

# VOLKSWAGEN LEASING

GMBH



Annual Report 2007

## AT A GLANCE

### VOLKSWAGEN LEASING GMBH INCLUDING VOLKSWAGEN LEASING ANLAGEN GMBH AND EUROPCAR FLEET SERVICES GMBH

| <b>in € million</b>          | <b>2007</b> | <b>2006</b> | <b>2005</b> | <b>2004</b> | <b>2003</b> |
|------------------------------|-------------|-------------|-------------|-------------|-------------|
| Investments in leased assets | 6,386       | 5,761       | 5,270       | 5,178       | 4,690       |
| Leased assets                | 10,930      | 10,661      | 10,027      | 9,027       | 7,790       |
| Total assets                 | 12,721      | 11,267      | 10,267      | 9,914       | 8,597       |
| Sales                        | 6,563       | 5,848       | 5,302       | 5,171       | 4,837       |

| <b>in thousands</b> | <b>2007</b> | <b>2006</b> | <b>2005</b> | <b>2004</b> | <b>2003</b> |
|---------------------|-------------|-------------|-------------|-------------|-------------|
| New contracts       | 280         | 253         | 224         | 232         | 212         |
| Current contracts   | 703         | 664         | 623         | 595         | 567         |

To improve the information about business trends, we have combined the figures of the companies to create a Group presentation.

As at 1 January 2005, Europcar Fleet Services GmbH was merged with Volkswagen Leasing GmbH. Volkswagen Leasing Anlagen GmbH discontinued its operations in August 2004.

# Volkswagen Leasing GmbH

Volkswagen Leasing GmbH has evolved from a provider of pure finance leasing into an international and competitive fleet management company.

Innovative leasing products and services as well as optimised management of residual values and pre-owned vehicles are instrumental to this strategy's success.

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Publishing information



**The Board of Management of Volkswagen Leasing GmbH (from left to right)**

**Dietrich Paul** (Managing Director; Association Relations, Brand and Data Protection; until 31.12.2007) –  
**Lars-Henner Santelmann** (Spokesman of the Board of Management; Fleet Service Management, Marketing and Product Development, Residual Value Management) – **Dirk H. Pinkvos** (Managing Director; Sales Fleet Customers and Fleets, Remarketing and Internationalisation)

**Ladies and Gentlemen,**

The wave of consolidation in the leasing market that began in 2006 has continued unabated. As a result of declining new registrations and deteriorating customer loyalty, we found ourselves facing difficult market conditions again in 2007.

Despite the challenges posed by this environment, we were able to further expand our leasing business and defend our market leadership. Leasing contract numbers rose steadily throughout the year, eventually reaching a total of 703,000, or 5.9 % more than in the previous year.

While the overall market declined in the year just ended, we benefited from the growth in the number of business vehicle registrations as well as from the growth in fleets larger than ten vehicles. To exploit this market situation, we developed and promoted a wide range of new services in the Net Leasing and services segments, we introduced more effective management of residual values and pre-owned vehicles, and we expanded our international leasing business. As a result of these measures, we achieved a record 430,000 contracts under management in the fleet customer segment.

**Boosting the core leasing business**

In partnership with Volkswagen's passenger and commercial vehicle divisions and, for the first time, with Audi, we launched a number of special products in 2007 with particularly attractive terms designed to boost the leasing business. These included new and unique products for employees, such as our "Twin Car" product, aimed at persuading the employees of Volkswagen, SEAT, Škoda and Audi fleet customers to lease an additional vehicle of the same brand by offering them much more attractive terms than they could obtain from the competition.

New products, such as our "LifeTime *fleet*" guarantee insurance, designed to protect against unforeseen repair costs and to introduce company-owned fleets to the benefits of full-service leasing, had a positive impact on our core leasing business.

### **Optimised residual value and pre-owned vehicle management**

Strong residual values are key to ensuring attractive leasing terms for automobiles. The stability of a vehicle's value is determined at the end of the leasing contract and is embodied in its residual value. The forecasting systems and procedures we developed in 2006, and used with some success to help our dealers calculate the residual values of vehicles they were taking back, allow us to forecast residual values with the maximum possible accuracy. Our willingness to assume our dealers' residual value risks and to optimise their used vehicle management systems also contributed to strong vehicle values.

Today, we can confirm that we have successfully improved the marketing performance of Volkswagen Leasing GmbH in the pre-owned vehicle segment.

### **Building up the services business**

Our focus in the services segment was on broadening the range of full-service leasing products and on developing differentiated pricing models, particularly for small and medium-sized companies (SMEs). As part of a campaign aimed at promoting our services, we designed a number of intelligent mobility packages, which we were able to offer at attractive terms thanks to process and procurement efficiencies. Customers were also offered discounts of up to 50 % on servicing as part of a package that we marketed in partnership with Volkswagen and the dealers. This particular campaign was the first in a series of initiatives offering customers substantial price benefits, including campaigns such as the "Winterkomplettad-Kit" (complete winter tyres kit). Thanks to the introduction of differentiated and competitive leasing products and services, Volkswagen Leasing GmbH finally evolved from being simply a finance leasing provider into a fleet management company that excels through proactive fleet management.

### **Growth strategies in an era of stiff competition**

Our innovative ideas, improved standards of service and the commitment of our staff paid off in 2007. German trade magazine Autoflotte once again gave Volkswagen Leasing GmbH its Fleet Award in 2007, whilst specialist magazines Firmenauto and Flottenmanagement voted Volkswagen Leasing GmbH the best leasing and fleet management provider. These awards unequivocally underscore our customers' confidence in our company and the quality of our services.

We will continue to improve the competitiveness of Volkswagen Leasing GmbH and to pass on this improved competitiveness to our growing international leasing business. The captive leasing model that has been tried and tested in Germany will serve as the blueprint for our strategy in selected European markets, which focuses on systematically exploiting earning potentials along the automotive value chain.

We expect to maintain our market leadership in the German automotive leasing market thanks to our intelligent, customer-focused fleet management concepts with their innovative and competitive products and services, our expanding customer base, our steadily growing revenues, our competitive cost/income ratio, and our strong capital base.

We would like to thank all those who contributed to the company's positive development, especially our employees, for their dedication and commitment but also those who represent our brand in the marketplace for their valuable efforts during the past year. Last but not least, we would like to thank our customers, so many of whom have maintained their trust in us over the years.

We would be pleased if you continued to place your trust in us.

Sincerely,

A handwritten signature in black ink, appearing to read 'L. Santelmann', written in a cursive style.

Lars-Henner Santelmann  
Spokesman of the Board of Management

Brunswick, March 2008

## Market leadership through mobility packages and fleet management

A modern automotive leasing company is expected to provide much more than just financing. Customers no longer simply require a vehicle: they want comprehensive mobility. Volkswagen Leasing GmbH is fully prepared to meet such expectations since it has consistently focused on developing its offerings in line with customer needs. Starting from pure finance leasing, the company has gradually expanded its portfolio with the addition of mobility components that range from full-service leasing to finely-tuned fleet management services. In 2007, the company also launched its proactive fleet management service. Ultimately, this expansion of the services portfolio has also helped Volkswagen Leasing GmbH to further consolidate and expand its position as the German market leader in the automotive leasing segment.

### Addressing the market through service campaigns

For a number of reasons – not least the fact that it preserves equity capital – vehicle leasing is now the dominant procurement method in the commercial segment. Moreover, the trend towards finance leasing will continue to gather momentum as a result of the proliferation of service packages. In its capacity as one of the market leaders, Volkswagen Leasing GmbH developed new, customised offers in cooperation with the Volkswagen Group brands in 2007, optimally fulfilling its customers' mobility needs:

- The new “LifeTime *fleet*“ guarantee insurance protects customers against the risk of incurring unforeseeable repair costs.
- Volkswagen Leasing GmbH launched a maintenance and parts promotion that offered a reduction of up to 50 % in monthly payments for maintenance and parts services for customers who opted for a finance lease. This promotion was conducted as part of the service campaign and represents a milestone in the leasing industry. The company also developed the “Winterkomplettad-Kit” (complete winter tyres kit) in cooperation with Continental, the German tyre manufacturer.
- In 2007, we once again intensified our focus on introducing products tailored to the needs of small and medium-sized fleet operators. A new petrol station card was developed specifically for this customer segment.
- Attractive leasing models – the so-called “employee models” – were designed to cater especially for the needs of employees of larger companies.

Volkswagen Leasing GmbH won a number of awards in 2007 for successfully expanding the range of its products and services and for its commitment to its customers. The company collected the coveted Autoflotte award once again – the first time it had done so two years in a row. It was also voted “Best Leasing and Fleet Management Company” in a readers' poll sponsored by Firmenauto (a German trade magazine) and designated the best leasing provider in the fleet market by Flottenmanagement, another trade magazine.

### Professional dealer services

The close cooperation between Volkswagen Leasing GmbH and the dealer organisation of the Volkswagen Group is the key to our ability to gain the loyalty of the growing number of commercial customers. To consolidate this cooperation and further ensure that customer requirements for high service quality are met on a regular basis, Volkswagen Leasing GmbH conducts information and training sessions for the dealers, supplementing these with discussions of key topics related to new offers and products. We have honoured the dealers' commitment by expanding their “Champions Club” bonus programme to the fleet customer business.

We also sponsor roundtables with the managing directors of the dealerships to discuss optimisation potential in connection with our cooperation, the needs of the market and customer requirements.

### Focus on management of residual value and pre-owned vehicles

Professional management of residual value and risk has become indispensable to improving sales in the long term,

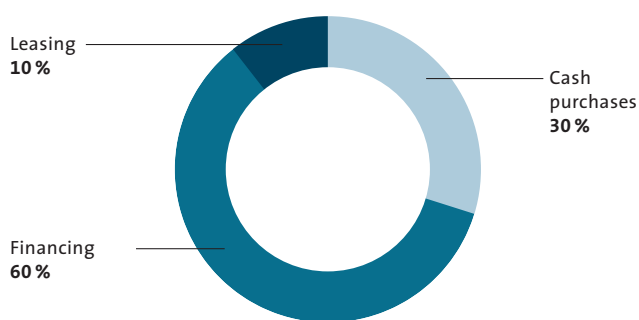
given the markets' volatility. In 2007, Volkswagen Leasing GmbH offered the dealerships the option of assuming residual value risk for the very first time in order to support this approach. The company supplemented this offer by establishing the Used Vehicle Centre and thus its own marketplace, enhancing its ability to market lease returns.

### Private customer leasing offers additional potential

While automotive leasing is an integral part of the new vehicle business in the commercial segment, private customer leasing has not yet been fully established. To this day, in the private customer segment cars are purchased via the traditional route of saving up money and paying for the vehicle in cash or by obtaining vehicle financing.

However, the trend towards increased mobility with predictable total costs is beginning to gain ground in this market too, giving rise to additional leasing potential. Volkswagen Leasing GmbH offers leasing products tailored to customers' needs in this market, thus linking this target group to the Volkswagen Group brands.

### SHARE OF CASH PURCHASES / FINANCING / LEASING IN THE PRIVATE CUSTOMER MARKET



Source: Arbeitskreis der Banken und Leasinggesellschaften der Automobilwirtschaft (Working Group of Automobile Banks and Leasing Companies)

### Opportunities for improving customer loyalty through leasing

The advantage of leasing resides in the fact that the vehicle's return date is already fixed at the inception of the contract, which itself increases the sales opportunities for the dealer. This leads to a strengthening of the customer's loyalty to the dealer and provides greater opportunities for selling a new vehicle when the current leasing contract expires.

In addition, leasing also offers dealerships the prospect of attractive, pre-owned vehicles in the future. In conjunction with a mobility package (i. e. comprehensive insurance, maintenance and parts services) leasing represents a substantial extension to the value chain for manufacturers and dealers alike.

The customer loyalty potential inherent in the leasing business as a result of this structure is already being successfully exploited in the new vehicle fleet customer segment. It is therefore a logical next step to carry this potential over to the private customer segment. Nevertheless, the concept of applying the full-service leasing package to pre-owned late models in the private customer segment holds even greater promise for the future. It is particularly significant for manufacturers and dealers since in this case the leased vehicles continue to be linked to repair shop services and OEM parts. This business with pre-owned late models continues to be regularly lost, but can be regained by taking the leasing package offer to the next stage, extending the value chain yet again.

On the whole, mobility services will be crucial in the reorientation of the automotive business in both the commercial and private customer segments. It is in this sense that Volkswagen Leasing GmbH will continue to expand its market leadership by providing leasing models tailored to customers' needs.

## Capital market activities of Volkswagen Leasing GmbH

From the point of view of capital market participants, the positive and extraordinarily dynamic developments in 2006 carried over seamlessly into the first six months of the 2007 financial year. Issuing volumes in Europe of both unsecured and secured bonds remained large.

Acquisition financing and structured securitisation once again drove the activities in the capital markets. Risk premiums declined on a broad front, because investors' continued high liquidity exceeded offerings.

In the second half of 2007, the distortions in the money and capital markets – now commonly referred to as the crisis in the US mortgage market – gave rise to continued restraint by buyers and occasional illiquidity in the market. The buyers' strike has also affected the pricing of credit risks. It took a substantial cut in interest rates by the US Federal Reserve to calm the markets.

The adjustments in both prices and risk premiums that followed the slow recovery of the primary market for corporate bonds and ABS transactions in September 2007 occurred on a scale heretofore unknown and affected all sectors. Refinancing needs and market participants' slowly returning confidence increasingly facilitated the placement of corporate bonds in the primary market.

The decision to issue a new fixed-rate benchmark bond for Volkswagen Leasing GmbH was made in this stabilised environment and against the backdrop of the unabated growth in the leasing business. Market response to the bond issue greatly surpassed the expectations of Volkswagen Leasing GmbH, given its five-year term and a risk premium that accounts for current market conditions. We were able to increase the targeted issue volume to € 1.25 billion and reduce the price initially contemplated, since the issue attracted a six-fold oversubscription.

In the issuer's view, the October 2007 timing was perfect, since renewed concerns caused the general mood in the capital markets to noticeably deteriorate once again in the following month and volatility to surge simultaneously.

### Asset-backed securities (ABS)

As well as the programmes for unsecured bonds, we also made use of the established VCL programme of Volkswagen Leasing GmbH for secured bonds. In February 2007, the German leasing receivables of Volkswagen Leasing GmbH were securitised through the VCL 9 transaction. The fact that this transaction was also delivered at attractive terms, arising from the prevailing positive climate in the market at the start of 2007, helped to optimise the scope of the refinancing.

In November 2007, VCL 10 consequently was the tenth ABS transaction that Volkswagen Leasing GmbH succeeded in placing on the market under the VCL programme. Deteriorating conditions in the capital markets in November also affected the ABS market; this fact leads the issuer to believe that the request for price fixing in October was well-timed.

The bonds issued in connection with the two transactions, VCL 9 and VCL 10, were substantially oversubscribed, permitting us to attract a broad, international investor base.

Volkswagen Leasing GmbH will regularly utilise this tried-and-tested ABS programme in coming years to benefit from attractive refinancing terms that are not tied to the company's rating.



# Management report

## Economic environment

### Global economy

The upturn in the global economy continued in 2007. However, as a result of persistently high commodities and energy prices and the crisis in the US mortgage market, the economies of many countries lost momentum in the second half of the year. Overall, the global economy expanded by 3.4 % in 2007, down from 3.7 % the previous year.

The upswing in Western Europe weakened during 2007. At 2.7 %, however, growth slowed only slightly in comparison to the previous year (2.9 %). The average unemployment rate in the euro zone fell to 7.4 % (8.3 %). The euro reached new highs against both the US dollar and the yen. At 6.3 %, economic growth in Central and Eastern Europe continued unabated.

In Germany, the growth rate declined from 2.9 % in 2006 to 2.5 % in 2007. While exports continued to be critical to economic growth in spite of the strong euro, private consumption remained sluggish. The average unemployment rate in Germany fell substantially year-on-year from 10.8 % to 9.0 %.

### Financial and automobile markets

The captive mobility services providers succeeded in stabilising their earnings despite restrained sales in the automobile markets. Particularly the German leasing business contributed to this positive development. Moreover, comprehensive mobility packages that accommodate the customer's need for predictable total monthly payments while simultaneously counteracting their expectations regarding discounts are having an increasing impact on our business. The captive leasing companies helped to restabilise the price structures in the new vehicle business by adopting this approach.

Pressure on margins remained high in the leasing business as a result of stiff competition.

Whereas the refinancing market continued to develop along a positive trajectory in the first six months of the year, the onset of the so-called US mortgage crisis in the summer of 2007 profoundly disrupted the financial markets, resulting in occasional signs of illiquidity. The consequent massive monetary interventions by the leading central banks led to a stabilisa-

tion and revaluation of the bond markets. Bond issues were well-received overall.

The global demand for passenger cars, which is a key factor for the development of Volkswagen Leasing GmbH, increased in 2007 by 4.2 % to 58.4 million vehicles. Above-average growth rates were recorded particularly in South America, Central and Eastern Europe and Asia Pacific. Registration of new passenger cars in Western Europe was at the previous year's level. Worldwide automobile production increased by 5.6 % to 71.9 million units in the year under review, 60.4 million of which (+ 5.5 %) were passenger cars.

At 14.9 million vehicles (+ 0.2 %), demand for passenger cars in Western Europe in the year under review remained more or less on par with the previous year. The Italian passenger car market profited from a state subsidy for scrapping used cars that had been introduced at the start of the year. On the other hand, new registration volumes in Germany and Spain declined in comparison with the previous year.

The automobile market in Germany contracted by 7.6 % to 3.5 million vehicles in 2007. While new registrations of commercial vehicles and company cars in the commercial sector rose, demand for passenger cars in the private consumer segment clearly weakened. Aside from generally restrained consumption, the downturn in the overall passenger car market by 9.2 % to 3.1 million vehicles was primarily a result of the large number of vehicle purchases at the end of 2006, made in anticipation of the VAT increase that became effective on 1 January 2007. The number of new registrations of trucks up to a total weight six tons rose by 12.4 % to 222,000 units. Driven by exports that reached a new high (4.6 million / + 11.1 %), domestic manufacturers also set a production record of 6.2 million vehicles (+ 6.5 %).

## Tasks and organisation of Volkswagen Leasing GmbH

### Key objectives

The establishment of Volkswagen Leasing GmbH in 1966 laid the foundation for automobile leasing in Germany. Today, as part of the Volkswagen Group's Financial Services division, Volkswagen Leasing GmbH performs the operational tasks required for the leasing transactions of private and business customers.

The business primarily focuses on commercial customers that are divided into individual commercial buyers and fleet customers. The share of private customers in the total leasing contract portfolio is approximately 16 %.

Within the fleet business, Volkswagen Leasing GmbH offers its customers a comprehensive range of services of complete fleet management systems in addition to pure finance leasing. The range of services comprises fleet planning, administration, and controlling of the fleet vehicles. With a portfolio of approximately 240,000 leasing contracts and a further 190,000 service management contracts, the company continues to be the market leader in the fleet business in Germany.

For refinancing, Volkswagen Leasing GmbH actively leverages the opportunities provided on the global capital markets through private placements, bond issues and transactions based on asset-backed securities (ABS).

The business activities of Volkswagen Leasing GmbH are closely integrated with those of the manufacturers and the dealer organisations of the Volkswagen Group.

#### Organisation of Volkswagen Leasing GmbH

Until 30 June 2007, the operating business of Volkswagen Leasing GmbH in Germany was performed by employees of Volkswagen Bank GmbH under an agency agreement concluded with the sister company.

While all personnel working for Volkswagen Leasing GmbH were transferred to Volkswagen Financial Services AG effective 1 July 2007 in connection with the restructuring of the German companies of the Volkswagen Financial Services AG Group, they continue to work for Volkswagen Leasing GmbH pursuant to staff leasing agreements.

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

## Analysis of the company's business performance and position

### Business performance

A campaign aimed at promoting its services enabled Volkswagen Leasing GmbH to continue expanding its strong market position in 2007 as well.

Working together with both the dealers and the manufacturers, the company succeeded in extending the automotive value chain within the Volkswagen Group by employing all-inclusive yet economical automotive offers that found approval with customers.

By combining intelligent fleet management concepts with a strong focus on customer services, Volkswagen Leasing GmbH has continuously evolved from a financial services provider to a mobility provider in all areas of the fleet business. The significance of the fleet customer business for the company has continued to grow.

Volkswagen Leasing GmbH again managed to increase both its current contract volume as well as its total assets and sales revenue in comparison to the previous year. The current level of leased vehicles rose from 664,000 to 703,000 as at the balance sheet date. This increase resulted from the addition of 280,000 new contracts, compared to disposals of 241,000 vehicles. This growth is essentially attributable to the fleet customer business and the positive development of the leasing business with Volkswagen employees.

In addition to the existing leasing offers, Volkswagen Leasing GmbH has also been offering special leasing products for Volkswagen employees since 2006. As of the balance sheet date, the company had over 27,000 leasing contracts for Volkswagen employees in its portfolio (previous year: 22,800).

### Activities in the fleet segment

Despite continued strong competition and an increasing trend towards consolidation, the fleet customer sector strengthened its position as market leader in German fleet leasing.

This development arises in part from the success of Volkswagen Leasing GmbH in bringing offers to market that are individually tailored to the specific needs of users of company cars. Volkswagen Leasing GmbH managed to differentiate itself from its competitors by means of special maintenance and parts packages. The complete winter tyre kit further

rounded out these service packages in the fleet business. The success of the campaign promoting services as a product was especially crucial in boosting the company's portfolio of contracts under management to 430,000. Year-on-year portfolio growth was more than 13.3 % in 2007 (5 % in 2006).

Working together with both the brands and the dealers, Volkswagen Leasing GmbH was able to acquire new customers in the fleet business. The Audi A4 and OnTop campaigns, launched by Volkswagen's passenger car and light commercial vehicles divisions, made a significant contribution in this respect. The company also succeeded in maintaining its competitive position in transactions with government agencies, as the increase in both the invitations to tender and the tenders awarded shows.

New leasing contracts in the private and commercial individual customer segment in Germany remained at the previous year's level, despite a general reduction in newly registered cars.

The portfolio of leasing contracts with individual commercial customers showed a slight increase in comparison to the previous year. Of the 690,000 leased vehicles under contract in total, approximately 16 % are attributable to private lessees and approximately 43 % to individual commercial customers. In addition, approximately 13,000 vehicles are managed by the Italian branch in Milan.

Europcar Leasing, a branch of Volkswagen Leasing GmbH that was renamed AutoEuropa Leasing as of 1 November 2006, continued to develop along positive lines. The portfolio grew by some 25 % compared to the previous year.

#### Activities in the private customer segment

Against the backdrop of a wage decline in real terms, customers are finding it increasingly important to be able to predict the total monthly mobility costs for the vehicle including service. In this respect, the leasing offers of Volkswagen Leasing

GmbH and AutoEuropa Leasing are an excellent basis for financial flexibility.

The product range of Volkswagen Leasing GmbH for private customers includes further service components in addition to pure finance leasing. Comprehensive worry-free packages were used again in 2007 to offer Volkswagen customers interesting leasing packages for the Polo, Golf, Golf Plus, and Touran models. The service scope consisted of an attractive leasing offer in connection with PrämieLight insurance and extended warranty insurance.

A comprehensive automobile insurance offer is indispensable for worry-free mobility; it also includes protection against insufficient coverage in the case of vehicle loss or total loss. Insurers often pay only the cash value once the replacement value cover has expired – even though the sales value of the new vehicle may be higher. In September 2005, a "GAP" insurance was introduced for the insurance policies PrämieLight and PrämieLight PLUS, which eliminates the risk of insufficient coverage for the customer. By purchasing leasing instalment insurance with PrämieLight PLUS, up to 12 months of instalments will be paid in the case of unemployment.

#### Assets and financial position

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

## DEVELOPMENT OF CURRENT CONTRACTS

in thousands of contracts

| 2007          |                   | 2006          |                   | 2005          |                   | 2004          |                   | 2003          |                   |
|---------------|-------------------|---------------|-------------------|---------------|-------------------|---------------|-------------------|---------------|-------------------|
| New contracts | Current contracts | New contracts | Current contracts | New contracts | Current contracts | New contracts | Current contracts | New contracts | Current contracts |
| 280           | 703               | 253           | 664               | 224           | 623               | 232           | 595               | 212           | 567               |

Investments in Volkswagen Leasing GmbH rose by € 0.6 billion to € 6.4 billion (previous year: € 5.8 billion) as a result of growing numbers of new contracts. At the same time, the gross book value of the leased assets increased from € 15.7 billion to € 17 billion. The net book value was € 10.9 billion (previous year: € 10.7 billion). This corresponds to an increase of € 0.2 billion or 2.5 %.

The equity ratio was 1.7 %, compared to 1.9 % in the previous year.

In recent years, Volkswagen Leasing GmbH placed eight asset-backed securities transactions (ABS transactions) on the market to refinance its lending business. As at the balance sheet date, the volume of future leasing receivables financed through the ABS transactions was € 2.6 billion (previous year: € 1.2 billion).

The company refinances itself largely through loans obtained by Volkswagen Financial Services AG, which are then passed on to the subsidiaries. The loan volume of Volkswagen Leasing GmbH is € 4.7 billion (previous year: € 5.9 billion).

To finance its leased assets, Volkswagen Leasing GmbH also issued its own debentures, which were expanded to € 2.85 billion, from € 2.0 billion in the previous year.

## Results of operations

Sales revenue in the financial year ended rose by € 0.7 billion to € 6.6 billion. This revenue growth is accounted for by € 0.2 billion of increased revenue from current leasing contracts, as well as a € 0.5 billion increase in proceeds from the sale of previously leased vehicles (€ 3.0 billion). The expansion of the leased assets portfolio will significantly boost future revenue.

The cost of sales rose by € 1 billion to € 6.9 billion compared to the previous year. This increase resulted in particular from the use of the tax option for increasing accelerated depreciation for leased assets added in 2006 and 2007 from 20 % to 30 %, the larger vehicle portfolio, and higher residual book values of vehicle disposals as compared to the previous year. This figure includes depreciation, commissions, residual book values and the expenses from service leasing.

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

Volkswagen Leasing GmbH recorded a gross result of € – 303.7 million in the 2007 financial year. This corresponds to a decline of € 284.8 million compared to the previous year. The downturn resulted predominantly from the increase in depreciation.

The other income primarily includes subsidies for special leasing campaigns and the “worry-free” products, in the amount of € 156 million (previous year: € 128 million).

Interest expense of € 342 million (previous year: € 311 million) was incurred in connection with the financing of leasing transactions.

Volkswagen Leasing GmbH is not directly affected by the crisis in the US mortgage market since the company did not invest in subprime bonds. However, Volkswagen Leasing GmbH is nonetheless indirectly affected by the ramifications of the crisis on the money and capital markets: As a result of rising interest rates and larger spreads in the wake of the US mortgage crisis, the funding costs of Volkswagen Leasing GmbH related to new borrowings in the second half of 2007 increased in comparison to the period prior to the crisis.

The financial year just ended saw a loss from ordinary business activities of € 540 million (previous year: € 282 million), attributable in particular to the use of a tax option for increasing accelerated amortisation, as well as lower income from shareholdings and increased refinancing costs. After offsetting contributions to taxes on income, this loss will be assumed by the parent company under the existing profit transfer agreement.

## Risk report

### Strategy, standards and organisation of risk management

#### *Strategy and standards*

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

Risk management essentially involves the identification, analysis and quantification of possible risks, as well as risk assessment and the resulting determination of steering measures. Decisions regarding the assumption or avoidance of risks are supported by the use of appropriate control instruments, such as credit assessment procedures or early warning systems. Ongoing risk monitoring, transparent and dir-

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

Volkswagen Leasing GmbH uses a system for measuring and monitoring risk positions (risk controlling) as well as controlling them (risk management). This system documents rules, is continually further developed, and is reviewed as to appropriateness of its risk orientation by Internal Audit of Volkswagen Financial Services AG.

### *Organisation*

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

The staff and control functions for Volkswagen Leasing GmbH are organised in the following units of Volkswagen Bank GmbH: Controlling/Accounting/Group Risk Management/Risk Assessment Procedures and Basel II as well as Legal Services/Audit and Treasury.

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

Given the specific business activities of the company, it is essential that we effectively identify, measure, aggregate and manage risks as well as provide an adequate equity base for the company's activities. A risk manual is central to our 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 explains the risk management system of Volkswagen Financial Services AG in detail; it contains all components of the company's risk strategy, risk assessment, risk monitoring, risk management and risk communication.

The Board of Management of Volkswagen Financial Services AG established a risk strategy in connection with its mid-term planning that conforms to minimum risk management requirements and is consistent with the company's business strategy. This strategy was discussed with the Supervisory Board and it is reviewed and adjusted, as necessary, at least once a year. The established risk strategy also applies to Volkswagen Leasing GmbH; it contains strategic determinations of all material risks. In addition to counterparty default risks – credit

risks, in particular – market price risks, operational risks, liquidity risks and residual value risks are also reviewed in detail.

Besides quantifying risk positions as required under the regulatory regimen and representing the existing equity components, Volkswagen Leasing GmbH has also established a system for determining its ability to bear risk.

The analysis of the ability to bear risk serves to examine on a quarterly basis whether or not Volkswagen Leasing GmbH (including its network of foreign branches) is capable at all times to bear the risks potentially arising from its business activities. Risk quantification is executed pursuant to the methodologies of the Basel II Capital Accord based on statistical models as well as on estimates by experts.

The company's risk taking potential comprises economically available own funds as well as the expected annual result using the going concern assumption in a worst-case scenario.

The results of the company's equity position are reported to the Board of Management on a regular basis.

The Group-wide risk management procedures for all of Volkswagen Financial Services AG are being reviewed and revised at the present time. This entails expanding the existing system by new methods such as the calculation on the company's ability to bear risk.

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

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

The Treasury unit is responsible for securing the supply of liquidity within the context of active operational risk management, and also for balance sheet structuring with regard to controlling the interest rate risk, based on requirements defined by an Asset/Liability Management Committee (ALM Committee).

Risk controlling in this context, which is integrated in the Controlling department of Volkswagen Bank GmbH, is responsible for the measurement, analysis and monitoring of items affected by market price risks including the overall interest rate positions. In accordance with the minimum requirements for risk management, organisational separation of risk management and risk controlling is ensured up to the level of the Board of Management.

Furthermore, Internal Audit at Volkswagen Financial Services AG independently examines all of the company's material operational and business procedures on behalf of the Board of Management of Volkswagen Financial Services AG and Volkswagen Leasing GmbH, taking due account of applicable regulatory and internal provisions, both in Germany and abroad. This activity is based on an annual audit plan, which is drawn up on the basis of the legal provisions in a risk-oriented manner. Internal Audit of Volkswagen Financial Services AG informs the Board of Management of Volkswagen Leasing GmbH 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.

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

### Risk types

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

The risks to which Volkswagen Leasing GmbH is exposed are categorised in the following groups:

- Risk of counterparty default
- Market price risk:
  - Interest rate risk
- Liquidity risk:
  - Liquidity risk in the narrow sense
  - Refinancing risk
- Operational risk
- Other risk:
  - Residual value risk

The principles of risk policy are laid out in the risk strategy.

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

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

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

The result of the rating provides a material basis for decisions on the approval and prolongation of leasing commitments. In addition, the customer's classification from the rating procedure is taken into account when regulating the authority to approve loans and monitoring the corporate portfolio.

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

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

#### *Market price risk*

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

Interest rate risk, which derives exclusively from the banking book, is the term used for the risk of a negative discrepancy between a realised interest result and an expected result due to changes in market interest rates. The risk results from refinancing at non-matching maturities and from different degrees of interest rate elasticity of individual assets and liabilities.

Interest rate risks are managed on the basis of recommendations given by the ALM Committee, which, on behalf of the Board of Management, draws up risk-limiting requirements with regard to market price risks and asset/liability management for Volkswagen Leasing GmbH as well.

The basis on which the resolutions of the ALM Committee are passed is provided by the interest rate development statements submitted by Volkswagen Leasing GmbH and the interest rate forecasts based on various interest rate scenarios. After analysis of the figures by Treasury, the ALM Committee makes recommendations as strategic decision-making support for the respective interest rate policy course. The quantified risk and the mismatch items are subject to uniform maximum limits. The ALM Committee monitors Group-wide adherence to these limits.

#### *Liquidity risk*

The liquidity risk is centrally controlled by Treasury. The prime objective of cash flow management at Volkswagen Leasing GmbH is to ensure the ability to pay at all times.

#### *Liquidity risk in the narrow sense*

Control of cash flow is performed on a daily basis, with the expected cash flows of Volkswagen Leasing GmbH being processed, bundled and evaluated at Volkswagen Bank GmbH. To ensure professional cash flow management, Treasury establishes cash flow development statements and carries out cash flow forecasts. Volkswagen Bank GmbH takes precautions to protect Volkswagen Leasing GmbH against potential cash flow bottlenecks by maintaining confirmed credit lines at other commercial banks.

#### *Refinancing risk*

The refinancing structure is centrally controlled by Treasury on the basis of a funding plan. Volkswagen Leasing GmbH possesses a broad refinancing base: liquidity is secured by a high degree of diversification into different investor groups and by utilising the capital market programmes of Volkswagen Financial Services AG. Further expansion of activities for securitising receivables has additionally strengthened the refinancing opportunities.

The decision regarding the type of refinancing actually undertaken is influenced by market conditions, while the fixed-interest period is specified by the ALM Committee.

#### *Operational risk*

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

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

The definitions of these four risk categories include the respective legal risks.

Strategic risks and reputation risks are not considered under operational risks.

The overall risk responsibility lies with the Board of Management of Volkswagen Leasing GmbH. 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 do not occur again, to the extent possible.

Operational risks are managed by the 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.

Effective 1 January 2007, Volkswagen Bank GmbH, in its capacity as the primary credit institution, implemented the standardised approach to the management of operational risks (OpR) and notified the Federal Financial Supervisory Authority thereof.

The material parameters of the management of operational risks include the OpR manual, the OpR strategy, the self assessment and the loss database:

- The OpR manual establishes fundamental definitions, roles and responsibilities as well as the OpR system which includes the risk management feedback control system.
- The Board of Management of Volkswagen Bank GmbH annually determines the OpR strategy as part of the company's overall risk strategy and Group Risk Management monitors compliance with it.
- At least once a year, local experts record, assess in both quantitative and qualitative terms as well as centrally analyse and report 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, including the relevant histories. This makes it possible to systematically analyse losses, monitor the measures that have been initiated and institute a system for ad hoc reporting of material losses to the relevant individuals and departments.

Group Risk Management continuously reviews the risk management processes and adjusts them as necessary. In addition, Volkswagen Financial Services AG's independent Internal Audit department audits and assesses the functionality of the operational risk management and internal control system, the implementation of measures designed to eliminate underlying risk factors or any other risk management activities.

## **Other risk**

### *Residual value risk*

Management of residual value risks ensures complete risk identification, quantification, analysis and control. The risks are made transparent in central, standardised process based on a feedback control system. Besides providing professional residual value risk management, this process is designed to ensure systematic improvement and development of the treatment of residual value risks.

Risk identification is ensured by means of an established approval procedure. Residual value risks are quantified regularly throughout the year by means of evaluations and analyses of individual contracts. The contractually stipulated residual values are compared to attainable market values that are generated from both the data of external providers and our own marketing data.

Risk analysis entails measuring the results of such risk quantification with regard to the risk potential and creating the requisite risk provisions. In connection with risk management, Group Risk Management regularly reviews whether the risk provisions are adequate, as well as the potential for residual value risks, and submits a quarterly report to the Board of Management of Volkswagen Leasing GmbH. The scope of residual value risks assumed is small because the residual value risks are largely secured by repurchase agreements with third parties (indirect risks).

## **Opportunities report**

### **Macroeconomic opportunities**

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

## Strategic opportunities

### *Geographic expansion*

Volkswagen Leasing GmbH believes that it has opportunities for expansion in a number of target markets, using Germany as the point of departure. Spain is serving as the pilot market, since the structure of its fleet customer segment is similar to that in Germany. This market entry is being aided by both the growth of the Spanish leasing market and by the Volkswagen Group's strong, established position in the country.

### *Positioning in the market*

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

### *Cost synergies*

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

## Personnel report

Until 30 June 2007, the operating business of Volkswagen Leasing GmbH in Germany was performed by employees of Volkswagen Bank GmbH under an agency agreement concluded with the sister company. A total of 3,290 employees were transferred from Volkswagen Bank GmbH to Volkswagen Financial Services AG effective 1 July 2007 in connection with a restructuring of the German companies.

Of these employees, 338 now pursue their responsibilities within Volkswagen Leasing GmbH under staff leasing agreements.

Due to national regulations, the 47 members of staff employed in the branches in Milan and Verona (Italy) have employment contracts with Volkswagen Leasing GmbH.

The ever-intensifying focus of the financial services segment on the international markets made itself felt in the rising number of foreign assignments and the exchange of personnel in connection with the Group's international talent management. The number of local managing directors has grown in tandem with the company's new worldwide responsibility for the financial services segment.

The increasingly international orientation has been taken into account by continuing the existing human resources projects and implementing new ones. In 2007, the uniform goal-setting process that is utilised in the worldwide management of the Volkswagen Financial Services AG Group was implemented across the board for the very first time.

Personnel development continued to make a significant contribution to the company's success and future viability, with events tailored to the special needs of an automotive services provider.

Customer-related projects and internships with a Group dealer were added to the training programmes in order to intensify their focus on sales. Activities in connection with continuing training were also focused on sales and distribution. Our investments in the development of sales personnel have almost doubled over the previous year. The company's in-house training centre launched development programmes aimed at gaining new customers, strengthening field sales and winning back customers.

## Events after the balance sheet date

No important events beyond those described in this report occurred after the close the 2007 financial year.

## Anticipated developments

### Global economy

Volkswagen Leasing GmbH's planning is based on the assumption that global economic growth in 2008 will slow in comparison to 2007. Persistently high commodities prices – especially oil prices – will continue to have dampening effects. Furthermore, the ramifications of the crisis in the US mortgage market represent a major economic risk. Crumbling property prices in the US and the resulting credit risks could undermine the North American economy and, consequently, other national economies worldwide. Growth is expected to be highest in Asia – especially China and India –

and South America, as well as in Central and Eastern European countries.

The company expects growth in the 2008 gross domestic product (GDP) in Western Europe to slow down compared to the previous year. Growth in Central and Eastern Europe, while remaining above-average, will decline year on year.

In Germany, GDP growth in real terms is likely to fall below 2 % in 2008, as a result of the weakening momentum in the export sector coupled with a domestic demand showing only moderate growth.

#### Leasing and automobile markets

The financial markets were still highly unsettled at the start of the 2008 financial year. Their stability is suffering from the continued uncertainty regarding the risks arising from the US subprime crisis and its repercussions for the international banking industry, as well as the resulting threat to the growth of the global economy.

These economic risks are offset by the continued economic momentum in the expanding group of high-growth countries worldwide, whose demand levels help to stabilise the markets.

However, in Europe, moderate general demand for passenger cars will continue to determine the demand for automotive financial services. This will result in an increasing range of differentiated products that take individual customer needs and credit requirements into account.

The market for leasing captives that are able to offer structured mobility packages from a single source is forecast to develop at a constant pace in line with prevailing market conditions in the next two years.

The key automobile markets will probably develop at different rates in 2008. Volkswagen Leasing GmbH expects demand to grow in the double digit range in Brazil, Russia, India and China while the number of new registrations in both Western Europe and North America will decline slightly.

In Western Europe (excluding Germany), demand for passenger cars is expected to fall slightly below the previous year's level since none of the key markets are expected to grow. In contrast, new registrations are likely to climb once again in Central and Eastern Europe, in Russia in particular.

In Germany, we expect a slight recovery in demand for passenger cars in 2008, following a weak 2007, but this may be undermined by high fuel prices and uncertainties surrounding the economy.

#### Development of Volkswagen Leasing GmbH

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

In 2007, Volkswagen Leasing GmbH developed market potentials by virtue of its market leadership and a campaign aimed at promoting its services. The company will expand both these activities in future. The company will also increase its attention on residual value management, which aside from dealer assessments related to vehicle returns has also triggered an additional and substantial optimisation in the sales volume of pre-owned vehicles within Volkswagen Leasing GmbH.

The process of carrying over the highly-successful German captive business model into selected foreign markets will continue. In Spain, Volkswagen Leasing GmbH will launch operations of a joint business model this year in cooperation with the strong SEAT brand.

Volkswagen Leasing GmbH will regularly utilise the tried-and-tested ABS programmes in coming years to benefit from attractive refinancing terms that are not tied to the company's rating.

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

Growing awareness concerning the environment is causing customer demand for low emission vehicles to rise. The Volkswagen Group has already responded to this demand by introducing two alternative-drive designs, Eco Fuel and Blue Motion. Volkswagen Leasing GmbH also plans to launch specific sales promotion campaigns for this segment.

Higher depreciation on vehicles added in 2006 and 2007 will have a negative impact on earnings in 2008 as well. We expect the reforms of the German corporate tax code to adversely affect the leasing business in 2008, since the inclusion of lease payments under the items liable for trade tax will mean increased costs for the lessee in the future. The Board of Management believes that the business volume will expand nonetheless, given relatively stable economic forecasts and the aforementioned countermeasures.



## BALANCE SHEET OF VOLKSWAGEN LEASING GMBH, BRUNSWICK, AS AT 31.12.2007

| Assets   | 31.12.2007<br>€ 000 | 31.12.2006<br>€ 000 |
|--|---------------------|---------------------|
| <b>A. Fixed assets</b>                                     | <b>10,943,249</b>   | <b>10,674,268</b>   |
| I. Tangible fixed assets                                   | 12,986              | 13,494              |
| II. Leased assets  | 10,930,263          | 10,660,774          |
| <b>B. Current assets</b>                                   | <b>1,743,855</b>    | <b>561,190</b>      |
| I. Inventories   | 26,100              | 17,335              |
| II. Receivables and other assets                           | 1,707,491           | 542,154             |
| III. Cash in hand and deposits with financial institutions | 10,264              | 1,701               |
| <b>C. Prepaid expenses</b>                                 | <b>34,071</b>       | <b>31,707</b>       |
| <b>Total assets</b>  | <b>12,721,175</b>   | <b>11,267,165</b>   |

| Equity and liabilities                  | 31.12.2007<br>€ 000 | 31.12.2006<br>€ 000 |
|---|---------------------|---------------------|
| <b>A. Equity</b>                        | <b>219,124</b>      | <b>219,124</b>      |
| I. Subscribed capital                   | 76,004              | 76,004              |
| II. Capital reserve                     | 142,471             | 142,471             |
| III. Net retained profits               | 649                 | 649                 |
| <b>B. Special tax-allowable reserve</b> | <b>2,811</b>        | <b>2,917</b>        |
| <b>C. Provisions</b>                    | <b>179,228</b>      | <b>117,363</b>      |
| <b>D. Liabilities</b>                   | <b>9,209,429</b>    | <b>9,241,585</b>    |
| <b>E. Deferred income</b>               | <b>3,110,583</b>    | <b>1,686,176</b>    |
| <b>Total equity and liabilities</b>     | <b>12,721,175</b>   | <b>11,267,165</b>   |

PROFIT AND LOSS ACCOUNT OF VOLKSWAGEN LEASING GMBH, BRUNSWICK,  
FOR THE PERIOD FROM 1.1. TO 31.12.2007

|   | 2007<br>€ 000    | 2006<br>€ 000    |
|---|------------------|------------------|
| Sales   | 6,563,321        | 5,848,445        |
| Cost of sales   | 6,866,982        | 5,867,346        |
| <b>Gross profit</b>   | <b>- 303,661</b> | <b>- 18,901</b>  |
| Selling and distribution expenses   | 38,501           | 29,684           |
| General administration expenses   | 54,946           | 86,921           |
| Other operating income  | 207,361          | 172,342          |
| Other operating expenses  | 28,160           | 13,118           |
| Income from shareholdings   | -                | -                |
| Interest result   | - 322,433        | - 305,621        |
| <b>Result from ordinary business activities</b>   | <b>- 540,340</b> | <b>- 281,903</b> |
| Taxes on income and earnings<br>(refunded by the parent company € 161,101,000; previous year: € 84,776,000) | - 157,441        | - 80,473         |
| Income from loss transfer   | 382,899          | 201,430          |
| <b>Net income for the year</b>  | <b>0</b>         | <b>0</b>         |
| Profit brought forward  | 649              | 649              |
| <b>Net retained profits</b>   | <b>649</b>       | <b>649</b>       |

CASH FLOW STATEMENT OF VOLKSWAGEN LEASING GMBH  
FOR THE PERIOD FROM 1.1. TO 31.12.2007

|   | 2007<br>€ 000      | 2006<br>€ 000      |
|---|--------------------|--------------------|
| Net loss (before transfer of profit/loss)   | 382,899            | 201,430            |
| Amortisation/depreciation of fixed assets   | 3,569,204          | 2,970,053          |
| Change in provisions  | 61,865             | 44,833             |
| Profit from the disposal of leased assets   | - 494,722          | - 332,849          |
| Interest result   | 322,433            | 305,621            |
| Other adjustments   | - 215,836          | - 80,473           |
| Changes in trade receivables and other assets not part of investing or financing activities           | - 994,998          | - 164,381          |
| Changes in trade accounts payable and other liabilities not part of investing or financing activities | 1,601,856          | 472,700            |
| Interest received   | 20,008             | 5,310              |
| Interest paid   | - 342,441          | - 310,931          |
| Income tax refunds  | 215,836            | 80,473             |
| <b>I. Cash flow from operating activities</b>   | <b>3,360,306</b>   | <b>2,788,926</b>   |
| Cash inflows from the disposal of leased assets   | 3,042,960          | 2,491,045          |
| Cash outflows for investments in leased assets  | - 6,386,423        | - 5,761,396        |
| Cash outflows for investments in tangible and intangible assets used by the company                   | -                  | - 21               |
| <b>II. Cash flow from investing activities</b>  | <b>- 3,343,463</b> | <b>- 3,270,372</b> |
| Cash inflows from company owners /cash outflows to company owners                                     | 201,430            | - 146,098          |
| Cash inflows from issuing bonds and taking up loans   | 6,654,000          | 8,458,636          |
| Cash outflows from the redemption of bonds and loans  | - 6,863,710        | - 7,829,568        |
| <b>III. Cash flow from financing activities</b>   | <b>- 8,280</b>     | <b>482,970</b>     |
| Net change in funds (I., II. and III.)  | 8,563              | 1,524              |
| Funds available at the beginning of the period  | 1,701              | 177                |
| Funds available at the end of the period  | 10,264             | 1,701              |

## Notes to the financial statements of Volkswagen Leasing GmbH, Brunswick, as at 31.12.2007

### I. General comments regarding the annual financial statements

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

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

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

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

### II. Accounting policies

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

Tangible fixed assets and leased assets are valued at the cost of acquisition minus regular depreciation.

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

The leased assets are almost all subjected to the reducing-balance method of depreciation with a subsequent scheduled transition to the straight-line method. For assets added in 2006 and 2007, a depreciation rate of 30 %, which is permitted by tax law, has been applied. From 2001 to 2005, a rate of 20 % was applied. The period of use for passenger cars is six years, and the period of use for heavy vehicles is nine years.

Based on the tax simplification provisions in the previous years, the full annual depreciation amount was deducted for additions to movable fixed assets during the first half of the year and half the annual rate was deducted for additions during the second half of the year. Effective 1 January 2004, depreciation in the year of acquisition is calculated only pro rata temporis.

Discrepancies between commercial valuations and permissible fiscal valuations are shown under the special item with an equity portion.

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

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

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

Liabilities are shown at the repayment amount.

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

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

### III. Notes to the balance sheet

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

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

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

|   | 31.12.2007<br>€ 000 | 31.12.2006<br>€ 000 |
|---|---------------------|---------------------|
| 1. Trade receivables  | 86,490              | 91,936              |
| 2. Receivables from affiliated companies<br>(of which from the shareholder € 1,382,786,000; previous year: € 283,272,000)<br>(of which trade receivables € 6,232,000; previous year: € 778,000) | 1,405,204           | 284,050             |
| 3. Other assets   | 215,797             | 166,168             |
| <b>Total</b>  | <b>1,707,491</b>    | <b>542,154</b>      |

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

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

The provisions comprise tax provisions (€ 5,660,000, previous year: € 6,487,000) and other provisions (€ 173,568,000, previous year: € 110,876,000).

Other provisions serve to hedge risks resulting from existing leasing contracts. In the year under review, especially future expenses under service leases amounting to € 105,070,000 were taken into account (previous year: € 45,300,000). In addition, provisions totaling € 588,000 (previous year: € 870,000) were made for our lessees' claims resulting from investment promotion in the former East German states. Furthermore, provisions in the amount of € 27,125,000 (previous year: € 29,080,000) were recognised for invoices still outstanding and commissions to be paid to dealers. Provisions totaling € 10,800,000 (previous year: € 0) were recognised for obligations arising from the repayment of manufacturer subsidies.

The liabilities are made up as follows:

|   | 31.12.2007<br>€ 000 | 31.12.2006<br>€ 000 |
|---|---------------------|---------------------|
| 1. Bonds (residual term up to 1 year € 0; previous year: € 400,000,000)   | 2,850,000           | 2,000,000           |
| 2. Liabilities to financial institutions (residual term up to 1 year)   | 9,115               | 3,973               |
| 3. Trade accounts payable (residual term up to 1 year)  | 17,687              | 41,405              |
| 4. Liabilities to affiliated companies<br>(of which to the shareholder € 4,791,387,000; previous year: € 6,023,740,000)<br>(of which trade accounts payable € 257,454,000; previous year: € 147,312,000)<br>(residual term up to 1 year € 2,117,878,000; previous year: € 1,782,469,000)<br>(residual term more than 5 years €; previous year: € 1,000,000,000) | 6,108,779           | 6,923,518           |
| 5. Other liabilities<br>(of which resulting from taxes € 57,000; previous year: € 55,000)<br>(residual term up to 1 year € 217,853,000; previous year: € 250,891,000)   | 223,848             | 272,689             |
| <b>Total</b>  | <b>9,209,429</b>    | <b>9,241,585</b>    |

Development of the fixed assets of Volkswagen Leasing GmbH, Brunswick, for the 2007 financial year

| Description                     | Brought forward<br>1.1.07<br>€ 000 | Additions<br>€ 000 | Disposals<br>€ 000 | Transfers<br>€ 000 | Gross book values            |                              | Brought forward<br>1.1.07<br>€ 000 | Additions<br>€ 000 | Disposals<br>€ 000 | Value adjustments            |                              | Net book values   |  |
|---------------------------------|------------------------------------|--------------------|--------------------|--------------------|------------------------------|------------------------------|------------------------------------|--------------------|--------------------|------------------------------|------------------------------|-------------------|--|
|                                 |                                    |                    |                    |                    | Balance<br>31.12.07<br>€ 000 | Balance<br>31.12.07<br>€ 000 |                                    |                    |                    | Balance<br>31.12.07<br>€ 000 | Balance<br>31.12.06<br>€ 000 |                   |  |
| <b>I. Tangible fixed assets</b> |                                    |                    |                    |                    |                              |                              |                                    |                    |                    |                              |                              |                   |  |
| Land and buildings              | 21,459                             | -                  | -                  | -                  | 21,459                       | 21,459                       | 7,965                              | 508                | -                  | 8,473                        | 12,986                       | 13,494            |  |
| <b>II. Leased assets</b>        |                                    |                    |                    |                    |                              |                              |                                    |                    |                    |                              |                              |                   |  |
| Vehicles, plant and equipment   | 15,630,771                         | 6,348,764          | 5,074,146          | 23,401             | 16,928,790                   | 16,928,790                   | 4,994,483                          | 3,568,696          | 2,526,993          | 6,036,186                    | 10,892,604                   | 10,636,288        |  |
| Payments on account             | 24,486                             | 37,659             | 1,085              | -23,401            | 37,659                       | 37,659                       | -                                  | -                  | -                  | -                            | 37,659                       | 24,486            |  |
|                                 | 15,655,257                         | 6,386,423          | 5,075,231          | -                  | 16,966,449                   | 16,966,449                   | 4,994,483                          | 3,568,696          | 2,526,993          | 6,036,186                    | 10,930,263                   | 10,660,774        |  |
| <b>Total fixed assets</b>       | <b>15,676,716</b>                  | <b>6,386,423</b>   | <b>5,075,231</b>   | <b>-</b>           | <b>16,987,908</b>            | <b>16,987,908</b>            | <b>5,002,448</b>                   | <b>3,569,204</b>   | <b>2,526,993</b>   | <b>6,044,659</b>             | <b>10,943,249</b>            | <b>10,674,268</b> |  |

#### IV. Notes to the profit and loss account

Sales relate solely to the leasing business.

The improved cost allocation that was the result of the new organisational structure of the German Volkswagen Financial Services AG Group has entailed a change in the classification of cost of sales, selling and distribution expenses and administration expenses.

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

The cost of materials totaled € 3,235,950,000. It is divided up into € 649,575,000 in expenses for services purchased and € 2,586,375,000 in expenses for leased items sold.

The result for the year is influenced by income in the amount of € 20,326,000 attributable to other accounting periods, which is included in other operating income.

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

Personnel expenses for our members of staff at the Milan and Verona branches amounted to € 2,553,000, of which € 1,887,000 is attributable to wages and salaries and € 666,000 to social security contributions.

Under the existing profit transfer agreement, the loss of € 382,889,000 is compensated by Volkswagen Financial Services AG.

The interest result is divided up as follows:

|   | 31.12.2007<br>€ 000 | 31.12.2006<br>€ 000 |
|---|---------------------|---------------------|
| 1. Other interest and similar income<br>(of which from affiliated companies € 12,250,000; previous year: € 2,470,000) | 20,009              | 5,310               |
| 2. Interest and similar expenses<br>(of which to affiliated companies € 304,256,000; previous year: € 240,169,000)    | 342,441             | 310,931             |
| <b>Total</b>  | <b>- 322,432</b>    | <b>- 305,621</b>    |

## V. Other notes

The interest rate risk is hedged by interest rate swaps with a total nominal volume of € 15.2 billion. As at the balance sheet date, the positive market values amount to € 104.2 million while negative market values amount to € 26.8 million. Market values are determined on the basis of market information available at the balance sheet date and appropriate IT-based evaluation methods. Of these derivative financial instruments, accrued interest income of € 104.6 million is shown under assets and accrued interest expenses of € 69.4 million are reported under liabilities.

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

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

In the period under review, audit fees amounting to € 107,000 were recognised as expenses, of which € 85,000 were attributable to the audit of the annual financial statements and € 22,000 to other certifications.

To pursue its business activities in Germany, Volkswagen Leasing GmbH does not have any personnel of its own. The staff have been made available by Volkswagen Financial Services AG in return for a fee since 1 July 2007. Previously, Volkswagen Bank GmbH had made the staff available for a fee. The Milan and Verona branches, on the other hand, employed 49 members of staff on an annual average.

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

## Branches

| Name and registered office             |
|--|
| <b>Branches</b>                        |
| Audi Leasing, Brunswick                |
| SEAT Leasing, Brunswick                |
| Škoda Leasing, Brunswick               |
| AutoEuropa Leasing, Brunswick          |
| Volkswagen Leasing GmbH, Berlin        |
| <b>Branches outside Germany</b>        |
| Volkswagen Leasing GmbH, Milan, Italy  |
| Volkswagen Leasing GmbH, Verona, Italy |

## VI. Responsibility statement of the Board of Management

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

## VII. Corporate bodies of Volkswagen Leasing GmbH

### *Board of Management*

*Lars-Henner Santelmann*

Spokesman of the Board of Management

*Dietrich Paul (until 31.12.2007)*

Managing Director

*Dirk H. Pinkvos*

Managing Director

### *Supervisory Board*

*Hans Dieter Pötsch*

Chairman

Member of the Board of Management of Volkswagen AG

Finance and Controlling

*Giuseppe Savoini*

Deputy Chairman

Executive Vice President of Volkswagen AG

Group Treasurer

*Alfred Rodewald*

Deputy Chairman

Deputy Chairman of the Works Council of Volkswagen Financial Services AG

*Waldemar Drosdziok*

Chairman of the Works Council of Volkswagen Financial Services AG

*Sabine Ferken*

General Secretary of the Works Council of Volkswagen Financial Services AG

*Stefan Jacoby (until 31.10.2007)*

Executive Vice President of Volkswagen AG

Marketing and Sales

*Detlef Kunkel*

General Secretary/Principal Representative of IG Metall Brunswick

*Günther Müller*

Head of Controlling of Volkswagen Bank GmbH

*Dr. Horst Neumann*

Member of the Board of Management of Volkswagen AG

Human Resources and Organisation

*Michael Riffel*

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

*Lothar Sander*

Member of the Board of Management Volkswagen Division  
Controlling and Accounting

*Rupert Stadler (until 30.9.2007)*

Chairman of the Board of Management  
AUDI AG

*Axel Strotbek (from 1.10.2007)*

Member of the Board of Management  
AUDI AG  
Finance and Organisation

*Detlef Wittig (from 1.11.2007)*

Executive Vice President of Volkswagen AG  
Marketing and Sales

Brunswick, 11 February 2008  
The Board of Management



Lars-Henner Santelmann



Dirk H. Pinkvos

## Auditors' report

We have audited the annual financial statements – comprising the balance sheet, the profit and loss account, the cash flow statement and the notes – including the accounting, and the management report of Volkswagen Leasing GmbH, Brunswick, for the financial year from 1 January to 31 December 2007. The accounting and preparation of the annual financial statements and management report according to German commercial regulations are the responsibility of the company's Managing Directors. Our responsibility is to express an opinion on the annual financial statements, including the accounting, and on the management report based on our audit.

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

Our audit has not led to any reservations.

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

Hanover, 11 February 2008

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Harald Kayser  
Auditor

Burkhard Eckes  
Auditor

## Report of the Supervisory Board of Volkswagen Leasing GmbH

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

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

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

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 92 %. 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, as well as assuming guarantees, warranties and the like. At the meeting on 16 October 2007, we also decided to assign the responsibility for approving factoring transactions and general agreements pertaining to the assumption of receivables to the credit committee. 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 21 February 2007, the Supervisory Board approved the annual financial statements for 2006 that had been prepared by the Board of Management and accepted the annual report by Internal Audit regarding the results of its audits.

Additionally, the Board of Management informed us at said meeting of the extent to which the restructuring of the Subgroup's German companies had been implemented. This restructuring aims to improve cost transparency and efficiency by effecting a clearer separation of the individual legal entities.

The Board of Management provided extensive reports on the company's economic and financial position, both at the aforesaid meeting and at the meetings on 12 July 2007 and 16 October 2007.

At the meeting on 16 October 2007, the Board of Management also explained its business and risk strategy, including its strategy concerning the subprime mortgage crisis. We acknowledged and approved these reports. The Supervisory Board also dealt in detail with the Board of Management's concept for optimising the marketing of used vehicles throughout the Group.

#### Audit of the annual financial statements

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, was commissioned to audit the annual financial statements of Volkswagen Leasing GmbH as at 31 December 2007 including the accounting and the related management report.

The Supervisory Board had at its disposal the annual financial statements of Volkswagen Leasing GmbH as at 31 December 2007 and the related management report. The auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, have audited these financial statements, including the accounting, and the Management Report and issued an unqualified Auditors' Report. The Supervisory Board approves the results of these audits.

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

The Supervisory Board approves the annual financial statements of Volkswagen Leasing GmbH and proposes that the meeting of shareholders give its formal approval to the actions of the Board of Management. In accordance with the existing profit transfer agreement, the loss made in 2007 will be compensated by Volkswagen Financial Services AG.

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

Brunswick, 20 Februarv 2008



Hans Dieter Pötsch  
Chairman of the Supervisory Board

**Supervisory Board of Volkswagen Leasing GmbH**

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

**Giuseppe Savoini**  
Deputy Chairman  
Executive Vice President of Volkswagen AG  
Group Treasurer

**Alfred Rodewald**  
Deputy Chairman  
Deputy Chairman of the Works Council of Volkswagen Financial Services AG

**Waldemar Drosdziok**  
Chairman of the Works Council of Volkswagen Financial Services AG

**Sabine Ferken**  
General Secretary of the Works Council of Volkswagen Financial Services AG

**Stefan Jacoby (until 31.10.2007)**  
Executive Vice President of Volkswagen AG  
Marketing and Sales

**Detlef Kunkel**  
General Secretary/Principal Representative of IG Metall Brunswick

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Head of Controlling of Volkswagen Bank GmbH

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AUDI AG

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Member of the Board of Management  
AUDI AG  
Finance and Organisation

**Detlef Wittig (from 1.11.2007)**  
Executive Vice President of Volkswagen AG  
Marketing and Sales

## Glossary

### Asset-backed securities (ABS) 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.

### 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.

### Economies of scale

The term economies of scale describes the relationship between scale and economic efficiency. Such economies of scale are measurable. An increase in production volume results in reduced average costs. This is primarily due to the so-called digression of fixed costs. The total fixed costs are distributed over a larger production volume.

### Equity ratio

Ratio between equity and total capital.

### 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.

### Fleet management

Fleet management providers relieve customers of all activities in connection with operating and maintaining a vehicle fleet comprising cars of all Group brands requested by the customer.

### Full-service leasing

Full-service leasing offers lease agreements which provide insurance, maintenance, repairs and replacement tyres or even complete fleet management and consulting.

### Funding

Refinancing

### GAP

A “gap” may occur if a vehicle leasing contract is terminated prematurely because of theft or total loss and the value of the vehicle is lower than the sum of the outstanding leasing payments.

### Net leasing

A type of leasing where the lessee assumes the costs usually borne by an owner, i. e. the car is transferred for use without providing any additional service.

### 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.

### Scoring

Credit rating for the private customer business.

### Securitisation / Securitisation of receivables

Conversion of a pool (clearly defined amount) of assets of the same type (e. g. receivables) 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.

### Spread/credit spread in the narrow sense

Credit spread is a risk premium. It is calculated, for example, as the spread between the rate of return of investments of equal maturities that are risk-free (e. g. government bonds) and investments that involve risk (e. g. corporate bonds).

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

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

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