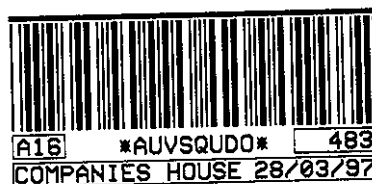


Registered no: 2835230

Volkswagen Financial Services (UK) Limited

**Annual report for the year ended
31 December 1996**



Volkswagen Financial Services (UK) Limited

Annual report for the year ended 31 December 1996

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Directors' report for the year ended 31 December 1996

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 1996.

Principal activities

The principal activity of the company is the provision of finance to Volkswagen group franchised dealers, retail customers and corporates. In addition to this, the company provides various service and maintenance products.

Review of business

The company supports all four brands (Audi, Seat, Skoda and Volkswagen) in developing creative products and serves to help the four brands sell more cars, more profitably and underscore the joint commitment to meeting the changing needs of a highly dynamic market.

Through regular consultation with the dealer network, the company has launched many products and services which allow the dealers to focus on their core business whilst reducing administrative and financial burdens.

The company has gone from strength to strength as increasing numbers of customers have been attracted to and taken advantage of, more flexible and imaginative forms of vehicle finance. After just thirty months of trading, the company has achieved, on schedule, its target of 100,000 live contracts.

To facilitate a business partnership with the four brands, the dealer network and to create a business culture which reflects the aim of achieving optimal customer satisfaction the company is developing its systems infrastructure.

Dividends and transfers to reserves

The profit before taxation for the year ended 31 December 1996 amounted to £7,675,000 as set out in the profit and loss account on page 5. The directors do not recommend the payment of a dividend and the profit after tax of £3,607,000 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.

Pension fund

From April 1997 the company will be offering a money purchase pension scheme. Existing members of the final salary scheme will have the option of remaining with that scheme or transferring their benefits to the new scheme.

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



M G Hill
Managing Director



R Mielke
Deputy Managing Director

21 February 1997

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

We have audited the financial statements on pages 5 to 15.

Respective responsibilities of directors and auditors

As described on page 3 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.

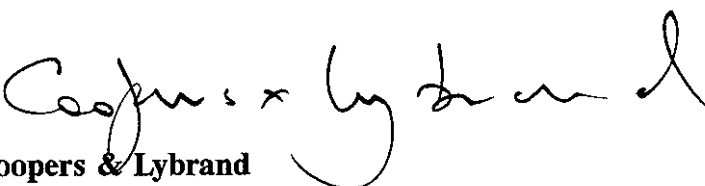
Basis of opinion

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 1996 and of its profit 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

21 February 1997

Profit and loss account for the year ended 31 December 1996

	Notes	1996 £'000	1995 £'000
Turnover	2	83,052	55,862
Administrative expenses		<u>(34,423)</u>	<u>(23,276)</u>
Operating profit		48,629	32,586
Interest receivable and similar income		96	145
Interest payable and similar charges	5	<u>(41,050)</u>	<u>(30,214)</u>
Profit on ordinary activities before taxation	6	7,675	2,517
Tax on profit on ordinary activities	7	<u>(4,068)</u>	<u>(962)</u>
Retained profit for the year	14	<u><u>3,607</u></u>	<u><u>1,555</u></u>

All items in 1995 and 1996 arise from continuing operations.

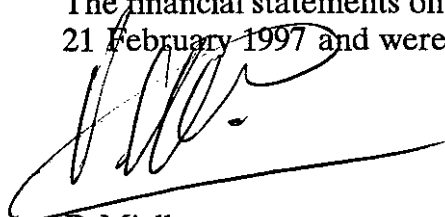
The company has no recognised gains and losses other than the profits above and therefore no separate statement of total recognised gains and losses has been presented.

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 1996

	Notes	1996 £'000	1995 £'000
Fixed assets			
Tangible assets	8	<u>1,930</u>	<u>250</u>
Current assets			
Debtors: due in less than one year	9	471,611	348,857
due in more than one year	9	325,669	234,768
Cash at bank and in hand		86	278
		<u>797,366</u>	<u>583,903</u>
Creditors: amounts falling due within one year	10	<u>715,820</u>	<u>487,196</u>
Net current assets		<u>81,546</u>	<u>96,707</u>
Total assets less current liabilities		83,476	96,957
Creditors: amounts falling due after more than one year	11	-	27,200
Provisions for liabilities and charges	12	17,600	7,488
		<u>65,876</u>	<u>62,269</u>
Net assets		65,876	62,269
Capital and reserves			
Called up share capital	13	60,000	60,000
Profit and loss account	14	5,876	2,269
Equity shareholders' funds	15	<u>65,876</u>	<u>62,269</u>

The financial statements on pages 5 to 15 were approved by the board of directors on 21 February 1997 and were signed on its behalf by:



R Mielke
Director

Notes to the financial statements for the year ended 31 December 1996

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) Contract hire and other operating leases granted

Gross earnings from operating leases are allocated to accounting periods on a straight line basis over the life of the lease granted.

Profit on the maintenance element of contract hire agreements is recognised at the end of the life of the agreement.

(d) Tangible fixed assets

Depreciation is provided on cost or written down value over the estimated useful lives of the assets. The rates of depreciation are as follows:

Fixtures, fittings and equipment	20 - 33% per annum
Buildings	Over the life of the lease granted to the customer

(e) 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.

(f) 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.

(g) Cashflow statement

The directors have adopted the provisions of FRS 1 (Revised 1996) and have taken advantage of the exemption allowing them to dispense with the preparation of a cashflow statement as they are a 100% subsidiary whose parent company accounts are available to the public.

(h) Related parties

The directors have adopted the provisions of FRS 8 and have taken advantage of the exemption of the disclosure requirements regarding related party transactions as they are a 100% subsidiary whose consolidated accounts are available to the public.

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

	1996	1995
	£'000	£'000
Remuneration for services in a managerial capacity	211	173
Other emoluments (including pension contributions and benefits in kind)	74	36
	<u>285</u>	<u>209</u>

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

	1996	1995
	£	£
The chairman	Nil	Nil
	==	==
The highest-paid director	138,360	115,535
	==	==

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:

	1996	1995
	Number	Number
£Nil to £5,000	3	3
£75,001 to £80,000	-	1
£90,001 to £95,000	1	-
£115,001 to £120,000	-	1
£135,001 to £140,000	1	-

4 Employee information

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

	1996	1995
	Number	Number
By activity		
Sales	40	34
Administration	98	70
	==	==
	138	104
	==	==
	1996	1995
	£'000	£'000
Staff costs (for the above persons)		
Wages and salaries	3,204	2,473
Social security costs	317	230
Other pension costs	457	513
	==	==
	3,978	3,216
	==	==

5 Interest payable and similar charges

	1996	1995
	£'000	£'000
On bank loans, overdrafts and other loans wholly repayable within one year	22,838	25,841
To group companies	18,212	4,373
	<u>41,050</u>	<u>30,214</u>

6 Profit on ordinary activities before taxation

	1996	1995
	£'000	£'000
Profit on ordinary activities before tax is stated after charging:		
Depreciation charge for the year:		
Tangible owned fixed assets	109	55
Auditors' remuneration	27	21
- audit services	38	12
- non-audit services	==	==

7 Tax on profit on ordinary activities

	1996	1995
	£'000	£'000
United Kingdom corporation tax at 33% (1995: 33%)	<u>4,068</u>	<u>962</u>

The difference between the tax rate apparent in the financial statements and the UK tax rate of 33% is mainly due to timing differences.

8 Tangible fixed assets

	Land and buildings	Fixtures, fittings & equipment	Total
	£000	£000	£000
Cost			
At 1 January 1996	-	319	319
Additions	1,651	138	1,789
Disposals	-	-	-
	<u>1,651</u>	<u>457</u>	<u>2,108</u>
At 31 December 1996			
	<u>1,651</u>	<u>457</u>	<u>2,108</u>
Depreciation			
At 1 January 1996	-	69	69
Charge for period	5	104	109
Disposals	-	-	-
	<u>5</u>	<u>173</u>	<u>178</u>
At 31 December 1996			
	<u>5</u>	<u>173</u>	<u>178</u>
Net book value			
At 31 December 1996	<u>1,646</u>	<u>284</u>	<u>1,930</u>
At 31 December 1995	-	250	250

The book value of, and income relating to tangible fixed assets held for rental to customers is:

	1996 £000	1995 £000
Cost	1,651	-
Accumulated depreciation	(5)	-
Net book value	<u>1,646</u>	<u>-</u>
Income	<u>14</u>	<u>-</u>

9 Debtors

	1996 £'000	1995 £'000
Trade debtors	788,403	578,064
Amounts owed by fellow subsidiary undertakings	1,679	-
Other debtors	1,025	1,560
Prepayments and accrued income	6,173	4,001
	<u>797,280</u>	<u>583,625</u>

Included in trade debtors is the sum of £325,669,000 (1995: £234,768,000) falling due in more than one year.

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

	1996 £'000	1995 £'000
Net investment in finance leases comprises:		
Total amounts receivable	62,138	36,702
Less: Interest allocated to future periods	(8,383)	(5,714)
	<u>53,755</u>	<u>30,988</u>
Rentals receivable during the year	<u>15,853</u>	<u>3,243</u>
Assets acquired during the year	<u>40,241</u>	<u>44,604</u>

10 Creditors: amounts falling due within one year

	1996 £'000	1995 £'000
Bank loans and overdrafts	288,763	316,534
Trade creditors	1,424	5,748
Amounts owed to ultimate parent undertaking	252,187	8,000
Amounts owed to immediate parent undertaking	56	33
Amounts owed to fellow subsidiary undertakings	159,746	144,403
Corporation tax payable	4,153	962
Other creditors	5,524	1,335
Accruals and deferred income	3,967	10,181
	<u>715,820</u>	<u>487,196</u>

11 Creditors: amounts falling due after more than one year

	1996 £'000	1995 £'000
Amounts owed to fellow subsidiary undertakings (due between one and two years)	-	27,200
	<u>-</u>	<u>27,200</u>

12 Provisions for liabilities and charges

	Future maintenance £'000	Residual value losses £'000	Other £'000	Total £'000
At 1 January 1996	5,901	564	1,023	7,488
Profit and loss account	-	4,124	729	4,853
Net cash received on maintenance contracts	5,259	-	-	5,259
	<u>11,160</u>	<u>4,688</u>	<u>1,752</u>	<u>17,600</u>
At 31 December 1996	<u>11,160</u>	<u>4,688</u>	<u>1,752</u>	<u>17,600</u>

There is no actual or potential liability for deferred tax. A deferred tax asset amounting to £1,462,000 exists but has not been recognised on the grounds of prudence.

13 Called up share capital

	1996 £'000	1995 £'000
Authorised		
100,000,000 ordinary shares of £1 each	100,000	100,000
	<u> </u>	<u> </u>
Allotted, called up and fully paid		
60,000,001 ordinary shares of £1 each	60,000	60,000
	<u> </u>	<u> </u>

14 Reserves

	Profit & loss account £'000
Retained profit:	
At 1 January 1996	2,269
Profit for the year	3,607
	<u> </u>
At 31 December 1996	5,876
	<u> </u>

15 Reconciliation of movements in shareholders' funds

	1996 £'000	1995 £'000
Equity shareholders' funds:		
At 1 January	62,269	33,714
Issue of shares	-	27,000
Profit for the financial year	3,607	1,555
	<u> </u>	<u> </u>
At 31 December	65,876	62,269
	<u> </u>	<u> </u>

16 Capital commitments

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

17 Financial commitments

The company has entered into a number of amortising interest rate swaps with various banks in order to hedge its interest rate risk. The notional value of these swaps outstanding at 31 December 1996 was £176,922,000.

18 Pension obligations

Pension arrangements for employees 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 £456,789 (1995: £513,142).

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 1995. On that date the market value of the assets of the scheme amounted to £75,200,000. The actuarial value of these assets was sufficient to cover 128% of the value of benefits accruing to the members. The surplus will be eliminated by the reduction of actual contributions to the scheme over the remaining service lives of current members of 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.

19 Ultimate parent company

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

The ultimate parent undertaking is Volkswagen Aktiengesellschaft, a company incorporated in Germany. Copies of the ultimate parent's consolidated financial statements can be obtained from Volkswagen Aktiengesellschaft, Finaz - Publizität and Statistik, D-38436 Wolfsburg, Germany.