VOLKSWAGEN FINANCIAL SERVICES

AKTIENGESELLSCHAFT

The key to mobility.

ANNUAL REPORT 2009

Volkswagen Financial Services AG at a glance

in € million (as at 31.12.)	2009	2008	2007	2006	2005
Total assets	60,286	57,279	52,314	43,923	39,757
Receiivables arising from					
Retail financing	26,603	21,913	20,884	17,262	15,534
Wholesale financing	8,391	9,584	9,360	6,989	6,614
Leasing business	13,935	14,912	13,639	12,759	11,832
Leased assets	3,666	3,003	2,436	1,476	1,024
Customer deposits	18,309	12,835	9,620	8,827	8,735
Equity	6,311	6,780	6,012	4,603	4,324
Pre-tax result	554	792	809	705	696
Taxes on income and earnings	– 159	– 214	– 90	– 230	– 207
Net income	395	578	719	475	489

in % (as at 31.12.)	2009	2008	2007	2006	2005
Cost/income ratio[1]	69	61	58	60	61
Equity ratio	10.5	11.8	11.5	10.5	10.9
Core capital ratio	11.2[2]	8.8[2]	7.0[2]	8.2	9.0
Overall ratio	11.4[2]	10.8[2]	8.9[2]	8.8	8.8
Return on equity	8.5	12.4	15.2	15.8	16.8

Number (as at 31.12.)	2009	2008	2007	2006	2005
Employees	6,775	6,639	6,138	5,022	4,968
In Germany	4,290	4,128	3,856	3,602	3,595
Abroad	2,485	2,511	2,282	1,420	1,373

Rating 2009[3]	Standard & Poor's			Moody's Investors Service		
	short-term	long-term	outlook	short-term	long-term	outlook
Volkswagen Financial Services AG	A–2	A–	negative	Prime-2	A3	stable
Volkswagen Bank GmbH	A–2	A–	negative	Prime-1[4]	A2[4]	stable[4]

1 General administration expenses (adjusted for extraordinary items) divided by net income from lending, leasing and insurance transactions after provisions for risks and net commission income
2 The regulatory core capital ratio/overall ratio as at 31 December 2007, 2008 and 2009 was calculated in accordance with the standardised approach to credit and operational risks based on the Solvency Regulations that took effect on 1 January 2007. The figures for the years 2005 and 2006 were calculated in accordance with the old Principle I.
3 For details see section »Diversification defines our refinancing strategy«
4 Ratings currently subject to monitoring in light of a possible downgrade

Our mission

We support the sales of all Volkswagen Group brands throughout the world and increase customer loyalty in a sustainable manner along the entire automotive value-added-chain.

Table of contents

Foreword of the Board of Management

FRANK WITTER
Chairman of the Board of Management

Ladies and Gentlemen,

The global financial crisis reached its climax at the start of the 2009 financial year. Dramatically declining sales in the automobile industry gave reason to fear that the mobility services business would also suffer significantly. Fortunately, the introduction of the scrapping bonus in Germany and comparable programmes in other countries provided an extraordinary boost to sales, particularly of small- and medium-size vehicles, which in turn benefited both our finance and our insurance business. The tight situation in the financial markets has created substantial challenges for all providers of financial services that require refinancing. However, thanks to both our solid credit rating and the fact that our refinancing strategy is based on diversification, there was never a problem ensuring the company's liquidity.

At € 554 million, our pre-tax result is 30 % lower year on year, as expected. Whilst we faced special challenges in the financial year just ended, we can say with full confidence against precisely this backdrop that our clearly structured business model has proven its merits. But we had already taken important steps before the crisis broke out. Among other things, this included expanding our risk management methods and procedures, consistently aligning our product range with customer needs and proactively claiming new business opportunities and markets for our purposes.

This means that in 2009, we increased the number of new financing and leasing contracts by 8.7 % and the number of new automotive insurance policies by 9.9 %. Volkswagen Leasing GmbH succeeded in expanding its fleet business – in contrast to the decline in the overall market. As a result, we are now financing or leasing 29 % of all new Volkswagen Group vehicles sold and insuring 13.1 % of them. This success stems from a well-coordinated strategy aimed at both sustained profitability and healthy growth.

We believe that the market environment will remain very difficult in the 2010 financial year. The tension will be felt especially with regard to risk premiums. Since the governmental stimulus packages that generated growth last year will not be repeated this year, we must now more than ever succeed with innovative and creative customer solutions. We are well positioned and prepared for precisely such a scenario.

We wish to thank all those who have made our success a reality by placing their trust in us, particularly our customers and our business partners. Our special thanks are due to our employees for their unwavering commitment and to our partners on the automotive side for a good and reliable collaboration.

Frank Witter
Chairman of the Board of Management

Brunswick, March 2010

The Board of Management of Volkswagen Financial Services AG

FRANK WITTER
Chairman of the Board of Management

FRANK FIEDLER
Finance

CHRISTIANE HESSE
Human Resources and Organisation

DR. MICHAEL REINHART
Risk Management

LARS-HENNER SANTELMANN
Sales

FRANK FIEDLER DR. MICHAEL REINHART LARS-HENNER SANTELMANN CHRISTIANE HESSE FRANK WITTER

Our vision – to be »the best automotive financial services provider in the world«

We are pursuing our vision of being the best automotive financial services provider in the world in a highly complex and intensely competitive environment. The framework for this is provided by the WIR2018 strategy, which the Volkswagen Group has launched with the aim of evolving into the world's leading automobile company, both economically and ecologically.

Whilst ever-increasing saturation and extremely stiff competition have characterised business in the established markets in recent years, the crisis in the global financial markets and the subsequent economic crisis triggered a radical change in the entire business in 2008. We believe that a sweeping consolidation process has started.

A CHANGING BUSINESS ENVIRONMENT

Two major market trends have had a powerful impact on the international automobile industry for a number of years – the focus on ecological values and the total cost of ownership, i. e. issues related to the use of automobiles in general. Both market trends will benefit especially those manufacturers that possess high technological expertise as well as a closed automotive value chain.

The design and construction of environmentally friendly vehicles require exceptionally large research expenditures and thus a high willingness to invest. This includes the ability to create integrated mobility packages comprising not just vehicle financing, insurance, maintenance and disposal but also ongoing and competent services aimed at managing and advising customers in connection with financial services. Just a few manufacturers fulfil these complex requirements worldwide – and the Volkswagen Group is one of them.

Dealerships must also face these big challenges. Since this industry comprises mainly small- and medium-sized companies, it has been suffering for years from both inadequate capitalisation and insufficient earnings. These factors are now triggering widespread fears of being unable to survive against a backdrop of strong competitive pressures and the difficulty of raising funds in the current financial market crisis.

End customers on the other hand present a more differentiated picture in the current crisis. Budgetary issues and liquidity concerns had begun to dominate the allocation of households' net income even before the crisis hit, in turn ensuring that automotive customers increasingly preferred using vehicles based on predictable costs instead of making outright purchases. It is for this reason that economic stimulus measures

– such as the scrapping bonus in Germany – succeeded all the more effectively in turning the expected decline in demand into a sharp increase. This accelerated the trend toward purchases of small vehicles. In the end, the so-called downsizing effect lowers financing costs and makes it necessary to recalibrate prices for used cars, at least temporarily.

OUR WIR2018 STRATEGY

Aligning the needs of our target groups – i.e. end customers and dealers as well as the brands of the Volkswagen Group – with our own goals under these difficult conditions is at the heart of our strategy and finds it clearest expression in our mission statement.

- We aim to become the world's best promoter of all Volkswagen Group automotive brands and sustainably increase customer loyalty all along the automotive value chain.

- In our capacity as the reliable partner of automobile dealers, we want to fulfil our customers' needs for individual mobility by offering them attractive financial and automotive services.

- With our dedicated employees, we set standards for the entire industry, thus ensuring the company's sustained profitability.

OUR OVERALL BRAND GUIDELINE

We give our customers just the right »key to mobility« for all vehicles of the Volkswagen Group. We deliver the entire range of our services based on this overall brand guideline – throughout the world and tailored to customers' individual needs. In so doing, we meet the challenge of developing cutting-edge concepts that are aligned with our customers' interests as well as implementing these guidelines in an efficient and timely manner.

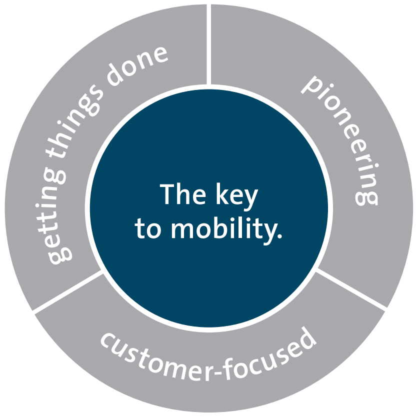
We have shaped the automotive financial services industry in the past 60 years since establishing Volkswagen Bank GmbH, the first auto bank in Germany, in 1949. That allowed us to determine the industry's development as an innovator in the field of finance and insurance services. Our package solutions comprise not just automotive and personal insurance services, maintenance services or fleet management but also a variety of automotive financing and leasing packages that serve to enhance customer loyalty in the long term.

The cutting-edge residual value insurance model that we developed in cooperation with AUDI AG is emblematic of this approach. In the current crisis, this helps to secure the business model of dealers in the long term. Customised mobility packages for private customers or the FleetCompetence eCO_2 programme for environmentally conscious companies reflect our focus on customer groups. Our marketing success is rooted in our ability not just to develop products but also to execute product designs in a timely manner. It requires broad insight into customers' needs – broken down by customer groups and markets – as well as the ability to design an overarching structure for financial mobility. Our competitiveness is also guaranteed by our ability to process large volumes, the broad range of our products, the ability to act in brand-specific ways as well as the professional dealer sales network. The integration on all stages of the value chain within the Volkswagen Group and with our dealers is a key requirement for this approach to succeed.

In 2009, our ability to refinance all our business in all markets was instrumental to our success in the market. Refinancing our business rests on three pillars: Diversified financing instruments, access to local capital markets and a solid equity base. Our reputation in international finance markets is one of being a reliable issuer of bonds and asset-backed securities; our subsidiaries in Germany, Poland and Mexico have established themselves as prestigious direct banks in the deposit business. We are in a position today to refinance our business in local money and capital markets, wherever we expand. In our view, our implementation expertise resides in our ability to offer the right mobility packages at the right time in any region.

Our overall brand concept

Our overall brand concept provides the parameters within which we develop our package solutions – the key to our customers' mobility.



VOLKSWAGEN FINANCIAL SERVICES AG AS THE LINK TO OUR CUSTOMERS

We consider ourselves a service provider to both our end customers and our dealer partners as well as to the automotive brands of the Volkswagen Group. It is for these target groups that we develop brand- and product-specific financial services. The close collaboration of Volkswagen Financial Services AG with the Volkswagen Group brands in both automotive product development and sales planning is the prerequisite for this to succeed. An integrated market presence – both when introducing new models and entering new markets – has been our distinguishing feature for years. Our dealers also benefit from this integrated approach because we are available to them as a reliable partner in all issues related to mobility services, especially in difficult times such as these. Volkswagen Financial Services AG is thus the material link between manufacturer, dealers, end customers and their vehicle, especially because our business relationship continues long after the initial purchase.

OUR STRATEGIC OBJECTIVES FOR SUSTAINED GROWTH

The fact that we already provide comprehensive services all along the automotive value chain explains our goal to equip one out of every two new automobiles of the Volkswagen Group worldwide with our mobility packages quasi »ex works« by 2018, and to service these packages through intelligent car life cycle management all along the value chain. This allows us to support the Volkswagen Group's strategy to become the leading automaker worldwide and define our own sales targets as a mobility services provider.

The instruments that we use to tailor mobility packages to individual customer needs enabled us to support the marketing success of the Group's automotive brands, especially during the financial crisis. We also proved our expertise as a product innovator in response to the downsizing trend toward small- and medium-size vehicles that was accelerated by the scrapping bonus.

Profitability is instrumental to the long-term development of the company because innovation, growth and competitive refinancing are best ensured through our own profitability. The quality of the new business is key to profitability, particularly in terms of both margin and risk. But the excellence of our processes is also an important requirement given the diversity of our products and the volume of our business. We always aim to be the best in class.

Yet all these objective factors taken together still do not suffice to make us the most successful company in the financial services industry. We will only succeed in tapping into all our potentials to the fullest worldwide if we continue to have faith in our excellent employees and help them evolve into top teams. Since we are a service provider, customer satisfaction and thus our sustained growth are contingent on the quality we achieve in each individual area of our business.

OUR STRATEGY SUCCEEDS – EVEN IN DIFFICULT TIMES

Our enhanced market position shows that the long-term upward trend of both Volkswagen Financial Services AG and its subsidiaries is solid even in this extremely challenging market environment. We are convinced that our sound strategy, which is based on a long-term outlook, will succeed in the future and thus do justice to our vision to be the best automotive financial services provider in the world.

A conversation

Frank Fiedler, Board member for Finance of Volkswagen Financial Services AG, talked with Dr. Gisela Demberg, freelance legal and financial journalist and author: Topics included the ramifications of the financial market crisis for the development of Volkswagen Financial Services AG as a company and the changed refinancing conditions in the capital markets.

FRANK FIEDLER
talks about the developments on the financial markets and the company's goals

In the annual report for 2008, the Board of Management expressed its confidence in the development of Volkswagen Financial Services AG as a company despite the worldwide crisis of the financial markets. Did subsequent developments confirm your stance?

FRANK FIEDLER: We were very conscious of the fact that 2009 would be a difficult financial year. And we correctly estimated the extent to which earnings would decline in 2009.

But what really matters is that our strategy was confirmed in one fundamental respect: We substantially outperformed the market during the crisis and gained market share in the process.

What makes the company so successful – even in times of crisis?

FRANK FIEDLER: We adjusted our approach to our customers' changing mobility needs very early on. That's what leadership in innovation means to us. Making the right customer analyses, segmenting in targeted ways, responding to customers' needs as well as offering customised products and services in close collaboration with the automotive brands of the Volkswagen Group are the factors that define our excellence.

There is a general trend – which the crisis has accelerated – toward a downsizing of customers' automotive needs. It entails choosing smaller and more fuel-efficient vehicles and thus lower monthly mobility costs.

The mobility packages we had developed and successfully introduced even before the financial market crisis, which offer customers predictable monthly mobility costs and protection from unforeseeable additional expenses, have demonstrated their relevance by being successful during the current economic and financial market crisis.

Economical financing and leasing packages require competitive refinancing. How are you going to ensure your ability to accomplish that in the face of uncertain financial and capital markets?

FRANK FIEDLER: Our refinancing needs reflect the marketing success of the Group's automotive brands. Currently, 29.0 % of all automobiles produced by the Volkswagen Group are already being financed or leased through our subsidiaries. We managed to place our refinancing needs on a secure footing thanks to a balanced ratio of customer deposits, ABS bonds and other capital market instruments.

The financial markets calmed down in the course of 2009. The risk premiums for new bond issues charged to companies with good ratings – such as Volkswagen Financial Services AG and Volkswagen Bank GmbH – have returned to acceptable levels. We placed a large bond issue in January 2009 in the midst of the crisis – making us one of the first players in the market to succeed in doing so. Volkswagen Financial Services AG and its subsidiaries also securitised € 519 million in ABS bonds back in 2009.

Pursuant to our refinancing strategy, we will leverage a broad range of diversified refinancing sources and instruments in order to ensure that all refinancing is obtained at the best possible cost.

Maintaining the trust of both our investors and customers is an equally significant aspect of our strategy. Hence we always ensure transparent risk management. It pays, particularly in times of crisis, as the large increase in deposits in our direct bank shows.

The German press has been reporting on the rapid drop in prices for used vehicles and the difficult times ahead for automobile dealers. Does this development trigger new residual value risks in the leasing contracts or a need to increase provisions?

FRANK FIEDLER: The clear strategy that we've pursued for years in regards to the measurement of our residual values has protected us to date from unpleasant surprises. Our residual values are generally measured at market rates and as realistically as possible. A comprehensive residual value forecast model serves as the basis for this assessment in collaboration with our automotive brands and dealers.

The portfolios of existing contracts are adjusted on a quarterly basis through provisions or write-downs. All of this is enhanced by strict risk controls that are carried out on a monthly basis. In other words, we maintain a very tight net of controls that demonstrates its value particularly in times of high market volatility.

In addition, the credit risks we face from our automotive customers are below the average for banks. This stems from the successful interaction of various instruments such as proactive receivables management, tried and true credit rating procedures and a customer group which, in its capacity as buyers of our automotive Group brands, is more solvent than others.

In closing, let me address your questions about dealerships. We offer a residual value option to

»Our optimism regarding the development of the company goes beyond the 2009 financial year. It is based on a sound business model, solid refinancing, efficient risk management and the strong competitive position that we maintain in conjunction with the brands of the Volkswagen Group.«

our auto dealers in cooperation with the Group brands; it enables them to transfer the residual value risk to Volkswagen Leasing GmbH. This gives dealers the discretion to decide which vehicles they want to market themselves once the contract has expired and which risks they want to transfer to us via the residual value option. By the way, this option is very popular among dealers.

The scrapping bonus initially stabilised the automobile market in 2009. But many purchases and the attendant financing contracts were made earlier than usual and thus will not occur in upcoming periods. Shouldn't you be worried about the development of the new contract business in the current year?

FRANK FIEDLER: Your comments on the scrapping bonus essentially concern the German automotive market. The scrapping bonus made it possible to gain new customers in the small vehicle segment. Furthermore, many customers decided to purchase their car earlier than originally planned. In the short and medium term however, this customer group will limit their purchases particularly of imported vehicles that are being promoted under the scrapping bonus. But our analysis clearly goes above and beyond the German market, because the Volkswagen Group is positioned worldwide and it is precisely this position that offers the advantages of balancing risks. This fact is illustrated by our activities in the BRIC countries, i. e. Brazil, Russia, India and China, where we have intensified our work to develop innovative financial services and thus participate in the growth of the market.

We also expect the fleet business, which is particularly important to us, to continue expanding because the cuts in expenditures that were made in 2009 might generate a catch-up effect in 2010.

We are unable at this time to provide solid forecasts, given the market's continued volatility. But I look to the future with confidence because we do not face these developments unprepared and proactively manage these processes. We will generate new momentum in the market through innovative products and services whilst at the same time further optimising our business processes and staying on target in terms of our long-term planning.

The integration of brands and financial services allows Volkswagen Financial Services AG to leverage the benefits of a closed value chain, making it one of the world's largest automotive financial services providers. What are the current market trends and what are you going to focus on in order to ensure the company's growth?

FRANK FIEDLER: The trend toward leasing and full-service offers with predictable costs will continue to accelerate. The growth of Volkswagen Leasing GmbH has been dynamic indeed.

In contrast to direct competitors, we avoided substantial risks and secured our liquidity on a permanent basis. Many non-captive leasing providers withdrew from the market in 2009 because it became more difficult to refinance at competitive terms and market returns. But it is precisely here that the strengths of Volkswagen Financial Services AG in both refinancing and residual value management come to the fore.

Factors such as our refinancing strategy, sustained innovation management and our internationalisation will be critical to our development in the long term. Foreign markets in particular offer major market potential that we will tap in close collaboration with the brands.

The interview was conducted by Dr. Gisela Demberg, LL.M. (Berkeley, Cal., USA), freelance legal and financial journalist and author. She has been writing for leading national and international publications for more than two decades.

»Diversification« defines our refinancing strategy

Our refinancing strategy provides a solid basis for the company's future marketing success. Groupwide refinancing is key to the planned growth of our automotive brands as well as the related automotive financing and leasing packages. Our refinancing strategy is based on the principle of diversification.

The crisis in the financial markets made clear yet again that reliable refinancing is contingent on utilisation of a broad range of international refinancing sources in a variety of currencies.

Hence our refinancing strategy is based on the following approaches:

- Refinancing is fundamental to promoting the sales of all Volkswagen Group brands worldwide. Refinancing costs determine the profitability of Volkswagen Financial Services AG because they are a major cost item. Maintaining our leading competitive position requires a stable credit rating as well as putting refinancing instruments to optimal use and ensuring that they are refined continually.

- Adequate refinancing solutions serve to underwrite our existing and future business volume in these markets. We involve our local companies and branches as well as banks, investors and rating firms into the steps we take.

BALANCED REFINANCING MIX

As the crisis in the international financial markets has shown, the refinancing business requires both a viable strategy and extraordinary speed, foresight and flexibility. Ensuring that all refinancing activities are an integral part of our company's risk strategy, with adequate consideration for both liquidity and interest rate risks, is critical in this regard.

Experience in weighing cost and risk factors shows that a mixture is best for balancing the multitude of factors that have an impact on the capital markets. This mix should consist in equal parts of deposits, ABS issues and capital market instruments. Our equity and our credit lines with banks supplement this mixture.

We also use suitable instruments in regional markets relevant to our business in order to enhance the viability and flexibility of this balanced composition of refinancing sources. Using different currencies to refinance and broadening our investor base round out our diversification strategy.

Whilst we have already successfully implemented this refinancing strategy in the euro zone, its execution in other regions depends on the legal and organisational development of the respective markets. The fact that we have started taking deposits in Mexico and established a deposit business in Poland are big successes, given the strict requirements the company must satisfy in order to be licensed as a banking business. These direct banking activities illustrate the opportunities for expanding our deposit business using both our size and our international alignment.

We plan to rapidly execute our diversification strategy as it relates to refinancing in those markets that offer a promising future to the Group. The know-how that we have acquired in the most varied national settings within different regions helps us to push our expansion.

SUCCESSFULLY MANAGED REFINANCING BUSINESS

The refinancing volume of Volkswagen Financial Services AG as at 31 December 2009 was about € 60.3 billion.

The money and capital markets were still experiencing great difficulties at the start of 2009 due to the global crisis in the financial markets. But the diversification of our refinancing strategy has stood the test of time throughout this crisis, even allowing us to place ABS and bond issues in the midst of it. Investors' unwavering confidence in the performance of Volkswagen Financial Services AG was instrumental to our ability to do so.

»Our diversification strategy pays off«

»We successfully placed a € 1.5 billion bond issue in January 2009, thus refinancing our leasing business, which is exhibiting strong growth. We also managed, in our capacity as the market leader in ABS transactions, to restart the securitisation market in September 2009 which had been completely dormant for 12 months.

Strong demand for both of these transactions underscores the great confidence that our investors place in the strength of our company and the quality of our portfolio. The diversification strategy that we have employed in connection with refinancing has turned out to be the right approach to our future.«

BERND BODE
Head of Treasury of
Volkswagen Financial Services AG

As a result, we were able to place benchmark debt issues for a total of € 1.5 billion with a maturity of five years as early as in January 2009 under our existing € 18 billion debt issuance programme. This enabled us to obtain large amounts of cash through our access to the capital market.

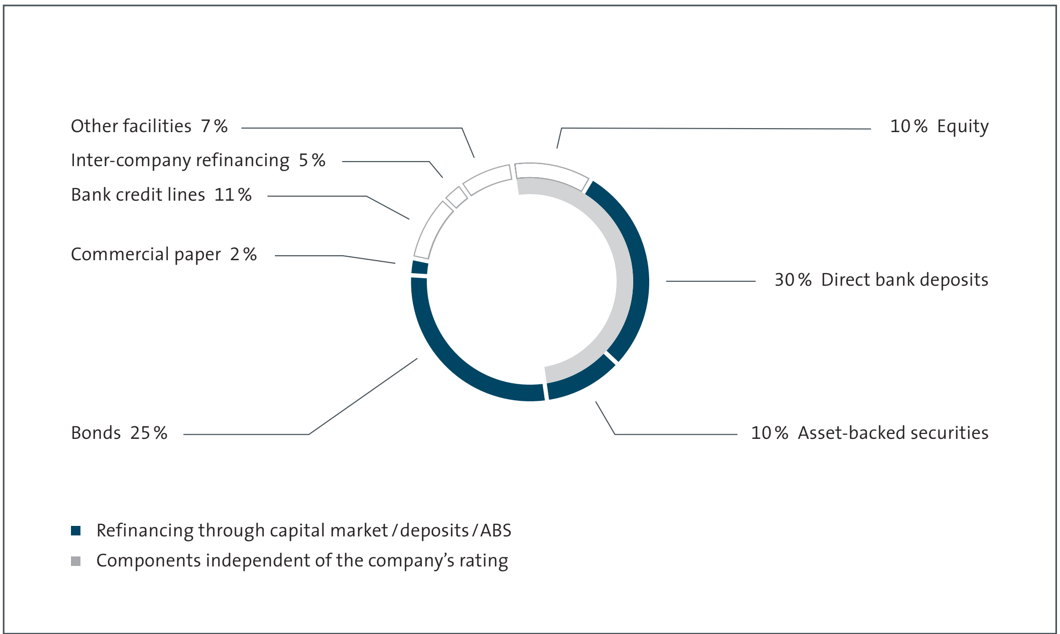
We are particularly pleased that deposits continued to grow steadily even during the crisis, thus confirming the extraordinary trust that customers in the direct banking business place in us. The deposit volume has increased by 42.7% to € 18.3 billion since 31 December 2008. This development in particular evidences the trust that our customers place in the Volkswagen brand and in our success as a global mobility services provider.

In September 2009, we also managed to achieve a breakthrough in the asset-backed securities market that had previously come to a standstill. Volkswagen Leasing GmbH issued a benchmark ABS bond issue for € 550 million and placed the transaction with a multitude of national and international investors. These transactions enhance the excellent reputation of both Volkswagen Financial Services AG and its subsidiaries among investors.

Our ability to successfully implement a diversification strategy as well as the fact that the refinancing markets calmed down in the course of 2009 have enabled us to waive our right to utilise the statutory guarantees available to Volkswagen Bank GmbH.

OUR SOURCES OF REFINANCING

As at 31 December 2009



In September 2009, we also managed to achieve a breakthrough in the asset-backed securities refinancing segment after the ABS business had come to a standstill.

RATING DURING THE ECONOMIC AND FINANCIAL CRISIS

The rating of Volkswagen Financial Services AG in its capacity as a wholly-owned subsidiary of Volkswagen AG corresponds to that of the Group parent by both Moody's Investor Services (Moody's) and Standard & Poor's (S&P). Both firms' rating of Volkswagen AG and thus of Volkswagen Financial Services AG remain unchanged, specifically, A– (S&P, outlook negative) and A3 (Moody's, outlook stable).

As a wholly-owned subsidiary of Volkswagen Financial Services AG, Volkswagen Bank GmbH is given a separate rating by both firms.

Whilst Moody's continues to assign an A2 rating to Volkswagen Bank GmbH (subject to monitoring in light of a possible downgrade) – which is one level better than that of Volkswagen Financial Services AG – S&P has downgraded the credit rating of Volkswagen Bank GmbH to A– with a negative outlook.

Nonetheless, the overall rating that the rating agencies have given to both companies provide them with a solid basis in difficult times for executing their refinancing strategy in the capital markets.

The company's considerable ability to refinance itself from equity, direct bank deposits and ABS issues is not affected by any credit rating decisions. Currently, this potential source of refinancing accounts for approximately 50% of the Volkswagen Financial Services AG Group's total refinancing volume. The fact that a large percentage of our refinancing sources is not contingent on any credit rating is also an outcome of our diversification strategy. Volkswagen Financial Services AG and its subsidiaries are well equipped to meet future challenges in regards to refinancing.

Innovation and internationalisation – potentials for our market growth

Volkswagen Financial Services AG aligns its strategies with the Group's automotive markets and controls the Volkswagen Group's global financial services activities. Germany remains our most important market, as before, and it continues to give new impetus to the development of markets for automotive financing, insurance, leasing and fleet management.

The growth rates of the automobile industry in different national markets reveal that financial services too have clearly reached different stages of maturity. Whilst established markets are already showing signs of saturation in both automobile sales and automotive financing, customised mobility services offer great potential for penetrating growth markets in future. Our financial services frequently serve to develop a market in both new markets and markets that offer opportunities.

NEED TO WORK MARKETS USING DIFFERENT APPROACHES

Given this backdrop, these three markets must be worked in different ways.

- Since our market share in the mobility services business already is very high, we need to pursue a differentiated approach to analysing and working established markets in order to tap remaining potentials. Innovations are the key to success.

- The growth markets require increasing our share of financial services, which remains small compared to the automotive market, and to grow in close collaboration with the brands. Our tried and tested product portfolio is essentially being used to this end.

- We must enter both the new markets and the markets that offer business opportunities for the Volkswagen Group at an early stage using our experience in previously developed markets.

MARKET DEVELOPMENT STRATEGIES

In Germany – our largest individual market – purchases of new vehicles increasingly include mobility services products. The share of captive mobility services providers in the new vehicle financing market is very high. This remarkable penetration of the market is due in particular to the success of the marketing initiatives of the Volkswagen Financial Services AG Group companies in their capacity as the market leader in Europe.

Whilst the share in the financing and leasing business in larger European markets such as the United Kingdom, Italy and Spain is greater, the captives' market share in these countries is substantially smaller than in Germany. Our strategy arises from this analysis. In the established markets, growth in the mobility packages business mainly requires better and more targeted penetration of each market. In turn, this is predicated on intelligent and innovative mobility services that are increasingly supplementing conventional financing products or cash purchases; basically this applies in equal measure to both the new and the used vehicle market. This experience provides the basis for prevailing vis-à-vis our competitors in the other European countries as well.

INDIVIDUAL MOBILITY PACKAGES PROMOTE SALES

The key to success in this business is designing individual mobility packages that comprise automotive financing, offer environmental incentives with respect to vehicle selection and give the customer comprehensive security and automotive services for an affordable, fixed monthly payment.

We introduced numerous mobility packages in 2009 based on the notion that our products and services ought to be customised. These products offer customers much flexibility, transparency in connection with fleets, cost reductions and environmental protection, all the while broadly enhancing their mobility.

One example of this development is our »environmental package«, which includes constant premiums and our extended warranty for new vehicles above and beyond the manufacturer's warranty and thus avoids unexpected repair costs. Audi Bank's »Umweltprämie Plus» (scrapping bonus plus) programme has a similar structure. The »Drive & Smile« package of SEAT Bank also comprises an extended warranty for new vehicles besides offering customers the option of not paying premiums during the auto insurance policy's first year. The »All Inclusive« package for the Volkswagen passenger car brand is even broader as it includes maintenance and inspections.

The credit protection package that Volkswagen Bank GmbH offers is yet another example of our product innovations. It provides comprehensive protection against default risks due to the customer's disability and involuntary unemployment. It secures the instalment amount as well as the auto insurance and warranty premiums besides protecting the policyholder's survivors in the event of his or her death.

»KaskoPlus«, a programme offered by Volkswagen Versicherungsdienst GmbH, is also new. Buyers of pre-owned vehicles can use this programme to purchase a comprehensive guarantee for the life of their vehicle. Innovations also include the environmental programme called FleetCompetence eCO_2, which picks up on the environmental component of the Volkswagen Group's »18 plus« strategy and was designed especially for environmentally conscious fleet management companies.

DEVELOPMENT OF GROWTH MARKETS

A 2007 market analysis clearly shows the significance of new vehicle financing to the sale of Volkswagen automobiles in growth markets. According to this analysis, fully 68 % of 2.3 million new vehicles sold in Russia were financed; two thirds of these purchases were made by private customers. The captives' share of this market is a mere 8 %.

This example illustrates the existing potential in these markets, especially in large economies such as Brazil, Russia, India and China, which can be developed in collaboration with the Group brands. As a Captive, Volkswagen Financial Services AG thus works the major growth markets with particular intensity.

Experience shows that not only product competence but also proximity to these markets plays an important role. Taking these considerations into account, in 2009 we established VOLKSWAGEN FINANCE PRIVATE LIMITED in Mumbai, India, in order to offer our financial services products for the brands Volkswagen passenger cars, Audi and Škoda. Cooperation agreements with Indian banks and insurance companies help us to achieve efficient market penetration in a first step.

The establishment in 2008 of our Mexican subsidiary, VOLKSWAGEN BANK SA INSTITUCION DE BANCA MULTIPLE, in Puebla is another example of the global nature of our business. It is the first automobile and direct bank in that country to offer products and services related to both the financing and deposit business.

We want to leverage our opportunities for global growth. Our internationalisation strategy therefore entails analysing all growth regions worldwide in which the Volkswagen Group as well as our subsidiary, LeasePlan Corporation N.V., Amsterdam, The Netherlands (LeasePlan), in which we hold an indirect 50 % stake, operates.

FleetCompetence eCO_2

Volkswagen Financial Services AG supports the Volkswagen Group's »18 plus« strategy.

More than 60 % of newly registered automobiles are used commercially by companies of all sizes. Volkswagen launched a sales and marketing programme called FleetCompetence eCO_2 that targets environmentally conscious operators and managers of fleets.

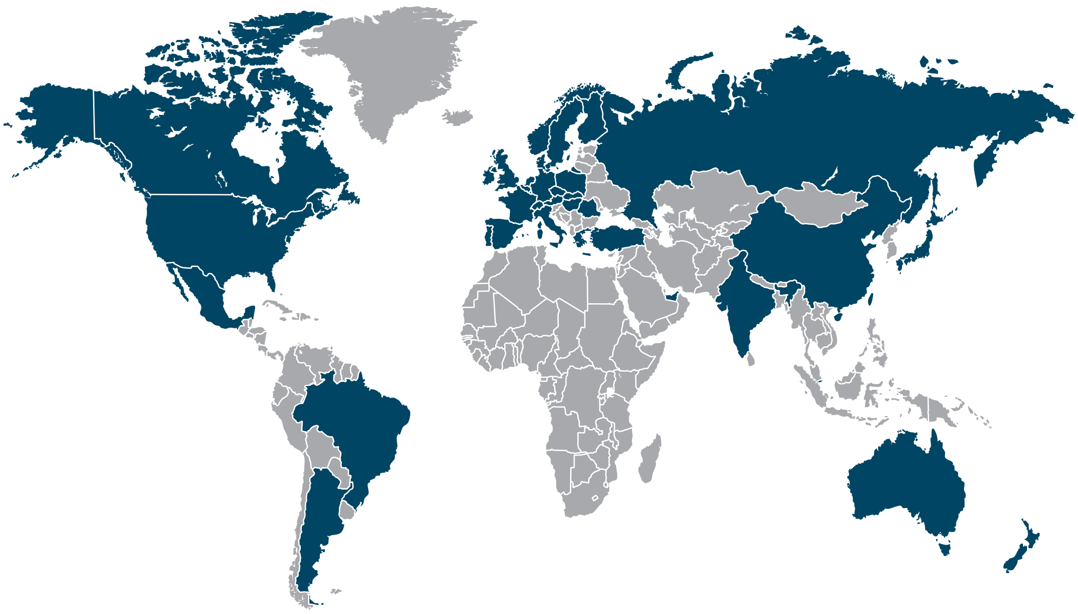
NABU, the German Society for the Conservation of Nature, is our cooperation partner. Volkswagen Leasing GmbH offers particularly low-emission and fuel- efficient BlueMotion and EcoFuel models under special leasing agreements.

These vehicles' fuel efficiency is enhanced by the »fleetCARS« fleet management software, which makes it possible to monitor the cars' CO_2 emissions. Another important component of the FleetCompetence eCO_2 programme provides fuel efficiency training at special terms to users of company cars in order to promote climate-friendly vehicle operation.

Our markets

Development in the markets

Volkswagen Financial Services AG is the holding company for the international financial services business of the Volkswagen Group. Companies in 37 countries are affiliated with Volkswagen Financial Services AG through equity investments and service agreements. Volkswagen Financial Services AG is the largest automotive financial services provider in Europe.



ARGENTINIA
AUSTRALIA
AUSTRIA
BELGIUM
BRAZIL
CANADA
CHINA
CZECH REPUBLIC
DENMARK
FINLAND
FRANCE
GERMANY
GREECE
HUNGARY
INDIA
IRELAND
ITALY
JAPAN
LUXEMBOURG
MEXICO
THE NETHERLANDS
NEW ZEALAND
NORWAY
POLAND
PORTUGAL
ROMANIA
RUSSIA
SINGAPORE
SLOVAKIA
SPAIN
SWEDEN
SWITZERLAND
TAIWAN
TURKEY
UNITED ARAB EMIRATES
UNITED KINGDOM
USA

Region Europe

Region Europe at Volkswagen Financial Services AG comprises the following countries: Austria, the Baltic States, Belgium, the Czech Republic, France, Greece, Ireland, Italy, the Netherlands, Norway, Poland, Russia, Sweden, Slovakia, Spain, Switzerland, Turkey and the United Kingdom.

GENERAL BUSINESS PERFORMANCE IN REGION EUROPE

Owing to the difficult economic climate, in 2009 the market volume of cars in Europe dropped by 11.7 % compared to the previous year. In contrast, Volkswagen Financial Services AG succeeded in increasing the number of new retail financing, leasing, service and insurance contracts by 12.7 % year on year. The company signed a total of 2.7 million contracts – 0.3 million more than in the previous year – enabling it to record an increase in financing penetration.

COLLABORATION WITH THE GROUP'S AUTOMOTIVE BRANDS

Since the vast majority of new car sales involve financing or leasing, financial services are a key driver of vehicle sales in Europe. Close and integrated cooperation among the Volkswagen Group companies allows them to better exploit advantages and growth potentials in the competitive automotive market.

The close integration of Volkswagen Financial Services AG with the Group's automotive brands – Volkswagen Passenger Cars, Audi, SEAT, Škoda and Volkswagen Light Commercial Vehicles – gives new momentum to sales of both automobiles and financial services. Furthermore, the targeted interplay of automotive brands and financial services helps to substantially boost customer loyalty. Based on experience gained on the German market, the Group brands and Volkswagen Financial Services AG have agreed to set mutual goals for the European core markets of France, the UK, Italy, Russia, Sweden, Spain and the Czech Republic. Progress towards these goals is monitored continuously using a shared »Balanced Scorecard« control system. Mutually-agreed strategies focus on customer relationship management, improved integration of services and IT systems for dealers, and integrated product development for new vehicle projects.

The introduction of the new Audi A1 in late summer 2010 is a good example of the close collaboration between Volkswagen Financial Services AG and the automotive brands. The conceptual work of Volkswagen Financial Services AG was included in the model and marketing plans at an early stage of development, and financial services tailored to the new model were developed for the markets in Germany, France, the United Kingdom, Italy and Spain on that basis.

INTERNATIONAL FLEET BUSINESS

The international fleet business was integrated into the European Sales division in 2009 as part of the restructuring of sales. This strategic realignment serves to drive the expansion of the fleet business in the European markets and ensures further improvements in the management of international customers.

INSURANCE BUSINESS

Intelligent automobile and warranty insurance solutions serve to enhance customer loyalty, vehicle repair shop capacity utilisation and the sale of OEM parts. In 2009, Volkswagen Financial Services AG once again paid particular attention to the expansion of its insurance products throughout Europe in cooperation with the Group brands.

We continued to refine warranty programmes for both new and used vehicles in France, Sweden, the Netherlands and Greece among other countries. This was aimed at streamlining our product range throughout Europe and at the same time improving it through product and coverage adjustments. In 2009, Volkswagen

Financial Services AG worked with its service providers to lay the essential groundwork for the future provision of warranty programmes throughout Europe.

We expanded the packaged product approach (financing/leasing plus insurance) with the objective of invigorating sales of automobile insurance packages in Europe. In Spain, for instance, we are offering mobility packages tailored to young drivers that include free car insurance for the following Group brands: Volkswagen Passenger Cars, Audi, Škoda and SEAT. In the United Kingdom, a change of insurance partner enabled us not only to establish the parameters for realigning our car insurance product range (based on modular approaches to insurance coverage) but also to expand our sales channels.

USED CAR BUSINESS

In 2009 Volkswagen Financial Services AG succeeded in boosting its financial services business for used vehicles involving the five brands Volkswagen Passenger Cars, Audi, Škoda, SEAT and Volkswagen Light Commercial Vehicles. This positive development is in particular a result of a targeted group programme aimed at the strategically important field of young used cars boosting the financial services for young used cars by 34 %.

NEW MARKETS

Baltic countries

Starting in 2010, our financial services products will be extended to the Baltic countries, offered under the Volkswagen Financial Services AG brand in cooperation with a banking partner and the local importer.

Norway

In 2008, Volkswagen AG presented the Volkswagen importer Harald A. Møller A.S. with its »Importer of the Year« Award.

The close of the 2009 financial year marked the entry of Volkswagen Financial Services AG into the Norwegian automotive financial services market, in a joint venture with the importer Harald A. Møller A.S.

The product portfolio not only includes financing and leasing but extends to insurance services for the Volkswagen Passenger Cars, Audi, Škoda and Volkswagen Commercial Vehicles automotive brands.

Our partnership also includes the exchange of best practice knowledge within the Volkswagen Financial Services network, with the aim of ensuring the success of the used vehicle and insurance business.

Russia

Volkswagen Financial Services AG operates in Russia via two subsidiaries: While Volkswagen Group Finanz OOO, Moscow, offers leasing products to corporate customers, Limited Liability Company Volkswagen Financial Services RUS offers financing products for private customers in cooperation with local banking partners.

Both the automobile market and the financial services market have suffered from the financial crisis: the automotive market shrank from 2.71 million units in 2008 to 1.35 million units in 2009, while private customer demand for financial services fell by about 50 % in the first six months of the year. However, demand picked up noticeably in the second half of the year.

Notwithstanding the difficult economic conditions, the Russian market will remain a core market for Volkswagen Financial Services AG. Hence Limited Liability Company Volkswagen Financial Services RUS has both intensified its cooperation with insurers and expanded its partnerships with local banks. Volkswagen Group Finanz OOO has restructured its leasing products in order to better respond to the needs of Volkswagen Group dealers. Moreover, Volkswagen Group Finanz OOO and Limited Liability Company Volkswagen Financial Services RUS continue to cooperate very closely with the Group brands in order to create an attractive product portfolio for both end customers and the dealer network of the Volkswagen Group.

Region Asia Pacific

GENERAL BUSINESS TRENDS IN REGION ASIA PACIFIC

Region Asia Pacific comprises the subsidiaries of Volkswagen Financial Services AG in Australia, China, India, Japan, Singapore and Taiwan.

While it has shown resilience, the Australian economy has not achieved complete immunity from the effects of the global downturn. Yet despite the Australian vehicle market contracting by 13 % in 2009, the sales volumes for Group vehicles was on par with the previous year.

Following slower growth in the closing months of 2008 as a result of the global financial crisis, the region's largest market – China – recovered in 2009, growing by 45.4 % (previous year 6.7 %). In 2009, a total of 1.4 million Group brand passenger cars were sold in China. At 13.6 million vehicles sold, China was the world's largest automotive market and the largest individual market for vehicles of the Volkswagen Group at year's end.

Following a difficult fourth quarter in 2008, the Indian market showed signs of recovery (with government-initiated stimulus packages playing their part) and resumed the trajectory that has made India the second key growth market in the Region Asia Pacific.

Since the property crisis, the Japanese economy has been shrinking, especially in the consumer goods sector – a fact also reflected in the substantial downturn in new vehicle registrations. While the Government offered incentives in the form of eco bonuses and tax rebates to purchasers of hybrid and eco-friendly cars, this proved of limited benefit to the Volkswagen Group. Despite these difficult circumstances,

the Volkswagen brand maintained its position as leading brand, while Audi increased its market share in the import vehicle segment.

In 2009, the Taiwanese market showed clear signs of strengthening after three years of contraction in the wake of the retail credit problems of 2006.

The margins of the Volkswagen Financial Services AG Group companies did come under pressure due to higher spreads even though the liquidity situation eased up in 2009 compared to the closing months of 2008.

NEW VEHICLE FINANCING

While the customer financing activities of Volkswagen Finance (China) Co., Ltd., Beijing, were comparable to the previous year, sales of Group brand vehicles in 2009 were almost 40 % higher year on year. This development indicates the potential for intensified marketing activities. Few Chinese customers currently finance new vehicle purchases but their numbers are set to increase. However, we expect the Chinese market's share of financed vehicles to remain substantially lower than other markets for the foreseeable future.

The new contract segment of Volkswagen Financial Services Taiwan LTD. Taipei, continued to grow in keeping with the market's positive development. But the proportion of contracts concluded with dealers of third-party brands was higher than planned. With market recovery expected to continue in 2010 and with the newly-created Audi National Sales Company operational since March 2009, Volkswagen Financial Services Taiwan LTD. is now refocusing on offering competitive wholesale and retail financing plans for dealers and Group brand customers. In 2009, the company's wholesale financing programme continued along its successful trajectory. The programme is now offered in more than 70 of the country's major cities.

In January 2009, VOLKSWAGEN FINANCE PRIVATE LIMITED, Mumbai, a subsidiary of Volkswagen Financial Services AG, opened for business in India. For the time being, VOLKSWAGEN FINANCE PRIVATE LIMITED works with a small number of selected banks and the Indian subsidiary of a global insurance company. It offers competitive financing packages to dealers and end customers alike for the Group brands Volkswagen Passenger Cars, Audi and Škoda. The company has achieved a penetration rate of more than 34 % since first offering retail financing in May 2009. To date, around 22 % of the Group's new vehicle customers have opted to buy the company's insurance products. With the Volkswagen plant in Pune ramping up output from 2010 onwards, VOLKSWAGEN FINANCE PRIVATE LIMITED is well positioned to support the Group's vehicle sales growth.

VOLKSWAGEN FINANCIAL SERVICES JAPAN LTD., Tokyo, experienced a drop in new car retail financing mainly attributable to the difficult automotive market. However, this downturn in new car financing was offset by an increase in retail financing in the young used car segment. In addition, the company has also diversified its business with the introduction of a car-sharing programme for luxury Audi models (Audi Premium Car Sharing) and a $C0_2$ offset programme (Audi Carbon Offset Program).

In Australia, marketing campaigns and related programmes helped us to acquire new dealers. With the addition of Australia's largest Volkswagen dealer, Barloworld, we now have access to a dealer network accounting for more than 50 % of all vehicles sold.

COLLABORATION WITH THE GROUP'S AUTOMOTIVE BRANDS

Within the region, Volkswagen Financial Services AG has worked with the Group's automotive brands on promotional campaigns offering financing solutions with interest set significantly below market level. In areas such as India, which offer a broad product portfolio, more than half of all sales were financed via Volkswagen Financial Services AG. In other markets – China, for instance – where demand has been strong even without the use of widespread advertising, Volkswagen Financial Services AG has supported Group brands with targeted clearance and stock balancing activities.

INSURANCE BUSINESS

We plan to introduce insurance products into China with the aim of supplementing our current range of financial services. In 2009, Volkswagen Finance (China) Co., Ltd., Beijing, began an extensive survey of the Chinese car insurance market – a highly regulated industry that poses major logistical challenges for providers. Insurance activities will commence as part of a pilot project in the first quarter of 2010.

We are also assessing entry into the Taiwanese insurance market, since recent changes to legislation now permit Volkswagen Financial Services AG to enter the local insurance agency business.

Operational since May 2009, VOLKSWAGEN FINANCE PRIVATE LIMITED partners with Bajaj Allianz General Insurance Co. Ltd (the Indian subsidiary of the Allianz Group) to offer tailor-made insurance solutions to Indian customers and dealers of the Volkswagen Passenger Cars, Audi and Škoda brands. Apart from car insurance, the company also offers extended warranty as well as service and maintenance agreements in conjunction with the Group affiliate LeasePlan India.

NEW MARKETS

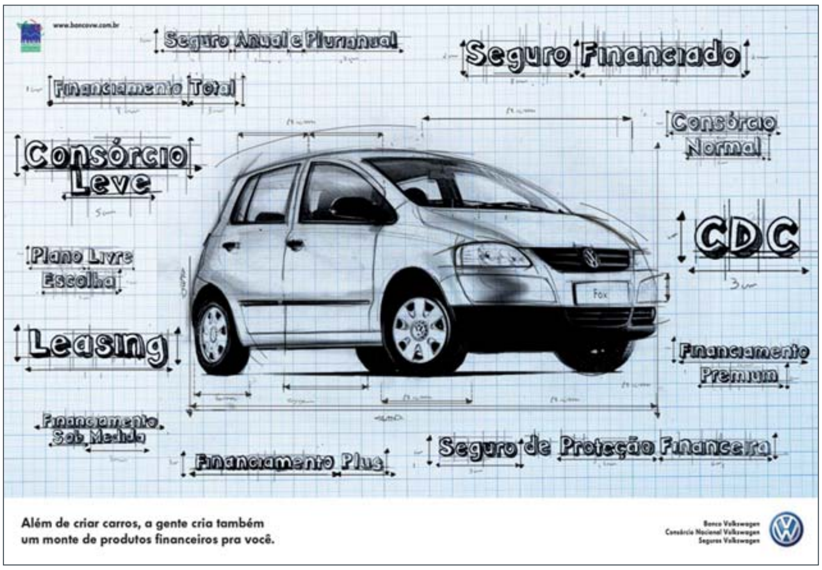
Volkswagen Passenger Cars, Audi and Bentley have now been present in South Korea for four years, making the country a typical target market for Volkswagen Financial Services AG. An ongoing study is now analysing the financial services market in South Korea and the ASEAN countries.

Region North America / Region South America

GENERAL BUSINESS PERFORMANCE IN REGION NORTH AMERICA AND REGION SOUTH AMERICA
The three markets of Volkswagen Financial Services AG in Region North America (Mexico) and Region South America (Argentina and Brazil) developed along different trajectories following the global economic crisis and its severe repercussions for the automobile industry. These differences reflect not only the countries' varying levels of exposure to the US economy, but also the different paths taken by their governments in responding to the crisis.

Total market sales for the regions show a moderate 1.0 % downturn compared to the situation in 2008, while Volkswagen Group brand sales show a strong year-on-year increase of 9.0 %.

In Mexico, which accounted for some 20 % of car sales in the Regions North and South America, overall economic conditions were less favourable than in previous years. Adversely affected by its close relationship with the US economy, the Mexican economy was further damaged by a downturn in tourism revenue, triggered by the H1N1 influenza outbreak. The financial crisis had a direct impact on the performance of the car market, which fell 26.3 % when compared to the previous year. Repercussions were also felt on the truck and bus market, which recorded a sales decline of 35 % year on year. Despite the downturn in the market, joint programmes with the Group brands managed to achieve a financing share in this segment of 19.8 %.



Indeed, Group brands overall managed to increase their market share from 13.5 % in 2008 to 15.6 % in 2009. Although Volkswagen Financial Services AG operates in an intensely competitive financial services sector in Mexico, it is noted for operating the country's first ever direct bank, and has recorded steady growth in both the deposit and the lending business. With a total penetration rate of 25.6 %, the company has managed to strengthen its position vis-à-vis captive financial services providers.

Argentina accounts for approximately 10 % of car sales in the Regions North and South America. The consequences of the global economic crisis have been somewhat milder in Argentina, where economic developments are more dependent on grain prices. After a record year in 2008, vehicle sales registered a 15 % downturn, while sales of Volkswagen Group brands fell by 8 %. A Government programme to support financed vehicle purchases had only a moderate impact on developments in overall market demand. Together with a generally unstable economic environment, this government initiative worked to limit the activities of Volkswagen Financial Services AG in Argentina in 2009. Further developments are expected in 2010, including the launch of an open market insurance programme and the possible expansion of retail and wholesale financing products.

Brazil accounts for approximately 70 % of car sales in the Regions North and South America and has, as a result, assumed a leading role for the world automotive industry. In 2009, the Brazilian car market recorded an impressive 11.5 % growth, mostly driven by substantial tax cuts for industrial producers and the provision of financial liquidity to captive automotive banks. These strategies were also contributing factors to a growth of 14.9 % for Volkswagen Group brands (including trucks and buses) and directly benefited the Volkswagen plants in Argentina and Mexico in their capacities as suppliers of vehicles and parts to the Brazilian market.

Group brands achieved a market share of 23.1 % in Brazil, with a 25.5 % penetration rate in the car segment and 53.2 % in the truck and bus market. As a result, the Brazilian subsidiaries of Volkswagen Financial Services AG achieved new record sales. To further support Group brand sales, a number of business development projects were also implemented. These included a comprehensive restructuring of insurance products as well as a range of new vehicle financing initiatives. The Brazilian subsidiaries of Volkswagen Financial Services AG deployed a number of IT projects to further optimise their levels of economic efficiency. The resulting platform is now being used for development work on a number of projects, including an ABS financing project, a factoring product and deposit business in the form of »Certificates of deposits« for retail customers. The ultimate objective here is the diversification of financing options, whereby these initiatives directly support the »WIR2018« strategy of Volkswagen Financial Services AG, which aims to strengthen the market performance of the Group's brands. Notable confirmation of the company's positive development was received when Banco Volkswagen S.A., São Paulo, received a AAA rating from Standard & Poor's.

COLLABORATION WITH THE GROUP'S AUTOMOTIVE BRANDS

In the course of 2009, collaboration between the Volkswagen Group brands and Volkswagen Financial Services AG was further intensified with joint marketing activities and ongoing campaigns for boosting vehicle sales volumes run by Volkswagen Financial Services AG. Since overall finance penetration stands at only 26.7 % when compared to total Volkswagen Group sales in the regions, there is therefore still clear potential for further growth in the South American market. Close, tightly-knit cooperation throughout the crisis has helped to improve sales substantially and led to long-term customer loyalty. Notable marketing initiatives include support for the launch programme of the new Volkswagen Saveiro and the new Volkswagen Fox in Brazil, and support for the Jetta Europa in Mexico. Initiatives to maintain and develop the profitability and liquidity of the VW brands' dealer networks have resulted in the closer integration of financial services with Group automotive brands in the regions.

WHOLESALE AND RETAIL FINANCING

Retail financing volumes and the financial result suffered adverse effects from declining vehicle sales and a deterioration in credit quality, both of which led to higher risk provisions. However, tax incentives granted by the Brazilian government have also helped the growth of our business in this country. Development of the wholesale market in Mexico has been depressed by lower dealer stocks and concerns about dealer viability. In Brazil and Argentina, dealers' financial performance has been satisfactory, with a resultant lack of adverse effects on the medium-term wholesale risk situation in these countries.

FLEET BUSINESS

Despite credit restrictions for the fleet business and an increase in cash payments, special offers for selected customers and joint dealership campaigns ensured that penetration reached 22.7 % on the Brazilian market and 37.4 % on the Mexican market in this segment.

CONSÓRCIO PRODUCTS

In 2009, demand for Consórcio products, a combination of savings and lotteries, continued to grow in the Region South America. The Consórcio business and hence the related sales channel were enhanced thanks to restrictions on credit and higher interest rates for financing products.

INSURANCE BUSINESS

In Brazil, the implementation of the new insurance business model produced its first positive results.

The launch of the new Volkswagen Saveiro was supported with the lowest insurance premiums in this vehicle category, helping the Group automotive brand to establish market leadership in this segment. In Argentina, preparations are underway for the introduction of an open market insurance programme – including an extended warranty – for the first quarter of 2010. The long-term goal is for the majority of new vehicles sold by the Group brands to be accompanied by an insurance solution, service plan or warranty provided by Volkswagen Financial Services AG. In Mexico, a life and unemployment insurance policy was introduced for all private customers, making an important contribution to customer loyalty especially in times of economic recession.

USED VEHICLE BUSINESS

Used vehicle business at Banco Volkswagen S.A., São Paulo, Brazil, declined significantly as a result of government tax incentives for new vehicles and credit restrictions caused by higher risks. In contrast, used car financing in Mexico underwent a period of growth. Financing volumes in 2009 were 34.5 % higher than in the previous year, with more than 4,200 used Group brand vehicles being financed by our Mexican subsidiary.

Management report

Management report

BUSINESS AND ECONOMIC ENVIRONMENT

Global economy

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

The US economy posted negative growth of – 2.4 % in the reporting year (previous year: + 0.4 %). Highly expansive monetary and fiscal policies helped bring the recession to an end in the year's second half. The US dollar once again shed much of its value relative to the euro by year's end, after attaining its high for the year in March 2009. Canada's gross domestic product (GDP) fell by 2.6 % (previous year: + 0.4 %), and that of Mexico by 7.0 % (previous year: + 1.4 %).

Whilst the Brazilian economy already showed strong signs of recovery in the spring of 2009, the economic situation in Argentina deteriorated during the course of the year. On the annual average, the 2009 GDP in both countries was more or less at the previous year's level.

The Asian emerging countries registered the greatest growth momentum. At 8.7 % (previous year: 9.0 %), the growth rate in China was just slightly lower year on year. Japan's GDP declined further by 5.2 %, after negative growth in 2008 (previous year: – 1.2 %). At a rate of 6.5 % (previous year: 7.3 %), India's economy continued to expanded at a robust pace in the reporting year.

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

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

Financial markets and competitive situation

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

The easing of conditions in the capital markets as well as the liquidity infusions made available by the European Central Bank (ECB) helped to substantially improve refinancing options in the banking sector. Moreover, the captives, which in their capacity as direct banks also engage in the deposit business, recorded a substantial increase in deposit volume, providing them with additional liquidity.

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

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

Automobile markets

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

At – 20.5 %, demand for passenger cars and light commercial vehicles in the North American market yet again was down year on year in 2009. In the United States, consumers' continued reluctance to make new purchases caused vehicle sales to drop by 21.3 % to 10.4 million units. The US government's economic stimulus package helped to stabilise the situation only for a short period. Declines occurred in both the passenger car segment (– 19.0 % to 5.5 million vehicles) and the light commercial vehicle segment (– 23.6 % to 4.9 million vehicles). New registrations were at their lowest level overall since 1982.

The sales volume in the Canadian market fell by 10.7 % to 1.5 million units. In Mexico, the sales volume also declined year on year. Demand in this country contracted even more, by 26.4 % to 0.8 million vehicles.

In the 2009 financial year, vehicle sales in the Region South America fell year on year for the first time since 2003. However, Brazil did not follow the general trend and its domestic market posted record sales yet again. The Brazilian government's limited economic stimulus package that offered large tax rebates was the main reason for the increase in new registrations by 12.8 % to 2.5 million passenger cars. At the same time, vehicle exports dropped by 35.3 % (475,000 units) compared to the previous year particularly due to the recession in the country's most important sales markets. At – 11.8 %, the Argentinean passenger car market shrank to 378,000 vehicles, down substantially from the previous year's high.

In 2009, dynamic demand in the Chinese market helped to drive the increase in newly registered cars in the Region Asia Pacific. The growth of China's passenger car market by 3.0 million units to 8.5 million units (+ 53.9 %) makes it the world's largest. This boom was fuelled by the tax rebate that was put in place in January 2009 for purchases of vehicles with engines of up to a 1.6 litres. The downward trend of the Japanese domestic market continued for the fifth year in a row, causing the number of passenger car sales to fall by 7.2 % to 3.9 million vehicles in the reporting year. Weak domestic private consumption and younger people's waning interest in automobiles were the reasons for the lowest level of new registrations since 1977. In India, sales of passenger cars rose 17.3 % year on year. This growth to 1.4 million units was triggered mainly by lower interest rates as well as the multitude of newly introduced models.

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

New vehicle registrations plunged in Central and Eastern Europe. Especially the large-volume markets Russia (– 50.3 %), Romania (– 51.0 %) and Hungary (– 50.8 %) had to contend with a dramatic downturn. Sales of passenger cars in Turkey were substantially higher year on year (+ 12.7 %) due to temporary tax rebates.

In Germany, automotive demand soared by 18.2 % to 4.0 million vehicles in 2009. At 3.8 million units (+ 23.2 %), the passenger car market reached its highest level since 1992 thanks especially to the scrapping bonus. In contrast, the muted investment climate caused new registrations of commercial vehicles to drop to 242,000 units (– 27.7 %) – the lowest level since reunification. At 170,000 vehicles, new registrations of trucks up to a total weight of six tons were down 24.4 %. Weak foreign demand for both passenger cars and commercial vehicles caused declines in German manufacturers' domestic production (– 13.9 % to 5.2 million units) and exports (– 20.4 % to 3.6 million units).

WORLDWIDE DELIVERIES TO CUSTOMERS IN 2009

	VEHICLE DELIVERIES		
	2009	2008[1]	Change in %[1]
Worldwide	6,336,222	6,256,843	+ 1.3
Volkswagen passenger cars	3,954,454	3,667,843	+ 7.8
Audi	949,729	1,003,469	– 5.4
Škoda	684,226	674,530	+ 1.4
SEAT	336,683	368,104	– 8.5
Bentley	4,616	7,604	– 39.3
Lamborghini	1,515	2,430	– 37.7
Volkswagen commercial vehicles	361,506	502,265	– 28.0
Scania	43,443	30,527[2]	+ 42.3
Bugatti	50	71	– 29.6

1 The 2008 deliveries and markets were updated due to statistical extrapolation.
2 22.7.2008 to 31.12.2008

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

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

Key objectives

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

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

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

Organisation of Volkswagen Financial Services AG

There was a personnel change on the Board of Management of Volkswagen Financial Services AG in 2009. Effective 1 August 2009, Ms. Christiane Hesse assumed responsibility as Board member for Human Resources and Organisation, thus succeeding Ms. Elke Eller, who resigned from the company for personal reasons. Ms. Hesse had already been responsible for both national and international human resources work within the Volkswagen Group.

The customers of Volkswagen Financial Services AG comprise the Volkswagen Group brands as well as both dealers and end customers. Volkswagen Financial Services AG took steps in 2009 that shortened decision making processes and thus improved its customer service, among other things, in order to enable the company to continue aligning itself with its customers' needs. Additional steps to supplement these measures in the direction of a realignment by customer group have increased the proximity between the sales and service departments.

Changes in equity investments

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

VDF FAKTORİNG HİZMETLERİ A.Ş., Istanbul, was established on 26 February 2009 as a joint venture with VDF Servis Holding A.Ş., Istanbul.

Volkswagen Financial Services AG founded VOLKSWAGEN MØLLER BILFINANS AS, Oslo, Norway, in cooperation with the importer, Møller-Gruppen AS, in July 2009 as a joint venture.

The company executed capital increases of € 600 million at Volkswagen Bank GmbH, Brunswick; € 116 million at the company's Brazilian subsidiaries; € 25 million at VOLKSWAGEN FINANCIAL SERVICES AUSTRALIA PTY LIMITED; € 8 million at the Russian subsidiaries; € 7 million at VOLKSWAGEN BANK SA INSTITUCION DE BANCA MULTIPLE, Puebla, Mexico; € 3 million at Volkswagen Leasing Polska Sp. z o.o., Warsaw, Poland; and € 1 million at VDF Servis Holding A.Ş., Istanbul, Turkey, for the purpose of strengthening each entity's equity base.

There were no other significant changes in equity investments.

ANALYSIS OF THE GROUP'S BUSINESS PERFORMANCE AND POSITION

Results of operations

The 2009 financial year was marked by the effects of the international financial market crisis and the resulting increase in risk costs, causing the pre-tax result to drop significantly from € 792 million in the previous year to € 554 million. This corresponds to a return on equity of 8.5 % (previous year: 12.4 %).

In terms of volume, the Group benefited especially from the scrapping bonus in Germany, the growth in Brazil as well as the recovery of the market in the United Kingdom.

At € 1,753 million, the net income from lending, leasing and insurance transactions before risk provisions surpassed the previous year's result. This development is due to the positive development of business in Germany. At € 224 million, net commission income exceeded the previous year's figure of € 209 million. Administration expenses amounted to € 912 million, which is almost on a par with the previous year. The cost/income ratio was 69 % (previous year: 61 %).

Because the Group's joint ventures – in particular, LeasePlan Corporation N.V. (LeasePlan), Amsterdam, as well as Volkswagen Pon Financial Services B.V., Amersfoort – are also affected by higher risk costs in the wake of the financial market crisis, the result from equity investments accounted for at equity decreased by € 10 million to € 91 million (– 9.9 %) year on year.

Taking into account the result from the measurement of derivative financial instruments in the amount of € – 45 million (previous year: € – 27 million) and the remaining earnings components, the net income of the Volkswagen Financial Services AG Group for the year was € 395 million (– 31.7 %).

The profit made by Volkswagen Financial Services AG in the amount of € 478 million based on its single-entity financial statements under the German Commercial Code was transferred to Volkswagen AG, the company's sole shareholder, under the existing control and profit transfer agreement.

As in previous years, the German Group companies made substantial contributions to the earnings of Volkswagen Financial Services AG: With about 61,8 % of the contract portfolio, they remain the companies with the highest business volume and earned a pre-tax result of € 321 million (previous year: € 383 million).

Volkswagen Bank GmbH maintained its good market position, supported by a product range that is geared to its target groups and the loyalty of customers and dealers alike. We succeeded in expanding the business volume yet again despite the slight decline in the operating business of Volkswagen Bank GmbH's European branches. The performance of Volkswagen Bank GmbH in the year under review made a substantial contribution to the success of Volkswagen Financial Services AG.

In 2009, Volkswagen Leasing GmbH increased the number of leasing contracts yet again compared to the previous year despite the difficult market environment, thus accounting for a major portion of the Group's profit.

Volkswagen Versicherungsdienst GmbH boosted its portfolio of current vehicle and warranty insurance contracts to its highest level ever in an intensely competitive market environment in 2009. The company amassed a portfolio of substantially more than one million contracts in the automotive segment by continuing to pursue innovative product and package strategies in connection with the scrapping bonus as well as comprehensive sales activities. The portfolio of current contracts in the important warranty insurance contract segment also grew to about 800,000 contracts.

In 2009, Volkswagen Versicherungsvermittlung GmbH, Wolfsburg, continued to optimise its approaches to insurance coverage for the Volkswagen Group by keeping both premiums and insurance costs stable; as a result it repeatedly made a solid and positive contribution to Group profits.

All but one the fully-consolidated foreign financial services companies belonging to Volkswagen Financial Services AG generated positive results for the year.

Assets and financial position

LENDING BUSINESS

Receivables from customers – which represent the core business of the Volkswagen Financial Services AG Group – plus leased assets amounted to € 54.6 billion, and thus accounted for approximately 90.6 % of the consolidated total assets. The positive development reflects the expansion of business, particularly in Germany, Brazil and the United Kingdom.

The loan volume from retail financing increased by € 4.7 billion or 21.4 % to € 26.6 billion in the year just ended. The number of new contracts reached a new record high of 1,089,000 (+ 25.6 % versus 2008). This meant that the number of current contracts rose to 2,806,000 by the end of the year (+ 17.4 %). With a volume of 1,940,000 contracts (previous year: 1,638 thousand), Volkswagen Bank GmbH remained the Group company with the highest business volume.

The loan volume in the wholesale financing business – which consists of receivables from Group dealers in connection with the financing of vehicles in stock plus equipment and investment loans – fell to € 8.4 billion. € (– 12.4 %). This is primarily due to dealers' lower inventory levels.

Receivables from leasing transactions amounted to € 13.9 billion, which is a decline compared to the previous year (– 6.6 %). Leased assets, on the other hand, saw growth of € 663 million, rising to € 3.7 billion. € (+ 22.1 %).

At 383 thousand, the number of new leasing contracts in the reporting year was down compared to the previous year (– 21.4 %). As at 31 December 2009, there were 1,101,000 leased vehicles in stock, which is an increase of 0.8 % in comparison to the previous year. As in previous years, Volkswagen Leasing GmbH once again made the largest contribution to the Group, with a current contract level of 764,000 (+ 0.3 %) leased vehicles.

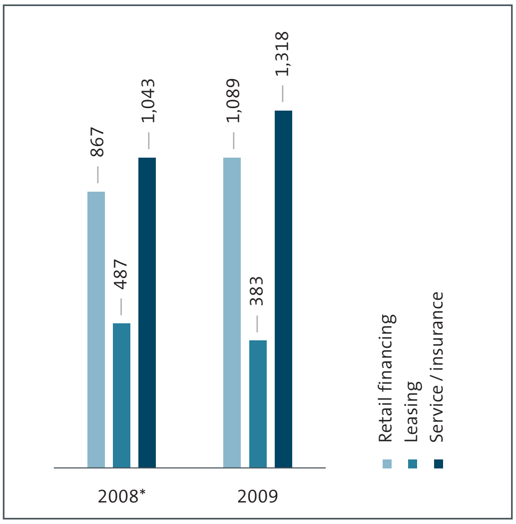
CURRENT CONTRACTS, NEW CONTRACTS AND CONTRACT VOLUME

in thousands as at 31.12.2009	VW FS AG	Europe	of which Germany	of which Italy	of which United Kingdom	of which France	Asia Pacific	North / South America
Current contracts	6,028	5,215	3,722	297	417	164	166	647
Retail financing	2,806	2,268	1,647	150	260	69	110	428
Leasing	1,101	973	748	38	44	57	3	125
Service / insurance	2,121	1,974	1,327	109	113	38	53	94
New contracts	2,790	2,448	1,697	173	228	147	46	296
Retail financing	1,089	833	560	44	133	41	34	222
Leasing	383	350	280	15	16	20	1	32
Service / insurance	1,318	1,265	857	114	79	86	11	42
in € million as at 31.12.2009								
Receivables from customers arising from								
Retail financing	26,603	20,858	15,085	1,089	2,780	423	1,490	4,255
Wholesale financing	8,391	6,998	3,654	565	858	749	381	1,012
Leasing	13,935	12,861	10,943	498	43	700	98	976
Leased assets	3,666	3,665	2,564	274	556	167	1	0
in % as at 31.12.2009								
Penetration rates*	29.0	32.2	44.5	22.2	27.0	20.3	23.0	26.7

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

DEVELOPMENT OF NEW CONTRACTS

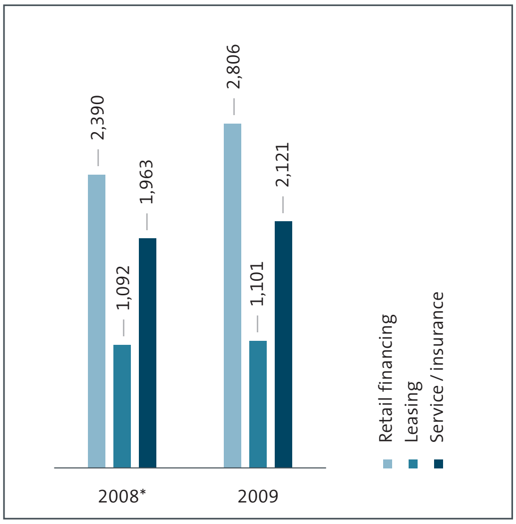
in thousand contracts



* The presentation of new contracts for 2008 was adjusted to the volume definition applicable from 2009. Given that the number of new contracts for 2005 to 2007 is not comparable, no five-year comparison is shown.

DEVELOPMENT OF CURRENT CONTRACTS

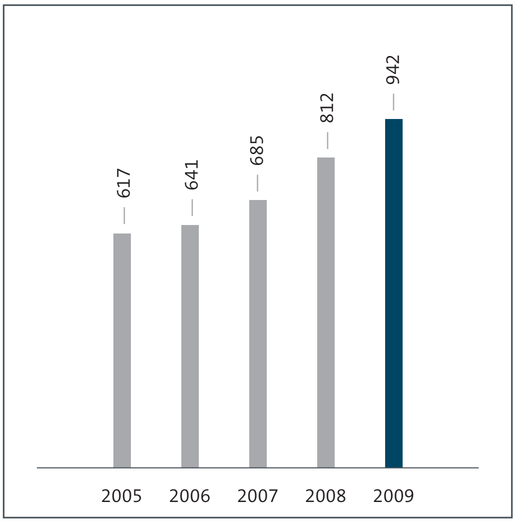
in thousand contracts



* The presentation of current contracts as at the end of 2008 was adjusted to the volume definition applicable from 2009. Given that the number of current contracts for 2005 to 2007 is not comparable, no five-year comparison is shown.

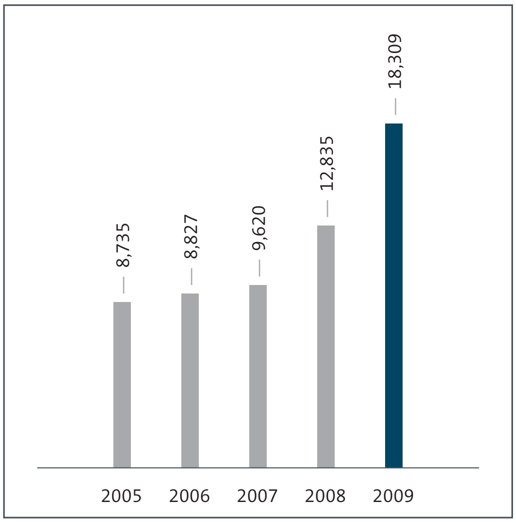
DIRECT BANKING CUSTOMERS

Lending and deposit business / borrowings (in thousands)



CUSTOMER DEPOSITS

in € million



Compared to the previous year, the total assets of Volkswagen Financial Services AG rose to € 60.3 billion (+ 5.2 %). This increase is essentially due to the growth in receivables from customers (+ 4.9 %) and leased assets (+ 22.1 %), reflecting the expanded business in the year just ended.

At the end of the year, the insurance contract portfolio contained 1,621,000 contracts (previous year: 1,599 thousand). At 1,113,000 contracts, the volume of new business was 24.2 % above the level of the previous year.

DEPOSIT BUSINESS AND BORROWINGS

Significant items in liabilities and equity include liabilities to financial institutions in the amount of € 6.6 billion (– 12.5 %), liabilities to customers in the amount of € 23.0 billion (+ 36.2 %), as well as securitised liabilities in the amount of € 20.4 billion (– 5.3 %). Details concerning the company's refinancing and hedging strategy are provided in a separate section of this management report.

Specifically, the deposit business of Volkswagen Bank GmbH, reported as part of the liabilities to customers, again reached a new record high of € 18.3 billion (+ 42.7 %) as at 31 December 2009. With this level of deposits, Volkswagen Bank GmbH continues to be one of the largest players in the sector. The bank had 939,000 direct banking customers (+ 15.6 %) as at 31 December 2009.

EQUITY

The subscribed capital of Volkswagen Financial Services AG remained unchanged at € 441 million in the 2009 financial year. IFRS equity was € 6.3 billion (previous year: € 6.8 billion). This yields an equity ratio of 10.5 % relative to the total equity and liabilities of € 60.3 billion, which is above average in comparison to international companies.

Capital adequacy according to regulatory requirements

International capital adequacy regulations require a minimum core capital ratio (frequently also referred to as »Tier I Capital«) of 4.0 % and an overall ratio of at least 8.0 %.

The new regulatory architecture, which was transposed into German law under the heading »Basel II« at the end of 2006, is far more comprehensive and complex than previously. It comprises revised minimum capital requirements (Pillar I), a supervisory review process to ensure that banks have adequate capital to support all the risks in their business (Pillar II), as well as extended disclosure requirements (Pillar III). The most important changes in connection with Pillar I concern the treatment of credit risk and, for the first time, capital adequacy requirements to support operational risk. Volkswagen Bank GmbH has applied the provisions of the new Solvency Regulations as early as possible, i. e. from 2007 – both for itself and the financial holding group. In so doing, the bank and the financial holding group use the so-called standardised approach to determine capital adequacy in connection with credit risks and operational risks.

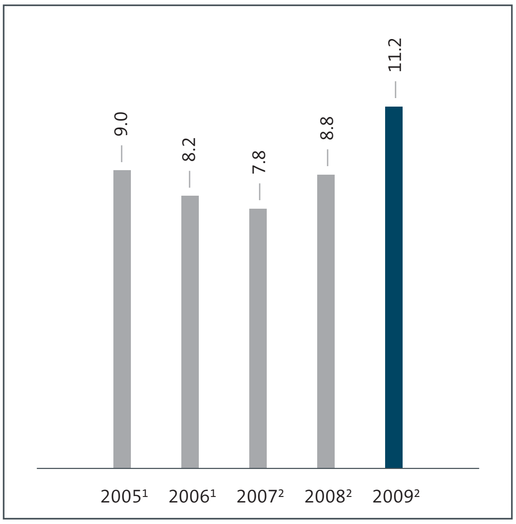
We have the option until the end of 2015 to determine the financial holding group's solvency ratios pursuant to either Section 10a Para. 6 German Banking Act or Section 10a Para. 7 German Banking Act. Thereafter, only the procedure set forth in Section 10a Para. 7 German Banking Act will apply; the IFRS consolidated financial statements must be used as the basis for determining both consolidated equity and consolidated risk positions. We already switched the determination of the solvency ratios to the procedure set out in Section 10a Para. 7 German Banking Act in 2009.

The risk-weighted position of the financial holding group in accordance with the standardised approach to credit risks as at the end of December 2009 was € 44.7 billion; the comparability of this figure to the previous year's value of € 38.2 billion that was determined using the old procedure is limited. Besides the shift to the new procedure, the increase stems mainly from the fact that the number of asset-backed securities transactions was far lower owing to the financial market crisis.

The following charts contain details regarding the composition of own funds and their changes compared to 2008 as well as the aggregate risk position:

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

in %

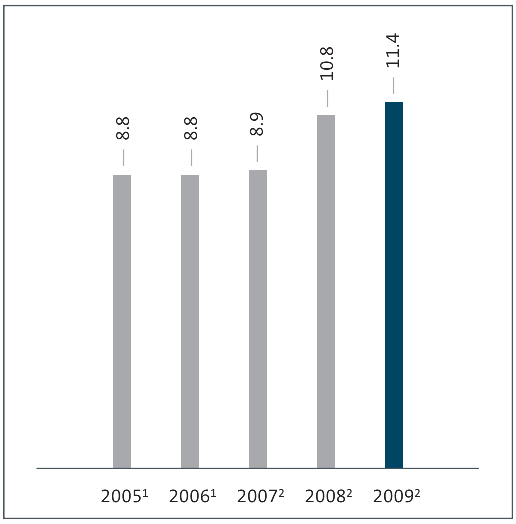


1 Core capital ratio under Principle I of the financial holding group as at 31.12.

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

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

in %



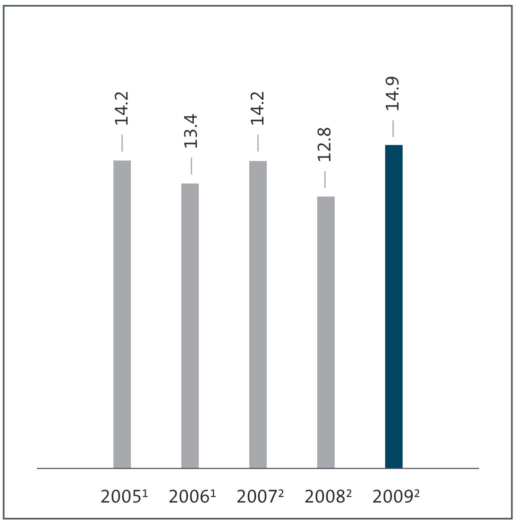
1 Overall ratio under Principle I of the financial holding group as at 31.12.

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

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

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

in %

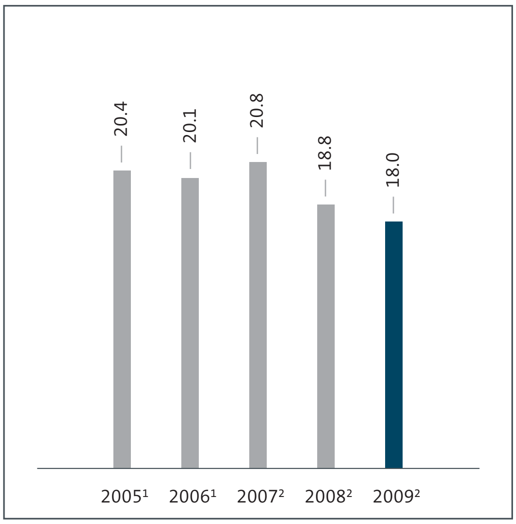


1 Core capital ratio under Principle I of Volkswagen Bank GmbH as at 31.12.

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

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

in %



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

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

OWN FUNDS AND AGGREGATE RISK POSITION

	31.12.2009		31.12.2008	
Aggregate risk position (€ million)		48,213		41,178
of which weighted position according to the standardised approach to credit risks	44,713		38,240	
of which market risk positions * 12.5	1,588		1,013	
of which operational risks * 12.5	1,912		1,925	
Liable capital (€ million)		5,479		4,431
of which core capital [1]	5,393		3,627	
of which supplementary capital [1]	86		804	
Own funds (€ million)		5,479		4,431
Core capital ratio [2] (%)		11.2		8.8
Overall ratio [3] (%)		11.4		10.8

1 The deductible items are already deducted from core and supplementary capital

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

3 Overall ratio (own funds ratio under Principle I) = Own funds / ((Capital requirement for (credit risks + operational risks + market risks) * 12.5) * 100

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

Refinancing

STRATEGIC PRINCIPLES

In terms of its refinancing activities, Volkswagen Financial Services AG generally follows a strategy aimed at diversification, which is conceived as the best possible weighing of cost and risk factors. This entails developing a diverse range of refinancing sources in different regions and countries with the aim of ensuring the sustained availability of refinancing funds at attractive terms. Volkswagen Financial Services AG wants to leverage this approach in order to attain the volume and profitability targets of the Group's 2018 strategy.

Especially the first half of the financial year just ended was marked by the crisis in the financial markets, which triggered considerable turmoil in the money and capital markets. Limited investor interest that went hand in hand with greater risk premiums hampered access to the market and led to rising refinancing costs. Even in this situation, we were able to diversify the useable refinancing instruments on a broad scale thanks to the solidity of our business model and the strength of the Volkswagen name.

The strong increase in the deposit business of Volkswagen Bank GmbH in 2009 was instrumental to this development. The deposit volume made a critical contribution to our ability to refinance the Volkswagen Financial Services AG Group companies during times of crisis as well.

IMPLEMENTATION

Volkswagen Bank GmbH's refinancing needs were fully covered by the growth in deposits from € 12.8 billion to € 18.3 billion in the financial year just ended. In turn, this allowed Volkswagen Bank GmbH to dispense with instruments that were subject to rising risk premiums such as ABS or bond issues for instance.

In addition to the deposit business, the securitisation of receivables through various ABS transactions also constituted an important source of refinancing for the other Volkswagen Financial Services AG Group companies in 2009. Several private ABS placements for a total of € 1.4 billion, which were repurchased by Volkswagen Bank GmbH, were structured for Volkswagen Leasing GmbH during the financial year.

In September 2009, Volkswagen Leasing GmbH also succeeded in placing the year's first public ABS transaction in the euro zone with a total of € 550 million. The VCL 11 securitisation transaction was placed with a broad investor base. It was the first benchmark auto ABS transaction since September 2008. This underscored our strong position as an issuer in the European securitisation market and showed that investor confidence in the quality of our receivables has not been shaken, despite the difficult market environment.

Volkswagen Financial Services AG also utilised the bond markets for its refinancing purposes even though they were completely closed to some market players for a certain time or accepted issues solely subject to large price consessions. Volkswagen Financial Services AG successfully placed a € 1.5 billion benchmark bond as early as in January 2009 – i. e. at a time when the crisis in the financial markets made it almost impossible to raise funds. This success in the difficult market for corporate bonds enabled us to pursue additional capital market activities with various European issuers of Volkswagen Financial Services AG for a total of approximately € 1.5 billion.

The Volkswagen Financial Services AG Group companies also utilised capital markets outside of Europe for their local refinancing purposes. For instance, VOLKSWAGEN LEASING SA DE CV, Puebla, issued bonds with maturities of up to one year for the first time in February and subsequently placed comparable issues on a regular basis. In 2009, our Australian subsidiary availed itself of the local capital market for two bond issues, which it used to diversify the refinancing of its local receivables portfolio.

The company borrowed at corresponding maturities and used derivatives in line with its strategy of refinancing largely at matching maturities. Its approach of refinancing at matching currencies was pursued either by raising funds in local currencies or by hedging currency risks through the use of derivatives.

Material components of the internal control system and the internal risk management system in regards to the accounting process

The internal control system (ICS) that is relevant to the preparation of the consolidated financial statements of Volkswagen Financial Services AG is the sum of all principles, methods and actions aimed at ensuring the effectiveness, economy and propriety of the company's accounting as well as ensuring compliance with material legal requirements. In terms of the accounting system, the risk management system (iRMS) concerns the risk of misstatements in the bookkeeping at the level of the individual entity and the Group as well as in the external reporting system. The material elements of the internal control system and the risk management system as they relate to the accounting process at Volkswagen Financial Services AG are described below.

- Given its function as the corporate body tasked with managing the company's business and in view of ensuring proper accounting, the Board of Management of Volkswagen Financial Services AG has established Accounting, Operations, Treasury, Risk Management and Controlling departments and has clearly delineated their respective spheres of responsibility and authority. Key cross-divisional functions are controlled by the Board of Management of Volkswagen Financial Services AG as well as by the executive management of Volkswagen Bank

GmbH, Volkswagen Leasing GmbH as well as Volkswagen Business Services GmbH.

- Groupwide requirements and accounting rules serve as the basis for a uniform, proper and continuous accounting process.

- For instance, the accounting standards of the Volkswagen Financial Services AG Group – including the International Financial Reporting Standards (IFRS) – govern the accounting policies applied by the domestic and foreign entities that are consolidated in the Volkswagen Financial Services AG Group's annual financial statements.

- The accounting standards of Volkswagen Financial Services AG also govern concrete formal requirements that the consolidated financial statements must fulfil. They not only determine which companies to include in consolidation, they also fix the components of the reporting packages that the Group companies must prepare in detail. Among other things, these formal requirements serve to ensure the binding utilisation of a standardised and complete set of forms. The accounting standards also contain specific requirements regarding the treatment and settlement of intra-group transactions and the reconciliation of accounts based thereon.

- At the Group level, specific elements of control designed to ensure the propriety and reliability of Group accounting principles comprise analyses and possibly revisions of Group companies' single-entity financial statements, with due regard for the reports submitted by the auditors or the discussions held with them to this end.

- All of this is supplemented by the clear delineation of spheres of responsibility as well as a variety of controlling and monitoring mechanisms. The aim is to ensure that all transactions are accurately posted, processed, evaluated and included in the company's financial accounting.

- These controlling and monitoring mechanisms are designed to be process-integrated and independent of processes. Hence automated IT process controls besides manual process controls (such as the »four-eyes« principle) comprise material components of the process-integrated activities. These controls are supplemented by specific Group functions of the parent company, Volkswagen AG, for example Group Controlling.

- Risk management is fully integrated into the accounting process by virtue of continuous risk monitoring and the risk reporting system.

- Nevertheless, Internal Audit is also a key corporate body that is integral to the controlling and monitoring system of the Volkswagen Financial Services AG Group. Internal Audit regularly performs audits, both in Germany and abroad, of processes relevant to accounting as part of its risk-based audit procedures and directly reports its findings to the Board of Management of Volkswagen Financial Services AG.

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

RISK REPORT

Strategy and standards

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

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

Volkswagen Financial Services AG has set up a system for identifying, measuring, monitoring and controlling risk positions, in accordance with the requirements of § 25a Para. 1 German Banking Act and by applying § 91 Para. 2 German Stock Corporation Act analogously. This risk management system allows timely detection of developments that might jeopardise the company's activities. The system encompasses both a framework of risk principles as well as organisational structures and processes for risk measurement and monitoring that are tightly integrated in the activities of the individual divisions.

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

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

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

Strategic parameters are determined for all material risks based on risk management guidelines and the risk-bearing capacity of Volkswagen Financial Services AG. In addition to risks of counterparty default – credit risks, in particular – market price risks, liquidity risks, operational risks, insurance risks and residual value risks are also reviewed in detail. At-risk transactions are assessed and controlled based on these risk management guidelines. Additionally, the following principles determine the company's risk environment and strategy:

- The Board of Management determines the risk potential.
- The risk potential of Volkswagen Financial Services AG is generally moderate. Only predictable and workable risks are incurred. An avoidance or mitigation strategy is applied to operational and liquidity risks.
- Risks from new or modified products, new sales channels and/or new markets are subject to a fixed evaluation and approval process.
- Volkswagen Bank GmbH's processes are continuously subject to quality assurance.
- Risk is spread across customers, products and countries.
- Security is obtained for all vehicle and investment financing loans.
- Risk provision is based on a risk-oriented value adjustment policy.
- Lending processes and responsibilities are subject to guidelines applicable to the different divisions and are decided in accordance with an approval process subject to credit limits.
- Credit risks are factored into the pricing.
- Loans are granted solely after appropriate identity and credit checks.
- Volkswagen Financial Services AG makes loans largely taking into account total customer value.
- Decisions regarding the assumption or avoidance of risks are supported by the use of suitable control instruments, such as credit assessment procedures or early warning systems.

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

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

All divisions annually rate identified risks using the risk map pursuant to an expert system. Group Risk Management assesses, monitors, aggregates and reports all relevant results to the Board of Management, the Supervisory Board and Volkswagen AG. In addition to defining the likelihood of risks actually occurring and assessing their possible negative effects, the risk map also contains information about existing procedures and rules, areas of responsibility and derived measures.

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

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

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

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

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

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

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

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

The limit system comprises two stages. Stage 1 entails the determination of groupwide risk limits for risk under the normal scenario. This entails defining the extent to which the Volkswagen Financial Services AG can use the theoretically available risk hedging potential to plan operational risk provisioning. Consequently, this reflects the Board of Management's risk appetite.

In stage 2, the risk type limits are defined as the monetary share of the groupwide risk limit; they reflect the company's business alignment. Risk-adjusted distribution applies. The determination is executed on an annual basis pursuant to a resolution of the Board of Management.

Group Risk Management reports the risk of counterparty default, market price risk, insurance risk and residual value risk as well as operational risks by submitting a risk management report to the Board of Management and the Supervisory Board at least once a quarter. For markets with a significant business volume, reporting is done on a monthly basis.

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

Volkswagen Financial Services AG is further pursuing the development of both its system for measuring and monitoring risk positions and the relevant control systems on the basis of the legal requirements for risks in the banking and leasing business.

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

Structure and organisation

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

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

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

The department responsible for Risk Assessment Procedures and Basel II determines the parameters of the procedures used to measure both creditworthiness and collateral. It develops and validates credit assessment models such as rating and scoring procedures, models for estimating certain parameters such as probabilities of default, loss rates in case of default and credit conversion factors related to off-balance sheet transactions that are required for measuring credit risks. As a neutral and independent department, Risk Assessment Procedures and Basel II reports directly to the Board of Management of Volkswagen Financial Services AG.

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

In the case of market price risks, organisational separation of market activities (e. g. Treasury) and risk management (risk monitoring) is ensured up to the level of the Board of Management.

On behalf of the Board of Management of Volkswagen Financial Services AG and taking due account of regulatory requirements, Internal Audit at Volkswagen Financial Services AG independently and in a risk-oriented manner audits the operational and business procedures of Volkswagen Financial Services AG and third-party entities for which contractual auditing rights are in place. As far as the accounting process is concerned, the essential features of both the internal control system and the internal risk management system are also an integral part of the company's operating and business procedures.

This activity is based on an annual audit plan, which is drawn up on the basis of the legal provisions in a risk-oriented manner. Internal Audit of Volkswagen Financial Services AG informs the

Board of Management of Volkswagen Financial Services AG about the result of the audits carried out by submitting audit reports and an annual summary report. Implementation of the measures and recommendations agreed in the audit reports is monitored by Internal Audit of Volkswagen Financial Services AG.

Risk types

Volkswagen Financial Services AG defines risk as any uncertainty about future developments that might have a negative impact on the Group's economic situation. This risk can itself be divided into different types of risk. At the same time, Volkswagen Financial Services AG constantly analyses and assesses the opportunities that arise from consciously entering into risks. The business decisions of Volkswagen Financial Services AG are therefore based on the risk vs. opportunity weighting described here.

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

- Risk of counterparty default:
  - Credit risk
  - Counterparty risk
  - Country risk
  - Shareholder risk
- Market price risk:
  - Interest rate risk
  - Foreign currency risk
  - Price risk
- Liquidity risk
- Operational risk
- Residual value risk
- Insurance risk

RISK OF COUNTERPARTY DEFAULT

Risk of counterparty default is taken to mean possible losses in value due to non-payment by a customer or deterioration of a customer's creditworthiness. A distinction is made between credit risks, counterparty risks, country risks and shareholder risks.

Credit risk

Definition

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

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

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

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

The number of bankruptcies and thus the rising number of defaults in the corporate portfolio, especially in connection with wholesale financing, was particularly problematic. There are indications that the earnings and liquidity situation of dealerships, especially in the German market but also in the other European markets, is very tight, which has triggered a significant deterioration in the distribution of ratings in the dealer portfolio.

Parameters/risk strategy

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

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

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

Risk assessment

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

Scoring procedures in the retail business

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

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

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

Rating procedures in the corporate business

Volkswagen Financial Services AG assesses creditworthiness based on rating procedures. The assessment includes both the key performance indicators from annual financial statements as well as qualitative factors – such as the outlook for future business development, the quality of management, the climate in both the market and industry, as well as the customer's payment behaviour. To the extent possible, all these factors are taken into account statistically.

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

The result of the rating provides an important basis for decisions on the approval and prolongation of credit commitments and value adjustments. The definition of competencies and the monitoring of the corporate portfolio are also based on the results of ratings.

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

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

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

Collateral

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

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

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

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

Furthermore, credit risks are also managed by applying Volkswagen Financial Services AG's approval limits. These approval limits are fixed for each company individually. The local decision makers can exercise discretion within these limits.

Analyses of the portfolios are performed at the portfolio level for risk monitoring purposes. The Credit Risk Portfolio Rating combines different risk parameters in a key ratio, ensuring comparability of the international portfolios of Volkswagen Financial Services AG. Risk reviews are performed at the company level in the event of problems. The credit rating procedures that ensure the functionality and validity of the procedures are also monitored.

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

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

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

Counterparty risk

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

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

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

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

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

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

Risk communication

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

Country risk

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

Shareholder risk

Definition

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

Parameters/risk strategy

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

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

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

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

Risk assessment

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

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

Despite the economic slowdown in the first half of 2009, LeasePlan's portfolio of current contracts declined by 6 % compared to the end of the previous year. Rising residual value risks had a substantially negative impact on the results, as did rising loan default risks and higher refinancing costs. Key used vehicle markets have been recovering since the second quarter of 2009, in effect lowering the residual value risks in the year's second half. Earnings, however, developed at a solid pace. Given the sharp decline in earnings for the first six months, the rating firm, Standard & Poor's, adjusted its rating to BBB+, outlook negative, while Moody's Investor Service maintained its A3, outlook negative, rating. The shareholder risk is assigned a median probability of occurring, based on current economic developments. LeasePlan is expected to continue to generate profits, given its leading position in worldwide multi-brand fleet management, despite the difficult economic environment.

Risk management and monitoring

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

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

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

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

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

MARKET PRICE RISK

Market price risk refers to the potential loss resulting from disadvantageous changes in market prices or parameters that influence prices. At Volkswagen Financial Services AG, market risks are categorised into interest rate risks, foreign currency risks and price risks.

Risk Management is responsible for the measurement, analysis and monitoring of items affected by market price risks including the overall interest rate positions.

Interest rate risk

Definition
Interest rate risks include potential losses from changes in market rates. These risks arise from refinancing at non-matching maturities and from the different interest rate elasticities of individual assets and liabilities. Interest rate risks are incurred in the banking book of Volkswagen Financial Services AG.

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

Risk assessment
Interest rate risks are determined for Volkswagen Financial Services AG as part of quarterly monitoring using the value-at-risk (VaR) method based on a 40-day holding period and a confidence level of 99 %. This model is based on a historical simulation and calculates potential losses taking 1,000 historical market fluctuations (volatilities) into account.

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

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

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

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

Foreign currency risk

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

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

Price risk

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

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

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

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

LIQUIDITY RISK

Definition

The liquidity risk describes a company's risk of not being able to discharge its payment obligations in due time or in full. This requires distinguishing the deposit withdrawal risk in connection with unexpected drawdowns from credit commitments and/or unexpected withdrawals of bank deposits, and the refinancing risk that takes into account that required follow-up financing cannot be provided.

Parameters/risk strategy

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

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

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

Risk assessment

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

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

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

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

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

To ensure professional liquidity management, Treasury prepares cash flow development statements, performs cash flow forecasts and determines the period for which cash will suffice, taking into account various basic assumptions and premises; this includes stress tests (normal case with availability of external funds and worst case with no availability of external funds at all).

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

Risk management and monitoring

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

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

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

The external rating of Volkswagen Financial Services AG has an impact on the refinancing costs of capital market programmes. At this time, the rating agencies have given Volkswagen Financial Services AG a long-term rating of A– with a negative outlook (S&P) and A3 with a stable outlook (Moody's).

We have further diversified the sources of refinancing since the onset of the financial market crisis, which has been ongoing since the third quarter of 2008. As a result, the Volkswagen Financial Services AG Group companies refinance themselves using a mixture of customer and bank deposits, credit facilities of the European Central Bank, issues of commercial paper and medium term notes as well as ABS transactions. The substantial increase in customer deposits with Volkswagen Bank *direct* contributed a great deal to easing the liquidity situation.

Risk communication

As part of risk communication, the members of the Board of Management of Volkswagen Financial Services AG are informed of outstanding refinancing, open confirmed bank credit lines and the value of the standby credit line with the German Central Bank. The Board of Management is informed monthly of the current liquidity situation including its adequacy. Material information is also transmitted on short notice through ad hoc reports.

OPERATIONAL RISK

Definition

Operational risks at Volkswagen Financial Services AG are defined as the threat of losses that occur as a result of inadequate or failing:

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

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

Parameters/risk strategy

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

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

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

Risk identification and assessment

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

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

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

Risk management and monitoring

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

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

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

Risk communication

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

Business continuity management

The goal of the Corporate Security department is to ensure security for individuals and property at Volkswagen Financial Services AG and to avoid losses from operational disruptions. Under Corporate Security's direction, Volkswagen Financial Services AG is establishing a global security quality management system together with international subsidiaries, which, among other things, takes into account the varying government and civil security requirements.

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

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

RESIDUAL VALUE RISK

Definition

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

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

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

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

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

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

The economic climate will remain difficult in 2010 as well. The value of used vehicles is expected to remain under high pressure, especially in Germany as well as in Southern and Eastern Europe. The markets in the US, in the UK and in the Netherlands are showing first signs of recovering since the middle of 2009 and they are expected to stabilise in 2010.

Parameters/risk strategy

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

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

Risk identification and assessment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

INSURANCE RISK

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

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

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

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

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

Insurance risks can take several forms:

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

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

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

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

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

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

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

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

Group Risk Management is responsible for risk monitoring.

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

Concentrations of risk

Explanation of our business model
Volkswagen Financial Services AG is a captive. By its nature, this business model makes it impossible to avoid concentrations of risk in the risk types, »credit risk« and »residual value risk«. Hence these risks are analysed and reported in detail in accordance with the business model. Existing concentrations of risk in credit risks or residual value risks are thus adequately considered and monitored.

There are no concentrations of risk in the other risk types. Existing and potentially new concentrations of risk are continuously discussed and monitored as part of both the common risk management loop and regular risk reporting.

Concentrations of credit risk
Concentrations of credit risk arise if a major portion of the loans are extended to a just few borrowers/contracts. But concentrations of credit risk are of secondary significance to Volkswagen Financial Services AG given its international positioning and the fact that its activities mainly concern small (retail) loans. The credit and leasing sub-portfolios of the retail business have a highly granular structure in the markets relevant to considerations of risk, even at the country level. In the corporate business, credit risks related to the dealer and the non-dealer business are transnationally diversified. In addition, detailed reports to the Board of Management on noteworthy exposures and analyses of size class structure at the country level in the corporate business ensure that concentrations of credit risk are detected early as they arise.

Concentrations of risk classes

Concentrations of risk classes can arise from the non-homogeneous distribution of credit ratings, especially in connection with individual risk rating procedures. Concentrations of borrowers in particular risk classes do not trigger particular risks in connection with certain risk rating procedures because the subsidiaries of Volkswagen Financial Services AG employ highly diversified risk rating procedures.

Concentrations of industries

In sectoral terms, Volkswagen Financial Services AG is broadly positioned by country and industry in both the retail and the corporate-non-dealer business. Whilst the global economy materially affects the development of the existing portfolio's credit score, the impact of specific industries on it is limited. Sectoral risks in the dealer business are inherent to a captive and are analysed in ways appropriate to the given industry.

Concentrations of collateral

Concentrations of collateral are inherent to a captive and integral to the given business model. They arise when a substantial portion of receivables or leasing transactions are collateralised by a single type of security. Vehicles are the dominant type of collateral for Volkswagen Financial Services AG. Risks arising from such concentrations of collateral basically arise when negative price developments in the used vehicle markets reduce both the value of the collateral and the proceeds from the disposal of the collateral if borrowers and lessees default. In terms of the vehicles that serve as collateral, Volkswagen Financial Services AG is diversified not just across all automotive segments but also across many countries worldwide. The range of vehicles that are financed and leased is equally diversified. Both of these effects reduce the risk of concentrations of collateral. In its capacity as an automotive financial services provider, Volkswagen Financial Services AG possesses broad expertise and many years of experience in managing and controlling the resulting risk.

Concentrations of products

Risks from concentrations of products arise from large exposures in certain credit risk products even if the product range is broadly diversified. Such concentrations are inherent to a captive in the automotive financing industry. Hence credit risks are reported and controlled by individual product. Risks are consolidated on an additive basis at the portfolio level such that the mitigating effect of any product diversification on risk is not taken into account. Moreover, innovation within the product range is ongoing and country specific such that the product range is diversified within the automotive financing division.

Regional and country concentrations

Risks from concentrations of countries or regions arise from large loan portfolios in specific countries and regions even if the portfolio is broadly diversified. The portfolio of Volkswagen Financial Services AG is diversified in transnational terms, with a focus on Western Europe. These countries are given priority in risk reporting and are largely evaluated by means of special risk rating procedures, i. e. the internal ratings based (IRB) method. At the portfolio level, risks are additively aggregated such that the methodology used to measure risk does not consider the diversification of credit risks resulting from the company's international positioning.

Counterparty risk

Concentrations of risk do not arise from monetary investments in different counterparties because limits are imposed.

Currency risk

There is no concentration of risk in this area because the company's international positioning does not create any concentrations in the form of larger commitments in one or a few foreign currencies.

Price risk
Price risks arise for Volkswagen Financial Services AG solely in connection with the investment of pension provisions. An adequate investment plan helps to avoid concentrations of risk.

Interest rate risk
Volkswagen Financial Services AG is not faced with concentrations of interest rate risks because its activities are executed in currencies subject to different interest rates and are also properly diversified in terms of the timeframe.

Operational risk
Concentrations of operational risks can arise if defaults or risks in different departments or countries are mutually dependent or at least facilitate each other and are thus more likely to occur during the same period for that reason.

Such concentrations in individual OpR categories or even in sub-categories (e. g. external fraud) are almost impossible to avoid because the contributing factors are manifold and generally cannot be »diversified«. Any steps taken after a loss has occurred serve to avoid the individual cause in future but they do not prevent concentrations of risk in the respective category or sub-category.

Particular concentrations of risk are mapped and explained as necessary when operational risks are determined as part of the annual self assessment and the compilation of loss data.

Residual value risk
Concentrations of residual value risks arise if a major portion of the at-risk residual values are concentrated on a few automotive segments and models. Accordingly, such concentrations are considered in the risk measurement methodology applied, the risk reporting and the analysis at the level of both brands and models in connection with the residual value risk management circle. In regards to residual automotive values, Volkswagen Financial Services AG is also diversified across all segments given the Group's broad range of brands and models.

Special risks arising from the global financial market crisis
At this time, the Board of Management does not see any need to make additional provisions for risks because the government interventions have stabilised the financial and capital markets, the global economy is gradually recovering and the refinancing markets are coming back to life. The existing risk management system of Volkswagen Financial Services AG adequately takes the structural changes resulting from the crisis of the financial markets into account – especially at the level of contract execution and refinancing.

Risks at the refinancing level
Whilst the cost of refinancing Volkswagen Financial Services AG via the international money and capital markets rose substantially at the start of the year in the wake of the financial market crisis, risk premiums recently started to decline again.

Increasing the collateral deposit account with the European Central Bank, which allows Volkswagen Bank GmbH to participate in the refinancing facilities, has turned out to be an efficient liquidity reserve.

The security of customer deposits also attained central significance. In Germany, certain bank deposits such as checking accounts or term deposits are now guaranteed by the Federal Republic of Germany above and beyond the existing guarantee mechanisms (German Deposit Insurance Fund). Any withdrawal of bank deposits from Volkswagen Bank GmbH in the wake of the financial market crisis or a deterioration of the situation on the money and capital markets would greatly undermine the Group's ability to refinance itself. Given the normalisation of the money and capital markets and the highly positive development of Volkswagen Bank GmbH's deposit business, it was no longer necessary for Volkswagen Bank GmbH to utilise the government's guarantees. Volkswagen Bank GmbH therefore withdrew its application at the end of 2009.

Summary

In connection with its business activities, Volkswagen Financial Services AG responsibly assumes risks. This is based on a comprehensive system for identifying, measuring, analysing, monitoring and controlling risks as an integral component of an integrated risk/return-oriented control system.

This system has been continuously enhanced in 2009, bearing in mind the legal requirements associated with risks in the banking and leasing business.

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

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

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

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

OPPORTUNITIES FOR VOLKSWAGEN FINANCIAL SERVICES AG

Macroeconomic opportunities

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

Strategic opportunities

There are opportunities above and beyond the internationalisation strategy described in the section entitled »Anticipated developments«. These opportunities concern further geographic expansion into markets where Volkswagen Financial Services AG can use its financial services to promote the sales of Group vehicles. Additional opportunities are offered by the development of innovative products that are aligned with customers' changed mobility requirements. In particular, this development requires the adoption of an innovative sales strategy. Growth areas such as short-term mobility must be expanded. The Group's targeted rates of return as well as the sales promotion potential are relevant to any decision to enter a particular market and develop new products.

PERSONNEL REPORT

The development of the employee strategy, »We are a top team«, was an integral part of the WIR2018 corporate strategy.Topics such as personnel development, flexible and customer-focused organisational development, compensation and benefits as well as international human resources management were given priority. Key international topics were fleshed out at the Human Resources Conference in March 2009.

Collective bargaining policy

The fact that Volkswagen Business Services GmbH entered into the integrated collective agreement helped to further streamline the pay scale structures of Volkswagen Financial Services AG. This means that the affected employees were transitioned into the collective agreements of Volkswagen Financial Services AG. A collective pay agreement on the compensation and work rules applicable to temporary employees was also closed with due regard for the concept of equal pay.

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

Corporate culture and both regional and social responsibility

Employees' high level of identification with the company and the follow-up on the improvements suggested in the »fs pulse«, our annual staff survey, are important elements for jointly shaping the company's corporate and leadership culture. Roughly 86 % of the company's employees in Germany participated in the survey. By now it has been conducted in 13 countries as well. We refined Volkswagen Financial Services AG's corporate culture, which is closely linked to the WIR2018 strategy, in 2009 by defining and detailing the FS way based on the values of a living commitment to our customers, responsibility, trust and confidence, courage and enthusiasm.

The opening of a new health centre in the autumn of 2009 as well as the introduction of new health targets as part of health management were an important milestone. Volkswagen Financial Services AG also signed the »Luxembourg Declaration on Workplace Health Promotion in the European Union«.

Volkswagen Financial Services AG launched the foundation »Our Children in Brunswick« in December 2008. This foundation aims to get involved in hot-button social issues in Brunswick, the site of the company's headquarters. The projects that we have promoted concern topics such as education, healthy nutrition, physical education and early instruction in music. The foundation provides financial assistance from both the foundation's funds and charitable employee contributions; its work is enhanced by the honorary activities of current and former employees.

Volkswagen Financial Services AG also supports voluntary work in social projects throughout the region. This year was the third time that its employees responded to the invitation to participate in the Brunswick-based day of action called »Building Bridges – Corporate Commitments«.

Human resources planning and development

The financial and economic crisis posed major challenges for the flexible use of human resources in 2009. The scrapping bonus that the German government enacted triggered an unforeseen need for staff in some divisions. We managed to ensure that employees were available as needed and that customers' increased requirements were met by establishing a working group tasked with ensuring that the tools of flexibilisation were applied in targeted ways. We have started to implement a cross-divisional flexibility and capacity management tool based on this experience in order to ensure, at all times, that our human resources are available where and when they are needed.

Each year, Volkswagen Financial Services AG hires 40 trainees/students of Welfenakademie, a university of co-operative education that offers a Bachelor of Arts: 20 banking professionals, 15 specialists for insurance and finance and five IT technicians. As at 31 December 2009, a total of 120 trainees and students of Welfenakademie were employed with us in Germany for the duration of the apprenticeship programmes and in all occupational groups.

A trainee of Volkswagen Financial Services AG was given the Best Apprentice Award as the year's best trainee by Volkswagen Coaching GmbH yet again.

This trainee programme allows Volkswagen Financial Services AG to offer highly qualified college graduates an attractive option for joining the company. The trainees are introduced to all facets of the company's processes, products and customers during the 12-month development programme. In 2009, we continued to expand the number of trainee positions in the company with the aim of ensuring our viability in future.

Each employee's need for qualifications is determined in the annual employee performance review, and suitable measures aimed at developing their competence are agreed upon with them. Many employees obtained their qualifications at the internal training centre, which offers a broad and professional range of seminars and workshops. These training programmes are closely aligned with the company's products, processes and systems. The volume of employee qualifications, which had already been very large the previous year, continued to grow in 2009; overall just under 5,000 participants earned additional qualifications in approximately 600 training events.

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

The large percentage of women in the company's workforce in Germany – 53.2 % – is not yet reflected in leadership positions. We have launched a programme entitled »Identify and develop potentials – with due regard for talented women« in order to develop specific actions. This also involves developing actions aimed at increasing the number of women in leadership positions.

The »Frech Daxe« children's house is Volkswagen Financial Services AG's child care centre; it is run by Gesellschaft für Kinderbetreuung und Schule mbH & Co. KG. Our aim is to create the best possible environment for allowing children to develop. Currently, about 150 of our employees' children use the children's house; it has the capacity to take care of a total of 170 children up to the age of six in ten groups.

International human resources management

Our focus on the international markets is also embodied in the increasing number of foreign assignments within the 37 Group companies. The number of foreign assignments rose by more than 40 % in 2009, especially as a result of the substantial increase in the number of employees that were sent to Germany from abroad. By year's end, more than 60 staff were employed in foreign assignments.

The second round of the General Management Program started in November 2009. 15 managers of eight nationalities from twelve countries are participating in this internal professional qualification programme. It serves to impart broad knowledge of the company's strategy, products and markets as well as of its principles and instruments of governance to newly appointed or potential Country Managers in a structured environment and to prepare them for the challenges they will face in their new positions.

In 2009, we also developed a concept aimed at relaunching our worldwide Management Development Program for first- and second-tier managers.

We introduced our »Wanderjahre« programme in 2009. It offers trainees, who have completed their apprenticeship and possess above-average credentials and development potential, the opportunity to gain international experience during a 12-month period.

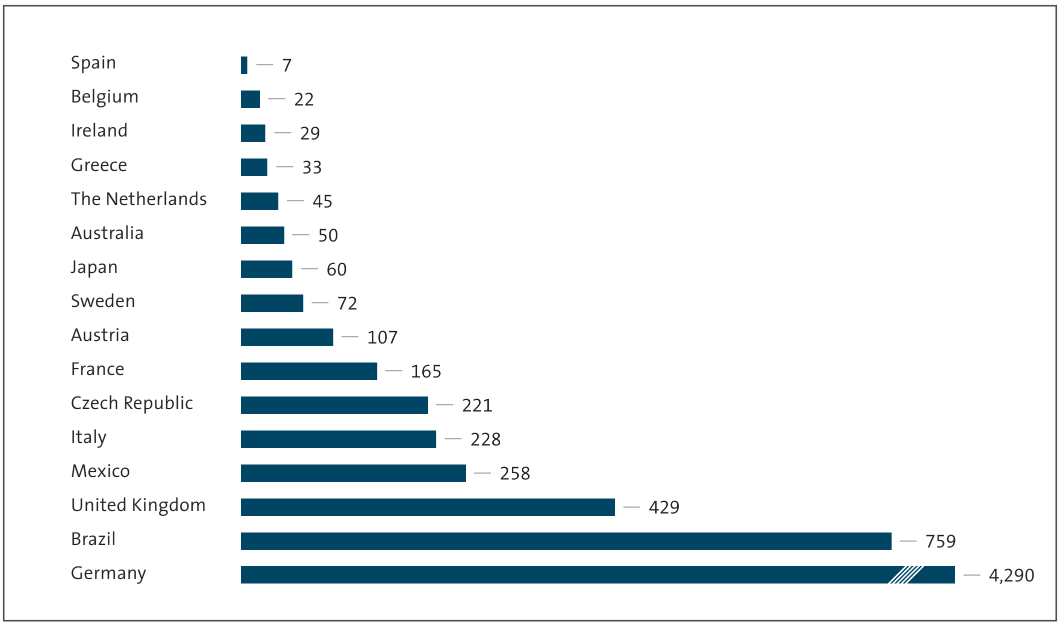
Personnel data

The Volkswagen Financial Services AG Group had a total of 6,775 employees as at 31 December 2009 (previous year: 6,639). Of these, 4,290 or 63.3 % were employed in Germany (previous year: 4,128). The personnel turnover rate in Germany of 1.0 % was significantly below the industry average.

The personnel of Volkswagen Financial Services AG is largely employed with the respective subsidiaries owing to the structure of the company's legal entities in Germany. At the close of 2009, 838 (previous year: 777) employees were leased to Volkswagen Bank GmbH; 1,937 (previous year: 1,731) worked for Volkswagen Business Services GmbH; and 388 (previous year: 348) worked for Volkswagen Leasing GmbH. In addition, 204 employees (previous year: 164) were leased to Volkswagen Versicherungsdienst GmbH and 19 (previous year: 17) to Volkswagen Versicherungsvermittlung GmbH.

EMPLOYEES BY COUNTRY

as at 31.12.2009 (Total employees: 6,775)



EVENTS AFTER THE BALANCE SHEET DATE

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

ANTICIPATED DEVELOPMENTS

Global economy

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

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

We expect the United States and Canada to produce moderate growth in 2010. The Mexican economy in contrast is likely to develop along a much more positive trajectory after going through a deep recession during the reporting year.

Brazil is expected to post robust growth in 2010 whereas the recovery of the Argentinean economy will be less pronounced.

China's growth in 2010 is likely to remain in the high single digits. We expect Japan to achieve slightly positive growth amid continued deflation; India's growth will slightly intensify.

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

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

Financial markets and competitive situation

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

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

It is foreseeable that some banks will be subject to severe restrictions besides having to deal with the administrative burden that these new rules and regulations will entail.

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

Business throughout the mobility services industry is expected to decline in 2010, particularly in those countries where the scrapping bonus was enacted to stimulate the economy. The commercial business is not expected to recover rapidly either. Whilst no additional interest rate and liquidity risks are anticipated at this time due to central banks' determined monetary policies, the non-captive mobility services providers will continue to be exposed to intensifying consolidation pressures.

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

Development of the automobile markets

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

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

We expect the economic climate in the United States to remain weak due to the financial and economic crisis. Whilst the market will also be undermined by higher petrol prices and tight credit, we expect the improved outlook to generate a slightly positive trend in the US automotive market in 2010. Demand for passenger cars and light commercial vehicles in the Canadian and Mexican markets is also likely to show first signs of recovering.

The South American markets will benefit from the global economic stabilisation too. We expect demand to rise especially in Brazil despite the fact that the country's economic stimulus packages are set to expire in 2010.

The markets in Asia Pacific continue to offer growth potential in 2010 on the whole. Especially the markets in China and India will benefit from rising demand for personal mobility. The Japanese market is expected to continue developing along a negative trajectory in 2010, despite incentives for fuel-efficient vehicles.

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

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

Development of Volkswagen Financial Services AG

Volkswagen Financial Services AG expects new business to stagnate in the next two financial years at the 2009 level. The main reason for the anticipated lateral development resides in substantially lowered expectations for sales in the international automobile markets. To compensate these trends, Volkswagen Financial Services AG will continue to pursue activities designed to enhance its ability to leverage potentials along the automotive value chain. As in recent years, we will continue to push the integration of our financial services into the sales activities of the Volkswagen Group brands.

Our aim is to fulfil the desires and needs of our customers in cooperation with the Volkswagen Group brands as best we can along this chain. The desire for mobility and fixed predictable payments, in particular, are foremost on customers' minds. The product packages that were successfully introduced in some markets in recent years will be further refined and launched in new markets, taking customer needs into account. This approach is a key element in international competition.

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

The company is pursuing a strategy of generating moderate growth within existing business models despite the crisis in the international financial and capital markets. It is also predicated on partial expansions of these business models based on a clear internationalisation strategy.

- Our joint venture in Norway with the Norwegian importer launched its operations at the end of 2009. This company offers financing, leasing and insurance for Volkswagen passenger cars, Audi, Škoda as well as Volkswagen commercial vehicles in both the private and corporate segment.

- We applied for a banking licence with the Central Bank of the Russian Federation for the Russian market.

- We have been offering financial services in the Baltic countries of Lithuania, Latvia and Estonia since February 2010 jointly with a cooperation partner. The product range comprises automotive financing and auto insurance for private and corporate customers as well as wholesale financing products for Volkswagen passenger cars and Volkswagen commercial vehicles.

- Develop the Indian growth market through the operational launch of a wholly-owned subsidiary at the start of 2009 with a product range aimed at dealers and end customers. This will support the increase in Group brand sales in tandem with the increase in production in Pune from 2010.

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

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

Improved cost management as well as process optimisations and productivity gains will further enhance the position of Volkswagen Financial Services AG vis-à-vis its global competition in parallel with the company's market-based activities.

The following overall picture emerges, taking into account the aforementioned factors and the development of the market as a result of expiring governmental stimulus programmes:

Whilst the Board of Management expects the development of volume to stagnate in saturated markets, it believes that growth markets offer substantial opportunities. Based on the information and analyses currently available to us, earnings in 2010 are expected to be comparable to the level achieved in 2009 given that the easing of conditions in the capital markets is helping to improve refinancing costs whereas conditions in the real economy as a whole might have a negative effect on risk premiums. Earnings are expected to rise in 2011 in anticipation of a stabilising environment at the macroeconomic level.

Consolidated financial statements of the Volkswagen Financial Services AG Group

Consolidated financial statements of the Volkswagen Financial Services AG Group

Income statement of the Volkswagen Financial Services AG Group

	Note	1.1. – 31.12.2009 € million	1.1. – 31.12.2008 € million	Change in %
Interest income from lending transactions		2,603	2,723	– 4.4
Net income from leasing transactions before provisions for risks		1,247	1,133	10.1
Interest expense		– 2,102	– 2,262	– 7.1
Net income from insurance business		5	9	– 44.4
Net income from lending, leasing and insurance transactions before provisions for risks	(20)	1,753	1,603	9.4
Provisions for risks arising from lending and leasing business	(9, 21, 32)	– 654	– 350	86.9
Net income from lending, leasing and insurance transactions after provisions for risks		1,099	1,253	– 12.3
Commission income		396	380	4.2
Commission expenses		– 172	– 171	0.6
Net commission income	(22)	224	209	7.2
Result from financial instruments	(10, 23)	– 45	– 27	66.7
Result from available-for-sale assets		1	0	×
Result from joint ventures accounted for at equity		91	101	– 9.9
Result from other financial assets	(24)	0	8	×
General administration expenses	(25)	– 912	– 887	2.8
Other operating result	(26)	96	135	– 28.9
Pre-tax-result		**554**	**792**	**– 30.1**
Taxes on income and earnings	(6, 27)	– 159	– 214	– 25.7
Net income		**395**	**578**	**– 31.7**
Net income attributable to Volkswagen AG		395	578	– 31.7

Statement of comprehensive income of the Volkswagen Financial Services AG Group

	Note	1.1. – 31.12.2009 € million	1.1. – 31.12.2008 € million
Net income		**395**	**578**
Actuarial gains and losses	(43)	– 14	8
deferred taxes thereon	(6, 27)	4	– 2
Available-for-sale financial assets (securities):			
– Fair value changes recognised in equity		2	0
– Recognised in the income statement		– 1	0
deferred taxes thereon	(6, 27)	0	0
Cash flow hedges:	(10)		
– Fair value changes recognised in equity		6	– 114
– Recognised in the income statement		13	– 10
deferred taxes thereon	(6, 27)	– 4	35
Currency translation differences	(4)	173	– 210
Income and expense of shares measured at equity, recognised directly in equity, after taxes		35	– 118
Income and expense recognised directly in equity		**214**	**– 411**
Comprehensive income		**609**	**167**
Comprehensive income attributable to Volkswagen AG		609	167

Balance sheet
of the Volkswagen Financial Services AG Group

Assets	Note	31.12.2009 € million	31.12.2008 € million	Change in %
Cash reserve	(7, 29)	343	422	– 18.7
Receivables from financial institutions	(8, 30)	1,461	1,358	7.6
Receivables from customers arising from				
Retail financing		26,603	21,913	21.4
Wholesale financing		8,391	9,584	– 12.4
Leasing business		13,935	14,912	– 6.6
Other receivables		2,018	2,178	– 7.3
Receivables from customers in total	(8, 31)	50,947	48,587	4.9
Derivative financial instruments	(10, 33	797	740	7.7
Securities		98	39	151.3
Joint ventures accounted for at equity	(34)	1,545	1,417	9.0
Other financial assets	(11, 34)	175	156	12.2
Intangible assets	(12, 35)	130	115	13.0
Property, plant and equipment	(13, 36)	220	215	2.3
Leased assets	(15, 37)	3,666	3,003	22.1
Investment property	(15, 37)	9	10	– 10.0
Deferred tax assets	(6, 38)	160	353	– 54.7
Income tax assets	(6)	96	93	3.2
Other assets	(39)	639	771	– 17.1
Total		**60,286**	**57,279**	**5.2**

Liabilities	Note	31.12.2009 € million	31.12.2008 € million	Change in %
Liabilities to financial institutions	(16. 41)	6,615	7,559	– 12.5
Liabilities to customers	(16, 41)	22,997	16,881	36.2
Securitised liabilities	(42)	20,355	21,500	– 5.3
Derivative financial instruments	(10, 43)	629	490	28.4
Provisions	(17 – 19, 44)	687	566	21.4
Deferred tax liabilities	(6, 45)	706	1,059	– 33.3
Income tax obligations	(6)	118	64	84.4
Other liabilities	(46)	593	493	20.3
Subordinated capital	(47)	1,275	1,887	– 32.4
Equity	(48)	6,311	6,780	– 6.9
Subscribed capital		441	441	—
Capital reserve		2,809	2,809	—
Retained earnings		3,061	3,530	– 13.3
Total		**60,286**	**57,279**	**5.2**

Statement of changes in equity of the Volkswagen Financial Services AG Group

€ million	Subscribed capital	Capital reserve	RETAINED EARNINGS INCLUDING CONSOLIDATED NET RETAINED PROFITS				Market valuation securities	Shares measured at equity	Total equity
			Accumulated profits	Currency translation reserve	Reserve for cash flow hedges	Reserve for actuarial gains and losses			
Balance as at 31.12.2007/1.1.2008	441	2,809	2,743	– 1	25	– 19	0	14	6,012
Payments into the capital reserve	—	600	—	—	—	—	—	—	600
Withdrawal from the capital reserve	—	– 600	600	—	—	—	—	—	—
Loss absorption by Volkswagen AG	—	—	2	—	—	—	—	—	2
Comprehensive income	—	—	578	– 215	– 84	6	0	– 118	167
Other changes	—	—	– 1	—	—	—	—	—	– 1
Balance as at 31.12.2008/1.1.2009	**441**	**2,809**	**3,922**	**– 216**	**– 59**	**– 13**	**0**	**– 104**	**6,780**
Payments into the capital reserve	—	—	—	—	—	—	—	—	—
Withdrawal from the capital reserve	—	—	—	—	—	—	—	—	—
Distributions/profit transfer to Volkswagen AG	—	—	– 1,078	—	—	—	—	—	– 1,078
Comprehensive income	—	—	395	176	12	– 11	2	35	609
Balance as at 31.12.2009	**441**	**2,809**	**3,239**	**– 40**	**– 47**	**– 24**	**2**	**– 69**	**6,311**

Cash flow statement of the Volkswagen Financial Services AG Group

	1.1. – 31.12.2009 € million	1.1. – 31.12.2008 € million
Net income	**395**	**578**
Depreciation, value adjustments and write-ups	1,449	1,031
Change in provisions	83	– 21
Change in other items not affecting payments	4	– 181
Result from the sale of financial assets and property, plant and equipment	0	1
Interest result and dividend income	– 1,563	– 1,540
Other adjustments	3	104
Change in receivables from financial institutions	– 71	– 562
Change in receivables from customers	– 1,673	– 3,149
Change in leased assets	– 1,336	– 1,298
Change in other assets from operating activities	153	– 303
Change in liabilities to financial institutions	– 1,710	2,175
Change in liabilities to customers	6,022	2,912
Change in securitised liabilities	– 1,352	– 1,693
Change in other liabilities from operating activities	57	134
Interest received	3,662	3,761
Dividends received	2	41
Interest paid	– 2,102	– 2,262
Income tax payments	– 256	– 183
Cash flow from operating activities	**1,767**	**– 455**
Cash inflows from the sale of investment property	0	—
Cash outflows from the purchase of investment property	– 2	– 2
Cash inflows from the sale of subsidiaries and joint ventures	0	—
Cash outflows from the purchase of subsidiaries and joint ventures	– 23	– 51
Cash inflows from the sale of other assets	5	14
Cash outflows from the purchase of other assets	– 60	– 105
Change in investments in securities	– 55	72
Cash flow from investing activities	**– 135**	**– 72**
Cash inflows from changes in capital	—	600
Distribution/profit transfer to Volkswagen AG	– 1,078	—
Loss transferred to Volkswagen AG	2	—
Change in funds resulting from subordinated capital	– 639	175
Cash flow from financing activities	**– 1,715**	**775**
Cash and cash equivalents at the end of the previous period	**422**	**176**
Cash flow from operating activities	1,767	– 455
Cash flow from investing activities	– 135	– 72
Cash flow from financing activities	– 1,715	775
Effects from exchange rate changes	4	– 2
Cash and cash equivalents at the end of the period	**343**	**422**

Comments on the cash flow statement are shown in note (60).

Notes to the consolidated financial statements of Volkswagen Financial Services AG Group as at 31.12.2009

GENERAL COMMENTS

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

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

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

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

GROUP ACCOUNTING PRINCIPLES

VW FS AG prepared its consolidated financial statements as per 31.12.2009 according to International Financial Reporting Standards (IFRS), as applicable in the European Union, and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC), as well as supplementary provisions that are applicable under § 315a Para. 1 German Commercial Code (HGB). All the IFRS that were approved by the International Accounting Standards Board (IASB) by 31.12.2009, and whose application was obligatory for the 2009 financial year, were taken into account in these consolidated annual financial statements.

In addition to the income statement, the statement of comprehensive income and the balance sheet, the consolidated financial statements according to IFRS include the statement of changes in equity, the cash flow statement and the notes. The separate report on the risks of future development (risk report according to § 315 Para. 1 HGB) is contained in the management report on pages 48 – 64.

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

EFFECTS OF NEW AND REVISED IFRS

VW FS AG has implemented all accounting standards that had to be applied starting in the 2009 financial year.

The revised IFRS 7, Financial Instruments: Disclosures, extends the disclosures for determining the fair value of financial instruments and the disclosures regarding the liquidity risk arising from financial liabilities.

The new IFRS 8, Operating Segments, leads to the restructuring of segment reporting. In keeping with the management approach, VW FS AG discloses three reportable segments. Furthermore, one segment that is neither reportable nor attributable as well as consolidation is shown in a reconciliation column.

Revised IAS 1, Presentation of Financial Statements, leads to a restructuring of the elements of the financial statements. Some of the terminology was also adopted.

IAS 7, which was revised as part of the annual project to improve the standards, stipulates that cash flow from changes in leased assets be shown under cash flow from operating activities.

Revised IAS 23, Borrowing Costs, requires that borrowing costs attributable to qualifying assets be capitalised if the purchase or production of the respective asset began on or after 1 January 2009. An asset is considered qualified if a period of at least one year is required for the asset to get ready for its intended use or sale. IAS 23 does not affect the presentation of the net assets, financial position and results of operations of the Volkswagen Group.

Furthermore, the following standards and interpretations had to be applied for the first time in the current financial year. This did not have any effect on the presentation of the consolidated financial statements.

- IFRS 1/IAS 27: Cost of an Investment in Subsidiary, Jointly Controlled Entity or Associate
- IFRS 2: Share-based Payment – Vesting Conditions and Cancellations
- IFRS 4: Insurance Contracts
- IFRS 7/IAS 39: Reclassification of financial assets – initial application
- IAS 1/IAS 32: Puttable Financial Instruments and Obligations Arising on Liquidation
- Improvements[1]
- IFRIC 9/IAS 39: Reassessment of Embedded Derivatives
- IFRIC 1/IFRS 2: Group and treasury share transactions
- IFRIC 13: Customer Loyalty Programmes
- IFRIC 14/IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

1 Minor amendments to numerous standards (IAS 1, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41) and subsequent amendments resulting from them.

NEW OR REVISED IFRS WHOSE APPLICATION IS NOT YET MANDATORY AND WHICH WERE NOT APPLIED VOLUNTARILY

In its consolidated financial statements for 2009, VW FS AG did not take into account the following new or amended accounting standards which were adopted by the IASB but whose application in the financial year is not mandatory for VW FS AG.

Standard/interpretation		Published by the IASB	Mandatory application**	Adopted by the EU commission*	Expected effects
IFRS 1	First-time Adoption of IFRS	25.11.2008	01.01.2010	Yes	None
IFRS 1/IFRS 5	Improvements 2008	22.05.2008	01.01.2010	Yes	None
IFRS 2	Share-based Payment – Vesting Conditions and Cancellations	18.06.2009	01.01.2010	No	None
IFRS 3/IAS 27	Business Combinations/ Consolidated Financial Statements	10.01.2008	01.01.2010	Yes	Change in the treatment of business combinations
IFRS 9	Financial Instruments: Classification and Measurement	12.11.2009	01.01.2013	No	No recognition of fair value changes of strategic equity investments in case of permanent impairment or disposal. Immediate recognition of vair value changes of all other financial assets securitising equity
IAS 24	Related Party Disclosures	04.11.2009	01.01.2011	No	Reduced disclosures regarding business relations with the federal state of Lower Saxony
IAS 32	Classification of Rights Issues	08.10.2009	01.01.2011	Yes	None
IAS 39	Exposures Qualifying for Hedge Accounting	31.07.2008	01.01.2010	No	None
	Improvements 2009***	16.04.2009	01.01.2010	No	No material effects
IFRIC 12	Service Concession Arrangements	30.11.2006	01.01.2010	Yes	None
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interactions	26.11.2009	01.01.2011	No	None
IFRIC 15	Agreement for the Construction of Real Estate	03.07.2008	01.01.2010	Yes	None
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	03.07.2008	01.01.2010	Yes	None
IFRIC 17	Distributions of Non-cash Assets to Owners	27.11.2008	01.01.2010	Yes	None
IFRIC 18	Transfer of Assets from Customers	29.01.2009	01.01.2010	Yes	None
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	26.11.2009	01.01.2010	No	None

* on 31.12.2009
** First-time application mandatory for VW FS AG
*** Minor amendments to numerous standards (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) and subsequent amendments resulting from them

ACCOUNTING POLICIES

(1) Principles

All the companies included in consolidation have drawn up their annual financial statements as at the balance sheet date of 31.12.2009.

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

Financial assets and financial liabilities are recognised in accordance with IAS 39.

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

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

(2) Basis of consolidation

As a general principle, all companies are fully consolidated in which VW FS AG has the possibility, directly or indirectly, to determine the financial and business policy in such a way that the VW FS AG Group benefits from the activities of these companies (subsidiaries). Inclusion in the basis of consolidation begins at the point in time from which the possibility of control exists; it ends when the possibility of control ceases to exist. As in the previous year, eight domestic and 22 foreign subsidiaries were fully consolidated at the balance sheet date. In addition, the consolidated annual financial statements contain 21 (previous year: 19) special purpose entities whose assets, regarded in economic terms, are attributable to the VW FS AG Group.

In January 2009, VW FS AG founded a wholly-owned subsidiary, VOLKSWAGEN FINANCE PRIVATE LIMITED, Mumbai, India.

VDF FAKTORİNG HİZMETLERİ A.Ş., Istanbul, Turkey, was established in February 2009 as a subsidiary of VDF Service Holding A.S., Istanbul. VW FS AG therefore indirectly holds a 51% stake in this new company.

In July 2009, VW FS AG and the importer MøllerGruppen founded VOLKSWAGEN MØLLER BILFINANS AS, Oslo, Norway, as a joint venture.

These three companies were not consolidated for reasons of materiality.

The total cost in 2009 of these business start-ups amounted to € 12 million.

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

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

€ million	2009	2008
Receivables from financial institutions	736	594
Receivables from customers	3,291	3,768
Leased assets	5,911	6,189
Other assets	1,479	1,576
Liabilities to financial institutions	2,561	2,749
Liabilities to customers	304	1,106
Securitised liabilities	5,522	4,562
Other liabilities	1,533	2,341
Equity	1,497	1,369
Income	729	989
Expenses	638	885
Contingent liabilities	899	930

Subsidiaries are not consolidated if they are of secondary importance for the VW FS AG Group. Altogether this concerns six (previous year: five) domestic and, as in the previous year, 11 foreign companies.

Furthermore, as in the previous year there are 12 branches outside Germany which were set up by three domestic affiliated companies.

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

The following corporations are fully consolidated German affiliates that have fulfilled the requirements of § 264 Para. 3 HGB and will use the exemption rule:

- Volim GmbH
- Volkswagen Business Services GmbH
- Volkswagen Financial Services Beteiligungsgesellschaft mbH

(3) Principles of consolidation

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

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

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

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

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

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

(4) Currency translation

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

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

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

		BALANCE SHEET MIDDLE RATE AS AT 31.12.		INCOME STATEMENT AVERAGE EXCHANGE RATE	
	€	2009	2008	2009	2008
Australia	AUD	1.6008	2.0274	1.7727	1.7416
Brazil	BRL	2.5113	3.2436	2.7674	2.6743
Czech Republic	CZK	26.4730	26.8750	26.4349	24.9463
United Kingdom	GBP	0.8881	0.95250	0.8909	0.7963
Japan	JPY	133.1600	126.1400	130.3366	152.4541
Mexico	MXN	18.9223	19.23330	18.7989	16.2916
Sweden	SEK	10.2520	10.8700	10.6191	9.6152

(5) Realisation of income and expense

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

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

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

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

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

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

(6) Income tax

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

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

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

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

(7) Cash reserve

The cash reserve is shown at nominal value.

(8) Receivables

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

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

(9) Provisions for risks

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

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

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

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

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

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

(10) Derivative financial instruments

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

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

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

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

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

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

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

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

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

(11) Other financial assets

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

(12) Intangible assets

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

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

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

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

An impairment loss is recognised if the goodwill is impaired.

The original goodwill as determined using the discounted cash flow method is used to determine the impairment of goodwill based on the management's current five-year plans with subsequent perpetual annuity. The discount rate applied is based on the applicable long-term market interest rate corresponding to the relevant cash generating unit. A discount rate of at least 8.4 % (previous year: 8.5 %) was used throughout the Group. The planning premises are adjusted to the current level of knowledge, taking both appropriate assumptions regarding macroeconomic trends and historical developments into account. The growth rates expected for the individual markets are used to determine the respective cash flows.

(13) Property, plant and equipment

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

Depreciation is mainly based on the following useful lives:

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

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

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

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

(14) Impairment of non-monetary assets

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

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

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

(15) Leasing business

The Group as lessor

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

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

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

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

The Group as lessee

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

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

(16) Liabilities

Liabilities to financial institutions and to customers as well as securitised liabilities are recognised at amortised cost according to the effective interest rate method. Profits or losses resulting from the development of amortised cost are recognised in income including the effects from exchange rate changes. For current liabilities (residual term up to one year) neither compounding nor discounting is performed for reasons of materiality. A portion of the liabilities to customers was included in a portfolio hedge for the first time in the 2009 financial year. The customer receivables allocated to portfolio hedging are measured at fair value.

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

(17) Pension provisions and similar obligations

In Germany, there is a defined contribution, basic state pension for employees which makes pension payments at a level dependent on income and contributions paid. Domestic companies made contributions to the statutory pension scheme amounting to € 21 million (previous year: € 20 million). Both defined contribution and defined benefit pension commitments exist under company pension plans for employees. In the case of the defined contribution plans, contributions are paid to state or private pension insurance providers under statutory or contractual provisions or on a voluntary basis. The defined benefit plans, on the other hand, are financed by making provisions and, since 2001, also by making transfers into an external pension fund.

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

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

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

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

Material actuarial premises applied by the national companies:

	GERMANY		ABROAD	
%	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Expected return on plan assets	5.00	5.00	6.10	5.70
Discount rate	5.40	5.75	1.20 – 10.64	1.90 – 9.00
Expected rate of salary increases	2.50	2.50	0.00 – 5.60	2.00 – 6.00
Expected rate of pension increases	1.50	1.50	1.00 – 4.00	2.00 – 4.00
Fluctuation rate	0.75	0.75	4.86	4.90

For reasons of materiality, some actuarial assumptions made for countries outside Germany are shown in ranges.

(18) Provisions for the insurance business

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

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

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

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

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

(19) Other provisions

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

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

Provisions are not offset against claims for reimbursement.

NOTES TO THE INCOME STATEMENT

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

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

€ million	2009	2008
Interest income from lending and money market transactions	2,603	2,723
Income from leasing transactions and service contracts	4,682	3,805
Expenses from leasing business and service contracts	– 2,688	– 2,097
Depreciation on leased assets and investment property	– 747	– 575
Interest expense	– 2,102	– 2,262
Total	**1,748**	**1,594**

The interest income from lending and money market transactions as well as the income from leasing transactions and service contracts contain interest income on impaired receivables in the amount of € 36 million (previous year: € 39 million).

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

Impairment losses recognised as a result of the impairment test on leased assets amounted to € 133 million (previous year: € 78 million) and are contained in the depreciation on leased assets. Income from write-ups on write-downs carried out in previous years on leased assets amounted to € 28 million (previous year: € 0 million) and is contained in the income from leasing transactions.

Interest income included here from financial instruments which are not attributable to the category of assets or financial liabilities measured at fair value amounts to € 2,603 million (€ 2,723 million).

The net income from insurance transactions is comprised as follows:

€ million	2009	2008
Premiums earned from insurance business	35	30
Expenses for claims	– 22	– 17
Expenses for reinsurance commissions and profit sharing	– 8	– 4
Other insurance-related expenses	0	0
Total	**5**	**9**

The interest expense contains refinancing expenses from lending and leasing transactions. A total of € 1,983 million (previous year: € 2,262 million) of that expense concerns financial instruments not measured at fair value.

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

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

€ million	2009	2008
Additions to provisions for risks	– 950	– 560
Reversal of provisions for risks	376	228
Direct depreciation	– 116	– 72
Income from receivables written off	36	54
Total	**– 654**	**– 350**

(22) Net commission income

The net commission income of € 224 million (previous year: € 209 million) contains € 305 million (previous year: € 295 million) in income from insurance agency services.

(23) Result from financial instruments

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

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

The detailed figures are as follows:

€ million	2009	2008
Gains/losses on fair value hedging instruments	– 72	252
Gains/losses on underlying transactions of fair value hedges	23	– 254
Ineffective portion of cash flow hedging instruments	0	– 1
Gains/losses from currency hedging instruments	– 36	27
Gains/losses from the measurement of foreign currency receivables/liabilities	35	– 27
Gains/losses on other hedge-ineffective derivatives	5	– 24
Total	**– 45**	**– 27**

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

(24) Result from other financial assets

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

(25) General administration expenses

The general administration expenses are made up as follows:

€ million	2009	2008
Staff costs	– 431	– 423
Non-staff costs	– 344	– 351
Costs of advertising, PR work and sales promotion	– 45	– 51
Depreciation of property, plant and equipment and amortisation of intangible assets	– 46	– 43
Other taxes	– 46	– 19
Total	**– 912**	**– 887**

The non-staff costs contain expenses for leased assets under operating leases amounting to € 7 million (previous year: € 4 million).

As required by § 314 Para. 1 No. 9 HGB, the general administration expenses for the 2009 financial year include fees for the audit of the annual financial statements amounting to € 1 million (previous year: € 1 million), for other auditing and valuation services amounting to € 1 million (previous year: € 1 million), and for other services amounting to € 1 million (previous year: € 2 million). As in the previous year, expenses for tax consultancy services were of a minor nature.

(26) Other operating result

The other operating result is made up as follows:

€ million	2009	2008
Income from costs charged to companies of the Volkswagen Group	45	47
Income from the reversal of provisions	18	56
Income from claims for damages	7	11
Miscellaneous operating result	26	21
Other operating result	**96**	**135**

(27) Taxes on income and earnings

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

€ million	2009	2008
Effective tax expense in Germany	– 218	– 26
Effective tax expense abroad	– 96	– 100
Effective tax expense	**– 314**	**– 126**
Income from the reversal of tax provisions and tax refunds	8	3
Effective taxes on income and earnings	**– 306**	**– 123**
of which not attributable to the period under review	11	– 10
Deferred tax income/expense in Germany	134	– 98
Deferred tax income/expense abroad	13	7
Deferred tax income/expense	**147**	**– 91**
of which not attributable to the period under review	– 4	11
Total	**– 159**	**– 214**

The deferred tax expense of the financial year contains deferred tax expenses due to the use of previously capitalised deferred taxes on losses carried forward amounting to € 4 million (previous year: zero).

The actual tax expense in 2009 amounting to € 159 million (previous year: € 214 million) was € 4 million lower than the expected tax expense of € 163 million (previous year: € 234 million), which would have resulted if a tax rate of 29.5 % (previous year: 29.5 %) had been applied on the Group's pre-tax result. The following reconciliation shows the connection between taxes on income and earnings and the pre-tax result in the financial year:

€ million	2009	2008
Pre-tax result	**554**	**792**
multiplied by the German income tax rate of 29.5 % (previous year: 29.5 %)		
= **Arithmetical income tax expense in the financial year at the German income tax rate**	**– 163**	**– 234**
+ Effects from tax credits	—	—
+ Effects from German/foreign tax rate	– 5	– 13
+ Effects from tax rate changes	1	48
+ Effects from permanent valuation differences	– 11	– 29
+ Effects on account of tax-free income from equity investments	2	12
+ Effects from losses carried forward	0	– 2
+ Temporary valuation differences without calculation of deferred taxes	24	12
+ Taxes not attributable to the period under review	7	1
+ Other differences	– 14	– 9
= **Actual taxes on income and earnings**	**– 159**	**– 214**

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

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

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

As in the previous year, the effects from temporary differences without calculation of deferred taxes essentially are caused by the result from joint ventures accounted for at equity.

As at 31.12.2009, the company's tax losses carried forward not yet used to date were € 41 million (previous year: € 34 million), for which deferred tax assets of € 12 million (previous year: € 11 million) were recognised. Of these unused tax losses carried forward, € 41 million (previous year: € 34 million) can be utilised indefinitely.

No deferred tax asset was recognised on € 6 million in unused tax losses carried forward (previous year: € 7 million) because they are classified as unusable.

Of the deferred taxes recognised in the balance sheet, a total of € 30 million (previous year: € 30 million) relate to business transactions that are recognised directly in equity. A partial amount of € 10 million (previous year: € 6 million) concerns actuarial gains/losses (IAS 19), and a partial amount of € 20 million (previous year: € 24 million) concerns derivative financial instruments.

(28) Further notes to the income statement

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

€ million	2009	2008
Commission income	3	2
Commission expenses	– 3	– 2
Free expenses	– 1	– 1
Total	**– 1**	**– 1**

NOTES TO THE BALANCE SHEET

(29) Cash reserve

The cash reserve contains receivables from the Deutsche Bundesbank amounting to € 333 million (previous year: € 414 million).

(30) Receivables from financial institutions

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

(31) Receivables from customers

Receivables from customers include unsecuritised receivables from affiliated companies amounting to € 675 million (previous year: € 375 million) and receivables from joint ventures amounting to € 1,486 million (previous year: € 1,805 million). There are receivables from the sole shareholder, Volkswagen AG, amounting to € 106 million (previous year: € 12 million).

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

The terms of the contracts are usually between six and 72 months. As a rule, credit lines are granted indefinitely. The interest rates, which essentially are fixed, are between 0.90 % and 24.00 % (previous year: 0.00 % and 22.13 %).

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

The reconciliation from the balance sheet figures is as follows:

€ million	31.12.2009	31.12.2008
Receivables from customers	**50,947**	**48,587**
of which market value adjustment from portfolio hedging	– 82	– 151
Receivables from customers less market value adjustment from portfolio hedging	50,865	48,436

Receivables from leasing transactions include due receivables amounting to € 177 million (previous year: € 172 million).

The receivables from operating leasing transactions total € 69 million as at the balance sheet date (previous year: € 54 million).

The receivables from finance leases are made up as follows:

€ million	31.12.2009	31.12.2008
Gross receivables from finance leases	**15,216**	**16,334**
by residual term		
up to one year	6,380	6,554
more than one year and up to five years	8,800	9,768
more than five years	36	12
Interest not yet earned from finance leases	**1,350**	**1,476**
Net receivables from finance leases	**13,866**	**14,858**
by residual term		
up to one year	5,792	5,960
more than one year and up to five years	8,043	8,887
more than five years	31	11

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

A provision for risks arising from outstanding minimum lease payments exists in the amount of € 125 million (previous year: € 70 million).

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

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

A reconciliation to the classes in accordance with IFRS 7 must be shown. Previous year's figures were adjusted accordingly. Reconciliation is as follows:

Class: Assets measured at amortised cost:

	INDIVIDUAL VALUE ADJUSTMENTS		PORTFOLIO-BASED VALUE ADJUSTMENTS		TOTAL	
€ million	2009	2008	2009	2008	2009	2008
As at 1.1.	540	587	375	430	915	1,017
New companies brought forward	—	—	—	—	—	—
Additions	806	391	113	89	919	480
Transfers	7	– 89	55	– 56	62	– 145
Disposals	307	294	153	73	460	367
of which uses	135	161	—	—	135	161
of which reversals	172	133	153	73	325	206
Interest income from impaired receivables	32	35	—	—	32	35
Currency translation	20	– 20	14	– 15	34	– 35
Provisions for risks arising from lending and leasing business as at 31.12.	**1,034**	**540**	**404**	**375**	**1,438**	**915**

Class: Hedge accounting

	INDIVIDUAL VALUE ADJUSTMENTS		PORTFOLIO-BASED VALUE ADJUSTMENTS		TOTAL	
€ million	2009	2008	2009	2008	2009	2008
As at 1.1.	70	—	89	—	159	—
New companies brought forward	—	—	—	—	—	—
Additions	27	63	4	17	31	80
Transfers	– 14	61	– 48	84	– 62	145
Disposals	53	46	33	8	86	54
of which uses	35	32	—	—	35	32
of which reversals	18	14	33	8	51	22
Interest income from impaired receivables	4	4	—	—	4	4
Currency translation	4	– 4	4	– 4	8	– 8
Provisions for risks arising from lending and leasing business as at 31.12.	**30**	**70**	**16**	**89**	**46**	**159**

The provisions for risks were recognised in relation to receivables from customers.

(33) Derivative financial instruments

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

€ million	31.12.2009	31.12.2008
Assets from hedging transactions	475	487
Fair value hedges on assets (currency risk)	1	4
Fair value hedges on liabilities (currency risk)	27	168
Fair value hedges (interest rate risk)	421	249
Portfolio fair value hedges (interest rate risk)	4	1
Cash flow hedges on interest payments (currency risk)	11	1
Cash flow hedges (interest rate risk)	11	64
Assets from hedge-ineffective derivatives	322	253
Total	**797**	**740**

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

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

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

€ million	Companies accounted for at equity	Other financial assets	Total
Cost of acquisition			
As at 1.1.2009	1,443	157	1,600
Exchange rate changes/effects recognised in equity	35	0	35
Changes in the scope of consolidation	—	—	—
Additions	95	19	114
Transfers	—	—	—
Disposals	2	0	2
As at 31.12.2009	1,571	176	1,747
Depreciation			
As at 1.1.2009	26	1	27
Exchange rate changes	—	—	—
Changes in the scope of consolidation	—	—	—
Additions	—	—	—
Transfers	—	—	—
Disposals	—	0	0
Write-ups	—	—	—
Write-downs	—	—	—
As at 31.12.2009	26	1	27
Carrying amount 31.12.2009	**1,545**	**175**	**1,720**
Carrying amount 1.1.2009	**1,417**	**156**	**1,573**

(35) Intangible assets

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

€ million	Self-produced software	Goodwill, brand name, customer base	Other intangible assets	Total
Cost of acquisition				
As at 1.1.2009	83	35	76	194
Exchange rate changes	0	8	2	10
Changes in the scope of consolidation	—	—	—	—
Additions	19	—	10	29
Transfers	—	—	—	—
Disposals	1	—	1	2
As at 31.12.2009	101	43	87	231
Depreciation				
As at 1.1.2009	24	3	52	79
Exchange rate changes	0	1	1	2
Changes in the scope of consolidation	—	—	—	—
Additions	7	2	12	21
Transfers	2	—	– 2	—
Disposals	—	—	1	1
Write-ups	—	—	—	—
Write-downs	—	—	—	—
As at 31.12.2009	33	6	62	101
Carrying amount 31.12.2009	**68**	**37**	**25**	**130**
Carrying amount 1.1.2009	**59**	**32**	**24**	**115**

Intangible assets having indefinite useful lives at the balance sheet date comprise one item of goodwill and a brand name. The indefinite useful lives arise from the fact that both the goodwill and the brand name are derived from the relevant cash generating unit and thus exist as long as that unit exists. The customer base is amortised over a period of five years.

(36) Property, plant and equipment

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

€ million	Land and buildings	Office and operating equipment	Total
Cost of acquisition As at 1.1.2009	219	124	343
Exchange rate changes	– 1	2	1
Changes in the scope of consolidation	—	—	—
Additions	15	16	31
Transfers	– 4	4	—
Disposals	0	9	9
As at 31.12.2009	229	137	366
Depreciation As at 1.1.2009	48	80	128
Exchange rate changes	0	1	1
Changes in the scope of consolidation	—	—	—
Additions	7	17	24
Transfers	—	—	—
Disposals	0	5	5
Write-ups	2	0	2
Write-downs	—	—	—
As at 31.12.2009	53	93	146
Carrying amount 31.12.2009	**176**	**44**	**220**
Carrying amount 1.1.2009	**171**	**44**	**215**

Land and buildings include plant under construction with a carrying amount of € 5 million (previous year: € 39 million).

(37) Leased assets

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

€ million	Movable leased asset	Investment property	Advance payments on investment property	Total
Cost of acquisition				
As at 1.1.2009	3,763	15	—	3,778
Exchange rate changes	56	0	—	56
Changes in the scope of consolidation	—	—	—	—
Additions	3,307	2	—	3,309
Transfers	—	—	—	—
Disposals	2,446	0	—	2,446
As at 31.12.2009	4,680	17	—	4,697
Depreciation				
As at 1.1.2009	760	5	—	765
Exchange rate changes	13	0	—	13
Changes in the scope of consolidation	—	—	—	—
Additions	611	1	—	612
Transfers	—	—	—	—
Disposals	475	0	—	475
Write-ups	28	—	—	28
Write-downs	133	2	—	135
As at 31.12.2009	1,014	8	—	1,022
Carrying amount 31.12.2009	**3,666**	**9**	**—**	**3,675**
Carrying amount 1.1.2009	**3,003**	**10**	**—**	**3,013**

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

The fair value of investment property amounts to € 9 million. During the period under review, maintenance expenses of € 4 million (previous year: € 1 million) were incurred for investment property.

We expect payments of € 14 million in 2010, € 34 million from 2011 to 2014 and € 43 million in the years thereafter from unterminable leasing and rental contracts.

(38) Deferred tax assets

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

€ million	31.12.2009	31.12.2008
Deferred taxation	4,552	5,188
of which non-current	3,223	3,901
Capitalised benefits from unused tax losses carried forward	12	11
of which non-current	9	8
Netting (with deferred tax liabilities)	– 4,404	– 4,846
Total	**160**	**353**

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

€ million	31.12.2009	31.12.2008
Derivative financial instruments (assets)	45	33
Property, plant and equipment/intangible assets	57	95
Leased assets	2,851	3,270
Other financial assets	552	834
Receivables and other assets	230	138
Other assets	20	1
Derivative financial instruments (obligations)	172	140
Provisions	176	113
Liabilities and contributions	444	562
Other liabilities	5	2
Total	**4,552**	**5,188**

(39) Other assets

Other assets concern the following items:

€ million	31.12.2009	31.12.2008
Insurance-related provisions attributable to reinsurance companies	111	100
Receivables from other taxes	60	17
Prepaid expenses	55	64
Vehicles taken back for resale	145	291
Miscellaneous	268	299
Total	**639**	**771**

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

€ million	31.12.2009	31.12.2008
Provisions for unsettled claims attributable to reinsurance companies	106	94
Provisions for deferred premiums attributable to reinsurance companies	4	5
Other insurance-related provisions attributable to reinsurance companies	1	1
Total	**111**	**100**

(40) Non-current assets

€ million	31.12.2009	of which non-current	31.12.2008	of which non-current
Cash reserve	343	—	422	—
Receivables from financial institutions	1,461	—	1,358	—
Receivables from customers	50,947	26,222	48,587	24,504
Derivative financial instruments	797	658	740	327
Securities	98	—	39	—
Joint ventures accounted for at equity	1,545	1,545	1,417	1,417
Other financial assets	175	175	156	156
Intangible assets	130	130	115	115
Property, plant and equipment	220	220	215	215
Leased assets	3,666	3,222	3,003	2,450
Investment property	9	9	10	10
Deferred tax assets	160	160	353	353
Income tax assets	96	4	93	3
Other assets	639	97	771	102
Total	**60,286**	**32,442**	**57,279**	**29,652**

(41) Liabilities to financial institutions and customers

The liabilities to financial institutions and customers are all unsecuritised.

The securitised liabilities are shown separately.

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

The drawing on funds, which is shown as unsecuritised liabilities to customers, amounts to € 3,160 million (previous year: € 2,567 million) in liabilities to affiliated companies – of which € 2,235 million (previous year: € 1,820 million) is attributable to the sole shareholder, Volkswagen AG.

The liabilities to customers contain € 18,309 million in customer deposits (previous year: € 12,835 million). They mainly comprise overnight and fixed-term deposits as well as various savings certificates and plans of Volkswagen Bank GmbH. Relative to the term, the »Direkt« savings plan has the longest investment horizon. The maximum term is ten years. The nominal interest rate for newly signed savings plans, savings certificates and fixed-term deposits in the financial year just ended was between 0.25 % and 5.00 % (previous year: between 3.80 % and 5.40 %). The average interest rate for overnight deposit accounts was 1.58 % at 31.12.2009, the balance sheet date (previous year: 3.97 %).

Portions of the liabilities to customers were hedged for the first time in a portfolio hedge pursuant to IAS 39 AG 114 ff. against fluctuations of the risk-free base rate.

The reconciliation from the balance sheet figures is as follows:

€ million	31.12.2009	31.12.2008
Liabilities to customers	**22,997**	**16,881**
of which market value adjustment from portfolio hedging	0	—
Liabilities to customers less market value adjustment from portfolio hedging	22,997	16,881

(42) Securitised liabilities

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

€ million	31.12.2009	31.12.2008
Debentures issued	18,986	20,251
Money market papers issued	1,369	1,249
Total	**20,355**	**21,500**

The VW FS AG Group utilises ABS transactions, in addition to the options mentioned above, for the purpose of refinancing. At year's end, the associated liabilities contained in the debentures issued amounted to € 5,093 million (previous year: € 6,678 million), those in the liabilities to financial institutions amounted to € 257 million (previous year: € 372 million), those in the liabilities to customers amounted to 760 million (previous year: € 709 million) and those in the subordinated liabilities amounted to € 462 million (previous year: € 407 million). Receivables in the amount of € 6,550 million (previous year: € 8,211 million) arising from retail financing and the leasing business serve as collateral. This entails assigning the anticipated payments to single purpose entities and transferring the vehicles financed as collateral. Given the IFRS requirement that special purpose entities must be consolidated, the assets and corresponding liabilities are continued to be recognised at VW FS AG.

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

(43) Derivative financial instruments

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

€ million	31.12.2009	31.12.2008
Obligations from hedging transactions	271	321
Fair value hedges on assets (currency risk)	0	—
Fair value hedges on liabilities (currency risk)	4	7
Fair value hedges (interest rate risk)	73	53
Portfolio fair value hedges (interest rate risk)	73	151
Cash flow hedges on interest payments (currency risk)	4	0
Cash flow hedges (interest rate risk)	117	110
Obligations from hedge-ineffective derivatives	358	169
Total	**629**	**490**

(44) Provisions

The provisions break down as follows:

€ million	31.12.2009	31.12.2008
Provisions for pensions and similar obligations	141	124
Insurance-related provisions	157	139
Other provisions	389	303
Total	**687**	**566**

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

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

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

€ million	31.12.2009	31.12.2008	31.12.2007	31.12.2006
Present value of funded obligations	88	65	74	61
Fair value of plan assets	87	68	75	58
Surplus/deficit	**1**	**– 3**	**– 1**	**3**
Present value of unfunded obligations	139	124	121	132
Net liability stated in the balance sheet	**140**	**121**	**120**	**135**

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

€ million	31.12.2009	31.12.2008
Pension provisions	141	124
Other assets	1	3
Net liability stated in the balance sheet	**140**	**121**

The pension provisions essentially concern pension commitments of German companies.

The present value of the commitments developed as follows:

€ million	2009	2008	2007	2006
Present value of obligations as at 1.1.	**188**	**195**	**193**	**169**
Changes in the scope of consolidation	—	—	8	—
Current service cost	9	9	9	12
Interest on obligation	11	11	10	8
Actuarial gains and losses (recognised in equity)	16	– 14	– 17	4
Employee contributions to the fund	1	1	1	0
Pension payments out of company assets	3	3	3	3
Pension payments out of the fund	1	3	1	0
Other changes	2	0	– 3	3
Currency differences from foreign plans	4	– 8	– 2	0
Present value of obligations as at 31.12.	**227**	**188**	**195**	**193**

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

€ million	2009	2008	2007	2006
Fair value of plan assets as at 1.1.	**68**	**75**	**58**	**38**
Changes in the scope of consolidation	—	—	9	—
Expected return on plan assets	4	5	4	3
Actuarial gains and losses (recognised in equity)	3	– 7	1	1
Employer contributions to the fund	7	6	6	12
Employee contributions to the fund	1	1	1	0
Pension payments out of the fund	1	3	1	0
Other changes	1	– 1	– 1	4
Currency differences from foreign plans	4	– 8	– 2	0
Fair value of plan assets as at 31.12.	**87**	**68**	**75**	**58**

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

The interest rate for the expected long-term returns of the fund assets is based on the portfolio's actual income generated over the long term, on historical total market returns and on forecasts regarding the likely returns of the classes of securities the portfolios contain (shares and fixed-interest securities). These forecasts are based on expected returns for comparable pension funds during the respective employee's remaining years of service as an investment horizon, as well as on the experience of major portfolio managers and investment experts. In 2010, we expect to earn a return of € 5 million from our fund assets. Employer's contributions to the fund are expected to total € 8 million and service cost is expected to total € 8 million in 2010.

The fund assets comprise the following components:

%	2009	2008	2007	2006
Shares	25	15	28	49
Fixed-interest securities	59	61	60	45
Cash	5	18	4	6
Property	3	1	2	0
Other	8	5	6	0

The following amounts were recognised in the income statement:

€ million	2009	2008
Current service cost	– 9	– 9
Interest on obligation	– 11	– 11
Expected return on plan assets	4	5
Past service cost	0	—
Total amount shown under staff costs	**– 16**	**– 15**

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

€ million	2009	2008
Net liability at 1.1.	**121**	**120**
Net expense in the income statement	16	15
Pension benefits and fund allocations paid	10	10
Actuarial gains and losses (recognised in equity)	14	– 7
Other changes	– 1	3
Currency differences from foreign plans	0	0
Net liability at 31.12.	**140**	**121**

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

	2009	2008	2007	2006
Differences between expected and actual development				
in % of the present value of obligations	2,3	2	– 1.89	– 1.12
in % of the fair value of plan assets	– 3.7	– 7.52	0.86	1.69

Insurance-related provisions developed as follows:

	INSURANCE-RELATED PROVISIONS		
€ million	Provision for unsettled insurance claims	Provision for deferred premiums	Other insurance-related provisions
As at 1.1.2009	**106**	**32**	**1**
New companies brought forward	—	—	—
Use	54	3	—
Addition	69	6	0
Other changes	—	—	—
As at 31.12.2009	**121**	**35**	**1**

Terms of the insurance-related provisions:

	31.12.2009		31.12.2008	
€ million	Residual term more than one year	Total	Residual term more than one year	Total
Provision for unsettled insurance claims	44	121	33	106
Provision for deferred premiums	18	35	18	32
Other insurance-related provisions	—	1	—	1
Total	**62**	**157**	**51**	**139**

Other provisions developed as follows:

	OTHER PROVISIONS		
€ million	Human resources	Litigation costs	Miscel-laneous
As at 1.1.2009	**77**	**119**	**107**
Exchange rate changes	1	36	0
New companies brought forward	—	—	—
Use	40	9	16
Reversal	9	5	4
Addition	49	32	42
Unwinding of discounts	—	7	2
As at 31.12.2009	**78**	**180**	**131**

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

Terms of the other provisions:

€ million	31.12.2009 Residual term more than one year	31.12.2009 Total	31.12.2008 Residual term more than one year	31.12.2008 Total
Human resources	28	78	33	77
Provisions for litigation costs	177	180	117	119
Miscellaneous	45	131	44	107
Total	**250**	**389**	**194**	**303**

The expected outflow of payments is as follows: 36 % in the following year, 60 % in the years 2011 to 2014 and 4 % thereafter.

(45) Deferred tax liabilities

The deferred tax liabilities break down as follows:

€ million	31.12.2009	31.12.2008
Deferred income tax obligations	5,110	5,905
of which non-current	3,151	3,632
Netting (with deferred tax assets)	– 4,404	– 4,846
Total	**706**	**1,059**

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

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

€ million	31.12.2009	31.12.2008
Receivables and other assets	4,611	5,425
Derivative financial instruments (assets)	206	149
Property, plant and equipment / intangible assets	28	26
Leased assets	173	162
Other assets	5	25
Derivative financial instruments (obligations)	20	22
Deferred income	17	45
Other liabilities	50	51
Total	**5,110**	**5,905**

(46) Other liabilities

Other liabilities concern the following items:

€ million	31.12.2009	31.12.2008
Deferred income	163	159
Liabilities from other taxes	125	58
Liabilities within the framework of social security and wage and salary settlement	26	20
Miscellaneous	279	256
Total	**593**	**493**

(47) Subordinated capital

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

€ million	31.12.2009	31.12.2008
Subordinated liabilities	518	450
of which: due within two years	461	344
Subordinated bonds	517	1,197
of which: due within two years	—	—
Subordinated borrower's note loans	137	137
of which: due within two years	—	—
Participation right liabilities	103	103
of which: due within two years	—	—
Total	**1,275**	**1,887**

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

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

(48) Equity

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

The basic earnings per ordinary share in the amount of € 0.90 (previous year: € 1.31) corresponds to the diluted earnings per ordinary share.

The capital reserve of VW FS AG includes the capital contributions of Volkswagen AG, the company's sole shareholder.

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

VW FS AG's profit of €478 million based on its HGB single-entity statements (previous year: loss absorption of €2 million) was transferred to Volkswagen AG, the company's sole shareholder, under its existing control and profit transfer agreement.

(49) Capital management

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

Liable capital under regulatory requirements is distinguished from equity under IFRS (cf. item 48 for its components).

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

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

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

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

	31.12.2009	31.12.2008
Aggregate risk position (in € million)	48,213	41,178
of which weighted position according to the standardised approach to credit risks	44,713	38,240
of which market risk positions * 12.5	1,588	1,013
of which operational risks * 12.5	1,912	1,925
Liable capital (in € million)	5,479	4,431
of which core capital[1]	5,393	3,627
of which supplementary capital[1]	86	804
Own funds (in € million)	5,479	4,431
Core capital ratio[2] (in %)	11.2	8.8
Overall ratio[3] (in %)	11.4	10.8

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

NOTES TO THE FINANCIAL INSTRUMENTS

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

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

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

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

Available-for-sale financial assets are either allocated specifically to this category or they are not allocated to any other category. Securities and other assets are included in this category at the VW FS AG Group.

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

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

	LOANS AND RECEIVABLES		AVAILABLE-FOR-SALE FINANCIAL ASSETS		FINANCIAL LIABILITIES MEASURED AT AMORTISED COST		FINANCIAL ASSETS OR LIABILITIES MEASURED AT FAIR VALUE AND RECOGNISED IN INCOME	
€ million	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Assets								
Cash reserve	343	422	–	–	–	–	–	–
Receivables from financial institutions	1,461	1,358	–	–	–	–	–	–
Receivables from customers	37,012	33,675	–	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–	–	322	253
Securities	–	–	98	39	–	–	–	–
Other financial assets	–	–	175	156	–	–	–	–
Other assets	639	771	–	–	–	–	–	–
Total	**39,455**	**36,226**	**273**	**195**	**–**	**–**	**322**	**253**
Liabilities								
Liabilities to financial institutions	–	–	–	–	6,615	7,559	–	–
Liabilities to customers	–	–	–	–	22,997	16,881	–	–
Securitised liabilities	–	–	–	–	20,355	21,500	–	–
Derivative financial instruments	–	–	–	–	–	–	358	169
Other liabilities	–	–	–	–	593	493	–	–
Subordinated capital	–	–	–	–	1,275	1,887	–	–
Total	**–**	**–**	**–**	**–**	**51,835**	**48,320**	**358**	**169**

Receivables from leasing business are not allocated to any category. The previous year's figure was adjusted.

The net results of these categories were as follows:

€ million	2009	2008
Loans and receivables	2,168	2,479
Available-for-sale financial assets	1	8
Financial liabilities measured at amortised cost	– 2,102	– 2,262
Assets or financial liabilities measured at fair value and recognised in income	– 31	1

The results are determined as follows:

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

(51) Classes of financial instruments

Financial instruments are classed as follows in the VW FS AG Group:

- Measured at fair value
- Assets measured at amortised cost
- Hedge accounting
- Other financial assets
- Liabilities measured at amortised cost
- Credit commitments
- Not subject to IFRS 7

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

	BALANCE SHEET ITEM		MEASURED AT FAIR VALUE		MEASURED AT AMORTISED COST		HEDGE ACCOUNTING		OTHER FINANCIAL ASSETS		NOT SUBJECT TO IFRS 7	
€ million	31.12. 2009	31.12. 2008	31.12. 2009	31.12. 2008	31.12. 2009	31.12. 2008	31.12. 2009	31.12. 2008	31.12. 2009	31.12. 2008	31.12. 2009	31.12. 2008
Assets												
Cash reserve	343	422	—	—	—	422	—	—	—	—	—	—
Receivables from financial institutions	1,461	1,358	—	—	—	1,358	—	—	—	—	—	—
Receivables from customers	50,947	48,587	—	—	48,791	38,540	2,156	10,047	—	—	—	—
Derivative financial instruments	797	740	322	253	—	—	475	487	—	—	—	—
Securities	98	39	98	39	—	—	—	—	—	—	—	—
Joint ventures accounted for at equity	1,545	1,417	—	—	—	—	—	—	—	—	1,545	1,417
Other financial assets	175	156	—	—	—	—	—	—	175	156	—	—
Other assets	639	771	—	—	225	200	—	—	—	—	414	571
Total	**56,005**	**53,490**	**420**	**292**	**49,016**	**40,520**	**2,631**	**10,534**	**175**	**156**	**1,959**	**1,988**
Liabilities												
Liabilities to financial institutions	6,615	7,559	—	—	6,615	7,559	—	—	—	—	—	—
Liabilities to customers	22,997	16,881	—	—	22,833	16,881	164	—	—	—	—	—
Securitised liabilities	20,355	21,500	—	—	20,335	21,500	—	—	—	—	—	—
Derivative financial instruments	629	490	358	169	—	—	271	321	—	—	—	—
Other liabilities	593	493	—	—	134	87	—	—	—	—	459	406
Subordinated capital	1,275	1,887	—	—	1,275	1,887	—	—	—	—	—	—
Total	**52,464**	**48,810**	**358**	**169**	**51,192**	**47,914**	**435**	**321**	**—**	**—**	**459**	**406**
Credit commitments	**1,725**	**1,758**										

(52) Measurement levels of the financial instruments measured at fair value

According to IFRS 7.27, the financial instruments that have been measured at fair value must be classified within a three-level fair value hierarchy. As such, classification within the individual levels is contingent on the availability of observable market prices.

The fair values of financial instruments, e. g. securities, for which a market price is directly observable are classified in Level 1.

Level 2 contains fair values determined on the basis of foreign exchange rates or interest rate curves using measurement methods relevant to the respective market. This concerns derivatives in particular.

Level 3 contains fair values that are determined using measurement methods that do not take directly observable factors in an active market into account.

The fair value of the other financial instruments corresponds to their carrying amount because there is no active market and because it is impossible to reliably determine the relevant fair value at a reasonable cost.

The following table shows how the financial instruments measured at fair value are categorised in this three-level class hierarchy.

€ million	LEVEL 1 31.12. 2009	LEVEL 1 31.12. 2008	LEVEL 2 31.12. 2009	LEVEL 2 31.12. 2008	LEVEL 3 31.12. 2009	LEVEL 3 31.12. 2008
Assets						
Measured at fair value						
Derivative financial instruments	–	–	322	253	–	–
Securities	87	39	11	0	–	–
Hedge accounting						
Derivative financial instruments	–	–	475	487	–	–
Total	**87**	**39**	**808**	**740**	**–**	**–**
Liabilities						
Measured at fair value						
Derivative financial instruments	–	–	358	169	–	–
Hedge accounting						
Derivative financial instruments	–	–	271	321	–	–
Total	**–**	**–**	**629**	**490**	**–**	**–**

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

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

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

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

€ million	FAIR VALUE 31.12. 2009	FAIR VALUE 31.12. 2008	CARRYING AMOUNT 31.12. 2009	CARRYING AMOUNT 31.12. 2008	DIFFERENCE 31.12. 2009	DIFFERENCE 31.12. 2008
Assets						
Measured at fair value						
Derivative financial instruments	322	253	322	253	—	—
Securities	98	39	98	39	—	—
Measured at amortised cost						
Cash reserve	343	422	343	422	—	—
Receivables from financial institutions	1,461	1,358	1,461	1,358	—	—
Receivables from customers	48,655	39,013	48,791	38,540	– 136	473
Other assets	225	200	225	200	—	—
Hedge accounting						
Receivables from customers	2,148	10,047	2,156	10,047	– 8	—
Derivative financial instruments	475	487	475	487	—	—
Other financial assets	175	156	175	156	—	—
Liabilities						
Measured at fair value						
Derivative financial instruments	358	169	358	169	—	—
Measured at amortised cost						
Liabilities to financial institutions	6,601	7,582	6,615	7,559	– 14	23
Liabilities to customers	22,913	16,882	22,833	16,881	80	1
Securitised liabilities	20,858	21,606	20,355	21,500	503	106
Other liabilities	134	87	134	87	—	—
Subordinated capital	1,310	1,901	1,275	1,887	35	14
Hedge accounting						
Liabilities to customers	164	—	164	—	0	—
Derivative financial instruments	271	321	271	321	—	—

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

Interest rate structure table in %	EUR	USD	GBP	JPY	BRL	MXN	SEK	CZK	AUD
Interest for six months	0.994	0.430	0.839	0.480	9.100	4.840	0.698	1.820	4.468
Interest for one year	1.248	0.984	1.248	0.694	10.360	5.060	1.005	2.130	5.238
Interest for five years	2.805	2.929	3.390	0.696	12.680	7.239	2.850	2.990	5.890
Interest for ten years	3.598	3.918	4.088	1.408	—	7.965	3.583	3.520	6.250

(54) Risk of counterparty default

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

Our maximum exposure to credit risks is calculated as follows:

€ million	31.12.2009	31.12.2008
Measured at fair value	420	292
Measured at amortised cost		
Cash reserve	343	422
Receivables from financial institutions	1,461	1,358
Receivables from customers	48,789	38,540
Other assets	225	200
Hedge accounting		
Receivables from customers	2,158	10,047
Derivative financial instruments	475	487
Other financial assets	175	156
Irrevocable credit commitments	1,725	1,758
Total	**55,771**	**53,260**

The following table shows the credit quality of the financial assets:

	GROSS CARRYING AMOUNT		NEITHER PAST DUE NOR IMPAIRED		PAST DUE AND NOT IMPAIRED		IMPAIRED	
€ million	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Measured at fair value	420	292	420	292	—	—	—	—
Measured at amortised cost								
Cash reserve	343	422	343	422	—	—	—	—
Receivables from financial institutions	1,461	1,358	1,461	1,358	—	—	—	—
Receivables from customers	50,228	39,232	45,597	36,823	2,977	1,478	1,654	931
Other assets	225	200	225	200	—	—	—	—
Hedge accounting								
Receivables from customers	2,203	10,429	2,010	9,785	131	397	62	247
Derivative financial instruments	475	487	475	487	—	—	—	—
Other financial assets	175	156	175	156	—	—	—	—
Total	**55,530**	**52,576**	**50,706**	**49,523**	**3,108**	**1,875**	**1,716**	**1,178**

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

€ million	31.12.2009	31.12.2008
Measured at fair value	—	—
Measured at amortised cost		
Cash reserve	—	—
Receivables from financial institutions	—	—
Receivables from customers	609	454
Other assets	—	—
Hedge accounting		
Receivables from customers	2	121
Derivative financial instruments	—	—
Other financial assets	—	—
Total	**611**	**575**

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

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

€ million	NEITHER PAST DUE NOR IMPAIRED 31.12.2009	NEITHER PAST DUE NOR IMPAIRED 31.12.2008	RISK CLASS 1 31.12.2009	RISK CLASS 1 31.12.2008	RISK CLASS 2 31.12.2009	RISK CLASS 2 31.12.2008
Measured at fair value	420	292	420	292	—	—
Measured at amortised cost						
Cash reserve	343	422	343	422	—	—
Receivables from financial institutions	1,461	1,358	1,461	1,358	—	—
Receivables from customers	45,597	36,823	39,070	31,604	6,527	5,219
Other assets	225	200	225	200	—	—
Hedge accounting						
Receivables from customers	2,010	9,785	1,719	8,398	291	1,387
Derivative financial instruments	475	487	475	487	—	—
Other financial assets	175	156	175	156	—	—
Total	**50,706**	**49,523**	**43,888**	**42,917**	**6,818**	**6,606**

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

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

€ million	PAST DUE AND NOT IMPAIRED 31.12.2009	PAST DUE AND NOT IMPAIRED 31.12.2008	PAST DUE WITHIN THE FOLLOWING PERIODS: UP TO 1 MONTH 31.12.2009	UP TO 1 MONTH 31.12.2008	1 TO 3 MONTHS 31.12.2009	1 TO 3 MONTHS 31.12.2008	MORE THAN 3 MONTHS 31.12.2009	MORE THAN 3 MONTHS 31.12.2008
Measured at fair value	–	–	–	–	–	–	–	–
Measured at amortised cost								
Cash reserve	–	–	–	–	–	–	–	–
Receivables from financial institutions	–	–	–	–	–	–	–	–
Receivables from customers	2,977	1,478	1,706	977	968	371	303	130
Other assets	–	–	–	–	–	–	–	–
Hedge accounting								
Receivables from customers	131	397	80	264	39	99	12	34
Derivative financial instruments	–	–	–	–	–	–	–	–
Other financial assets	–	–	–	–	–	–	–	–
Total	**3,108**	**1,875**	**1,786**	**1,241**	**1,007**	**470**	**315**	**164**

Gross carrying amounts of impaired receivables:

€ million	31.12.2009	31.12.2008
Measured at fair value	–	–
Measured at amortised cost		
Cash reserve	–	–
Receivables from financial institutions	–	–
Receivables from customers	1,654	931
Other assets	–	–
Hedge accounting		
Receivables from customers	62	247
Derivative financial instruments	–	–
Other financial assets	–	–
Total	**1,716**	**1,178**

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

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

€ million	31.12.2009	31.12.2008
Vehicles	263	211
Property	—	0
Other movables	3	3
Total	**266**	**214**

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

(55) Liquidity risk

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

The age analysis of financial assets held to manage the liquidity risk is as follows:

	ASSETS		PAPAYBLE ON DEMAND		UP TO 3 MONTHS		3 MONTHS TO 1 YEAR	
€ million	31.12. 2009	31.12. 2008	31.12. 2009	31.12. 2008	31.12. 2009	31.12. 2008	31.12. 2009	31.12. 2008
Cash reserve	343	422	343	422	—	—	—	—
Receivables from financial institutions	1,461	1,358	1,175	1,042	278	311	8	5
Total	**1,804**	**1,780**	**1,518**	**1,464**	**278**	**311**	**8**	**5**

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

			REMAINING CONTRACTUAL MATURITY							
	CASH OUTFLOWS		UP TO 3 MONTHS		3 MONTHS TO 1 YEAR		1 TO 5 YEARS		MORE THAN 5 YEARS	
€ million	31.12. 2009	31.12. 2008	31.12. 2009	31.12. 2008	31.12. 2009	31.12. 2008	31.12. 2009	31.12. 2008	31.12. 2009	31.12. 2008
Liabilities to financial institutions	6,541	7,637	1,464	3,757	2,081	1,865	2,937	1,943	59	72
Liabilities to customers	24,253	19,505	17,094	13,692	2,460	3,077	4,434	2,446	265	290
Securitised liabilities	22,630	22,848	5,032	2,339	5,671	3,052	11,627	17,017	300	440
Derivative financial instruments	1,752	1,714	586	544	644	832	522	338	0	0
Subordinated capital	1,256	1,888	249	154	131	92	468	343	408	1,299
Irrevocable credit commitments	1,725	1,758	1,594	1,758	131	—	—	—	—	—
Total	**58,157**	**55,350**	**26,019**	**22,244**	**11,118**	**8,918**	**19,988**	**22,087**	**1,032**	**2,101**

(56) Market risk

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

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

This yields the following figures:

€ million	31.12.2009	31.12.2008
Interest rate risk	35	26
Currency translation risk	49	40
Total market price risk	**77**	**36**

(57) Foreign currency items

In the VW FS AG Group the following assets and liabilities are contained in the currencies shown as at 31.12.2009:

€ million	BRL	GBP	JPY	SEK	AUD	MXN	CZK	Other	Total
Receivables from financial institutions	130	36	8	12	91	24	0	1	302
Receivables from customers	5,496	3,695	1,247	882	754	750	723	80	13,627
Assets	**5,626**	**3,731**	**1,255**	**894**	**845**	**774**	**723**	**81**	**13,929**
Liabilities to financial institutions	4,276	260	628	0	94	112	371	47	5,788
Liabilities to customers	46	1,009	53	140	29	65	130	0	1,472
Securitised liabilities	346	312	713	325	321	521	43	32	2,613
Subordinated capital	130	215	—	—	—	—	—	—	345
Liabilities	**4,798**	**1,796**	**1,394**	**465**	**444**	**698**	**544**	**79**	**10,218**

(58) Notes to the hedging policy

Hedging policy and financial derivatives

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

Market price risk

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

Interest rate risk

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

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

Currency risk

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

Liquidity risk/refinancing risk

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

Non-payment risk

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

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

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

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

	REMAINING CONTRACTUAL MATURITY					
	UP TO 1 YEAR		1 TO 5 YEARS		MORE THAN 5 YEARS	
€ million	31.12. 2009	31.12. 2008	31.12. 2009	31.12. 2008	31.12. 2009	31.12. 2008
Cash flow hedges						
Interest rate swaps	3,146	5,192	2,600	3,579	542	52
Cross-currency interest rate swaps	193	—	615	—	—	—
Currency futures contracts	1	1,281	0	0	—	—
Currency swaps	772	489	—	—	—	—
Other						
Interest rate swaps	11,545	9,544	21,550	24,927	564	334
Cross-currency interest rate swaps	105	335	51	221	—	—
Currency futures contracts	355	127	—	—	—	—
Currency swaps	71	114	4	143	—	—
Total	**16,188**	**17,082**	**24,820**	**28,870**	**1,106**	**386**

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

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

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

SEGMENT REPORTING

(59) Division by geographical markets:

In the 2009 financial year, VW FS AG for the first time reported its segments in accordance with IFRS 8.

The reportable segments pursuant to IFRS 8 based on the internal reporting structure of the VW FS AG Group are its geographical markets of Germany, Europe, North and South America as well as Asia. Foreign branches of German subsidiaries are included in the Europe segment. The Europe segment contains the subsidiaries and branches in the United Kingdom, Italy, France, the Czech Republic, Austria, the Netherlands, Belgium, Spain, Sweden, Ireland and Greece. The North and South America segment contains the subsidiaries in Mexico and Brazil. The Asia segment contains the subsidiaries in Australia and Japan.

Given its typical functions as a holding company, VW FS AG, the holding company, is shown in the »Consolidation« column because it is not an integral part of the German market in terms of internal reporting.

The information made available to management for controlling purposes is based on the same accounting policies that are used in external accounting. Insofar no separate reconciliation is necessary.

In contrast to previous reporting pursuant to IAS 14, the segment Europe/Asia has been separated and the holding company is no longer shown in the German segment.

Division by geographical markets:

	2009 FINANCIAL YEAR						
€ million	Germany	Europe	North/ South America	Asia	Total seg- ments	Consoli- dation	Total
Revenue from lending transactions with third parties	1,298	645	634	88	2,665	0	2,665
Revenue from intersegment lending transactions	213	16	—	0	229	– 229	—
Segment revenue from lending transactions	1,511	661	634	88	2,894	– 229	2,665
Revenue from leasing and service transactions	3,313	1,222	118	12	4,665	– 11	4,654
Premiums earned from insurance business	35	—	—	—	35	—	35
Commission income	289	78	28	1	396	0	396
Revenue	**5,148**	**1,961**	**780**	**101**	**7,990**	**– 240**	**7,750**
Cost of sales from lending, leasing and service transactions	– 1,934	– 803	– 6	– 13	– 2,756	—	– 2,756
Write-ups on leased assets and investment property	—	28	—	—	28	—	28
Depreciation and impairment losses on leased assets and investment property	– 431	– 315	0	– 1	– 747	—	– 747
of which impairment losses pursuant to IAS 36	– 68	– 67	—	—	– 135	—	– 135
Expenses from insurance business	– 30	—	—	—	– 30	—	– 30
Interest expense	– 1,403	– 403	– 452	– 48	– 2,306	204	– 2,102
Provisions for risks arising from lending and leasing business	– 415	– 92	– 144	– 3	– 654	—	– 654
Commission expenses	– 113	– 43	– 18	– 1	– 175	3	– 172
Interest income not classified as revenue	4	2	0	0	6	0	6
Result from financial instruments	– 25	2	—	0	– 23	– 22	– 45
Result from available-for-sale assets	1	—	—	—	1	—	1
Result from joint ventures accounted for at equity	—	—	—	—	—	91	91
Result from other financial assets	4	—	—	—	4	– 4	0
General administration expenses	– 605	– 183	– 95	– 29	– 912	0	– 912
Other operating result	120	11	1	2	134	– 38	96
Pre-tax result	**321**	**165**	**66**	**8**	**560**	**– 6**	**554**
Taxes on income and earnings	– 95	– 52	– 20	– 3	– 170	11	– 159
Net income	**226**	**113**	**46**	**5**	**390**	**5**	**395**
Segment assets	**43,265**	**13,742**	**6,405**	**2,106**	**65,518**	**– 8,364**	**57,154**
Segment liabilities	**38,420**	**12,429**	**5,502**	**2,034**	**58,385**	**– 6,513**	**51,872**

The presentation for the previous year is as follows:

	2008 FINANCIAL YEAR						
€ million	Germany	Europe	North/ South America	Asia	Total seg- ments	Consoli- dation	Total
Revenue from lending transactions with third parties	1,272	878	553	68	2,771	0	2,771
Revenue from intersegment lending transactions	303	44	—	—	347	– 347	—
Segment revenue from lending transactions	1,575	922	553	68	3,118	– 347	2,771
Revenue from leasing and service transactions	2,512	1,165	120	15	3,812	– 7	3,805
Premiums earned from insurance business	30	—	—	—	30	—	30
Commission income	274	73	32	1	380	0	380
Revenue	**4,391**	**2,160**	**705**	**84**	**7,340**	**– 354**	**6,986**
Cost of sales from lending, leasing and service transactions	– 1,351	– 781	– 11	– 10	– 2,153	—	– 2,153
Write-ups on leased assets and investment property	—	0	—	—	0	—	0
Depreciation and impairment losses on leased assets and investment property	– 282	– 290	– 1	– 2	– 575	—	– 575
of which impairment losses pursuant to IAS 36	– 31	– 61	—	—	– 92	—	– 92
Expenses from insurance business	– 21	—	—	—	– 21	—	– 21
Interest expense	– 1,446	– 680	– 401	– 41	– 2,568	306	– 2,262
Provisions for risks arising from lending and leasing business	– 246	– 44	– 60	0	– 350	—	– 350
Commission expenses	– 113	– 50	– 10	– 1	– 174	3	– 171
Interest income not classified as revenue	3	3	0	1	7	1	8
Result from financial instruments	– 98	3	0	– 1	– 96	69	– 27
Result from available-for-sale assets	0	—	—	—	0	—	0
Result from joint ventures accounted for at equity	—	—	—	—	—	101	101
Result from other financial assets	11	0	—	—	11	– 3	8
General administration expenses	– 572	– 191	– 100	– 22	– 885	– 2	– 887
Other operating result	107	8	61	2	178	– 43	135
Pre-tax result	**383**	**138**	**183**	**10**	**714**	**78**	**792**
Taxes on income and earnings	– 114	– 51	– 38	– 4	– 207	– 7	– 214
Net income	**269**	**87**	**145**	**6**	**507**	**71**	**578**
Segment assets	**42,769**	**14,201**	**4,209**	**1,952**	**63,131**	**– 9,239**	**53,892**
Segment liabilities	**38,390**	**12,937**	**3,665**	**1,921**	**56,913**	**– 8,477**	**48,436**

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

The consolidation in the interest income from lending transactions and interest expense results from the granting of Group-internal refinancing funds between the geographical markets.

Information regarding the most important products (lending and leasing business) is contained in the income statement.

The additions to leased assets and investment property amount to € 2,371 million (previous year: € 2,030 million) in Germany, € 936 million (previous year: € 1.097 million) in the Europe segment, € 3 million (previous year: € 11 million) in the Asia segment and zero (previous year: € 2 million) in the North and South America segment. The investments in the other assets are of secondary importance.

OTHER NOTES

(60) Cash flow statement

The cash flow statement of the VW FS AG Group documents the change in funds available due to the cash flows resulting from operating activities, investing activities and financing activities. The cash flows resulting from investing activities comprise payments resulting from the purchase and proceeds resulting from the sale of investment property, subsidiaries and joint ventures and other assets. The financing activities comprise all the cash flows resulting from transactions with equity, subordinated capital and other financing activities. All other cash flows are assigned to operating activities, in accordance with international practice for financial services companies. On account of the revised IAS 7, cash flows from changes in leased assets were for the first time assigned to operating activities. Previous year's figures were adjusted accordingly.

Cash and cash equivalents, narrowly defined, comprises only the cash reserve, which is made up of the cash in hand and deposits at central banks.

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

(61) Off-balance sheet obligations

€ million	31.12.2009	31.12.2008
Contingent liabilities		
Liabilities from surety and warranty agreements	60	13
Liability arising from the provision of security for third-party liabilities	8	8
Other commitments		
Irrevocable credit commitments	1,725	1,758

The obligations under non-terminable rental and leasing contracts in the VW FS AG Group trigger expenses of € 6 million (previous year: € 4 million) in the 2010 financial year, € 18 million (previous year: € 11 million) in the 2011 to 2014 financial years and € 11 million (previous year: € 1 million) in the financial years thereafter.

(62) Average number of employees during the financial year

	2009	2008
Salaried employees	6,574	6,476
Trainees	110	99
Total	**6,684**	**6,575**

(63) Relationships with related parties

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

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

The following must be said relative to Porsche:
The extraordinary Annual General Meeting of Volkswagen AG on 3 December 2009 resolved to give the German state of Lower Saxony the right to appoint board members. Hence Porsche Automobil Holding SE can no longer appoint the majority of the members of Volkswagen AG's Supervisory Board as long as the state of Lower Saxony is holding at least 15 % of the ordinary shares. Porsche Automobil Holding SE continues to have the opportunity to participate in the Volkswagen Group's corporate decision making. Ahead of these changes, the Supervisory Board of Volkswagen AG had approved the basic agreement between Volkswagen AG, Porsche Automobil Holding SE, Porsche Holding Gesellschaft m.b.H. and Porsche GmbH (both domiciled in Salzburg), Porsche Zwischenholding GmbH, Stuttgart, the common shareholders of Porsche Holding SE as well as the Works Councils of Volkswagen AG, Porsche Automobil Holding SE und Dr. Ing. h. c. F. Porsche AG, Stuttgart, in regards to the creation of an integrated automotive group under the leadership of Volkswagen.

On 7 December 2009, Volkswagen acquired 49.9 % of Porsche Zwischenholding GmbH, the sole shareholder of Dr. Ing. h. c. F. Porsche AG, in connection with the execution of these implementation agreements. Volkswagen AG shares the management of Porsche Zwischenholding GmbH with Porsche Automobil Holding SE pursuant to agreements subject to agreements under corporate law.

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

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

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

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

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

2009 financial year € million	Supervisory Board	Board of Management	Volkswagen AG	Porsche	Fellow subsidiaries	Non-consolidated subsidiaries	Joint ventures	Associated companies
Receivables	0	0	106	66	228	35	1,474	0
Allowances on receivables	—	—	—	—	—	—	—	—
of which: additions, current year	—	—	—	—	—	—	—	—
Liabilities	1	0	1,757	4	1,590	13	0	—
Interest income	0	0	13	0	35	0	15	0
Interest expenses	0	0	– 3	0	– 4	0	0	—
Services and products provided	—	—	12	28	152	9	3	0
Services and products received	0	0	10	73	11	0	3	5
Provision of sureties	—	—	—	—	—	20	12	—

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

In particular, Porsche includes Porsche Holding Gesellschaft m.b.H., Salzburg, and its subsidiaries.

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

Compensation of the Board of Management

€ million	2009	2008
Short-term benefits	3	3
Post-employment benefits	—	3
Termination benefits	1	2

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

Within the framework of the stock option plan of Volkswagen AG, members of the Board of Management of VW FS AG have taken up convertible bonds which entitle them to subscribe to ordinary shares in Volkswagen AG. Details of the stock option plans are contained in the Annual Report of Volkswagen AG.

(64) Corporate bodies of Volkswagen Financial Services AG

The Board of Management is comprised as follows:

Frank Witter
Chairman of the Board of Management
Corporate Steering
IT, Insurance
Regions North America, South America, Asia

Frank Fiedler
Finance (Controlling, Treasury, Accounting)

Christiane Hesse (from 1.8.2009)
Human Resources, Organisation

Dr. Michael Reinhart
Risk Management

Lars-Henner Santelmann
Sales
Region Europe, Australia, Japan, South Africa

Ms. Elke Eller left the Board of Management of Volkswagen Financial Services AG effective 31 July 2009. She was responsible for Human Resources and Organisation. Ms. Christiane Hesse was appointed to the Board of Management as the member with responsibility for Human Resources and Organisation effective 1 August 2009.

The Supervisory Board is comprised as follows:

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

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

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

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

Dr. Jörg Boche
Executive Vice President of Volkswagen AG
Group Treasurer

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

Sabine Ferken (until 20.3.2009)
General Secretary of the Joint Works Council of Volkswagen Financial Services AG,
Volkswagen Bank GmbH and Volkswagen Business Services GmbH

Detlef Kunkel
General Secretary/Principal Representative of IG Metall Brunswick

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

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

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

Lothar Sander (until 31.12.2009)
Member of the Board of Management Volkswagen Division
Controlling and Accounting

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

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

(65) Letter of comfort for our affiliated companies

With the exception of political risks, Volkswagen Financial Services AG hereby declares that, as the shareholder of its affiliated companies, over which it has managerial control and/or in which it holds a direct or indirect majority share of the share capital, it will exert its influence to ensure that the latter meet their liabilities to creditors in the agreed manner. Moreover, Volkswagen Financial Services AG confirms that, for the term of the loans, it will make no changes to the share structures of these companies which would adversely affect the letter of comfort without informing the lenders.

(66) Events after the balance sheet date

There were no significant events up to 8 February 2010.

(67) Responsibility statement of the Board of Management

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

Brunswick, 8 February 2010
The Board of Management

Frank Witter
Frank Fiedler
Christiane Hesse
Dr. Michael Reinhart
Lars-Henner Santelmann

INDEPENDENT AUDITORS' REPORT

We have audited the consolidated financial statements prepared by Volkswagen Financial Services Aktiengesellschaft, Brunswick, consisting of income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, for the financial year from 1 January to 31 December 2009. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS as applicable in the EU and the supplementary provisions that are applicable under § 315a Para. 1 German Commercial Code (HGB) is the responsibility of the company's Board of Management. Our responsibility is to express an opinion, based on our audit, on the consolidated financial statements and on the Group management report.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and the generally accepted German auditing standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). These standards require that we plan and perform the audit to obtain reasonable assurance that inaccuracies and violations with a material impact on the presentation of net assets, financial position and results of operations conveyed by the consolidated financial statements with due regard to the applicable accounting principles, and by the Group management report are identified. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible errors are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the financial statements of the companies included in consolidation, the definition of the scope of consolidation, the accounting and consolidation principles applied and significant estimates made by the Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, which is based on the findings of the audit, the consolidated financial statements are in compliance with IFRS as applicable in the EU and with the supplementary provisions applicable under § 315a Para. 1 HGB, and in accordance with these provisions give a true and fair view of the net assets, financial position and results of the operations of the Group. The Group management report is consistent with the consolidated financial statements, provides a suitable understanding of the Group's situation and suitably presents the opportunities and risks of future development.

Hanover, 8 February 2010

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Harald Kayser	Burkhard Eckes
Auditor	Auditor

REPORT OF THE SUPERVISORY BOARD OF VOLKSWAGEN FINANCIAL SERVICES AG

In the financial year just ended, the Supervisory Board regularly and exhaustively dealt with the situation and development of Volkswagen Financial Services AG and the Volkswagen Financial Services AG Group.

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

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

The Supervisory Board convened for three regular meetings in the reporting year; there were no extraordinary meetings. The Supervisory Board members' average attendance rate was 78 %. With the exception of one member, who was absent at two meetings, all members attended more than half of the meetings. Resolutions regarding urgent matters were adopted by means of circular memorandum.

Committee work

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

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

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

Deliberations of the Supervisory Board

Following a detailed review at its meeting on 20 February 2009, the Supervisory Board approved the consolidated financial statements and the annual financial statements of Volkswagen Financial Services AG for 2008, which had been prepared by the Board of Management, and accepted the annual report by Internal Audit regarding the results of its audits.

The Board of Management provided extensive reports on the company's and the Group's economic and financial position, both at the aforesaid meeting and at the meetings on 12 June 2009 and 8 December 2009. In this connection, we addressed the company's strategic realignment in the long term and the steps that we have taken to further improve internal processes and enhance productivity. We also dealt extensively with both the company's and the Group's liquidity situation against the backdrop of the financial market crisis and discussed actions aimed at securing and managing the cash flow.

At our meeting on 20 February 2009, the Board of Management explained its plans regarding the further development of the used car market for the financial services business. At our meeting on 12 June 2009, we approved the establishment of a joint venture with Volkswagen Bank GmbH in Russia, which will operate the banking business in that country. We also approved the establishment of a joint venture with the Volkswagen Group's importer in Norway. At this meeting, the Board of Management also explained both the company's and the Group's current exposure to credit and residual value risks. On 8 December 2009, we approved the company's and the Group's financial and investment planning following detailed deliberations. The Board of Management also provided extensive reports on its future sales and risk strategy.

Audit of the annual and consolidated financial statements

PriceWaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, was commissioned to audit the consolidated financial statements in accordance with IFRS and the annual financial statements of Volkswagen Financial Services AG in accordance with the German Commercial Code (HGB) for the year ended 31 December 2009, including the accounting and the management reports.

The Supervisory Board had at its disposal the consolidated financial statements in accordance with IFRS and the annual financial statements in accordance with HGB of Volkswagen Financial Services AG for the year ended 31 December 2009 and the management reports. The auditors, Pricewaterhouse-Coopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, have audited these financial statements, including the bookkeeping and the management reports, and issued an unqualified auditors' report in each case. The Supervisory Board approves the results of these audits.

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

The Supervisory Board approved the consolidated financial statements and the annual financial statements of Volkswagen Financial Services AG prepared by the Board of Management. The consolidated financial statements and the annual financial statements are thereby adopted.

Based on the existing control and profit transfer agreement, the profit of Volkswagen Financial Services AG that was recognised under German commercial law in the 2009 financial year, was transferred to Volkswagen AG.

Composition of the Board of Management

At our meeting on 12 June 2009, we appointed Ms. Christiane Hesse to the Board of Management as the member with responsibility for Human Resources and Organisation effective 1 August 2009. Ms. Elke Eller left the Board of Management effective at the end of 31 July 2009.

The Supervisory Board wishes to acknowledge and express its appreciation to the members of the Board of Management, the members of the works council, the managerial staff and all the employees of Volkswagen Financial Services AG and its affiliated companies for their work. Through their great dedication they have all contributed to the ongoing development of Volkswagen Financial Services AG.

Brunswick, 19 February 2010

Hans Dieter Pötsch
Chairman of the Supervisory Board

SUPERVISORY BOARD OF VOLKSWAGEN FINANCIAL SERVICES AG

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

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

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

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

Dr. Jörg Boche
Executive Vice President of Volkswagen AG
Group Treasurer

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

Sabine Ferken (until 20.3.2009)
General Secretary of the Joint Works Council of Volkswagen Financial Services AG,
Volkswagen Bank GmbH and Volkswagen Business Services GmbH

Detlef Kunkel
General Secretary/Principal Representative of IG Metall Brunswick

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

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

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

Lothar Sander (until 31.12.2009)
Member of the Board of Management Volkswagen Division
Controlling and Accounting

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

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

GLOSSARY

Asset-backed securities
Specific form of conversion of payment claims into negotiable securities vis-à-vis a single-purpose company, which have come about through the bundling of certain financial assets of a company.

Benchmark
Systematic and continuous process of comparing a company's products, services, key financial figures and processes with those of the industry leaders.

Captive
Financial enterprise owned and/or managed by an industrial company.

Cash flow
Net payment flows of a period from operating, investing and financing activities.

Cash flow statement
Economic parameter which helps to assess a company's ability to pay its bills.

Commercial paper programme
Framework programme for short-term debentures which enables money market papers to be issued quickly and flexibly.

Core capital
The core capital of the financial holding group, Volkswagen Financial Services AG, is essentially comprised of paid-in capital and reserves less deductible items in accordance with § 10 Para. 2a German Banking Act, such as, for instance, intangible assets or accumulated deficits, as well as 50 % of the deductible items in accordance with § 10 Para. 6 German Banking Act, such as certain equity investments in institutes or insurance companies.

Core capital ratio
Ratio between core capital and risk-weighted assets.
Core capital / ((Capital requirement for credit risks + operational risks + market risks) * 12.5) * 100

Derivative
Financial instrument whose value depends on the value of another original financial instrument. Derivatives is a generic term covering, for example, options, futures, forwards, interest rate swaps and currency swaps.

Derivative financial instrument (hedging transaction)
Rights and obligations for covering financial risks associated with original financial instruments.

Effective interest rate method
The calculation of interest taking into account all fees paid and received between contracting parties and other remuneration.

Equity method
Method of consolidation for integrating companies into consolidated financial statements. It is based on the historical cost of the equity investment, which is updated in line with the development of the pro rata equity in the following years.

Equity ratio (balance sheet)
Ratio between equity and total assets.

Fair value
Applicable value (e. g. market value) at which financial instruments can be bought and sold in a transaction between knowledgeable, willing parties in an arm's length transaction.

Financial holding group
According to the German Banking Act, such a group exists if a financial holding company (Volkswagen Financial Services AG) has subordinated financial institutions, financial services institutions, financial enterprises or providers of ancillary services, and at least one of the subordinated enterprises is a deposit-taking bank (Volkswagen Bank GmbH), for instance.

Finance leasing
Type of leasing where the economic ownership of the leased asset passes to the lessee upon expiry of the term of the lease. The leased asset is recognised on the balance sheet of the lessee.

Goodwill
The difference between the purchase price for an acquired company and the value of the net assets acquired.

Hedge accounting
Hedge accounting aims at minimising the contradictory development of derivatives and underlying transactions on the income statement.

Impairment test
Impairment tests are carried out regularly to assess the recoverability of assets.

International Financial Reporting Standards (IFRS)
Accounting rules prepared by the International Accounting Standards Board (IASB, previously International Accounting Standards Committee (IASC)), an independent association.

Letter of comfort
Declaration of a parent company vis-à-vis third parties, e. g. banks, to meet the liabilities of its affiliate.

Liable capital
Core capital and supplementary capital minus deductible items, where the eligible supplementary capital shall not exceed core capital and the eligible subordinated loans shall not exceed 50 % of core capital.

Operating leasing
Type of leasing where the economic ownership of the leased asset and thus the realisation risk remains with the lessor upon expiry of the term of the lease. The leased asset is recognised on the balance sheet of the lessor.

Overall ratio (regulatory)
The overall ratio must be determined in accordance with § 2 Para. 6 of the Solvency Regulations at the end of each quarter. It represents the ratio between eligible own funds as numerator and 12.5 times the sum of the total capital requirement for credit risks, the capital requirement for operational risks and the sum of the capital requirements for market risk positions including option transactions.

Own funds ratio (regulatory)
Ratio between own funds and aggregate risk position. The aggregate risk position is the sum of the risk-weighted assets and 12.5 times the capital requirement for market risks and operational risks.
Own funds / (Capital requirement for (credit risks + operational risks + market risks) * 12.5) * 100

Rating
Ratings reflect the opinion of institutions specialising in checking creditworthiness (rating firms, banks, credit insurance providers) with regard to the economic capability, legal obligation and willingness of creditors to meet their payment obligations fully and in due time.

Return on equity
Pre-tax result divided by the average equity.

Scoring system
Credit rating system for the private customer business.

Securitisation
Conversion of a pool (clearly defined amount) of assets of the same type into marketable securities. Asset-backed securities (ABS) are securitisation products. The owner of such assets »sells« the pool to an intermediary – a so-called special purpose vehicle (SPV) – which refinances itself through the issuance of securities.

Solvency Regulations
Mandatory capital adequacy standard for financial institutions in the Federal Republic of Germany which replaced Principle I effective 1 January 2007.

Standardised approach for credit risks
In contrast to the old Principle I, the Solvency Regulations provide for two, more risk-sensitive methods for determining the capital requirements for credit risks: the standardised approach and the approach based on internal ratings (IRB approach). Compared to the IRB approach, the standardised approach includes more specific requirements by the banking regulatory authorities regarding the factors determining capital requirements.

Supplementary capital
Essentially contingency reserves, participation right liabilities and subordinated liabilities.

Swap
Exchange of payment streams which can also take place between different currencies.

Value-at-risk
Maximum loss of a portfolio which can occur with a certain probability within a predefined period of time.

INDEX

NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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