VOLKSWAGEN FINANCIAL SERVICES

AKTIENGESELLSCHAFT

The key to mobility.

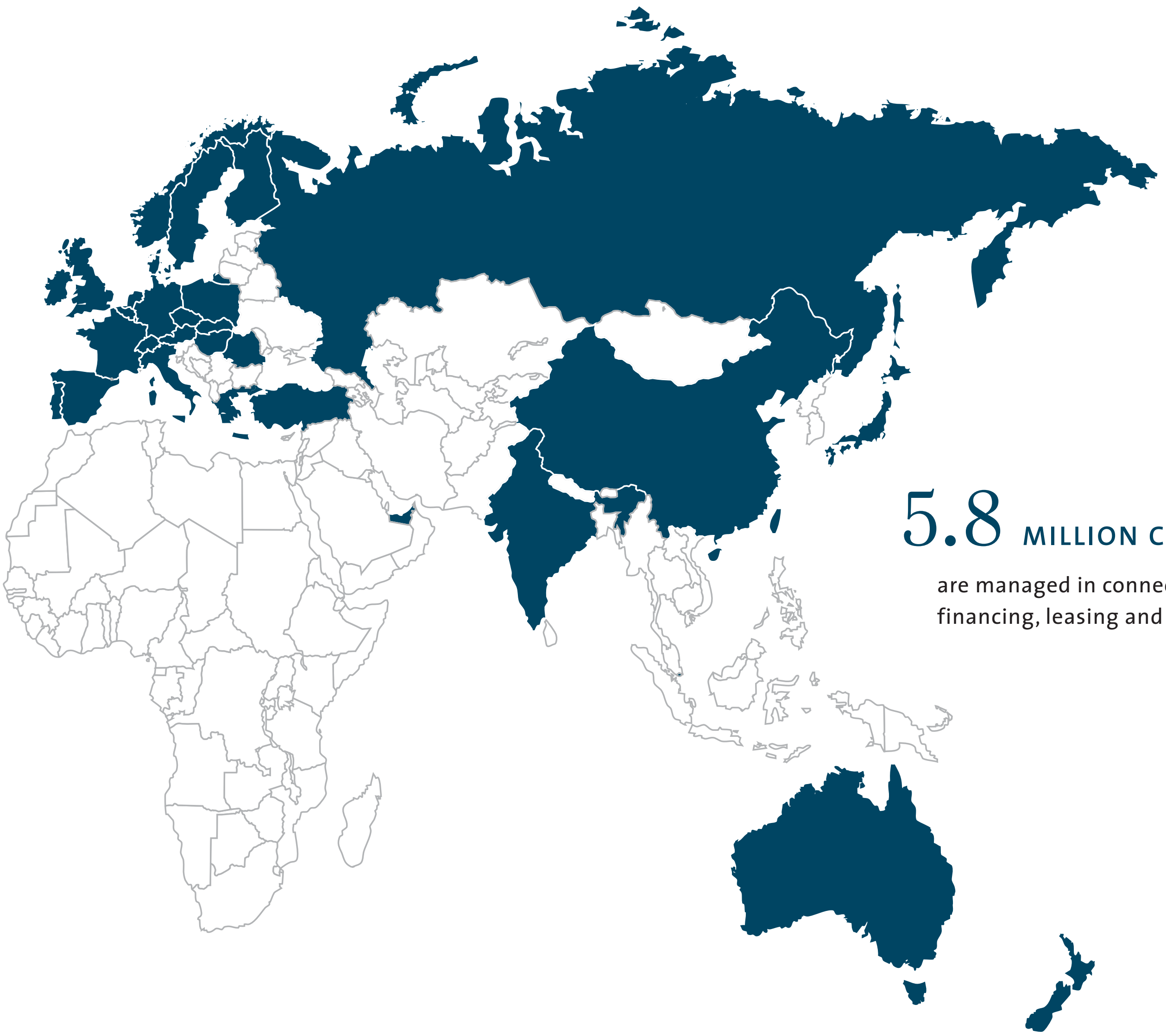
ANNUAL REPORT 2008

Volkswagen Financial Services in 2008

Argentina
Australia
Austria
Belgium
Brazil
Canada
China
Czech Republic
Denmark
Finland
France
Germany
Greece
Hungary
India
Ireland
Italy
Japan
Luxembourg
Mexico
The Netherlands
New Zealand
Norway
Poland
Portugal
Romania
Russia
Singapore
Slovakia
Spain
Sweden
Switzerland
Taiwan
Turkey
United Arab Emirates
United Kingdom
USA

37 COUNTRIES

are affiliated with Volkswagen Financial Services AG through equity investments and service agreements.



5.8 MILLION CONTRACTS

are managed in connection with customer financing, leasing and service/insurance.

6,639 MEMBERS OF STAFF

are employed worldwide – 4,128 in Germany.

Volkswagen Financial Services AG at a glance

in € million (as at 31.12.)	2008	2007	2006	2005	2004
Total assets	57,279	52,314	43,923	39,757	41,343
Receivables arising from					
Retail financing	21,913	20,884	17,262	15,534	14,810
Wholesale financing	9,584	9,360	6,989	6,614	6,815
Leasing business	14,912	13,639	12,759	11,832	11,035
Leased assets	3,003	2,436	1,476	1,024	1,580
Customer deposits	12,835	9,620	8,827	8,735	8,017
Equity	6,780	6,012	4,603	4,324	3,970
Pre-tax result	792	809	705	696	567
Taxes on income and earnings	– 214	– 90	– 230	– 207	– 226
Net income	578	719	475	489	341
in % (as at 31.12.)	**2008**	**2007**	**2006**	**2005**	**2004**
Cost / income ratio[1]	61	58	60	61	58
Equity ratio	11.8	11.5	10.5	10.9	9.6
Core capital ratio	8.8[2]	7.0[2]	8.2	9.0	8.6
Overall ratio	10.8[2]	8.9[2]	8.8	8.8	9.2
Return on equity	12.4	15.2	15.8	16.8	17.1
Number (as at 31.12.)	**2008**	**2007**	**2006**	**2005**	**2004**
Employees	6,639	6,138	5,022	4,968	5,253
In Germany	4,128	3,856	3,602	3,595	3,487
Abroad	2,511	2,282	1,420	1,373	1,766

Rating 2008[3]	Standard & Poor's			Moody's Investors Service		
	short-term	long-term	outlook	short-term	long-term	outlook
Volkswagen Financial Services AG	A–2	A–	stable	Prime-2	A3	positive
Volkswagen Bank GmbH	A–1	A	negative	Prime-1	A2	stable

1 General administration expenses (adjusted for extraordinary items) divided by net income from lending, leasing and insurance transactions after provisions for risks and net commission income

2 The regulatory core capital ratio/overall ratio as at 31 December 2007 and 2008 was calculated in accordance with the standardised approach to credit and operational risks based on the Solvency Regulations that took effect on 1 January 2007. The figures for the years 2004 to 2006 were calculated in accordance with the old Principle I.

3 For details see section "Capital market activities and rating"

Our vision

To be the world's best automotive financial services provider.

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The Board of Management of Volkswagen Financial Services AG

FRANK WITTER
Chairman of the Board of Management

ELKE ELLER
Human Resources and Organisation

FRANK FIEDLER
Finance

DR. MICHAEL REINHART
Risk Management

LARS-HENNER SANTELMANN
Sales

Dr. Michael Reinhart, Frank Fiedler, Elke Eller, Lars-Henner Santelmann, Frank Witter

Foreword of the Board of Management

Ladies and Gentlemen,

What was still considered in 2007 a crisis limited to the US mortgage market expanded into a global crisis of the financial markets, the banking system and the entire real economy in the financial year just ended. While the ability of the financial markets to function has been secured for the time being, the disruptions of the global economy have been so powerful that in 2009 major Western countries are expected to suffer sharp economic downturns and emerging countries are expected to record substantially reduced growth rates.

Despite these difficult conditions, we managed to post a pre-tax result in 2008 that was almost on a par with the previous year. This positive result is due to the solidity and sustainability of our business model, our consistent strategic focus on our core business areas and last but not least the close integration with the Volkswagen Group brands. We successfully expanded our leading position as an automotive financial services provider in the 60 years since Volkswagen's financial services were established. And we continued to grow both nationally and internationally even in the financial year just ended, gaining additional market share.

We are well positioned in the market

Today, Volkswagen Financial Services AG has a strong presence in all national and international market segments, from new vehicle financing to leasing to services for used cars, from services for fleet and corporate customers to private customers, and from full-service offers to separate insurance services. In Germany, this is supported by the excellent position of Volkswagen Bank GmbH in its capacity as a direct bank, whose deposit business also provides a critical source of funds for refinancing.

In the leasing business, we are benefiting from an important trend: While changes in the volume of private financing contracts have been insignificant, the number of leasing contracts for private customers has risen substantially. We expect this trend to intensify in the long term and thus to further improve our position as the largest European leasing provider, although the crisis of the financial markets and the resulting economic uncertainty are causing the automotive market to contract.

We are combining three of our customers' needs in cooperation with the Volkswagen Group – the desire for fascinating cars, the desire for comprehensive mobility and the desire for financial security. Close coordination with the Volkswagen Group brands already starts at the automobile development stage. Hence we define ourselves as "the key to mobility" within the automotive value chain.

We have a clear focus on the needs of our customers

In the current market environment in particular, we quickly recognised our customers' desire for worry-free mobility at predictable costs. We reacted by launching individualised mobility solutions in the form of financing, service and insurance packages. It is a product philosophy that we were already pursuing with great success before the financial market crisis and that we will intensify, even in light of customers' tighter budgets and growing need for security.

Proactive risk management represents another pillar of our business strategy. As a rule, we only assume those risks that we can analyse in terms of type and scope based on our core competence and thus can also control as best as possible. Let me also emphasise that optimising our residual value forecast models now largely allows us to forecast residual values such that they correspond to market developments.

Our stable and independent refinancing is another building block in our business model. We have not lost all access to the money and capital markets during this crisis and continue to benefit from the confidence of our investors, even though refinancing costs have increased. The deposit business also plays a very important role for us. We continue to search for new ways to enhance this business, as we did for example by cooperating with the German retail sector in connection with fixed-term deposits. As a captive in the Volkswagen Group we can profit from the positive recognition of the Volkswagen brands and thus operate successfully in this market environment too.

We face the future with confidence despite the general economic conditions

2009 will be a difficult financial year. Yet we face the future with confidence. Our business model is robust, we maintain an established position on the money and capital markets, our refinancing is solid, and we have committed, professional employees. All of this reinforces our belief that we will be able to expand our competitive market position and continue along our long-term growth trajectory.

We thank our customers, our business partners and our colleagues at the Group brands as well as our employees for working with us in a spirit of trust and cooperation.

Sincerely,

Frank Witter
Chairman of the Board of Management

Brunswick, March 2009

A conversation

The Chairman of the Board of Management of Volkswagen Financial Services AG, Frank Witter, and the Executive Vice President Sales and Marketing of Volkswagen AG, Detlef Wittig. Their topic: the challenges of the international markets and how the Volkswagen Group and its subsidiaries are adjusting to the changed conditions.

Lack of self-confidence does not seem to be an issue. According to Professor Dr. Winterkorn, Volkswagen AG considers itself "the world's most fascinating automobile company". And the long-term vision of the Volkswagen Financial Services AG subgroup of becoming "the world's best automotive financial services provider" is on a par with that.

Detlef Wittig: Indeed, we firmly believe that the Volkswagen Group is the automobile industry's most viable and fascinating company.

This claim is well founded. The cars we make have a leading position worldwide in terms of innovative power, design, precision and quality. We went on the offence in recent years by launching an unprecedented number of new models. The new Golf VI – which is selling very well by the way – shows that we'll be able to achieve high levels of brand acceptance and customer satisfaction in the long term too.

Frank Witter: We are the European market leader in financial services. In this field, innovations such as product packages that are tailored to individual customers' needs and feature-based insurance premiums set standards for financial services and make us the leader in innovation. Our employees have every reason to be proud of our market position as well as of our financial results.

Mr Witter, isn't the financial services industry in particular having a difficult time achieving its objectives given the current crisis of the financial markets?

Frank Witter: Our company's performance is based on the close integration of the Volkswagen Group's financial services and brands. Nowadays vehicle purchases are determined by mobility costs and no longer just by the price. Our customers welcome fixed monthly financing payments as well as comprehensive insurance, warranty and maintenance services – in short, generally predictable monthly mobility costs. This became very clear in 2008: More and more buyers of our brands are using the services of Volkswagen Financial Services AG.

Detlef Wittig and Frank Witter discussing current developments and joint plans

How does the interplay of the Group's different parts work, for instance in sales and financial services, the two spheres that you represent?

Detlef Wittig: Our cooperation is ensured through joint teams that plan and coordinate strategies and approaches related to particular issues as well as products and services. These are not ad hoc events. The planning is focused on the long term and today concerns the entire automotive value chain.

Allow me to give you an example. The strategy for the Eos, which links the electronic stabilisation programme (ESP) with a customised insurance programme, was developed approximately three years prior to its market launch. It arose from an analysis of accident losses. We developed a specific insurance premium based on the findings of this analysis that was aimed at rewarding customers for installing an ESP by substantially reducing their premiums. It created a win-win scenario with respect to safety and costs for the customer and sales and earnings for the company. For example, opting for attractive auto insurance premiums in connection with safety features is currently rewarded with a 20% reduction in premiums for the Passat CC.

I'd like to return once more to the financial market crisis. Haven't the parameters for marketing strategies changed significantly? What does that mean for your objectives?

Detlef Wittig: The problems in the financial markets affect all automobile manufacturers worldwide. The extent of the crisis has already led to contractions such as a reluctance to make new purchases and reduced consumer spending. And we do expect the ramifications of this crisis to affect the next financial year as well, i. e. demand for automobiles will continue to decline worldwide.

But we think nonetheless that we are in a good position. Our young range of vehicles meets the demand particularly for small and fuel-efficient cars, and we will intensify our pursuit of this product strategy.

Focusing on the used car business in cooperation with our financial services providers will be another response to changed market structures.

Frank Witter: As far as quantitative objectives are concerned, it is of course clear to us that both volumes and earnings will be subject to temporary contractions. But we did recognise customers' trends toward affordable and safe mobility early on. And we have reacted with suitable product packages for both new and used cars.

We stand by our statements as far as our long-term objectives are concerned. We want to remain – or become – the best in class in all relevant areas. This statement applies to our products and services alike.

Our leading market position and the close tie-in to the Volkswagen Group brands offer us the opportunity to weather this crisis better than the competition and to maintain our competitive edge.

"Our strengths offer us the opportunity to weather this crisis better than the competition and maintain our competitive edge".

What contribution do you expect from new up-and-coming markets such as India and Russia?

Detlef Wittig: This list must be supplemented of course if we're talking about emerging markets. I'd add China and Brazil for example, two countries that are clearly in our focus. What is common to these countries is their above-average growth potential even though the financial market crisis has put a damper on their momentum. The United States and Western Europe in contrast will cut back as a result of the crisis. It goes without saying therefore that these up-and-coming markets are decisive to our long-term planning and that we want to be among the innovators that develop them; this applies to both brand sales and financial services.

The talk in the industry is that the distortions arising from the international crisis of the financial markets will lead to a consolidation of providers of automotive financial services. We've already observed market movements in this direction. Where would you situate Volkswagen Financial Services AG in this process?

Frank Witter: This question concerns the ability of automobile companies and their finance subsidiaries to promote purchases of automobiles through comprehensive services and competitive insurance, credit and leasing terms. What really counts in this regard is the ability to refinance oneself independently in the market.

We too believe, as you already mentioned, that a certain process of consolidation will take place. In particular, we expect those financial institutions that do not possess a comfortable equity base to undergo fundamental changes. All financial services providers that do not possess a conventional deposit business and do not maintain an established position in the money and capital markets will find it increasingly difficult to refinance themselves and will face rising costs. It is here that Volkswagen Financial Services AG is generally very well positioned.

As a result, we even succeeded in substantially raising the deposit volume in 2008. The Volkswagen name stands for security, and our customers know that.

How will you go about getting your employees to stay the course with you on this challenging road?

Frank Witter: Our employees are the key to our sustained success and thus have a central role to play in all of this. This means for example that we must always keep an eye on strategic aims such as promoting the next generation, fostering talent, providing training and maintaining a high level of attractiveness as an employer. We want the best to work with us on the tasks ahead – people who identify with their work, are creative and actively shape the future with the customer in mind and, last but not least, are proud to belong to the Volkswagen family.

The conversation was moderated by the editor-in-chief of automotiveIT, Hilmar Dunker; he also works as a freelance journalist for the German trade magazines Automobilwoche and AUTOStraßenverkehr

Certainty in unsettled times – our strategy

We are tied to the Volkswagen Group not just by virtue of our name but also in terms of our long-term strategy. It is our role as the Group's mobility services provider to promote the sale of the Volkswagen Group brands. This already happens during automotive product planning by integrating the financial services into the process and by linking them to sales planning. We also follow an integrated approach when entering new markets.

Focus on our customers

The Volkswagen Group brands are our customers. We respond to their brand-specific needs and broadly support their marketing objectives through attractive offers in all stages of the automotive value chain. It is in this capacity that we serve as the material link between the brands and their customers and the Group's dealer organisations.

As a mobility services provider, our offers to dealers and customers are tailored to their needs and reflect prevailing market conditions. In doing so, we also match our communications to the relevant target group and emphasise our connection to all Volkswagen Group brands in the financing, leasing and insurance segment. Both our knowledge of our customers' needs, which has evolved over decades, and our target-specific approaches greatly help us achieve our goals.

Our successes thus are always also our customers' successes. For example, our approach to doing business with the dealerships aims to enhance their performance. Determining residual value risks has become increasingly significant in that connection. Market-based forecasting models or – as in the case of Audi Leasing – agreements on residual value insurance models provide important tools to this end.

Our role vis-à-vis private customers is similar. In their case too, we achieve customer loyalty through constant monitoring of the market, which enables us to respond to their particular needs. Industry leadership in innovation and the pioneering offers that we have developed as a result optimally prepare the ground for doing so.

Future growth potentials

The fact that we are firmly established among our customers in all stages of the value chain is the key to achieving growth in future even though Europe's markets are fully developed. Growth potentials follow from the expansion of the vehicle insurance business and sales of used late models but also from worldwide fleet management.

Our know-how provides growth potentials in the developing markets of Eastern Europe, particularly Russia, but also in Asia and Latin America. We will exploit these market opportunities through targeted sales initiatives as part of our medium- and long-term strategy.

Growing share of commission income

The developments in recent years have spawned increased income diversification. While interest margins have been considered an important profitability indicator to date, the significance of commission income is growing as the value chain is being extended to both the services and the insurance segment. The service-based emphasis of future product portfolios will cause income from commissions to rise substantially and thus enhance their significance to the Group's profitability.

Mobility services impacted by the financial market crisis
Worldwide, the crisis of the financial markets has shattered confidence in the international banking system. Since we are a part of this sensitive system, we too have been affected by the crisis even though our business model is far removed from speculative financial transactions.

Our reporting on capital market activities and equity capital resources has always been transparent through the years. We will uphold this principle as we consider our business – mobility services – in the context of our activities overall and describe how our strategies are being implemented, taking the crisis of the financial markets and its ramifications into account.

What have been the changes in our customers' situation?
In Germany, our domestic market, the massive uncertainty that the financial crisis has sparked among consumers has by now triggered a significant downturn in automotive sales. This development has further undermined an already difficult situation in the automotive market, which was characterised by the saturation of the market on the one hand and by rising automotive maintenance costs as well as temporarily skyrocketing petrol prices on the other.

But we have also observed that people's mobility needs have fundamentally changed. The idea of owning a vehicle outright and hence the idea of saving for it and paying for it in cash has basically been rendered obsolete and is fading into the background while manifold rental, leasing and financing options are coming to the fore.

Given lower net household incomes, plans in the personal sphere are increasingly dominated by budgetary and liquidity concerns. The development that already took place among our dealerships and corporate customers quite a while ago is now being replicated at an accelerated pace in the private customer segment. Our success in winning tenders shows that this development is also affecting our business with public authorities.

We are closely monitoring and analysing the fundamental changes that have occurred with regard to customer needs within a relatively short time.

Certainty is paramount to our customers in the current economic crisis and its ramifications that are hard to gauge. In terms of mobility, this means obtaining it at affordable terms.

Can we take our customers' need for comprehensive and both safe and secure mobility into account?
Our answer to this question brings us to the heart of our business model. The Volkswagen Group builds fascinating cars, creating worldwide standards in the process. At the same time, our financial services packages also set standards in terms of both comprehensive mobility and financial security. Linking these two elements gives customers a compelling advantage.

The concept places dealerships, fleet customers and private customers as well as those who entrust us with their money as bank customers on a firm footing. Security in this sense means that the financial cost of our mobility services must be predictable and within our customers' budgets. But it also means security in protecting customers from the consequences of losses through insurance policies tailored to their needs, in maintaining both the functionality and the quality of the automobiles we finance, in determining residual vehicle values for dealerships, and, finally, in the deposit business of the direct bank.

How have we adjusted to our customers' changed needs?
The ability to control the interplay of these different services in all stages of the value chain gives us the opportunity to offer customised and innovative products that are appropriate to our customers' financial requirements in different economic conditions the world over. We have developed an edge in this area as a mobility services provider.

A few examples from our current product portfolio demonstrate our proximity to our customers and illustrate the extent to which our strategic objectives are rooted in their needs.

For instance, integrating our automotive insurance services has become much more significant to our business. We introduced the financing package called OptimalLight in conjunction with the launch of the new sixth generation Volkswagen Golf in the autumn of 2008. It links financing and insurance at the so-called optimal rate to an extended warranty of up to two years for new vehicles at no cost – above and beyond the two-year manufacturer's warranty. This protects customers from the cost of repairs without imposing a deductible until the end of the relevant loan or leasing contract. But it also gives our customers an incentive to use contract repair shops.

We have offered a discount on auto insurance premiums in conjunction with the launch of various Volkswagen and Audi brand models if the buyer purchased specific safety features such as technology packages, lane departure warning and parking assistance, braking guard or adaptive cruise control. The programme thus broadly supports customers' need for both automotive safety and financial security and at the same time helps achieve the Volkswagen Group's objectives – brand loyalty and sales volume.

A new maintenance product for used cars simultaneously promotes repair services and extends the value chain beyond existing services and products. The so-called BestService Plus package offers our customers comprehensive inspections and replacement mobility at a reasonable monthly cost. Workshop capacity utilisation among our dealerships rises as a result.

The Audi residual value insurance model – the dealer association calls it a "historic breakthrough"

"One of the most urgent and hotly debated issues within the Audi dealer organisation has been solved", says Lars-Henner Santelmann, member of the Board of Management Board of Volkswagen Financial Services AG responsible for Sales.

Depending on the premium paid, the new Audi residual value insurance model has been effectively protecting Audi dealerships against up to 100% of residual value risks since 1 October 2008. The Volkswagen and Audi dealer association considers it a historic breakthrough that Audi is now the first brand to assume part of the responsibility for the residual value forecast risk.

The complex model was jointly developed by AUDI AG and Volkswagen Financial Services AG.

In the fleet management segment, a three-pronged approach will enable us to create CO_2 neutral fleets: We are improving the features of our eco models, optimising fleet management through the fleetCARS programme that includes specific driver training and, finally, offering our fleet customers the option of partnering with the German Society for the Conservation of Nature, NABU, in connection with specific projects.

In the leasing business, we are taking our customers' requests for greater flexibility and preservation of their cash flows into account. Customers' monthly mileage accounting and the use of new technology in connection with the electronic vehicle use log are factored into the lease payment under our FlexiLeas package. Hence the amount of the payment directly follows from the customer's application of optimal fleet management principles.

ContractHire, a rental pool for commercial vehicles, enables us to take the special mobility requirements of the logistics industry into account. The need for flexible fleet usage and cost reductions based on utilisation phases is especially high in logistics. The new products represent a clearly different approach compared to traditional finance leasing while opening up opportunities for additional business.

Volkswagen Financial Services AG set a competitive milestone by optimising the management of residual values based on highly sensitive models using the prices that our sales partners are able to obtain in the market for the Group's entire range of vehicles. This model, which is based on more than 50,000 data sets, provides the brand-specific committees tasked with determining residual values with a secure forecasting tool that helps to avert both risks and additional costs arising from assessments of residual values that do not reflect the market.

Our captive models that are successful in the German leasing and fleet markets can generally be applied to other European markets as well. This approach appears to be particularly promising in those cases where the needs of fleet customers are structurally similar to those in Germany. It is for this reason that we selected Spain to serve as a pilot market for further expansion in Europe. The SEAT Group brand and a focus on small and medium-sized fleets still offer great potentials for our leasing products in the Spanish market.

Our journey to becoming the world's best automotive financial services provider

The long-term strategy of Volkswagen Financial Services AG rests on several pillars. It is rooted in the Company's integration in the Volkswagen Group, the stability of its customer base, the differentiated growth of its markets and profitability that is increasingly defined by commission-related components. The measures that have been launched to execute this strategy serve to ensure the sustainable and long-term development of the company's business. Flexible application of these measures will also help us overcome unsettled times as these in the wake of the global financial crisis and emerge from it stronger than before. This preparation makes us confident that we are on our way to becoming the "world's best automotive financial services provider".

"Frech Daxe" conquer our corporate childcare centre

In 2008, Volkswagen Financial Services AG reached an important milestone in becoming a top-class employer when it established its "Frech Daxe" (cheeky kids) children's house based on a joint initiative of the Works Council and the company.

Germany's Minister for Family Affairs praises the "wise investment"

On 28 March 2008, the "Frech Daxe" children's house was officially opened in a celebratory atmosphere with children, parents, company representatives and VIPs from the political, economic and governmental sphere in attendance. Dr. von der Leyen, Germany's Minister for Family Affairs, was enthusiastic: "A corporate childcare centre such as the one at Volkswagen Financial Services AG is a very wise investment", she said.

"It not only enhances young parents' motivation and fosters their productivity, it is also an increasingly powerful draw in the competition for young professionals and a means by which to bind them to a company in the long term".

The children's house is full

Construction of the children's house was funded jointly by Volkswagen Financial Services AG and its workforce as part of the collective agreement that was reached in 2006 and represents a clear commitment to Brunswick as the site of the company's operations. "The Works Council was the driving force in the genesis of corporate childcare. In the final analysis, it is our colleagues who made a decisive contribution to the establishment of this centre in the 2006 collective agreement", is how the Chairman of the Works Council of Volkswagen Financial Services AG, Waldemar Drosdziok, describes the centre's development.

The "Frech Daxe" children's house uses individualised approaches to develop and care for children; concepts such as an international outlook, early instruction in music, health consciousness, movement and scientific nurturing play a critical role.

The creative outdoor facilities offer cheeky kids a Bobby Car track as well as a barefoot path and hills for climbing.

"The children's house enables us to support employees who are trying to reconcile their individual lifestyles and their jobs. At the same time, we increase our employees' on-the-job satisfaction and the quality and productivity of their work in order to be attractive as an employer and vis-à-vis our customers throughout the world. The large response reveals not only the need for the new childcare centre but also reflects the trust our employees have placed in us as their employer", says Elke Eller, member of the Board of Management responsible for Human Resources and Organisation.

Currently, the children's house is filled to capacity; it has 167 children up to the age of six in its care.

Quality of childcare makes the difference

Parents stress the quality of the broad approach to childcare, the atmosphere and the flexible hours; if necessary, the centre stays open until 8:30 p.m. and on Saturdays. "The loving care the centre offers using modern learning concepts and play techniques makes Charlotte happy. She loves to 'go to work' in the Children's House", say Denise and Christian Blank, the parents of two-year old Charlotte, who has been enrolled in the blue group since 1 April 2008.

All the educators work hard to offer the children an interesting and varied programme. The kids can sing in the children's choir for instance or exercise, learn English, plant an herb garden and go on excursions. But they can also play quietly with building blocks, draw and paint or read books.

Their parents swear by the flexible hours that make it possible for them to fully devote their capacities to Volkswagen Financial Services AG and reconcile work and family. The comprehensive range of the childcare services provided allows our employees to return to work quickly, and the level of care that the children receive in proximity to their parent's workplace gives the latter more freedom in designing daily routines.

Elke Eller points out that corporate childcare centres are an important component in a top-class employer's bid to attract and retain staff. "Volkswagen Financial Services AG has demonstrated in opening its 'Frech Daxe' children's house that it plays in the big leagues of the most attractive employers."

High-quality movement programmes

The "Frech Daxe" in the children's house benefit from excellent opportunities to get them moving. The "Qualitätszirkel Bewegungskindergarten" – a German quality association that was launched at the initiative of Lower Saxony's Ministry of Culture for purposes of judging the quality of pre-school day care centres that are focused on movement – gave our corporate childcare centre in Brunswick their seal of approval. This seal of approval confirms that the children's house offers high-quality children's movement programmes that promote the personality development of our employees' children both holistically and in the long term. "We are very proud to have received this commendation for successfully implementing critical movement programmes a mere three months after opening our corporate childcare centre – no other centre succeeded as quickly as we did", said Elke Eller, member of the Board of Management responsible for Human Resources and Organisation, upon receiving the award in June 2008.

The "Markenzeichen Bewegungskita" awards its seal of approval in Lower Saxony on the basis of fixed criteria following a round of deliberations. Its aim is to enhance the quality of movement programmes in Lower Saxony's childcare centres. The seal of approval is backed and funded by the state in cooperation with outside partners.

Other company information

The markets of Volkswagen Financial Services AG

Volkswagen Financial Services AG further expanded its position in the world's markets through its close collaboration with the Volkswagen Group's automotive brands.

Innovative full service packages that are tailored to the different needs of countries and regions were introduced along the value chain.

Even in difficult economic times, the mobility approach has proven to be the key to our company's international success.

Region Central Europe

Germany

In 2008, the international financial market crisis led to a considerable reluctance of consumers to make new purchases. Despite the difficult economic situation and its ramifications for the real economy, in the 2008 financial year Volkswagen Bank GmbH and Volkswagen Leasing GmbH (both Brunswick) and Volkswagen Versicherungsdienst GmbH (VVD, Wolfsburg) jointly succeeded in maintaining their position as Germany's leading automotive financial services provider.

Private customer segment

At a total of approximately 596,000, new financing contracts slightly surpassed the previous year's strong results in the private customer segment. The continuation and ongoing development of product packages geared to customers' needs made a major contribution to this success.

This positive development is reflected in our financing activities, particularly the offers in both the new and used car segment, resulting in a year-on-year increase of 9 % to € 13.3 billion in the financing portfolio. At 69,000 new contracts (+ 27 % over the previous year), the leasing business greatly benefited from Volkswagen's highly successful leasing programme for its employees.

Volkswagen Bank *direct* – a division of Volkswagen Bank GmbH – is one of the largest direct banks in Germany. It too continued its success story in 2008. The number of its customers rose substantially to 812,000, which corresponds to year-on-year growth of 19 %. Its customer deposit portfolio also reflects this growth. At € 11.5 billion, it increased by 27 % over the previous year. The portfolio of non-vehicle loans grew to € 476 million.

AutoEuropa Bank, a branch of Volkswagen Bank GmbH, offers its trading partners in the leisure industry and non-captive passenger car dealerships customised corporate loans. It also supports the companies through a broad range of products in addition to financing purchases of new and used vehicles.

Corporate customer segment

The 2007 realignment of the Group's sales areas paid off in 2008. Volkswagen Bank GmbH, which pursues a holistic approach in supporting corporate customers both as brokers of retail products and users of a comprehensive range of products for corporate customers, to a great extent succeeded in meeting the demands of this customer segment. At the year's end, the deposit volume was approximately € 1.3 billion (previous year: € 0.5 billion). Volkswagen Bank GmbH offers its corporate customers a diverse range of products and services for settling payment transactions. EURO CASH, which enables payments using EC cards and credit cards at electronic and mobile card payment terminals, was further optimised in 2008. It supports customers in connection with the settlement of online transactions. The customers of Volkswagen Bank GmbH also have the option of settling international payments using the SEPA format as rapidly, simply and inexpensively as domestic payments.

Fleet customer segment

While the overall market for passenger cars declined in 2008 by 1.8 % contrary to forecasts due to the financial market crisis, registrations of commercial vehicles were impacted to an even greater degree (– 5.1 %). In contrast, both the private customer segment and the fleet market (fleets comprising more than nine vehicles) showed a positive development. Registrations by private individuals rose by 3.4 %. The fleet market even succeeded in posting growth of 4.0 %.

In 2008, the continued consolidation in the saturated fleet market demonstrated yet again that increases in contract volumes can only be achieved at the expense of competitors. The pressure on the margins was correspondingly high.

Volkswagen Leasing GmbH remained the market leader despite the tensions and fierce competition. For the third consecutive year, Autoflotte (a German trade magazine) gave the company its Fleet Award in 2008 while the German trade magazines Firmenauto and Flottenmanagement respectively elected the company “best brand” among leasing providers and “most successful leasing provider”. This clearly indicates that the company’s leasing and service packages satisfy both the needs and the expectations of its customers.

Its portfolio grew from 430,000 contracts the previous year to 518,000 contracts, a year-on-year increase of 20.7 %. The fleet customer segment accounts for 35 % of Volkswagen Leasing GmbH’s overall contract volume. In large part, this success results from the ongoing intensification of the company’s collaboration with the brands and dealer organisations of the Volkswagen Group.

Internationally, Volkswagen Leasing GmbH continued to pursue its expansion strategy in 2008. The company entered into agreements with Poland, the Czech Republic and Austria that are designed to improve and accelerate cooperation in connection with the reciprocal preparation of offers. In addition, the successful completion of the pilot phase of the “SEAT Renting One” programme in Spain represents a major step forward in the implementation of the company’s full services fleet business in Europe. Renting One was a gateway to the business with captive fleets and served to develop an expanded business model by which all services are offered in a single package from a single source via SEAT’s dealer network in Spain. Compared to Spanish competitors, this constitutes an absolutely unique selling proposition for the captives. We are currently conducting a market survey for France with the aim of developing and establishing an adequate full service leasing package for this market too.

The international business of Volkswagen Leasing GmbH is based on its collaboration with more than 20 Group and partner companies.

Austria

Volkswagen-Versicherungsdienst m.b.H., Vienna (VVD Austria), a wholly-owned subsidiary of Volkswagen Versicherungsdienst GmbH in Germany, has been successfully offering insurance policies for Volkswagen Group brands in Austria for more than 50 years.

VVD Austria provides consulting as part of its services model, as well as offer and order processing, serving the customers of the Volkswagen Group’s importers, dealers and authorised service points. The services offered also include fleet insurance. They are complemented by policy issuance, contract management and claims processing in connection with collision damage insurance. VVD Austria offers insurance products, including special services, which are especially customised for Volkswagen Group vehicles.

In 2008, VVD Austria’s current contract portfolio and gross premiums were the highest ever since the company started doing business in 1953. Consistent process enhancement enabled the company at the same time to further optimise both staff costs and general overheads. Key performance indicators for contract and repair services now correspond to those achieved by the market leaders in the insurance industry.

Strategic investments in sales and marketing served to fortify and expand the company’s market position.

Switzerland

Volkswagen-Versicherungsdienst AG (VVD Switzerland), which is domiciled in Wallisellen and is a wholly-owned subsidiary of Volkswagen Versicherungsdienst GmbH in Germany, has been selling insurance for the Group brands in Switzerland for more than 40 years. VVD Switzerland offers its insurance services mainly to buyers of Group vehicles as well as to Group dealerships and authorised service points in cooperation with AMAG Automobil und Motoren AG, the Group’s importer. Besides vehicle liability and comprehensive insurance for both new and used cars, the company’s range of insurance products also includes LifeTime and CarLife Plus – our extended warranty programmes for new Group brand vehicles – as well as used car warranty programmes.

The year just ended was the most successful ever for Volkswagen-Versicherungsdienst AG Switzerland. Its after-tax earnings rose yet again over the previous year despite fierce competition in the insurance industry and stagnating new car sales.

Region Northern Europe

In the Region Northern Europe, Volkswagen Financial Services AG is represented by affiliated companies and branches in Belgium, the United Kingdom, Ireland, the Netherlands and Sweden.

In 2008, all countries in this region were affected by rising oil and fuel prices and by the crisis of the financial markets. The crisis led to a considerable deterioration of the market environment in the second half of the year.

The market for new and used cars developed unevenly in the different countries of the region. While sales figures of new vehicles in the United Kingdom, Sweden and Ireland declined, Belgium and the Netherlands displayed a positive trend. Volkswagen Financial Services AG maintained or expanded its market share in all countries of the region.

Belgium

The portfolio of Volkswagen Bank GmbH's Belgian branch remained at the previous year's level due to fierce competition from domestic banks. Increasing regulation of the financing business and especially of the commission business hampered sales of these products. However, the company established its own sales force in mid-2008 with the aim of creating a solid basis for sustained growth in the financing business in the years ahead.

The wholesale business rose by more than 40 % year on year thanks to intense cooperation with the importer in connection with the financing of dealers' vehicle stocks.

United Kingdom

Volkswagen Financial Services (UK) Ltd., Milton Keynes, succeeded in substantially expanding its portfolio of private and corporate customers in 2008 despite the more difficult refinancing market. Both the penetration rate and the number of financing contracts for new and used cars rose year on year. The insurance portfolio also grew. Wholesale financing developed along a similarly positive trajectory.

This positive trend is supported by increasingly close cooperation with the Group brands in connection with the joint development of products and initiatives aimed at gaining new customers and deepening customer relationships.

Ireland

Volkswagen Bank GmbH introduced its products and services on the Irish market in the first quarter of 2008. The company now offers hire purchase contracts and related insurance products via the Volkswagen Group's dealer network.

Volkswagen AG took over Volkswagen Group Ireland Limited on 1 October 2008 and now controls both import and sales of vehicles in Ireland as a result. In order to support the market entry of Volkswagen AG, Volkswagen Bank GmbH launched a new vehicle financing programme for dealers that is designed to finance the movement of vehicles from the importer to the dealerships.

The Netherlands

Customers in the Netherlands now place much greater value than before on environmentally friendly cars and manufacturers' environmental footprint. The actions of the Dutch government will move issues of footprint and sustainability to the fore in future. Hence this topic will get a lot of attention in connection with financing products.

In 2008, Volkswagen Pon Financial Services B.V., Amersfoort, succeeded in expanding its position in the Dutch market. Following restructuring measures aimed at enhancing administrative efficiency, the next stage of our strategic approach is to be carried out starting in 2009; its aim is to position the company as the strongest financing, insurance and leasing provider in the Dutch automotive market.

Sweden

Volkswagen Finans Sverige AB, Södertälje, succeeded in raising the number of contracts and the rate of penetration in the financing market thanks to both closer collaboration with the brands and the greater number of dealers.

We concentrated our development resources on optimising the range of insurance products and the dealers' front end system. Dealer satisfaction improved yet again compared to the already high level a year ago.

Region Southern Europe

In the 2008 financial year, Volkswagen Financial Services AG succeeded in further expanding its business activities in Southern Europe – a region that comprises France, Greece, Italy, Spain and Turkey. In this region, close collaboration with the brands and the introduction of innovative financing and insurance products were strategic priorities. We successfully launched a new customer loyalty programme in Italy, France and Spain, the three markets with the strongest sales in Southern Europe, in the first half of 2008.

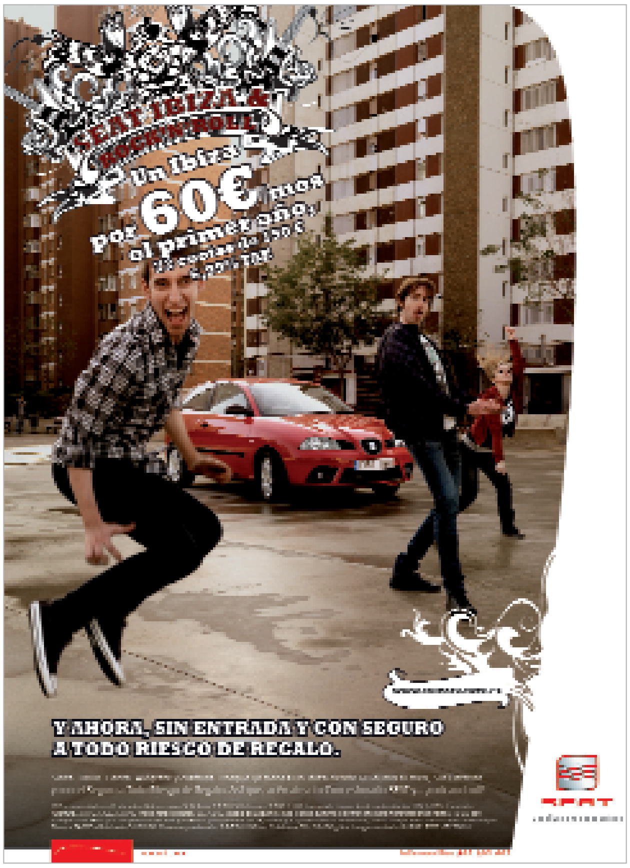
France
Our operations in France will benefit from synergy effects as a result of the merger of VOLKSWAGEN FINANCE S.A., Villers-Cotterêts, with the French branch of Volkswagen Bank GmbH. We continue to work the market with bundled products despite the difficult environment.

Greece
The Greek branch of Volkswagen Bank GmbH succeeded in solidifying its market position in its core business of retail finance and insurance services. Closer cooperation with the importers will help to further expand the branch's business.

Italy
Zero percent financing for retail customers plays an important role in the Italian market. The Italian branch of Volkswagen Bank GmbH successfully positioned itself by offering a unique product that combines vehicle financing with service and warranty services. However, the 13.4 % decline in the automobile market did have a negative impact on the retail financing business.

Spain
In Spain, the adverse economic and financial environment caused a sizeable decline in car sales by 28.1 % compared to the previous year. In this environment, Volkswagen Bank GmbH's Spanish branch further intensified its collaboration with the Volkswagen Group brands and raised its penetration rate to 27 % (previous year: 23 %). Closer cooperation with VOLKSWAGEN INSURANCE SERVICES, CORREDURIA DE SEGUROS, S.L., Barcelona, has boosted the insurance business by 50 %.

Turkey
Our Turkish joint venture, VOLKSWAGEN DOĞUŞ TÜKETİCİ FİNANSMANI ANONIM ŞIRKETI (VDF), Maslak-Istanbul, launched new product packages which were very well received by retail customers in the 2008 financial year. In future, VDF will focus on the Volkswagen Group brands and as a result discontinue a large portion of its non-captive financing business. The liquidity bottlenecks on the financial markets also have an effect on the region's dealer network. Volkswagen Bank GmbH is in close cooperation and contact with the dealers to find a sustainable solution to this problem.



Region Eastern Europe

In Eastern Europe, Volkswagen Financial Services AG maintains a presence in Poland, Slovakia and the Czech Republic (all of them EU member states) as well as in Russia. The company's financial services are closely linked to the Volkswagen Group's authorised dealers in their capacity as sales channels. Our main focus in the established markets of Poland, Slovakia and the Czech Republic is on expanding the range of our product packages.

Key economic data for 2008 differed by country in Eastern Europe. In the 2008 financial year, the sale of Volkswagen Group vehicles developed along a positive trajectory overall, and the financing business also grew in all of the region's markets. However, the effects of the financial market crisis leads us to anticipate that growth will decline in all of the region's markets.

Poland
In Poland, the slowdown in economic growth caused the gross domestic product to expand at a slower pace compared to 2007. Group sales nonetheless surpassed the previous year's level; at more than 30 %, the penetration rate in the new business segment was comparable to the previous year. Besides financing and leasing for private and corporate customers as well as wholesale financing, we also offer direct banking services for both private and corporate customers in Poland. VOLKSWAGEN BANK POLSKA S.A., Warsaw, succeeded yet again in increasing its customer deposits. The premium volume from the sale of insurance policies has also developed positively.

Russia
Economic growth in Russia weakened, particularly in the fourth quarter of the year. Yet Group sales rose substantially anyway, from 80,900 vehicles to 131,300. In Russia – a young market – Limited Liability Company Volkswagen Financial Services RUS, Moscow, runs the lending business for the private customer market as a cooperation model with several banks while Volkswagen Group Finanz OOO, Moscow, operates the leasing business for corporate customers. The penetration rate more than doubled year on year. In order to better exploit the customer potential and better serve its customers, the existing leasing company will establish additional branches in future. Communication with the dealers is to be enhanced by means of intensive support in the field as well as electronic sales support.

Slovakia
Good economic conditions prevailed in Slovakia, supporting the highly positive development of GDP in 2008 as well. Volkswagen Group sales also surpassed the previous year's level. In Slovakia, financing and leasing for private and corporate customers as well as wholesale financing are offered through VOLKSWAGEN Finančné služby Slovensko s.r.o., Bratislava. Used vehicle financing more than doubled in the 2008 financial year, and residual debt insurance was successfully introduced. The new business penetration rate held steady at a level in excess of 35 %.

Czech Republic
The Czech economy grew at a slower rate in 2008; Group sales fell slightly below the previous year's level. The company offers financing, leasing and insurance brokerage for private and corporate customers as well as wholesale financing in the Czech Republic. As in the previous year, the penetration rate in the Czech new business market also held steady above 30 %. As far as the activities of the divisions of ŠkoFIN s.r.o., Prague, are concerned, a used car programme was successfully launched for the first time under the ŠKODA PLUS label in cooperation with ŠKODA AUTO. The product range was also expanded by specific service packages for small and medium-sized trades and businesses, which are sold primarily via the dealer network.

Region Asia Pacific

The region Asia Pacific of Volkswagen Financial Services AG, with its management team based in Beijing, consists of wholly-owned subsidiaries in Australia, China, Japan, Singapore and Taiwan. Furthermore, the company is preparing its entry into the Indian market.

The financial services sector in Asia Pacific was also unable to escape the ramifications of the financial market crisis. The lack of liquidity in the financial markets led to sharply higher refinancing costs and put a damper on the growth of all of Volkswagen Financial Services AG's Group companies. As these additional costs can only be passed on to the market with some delay, margins will narrow in the short term.

Australia

All three passenger car brands of the Volkswagen Group – Volkswagen, Audi and Škoda – continued to expand their market share and posted considerable sales growth in Australia despite the stagnating automobile market overall.

VOLKSWAGEN FINANCIAL SERVICES AUSTRALIA PTY LIMITED, Botany, succeeded in both substantially boosting the new contract volume compared to 2007 and improving coverage of the dealer network with regard to financing dealer stock. Just as elsewhere, the global crisis of the financial markets has had a negative effect on the company's earnings. The insurance business as a source of income becomes ever more important in Australia, just as in other countries.

China

At more than one million vehicles sold, China posted the region's highest sales yet again. This means that overall sales rose substantially year on year despite the difficult market environment prevailing in the second half of 2008.

While Volkswagen Finance (China) Co., Ltd. Beijing, recorded gains in both new business and market penetration, this growth still rests on a relatively narrow foundation because the percentage of buyers using credit in the purchase of their vehicle remains small. Several low-rate financing campaigns were launched in the year's first half in cooperation with the Group's joint ventures. The success of these campaigns demonstrated that the market is ready for such offers. The company's Unit Funding wholesale financing scheme gained wider acceptance in 2008. We aim to develop this scheme into the key financing method for the Group's dealers in China.

India

Volkswagen Financial Services AG prepared to enter the Indian market in 2008. The assignment of staff to explore and negotiate possible collaborative arrangements with Indian local financial institutions reflects the Group's approach of tightly integrating financial services into its overall strategy in India.

Effective 16 January 2009, Volkswagen Financial Services AG founded a wholly-owned subsidiary, VOLKSWAGEN FINANCE PRIVATE LIMITED, in Mumbai.

Japan

In 2008, the Japanese automotive market fell below its 2007 level. The year saw an above-average downturn in the pure import business where Volkswagen and Audi compete with other manufacturers. This reflects the shift to smaller and more economical models as a result of the general downturn. However, both Group brands performed well and managed to expand their market share in this difficult market environment.

Retail financing campaigns at below-market interest rates remained an integral part of importers' marketing plans in Japan. VOLKSWAGEN FINANCIAL SERVICES JAPAN LTD., Tokyo, was able to maintain its sales volume of 2007 in spite of the downturn in the pure import sector of the market.

Taiwan

The sales decline in the Taiwanese automotive market, which was sparked in 2006 by the credit crunch in the private consumer business, continued for the third consecutive year. It was compounded by the impact of the worldwide financial market crisis.

Audi announced the creation of a national sales company which will begin operations in early 2009.

In this difficult market environment, Volkswagen Financial Services LTD., Taipei, managed to hold earnings at the previous year's level despite the downturn in new business volume.

Region North America / Region South America

Volkswagen Financial Services AG is operating in three car markets in this region – Brazil, Mexico and Argentina. In all three, the brands and financial services of the Volkswagen Group have traditionally held a strong position.

Mexico

The Mexican car market was affected by the ramifications of the economic downturn, which caused GDP to decline to 2.0 % (previous year: 3.2 %). Private customer and wholesale financing constitute the core business of Volkswagen Financial Services AG in Mexico. VOLKSWAGEN BANK SA INSTITUCION DE BANCA MULTIPLE, Puebla, launched its operations in April 2008. This company – the first automotive and direct bank on the Mexican market – offers a range of products and services in the financing and deposit business customised to this market.

Argentina

After several years of expanding at a robust rate, Argentina's GDP slowed from 8.7 % the previous year to 6.0 % in 2008. The automotive market grew by 6.7 %, and the Volkswagen Group succeeded in holding its large market share of 21.6 %. The Argentinean economy was faced with a number of challenges in the 2008 financial year; in particular the financial market crisis and strikes had a substantial impact on the economy as a whole. Volkswagen Financial Services AG further expanded its private customer segment through a cooperation agreement with HSBC Bank Argentina, which is responsible for back office operations.

Brazil

Both the economy and the automotive market posted strong growth yet again through September 2008. More people than before were able to afford a new car especially due to the emergence of a new middle class. In the last quarter, however, growth declined as a result of the worldwide crisis in the financial markets.

At almost 2.7 million units, the Brazilian car market posted yet another record year overall. As the second largest provider in Brazil, the Volkswagen Group succeeded in maintaining its strong position in this booming market. Banco Volkswagen S.A., which is headquartered in São Paulo, continued its success story. In its capacity as the largest captive automotive financing company in Brazil, the bank's comprehensive product portfolio for private customers and dealers successfully supports the Volkswagen Group brands in a highly competitive financial services market. Finance leasing has developed into a popular product in the Brazilian private customer segment. The significance of the insurance business is also growing.

Capital market activities and rating

Conditions in the money and capital markets in the financial year just ended were characterised by extreme events and barely imaginable developments which at times brought all market activities virtually to a complete standstill in the course of the year.

Triggered by subprime mortgages in the USA, the crisis engulfed the entire financial sector, almost all asset classes and, especially in the second half of the year, economic development in almost all of the world's industrialised countries. In United States and other countries the crisis led to the collapse of major banks.

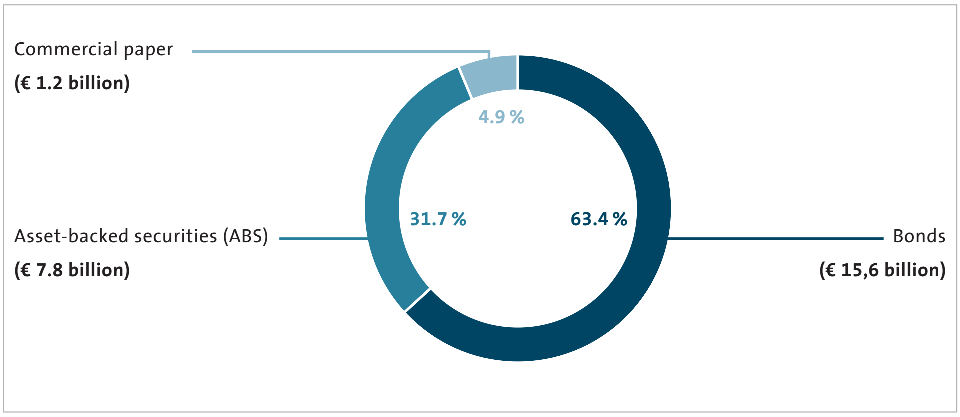
Numerous programmes aimed at saving banks and stimulating the economy, support measures of the International Monetary Fund as well as a number of concerted campaigns on the part of governments and central banks alike were deployed worldwide in attempts to get the crisis under control. The financial market crisis peaked in October 2008 and has been continuing since then.

Given this crisis environment, it was necessary to ensure the refinancing of Volkswagen Financial Services AG along with its subsidiaries and find pragmatic solutions for the problem of money and capital markets drying up. Since these developments went hand in hand with a previously almost unknown level of volatility, choosing the right time window for the capital market activities of Volkswagen Financial Services AG more than ever was the key to success.

Although the volume of asset-backed securities (ABS) transactions surpassed that of unsecured bonds for the first time in the 2008 financial year, we succeeded nonetheless in launching a number of optimally placed unsecured transactions. The fact that the € 500 million benchmark bond of

FUNDING ON THE CAPITAL MARKETS

Figures as at 31 December 2008



Volkswagen Bank GmbH was placed in June 2008 and expanded by an additional € 200 million just a month later is particularly noteworthy in this connection. And the issuance of Volkswagen Financial Services AG's first promissory note in October 2008 in a very difficult environment must be counted as a further success for Volkswagen Financial Services AG in the capital market.

A five-year € 1.5 billion benchmark bond that was issued on behalf of Volkswagen Financial Services AG in January 2009 opened the year on a positive note. The company managed to generate a volume that exceeded expectations at a point in time that was perfectly suited to the volatile "crisis environment".

Asset-backed securities (ABS)
The established programmes for secured bonds were used regularly despite the crisis of the financial markets. Yet the turmoil has shown that it is important to recognise investors' needs early on and factor them into offers for investment opportunities. In February 2008, Volkswagen Bank GmbH kicked off with Driver Five, the tried and tested format that is secured by German loan receivables. In response to strong demand, the initial offering volume of € 965 million was raised to € 1.255 billion.

Driver Five was immediately followed in March 2008 by Driver UK One, the first public ABS transaction of Volkswagen Financial Services (UK) Ltd. Receivables from customers in the United Kingdom underlie this securitisation transaction. It was the company's first ever to offer bonds in various currencies, with an aggregate issue volume of GBP 215 million and € 325 million. Volkswagen Financial Services AG (UK) Ltd. is also using an ABS conduit for refinancing purposes parallel to the public Driver UK One issue. The volume being refinanced via the conduit was raised to GBP 675 million once Driver UK One had been launched.

Volkswagen Bank GmbH's sixth public Driver transaction was issued in September 2008 following a private placement in May 2008 where we offered both bonds and notes for the first time. Two bond issues having the tried and tested structure were issued for a total volume of € 967 million.

Given the steadily deteriorating conditions in the financial markets, it became very difficult to raise funds on the money and capital markets, especially in the year's second half. To ensure the supply of liquidity, ABS transactions were executed for both Volkswagen Bank GmbH and Volkswagen Leasing GmbH toward the end of the year. However, they were not sold to investors but utilised instead by Volkswagen Bank GmbH as collateral for participating in the open market operations of the European Central Bank (ECB). As a result, Volkswagen Bank GmbH was able to raise € 1.8 billion in funds at attractive terms despite the difficult market environment.

Rating
In 2008, the rating firm Moody's Investors Services (Moody's) issued a positive outlook for the A3 long-term and P-2 short-term ratings of Volkswagen Financial Services AG. Standard & Poor's (S&P) affirmed its A–/A–2 ratings with a stable outlook.

S&P's and Moody's ratings of Volkswagen Financial Services AG are identical to the agencies' rating of Volkswagen AG, which owns 100 % of Volkswagen Financial Services AG.

The differentiated rating of Volkswagen Bank GmbH, which Moody's has maintained since 2004 and Standard & Poor's since 2006, was confirmed in 2008. Moody's short-term (Prime-1) and long-term (A2) rating of Volkswagen Bank GmbH is one rating grade better than that of both Volkswagen AG and Volkswagen Financial Services AG.

S&P's long- and short-term rating of Volkswagen Bank GmbH is currently A and A-1, outlook negative. Hence S&P's rating of Volkswagen Bank GmbH also is one grade better than that of the other two companies.

The rating firms have thus confirmed their credit rating of Volkswagen Bank GmbH for the third consecutive year since differentiated ratings were issued even though S&P lowered the outlook from stable to negative in light of the macroeconomic environment. As expected, Volkswagen Financial Services AG developed in parallel with Volkswagen AG.

Management report

Management report

BUSINESS AND ECONOMIC ENVIRONMENT

Global economy

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

The growth of the US economy weakened to 1.3 % (previous year: 2.0 %). Broad support measures aimed at the banking and property sectors did not prevent negative growth rates in the second half of the year. The Mexican economy's rate of expansion fell to 1.5 % (previous year: 3.2 %).

Brazil and Argentina, the two largest countries in South America, continued to record solid growth until mid-year. Economic momentum in these countries also slowed considerably in the second half of the year. Nonetheless, Brazil's growth rate for the year increased slightly to 5.7 % (previous year: 5.4 %). Argentina grew at a rate of 6.0 % (previous year: 8.7 %).

The economic momentum of Asian emerging countries also slowed substantially in the course of 2008, particularly due to exporters' diminishing prospects. The Chinese economy grew by 9.0 % (previous year: 13.0 %) but remained highly dynamic nonetheless. In contrast, the Japanese economy contracted by 0.3 % (previous year: + 2.4 %) despite the sustained weakness of the yen and very low interest and inflation rates. India continued its robust expansion with growth of 7.0 % (previous year: 9.0 %).

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

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

Financial markets

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

The ramifications of the crisis also affected the German mobility services providers in 2008. While the captive auto banks (or captives) managed to increase the number of new vehicle contracts by almost 6 % to 668,000 in the first half of the year thanks especially to the positive business with private customers, demand fell substantially in the second half of the year as a result of rising uncertainty among consumers. At the same time, the industry's refinancing costs rose intermittently due to the dramatic deterioration in the international financial markets. Against this backdrop, some of the captives had to turn to the European Central Bank (ECB) or their corporate parent for refinancing.

The banks' deposit business grew in importance as it became increasingly difficult to obtain refinancing in the international capital markets. Both the security of bank deposits and the level of interest rates became key factors for business in Germany. Competition among the direct banks engaged in the deposit business intensified yet again as a result of interest rate campaigns, increasing the pressure on interest margins.

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

Automobile markets

In 2008, worldwide passenger car sales fell to 55.6 million vehicles, down 5.9 % from the record number of registrations the previous year. The ramifications of the international financial market crisis became more intense in the course of the year. In turn, this amplified consumers' reluctance to make purchases, owing also to the tight situation on the credit markets. Massive increases in the prices for commodities and energy in the first six months of the year compounded these developments. North America and Western Europe, in particular, recorded above-average declines. In Central and Eastern Europe, South America as well as Asia Pacific, the positive development held steady for a while but did weaken substantially in the year's second half. Worldwide automobile production fell in the 2008 financial year by 3.9 % to 69.2 million units, of which passenger cars accounted for 57.5 million (– 4.8 %).

At – 15.9 %, the market volume of passenger cars and light commercial vehicles in North America dropped substantially year on year. Vehicle sales fell to 13.2 million units (– 18.0 %), the lowest level since 1992, in the US automotive market, which was greatly impacted by the financial market crisis. The reluctance to make new purchases due to the loss of consumer confidence as well as the difficulties in obtaining credit caused a dramatic drop by 24.7 % to 6.5 million units in the light commercial vehicle segment. While the number of newly registered passenger cars dropped too, at 6.8 million vehicles (– 10.4 %) it was not as dramatic.

Demand in Mexico declined year on year by 6.7 % to 1.0 million units.

The South American market developed along a positive trajectory for the fifth consecutive year. At 2.7 million new registrations of passenger cars and light commercial vehicles (+ 14.1 %), Brazil substantially surpassed the previous year's record. Truck sales also grew by 24.2 % to 122,000 units year on year, setting a new record, whereas only 734,000 vehicles were exported, 7.0 % less than the previous year. At 429,000 units, the Argentinean passenger car market also surpassed the record set in the previous year (+ 6.7 %).

In Asia Pacific, demand continued to grow in the financial year just ended. However, the momentum of the Chinese passenger car market – the world's second largest – slowed substantially in the course of the year particularly as a result of higher gas prices and measures designed to dampen inflation. A total of 5.5 million cars (+ 7.8 %) were registered in the reporting year. The Japanese market volume continued to weaken in 2008. At 4.2 million passenger cars, growth was 3.9 % lower than the previous year. On the Indian passenger car market, overall sales climbed slightly year on year by 2.1 % to 1.2 million passenger cars. Rising interest rates on loans and high inflation put a damper on growth.

In Western Europe, the demand for passenger cars fell by 8.4 % to 13.6 million vehicles. At almost 53 % (previous year: 53.3 %), the share of diesel vehicles remained as high as the previous year due to high petrol prices. The markets with the largest volumes – Spain (– 28.1 %), Italy (– 13.4 %) and the United Kingdom (– 11.3 %) – were hit particularly hard by the financial market crisis and posted dramatic declines in sales. In France (– 0.7 %), the tax incentives aimed at fuelling demand for low CO_2 cars that had been enacted at

WORLDWIDE DELIVERIES TO CUSTOMERS IN 2008

	Vehicle deliveries		Change
	2008	2007[1]	in %[1]
Worldwide	6,257,385	6,189,588	+ 1.1
Volkswagen passenger cars	3,667,624	3,663,154	+ 0.1
Audi	1,003,469	964,151	+ 4.1
Škoda	674,530	630,032	+ 7.1
SEAT	368,104	431,024	– 14.6
Bentley	7,605	10,014	– 24.1
Lamborghini	2,430	2,406	+ 1.0
Volkswagen commercial vehicles	503,025	488,726	+ 2.9
Scania[2]	30,527		
Bugatti	71	81	– 12.3

1 The 2007 deliveries and markets were updated due to statistical extrapolation

2 22.7.2008 to 31.12.2008

the start of the year prevented a major downturn in the market. In Central and Eastern Europe in contrast, the number of newly registered vehicles rose yet again but the growth momentum clearly slowed in the year's second half. As in the previous year, Russia (+ 15.5 %) and the Ukraine (+ 14.9 %) were the main growth drivers. The passenger car markets in the Central European member states of the EU posted growth of 4.7 %. Passenger car sales in Turkey during the reporting period were substantially lower year on year (– 14.4 %).

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

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

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

STEERING, ORGANISATION AND EQUITY INVESTMENTS OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

Key objectives

Over the years, the companies in the Volkswagen Financial Services AG Group have increasingly evolved into mobility services providers who manage complex tasks in connection with the financial and insurance-related mobility of their customers.

As previously, the key objectives of Volkswagen Financial Services AG include:

- Promotion of Group product sales in the interest of the Volkswagen Group brands and the partners appointed to distribute them, and strengthening of customer loyalty to the Volkswagen Group brands along the automotive value chain
- Service provider functions of the Volkswagen Group and its brands, with optimised procedures, administrative structures and information systems
- Intensification of the cross-border transfer of experience and know-how, and close cooperation with the national companies
- Utilisation of synergies from close cooperation with the Group Treasury of Volkswagen AG, for optimised refinancing aimed at easing the liquidity situation for the parent company

Organisation of Volkswagen Financial Services AG

Volkswagen Financial Services AG realigned its Board of Management effective 16 September 2008.

Frank Witter was appointed Chairman of the Board of Management of Volkswagen Financial Services AG. He succeeded Burkhard Breiing, who departed from the company at his own request. Lars-Henner Santelmann, previously Executive Vice President of Volkswagen Financial Services AG, was appointed member of the Board of Management responsible for Sales and he will retain his previous responsibility as spokesperson of Volkswagen Leasing GmbH.

Volkswagen Financial Services AG also expanded its Board of Management. Frank Fiedler became Chief Financial Officer, a newly established position, with responsibility for controlling, accounting, treasury and investor relations.

Broadening the Board of Management is designed to ensure sustained, profitable growth and further expand the company's market position, both internationally and in the growth markets. The close integration of the activities of Volkswagen Financial Services AG with the Volkswagen Group underscores the great strategic significance of Volkswagen Financial Services AG.

Changes in equity investments

Effective 1 January 2008, VOLKSWAGEN FINANCE S.A., Villers-Cotterêts, France, was merged into the French branch of Volkswagen Bank GmbH.

The last step in the restructuring of the Volkswagen Group's financial services companies in Brazil entailed merging Volkswagen Leasing GmbH S.A. Arrendamento Mercantil, São Paulo, Brazil, with Banco Volkswagen S.A., São Paulo, Brazil, in February 2008.

In February 2008, UNA 152 Equity Management GmbH was renamed VWL Funding 2008-1 GmbH and its headquarters were relocated from Frankfurt am Main to Brunswick.

A company named 4Collection GmbH, Brunswick, was founded in March 2008 as a wholly-owned subsidiary of Volkswagen Business Services GmbH, Brunswick, itself a wholly-owned subsidiary of Volkswagen Financial Services AG.

In March 2008, Volkswagen Financial Services AG sold VOLKSWAGEN SERVICIOS SA DE CV, Puebla, Mexico to VOLKSWAGEN BANK SA INSTITUCION DE BANCA MULTIPLE, Puebla, Mexico, also a wholly-owned subsidiary of Volkswagen Financial Services AG.

Volkswagen Global Finance Holding B.V., Amsterdam, The Netherlands, was established as a wholly-owned subsidiary of Volkswagen Financial Services AG in June 2008.

In July 2008, Volkswagen Financial Services Beteiligungsgesellschaft mbH, Brunswick, Volkswagen Finance Cooperation B.V., Amsterdam, the Netherlands, and Volkswagen Finance Overseas B.V., Amsterdam, the Netherlands, were founded as wholly-owned subsidiaries of Volkswagen Financial Services AG.

Global Automotive Finance C.V., Amsterdam, the Netherlands, was established in August 2008 by the shareholders, Volkswagen Financial Services Beteiligungsgesellschaft mbH and Volkswagen Global Finance Holding B.V.

In November 2008, Volkswagen Finance Cooperation B.V., Amsterdam, the Netherlands, Volkswagen Finance Overseas B.V., Amsterdam, the Netherlands, were initially transferred from Volkswagen Financial Services AG to Volkswagen Financial Services Beteiligungsgesellschaft mbH (99.99 %) and Volkswagen Global Finance Holding B.V. (0.01 %). These companies then contributed the shares in Volkswagen Finance Cooperation B.V. and Volkswagen Finance Overseas B.V. to Global Automotive Finance C.V.

In December 2008, Volkswagen Financial Services AG contributed Volkswagen Participações Ltda., São Paulo, Brazil, including its subsidiaries, to Volkswagen Finance Overseas B.V.

Effective 16 January 2009, Volkswagen Financial Services AG founded a wholly-owned subsidiary, VOLKSWAGEN FINANCE PRIVATE LIMITED, Mumbai, India.

In the 2008 financial year, Volkswagen Financial Services AG increased the capital of Volkswagen Finance (China) Co., Ltd., Beijing, China, by € 46 million, the capital of Limited Liability Company Volkswagen Financial Services RUS, Moscow, Russia, by € 5 million, the capital of VOLKSWAGEN BANK SA INSTITUCION DE BANCA MULTIPLE, Puebla, Mexico, by € 2 million, and the capital of ŠkoFIN s.r.o., Prague, Czech Republic, by € 70 million, in each case to strengthen the respective company's capital base.

ANALYSIS OF THE GROUP'S BUSINESS PERFORMANCE AND POSITION

Results of operations

The 2008 financial year was marked by the intensification of the international financial market crisis and the resulting distortions in these markets. Against this backdrop, business did not develop as expected – especially in the year's second half. At € 792 million however, the pre-tax result was almost as high as the previous year (€ 809 million). This corresponds to a return on equity of 12.4 % (previous year: 15.2 %).

The international crisis of the financial markets affected the Volkswagen Financial Services AG Group indirectly in that it sparked an increase in refinancing costs due to rising interest rates and spreads. Its direct impact in contrast resulted from the significant decline in automotive demand in almost all important markets.

At € 1,603 million, net income from lending, leasing and insurance transactions before risk provisions also surpassed the previous year's result. This is due to the positive development of business in Germany; in addition, the Brazilian companies were consolidated only from May of the previous year. At € 209 million, net commission income substantially exceeded the previous year's result of € 156 million. The increase in administration expenses to € 887 million essentially arose from the pro rata consolidation of the Brazilian companies in 2007 and the collective pay increases in Germany. The cost/income ratio was 61 % (previous year: 58 %).

Because the Group's joint ventures – in particular, LeasePlan Corporation N.V. (LeasePlan), Amsterdam, as well as Volkswagen Pon Financial Services B.V., Amersfoort – are also affected by the ramifications of the financial market crisis, the result from equity investments accounted for at equity decreased by € 52 million to € 101 million (– 34.0 %) year on year.

Taking into account the result from the measurement of derivative financial instruments in the amount of € – 27 million (previous year: € – 35 million) and the remaining earnings components, the net income of the Volkswagen Financial Services AG Group for the year was € 578 million (– 19.5 %). This significant year-on-year decline resulted from the fact that in 2007 tax expenses were much lower than in 2008 due to Germany's corporate tax reform, which took effect on 1 January 2008 but already necessitated a reduction in non-current deferred tax assets and liabilities in 2007.

The loss made by Volkswagen Financial Services AG in the amount of € 2 million based on its single-entity financial statements under the German Commercial Code was absorbed by Volkswagen AG, the company's sole shareholder, under the existing control and profit transfer agreement.

As in previous years, the German Group companies made substantial contributions to the earnings of Volkswagen Financial Services AG. With about 57 % of the contract portfolio, they remain the companies with the highest business volume and earned a pre-tax result of € 475 million (previous year: € 560 million).

Volkswagen Bank GmbH maintained its market position, supported by a product range that is geared to its target groups and the loyalty of customers and dealers alike. The company was able to expand its business volume once again, with this expansion also including the business of the European branches of Volkswagen Bank GmbH.

The performance of Volkswagen Bank GmbH in the year under review made a substantial contribution to the success of Volkswagen Financial Services AG.

In 2008, Volkswagen Leasing GmbH expanded its income from leasing transactions yet again compared to the previous year despite the difficult market environment, thus accounting for a major portion of the Group's profit.

Competitive pressures in the automobile insurance segment further intensified in 2008. Volkswagen Versicherungsdienst GmbH succeeded in stabilising its portfolio of current automobile insurance contracts at just under one million in this difficult market environment through comprehensive cancellation prevention measures and other precautions. The new vehicle extended warranty business followed a more positive trajectory. Here, the number of current contracts has doubled since 2006 to a level substantially surpassing 500,000 contracts.

In 2008, VW Versicherungsvermittlungs-GmbH, Wolfsburg, once again settled a variety of major losses on behalf of the Group using a professional approach and, in addition, made a stable positive contribution to the Group's profit.

All but one of the fully-consolidated foreign financial services companies belonging to Volkswagen Financial Services AG performed well, and again generated positive results for the year.

Assets and financial position

Lending business

Receivables from customers – which represent the core business of the Volkswagen Financial Services AG Group – plus leased assets amounted to € 51.6 billion, and thus accounted for approximately 90.1 % of the consolidated total assets. The positive development reflects the expansion of business, particularly in Germany and Brazil.

The loan volume from retail financing increased by € 1.0 billion or 4.9 % to € 21.9 billion in the year just ended. The number of new contracts reached a new record high of 867,000 (+ 0.4 % versus 2007). This meant that the number of current contracts rose to 2,390,000 by the end of the year (+ 3.2 %). With a volume of 1,638,000 contracts (previous year: 1,536,000), Volkswagen Bank GmbH remained the Group company with the highest business volume.

The loan volume in the wholesale financing business – which consists of receivables from Group dealers in connection with the financing of vehicles in stock plus equipment and investment loans – rose to € 9.6 billion (+ 2.4 %).

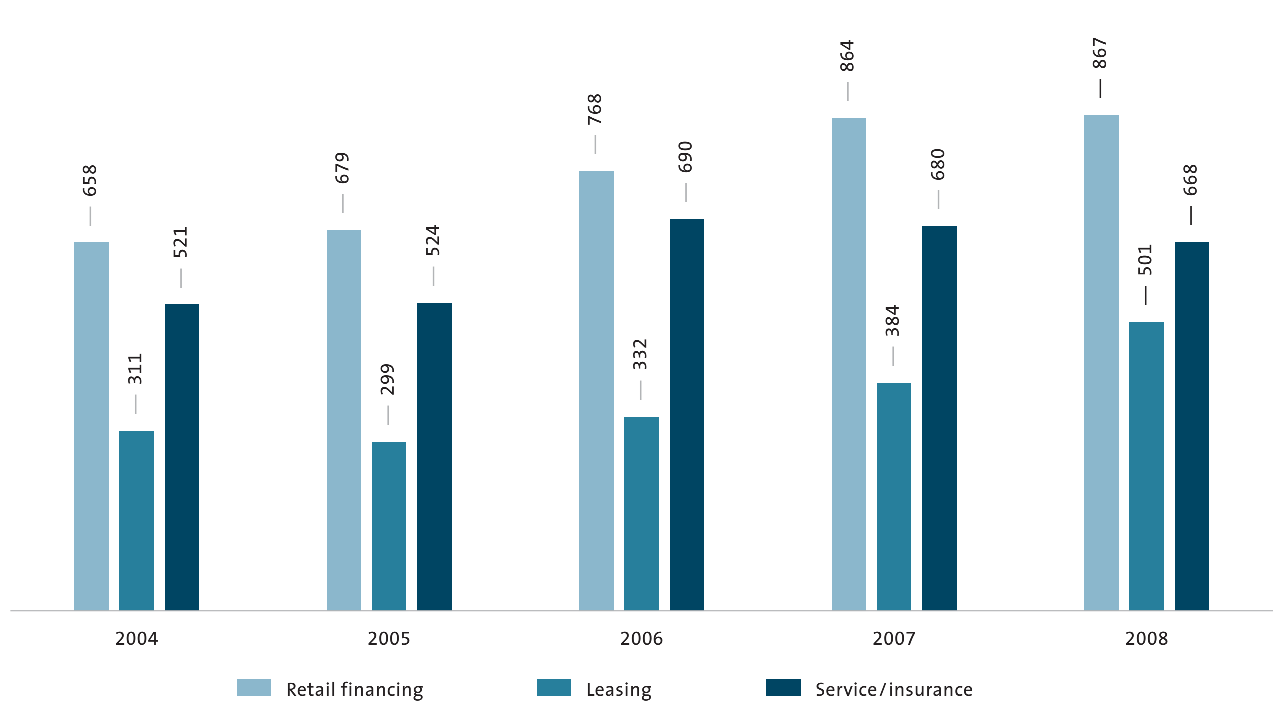
CURRENT CONTRACTS, NEW CONTRACTS AND CONTRACT VOLUME

in thousands as at 31.12.2008	VW FS AG	Europe	of which Germany	of which Italy	of which United Kingdom	of which France	Asia Pacific	North/ South America
Current contracts	5,793	5,149	3,316	519	401	296	152	492
Retail financing	2,390	1,924	1,329	192	219	57	109	357
Leasing	1,092	986	748	33	42	58	3	103
Service/insurance	2,311	2,239	1,239	294	140	181	40	32
New contracts	2,036	1,724	1,010	195	190	120	37	275
Retail financing	867	694	437	85	102	20	28	145
Leasing	501	418	319	15	22	28	1	82
Service/insurance	668	612	254	95	66	72	8	48
in € million as at 31.12.2008								
Receivables from customers arising from								
Retail financing	21,913	18,241	13,142	1,219	2,219	361	1,295	2,377
Wholesale financing	9,584	8,463	4,527	646	943	822	320	801
Leasing	14,912	13,952	11,980	414	56	738	110	850
Leased assets	3,003	2,996	1,957	246	520	169	7	0
in % as at 31.12.2008								
Penetration rates*	27.4	30.6	45.7	26.2	20.3	17.6	23.7	25.1

* New contracts for new Group vehicles divided by deliveries of Group vehicles

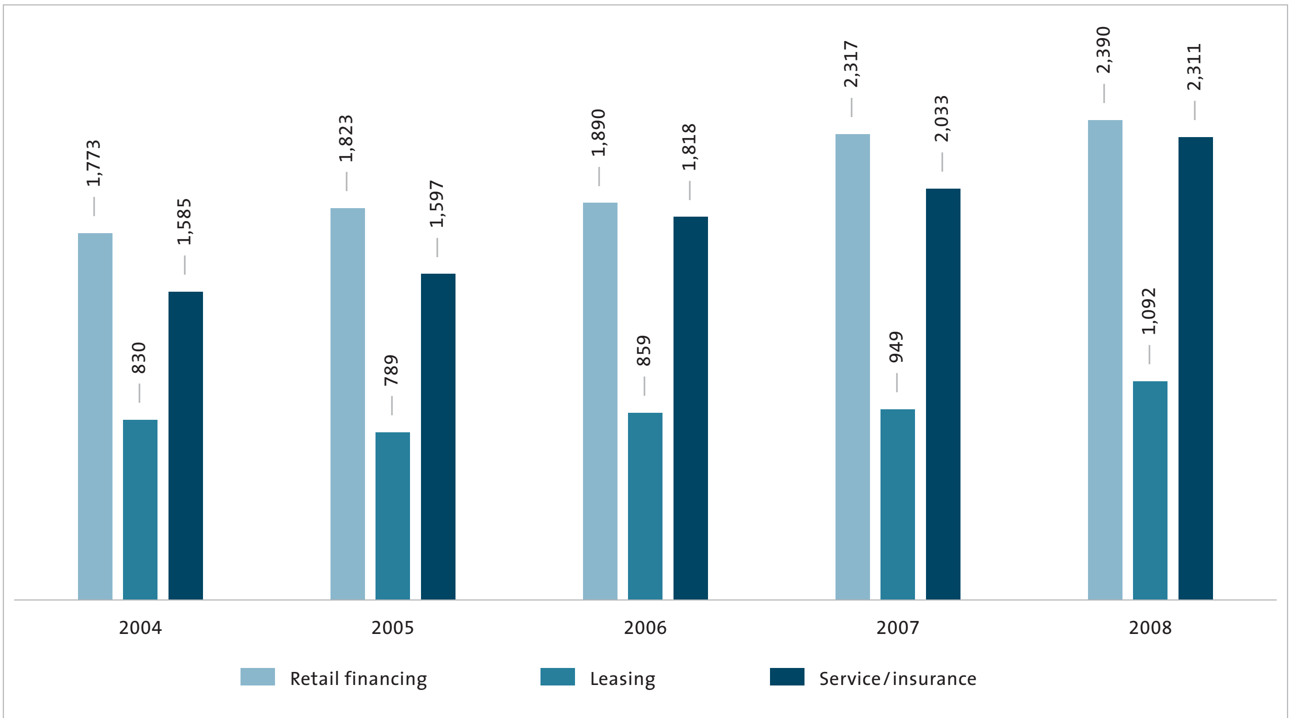
DEVELOPMENT OF NEW CONTRACTS

in thousand contracts



DEVELOPMENT OF CURRENT CONTRACTS

in thousand contracts



Receivables from leasing transactions amounted to € 14.9 billion, which is once again an increase when compared to the previous year (+ 9.3 %). Leased assets saw growth of € 567 billion, rising to € 3.0 billion (+ 23.3 %).

In the year under review, a total of 501,000 new leasing contracts were signed, once again surpassing the high level of previous years (+ 30.5 %). As at 31 December 2008, there were 1,092,000 leased vehicles in stock, which is an increase of 15.1 % in comparison to the previous year. As in previous years, Volkswagen Leasing GmbH once again made the largest contribution to the Group, with a current contract level of 762,000 (+ 8.4 %) leased vehicles.

Compared to the previous year, the total assets of Volkswagen Financial Services AG rose to € 57.3 billion (+ 9.5 %). This increase is essentially due to the growth in receivables from customers (+ 6.0 %) and leased assets (+ 23.3 %), reflecting the expanded business in the year just ended.

At the end of the year, the insurance contract portfolio contained 1,964,000 contracts (previous year: 1,789,000). At 511,000 contracts, the volume of new business was 2.5 % below the level of the previous year.

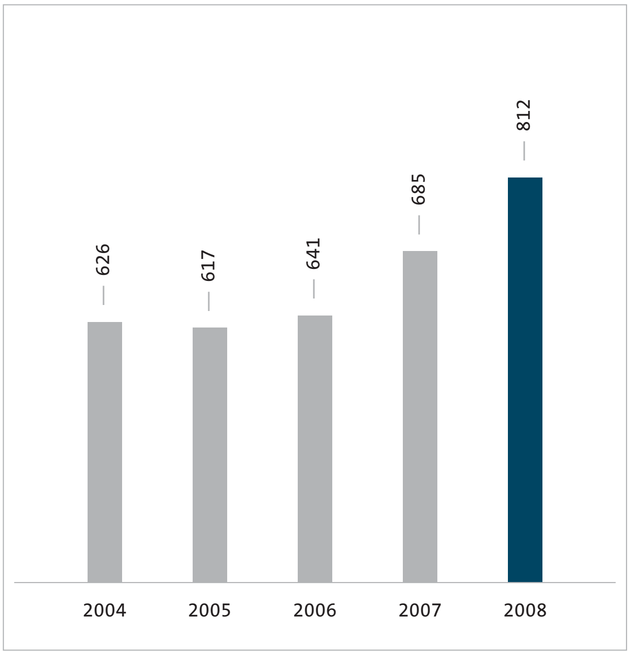
Deposit business and borrowings

Significant items in liabilities and equity include liabilities to financial institutions in the amount of € 7.6 billion (+ 40.4 %), liabilities to customers in the amount of € 17.0 billion (+ 21.7 %), as well as securitised liabilities in the amount of € 21.5 billion (– 7.3 %). Details concerning the company's refinancing and hedging strategy are provided in a separate section of this management report.

Specifically, the deposit business of Volkswagen Bank GmbH, reported as part of the liabilities to customers, again reached a new record high of € 12.8 billion (+ 33.4 %) as at 31 December 2008. This strong increase results mainly from the "Plus Konto SuperZins" campaign, which was carried out in cooperation with Lidl. With this level of deposits, Volkswagen Bank GmbH continues to be one of the largest players in the sector. The bank had 812,000 direct banking customers (+ 18.5 %) as at 31 December 2008.

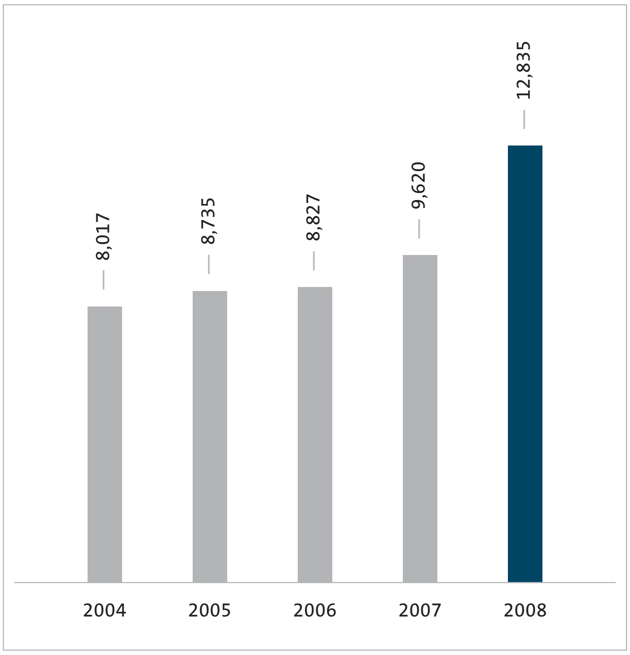
DIRECT BANKING CUSTOMERS

Lending and deposit business/borrowings (in thousands)



CUSTOMER DEPOSITS

in € million



Equity

The subscribed capital of Volkswagen Financial Services AG remained unchanged at € 441 million in the 2008 financial year. IFRS equity was € 6.8 billion (previous year: € 6.0 billion). This yields an equity ratio of 11.8 % relative to the total equity and liabilities of € 57.3 billion, which is above average in comparison to international companies.

Capital adequacy according to regulatory requirements

International capital adequacy regulations require a minimum core capital ratio (frequently also referred to as "Tier I Capital") of 4.0 % and an overall ratio of 8.0 %. German law recognises as core capital the capital subscribed, the reserves and accumulated profit that is not intended for distribution. The composition of equity is determined in accordance with the requirements of the German Commercial Code. Compared to international practices, the measurement of own funds under German regulatory requirements is conservative.

German lawmakers implemented the framework published by the Basel Committee in 2004 under the title "Basel II" at the end of 2006 by amending the German Banking Act and passing the new Solvency Regulations.

The new regulatory architecture is far more comprehensive and complex than previously. It comprises revised minimum capital requirements (Pillar I), a supervisory review process to ensure that banks have adequate capital to support all the risks in their business (Pillar II), as well as extended disclosure requirements (Pillar III). The most important changes in connection with Pillar I concern the treatment of credit risk and, for the first time, capital adequacy requirements to support operational risk.

While the application of the new Solvency Regulations was optional in 2007, it became mandatory in 2008. Volkswagen Bank GmbH has applied the provisions of the new Solvency Regulations as early as possible, i. e. from 2007 – both for itself and the financial holding group. In so doing, the bank and the financial holding group use the so-called standardised approach to determine capital adequacy in connection with credit risks and operational risks.

The risk-weighted position of the financial holding group in accordance with the standardised approach to credit and operational risks as at the end of December 2008 was € 38.2 billion compared to € 38.3 billion at the end of 2007. Despite seven asset-backed securities transactions with a total volume of approximately € 6 billion, the position remained almost unchanged compared to the previous year as a result of organic growth.

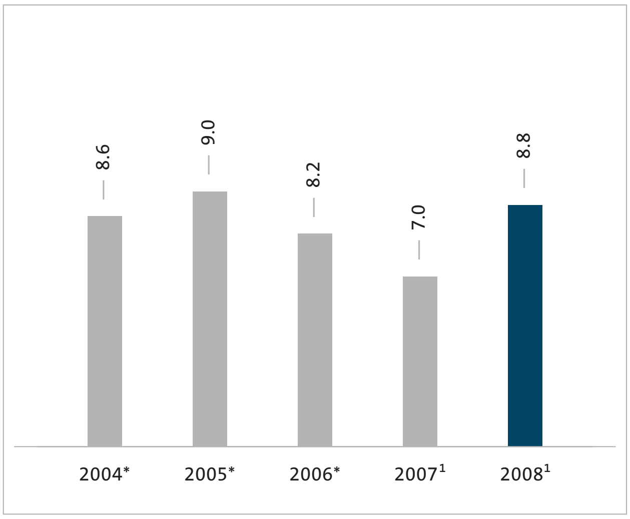
The following charts contain details regarding the composition of own funds and their changes compared to 2007 as well as the aggregate risk position:

	31.12.2008	31.12.2007
Aggregate risk position (€ million)	41,178	42,663
of which weighted position according to the standardised approach to credit risks	38,240	38,325
of which market risk positions * 12.5	1,013	1,650
of which operational risks * 12.5	1,925	2,688
Liable capital (€ million)[1]	4,431	3,797
of which core capital[2]	3,627	2,970
of which supplementary capital[2]	804	827
Own funds (€ million)	4,431	3,797
Core capital ratio[3] (%)	8.8	7.0
Overall ratio[4] (%)	10.8	8.9

1 Net of the deductible for securitisation activities
2 Deductible items are already deducted from core and supplementary capital
3 Core capital ratio = Core capital / (Capital requirement for (credit risks + operational risks + market risks) * 12.5) * 100
4 Overall ratio (own funds ratio under Principle I) = Own funds / (Capital requirement for (credit risks + operational risks + market risks) * 12.5) * 100

CORE CAPITAL RATIO UNDER THE SOLVENCY REGULATIONS OF THE FINANCIAL HOLDING GROUP AS AT 31.12.

in %

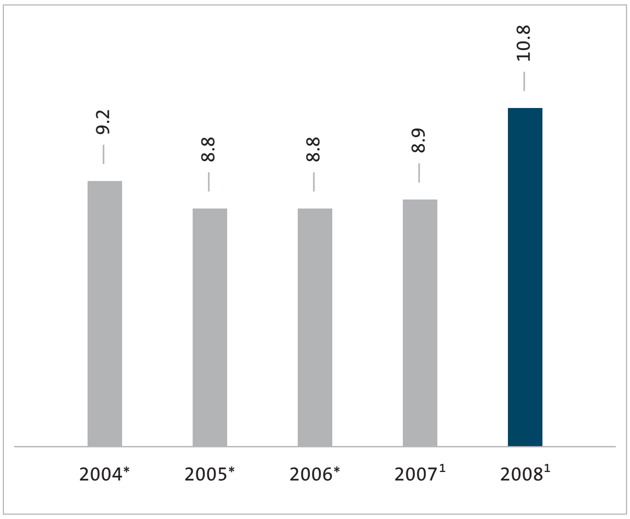


* Core capital ratio under Principle I of the financial holding group as at 31.12.

[1] Core capital ratio = Core capital / (Capital requirement for (credit risks + operational risks + market risks) * 12.5) * 100

OVERALL RATIO UNDER THE SOLVENCY REGULATIONS OF THE FINANCIAL HOLDING GROUP AS AT 31.12.

in %



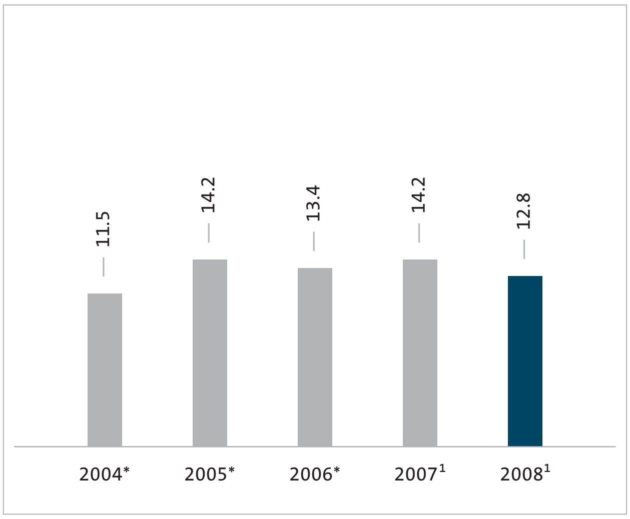
* Overall ratio under Principle I of the financial holding group as at 31.12.

[1] Overall ratio = Own funds / (Capital requirement for (credit risks + operational risks + market risks) * 12.5) * 100

Given the significance of Volkswagen Bank GmbH, both the core capital ratio and the overall ratio of Volkswagen Bank GmbH are also disclosed.

CORE CAPITAL RATIO UNDER THE SOLVENCY REGULATIONS OF VOLKSWAGEN BANK GMBH AS AT 31.12.

in %

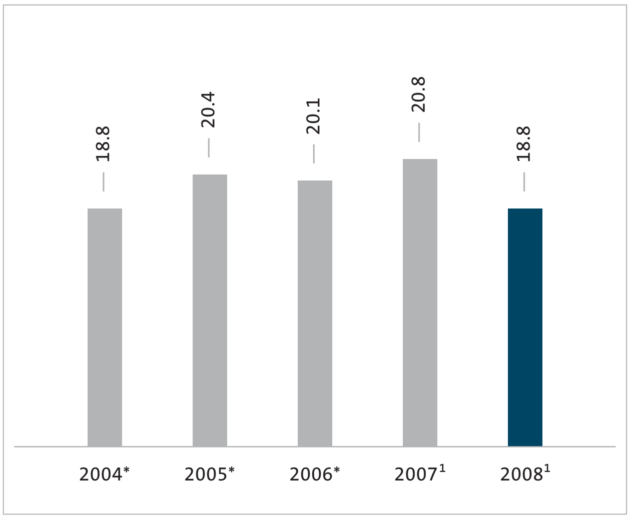


* Core capital ratio under Principle I of Volkswagen Bank GmbH as at 31.12.

[1] Core capital ratio = Core capital / (Capital requirement for (credit risks + operational risks + market risks) * 12.5) * 100

OVERALL RATIO UNDER THE SOLVENCY REGULATIONS OF VOLKSWAGEN BANK GMBH AS AT 31.12.

in %



* Overall ratio under Principle I of Volkswagen Bank GmbH as at 31.12.

[1] Overall ratio = Own funds / (Capital requirement for (credit risks + operational risks + market risks) * 12.5) * 100

Even with a rapidly increasing business volume and geographic expansion, Volkswagen Bank GmbH is in a position to secure adequate capital resources for itself and the financial holding group, Volkswagen Financial Services AG, at short notice and at optimal cost by raising appropriate amounts of supplementary capital in the form of participation right liabilities and subordinated liabilities and by receiving payments into its reserves from Volkswagen AG. In addition, ABS transactions are utilised to optimise capital management. As a result, Volkswagen Bank GmbH and the companies belonging to the financial holding group, Volkswagen Financial Services AG, have a sound basis for the ongoing expansion of their financial services business.

Refinancing and hedging strategy

Principles

In the financial year just ended, Volkswagen Financial Services AG did not fundamentally alter its strategic policy to refinance its receivables portfolio at matching maturities and currencies despite the profound changes and major challenges in the money and capital markets. The concept of matching maturities refers to both fixed interest periods and the tying up of liquidity.

While optimising refinancing costs still had absolute priority in the first six months of the year, leveraging the company's well-established reputation in the capital market to the optimal extent possible came to the fore in the second half of the year. It is this reputation that made it possible for the companies of Volkswagen Financial Services AG to obtain refinancing funds by recourse to a variety of instruments despite extremely difficult market conditions.

In 2008, the significance of Volkswagen Bank GmbH's deposit business also continued to grow in connection with our refinancing activities.

Implementation

The securitisation of receivables by means of diverse ABS transactions undoubtedly developed into our most important refinancing instrument in the financial year just ended. Volkswagen Bank GmbH kicked off its large-volume capital market transactions in the Volkswagen Bank Group through Driver Five with an aggregate volume of € 1.3 billion in February 2008. Driver UK One, the company's first public securitisation transaction in connection with European finance receivables outside Germany, followed in March. At GBP 500 million, the success of this debut transaction ensured the continued growth of the British company. Aside from a private placement of € 260 million in May 2008, Volkswagen Bank GmbH's last public ABS transaction for the 2008 financial year was placed in September with an aggregate volume of € 1 billion. This ABS transaction (Driver Six) in particular demonstrated that our pioneering role and expertise, which we established over the years, is bearing fruit especially in difficult market conditions.

We structured private ABS placements in the amount of € 3.6 billion for both Volkswagen Bank GmbH and Volkswagen Leasing GmbH at the close of the financial year just ended; for the time being, they will serve solely to raise funds by participating in the ECB's open market operations. Once market conditions change, the bonds that were initially held back can be resold to investors at any time.

Despite adverse market conditions, the Volkswagen Financial Services AG Group was also able to deploy unsecured capital market programmes through a variety of small transactions and one large-volume transaction. Volkswagen Bank GmbH increased a benchmark bond issue that it placed in June 2008 from initially € 500 million to € 700 million the following month. The bond's two-year maturity ideally reflects the average term of Volkswagen Bank GmbH's portfolio of receivables.

In the financial year just ended, the issuance of promissory notes still played a more subordinate role in our refinancing activities. The primary aim of these issuances was to establish the instrument as a future source of refinancing. At the same time, they are designed to offer investors the option of investing in the risk associated with Volkswagen Bank GmbH and Volkswagen Financial Services AG without mark-to-market measurements.

At the start of 2009, Volkswagen Financial Services AG placed an unsecured benchmark bond for a volume of € 1.5 billion and with a maturity of five years.

At a deposit volume of € 12.8 billion (+ 33.4 % year on year), the direct bank strengthened its position as the largest and most important source of refinancing for Volkswagen Bank GmbH.

The company has pursued its strategy of refinancing largely at matching maturities by borrowing funds with corresponding maturities, and also by employing derivatives. To the extent possible, individual underlying transactions are linked to derivatives to create efficient hedging relationships (microhedging) – also in accordance with IAS 39 – and they thus minimise the effects of a market valuation of derivatives on the income statement. Derivatives are utilised for hedging purposes and, as a rule, are held until the planned maturity date.

Matching currencies were achieved by raising liquidity in euros and by hedging it utilising derivatives.

RISK REPORT

Strategy and standards

Volkswagen Financial Services AG including its subsidiaries and affiliates (jointly "Volkswagen Financial Services AG") is faced with a multitude of risks typical for financial services in the pursuit of its primary business activities; the company responsibly assumes these risks in order to take advantage of the resulting market opportunities.

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 Financial Services AG.

Volkswagen Financial Services AG 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. This risk management system allows timely detection of developments that might jeopardise the company's activities. The system encompasses both a framework of risk principles as well as organisational structures and processes for risk measurement and monitoring that are tightly integrated in the activities of the individual divisions.

The basic decisions relating to strategy and tools for risk management are the responsibility of the Board of Management of Volkswagen Financial Services AG.

To ensure appropriate and consistent treatment of risks within Volkswagen Financial Services AG, the company has established risk management guidelines, which take the risk strategy of Volkswagen Financial Services AG and the development of own funds into account.

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

Strategic parameters are determined for all material risks based on risk management guidelines and the risk-bearing capacity of Volkswagen Financial Services AG. In addition to risks of counterparty default – credit risks, in particular – market price risks, liquidity risks, operational risks, insurance risks and residual value 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.
- Volkswagen Bank GmbH's processes are continuously subject to quality assurance.
- Risk is spread across customers, products and countries.
- Security is obtained for all vehicle and investment financing loans.
- Risk provision is based on a risk-oriented value adjustment policy.
- Lending processes and responsibilities 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.
- Contracts are only concluded upon a commensurate legitimation and credit-rating assessment.

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

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

All divisions annually rate identified risks using the risk map pursuant to an expert system. Group Risk Management assesses, monitors, aggregates and reports all relevant results to the Board of Management, the Supervisory Board and Volkswagen AG. 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.

Besides quantifying risk positions as required under the regulatory regime (pursuant to Solvency Regulations) and representing the existent equity components, Volkswagen Financial Services AG has also established an economic system for determining its risk-bearing capacity that matches the economic risk to the hedging potential.

An assessment concerning the extent of the unexpected loss as the total of all risk types in the overall portfolio of Volkswagen Financial Services AG is made in regards to economic risks. Risk values for the relevant risk types are determined by means of different approaches pursuant to the methodological recommendations of the Basel Capital Accord based on statistical models and supported by expert estimates.

Volkswagen Financial Services AG has selected a conservative approach by assuming a 1:1 correlation between risk types.

The economic risk is quantified for two scenarios. The “normal scenario” assumes a confidence level of 99 % and a one-year holding period while the “whorst-case scenario” assumes a confidence level of 99.93 % and a one-year holding period.

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

Volkswagen Financial Services AG’s risk-bearing capacity was certain throughout the year.

Volkswagen Financial Services AG also uses a limit system derived from the analysis of its risk-bearing capacity that makes it possible to limit the net amount of individual risk types.

The establishment of a limit system as the core element in capital allocation is designed to ensure that, for one, the individual risk types can be limited and controlled in regards to their risk content and, for another, that the risk capital can be specifically limited in accordance with the risk appetite of the Board of Management of Volkswagen Financial Services AG.

The limit system comprises two stages. Stage 1 entails the determination of groupwide risk limits while stage 2 entails the determination of the risk type limits.

Groupwide risk limits are fixed for a normal scenario and an worst-case scenario.

Risk type limits are defined as the percentage of available groupwide risk limits and reflect the company’s business alignment. The determination is executed on an annual basis pursuant to a resolution of the Board of Management.

Group Risk Management reports the risk of counterparty default, market price risk, insurance risk and residual value risk 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 high-risk markets, 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 Financial Services AG is further pursuing the development of both its system for measuring and monitoring risk positions and the relevant control systems on the basis of the legal requirements for risks in the banking and leasing business.

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 Financial Services AG are organised in the following units: Controlling / Legal Services / Internal Audit / Accounting / Group Risk Management / Risk Assessment Procedures and Basel II as well as Treasury.

The Chief Risk Officer (CRO) is responsible for executing the overall risk strategy established by the Board of Management of Volkswagen Financial Services AG. The CRO regularly reports the overall risk position of Volkswagen Financial Services AG to both the Supervisory Board and the Board of Management. Within Volkswagen Financial Services AG, the CRO is responsible for Group Risk Management.

The Group Risk Management department formulates risk policy guidelines for the risk management of Volkswagen Financial Services AG, develops methods and processes, conducts ongoing analyses of the current risk situation and ensures transparent reporting. The basic decisions relating to strategy and tools for risk management are the responsibility of the Board of Management of Volkswagen Financial Services AG. As a neutral and independent department, Group Risk Management reports directly to the Board of Management of Volkswagen Financial Services AG.

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 Financial Services AG.

As a rule, operational risk management in the sense of modern portfolio management is integrated into the individual divisions. The consistent organisational separation of the Market and Market Support functions ensures the independence of risk evaluation and monitoring of areas responsible for risk and earnings throughout the company. The individual decision-making authorities in each division are governed by competences specified by the Board of Management of Volkswagen Financial Services AG.

In the case of market price risks, organisational separation of risk management and risk controlling is ensured up to the level of the Board of Management.

On behalf of the Board of Management of Volkswagen Financial Services AG 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 Financial Services AG and third-party entities for which contractual auditing rights are in place.

This activity is based on an annual audit plan, which is drawn up on the basis of the legal provisions in a risk-oriented manner. Internal Audit of Volkswagen Financial Services AG informs the Board of Management of Volkswagen Financial Services AG about 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 Financial Services AG defines risk as any uncertainty about future developments that might have a negative impact on the Group's economic situation. This risk can itself be divided into different types of risk. At the same time, Volkswagen Financial Services AG constantly analyses and assesses the opportunities that arise from consciously entering into risks. The business decisions of Volkswagen Financial Services AG are therefore based on the risk vs. opportunity weighting described here.

The risks typical of financial services to which Volkswagen Financial Services AG is exposed are categorised in the following groups:

- Risk of counterparty default:
  - Credit risk
  - Counterparty risk
  - Country risk
  - Shareholder risk
- Market price risk:
  - Interest rate risk
  - Foreign currency risk
  - Price risk
- Liquidity risk
- Operational risk
- Other risk:
  - Residual value risk
  - Insurance 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. A distinction is made between credit risks, counterparty risks, country risks and shareholder risks.

Credit risk

Definition

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

Parameters/risk strategy

A core competence of Volkswagen Financial Services AG lies in utilising opportunities from assuming credit risks resulting from wholesale and retail financing and also from leasing transactions in the automobile business. The goal is to optimise the opportunity/risk ratio.

Group Risk Management 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 credit risk strategies of the national companies are combined in the overall risk strategy.

Risk assessment

Credit assessment and standardisation of lending decisions at Volkswagen Financial Services AG are carried out on the basis of credit rating procedures using rating and scoring methods. A rating manual provides the framework within which the rating systems must be developed and maintained.

Scoring procedures in the retail business

Analysing the creditworthiness of private customers involves scoring systems that are integrated in the purchasing processes and provide an objective decision-making basis for granting loans. Generic score cards and score cards based on data histories going back several years are used in the portfolios of Volkswagen Financial Services AG to supplement the lending decisions taken by the respective departments.

Procedures that also assign a default probability to individual contracts once a month based on the relevant customer's payment history are in place for purposes of performing portfolio valuations at Volkswagen Bank GmbH.

This allows us to rate and control these portfolios' credit risks in ways adequate to the risks concerned when determining default rates.

Rating procedures in the corporate business

Volkswagen Financial Services AG assesses creditworthiness based on rating procedures. 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. To the extent possible, all these factors are taken into account statistically.

The workflow-based rating application CARAT, which was introduced in 2007, was rolled out at the foreign branches of Volkswagen Bank GmbH in order to support the analysis of customers' creditworthiness.

The result of the rating provides an important basis for decisions on the approval and prolongation of credit commitments and value adjustments. 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 in individual countries.

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 risks are quantified in a quarterly assessment process using the expected loss method at the company level in accordance with categories of receivables. In addition, an unexpected loss is calculated for the sum total of all loans and included in the value-at risk (VaR) calculation of the company's risk-bearing capacity.

Collateral

As a rule, credit transactions are secured in ways adequate to the risks concerned. A groupwide guideline establishes the requirements that collateral as well as assessment procedures and principles must satisfy. Additional local guidelines prescribe concrete valuations as well as regional specificities. The valuations in local collateral valuation guidelines are based on historical data and many years of expert knowledge.

We ensure that collateral adequate to the relevant risk is available for covering credit risks. Automobiles, in their capacity as collateral, are material to this approach because the activities of Volkswagen Financial Services AG focus on financing customer purchases and dealer sales as well as vehicle leasing. Volkswagen Financial Services AG therefore monitors the development of vehicles' market values. Adjustments of the valuation methods and disposal processes are made in the event of major changes in these market values.

Value adjustments

Value adjustments are determined based on the incurred loss model pursuant to IAS 39. The model we used for determining these adjustments was derived from the Basel II risk quantification method.

Risk management and monitoring

Appropriate processes are used to monitor all loans in regards to the underlying economic conditions and collateral, compliance with limits, contractual obligations as well as both external and internal requirements. Commitments are subject to suitable controls (intensive or problem loan monitoring) in accordance with their risk content.

Furthermore, credit risks are also managed by applying Volkswagen Financial Services AG's approval limits. These approval limits are fixed for each company individually. 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 Risk Portfolio Rating combines different risk parameters in a key ratio in order to ensure comparability of the international portfolios of Volkswagen Financial Services AG. Risk reviews are performed at the company level in the event of problems. 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 Financial Services AG at the portfolio level. Recommendations as to possible actions are included in the report's disclosures as necessary. Noteworthy individual exposures are also discussed.

The Board of Management is notified immediately of any substantial need for risk provisions at Volkswagen Bank GmbH by means of ad hoc reports.

Counterparty risk

Definition
At Volkswagen Financial Services AG, counterparty risk is the risk resulting from overnight deposit and term money transactions and from the conclusion of transactions involving interest rate and currency derivatives.

Parameters / risk strategy
The risk strategy lays out the strategic principles governing counterparty risks. Counterparty risks may only be incurred subject to approved limits as well as regular assessment and monitoring.

Risk assessment
As part of the risks of counterparty default, counterparty risks are recorded separately from market price risks. This also applies to risks of counterparty default from derivative transactions.

Counterparty risks are determined based on an expected loss estimate, i. e. the present value is weighted by a credit-rating factor. Average (cumulative) one-year credit loss rates are used to quantify the credit-rating factor of the default risk.

Risk management and monitoring
Treasury is responsible for risk management in relation to counterparty risks. Risk Controlling determines and monitors the counterparty default risk on a monthly basis.

A limit system is used to limit the counterparty volume per counterparty and/or rating class. Compliance with these counterparty volume limits is monitored by the Treasury back office.

Risk communication
Utilisation of the counterparty risk limit is published quarterly in the risk management report.

Country risk

The evaluation and management of country risks is based on the assessment of a country's long-term foreign currency liabilities (sovereign rating) carried out by the rating firms, Moody's Investors Service and Standard & Poor's. Measured against the overall portfolio, the scope of country risks is small.

Shareholder risk

Definition
Shareholder risk means the risk that after contributions of capital are made to a company, losses with negative effects on the carrying amount of the equity investment might occur.

Parameters / risk strategy
Generally, Volkswagen Financial Services AG makes equity investments in other companies that serve to achieve its own corporate goals. The intention to hold an investment in the long term is the decisive criterion in this regard.

Within Volkswagen Financial Services AG, Mergers & Acquisitions is responsible for managing the company's equity investments as well as the related acquisition and disposal processes.

Volkswagen Financial Services AG influences the business and risk policies of companies in which it holds an equity interest via its agents on the ownership or supervisory bodies.

Volkswagen Bank GmbH has been holding a substantial – i. e. 50 % – stake in LeasePlan Corporation N.V., Amsterdam, which is held indirectly via Global Mobility Holding B.V. (GMH), Amsterdam, since the end of 2004.

Risk assessment
Equity investments are monitored by means of monthly reporting, analyses of the companies' economic development and regular Supervisory Board meetings. Mergers & Acquisitions (LeasePlan) and Group / Equity Controlling (all other equity investments) support the management of both Volkswagen Financial Services AG and Volkswagen Bank GmbH in the pursuit of their interests.

Mid-term planning regarding the operational and financial development of the company's business is carried out once a year.

The current economic downturn of the global economy goes hand in hand with increases in both residual value risks and refinancing costs and will impose new challenges on LeasePlan in 2009. The rating firm Standard & Poor's has already adjusted its rating to A– / negative outlook in the light of these developments. Moody's Investors' Service has placed its A3 rating on its pending review list in anticipation of a possible downgrade. The shareholder risk is assessed based on the company's current economic development applying a median probability of its occurring. Despite the currently difficult economic environment, LeasePlan is expected to continue to generate profits based on its leading position in worldwide multi-brand fleet management.

Risk management and monitoring
Equity investments are integrated in the annual strategy and planning processes of Volkswagen Financial Services AG. The company influences the business and risk policies through its agents on ownership or supervisory bodies.

Additional departments are included in the management of equity investments as necessary.

The appropriate units are responsible for implementing risk management tools at the operating level.

Risk communication
The executive managers, the Board of Management of Volkswagen Financial Services AG, the Supervisory Board as well as the relevant departments are notified ad hoc of early warning signals or significant (structural or economic) negative developments, and joint approaches are coordinated as necessary.

Critical equity investments are reported to the Board of Management; recommendations as well as the extent to which relevant measures have already been implemented must also be reported.

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 Financial Services AG, market risks are categorised into interest rate risks, foreign currency risks and price risks.

Risk Controlling in this context, which is integrated in the Group Risk Management department, is responsible for the measurement, analysis and monitoring of items affected by market price risks including the overall interest rate positions.

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. Interest rate risks are incurred in the banking book of Volkswagen Financial Services AG.

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 Financial Services AG 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 250 historical market fluctuations (volatilities) into account.

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

The calculation of interest rate risks uses option models to account for early repayments under termination rights. The conduct of investors in connection with unlimited bank deposits is modelled using internal models and procedures for managing and monitoring interest rate risks.

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

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

Foreign currency risk

The foreign currency risk is avoided by means of refinancing at matching currencies.

In individual cases, open currency items are conceivable. Measured against the overall portfolio, however, the scope of foreign currency risk is small.

Price risk

The Group incurs price risks via Volkswagen Bank GmbH and Volkswagen Financial Services AG in connection with its fund-based pension scheme for its employees. Volkswagen Bank GmbH and Volkswagen Financial Services AG have undertaken to meet these pension obligations in the event the fund can no longer satisfy our employees' guaranteed claims.

This is why Volkswagen Bank GmbH and Volkswagen Financial Services AG also determine the risk exposure arising therefrom based on the value-at-risk (VaR) method.

Additional price risks can arise indirectly from the capital investments of Volkswagen Reinsurance AG. These investing activities are consistent with the investment guidelines adopted by the Board of Management, duly considering both the company's risk tolerance and the regulations of BaFin.

All such investments aim to hedge reinsurance liabilities. All portfolios are regularly monitored and measured.

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 deposit withdrawal risk in connection with unexpected drawdowns from credit commitments and/or unexpected withdrawals of bank deposits, and the refinancing risk that takes into account that required follow-up financing cannot be provided.

Parameters/risk strategy
The prime objective of liquidity management at Volkswagen Financial Services AG is to ensure the ability to pay at all times.

The refinancing of the companies belonging to Volkswagen Financial Services AG is essentially executed in accordance with the applicable principles of Volkswagen Financial Services AG using capital market and asset-backed securities programmes as well as the direct bank deposits of Volkswagen Bank GmbH.

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

The remaining subsidiaries of Volkswagen Financial Services AG plan and manage their liquidity independently.

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.

Volkswagen Bank GmbH has access to standby lines of credit at other banks to protect it from unexpected fluctuations in cash flow. New loans granted as well as withdrawals of both short-term refinancing and refinancing due in six months are taken into account in the determination of the standby line limits. Normal case and worst case analyses are performed as part of the quarterly determination of these credit lines. As a rule, standby credit lines are not utilised; they serve solely to secure liquidity. Additionally, loans of securities are used to increase Volkswagen Bank GmbH's operational safe custody account with the German Central Bank for the purpose of expanding its participation in the ECB's refinancing facilities.

To ensure professional liquidity management, 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 (normal case with availability of external funds and worst case with no availability of external funds at all). Furthermore, the liquid reserves are analysed as to their adequacy on a quarterly basis taking both a normal and a worst case scenario into account.

Managing Volkswagen Bank GmbH's liquidity risks requires strict compliance with the liquidity ratio prescribed by the Liquidity Regulation. Treasury manages this key ratio proactively by imposing a floor for internal management purposes; in the reporting year, the key ratio substantially surpassed the regulatory minimum threshold at all times.

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

Both an emergency plan for liquidity bottlenecks and a suitable action plan for obtaining liquidity are available in the event of a market crisis.

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

The external ratings of Volkswagen Bank GmbH and Volkswagen Financial Services AG affect the refinancing costs of capital market programmes; note that the differentiated rating of Volkswagen Bank GmbH is one level better than that of Volkswagen Financial Services AG and the parent group due to its own positive risk and financial profile. While Volkswagen Financial Services AG, like Volkswagen

AG, has received an A– rating with a stable outlook from S&P and an A3 rating with a positive outlook from Moody's, the rating agencies have issued a long-term rating of A with a negative outlook (S&P) and A2 with a stable outlook (Moody's) for Volkswagen Bank GmbH.

We have further diversified the sources of refinancing since the onset of the financial market crisis, which has been ongoing since the third quarter of 2008. For the first time, ABS transactions were placed by both Volkswagen Bank GmbH and Volkswagen Leasing GmbH and acquired by Volkswagen Bank GmbH for the purpose of depositing the proceeds in the collateral deposit account and thus participating in the ECB's open market operations.

Risk communication
As part of risk communication, the managing directors of Volkswagen Bank GmbH are informed daily of outstanding refinancing, open confirmed bank credit lines and the value of the standby credit line with the German Central Bank. 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 Financial Services AG 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, 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 is to ensure security for individuals and property at Volkswagen Financial Services AG and to avoid losses from operational disruptions. Under Corporate Security's direction, Volkswagen Financial Services AG is establishing a global security quality management system together with international subsidiaries, which, among other things, takes into account the varying government and civil security requirements.

External risks capable of triggering the loss of infrastructure, buildings or personnel are assessed by Corporate Security in collaboration with the appropriate departments, and suitable measures for preventing or reacting to such events are put in place.

Company-wide crisis and emergency management deals with business continuity planning, among other things. It focuses on avoiding and/or mitigating losses from operational disruptions by designing and establishing emergency and restart plans that are tested at regular intervals.

Other risk

Residual value risk

Definition

A residual value risk exists when the estimated sales 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 Financial Services AG or one of its companies. 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 the lessor.

Parameters/risk strategy

The residual value risk management feedback control system requires regular residual value forecasts and continuous risk ratings in regards to direct residual value risks only. Proactive marketing activities are derived from the assessment 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 recommendations.

Local strategies applicable to the relevant companies' residual value risk are combined in the overall risk strategy of Volkswagen Financial Services AG.

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 predetermined forecast value of the used car and the calculated residual value yields the residual value risk/opportunity.

Risk management and monitoring

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

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

Given risk distribution, as at the assessment date the risks incurred may not always be hedged in full at the level of the individual contract while it is in effect. As far as previously identified risks are concerned, in future the net amounts of risk allocated to the remaining term must still be earned and included in the writedowns to the lower net realisable value.

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

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

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

Group Risk Management monitors residual value risks within Volkswagen Financial Services AG.

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, the indirect residual value risk is measured analogous to the direct residual value risks and communicated to the Board of Management in a separate report.

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

Insurance risk

Definition of the risk
The insurance risk resides in the possibility that payment streams material to the insurance business may deviate from the expected value. This risk stems from the uncertainty whether or not the total loss will exceed the total premiums available, including provisions.

In particular, an insurance company's exposure to risk resides in the fact that it collects the premiums at the inception of an insurance period whereas the contractually promised payments thereunder are random.

Parameters / risk strategy
The task of Volkswagen Reinsurance AG (VW Re) is to assist Volkswagen Financial Services AG in becoming a leading (international) provider of comprehensive automotive mobility services.

As a reinsurer, VW Re is given a greater role in product design and pricing. This is highly significant to the development of both insurance coverage and combined products (insurance, financing and automotive products) tailored to customers' needs with the aim of increasing automobile sales.

Risk identification and assessment
Risk identification serves to ensure that all material risks are recorded through systematic and focused risk analyses of the insurance company, its business procedures and its environmental factors with a reasonable degree of timeliness.

Insurance risks can take several forms:

- Random risks
  The premium actually required and the actual loss experience deviate from the predetermined trend as a result of random fluctuations. Undesirable fluctuations can result from the insurance of major risks. Cumulative or catastrophic risk is a special type of risk.

- Change risks
  The circumstances governing a loss experience can change over time after the premium has been determined.

- Risks of error
  The risk of error is defined as the risk that an analysis of historical information relevant to a calculation is defective and that inaccurate laws derived from the loss experience are based thereon.

- Reserve risk
  The reserve risk follows from the adequacy of the insurance provisions for reported and unreported loss events.

- Retrocession risks
  Insurance risks also include the risk that the required retrocession might not be available
  – at all
  – in the desired amount or quality
  – or only at terms that are substantially less favourable.

- Receivables default risk
  Risks from the non-payment of insurance business receivables arise especially in connection with receivables from retrocessionaires as well as from assignors and reinsurance brokers.

At present, the aforementioned individual risks are assessed in qualitative terms. Quantitative assessments of material insurance risks as well as related developments and results are shown in summarised fashion.

Risk management and monitoring
Risk management is performed by local risk management in close coordination with Group Risk Management subject to plausibility checks. Subsequently, the findings are communicated to the appropriate individuals and departments.

Group Risk Management is responsible for risk monitoring.

Risk communication
Insurance risks are reported as part of the risk management report. Events having significant effects on risk exposures are communicated to the Board of Management of Volkswagen Reinsurance AG by means of an ad hoc reporting system.

Special risks arising from the global financial market crisis
The global crisis of the financial markets, which continues to jeopardise the development of the global economy, can expose Volkswagen Financial Services AG to additional risks on three levels – the sales level, the contract settlement level and the refinancing level. The large threat emanating from the ongoing crisis and the difficulty in forecasting its development have caused the Group's Board of Management, in coordination with the Board of Management of Volkswagen Bank GmbH, to set up a working group tasked with analysing these special risks on a continuous basis and supplementing the existing risk management system of the Group as necessary. Volkswagen Bank GmbH participates in the Compensation Scheme of the Association of German banks. Volkswagen Bank GmbH cannot rule out extraordinary contributions to the scheme in connection with a major current loss event.

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

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

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

Risks at the refinancing level
The limited ability to refinance the Volkswagen Financial Services AG via the international money and capital markets in the wake of the financial market crisis has made short-term substitutes necessary. For example, Volkswagen Bank GmbH is now making greater use of the European Central Bank's refinancing facilities.

The security of customer deposits attained central significance in the course of the crisis of the financial markets. In Germany, certain bank deposits such as checking accounts or term deposits are now guaranteed by the Federal Republic of Germany above and beyond the existing guarantee mechanisms (German Deposit Insurance Fund).

Any dramatic withdrawal of bank deposits from Volkswagen Bank GmbH in the wake of the financial market crisis or a further deterioration of the situation on the money and capital markets would greatly undermine the Group's ability to refinance itself. Yet this potential loss of liquidity could be counteracted if Volkswagen Bank GmbH is given permission to avail itself of the statutory financial market stabilisation fund that was created in October 2008 and the liquidity infusions that the ECB is providing to banks. Volkswagen Bank GmbH and Volkswagen Financial Services AG have applied for guarantees under the German Financial Market Stabilization Fund Act for refinancing purposes. On 17 February 2009, the Sonderfonds Finanzmarktstabilisierung (special fund for the stabilisation of the financial market – SoFFin) informed us that Volkswagen Bank GmbH received a framework guarantee of up to € 2.0 billion for the purpose of refinancing automobile loans.

Summary
In connection with its business activities, Volkswagen Financial Services AG responsibly assumes risks with the aim of taking advantage of specific market opportunities. This is based on a comprehensive system for identifying, measuring, analysing, monitoring and controlling risks as an integral component of an integrated risk / return-oriented control system. This system has been continuously enhanced in 2008, bearing in mind the legal requirements associated with risks in the banking and leasing business.

Among the default risk categories, credit risk in the dealer and retail customer business represents the material risk type for Volkswagen Financial Services AG. By using modern tools for risk identification, analysis and monitoring, credit risk in connection with the business activities is actively controlled and secured using our own resources in accordance with legal requirements.

In 2008 Volkswagen Financial Services AG 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 (primarily the resulting liquidity crisis) was critical to the company's success.

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

OPPORTUNITIES FOR VOLKSWAGEN FINANCIAL SERVICES AG

Macroeconomic opportunities

A substantial downturn in automobile sales particularly in saturated markets is expected as a result of the current situation of the financial markets and its consequences for the economy as a whole. In turn, this is increasing pressure on automobile manufacturers to launch marketing campaigns designed to enhance sales. Volkswagen Financial Services AG will benefit from this trend through its core business of automotive financial services.

Strategic opportunities

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 Financial Services AG can use its financial services to promote the sales of Group vehicles. The Group's targeted rates of return as well as the sales promotion potential are relevant to any decision to enter a particular market.

PERSONNEL REPORT

The primary strategic goal of personnel management is to continue developing the employees of Volkswagen Financial Services AG into a top team capable of optimally satisfying current and future requirements in an environment that fosters individual excellence.

The introduction of a new compensation model for the field sales force was an important milestone. In addition to a fixed monthly salary, this system awards the achievement of stipulated objectives and the commitment of each and every individual through variable, performance-based compensation elements.

Volkswagen Financial Services AG also offers opportunities for the optimum reconciliation of work and personal life. In particular, this entails enabling female employees, who account for 53 % of the company's workforce in Germany, to return to work from their parenting leave at an earlier date.

In 2008, personnel management focused on ten issues.

1. Human resources as both service provider and shaper

The role of the human resources department was continuously refined. In its capacity as a shaper, it made an even greater contribution to the definition and refining of issues, e. g. in connection with the development of our corporate strategy. Particular attention was paid to enhancing the link between both individual employees' know-how and organisational structures and the drivers of Volkswagen Financial Services AG's success.

2. Leadership and corporate culture

We carried out the so-called mood barometer, a voluntary and anonymous staff survey, for the second time. The high rate of participation (82 %) reveals our staff's intense interest in expressing their views on the company's situation. In response, management explored and subsequently implemented numerous changes and improvement potentials.

3. Fine-tuning of human resources management

Personnel costs and capacities are significant ingredients in the management of personnel and the related costs. The existing instruments and processes were refined and applied for example in coordination with the human resource planning workshops. In addition, we also prepared the ground for the introduction of a standardised, international personnel reporting system.

4. Joining Volkswagen Financial Services AG

Getting an early start on one's professional career and focusing on employee retention from the outset play an important role in the race for the best minds.

Aside from the training opportunities for bank officers, insurance and finance specialists as well as IT specialists, Volkswagen Financial Services AG also offer promising candidates the option to pursue a dual-track Bachelor of Arts (BA) programme that combines on-the job training in the company with management and business studies at the so-called Welfenakademie, a university of co-operative education).

With an average grade of 1.3 pursuant to the German system (roughly equivalent to A–), in the reporting year, six students at the Welfenakademie successfully completed the dual-track training and acquired their BA.

In addition, 17 out of a total of 32 trainees were graded "very good" or "good" upon completion of their training.

In 2008, the Best Apprentice Award was once again given to the Volkswagen Group's best trainees in order to recognise the excellent performance of young staff. Volkswagen Financial Services AG was once again represented by the valedictorian of its trainee graduating class.

5. Human resources planning and development

The relevant need for employee qualification is systematically determined in the annual employee performance review, and suitable measures are agreed with the individual. The intense give and take between employee and supervisor makes it possible to identify and foster development potentials early on.

Volkswagen Financial Services AG maintains a separate training centre that offers a broad range of vocational and professional development and related seminars. The training centre held in excess of 500 training events involving more than 4,400 participants – a year-on-year increase of more than 60 %. Overall the relevant employees earned their qualifications during six training days on average.

6. The FS Way

As part of its Strategy 2018 project, the Volkswagen Group aims to become the world's largest automobile manufacturer. It has launched a long-term programme entitled the "Volkswagen Way" in order to attain this goal. Volkswagen Financial Services AG has defined the "FS Way" based on the Volkswagen Way in its capacity as an important partner of the brands in the automotive value chain. The FS Way describes the management and corporate culture of Volkswagen Financial Services AG based on the values of responsibility, courage, trust, enthusiasm and active customer focus, thus defining the way in which the company continues to improve.

The change process will be launched in 2009 in connection with the strategy's execution.

7. Further intensification of focus on services and customers

Human resources supports all departments through tools that serve to intensify our employees' focus on customers and services. Defined group classes or individual training sessions on topics such as customer loyalty, the quality of customer relationships or professional sales conduct are offered to that end.

8. Health management

We continued to pursue our successful health management programmes in 2008 through numerous preventive measures and health-promotion campaigns such as sports, stress prevention and medical screening.

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

9. Demographic master plan

The demographic master plan is used as a strategic tool for making positive contributions to the hot topics related to aging and age in the workplace, especially in Germany. Problematic areas were identified and spheres of action were determined based on an age structure analysis and previously forecast labour force developments.

10. Reinforcement of international human resources management

The development of an international human resources strategy was a key issue in 2008. Our aim is to enhance personnel management through closer cooperation with all our foreign subsidiaries.

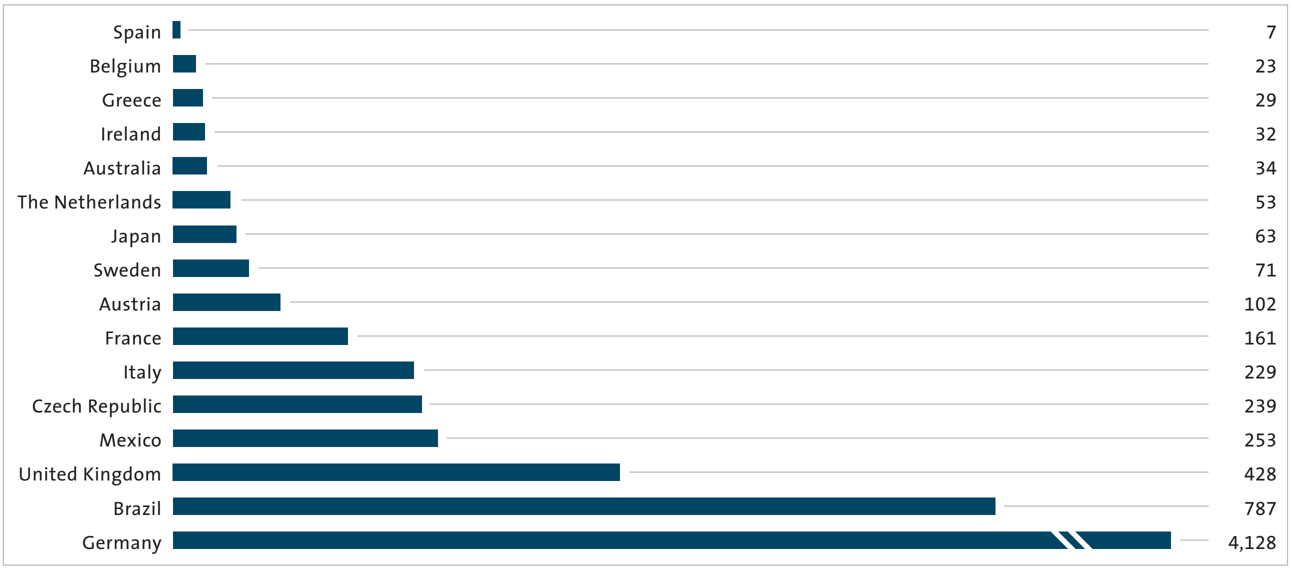
The Management Development Program continues. By the end of 2008, more than 200 participants from the first and second management tier in the regions Eastern, Southern and Northern Europe as well as Asia Pacific had attended the programme.

Our continuing focus on the international markets is also embodied in the consistently high number of foreign assignments within the more than 30 Group companies. More than 50 staff were employed in over 20 new foreign assignments by year's end.

University graduates and graduates of the Welfenakademie with above-average credentials and development potential are given the opportunity to gain international experience shortly after completion of their relevant university education or professional training as part of our "Explore the World" programme.

EMPLOYEES BY COUNTRY

as at 31.12.2008 (Total employees: 6,639)



Personnel figures

The Volkswagen Financial Services AG Group had a total of 6,639 employees as at 31 December 2008 (previous year: 6,138). Of these, 4,128 or 62.2 % were employed in Germany (previous year: 3,856). The personnel turnover rate in Germany of 1.2 % was significantly below the industry average (4.6 %). The inclusion of Volkswagen Business Services GmbH and Volkswagen Serviços Ltda., São Paulo, in the reporting entity structure of Volkswagen Financial Services AG had a substantial effect on staffing levels.

Social responsibility

Volkswagen Financial Services AG increasingly engages in social projects that have a positive effect particularly at the company's business locations. In Germany, the company participated yet again in the Brunswick "Building Bridges" corporate commitment day and carried out a sales campaign in connection with the World AIDS Day.

The foundation, Our Children in Brunswick, was established with the aim of counteracting the development of child poverty in Brunswick. We also organized a toy collection campaign for needy children before Christmas. The large number of donated toys, which were subsequently prepped by the Toys Company, were distributed to various social institutions that care for children or to families who were unable to afford Christmas presents.

Moreover, Volkswagen Financial Services AG also considers itself a reliable, long-term partner in connection with the enhancement of Brunswick's attractiveness as a business location and of educational programmes in the region. Hence the company is the largest partner of Projekt Region Braunschweig GmbH as well as a promoter of Welfenakademie, besides supporting "Ready4Work", an association that fosters trainee slots.

EVENTS AFTER THE BALANCE SHEET DATE

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

ANTICIPATED DEVELOPMENTS

Global economy

Global economic growth will probably be negative in 2009. A sustained recovery is not expected to occur until 2010 despite worldwide support measures aimed at both the finance sector and the real economy. Asian emerging markets are expected to grow the strongest, especially China and India, while the GDP growth rate in Latin America will decline slightly. The recessionary trends in the major industrialised countries will continue until at least the middle of the year.

In the United States and Mexico, GDP growth will probably decrease in 2009 compared to the previous year. Brazil is likely to post only moderate economic growth. Argentina's GDP growth is expected to be negative after its highly dynamic development in recent years. Just as in 2008, China's growth rate is likely be in the single digits this year too. In Japan, aggregate economic activity is expected to experience a strong downturn. India's robust growth will continue to weaken compared to the previous year. In Western Europe, GDP will shrink in 2009 from its 2008 levels. Negative growth rates are expected too for Central and Eastern Europe following the robust expansion in recent years. The recessionary development of the German economy will continue for most of 2009. Unemployment figures will rise substantially again following the record low in the autumn of 2008.

These prognoses were prepared taking current assessments of external institutions into account. Among others, these include economic research institutes, banks, multinational organisations and consulting firms.

Environment for the development of the financial markets

In 2009, the financial markets are faced with fundamental structural changes. The financial market crisis has shown all too clearly that the international financial system had developed an increasingly complex life of its own and, in the end, was no longer capable of counteracting the loss of confidence and ordering its responsibilities for the cash and credit markets on its own. Numerous industrialised countries took comprehensive state measures designed to stabilise the financial markets. In October 2008, the establishment of the Sonderfonds Finanzmarktstabilisierung (special fund for the stabilisation of the financial market – SoFFin) in Germany created a tool that is intended to overcome liquidity bottlenecks and strengthen the capital base of banks, insurance companies and pension funds. Aid is available as needed in the form of guarantees, equity or the assumption of risk. The crisis has exerted considerable pressure to change the refinancing system with regard to structured finance products in the international capital markets. Essentially, this involves asset-backed securities (ABS) that combine bonds into tranches with varying levels of risk. Transactions involving such securities came to a virtual standstill owing to the disrepute that ABS transactions have acquired during the crisis. We cannot anticipate at this time when the ABS business will restart through the issue of "reformed products". For the time being, the range of refinancing options remains limited to the ECB's credit facility, unsecured notes (commercial paper and bonds), intragroup refinancing and the deposit business.

Currently there are no indications that we will have additional leeway to adjust interest rates in the lending business, even against the backdrop of the automotive segment's weak sales. The strong liquidity inflows from the central banks have further depressed short-term interest rates. Continued uncertainty among market participants and latent fears of deflation lead us to expect that nothing will change. In the medium term, however, interest rates are expected to rise given the massive growth of budget deficits.

Continued consolidation of non-captive providers of financial services is indeed a possibility in light of the situation's overall instability . The captives in contrast are best equipped to weather the foreseeable adjustment process because they possess a strong product portfolio geared to the market, solid residual value costing models and a good reputation in the global financial markets; they also operate a healthy deposit business.

Development of the automobile markets

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

It is anticipated that the substantial cooling of the US economy will continue, due to the crisis in the financial market among other things. Continued uncertainty regarding the future development of petrol prices can also negatively impact demand for new vehicles. The Mexican market for passenger cars and light commercial vehicles is expected to suffer from a decline in demand as well.

The worldwide crisis of the financial markets will also affect South America's markets where demand is expected to drop substantially in 2009.

After several years of high growth, in 2009 demand in the Asia Pacific markets – especially China and Japan – is anticipated to slow overall. In India, the overall market will probably grow at a moderate pace.

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

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

Development of Volkswagen Financial Services AG

Volkswagen Financial Services AG expects new business to stagnate in the next two financial years at the 2008 level or even to fall below the previous year's figures. The main reason for the anticipated lateral development resides in substantially lowered expectations for car sales in the international automobile markets. To compensate these trends, Volkswagen Financial Services AG will continue to pursue activities designed to enhance its ability to leverage potentials along the automotive value chain. As in recent years, we will continue to push the integration of our financial services into the sales activities of the Volkswagen Group brands.

Our aim is to fulfil the desires and needs of our customers in cooperation with the Volkswagen Group brands as best we can along the automotive value chain. The desire for mobility and fixed predictable payments, in particular, are foremost on customers' minds. The product packages that were successfully introduced in some markets in recent years will be further refined and launched in additional markets, taking customer needs into account. Innovation power and flexibility enable us to fulfil customer expectations and these two factors thus are pivotal to our international competitiveness.

The close integration of the Volkswagen Group brands with Volkswagen Financial Services AG will also enable us to generate strong added value in both financial services and the Group.

Our corporate strategy is focused on achieving moderate growth within existing business models as well as partial expansion, with the clear commitment to continue the company's internationalisation despite the crisis in the international finance and capital markets:

• Continue the expansion of the insurance business: Effective 1 September 2008, we launched a fully redesigned and innovative product portfolio for automotive and warranty insurance in the German market that will bear fruit beginning in early 2009. A differentiated premium world for specific customer groups as well as further refinement of the product approach that promotes security technology for Group brands through special insurance premiums are its core elements. Starting in early 2009, the product campaigns will be accompanied by the establishment of a special sales support unit for the insurance segment that aims to help the company post continued growth in the intensely competitive automobile insurance market. In addition, the successful insurance business model will be systematically transferred to specific international markets with a defined potential in order to boost the commission business of Volkswagen Financial Services AG.

• Strengthen the leasing business: The significance of the service business to customer and brand loyalty is rising; hence both the service business and fleet management are to be further expanded structurally. We plan to develop additional innovative mobility solutions in order to respond to the increasing shift worldwide from purchase to use. Finally, implementation of the full service fleet business in Europe will continue.

• Expand the used car business: Further intensification of our collaboration with the brands as well as with the dealers is designed to help us achieve our goal of becoming the innovation leader in the resale market for pre-owned, late vehicles in order to realise further earning potentials along the value chain both in financial services and in the Group.

Our focus on activities geared to the market will go hand in hand with a focus on consistent cost management as well as process optimisation and productivity gains in order to further enhance our global competitive position in terms of costs as well.

The following overall picture emerges, taking the aforementioned factors into account:

The Board of Management expects the development of volumes and margins to remain tight against the backdrop of the global financial market crisis. There is the possibility furthermore that risk premiums will increase due to conditions in the real economy as a whole. Based on the information and analyses available at present, the financial result will not reach the high level achieved in previous years.

Financial statements of the Volkswagen Financial Services AG Group

INCOME STATEMENT OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

	Note	1.1. – 31.12.2008 € million	1.1. – 31.12.2007 € million	Change in %
Interest income from lending transactions		2,723	2,312	17.8
Net income from leasing transactions before provisions for risks		1,133	984	15.1
Interest expense		2,262	1,809	25.0
Net income from insurance business		9	6	50.0
Net income from lending, leasing and insurance transactions before provisions for risks	(20)	1,603	1,493	7.4
Provisions for risks arising from lending and leasing business	(9, 21, 32)	350	239	46.4
Net income from lending, leasing and insurance transactions after provisions for risks		1,253	1,254	– 0.1
Commission income		380	344	10.5
Commission expenses		171	188	– 9.0
Net commission income	(22)	209	156	34.0
Result from financial instruments	(10, 23)	– 27	– 35	– 22.9
Result from joint ventures accounted for at equity		101	153	– 34.0
Result from other financial assets	(24)	8	4	100.0
General administration expenses	(25)	887	814	9.0
Other operating result	(26)	135	91	48.4
Pre-tax result		**792**	**809**	**– 2.1**
Taxes on income and earnings	(6, 27)	214	90	137.8
Net income		**578**	**719**	**– 19.6**
Minority interest in net income		–	3	×
Net income attributable to Volkswagen AG		578	716	– 19.3

BALANCE SHEET OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

Assets	Note	31.12.2008 € million		31.12.2007 € million		Change in %
Cash reserve	(7, 29)		422		176	139.8
Receivables from financial institutions	(8, 30)		1,358		796	70.6
Receivables from customers arising from						
Retail financing		21,913		20,884		4.9
Wholesale financing		9,584		9,360		2.4
Leasing business		14,912		13,639		9.3
Other receivables		2,178		1,962		11.0
Receivables from customers in total	(8, 31)		48,587		45,845	6.0
Derivative financial instruments	(10, 33)		740		431	71.7
Securities			39		112	– 65.2
Joint ventures accounted for at equity	(34)		1,417		1,465	– 3.3
Other financial assets	(11, 34)		156		133	17.3
Intangible assets	(12, 35)		115		116	– 0.9
Property, plant and equipment	(13, 36)		215		172	25.0
Leased assets	(15, 37)		3,003		2,436	23.3
Investment property	(15, 37)		10		9	11.1
Deferred tax assets	(6, 38)		353		102	×
Income tax assets	(6)		93		43	×
Other assets	(39)		771		478	61.3
Total			**57,279**		**52,314**	**9.5**

Liabilities	Note	31.12.2008 € million		31.12.2007 € million		Change in %
Liabilities to financial institutions	(16, 40)		7,559		5,384	40.4
Liabilities to customers	(16, 40)		16,881		13,969	20.8
Securitised liabilities	(41)		21,500		23,193	– 7.3
Derivative financial instruments	(10, 42)		490		263	86.3
Provisions	(17–19, 43)		566		587	– 3.6
Deferred tax liabilities	(6, 44)		1,059		739	43.3
Income tax obligations	(6)		64		80	– 20.0
Other liabilities	(45)		493		375	31.5
Subordinated capital	(46)		1,887		1,712	10.2
Equity	(47)		6,780		6,012	12.8
Subscribed capital		441		441		–
Capital reserve		2,809		2,809		–
Retained earnings		3,530		2,762		27.8
Total			**57,279**		**52,314**	**9.5**

STATEMENT OF RECOGNISED INCOME AND EXPENSE OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

€ million	Note	1.1. – 31.12.2008	1.1. – 31.12.2007
Actuarial gains and losses	(43)	8	18
Cash flow hedges:	(10)		
– Fair value changes recognised in equity		– 114	8
– Recognised in the income statement		– 10	– 5
Currency translation differences	(4)	– 210	– 23
Deferred taxes on retained earnings	(6, 27)	33	– 8
Income and expense of shares measured at equity, recognised directly in equity, after taxes		– 118	– 12
Income and expense recognised directly in equity		**– 411**	**– 22**
Net income		578	719
Recognised income and expense		**167**	**697**
Minority interest in recognised income and expense		–	3
Recognised income and expense attributable to Volkswagen AG		167	697

Equity is shown in note (47).

CASH FLOW STATEMENT OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

€ million	1.1. – 31.12.2008	1.1. – 31.12.2007
Net income	**578**	**719**
Depreciation, value adjustments and write-ups	1,031	799
Change in provisions	– 21	110
Change in other items not affecting payments	– 181	30
Result from the sale of financial assets and property, plant and equipment	271	– 57
Interest result and dividend income	– 1,540	– 1,469
Other adjustments	104	46
Change in receivables from financial institutions	– 562	255
Change in receivables from customers	– 3,149	– 5,071
Change in other assets from operating activities	– 303	– 119
Change in liabilities to financial institutions	2,175	329
Change in liabilities to customers	2,912	1,142
Change in securitised liabilities	– 1,693	3,127
Change in other liabilities from operating activities	134	122
Interest received	3,761	3,177
Dividends received	41	101
Interest paid	– 2,262	– 1,809
Income tax payments	– 183	47
Cash flow from operating activities	**1,113**	**1,479**
Cash inflows from the sale of leased assets and investment property	1,570	1,278
Cash outflows from the purchase of leased assets and investment property	– 3,140	– 2,673
Cash inflows from the sale of subsidiaries and joint ventures	–	11
Cash outflows from the purchase of subsidiaries and joint ventures	– 51	– 358
Cash inflows from the sale of other assets	14	26
Cash outflows from the purchase of other assets	– 105	– 75
Change in investments in securities	72	– 24
Cash flow from investing activities	**– 1,640**	**– 1,815**
Cash inflows from changes in capital	600	450
Profit transfer to Volkswagen AG	–	– 288
Loss transferred to Volkswagen AG	–	199
Change in funds resulting from subordinated capital	175	24
Cash flow from financing activities	**775**	**385**
Cash and cash equivalents at the end of the previous period	**176**	**127**
Cash flow from operating activities	1,113	1,479
Cash flow from investing activities	– 1,640	– 1,815
Cash flow from financing activities	775	385
Effects from exchange rate changes	– 2	0
Cash and cash equivalents at the end of the period	**422**	**176**

Comments on the cash flow statement are shown in note (59).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP AS AT 31.12.2008

General comments

Volkswagen Financial Services Aktiengesellschaft (VW FS AG) is a joint stock company. It has its head office in Germany at Gifhorner Strasse, Brunswick, and is registered in the Brunswick Register of Companies (under file number HRB 3790).

The object of the company is the development, sale and management of own and outside financial services in Germany and abroad, which are appropriate for furthering the business of Volkswagen AG and the companies affiliated with it.

Volkswagen AG, Wolfsburg, is the sole shareholder in the parent company, VW FS AG. A control and profit transfer agreement exists between Volkswagen AG and VW FS AG.

The annual financial statements of the VW FS AG Group companies are included in the consolidated annual financial statements of Volkswagen AG, Wolfsburg, which are published in the electronic Federal Gazette and the Company Register.

Group accounting principles

VW FS AG prepared its consolidated financial statements as per 31.12.2008 according to International Financial Reporting Standards (IFRS), as applicable in the European Union, and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC), as well as supplementary provisions that are applicable under § 315a Para. 1 German Commercial Code (HGB. All the IFRS that were approved by the International Accounting Standards Board (IASB) by 31.12.2008, and whose application was obligatory for the 2008 financial year, were taken into account in these consolidated annual financial statements.

In addition to the income statement and the balance sheet, the consolidated annual financial statements according to IFRS include the statement of recognised income and expense, the cash flow statement and the notes. The separate report on the risks of future development (risk report according to § 315 Para. 1 HGB) is contained in the management report on pages 42 – 52.

All estimates and assessments required for accounting and measurement under IFRS were made in accordance with the applicable standard. They are remeasured continually and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. If estimates to a greater extent were necessary, the assumptions made are explained in detail in the note to the corresponding item.

Effects of new and revised IFRS

The following amended standard, which was approved by the IASB, had to be observed for the first time by VW FS AG in the current financial year:

- IAS 39/IFRS 7, Reclassification of Financial Assets

Initial application of the amended standards had no effects on the presentation in the consolidated financial statements.

New or revised IFRS whose application is not yet mandatory and which were not applied voluntarily

In its consolidated financial statements for 2008, VW FS AG did not take into account the following new or amended accounting standards which were adopted by the IASB but whose application in the financial year is not mandatory for VW FS AG.

Standard / interpretation		Published by the IASB	Mandatory application**	Adopted by the EU commission*	Expected effects
IFRS 1	First-time Adoption of IFRS	25.11.2008	1.1.2010	No	None
IFRS 1/IAS 27	Cost of an Investment in Subsidiary, Jointly Controlled Entity or Associate	22.5.2008	1.1.2009	No	None
IFRS 2	Share-based Payment – Vesting Conditions and Cancellations	17.1.2008	1.1.2009	Yes	None
IFRS 3/IAS 27	Business Combinations / Consolidated Financial Statements	10.1.2008	1.1.2010	No	Change in the treatment of business combinations
IFRS 8	Operating Segments	30.11.2006	1.1.2009	Yes	Segment reporting
IAS 1	Presentation of Financial Statements	6.9.2007	1.1.2009	Yes	Restructuring of elements of the financial statements
IAS 1/IAS 32	Puttable Financial Instruments and Obligations Arising on Liquidation	14.2.2008	1.1.2009	No	None
IAS 23	Borrowing Costs	29.3.2007	1.1.2009	Yes	Slight increase in the measurement of qualified assets
IAS 39	Exposures Qualifying for Hedge Accounting	31.7.2008	1.1.2010	No	None
	General improvements***	22.5.2008	1.1.2009/1.1.2010	No	Insignificant
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions		1.1.2009	Yes	No material effects
IFRIC 12	Service Concession Arrangements	30.11.2006	1.1.2009	No	None
IFRIC 13	Customer Loyalty Programmes	28.6.2007	1.1.2009	Yes	None
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	5.7.2008	1.1.2009	No	None
IFRIC 15	Agreements for the Construction of Real Estate	3.7.2008	1.1.2009	No	None
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	3.7.2008	1.1.2009	No	None
IFRIC 17	Distributions of Non-cash Assets to Owners	27.11.2008	1.1.2010	No	None

* on 31.12.2008
** First-time application mandatory for VW FS AG
*** Minor amendments to numerous standards (IAS 1, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41)

Accounting policies

(1) Principles

All the companies included in consolidation have drawn up their annual financial statements as at the balance sheet date of 31.12.2008.

The accounting in the VW FS AG Group is carried out in accordance with IAS 27 using uniform accounting policies throughout the Group.

Amounts are stated in millions of euros (€ million), unless indicated otherwise.

To improve clarity of presentation, individual items in the income statement and in the balance sheet have been grouped together and explained in the notes.

(2) Basis of consolidation

As a general principle, all companies are fully consolidated in which VW FS AG has the possibility, directly or indirectly, to determine the financial and business policy in such a way that the VW FS AG Group benefits from the activities of these companies (subsidiaries). Inclusion in the basis of consolidation begins at the point in time from which the possibility of control exists; it ends when the possibility of control ceases to exist. At the balance sheet date, eight domestic and 22 (previous year: 19) foreign subsidiaries were fully consolidated. In addition, the consolidated annual financial statements contain 19 (previous year: 12) special purpose entities whose assets, regarded in economic terms, are attributable to the VW FS AG Group.

Effective 1 January 2008, VOLKSWAGEN FINANCE S.A., Villers-Cotterêts, France, was merged into the French branch of Volkswagen Bank GmbH. Both companies were included in consolidation before the merger.

Volkswagen Leasing GmbH S.A. Arrendamento Mercantil, São Paulo, Brazil, was merged into Banco Volkswagen S.A., São Paulo, Brazil, effective 31 January 2008.

In March 2008, Volkswagen Financial Services AG sold VOLKSWAGEN SERVICOS SA DE CV, Puebla, Mexico, which had not been fully consolidated, to VOLKSWAGEN BANK SA INSTITUCION DE BANCA MULTIPLE, Puebla, Mexico, also a wholly-owned subsidiary of Volkswagen Financial Services AG.

In March 2008, 4Collection GmbH, Brunswick, was founded as a wholly-owned subsidiary of Volkswagen Business Services GmbH, Brunswick, itself a wholly-owned subsidiary of Volkswagen Financial Services AG. For reasons of materiality, this company is not fully consolidated.

In April 2008, VOLKSWAGEN BANK SA INSTITUCION DE BANCA MULTIPLE, Puebla, Mexico, a wholly-owned subsidiary of VW FS AG that was established at the end of 2007, was fully consolidated effective retroactively 1 January 2008.

Volkswagen Global Finance Holding B.V., Amsterdam, the Netherlands, and Volkswagen Financial Services Beteiligungsgesellschaft mbH, Brunswick, were founded in June and July 2008, respectively, as wholly-owned subsidiaries of Volkswagen Financial Services AG. Volkswagen Financial Services Beteiligungsgesellschaft mbH owns 99.99 % and Volkswagen Global Finance Holding B.V. 0.01 % of Global Automotiv Finance CV, Amsterdam, the Netherlands, which was established in August 2008. Global Automotiv Finance CV in turn owns fully 100 % of Volkswagen Finance Overseas BV and Volkswagen Finance Cooperation BV, both Amsterdam, the Netherlands, which were founded in July 2008. All five newly founded companies were fully consolidated.

The cost in 2008 of these business start-ups was less than € 0.5 million.

As in the previous year, seven foreign joint ventures including their subsidiaries are included at equity in the consolidated annual financial statements. Also as in the previous year, three foreign joint ventures are carried at the lower of cost of acquisition or fair value in the consolidated financial statements because they are only of minor significance for the presentation of a true and fair view of the net assets, financial position and results of operations of the VW FS AG Group. They are recognised under other financial assets. The joint ventures also include companies in which the VW FS AG Group has a majority of the voting rights and of the capital, if according to the shareholders' agreements material decisions can only be taken unanimously (minority protection).

On the basis of the holdings in joint ventures, the following values can be attributed to the Group:

€ million	2008	2007
Receivables from financial institutions	594	311
Receivables from customers	3,768	3,638
Leased assets	6,189	5,958
Other assets	1,576	1,390
Liabilities to financial institutions	2,749	2,281
Liabilities to customers	1,106	572
Securitised liabilities	4,562	5,499
Other liabilities	2,341	1,528
Equity	1,369	1,417
Income	989	819
Expenses	885	673

Subsidiaries are not consolidated if they are of secondary importance for the VW FS AG Group. Altogether this concerns six (previous year: five) domestic and, as in the previous year, eleven foreign companies.

Furthermore, as in the previous year there are twelve branches outside Germany which were set up by three domestic affiliated companies.

The list of all equity investments will be published in both the electronic Federal Gazette and the Corporate Register.

The following corporations are fully consolidated German affiliates that have fulfilled the requirements of § 264 Para. 3 HGB and will use the exemption rule:
– Volim GmbH
– Volkswagen Business Services GmbH
– Volkswagen Financial Services Beteiligungsgesellschaft mbH

(3) Principles of consolidation

Capital consolidation is carried out by offsetting the carrying amounts of investments against the proportionate newly measured equity of the subsidiaries at the time of acquisition or first-time inclusion in the consolidated annual financial statements and in subsequent periods.

The assets and liabilities of newly consolidated subsidiaries are recognised at fair value as at the acquisition date. This results in goodwill to the extent that the acquisition price of the equity investment exceeds identifiable assets and liabilities. Goodwill is subjected to an annual impairment test (impairment-only approach) in order to assess its impairment. If the goodwill is impaired, an impairment loss is recognised; otherwise the recognition of the goodwill remains unchanged relative to the previous year. To the extent that the acquisition price of the equity investment is less than the identifiable assets and liabilities, the difference must be recognised in income in the year the equity investment is acquired. The subsidiaries carry goodwill in their functional currencies.

Assets and liabilities newly recognised at their fair value in connection with the acquisition are subject to depreciation over their respective useful life. If the expected useful life is indefinite, the need to recognise any possible impairment loss is determined in a manner analogous to that for goodwill. Fair value adjustments of assets and liabilities are subject to depreciation over their remaining periods.

Receivables, liabilities, expenses and income based on business relations of consolidated companies are eliminated within the framework of debt, expense and income consolidation using the accounting policies applicable to the VW FS AG Group.

Consolidation events recognised in income are subject to accrual of deferred taxes. Shares in subsidiaries which are not consolidated because they are of secondary importance and other equity investments are shown under other financial assets.

Intra-Group transactions are conducted at prevailing market terms. Intercompany results arising therefrom are eliminated.

The share which Volkswagen AG has in the equity and earnings of one subsidiary was less than € 0.5 million in the previous year and therefore was not shown as a separate item under equity and in the income statement. Volkswagen AG no longer had any stake in the equity or earnings of a subsidiary in the 2008 reporting period.

(4) Currency translation

The foreign companies belonging to the VW FS AG Group are independent entities, whose financial statements are translated according to the concept of “functional currency”. According to this concept, all asset and liability items, with the exception of equity, are translated using the exchange rate on the balance sheet date. Equity, on the other hand, is carried at historical rates, with the exception of the reserve for cash flow hedges and the reserve for actuarial gains and losses. The resulting currency translation differences are treated as not affecting income and are shown as a separate item under equity.

The change data in the statement of fixed assets are translated at the weighted annual average exchange rate. A separate line, “Exchange rate changes”, is dedicated to the arithmetical alignment with the balances brought forward, translated at the middle spot rates of the previous year, and the annual average rates of the change data with the translated final levels at the middle spot rate of the current year.

In the income statement, weighted annual average exchange rates are applied. The net retained profits / accumulated deficits are translated at the middle spot rate on the balance sheet date. The difference between the arithmetic annual result and the net retained profits / accumulated deficits at the rate on the balance sheet date is shown in a separate item between the annual result and net retained profits.

		Balance sheet Middle rate as at 31.12.		Income statement Average exchange rate	
	€	2008	2007	2008	2007
Australia	AUD	2.0274	1.6757	1.7416	1.6356
Brazil	BRL	3.2436	2.61445	2.6743	2.66318
Czech Republic	CZK	26.8750	26.6280	24.9463	27.7582
United Kingdom	GBP	0.95250	0.73335	0.7963	0.68455
Japan	JPY	126.1400	164.9300	152.4541	161.2406
Mexico	MXN	19.23330	16.07430	16.2916	14.97495
Sweden	SEK	10.8700	9.4415	9.6152	9.2521

(5) Realisation of income and expense

Income and expenses are deferred pro rata temporis and are recognised in income in the period to which they are economically attributable.

The realisation of interest income in the income statement is always carried out according to the effective interest rate method. Income from financing and leasing transactions, and expenses for their refinancing, are contained in net income from lending, leasing and insurance transactions. Interest for borrowings is not capitalised.

The commission result contains income and expenses from the insurance agency services and commissions from the financing and financial services business.

Dividends are received at the time of the legal claim, i. e. always upon passing of the resolution to distribute profits.

The general administration expenses are composed of staff and non-staff costs, the depreciation of property, plant and equipment, amortisation of intangible assets, as well as other taxes.

The other operating result essentially comprises profit from the sale of intangible assets, income from costs charged to affiliated companies, as well as income from the reversal of provisions.

(6) Income tax

Current income tax claims and obligations are measured using the tax rates at which the refund from or payment to the respective tax authorities is expected. Current income tax is generally shown unnetted.

Deferred income tax assets and liabilities are calculated from different measurements of a reported asset or an obligation and the respective taxable carrying amount. It is expected that this will in future result in income tax burden or relief effects (temporary differences). They are measured at the country-specific income tax rates of the particular country of incorporation, whose validity for the corresponding period of its realisation is to be expected.

Deferred taxes on tax losses carried forward that have not yet been made use of are shown in the balance sheet if it is likely that future taxable profits will occur in the same tax unit. Deferred income tax assets and obligations with the same maturity vis-à-vis the same tax authority are netted. Discounting for deferred taxes is not carried out.

The tax expense chargeable to the pre-tax result is shown in the income statement of the Group under the item taxes on income and earnings; in the notes it is divided into current and deferred income tax of the financial year. Other taxes that are not linked to income are reported in the item general administration expenses.

(7) Cash reserve

The cash reserve is shown at nominal value.

(8) Receivables

Originated receivables from financial institutions and from customers are always stated in the balance sheet at amortised cost according to the effective interest rate method. Profits or losses resulting from the development of amortised cost are recognised in income including the effects from exchange rate changes. For current receivables (residual term up to one year) neither compounding nor discounting is performed for reasons of materiality. A portion of the receivables from customers was included in a portfolio hedge for the first time in the 2008 financial year. The customer receivables allocated to portfolio hedging are measured at fair value.

Receivables in foreign currency are translated at the middle rate on the balance sheet date.

(9) Provisions for risks

We take full account of the non-payment risks in the banking business by means of individual value adjustments and portfolio-based allowances made in accordance with IAS 39.

Individual value adjustments corresponding to the loss already incurred are made for existing credit risks related to significant individual receivables in connection with customer or bank receivables (e. g. receivables from dealer financing and from fleet customers) in accordance with uniform standards applicable throughout the Group.

Potential impairment is assumed if certain circumstances exist such as, for example, delays of payment over a certain period of time, initiation of compulsory measures, imminent insolvency or overindebtedness, application for insolvency or initiation of insolvency proceedings, or failure of restructuring measures.

Generalised individual value adjustments are made for receivables that are not significant (e. g. receivables from retail financing), which means that upon recognising the loss the amount of the allowance is calculated in a generalised procedure. Receivables that are not significant as well as significant individual receivables for which no impairment is indicated, are combined into homogeneous portfolios based on comparable credit risk characteristics and divided into risk classes. Average historical loss probabilities related to the respective portfolio are employed to determine the extent of the impairment loss as long as there is uncertainty as to losses on specific receivables. Back-testing is used to regularly review the appropriateness of the allowances.

The receivables are shown in the balance sheet at net carrying amount. Notes to the provisions for risks are presented under item (32). The provisions for risks for off-balance sheet transactions – guarantees, endorsement liabilities, credit commitments – are shown as provisions for risks from lending business.

Unrecoverable receivables – which are being settled and in regards to which all collateral was disposed of and all other options for realising these receivables have been exhausted – are written off directly. Previously recognised individual value adjustments are utilised. Income from receivables written off is recognised in profit or loss.

(10) Derivative financial instruments

The derivative financial instruments are made up of assets and/or obligations from hedge-ineffective and hedge-effective transactions. All derivatives are stated at fair value and shown separately under items (33) and (42). They are recognised as of the respective trade date.

The fair value is determined based on bank confirmations or a computer-based measurement using the discounted cash flow method.

Derivatives are used as a hedging instrument to secure the fair value or to secure future cash flows. Hedge accounting in accordance with IAS 39 is used only in the case of highly effective hedging transactions.

In fair value hedges, the changes in the fair value of the derivative financial instrument designated to hedge the fair value of the underlying asset or liability are recognised in income. The change in the fair value of the underlying transaction that is attributable to the hedged risk is also recognised in income. The effects on earnings of both the hedging instrument and the underlying transaction fully offset each other.

IAS 39 also permits the application of a fair value hedge not only for individual underlying transactions but also for a class of similar underlying transactions. In the financial year just ended, the VW FS AG Group executed a fair value portfolio hedge pursuant to the requirements of IAS 39 AG 114 ff. for the first time. In a portfolio hedge, the recognition of the changes in fair value corresponds to the changes in a fair value hedge.

At the subgroup level, another fair value hedge relationship was newly designated in addition to the portfolio hedge. It serves to hedge the fair value from the change in the risk-free base rate of fixed income securities. In partial term hedging pursuant to IAS 39.81 in conjunction with IAS 39 IG F.2.17, the remaining maturities of these bonds are included in the hedge relationship. At the subgroup level, the changes in the fair value of both the underlying transaction and the hedge largely offset each other.

The effective portion of changes to the fair value of a derivative that has been designated to secure future cash flows and fulfils the corresponding conditions is recognised directly in equity in the reserve for cash flow hedges. Adjustments to income merely arise from the ineffective portion of the change in the fair value. The amounts recognised in equity are recognised in the periods of the income statement in which the balance sheet item bearing variable interest rates or the anticipated transaction has an effect on income.

Changes to the fair values of derivatives which do not fulfil the conditions of IAS 39 for hedge accounting are recognised in income.

The VW FS AG Group documents all the relationships between hedging instruments and secured items. The effectiveness is assessed continuously. Transactions intended solely to serve speculative purposes do not exist in the VW FS AG Group.

(11) Other financial assets

Under other financial assets we show equity investments and shares in non-consolidated subsidiaries. They are recognised at cost, since there is no active market for these companies and their fair values cannot be determined with reasonable effort. Significant or long-term impairment losses are recognised in profit or loss.

(12) Intangible assets

Purchased intangible assets with a limited useful life, essentially software, are capitalised at cost and amortised over their economic life of three years using the straight-line method. Software developed in-house is capitalised under the conditions of IAS 38 with directly attributable direct and indirect costs. They are also amortised over a period of three years using the straight-line method.

We assess at each balance sheet date whether there is any indication that an intangible asset having a limited useful life has been impaired. If necessary, the carrying amount is compared to the recoverable amount and the respective asset is written down to the lower recoverable amount.

Intangible assets having an indefinite useful life are not amortised. We review annually whether the useful life of an intangible asset is indefinite. The impairment of such assets is reviewed annually based on a comparison between the carrying amount and the recoverable amount pursuant to IAS 36. If necessary, the asset is written down to the lower recoverable value (compare item 14).

Goodwill is tested for impairment on an annual basis as well as at the time the relevant events occur or the circumstances change.

An impairment loss is recognised if the goodwill is impaired.

The original goodwill as determined using the discounted cash flow method is used to determine the impairment of goodwill based on the management's current five-year plans. The discount rate applied is based on the applicable long-term market interest rate corresponding to the relevant cash generating unit. A discount rate of at least 8.5 % was used throughout the Group. The planning premises are adjusted to the current level of knowledge, taking both appropriate assumptions regarding macroeconomic trends and historical developments into account. The growth rates expected for the individual markets are used to determine the respective cash flows.

(13) Property, plant and equipment

Property, plant and equipment – land and buildings and operating and office equipment – is measured at cost less depreciation according to its expected economic useful life. It is depreciated using the straight-line method pro rata temporis over the expected useful life.

Depreciation is mainly based on the following useful lives:

Write-downs are recognised if the requirements of IAS 36 are satisfied (compare item 14). Special tax allowances are not taken into account.

Property, plant and equipment	Useful life
Buildings and property facilities	10 to 50 years
Operating and office equipment	3 to 10 years

Both the residual carrying amounts and the useful lives are reviewed at the given balance sheet date and adjusted as necessary.

The cost of depreciation is contained in the general administration expenses. Income from write-ups is contained in the other operating result.

(14) Impairment of non-monetary assets

Assets with an indefinite useful life are not subject to depreciation or amortisation; they are tested for impairment on an annual basis as well as at the time relevant events occur or circumstances change. Assets subject to depreciation or amortisation are tested for impairment if relevant events or changed circumstances indicate that the carrying amount might no longer be recoverable.

An impairment loss is recognised for the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of fair value less disposal costs and value in use. The fair value is the amount that could be realised in an arm's length transaction between knowledgeable, willing parties. The value in use arises from the present value of future cash flows, which are expected to be derived from the asset.

If the reasons for write-downs made in previous years no longer apply, appropriate write-ups are recognised. This does not apply to impairment of goodwill.

(15) Leasing business

The Group as lessor

The VW FS AG Group is engaged in both finance leases and – on a much smaller scale – operating leases. This business concerns essentially vehicles and, to a lesser extent, land and buildings, as well as equipment and furnishings for dealers.

In the case of finance leases, the economic ownership passes to the lessee. In the consolidated balance sheet, receivables from finance leases are therefore shown under receivables from customers, where the net investment value always corresponds to the cost of the leased assets. Interest income from these transactions is shown under leasing income in the income statement. The interest paid by the customer is received in such a way that a constant periodic rate of interest on the outstanding leasing receivables results.

In the case of operating leases, the economic ownership of the object of the lease remains with the lessor. In this case the leased items are shown in the consolidated balance sheet in the separate item, leased assets, measured at cost less regular straight-line depreciation over the term of the lease to the imputed residual value. Impairments identified on the basis of the impairment test in compliance with IAS 36 by taking into account the value in use are recognised through write-downs and adjustments of the depreciation rates. Write-ups are made if the reasons for write-downs in previous years no longer apply. Write-downs and write-ups are contained in the net income from leasing transactions before provisions for risks. Leasing income is recognised on a straight-line basis over the term of the lease and comprises the interest and repayment portions.

Land and buildings which serve to obtain rental income are recognised under the balance sheet item, investment property, and are stated at depreciated cost. As a rule, these are properties leased to dealers. The fair values additionally contained in the notes are determined by the respective company by discounting the estimated future payment flows with the corresponding long-term market interest rate. Depreciation is carried out using the straight-line method over the agreed useful life of ten to 50 years. Impairments identified on the basis of the impairment test in compliance with IAS 36 are recognised through write-downs.

The Group as lessee

The leasing instalments paid under operating leases are shown under the general administration expenses.

For finance leases, the respective leased assets are capitalised at the lower of cost or present value of the minimum leasing payments, and depreciated using the straight-line method according to the economic life or over the term of the lease, whichever is shorter. The payment obligations resulting from the future leasing instalments are discounted and carried as a liability.

(16) Liabilities

Liabilities to financial institutions and to customers as well as securitised liabilities are recognised at amortised cost according to the effective interest rate method. Profits or losses resulting from the development of amortised cost are recognised in income including the effects from exchange rate changes. For current liabilities (residual term up to one year) neither compounding nor discounting is performed for reasons of materiality.

Liabilities in foreign currency are translated at the middle rate on the balance sheet date.

(17) Pension provisions and similar obligations

In Germany, there is a defined contribution, basic state pension for employees which makes pension payments at a level dependent on income and contributions paid. Domestic companies made contributions to the statutory pension scheme amounting to € 20 million (previous year: € 19 million).

For the company pension plan for employees there are defined contribution and defined benefit pension commitments. In the case of the defined contribution plans, contributions are paid to state or private pension insurance providers under statutory or contractual provisions or on a voluntary basis. The defined benefit plans, on the other hand, are financed by making provisions and, since 2001, also by making transfers into an external pension fund.

In the case of defined contribution plans, the VW FS AG Group does not enter into any payment obligations beyond payment of contributions to special-purpose funds. The expenses from contribution payments in the current period are shown under staff costs. In the period under review, payments amounting to € 1 million (previous year: € 2 million) were made to defined contribution pension plans.

In the case of defined benefit plans, provisions are made for pension obligations in respect of old age, invalidity and surviving dependants' benefits. The defined benefit plans are valued on the basis of actuarial reports, which are determined in accordance with IAS 19 (Employee Benefits) by means of the international projected unit credit method. This means that the future obligations are valued on the basis of the benefit entitlements acquired up to the balance sheet date. In the valuation, account is taken of trend assumptions of relevant influencing factors which affect the level of benefits.

As of 1.1.2001, pension expenses for new expectancies of employees have been financed through an external pension fund. The annual salary-related pension expenses are invested in special funds by VW Pension Trust e. V. acting as trustee. Since the fund shares administered by the trustee fulfil the requirements of IAS 19 as plan assets, they are offset against provisions. This model offers the possibility of increasing the pension entitlements through the fund's investment, and also secures these entitlements fully.

Actuarial profits / losses result from changes in actuarial assumptions and variances between the expected and the actual development of the calculation parameters. They are recognised in equity in the period in which they arise. The amounts recognised in equity are disclosed in the statement of recognised income and expense.

Material actuarial premises applied by the national companies:

	Germany		Abroad	
%	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Expected return on plan assets	5.00	5.00	5.70	6.50
Discount rate	5.75	5.50	1.90 – 9.00	1.80 – 9.00
Expected rate of salary increases	2.50	2.50	2.00 – 6.00	2.00 – 4.80
Expected rate of pension increases	1.50	1.50	2.00 – 4.00	2.30 – 4.00
Fluctuation rate	0.75	0.75	4.90	4.50

(18) Provisions for the insurance business

The insurance business that was taken over for reinsurance purposes is recognised for specific years without any delay.

Insurance contracts are recognised pursuant to IFRS 4.13 and 4.14. Provisions are always recognised in accordance with the retrocessionaire's contractual tasks.

In addition, estimates based on assumptions regarding future developments are applied to the determination of the provision for loss.

The other insurance provisions include provisions for cancellations and dormant car insurance policies.

The reinsurers' shares in the provisions are calculated in accordance with the agreements with the retrocessionaires and shown in Other assets.

(19) Other provisions

In accordance with IAS 37, provisions are recognised to the extent that there is a current obligation vis-à-vis a third party arising from a past event which will probably lead to a future outflow of resources and the amount of which can be reliably estimated.

Provisions which do not lead to an outflow of resources in the following year are carried at the amount required to settle the respective obligation, discounted to the balance sheet. Discounting is based on market interest rates. The amount required to settle the obligation also comprises the expected cost increases.

Provisions are not offset against recourse claims.

Notes to the income statement

(20) Net income from lending, leasing and insurance transactions before provisions for risks

The net income from lending and leasing transactions before provisions for risks developed as follows:

€ million	2008	2007
Interest income from lending and money market transactions	2,723	2,312
Income from leasing transactions and service contracts	3,805	3,189
Expenses from leasing business and service contracts	2,097	1,722
Depreciation on leased assets and investment property	575	483
Interest expense	2,262	1,809
Total	**1,594**	**1,487**

The interest income from lending and money market transactions as well as the income from leasing transactions and service contracts contain interest income on impaired receivables in the amount of € 39 million (previous year: € 35 million).

Income from leasing transactions and service contracts includes rental income from investment property amounting to € 2 million (previous year: € 2 million).

Impairment losses recognised as a result of the impairment test on leased assets amounted to € 78 million (previous year: € 13 million) and are contained in the depreciation on leased assets. No income from reversals of impairment losses on leased assets in prior years (previous year: € 0 million) was earned in the 2008 financial year.

Interest income included here from financial instruments which are not attributable to the category of assets or financial liabilities measured at fair value amounts to € 3,761 million (€ 3,177 million).

The net income from insurance transactions is comprised as follows:

€ million	2008	2007
Premiums earned from insurance business	30	27
Expenses for claims	17	16
Expenses for reinsurance commissions and profit sharing	4	5
Other insurance-related expenses	0	0
Total	**9**	**6**

The interest expense contain refinancing expenses from lending and leasing transactions and concern financial instruments not measured at fair value.

(21) Provisions for risks arising from lending and leasing business

Provision for risks relates only to the balance sheet item “Receivables from customers”. It has the following effect on the Group’s income statement:

€ million	2008	2007
Additions to provisions for risks	560	422
Reversal of provisions for risks	228	227
Direct depreciation	72	75
Income from receivables written off	54	31
Total	**350**	**239**

(22) Net commission income

The net commission income of € 209 million (previous year: € 156 million) contains € 295 million (previous year: € 276 million) in income from insurance agency services.

(23) Result from financial instruments

This item contains the results from hedging transactions, from hedge-ineffective derivatives and from the measurement of foreign currency receivables and liabilities.

The result from hedging transactions contains income and expenses from the fair value measurement of hedging transactions and underlying transactions. Gains and losses from other hedge-ineffective derivatives contain income and expenses from market value changes of derivatives which do not fulfil the requirements of IAS 39 for hedge accounting.

The detailed figures are as follows:

€ million	2008	2007
Gains / losses on fair value hedging instruments	252	– 36
Gains / losses on underlying transactions of fair value hedges	– 254	31
Ineffective portion of cash flow hedging instruments	– 1	0
Gains / losses from currency hedging instruments	27	0
Gains / losses from the measurement of foreign currency receivables / liabilities	– 27	0
Gains / losses on other hedge-ineffective derivatives	– 24	– 30
Total	**– 27**	**– 35**

No further fair value changes were recognised in connection with financial instruments.

(24) Result from other financial assets

The result from other financial assets comprises dividend and sale results from equity investments and shares in non-consolidated, affiliated companies, and also income and expenses from investment securities.

(25) General administration expenses

The general administration expenses are made up as follows:

€ million	2008	2007
Staff costs	423	380
Non-staff costs	351	326
Costs of advertising, PR work and sales promotion	51	51
Depreciation of property, plant and equipment and amortisation of intangible assets	43	42
Other taxes	19	15
Total	**887**	**814**

The non-staff costs contain expenses for leased assets under operating leases amounting to € 4 million (previous year: € 3 million).

As required by § 314 Para. 1 No. 9 HGB, the general administration expenses for the 2008 financial year include fees for the audit of the annual financial statements amounting to € 1 million (previous year: € 1 million), for other auditing and valuation services amounting to € 1 million (previous year: € 1 million), and for other services amounting to € 2 million (previous year: € 1 million). As in the previous year, expenses for tax consultancy services were of a minor nature.

(26) Other operating result

The other operating result is made up as follows:

€ million	2008	2007
Income from costs charged to companies of the Volkswagen Group	47	26
Income from the reversal of provisions	56	22
Refund of other taxes	0	16
Income from claims for damages	11	5
Miscellaneous operating result	21	22
Other operating result	**135**	**91**

(27) Taxes on income and earnings

Taxes on income and earnings include taxes debited by Volkswagen AG because of fiscal unity, taxes which are owed by VW FS AG and its consolidated subsidiaries, and deferred taxes. The income taxes are made up as follows:

€ million	2008	2007
Effective tax expense in Germany	26	18
Effective tax expense abroad	100	69
Effective tax expense	**126**	**87**
Income from the reversal of tax provisions and tax refunds	– 3	– 88
Effective taxes on income and earnings	**123**	**– 1**
of which not attributable to the period under review	10	7
Deferred tax income / expense in Germany	98	80
Deferred tax income / expense abroad	– 7	11
Deferred tax income / expense	**91**	**91**
of which not attributable to the period under review	– 11	– 8
Total	**214**	**90**

The deferred taxes of the financial year do not contain deferred tax expenses from the use of previously capitalised deferred tax assets on losses carried forward (previous year: € 9 million).

The actual tax expense in 2008 amounting to € 214 million (previous year: € 90 million) was € 20 million lower than the expected tax expense of € 234 million (previous year: € 310 million), which would have resulted if a tax rate of 29.5 % (previous year: 38.3 %) had been applied on the Group's pre-tax result. The following reconciliation shows the connection between taxes on income and earnings and the pre-tax result in the financial year:

€ million	2008	2007
Pre-tax result	**792**	**809**
multiplied by the German income tax rate of 29.5 % (previous year: 38.3 %)		
= Arithmetical income tax expense in the financial year at the German income tax rate	**234**	**310**
+ Effects from tax credits	–	– 6
+ Effects from German/foreign tax rate	13	– 16
+ Effects from tax rate changes	– 48	– 192
+ Effects from permanent valuation differences	29	46
+ Effects on account of tax-free income from equity investments	– 12	– 37
+ Effects from losses carried forward	2	1
+ Temporary valuation differences without calculation of deferred taxes	– 12	– 17
+ Taxes not attributable to the period under review	– 1	– 1
+ Other differences	9	2
= Actual taxes on income and earnings	**214**	**90**

The domestic income tax rate chosen as the basis for the reconciliation is made up of the corporation tax rate of 15 % applicable in Germany (previous year: 25 %), plus solidarity surcharge of 5.5 % (previous year: 5.5 %) and an average rate for trade tax of 13.67 % (previous year: 16.3 %). Taking into account the non-deductibility of trade earnings tax as a business expense, the German income tax rate amounts to 29.5 % (previous year: 38.3 %). Income from equity investments and profit from the sale of equity investments in joint stock companies have not generally been subject to taxation on earnings since 1.1.2002.

Changes in tax rates have resulted in deferred tax income totalling € 48 million (previous year: € 192 million); they did not result in any tax effects recognised directly in equity (previous year: 1 € million). This is essentially due to the change in tax rates in Brazil. The effects from tax rate changes are essentially due to the change in tax rates that became effective from 1.1.2008 in Germany.

The effects resulting from different rates of income tax in other countries arise due to the income tax rates of the individual countries where the Group companies have their registered office. These rates, which differ from the German income tax rate, are between 12.5 % and 40.7 % (previous year: 12.5 % and 40.7 %).

As at 31.12.2008, the company's tax losses carried forward not yet used to date were € 34 million (previous year: € 33 million), for which deferred tax assets of € 11 million (previous year: € 11 million) were recognised. Of these unused tax losses carried forward, € 34 million (previous year: € 33 million) can be utilised indefinitely.

No deferred tax asset was recognised on € 7 million in unused tax losses carried forward (previous year: zero) because they are classified as unusable.

Of the deferred taxes recognised in the balance sheet, a total of € 30 million (previous year: € – 3 million) relate to business transactions that are recognised directly in equity. A partial amount of € 6 million (previous year: € 8 million) concerns actuarial gains/losses (IAS 19), and a partial amount of € 24 million (previous year: € – 11 million) concerns derivative financial instruments.

(28) Further notes to the income statement

Expenses and income from fees and commissions which are not attributable to the category of assets or liabilities measured at fair value and which are not taken into account using the effective interest rate method:

€ million	2008	2007
Commission income	2	3
Commission expenses	2	5
Fee expenses	1	1
Total	**1**	**3**

Notes to the balance sheet

(29) Cash reserve

The cash reserve contains receivables from the Deutsche Bundesbank amounting to € 414 million (previous year: € 172 million).

(30) Receivables from financial institutions

The receivables from financial institutions include receivables from a joint venture amounting to € 1 million (previous year: two joint ventures totalling € 6 million).

(31) Receivables from customers

Receivables from customers include unsecuritised receivables from affiliated companies amounting to € 375 million (previous year: € 334 million) and receivables from joint ventures amounting to € 1,805 million (previous year: € 1,667 million). There are receivables from the sole shareholder, Volkswagen AG, amounting to € 12 million (previous year: € 9 million).

Receivables from retail financing contain, in principle, vehicle financing loan agreements with private and commercial customers. Financed vehicles are usually assigned to us as collateral. The wholesale financing contracts contain financing of vehicles in stock and equipment and investment loans to the dealer organisation. Here too, security assignments are used as collateral, as well as surety agreements and charges on property. Receivables from leasing business contain receivables from finance leases and receivables due from leased assets. Other receivables essentially consist of receivables from companies in the Volkswagen Group and of credit lines and overdraft facilities utilised by customers.

The terms of the contracts are usually between six and 72 months. As a rule, credit lines are granted indefinitely. The interest rates, which essentially are fixed, are between 0.00 % and 22.13 %.

Portions of the retail financing and finance leasing receivables subject to fixed interest rates were hedged for the first time in a portfolio hedge pursuant to IAS 39 AG 114 ff. against fluctuations of the risk-free base rate. Receivables from operating leasing transactions are excluded from this hedging strategy because they do not satisfy the definition of a financial instrument within the meaning of IAS 39 in conjunction with IAS 32.

The reconciliation from the balance sheet figures is as follows:

€ million	31.12.2008	31.12.2007
Receivables from customers	**48,587**	**45,845**
of which market value adjustment from portfolio hedging	– 151	–
Receivables from customers less market value adjustment from portfolio hedging	48,436	45,845

Receivables from leasing transactions include due receivables amounting to € 172 million (previous year: € 132 million.

The receivables from operating leasing transactions total € 54 million as at the balance sheet date (previous year: € 38 million).

The receivables from finance leases are made up as follows:

€ million	31.12.2008	31.12.2007
Gross receivables from finance leases	**16,334**	**14,840**
by residual term		
up to one year	6,554	5,883
more than one year and up to five years	9,768	8,943
more than five years	12	14
Interest not yet earned from finance leases	**1,476**	**1,239**
Net receivables from finance leases	**14,858**	**13,601**
by residual term		
up to one year	5,960	5,362
more than one year and up to five years	8,887	8,226
more than five years	11	13

At the VW FS AG Group, the present value of the minimum leasing payments outstanding on the balance sheet date corresponds to the net receivables from finance leases reported above.

A provision for risks arising from outstanding minimum lease payments exists in the amount of € 70 million (previous year: € 66 million).

(32) Provisions for risks arising from lending and leasing business

The provisions for risks in the lending and leasing business are made in accordance with uniform rules throughout the Group and cover all recognisable credit risks.

	Individual value adjustments		Portfolio-based value adjustments		Total	
€ million	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
As at 1.1.	587	493	430	391	1,017	884
New companies brought forward	–	101	–	27	–	128
Additions	454	346	106	76	560	422
Transfers	– 28	– 2	28	2	0	0
Disposals	340	316	81	67	421	383
of which uses	193	156	–	–	193	156
of which reversals	147	160	81	67	228	227
Interest income from impaired receivables	39	35	–	–	39	35
Currency translation	– 24	0	– 19	1	– 43	1
Provisions for risks arising from lending and leasing business as at 31.12.	**610**	**587**	**464**	**430**	**1,074**	**1,017**

The full amount of the provisions for risks was recognised in relation to receivables from customers.

(33) Derivative financial instruments

This item contains the positive market values from hedging transactions and from hedge-ineffective derivatives and is made up as follows:

€ million	**31.12.2008**	**31.12.2007**
Assets from hedging transactions	487	181
Fair value hedges on assets (currency risk)	4	2
Fair value hedges on liabilities (currency risk)	168	1
Fair value hedges (interest rate risk)	249	133
Portfolio fair value hedges on assets (interest rate risk)	1	–
Cash flow hedges on interest payments (currency risk)	1	0
Cash flow hedges (interest rate risk)	64	45
Assets from hedge-ineffective derivatives	253	250
Total	**740**	**431**

With the exception of hedge-ineffective derivatives, no financial instruments are classified as being held for trading.

(34) Joint ventures accounted for at equity and other financial assets

€ million	Companies accounted for at equity	Other financial assets	Total
Cost of acquisition			
As at 1.1.2007	1,451	129	1,580
Exchange rate changes/effects recognised in equity	– 12	0	– 12
Changes in the scope of consolidation	–	2	2
Additions	154	44	198
Transfers	–	–	–
Disposals	102	41	143
As at 31.12.2007	1,491	134	1,625
Depreciation			
As at 1.1.2007	26	2	28
Exchange rate changes	–	0	0
Changes in the scope of consolidation	–	–	–
Additions	–	–	–
Transfers	–	–	–
Disposals	–	2	2
Write-ups	–	–	–
Write-downs	–	1	1
As at 31.12.2007	26	1	27
Carrying amount 31.12.2007	**1,465**	**133**	**1,598**
Carrying amount 1.1.2007	**1,425**	**127**	**1,552**

€ million	Companies accounted for at equity	Other financial assets	Total
Cost of acquisition			
As at 1.1.2008	1,491	134	1,625
Exchange rate changes/effects recognised in equity	– 118	0	– 118
Changes in the scope of consolidation	–	– 27	– 27
Additions	108	51	159
Transfers	–	–	–
Disposals	38	1	39
As at 31.12.2008	1,443	157	1,600
Depreciation			
As at 1.1.2008	26	1	27
Exchange rate changes	–	–	–
Changes in the scope of consolidation	–	–	–
Additions	–	–	–
Transfers	–	–	–
Disposals	–	0	0
Write-ups	–	–	–
Write-downs	–	–	–
As at 31.12.2008	26	1	27
Carrying amount 31.12.2008	**1,417**	**156**	**1,573**
Carrying amount 1.1.2008	**1,465**	**133**	**1,598**

(35) Intangible assets

€ million	Self-produced software	Goodwill, brand name, customer base	Other intangible assets	Total
Cost of acquisition				
As at 1.1.2007	52	–	111	163
Exchange rate changes	–	2	0	2
Changes in the scope of consolidation	–	–	5	5
Additions	14	40	11	65
Transfers	–	–	1	1
Disposals	–	–	58	58
As at 31.12.2007	66	42	70	178
Amortisation				
As at 1.1.2007	13	–	86	99
Exchange rate changes	–	–	–	–
Changes in the scope of consolidation	–	–	4	4
Additions	4	2	9	15
Transfers	–	–	–	–
Disposals	–	–	56	56
Write-ups	–	–	–	–
Write-downs	–	–	–	–
As at 31.12.2007	17	2	43	62
Carrying amount 31.12.2007	**49**	**40**	**27**	**116**
Carrying amount 1.1.2007	**39**	**–**	**25**	**64**

€ million	Self-produced software	Goodwill, brand name, customer base	Other intangible assets	Total
Cost of acquisition				
As at 1.1.2008	66	42	70	178
Exchange rate changes	– 1	– 7	0	– 8
Changes in the scope of consolidation	–	–	–	–
Additions	18	–	8	26
Transfers	–	–	0	0
Disposals	–	–	2	2
As at 31.12.2008	83	35	76	194
Amortisation				
As at 1.1.2008	17	2	43	62
Exchange rate changes	–	– 1	0	– 1
Changes in the scope of consolidation	–	–	–	–
Additions	7	2	10	19
Transfers	–	–	–	–
Disposals	–	–	1	1
Write-ups	–	–	–	–
Write-downs	–	–	–	–
As at 31.12.2008	24	3	52	79
Carrying amount 31.12.2008	**59**	**32**	**24**	**115**
Carrying amount 1.1.2008	**49**	**40**	**27**	**116**

Intangible assets having indefinite useful lives at the balance sheet date comprise one item of goodwill and a brand name. The indefinite useful lives arise from the fact that both the goodwill and the brand name are derived from the relevant cash generating unit and thus exist as long as that unit exists. The goodwill determined as part of the purchase price allocation for the acquisition of the Brazilian companies in 2007 was adjusted in accordance with IAS 8 in keeping with the adjusted recognition of deferred taxes on the brand.

(36) Property, plant and equipment

€ million	Land and buildings	Operating and office equipment	Total
Cost of acquisition			
As at 1.1.2007	146	138	284
Exchange rate changes	– 1	–	– 1
Changes in the scope of consolidation	1	7	8
Additions	18	32	50
Transfers	– 1	–	– 1
Disposals	–	57	57
As at 31.12.2007	163	120	283
Depreciation			
As at 1.1.2007	34	75	109
Exchange rate changes	–	–	–
Changes in the scope of consolidation	–	6	6
Additions	5	20	25
Transfers	–	–	–
Disposals	–	31	31
Write-ups	–	–	–
Write-downs	2	–	2
As at 31.12.2007	41	70	111
Carrying amount 31.12.2007	**122**	**50**	**172**
Carrying amount 1.1.2007	**112**	**63**	**175**

€ million	Land and buildings	Operating and office equipment	Total
Cost of acquisition			
As at 1.1.2008	163	120	283
Exchange rate changes	2	– 1	1
Changes in the scope of consolidation	–	–	–
Additions	55	24	79
Transfers	0	0	0
Disposals	1	19	20
As at 31.12.2008	219	124	343
Depreciation			
As at 1.1.2008	41	70	111
Exchange rate changes	0	0	0
Changes in the scope of consolidation	–	–	–
Additions	5	16	21
Transfers	–	–	–
Disposals	0	6	6
Write-ups	2	–	2
Write-downs	–	–	–
As at 31.12.2008	48	80	128
Carrying amount 31.12.2008	**171**	**44**	**215**
Carrying amount 1.1.2008	**122**	**50**	**172**

Land and buildings include plant under construction with a carrying amount of € 39 million (previous year: € 12 million).

(37) Leased assets

€ million	Movable leased assets	Investment property	Advance payments on investment property	Total
Cost of acquisition				
As at 1.1.2007	1,876	14	–	1,890
Exchange rate changes	– 55	0	–	– 55
Changes in the scope of consolidation	44	–	–	44
Additions	2,673	0	–	2,673
Transfers	–	–	–	–
Disposals	1,517	1	–	1,518
As at 31.12.2007	3,021	13	–	3,034
Depreciation				
As at 1.1.2007	400	4	–	404
Exchange rate changes	– 11	0	–	– 11
Changes in the scope of consolidation	12	–	–	12
Additions	470	0	–	470
Transfers	–	–	–	–
Disposals	299	0	–	299
Write-ups	–	–	–	–
Write-downs	13	–	–	13
As at 31.12.2007	585	4	–	589
Carrying amount 31.12.2007	**2,436**	**9**	**–**	**2,445**
Carrying amount 1.1.2007	**1,476**	**10**	**–**	**1,486**

€ million	Movable leased assets	Investment property	Advance payments on investment property	Total
Cost of acquisition				
As at 1.1.2008	3,021	13	–	3,034
Exchange rate changes	– 198	1	–	– 197
Changes in the scope of consolidation	–	–	–	–
Additions	3,138	1	–	3,139
Transfers	–	–	–	–
Disposals	2,198	–	–	2,198
As at 31.12.2008	3,763	15	–	3,778
Depreciation				
As at 1.1.2008	585	4	–	589
Exchange rate changes	– 40	0	–	– 40
Changes in the scope of consolidation	–	–	–	–
Additions	481	1	–	482
Transfers	–	–	–	–
Disposals	358	–	–	358
Write-ups	–	–	–	–
Write-downs	92	–	–	92
As at 31.12.2008	760	5	–	765
Carrying amount 31.12.2008	**3,003**	**10**	**–**	**3,013**
Carrying amount 1.1.2008	**2,436**	**9**	**–**	**2,445**

The impairment losses taken on leased assets as required under IAS 36 resulted from the weakness of the used vehicle markets in Europe.

The fair value of investment property amounts to € 10 million. During the period under review, maintenance expenses of € 1 million (previous year: € 1 million) were incurred for investment property.

We expect payments of € 14 million in 2009, € 34 million from 2010 to 2013 and € 41 million in the years thereafter from unterminable leasing and rental contracts.

(38) Deferred tax assets

The deferred tax assets consist exclusively of deferred income tax assets, which are subdivided as follows:

€ million	31.12.2008	31.12.2007
Deferred taxation	5,188	4,510
of which non-current	3,901	3,241
Capitalised benefits from unused tax losses carried forward	11	11
of which non-current	8	9
Netting (with deferred tax liabilities)	– 4,846	– 4,419
Total	**353**	**102**

Tax accruals are recognised in connection with the following balance sheet items:

€ million	31.12.2008	31.12.2007
Derivative financial instruments (assets)	33	33
Property, plant and equipment / intangible assets	95	119
Leased assets	3,270	3,155
Other financial assets	834	4
Receivables and other assets	138	126
Other assets	1	3
Derivative financial instruments (obligations)	140	44
Provisions	113	114
Liabilities and contributions	562	910
Other liabilities	2	2
Total	**5,188**	**4,510**

(39) Other assets

Other assets concern the following items:

€ million	31.12.2008	31.12.2007
Insurance-related provisions attributable to reinsurance companies	100	78
Receivables from other taxes	17	51
Prepaid expenses	64	45
Vehicles taken back for resale	291	53
Miscellaneous	299	251
Total	**771**	**478**

The insurance-related provisions attributable to reinsurance companies break down as follows:

€ million	31.12.2008	31.12.2007
Provisions for unsettled claims attributable to reinsurance companies	94	71
Provisions for deferred premiums attributable to reinsurance companies	5	6
Other insurance-related provisions attributable to reinsurance companies	1	1
Total	**100**	**78**

(40) Liabilities to financial institutions and customers

The liabilities to financial institutions and customers are all unsecuritised.

The securitised liabilities are shown separately.

To meet part of the capital requirements of the leasing and financing activities, the VW FS AG companies take advantage of the funds made available by the Volkswagen Group companies.

The drawing on funds, which is shown as unsecuritised liabilities to customers, amounts to € 2,567 million (previous year: € 2,543 million) in liabilities to affiliated companies – of which € 1,820 million (previous year: € 1,472 million) is attributable to the sole shareholder, Volkswagen AG.

The liabilities to customers contain € 12,835 million in customer deposits (previous year: € 9,620 million). They mainly comprise overnight and fixed-term deposits as well as various savings certificates and plans of Volkswagen Bank GmbH. Relative to the term, the "Direkt" savings plan has the longest investment horizon. The maximum term is ten years. The nominal interest rate for newly signed savings plans, savings certificates and fixed-term deposits was between 3.80 % and 5.40 % (previous year: between 3.15 % and 4.50 %). The average interest rate for overnight deposit accounts was 3.97 % at 31.12.2008, the balance sheet date (previous year: 3.60 %).

(41) Securitised liabilities

Debentures and money market papers (commercial paper) are shown as securitised liabilities.

€ million	31.12.2008	31.12.2007
Debentures issued	20,251	21,719
Money market papers issued	1,249	1,474
Total	**21,500**	**23,193**

The VW FS AG Group utilises ABS transactions, in addition to the options mentioned above, for the purpose of refinancing. At year's end, the associated liabilities contained in the debentures issued amounted to € 6,678 million (previous year: € 5,658 million), those in the liabilities to financial institutions amounted to € 372 million (previous year: € 245 million), those in the liabilities to customers amounted to 709 million (previous year: € 989 million) and those in the subordinated liabilities amounted to € 407 million (previous year: € 313 million). Receivables in the amount of € 8,211 million (previous year: € 7,550 million) arising from retail financing and the leasing business serve as collateral. This entails assigning the anticipated payments to single purpose entities and transferring the vehicles financed as collateral. Given the IFRS requirement that special purpose entities must be consolidated, the assets and corresponding liabilities are continued to be recognised at VW FS AG.

All public and private ABS transactions of the Volkswagen Financial Services AG Group may be subject to early repayment (so-called clean-up call) if less than 9 % of the original transaction volume is outstanding. The ABCP transactions of Volkswagen Financial Services (UK) Ltd. and VOLKSWAGEN FINANCIAL SERVICES JAPAN LTD. are non-public transactions that are subject to cancellation at any time.

(42) Derivative financial instruments

This item contains the negative market values from hedging transactions and from hedge-ineffective derivatives and is made up as follows:

€ million	31.12.2008	31.12.2007
Obligations from hedging transactions	321	147
Fair value hedges on assets (currency risk)	–	–
Fair value hedges on liabilities (currency risk)	7	100
Fair value hedges (interest rate risk)	53	42
Portfolio fair value hedges on assets (interest rate risk)	151	–
Cash flow hedges on interest payments (currency risk)	0	0
Cash flow hedges (interest rate risk)	110	5
Obligations from hedge-ineffective derivatives	169	116
Total	**490**	**263**

(43) Provisions

The provisions break down as follows:

€ million	31.12.2008	31.12.2007
Provisions for pensions and similar obligations	124	121
Insurance-related provisions	139	115
Other provisions	303	351
Total	**566**	**587**

The provisions for pensions and similar obligations are provisions for the obligations to provide company retirement pensions on the basis of direct pension commitments. The type and amount of pensions for employees entitled to a company pension are governed by the relevant pension rules applicable at the inception of the employment contract (including pension guidelines, pension regulations, defined contribution pension plans and pension commitments based on individual contracts). According to these rules, pensions are paid after entering retirement either when the age limit is reached or prematurely in the event of invalidity or death.

The pension commitments are determined annually by an independent actuary according to the projected unit credit method.

The following amounts were recognised for defined benefit plans in the balance sheet:

€ million	31.12.2008	31.12.2007	31.12.2006
Present value of funded obligations	65	74	61
Fair value of plan assets	68	75	58
Surplus/deficit	– 3	– 1	3
Present value of unfunded obligations	124	121	132
Net liability stated in the balance sheet	**121**	**120**	**135**

The net liability stated in the balance sheet is contained in the following items:

€ million	31.12.2008	31.12.2007
Pension provisions	124	121
Other assets	3	1
Net liability stated in the balance sheet	**121**	**120**

The pension provisions essentially concern pension commitments of German companies.

The present value of the commitments developed as follows:

€ million	2008	2007	2006
Present value of obligations as at 1.1.	195	193	169
Changes in the scope of consolidation	–	8	–
Current service cost	9	9	12
Interest on obligation	11	10	8
Actuarial gains and losses (recognised in equity)	– 14	– 17	4
Employee contributions to the fund	1	1	0
Pension payments out of company assets	3	3	3
Pension payments out of the fund	3	1	0
Other changes	0	– 3	3
Currency differences from foreign plans	– 8	– 2	0
Present value of obligations as at 31.12.	**188**	**195**	**193**

The development of the plan assets is shown in the following table:

€ million	2008	2007	2006
Fair value of plan assets as at 1.1.	75	58	38
Changes in the scope of consolidation	–	9	–
Expected return on plan assets	5	4	3
Actuarial gains and losses (recognised in equity)	– 7	1	1
Employer contributions to the fund	6	6	12
Employee contributions to the fund	1	1	0
Pension payments out of the fund	3	1	0
Other changes	– 1	– 1	4
Currency differences from foreign plans	– 8	– 2	0
Fair value of plan assets as at 31.12.	**68**	**75**	**58**

The actual return on plan assets amounted to € – 2 million (previous year: € 5 million).

The interest rate for the expected long-term returns of the fund assets is based on the portfolio's actual income generated over the long term, on historical total market returns and on forecasts regarding the likely returns of the classes of securities the portfolios contain. These forecasts are based on expected returns for comparable pension funds during the respective employee's remaining years of service as an investment horizon, as well as on the experience of major portfolio managers and investment experts. In 2009, we expect to earn a return of € 4 million from our fund assets. Employer's contributions to the fund are expected to total € 6 million and service cost is expected to total € 8 million in 2009.

The fund assets comprise the following components:

%	2008	2007	2006
Shares	15	28	49
Fixed-interest securities	61	60	45
Cash	18	4	6
Property	1	2	0
Other	5	6	0

The following amounts were recognised in the income statement:

€ million	2008	2007
Current service cost	9	9
Interest on obligation	11	10
Expected return on plan assets	5	4
Past service cost	–	0
Total amount shown under staff costs	**15**	**15**

The net liability recognised in the balance sheet changed as follows:

€ million	2008	2007
Net liability at 1.1.	**120**	**135**
Net expense in the income statement	15	15
Pension benefits and fund allocations paid	10	9
Actuarial gains and losses (recognised in equity)	– 7	– 18
Other changes	3	– 3
Currency differences from foreign plans	0	0
Net liability at 31.12.	**121**	**120**

Of the net liabilities recognised in the balance sheet, € 118 million (previous year: € 115 million) have a residual term of more than one year.

The following table shows the difference between the expected and actual development of obligations and plan assets:

	2008	2007	2006
Differences between expected and actual development			
in % of the present value of obligations	2	– 1.89	– 1.12
in % of the fair value of plan assets	– 7.52	0.86	1.69

Insurance-related provisions developed as follows:

€ million	Insurance-related provisions Provision for unsettled insurance claims	Provision for deferred premiums	Other insurance-related provisions
As at 1.1.2008	**82**	**32**	**1**
New companies brought forward	–	–	–
Use	53	0	0
Addition	77	0	0
Other changes	–	–	–
As at 31.12.2008	**106**	**32**	**1**

Terms of the insurance-related provisions:

€ million	31.12.2008 Residual term more than one year	Total	31.12.2007 Residual term more than one year	Total
Provision for unsettled insurance claims	33	106	39	82
Provision for deferred premiums	18	32	18	32
Other insurance-related provisions	–	1	–	1
Total	**51**	**139**	**57**	**115**

Other provisions developed as follows:

€ million	Other provisions Human resources	Litigation costs	Miscellaneous
As at 1.1.2008	**73**	**160**	**117**
New companies brought forward	–	–	–
Use	41	6	19
Reversal	4	36	8
Addition	52	31	13
Other changes	3	30	4
As at 31.12.2008	**77**	**119**	**107**

The provisions in human resources include, in particular, one-off annual payments, payments on account of staff anniversaries of company service and other costs of the workforce.

Terms of the other provisions:

	31.12.2008		31.12.2007	
€ million	Residual term more than one year	Total	Residual term more than one year	Total
Human resources	33	77	29	73
Provisions for litigation costs	117	119	158	160
Miscellaneous	44	107	37	118
Total	**194**	**303**	**224**	**351**

The expected outflow of payments is as follows: 35 % in the following year, 57 % in the years 2010 to 2013 and 8 % thereafter.

(44) Deferred tax liabilities

The deferred tax liabilities break down as follows:

€ million	31.12.2008	31.12.2007
Deferred income tax obligations	5,905	5,158
of which non-current	3,632	3,219
Netting (with deferred tax assets)	– 4,846	– 4,419
Total	**1,059**	**739**

The deferred income tax obligations contain taxes from temporary differences between measurements in accordance with IFRS and amounts arising from the determination of Group companies' taxable earnings.

Deferred income tax obligations were recognised in connection with the following balance sheet items:

€ million	31.12.2008	31.12.2007
Receivables from customers	5,425	4,722
Derivative financial instruments (assets)	149	120
Property, plant and equipment / intangible assets	26	26
Leased assets	162	130
Other assets	25	23
Derivative financial instruments (obligations)	22	22
Deferred income	45	54
Other liabilities	51	61
Total	**5,905**	**5,158**

(45) Other liabilities

Other liabilities concern the following items:

€ million	31.12.2008	31.12.2007
Deferred income	159	158
Liabilities from other taxes	58	33
Liabilities within the framework of social security and wage and salary settlement	20	19
Miscellaneous	256	165
Total	**493**	**375**

(46) Subordinated capital

The subordinated capital is issued and raised by Volkswagen Bank GmbH, Volkswagen Leasing GmbH and Volkswagen Financial Services (UK) Ltd., and is divided as follows:

€ million	31.12.2008	31.12.2007
Subordinated liabilities	450	313
of which: due within two years	344	277
Subordinated bonds	1,197	1,166
of which: due within two years	–	–
Subordinated borrower's note loans	137	134
of which: due within two years	–	–
Participation right liabilities	103	99
of which: due within two years	–	–
Total	**1,887**	**1,712**

The subordinated liabilities are unsecuritised liabilities as defined under § 4 of the Ordinance on Accounting for Banks (RechKredV). The full amount of subordinated liabilities is due to an affiliated company. A conversion into capital or other form of debt has not been agreed, nor is it planned.

The participation right liabilities serve to strengthen the liable capital in accordance with the regulations of § 10 Para. 5 of the German Banking Act. The participating certificates issued amount to a nominal € 1 million (previous year: € 1 million) in relation to the sole shareholder, Volkswagen AG, and a nominal € 89 million (previous year: € 89 million) in relation to non-Group third parties.

(47) Equity

€ million	Subscribed capital	Capital reserve	Retained earnings including consolidated net retained profits: Accumulated profits	Currency translation reserve	Reserve for cash flow hedges	Reserve for actuarial gains and losses	Shares measured at equity	Minority interest	Total equity
Balance as at 31.12.2006/1.1.2007	**441**	**2,287**	**1,834**	**30**	**40**	**– 29**	**–**	**0**	**4,603**
Reclassification of shares measured at equity	–	–	–	– 7	– 19	–	26	–	–
Balance after adjustment as at 1.1.2007	**441**	**2,287**	**1,834**	**23**	**21**	**– 29**	**26**	**0**	**4,603**
Payments into the capital reserve	–	522	–	–	–	–	–	–	522
Loss absorption by Volkswagen AG	–	–	199	–	–	–	–	–	199
Actuarial gains and losses	–	–	–	–	–	18	–	–	18
Cash flow hedges:									
Fair value changes recognised in equity	–	–	–	–	8	–	– 5	–	3
Recognised in the income statement	–	–	–	–	– 5	–	–	–	– 5
Currency translation differences	–	–	–	– 24	–	1	– 8	–	– 31
Deferred taxes on items recognised directly in equity	–	–	–	–	1	– 9	1	–	– 7
Net income	–	–	716	–	–	–	–	3	719
Other changes	–	–	– 6	–	–	–	–	–3	– 9
Balance as at 31.12.2007/1.1.2008	**441**	**2,809**	**2,743**	**– 1**	**25**	**– 19**	**14**	**0**	**6,012**
Payments into the capital reserve	–	600	–	–	–	–	–	–	600
Withdrawal from the capital reserve	–	– 600	600	–	–	–	–	–	–
Loss absorption by Volkswagen AG	–	–	2	–	–	–	–	–	2
Actuarial gains and losses	–	–	–	–	–	8	–	–	8
Cash flow hedges:									
Fair value changes recognised in equity	–	–	–	–	– 114	–	– 101	–	– 215
Recognised in the income statement	–	–	–	–	– 10	–	–	–	– 10
Currency translation differences	–	–	–	– 215	5	0	– 30	–	– 240
Deferred taxes on items recognised directly in equity	–	–	–	–	35	– 2	13	–	46
Net income	–	–	578	–	–	–	–	–	578
Other changes	–	–	– 1	–	–	–	–	–	– 1
Balance as at 31.12.2008	**441**	**2,809**	**3,922**	**– 216**	**– 59**	**– 13**	**– 104**	**0**	**6,780**

Given the growing significance of the income and expenses of at-equity companies recognised directly in equity, these income and expenses are disclosed in a separate column in equity.

The minority interest in net income after taxes resulted from the split-up of the acquisition of the shares of Banco Volkswagen in Brazil between May and June 2007.

The subscribed capital of VW FS AG is divided into 441,280,000 fully paid-up no-par bearer shares, all of which are held by Volkswagen AG, Wolfsburg. Neither preferential rights nor limitations arise from the subscribed capital.

The basic earnings per ordinary share in the amount of € 1.31 (previous year: € 1.62) corresponds to the diluted earnings per ordinary share.

The capital reserve of VW FS AG includes the capital contributions of Volkswagen AG, the company's sole shareholder. In the financial year, Volkswagen AG paid € 600 million into the capital reserve. Since the same amount was also withdrawn in the financial year, the capital reserve remained unchanged compared to the previous year.

Retained earnings include undistributed profits from prior years and amounts withdrawn from the capital reserve. The retained earnings are subdivided into the legal reserve and other reserves which, in turn, contain the currency translation reserve, the reserve for cash flow hedges and the reserve for actuarial gains and losses.

VW FS AG's loss of € 2 million based on its HGB single-entity statements (previous year: loss absorption of € 199 million) was absorbed by Volkswagen AG, the company's sole shareholder, under its existing control and profit transfer agreement.

(48) Capital management

Capital in this connection generally refers to equity as defined in the IFRS. VW FS AG's capital management serves to support the company's rating through adequate capitalisation, raise equity for funding its growth targets in the following financial year and fulfil regulatory requirements regarding capital adequacy.

Liable capital under regulatory requirements is distinguished from equity under IFRS (cf. item 47 for its components).

Liable capital comprises the so-called core capital and the supplementary capital (subordinated liabilities, participation right liabilities) net of certain deductible items and must satisfy specific legal requirements.

Capital measures by the parent company of VW FS AG affect both equity under IFRS and the liable capital.

Under banking regulations (German Banking Act, Solvency Regulations), the bank regulatory authorities generally assume that the capitalisation is adequate if the companies subject to banking supervision show a consolidated core capital ratio of at least 4.0 % and consolidated regulatory capital and overall ratios, respectively, of at least 8.0 %. In determining these ratios, the regulatory equity is considered in relation to the multiples determined in accordance with statutory requirements relative to credit risks, operational risks and market risk positions. A planning procedure that is integrated into the internal reporting system was established in order to ensure compliance at all times with these capital adequacy requirements; it serves to determine ongoing regulatory equity requirements based on the actual and expected development of business. As a result, compliance with the minimum capital requirements was ensured at all times during the reporting year on both the Group level and the level of individual companies that are subject to special capital adequacy requirements.

The resulting figures and financial ratios for the financial holding group are as follows:

€ million	31.12.2008		31.12.2007	
Aggregate risk position		41,178		42,663
of which weighted position according to the standardised approach to credit risks	38,240		38,325	
of which market risk positions * 12.5	1,013		1,650	
of which operational risks * 12.5	1,925		2,688	
Liable capital [1]		4,431		3,797
of which core capital [2]	3,627		2,970	
of which supplementary capital [2]	804		827	
Own funds		4,431		3,797
Core capital ratio [3] (%)		8.8		7.0
Overall ratio [4] (%)		10.8		8.9

1 Net of the deductible for securitisation positions
2 The deductible items are already deducted from core and supplementary capital
3 Core capital ratio = Core capital / (Capital requirement for (credit risks + operational risks + market risks) * 12.5) * 100
4 Overall ratio (own funds ratio under Principle I) = Own funds / (Capital requirement for (credit risks + operational risks + market risks) * 12.5) * 100

Notes to the financial instruments

(49) Carrying amounts of financial instruments under the measurement categories specified in IAS 39

The VW FS AG Group has defined the measurement categories under IAS 39 as follows:

Loans and receivables are non-derivative financial instruments that are not traded on active markets and are subject to fixed payment agreements. The cash reserve is also included in this category.

Financial assets or liabilities measured at fair value and recognised in income include derivative financial instruments. The VW FS AG Group does not plan on allocating other financial instruments to this category.

Available-for-sale financial assets are either allocated specifically to this category or they are not allocated to any other category.

All non-derivative financial instruments are recognised as of the settlement date. The derivative financial instruments are recognised as of the trading date.

The carrying amounts of the financial instruments pursuant to the measurement categories are as follows:

€ million	Loans and receivables		Available-for-sale financial assets		Financial liabilities measured at amortised cost		Financial assets or liabilities measured at fair value and recognised in income	
Assets	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Cash reserve	422	176	–	–	–	–	–	–
Receivables from financial institutions	1,358	796	–	–	–	–	–	–
Receivables from customers	48,587	45.845	–	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–	–	253	250
Securities	–	–	39	112	–	–	–	–
Other financial assets	–	–	156	133	–	–	–	–
Other assets	771	478	–	–	–	–	–	–
Total	**51,138**	**47.295**	**195**	**245**	**–**	**–**	**253**	**250**
Liabilities								
Liabilities to financial institutions	–	–	–	–	7,559	5,384	–	–
Liabilities to customers	–	–	–	–	16,881	13,969	–	–
Securitised liabilities	–	–	–	–	21,500	23,193	–	–
Derivative financial instruments	–	–	–	–	–	–	173	116
Other liabilities	–	–	–	–	493	375	–	–
Subordinated capital	–	–	–	–	1,887	1,712	–	–
Total	**–**	**–**	**–**	**–**	**48,320**	**44,633**	**173**	**116**

The net results of this category were as follows:

€ million	2008	2007
Loans and receivables	3,411	2,938
Available-for-sale financial assets	8	4
Financial liabilities measured at amortised cost	– 2,262	– 1,809
Assets or financial liabilities measured at fair value and recognised in income	1	– 30

The results are determined as follows:

Measurement category	Measurement method
Loans and receivables	Interest income pursuant to the effective interest rate method in accordance with IAS 39 and expenses / income resulting from value adjustments in accordance with IAS 39 including effects from currency translation
Available-for-sale financial assets	Measurement at market value in accordance with IAS 39 including effects from currency translation
Financial liabilities measured at amortised cost	Interest expense pursuant to the effective interest rate method in accordance with IAS 39 including effects from currency translation
Assets or financial liabilities measured at fair value and recognised in income	Measurement at market value in accordance with IAS 39 including interest and effects from currency translation

(50) Classes of financial instruments

Financial instruments are classed as follows in the VW FS AG Group:
– Measured at fair value
– Assets measured at amortised cost
– Hedge accounting
– Other financial assets
– Liabilities measured at amortised cost
– Credit commitments
– Not subject to IFRS 7

Any reconciliation of the affected balance sheet items with the aforementioned classes follows from the following description:

	Balance sheet item		Measured at fair value		Measured at amortised cost		Hedge accounting		Other financial assets		Not subject to IFRS 7	
€ million	**31.12.08**	**31.12.07**	**31.12.08**	**31.12.07**	**31.12.08**	**31.12.07**	**31.12.08**	**31.12.07**	**31.12.08**	**31.12.07**	**31.12.08**	**31.12.07**
Assets												
Cash reserve	422	176	–	–	422	176	–	–	–	–	–	–
Receivables from financial institutions	1,358	796	–	–	1,358	796	–	–	–	–	–	–
Receivables from customers	48,587	45,845	–	–	38,540	45,845	10,047	–	–	–	–	–
Derivative financial instruments	740	431	253	250	–	–	487	181	–	–	–	–
Securities	39	112	39	112	–	–	–	–	–	–	–	–
Joint ventures accounted for at equity	1,417	1,465	–	–	–	–	–	–	–	–	1,417	1,465
Other financial assets	156	133	–	–	–	–	–	–	156	133	–	–
Other assets	771	478	–	–	200	251	–	–	–	–	571	227
Total	**53,490**	**49,436**	**292**	**362**	**40,520**	**47,068**	**10,534**	**181**	**156**	**133**	**1,988**	**1,692**
Liabilities												
Liabilities to financial institutions	7,559	5,384	–	–	7,559	5,384	–	–	–	–	–	–
Liabilities to customers	16,881	13,969	–	–	16,881	13,969	–	–	–	–	–	–
Securitised liabilities	21,500	23,193	–	–	21,500	23,193	–	–	–	–	–	–
Derivative financial instruments	490	263	173	116	–	–	317	147	–	–	–	–
Other liabilities	493	375	–	–	87	165	–	–	–	–	406	210
Subordinated capital	1,887	1,712	–	–	1,887	1,712	–	–	–	–	–	–
Total	**48,810**	**44,896**	**173**	**116**	**47,914**	**44,423**	**317**	**147**	**0**	**–**	**406**	**210**
Credit commitments	1,758	1,898										

(51) Fair value of financial instruments classed as follows: Assets or liabilities measured at amortised cost, Measured at fair value, Hedge accounting, and Other financial assets

The fair values of the financial instruments are shown in the following table. The fair value is the amount for which financial instruments can be sold or bought on fair terms on the balance sheet date. Market prices were applied wherever available (e. g. in connection with securities) for measurement purposes. Absent market prices, the fair values of receivables and liabilities are determined based on discounting, taking customary market interest rates adequate to the relevant risk and corresponding to the relevant maturity into account; i. e. risk-free interest rate curves were adjusted for the relevant risk factors as well as equity and administrative costs as necessary. The fair value of receivables and liabilities with a residual term of less than one year was taken to be the balance sheet value on grounds of materiality.

Likewise, no fair value is determined for the miscellaneous financial assets because there is no active market for the companies contained therein and because it is impossible to reliably determine the relevant fair value at a reasonable cost. There were no plans at the balance sheet date to dispose of these financial assets.

The fair value of the irrevocable credit commitments is zero due to their short-term nature and the variable interest rate that is tied to the market interest rate.

	Fair value		Carrying amount		Difference	
€ million	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Assets						
Measured at fair value						
Derivative financial instruments	253	250	253	250	–	–
Securities	39	112	39	112	–	–
Measured at amortised cost						
Cash reserve	422	176	422	176	–	–
Receivables from financial institutions	1,358	796	1,358	796	–	–
Receivables from customers	39,013	45,919	38,540	45,845	473	74
Other assets	200	251	200	251	–	–
Hedge accounting						
Receivables from customers	10,047	–	10,047	–	–	–
Derivative financial instruments	487	181	487	181	–	–
Other financial instruments	156	133	156	133	–	–
Liabilities						
Measured at fair value						
Derivative financial instruments	173	116	173	116	–	–
Measured at amortised cost						
Liabilities to financial institutions	7,582	5,387	7,559	5,384	23	3
Liabilities to customers	16,882	13,972	16,881	13,969	1	3
Securitised liabilities	21,606	23,216	21,500	23,193	106	23
Other liabilities	87	165	87	165	–	–
Subordinated capital	1,901	1,734	1,887	1,712	14	22
Hedge accounting						
Derivative financial instruments	317	147	317	147	–	–

The determination of the financial instruments' fair value was based on the following risk-free interest rate curves:

Interest rate structure table									
%	EUR	USD	GBP	JPY	BRL	MXN	SEK	CZK	AUD
Interest for six months	2.971	1.750	2.960	0.954	12.660	8.050	2.575	3.750	4.738
Interest for one year	3.049	2.004	3.074	1.088	12.150	7.930	2.669	3.930	4.650
Interest for five years	3.234	2.053	3.136	0.910	12.530	7.670	2.825	2.810	4.250
Interest for ten years	3.738	2.474	3.426	1.223	–	7.970	3.158	3.250	4.330

(52) Risk of counterparty default

Please see the risk report contained in the management report for the relevant qualitative representations.

Our maximum exposure to credit risks is calculated as follows:

€ million	31.12.2008	31.12.2007
Measured at fair value	292	362
Measured at amortised cost		
Cash reserve	422	176
Receivables from financial institutions	1,358	796
Receivables from customers	38,540	45,845
Other assets	200	251
Hedge accounting		
Receivables from customers	10,047	–
Derivative financial instruments	487	181
Other financial assets	156	133
Irrevocable credit commitments	1,758	1,898
Total	**53,260**	**49,642**

The following table shows the quality of the financial assets:

	Gross carrying amount		Neither past due nor impaired		Past due and not impaired		Impaired	
€ million	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Measured at fair value	292	362	292	362	–	–	–	–
Measured at amortised cost								
Cash reserve	422	176	422	176	–	–	–	–
Receivables from financial institutions	1,358	796	1,358	796	–	–	–	–
Receivables from customers	39,232	46,862	36,823	44,159	1,478	1,709	931	994
Other assets	200	251	200	251	–	–	–	–
Hedge accounting								
Receivables from customers	10,429	–	9,785	–	397	–	247	–
Derivative financial instruments	487	181	487	181	–	–	–	–
Other financial assets	156	133	156	133	–	–	–	–
Total	**52,576**	**48,761**	**49,523**	**46,058**	**1,875**	**1,709**	**1,178**	**994**

The following table shows the impairments recognised by classes:

€ million	31.12.2008	31.12.2007
Measured at fair value	–	–
Measured at amortised cost		
Cash reserve	–	–
Receivables from financial institutions	–	–
Receivables from customers	692	1,017
Other assets	–	–
Hedge accounting		
Receivables from customers	382	–
Derivative financial instruments	–	–
Other financial assets	–	–
Irrevocable credit commitments	–	–
Total	**1,074**	**1,017**

The following table shows the carrying amounts of the financial instruments (broken down by classes) in regards to which the relevant contracts were amended in order to avoid arrears or recognising an impairment:

€ million	31.12.2008	31.12.2007
Measured at fair value	–	–
Measured at amortised cost		
Cash reserve	–	–
Receivables from financial institutions	–	–
Receivables from customers	454	478
Other assets	–	–
Hedge accounting		
Receivables from customers	121	–
Derivative financial instruments	–	–
Other financial assets	–	–
Total	**575**	**478**

These assets are measured in accordance with IAS 39, as already described in items (8) and (9).

Financial assets that are neither past due nor impaired are allocated to risk classes as follows:

	Neither past due nor impaired		Risk class 1		Risk class 2	
€ million	**31.12.2008**	**31.12.2007**	**31.12.2008**	**31.12.2007**	**31.12.2008**	**31.12.2007**
Measured at fair value	292	362	292	362	–	–
Measured at amortised cost						
Cash reserve	422	176	422	176	–	–
Receivables from financial institutions	1,358	796	1,358	796	–	–
Receivables from customers	36,823	44,159	31,604	37,313	5,219	6,846
Other assets	200	251	200	251	–	–
Hedge accounting						
Receivables from customers	9,785	–	8,398	–	1,387	–
Derivative financial instruments	487	181	487	181	–	–
Other financial assets	156	133	156	133	–	–
Total	**49,523**	**46,058**	**42,917**	**39,212**	**6,606**	**6,846**

In the financial services business, a borrower's credit rating is assessed in connection with all loans and leases. Scoring systems are utilised to this end in the volume business while rating systems are used in connection with fleet customers and receivables from wholesale financing. All receivables rated "good" in that process are assigned to risk class 1. Receivables from customers whose credit rating is not considered good but who have not yet defaulted are contained in risk class 2.

Age analysis according to classes of financial assets that are past due but not impaired:

			Past due within the following periods					
	Neither past due nor impaired		up to 1 month		1 to 3 months		more than 3 months	
€ million	**31.12.08**	**31.12.07**	**31.12.08**	**31.12.07**	**31.12.08**	**31.12.07**	**31.12.08**	**31.12.07**
Measured at fair value	–	–	–	–	–	–	–	–
Measured at amortised cost								
Cash reserve	–	–	–	–	–	–	–	–
Receivables from financial institutions	–	–	–	–	–	–	–	–
Receivables from customers	1,478	1,709	977	1,416	371	284	130	9
Other assets	–	–	–	–	–	–	–	–
Hedge accounting								
Receivables from customers	397	–	264	–	99	–	34	–
Derivative financial instruments	–	–	–	–	–	–	–	–
Other financial assets	–	–	–	–	–	–	–	–
Total	**1,875**	**1,709**	**1,241**	**1,416**	**470**	**284**	**164**	**9**

Gross carrying amounts of impaired receivables:

€ million	31.12.2008	31.12.2007
Measured at fair value	–	–
Measured at amortised cost		
Cash reserve	–	–
Receivables from financial institutions	–	–
Receivables from customers	931	994
Other assets	–	–
Hedge accounting		
Receivables from customers	247	–
Derivative financial instruments	–	–
Other financial assets	–	–
Total	**1,178**	**994**

Vehicles, mortgages, or other movable property are accepted as collateral for loans granted.

Collateral obtained in the financial year just ended for financial assets that are past due but not impaired and impaired financial assets which are scheduled for disposal:

€ million	31.12.2008	31.12.2007
Vehicles	211	163
Property	0	5
Other movables	3	0
Total	**214**	**168**

Vehicle disposals are effected by means of direct sales and auctions to Volkswagen Group dealerships.

(53) Liquidity risk

In regards to our refinancing and hedging strategy, please see the management report.

The age analysis of undiscounted cash outflows from financial liabilities is as follows:

			Remaining contractual maturity							
	Cash ouflows		up to 3 months		3 months to 1 year		1 to 5 years		more than 5 years	
€ million	31.12.08	31.12.07	31.12.08	31.12.07	31.12.08	31.12.07	31.12.08	31.12.07	31.12.08	31.12.07
Liabilities to financial institutions	7,637	5,794	3,757	1,643	1,865	2,078	1,943	1,991	72	82
Liabilities to customers	19,505	15,521	13,692	10,834	3,077	1,912	2,446	2,345	290	430
Securitised liabilities	22,848	25,476	2,339	3,939	3,052	3,607	17,017	17,688	440	242
Derivative financial instruments	1,714	1,402	544	93	832	817	338	485	0	7
Subordinated capital	1,888	1,732	154	150	92	77	343	185	1,299	1,320
Irrevocable credit commitments	1,758	1,898	1,758	1,898	–	–	–	–	–	–
Total	**55,350**	**51,823**	**22,244**	**18,557**	**8,918**	**8,491**	**22,087**	**22,694**	**2,101**	**2,081**

(54) Market risk

Please see the risk report contained in the management report for the relevant qualitative representations.

The value-at-risk (VaR) method based on historical simulation is used for quantitative measurements of the interest and currency translation risks. The VaR indicates the scope of any loss in the overall portfolio with a 99 % probability of occurring within a ten-day period. It requires an interest rate gap analysis that shows all cash flows resulting from original and derivative financial instruments. The historical market data used to determine the VaR comprise the 250 most recent trade dates.

This yields the following figures:

€ million	31.12.2008	31.12.2007
Interest rate risk	26	14
Currency translation risk	40	24
Total market price risk	**36**	**25**

(55) Foreign currency items

In the VW FS AG Group the following assets and liabilities are contained in the currencies shown as at 31.12.2008:

€ million	BRL	GBP	JPY	MXN	SEK	CZK	TRY	AUD	USD	Other	Total
Receivables from financial institutions	146	46	101	19	0	0	0	74	0	0	386
Receivables from customers	3,235	3,234	1,440	796	762	740	184	327	26	0	10,744
Assets	**3,381**	**3,280**	**1,541**	**815**	**762**	**740**	**184**	**401**	**26**	**0**	**11,130**
Liabilities to financial institutions	2,356	321	313	189	47	397	89	121	20	0	3,853
Liabilities to customers	28	1,114	209	202	24	127	–	130	–	0	1,834
Securitised liabilities	454	551	746	385	183	48	37	142	–	–	2,546
Subordinated capital	48	139	–	–	–	–	–	–	–	–	187
Liabilities	**2,886**	**2,125**	**1,268**	**776**	**254**	**572**	**126**	**393**	**20**	**0**	**8,420**

(56) Notes to the hedging policy

Hedging policy and financial derivatives

On account of its activities in international financial markets, the VW FS AG Group is affected by interest rate fluctuations on the international money and capital markets, while the exchange rate risk between foreign currencies and the euro plays a minor role. The general rules for the Group-wide foreign currency and interest rate hedging policy are laid down in Group-internal guidelines and fulfil the “Minimum requirements for risk management” issued by the Federal Financial Supervisory Authority (BAFin). National and international banks with excellent credit standing, whose creditworthiness is continuously scrutinised by rating firms, act as trading partners for the conclusion of appropriate financial transactions. To limit the currency and interest rate risks, appropriate hedging transactions are concluded. For this purpose, marketable derivative financial instruments are used.

Market price risk

A market price risk occurs when price changes on the financial markets (interest rates and exchange rates) have a positive or negative impact on the value of traded products. The market values shown in the tables were determined on the basis of the market information available on the balance sheet date, and they represent the present values of the financial derivatives. The present values were determined on the basis of standardised procedures or quoted prices.

Interest rate risk

Changes in interest rate levels on the money and capital markets constitute an interest rate risk in the case of refinancing not at matching maturities. Interest rate risks are managed on the basis of recommendations given by the Asset/Liability Management Committee (ALM Committee), which draws up risk-limiting requirements with regard to market risks and asset/liability management. The basis on which the resolutions of the ALM Committee are passed is provided by interest rate gap analyses which are subjected to various interest rate scenarios and thus quantify the interest rate risk. The ALM Committee makes recommendations as strategic decision-making support for the respective interest rate policy orientation. The quantified risk and the mismatch items are subject to maximum limits that apply uniformly throughout the Group.

The interest rate hedging contracts concluded primarily contain interest rate swaps and combined interest rate/currency swaps.

Fair value hedge accounting for a portfolio hedge was performed for the first time in the 2008 financial year pursuant to IAS 39 AG 114 ff. as part of the interest rate hedging strategy. This entailed hedging receivables and liabilities subject to fixed interest rates against fluctuations of the risk-free base rate. The portions of the assets or liabilities subject to fixed interest rates that were included in this hedging strategy are recognised at fair value in contrast to the original subsequent measurement (at amortised cost). The resulting effects in the income statement are compensated by the countervailing earnings effects of the interest rate hedges (swaps).

Currency risk

To avoid currency risks, currency hedging contracts consisting of forward exchange deals and interest rate / currency swaps are used. All cash flows in foreign currency are hedged.

Liquidity risk / refinancing risk

The VW FS AG Group makes provisions for securing against potential liquidity squeezes by maintaining confirmed credit lines at various commercial banks and by using multi-currency-capable continuous issuing programmes.

Non-payment risk

The non-payment risk from financial assets consists of the risk of non-payment by a contracting party and therefore the maximum amount at risk is the balance vis-à-vis the respective counterparties.

As the transactions are only concluded with counterparties that have an excellent credit standing, and trading limits are set for each counterparty within the framework of risk management, the actual non-payment risk is considered to be small.

The VW FS AG Group is not subject to any particular risk concentration.

The nominal volumes of the derivative financial instruments are made up as follows:

	Remaining contractual maturity					
	up to 1 year		1 to 5 years		more than 5 years	
€ million	**31.12.2008**	**31.12.2007**	**31.12.2008**	**31.12.2007**	**31.12.2008**	**31.12.2007**
Cash flow hedges						
Interest rate swaps	5,192	3,332	3,579	4,946	52	10
Cross-currency interest rate swaps	–	–	–	–	–	–
Currency futures contracts	1,281	1,067	0	0	–	–
Currency swaps	489	–	–	–	–	–
Other						
Interest rate swaps	9,544	10,104	24,927	22,204	334	535
Cross-currency interest rate swaps	335	990	221	373	–	–
Currency futures contracts	127	377	–	–	–	–
Currency swaps	114	–	143	–	–	–
Total	**17,082**	**15,870**	**28,870**	**27,523**	**386**	**545**

The periods related to future payments on the transactions underlying the cash flow hedges correspond to the maturity of the hedging transactions.

Cash flow hedges for which no underlying transaction is expected to occur in future were not recognised at the balance sheet date.

The effects of cash flow hedges realised in the reporting period are shown in interest expense.

Segment reporting

(57) Primary segment

The reporting in the primary segment of the VW FS AG Group is based on the geographical markets of Germany, Europe/Asia and North and South America. Foreign branches of German subsidiaries are included in the Europe/Asia segment. The Europe/Asia segment contains the subsidiaries and branches in the United Kingdom, Italy, France, the Czech Republic, Austria, the Netherlands, Belgium, Spain, Sweden, Ireland, Greece, Japan and Australia. The North and South America segment contains the subsidiaries in Mexico and Brazil.

Division by geographical markets:

	2008 financial year				
€ million	Germany	Europe/Asia	North and South America	Consolidation	Total
Interest income from lending transactions with third parties	1,276	897	550	–	2,723
Interest income from intersegment lending transactions	314	44	–	– 358	–
Segment interest income from lending transactions	1,590	941	550	– 358	2,723
Net income from leasing transactions	871	150	112	–	1,133
Net income from insurance business	9	–	–	–	9
Interest expense	1,499	720	401	– 358	2,262
Net income from lending, leasing and insurance transactions before provisions for risks	971	371	261	–	1,603
Provisions for risks arising from lending and leasing business	246	44	60	–	350
Net income from lending, leasing and insurance transactions after provisions for risks	725	327	201	–	1,253
Net commission income	163	24	22	–	209
Result from financial instruments	– 29	2	–	–	– 27
Result from joint ventures accounted for at equity	101	–	–	–	101
Result from other financial assets	23	–	–	– 15	8
General administration expenses	587	214	100	– 14	887
Other operating result	79	9	61	– 14	135
Pre-tax result	**475**	**148**	**184**	**– 15**	**792**
Taxes on income and earnings	121	55	38	–	214
Net income	**354**	**93**	**146**	**– 15**	**578**
Minority interest in net income	–	–	–	–	–
Net income attributable to Volkswagen AG	354	93	146	– 15	578
Segment assets	**41,845**	**16,153**	**4,209**	**– 8,315**	**53,892**
Segment liabilities	**38,227**	**14,859**	**3,665**	**– 8,315**	**48,436**

The net income from leasing transactions per segment is exclusively comprised of external income and expenses and is as follows:

€ million	2008 financial year Germany	Europe/Asia	North and South America	Consolidation and other	Total
Income from leasing transactions and service contracts	2,504	1,180	121	–	3,805
Expenses from leasing transactions and service contracts	1,351	738	8	–	2,097
Depreciation and impairment losses on leased assets and investment property	282	292	1	–	575
of which impairment losses pursuant to IAS 36	31	61	–	–	92
Net income from leasing transactions	**871**	**150**	**112**	**–**	**1,133**

The presentation for the previous year is as follows:

€ million	2007 financial year Germany	Europe/Asia	North and South America	Consolidation	Total
Interest income from lending transactions with third parties	1,088	835	389	–	2,312
Interest income from intersegment lending transactions	257	40	–	– 297	–
Segment interest income from lending transactions	1,345	875	389	– 297	2,312
Net income from leasing transactions	762	175	47	–	984
Net income from insurance business	6	–	–	–	6
Interest expense	1,255	624	227	– 297	1,809
Net income from lending, leasing and insurance transactions before provisions for risks	858	426	209	–	1,493
Provisions for risks arising from lending and leasing business	138	9	92	–	239
Net income from lending, leasing and insurance transactions after provisions for risks	720	417	117	–	1,254
Net commission income	150	– 6	12	–	156
Result from financial instruments	– 36	1	–	–	– 35
Result from joint ventures accounted for at equity	153	–	–	–	153
Result from other financial assets	27	0	0	– 23	4
General administration expenses	537	207	83	– 13	814
Other operating result	83	7	14	– 13	91
Pre-tax result	**560**	**212**	**60**	**– 23**	**809**
Taxes on income and earnings	10	62	18	–	90
Net income	**550**	**150**	**42**	**– 23**	**719**
Minority interest in net income	–	–	3	–	3
Net income attributable to Volkswagen AG	550	150	42	– 24	716
Segment assets	**38,425**	**16,076**	**3,798**	**– 8,538**	**49,761**
Segment liabilities	**33,825**	**14,867**	**3,248**	**– 7,420**	**44,520**

	2007 financial year				
€ million	Germany	Europe/Asia	North and South America	Consolidation and other	Total
Income from leasing transactions and service contracts	2,081	1,057	51	–	3,189
Expenses from leasing transactions and service contracts	1,064	655	3	–	1,722
Depreciation and impairment losses on leased assets and investment property	255	227	1	–	483
of which impairment losses pursuant to IAS 36	11	2	–	–	13
Net income from leasing transactions	**762**	**175**	**47**	**–**	**984**

All business transactions between the segments are carried out at normal market terms.

The consolidation in the interest income from lending transactions and interest expense results from the granting of Group-internal refinancing funds between the geographical markets. In the result from financial assets, consolidation is based on the elimination of income from equity investments at the parent company, VW FS AG.

Shares in joint ventures are attributed to the Germany segment.

The investments in leased assets and investment property amount to € 2,030 million (previous year: € 1,671 million) in Germany, € 1,108 million (previous year: € 991 million) in the Europe/Asia segment and € 2 million (previous year: € 10 million) in the North and South America segment. The investments in the other assets are of secondary importance.

(58) Secondary segment

In the secondary segment, the reporting is based on the products of lending and leasing business. The leased assets, the receivables from finance leases and investment property are shown under leasing business. All other transactions are shown under lending business.

	2008 financial year		2007 financial year	
€ million	Segment income	Segment assets	Segment income	Segment assets
Lending business	2,723	35,032	2,312	33,002
Leasing business	3,805	17,925	3,189	16,083
Consolidation and other	–	935	–	676
Total	**6,528**	**53,892**	**5,501**	**49,761**

Other notes

(59) Cash flow statement

The cash flow statement of the VW FS AG Group documents the change in funds available due to the cash flows resulting from operating activities, investing activities and financing activities. The cash flows resulting from investing activities comprise payments resulting from the purchase and proceeds resulting from the sale of leased assets, investment property, subsidiaries and joint ventures and other assets. The financing activities comprise all the cash flows resulting from transactions with equity, subordinated capital and other financing activities. All other cash flows are assigned to operating activities, in accordance with international practice for financial services companies. Cash and cash equivalents, narrowly defined, comprises only the cash reserve, which is made up of the cash in hand and deposits at central banks.

The changes to the balance sheet items applied for the development of the cash flow statement cannot be derived directly from the balance sheet, as effects from changes in the basis of consolidation do not influence payments and are separated out.

(60) Off-balance sheet obligations

€ million	31.12.2008	31.12.2007
Contingent liabilities		
Liabilities from surety and warranty agreements	13	11
Liability arising from the provision of security for third-party liabilities	8	8
Other commitments		
Irrevocable credit commitments	1,758	1,898

The obligations under non-terminable rental and leasing contracts in the VW FS AG Group trigger expenses of € 4 million (previous year: € 4 million) in the 2009 financial year, € 11 million (previous year: € 11 million) in the 2010 to 2013 financial years and € 1 million (previous year: none) in the financial years thereafter.

(61) Average number of employees during the financial year

	2008	2007
Salaried employees	6,476	5,682
Trainees	99	116
Total	**6,575**	**5,798**

(62) Relationships with related parties

Related parties, as defined by IAS 24, are parties which can be influenced by the reporting company or which can influence the reporting company.

Volkswagen AG, Wolfsburg, is the sole shareholder of VW FS AG.

A control and profit transfer agreement exists between the sole shareholder, Volkswagen AG, and VW FS AG. The business relations between the two companies are handled at normal market terms.

Volkswagen AG and its subsidiaries make refinancing funds available to the companies of the VW FS AG Group at normal market terms. Furthermore, financial guarantees from subsidiaries of the Volkswagen AG Group exist in our favour within the framework of the operating business.

To support sales promotion campaigns, the companies of the VW FS AG Group receive financial contributions from the production companies and importing companies of the Volkswagen Group.

All business relations with fellow subsidiaries and non-consolidated subsidiaries as well as joint ventures and associated companies are handled at normal market terms.

Transactions with related parties are shown in the following two tables:

2008 financial year € million	Supervisory Board	Board of Management	Volkswagen AG	Porsche	Fellow subsidiaries	Non-consolidated subsidiaries	Joint ventures	Associated companies
Receivables	0	0	12	39	149	58	1,807	0
Allowances on receivables	–	–	–	–	–	–	–	–
of which: additions, current year	–	–	–	–	–	–	–	–
Liabilities	1	0	1,820	4	1,188	9	0	0
Interest income	0	0	21	0	195	1	77	0
Interest expense	0	0	52	0	8	0	3	–
Services and products provided	–	–	0	14	0	16	2	–
Services and products received	–	–	4	57	1	7	0	–
Provision of sureties	–	–	–	–	–	20	149	–

2007 financial year € million	Supervisory Board	Board of Management	Volkswagen AG	Fellow subsidiaries	Non-consolidated subsidiaries	Joint ventures	Associated companies
Receivables	0	–	9	136	211	1,672	0
Allowances on receivables	–	–	–	–	–	–	0
of which: additions, current year	–	–	–	–	–	–	–
Liabilities	–	–	1,462	1,291	93	0	–
Interest income	0	–	164	267	0	75	–
Interest expense	–	–	18	59	0	0	–
Services and products provided	–	–	11	9	3	0	0
Services and products received	–	–	8	7	–	–	0
Provision of sureties	–	–	–	–	43	143	–

Members of the Board of Management and Supervisory Board of VW FS AG are members of boards of management and supervisory boards of other companies in the Volkswagen Group, with which, in some cases, we do business within the framework of normal business activities. All the business relations with these companies are conducted under the same conditions as are usual with external third parties.

Compensation of the Board of Management

€ million	2008	2007
Short-term benefits	3	3
Post-employment benefits	3	1
Termination benefits	2	1

Total emoluments of former members of the Board of Management and their surviving dependants amounted to € 0.4 million (previous year: € 0.6 million). The provisions for current pensions and pension expectancies made for this group of persons amount to € 7 million (previous year: € 6 million).

Within the framework of the stock option plan of Volkswagen AG, members of the Board of Management of VW FS AG have taken up convertible bonds which entitle them to subscribe to ordinary shares in Volkswagen AG. Details of the stock option plans are contained in the Annual Report of Volkswagen AG.

(63) Corporate bodies of Volkswagen Financial Services AG

The Board of Management is comprised as follows:

Frank Witter (from 16.9.2008)
Chairman of the Board of Management
Corporate Steering
IT, Insurance
Regions North America, South America, Asia Pacific

Elke Eller
Human Resources, Organisation

Frank Fiedler (from 16.9.2008)
Finance (Controlling, Treasury, from 30.10.2008 Accounting)

Dr. Michael Reinhart
Risk Management
Accounting (until 29.10.2008)

Lars-Henner Santelmann (from 16.9.2008)
Sales
Regions Central Europe, Northern Europe, Eastern Europe, Southern Europe

Mr Burkhard Breiing and Mr Klaus-Dieter Schürmann belonged to the Board of Management until 15.9.2008. Mr Breiing was Chairman of the Board of Management and responsible for Controlling, Corporate Steering, IT and Insurance as well as for the Regions Central Europe, Eastern Europe, Asia Pacific, North America and South America. Mr Schürmann was responsible for Treasury as well as for the Regions Northern Europe and Southern Europe.

The Supervisory Board is comprised as follows:

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

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

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

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

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

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

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

Detlef Kunkel
General Secretary / Principal Representative of IG Metall Brunswick

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

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

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

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

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

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

(64) Letter of comfort for our affiliated companies

With the exception of political risks, Volkswagen Financial Services AG hereby declares that, as the shareholder of its affiliated companies, over which it has managerial control and/or in which it holds a direct or indirect majority share of the share capital, it will exert its influence to ensure that the latter meet their liabilities to creditors in the agreed manner. Moreover, Volkswagen Financial Services AG confirms that, for the term of the loans, it will make no changes to the share structures of these companies which would adversely affect the letter of comfort without informing the lenders.

(65) Events after the balance sheet date

Porsche Automobil Holding SE, Stuttgart, and its shareholder to whom the voting shares of Volkswagen AG are attributable under § 22 Para. 1 Sentence 1 No. 1 German Securities Trading Act notified the company pursuant to § 21 Para. 1 German Securities Trading Act that their interest in the voting shares of Volkswagen AG surpassed the threshold of 50 % on 5 January 2009 and that they were holding 50.76 % of the voting shares as of said date. The voting shares attributable to the individual notifying parties follow from Volkswagen AG's mandatory filing dated 12 January 2009 on its webpage, www.volkswagenag.com/ir. On 17 February 2009, the Sonderfonds Finanzmarktstabilisierung (special fund for the stabilisation of the financial market – SoFFin) informed us that Volkswagen Bank GmbH received a framework guarantee of up to € 2.0 billion for the purpose of refinancing automobile loans. There were no other significant events up to 6 March 2009.

(66) Responsibility statement of the Board of Management

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

Brunswick, 9 February 2009/6 March 2009
The Board of Management

Frank Witter

Elke Eller

Frank Fiedler

Dr. Michael Reinhart

Lars-Henner Santelmann

INDEPENDENT AUDITORS' REPORT

We have audited the consolidated financial statements prepared by Volkswagen Financial Services Aktiengesellschaft, Brunswick, consisting of income statement, balance sheet, statement of recognised income and expense, cash flow statement and notes, for the financial year from 1 January to 31 December 2008. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS as applicable in the EU and the supplementary provisions that are applicable under § 315a Para. 1 German Commercial Code (HGB) is the responsibility of the company's Board of Management. Our responsibility is to express an opinion, based on our audit, on the consolidated financial statements and on the Group management report.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and the generally accepted German auditing standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). These standards require that we plan and perform the audit to obtain reasonable assurance that inaccuracies and violations with a material impact on the presentation of net assets, financial situation and results of operations conveyed by the consolidated financial statements with due regard to the applicable accounting principles and by the Group management report are identified. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible errors 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 consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the financial statements of the companies included in consolidation, the definition of the scope of consolidation, the accounting and consolidation principles applied and significant estimates made by the Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the Group 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 consolidated financial statements are in compliance with IFRS as applicable in the EU and with the supplementary provisions applicable under § 315a Para. 1 HGB, and in accordance with these provisions give a true and fair view of the net assets, financial position and results of the operations of the Group. The Group management report is consistent with the consolidated financial statements, provides a suitable understanding of the Group's situation and suitably presents the opportunities and risks of future development.

Hanover, 9 February 2009/6 March 2009

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Harald Kayser	Burkhard Eckes
Auditor	Auditor

REPORT OF THE SUPERVISORY BOARD OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

In the financial year just ended, the Supervisory Board regularly and exhaustively dealt with the situation and development of the Volkswagen Financial Services AG Group.

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 of the Board of Management, the Supervisory Board continuously monitored the management of the company's business, thus fulfilling its responsibilities under the law and the company's statutes without limitation. All decisions material to the company, as well as all other transactions subject to the Supervisory Board's approval under its rules of procedure, were reviewed and discussed with the Board of Management before the relevant resolution was adopted.

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

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

Work of the committees

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

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

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

Deliberations of the Supervisory Board

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

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

At the meeting on 20 February 2008, we approved the Board of Management's plans for further optimising the subgroup's management by establishing a holding company in the Netherlands to which all foreign equity investments of Volkswagen Financial Services AG are to be contributed. We also approved the construction of a new office building in Brunswick.

At our meeting on 2 July 2008, we approved the establishment of a financial services sales organisation in India in order to support the Volkswagen Group's local activities. The Board of Management explained the company's current exposure in regards to both credit risks and residual value risks as well as the ramifications of the subprime mortgage crisis and the steps that must be taken as a result.

On 26 November 2008, we engaged in an extensive discussion of the subgroup's financial and investment planning. The Board of Management informed us of the ramifications of the financial market crisis, the company's current liquidity situation and the measures that the Board has initiated. We also dealt with our strategic realignment in connection with the Strategy 2018 and discussed the Board of Management's plan to enter the Ukrainian market. We approved the founding of three companies in Kiev to this end. Finally, we authorised the Board of Management to establish a foundation called "Our Children in Brunswick" so that the company can fulfil its social responsibilities.

Audit of the annual and consolidated financial statements

PriceWaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, was commissioned to audit the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the annual financial statements of Volkswagen Financial Services AG in accordance with the German Commercial Code (HGB) for the year ended 31 December 2008, including the accounting and the management reports.

The Supervisory Board had at its disposal the consolidated annual financial statements in accordance with IFRS and the annual financial statements of Volkswagen Financial Services AG in accordance with HGB for the year ended 31 December 2008 and the management reports. The auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, have audited these financial statements, including the accounting and the management reports, and issued an unqualified auditors' report in each case. The Supervisory Board approves the results of these audits.

The Supervisory Board's review of the consolidated financial statements in accordance with IFRS, the annual financial statements in accordance with HGB and the management reports 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 loss made by Volkswagen Financial Services AG based on its single-entity financial statements in accordance with HGB was covered by Volkswagen AG, the company's sole shareholder, under the existing control and profit transfer agreement.

The Supervisory Board approved the annual financial statements prepared by the Board of Management and the consolidated financial statements of Volkswagen Financial Services AG. The annual financial statements are thereby adopted.

Composition of the Board of Management

By circular memorandum dated 4 September 2008, we appointed Mr Frank Witter new Chairman as well as Messrs Lars-Henner Santelmann and Frank Fiedler new members of the Board of Management of Volkswagen Financial Services AG effective 16 September 2008. Messrs Burkhard Breiing and Klaus-Dieter Schürmann left the Board of Management effective 15 September 2008.

The Supervisory Board wishes to acknowledge and express its appreciation to the members of the Board of Management, the members of the works council, the managerial staff and all the employees of Volkswagen Financial Services AG and its affiliated companies for their work. Through their great dedication they have all contributed to the ongoing development of Volkswagen Financial Services AG.

Brunswick, 9 March 2009

Hans Dieter Pötsch
Chairman of the Supervisory Board

THE SUPERVISORY BOARD OF VOLKSWAGEN FINANCIAL SERVICES AG

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Group Marketing and Sales

GLOSSARY

Asset-backed securities structure
Specific form of conversion of payment claims into negotiable securities vis-à-vis a single-purpose company, which have come about through the bundling of certain financial assets of a company.

Benchmark
Systematic and continuous process of comparing a company's products, services, key financial figures and processes with those of the industry leaders.

Captive
Financial enterprise owned and/or managed by an industrial company.

Cash flow
Net payment flows of a period from operating, investing and financing activities.

Cash flow statement
Economic parameter which helps to assess a company's ability to pay its bills.

Commercial paper programme
Framework programme for short-term debentures which enables money market papers to be issued quickly and flexibly.

Core capital
The core capital of the financial holding group, Volkswagen Financial Services AG, is essentially comprised of paid-in capital and reserves less deductible items in accordance with § 10 Para. 2a German Banking Act, such as, for instance, intangible assets or accumulated deficits, as well as 50 % of the deductible items in accordance with § 10 Para. 6 German Banking Act, such as certain equity investments in institutes or insurance companies.

Core capital ratio
Ratio between core capital and risk-weighted assets.
Core capital / (Capital requirement for (credit risks + operational risks + market risks) *12.5) * 100)

Cross-border leasing
Cross-border leasing is a leasing transaction where lessor and lessee are located in different countries.

Derivative
Financial instrument whose value depends on the value of another original financial instrument. Derivatives is a generic term covering, for example, options, futures, forwards, interest rate swaps and currency swaps.

Derivative financial instrument (hedging transaction)
Rights and obligations for covering financial risks associated with original financial instruments.

Effective interest rate method
The calculation of interest taking into account all fees paid and received between contracting parties and other remuneration.

Equity method
Method of consolidation for integrating companies into consolidated financial statements. It is based on the historical cost of the equity investment, which is updated in line with the development of the pro rata equity in the following years.

Equity ratio (balance sheet)
Ratio between equity and total assets.

Fair value
Applicable value (e. g. market value) at which financial instruments can be bought and sold in a transaction between knowledgeable, willing parties in an arm's length transaction.

Financial holding group
According to the German Banking Act, such a group exists if a financial holding company (Volkswagen Financial Services AG) has subordinated financial institutions, financial services institutions, financial enterprises or providers of ancillary services, and at least one of the subordinated enterprises is a deposit-taking bank (Volkswagen Bank GmbH), for instance.

Finance leasing
Type of leasing where the economic ownership of the leased asset passes to the lessee upon expiry of the term of the lease. The leased asset is recognised on the balance sheet of the lessee.

Goodwill
The difference between the purchase price for an acquired company and the value of the net assets acquired.

Hedge accounting
Hedge accounting aims at minimising the contradictory development of derivatives and underlying transactions on the income statement.

Impairment test
Impairment tests are carried out regularly to assess the recoverability of assets.

International Financial Reporting Standards (IFRS)
Accounting rules prepared by the International Accounting Standards Board (IASB, previously International Accounting Standards Committee (IASC)), an independent association.

Letter of comfort
Declaration of a parent company vis-à-vis third parties, e. g. banks, to meet the liabilities of its affiliate.

Liable capital
Core capital and supplementary capital minus deductible items, where the eligible supplementary capital shall not exceed core capital and the eligible subordinated loans shall not exceed 50% of core capital.

Operating leasing
Type of leasing where the economic ownership of the leased asset and thus the realisation risk remains with the lessor upon expiry of the term of the lease. The leased asset is recognised on the balance sheet of the lessor.

Overall ratio (regulatory)
The overall ratio must be determined in accordance with § 2 Para. 6 of the Solvency Regulations at the end of each quarter. It represents the ratio between eligible own funds as numerator and 12.5 times the sum of the total capital requirement for credit risks, the capital requirement for operational risks and the sum of the capital requirements for market risk positions including option transactions.

Own funds ratio (regulatory)
Ratio between own funds and aggregate risk position. The aggregate risk position is the sum of the risk-weighted assets and 12.5 times the capital requirement for market risks and operational risks.
(Own funds / (Capital requirement for (credit risks + operational risks + market risks)*12.5) * 100)

Participation certificate
Guaranteed right to participate in the net profit or liquidation proceeds of a company.

Rating
Ratings reflect the opinion of institutions specialising in checking creditworthiness (rating firms, banks, credit insurance providers) with regard to the economic capability, legal obligation and willingness of creditors to meet their payment obligations fully and in due time.

Return on equity
Pre-tax result divided by the average equity.

Scoring system
Credit rating system for the private customer business.

Securitisation
Conversion of a pool (clearly defined amount) of assets of the same type into marketable securities. Asset-backed securities (ABS) are securitisation products. The owner of such assets “sells” the pool to an intermediary – a so-called special purpose vehicle (SPV) – which refinances itself through the issuance of securities.

Solvency Regulations
Mandatory capital adequacy standard for financial institutions in the Federal Republic of Germany which replaced Principle I effective 1 January 2007.

Spread
Premium or discount on a reference interest rate (e. g. LIBOR or EURIBOR), the amount of which depends on a creditor’s creditworthiness and market position. Also called margin.

Standardised approach for credit risks
In contrast to the old Principle I, the Solvency Regulations provide for two, more risk-sensitive methods for determining the capital requirements for credit risks: the standardised approach and the approach based on internal ratings (IRB approach). Compared to the IRB approach, the standardised approach includes more specific requirements by the banking regulatory authorities regarding the factors determining capital requirements.

Supplementary capital
Essentially contingency reserves, participation right liabilities and subordinated liabilities.

Swap
Exchange of payment streams which can also take place between different currencies.

Value-at-risk
Maximum loss of a portfolio which can occur with a certain probability within a predefined period of time.

Volatility
Range of fluctuation, e. g. of markets or in the value of financial instruments

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains statements concerning the future business development of Volkswagen Financial Services AG. These statements include, among others, assumptions about the development of the global economy, as well as the financial and automobile markets. Volkswagen Financial Services AG 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 Financial Services AG, then the business development will be accordingly affected.

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Concept and design:
CAT Consultants, Hamburg

Photos:
Peter Kaus, Hamburg
Sabine Sellnau, Hanover (page 17, upper left)

You will also find the Annual Report 2008 at www.vwfs.com/ar08

The Annual Report is also published in German.

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