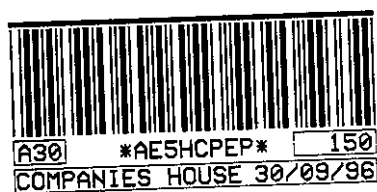


Registered no: 2835230

Volkswagen Financial Services (UK) Limited

**Annual report for the year ended
31 December 1995**



Volkswagen Financial Services (UK) Limited

Annual report for the year ended 31 December 1995

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Directors' report for the year ended 31 December 1995

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 1995.

Principal activities

The principal activities of the company are the provision of instalment finance to consumers and finance to Volkswagen group franchised dealers.

Review of business

During the year the company established itself within the market as the leading supplier of financial services for Volkswagen group dealers.

The company's marketing strategy in 1995 continued to assist dealers by providing innovative sales incentive campaigns which help to generate business and to strengthen relationships.

The popularity of Solutions (the company's Personal Contract Purchase Scheme) continued to grow in 1995 despite the market becoming increasingly competitive.

Competition is as fierce in the contract hire market where the company expect continuing growth, especially on the back of the recent changes in VAT legislation.

The company supports the brands (Volkswagen & Audi) of Volkswagen Group United Kingdom Ltd ("VWG") by developing creative products and services to help VWG sell more cars, more profitably and underscore the company's and VWG's joint commitment to meeting the changing needs of a highly dynamic market. During the year the company commenced financing VWG's other brands, SEAT and Skoda.

Proposed retail sales business is now totally technology-driven through Profitlink, the company's dealer showroom terminal, and is capable of providing dealers with decisions as to whether a proposal is acceptable in under two minutes.

Dividends and transfers to reserves

The profit before taxation for the year ended 31 December 1995 amounted to £2,517,000 as set out in the profit and loss account on page 4. The directors do not recommend the payment of a dividend and the profit after tax of £1,555,000 has been transferred to reserves.

Directors

The directors who served throughout the year are as follows:

P M Schneider (Chairman)

R B Ide

M G Hill

R Mielke

N M Massfeller

Directors' interests in shares of the company

None of the directors had a beneficial interest in the shares of the company or other group companies during the year.

Changes in fixed assets

The movements in tangible fixed assets during the year are set out in note 8 to the financial statements.

Directors' responsibilities statement

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board



G J Daly

Company Secretary

13 February 1996

Report of the auditors to the members of Volkswagen Financial Services (UK) Limited

We have audited the financial statements on pages 4 to 16.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1995 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Coopers & Lybrand

Chartered Accountants and Registered Auditors
Milton Keynes

13 February 1996

Profit and loss account for the year ended 31 December 1995

	Notes	1995 £'000	1994 (9 months) £'000
Turnover - continuing operations	2	55,862	18,633
Administrative expenses - continuing operations		<u>(23,276)</u>	<u>(8,358)</u>
Operating profit - continuing operations		32,586	10,275
Interest receivable and similar income		145	-
Interest payable and similar charges	6	<u>(30,214)</u>	<u>(9,189)</u>
Profit on ordinary activities before taxation	5	2,517	1,086
Tax on profit on ordinary activities	7	<u>(962)</u>	<u>(372)</u>
Retained profit for the year	15	<u><u>1,555</u></u>	<u><u>714</u></u>

The company has no recognised gains and losses other than the profits above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

Balance sheet **at 31 December 1995**

	Notes	1995 £'000	1994 £'000
Fixed assets			
Tangible assets	8	250	77
Current assets			
Debtors: due in less than one year	9	348,857	265,457
due in more than one year	9	234,768	105,970
Cash at bank and in hand		278	3,119
		583,903	374,546
Creditors: amounts falling due within one year	10	487,196	339,803
Net current assets		96,707	34,743
Total assets less current liabilities		96,957	34,820
Creditors: amounts falling due after more than one year	11	27,200	
Provisions for liabilities and charges	12	7,488	1,106
Net assets		62,269	33,714
Capital and reserves			
Called up share capital	13	60,000	33,000
Profit and loss account	15	2,269	714
Equity shareholders' funds	14	62,269	33,714

The financial statements on pages 4 to 16 were approved by the board of directors on 13th February 1996 and were signed on its behalf by:



R Mielke
Director

Cash flow statement for the year ended 31 December 1995

	Notes	1995 £'000	1994 (9 months) £'000
Net cash outflow from continuing operating activities (page 7)		(155,738)	(354,840)
Returns on investments and servicing of finance			
Interest paid		(25,897)	(5,871)
Interest received		146	-
Net cash outflow from returns on investments and servicing of finance		(25,751)	(5,871)
Taxation			
UK Corporation Tax paid		(372)	-
Tax paid		(372)	-
Investment activities			
Purchase of tangible fixed assets		(228)	(97)
Sale of tangible fixed assets		-	6
Net cash outflow from investing activities		(228)	(91)
Net cash outflow before financing		(182,089)	(360,802)
Financing			
Issue of shares		27,000	33,000
Additional bank loans		106,800	209,500
Loans from fellow subsidiary undertakings		46,635	120,000
Net cash inflow from financing	18	180,435	362,500
(Decrease)/increase in cash and cash equivalents	16	(1,654)	1,698

In order to show a fairer presentation the comparative figures have been amended and loans from fellow subsidiary undertakings are now included in financing cashflows.

Reconciliation of operating profit to net cash inflow from operating activities

	1995	1994
	£'000	(9 months) £'000
Continuing activities		
Operating profit	32,586	10,275
Depreciation on tangible fixed assets	55	15
(Profit) on sale of fixed assets	-	(1)
Increase in trade debtors	(211,751)	(365,928)
(Increase) in amounts owed by group undertaking	-	(386)
Decrease/(increase) in other debtors	2,086	(3,646)
(Increase) in prepayments and accrued income	(2,534)	(1,467)
Increase in trade creditors	1,458	4,290
Increase in amounts owed to parent and fellow subsidiaries	13,001	-
Increase in other creditors	1,335	-
Increase in accruals and deferred income	1,644	902
Increase in provisions	6,382	1,106
Net cash outflow from continuing operating activities (page 6)	(155,738)	(354,840)

Notes to the financial statements for the year ended 31 December 1995

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

(a) Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

(b) Finance leases and hire purchase contracts

The investment in the lease, net of anticipated losses, is recorded in the balance sheet as a debtor. The balance is reduced over the lease period by the proportion of rental income which is treated as repayment of the debtor.

Gross earnings from lease transactions are allocated to accounting periods over the term of the lease so as to produce a constant rate of return on the net cash investment in the lease.

(c) Tangible fixed assets

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Fixtures, fittings and equipment	20 - 25% per annum
----------------------------------	--------------------

(d) Deferred taxation

Deferred taxation is provided at appropriate rates of corporation tax in respect of timing differences where there is a reasonable probability that such taxation will become payable in the foreseeable future.

(e) Pensions

Pension arrangements for staff are operated through a final salary scheme managed by Volkswagen Group United Kingdom Limited. Contributions to the scheme, which are based upon the total pension cost for the company as a whole, are charged to the profit and loss account so as to spread the expected cost of pensions, calculated in accordance with actuarial advice, on a systematic basis over employees' working lives. The latest actuarial valuation was carried out in September 1992.

2 Turnover

Turnover represents the amount of hire purchase charges and leasing income earned under instalment finance arrangements in the United Kingdom.

3 Directors' emoluments

	1995	1994 (9 months)
	£'000	£'000
Remuneration for services in a managerial capacity	173	80
Other emoluments (including pension contributions and benefits in kind)	36	23
	<u>209</u>	<u>103</u>

Fees and other emoluments (excluding pension contributions) include amounts paid to:

	1995	1994 (9 months)
	£Nil	£Nil
The chairman	<u> </u>	<u> </u>
The highest-paid director	<u>£115,535</u>	<u>£68,586</u>

The number of directors (including the chairman and the highest-paid director) who received fees and other emoluments (excluding pension contributions) in the following ranges was:

	1995	1994 (9 months)
	Number	Number
£Nil to £5,000	3	4
£20,001 to £25,000	-	1
£65,001 to £70,000	-	1
£75,001 to £80,000	1	-
£115,001 to £120,000	1	-

4 Employee information

The average weekly number of persons (including executive directors) employed by the company during the year was:

	1995	1994 (9 months)
	Number	Number
By activity		
Sales	34	24
Administration	70	34
	<u>104</u>	<u>58</u>
	<u><u>104</u></u>	<u><u>58</u></u>

	1995	1994 (9 months)
	£'000	£'000
Staff costs (for the above persons)		
Wages and salaries	2,473	1,106
Social security costs	230	94
Other pension costs	513	159
	<u>3,216</u>	<u>1,359</u>
	<u><u>3,216</u></u>	<u><u>1,359</u></u>

5 Profit on ordinary activities before taxation

	1995	1994 (9 months)
	£'000	£'000
Profit on ordinary activities before tax is stated after charging:		
Depreciation charge for the year:		
Tangible owned fixed assets	55	15
Auditors' remuneration		
- audit services	21	23
- non-audit services	12	25
	<u>88</u>	<u>43</u>
	<u><u>88</u></u>	<u><u>43</u></u>

6 Interest payable and similar charges

	1995	1994 (9 months)
	£'000	£'000
On bank loans, overdrafts and other loans wholly repayable within one year	25,841	5,680
To group companies	4,373	3,509
	<u>30,214</u>	<u>9,189</u>

7 Tax on profit on ordinary activities

	1995	1994 (9 months)
	£'000	£'000
United Kingdom corporation tax at 33% (1994: 33%)	962	372
	<u>962</u>	<u>372</u>

8 Tangible fixed assets

	Fixtures, fittings & equipment £'000
Cost	
At 1 January 1995	91
Additions	228
Disposals	-
At 31 December 1995	319
Depreciation	
At 1 January 1995	14
Charge for period	55
Disposals	-
At 31 December 1995	69
Net book value	
At 31 December 1995	250
At 31 December 1994	77

9 Debtors

	1995	1994
	£'000	£'000
Trade debtors	578,064	365,928
Amounts owed by fellow subsidiary undertakings	-	386
Other debtors	1,560	3,646
Prepayments and accrued income	4,001	1,467
	<u>583,625</u>	<u>371,427</u>

Included in trade debtors is the sum of £234,768,000 (1994: £105,970,000) falling due in more than one year.

Further details on finance lease and hire purchase contract debtors, which are included in trade debtors above, are given below:

	1995	1994
	£'000	£'000
Net investment in finance leases and hire purchase contracts comprises:		
Total amounts receivable	36,702	10,397
Less: Interest allocated to future periods	(5,714)	(1,823)
	<u>30,988</u>	<u>8,574</u>
Rentals receivable during the year	<u>3,293</u>	<u>555</u>
Assets acquired during the year	<u>44,604</u>	<u>9,772</u>

10 Creditors: amounts falling due within one year

	1995 £'000	1994 £'000
Bank loans and overdrafts	316,534	210,921
Trade creditors	5,748	4,290
Amounts owed to ultimate parent undertaking	8,000	-
Amounts owed to immediate parent undertaking	33	-
Amounts owed to fellow subsidiary undertakings	144,403	120,000
Corporation tax payable	962	372
Other creditors	1,335	-
Accruals and deferred income	10,181	4,220
	<u>487,196</u>	<u>339,803</u>

11 Creditors: amounts falling due after more than one year

	1995 £'000	1994 £'000
Amounts owed to fellow subsidiary undertakings (due between one and two years)	<u>27,200</u>	<u>-</u>

12 Provisions for liabilities and charges

	Future maintenance £'000	Residual value losses £'000	VAT £'000	Total £'000
At 1 January 1995	1,106	-	-	1,106
Profit and loss account	4,795	564	1,023	6,382
At 31 December 1995	<u>5,901</u>	<u>564</u>	<u>1,023</u>	<u>7,488</u>

There is no actual or potential liability for deferred tax.

13 Called up share capital

	1995 £'000	1994 £'000
Authorised		
100,000,000 (1994: 50,000,000) ordinary shares of £1 each	100,000	50,000
	<u> </u>	<u> </u>
Allotted, called up and fully paid		
60,000,001 (1994: 33,000,001) ordinary shares of £1 each	60,000	33,000
	<u> </u>	<u> </u>

On 24 March 1995 the authorised share capital was increased to 100,000,000 ordinary shares. On 3 April 1995 27,000,000 ordinary shares were issued at par for a cash consideration.

The share issue was made to strengthen the company's asset base.

14 Reconciliation of movements in shareholders' funds

	1995 £'000	1994 £'000
Equity shareholders' funds:		
At 1 January	33,714	-
Issue of shares	27,000	33,000
Profit for the financial year	1,555	714
	<u> </u>	<u> </u>
At 31 December	62,269	33,714
	<u> </u>	<u> </u>

15 Reserves

	Profit & loss account £'000
Retained profit:	
At 1 January 1995	714
Profit for the year	1,555
	<u> </u>
At 31 December 1995	2,269
	<u> </u>

16 Analysis of changes in cash and cash equivalents during the year

	1995 £'000	1994 £'000
Balance at 1 January	1,698	-
Net cash (outflow)/inflow	(1,654)	1,698
Balance at 31 December	44	1,698

17 Analysis of the balances of cash and cash equivalents

	1995 £'000	1994 £'000	1995 Change in the year £'000
Cash at bank and in hand	278	3,119	(2,841)
Bank loans and overdrafts	(234)	(1,421)	1,187
	44	1,698	(1,654)

18 Analysis of changes in financing during the year

	Share capital 1995 £'000	Bank and other loans 1995 £'000	Share capital 1994 £'000	Bank and other loans 1994 £'000
Balance at 1 January	33,000	329,500	-	-
Issue of shares	27,000	-	33,000	-
Bank loans taken out	-	106,800	-	209,500
Loans from fellow subsidiary undertakings	-	46,635	-	120,000
Balance at 31 December	60,000	482,935	33,000	329,500

19 Capital commitments

There were no capital commitments authorised at the year end which have not been provided for.

20 Pension obligations

Pension arrangements for staff are operated through a defined benefit scheme managed by a fellow subsidiary, Volkswagen Group United Kingdom Limited, which is funded and self administered.

Contributions to the scheme are charged to the profit and loss account so as to spread the expected cost of pensions, calculated in accordance with actuarial advice, on a systematic basis over employees' working lives.

The total pension cost to the company in the year was £513,142 (1994: £159,199).

The contributions are determined by an independent actuary, Hymans Robertson, on the basis of actuarial valuations using the projected unit method. The most recent actuarial valuation of the scheme was at 30 September 1992. On that date the market value of the assets of the scheme amounted to £49,430,000. The actuarial value of these assets was sufficient to cover 135% of the value of benefits accruing to the members. The surplus will be eliminated by the reduction of actual contributions to the scheme.

The assumptions which have the most significant effect on the results of the valuation are the excess of the rate of return on investments over increases in future salaries and pensions. The real rate of return assumed over salary inflation was 2% per annum and the real rate of return over pension increases was 4% per annum.

21 Ultimate parent company

The immediate parent undertaking is Volkswagen Financial Services AG, a company incorporated in Germany.

The ultimate parent undertaking is Volkswagen AG, a company incorporated in Germany. Copies of the ultimate parent's consolidated financial statements can be obtained from Volkswagen AG, Postfach 4742 D-38037 Braunschweig, Germany.