
MANAGEMENT DISCUSSION SECTION**Company Presenter**

I hope you all had a nice trip here, and this year we have two changes. First of all, I'd like to welcome Dr. Bernhard up on stage with us. He's here for the very first time at an annual press conference as a member of the Group Board. And secondly, we are particularly pleased that this year we have 12 Chinese colleagues here with us who have come to the annual press conference to be with us. Welcome. And as you can see, on the board, we have simultaneous interpretation for you into Chinese too. Welcome to all of you, and you, of course, are welcome to listen to a simultaneous interpretation if you like.

Now, let me tell you some organizational arrangements. Let me tell you the process. The procedure here; first of all, as always, Dr. Pischetsrieder will give you a brief overview of the year 2004. Mr. Pötsch will follow, leading us through all the numbers. And then finally, Dr. Pischetsrieder will come back and speak, this time he'll give us an outlook on 2005. You ought to have all of the documentation in German and English now. As always, the manuscript for the speech is there, but as it says, check against delivery. Dr. Pischetsrieder, the floor is yours.

Dr. Bernd Pischetsrieder, Chairman of the Board of Management of the Volkswagen Brand

Ladies and gentlemen, welcome, also on behalf of the board, to Volkswagen's annual press conference here at Wolfsburg plant. And I would like to extend a particular welcome to you, Dr. Bernhard, sir, at this occasion. And I think we at Volkswagen AG should also welcome our new major shareholder, the Capital Group Company Incorporated, who will also attend tomorrow's analysts' press conference. I'd like to start with a few remarks on the fiscal 2004, what was the situation like for Volkswagen. You all know that the earnings forecast published for July 2004 was exceeded. So, at more than 2 billion before special items and 1.6 billion after special items, we exceed this forecast.

Now, in the field of cash flow with €1.9 billion, we have a positive cash flow; that's very pleasing for the Automotive division that is, and Mr. Pötsch will go into this. Those resulted from a cut in investing activities of about 17%, and this with 26 startups at 15 plants, all of them successful. Let me underline, once again, that this year and in subsequent years, we will carry you through our product program cuts in investment activities, mean that we will achieve what we intend to achieve with less expenditure. Then, our new model initiative was very successful. Our target of more than 5 million vehicles supplied to customers was exceeded. And last but not least, our quality strategy, Volkswagen Excellence is bearing fruit. The quality of our group products was further enhanced and the reliability of our vehicles increased in a sustained manner.

Ladies and gentlemen, you know that 2004 was an eventful year, to put it mildly. The overall economic conditions in the world's markets were persistently unfavorable. The main focus was on the discussion of extreme price competition, not only in the German market, but also in other markets worldwide. Then we had adverse exchange rate conditions in those markets, which are particularly important for the Volkswagen Group. Then, of course, the Chinese government introduced measures to cool economic growth in that country, which is actually something from a macroeconomic perspective that we welcome, and then we have increased prices for commodities and materials. We move to lay the foundations for securing Volkswagen's future success also under these conditions, and to enhance the strategic orientation of the group.

Last year, we agreed the Group Strategy 2015, with a comprehensive product portfolio, which includes not just passenger cars, but also financial services as such. And group guidelines, of course, had already been adopted in 2002.

But secondly, what counts is operational success on the basis of these measures of this strategy and guidelines. And we were successful, our program ForMotion was a success, and we achieved more than 1 billion savings, that's 1.6 billion actually. Mr. Pötsch will go into this also. An important aspect of ForMotion is the optimization of processes and workflows, which is, of course, a precondition for the cutting of cost. And, of course, what is also important is something that will improve the starting position for the Volkswagen Group, especially Volkswagen AG, and that is the unbundling of group and brand functions.

At the beginning of 2004, of course, once again I must say with a certain irony, we had a hope, a hope that the year 2004 would bring an upturn. We now know that this was not the case. We have stagnation in the markets; markets are flat and there is only slight growth in some markets. And in the United States, of course, growth had to be paid for. So, flat growth characterized the automotive markets of the world. We announced at last year's annual press conference that we were holding to our goal of exceeding the previous year figure of 5 million vehicles delivered, and we defended our position in China and in Germany, and every third car registered in this country is a product of the Volkswagen Group.

Our model initiative contributed considerably to that. The Golf GTI, the Audi A3 Sportsback, the Audi A4 Saloon, the Audi A6, the Seat Altea and Toledo, Skoda Octavia, Octavia Combi, Caddy Life from Volkswagen, the Bentley Continental GT, they all were impressive testimony to the diversity of our new product range in 2004. The Touran and Touareg, of course, had already been launched in 2003 and they recorded double-digit growth, and the Golf also contributed considerably to this success. Since April 2004, the Golf has again led the Western European registration statistics. In the Chinese market, the Volkswagen Group was also able to defend its pole position.

The wide variety of new vehicle models, however, led to aggressive sales promotion measures of our competitors and to the use of drastic sales incentives by other vehicle manufacturers. The Volkswagen Group have decided not to have a share of this, so they said "we are not going to defend market share at any price; it's important to keep income from our sales at a certain level." Of course, we intend to maintain our position as market leaders in China, and profit more clearly from the growing demand in China. We are carrying out through a reorientation of all business processes which focuses in particular on a sharper market positioning of the Volkswagen brand and of bringing in an effective distribution network which considers the needs and requirements of the customer and in supplying a product range that's better tailored to the Chinese market's requirements. China is the second most important market for us with 648,500 vehicles delivered.

In Brazil, we reported that 2003 was a year of restructuring measures. They've been successfully completed in Brazil, these measures, and we were able to achieve a 25% growth in unit sales to 533,000 vehicles. The reorganization and restructuring of the company, as such, contributed to this, as well as the success of the Fox, which was launched in South America.

In the United States, you all know that market developments were characterized by massive discounts. American experts assume that up to 1 million vehicles were sold because of these massive discounts and the unfavorable exchange rate, of course, is also affecting Volkswagen. And in 2004, unfortunately our volume models, the Jetta and the Passat, were of course to be replaced and the Jetta has already been replaced or it will be at the dealers within a few days. It's in the marketing phase and the Passat will come to dealers in the second half of the year.

So, without the new models and with our reluctance to take part in this extensive sales promotion competition, our market share, of course, in the United States had booked certain losses, though Audi maintained its position very well. What has changed is not just the markets, however,

customer requirements also changed. It's no longer the case that we have large traditional vehicle segments, customer demands become more differentiated and the Volkswagen Group decided already years ago that it's our goal to cover 85% of passenger car segments and many of the cars which we launched last year and will launch successfully this year aim at achieving this goal. So, we assume that our goal of covering 85% of passenger car segments will be achieved.

Diversity in the offer, of course, also means increased financial expenditure. The modular strategy at the Volkswagen Group absorbs this however. So, a wide range of variants in a single vehicle class, are created from identical group-wide modules. So, we don't have a higher cost now, we concentrate our expenditure on those elements which differentiate our products in their exterior, in their character, because every brand has to have its own identity and present its own face.

So, product launches in 2004 were very much under the motto of "new faces, more emotional new faces to the Volkswagen Group brands" and the Golf GTI is a case in point here with its large red-framed radiator grill. So, it of course hops back to the origins of the Golf GTI through its history and has been very well received in the market, more on that in a minute. Then, Seat has its very expressive new headlights and grill and what is most striking in the whole range of Volkswagen Group products is the single-frame radiator grill of Audi. The press has acknowledged our product and their striking new design, my thanks to you, our products have received important prizes. When the Best Cars of 2005 were voted in Germany, Volkswagen won awards in seven out of a total of ten categories; and four of these went to our Audi, three to Volkswagen where every time they got the award for the most popular vehicle in their segment. Registration statistics also reflect that popularity of our products. Of Germany's ten strongest selling vehicles, five are Volkswagen Group products, the Golf, the Audi A4, the Touran, the Passat and the Polo, that's 50%.

And now, a look at our new products for 2005, where I look back at 2004 and towards the future 2005. 2004 here, first and foremost, we have the Golf GTI, which was launched in the spring 2004 with the DSG, the direct shift to a clutch gearbox. And here let me make the following remark. Here, this gearbox is unique to Volkswagen based on our engineering and development and a proof that component strategy is also innovation strategy, innovation that is relevant to the customer.

Next to the GTI, we also launched the Golf ForMotion and in time for the winter, this four-wheel drive will, of course, offer all the advantages the customer requires at that time of the year. The Golf GTI is the icon of the Volkswagen brand and is reviving this idea of unadulterated driving pleasure, and it will merit a few remarks because last year actually every 10th Golf that was ordered was a Golf GTI. At the beginning of this year the Golf Class was joined by another key model, the Golf Plus. It was launched at the Bologna Motor Show last year in December and visitors were unanimous in their praise.

The successor to the Bora will actually bear the name of Jetta, globally – attracted, well, me say this because I experienced it for myself, well, it attracted a rapturous reception at the Motor Show in Los Angeles and Detroit. It's a large type car, it's different from what the Bora was in Europe, it's a vehicle that impresses young people and the design of the new Jetta will bring it to this group also in Europe.

Then we only recently had the static presentation of the new Passat, it was unveiled in Hamburg. Then it was shown at the Geneva Motor Show to the public for the first time, it's the sixth generation of our Passat, 13 million models of the Passat have been sold. And the new Passat, and here I would like to quote some of your colleagues "is a car that fits like a suit." And it meets the customer's requirements in every situation. You are always well dressed in a Passat. It's got a state of the art high quality exterior and also an interior that is exceptionally well equipped for this class of vehicle.

Well, when the Phaeton was presented in Geneva, I said we will learn for future cars from the Phaeton and some people now call the Passat, a Phaeton Junior. Of course, that's not at all what it is and that was not our intention. But, of course, a few things that we learned with the Phaeton can be found in the Passat now and that only serves to confirm the statement I made at the time.

Now, the Caddy is next; the Caddy as an Estate and at the Caddy Life. Caddy Estate as a commercial vehicle, Caddy Life as a family car. It's a car that is equipped for young families and opens up a customer segment for which there was no vehicle around in our product range in the past.

And last but not least, we will be launching in the near future the Air Fox in Leipzig at the Motor Show. The Fox in its European version is certainly not a cheap car. It's a vehicle with a price below €10,000, but it is a car that meets everything that Volkswagen expects of its cars and that the customers want their Volkswagens to meet. So, it will be premiered at the Leipzig Motor Show and at the same time we will be showing the strongly modified Polo to the public, which has now become much more dynamic. And what our modular strategy allows us to do is shown very clearly here by the Skoda Octavia, which has a unique architecture in the group, offering outstanding spaciousness.

So, there's more car for your money, that consists the Skoda Octavia of a large number of modules which are also used for the Seat Altea without affecting the character of the vehicle, so you don't see the commonality, the shared modules when you experience those cars. They are what the customer wants them to be, each in its range. And, of course, that Skoda remains true to its brand philosophy earned it an Award, the Golden Steering Wheel for the best model in the compact and mid-range class. Then the Audi A6 got a prize, first price last week in Geneva, and the Skoda Octavia came second, and left three premium competitors from Germany behind it, clearly behind it. So, that is to show how well received the Skoda Octavia is.

Now, there are also new products in the luxury segment. On the one hand, the Bentley Continental GT. 2004 saw 6,700 new registrations, and the Bentley Continental Flying Spur was shown to the public for the first time this year in Geneva, and with its 560 bhp, it is of course quite an extraordinary vehicle in this ultra-luxury class. Now, the Lamborghini Murcielago is a vehicle that is quite unique, and of course this vehicle will not be sold in huge numbers, but it is the very essence of the Lamborghini brand.

Now, Audi: Audi A6 was elected the car of the year. The car in second place came far behind. The second placed car is the Skoda Octavia I told you. So, that was very pleasing for us. Audi revealed its new face with the Audi A8 12 Cylinders. So, the striking trapezoidal radiator grill known as 'single frame' gives this premium brand an unmistakable profile. It was shortly followed by the launch of the new Audi A6 with the same face. And as I said, it was the winner of Germany's Golden Steering Wheel, was Readers' Choice in the Auto Motorsports Awards and the Audi Avant, which is very important in this segment, will be available from March 18, because in this segment, of course, the Estate version has about 50% market share. So, Audi A6 and the Avant continue a known segment, the Audi A3 Sportsback however, represents an entirely new automobile segment. It combines elegance of a sports coupe with the versatility of a 5-door vehicle.

And the last vehicle to be launched with the new Audi face is the new generation of the Audi A4, and that was supplemented by the S models and just a few days ago in Geneva, by the RS4 which continues the series of sporting RS models with 420 bhp. So, that stands and is a benchmark actually for sporting saloons.

Then, at the Frankfurt Motor Show this year, Audi will be showing the Q7, which is not a crossover but a new definition of the SOV with more emotional styling and multi-functional attitudes and attributes. Then, the Altea and the Toledo, I already mentioned those two vehicles, they show the new Seat face, and their motto is 'A Passion For Life: Auto Emocion'. The third generation of the

Seat Toledo is also a reinterpretation of what's happening in the Spanish market. In the Spanish market, notchback saloons are very important and people also require a large tailgate, which is important for the customer group that normally would buy this type of car.

Then lastly, we'll have a vehicle also on this basis, the Leon prototype was already shown and shows very clearly how greatly you can differentiate cars on the basis of the modular strategy. So, these were the recent product novelties for 2004 and 2005. Well, of course, the product portfolio and the positive assessment for the future encouraged us to propose an unchanged dividend of €1.05 per ordinary share and €1.11 per preferred share.

Mr. Pötsch will now tell you more about the financial result. Thank you.

Hans-Dieter Pötsch, Member of the Board of Management, Controlling and Accounting

Thank you Dr. Pischetsrieder. Ladies and gentlemen, I too would like to bid you a warm welcome to today's annual press conference in Wolfsburg. This time last year, I had to explain to you that the Volkswagen Group was operating in a difficult economic environment. All I can do today is actually repeat what I said then. Unfortunately, the economic fundamentals have not improved since then, but there is one key difference compared to the situation at the end of 2003. Today, supported, for example, by the efforts that we've concentrated in our ForMotion Program and also supported by our cavalcade of new models, the Volkswagen Group is well on the way to becoming less dependent on external factors including markets that are driven by incentives, unfavorable exchange rates and increased commodity prices. Reliability and trust, these are key criteria for the financial markets. This is confirmed, in fact, by the development of Volkswagen AG's share price the day we announced the key data from Volkswagen's consolidated financial statements.

Our operating profit, €2 billion before special items, exceeded the guidance released in July. In addition, our automotive division succeeded in generating a positive net cash flow of €1.9 billion, following a negative net cash flow of 2.5 billion in 2003. This improved net liquidity for the first time in years and it did so by more than €400 million. Now, excluding the funds invested in our stake in LeasePlan, this growth would in fact have been around €1 billion higher than it actually was.

Now, before I move on to the details of these figures, please allow me to comment on some of the presentation and measurement or valuation changes that have affected our 2004 consolidated financial statements, and I am sure that this is of interest to you too. The Volkswagen Group has been applying International Accounting Standards, IAS for short; and International Financial Reporting Standards or IFRS for short, as the new standards are known since 2001. Starting in 2003, the International Accounting Standards Board adopted a range of revisions to existing standards and issued new ones. These must be applied to fiscal years beginning on or after January 1, 2005; they are mandatory starting then.

However, we have actually already implemented the IASB's recommendation and have applied the revised IAS 1, 21, 36 and 38 Standards and the new IFRS 3 Standard in our 2004 consolidated financial statements. We'll publish more detailed information on these changes on our website at the same time as our ad hoc disclosure. You may be interested in knowing, you perhaps already know, that the International Investor Conference tomorrow will be followed by a Teach-In that will report in detail about the new and amended standards.

You will also find comprehensive disclosures on this topic in the notes to the consolidated financial statements contained in the Annual Report. That's why at this point I'd only like to draw your attention to the changes in presentation assets and liabilities, and are presented in the balance sheet in a more transparent format classified by maturities.

In the income statement, we've improved comparability with our peer group by modifying the presentation of sales revenues and the cost of sales of the Financial Services division. Operating profit has not been affected by these changes in presentation. However, there are two changes that have indeed affected reported earnings. The first of these involves IAS 38, which governs accounting for intangible assets. The revision of this standard prompted us to adjust the method we used to calculate the capitalization of development costs and in particular the accounting treatment of the indirect cost components to be included. The outcome was a reduction in capitalized development costs. IAS 8 requires us to apply this standard not only to 2004 but also to restate the comparative figures for the previous year for 2003. The effects of this restatement are recognized in the income statement, in contrast all effects from the application of this standard to fiscal years before 2003, meaning up to and including 2002, have been taken directly to equity and charged against retained earnings and deferred taxes and the result is that we now present our capitalized development costs as if we had always accounted for them under the revised IAS 38.

The consequence of this for 2003 and 2004 is a reduction in earnings resulting from the balance of lower amounts capitalized on the one hand and the reduced amortization of development costs capitalized in previous years on the other hand. Deferred taxes have also decreased correspondingly. In addition to that, we've changed the way we account for goodwill, a consequence of the new IFRS 3 in conjunction with the revised IAS 36. This new accounting treatment must be applied prospectively, and in 2004 it increased consolidated earnings because goodwill amortization has been discontinued and the impairment tests we conducted did not indicate any need to recognize impairment losses.

In total, these two changes increased our 2004 operating profits by €11 million; specifically, there was an increase of €69 million from the discontinuation of goodwill amortization and a decrease of €58 million representing the balance of the lower amounts capitalized and lower amortization of development costs. In addition, the discontinuation of goodwill amortization also increased the financial result by €106 million, and profit before tax was a total therefore of €117 million higher than it would have been without these changes in our accounting methods. A comparison of 2003-2004 earnings shows that these effects were limited – relatively limited. We therefore exceeded our published earnings guidance under both the new and the previous accounting standards.

Now, when you come to analyze our figures, please note that we applied all of these new accounting standards in the full year financial statements, but we are still reporting on the basis of the old standards for the period January to September 2004. Now, to obtain an accurate picture of financial performance in the fourth quarter, the figures for that quarter that would result from deducting the results for the first three quarters from the full year result must therefore be adjusted for the effects of IFRS changes that I have just outlined.

Now ladies and gentlemen, let's move onto the actual figures themselves. First, I'd like to give you an overview of our income statement before addressing in detail the individual items and factors affecting them. Last year, we were able to increase sales revenues by about 5%, with vehicle sales rising by 2.5%. Although the further appreciation of the euro again adversely affected revenue growth, consolidated sales revenues nonetheless increased by more than €4 billion to €89 billion. The automotive business contributed €3.8 billion to this increase and a good 300 million came from our Financial Services business.

The fact that gross profit before special items, which declined by 3.1% year on year, does not reflect this positive revenue growth is due to the disproportionate increase in the cost of sales by a good 6% or €4.5 billion. At €1.6 billion, the operating profit was on a level with the previous year. However, this figure also includes special items from product measures and from structural and workflow optimization incurred as upfront expenditure for the ForMotion Program, although this is lower than in the previous year.

Now, if you eliminate these special items from operating profit, you produce an operating profit before special items for 2004 of €2 billion, as I mentioned earlier. Now including the financial result, which I will address shortly, we recorded a pre-tax profit of €1.1 billion or 18.8% lower than in the previous year. Profit after tax was €716 million. The increase in our effective tax rate by 9 percentage points to almost 35% is due to a baseline effect. In 2003, we talked about that here. The tax relief recognized for group companies domiciled in the Eastern European countries about to join the EU resulted in a significant decrease in the effective tax rate then.

Ladies and gentlemen, I'd now like to examine some individual items in the income statement in greater detail. The picture for sales revenues is as follows. As I said, consolidated sales revenues grew by a total of €4.2 billion last year. €2.4 billion of this increase is due to volume effects from the positive sales development we saw, then €1.7 billion is due to improvements in the product mix, around €900 million to price increases, and approximately €300 million is due to positive development in the Financial Services division. In contrast, the year-on-year movements in euro exchange rates, already at high levels in 2003, decreased sales revenue by €1.1 billion. Adjusted for this effect, the increase in sales revenues would have been 1.3 percentage points higher, so it would have been 6.2%.

As in past years, developments in the individual markets differed substantially in Europe, and the remaining markets revenues grew by slightly under 9%. South America recovered tangibly from the lows of recent years. However, the continued situation of heightened competition in the US resulted in a significant decrease in North America. Sales revenues in the Asia Pacific region, which is generated to a large extent by deliveries of parts and components to our Chinese joint ventures, decreased, in particular, because of the tougher competitive environment and the resulting lower vehicle sales volume in China.

Ladies and gentlemen, I already mentioned that the other operating result increased significantly year-on-year by more than €0.5 billion. This is due primarily to the following factors: on the one hand, allowances for doubtful accounts were €242 million lower than in 2003, and on the other hand, as I reported, as I've already said here we discontinued the amortization of goodwill which had reduced earnings by €133 million in 2003, due to changes in IFRS I mentioned at the beginning of my presentation. We also recorded higher income from cost allocations and asset disposal gains. Volkswagen Group's operating profit before special items was just over €2 billion, a year-on-year decrease of 12.3%. A significant decline in earnings in the Volkswagen brand group was partly offset by improved earnings in the Audi brand group and in our commercial vehicles business line.

The Financial Services division again contributed substantially to group operating profit before special items, with a profit of €956 million, representing an increase of €32 million over the already high 2003 figure. One of the major factors driving this growth was a 3% increase to 2.1 million in the number of new contracts in our financing, leasing, and insurance business. Another was the significant expansion of our fleet management business. More detailed information on the Financial Services division is contained in our Annual Report. The Management Report presents separate balance sheets, income, and cash flow statements for the Automotive and Financial Services divisions, supplemented by a narrative explanation of these figures.

One of the chapters in the mobility section of the Annual Report is also dedicated to our successful Financial Services division. In addition to comprehensive supplementary financial data - in addition to that, comprehensive supplementary financial data is provided in the notes to the consolidated financial statements, including disclosures on leasing and rental assets, non-current and current financial services receivables, and non-current and current financial liabilities. Adjusted for the lower charges on special items, the Volkswagen Group's operating profit remained stable year-on-year at €1.6 billion.

It is of course beyond dispute that this level of earnings is unsatisfactory for us. An analysis of the source of change in operating profit shows that at €800 million, the largest and unfortunately negative factor is the further rise in the single European currency, the euro. The impact was particularly strong for the US dollar. At mid-year point, the euro had risen by a further 10% against the dollar over its already high 2003 level. Currency hedging transactions are one way of minimizing exchange rate losses and these are indeed an instrument we use in the Volkswagen Group, although the downside of such financial instruments is that locking into longer-term rates also increases forecast risk.

Another factor is the cost of entering into such contracts. A better opportunity is provided by, what we call, natural hedging. We aim to align the level of expenditures for purchase services and our own value added in a foreign currency as closely as possible with the level of payments received from sales revenues in that foreign currency, and that's why we will make additional use of production capacities at our existing plants in Mexico and Brazil as well as expanding our procurement capacity in the dollar zone. Positive factors affecting operating profit were primarily the lower level of special items and the distinct optimization of product costs. These are due mostly to our efforts in our ForMotion Program.

When you come to analyze our operating profit, please note that improvements from the ForMotion Program are also offset by factors that reduce earnings. Examples of this were the rise in depreciation charges because of the high level of investment in previous years in conjunction with our new model initiative.

Over the course of 2004, ForMotion improved earnings by a total of €1.6 billion, most of which was in fact sustainable. Around €800 million of this contribution, which is reflected in our income statement, is due to or is attributed to fixed and startup costs, about €500 million to the product costs mentioned earlier, a total of €200 million to volume, product mix, and price effects, and finally €100 million to other factors.

The Volkswagen passenger cars brand contributed about half of the total amount for the current year. As you know, our objective is to achieve total savings worth €3.1 billion in these seven focus areas. The key tool we have for managing our company is our concept of value-based management. This concept is also used to identify the potential for optimization as part of our ForMotion Program, because the point here is that simply wanting to save as much as possible is not enough. You, in fact, have to do it in the right place and you have to exercise judgment in how you do it, especially when it comes to investment decisions you have to make sure that precisely those upfront expenditures are indeed occurred that will safeguard the future of the company and will generate adequate returns.

The focus here is on ROI, return on investment, meaning the ratio of operating profit after-tax to invested capital. In the automotive division, return on investment in 2004 was 1.2%, and therefore below the 2% level recorded in 2003 and it therefore remains far short of our expectations.

Now, if you allow me at this point to assess the earnings generated by the Volkswagen Group in 2004, I have to say that overall we have had an unsatisfactory year. Please note, however, that over the past three years exchange rate developments, the negative market developments and sales promotion measures lost us a cumulative earnings potential of around €5 billion. In this situation, we've achieved considerable progress last year in cost management, driven by our ForMotion Program and, as I will show you, in the management of working capital and liquidity and we have thus established a sound basis for 2005.

In the future we will more closely integrate our traditional automobile business with our financial services business, which has exhibited strong performance for many years, because this is the only way that we can meet the growing demands of our customers that they place on our products and services and thus create, what we call, automobility.

Ladies and gentlemen, as in 2003 the fact that the financial result is structurally negative is due to the expenses from discounting long-term provisions that total around €850 million. The primary factor behind the more negative financial result in 2004 compared with 2003, is the lower level of income from equity investments. Our Chinese joint ventures are accounted for at equity. Their financial results are thus included in income from equity investments and they, again, generated an acceptable ROI in 2004. But, their earnings were substantially lower than in 2003, due to the different market situation prevailing there and the dramatically escalating competition in China. In contrast, the discontinuation of goodwill amortization had a positive effect on income from equity investments, remeasurement gains on securities declined by €178 million while the other items contained in income from equity investments and the interest result improved by €155 million.

Ladies and gentlemen, allow me now to move onto the balance sheet. Restructures remain sound as can be seen from our provisions. Provisions rose by a total of 7.6% or €1.7 billion to €24.5 billion and therefore we have made adequate provisions for the potential risks of future business developments. By far the largest individual items here are the pension provisions, these relate mainly to obligations that are not funded externally but are covered by the assets of group companies.

In addition, since 2003 we have turned our employee pension scheme for our German group companies into a pension fund that is managed by VW Pension Trust EV. The pension liabilities attributable to this are shown as a net amount in the consolidated balance sheet, meaning that they are offset against the corresponding pension plan assets. Since we introduced the fund in 2001, the proportion of the present value of all pension obligations attributable to this externally funded form of pension provision has risen to just under 17%, the figure in the previous year was somewhat over 15%.

The Volkswagen Group's liquidity was reduced by €695 million in this context in 2004. Around two thirds of this was due to direct payments to pensioners and around one third to contributions to the Pension Fund. If you look at the group's gross cash flow before deducting these payments, cash outflows for pensions represented an outflow charge of 6.6%; in the previous year, this ratio was higher at 7.1%. This is clear evidence that the cash outflows from the Volkswagen Group's pension obligations are within manageable limits.

The encouraging growth in the volume of our financial services business resulted in a significant increase in the total assets of this division by around €9 billion, which also increased total assets in the group as whole by the same amount, since the automotive division remains stable. The change in group equity was minimal so the increase in total assets reduced the equity ratio from 20.2 to 18.9%.

The increase in the Financial Services division's equity ratio from 7.5 to 8.8% was due to the internally funded capital increases at Volkswagen Financial Services AG amounting to €1.5 billion, in particular for the acquisition of our stake in the LeasePlan Corporation. In contrast, the equity of the automotive division decreased primarily because of the allocation of consolidation adjustments for the capital increases I just mentioned. This saw the automotive division's equity ratio decline from 30.2 to 28.2%. In the segment analysis, in other words before the allocation of consolidation adjustments, this equity remained on a level with the previous year.

Ladies and gentlemen, the efforts we have undertaken to make Volkswagen fit for the future can best be judged if you have a look at the analysis of liquidity development last year. That liquidity in the Automotive division rose again for the first time since 1998. It increased by €435 million in 2004, after declining by €2.6 billion in 2003. Excluding the capital increases for the Financial Services division, above all for the acquisition of our stake in LeasePlan, this increase would have been much higher in fact.

Adjusting for the negative net liquidity of the financing in other companies primarily from intra group factoring, produces positive net liquidity of €2.2 billion at the end of 2004, which corresponds to a €1 billion increase.

In addition to the €1.3 billion increase in gross cash flow and the €1.6 billion improvement in working capital, the other most striking development is the €1.4 billion reduction in cash flows from investing activities. This means that we succeeded in reducing the ratio of expenditures on property, plant, and equipment to sales revenues to below 7% in 2004 without making any cuts in our new model initiative.

Net cash flow, in other words the total of these figures thus improved by €4.4 billion to a positive €1.9 billion. Of course, we will continue to strive to improve this key performance indicator in the future, but it should be clear that an increase in this magnitude cannot simply be repeated every year. The improvement achieved in 2004 is a result of a systematic change in our approach last year under our ForMotion Program, and at the same time it's a visible document of our success with this program. Gross liquidity rose by €3.4 billion in the Financial Services division, but total third party borrowings automatically rose by €6.9 billion as a consequence of the expansion in the volume of business here. This reduced the Financial Service division's net liquidity by €3.5 billion compared to the previous year.

Ladies and gentlemen, in the 2004 fiscal year the Volkswagen Group generated a profit of €677 million, attributable to the shareholders of Volkswagen AG producing earnings of €1.75 per share of common stock and €1.81 per share of preferred stock. Board of Management and Supervisory Board are therefore proposing to the Annual General Meeting to pay an unchanged dividend this year of €1.05 per share of common stock and €1.11 per share of preferred stock, following the adjustment of our dividend last year, to reflect the lower level of earnings. Thank you for your attention.

Dr. Bernd Pischetsrieder, Chairman of the Board of Management of the Volkswagen Brand

Ladies and gentlemen we come to the conclusion, which is a look towards the future, the expectations for the year 2005. Let me preface my remarks with the following. We do not know how the automotive markets of the future will develop. And, of course, it was not only the Volkswagen Group but also professional forecasters who got their forecasts wrong in the past, and therefore I would like to say that for the year 2005 we assume the following base for our planning. The underlying macro-economic situation is not going to improve and that the mood in the German market will not change. That is to say, a great reluctance to buy new cars, that we will be confronted with the rising commodity prices and that of course are not just the prices of the products of our suppliers but also the high fuel prices. Now, this overall situation I do not expect to change greatly and we base our planning on this situation.

Now, I mentioned our model initiative, a large number of products but these products enough, will not be sufficient, will not give us sufficient room for maneuver, so we must work to optimize the competitive cost structure of our company. We must rely on lean processes, cost conscious working and competitive cost structures to improve the financial situation of our company. We must look at the weather out there; we must work to make the company weatherproof. Process improvements and operational measures are our response to planning uncertainties. We have already introduced a large number of proactive steps here – Mr. Pötsch referred to these. We must also consider external elements, not just the market conditions. That is to say, the changing exchange rates and changes in customer demands, we must be able to react on these quickly.

So, what is important is the following: next to a sustained improvement of our processes, we need to speed up our implementation speeds and to this Dr. Bernhard will contribute with his drive, his ideas, his personality. And Dr. Bernhard already said in Geneva that he will be a minister without

portfolio, but he is certainly not a minister without ideas and he certainly knows how to contribute to the company. And, of course, our ForMotion Program had many approaches last year. Several thousand employees were directly involved in ForMotion project teams and of course all employees in the group contribute with their ideas and their commitment and that under the heading of a cost conscious improve and savings, and ForMotion, of course, in 2004 has already generated earnings improvements of 1.6 billion, and therefore we are confident that will reach our ForMotion target of 3.1 billion by 2005. The results tell us that we are right on track and you can also trust us – we will systematically drive forward the company. The momentum we've gathered will carry us beyond the year 2005. It's already brought some fruit, and towards the middle of the year when we look at budgeted compliance, we will look at our cost optimization goals again, and that on the basis of the sustained effect of the ForMotion Program for the years 2004 and 2005.

Operational issues like budget compliance or overhead reduction, cut of overhead product optimization, all these are things which the line departments will have to look after, that's where the responsibility lies. But product optimization and process optimization will also be looked at from a general point of view. Process optimization is very important, but what is even more important, I'd like to reiterate that, is sustainability. For a company in the automotive industry, of course, there is little point in shifting the costs from one period to the next. So, sustainability is important, more important than just one-off effects and speedy implementation.

So, the ForMotion Program, cost cutting made their contributions, collective wage agreement also make us competitive. The decisive factor here is of course something that everybody knows about, i.e. that we agreed the so-called zero increases plus flexibility. The large flexibility of these collective wage agreements is of even greater importance. It coincides with the number of product launches and large number of new products, so it will help us keep costs down and lower costs.

Lastly, of course, everything that will make our group more competitive, well all these measures of course must be supported by our management and also our staff. They are responsible and the definition of their responsibilities is of the utmost importance. Here at Wolfsburg and for the Volkswagen brand, that also requires an explicit separation between group and brand functions. In the past, and that is something which we felt quite frequently, in the past the dual structure and the fact that an individual had group responsibilities as well as brand responsibilities, well this had a negative effect especially as far as the Volkswagen brand is concerned. And that is why in the next few months, group and brand functions, those which have not yet been split yet will be defined. Now, please don't think that it is our aim to create new group staff positions. There is a question of defining which functions are group functions and which functions need to be managed at a group level so of course as far as their operating effect, they stay within the brand.

Now, our modular strategy is an example, a case in point here. So, we have individuals who are responsible for the group wide use of the modules, but these are people who have a responsibility in a line department within their respective brands. So, we have a certain workflow but we do not want to intend a group to bring in a group holding structure or group staffing positions. The operating responsibility for the brands remains within the brand. Operating responsibility for the management of the group as such will be done by the group, but without taking on additional human resources.

So, we've already actually completed this process for sales and marketing and production, we are working on the other open areas. And, of course, in this context inevitably the question arises as to a separate Board of Management and the Chairman of the Volkswagen brand. I can announce already today that Dr. Bernhard will assume the Chairmanship of the Volkswagen brand long before the 1st January 2006. I know the date, he knows the date, but we are not going to reveal it today. So Dr. Bernhard, well, sits on my left and the other gentleman I am going to talk about sits on the other side because of the alphabetical order in which we sit here. So Dr. Bernhard and Dr. Winterkon will be responsible for their respective brands and brand groups. They will be responsible for the business of their brand groups and the umbrella function remains with the

Volkswagen Group. And what we will be applying is something that you are familiar with from the EU in Brussels, we will be working based on the principle of subsidiarity.

Of course, I do not expect any dynamic growth or significant changes in the market in the economic environment, Professor Gotschaug let me quote him says 'the German market is like a sleeping giant, but we don't quite know when it's going to wake up'. And of course the BGA has made a downward adjustment to vehicle sales from 3.4 million to 3.2 million vehicles for 2005. So, the sleeping giant will continue to sleep. And therefore unit change in sales in January, 2005 for Germany as a whole were the lowest since Germany Unification.

And in December 2004, of course, we had a good situation, but that's probably also due to last minute registrations especially done by importers. Now, in January and February 2005, the Volkswagen Group delivered approximately 687,000 vehicles to customers; that's 0.5% fewer than in the same period of 2005. But deliveries in China declined by 33,000 units year-on-year. Sales in all other markets in January and February increased by 30,000 vehicles, so this is net balancing these minus 0.5%.

Now, the operating profit for the first quarter of 2005 will, as in the previous year, not be satisfactory. In contrast to last year however, that trend has been anticipated by Volkswagen already when we did our budget for the second quarter and second half of 2005 because the A6, Audi Avant, and the Passat, all these vehicles only come into the market in the second half of the year.

Next to the models that I've shown you, we'll have more than 20 new products and product variance in the market in 2005 and we believe that the Volkswagen Group will increase its annual unit sales volume, again in 2005. However, of course, I said this effect will only be reflected clearly in unit sales volumes in the second half of 2005, when all the new models are in the market.

In the United States, we actually put the Jetta on sale this month and we expect that this will mark a turning point in our sales figures. And in Western Europe, we also expect to lift our market shares with the Passat, the Golf Plus and the Fox, but that's not during the first quarter of the year.

Now, the forecast; operating profit after special items - after special items and also before special items will improve year-on-year in 2005. Now, you want to know for how much, by how much, but that depends on external figures and factors that are very difficult to predict. But thanks to the new product, thanks to ForMotion and the enhanced performance of the group, the situation will clearly improve.

And with that I'll thank you for your attention and expect your questions.

No Question and Answer session was held in conjunction with this call.

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