

# Volkswagen AG (condensed, according to German Commercial Code)

## Stronger vehicle sales worldwide boost sales

### NET INCOME FOR THE YEAR

In fiscal year 2007, Volkswagen AG's sales rose by 4.1% year-on-year to €55.2 billion. This increase was primarily due to stronger vehicle sales worldwide. The proportion of sales revenue generated outside Germany amounted to 61.5% (60.4%). The cost of sales fell by 1.1% compared with the previous year, which had recorded an increase due to restructuring measures. At €1.6 billion, gross profit was up significantly on 2006. Selling, general and administrative expenses declined by 2.9%. As a consequence, the ratio of selling, general and administrative expenses to

sales fell. In addition to positive exchange rate effects relating to deliveries of goods and services, cost allocations to affiliated companies and to third parties caused the other operating result to increase by 11.3% to €1.3 billion. The financial result decreased by 6.2% to €3.8 billion. Higher income from investments and profit and loss transfer agreements as well as lower write-downs of financial assets were offset by lower other investment income. Gains on the sales of investments had a positive effect on the financial result in the previous year.

### INCOME STATEMENT OF VOLKSWAGEN AG

€ million	2007	2006
Sales	55,218	53,036
Cost of sales	53,652	54,238
<b>Gross profit on sales</b>	<b>+ 1,566</b>	<b>- 1,202</b>
Selling, general and administrative expenses	3,863	3,979
Other operating result	+ 1,309	+ 1,175
Financial result*	+ 3,799	+ 4,051
<b>Result from ordinary activities</b>	<b>+ 2,811</b>	<b>+ 45</b>
Taxes on income	1,356	- 900
<b>Net income for the year</b>	<b>1,455</b>	<b>945</b>
Retained profits brought forward	10	11
Appropriations to revenue reserves	720	450
<b>Net retained profits</b>	<b>745</b>	<b>506</b>

\* Including write-downs of financial assets.

### BALANCE SHEET OF VOLKSWAGEN AG AS OF DECEMBER 31

€ million	2007	2006
Fixed assets	27,072	23,583
Inventories	3,189	2,785
Receivables	12,238	10,663
Cash and bank balances	5,933	8,571
<b>Total assets</b>	<b>48,432</b>	<b>45,602</b>
Equity	11,499	10,335
Long-term debt	8,901	8,348
Medium-term debt	6,892	6,088
Short-term debt	21,140	20,831

Business Development
Shares and Bonds
Net Assets, Financial Position and Results of Operations
> Volkswagen AG (condensed, according to German Commercial Code)
Value-Enhancing Factors
Risk Report
Report on Expected Developments

Volkswagen AG's result from ordinary activities rose to €2.8 billion in 2007 (€45 million). After deducting income taxes, net income amounted to €1.5 billion, an increase of 54.0% year-on-year.

#### NET ASSETS AND FINANCIAL POSITION

During the reporting period, Volkswagen AG's net assets increased by 6.2% to €48.4 billion. Investments in tangible assets were 17.9% higher than the low figure of the previous year. Investments were made primarily in new products and the construction of a third production line at the Wolfsburg plant. Financial investments decreased by 12.2% year-on-year. In 2006, the reorganization of our foreign shareholdings had increased the carrying amount of these investments. In total, fixed assets grew by 14.8% compared with December 31, 2006 to €27.1 billion.

Current assets decreased by 3.0% to €21.4 billion. Increased receivables and inventories were offset by lower cash due to debt repayments.

Due to the positive price performance of Volkswagen shares, many employees took advantage of the opportunity to convert their previously subscribed bonds into ordinary shares in the reporting period. Together with the higher net retained profits, this increased equity (including special tax-allowable reserves) by 11.3% to €11.5 billion. As a consequence, the equity ratio rose to 23.7% (22.7%). At the balance sheet date, provisions increased by 13.2% year-on-year to €21.3 billion. Liabilities fell by 5.0% to €15.6 billion, of which €11.0 billion (€12.0 billion) was interest-bearing.

#### DIVIDEND PROPOSAL

€720 million of the net income for the year was appropriated to other revenue reserves in accordance with section 58(2) of the Aktiengesetz (AktG – German Stock Corporation Act). The Board of Management and Supervisory Board are proposing to the Annual General Meeting to pay a dividend of €720 million from net retained profits, i.e. €1.80 per ordinary share and €1.86 per preferred share.

#### PROPOSAL ON THE APPROPRIATION OF NET PROFIT

€	2007
Dividend distribution on subscribed capital (€1,015 million)	720,150,281.40
thereof on: ordinary shares	524,407,080.60
preferred shares	195,743,200.80
Balance (carried forward to new account)	24,478,256.21
<b>Net retained profits</b>	<b>744,628,537.61</b>

#### EMPLOYEE PAY AND BENEFITS AT VOLKSWAGEN AG

€ million	2007	%	2006	%
Direct pay including cash benefits	3,957	57.4	6,126*	72.9
Social security contributions	919	13.3	898	10.7
Compensated absence	728	10.6	757	9.0
Old-age pensions	1,288	18.7	620	7.4
<b>Total expense</b>	<b>6,892</b>	<b>100.0</b>	<b>8,401</b>	<b>100.0</b>

\* Including expenses for severance payments and partial retirement arrangements.

**SALES TO THE DEALER ORGANIZATION**

Volkswagen AG sold 2,365,617 vehicles to the dealer organization in 2007. This was 4.3% more than in the previous year. The percentage of vehicles sold outside Germany increased to 69.5% (66.5%).

**PRODUCTION**

Volkswagen AG's vehicle production plants (Emden, Hanover and Wolfsburg), including Auto5000 GmbH, which manufactures vehicles at the Wolfsburg plant, increased their output by 12.9% to a total of 1,075,997 vehicles. This was primarily due to the increased number of Golf saloon and Passat saloon models produced. The launch of the Tiguan in late 2007 was also a major contributory factor to this increase. Average daily production at Volkswagen AG increased by 1.6% to 4,473 units.

**NUMBER OF EMPLOYEES**

At December 31, 2007, a total of 90,468 people were employed at the sites of Volkswagen AG, excluding staff employed at subsidiaries. This included 4,434 apprentices. 5,135 employees were in the passive phase of their early retirement. The workforce was 3.8% smaller than during the previous year.

The percentage of female employees was 13.2% (13.3%) of the total headcount. The Company employed 2,303 part-time workers (2.5%). The percentage of foreign employees was 6.3% (6.4%). A total of 66.5% (64.9%) of employees held a vocational qualification in an area relevant to Volkswagen, while 11.2% (11.1%) were graduates. The average age of Volkswagen employees in the reporting period was 42.0 years.

**RESEARCH AND DEVELOPMENT**

Volkswagen AG's research and development costs according to the German Commercial Code rose by 9.1% year-on-year to €2.3 billion. On December 31, 2007, 8,561 people were employed in this area.

**PURCHASING VOLUME**

The purchasing volume across the six Volkswagen AG sites in Germany amounted to €19.6 billion in 2007, of which 75.0% (71.9%) was sourced from German suppliers. Of the total purchasing volume, €16.4 billion was spent on production materials and €3.2 billion on capital goods and services.

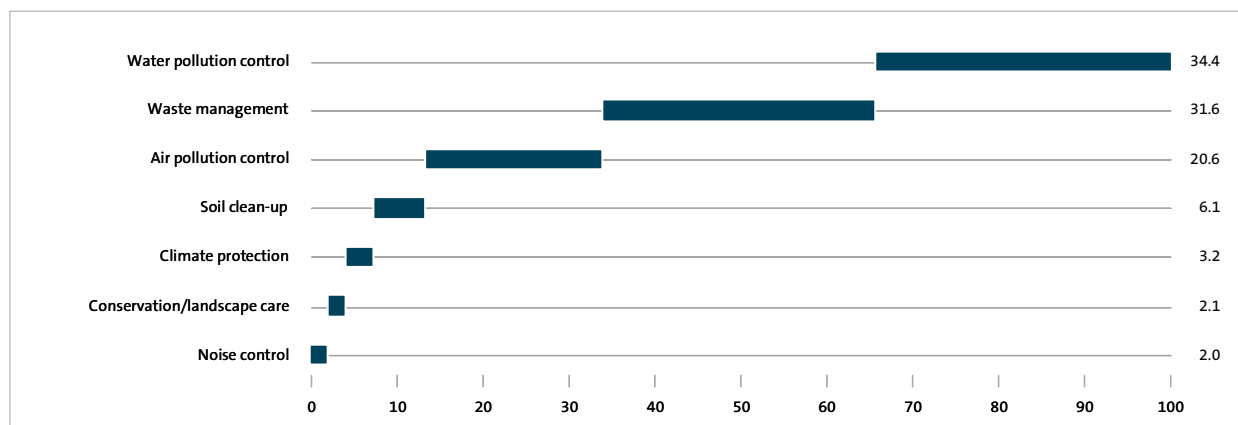
**VOLKSWAGEN AG EXPENDITURE ON ENVIRONMENTAL PROTECTION**

€ million	2007	2006	2005	2004	2003
Investments	20	19	27	16	24
Operating costs	177	170	194	202	195

Business Development  
 Shares and Bonds  
 Net Assets, Financial Position  
 and Results of Operations  
 > Volkswagen AG (condensed, according  
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 Risk Report  
 Report on Expected Developments

## OPERATING COSTS FOR ENVIRONMENTAL PROTECTION AT VOLKSWAGEN AG IN 2007

Share of environmental protection areas as percent



### EXPENDITURE ON ENVIRONMENTAL PROTECTION

Investments for environmental protection consist of both product-related as well as production-related measures. The investments in product-related measures relate mainly to the reduction of exhaust emissions. Expenditures on water pollution control, waste management and air pollution control are the main focus of the investments for environmental protection in production.

Operating costs relating to environmental protection are broken down into expenditures for the operation of environmental protection equipment and expenditures not relating to such equipment. They relate mainly to production-related measures. Operating costs relating to environmental protection increased by 4.1% to €177 million in the reporting period.

### BUSINESS DEVELOPMENT RISKS AT VOLKSWAGEN AG

The business development of Volkswagen AG is exposed to essentially the same risks as the Volkswagen Group. These risks are explained in the Risk Report on pages 162 to 169 of this Annual Report.

### RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risks for Volkswagen AG arising from the use of financial instruments are the same as those to which the Volkswagen Group is exposed. An explanation of these risks can be found on page 168 of this Annual Report.