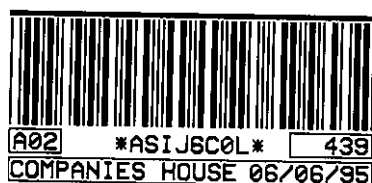


Volkswagen Financial Services (UK) Limited (formerly Kellens Limited)

**Annual report for the period
from the date of incorporation (12 July 1993) to
31 December 1994**

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Directors' report
for the period from the date of incorporation
(12 July 1993) to 31 December 1994

The directors present their report and the audited financial statements for the period ended 31 December 1994.

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

The company was incorporated on 12 July 1993 under the name Kellens Limited. The company's name was changed by way of a special resolution to Volkswagen Financial Services (UK) Limited on 2 November 1993.

The company commenced trading on 1 April 1994. The results for the period are set out in the profit and loss account on page 4 and the company's financial position is set out in the balance sheet on page 5. The directors consider that the company will continue to expand its business in the next year, particularly with the introduction of financing for the Skoda and SEAT brands.

Dividends and transfers to reserves

The directors do not recommend the payment of a dividend and the profit for the period has been transferred to reserves.

Directors

The directors who served during the period are as follows:

	Appointed	Resigned
K E Lewington	12 July 1993	2 November 1993
P M Schneider (Chairman)	22 December 1993	
R B Ide	16 March 1994	
M G Hill	16 March 1994	
R Mielke	16 March 1994	
N M Massfeller	16 March 1994	

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 period.

Changes in fixed assets

The movements in fixed assets during the period are set out in note 9 to the financial statements.

Directors' responsibilities statement

Company law requires the directors to prepare financial statements for each financial period 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;
- 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 (as amended). 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

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

We have audited the financial statements on pages 4 to 15.

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.

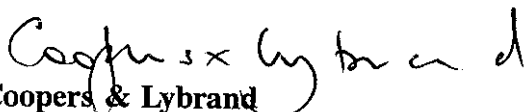
Basis of opinion

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 1994 and of its profit and cash flows for the period then ended and have been properly prepared in accordance with the Companies Act 1985.


Coopers & Lybrand

Chartered Accountants and Registered Auditors
Milton Keynes

2 June 1995

Volkswagen Financial Services (UK) Limited (formerly Kellens Limited)

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Profit and loss account for the period from the date of incorporation (12 July 1993) to 31 December 1994

	Notes	£'000
Turnover - continuing operations	2	18,633
Net operating expenses - continuing operations	3	<u>(8,358)</u>
Operating profit - continuing operations		10,275
Interest payable and similar charges	7	<u>(9,189)</u>
Profit on ordinary activities before taxation	6	1,086
Tax on profit on ordinary activities	8	<u>(372)</u>
Retained profit for the period		<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 period stated above, and their historical cost equivalents.

Volkswagen Financial Services (UK) Limited (formerly Kellens Limited)

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Balance sheet at 31 December 1994

	Notes	£'000
Fixed assets		
Tangible assets	9	77
Current assets		
Debtors: due in less than one year	10	265,457
due in more than one year	10	105,970
Cash at bank and in hand		3,119
		<u>374,546</u>
Creditors: amounts falling due within one year	11	<u>339,803</u>
Net current assets		<u>34,743</u>
Total assets less current liabilities		<u>34,820</u>
Provisions for liabilities and charges	12	1,106
Net assets		<u><u>33,714</u></u>
Capital and reserves		
Called up share capital	13	33,000
Profit and loss account	15	714
Equity shareholders' funds	14	<u><u>33,714</u></u>

The financial statements on pages 4 to 15 were approved by the board of directors on 24 May 1995 and were signed on its behalf by:



R Mielke
Director

Volkswagen Financial Services (UK) Ltd



Yeomans Drive Blakelands Milton Keynes MK14 5AN

Registrar of Companies
Companies House
Crown Way
Cardiff
CF4 3UZ
For the attention of P C Coates

Your ref: COAD/02834230
Our ref: GJD/mvm/J220

5 June 1995

Dear Sir

VOLKSWAGEN FINANCIAL SERVICES (UK) LIMITED
COMPANY NO: 2835230

Please find enclosed for filing our Annual Accounts for the period ended 31st December 1994.

As you kindly informed us in your letter dated 15th May 1995, we were granted an extension of 1 month from 12th May 1995 to file the accounts and have therefore complied with the requirements of the Companies Act.

Please acknowledge safe receipt.

Yours faithfully


GJ Daly
COMPANY SECRETARY



Volkswagen Financial Services (UK) Limited (formerly Kellens Limited)

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Cash flow statement for the period ended 31 December 1994

	Notes	£'000
Net cash outflow from operating activities		(234,840)
Returns on investments and servicing of finance		
Interest paid		(5,871)
Net cash outflow from returns on investments and servicing of finance		(5,871)
Investment activities		
Purchase of tangible fixed assets		(97)
Sale of tangible fixed assets		6
Net cash outflow from investing activities		(91)
Net cash outflow before financing		(240,802)
Financing		
Issue of shares		33,000
Bank loans		209,500
Net cash inflow from financing		242,500
Increase in cash and cash equivalents	16	1,698

Volkswagen Financial Services (UK) Limited (formerly Kellens Limited)

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Reconciliation of operating profit to net cash inflow from operating activities

	£'000
Operating profit	10,275
Depreciation on tangible fixed assets	15
(Profit) on sale of fixed assets	(1)
Increase in trade debtors	(365,928)
(Increase) in amounts owed by group undertaking	(386)
(Increase) in other debtors	(3,646)
(Increase) in prepayments and accrued income	(1,467)
Increase in trade creditors	4,290
Increase in amounts owed to parent and fellow subsidiaries	120,000
Increase in accruals and deferred income	902
Increase in provisions	1,106
Net cash (outflow) from operating activities	<u>(234,840)</u>

Notes to the financial statements
for the period from the date of incorporation
(12 July 1993) to 31 December 1994

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) Income recognition

Income from instalment credit transactions is calculated by application of the sum of the digits method. Trade debtors are stated after finance charges relating to future periods have been deducted.

(c) 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.

(d) Pensions

Pension arrangements for staff are operated through a final salary scheme managed by V.A.G (UK) 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 March 1994.

2 Turnover

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

3 Net operating expenses

	£'000
Continuing operations	
Administrative expenses	6,761
Selling expenses	1,597
	<u>8,358</u>
	<u><u>8,358</u></u>

4 Directors' emoluments

	£'000
Remuneration for services in a managerial capacity	80
Other emoluments (including pension contributions and benefits in kind)	23
	<u>103</u>
	<u><u>103</u></u>

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

The chairman	£Nil
	<u>£Nil</u>
The highest-paid director	£68,586
	<u><u>£68,586</u></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:

	Number
£Nil to £5,000	4
£20,001 to £25,000	1
£65,001 to £70,000	1

Volkswagen Financial Services (UK) Limited (formerly Kellens Limited)

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5 Employee information

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

By activity	Number
Sales	24
Administration	34
	—
	58
	==
	£'000
Staff costs (for the above persons)	
Wages and salaries	1,106
Social security costs	94
Other pension costs	159
	—
	1,359
	==

6 Profit on ordinary activities before taxation

	£'000
Profit on ordinary activities before tax is stated after charging:	
Depreciation charge for the period:	
Tangible owned fixed assets	15
Auditors' remuneration	
- audit services	23
- non-audit services	25
	—

7 Interest payable and similar charges

	£'000
On bank loans, overdrafts and other loans wholly repayable within one year	5,680
To group companies	3,509
	—
	9,189
	==

8 Tax on profit on ordinary activities

	£'000
United Kingdom corporation tax at 33%	372
	<u> </u>

9 Tangible fixed assets

	Fixtures, fittings & equipment £'000
Additions	97
Disposals	(6)
	<u> </u>
At 31 December 1994	91
	<u> </u>
Depreciation	
Charge for period	15
Disposals	(1)
	<u> </u>
At 31 December 1994	14
	<u> </u>
Net book value	
At 31 December 1994	77
	<u> </u>

10 Debtors

	£'000
Trade debtors	365,928
Amount owed by fellow subsidiary undertakings	386
Other debtors	3,646
Prepayments and accrued income	1,467
	<u> </u>
	371,427
	<u> </u>

Included in trade debtors is the sum of £105,970,000 falling due in more than one year.

11 Creditors: amounts falling due within one year

	£'000
Bank loans and overdrafts	210,921
Trade creditors	4,290
Amounts owed to fellow subsidiary undertakings	120,000
Corporation tax	372
Accruals and deferred income	4,220
	<u>339,803</u>

12 Provisions for liabilities and charges

Provisions for liabilities and charges represents provisions for expected future maintenance in respect of vehicles leased with maintenance agreements.

13 Called up share capital

	£'000
Authorised	
50,000,000 ordinary shares of £1 each	<u>50,000</u>
Allotted, called up and fully paid	
33,000,001 ordinary shares of £1 each	<u>33,000</u>

The company was incorporated with a share capital of 1,000 ordinary shares of £1 each. One subscriber share was issued on incorporation. On 23 February 1994 the authorised share capital was increased to 50,000,000 ordinary £1 shares. During the period the following shares were issued at par for a cash consideration:

Date	Number of ordinary £1 shares
30 March 1994	20,000,000
11 July 1994	5,000,000
19 December 1994	8,000,000

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.

All the above share issues were made to strengthen the company's asset base.

14 Reconciliation of movements in shareholders' funds

	£'000
Issue of shares	33,000
Profit for the financial period	714
	<hr/>
At 31 December 1994	33,714
	<hr/> <hr/>

15 Reserves

	Profit & loss account £'000
Retained profit for the period	714
	<hr/>
At 31 December 1994	714
	<hr/> <hr/>

16 Cash and cash equivalents

	£'000
Changes in the period	
Net cash inflow	1,698
	<hr/>
At 31 December 1994	1,698
	<hr/> <hr/>
Analysis of balances	
Cash at bank and in hand	3,119
Bank loans and overdrafts	(1,421)
	<hr/>
At 31 December 1994	1,698
	<hr/> <hr/>

17 Analysis of changes in financing during the year

	Bank loans £'000	Share capital £'000
Issue of shares	-	33,000
Bank loans	209,500	-
	<hr/>	<hr/>
At 31 December 1994	209,500	33,000
	<hr/>	<hr/>

18 Capital commitments

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

19 Pension obligations

Pension arrangements for staff are operated through a defined benefit scheme managed by a fellow subsidiary, V.A.G (UK) 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 period was £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.

20 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.