treasury strategy of Volkswagen Financial Services AG and prevailing market conditions. The Operational Liquidity Committee (OLC) and the Liabilities Management Group provide the strategic underpinnings for assessing the liquidity risk of Volkswagen Leasing GmbH in compliance with risk policy guidelines.

Risk assessment
Both Treasury of Volkswagen Bank GmbH and the Group companies are responsible for identifying liquidity risks and for liquidity planning.

The Treasury unit of Volkswagen Bank GmbH bundles and evaluates the expected cash flows of Volkswagen Financial Services AG, Volkswagen Leasing GmbH and Volkswagen Bank GmbH. Daily liquidity needs are determined by the cash management office of Volkswagen Bank GmbH's Treasury back office for all companies domiciled in Germany.

Liquidity risks were identified and recorded based on daily liquidity requirements; daily, monthly and annual liquidity planning; as well as all available liquid reserves. The determinants of liquidity planning take into account known payment obligations for one and the cash flow forecasts that are regularly verified based on historical values for another.

In order to ensure professional liquidity management, Corporate Treasury prepares cash flow development statements, performs cash flow forecasts and determines the period for which cash will suffice, taking into account various basic assumptions and premises; this includes stress tests (e. g. no availability of external funds).

Risk management and monitoring
The OLC is responsible for long-term management and monitoring of liquidity risks. It monitors the current liquidity situation in its weekly meetings and either decides on refinancing measures or prepares the requisite decisions for the decision makers. Risk Controlling monitors liquidity in terms of its adequacy.

Both an emergency plan for liquidity bottlenecks and a suitable action plan for obtaining liquidity are available in the event of a market crisis. These measures prescribe immediate notification of a fixed set of recipients including the Board of Management in the event of a severe liquidity bottleneck (complete drying up of the markets). A crisis committee is appointed; it is tasked with making all decisions relevant to liquidity and/or laying the groundwork for decisions by the Board of Management.

The external ratings of Volkswagen Bank GmbH and Volkswagen Financial Services AG affect the refinancing costs of capital market programmes; note that the differentiated rating of Volkswagen Bank GmbH is one level better than that of Volkswagen Financial Services AG and the parent group. The long-term rating (2008) of Volkswagen Bank GmbH is A (S&P) and A2 (Moody's) while that of Volkswagen Financial Services AG is A– with a stable outlook (S&P) and A3 with a positive outlook (Moody's).

Risk communication
The Board of Management is informed monthly of the current liquidity situation including its adequacy. Material information is also transmitted on short notice through ad hoc reports.

Operational risk

Definition
Operational risks at Volkswagen Leasing GmbH are defined as the threat of losses that occur as a result of inadequate or failing:

- internal processes (process risks),
- personnel (personnel risks),
- technology (infrastructure and IT risks), or as a result of:
- external events (external risks).

The definitions of these four risk categories include the respective legal risks. Strategic risks and reputation risks are not considered under operational risks.

Parameters/risk strategy
Group Risk Management is responsible for developing guidelines, procedures, methods, models and systems for identifying, assessing, managing, monitoring and communicating operational risks.

The aim is to make management aware of risks that have been determined and measured, initiate countermeasures and establish safeguards to ensure that such losses or similar losses do not occur again, to the extent possible.

The OpR manual and the OpR strategy are two key pillars for managing operational risks.

Risk identification and assessment
Self assessment and the loss database are further pillars for managing operational risks.

At least once a year, local experts record and assess in both quantitative and qualitative terms risk scenarios in a variety of risk categories according to estimates of loss amounts and frequencies using standardised and IT-based self assessments.

Both internal losses and monetary operational losses are recorded in the central loss database by local experts, who create the relevant data histories and analyse the data.

Risk management and monitoring
Operational risks are managed by the companies and divisions based on the guidelines that have been put in place as well as the requirements applicable to staff and controlling personnel responsible for each specific risk type.

Group Risk Management is tasked with reviewing the plausibility of local self assessments regarding the extent and frequency of losses. The loss database makes it possible to systematically analyse occurrences of loss and to monitor the measures that local experts have initiated.

Each individual OpR business unit must prepare independent risk control and management measures subject to cost/benefit aspects.

Risk communication
The findings of the self assessment as well as the data from the loss database are published as part of the risk management report. Ad hoc reports are issued in the event of major losses.

Business continuity management
The goal of the Corporate Security department of Volkswagen Financial Services AG is to ensure security for individuals and property at Volkswagen Leasing GmbH in a national and international context and to avoid damage to its image and losses from operational disruptions.

Special risks arising from the global financial market crisis
The global crisis of the financial markets, which continues to jeopardise the development of the global economy, can expose Volkswagen Leasing GmbH to additional risks on three levels – the sales level, the settlement level and the refinancing level. The large threat emanating from the ongoing crisis and the difficulty in forecasting its development have caused the Board of Management of Volkswagen Leasing GmbH, in coordination with Volkswagen Financial Services AG and Volkswagen Bank GmbH, to set up a working group tasked with analysing these special risks on a continuous basis and supplementing the existing risk management system of the Group as necessary.

Risks at the sales level
At the level of the consumer, the crisis of the financial markets has led to considerable uncertainty and scepticism regarding future economic developments. In turn, this has sparked an increasing reluctance to make new purchases, particularly new or used automobiles.

In its capacity as a mobility services provider, Volkswagen Leasing GmbH depends directly on successful sales of the Volkswagen Group's automobiles and on sales of used cars. The core business of the Volkswagen Financial Services AG Group, the leasing business of Volkswagen Leasing GmbH, is also disrupted if these sales stall. This development can cause interest income to decline and trigger losses from the marketing of the pre-owned vehicles derived from expired contracts if they are sold below their calculated residual value. Furthermore, remeasurement of the portfolio of current contracts that are subject to residual value risks can make additional adjustments necessary.

Risks at the contract settlement level
In the customer business, disruptions in the execution of contracts can occur as a result of the recession which was sparked by the crisis of the financial markets. Such disruptions – which can be triggered by unemployment, reductions in income, the loss of income or bankruptcies – can make themselves felt in a rising number of late payments and defaults unless these risks are hedged by means of residual debt insurance. These risks, as well as additionally declining collateral values may require increased individual write-downs and – in the event of complete non-payment – higher write-offs of uncollectible receivables, thus increasing the company's risk of loss.

Risks at the refinancing level
The company's limited ability to refinance itself via the international money and capital markets in the wake of the financial market crisis has had an effect on refinancing costs, among others. There is the risk that refinancing costs might continue to rise should the financial market crisis endure, with a correspondingly negative impact on earnings.

OPPORTUNITIES REPORT

Macroeconomic opportunities

In many markets, leasing is developing into an interesting or alternative way of financing vehicle mobility needs. Maturing markets offer Volkswagen Leasing GmbH the opportunity to carry the captive business model over to selected European markets and hence to increase sales.

Strategic opportunities

Geographic expansion

Volkswagen Leasing GmbH believes that it has opportunities for expansion in a number of target markets, using Germany as the point of departure. Spain is serving as the pilot market, since the structure of its fleet customer segment is similar to that in Germany.

Positioning in the market

Although the apparent trend in the German automobile market is towards saturation, Volkswagen Leasing GmbH sees growth potential arising from the shift in vehicle registrations from the private to the commercial segment. This gives rise to additional opportunities for Volkswagen Leasing GmbH, given its diverse commercial leasing product portfolio. Of especial interest are the more accommodating variations in the basic leasing product that can be tailored to individual customers' needs, as well as the increasingly attractive service packages that follow the trend towards full-service product offerings.

Cost synergies

Volkswagen Leasing GmbH believes that its position as the market leader in the leasing segment gives rise to promising opportunities resulting from its growing economies of scale.

PERSONNEL REPORT

Personnel figures

Employees of Volkswagen Financial Services AG are responsible for running the operating business of Volkswagen Leasing GmbH in Germany. This staff is made available to Volkswagen Leasing GmbH under staff leasing agreements. As at 31.12.2008, 348 individuals worked for Volkswagen Leasing GmbH.

A total of 55 members of staff employed in the branches in Milan and Verona (Italy) as at 31.12.2008 had employment contracts with Volkswagen Leasing GmbH.

Key issues in personnel management

Personnel management dealt principally with ten issues.

First, the role of personnel management as both service provider and shaper was further refined, for one in regards to the development of the company's corporate strategy and for another in regards to linking individual employees' know-how and the company's organisational structures with the drivers of Volkswagen Financial Services AG's success.

Second, we carried out the so-called mood barometer, a voluntary and anonymous staff survey concerning issues of leadership and corporate culture for the second time. The high participation rate of 82 % enabled management to pursue numerous changes and improvement potentials.

Third, existing instruments and processes used to fine tune personnel management were improved by laying the groundwork for the introduction of a standardised, international personnel reporting system and organising personnel planning workshops.

Fourth, aside from training opportunities for bank officers, insurance and finance specialists as well as IT specialists, we also offer promising candidates wishing to join VW FS AG the option to pursue a dual-track Bachelor of Arts (BA) programme at the so-called Welfenakademie, a university of co-operative education.

The fifth focal point concerned a need-based analysis of human resources planning and development. Besides the annual employee performance review, during which the employee's need for qualification is systematically determined and suitable measures are stipulated, a broad range of vocational as well as professional development and related seminars are provided at the company's own training centre. Here, the focus was on personnel development in sales. The new option of training for the position of leasing specialist, which was developed in collaboration with Welfenakademie is of particular note in this connection.

Developing the FS Way based on the Volkswagen Way was issue number six. The Volkswagen Way is a long-term efficiency enhancement and cultural change programme that helps implement the Volkswagen Group's Strategy 2018 project to become the world's largest automobile manufacturer. In this connection, Volkswagen Financial Services AG supports Volkswagen AG in its capacity as a partner of the brands in the automotive value chain.

Intensifying employees' focus on services and customers was the seventh important issue. To that end, personnel management assisted the company's workforce through defined group classes and individual training sessions on topics such as customer loyalty, the quality of customer relationships or professional sales conduct.

Health management constituted priority number eight. The benchmark comparison of a potential health analysis showed that among the 400 participating companies, Volkswagen Financial Services AG is very well positioned in terms of health and social programmes.

In addition, the demographic master plan is used as a strategic tool for exerting a positive influence on hot topics pertaining to aging and age in the workplace, especially in Germany.

Finally, we focused on reinforcing international personnel management. At issue here was the development of an international personnel strategy aimed at enhancing personnel management through closer collaboration of all foreign subsidiaries.

EVENTS AFTER THE BALANCE SHEET DATE

No important events beyond those described in this report occurred after the close the 2008 financial year.

ANTICIPATED DEVELOPMENTS

Global economy

Global economic growth will probably be negative in 2009. A sustained recovery is not expected to occur until 2010 despite worldwide support measures aimed at both the finance sector and the real economy. Asian emerging markets are expected to grow the strongest, especially China and India, while the GDP growth rate in Latin America will decline slightly. The recessionary trends in the major industrialised countries will continue until at least the middle of the year. These prognoses were prepared taking current assessments of external institutions into account. Among others, these include economic research institutes, banks, multinational organisations and consulting firms.

In Western Europe, GDP will shrink in 2009 from its 2008 levels. Negative growth rates are expected too for Central and Eastern Europe following the robust expansion in recent years. The recessionary development of the German economy will continue for most of 2009. Unemployment figures will rise substantially again following the record low in the autumn of 2008.

Leasing and automobile markets

In 2009, the financial markets are faced with fundamental structural changes. The financial market crisis has shown all too clearly that the international financial system had developed an increasingly complex life of its own and, in the end, was no longer capable of counteracting the loss of confidence and ordering its responsibilities for the cash and credit markets on its own. Numerous industrialised countries took comprehensive state measures designed to stabilise the financial markets. In October 2008, the establishment of the Sonderfonds Finanzmarktstabilisierung (special fund for the stabilisation of the financial market – SoFFin) in Germany created a tool that is intended to overcome liquidity bottlenecks and strengthen the capital base of banks, insurance companies and pension funds. Aid is available as needed in the form of guarantees, equity or the assumption of risk.

There are no indications that leasing companies will have additional leeway to adjust interest rates, even against the backdrop of the automotive segment's weak sales. This is compounded by the fear that setting up allowances for doubtful accounts might cause the company to incur additional costs due to the uncertain economic situation.

Notwithstanding the continued exceptional level of uncertainty surrounding future economic developments, the leasing captives that possess both product portfolios geared to the market and solid residual value costing models and enjoy a good reputation in the global financial markets are the ones that are best prepared for the adjustment process – particularly given their significance to the individual manufacturers.

The year 2009 will be one of crisis management for the automobile industry: Declines in the number of new registrations are anticipated for almost all of the world's automobile markets in 2009. India is the only country for which slight growth is being forecast because of its growing importance.

In Western Europe (excluding Germany), demand for passenger cars is expected to drop substantially as a result of the financial market crisis. This will also affect Central and Eastern Europe.

In Germany, a difficult 2009 is expected to follow a weak 2008. The extent of the uncertainty resulting from the crisis of the financial markets is greatly affecting private consumption and capital expenditure of business and thus the automotive market too. It remains to be seen to what extent the economic stimulus packages enacted by the German government – specifically, the programme aimed at boosting automotive demand – can actually revive the sale of cars. This also applies to the economic stimulus packages that have been adopted or announced in other countries.

Development of Volkswagen Leasing GmbH

Aside from used vehicle financing, the next few years will see the company focus on used vehicle leasing for both private and individual commercial customers; Processes are being planned for the qualification of used car sellers and the optimisation of the sellers' workplace systems. These measures are the foundation for further stabilisation in the leasing business with private customers.

The services business is becoming increasingly significant to customer and brand loyalty in the automotive value-added cycle. Hence Volkswagen Leasing GmbH will continue the campaign aimed at promoting its services, which has been ongoing since 2007, and develop additional market potentials. We plan to create additional innovative mobility solutions in order to respond to the increasing shift from purchase to use.

Professional residual value management will remain significant against the backdrop of the used car market's weakness.

We will also continue to pursue our strategy of transferring the highly successful German captive business model in fleet leasing to selected foreign markets. In 2008, Volkswagen Leasing GmbH operationally established the first of these models in Spain in cooperation with the SEAT brand.

The Internet's importance as a communication platform for fleet management is growing. Volkswagen Leasing GmbH already offers its dealers and customers system support for fleet management via the Internet. Typical applications include automatic repair authorisation or the option to prepare and send fleet management reports for individual customers. An online vehicle pricing and configuration system is also available. In the future, such applications will be of increasing benefit to small and medium-sized fleet operators in optimising their fleets and facilitating fleet management.

Growing awareness concerning the environment is causing fleet customer demand for low (CO_2) emission vehicles to rise. The Volkswagen Group has already responded to this demand by introducing two alternative-drive designs, Eco Fuel and Blue Motion. Volkswagen Leasing GmbH also plans to launch specific sales promotion campaigns for this segment. In November 2008, the company entered into an exclusive agreement with NABU, the German Society for the Conservation of Nature, to that end.

Volkswagen Leasing GmbH expects the German government's economic stimulus package for the automotive industry to have a positive effect on private automotive leasing if it succeeds overall in stimulating the demand for vehicles. On the whole, the company's management anticipates that business will stagnate in 2009.

Higher depreciation on vehicles added in 2006 and 2007 continued to undermine results in 2008. But this effect will be reversed in 2009 and 2010 upon disposal of the corresponding vehicles. Ongoing pressure on the margins and potential increases in risk premiums might have a negative impact due to conditions in the real economy as a whole. However, we do anticipate positive earnings overall.

Financial statements 2008

BALANCE SHEET OF VOLKSWAGEN LEASING GMBH, BRUNSWICK, AS AT 31.12.2008

Assets	31.12.2008	31.12.2007
	€ 000	€ 000
A. Fixed assets	**11,639,891**	**10,943,249**
I. Tangible fixed assets	12,502	12,986
II. Leased assets	11,627,389	10,930,263
B. Current assets	**999,941**	**1,743,855**
I. Inventories	247,183	26,100
II. Receivables and other assets	752,471	1,707,491
III. Cash in hand and deposits with financial institutions	287	10,264
C. Prepaid expenses	**34,686**	**34,071**
Total assets	**12,674,518**	**12,721,175**

Equity and liabilities	31.12.2008	31.12.2007
	€ 000	€ 000
A. Equity	**219,124**	**219,124**
I. Subscribed capital	76,004	76,004
II. Capital reserve	142,471	142,471
III. Net retained profits	649	649
B. Special tax-allowable reserve	**2,705**	**2,811**
C. Provisions	**186,695**	**179,228**
D. Liabilities	**9,293,234**	**9,209,429**
E. Deferred income	**2,972,760**	**3,110,583**
Total equity and liabilities	**12,674,518**	**12,721,175**

PROFIT AND LOSS ACCOUNT OF VOLKSWAGEN LEASING GMBH, BRUNSWICK, FROM 1.1. TO 31.12.2008

	2008	2007
	€ 000	€ 000
Sales	**7,116,538**	**6,563,321**
Cost of sales	6,985,162	6,866,982
Gross profit	**131,376**	**– 303,661**
Selling and distribution expenses	39,872	38,501
General administration expenses	28,094	54,946
Other operating income	199,263	207,361
Other operating expenses	36,517	28,160
Interest result	– 330,879	– 322,433
Result from ordinary business activities	**– 104,723**	**– 540,340**
Taxes on income and earnings (refunded by the parent company € 19,168,000; previous year: € 161,101,000)	– 14,689	– 157,441
Income from loss transfer	90,034	382,899
Net income for the year	0	**0**
Profit brought forward	649	649
Net retained profits	**649**	**649**

CASH FLOW STATEMENT OF VOLKSWAGEN LEASING GMBH, BRUNSWICK, FROM 1.1. TO 31.12.2008

	2008 € 000	2007 € 000
Net loss (before transfer of profit/loss)	90,034	382,899
Amortisation/depreciation of fixed assets	3,451,952	3,569,204
Change in provisions	7,466	61,865
Profit from the disposal of leased assets	– 414,847	– 494,722
Interest result	330,879	322,433
Other adjustments	– 29,194	– 215,836
Changes in trade receivables and other assets not part of investing or financing activities	440,457	– 994,998
Changes in trade accounts payable and other liabilities not part of investing or financing activities	– 224,321	1,601,856
Interest received	14,888	20,008
Interest paid	– 345,767	– 342,441
Income tax refunds	29,194	215,836
I. Cash flow from operating activities	**3,170,673**	**3,360,306**
Cash inflows from the disposal of leased assets	3,325,686	3,042,960
Cash outflows for investments in leased assets	– 7,059,432	– 6,386,423
II. Cash flow from investing activities	**– 3,733,746**	**– 3,343,463**
Cash inflows from company owners/cash outflows to company owners	382,899	201,430
Cash inflows from issuing bonds and taking up loans	8,523,495	6,654,000
Cash outflows from the redemption of bonds and loans	– 8,353,298	– 6,863,710
III. Cash flow from financing activities	**553,096**	**– 8,280**
Net change in funds (I., II. and III.)	– 9,977	8,563
Funds available at the beginning of the period	10,264	1,701
Funds available at the end of the period	287	10,264

NOTES TO THE FINANCIAL STATEMENTS OF VOLKSWAGEN LEASING GMBH, BRUNSWICK, AS AT 31.12.2008

I. General comments regarding the annual financial statements

The annual financial statements of Volkswagen Leasing GmbH have been prepared in accordance with the commercial regulations for large capital stock companies.

The changes to the organisational structure of the German companies of the Volkswagen Financial Services AG Group were completed as at 1.7.2007. They mainly entailed shifting the personnel from Volkswagen Bank GmbH to Volkswagen Financial Services AG and reclassifying both the tangible and intangible fixed assets. Furthermore, while Volkswagen Bank GmbH was responsible for all primary costs until 30.6.2007, effective 1.7.2007 the primary costs are essentially incurred by the originating companies. Comparability with the previous year is therefore limited.

To improve clarity, individual items on the balance sheet and in the profit and loss account have been combined. These items are presented separately in the notes. The breakdown of assets has been extended to include the item “Leased assets”.

The profit and loss account has been prepared in accordance with the cost of sales method customary in the Volkswagen Group to improve international comparability.

II. Accounting policies

The accounting policies applied the previous year have been adopted unchanged, with the exception of accounting for leased assets.

Tangible fixed assets and leased assets are valued at cost less depreciation.

Depreciation for the administrative building is recognised using the straight-line method (period of use: fifty years for old building and twenty-five years for new building).

As a rule, leased assets are depreciated using the straight-line method. For assets added in 2006 and 2007, a depreciation rate of 30 % was applied, as permitted by tax law for using the declining-balance method. The useful life of passenger cars is six years, and that of heavy vehicles is nine years.

Discrepancies between measurements required by commercial law and those permitted by tax law are shown under the item, special tax-allowable reserve.

Inventories mainly concern vehicles for sale which were transferred from fixed assets to current assets at their residual book values. As of the closing date, they are carried at the lower of residual book value and market value.

Receivables and other assets are shown at nominal value. The non-payment risk has been taken into account by making reasonable value adjustments.

Discernible risks and undetermined liabilities are taken into account by creating adequate provisions.

Liabilities are shown at the repayment amount.

Deferred income covers sales revenue and other operating income from leasing business which is attributable to future accounting periods.

Derivative financial instruments are used solely for hedging purposes. Derivative financial instruments (interest rate swaps) are measured by applying the general measurement provisions under commercial law. The company recognises hedging relationships to the extent legally permissible.

III. Notes to the balance sheet

The breakdown of the fixed assets combined on the balance sheet and their development during the period under review can be seen from the table of assets.

Inventories essentially comprise vehicles intended for sale from leasing arrangements with Volkswagen employees.

Receivables and other assets (residual term up to 1 year) break down as follows:

	31.12.2008 € 000	31.12.2007 € 000
1. Trade receivables	121,921	86,490
2. Receivables from affiliated companies (of which from the shareholder € 98,207,000; previous year: € 1,382,786,000) (of which trade receivables € 2,389,000; previous year: € 6,232,000)	368,223	1,405,204
3. Other assets	262,327	215,797
Total	**752,471**	**1,707,491**

The prepaid expenses comprise discounts for loans taken up and debentures which are eliminated pro rata temporis. In addition, the pre-paid vehicle taxes and insurance premiums from service leasing as well as other deferred items are shown in the balance sheet.

The special tax-allowable reserve comprises the value adjustments resulting from fiscal depreciation in accordance with § 3 of the Law for the Promotion of the Economy of the Border Regions (ZonenRFG) for the administrative building. The reversal of the special tax-allowable reserve and the resulting change in tax expenditure do not significantly increase the annual result shown. Nor is the change in future annual results due to this fiscal valuation of any major significance.

The provisions comprise tax provisions (€ 7,629,000, previous year: € 5,660,000) and other provisions (€ 179,066,000, previous year: € 173,568,000).

Other provisions serve to hedge risks resulting from existing leasing contracts. In the year under review, especially future expenses under service leases amounting to € 95,561,000 were taken into account (previous year: € 105,070,000). Provisions of € 23,650,000 (previous year: € 5,295,000) were recognised for indirect default risks. And a total of € 32,565,000 (previous year: € 27,215,000) in provisions were recognised for outstanding invoices and dealer bonuses.

The liabilities are made up as follows:

	31.12.2008 € 000	31.12.2007 € 000
1. Bonds (residual term up to 1 year € 600,000,000; previous year: € 0)	2,850,000	2,850,000
2. Liabilities to financial institutions (residual term up to 1 year)	745	9,115
3. Trade accounts payable (residual term up to 1 year)	34,948	17,687
4. Liabilities to affiliated companies (of which to the shareholder € 4,006,746,000; previous year: € 4,791,387,000) (of which trade accounts payable € 168,555,000; previous year: € 257,454,000) (residual term up to 1 year € 2,777,754,000; previous year: € 2,117,878,000)	5,977,754	6,108,779
5. Other liabilities (of which resulting from taxes € 76,000; previous year: € 57,000) (residual term up to 1 year € 408,727,000; previous year: € 217,853,000)	429,787	223,848
Total	**9,293,234**	**9,209,429**

Development of the fixed assets of Volkswagen Leasing GmbH, Brunswick, for the 2008 financial year

	Gross book values					Value adjustments				Net book values	
Description	Brought forward 1.1.2008 € 000	Additions € 000	Disposals € 000	Transfers € 000	Balance 31.12.2008 € 000	Brought forward 1.1.2008 € 000	Additions € 000	Disposals € 000	Balance 31.12.2008 € 000	Balance 31.12.2008 € 000	Balance 31.12.2007 € 000
I. Tangible fixed assets											
Land and buildings	21,459	–	-	–	21,459	8,473	484	–	8,957	12,502	12,986
II. Leased assets											
Vehicles, plant and equipment	16,928,790	6,983,878	5,687,017	36,468	18,262,119	6,036,186	3,451,468	2,777,370	6,710,284	11,551,835	10,892,604
Payments on account	37,659	75,554	1,191	– 36,468	75,554	–	–	–	–	75,554	37,659
	16,966,449	7,059,432	5,688,208	–	18,337,673	6,036,186	3,451,468	2,777,370	6,710,284	11,627,389	10,930,263
Total fixed assets	**16,987,908**	**7,059,432**	**5,688,208**	**–**	**18,359,132**	**6,044,659**	**3,451,952**	**2,777,370**	**6,719,241**	**11,639,891**	**10,943,249**

IV. Notes to the profit and loss account

Sales relate solely to the leasing business.

The cost of sales comprise the expenses necessary to achieve sales. In the leasing business these are essentially depreciation, residual book values of leased assets withdrawn, commissions, expenses from service leasing and administration costs.

The cost of materials totalled € 3,425,927,000. It is divided up into € 665,138,000 in expenses for services purchased and € 2,760,789,000 in expenses for leased items sold.

The result for the year is influenced by income of € 15,728,000 and expenses of € 268,000 attributable to other accounting periods, which are included in other operating income and other operating expenses, respectively.

Other operating income contains € 106,000 from the reversal of the special tax-allowable reserve.

Personnel expenses for our members of staff at the Milan and Verona branches amounted to € 3,125,000, of which € 2,278,000 is attributable to wages and salaries and € 847,000 to social security contributions.

Under the existing profit transfer agreement, the loss of € 90,034,000 is compensated by Volkswagen Financial Services AG.

The interest result is divided up as follows:

	2008 € 000	2007 € 000
1. Other interest and similar income (of which from affiliated companies € 10,014,000; previous year: € 12,250,000)	14,888	20,008
2. Interest and similar expenses (of which to affiliated companies € 269,333,000; previous year: € 304,256,000)	345,767	342,441
Total	**– 330,879**	**– 322,433**

V. Other notes

The interest rate risk is hedged by interest rate swaps with a total nominal volume of € 15.2 billion. As at the balance sheet date, the positive market values amount to € 140.2 million while negative market values amount to € 205.1 million. Market values are determined on the basis of market information available at the balance sheet date and appropriate IT-based evaluation methods. Of these derivative financial instruments, accrued interest income of € 108.2 million is shown under assets and accrued interest expense of € 71.3 million is shown under liabilities.

Our company's annual financial statements are included in the consolidated annual financial statements of Volkswagen AG, Wolfsburg, which are drawn up according to the International Financial Reporting Standards and are submitted with the publisher of the Electronic Federal Gazette.

Furthermore, the financial statements of our company are included in the consolidated financial statements of Volkswagen Financial Services AG, Brunswick, which are submitted with the publisher of the Electronic Federal Gazette.

In the period under review, audit fees amounting to € 124,000 were recognised as expenses. Of this amount, € 105,000 is attributable to the audit of the financial statements and € 19,000 to other certifications.

To pursue its business activities in Germany, Volkswagen Leasing GmbH does not have any personnel of its own. The staff were made available by Volkswagen Financial Services AG in return for a fee. In addition, the Milan and Verona branches employed 54 members of staff on an annual average.

The managing directors do not receive any emoluments from the company. No payments have been made to the members of the Supervisory Board by Volkswagen Leasing GmbH.

VI. Branches

Name and registered office
Branches
Audi Leasing, Brunswick
SEAT Leasing, Brunswick
Škoda Leasing, Brunswick
AutoEuropa Leasing, Brunswick
Volkswagen Leasing GmbH, Berlin
Branches outside Germany
Volkswagen Leasing GmbH, Milan, Italy
Volkswagen Leasing GmbH, Verona, Italy

VII. Responsibility statement of the Board of Management

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Volkswagen Leasing GmbH, and the management report includes a fair review of the development and performance of the business and the position of Volkswagen Leasing GmbH, together with a description of the principal opportunities and risks associated with the expected development of Volkswagen Leasing GmbH.

VIII. Corporate bodies of Volkswagen Leasing GmbH

Board of Management

Lars-Henner Santelmann
Spokesman of the Board of Management
Sales Fleet Customers 2 (from 1.2.2008)
Marketing/Product Development Leasing
Residual Value Management
Credit Rating Management Lessee Units (from 1.2.2008)
Fleet Service Management (until 31.1.2008)

Dirk H. Pinkvos
Managing Director
Sales Fleet Customers 1 (from 1.2.2008)
Sales Fleet Customers (until 31.1.2008)

Dietrich Paul (until 31.1.2008)
Association Relations, Brand and Data Protection

Supervisory Board

Hans Dieter Pötsch
Chairman
Member of the Board of Management of Volkswagen AG
Finance and Controlling

Dr. Horst Neumann
Deputy Chairman (from 1.4.2008)
Member of the Board of Management of Volkswagen AG
Human Resources and Organisation

Giuseppe Savoini (until 31.3.2008)
Deputy Chairman
Executive Vice President of Volkswagen AG
Group Treasurer

Alfred Rodewald
Deputy Chairman
Deputy Chairman of the Joint Works Council of Volkswagen Financial Services AG, Volkswagen Bank GmbH and Volkswagen Business Services GmbH

Dr. Jörg Boche (from 1.4.2008)
Executive Vice President of Volkswagen AG (from 21.11.2008)
Group Treasurer

Waldemar Drosdziok
Chairman of the Joint Works Council of Volkswagen Financial Services AG, Volkswagen Bank GmbH and Volkswagen Business Services GmbH

Sabine Ferken
General Secretary of the Joint Works Council of Volkswagen Financial Services AG, Volkswagen Bank GmbH and Volkswagen Business Services GmbH

Detlef Kunkel
General Secretary/Principal Representative of IG Metall Brunswick

Günther Müller (until 31.10.2008)
Head of Controlling of Volkswagen Bank GmbH

Gabor Polonyi (from 1.11.2008)
Head of Management and Marketing Corporate Customers of Volkswagen Bank GmbH

Michael Riffel
General Secretary of the General Works Council and Group Works Council of Volkswagen AG

Lothar Sander
Member of the Board of Management Volkswagen Division
Controlling and Accounting

Axel Strotbek
Member of the Board of Management
AUDI AG
Finance and Organisation

Detlef Wittig
Executive Vice President of Volkswagen AG
Group Marketing and Sales

Brunswick, 9 February 2009
The Board of Management

Lars-Henner Santelmann

Dirk H. Pinkvos

INDEPENDENT AUDITORS' REPORT

We have audited the annual financial statements – comprising the balance sheet, the profit and loss account, the cash flow statement and the notes – including the accounting, and the management report of Volkswagen Leasing GmbH, Brunswick, for the financial year from 1 January to 31 December 2008. The accounting and preparation of the annual financial statements and management report according to German commercial regulations are the responsibility of the company's Managing Directors. Our responsibility is to express an opinion on the annual financial statements, including the accounting, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 of the German Commercial Code (HGB) and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the accounting, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Managing Directors, as well as evaluating the overall presentation of the annual financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, which is based on the findings of the audit, the annual financial statements are in compliance with legal provisions and give a true and fair view of the net assets, financial situation and results of the operations of the company in accordance with the principles of proper accounting. The management report is consistent with the annual financial statements, provides a suitable understanding of the company's situation and suitably presents the risks of future development.

Hanover, 9 February 2009

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Harald Kayser	Burkhard Eckes
Auditor	Auditor

REPORT OF THE SUPERVISORY BOARD OF VOLKSWAGEN LEASING GMBH

In the financial year just ended, the Supervisory Board regularly and exhaustively dealt with the company's position and development.

The Management submitted timely and comprehensive reports to the Supervisory Board during the reporting period, both in writing and orally, regarding material aspects of the company's planning and situation (including its exposure to risk and its risk management) as well as the development of its business and deviations from plans and targets. Based on these reports, the Supervisory Board continuously monitored the management of the company's business, thus fulfilling its responsibilities under the law and the company's statutes without limitation. All decisions material to the company, as well as all other transactions subject to the Supervisory Board's approval under its rules of procedure, were reviewed and discussed with the Board of Management before the relevant resolution was adopted.

The Supervisory Board is made up of twelve members. There were changes in personnel in comparison with the previous year, which are shown in the section on corporate bodies in the notes.

The Supervisory Board convened for three regular meetings in the reporting year; there were no extraordinary meetings. The Supervisory Board members' average attendance rate was 97 %. All members attended more than one half of the meetings. Resolutions regarding urgent matters were adopted by means of circular memorandum.

Work of the committees

The Supervisory Board established two committees, a credit committee and a personnel committee, for the purpose of facilitating its work.

The personnel committee is responsible for decision making in regards to personnel and social issues subject to the Supervisory Board's authority under both the law and its rules of procedure. This committee comprises three members of the Supervisory Board. Its decisions are adopted by means of circular memorandum. Approvals of powers of representation ("Prokura") constituted material aspects of its work.

The credit committee is responsible for approving issues the Supervisory Board must deal with under the law and under its rules of procedure such as for instance proposed credit commitments, company borrowings, factoring transactions and general agreements pertaining to the assumption of receivables as well as assuming guarantees, warranties and the like. The credit committee comprises three members of the Supervisory Board; it also makes its decisions by means of circular memorandum.

Deliberations of the Supervisory Board

Following a detailed review at its meeting on 20 February 2008, the Supervisory Board approved the annual financial statements for 2007 that had been prepared by the Board of Management and accepted the annual report by Internal Audit regarding the results of its audits.

The Board Management provided extensive reports on the company's and the subgroup's economic and financial position, both at the aforesaid meeting and at the meetings on 2 July 2008 and 26 November 2008. In this connection, we dealt with the options for fundamentally realigning the company's business such that it can attain its earnings targets in the long term.

At our meeting on 2 July 2008, we dealt extensively with the company's current risk exposures in regards to both lending and residual values as well as with the fallout from the subprime crisis and the steps we must take in its wake. Furthermore, we authorised the acquisition of Vehicle Trading International GmbH (VTI).

On 26 November 2008, we engaged in an extensive discussion of the company's financial and investment planning. The Board of Management informed us of the ramifications of the financial market crisis, the company's current liquidity situation and the measures that the Board has initiated. We also dealt with the company's strategic alignment in connection with the "Strategy 2018" project.

Audit of the annual financial statements

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, was commissioned to audit the annual financial statements of Volkswagen Leasing GmbH as at 31 December 2008 including the bookkeeping system and the related management report.

The Supervisory Board had at its disposal the annual financial statements of Volkswagen Leasing GmbH as at 31 December 2008 and the related management report. The auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, have audited these financial statements, including the bookkeeping system, and the management report and issued an unqualified Auditors' Report. The Supervisory Board approves the results of these audits.

The Supervisory Board's review of the annual financial statements and the related management report did not give rise to any reservations. The auditors were present at the Supervisory Board meeting when this item of the agenda was dealt with and they reported on the main results of their audit.

The Supervisory Board approves the annual financial statements of Volkswagen Leasing GmbH and proposes that the meeting of shareholders give its formal approval to the actions of the Board of Management. In accordance with the existing profit transfer agreement, the loss made in 2008 will be compensated by Volkswagen Financial Services AG.

The Supervisory Board wishes to acknowledge and express its appreciation to the Board of Management, the members of the works council, the members of management and all members of staff for their work.

Brunswick, 20 February 2009

Hans Dieter Pötsch
Chairman of the Supervisory Board

NOTE REGARDING FORWARD-LOOKING STATEMENTS:

This report contains statements concerning the future business development of Volkswagen Leasing GmbH. These statements include, among others, assumptions about the development of the global economy, as well as the financial and automobile markets. Volkswagen Leasing GmbH has made these assumptions on the basis of available information and believes that they can be currently said to offer a realistic picture. These estimates necessarily include certain risks, and actual development may differ from these expectations.

Should actual development therefore deviate from these expectations and assumptions, or should unforeseen events occur that impact the business of Volkswagen Leasing GmbH, then the business development will be accordingly affected.

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