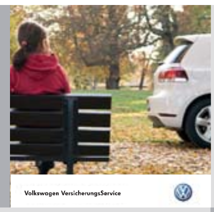
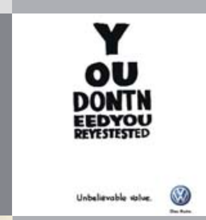
VOLKSWAGEN LEASING

GMBH



Getting things done

The key to mobility.



Pioneering

Customer-focused

ANNUAL REPORT 2010

Volkswagen Leasing GmbH at a glance

€ million	2010	2009	2008	2007	2006
Investments in leased assets	7,590	6,290	7,059	6,386	5,761
Leased assets	13,279	11,949	11,627	10,930	10,661
Total assets	13,965	12,490	12,674	12,712	11,266
Income from leasing business	8,756	8,152	7,286	6,742	5,993
In thousands of vehicles	2010	2009	2008	2007	2006
New contracts	338	286	326	280	253
Current contracts	802	764	762	703	664

The leasing business as a financial service requiring prior approval was included in § 1 Para. 1a German Banking Act (Kreditwesengesetz) by means of the 2009 Annual Tax Act). Given its activities, Volkswagen Leasing GmbH is thus subject to both the German Banking Act and the Federal Financial Supervisory Authority (BaFin). The balance sheet and the profit and loss account have been prepared in accordance with the stipulations of the Ordinance on Accounting for Banks (RechKredV).

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ANNUAL FINANCIAL STATEMENTS OF VOLSWAGEN LEASING GMBH

MANAGEMENT REPORT

Development of business
Solid growth after the crisis

Both the global economy and worldwide automobile sales have developed positively. Earnings in 2010 were substantially higher year on year, especially due to larger volumes and better margins.

ECONOMIC DEVELOPMENT

In 2010, the global economy recovered much more rapidly than expected from the previous year's sharp downturn. Although the governmental stimulus packages expired in many countries, both the continuation of expansive monetary policies and the rapid upturn particularly in the emerging markets gave the global economy above-average momentum. Whilst prices for commodities and energy rose substantially, in most countries inflation rates remained relatively low. Global trade returned to double-digit growth rates – a trend that benefited Germany's strong export sector a great deal. The global economy expanded by about 4.1 % overall, up from minus 1.9 % the previous year.

Thanks to its strong export sector, at a plus of 3.6 % (previous year: – 4.7 %), Germany recorded one of the highest GDP growth rates among the major industrialised countries. Besides the substantial decrease in the unemployment rate, the increase in personal income also stimulated private consumption during the year's second half.

FINANCIAL MARKETS

At the start of 2010, the capital markets shifted their focus to the sovereign debt that had been triggered by the global economic and financial crisis.

It is in this unsettled environment that banks had to prepare themselves worldwide for a tightening of banking regulations.

In Germany, the government worked on developing an instrument suitable for separating the resolution of systemic financial crises from governmental bailouts and thus to prevent the financial market from collapsing. The restructuring law that was enacted in October 2010 is designed to obligate all banks to participate in the establishment of a restructuring fund at a level that corresponds to the systemic risk they pose. The minimum risk management requirements (MaRisk) that the Federal Financial Supervisory Authority (BaFin) amended in 2009 were revised yet again in 2010.

AUTOMOBILE MARKET

New passenger car registrations in Germany fell by 23.4 % to 2.9 million vehicles in the 2010 financial year. The one-off early effects resulting from the scrapping bonus enacted in 2009 were the main factor in this sharp decline to the lowest level ever since German reunification. But the German commercial vehicle market recovered. At 282 thousand newly registered vehicles, it surpassed the previous year's weak result by 16.5 %. German manufacturers boosted production of both passenger cars and commercial vehicles in domestic factories by 13.4 % to 5.9 million units thanks in particular to strong demand from abroad, in turn causing exports to soar by 25.0 % to 4.5 million vehicles.

Despite declining sales figures, the Volkswagen Group managed to further expand its market leadership in Germany by increasing its market share to 35.1 % (previous year: 34.2 %).

Steering and organisation
New structures and growth

The realignment of our focus on customer groups in the German market continued. Volkswagen Leasing GmbH invested in both new and growing markets as part of the WIR2018 strategy.

KEY OBJECTIVES

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

The company's primary business focus is on commercial customers, which are divided into individual commercial buyers and fleet customers.

Within the fleet business, Volkswagen Leasing GmbH offers its customers a comprehensive range of services of complete fleet management solutions in addition to pure finance leasing.

BRANCHES

- Audi Leasing, Braunschweig
- SEAT Leasing, Braunschweig
- Škoda Leasing, Braunschweig
- AutoEuropa Leasing, Braunschweig

BRANCHES OUTSIDE GERMANY

- Volkswagen Leasing GmbH, Milan, Italy
- Volkswagen Leasing GmbH, Verona, Italy

ORGANISATION OF VOLKSWAGEN LEASING GMBH

Volkswagen Leasing GmbH engages in the operating leasing business with private and business customers as well as in the fleet management and services business. In keeping with the WIR2018 strategy and the company's customer-focused realignment in the German market based on customer groups, organisationally Volkswagen Leasing GmbH is focused on the fleet customer group. The company's sales and customer service areas are closely integrated with the product development and marketing areas. Cross-divisional functions such as the used vehicle centre and residual value management are grouped in back-office operations.

CHANGES IN EQUITY INVESTMENTS

Volkswagen Leasing GmbH acquired carmobility GmbH, Munich, effective 01 January 2011. This company is of secondary significance to the assets and financial position of Volkswagen Leasing GmbH.

Analysis of the business development and position of Volkswagen Leasing GmbH
Substantial improvement in earnings

Larger volumes and better margins enabled Volkswagen Leasing GmbH to post substantially improved earnings.

OVERALL APPRAISAL

The Volkswagen Group's presence in all of the world's key regions as well as its multibrand strategy which has spawned the most modern, broad and environmentally friendly range of vehicles are what give the Volkswagen Group its competitive edge.

In the 2010 financial year, Volkswagen Leasing GmbH succeeded yet again in continuing its positive development and expanding its strong position as a mobility services provider within the Volkswagen Group. The company was able to increase both its total assets and its result from ordinary business activities compared to the previous year. The fleet customer segment recorded substantial growth in terms of business volume, bucking general market trends. After the boom in the private customer market defined the 2009 financial year, this development normalised to the benefit of commercial buyers in the financial year just ended. Whilst the overall fleet customer market rose by 17.9 %, Volkswagen Leasing GmbH's new contract portfolio for this segment climbed by 23.0 %.

Low interest rates in the capital markets and the ongoing decrease in risk costs due to the positive economic data helped to improve margins.

At 44.7 %, the year-on-year increase in service contracts was even more pronounced. As a pure leasing company offering automobile-related financial services, Volkswagen Leasing GmbH now ranks first in Europe. At a penetration rate of 60 %, in Germany the company is the market leader in the fleet customer business with Group vehicles. Customers are increasingly availing themselves of the comprehensive consulting activities of the Fleet Management Services unit. As described above, environmental topics are gaining in importance and becoming ever more significant in fleets' company car policies; for instance, monetary incentives are being granted for reduced-emission vehicles.

Professional residual value management is of great importance despite positive trends in the used car market. Volkswagen Leasing GmbH is responding to changed market conditions by offering both residual value insurance and own marketing models for dealers in cooperation with the brands.

RESULTS OF OPERATIONS

The income from leasing business in the financial year ended rose by € 0.6 billion to € 8.8 billion. This growth is accounted for in particular by € 0.2 billion of increased proceeds from the sale of previously leased vehicles (€ 4.1 billion), as well as a € 0.2 billion increase in revenues from current leasing contracts. The additional increase in revenue also stems from service contracts, among others. The larger portfolio of contracts will cause revenue to rise in the next years.

The expenses from leasing business climbed by € 0.2 billion to € 3.7 billion, essentially as a result of the year-on-year increase in the residual book values of vehicle disposals. This figure essentially includes the residual book values of vehicles removed from stock and the expenses from service leasing.

Depreciation on leased assets amounted to € 3.1 billion (previous year: € 3.1 billion). This contains write-downs of € 0.2 billion (previous year: € 0.1 billion).

After a noticeable recovery of the financial markets, the refinancing costs of Volkswagen Leasing GmbH decreased despite the larger contract portfolio. The financing of the leasing business gave rise to interest expense of € 368 million (previous year: € 394 million).

Depreciation, amortisation and allowances on receivables and additions to provisions in the leasing business amounted to € 239 million (previous year: € 166 million).

Income from the reversal of allowances on receivables and reversals of provisions in the leasing business amounted to € 88 million (previous year: € 3 million).

The company posted a pre-tax profit of € 975 million in 2010 (previous year: € 549 million), in particular from the marketing of lease returns related to vehicles added in 2006 and 2007, for which it applied the tax option to use the reducing-balance method of depreciation.

ASSETS AND FINANCIAL POSITION

Lending business

Total assets increased by € 1.5 billion to € 14.0 billion.

The investments of Volkswagen Leasing GmbH rose by € 1.3 billion to € 7.6 billion (previous year: € 6.3 billion). The gross book value of the leased assets increased from € 18.5 billion to € 19.4 billion. The net book value was € 13.3 billion (previous year: € 11.9 billion). This corresponds to an increase of € 1.4 billion or 11.8 %.

In the financial year just ended, Volkswagen Leasing GmbH was able to expand its business activities due to the development of the German economy. As at the reporting date, its portfolio of leased vehicles had climbed from 764,000 to 802,000 units. The company's Italian branch in Milan, Italy, accounts for 18,000 vehicles of this total (previous year: approximately 16,000 vehicles). This inventory increase results from the addition of 338,000 vehicles, compared to disposal of 300,000 vehicles. ´

The company's business trends become clear when viewed over several years, using the development of current contracts as a benchmark – a standard applied in the leasing sector:

DEVELOPMENT OF VEHICLE CONTRACT VOLUME

2010		2009		2008		2007		2006	
New contracts	Current contracts	New contracts	Current contracts	New contracts	Current contracts	New contracts	Current contracts	New contracts	Current contracts
338	802	286	764	326	762	280	703	253	664

Deposit business and borrowings

The equity ratio is 1.6 % (previous year: 1.8 %).

REFINANCING

Strategic principles

In terms of its refinancing activities, Volkswagen Leasing GmbH 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.

Implementation

The successful diversification strategy in refinancing was continued.

The year 2010 turned out to be an especially good one for issues in regards to asset-backed securities too. VCL Master transactions were closed in January and February, setting the tone for the year. The VCL Master transactions offer Volkswagen Leasing GmbH a refinancing volume of up to € 1.25 billion through the sale of leasing receivables and residual values. In September, German leasing receivables were floated in the marketplace as part of the VCL 12 securitisation transaction. Volkswagen Leasing GmbH placed a benchmark issue of € 519 million with a multitude of national and international investors under the new quality label, "CERTIFIED BY TSI – DEUTSCHER VERBRIEFUNGSSTANDARD". As at the balance sheet date, the volume of future leasing receivables received through the ABS transactions was € 2.4 billion (previous year: € 2.8 billion).

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

To finance its leased assets, Volkswagen Leasing GmbH in previous years also issued its own debentures amounting to € 2.27 billion (previous year: € 2.25 billion).

On 13 January 2011, Volkswagen Leasing GmbH successfully placed a € 1.25 billion bond issue with a broad investor base. It was the first corporate euro bond to be issued in 2011 and it simultaneously signaled Volkswagen Leasing GmbH's return to the large-volume bond market after more than three years.

This set of measures ensured the liquidity of Volkswagen Leasing GmbH at all times in the financial year just ended. Volkswagen Leasing GmbH has a stable liquidity base.

Opportunity and risk report
Risk management is the key to success

Volkswagen Leasing GmbH deals responsibly with the risks that arise in connection with its business activities. State-of-the-art risk management tools for identifying, analysing and monitoring risks are used to control credit risks.

MACROECONOMIC OPPORTUNITIES

The Board of Management of Volkswagen Leasing GmbH expects a slight increase in automobile sales owing to the global economic recovery and a corresponding increase in the market share of the Volkswagen Group. This positive trend is being supported by the Group brands' marketing campaigns. Volkswagen Leasing GmbH will participate in this trend through its core business of automotive financial services.

STRATEGIC OPPORTUNITIES

The company will continue to pursue its strategy of transferring the highly successful German captive business model in fleet leasing to selected foreign markets. Additional opportunities are offered by the development of innovative products that are aligned with customers' changed mobility requirements. Growth areas such as new mobility (long-term rental, car sharing) 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.

MATERIAL COMPONENTS OF THE INTERNAL CONTROL SYSTEM AND THE INTERNAL RISK MANAGEMENT SYSTEM IN REGARDS TO THE ACCOUNTING PROCESS

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

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

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

In sum, the existing internal controlling and monitoring system of Volkswagen Leasing GmbH is designed to ensure that the information on the financial position of Volkswagen Leasing GmbH as at the 31 December 2010 reporting date is proper and reliable. No material changes were made to the internal controlling and monitoring system of Volkswagen Leasing GmbH after the reporting date.

STRATEGY AND STANDARDS

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

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

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 decision relating to strategy and tools for risk management are the responsibility of the Board of Management of Volkswagen Leasing GmbH.

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

For years, the Board of Management of Volkswagen Leasing GmbH together with the Board of Management of Volkswagen Bank GmbH – under its overall responsibility – and the Board of Management of Volkswagen Financial Services AG together with the Board of Management of Volkswagen Leasing GmbH have been pursuing a risk strategy in connection with their mid-term planning that conforms to minimum risk management requirements and is consistent with the companies’ 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 Leasing GmbH.

In addition to risks residual value risks and risks of counterparty default – credit risks, in particular – market price risks, liquidity risks, operational risks, strategic risks as well as reputation 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 preference. The Supervisory Board regularly monitors the risk profile of Volkswagen Leasing GmbH.
- The risk potential of Volkswagen Leasing GmbH is generally moderate. Only predictable and workable risks are incurred. In the case of operational risks, a prevention/reduction strategy is pursued.
- The processes of Volkswagen Bank GmbH and Volkswagen Leasing GmbH are continuously subject to quality assurance.
- Risk is spread across customers, products and countries.
- Leases are always securitised based on the underlying vehicle.
- Risk provision is based on a risk-oriented value adjustment policy.
- Processes and responsibilities for granting leases are subject to guidelines applicable to the different divisions and are decided in accordance with an approval process subject to credit limits.
- Credit risks are factored into the pricing.
- Loans are granted solely after appropriate identity and credit checks.
- Volkswagen Leasing GmbH makes leases available 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 rating procedures or early warning systems.

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

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

The identified risks are assessed quarterly based on the established risk management reporting process pursuant to an expert system by applying certain criteria using a stoplight system.

Group Risk Management assesses, monitors, aggregates and reports the results to the Board of Management of Volkswagen Leasing GmbH and the Supervisory Board on a quarterly basis as well as annually to Volkswagen AG in connection with Volkswagen Financial Services AG's process under the German Transparency in the Corporate Field Act (KonTraG).

A system defined by economic parameters is in place at Volkswagen Leasing GmbH to determine the company's risk-bearing capacity by comparing its economic risk to its 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 Leasing GmbH 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 Leasing GmbH has selected a sufficiently 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.

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

Volkswagen Leasing GmbH also has introduced 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 preference of the Board of Management of Volkswagen Leasing GmbH. The determination of limits is made at least once a year pursuant to a resolution of the Board of Management of Volkswagen Leasing GmbH.

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

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

STRUCTURE AND ORGANISATION

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

As a neutral and independent department, Group Risk Management reports directly to the Board of Management of Volkswagen Leasing GmbH.

The department responsible for Risk Assessment Procedures and Basel II develops and validates credit assessment models such as rating and scoring procedures as well as models for estimating certain parameters such as probabilities of default (PD) and loss given default (LGD).

As a neutral and independent department, Risk Assessment Procedures and Basel II reports directly to the Board of Management of Volkswagen Leasing GmbH.

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

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

Implementation of the measures and recommendations agreed in the audit reports is monitored by Internal Audit of Volkswagen Financial Services AG.

RISK TYPES

Volkswagen Leasing GmbH defines risk as any uncertainty about future developments that might have a negative impact on the company's economic situation. Depending on its source, this risk can itself be divided into different types of risk.

At the same time, the company constantly analyses and assesses the opportunities that arise from consciously entering into risks.

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

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

RISK OF COUNTERPARTY DEFAULT

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

Credit risk

Definition

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

For the whole year 2010, trends of an economic recovery were identified.

Defaults in the commercial and private customer segment again rose moderately in the retail portfolio in 2010. Risk costs are not expected to rise in 2011 because the fallout of the economic crisis has largely been overcome.

The number of bankruptcies and thus the rising number of defaults in the corporate portfolio had a negative impact.

It is expected that risk provisions will be reduced in 2011 due to the economic upturn.

Parameters/risk strategy

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

Risk assessment

Credit assessment and standardisation of lending decisions at Volkswagen Leasing GmbH are essentially carried out on the basis of credit rating procedures using rating and scoring methods, which provide an objective basis for the technical departments' decisions on granting leases.

Stress tests for credit risks entail sensitivity and scenario analyses. Whilst sensitivity analyses are implemented based on models, scenario analyses are based on expert opinions subject to the participation of both centralised and decentralised risk specialists. This provides a comprehensive view of the risk sensitivity of the credit business, particularly against the backdrop of a changing economic climate.

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.

Collateral

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

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

Risk management and monitoring

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

Furthermore, credit risks are also managed by applying approval limits. These approval limits are fixed 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 rating and scoring models used are validated regularly and refined as necessary. Validation refers in particular to checking whether the models are separable and calibrated in ways adequate to the risks. If it is determined that action is required, such action can include shortening the interval until the next validation, recalibrating the model or even developing a new model.

Risk communication

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

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

Residual value risk

Definition

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

Direct and indirect residual value risks are differentiated relative to the bearer of the residual value risks.

A direct residual value risk is present when the residual value risk is borne by Volkswagen Leasing GmbH or one of its branches.

An indirect residual value risk is present if the residual value risk has been transferred to a third party based on the guaranteed residual value (e.g. customers, dealerships).

The initial risk is that the counterparty guaranteeing the residual value might default. If the dealer as the guarantor of the residual value defaults, the leased asset and hence the residual value risk are transferred to Volkswagen Leasing GmbH; if the customer defaults, a risk of counterparty default arises.

The recovering economy set the tone in 2010. This boosted demand for used cars and sparked an increase in prices. In turn, this helped to reduce the company's exposure to risk compared to the previous year.

As expected, a much lower amount was required in 2010 than the previous year to cover the residual value risks by writing them down to the lower net realisable value.

The effects of the financial 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-mpg vehicles such as SUVs and because it is well positioned relative to its competitors by virtue of its high-value and environmentally-friendly models whose value offers greater stability.

Additional risks were avoided through 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.

It is expected that the used vehicle market will follow a stabilising if not positive trend in 2011, with the corresponding effect on risk exposures.

Parameters/risk strategy

The residual value risk management circle requires regular residual value forecasts and continuous risk assessments, mainly in regards to direct residual value risks.

Proactive marketing activities are derived from the measurement results in order to optimise earnings from the assumption of residual value risks.

The marketing results so obtained are considered in the review of the residual value guidelines.

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

Risk identification and assessment

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

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

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

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

Risk management and monitoring

Group Risk Management regularly reviews the adequacy of the risk provisions as well as the residual value risk potential as part of risk management. Opportunities from residual values are not considered when recognising risk provisions.

The resulting residual value risk potential is used to take a variety of measures as part of proactive risk management in order to limit the residual value risk. Residual value recommendations regarding new business must take both prevailing market conditions and future drivers into account. In order to reduce the risks upon expiry of a contract, the sales channels must be reviewed continuously such that the best possible result may be achieved at the time the vehicles are sold.

Group Risk Management monitors residual value risks within Volkswagen Leasing GmbH. The numbers reported in connection with residual value risks (portfolio assessment, marketing results, maturity tables, market data etc.) are subject to plausibility checks.

Risk communication

As part of the risk management report, Group Risk Management reports on the exposures to residual value risks to the Boards of Management of Volkswagen Bank GmbH, Volkswagen Leasing GmbH and Volkswagen Financial Services AG as well as the respective Supervisory Boards.

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 Leasing GmbH and Volkswagen Financial Services AG as well as the respective supervisory bodies in a separate report.

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

MARKET PRICE RISK

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

Interest rate risk

Definition

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

Parameters/risk strategy

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

Risk assessment

Interest rate risks are determined for Volkswagen Leasing GmbH as part of quarterly monitoring using the value-at-risk (VaR) method based on a 40-day holding period and a confidence level of 99 %. This model is based on a historical simulation and calculates potential losses taking 1,000 historical market fluctuations (volatilities) into account. Interest rate positions are subjected to stress tests comprising extraordinary changes in interest rates and worst case scenarios and are subsequently analysed in terms of the at-risk potentials using the simulated results. In this connection, changes in the present value are also quantified and monitored monthly using the +130 and -190 basis points interest rate shock scenarios defined by the Federal Financial Supervisory Authority (BaFin).

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

Risk management and monitoring

The Treasury unit of Volkswagen Bank GmbH is responsible for risk management based on the resolutions of the Asset Liability Committee (ALC).

Interest rate risks are managed by means of appropriate hedging transactions subject to customary rules and regulations.

No changes in the parameters for controlling market price risks were made during the financial market crisis.

Risk Management is tasked with monitoring interest rate risks and reporting on them.

Risk communication

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

LIQUIDITY RISK

Definition

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

The costs of the instruments used to refinance Volkswagen Leasing GmbH via the international money and capital markets fell substantially because the financial market crisis has eased. This was also reflected in the decline of risk premiums.

There is the risk that the money and capital markets might seize up yet again in future crises and thus undermine the ability of Volkswagen Leasing GmbH to refinance itself for systemic reasons.

Parameters/risk strategy

The prime objective of liquidity management at Volkswagen Leasing GmbH is to ensure the ability to pay at all times.

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

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

Risk assessment

Daily liquidity needs are determined based on the expected cash flows by the cash management office of Volkswagen Bank GmbH's Treasury back office for all companies domiciled in Germany.

Liquidity risks were identified and recorded based on daily liquidity requirements; daily, monthly and annual liquidity planning; as well as all available liquid reserves. 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 also includes a variety of stress tests (e.g. no availability of external funds).

Risk management and monitoring

The OLC is responsible for long-term management and monitoring of liquidity risks. It monitors the current liquidity situation in its bi-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 an internal or external liquidity bottleneck.

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 Volkswagen Leasing GmbH. At this time, the rating agencies have given Volkswagen Financial Services AG a long-term rating of A– with a negative outlook (S&P) and A3 with a stable outlook (Moody's).

Risk communication

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

OPERATIONAL RISK

Definition

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

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

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

Parameters/risk strategy

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

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

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

Risk identification and assessment

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

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

Risk management and monitoring

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

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

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

Risk communication

The 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.

Business continuity management

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

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

STRATEGIC RISK

The strategic risk resides in the risk of negative business performance due to fundamental business decisions, e.g. the decision to enter new markets or the failure to build up new potentials.

REPUTATION RISK

We define the reputation risk as the risk of losses, declining income or reduced enterprise value in the wake of transactions that undermine the trust of the public or the media, employees or customers, rating firms, investors or business partners in Volkswagen Leasing GmbH.

It is one of the responsibilities of the corporate communications department to avoid negative reports in the press or elsewhere that harm the company's reputation. Adequate communication strategies tailored to specific target groups are required if this does not succeed.

CONCENTRATIONS OF RISK

Volkswagen Leasing GmbH focuses on the leasing business. This business model makes it impossible to avoid concentrations of risk. Risks are thus analysed and monitored in detail.

Concentrations of collateral in particular are inherent to Volkswagen Leasing GmbH and integral to its business model.

CONCENTRATIONS OF COLLATERAL

Concentrations of collateral 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 Leasing GmbH. 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 Leasing GmbH is diversified across all automotive segments and geographically in Germany and Italy. 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 Leasing GmbH possesses broad expertise and many years of experience in managing and controlling the resulting risk.

SUMMARY

Volkswagen Leasing GmbH has been classified as a financial services institution since 2009 pursuant to § 1 Para. 1a German Banking Act and thus must satisfy minimum risk management requirements. Its comprehensive system for identifying, measuring, analysing, monitoring and managing risk has been expanded for this purpose.

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

For the whole year 2010, trends of an economic recovery were identified.

In 2010 Volkswagen Leasing GmbH successfully met its challenges despite the difficult conditions; in the final analysis, adequate handling of the risks arising from the worldwide crisis of the financial markets was critical to the company's success.

EVENTS AFTER THE BALANCE SHEET DATE

No important events beyond those described in this report (bond issue in January 2011 / acquisition of carmobility GmbH as at 01 January 2011) occurred after the close of the 2010 financial year.

Personnel report
Implementation of the personnel strategy

Volkswagen Financial Services AG was very successful in the employer competition.

Employees of Volkswagen Financial Services AG are responsible for running the operating business of Volkswagen Leasing GmbH in Germany. This staff is made available to Volkswagen Leasing GmbH under staff leasing agreements. As at 31 December 2010, 436 (previous year: 388) employees worked for Volkswagen Leasing GmbH in Germany.

A total of 58 members of staff employed in the branches in Milan and Verona (Italy) as at 31 December 2010 (previous year: 56) had employment contracts with Volkswagen Leasing GmbH. Employee turnover in Italy was below 8 %.

At Volkswagen Financial Services AG, the Personnel department covers all domestic companies of the Volkswagen Financial Services Group.

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

Anticipated developments

Volkswagen Leasing GmbH expects earnings in 2011 to be slightly lower year on year against a backdrop of a positive economic environment.

After the material risks of the company's business have been set out in the opportunity and risk report, below we wish to sketch its likely future development. It gives rise to both opportunities and potentials that are integrated into our planning process on an ongoing basis such that we can tap into them in a timely manner.

ECONOMIC DEVELOPMENT

Our plans are based on the assumption that the global economy will continue to grow.

We prepare our forecasts based on the current assessments of external institutions, among them economic research institutes, banks, multinational organisations and consulting firms.

Germany's economic output will increase but moderately in 2011 and 2012, following very strong growth in the reporting year. The labour market will develop along a positive trajectory for the time being.

FINANCIAL MARKETS

Starting in 2013, the banks will be faced with substantially tightened requirements worldwide arising from the reforms of the international financial market legislation. Besides these important regulatory measures that will have both organisational and economic consequences, the European automobile financing segment is expected to continue to recover overall in 2011 and 2012.

DEVELOPMENT OF THE AUTOMOBILE MARKETS

We expect the automobile markets to develop at different rates in 2011 depending on the region. Global demand for new vehicles in 2011 will likely be higher year on year overall. We expect business to follow a positive trajectory in 2012 as well.

In 2009, the German passenger car market benefited a great deal from the statutory scrapping bonus. Once the programme expired in 2010, demand declined sharply as expected though not as much as had been feared. Above all, this is due to the resurgence in consumer confidence and the accelerating pace of economic growth. We expect the sustained improvement in the economic climate in 2011 to spark demand for passenger cars in Germany. This trend should continue in 2012 as well.

MOBILITY PACKAGES

Social and political parameters increasingly impact many people's approach to mobility. A trend towards changed ways of using automobiles is already being observed in a variety of market segments and diverse regions. New patterns of use will emerge in the long term especially once electrical vehicles become more widespread. Volkswagen Leasing GmbH is carefully tracking these developments and is already developing new models for supporting alternative marketing approaches with the aim of hedging and expanding its business model.

DEVELOPMENT OF VOLKSWAGEN LEASING GMBH

Volkswagen Leasing GmbH expects its growth in the next two financial years to follow that of the Volkswagen Group. Increasing the penetration rate and expanding the product range in existing markets as well as opening up new markets are aimed at boosting the company's business volume and intensifying its international alignment.

Sales activities related to the Volkswagen Group brands will be intensified.

In addition, Volkswagen Leasing GmbH intends to continue pursuing its activities designed to enhance its ability to leverage potentials along the automotive value chain.

Especially 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.

Professional residual value management is of great importance despite positive trends in the used car market. Volkswagen Leasing GmbH continues to respond to changed market conditions by offering both residual value insurance and own marketing models for dealers in cooperation with the brands.

PROSPECTS FOR 2011 AND 2012

The Board of Management expects business in 2011 and 2012 to remain at the previous year's level, given the slowing economic growth in Germany and the resulting restraint in regards to investments, especially in the commercial segment.

Risk costs are not expected to rise in 2011 und 2012 given that signs of an economic recovery were already apparent in 2010, nor do we expect any increase in our risk exposure from the used vehicle market. In contrast, the trend toward higher interest rates as well as intensifying price competition will have a negative impact on margins.

The expiry of contracts closed in 2006 and 2007 has a strong effect on earnings. In 2010, the substantial earnings of Volkswagen Leasing GmbH stemmed from the expiry of the leasing contracts closed in 2006 and 2007 to which the accelerated amortisation option had been applied under German tax law. The negative effect in prior periods has been reversed as the given vehicles were disposed of, generating especially positive earnings in 2010.

In 2011 however we will only profit from this effect to a minor extent, and earnings will be lower than in 2010 due to the marked decline in the number of lease returns related to the above-mentioned years. No appreciable effects are expected for 2012 in that connection so that we anticipate a positive result that will be lower than that for 2011.

ANNUAL FINANCIAL STATEMENTS OF VOLKSWAGEN LEASING GMBH

Balance sheet

of Volkswagen Leasing GmbH, Braunschweig, as at 31.12.2010

€ 000			31.12.2010	31.12.2009
Assets				
1.	Cash reserve			
	Cash in hand		1	2
2.	Receivables from financial institutions			
	Payable on demand		1,422	489
3.	Receivables from customers			
	Payable on demand		98,636	119,967
4.	Investments in affiliated companies		105	105
5.	Tangible fixed assets			
	a) Leased assets	13,278,793		11,949,506
	b) Land and buildings	10,084		12,028
			13,288,877	11,961,534
6.	Other assets		463,578	376,631
7.	Prepaid expenses		112,154	31,514
Total assets			**13,964,773**	**12,490,242**

€ 000			31.12.2010	31.12.2009
Equity and liabilities				
1.	Liabilities to financial institutions			
	a) Payable on demand	49,623		185,732
	b) With agreed repayment period or period of notice	251,930		225,535
			301,553	411,267
2.	Liabilities to customers			
	Other liabilities			
	a) Payable on demand	1,801,592		686,237
	b) With agreed repayment period or period of notice	5,990,754		5,121,663
			7,792,346	5,807,900
3.	Securitised liabilities			
	Debentures issued		2,311,930	2,286,819
4.	Other liabilities		58,125	75,063
5.	Deferred income		2,966,564	3,385,116
6.	Deferred tax liabilities		776	0
7.	Provisions			
	a) Tax provisions	7,800		6,800
	b) Other provisions	304,686		295,553
			312,486	302,353
8.	Special tax-allowable reserve		1,869	2,600
9.	Equity			
	a) Subscribed capital	76,004		76,004
	b) Capital reserves	142,471		142,471
	c) Net retained profits	649		649
			219,124	219,124
Total equity and liabilities			**13,964,773**	**12,490,242**
1.	Other obligations			
	Irrevocable credit commitments		1,267,444	716,797

Profit and loss account

of Volkswagen Leasing GmbH, Braunschweig, from 01.01 to 31.12.2010

€ 000				01.01. - 31.12.2010	01.01. - 31.12.2009
1.	Income from leasing transactions		8,755,894		8,152,117
2.	Expenses from leasing transactions		3,736,490		3,507,106
				5,019,404	4,645,011
3.	Interest income from lending and money market transactions		5,557		6,734
4.	Interest expense		367,865		393,604
				−362,308	−386,870
5.	Commission income		479		459
6.	Commission expenses		308,367		293,948
				−307,888	−293,489
7.	**Net income from financial transactions**			**4,349,208**	**3,964,652**
8.	Other operating income			58,892	27,039
9.	Income from the reversal of the special tax-allowable reserve			731	106
10.	General administration expenses				
	a) Personnel expenses				
	aa) Wages and salaries	2,506			2,274
	ab) Social security	1,440			875
			3,946		3,149
	b) Other administration expenses		161,182		139,739
				165,128	142,888
11.	Depreciation and amortisation				
	a) Depreciation on buildings		1,944		475
	b) Depreciation on leased assets		3,100,768		3,087,331
				3,102,712	3,087,806
12.	Other operating expenses			13,596	43,539
13.	Depreciation, amortisation and allowances on receivables and additions to provisions in the leasing business			239,342	165,874
14.	Income from the reversal of allowances on receivables and reversals of provisions in the leasing business			88,429	3,399
15.	Expense from loss absorption			1,798	5,859
16.	**Result from ordinary business activities**			**974,684**	**549,230**
17.	Taxes on income and earnings			184,297	146,925
18.	Profits transferred under a profit transfer agreement			−790,387	−402,305
19.	**Net income**			**0**	**0**
20.	**Retained earnings brought forward from previous year**			**649**	**649**
21.	**Net retained profits**			**649**	**649**

Cash flow statement

of Volkswagen Leasing GmbH, Braunschweig, from 01.01 to 31.12.2010

€ 000	2010	2009
Net income (before profit transfer)	790,387	402,305
Amortisation/depreciation of fixed assets	3,102,712	3,087,806
Change in provisions	10,133	115,659
Profit from the disposal of leased assets	−960,989	−1,052,329
Interest result	362,308	386,870
Other adjustments	178,287	186,794
Change in receivables from financial institutions	−932	267,391
Change in receivables from customers	21,331	75,091
Change in other assets from operating activities	−166,656	−193,925
Change in liabilities to financial institutions	−136,215	181,478
Change in liabilities to customers	733,341	3,461
Change in securitised liabilities	111	−3,116
Change in other liabilities from operating activities	−435,443	407,878
Interest received	5,557	6,734
Interest paid	−367,865	−393,604
Income tax paid	−178,286	−186,794
I. Cash flow from operating activities	**2,957,781**	**3,291,699**
Cash inflows from the disposal of leased assets	4,120,889	3,932,944
Cash outflows for investments in leased assets	−7,589,956	−6,290,064
Cash outflows for the acquisition of subsidiaries	0	−105
II. Cash flow from investment activities	**−3,469,067**	**−2,357,225**
Cash inflows from company owners / cash outflows to company owners	−402,305	90,034
Cash inflows from issuing bonds and taking up loans	8,273,752	5,023,165
Cash outflows from the redemption of bonds and loans	−7,359,229	−6,315,064
III. Cash flow from financing activities	**512,218**	**−1,201,865**
Net change in funds (I., II. and III.)	932	−267,391
Funds available at the beginning of the period	491	267,882
Funds available at the end of the period	1,423	491

The balance sheet and the profit and loss account have been prepared in accordance with the stipulations of the Ordinance on Accounting for Banks (RechKredV). Funds correspond to cash in hand plus receivables from financial institutions.

Statement of changes in equity

of Volkswagen Leasing GmbH, Braunschweig, as at 31.12.2010

€	Subscribed capital	Capital reserves	Net retained profits	Equity
Balance as at 31 December 2009	76,003,950.00	142,470,800.00	648,680.82	219,123,430.82
Change	-	-	-	-
Balance as at 31 December 2010	76,003,950.00	142,470,800.00	648,680.82	219,123,430.82

Notes

to the annual financial statements of Volkswagen Leasing GmbH, Braunschweig, as at 31.12.2010

1 | General comments regarding the annual financial statements

The annual financial statements of Volkswagen Leasing GmbH have been prepared in accordance with the stipulations of the German Commercial Code (HGB) and the Ordinance on Accounting for Banks (RechKredV). The provisions that have changed as a result of the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG) have been applied; No adjustment of prior-year figures was necessary.

2 | Accounting policies

The accounting policies applied the previous year have been adopted unchanged, with the exception of the changes required by the BilMoG.

The financial assets are recognised at cost.

The grandfathering and continuation option under § 67 Para. 4 Introductory Law to the German Commercial Code (EGHGB) was applied to the fixed assets existing on 31 December 2009.

Tangible fixed assets and leased assets are measured at cost less depreciation and, if they are expected to be impaired permanently, less write-downs.

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

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

Using the grandfathering option available under § 67 Para. 3 sentence 1 EGHGB, differences between measurements required by commercial law and those permissible by tax law are shown in the special tax-allowable reserve.

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

Discernible risks and undetermined liabilities are taken into account by creating adequate provisions corresponding to the settlement amount required to settle the respective obligation. Provisions with a maturity of more than one year are discounted at the average market interest rate for the past seven years that is published monthly by Deutsche Bundesbank. The grandfathering option under § 67 Para. 1 sentence 2 EGHGB was applied to the provisions of € 118.8 million having a maturity of more than one year as at 31 December 2009. The excess cover remaining as at 31 December 2010 is € 357,000.

Liabilities are shown at the settlement amount.

Under a profit and loss transfer agreement, Volkswagen AG as the parent company generally accounts for deferred taxes. The deferred tax liabilities shown solely concern our Italian branch which is separately responsible for its taxes. Deferred taxes are recognised to account for all temporary differences from the divergent treatment of balance sheet items under commercial law and the respective taxable carrying amount, taking the rate of 31.4 % specific to the company into account.

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

Derivative financial instruments are used solely for hedging purposes. Derivative financial instruments (interest rate swaps) are measured by applying the general measurement provisions customary in the industry. The market values are not shown in the balance sheet; interest is accrued according to maturity.

3 | Notes to the balance sheet

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

The receivables from financial institutions break down as follows:

€ 000	31.12.2010	31.12.2009
1. Receivables from financial institutions	1,422	489
(of which from affiliated companies € 978,000; previous year: € 0)		
Total	**1,422**	**489**

Receivables from customers break down as follows:

€ 000	31.12.2010	31.12.2009
1. Trade receivables	89,568	95,755
2. Receivables from affiliated companies	591	1,902
(of which from the shareholder € 0; previous year: € 0)		
(of which trade receivables € 591,000; previous year: € 1,902,000)		
3. Other receivables	8,477	22,310
Total	**98,636**	**119,967**

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

€ 000	31.12.2010	31.12.2009
1. Receivables from financial institutions	1,422	489
of which due 0 – 3 months	1,422	489
2. Trade receivables	89,568	95,755
of which due 0 – 3 months	89,568	95,755
3. Receivables from affiliated companies	591	1,902
of which due 0 – 3 months	591	1,902
4. Other receivables	8,477	22,310
of which due 0 – 3 months	8,477	22,310
Total	**100,058**	**120,456**

Other assets essentially comprise € 145,173,000 (previous year: € 148,791,000) in receivables from accrued interest rate swaps, € 75,908,000 (previous year: € 107,254,000) in lease returns held as available for sale, as well as receivables from the settlement of ABS transactions.

The prepaid expenses comprise discounts for loans taken up, debentures and ABS transactions amounting to € 87,619,000 (previous year: € 7,033,000), which are eliminated pro rata temporis. In addition, the prepaid vehicle taxes amounting to € 9,697,000 (previous year: € 8,356,000) and insurance policies from service leasing amounting to € 11,735,000 (previous year: € 12,957,000) as well as other prepaid items are recognised.

The liabilities are made up as follows:

€ 000	31.12.2010	31.12.2009
1. Liabilities to financial institutions	301,553	411,267
(of which to affiliated companies € 301,345,000; previous year: € 410,720,000)		
2. Liabilities to customers	7,792,346	5,807,900
(of which to affiliated companies € 7,118,325,000; previous year: € 5,581,711,000)		
(of which to the shareholder € 5,783,448,000; previous year: € 5,390,678,000)		
(of which trade receivables € 337,190,000; previous year: € 81,418,000)		
3. Securitised liabilities	2,311,930	2,286,819
4. Other liabilities	58,125	75,063
Total	**10,463,954**	**8,581,049**

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

€ 000	31.12.2010	31.12.2009
1. Liabilities to financial institutions	301,553	411,267
of which due 0 – 3 months	301,553	405,267
of which due > 3 – 12 months	0	6,000
2. Liabilities to customers	7,792,346	5,807,900
of which due 0 – 3 months	2,398,836	2,280,755
of which due > 3 – 12 months	1,251,023	7,403
of which due > 12 – 60 months	4,142,487	3,519,742
3. Securitised liabilities	2,311,930	2,286,819
of which due 0 – 3 months	36,930	36,819
of which due > 3 – 12 months	1,000,000	0
of which due > 12 – 60 months	1,275,000	2,250,000
4. Other liabilities	58,125	75,063
of which due 0 – 3 months	50,027	66,628
of which due > 3 – 12 months	265	250
of which due > 12 – 60 months	2,112	1,989
of which due > 60 months	5,721	6,196
Total	**10,463,954**	**8,581,049**

The provisions comprise tax provisions (€7,800,000, previous year: €6,800,000) and other provisions (€304,686,000, previous year: €295,553,000).

Other provisions serve to hedge risks resulting from existing leasing contracts. Provisions for residual value risks amounted to €144,000,000 (previous year: €107,000,000). Especially expenses under service leases amounting to €43,509,000 were taken into account (previous year: €87,615,000). And a total of €78,991,000 (previous year: €36,629,000) in provisions were recognised for outstanding invoices and dealer bonuses.

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

Statement of changes in fixed assets:

€ 000	GROSS BOOK VALUES					VALUE ADJUSTMENTS				NET BOOK VALUES	
	Brought forward 01.01.2010	Additions	Disposals	Transfers	Balance 31.12.2010	Brought forward 01.01.2010	Additions	Disposals	Balance 31.12.2010	Balance 31.12.2010	Balance 31.12.2009
I. Tangible fixed assets											
Land and buildings	21,459	0	0	0	21,459	9,431	1,944	0	11,375	10,084	12,028
II. Leased assets											
Vehicles, plant and equipment	18,515,058	7,560,937	6,731,247	17,664	19,362,412	6,584,753	3,100,768	3,572,784	6,112,737	13,249,675	11,930,305
Payments on account	19,201	29,019	1,438	−17,664	29,118	0	0	0	0	29,118	19,201
	18,534,259	**7,589,956**	**6,732,685**	**0**	**19,391,530**	**6,584,753**	**3,100,768**	**3,572,784**	**6,112,737**	**13,278,793**	**11,949,506**
III. Financial assets											
Investments in affiliated companies	105	0	0	0	105	0	0	0	0	105	105
Total fixed assets	**18,555,823**	**7,589,956**	**6,732,685**	**0**	**19,413,094**	**6,594,184**	**3,102,712**	**3,572,784**	**6,124,112**	**13,288,982**	**11,961,639**

4 | Notes to the profit and loss account

Income from leasing business amounts to €8,755,894,000. A total of €3,736,490,000 in expenses were incurred in connection with the leasing business and contain the expenditures required for generating sales. These essentially concern the residual carrying amounts of leased assets withdrawn and expenses from service leasing. The net income from leasing is €5,019,404,000.

The interest result is divided up as follows:

€ 000	01.01.-31.12.2010	01.01.-31.12.2009
1. Interest income from lending and money market transactions (of which from affiliated companies € 1,007,000; previous year: € 3,253,000)	5,557	6,734
2. Interest expense (of which payable to affiliated companies € 171,960,000; previous year: € 197,394,000)	367,865	393,604
Total	**−362,308**	**−386,870**

Total commission expenses were €308,367,000 and other operating income was €58,892,000, of which €49,237,000 were related to the leasing business and €9,655,000 to allocated overhead. The income from the reversal of the special tax-allowable reserve amounts to €731,000.

Personnel expenses for our members of staff at the Milan and Verona branches amounted to €3,946,000, of which €2,506,000 is attributable to wages and salaries and €1,440,000 to social security contributions.

Other administration expenses in the amount of €161,182,000 were incurred especially for allocated workplace costs, personnel leases as well as IT costs.

The depreciation on and write-downs of leased assets in the amount of €3,100,768,000 are presented separately. This contains write-downs of €161,510,000 (previous year: €133,529,000). The leased assets were written down by an additional €38,300,000 for the first time to account for risks from the early disposal of vehicles in connection with lessees' default (latent credit risks).

Other operating expenses in the reporting year were €13,596,000.

A total of €239,342,000 in depreciation, amortisation and write-downs, allowances on receivables as well as transfers to provisions for the leasing business are in contrast to €88,429,000 in income.

The company posted a pre-tax profit of €974.7 million (previous year: €549.2 million), in particular from the marketing of lease returns related to vehicles added in 2006 and 2007, for which it applied the tax option to use the reducing-balance method of depreciation.

Under the existing profit transfer agreement, the profit amounting to €790.4 million is transferred to Volkswagen Financial Services AG.

Distribution of income by region:

€ 000		01.01. - 31.12.2010 Germany	Italy	Total	01.01. - 31.12.2009 Total
1.	Income from leasing transactions				
	Leases	3,594,357	159,939	3,754,296	3,549,663
	Maintenance and service contracts	436,007	1,507	437,514	337,901
	Used vehicle sales	4,058,713	62,176	4,120,889	3,932,944
	Other	433,669	9,526	443,195	331,609
		8,522,746	233,148	8,755,894	8,152,117
3.	Interest income from lending and money market transactions	4,988	569	5,557	6,734
5.	Commission income	479	0	479	459
8.	Other operating income	53,268	5,624	58,892	27,039
9.	Income from the reversal of the special tax-allowable reserve	731	0	731	106
14.	Income from the write-up of receivables and the reversal of provisions in the leasing business	82,924	5,505	88,429	3,399
Total		**8,665,136**	**244,846**	**8,909,982**	**8,189,854**

5 | Other notes

The interest rate risk is hedged by interest rate swaps with a total nominal volume of €15.2 billion. As at the balance sheet date, the positive market values amount to €272.9 million while negative market values amount to €106.2 million. Market values are determined on the basis of market information available at the balance sheet date and appropriate IT-based evaluation methods. Of these derivative financial instruments, accrued interest of €145.2 million is shown under assets and accrued interest of €48.1 million is shown under other liabilities.

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

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

Volkswagen Leasing GmbH placed asset-backed securities transactions (ABS transactions) on the market to refinance its lending business. Three transactions that generated cash equivalent to the purchase price of the future leasing receivables sold (€1,832,459,000) were executed in the 2010 financial year. An additional four transaction from previous years are also in effect. Besides generating one-time inflows, these transactions do not have any additional material effects on the current and future liquidity and financial position of Volkswagen Leasing GmbH.

Volkswagen Leasing GmbH acquired all shares in Vehicle Trading International (VTI) GmbH, Braunschweig, effective 01 January 2009. The company closed the 2010 financial year at a pre-tax loss of €1.8 million, which is absorbed by Volkswagen Leasing GmbH under the control and profit transfer agreement. The equity of VTI as of the closing date is €2.8 million.

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

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

To pursue its business activities in Germany, Volkswagen Leasing GmbH does not have any personnel of its own. The staff were made available by Volkswagen Financial Services AG in return for a fee. In addition, the Milan and Verona branches employed 58 members of staff on an annual average (previous year: 56).

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

The Board of Management of Volkswagen Leasing GmbH proposes to carry the remaining net retained profits of €648,680.82 forward to new account.

6 | Corporate bodies of Volkswagen Leasing GmbH

Board of Management as at 31.12.2010

LARS-HENNER SANTELMANN
Spokesman of the Board of Management
Marketing/Sales Individual Customers

GERHARD KÜNNE
Sales Fleet Customers

DR. HEIDRUN ZIRFAS
Back Office Leasing

Supervisory Board of Volkswagen Leasing GmbH

HANS DIETER PÖTSCH
Chairman
Member of the Board of Management of Volkswagen AG
Finance and Controlling

PROF. DR. HORST NEUMANN
Deputy Chairman
Member of the Board of Management of Volkswagen AG
Human Resources and Organisation

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

DR. ARNO ANTLITZ
Member of the Board of Management Volkswagen Brand
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

CHRISTIAN KLINGLER (FROM 20.05.2010)
Member of the Board of Management of Volkswagen AG
Sales and Marketing

DETLEF KUNKEL
General Secretary/Principal Representative of IG Metall Braunschweig

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

GABOR POLONYI

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

MICHAEL RIFFEL

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

AXEL STROTBEK

Member of the Board of Management
AUDI AG
Finance and Organisation

DETLEF WITTIG (UNTIL 19.05.2010)

Executive Vice President of Volkswagen AG
Cooperation Japan

7 | Responsibility statement of the Board of Management

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

Braunschweig, 11 February 2011

The Board of Management

Lars-Henner Santelmann

Gerhard Künne

Dr. Heidrun Zirfas

Independent Auditors' Report

We have audited the annual financial statements – comprising the balance sheet, the profit and loss account, the cash flow statement, the statement of changes in equity and the notes - including the accounting, and the management report of Volkswagen Leasing GmbH, Braunschweig, for the financial year from 01 January to 31 December 2010. The accounting and preparation of the annual financial statements and management report according to German commercial regulations are the responsibility of the company's Managing Directors. Our responsibility is to express an opinion on the annual financial statements, including the accounting, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Hanover, 11 February 2011

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Harald Kayser	Burkhard Eckes
Auditor	Auditor

Report of the Supervisory Board

of Volkswagen Leasing GmbH

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

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

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

The Supervisory Board convened for three regular meetings in the reporting year; there were no extraordinary meetings. The Supervisory Board members' average attendance rate was 81 %. With the exception of one member, who was absent at two meetings, all members attended more than half of the meetings. We resolved an urgent matter in writing by means of a 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 19 February 2010, the Supervisory Board approved the annual financial statements for 2009 that had been prepared by the Board of Management and accepted the annual report by Internal Audit regarding the results of its audits.

The Board of Management provided extensive reports on the company's economic and financial position, both at the aforesaid meeting and at the meetings on 10 June 2010 and 03 December 2010. In this connection, we also dealt with the company's current exposure to risk and its measures to refine its risk management. In addition, we dealt with the implementation of the international growth strategy, mainly in view of expanding the used vehicle business and internationalising the fleet business.

On 03 December 2010, we engaged in an extensive discussion of the company's medium-term financial and investment planning with the Board of Management. The Board of Management reported to us on its IT strategy as well as on its strategic plans and actions for furthering growth in the European markets through closer integration with the brands. The Board of Management also explained both the company's and the Group's current exposure to credit and residual value risks. We approved the acquisition of carmobility GmbH, a Volkswagen Group company that serves as an agent for leasing transactions and offers service contracts. We also approved the closing of the Berlin branch.

AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, was commissioned to audit the annual financial statements of Volkswagen Leasing GmbH as at 31 December 2010 including the bookkeeping system and the related management report.

The Supervisory Board had at its disposal the annual financial statements of Volkswagen Leasing GmbH as at 31 December 2010 and the related management report. The auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, have audited these financial statements, including the bookkeeping system, and the management report and issued an unqualified Auditors' Report. The Supervisory Board approves the results of these audits.

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

During its meeting on 18 February 2011, the Supervisory Board approved the annual financial statements of Volkswagen Leasing GmbH prepared by the Board of Management. The annual financial statements are thereby adopted.

In accordance with the existing profit transfer agreement, the profit made in 2010 will be transferred to Volkswagen Financial Services AG.

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

Braunschweig, 18 February 2011

Hans Dieter Pötsch
Chairman of the Supervisory Board

NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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