VOLKSWAGEN LEASING
GMBH

The key to mobility.

ANNUAL REPORT 2009

Volkswagen Leasing GmbH at a glance

in € million	2009	2008	2007	2006	2005
Investments in leased assets	6,290	7,059	6,386	5,761	5,270
Leased assets	11,949	11,627	10,930	10,661	10,027
Total assets	12,490	12,674	12,712	11,266	10,271
Income from leasing business	8,152	7,286	6,742	5,993	5,380

in thousands of vehicles	2009	2008	2007	2006	2005
New contracts	286	326	280	253	224
Current contracts	764	762	703	664	623

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).
The balance sheet and the profit and loss account have been prepared for the first time in accordance with the stipulations of the Ordinance on Accounting for Banks (RechKredV). Some of the previous year's figures have been adjusted to reflect the reclassifications that became necessary.

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Management report

ECONOMIC ENVIRONMENT

Global economy

Many countries started to recover in the months following the collapse of the global economy at the start of 2009, supported by the continuation of expansive monetary and fiscal policies. Inflation rates remained relatively low in most countries although the improved economic outlook caused prices for commodities and energy to rise substantially again. The global economy contracted by 2.0 % on an annualised basis, after growing by 1.9 % the previous year.

There was a sharp decline in Western Europe's GDP by 3.9 % (previous year: + 0.5 %); and the unemployment rate in the euro zone rose from 8.2 % at the start of the year to 10.0 % at year's end. In November, the euro climbed to new highs for the year against the US dollar. Central and Eastern Europe posted an average GDP growth rate of – 5.4 % (previous year: + 4.1 %).

Although the recession already ended in the second quarter of 2009, Germany's annualised GDP was down 5.0 % year on year (previous year: + 1.3 %). Exports and the build-up of inventories generated the greatest economic momentum in the year's second half. While private consumption remained relatively stable due to the government's stimulus measures, the unemployment rate continued to rise.

Financial markets and competitive situation

The bailout programmes that were enacted worldwide during the 2009 financial year with the aim of injecting liquidity into the banking system and consolidating it as well as the attendant economic stimulus packages sparked a noticeable recovery of the global economy by year's end. The bond issuing business also benefited from the change in the economic climate. There were also signs that the securitisation market would recover, among other things, in regards to asset-backed securities.

The easing of conditions in the capital markets as well as the liquidity infusions made available by the European Central Bank (ECB) helped to substantially improve refinancing options for the European providers of mobility services.

The development of mobility service providers is closely linked to the automobile market. The private customer segment posted strong growth in those countries where scrapping bonuses stimulated sales of new vehicles, which had an immediate effect on the financing business too. Mobility services for small- and medium-size vehicles benefited the most from these measures.

The sharp decline in the commercial automotive segment had an adverse effect especially on the number of new contracts that non-captive mobility services providers were able to close. This development affected the leasing companies of the non-captives in particular. Owing to their close ties to the automotive brands, captives, on the other hand, were not only able to utilise their position of trust vis-à-vis both dealers and commercial customers but also turned out to be a stabilising factor for the automobile industry in this market segment.

Automobile markets

Sales of passenger cars fell by 6.0 % to 52.4 million vehicles in 2009. The sales volume largely stabilised in the last few months of the reporting year thanks in particular to government programmes aimed at supporting sales as well as manufacturers' lucrative incentive packages. Demand rose only in the Region Asia Pacific as a result of the sharp increase in the number of new car registrations in China as well as in the Region Western Europe due mainly to high growth in Germany. The markets in Central and Eastern Europe as well as in North America and South Africa experienced dramatic declines. The negative growth in South America was much lower, thanks especially to the positive effects of governmental measures in Brazil. In the reporting year, worldwide automobile production fell by 13.2 % to 60.0 million units, of which passenger cars accounted for 49.4 million (– 14.0 %).

In 2009, the economic environment in the automobile industry was affected by a number of factors. The financial and economic crisis, in particular, had a considerable impact on consumer demand. Statutory economic stimulus packages helped consumers, who were unsettled by the crisis, to temporarily give up their reluctance to make new purchases. Many governments' initiatives not only supported the global automotive market, in some markets they even sparked a substantial increase in new registrations. However, whilst generating additional demand, these measures also resulted in anticipatory consumer spending. Based on the economic stimulus packages, many consumers decided to make their purchases already in 2009 and thus earlier than originally planned.

In Western Europe, demand for passenger cars rose slightly by 0.5 % to 13.7 million vehicles. All signs pointed to a steep downturn at the start of the year but governmental stimulus packages aimed at promoting sales helped to avoid this scenario in most of the region's auto-producing countries. Of the major markets, France posted double-digit growth (+ 10.7 %) whilst Spain (– 17.9 %), the United Kingdom (– 6.4 %) and Italy (– 0.2 %) had to contend with declines. At approximately 46 %, the share of diesel vehicles was down in Western Europe, mainly due to the shift in demand to the mini- and small-vehicle segment.

In Germany, automotive demand soared by 18.2 % to 4.0 million vehicles in 2009. At 3.8 million units (+ 23.2 %), the passenger car market reached its highest level since 1992 thanks especially to the scrapping bonus. In contrast, the muted investment climate caused new registrations of commercial vehicles to drop to 242,000 units (– 27.7 %) – the lowest level since reunification. At 170,000 vehicles, new registrations of trucks up to a total weight of six tons were down 24.4 %. Weak foreign demand for both passenger cars and commercial vehicles caused declines in German manufacturers' domestic production (– 13.9 % to 5.2 million units) and exports (– 20.7 % to 3.6 million units).

The Volkswagen Group managed to further expand its market leadership in Germany by increasing its market share to 34.2 % (previous year: 33.6 %).

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 business activities primarily focus on commercial customers that are divided into individual commercial buyers and fleet customers. Private customers account for approximately 14 % 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 comprises fleet planning, administration, and controlling of the fleet vehicles. With a portfolio of approximately 295,000 leasing contracts and a further 310,000 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

The WIR2018 strategy accords particular significance to fleet leasing as part of the global expansion of the fleet management business. The services management business must be enhanced if the earnings contribution per customer is to be maximised. Consistent alignment with the market made it possible to achieve profitable and sustained growth.

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.

ANALYSIS OF THE COMPANY'S BUSINESS PERFORMANCE AND POSITION

Business performance

In the 2009 financial year, Volkswagen Leasing GmbH succeeded yet again in continuing its evolution along a positive trajectory and expanding its strong position as a mobility services provider within the Volkswagen Group. The company was able to increase the number of current contracts and its result from ordinary business activities compared to the previous year.

As at the reporting date, its portfolio of leased vehicles had climbed from 762,000 to 764,000 units. The company's Italian branch in Milan, Italy, accounts for 16,000 vehicles of this total (previous year: approximately 15,000 vehicles). This inventory increase results from the addition of 286,000 vehicles, compared to disposal of 284,000 vehicles. This growth is essentially due to the fleet customer business, which saw its inventory rise from 269,000 to 295,000 units (+ 9.7 %).

Income from leasing business increased by 12 % to € 8.2 billion year on year. The result from ordinary business activities improved to € 549 million (previous year: loss of € 105 million).

In 2009, Volkswagen Leasing GmbH won Autoflotte's coveted award as Best Leasing and Fleet Management Company for the fourth year in a row. Volkswagen Leasing GmbH prevailed against a total of 51 competitors in this poll. We believe that our success in this year's readers' poll is substantially the outcome of the innovations that we introduced back in 2008. Particularly our flexible leasing products – FlexLeasyng, MatrixLeasyng and Mobilitätspool (mobility pool) as well as FleetCompetence eCO_2 – set new standards. This provides continued impetus to Volkswagen Leasing GmbH to set new benchmarks in fleet management and secure the company's successes in the long term.

FLEET BUSINESS

The company expanded and solidified its market leadership in fleet leasing despite ever intensifying competition and continued trends toward consolidation.

In sales, our activities continued to focus 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.

The portfolio of leasing contracts with individual commercial customers showed a slight increase in comparison to the previous year. Of the 748,000 leased vehicles under contract in total, approximately 14 % are attributable to private lessees and approximately 45 % to individual commercial customers. In addition, approximately 16,000 vehicles are managed by the Italian branch in Milan.

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.

Volkswagen Leasing GmbH's FleetCompetence eCO_2 leasing product is as environmentally conscious as it is attractive and satisfies the expectations of its customers in terms of environmentally friendly and fuel-efficient vehicles in today's climate debate. The new Tankkarte eCO_2 petrol card allows fleet managers that have decided to go with Volkswagen's EcoFuel models to benefit not just from lower CO_2 emissions but also from the dramatic reduction in operating costs, for instance due to the tax benefits. This new ecological and economic fleet management product will be brought to market in the spring of 2010.

In terms of automobile sales, small and medium-sized companies, craftsmen or self-employed service providers constitute a target group that is as distinct as it is large and requires specific products and services if it is to be successfully targeted. The new product offer, Professional Class, was designed with this logic in mind. It includes maintenance and parts services, tyre replacement as well as fuel & services card bonus points.

Especially the positive development of the service products has boosted our portfolio of current contracts by 85,000 to a new total of 604,000 – an increase of 16.4 %.

INDIVIDUAL CUSTOMER BUSINESS

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.

The company succeeded in further marketing its vision of worry-free mobility in 2009. The successful trend from 2008 was carried over into 2009 based on environmental campaigns and brand-specific mobility packages. The maintenance and inspection service for the Volkswagen Passenger Cars brand again proved to be an attractive proposition, as is evidenced by the approx. 50,000 contracts that were signed in the reporting period.

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:

DEVELOPMENT OF VEHICLE CONTRACT VOLUME

in thousands of contracts

2009		2008		2007		2006		2005	
New contracts	Current contracts	New contracts	Current contracts	New contracts	Current contracts	New contracts	Current contracts	New contracts	Current contracts
286	764	326	762	280	703	253	664	224	623

Volkswagen Leasing GmbH reduced its investments by € 0.8 billion to € 6.3 billion (previous year: € 7.1 billion) owing to both the general downturn in demand and the shift in demand to the benefit of the mini and small vehicle segment. The gross book of the leased assets increased from € 18.3 billion to € 18.5 billion. The net book value was € 11.9 billion (previous year: € 11.6 billion). This corresponds to an increase of € 0.3 billion or 2.6 %.

The equity ratio is 1.8 % (previous year: 1.7 %).

In recent years, Volkswagen Leasing GmbH placed 15 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 € 2.8 billion (previous year: € 2.4 billion).

The company refinanced itself largely through loans and funds that Volkswagen Financial Services AG obtained and raised in the capital markets and subsequently passed on to Volkswagen Leasing GmbH. The resulting loan volume of Volkswagen Leasing GmbH as at the reporting date was € 4.9 billion (previous year: € 3.9 billion).

To finance its leased assets, Volkswagen Leasing GmbH also issued its own debentures amounting to € 2.25 billion (31.12.2008: € 2.85 billion).

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 Leasing GmbH acquired Vehicle Trading International (VTI) GmbH, Brunswick, effective 1 January 2009. This company is of secondary significance to the assets and financial position of Volkswagen Leasing GmbH.

Results of operations

The income from leasing business in the financial year ended rose by € 0.9 billion to € 8.2 billion. This growth is accounted for by € 0.6 billion of increased proceeds from the sale of previously leased vehicles (€ 3.9 billion), as well as a € 0.3 billion increase in revenues from current leasing contracts. The larger portfolio of contracts will cause revenue to rise in the next years.

The expenses from leasing business climbed by € 0.4 billion to € 3.5 billion, essentially as a result of the year-on-year increase in the residual book values of vehicle disposals. This figure essentially includes the residual book values and the expenses from service leasing.

Depreciation on leased assets amounted to € 3.1 billion (previous year: € 3.4 billion).

There has been a moderate 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 € 394 million (previous year: € 344 million).

The company posted a pre-tax profit of € 549 million in 2009 (previous year: loss of € 105.0 million), in particular from the marketing of lease returns related to vehicles added in 2006 and 2007, for which it applied the tax option to use the reducing-balance method of depreciation.

Material components of the internal control system and the internal risk management system in regards to the accounting process (Mandatory disclosure in accordance with § 289 Para. 5 German Commercial Code as amended)

The internal control system (ICS) of Volkswagen Leasing GmbH is defined as the sum of all principles, methods and actions aimed at ensuring the effectiveness, economy and propriety of the company's accounting as well as ensuring compliance with material legal requirements. In terms of the accounting system, the risk management system (IRMS) concerns the risk of misstatements in the bookkeeping as well as in the external reporting system. The material elements of the internal control system and the risk management system as they relate to the accounting process at Volkswagen Leasing GmbH are described below.

- Given its function as the corporate body tasked with managing the company's business and in view of ensuring proper accounting, the Board of Management of Volkswagen Leasing GmbH has established Accounting, Operations, Treasury, Risk Management and Controlling departments and has clearly delineated their respective spheres of responsibility and authority. Key cross-divisional functions are controlled by the Board of Management of Volkswagen Financial Services AG as well as by the executive management of Volkswagen Bank GmbH, Volkswagen Leasing GmbH as well as Volkswagen Business Services GmbH.
- Companywide requirements and accounting rules serve as the basis for a uniform, proper and continuous accounting process. For instance, the accounting policies are governed by internal accounting standards, including the accounting regulations under the German Commercial Code (HGB) in conjunction with the Ordinance on Accounting for Banks (RechKredV).
- At the company level, specific elements of control designed to ensure the propriety and reliability of accounting principles comprise analyses and possibly revisions of the bookkeeping data presented by the individual units and in sub-ledgers. All of this is supplemented by the clear delineation of spheres of responsibility as well as a variety of controlling and monitoring mechanisms. The aim is to ensure that all transactions are accurately posted, processed, evaluated and included in the company's financial accounting.
- These controlling and monitoring mechanisms are designed to be process-integrated and independent of processes. Hence automated IT process controls besides manual process controls (such as the »four-eyes« principle) comprise material components of the process-integrated activities. These controls are supplemented by specific Group functions of the ultimate parent company, Volkswagen AG, for example Group Controlling.
- Risk management is fully integrated into the accounting process by virtue of continuous risk monitoring and the risk reporting system.
- Internal Audit is also a key corporate body that is integral to the controlling and monitoring system of Volkswagen Leasing GmbH. Internal Audit regularly performs audits, both in Germany and abroad, of processes relevant to accounting as part of its risk-based audit procedures and directly reports its findings to the Board of Management of Volkswagen Leasing GmbH.

In sum, the existing internal controlling and monitoring system of Volkswagen Leasing GmbH is designed to ensure that the information on the financial position of Volkswagen Leasing GmbH as at the 31 December 2009 reporting date is proper and reliable. No material changes were made to the internal controlling and monitoring system of Volkswagen Leasing GmbH after the reporting date.

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.

Volkswagen Leasing GmbH has set up a system for identifying, measuring, monitoring and controlling risk positions, in accordance with the requirements of § 25a Para. 1 German Banking Act and by applying § 91 Para. 2 German Stock Corporation Act analogously.

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 presented to the Supervisory Board.

The risk strategy includes strategic parameters for 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.
- Volkswagen Financial Services AG makes leases available largely taking into account total customer value.
- Decisions regarding assuming or avoiding risks are supported by the use of appropriate 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.

The analysis of its risk-bearing capacity serves to examine, on a quarterly basis, whether Volkswagen Leasing GmbH is capable at all times to bear the risks potentially resulting from its operating business.

An analysis of Volkswagen Leasing GmbH's risk-bearing capacity was performed for the first time as at 30 September 2009; it resulted in positive findings as of this cut-off date.

No limit system has been introduced for Volkswagen Leasing GmbH to date because the net amounts of individual risk types are limited at the level of Volkswagen Financial Services AG. 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.

For markets with a significant business volume, reporting is done on a monthly basis.

Continuous improvements of the risk management report have helped to further improve the data regarding structures and developments in the company's credit portfolios.

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.

The department responsible for Risk Assessment Procedures and Basel II determines the parameters of the procedures used to measure both creditworthiness and collateral. It develops and validates credit assessment models such as rating and scoring procedures, models for estimating certain parameters such as probabilities of default, loss rates in case of default and credit conversion factors related to off-balance sheet transactions that are required for measuring credit risks. As a neutral and independent department, Risk Assessment Procedures and Basel II reports 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, its domestic and foreign branches as well as third-party entities for which contractual auditing rights are in place. As far as the accounting process is concerned, the essential features of both the internal control system and the internal risk management system are also an integral part of the company's operating and business procedures.

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.

The economic environment posed a challenge in 2009. It was characterised by weak labour markets, declining private consumption as well as the downturn in vehicle sales, especially during the second half of the year once the stimulus measures had ended. Prices for used cars stabilised at a low level as a result.

As expected, in 2009 Volkswagen Leasing GmbH had to spend a substantially larger amount than in the previous year to counteract the effects of the global financial crisis.

Defaults in the commercial and private customer segment rose moderately in the retail portfolio in 2009. We expect risk premiums to continue to rise in 2010 as well as a result of the economic crisis.

The number of bankruptcies and thus the rising number of defaults in the corporate portfolio was particularly problematic. There are indications that the earnings and liquidity situation of businesses, especially in the German market but also in the other European markets, is very tight, which makes additional risk costs likely in 2010 as well.

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.

Group Risk Management establishes guidelines for the central management of credit risks. These guidelines constitute the central risk management system's binding external framework within which the divisions/markets can pursue their activities, plans and decisions in accordance with their competencies.

The local risk strategies of the national companies are combined in the overall risk strategy.

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 are 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.

Collateral

Volkswagen Leasing GmbH always owns the leased goods in all leasing transactions. In certain cases, additional collateral besides the leased property is required for hedging our interest in ways adequate to the relevant risk. The measurement of the leased property/collateral is fixed in appropriate guidelines.

These valuations are based on both historical data and expert knowledge.

Risk management and monitoring

Appropriate processes are used to monitor all leasing transactions 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.

The year 2009 was marked by a weak economic environment. This caused market players to initiate countermeasures such as the enactment of a governmental bailout as well as the expansion of rebates for new vehicles. This had a negative impact on prices for used cars and thus on the exposure to risk.

As expected, a much higher amount was required in 2009 than the previous year to cover the residual value risks by writing them down to the lower net realisable value in order to counteract the ramifications of the global financial and economic crisis.

The effects of the crisis have not been all that dramatic for the Volkswagen Group overall because it is not as present in the highly affected segments of low-mpg vehicles such as SUVs and because it is well positioned relative to its competitors by virtue of its high-value and environmentally-friendly models whose value offers greater stability.

Additional risks were avoided through steps such as continuous updating and ongoing development of the residual value forecast models applied; early adjustment of the residual value recommendations to realistic market conditions; further diversification and expansion of the sales channels for lease returns as well as the continuation of previously enacted measures aimed at supporting and stabilising residual values in cooperation with the brands.

The economic climate will remain difficult in 2010 as well. The value of used vehicles is expected to remain under high pressure, especially in Germany and Italy.

Parameters/risk strategy
The residual value risk management feedback control system requires regular residual value forecasts and continuous risk assessments, mainly in regards to direct residual value risks. 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.

Local strategies applicable to the residual value risk are combined in the overall risk strategy.

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.

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 recognising risk provisions.

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 40-day holding period and a confidence level of 99 %.

This model is based on a historical simulation and calculates potential losses taking 1,000 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 Management is tasked with monitoring interest rate risks and reporting on them.

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 in accordance with the principles of Volkswagen Financial Services AG 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) provides 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 are 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 Management 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 rating of Volkswagen Financial Services AG has an impact on the refinancing costs of Volkswagen Leasing GmbH. At this time, the rating agencies have given Volkswagen Financial Services AG a long-term rating of A– with a negative outlook (S&P) and A3 with a stable outlook (Moody's).

We have further diversified the sources of refinancing since the onset of the financial crisis, which has been ongoing since the third quarter of 2008. Among others, ABS transactions were placed by Volkswagen Leasing GmbH and acquired by Volkswagen Bank GmbH.

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.

The business continuity management in place at Volkswagen Financial Services AG and Volkswagen Bank GmbH has been implemented analogously at Volkswagen Leasing GmbH.

Special risks arising from the global financial market crisis

At this time, the Board of Management of Volkswagen Leasing GmbH does not see any need to make additional provisions for risks because the government interventions have stabilised the financial and capital markets, the global economy is gradually recovering and the refinancing markets are coming back to life.

The existing risk management system of the company adequately takes the structural changes resulting from the crisis of the financial markets into account – especially at the level of contract execution and refinancing.

Risks at the refinancing level

The crisis of the financial markets made it more expensive at the start of the year to refinance Volkswagen Leasing's markets. Risk premiums recently started to decline again.

There is the risk that refinancing costs might continue to rise should the general economic environment deteriorate again, with a correspondingly negative impact on earnings.

Summary

Volkswagen Leasing GmbH has been classified as a financial services institution since 2009 pursuant to § 1 Para. 1a German Banking Act and thus must satisfy minimum risk management requirements.

The final version of the amendments to the minimum requirements for risk management (MaRisk) was published in the German Financial Supervisory Authority's Circular 15/2009 dated 14 August 2009. Volkswagen Leasing GmbH attaches high priority to the new requirements and is in the process of implementing them.

In 2009 Volkswagen Leasing GmbH successfully met its challenges despite the difficult conditions; in the final analysis, adequate handling of the risks arising from the worldwide crisis of the financial markets was critical to the company's success.

Volkswagen Leasing GmbH will continue to invest in the optimisation of the comprehensive control system and the risk management systems in order to fulfil the business and statutory requirements for risk management and control.

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.

Various leasing providers are withdrawing from the market in light of the financial crisis. Moreover, the new bank regulatory requirements will pose new challenges for the leasing industry, making it more difficult for new competitors to enter the market. Yet Volkswagen Leasing GmbH still sees new marketing opportunities against this backdrop – even in saturated markets.

Strategic opportunities

GEOGRAPHIC EXPANSION

There are opportunities above and beyond the internationalisation strategy described in the section entitled »Anticipated developments«. These opportunities concern further geographic expansion into markets where Volkswagen Leasing GmbH can use its financial services to promote the sales of Group vehicles. The targeted rates of return of Volkswagen Leasing GmbH as well as the sales promotion potential are relevant to any decision to enter a particular market.

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 special 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 and the utilisation of additional cost synergies based on the further enhancement of IT systems.

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 December 2009, 388 (previous year: 348) individuals worked for Volkswagen Leasing GmbH.

A total of 56 members of staff employed in the branches in Milan and Verona (Italy) as at 31 December 2009 (previous year: 55) had employment contracts with Volkswagen Leasing GmbH.

Key issues in personnel management

At Volkswagen Financial Services AG, personnel management covers all domestic companies of the Volkswagen Financial Services Group.

The development of the employee strategy, »We are a top team«, was an integral part of the WIR2018 corporate strategy. Topics such as personnel development, flexible and customer-focused organisational development, compensation and benefits as well as international human resources management were given priority.

Among other things, the 2009 collective agreement of Volkswagen AG laid the groundwork for introducing a performance-based element of compensation for employees subject to collective agreements. This means that starting in 2011, the company will also place greater emphasis on individual performance in light of the WIR2018 strategy.

The establishment of a new health centre, the introduction of new targets in health management as well as the international roll out of the mood barometer were core concerns at the level of the company's leadership and corporate culture. The survey has now been conducted in 13 countries. Roughly 86 % of the company's employees in Germany participated in the third instalment of the survey that was carried out this year.

The financial and economic crisis posed major challenges for the flexible use of human resources in 2009. We have started to implement a cross-divisional flexibility and capacity management tool based on current experience in order to ensure, at all times, that our human resources are available where and when they are needed.

Each year, Volkswagen Financial Services AG hires 40 trainees/students of Welfenakademie, a university of co-operative education that offers a Bachelor of Arts. The trainee programme also allows Volkswagen Financial Services AG to offer highly qualified college graduates an attractive option for joining the company. The Explore the World programme was newly introduced; it gives trainees, who have completed their apprenticeship and possess above-average credentials and development potential, the opportunity to gain international experience in our foreign branches.

Each employee's need for qualifications is determined in the annual employee performance review, and suitable measures aimed at developing their competence are agreed upon with them. Many qualifications are obtained at the company's own training centre. These training programmes are closely aligned with the company's products, processes and systems.

We identify our need for specialists in coordination with the appropriate departments and develop suitable development concepts. As a result, in 2009 a total of 22 employees started a two-year leasing specialist training programme in collaboration with both Welfenakademie and the Brunswick Chamber of Commerce and Industry.

The second round of the General Management Program started as part of our international personnel work. Fifteen managers of eight nationalities from 12 countries are participating in this internal professional qualification programme. The programme aims to impart broad knowledge of our company's strategy, products and markets as well as of its principles and instruments of governance to Country Managers in a structured environment.

EVENTS AFTER THE BALANCE SHEET DATE

No important events beyond those described in this report occurred after the close the 2009 financial year.

ANTICIPATED DEVELOPMENTS

Global economy

Our plans assume that the recovery of the global economy, which started in mid-2009, will continue in 2010. The Asian emerging markets are expected to generate the greatest growth momentum while the industrialised countries will only recover slightly.

We prepare our forecasts based on external institutions' current assessments, including economic research institutes, banks, multinational organisations and consulting firms.

Whilst Western European countries are expected to generate moderate growth, the recovery in Central and Eastern European countries will be slightly more dynamic.

Unemployment figures will probably continue to rise even though the recovery in Germany will continue in 2010.

Financial markets and competitive situation

The stimulus packages that major states enacted in 2009 prevented the banking system from collapsing and restabilised the real economy. The financial markets expect regulatory supervision to be tightened as a result.

The 20 most important industrialised countries already agreed on initial steps toward a new regulatory regime at their summit meeting in Pittsburgh, USA, in September 2009. The envisioned international reform package provides for rules and regulations that are to enacted in the individual countries by 2012. Increasing the banks' equity and improving in qualitative terms is at the heart of these measures in order to ensure that especially risky off-balance sheet transactions are also disclosed. New, stricter rules will also be enacted with respect to Basel II, gearing, derivatives, major banks (»systemic banks«), accounting rules and the tax havens.

The new rules are likely to have a serious impact on the business of the mobility services providers – particularly the leasing companies in Germany, whose activities have been governed by the German Banking Act since the financial year just ended. Since the new leasing contract business collapsed in the wake of the 2009 economic and financial crisis, this situation will generate additional cost and competitive pressures – also against the backdrop of rising residual value risks – and hamper the recovery in the mobility services market. As a result, each company's business model will be decisive to its existence as a going concern.

The vehicle leasing business, and the commercial leasing business in particular, is not expected to recover rapidly in 2010. Whilst no additional interest rate and liquidity risks are anticipated at this time due to central banks' determined monetary policies, the non-captive automobile leasing companies will continue to be exposed to intensifying consolidation pressures.

This backdrop underscores the competitive advantages of captives such as Volkswagen Leasing GmbH that possess an integrated business model, a strong equity base and a healthy refinancing base.

Development of the automobile markets

We expect that our European core markets in particular will face a difficult environment in 2010 despite the general economic recovery. Many people purchased vehicles in 2009 instead of later on due to governmental incentive programmes. This means that the ramifications of the financial and economic crisis for the automotive market will be shifted into 2010. Rising commodities prices and stricter emissions standards will also impair automotive demand.

We expect the Western European passenger car market to shrink in 2010 because many economic and labour market programmes are set to expire this year. Whilst demand in Germany will be much lower, we expect China and India – two important markets, strategically speaking – to continue along a positive trajectory. The North American market is expected to recover slightly. In 2010, global demand for new vehicles will likely be a bit higher year on year.

The Volkswagen Group is well equipped to withstand the difficult economic climate. Our broad product range, which includes the most recent generation of fuel-optimised engines, gives us a competitive advantage worldwide. Our goal of being able to offer mobility and innovations to everybody also helps to strengthen our competitive position in the long term.

In Western Europe (excluding Germany), demand for passenger cars will shrink substantially because economic stimulus packages are expiring. In 2010, the markets in Central and Eastern Europe will continue to suffer from the fallout of the financial and economic crisis. We expect demand in this region to decline overall even though some countries are showing signs of stabilising.

The German market will have a difficult time in 2010 because demand for new vehicles will decline substantially despite the slight improvement in the economic climate. The statutory scrapping bonus generated strong demand in the private sector during the reporting year. In many cases however, people made their purchasing decisions in 2009 merely because they wanted to benefit from improved terms. Whilst we expect the German passenger car market to reach its lowest point in 2010, the fallout of the crisis will continue to affect its development in years to come as well.

Development of Volkswagen Leasing GmbH

The next few years will see the company focus on used vehicle leasing for both private and individual commercial customers. Appropriate products, especially for young used cars, have been developed and brought to market. 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 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 is of great importance against the backdrop of the used car market's weakness. Volkswagen Leasing GmbH is responding to changed market conditions by offering both residual value insurance and own marketing models for dealers in cooperation with the brands.

We will also continue to pursue our strategy of transferring the highly successful German captive business model in fleet leasing to selected foreign markets. 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, EcoFuel and BlueMotion. Volkswagen Leasing GmbH supports this through its FleetCompetence eCO_2 product. In November 2008, the company entered into an exclusive agreement with NABU, the German Society for the Conservation of Nature, to that end. The eCO_2 Green Fleet Award will be awarded for the first time in 2010 in cooperation with NABU, the German Society for the Conservation of Nature.

The Board of Management expects business in 2010 to remain at the previous year's level, given the prevailing economic climate and the resulting restraint in regards to investments, especially in the commercial segment.

Higher depreciation on vehicles added in 2006 and 2007 had a negative impact on earnings in previous years. The effect was reversed because the respective vehicles were disposed of in 2009, and it will continue to have positive effects on earnings in both 2010 and 2011. The increased risk from residual values and customers' credit rating will have a countervailing effect. We expect to achieve positive earnings overall in both 2010 and 2011.

Financial statements 2009

Financial statements 2009

Balance sheet of Volkswagen Leasing GmbH, Brunswick, as at 31.12.2009

Assets		€ 000	31.12.2009 € 000	31.12.2008 € 000
1.	Cash reserve			
	Cash in hand		2	1
2.	Receivables from financial institutions			
	Payable on demand		489	267,881
3.	Receivables from customers			
	Payable on demand		119,967	285,092
4.	Investments in affiliated companies		105	—
5.	Tangible fixed assets			
	a) Leased assets	11,949,506		11,627,389
	b) Land and buildings	12,028		12,502
			11,961,534	11,639,891
6.	Other assets		376,631	446,924
7.	Prepaid expenses		31,514	34,686
Total assets			**12,490,242**	**12,674,475**

Equity and liabilities	€ 000	31.12.2009 € 000	31.12.2008 € 000
1. Liabilities to financial institutions			
a) Payable on demand	185,732		1,557
b) With agreed repayment period or period of notice	225,535		737,232
		411,267	738,789
2. Liabilities to customers			
Other liabilities			
a) Payable on demand	686,237		344,730
b) With agreed repayment period or period of notice	5,121,663		5,050,257
		5,807,900	5,394,987
3. Securitised liabilities			
a) Debentures issued	2,286,819		2,888,387
b) Liabilities from commercial paper	0		191,594
		2,286,819	3,079,981
4. Other liabilities		75,063	79,434
5. Deferred income		3,385,116	2,972,760
6. Provisions			
a) Tax provisions	6,800		7,629
b) Other provisions	295,553		179,066
		302,353	186,695
7. Special tax-allowable reserve		2,600	2,705
8. Equity			
a) Subscribed capital	76,004		76,004
b) Capital reserve	142,471		142,471
c) Net retained profits	649		649
		219,124	219,124
Total equity and liabilities		**12,490,242**	**12,674,475**
1. Other obligations			
Irrevocable credit commitments		716,797	835,139

Profit and loss account of Volkswagen Leasing GmbH, Brunswick, from 1.1. to 31.12.2009

		€ 000	€ 000	2009 € 000	2008 € 000
1.	Income from leasing transactions		8,152,117		7,285,976
2.	Expenses from leasing transactions		3,507,106		3,125,495
				4,645,011	4,160,481
3.	Interest income from				
	lending and money market transactions		6,734		14,887
4.	Interest expense		393,604		343,651
				– 386,870	– 328,764
5.	Commission income		459		981
6.	Commission expenses		293,948		343,729
				– 293,489	– 342,748
7.	**Net income from financial transactions**			**3,964,652**	**3,488,969**
8.	Other operating income			27,039	26,877
9.	Income from the reversal of the special tax-allowable reserve			106	106
10.	General administration expenses				
	a) Personnel expenses				
	aa) Wages and salaries	2,274			2,278
	ab) Social security costs	875			847
			3,149		3,125
	b) Other administration expenses		139,739		130,097
				142,888	133,222
11.	Depreciation and amortisation				
	a) Depreciation on buildings		475		484
	b) Depreciation on leased assets		3,087,331		3,408,154
				3,087,806	3,408,638
12.	Other operating expenses			43,539	9,647
13.	Depreciation, amortisation and allowances on receivables and additions to provisions in the leasing business			165,874	71,029
14.	Income from the reversal of allowances on receivables and reversals of provisions in the leasing business			3,399	1,861
15.	Income from loss transfer			5,859	—
16.	**Result from ordinary business activities**			**549,230**	**– 104,723**
17.	Taxes on income and earnings			146,925	– 14,689
18.	Profits transferred under a profit transfer agreement (previous year: income from loss transfer)			– 402,305	90,034
19.	**Net income for the year**			**0**	**0**
20.	Profit brought forward from the previous year			649	649
21.	**Net retained profits**			**649**	**649**

Cash flow statement of Volkswagen Leasing GmbH, Brunswick, from 1.1. to 31.12.2009

	2009 € 000	2008 € 000
Net income (before transfer of profit/loss)	402,305	– 90,034
Amortisation/depreciation of fixed assets	3,087,806	3,408,638
Change in provisions	115,659	7,466
Profit from the disposal of leased assets	– 1,052,329	– 414,848
Interest result	386,870	328,763
Other adjustments	186,794	– 29,194
Changes in receivables from financial institutions	267,391	– 170,836
Changes in receivables from customers	75,091	875,634
Changes in other assets from operating activities	– 193,925	– 92,513
Changes in liabilities to financial institutions	181,478	3,242
Changes in liabilities to customers	3,461	– 89,827
Changes in securitised liabilities	– 3,116	1,423
Changes in other liabilities from operating activities	407,878	– 130,241
Interest received	6,734	14,888
Interest paid	– 393,604	– 343,651
Income tax refunds	– 186,794	29,194
I. Cash flow from operating activities	**3,291,699**	**3,308,104**
Cash inflows from the disposal of leased assets	3,932,944	3,325,686
Cash outflows for investments in leased assets	– 6,290,064	– 7,016,118
Cash outflows for the acquisition of subsidiaries	– 105	—
II. Cash flow from investing activities	**– 2,357,225**	**– 3,690,432**
Cash inflows from company owners/cash outflows to company owners	90,034	382,899
Cash inflows from issuing bonds and taking up loans	5,023,165	8,523,495
Cash outflows from the redemption of bonds and loans	– 6,315,064	– 8,353,298
III. Cash flow from financing activities	**– 1,201,865**	**553,096**
Net change in funds (I., II. and III.)	– 267,391	170,768
Funds available at the beginning of the period	267,882	97,114
Funds available at the end of the period	491	267,882

The balance sheet and the profit and loss account have been prepared for the first time in accordance with the stipulations of the Ordinance on Accounting for Banks (RechKredV). Some of the previous year’s figures have been adjusted to reflect the reclassifications that became necessary. Funds corresponds to cash in hand plus receivables from financial institutions.

Notes to the financial statements of Volkswagen Leasing GmbH, Brunswick, as at 31.12.2009

I. GENERAL COMMENTS REGARDING THE ANNUAL FINANCIAL STATEMENTS

The annual financial statements of Volkswagen Leasing GmbH have been prepared in accordance with the stipulations of the German Commercial Code (HGB) and, for the first time, the Ordinance on Accounting for Banks (RechKredV).

The breakdown of fixed assets has been extended to include the item »Financial assets«.

II. ACCOUNTING POLICIES

The accounting policies applied the previous year have been adopted unchanged.

The financial assets are recognised at cost.

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

Depreciation for the administrative building is recognised using the straight-line method (period of use: 50 years for old building and 25 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 income/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.

Receivables from financial institutions break down as follows:

	31.12.2009 € 000	31.12.2008 € 000
1. Receivables from financial institutions	489	267,881
of which from affiliated companies € 0; previous year: € 267,638,000		
Total	**489**	**267,881**

Receivables from customers break down as follows:

	31.12.2009 € 000	31.12.2008 € 000
1. Trade receivables	95,755	121,911
2. Receivables from affiliated companies (of which from the shareholder € 0; previous year: € 98,208,000) (of which trade receivables € 1,902,000; previous year: € 2,399,000)	1,902	100,596
3. Other receivables	22,310	62,585
Total	**119,967**	**285,092**

The other assets basically comprise € 104,724,000 (previous year: € 166,629,000) in vehicles held as available for sale stemming from leases with Volkswagen employees and € 148,791,000 (previous year: € 108,232,000) in receivables from interest rate swaps.

The prepaid expenses comprise discounts for loans taken up and debentures amounting to € 7,033,000 (previous year: € 10,342,000), which are eliminated pro rata temporis. In addition, the prepaid vehicle taxes amounting to € 8,356,000 (previous year: € 7,038,000) and insurance policies from service leasing amounting to € 12,957,000 (previous year: € 13,936,000) as well as other prepaid items are recognised.

The liabilities are made up as follows:

	31.12.2009 € 000	31.12.2008 € 000
1. Liabilities to financial institutions	411,267	738,789
(of which to affiliated companies € 410,720,000; previous year: € 738,086,000)		
2. Liabilities to customers	5,807,900	5,394,987
(of which to affiliated companies € 5,581,711,000; previous year: € 5,239,668,000)		
(of which to the shareholder € 5,390,678,000; previous year: € 4,006,746,000)		
(of which trade accounts payable € 81,418,000; previous year: € 202,990,000)		
3. Securitised liabilities	2,286,819	3,079,981
4. Other liabilities	75,063	79,434
Total	**8,581,049**	**9,293,191**

The residual terms of the liabilities are made up as follows:

	31.12.2009 € 000	31.12.2008 € 000
1. Liabilities to financial institutions	**411,267**	**738,789**
of which due 0 – 3 months	405,267	561,789
of which due > 3 – 12 months	6,000	177,000
2. Liabilities to customers	**5,807,900**	**5,394,987**
of which due 0 – 3 months	2,280,755	2,123,605
of which due > 3 – 12 months	7,403	50,323
of which due > 12 – 60 months	3,519,742	3,221,059
3. Securitised liabilities	**2,286,819**	**3,079,981**
of which due 0 – 3 months	36,819	529,981
of which due > 3 – 12 months	—	300,000
of which due > 12 – 60 months	2,250,000	2,250,000
4. Other liabilities	**75,063**	**79,434**
of which due 0 – 3 months	66,628	79,434
of which due > 3 – 12 months	250	—
of which due > 12 – 60 months	1,989	—
of which due > 60 months	6,196	—
Total	**8,581,049**	**9,293,191**

The provisions comprise tax provisions (€ 6,800,000; previous year: € 7,629,000) and other provisions (€ 295,553,000; previous year: € 179,066,000).

Other provisions serve to hedge risks resulting from existing leasing contracts. Provisions of € 107,000,000 (previous year: € 23,650,000) were recognised for indirect default risks in the reporting period. Especially future expenses under service leases amounting to € 87,615,000 were taken into account (previous year: € 95,561,000). Also a total of € 36,629,000 (previous year: € 32,565,000) in provisions were recognised for outstanding invoices and dealer bonuses.

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.

Development of the fixed assets of Volkswagen Leasing GmbH, Brunswick, for the 2009 financial year

	GROSS BOOK VALUES					VALUE ADJUSTMENTS				NET BOOK VALUES	
Description	Brought forward 1.1.2009 € 000	Additions € 000	Disposals € 000	Transfers € 000	Balance 31.12.09 € 000	Brought forward 1.1.2009 € 000	Additions € 000	Disposals € 000	Balance 31.12.09 € 000	Balance 31.12.09 € 000	Balance 31.12.08 € 000
I. Tangible fixed assets											
Land and buildings	**21,459**	**—**	**—**	**—**	**21,459**	**8,956**	**475**	**—**	**9,431**	**12,028**	**12,502**
II. Leased assets											
Vehicles, plant and equipment	18,262,119	6,270,919	6,088,072	70,092	18,515,058	6,710,285	3,087,330	3,212,862	6,584,753	11,930,305	11,551,835
Payments on account	75,554	19,144	5,405	– 70,092	19,201	—	—	—	—	19,201	75,554
	18,337,673	**6,290,063**	**6,093,477**	**—**	**18,534,259**	**6,710,285**	**3,087,330**	**3,212,862**	**6,584,753**	**11,949,506**	**11,627,389**
III. Financial assets											
Investments in affiliated companies	—	**105**	—	—	**105**	—	—	—	—	**105**	—
Total fixed assets	**18,359,132**	**6,290,168**	**6,093,477**	**—**	**18,555,823**	**6,719,241**	**3,087,805**	**3,212,862**	**6,594,184**	**11,961,639**	**11,639,891**

IV. NOTES TO THE PROFIT AND LOSS ACCOUNT

Income from leasing business amounts to € 8,152,117,000. A total of € 3,507,106,000 in expenses were incurred in connection with the leasing business and contain the expenditures required for generating sales. These essentially concern the residual carrying amounts of leased assets withdrawn and expenses from service leasing. The net income from leasing is € 4,645,011,000.

The interest result is divided up as follows:

	2009 € 000	2008 € 000
1. Interest income from lending and money market transactions (of which from affiliated companies € 3,253,000; previous year: € 10,014,000)	6,734	14,887
2. Interest expense (of which to affiliated companies € 197,394,000; previous year: € 269,333,000)	393,604	343,651
Total	**– 386,870**	**– 328,764**

Total commission expenses were € 293,948,000 and other operating income was € 27,039,000, of which € 20,335,000 were related to the leasing business and € 6,704,000 to allocated overhead. The income from the reversal of the special tax-allowable reserve amounts to € 106,000.

Personnel expenses for our members of staff at the Milan and Verona branches amount to € 3,149,000, of which € 2,274,000 is attributable to wages and salaries and € 875,000 to social security contributions.

Other administration expenses in the amount of € 139,739,000 were incurred especially for allocated workplace costs, personnel leases as well as IT costs.

The depreciation on and write-downs of leased assets in the amount of € 3,087,331,000 are presented separately. Other operating expenses in the reporting year were € 43,539,000.

A total of € 165,874,000 in depreciation, amortisation and write-downs, allowances for doubtful accounts as well as transfers to provisions for the leasing business are in contrast to € 3,399,000 in income.

The company posted a pre-tax profit of € 549,2 million (previous year: loss of € 104.7 million), in particular from the marketing of lease returns related to vehicles added in 2006 and 2007, for which it applied the tax option to use the reducing-balance method of depreciation.

Under the existing profit transfer agreement, the profit amounting to € 402.3 million is transferred to Volkswagen Financial Services AG.

Distribution of income by region:

		€ 000 Germany	€ 000 Italy	2009 € 000 Total	2008 € 000 Total
1.	Income from leasing transactions				
	Leases	3,410,196	139,467	3,549,663	3,423,130
	Maintenance and service contracts	333,742	4,159	337,901	268,591
	Used vehicle sales	3,861,763	71,181	3,932,944	3,325,686
	Other	321,642	9,967	331,609	268,569
		7,927,343	224,774	8,152,117	7,285,976
3.	Interest income from				
	lending and money market transactions	6,234	500	6,734	14,887
5.	Commission income	459	0	459	981
8.	Other operating income	22,699	4,340	27,039	26,877
9.	Income from the reversal of the special tax-allowable reserve	106	0	106	106
14.	Income from the reversal of allowances on receivables and reversals of provisions in the leasing business	3,357	42	3,399	1,861
Total		**7,960,298**	**229,656**	**8,189,854**	**7,330,688**

V. OTHER NOTES

The interest rate risk is hedged by interest swaps with a total nominal volume of € 14.8 billion. As at the balance sheet date, the positive market values amount to € 308.3 million while negative market values amount to € 277.6 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 € 148.8 million is shown under assets and accrued interest expense of € 66.0 million is shown under other 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.

Volkswagen Leasing GmbH placed asset-backed securities transactions (ABS transactions) on the market to refinance its lending business. Four transactions that generated cash equivalent to the purchase price of the future leasing receivables sold (€ 1,881,524,000) were executed in the 2009 financial year. An additional four transaction from previous years are also in effect. Besides generating one-time inflows, these transactions do not have any additional material effects on the current and future liquidity and financial position of Volkswagen Bank GmbH.

Volkswagen Leasing GmbH acquired all shares in Vehicle Trading International (VTI) GmbH, Brunswick, effective 1 January 2009. The company closed the 2009 financial year at a pre-tax loss of € 5.9 million, which is absorbed by Volkswagen Leasing GmbH under the control and profit transfer agreement.

The land and buildings belonging to Volkswagen Leasing GmbH are used by the company itself as well as by other companies belonging to the Volkswagen Financial Services AG Group that are domiciled in Brunswick.

The irrevocable loan commitments concern confirmed leasing contracts where the vehicle had not yet been delivered at the balance sheet date and the promised credit limits had not yet been used as a result.

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 as at 31.12.2009

Lars-Henner Santelmann
Spokesman of the Board of Management
Sales Fleet Customers 2 (until 17.12.2009)
Marketing/Product Development Leasing (until 17.12.2009)
Residual Value Management (until 17.12.2009)
Credit Rating Management Lessee Units (until 17.12.2009)
Marketing/Sales Individual Customers (from 18.12.2009)

Dirk H. Pinkvos (until 31.10.2009)
Managing Director
Sales Fleet Customers 1

Gerhard Künne (from 1.11.2009)
Sales Fleet Customers (from 18.12.2009)

Dr. Heidrun Zirfas (from 1.11.2009)
Back Office Leasing (from 18.12.2009)

Supervisory Board of Volkswagen Leasing GmbH

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

Prof. Dr. Horst Neumann
Deputy Chairman
Member of the Board of Management of Volkswagen AG
Human Resources and Organisation

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. Arno Antlitz (from 1.1.2010)
Member of the Board of Management Volkswagen Division
Controlling and Accounting

Dr. Jörg Boche
Executive Vice President of Volkswagen AG
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 (until 20.3.2009)
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

Simone Mahler (from 9.6.2009)
General Secretary of the Joint Works Council of Volkswagen Financial Services AG,
Volkswagen Bank GmbH and Volkswagen Business Services GmbH (from 23.4.2009)

Gabor Polonyi
Head of Sales Germany Private and Corporate Customers
of Volkswagen Bank GmbH

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

Lothar Sander (until 31.12.2009)
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, 8 February 2010

The Board of Management

Lars-Henner Santelmann	Gerhard Künne	Dr. Heidrun Zirfas

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 2009. 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, 8 February 2010

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 Board of 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 78 %. With the exception of one member, who was absent at two meetings, all members attended more than 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 2009, the Supervisory Board approved the annual financial statements for 2008 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 of Management provided extensive reports on the company's economic and financial position, both at the aforesaid meeting and at the meetings on 12 June 2009 and 8 December 2009. In this connection, we addressed the company's strategic alignment in the long term and the steps to further improve internal processes and enhance productivity. We also dealt extensively with both the company's liquidity situation against the backdrop of the financial market crisis and discussed actions aimed at securing and managing the cash flow.

On 8 December 2009, we also deliberated the company's financial and investment planning, and the Board of Management provided comprehensive information regarding its future sales strategy.

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 2009 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 2009 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 approved the annual financial statements of Volkswagen Leasing GmbH prepared by the Board of Management. The annual financial statements are thereby adopted.

In accordance with the existing profit transfer agreement, the profit made in 2009 will be transferred to 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, 19 February 2010

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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Volkswagen Leasing GmbH
Gifhorner Strasse 57
38112 Braunschweig
Germany
Phone +49-531-212 38 88
Fax +49-531-212 35 31
info@vwfs.com
www.vwfs.com

Investor Relations
Phone +49-531-212 30 71

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VOLKSWAGEN LEASING GMBH
Gifhorner Strasse 57 · 38112 Braunschweig · Germany · Phone +49-531-212 38 88 · Fax +49-531-212 35 31
info@vwfs.com · www.vwfs.com
Investor Relations: Phone +49-531-212 30 71