Net Assets, Financial Position and Results of Operations

Optimized cost structures deliver a sustainable increase in the Group's earnings power

In fiscal 2007, we not only achieved our 2008 earnings target, we even significantly exceeded it. We covered our cost of capital again for the first time since 2001 and generated a positive value contribution.

CONSOLIDATED BALANCE SHEET STRUCTURE

The Volkswagen Group's total assets increased by 6.4% to €145.4 billion in fiscal year 2007. The Automotive and Financial Services divisions contributed equally to this development.

The structure of the consolidated balance sheet at December 31, 2007 can be seen from the chart on page 132. The increase in equity to €31.9 billion lifted the Volkswagen Group's equity ratio to 22.0% (19.7%).

AUTOMOTIVE DIVISION BALANCE SHEET STRUCTURE

Total assets in the Automotive Division at the end of 2007 amounted to €76.8 billion, an increase of 6.5%.

Noncurrent assets were on the same level as at the end of 2006. Our continued disciplined investment strategy reduced property, plant and equipment included in this item by 4.9%. In contrast, receivables and other financial assets increased, due in particular to the acquisition of additional MAN and Scania shares as well as to higher deferred tax assets. Current assets were up by 14.4% compared with December 31, 2006, principally attributable to higher securities holdings and a rise in the level of inventories and receivables generated by volume-related factors.

The Automotive Division's equity at the balance sheet date was 19.4% higher than the year before. This was primarily due to positive earnings growth, higher fair values of hedging transactions (cash flow hedges) and the conversion of stock options. In addition, increased capital market interest rates resulted in lower actuarial losses on pension provisions recognized directly in equity than in the previous year. The equity ratio was 32.3% (28.8%). Current liabilities increased by 4.4%; however, trade payables and other liabilities included in this item rose as a result of volume-related factors.

Since the Automotive Division's figures also include the elimination of intra-Group transactions and the current financial liabilities of the Automotive Division were lower than the loans granted to the Financial Services Division, the reportable figure for the period was negative.

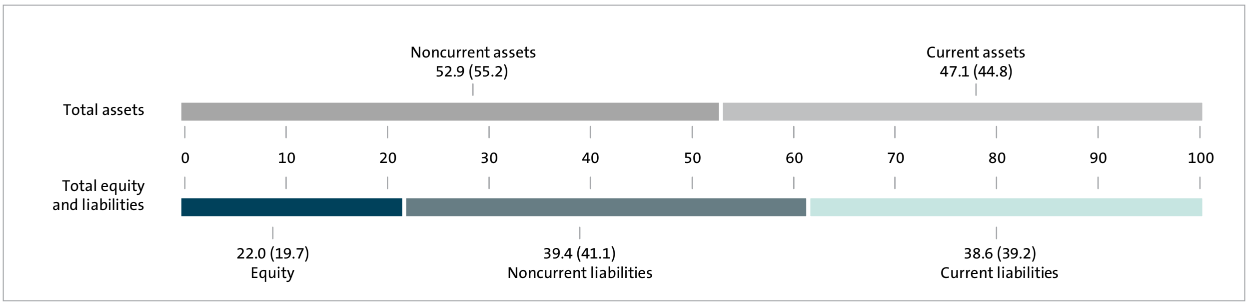
CONSOLIDATED BALANCE SHEET BY DIVISION AS OF DECEMBER 31

	Volkswagen Group		Automotive[1]		Financial Services	
€ million	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Assets						
Noncurrent assets	**76,841**	**75,374**	**37,564**	**37,817**	**39,277**	**37,557**
Intangible assets	6,830	7,193	6,736	7,110	94	83
Property, plant and equipment	19,338	20,340	19,151	20,148	187	192
Leasing and rental assets	8,179	7,886	75	61	8,104	7,825
Financial services receivables	27,522	26,450	–	322	27,522	26,128
Noncurrent investments and other financial assets[2]	14,972	13,505	11,602	10,176	3,370	3,329
Current assets	**68,516**	**61,229**	**39,190**	**34,268**	**29,326**	**26,961**
Inventories	14,031	12,463	13,319	12,377	712	86
Financial services receivables	24,914	23,426	231	179	24,683	23,247
Current receivables and other financial assets	12,844	10,882	10,002	8,571	2,842	2,311
Marketable securities	6,615	5,091	6,503	5,024	112	67
Cash and cash equivalents	10,112	9,367	9,135	8,117	977	1,250
Total assets	**145,357**	**136,603**	**76,754**	**72,085**	**68,603**	**64,518**
Equity and Liabilities						
Equity	**31,938**	**26,959**	**24,802**	**20,774**	**7,136**	**6,185**
Equity attributable to shareholders of Volkswagen AG	31,875	26,904	24,739	20,719	7,136	6,185
Minority interests	63	55	63	55	–	–
Noncurrent liabilities	**57,351**	**56,159**	**28,509**	**28,861**	**28,842**	**27,298**
Noncurrent financial liabilities	29,315	28,734	3,645	4,539	25,670	24,195
Provisions for pensions	12,603	13,854	12,481	13,719	122	135
Other noncurrent liabilities[3]	15,433	13,571	12,383	10,603	3,050	2,968
Current liabilities	**56,068**	**53,485**	**23,443**	**22,450**	**32,625**	**31,035**
Current financial liabilities	28,677	30,023	–1,139	1,759	29,816	28,264
Trade payables	9,099	8,190	8,202	7,288	897	902
Other current liabilities	18,292	15,272	16,380	13,403	1,912	1,869
Total equity and liabilities	**145,357**	**136,603**	**76,754**	**72,085**	**68,603**	**64,518**

1 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions, primarily intra-Group loans.
2 Including equity-method investments and deferred taxes.
3 Including deferred taxes.

CONSOLIDATED BALANCE SHEET STRUCTURE 2007

in percent



FINANCIAL SERVICES DIVISION BALANCE SHEET STRUCTURE

On December 31, 2007, total assets in the Financial Services Division amounted to €68.6 billion, up 6.3% as against the end of 2006. Noncurrent assets and current assets increased by 4.6% and 8.8% respectively. The Division's positive business development lifted both rental assets and financial services receivables. The Financial Services Division accounted for approximately 47% of the Volkswagen Group's total assets.

At the balance sheet date, the Financial Services Division's equity amounted to €7.1 billion, a 15.4% increase on December 31, 2006 due to the profit for the period. The equity ratio was 10.4% (9.6%). Both current and noncurrent financial liabilities rose year-on-year due to the expansion of business. Deposits at Volkswagen Bank *direct* increased by €0.8 billion to €9.6 billion. The debt/equity ratio remained unchanged at 8:1.

PRINCIPLES AND GOALS OF FINANCIAL MANAGEMENT

The financial management of the Volkswagen Group comprises the areas of liquidity management, currency, interest rate and commodity risk management, as well as credit and country default risk management. Financial management for all Group companies is carried out centrally by Group Treasury based on internal directives and risk parameters.

For more information on the principles and goals of the financial management, please refer to the Notes to the 2007 Consolidated Financial Statements on pages 240 to 249 of this Annual Report.

CASH FLOW STATEMENT BY DIVISION

	Volkswagen Group		Automotive[1]		Financial Services	
€ million	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Profit before tax from continuing operations	6,543	1,793	5,474	774	1,069	1,019
Income taxes paid	–1,172	–888	–1,290	–742	118	–146
Depreciation and amortization expense	9,238	9,398	7,429	7,762	1,809	1,636
Change in pension provisions	103	248	99	246	4	2
Other noncash income/expense and reclassifications[2]	–50	–517	190	–384	–240	–133
Gross cash flow	**14,662**	**10,034**	**11,902**	**7,656**	**2,760**	**2,378**
Change in working capital	**1,000**	**4,436**	**1,773**	**4,089**	**–773**	**347**
Change in inventories	–1,856	–147	–1,219	–118	–637	–29
Change in receivables	–942	736	–555	701	–387	35
Change in liabilities	2,244	700	2,092	431	152	269
Change in other provisions	1,554	3,147	1,455	3,075	99	72
Cash flows from operating activities	**15,662**	**14,470**	**13,675**[3]	**11,745**[3]	**1,987**	**2,725**
Cash flows from investing activities	**–13,497**	**–11,911**	**–6,566**	**–6,114**	**–6,931**	**–5,797**
of which: acquisition of property, plant and equipment	–4,638	–3,728	–4,555	–3,644	–83	–84
capitalized development costs	–1,446	–1,478	–1,446	–1,478	–	–
change in leasing and rental assets (excluding depreciation)	–2,763	–2,528	–80	–50	–2,683	–2,478
change in financial services receivables	–3,588	–3,563	251	–114	–3,839	–3,449
acquisition and disposal of equity investments	–1,261	–1,139	–906	–1,040	–355	–99
Net cash flow	**2,165**	**2,559**	**7,109**	**5,631**	**–4,944**	**–3,072**
Change in investments in securities	–1,742	–987	–1,733	–998	–9	11
Cash flows from financing activities	**178**	**–114**	**–4,503**	**–3,650**	**4,681**	**3,536**
Changes in cash and cash equivalents due to exchange rate changes and to changes in the consolidated Group structure	–54	–54	–53	–51	–1	–3
Net change in cash and cash equivalents	**547**	**1,404**	**820**	**932**	**–273**	**472**
Cash and cash equivalents at Dec. 31[4]	**9,914**	**9,367**	**8,937**	**8,117**	**977**	**1,250**
Securities and loans	9,178	7,097	7,047	5,314	2,131	1,783
Gross liquidity	**19,092**	**16,464**	**15,984**	**13,431**	**3,108**	**3,033**
Total third-party borrowings	–57,992	–58,757	–2,506	–6,298	–55,486	–52,459
Net liquidity	**–38,900**	**–42,293**	**13,478**	**7,133**	**–52,378**	**–49,426**

1 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
2 Relate mainly to fair value measurement of financial instruments, application of the equity method and reclassification of gains/losses on disposal of noncurrent assets from continuing operations to investing activities.
3 Before consolidation of intra-Group transactions €13,897 million (€12,253 million).
4 Cash and cash equivalents comprise cash at banks, checks, cash-in-hand and call deposits.

FINANCIAL POSITION AND CASH AND CASH EQUIVALENTS IN THE GROUP

The financial position of the Volkswagen Group continued to improve in fiscal year 2007. The following sections give an overview of the Group's liquidity development and outline the operating factors by division.

The Volkswagen Group's gross cash flow increased by €4.6 billion year-on-year to €14.7 billion due to the profit for the period.

Cash flows from working capital increased by €1.0 billion (€4.4 billion). Cash flows from operating activities were €15.7 billion (€14.5 billion).

As net cash used in investing activities increased by 13.3% year-on-year to €13.5 billion, net cash flow fell by €0.4 billion to €2.2 billion.

The Volkswagen Group reported cash and cash equivalents of €9.9 billion (€9.4 billion) on December 31, 2007. At €19.1 billion, gross liquidity was up €2.6 billion on the previous year. Net liquidity in the Group improved by €3.4 billion year-on-year to €–38.9 billion.

FINANCIAL POSITION IN THE AUTOMOTIVE DIVISION

The Automotive Division recorded gross cash flow of €11.9 billion in 2007, an increase of 55.4% as against the previous year due to the higher profit for the period. Following the release of substantial funds tied up in working capital in 2006, the Division again recorded a cash inflow. At €1.8 billion, working capital was nevertheless €2.3 billion lower than in the previous year, when provisions were increased by the effects of the restructuring measures. Most of these funds were used in 2007. Working capital was also reduced by the increase in the level of receivables and inventories caused by volume-related factors. At €13.7 billion, cash flows from operating activities were 16.4% higher than in 2006.

While investments in property, plant and equipment in the Automotive Division were up 25.0% on the previous year to €4.6 billion, the ratio of investments in property, plant and equipment to sales revenue (capex) still remained well below the long-term average at 4.6% (3.8%). This clearly shows that we are continuing to pursue a policy of disciplined investment despite the renewal and expansion of our vehicle portfolio. We have invested mainly in new production sites in Russia and India as well as for models that we launched in 2007 or plan to unveil in 2008. Specifically, these are the Tiguan and the Audi Q5 as well as the successors to the Audi A4, Gol, Golf and SEAT Ibiza. In contrast to investments, capitalized development costs fell by 2.2% year-on-year to €1.4 billion. Taking the acquisition of equity interests into account, the net cash used in investing activities was, at €6.6 billion, €0.5 billion higher than in 2006, when the sale of equity interests had a positive effect. The net cash flow generated by the Automotive Division nevertheless rose by 26.2% year-on-year to €7.1 billion.

With regard to financing activities in the Automotive Division, the further reduction of debt resulted in an outflow of €4.5 billion (€3.7 billion). Cash and cash equivalents increased by €0.8 billion, amounting to a total of €8.9 billion (€8.1 billion) at the end of the reporting period. The net liquidity of the Automotive Division improved by a substantial €6.3 billion in fiscal year 2007. Including securities and loans and net of borrowings, it amounted to €13.5 billion on December 31, 2007.

FINANCIAL POSITION IN THE FINANCIAL SERVICES DIVISION

The Financial Services Division's gross cash flow rose by €2.8 billion in 2007, an increase of 16.1% year-on-year. The Division recorded a further increase of €0.8 billion in funds tied up in working capital, mainly through short-term vehicle rentals and receivables. As the increase in receivables from customer and dealer financing was higher than in the previous year due to the expansion of business, cash flows from investing activities rose to €6.9 billion (€5.8 billion). With regard to financing activities, the issue of bonds by Volkswagen Bank GmbH and Volkswagen Leasing GmbH generated a positive cash flow of €4.7 billion (€3.5 billion). Cash and cash equivalents amounted to €1.0 billion as of December 31, 2007. Including securities and loans, gross liquidity amounted to €3.1 billion (€3.0 billion). At €55.5 billion, third-party borrowings were €3.0 billion higher than as of December 31, 2006 on account of the expansion of business. The negative net liquidity – common to the industry – in the Financial Services Division thus rose by €3.0 billion to €–52.4 billion.

RESULTS OF OPERATIONS OF THE GROUP

The Volkswagen Group generated sales revenue of €108.9 billion in 2007, 3.8% more than in the previous year. The positive business development in European markets outside Germany, especially in Central and Eastern Europe, and in South America was the main driver of this success. Accordingly, the largest proportion of sales revenue was generated outside Germany with 75.3% (72.8%). The cost of sales increased at a slower pace of just 1.7% as a result of the optimized cost structures. This lifted the gross margin from 13.2% to 15.0%. At €6.2 billion, the Group's operating profit more than tripled compared with the operating profit after special items in the previous year. The operating return on sales increased significantly to 5.6% (1.9%).

CONSOLIDATED PROFIT

The Volkswagen Group generated profit before tax of €6.5 billion in fiscal year 2007 (€1.8 billion). This means that the target originally set for 2008 of profit before tax of at least €5.1 billion was not merely reached a year early, but in fact significantly exceeded. The return on sales before tax increased to 6.0% (1.7%). Profit from discontinued operations in the previous year contains the net gain on the disposal and the profit after tax of Europcar for the period January to May 2006. Although the prior-year result was boosted by extraordinary tax income, the Volkswagen Group's profit after tax was around 50% higher than in 2006 at €4.1 billion (€2.8 billion).

RESULTS OF OPERATIONS OF THE AUTOMOTIVE DIVISION

The sales revenue of the Automotive Division was €98.8 billion in the reporting period. This represents an improvement of 2.9% year-on-year that is mainly due to the increased sales volume. In addition to the higher sales revenue, the cost savings achieved lifted the gross margin to 14.3% (12.1%). The gross profit was €14.1 billion (€11.6 billion). At €8.8 billion, distribution expenses were 1.1% higher than in the previous year. Administrative expenses amounted to €2.0 billion.

The other operating result grew strongly from €46 million to €1.9 billion. While restructuring expenses negatively impacted earnings in 2006, currency hedging activities had a positive effect in the reporting period.

In total, the operating profit more than quadrupled to €5.2 billion compared with the operating profit after special items in the previous year. The ratio of operating profit to sales revenue was 5.3% (1.2%).

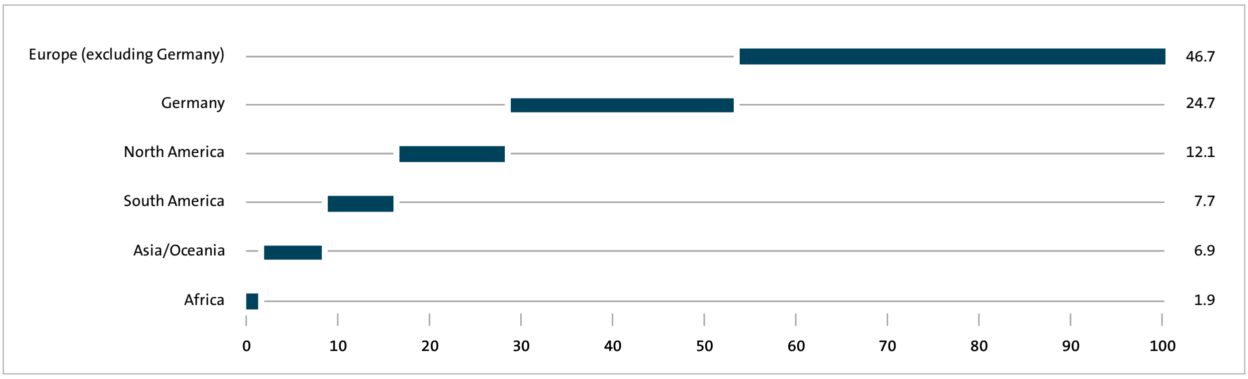
INCOME STATEMENT BY DIVISION

	Volkswagen Group		Automotive*		Financial Services	
€ million	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Sales revenue	**108,897**	**104,875**	**98,752**	**96,004**	**10,145**	**8,871**
Cost of sales	92,603	91,020	84,674	84,408	7,929	6,612
Gross profit	**16,294**	**13,855**	**14,078**	**11,596**	**2,216**	**2,259**
Distribution expenses	9,274	9,180	8,781	8,681	493	499
Administrative expenses	2,453	2,312	1,970	1,795	483	517
Net other operating income	1,584	−354	1,867	46	−283	−400
Operating profit	**6,151**	**2,009**	**5,194**	**1,166**	**957**	**843**
Financial result	392	−216	280	−392	112	176
Profit before tax from continuing operations	**6,543**	**1,793**	**5,474**	**774**	**1,069**	**1,019**
Income tax expense	2,421	−162	2,254	−513	167	351
Profit from continuing operations	**4,122**	**1,955**	**3,220**	**1,287**	**902**	**668**
Profit from discontinued operations	–	795				
Profit after tax	**4,122**	**2,750**				

* Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.

SEGMENT REPORTING – SHARE OF SALES REVENUE BY MARKET 2007

in percent



The financial result improved by €0.7 billion to €0.3 billion, mainly due to the increase in investment income from joint ventures included in the consolidated financial statements using the equity method, as well as higher interest and securities income.

RESULTS OF OPERATIONS OF THE FINANCIAL SERVICES DIVISION

Sales revenue in the Financial Services division improved by 14.4% in the reporting period to €10.1 billion thanks to rental business and to dealer and customer financing. At €2.2 billion, gross profit fell marginally short of the high figure in the previous year as a result of the intense competitive pressure and higher refinancing costs.

Distribution expenses of €493 million and administrative expenses of €483 million were lower than in 2006, both in absolute terms and as a proportion of sales revenue. This clearly illustrates that we are also pursuing strict cost discipline in the Financial Services Division. At €–283 million, the other operating result improved by €117 million versus the previous year. In spite of tougher competition and higher refinancing costs as a result of the crisis in the US subprime market, the Financial Services Division improved its operating profit by 13.5% year-on-year to €957 million in fiscal year 2007, again making a significant contribution to the consolidated profit.

The return on equity before tax fell to 16.1% (16.9%).

KEY FINANCIAL FIGURES

%	2007	2006	2005	2004	2003
Volkswagen Group					
Gross margin	15.0	13.2	13.0	11.8	12.6
Personnel expense ratio	13.4	16.6	15.7	15.8	16.4
Return on sales before tax (continuing operations)	6.0	1.7	1.7	1.2	1.6
Return on sales after tax	3.8	2.6	1.2	0.8	1.2
Equity ratio	22.0	19.7	17.8	17.8	20.2
Dynamic gearing[1] (years)	0.3	0.2	0.2	0.2	0.2
Automotive Division[2]					
Change in unit sales[3]	+8.2	+10.2	+1.0	+2.5	+0.4
Change in sales revenue	+2.9	+12.0	+6.8	+5.0	–1.4
Operating profit as a percentage of sales revenue	5.3	1.2	2.0	0.9	0.9
Return on investment after tax[4]	9.5	2.1	2.4	1.3	2.0
Cash flows from operating activities as a percentage of sales revenue	13.8	12.2	9.5	11.1	7.8
Cash flows from investing activities as a percentage of sales revenue	6.6	6.4	6.7	8.8	11.1
Investments in property, plant and equipment as a percentage of sales revenue	4.6	3.8	5.0	6.8	8.6
Ratio of noncurrent assets to total assets[5]	25.0	28.0	32.9	35.5	35.7
Ratio of current assets to total assets[6]	17.4	17.2	18.3	17.1	17.5
Inventory turnover	7.4	7.3	6.8	6.4	6.6
Equity ratio	32.3	28.8	25.3	26.1	30.2
Financial Services Division					
Increase in total assets	6.3	0.4	4.7	17.9	12.8
Return on equity before tax[7]	16.1	16.9	18.2	20.0	23.8
Equity ratio	10.4	9.6	9.7	8.8	7.5

1 Ratio of cash flows from operating activities to current and noncurrent financial liabilities.
2 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
3 Including the vehicle-production investments Shanghai-Volkswagen Automotive Company Ltd. and FAW-Volkswagen Automotive Company Ltd. These companies are accounted for using the equity method.
4 For details, see Value-based management on page 140.
5 Ratio of property, plant and equipment to total assets.
6 Ratio of inventories to total assets.
7 Profit before tax as a percentage of average equity (continuing operations).

SUMMARY OF ECONOMIC POSITION

The economic position of the Volkswagen Group continued its positive trend in fiscal year 2007. The Group's earnings power and, consequently, its competitiveness improved sustainably thanks to the optimized cost structures. We achieved our objective of at least covering our cost of capital in the reporting period and also achieved the earnings target originally set for 2008 a year earlier. The higher net cash flow generated by the Automotive Division and a further sizeable increase in net liquidity are the proof of this success.

An overview of the development of the Volkswagen Group over the past five years can be found in the tables on pages 137 and 139. More information on the economic position of the Volkswagen Group by brand and business field can be found in the Divisions chapter starting on page 78.

VALUE ADDED STATEMENT

The value added statement indicates the added value generated in fiscal year 2007 by a company as its contribution to the gross domestic product of its home country, and how it is appropriated. In the reporting period, the added value generated by the Volkswagen Group increased by 6.3% year-on-year. Added value per employee was €83.8 thousand (+6.6%).

VALUE ADDED GENERATED BY THE VOLKSWAGEN GROUP

Source of funds in € million	**2007**		**2006**	
Sales revenue	108,897		104,875	
Other income	7,050		6,849	
Cost of materials	−72,340		−66,935	
Depreciation and amortization	−9,238		−9,398	
Other upfront expenditures	−9,289		−11,790	
Value added	**25,080**		**23,601**	

Appropriation of funds in € million	**2007**	**%**	**2006**	**%**
to shareholders (dividend)	720	2.9	497	2.1
to employees (wages, salaries, benefits)	14,549	58.0	17,400*	73.7
to the state (taxes, duties)	2,950	11.8	440	1.9
to creditors (interest expense)	3,459	13.7	3,011	12.8
to the Company (reserves)	3,402	13.6	2,253	9.5
Value added	**25,080**	**100.0**	**23,601**	**100.0**

* Excluding special items in the previous year: €14,943 million.

FIVE-YEAR REVIEW

	2007	2006	2005	2004	2003
Volume Data (thousands)					
Vehicle sales (units)	**6,192**	**5,720**	**5,193**	**5,143**	**5,016**
Germany	1,030	1,093	1,019	940	916
Abroad	5,162	4,627	4,174	4,203	4,100
Production (units)	**6,213**	**5,660**	**5,219**	**5,093**	**5,021**
Germany	2,086	1,935	1,913	1,832	1,740
Abroad	4,127	3,725	3,306	3,261	3,281
Employees (yearly average)	**329**	**329**	**345**	**343**	**335**
Germany	175	174	179	179	174
Abroad	154	155	166	164	161
Financial Data in € million					
Income Statement					
Sales revenue	**108,897**	**104,875**	**93,996**	**88,963**	**84,813**
Cost of sales	92,603	91,020	81,733	78,430	74,099
Gross profit	**16,294**	**13,855**	**12,263**	**10,533**	**10,714**
Distribution expenses	9,274	9,180	8,628	8,167	7,846
Administrative expenses	2,453	2,312	2,225	2,309	2,274
Net other operating expense/income	1,584	−354	1,128	1,585	1,011
Operating profit	**6,151**	**2,009**	**2,538**	**1,642**	**1,605**
Financial result	392	−216	−917	−554	−251
Profit before tax from continuing operations	**6,543**	**1,793**	**1,621**	**1,088**	**1,354**
Income tax expense	2,421	−162	571	391	351
Profit from continuing operations	**4,122**	**1,955**	**1,050**	**697**	**1,003**
Cost of materials	**72,340**	**66,935**	**62,620**	**58,239**	**53,849**
Personnel expenses	**14,549**	**17,400**	**14,796**	**14,038**	**13,878**
Balance Sheet at December 31					
Noncurrent assets	76,841	75,374	75,235	72,212	67,363
Current assets	68,516	61,229	57,846	55,391	50,783
Total assets	**145,357**	**136,603**	**133,081**	**127,603**	**118,146**
Equity	31,938	26,959	23,647	22,681	23,863
of which: minority interests	63	55	47	47	104
Noncurrent liabilities	57,351	56,159	56,125	56,230	46,270
Current liabilities	56,068	53,485	53,309	48,692	48,013
Total equity and liabilities	**145,357**	**136,603**	**133,081**	**127,603**	**118,146**
Cash flows from operating activities	**15,662**	**14,470**	**10,709**	**11,457**	**8,371**
Cash flows from investing activities	**13,497**	**11,911**	**10,365**	**15,078**	**15,464**
Cash flows from financing activities	**178**	**−114**	**−1,794**	**6,004**	**11,423**

VALUE CONTRIBUTION AS A CONTROL VARIABLE

The Volkswagen Group's financial target system focuses systematically on continuously and sustainably increasing the value of the Company. In order to maximize the use of resources in the Automotive Division and to measure the success of this, we have been using value contribution*, a control variable linked to the cost of capital, for a number of years.

The concept of value contribution not only allows overall performance to be measured in the Automotive Division, but also in the individual business units, projects and products. In addition, business units and product-specific investment projects can be managed operationally and strategically using the value contribution.

COMPONENTS OF VALUE CONTRIBUTION

The value contribution is calculated using operating profit after tax and the opportunity cost of invested capital. Operating profit reflects the economic performance of the Automotive Division. To derive a figure for profit after tax, we calculated an overall average tax rate of 35% based on the various international income tax rates of the relevant companies. The opportunity cost of capital is calculated by multiplying the invested capital by the cost of capital. Invested capital is defined as total operating assets (property, plant and equipment, intangible assets, inventories and receivables) less non-interest-bearing liabilities (trade payables and payments on account received).

DETERMINING THE CURRENT COST OF CAPITAL

The cost of capital is calculated as the weighted average of the required rates of return on equity and debt. The cost of equity is determined using the Capital Asset Pricing Model (CAPM), which uses the yield on long-term risk-free Bunds, increased by the risk premium attaching to investments in the equity market. The cost of debt is calculated on the basis of the average yield for long-term debt.

* The value contribution corresponds to the Economic Value Added (EVA®).
EVA® is a registered trademark of Stern Stewart & Co.

VALUE CONTRIBUTION AND RETURN ON INVESTMENT IN THE CURRENT FISCAL YEAR

The operating profit after tax of the Automotive Division was €3,567 million in the reporting period (€829 million). The year-on-year improvement is attributable above all to the sales growth, the further optimization of our cost structures and the non-recurrence of the restructuring expenses that had substantially impacted the prior-year result.

The cost of capital was reduced by €202 million year-on-year to €2,850 million, due exclusively to the further reduction in invested capital. This again underlines our disciplined approach to investments in property, plant and equipment and our successful working capital management. The current average cost of capital remained unchanged on the whole at 7.6%.

Consequently, we recorded a positive value contribution of €717 million (€–2,223 million) for the first time since 2001. The return on investment (ROI) was 9.5% in 2007 (previous year: 2.1% after special items, 5.9% before special items). We have therefore achieved our objective of at least covering our cost of capital in the reporting period and exceeded our minimum required rate of return on invested assets of 9%.

More information on the financial control variables is available on the Internet at www.volkswagenag.com/ir

COST OF CAPITAL AFTER TAX AUTOMOTIVE DIVISION

%	2007	2006
Risk-free rate	4.3	3.8
DAX market risk premium	6.0	6.0
Volkswagen-specific risk premium	–0.7	0.2
(Volkswagen beta factor)	(0.88)	(1.03)
Cost of equity after tax	**9.6**	**10.0**
Cost of debt	5.5	4.3
Tax (flat rate 35%)	–1.9	–1.5
Cost of debt after tax	**3.6**	**2.8**
Proportion of equity	66.7	66.7
Proportion of debt	33.3	33.3
Cost of capital after tax	**7.6**	**7.6**

VALUE CONTRIBUTION AUTOMOTIVE DIVISION[1]

€ million	2007	2006[2]
Operating profit	5,194	1,166
Share of operating profit of Chinese joint ventures	294	109
Tax expense (flat rate 35%)	–1,921	–446
Operating profit after tax	**3,567**	**829**
Invested capital	37,500	40,159
Return on investment (ROI) in %	**9.5**	**2.1**
Cost of capital in %	7.6	7.6
Cost of invested capital	**2,850**	**3,052**
Value contribution	**717**	**–2,223**

1 Including proportionate inclusion of vehicle-producing Chinese joint venture companies and allocation of consolidation adjustments between the Automotive and Financial Services divisions.
2 Restated.