- The spoken word is valid -

Dr. Bernd Pischetsrieder

Speech held at the Annual General Meeting on April 22, 2004

- Part 3 -

Ladies and gentlemen,
Dear shareholders,

Following the figures for the financial year 2003, I would now like to discuss current challenges, developments during the first quarter of 2004 and prospects for the year as a whole.

I already stated at our Annual Press Conference in Wolfsburg on March 9 that operating profit for the first quarter of 2004 would be miserable, also in comparison with the previous year. The markets got of to a very poor start in January and February 2004 when we delivered some 689,000 vehicles to customers worldwide, 6 percent down on the same period for the previous year. Compared with the first two months, however, March was very strong, slightly reversing the trend. But one swallow does not make a summer. The present conditions do not allow for optimism, even though Group deliveries to customers in March were 11 percent up on the same month in 2003, at 514,000 units. Thanks to the model initiative, the Volkswagen Group thus increased its market share in March from 29 percent to 30 percent in Germany and from 16.1 percent to 16.9 percent in Western Europe.

Our model initiative is beginning to bear fruit. However, increasing market share in a shrinking market cannot be a long-term basis for planning.

Mr Pötsch talked to you about the factors that had an impact on last year's operating profit. In the past, the entire automobile industry has followed overly-optimistic market forecasts. So we must also bear in mind the possibility that underlying conditions might not improve significantly in the foreseeable future.

This is why we have initiated our “ForMotion” program. I would like to emphasize that while we do not expect to see a worst-case scenario – such as a long-term US Dollar exchange rate in excess of 1.30 €, long-term market stagnation, a lengthy continued reduction in actual sales prices – we nevertheless intend to be prepared for such eventualities. The situation for a company becomes problematic when the only alternative left is a tough rescue package.

We are determined to avoid this kind of situation! Such cases often call for measures aimed at short-term survival which fail to safeguard the future. We are not in such a situation, nor do we intend to find ourselves in such a position.

We therefore have to make a giant leap forward in all our business activities. That is why we launched the “ForMotion” program to strengthen the performance of all Group companies on a lasting basis. “ForMotion” is not first and foremost a cost saving program. Our goals are to increase revenue and earnings, cut costs and further reduce tied-up capital in the Group.

As you all know, our ongoing improvement activities have already brought savings of some 1 billion € in each of the past two years. Our target for 2004 is to realize further savings potential of 1 billion € under these measures.

The “ForMotion” program will have the additional effect of a further 2 billion € by the end of 2005 over and above the achievements of ongoing measures. The program covers seven themes aimed at better market exploitation and cutting product costs, one-off expenditure and process costs.

In order to win market share we must continue to offer competitive prices. If our competitors lower the prices of their vehicles, we have to respond – even if we could still continue to position our comparatively more valuable vehicles at a higher price level. That means we must lower our product costs.

Cutting product costs, however, does not mean a departure from our high quality standards. On the contrary, we will reduce manufacturing costs, taking our orientation from benchmark analyses already conducted, while still retaining the quality and diversity of our product range. One approach will be to review component sourcing. Production-friendly and cost-justified design will also play an important role.

The key elements in reducing one-off expenditure at Volkswagen are the further evolution of the platform strategy into a modular strategy and reductions throughout the investment program. Improved development and planning processes will reduce start-up costs further, releasing resources allowing us to achieve consistently high segment shares in increasingly differentiated markets. In other words, to have an appropriate presence with the right brand or brands in all segments – the Touran and the Touareg are important and successful milestones in this context. We must resolutely continue on this path – and, as I mentioned, generate the necessary resources in spite of price pressure, a strong Euro and a potential drop in volumes per model with the associated potential rise in one-off expenditure per vehicle sold.

These two approaches – to cut product costs and lower one-off expenditure – represent, in addition to enhancing performance in the sales sector, the major thrust of “ForMotion”.

I do not intend to go into all the details of our “ForMotion” program here, but I can assure you that the program has the unswerving support of all employees in the Volkswagen Group.

We have agreed ambitious targets with all managers which, for simplicity’s sake, I will group together under the term “thrifty housekeeping”.

All items under the program and all associated measures are consistent in strengthening operative responsibility for the brands and the business lines while at the same time systematically transferring responsibility for strategic planning to Group departments.

Ladies and gentlemen,

Enhancing the performance of our company through “ForMotion” is absolutely essential and therefore has first priority. Nevertheless, we do not intend to neglect the positioning of the Volkswagen Group as a customer-oriented service provider in addition to its role as an automaker. Markets change – and we want to respond in good time.

As you are aware, the Volkswagen Group has been vigorously expanding its financial services business for many years and has thus established a second strong pillar closely linked with automobile production.

The fleet business is one of the few sectors in the automotive business that still enjoys consistent steady growth. Accordingly, we therefore set up Europcar Fleetservices (ECFS) with our own resources and already hold a very satisfying share of the market in some major European countries. We are convinced, however, that, in view of market developments, it is both meaningful and necessary for the Volkswagen Group to develop fleet management business at a faster pace. For this reason, we intend, in cooperation with two co-investors, to purchase LeasePlan Corporation from ABN Amro-Bank. The purchase contract was signed yesterday evening, but is still subject to the approval of various authorities, particularly the EU cartel authorities and the Dutch Central Bank.

LeasePlan Corporation is the European market leader and one of the world’s top 5 fleet management companies. The corporation manages 1.2 million vehicles, total assets on December 31, 2003 amounted to 10.8 billion € and net profit for 2003 was 193 million €. Apart from fleet management, the corporation also has special expertise in the insurance and used car business.

The history of LeasePlan shows very constant and stable growth, both in terms of business volume and the development of new markets and in terms of earnings. LeasePlan runs a multi-brand business. This is one of the main reasons for the corporation’s success and Volkswagen will give the management every support while leaving it the flexibility to systematically continue with the neutral multi-brand approach in the interest of customers. This is also one of the main reasons for bringing in co-investors, whom I will return to it in more depth in a moment. Unlike short-term rental business, the individual customer has a much greater and more conscious choice of brand and vehicle in the fleet management business.

The 50 percent participation in LeasePlan Corporation will be held by Financial Services AG. The present fleet management activities of Financial Services AG will be integrated into LeasePlan Corporation.

By cooperating with two co-investors and limiting the participation to 50 percent, we have made sure that LeasePlan can continue to provide an independent service to customers. Obviously, this leads to lower investment and a consolidation at equity in the Volkswagen Group financial statements.

The criteria for choosing our co-investors, whose representatives I warmly welcome here, are common business interests and a long-term orientation. Our partners can and will support both LeasePlan and Volkswagen to achieve substantial expansion of the fleet management business as well as the financing and leasing business, and, not least, in the sale of our products in the Middle East.

The first co-investor, the Olayan Group from Saudi Arabia, is a privately-owned multi-national group. Mubadala, the second co-investor, is a state company in Abu Dhabi which operates according to a private-sector principles.

Ladies and gentlemen,

We have been conducting negotiations with the seller concerning the purchase of LeasePlan Corporation for over two years. As you are aware, we have held some 10 percent of the capital and 13 percent of the voting rights of Volkswagen AG for approximately 4 years, ever since we repurchased them with the possible use as investment currency for strategic investments. At its meeting yesterday, the Supervisory Board authorized the Board of Management to investigate the alternative of purchasing LeasePlan with Volkswagen treasury stock and to submit this proposal to the Supervisory Board. Abu Dhabi might be interested in becoming a shareholder of Volkswagen AG through a state investment company as the culmination of a multi-step process. This company, and thus Abu Dhabi, would constitute a reliable and long-term oriented investor who is familiar with and shares the stated goals of the Volkswagen Group and who, we believe, would also be a stable partner in contexts over and above the LeasePlan joint venture. However, as stated, this possibility is to be examined by the Board of Management and finally approved by the Supervisory Board.

I would now like to turn to the current situation of Volkswagen on world markets and to start with China.

For the next ten years, China will be the world’s strongest growth market – the total market will increase from 2 million vehicles in 2003 to more than 7 million in 2013. For the Volkswagen Group, systematic re-investment of profits in the country and the focused expansion of expertise are paying off. The growth trend continues in 2004: last month alone (March) 70,400 Group vehicles, 32.6 percent more than in the previous year, were delivered to customers in China.

To guard against surplus capacity and yet still participate in this enormous growth, the Volkswagen Group has opted for moderate capacity expansion. Within the next five years, the Volkswagen Group will double sales volumes from 700,000 (2003) to 1,678,000 (2008) with the goal of maintaining a market share of approximately 30 percent. Investment will be exclusively generated from the cash flow of the joint ventures. Based on the present exchange rate, investment amounts to some 5.3 billion € and is targeted, taking its orientation from market developments and testifying to our clear growth strategy.

Apart from expanding our production capacity in China, important functions for the Chinese market have already been coordinated at Group level in Beijing to optimize product adaptation to market demands.

For the Volkswagen Group, the American market had a very weak start in the first quarter. While new models, namely the Touareg, Phaeton and the new Audi A8, have met with an excellent reception from the market, sales of the volume models Jetta and Passat, both of which are in the final year of their model life cycle, fell sharply. Both models will be replaced by a new generation during 2005. The trend for high price discounts on the American market continues unabated. Our American competitors grant discounts of up to 4,500 US Dollar per vehicle. Our policy is not to preserve market share at any price. For this reason, the level of price discounts given by the Volkswagen Group is substantially lower than those of competitors – even if this means we will temporarily lose market share.

News about restructuring at Volkswagen do Brasil is very positive. We are making good progress with restructuring measures in Brazil. Manpower adjustments have been successfully completed. The measures to enhance productivity and reduce fixed costs are having an effect. In addition, investment has been curtailed while maintaining the product program. The Fox, which I mentioned earlier, has been extremely well received by the market. Its success is one reason for the positive operating result of Volkswagen do Brasil in the first quarter despite negative currency effects.

Finally, I would like to comment on the prospects for 2004.

It is the goal of the Volkswagen Group to hold a top position in all relevant vehicle segments, from the value-for-money entry level model to the automobile premium segment.

The goal of the Volkswagen brand is to successfully defend its price position relative to competitors despite tougher price competition, and to play an influential role as a full-range supplier in all segments.

The premium segment in which the Audi brand is positioned is not as hard hit by economic conditions and price battles. The new Audi product family will also make an important contribution to the success of the Group.

The price position of SEAT will move up slightly with the new models.

The Škoda brand with its high utility value will remain an attractive alternative in the lower price range.

Chart "Key Data of the Volkswagen Group Q1 2004"

This chart presents the key volume data of the Volkswagen Group for the first quarter of 2004. Despite the poor months of January and February, and thanks to an excellent month in March, deliveries to customers in the first quarter were slightly higher than last year. Production increased by 36,000 vehicles compared with the first quarter of the previous year due to the numerous ramp-ups which meant that stocks first had to fill the pipe line. There was, however, no increase in gross inventories; in other words, there was a relative decrease in inventories – and thus in tied-up capital.

An increase in employees in the first quarter does not conflict with our statement with regard to "ForMotion" concerning a reduction in indirect manpower. Like the increase in 2003, the rise of some 2,700 employees in the first quarter of 2004 is caused by first-time consolidations, new recruitment for the Caddy start-up in Poland and primarily by capacity expansion in China.

There has been a significant rise in Golf orders and sales following the introduction of the anniversary model to celebrate 30 years of the Golf. In Germany, new registrations in March 2004 were 40.1 percent higher than February – according to the Federal Motor Vehicle Office, the Golf had a 26 percent market share in its segment. Furthermore, the number of vehicles delivered to customers in Western Europe was 52,000, 14.7 percent higher than March 2003. There is, therefore, no question of a "failed" Golf launch, as the occasional report claims.

The market situation, unfavourable exchange rates and the simultaneous start-up of several new Group vehicles such as the Audi A6, the SEAT Altea, the Volkswagen

Caddy or the Škoda Octavia had a negative impact on first-quarter earnings. This has an effect on both costs and on income.

We will increase deliveries to customers for the full year compared with 2003 by continuing with our model initiative. As a result of ramp-ups in 2003, 2004 and 2005, almost two-thirds of the vehicles produced by the Volkswagen Group will have been replaced by new models by mid-2005. That illustrates the efforts currently being undertaken by the Volkswagen Group and the burdens these efforts involve.

Nevertheless, we confirm our ambitious target for this year to exeed the 2003 operating profit before special items of approximately 2.5 billion Euro.

We will publish the results for the first quarter in the usual form on April 30, 2004.

Ladies and gentlemen,
Dear shareholders,

Allow me to summarize: we will significantly improve our earnings by introducing a large number of new vehicles, through the differentiated positioning of brands and models and as a result of the “ForMotion” initiative – even if the figures for the current year do not yet reflect this on the scale that you, as our shareholders, and we ourselves would like to see. We are, however, confident we have created a good starting point for the coming years.

Thank you for your attention.