

- Check against delivery -

Hans Dieter Pötsch
Text of Speech at the Annual General Meeting
on May 3, 2006

- Part 2 -

Chart "Highlights"

Ladies and Gentlemen,

I too would like to welcome you to today's Annual General Meeting in Hamburg. Dr. Pischetsrieder has explained to you that Volkswagen is now in a restructuring phase. We intend to realize the measures required to implement this quickly and to absorb the associated one-time charges so that we can achieve our 2008 earnings target. You know that this will be a rocky road. In past years, I have repeatedly drawn attention to the difficult environment in which we have to operate. Unfortunately last year also did not see any easing of the market situation in the USA or China, or any let-up in exchange rate pressures.

That we were still able to meet our forecast of a year-on-year increase in operating and pre-tax profit and thus meet market expectations is ultimately primarily due to the fact that our ForMotion program progressed as scheduled. In 2005, the measures adopted under this program produced a positive earnings effect of €3.5 billion; we had originally expected an earnings contribution in the order of €3.1 billion. In particular the disciplined approach to investments in property, plant and equipment (capex) improved net liquidity in the Automotive Division by €2.6 billion year on year, and at €0.7 billion, net automotive liquidity was a positive figure for the first time since 2002.

In addition to this internal performance enhancement, our product program met with a positive response from our customers, and the 5.2 million vehicles sold represent the highest level to date.

Chart "Amended IASs/IFRSs – Prior-Period Restatement"

Before I move on to the details of the figures, I would like to comment on the International Financial Reporting Standards that we use as the basis for our consolidated financial statements. As in 2004, there were a number of amendments to the Standards in 2005, some of which required us to restate our prior-period figures. In our latest Annual Report you will also find the notes to the consolidated financial statements in which we have explained these changes in detail. The material effects of these prior-period restatements on the consolidated income statement are minor; 2004 profit before tax was reduced retrospectively by a total of €11 million. Profit after tax was reduced by a total of €19 million after restatements.

The amendments to the Standards had more distinct effects on the consolidated balance sheet. I will address these when I come to discuss the provisions.

Chart "Income Statement"

Ladies and Gentlemen,

First, though, I would like to present the income statement for 2005 in context, and then explain certain items in more detail.

As in the previous years, sales revenue growth, at 7.1 percent, was considerably higher than the corresponding growth in vehicle unit sales – excluding China – of 4.0 percent. Sales revenue increased by a total of €6.3 billion year-on-year, with the automotive business accounting for €5.4 billion of this increase and the Financial Services Division contributing €0.9 billion.

The fact that at 5.1 percent before special items, the cost of sales increased less than sales revenue indicates how successful a part of the ForMotion program was. Thus gross profit before special items increased by 21.0 percent to €13.2 billion, and the gross margin rose by 1.6 percentage points to 13.9 percent of sales revenue.

Distribution expenses grew at a faster pace than sales revenue due to the market situation; combined with the below-average increase in administrative expenses and the other operating result, which was negatively affected by currency, this produced an operating profit before special items of €3.1 billion, representing a 54.3 percent improvement over 2004. Adjusting for the special items, which were slightly lower than in 2004 and were attributable to product measures and structural and process optimization, the increase in operating profit was actually 70.0 percent. But as I will show you, not all parts of the Group participated to the same extent in this result; it is actually the consequence of widely varying contributions by the individual divisions, brands and regions.

The financial result fell by a total of €516 million because of a reduction in the result from investments accounted for using the equity method, attributable primarily to the Chinese joint ventures, and because of the interest result. The profit before tax was thus €1.7 billion, a 58.2 percent improvement compared with the previous year.

The effective tax rate remained more or less constant at 34.9 percent, meaning that we generated a profit after tax of €1.1 billion in 2005. Although this is a 60.7 percent increase compared with the weak previous year, it also represents an after-tax margin of only 1.2 percent of the sales revenue which was more than €95 billion. It goes without saying that we are not satisfied with this figure, and we will therefore continue our ForMotion program beyond 2005 in modified form as "ForMotion plus".

I would like to note at this point that you will find the key indicators for the fourth quarter of 2005 on our Investor Relations website. I will take a brief look at the figures for the first quarter of 2006 at the end of my presentation.

Chart "Sales Revenue"

Ladies and Gentlemen,

I would now like to examine individual items of our income statement in greater detail.

Consolidated sales revenue grew overall by €6.3 billion. As I already mentioned, €0.9 billion of this increase was contributed by the Financial Services Division. The greater part, at €5.4 billion, comes from the automotive business. €2.8 billion is attributable to volume effects, €1.0 billion to improvements in the product mix and €0.9 billion to price increases. In contrast to the previous year, sales revenue benefited from exchange rates by €0.7 billion in 2005.

Chart "Sales Revenue by Market"

It is almost a tradition now that the development of the individual markets varies widely. Of the total €6.3 billion increase in sales revenue, €5.1 billion alone is attributable to Europe/Remaining markets, so their sales volume rose by 7.9 percent compared with the previous year. Despite the exceptionally difficult market situation in North America, we still managed to generate sales revenue growth of 3.1 percent there. We even managed to record growth of over twenty-five percent in the South American and South African markets. We had to report a reduction of 10 percent in the Asia-Pacific region, due in particular to a decline in deliveries of parts and components by fully consolidated companies to our Chinese joint ventures.

Chart "Other Operating Result"

Ladies and Gentlemen,

The other operating result fell from around €1.6 billion in 2004 to €1.2 billion in 2005. The main reasons for this are a deterioration in exchange rate effects from currency hedging and current account settlements amounting to €311 million, and a €155 million increase in allowances for doubtful accounts due to volume effects. This was offset to a certain extent by an increase in income from the reversal of provisions no longer required.

Chart "Operating Profit before Special Items – by Business Line"

Operating profit before special items was €3.1 billion, a year-on-year increase of 54.3 percent. As I mentioned earlier, the contributions by the individual divisions to this result varied considerably.

At €933 million, Financial Services - including Europcar - was again a key earnings driver. In the commercial vehicles business we achieved break-even at the operating level in 2005, but were still some way away from generating an adequate return. We were particularly encouraged by the Audi brand group, which was able to increase its already high prior-year figure by a further 14.8 percent to €1.4 billion. The only fly in this brand group's ointment was the SEAT brand, where a very significant increase in the operating loss is forcing us to implement restructuring measures.

The picture at the Volkswagen brand group was also mixed; the operating profit of €638 million was an improvement over 2004, but still nowhere near good enough. Although the Škoda and Bentley product lines developed extremely well last year, Volkswagen Passenger Cars was just above operating break-even, despite considerable efforts as part of the ForMotion program. The lesson from this is that the measures to enhance efficiency already implemented at Volkswagen Passenger Cars are clearly not sufficient, and that further restructuring steps are inevitable. Failure to do so would entail irreversible damage to our ability to export from Europe.

This is all the more so because the recovery of this core brand, which in terms of volume alone accounts for around half of the Group as a whole, is fundamental to the return of the Volkswagen Group to an adequate level of earnings. In turn, the backbone of the Volkswagen Passenger Cars brand has always been Volkswagen AG's German plants. This means that unless in particular the traditional German plants are restructured, no long-term future for the Volkswagen Group would be conceivable, not even if all the other parts of the Group reach their earnings targets, because of the high level of interdependency involved.

Chart "Operating Profit before Special Items – by Market"

The regional picture is also mixed. The South America/South Africa region recovered, with operating profit increasing by €147 million to €171 million. "Europe/Remaining markets" also recorded extremely positive operating profit growth of 44.2 percent to €3.9 billion.

By contrast, the situation in North America remained very difficult with an operating loss of €843 million. This was due above all to the continued extreme price pressure in the USA, which forced us to accept high sales promotion costs, albeit lower than those of our competitors. The exchange rate also deteriorated further. We are responding to these difficulties with a package of measures that are tailored to the particular conditions prevailing in the US market.

The decline in earnings to €88 million in the Asia-Pacific region is due primarily to the substantial rise in competitive pressure since the Chinese market was opened up. Together with our joint venture partners, we are currently making every effort to return to our traditional position of strength in this especially dynamic part of the world.

Chart "Change in Operating Profit after Special Items"

In 2005, we again had to absorb – albeit at a slightly lower level – special items for product measures, structural and process changes amounting to €351 million. Deducting these special items produced an operating profit of €2.8 billion; €1.0 billion of the increase was attributable to reduced product costs, and €0.8 billion to volume, product mix and price effects. Exchange rate movements reduced our 2005 operating profit by a further €0.6 billion year-on-year, although this is mostly due to the appreciation of the Brazilian real.

The gap between our 2005 operating profit and what we would consider a satisfactory earnings level is illustrated in particular by a comparison with our target

for 2008. This means that we will have to more than double the operating profit we recorded in 2005.

Chart "Automotive Division ROI"

Ladies and Gentlemen,

The different development in operating profit of the various units of the Group is, of course, also reflected in variations in their return on investment. In the Automotive Division, the return on investment – meaning the ratio of operating profit after tax shown in the segment reporting in relation to capital invested – increased from 1.3 percent to 2.6 percent. This includes the figures of our vehicle-producing Chinese joint ventures on a pro rata basis. Although this 100% increase looks highly encouraging at first sight, we are still a long way from covering our current cost of capital of 7.0 percent, and thus generating a balanced value contribution. Our target return remains unchanged at 9.0 percent after tax.

Chart "Financial Services Division ROE"

The situation at the Financial Services Division is much more positive. We have split this division into the Financial Services and Europcar business lines, both of which recorded highly encouraging growth.

In the Financial Services business line, growth was driven above all by the fleet management business. The total number of contracts at our LeasePlan joint venture also increased perceptibly. The fact that the return on equity declined from 19.0 percent to 17.7 percent despite the increase in profit before tax was attributable to the increase in average equity.

The Europcar business line even succeeded in increasing its return on equity from 36.1 percent to 36.4 percent. The systematic focus on customer needs, and above all the quality strategy, together with the expansion as planned of Europcar's

franchise network, all helped Europcar maintain its leading position in a difficult European market.

Chart "Financial Result"

Ladies and Gentlemen,

I would now like to turn to the financial result.

The financial result is structurally negative because it contains the interest cost on discounted long-term provisions; these only increased slightly in 2005 to €861 million. However, an additional negative factor last year was that the result from investments accounted for using the equity method declined by €177 million or 69.5 percent due to the difficult competitive situation at our Chinese joint ventures, which were also forced to sustain one-off charges in 2005. In addition, gains on the remeasurement of securities have been taken directly to equity since 2005, with the consequence that there was no amount in the 2005 financial result corresponding to the gain of €161 million recorded in the previous year. The change in the other items amounting to €-178 million also includes negative effects from the fair value measurement of derivatives.

Chart "Provisions"

Let's move on to the consolidated balance sheet, which continues to be structurally sound. The example of provisions, which rose by 12.0 percent to €29.4 billion, shows clearly that we have taken adequate account of all potential risks in future business development.

A major position here is the provisions for future pension obligations amounting to €14.0 billion, an increase of €1.4 billion compared with the adjusted prior period. These mainly comprise obligations that are not funded externally, but are covered by the assets of the Group companies.

Of the total €3.2 billion increase in provisions, €1.7 billion was attributable to a retrospective increase in pension provisions resulting from an amendment to IAS 19, and thus a change in accounting policy under IAS 8.

Chart "Equity Ratio by Division"

With total assets increasing but equity remaining constant, the Automotive Division equity ratio declined from 26.1 percent to 25.3 percent. At the Financial Services Division, on the other hand, equity grew at a faster pace than total assets due to the capital increase and the 2005 result, increasing the equity ratio from 8.8 percent to 9.7 percent. These effects cancel each other out at Group level, and the Group equity ratio thus remained constant at 17.8 percent.

Chart "Automotive Division Net Liquidity"

Ladies and Gentlemen,

In the previous year, we already turned the corner towards improving net liquidity and generated a positive net cash flow in the Automotive Division. In 2005, we were able to increase this figure by a further 30.3 percent to €2.4 billion. This also saw us reversing the net liquidity of €-1.9 billion at the end of 2004 well into positive territory, closing 2005 with a positive €0.7 billion.

A demonstrable improvement in our liquidity situation was and is a central objective of our ForMotion program, because experience shows that liquidity trends foreshadow earnings trends. The capex/sales revenue ratio declined sharply by 1.8 percentage points to its current level of 5.0 percent. This did not involve any across-the-board cost cutting, and certainly not any cuts in our new model initiative. Rather, the 18.8 percent reduction in investing activities to €5.7 billion reflects rigorous cost management discipline, so that we limited ourselves to expenditures with an appropriate chance of generating adequate returns.

Chart "Net Liquidity by Division"

In contrast to the Automotive Division, the negative net liquidity in the Financial Services Division reflects the structure of its business. It fell by a further €3.9 billion to €-48.9 billion in 2005 due partly to the continued expansion of business volume, but in particular to the fall in the euro/dollar exchange rate.

Chart "Earnings per Ordinary Share"

In 2005, the Volkswagen Group generated a profit attributable to the shareholders of Volkswagen AG of €1.1 billion, resulting in earnings of €2.90 per ordinary and €2.96 per preferred share.

The Board of Management and Supervisory Board are proposing to the Annual General Meeting a moderate increase in the dividend reflecting earnings growth, to €1.15 per ordinary share and €1.21 per preferred share, corresponding to a dividend yield of 2.6 percent for ordinary shares and 3.7 percent for preferred shares.

Chart "Deliveries to Customers Q1 2006"

Ladies and Gentlemen,

The upward trend in 2005 accelerated perceptibly during the first quarter of 2006. For example, worldwide deliveries increased by 15.1 percent to around 1.4 million vehicles. We recorded growth in all regions of the world and, with the exception of North America, this growth was even double-digit. Please note, however, that this comparison is based on a particularly weak prior-year quarter, because key models were not launched until the second and third quarters of 2005.

The successful development of our sales volume is spread over all Group brands. The Volkswagen brand group, for example, delivered 16.1 percent more vehicles to customers in the first quarter than in the same period of the previous year, the Audi

brand group reached 13.4 percent, and Commercial Vehicles also delivered 11.4 percent more.

Chart "Key Financial Data for Q1 2006"

This positive sales trend is also reflected in the earnings development. Sales revenue increased by 21.4 percent year-on-year. In conjunction with our efforts to increase internal efficiency, this impressive sales performance resulted in a significant increase in earnings, with operating profit before special items rising by 55.1 percent, and by 36.3 percent after special items. Profit before tax increased from €125 million to €412 million. After tax and discontinued operations, we generated a profit of €327 million, up by €257 million versus Q1 2005.

Of course this development was also reflected in the liquidity of the Automotive Division. Thus, net cash flow rose by €2.8 billion year-on-year to €2.2 billion, and net liquidity also improved by €3 billion compared with the end of 2005 to €3.7 billion.

These figures demonstrate that we have taken major steps in the right direction, but also that we still have a good way to go to reach our medium-term targets. This is especially the case for the Volkswagen Passenger Cars brand.

Thank you for your attention.