

# VOLKSWAGEN FINANCIAL SERVICES

AKTIENGESELLSCHAFT



January – June 2008

## Consolidated Interim Report 2008

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VOLKSWAGEN FINANCIAL SERVICES AG AT A GLANCE

in € million	30.6.2008	31.12.2007	31.12.2006
Total assets	55,822	52,314	43,923
Receivables from customers arising from			
Retail financing	21,912	20,884	17,262
Wholesale financing	10,086	9,360	6,989
Leasing business	14,366	13,639	12,759
Leased assets	2,817	2,436	1,476
Customer deposits	11,621	9,620	8,827
Equity	6,461	6,012	4,603

in € million	1st half-year 2008	1st half-year 2007	1st half-year 2006
Pre-tax result	548	415	415
Net income for the half-year	394	280	273

in %	30.6.2008	31.12.2007	31.12.2006
Equity ratio	11.6	11.5	10.5

in %	31.3.2008	31.12.2007	31.12.2006
Core capital ratio <sup>1</sup>	6.7	7.0	8.2
Overall ratio <sup>1</sup>	9.2	8.9	8.8

Number	30.6.2008	31.12.2007	31.12.2006
Employees <sup>2</sup>	6,535	6,138	5,022
In Germany	4,022	3,856	3,602
Abroad <sup>2</sup>	2,513	2,282	1,420

Rating as at 30.6.2008	Standard & Poor's			Moody's Investors Service		
	short-term	long-term	outlook	short-term	long-term	outlook
Volkswagen Financial Services AG	A-2	A-	stable	Prime-2	A3	positive
Volkswagen Bank GmbH	A-1	A	stable	Prime-1	A2	stable

<sup>1</sup> The regulatory core capital ratio/overall ratio is calculated in accordance with the standardised approach to credit and operational risks.

<sup>2</sup> Based on the economic point of view principle, this figure as of 2008 includes the employees of the unconsolidated entity, VOLKSWAGEN SERVICIOS SA DE CV, Puebla, Mexico.

## Key facts

- Volkswagen Financial Services AG increased its total assets by 6.7 % to € 55.8 billion between January and June 2008, the period under review. At € 855 million, the net income from lending, leasing and insurance transactions before risk provisions was higher than in the same period of the previous year.
- At € 548 million, pre-tax profit surpassed the previous year's level. Adjusted for extraordinary factors from the measurement of derivatives, pre-tax profit increased by € 88 million (20.9 %).
- The increases in the overall contract portfolio by 154,000 contracts (2.9 %) and in receivables from customers by € 2.5 billion (5.4 %) essentially resulted from the expansion of the business volume in the customer financing and leasing segment.
- VOLKSWAGEN BANK SA INSTITUCION DE BANCA MULTIPLE, Puebla, Mexico, launched its direct banking operations on 1 April 2008.
- The plan is to continue tapping the potentials along the automotive value chain in close collaboration with the Group brands and expanding the financial services business. Volkswagen Financial Services AG thus will invest € 35 million in its Brunswick site this year.

# Group interim management report

## Economic environment

### Global economy

Global economic growth weakened substantially in the second quarter of 2008, due in particular to continuously rising oil prices and the fallout from the financial crisis. The worldwide increase in inflationary pressures has caused many countries to adopt more restrictive monetary policies. Yet the economies of emerging countries in Asia, South America as well as Central and Eastern Europe continued to grow unabated.

Prices kept on rising in the United States despite weak economic growth. The Mexican economy grew at a slower pace in the first six months of 2008 compared to the previous year owing to its strong dependence on the US economy. Record income from oil exports as well as solid financial and monetary policies had a stabilising effect, however.

The strong inflationary pressures in Argentina have not subsided because the economy continues to follow an upward trajectory. While the Brazilian economy lost some of its momentum in the first six months of 2008, the surge in prices has intensified.

The Chinese economy keeps growing at a robust pace. Inflation remains high due to sharp increases in prices for foodstuffs and energy. In contrast, the economic momentum in Japan declined noticeably in the first six months of 2008.

In Western Europe, growth slowed considerably in the second quarter of 2008. With the exception of Hungary, the economic expansion in Central and Eastern European countries remained relatively strong. However, ongoing inflationary pressures, currency appreciation and diminishing prospects for exporters dampened economic expectations.

Germany has seen a sharp decline in the economic factors driving growth. Continually rising prices for foodstuffs and energy are increasingly undermining consumption and investment. And the strength of the euro as well as declining growth worldwide are burdening the export sector.

## Financial and automobile markets

In addition to the uncertainty that has gripped global financial markets since the middle of 2007 in the wake of the US subprime crisis, the ramifications of the sharp increase in commodity prices, especially for crude oil, have also had a major impact. The resulting inflationary pressures have triggered the first signs of an economic downturn in the industrial nations, especially in the United States. Despite central banks' countermeasures, this pressure made itself felt in the financial markets in the first six months of 2008 through sharp interest rate increases, which in turn resulted in considerable increases in refinancing expense. All of this was intensified in the area of refinancing by the dramatic decline in the volume of new issues on the securitised receivables market.

The deposit business in Germany clearly reflected the refinancing bottleneck. In the first six months of 2008, the direct access to the market provided by the Internet further intensified competition in regards to terms offered, particularly due to the activities of both domestic and international competitors on the Web.

The automobile financing business registered a slight upturn at the start of the current year as a result of the upward trend in newly registered cars, which benefited the captives. But fierce competition continued to limit opportunities for improving margins.

In the period under review, registrations of new passenger cars worldwide surpassed the previous year's level (+ 1.0 %). Especially the regions Asia Pacific, Central and Eastern Europe as well as South America posted above-average growth rates in this area while demand for passenger cars in Japan, Western Europe and particularly North America continued to decline.

In the first two quarters of 2008, sales in the US automotive market fell substantially year on year, mainly in the light truck segment. The credit and real estate crisis, as well as soaring fuel prices, were the main causes for the change in demand and the lowest total market volume the United States has seen since 1993. While sales in Canada rose in the first six months of 2008, the number of new registrations on the Mexican automotive market fell below the previous year's level.

The growth momentum in the Brazilian passenger car and commercial vehicle market continued during the reporting period. Sales in Argentina also climbed to a new high in the first six months of 2008.

The Chinese passenger car market posted strong growth yet again, making it the main growth driver in worldwide demand for automobiles, together with Russia and Brazil. In Japan, however, the number of newly registered cars declined slightly below the previous year's level. Demand for passenger cars in the Indian automotive market rose at an above-average rate in the first two quarters of 2008, with growth accelerating moderately in the second quarter.

In Western Europe, the number of newly registered cars was slightly lower year on year in the first six months of 2008. While the French passenger car market posted a small gain, demand weakened substantially in both Italy and Spain and slightly in the United Kingdom. Growth rates remained high in Central and Eastern Europe during the reporting period, with Russia and the Ukraine being by far the region's most important growth markets.

In Germany, high fuel prices and the uncertainty regarding the details of a future CO<sub>2</sub> based car tax prevented the auto industry from continuing its recovery. The country's passenger car market rose but slightly in the first half of 2008 compared to the same period the previous year.

### Shareholdings of the Volkswagen Financial Services AG Group

#### Changes in shareholdings

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

The last step in the restructuring of the Volkswagen Group's financial services companies in Brazil entailed merging Volkswagen Leasing GmbH S.A. Arrendamento Mercantil, São Paulo, Brazil, with Banco Volkswagen S.A., São Paulo, Brazil, effective 31 January 2008.

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

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

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

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

Volkswagen Financial Services Beteiligungsgesellschaft mbH was founded in early July as a wholly-owned subsidiary of Volkswagen Financial Services AG.

Volkswagen Financial Services AG increased the capital of Volkswagen Finance (China) Co., Ltd., Beijing, China, by € 46 million in the first six months of the year with the aim of reinforcing the company's equity.

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

#### Results of operations

The notes on the results of operations concern changes relative to the same period the previous year.

The first six months of 2008 were positive for the Volkswagen Financial Services AG Group companies despite continuing fierce competition and the pressure on the margins resulting from negative developments in the international financial markets. At € 548 million (+ 32 %), pre-tax profit was considerably above the previous year's level. At € 855 million (+ 15.4 %), the net income from lending, leasing and insurance transactions before risk provisions was higher than in the same period of the previous year. This development is due to the expanded volume of the new vehicle business and the full-year inclusion of the Brazilian companies. At € 187 million, provisions for risks were substantially higher year on year.

Commission income rose by 9.1 %, continuing the positive development in recent years. Commission expenses were comparable to the previous year's level, resulting in a rising net income from commissions in absolute terms. The general administration expenses of € 420 million exceeded the previous year's level of € 381 million by 10.2 %. This means that

the net income from credit, leasing and insurance transactions before risk provisions rose more rapidly than did administration expenses.

At € 70 million, the net income from shareholdings accounted for at equity was slightly below the previous year's level (-7.9 %).

Taking into account the result from the measurement of derivative financial instruments in the amount of € 38 million (previous year: € -7 million) and the remaining earnings components, the net income for the half-year of the Volkswagen Financial Services AG Group was € 394 million, an increase of 39.2 % over the previous year.

As in previous years, the German Group companies made substantial contributions to the earnings of Volkswagen Financial Services AG. With about 57 % of the contract portfolio, they remain the companies with the highest business volume and earned a pre-tax result of € 349 million (previous year: € 329 million).

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

#### Assets and financial position

The notes on the assets and financial position concern changes relative to the balance sheet date 31 December 2007.

#### *Lending business*

Receivables from customers – which represent the core business of the Volkswagen Financial Services AG Group – plus leased assets amounted to € 51.1 billion, and thus accounted for approximately 92 % of the consolidated total assets. The increase compared to the end of 2007 is essentially due to the expanded new vehicle business.

The loan volume from retail financing increased by € 1.0 billion or 4.9 % to € 21.9 billion. The number of new contracts reached a new record high of 474,000 (+ 6.7 % versus the first six months of 2007). This means that the number of current contracts rose to 2,360,000 (+ 1.9 %). With a volume of 1,619,000 contracts (previous year: 1,536,000), Volkswagen Bank GmbH remained the Group company with the highest business volume.

The loan volume in the wholesale financing business – which consists of receivables from Group dealers in connection with the financing of vehicles in stock plus equipment and investment loans – rose to € 10.1 billion (+ 7.8 %).

Receivables from leasing transactions amounted to € 14.4 billion, which once again is an increase compared to the previous year (+ 5.3 %). Leased assets saw growth of € 0.4 billion, rising to € 2.8 billion (+ 15.6 %).

In the period under review, a total of 235,000 new leasing contracts were signed, clearly surpassing the level of the first half of 2007 (+ 28.4 %). As at 30 June 2008, there were 1,014,000 leased vehicles in stock, which is an increase of 5.8 % compared 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 722,000 leased vehicles (previous year: 703,000).

Compared to the previous year, the total assets of Volkswagen Financial Services AG rose to € 55.8 billion (+ 6.7 %). This increase essentially corresponds to the increase in receivables from customers and in leased assets (+ 5.9 %), reflecting the expanded business in the period just ended.

As at 30 June 2008, there were 2,089,000 service and insurance contracts on the books (previous year: 2,033,000). At 342,000 contracts, the volume of new business was 10.2 % below the level of the first half of 2007.

CURRENT CONTRACTS, NEW CONTRACTS AND CONTRACT VOLUME

in thousands (as at 30.6.2008)	VW FS AG	Europe	of which Germany	of which Italy	of which United Kingdom	of which France	Asia Pacific	North / South America
<b>Current contracts</b>	<b>5,453</b>	<b>4,849</b>	<b>3,102</b>	<b>511</b>	<b>355</b>	<b>270</b>	<b>151</b>	<b>453</b>
Retail financing	2,360	1,888	1,305	203	207	54	114	358
Leasing business	1,004	937	709	29	35	53	2	65
Service / insurance	2,089	2,024	1,088	279	113	163	35	30
<b>New contracts</b>	<b>1,024</b>	<b>871</b>	<b>512</b>	<b>111</b>	<b>87</b>	<b>56</b>	<b>20</b>	<b>133</b>
Retail financing	447	361	222	48	55	10	15	71
Leasing business	235	196	149	7	10	12	1	38
Service / insurance	342	314	141	56	22	34	4	24
<b>in € million (as at 30.6.2008)</b>								
<b>Receivables from customers arising from</b>								
Retail financing	21,912	18,067	12,555	1,328	2,518	352	1,094	2,751
Wholesale financing	10,086	8,916	4,420	623	1,265	814	189	981
Leasing business	14,366	13,591	11,638	361	61	652	75	700
Leased assets	2,817	2,807	1,646	221	542	170	3	7

*Deposit business and borrowings*

Significant items in liabilities and equity include liabilities to financial institutions in the amount of € 6.0 billion (+ 11.0 %), liabilities to customers in the amount of € 15.9 billion (+ 14.0 %), as well as securitised liabilities in the amount of € 23.4 billion (+ 0.8 %).

The deposit-taking business of Volkswagen Bank GmbH, reported as part of the liabilities to customers, again reached a new record high of € 11.6 billion (+ 20.8 %) as at 30 June 2008. With this level of deposits, Volkswagen Bank GmbH continues to be one of the largest players in the sector.

*Equity*

The subscribed capital of € 441 million remained unchanged in the period under review. IFRS equity was € 6.5 billion (previous year: € 6.0 billion). This yields an equity ratio of 11.6 % relative to the total equity and liabilities of € 55.8 billion, which is above average in comparison to international companies.

The equity of the financial holding group was strengthened in the first six months of 2008 by means of € 210 million in subordinate funds.

Volkswagen AG did not increase the capital of Volkswagen Financial Services AG in the first two quarters of 2008.

**Notes on capital adequacy**

The reinforcement of equity using subordinate loans fully covers the additional capital requirements resulting from the company's expanded business volume.

**Risk report**

There have been no significant changes relative to the disclosures in the "Risk report" of the 2007 annual report, which described all potential risks as well as the risk management methods employed.

Risks in the wholesale financing segment are expected to increase slightly in the second six months of 2008 – especially in Germany – given the continued weakness of earnings of vehicle dealers.



There are no indications, either direct or indirect, that the US subprime crisis and its consequences for the international financial markets will affect Volkswagen Financial Service AG's exposure to risk. Volkswagen Financial Services AG is not active on the American market and this risk segment is not part of its business strategy.

### Opportunities

Relative to the chapter entitled "Opportunities for Volkswagen Financial Services AG" in the 2007 annual report, no major changes are expected for the second half of 2008 in terms of opportunities.

### Personnel report

At 30 June 2008, Volkswagen Financial Services AG had 6,425 active employees. Besides active staff, in the first six months of this year Volkswagen Financial Services AG also had 36 employees who were in the passive phase of partial retirement, as well as 74 trainees. Hence the total number of employees of Volkswagen Financial Services AG on 30 June 2008 was 6,535, an increase of 6.5 % over the year-end figure for 2007 (6,138 employees).

In accordance with the economic point of view principle, 249 employees of VOLKSWAGEN SERVICIOS SA DE CV, Puebla, Mexico, an unconsolidated company, are included in the overall personnel numbers.

The total number of employees in Germany at this time is 4,022.

The company launched its child-care services in Brunswick on 1 April 2008.

In addition, performance-based compensation was established for field personnel effective 1 July 2008. Henceforth this variable component will be used to remunerate roughly 150 field employees based on their performance.

### Events after the balance sheet date

Aside from the events described above, no events of substantial significance occurred after completion of the consolidated interim report as at 30 June 2008.

### Anticipated developments

#### Global economy

Continually rising prices for commodities and energy coupled with the uncertainty regarding both the duration and the consequences of the financial crisis in the United States will continue to affect the global economy in the second half of 2008.

#### Automobile and financial markets

The automobile markets are expected to show a year-on-year downturn in growth in 2008. South America, Russia, India and China will continue to be the world's growth drivers even though the pace will slow down somewhat in South America. The number of new car registrations is expected to decrease in Western Europe and the United States.

The mood in the international financial markets will probably remain quite anxious in the second half of 2008. Two contrasting factors are at work here: for one, the negative impact of the American subprime crisis as well as the inflationary ramifications of soaring crude oil prices and for another, the unabated dynamic of those countries with high growth rates that continue to stimulate the global economy. Given these uncertain times, the liquidity situation in both the money and interbank markets will remain tight.

An upturn in banks' refinancing of the securitised loan business by issuing tradable securities such as ABS is unlikely in the near future. The market now believes that the securitisation model used to date requires new standards, which must be developed both out of market participants' reactions and expected changes in the regulatory environment.

### Development of Volkswagen Financial Services AG

There have been no fundamental changes in the developments forecast in the 2007 annual report concerning our expectations for automotive sales and the resulting effects on the financial services business, as well as the utilisation of potentials within the automotive value-added chain.

We will continue to pursue our national and international activities, with an ongoing product and quality offensive, consistent cost management and further productivity improvements remaining central tasks in improving the Group's global competitive position in the second half of 2008.

The Board of Management of Volkswagen Financial Services AG continues to expect earnings to stabilise in the 2008 financial year, adjusted for effects from possible structural changes.

INCOME STATEMENT OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

	Notes	1.1. - 30.6.2008 € million	1.1. - 30.6.2007 € million	Change in %
Interest income from lending transactions		1,326	1,044	27.0
Net income from leasing transactions <u>before</u> provisions for risks		610	510	19.6
Interest expenses		1,085	813	33.5
Net income from insurance business		4	-	X
Net income from lending, leasing and insurance transactions <u>before</u> provisions for risks	(1)	855	741	15.4
Provisions for risks arising from lending and leasing business		187	128	46.1
Net income from lending, leasing and insurance transactions <u>after</u> provisions for risks		668	613	9.0
Commission income		191	175	9.1
Commission expenses		92	92	0.0
Net commission income		99	83	19.3
Result from derivative financial instruments		38	-7	X
Result from joint ventures accounted for at equity		70	76	-7.9
Result from other financial assets		5	6	-16.7
General administration expenses	(2)	420	381	10.2
Other operating result		88	25	X
<b>Pre-tax result</b>		<b>548</b>	<b>415</b>	<b>32.0</b>
Taxes on income and earnings		-154	-132	16.7
<b>Net income for the half-year</b>		<b>394</b>	<b>283</b>	<b>39.2</b>
Minority interest in net income		-	3	X
Net income attributable to Volkswagen AG		394	280	40.7

BALANCE SHEET OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

Assets	Notes	30.6.2008 € million	31.12.2007 € million	Change in %
Cash reserve		233	176	32.4
Receivables from financial institutions		1,275	796	60.2
Receivables from customers arising from				
Retail financing		21,912	20,884	4.9
Wholesale financing		10,086	9,360	7.8
Leasing business		14,366	13,639	5.3
Other receivables		1,945	1,962	-0.9
Receivables from customers in total		48,309	45,845	5.4
Derivative financial instruments		505	431	17.2
Securities		83	112	-25.9
Joint ventures accounted for at equity		1,512	1,465	3.2
Other financial assets		152	133	14.3
Intangible assets	(3)	112	110	1.8
Property, plant and equipment	(3)	170	172	-1.2
Leased assets	(3)	2,817	2,436	15.6
Investment property		8	9	-11.1
Deferred tax assets		84	108	-22.2
Income tax assets		72	43	67.4
Other assets		490	478	2.5
<b>Total</b>		<b>55,822</b>	<b>52,314</b>	<b>6.7</b>

Liabilities	Notes	30.6.2008 € million	31.12.2007 € million	Change in %
Liabilities to financial institutions		5,977	5,384	11.0
Liabilities to customers		15,926	13,969	14.0
Securitised liabilities	(4)	23,380	23,193	0.8
Derivative financial instruments		372	263	41.4
Provisions		581	587	-1.0
Deferred tax liabilities		795	739	7.6
Income tax obligations		71	80	-11.3
Other liabilities		335	375	-10.7
Subordinated capital		1,924	1,712	12.4
Equity	(5)	6,461	6,012	7.5
Subscribed capital		441	441	0.0
Capital reserve		2,809	2,809	0.0
Retained earnings		982	886	10.8
Consolidated net retained profits		2,229	1,876	18.8
<b>Total</b>		<b>55,822</b>	<b>52,314</b>	<b>6.7</b>

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

€ million	1.1. - 30.6.2008	1.1. - 30.6.2007
Actuarial gains and losses	16	13
Available-for-sale financial assets (securities):		
– Fair value changes recognised in equity	– 2	0
– Recognised in the income statement	0	–
Cash flow hedges:		
– Fair value changes recognised in equity	46	37
– Recognised in the income statement	– 5	– 4
Currency translation differences	5	11
Deferred taxes on retained earnings	– 16	– 17
Income and expense of shares measured at equity, recognised directly in equity, after taxes	11	2
<b>Income and expense recognised directly in equity</b>	<b>59</b>	<b>42</b>
Net income for the half-year	394	280
<b>Recognised income and expense</b>	<b>453</b>	<b>322</b>

Equity is shown in note (5).

CASH FLOW STATEMENT OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

€ million	1.1. - 30.6.2008	1.1. - 30.6.2007
<b>Net income for the half-year</b>	<b>394</b>	<b>280</b>
Depreciation, value adjustments and write-ups	478	327
Change in provisions	- 6	38
Change in other items not affecting payments	102	234
Result from the sale of financial assets and property, plant and equipment	14	0
Interest result and dividend income	- 772	- 691
Other adjustments	160	30
Change in receivables from financial institutions	- 479	699
Change in receivables from customers	- 2,689	- 3,823
Change in other assets from operating activities	- 15	- 85
Change in liabilities to financial institutions	593	108
Change in liabilities to customers	1,945	2,547
Change in securitised liabilities	187	34
Change in other liabilities from operating activities	- 34	105
Interest received	1,818	1,487
Dividends received	39	17
Interest paid	- 1,084	- 813
Income tax payments	- 112	15
<b>Cash flow from operating activities</b>	<b>539</b>	<b>509</b>
Cash inflows from the sale of leased assets and investment property	846	541
Cash outflows from the purchase of leased assets and investment property	- 1,505	- 922
Cash inflows from the sale of subsidiaries and joint ventures	-	-
Cash outflows from the purchase of subsidiaries and joint ventures	- 46	- 316
Cash inflows from the sale of other assets	12	13
Cash outflows from the purchase of other assets	- 30	- 71
Change in investments in securities	29	- 6
<b>Cash flow from investing activities</b>	<b>- 694</b>	<b>- 761</b>
Cash inflows from changes in capital	-	522
Profit transfer to Volkswagen AG	-	- 288
Loss transferred to Volkswagen AG	-	-
Change in funds resulting from subordinated capital	212	28
<b>Cash flow from financing activities</b>	<b>212</b>	<b>262</b>
<b>Cash and cash equivalents at the end of the previous period</b>	<b>176</b>	<b>127</b>
Cash flow from operating activities	539	509
Cash flow from investing activities	- 694	- 761
Cash flow from financing activities	212	262
Effects from exchange rate changes	0	0
<b>Cash and cash equivalents at the end of the period</b>	<b>233</b>	<b>137</b>

## **Notes to the consolidated financial statements of the Volkswagen Financial Services AG Group as at 30.6.2008**

### **General comments**

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

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.

### **Group accounting principles**

VW FS AG prepared its consolidated financial statements for the 2007 financial year 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). Therefore, this consolidated interim report as at 30 June 2008 was also prepared in accordance with IAS 34.

This interim report has not been subjected to a review.

### **Accounting policies**

The same consolidation principles and accounting policies that were used in the consolidated financial statements for 2007 were applied to the preparation of the interim consolidated financial statements and the determination of the corresponding amounts for the previous year. A detailed description of these methods is contained in the notes to the consolidated financial statements of the 2007 annual report. It may be downloaded from our website at [www.vwfs.de](http://www.vwfs.de).

### **Basis of consolidation**

In addition to VW FS AG, the consolidated financial statements include all Group companies whose financial and business policies VW FS AG can control, directly or indirectly, such that the Group companies benefit from the activities of these companies (subsidiaries).

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

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

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

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

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

Volkswagen Global Finance Holding B.V., Amsterdam, The Netherlands, was established as a wholly-owned subsidiary of Volkswagen Financial Services AG in June 2008. For reasons of materiality, this company was not yet fully consolidated as at the balance sheet date.

## Notes to the consolidated financial statements

### (1) Net income from lending, leasing and insurance transactions *before* provisions for risks

€ million	1.1. - 30.6.2008	1.1. - 30.6.2007
Interest income from lending and money market transactions	1,326	1,044
Income from leasing transactions and service contracts	1,904	1,429
Expenses from leasing business and service contracts	1,057	751
Depreciation on leased assets and investment property	237	168
Interest expense	1,085	813
Net income from insurance business	4	-
<b>Total</b>	<b>855</b>	<b>741</b>

### (2) General administration expenses

€ million	1.1. - 30.6.2008	1.1. - 30.6.2007
Staff costs	211	180
Non-staff costs	162	152
Costs of advertising, PR work and sales promotion	17	26
Depreciation of property, plant and equipment and amortisation of intangible assets	20	18
Other taxes	10	5
<b>Total</b>	<b>420</b>	<b>381</b>

### (3) Development of selected assets

€ million	Net carrying amount as at 1.1.2008	Additions	Disposals/ other changes	Depreciation/ amortisation	Net carrying amount as at 30.6.2008
Intangible assets	110	9	1	8	112
Property, plant and equipment	172	21	- 11	12	170
Leased assets	2,436	1,505	- 887	237	2,817



(4) *Securitised liabilities*

In the reporting period, securitised liabilities totalling € 7,124 million were issued and securitised liabilities totalling € 7,419 million were repaid.

(5) *Statement of changes in equity*

€ million	Subscribed capital	Capital reserve	Retained earnings including consolidated net retained profits							Total equity
			Accumulated profits	Currency translation reserve	Reserve for cash flow hedges	Reserve for actuarial gains and losses	Securities measured at fair value	Shares measured at equity	Minority interest	
Balance as at 31.12.2006/1.1.2007	441	2,287	1,834	30	40	-29	0	-	0	4,603
Reclassification of shares measured at equity	-	-	-	-7	-19	-	-	26	-	-
Balance as at 1.1.2007, after adjustments	441	2,287	1,834	23	21	-29	0	26	0	4,603
Payments into the capital reserve	-	522	-	-	-	-	-	-	-	522
Loss transferred to Volkswagen AG	-	-	199	-	-	-	-	-	-	199
Actuarial gains and losses	-	-	-	-	-	18	-	-	-	18
Available-for-sale financial assets (securities)	-	-	-	-	-	-	0	-	-	0
Cash flow hedges:										
Fair value changes recognised in equity	-	-	-	-	8	-	-	-5	-	3
Recognised in the income statement	-	-	-	-	-5	-	-	-	-	-5
Currency translation differences	-	-	-	-24	-	1	-	-8	-	-31
Deferred taxes on items recognised directly in equity	-	-	-	-	1	-9	0	1	-	-7
Result after taxes	-	-	716	-	-	-	-	-	3	719
Other changes	-	-	-6	-	14	-	-	-	-3	-9
Balance as at 31.12.2007/1.1.2008	441	2,809	2,743	-1	25	-19	0	14	0	6,012
Payments into the capital reserve	-	-	-	-	-	-	-	-	-	-
Dividends paid/profit transferred to Volkswagen AG	-	-	-	-	-	-	-	-	-	-
Actuarial gains and losses	-	-	-	-	-	16	-	-	-	16
Available-for-sale financial assets (securities)	-	-	-	-	-	-	-2	-	-	-2
Cash flow hedges:										
Fair value changes recognised in equity	-	-	-	-	46	-	-	8	-	54
Recognised in the income statement	-	-	-	-	-5	-	-	-	-	-5
Currency translation differences	-	-	-	5	0	0	0	4	-	9
Deferred taxes on items recognised directly in equity	-	-	-	0	-12	-5	1	-1	-	-17
Net income for the half-year	-	-	394	-	-	-	-	-	-	394
Other changes	-	-	-	-	-	-	-	-	0	0
Balance as at 30.6.2008	441	2,809	3,137	4	54	-8	-1	25	-	6,461

Segment reporting

(6) Division by geographical markets:

€ million				1.1. - 30.6.2008
	Germany	Abroad	Consolidation	Total
Interest income from lending transactions with third parties	621	705	-	1,326
Interest income from intersegment lending transactions	152	24	- 176	-
Segment interest income from lending transactions	773	729	- 176	1,326
Net income from leasing transactions	465	145	-	610
Net income from insurance business	4	-	-	4
Interest expenses	733	528	- 176	1,085
Net income from lending, leasing and insurance transactions <u>before</u> provisions for risks	509	346	-	855
Provisions for risks arising from lending and leasing business	132	55	-	187
Net income from lending, leasing and insurance transactions <u>after</u> provisions for risks	377	291	-	668
Net commission income	89	10	-	99
Result from derivative financial instruments	39	- 1	-	38
Result from joint ventures accounted for at equity	70	-	-	70
Result from other financial assets	9	0	- 4	5
General administration expenses	272	154	- 6	420
Other operating result	37	56	- 5	88
<b>Pre-tax result</b>	<b>349</b>	<b>202</b>	<b>- 3</b>	<b>548</b>
Taxes on income and earnings	77	77	-	154
<b>Net income for the half-year</b>	<b>272</b>	<b>125</b>	<b>- 3</b>	<b>394</b>
Minority interest in net income	-	-	-	-
Net income attributable to Volkswagen AG	-	-	-	-

The presentation for the previous year is as follows:

€ million				1.1. - 30.6.2007
	Germany	Abroad	Consolidation	Total
Interest income from lending transactions with third parties	520	524	-	1,044
Interest income from intersegment lending transactions	114	18	- 132	-
Segment interest income from lending transactions	634	542	- 132	1,044
Net income from leasing transactions	397	113	0	510
Net income from insurance business	-	-	-	-
Interest expense	589	356	- 132	813
Net income from lending, leasing and insurance transactions before provisions for risks	442	299	0	741
Provisions for risks arising from lending and leasing business	57	71	0	128
Net income from lending, leasing and insurance transactions after provisions for risks	385	228	0	613
Net commission income	90	- 7	0	83
Result from derivative financial instruments	- 7	0	0	- 7
Result from joint ventures accounted for at equity	76	-	-	76
Result from other financial assets	9	0	- 3	6
General administration expenses	254	131	- 4	381
Other operating result	30	- 1	- 4	25
<b>Pre-tax result</b>	<b>329</b>	<b>89</b>	<b>- 3</b>	<b>415</b>
Taxes on income and earnings	- 104	- 28	0	- 132
<b>Net income for the half-year</b>	<b>225</b>	<b>61</b>	<b>- 3</b>	<b>283</b>
Minority interest in net income	-	3	-	3
Net income attributable to Volkswagen AG	-	-	-	-

## Other notes

### (7) 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. 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.

### (8) Off-balance sheet obligations

€ million	30.6.2008	31.12.2007
<b>Contingent liabilities</b>		
Liabilities from surety and warranty agreements	44	11
Liability arising from the provision of security for third-party liabilities	8	8
Other contingent liabilities	7	-
<b>Other obligations</b>		
Irrevocable credit commitments	1,084	1,898

*(9) Corporate bodies of Volkswagen Financial Services AG*

Mr. Giuseppe Savoini left the Supervisory Board of Volkswagen Financial Services AG effective 31 March 2008.

Effective 1 April 2008, Dr. Horst Neumann became the new Deputy Chairman of the Supervisory Board.

Dr. Jörg Boche has been a member of the Supervisory Board of Volkswagen Financial Services AG since 1 April 2008.

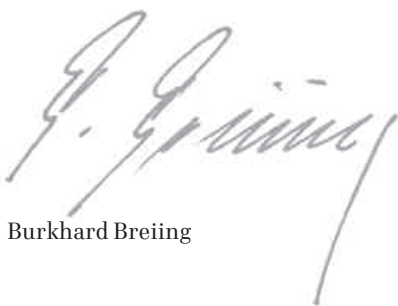
*(10) Events after the balance sheet date*

There were no significant events up to 16 July 2008.

*(11) Responsibility statement of the Board of Management*

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the condensed interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim management report of the Group 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 for the remaining months of the financial year.

Brunswick, 16 July 2008  
The Board of Management



Burkhard Breiing



Elke Eller



Dr. Michael Reinhart



Klaus-Dieter Schürmann

**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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You will find the consolidated interim report 2008 at [www.vwfs.com/hy08](http://www.vwfs.com/hy08)

This consolidated interim report is also available in German.