

Announcement: Volkswagen Aktiengesellschaft

MOODY'S AFFIRMS VOLKSWAGEN'S A3/P-2 RATINGS; OUTLOOK STABLE

Approximately EUR41.7 Billion of Debt Securities Affected.

Frankfurt, July 06, 2005 -- Moody's Investors Service has today affirmed the A3 long-term and Prime-2 short-term ratings of Volkswagen AG (VW) and Volkswagen Financial Services AG. The outlook on the ratings remains stable.

In accordance with Moody's GRI rating methodology, the ratings of Volkswagen reflect the combination of the following inputs:

- Baseline credit assessment of 4 (on a scale of 1 to 6, where 1 represents lowest credit risk)
- rating of the local German government (unpublished)
- low dependence
- low support

As part of this rating affirmation, Moody's has lowered the baseline credit assessment from 3 to 4 reflecting Moody's expectation that a persistent weakness and the high competition in the auto market -- particularly in Europe - (excluding Financial Services) might not be offset by the company's cost savings initiative to an extent that would result in an improvement of VW's financials by end 2005. Among those financials, Moody's would have expected the company to generate an industrial free cash flow after dividends of more than EUR1.0 billion resulting in an on-balance-sheet net cash position as well as achieving an EBITA margin above 2.5% in the industrial business in the current year.

The stable outlook incorporates an expectation that the declining trend in VW's financial performance over the last three years will ease and that the company's efforts to strengthen the current low margin will modestly strengthen over the next two years more in line with the current baseline rating level.

The baseline credit rating of Volkswagen reflects (1) VW's strong global presence with broad-based operations and revenue diversification, (2) its market leadership in Western Europe with an 18% market share, (3) its broad product range and presence in all segments from small cars to luxury vehicles, as well as (4) its strong brand image and expectation that new products should offset declining cash flows from key models at the end of their respective life cycles. Moody's notes that, in the event of an upturn in global car demand, Volkswagen would benefit from its high operational leverage. Furthermore, Moody's adds that, despite free cash flow losses, Volkswagen's leverage remains moderate although metrics have trended upwards, and supporting liquidity remains robust.

In Moody's opinion the challenges in VW's credit profile reflect (1) ongoing cost structure improvements including capacity adjustments (2) the ability to regain profitability strength in the mass market segment and offset discount pricing (3) a stabilization of its market position and improved operating performance in China (4) a reduction of losses in North America driven by a successful reception of the new product launches as well as (5) a structural stabilization of the commercial vehicles division.

Over the past three years, Volkswagen's main profitability measures have been on a continuous downward trend. In particular, EBITA margins in the automotive business (adjusted for capitalised R&D) have declined from 4.4% in 2001 to 0.6% in 2004, Return on Assets (ROA) in 2004 was only 1.2%, down from 4.9% in 2001. In 2004, free cash flow after capex and dividends was positive by EUR1.5 billion, leading to an automotive net debt position of EUR1.8 billion (before pensions and excluding adjustments of EUR4.0 billion for negative net liquidity of financing and other companies).

Low support reflects the fact that the Land Niedersachsen (Lower-Saxony) owns 18.2% of the shares of Volkswagen, being the largest single shareholder. Although Moody's incorporates willingness by the Land to support Volkswagen from a default, which would have serious employment implications, we consider the Land to have limited financial flexibility which may impede its intention to provide any support for Volkswagen.

Low dependence reflects the international nature of Volkswagen's business. Germany accounts for only 27.5% of the company's turnover. Out of the total 343,000 workers, around 179,000 or 52% are located in Germany.

The following ratings have been affirmed:

- Issuer rating A3, senior unsecured MTN A3 and Commercial Paper P-2.
- Volkswagen Financial Services AG: Senior unsecured rating A3.
- Volkswagen Financial Services N.V.: Senior unsecured A3 and Bkd Commercial Paper P-2.
- Coordination Center Volkswagen SCS: Senior unsecured A3 and Commercial Paper P-2.
- Volkswagen International Finance N.V.: Senior unsecured A3.
- Volkswagen Investments Ltd.: Senior unsecured A3.
- Volkswagen Leasing GmbH: Senior unsecured A3 and Commercial Paper P-2.
- Volkswagen Financial Services Australia Ltd.: Commercial Paper P-2
- Volkswagen Financial Services Singapore Ltd.: Commercial Paper P-2
- Volkswagen of America: Commercial Paper P-2.
- VW Credit, Inc.: Senior unsecured A3.
- VW Credit Canada, Inc.: Commercial Paper P-2.
- Volkswagen Finance Japan K.K.: Commercial Paper P-2.

Headquartered in Wolfsburg (Germany), Volkswagen AG is the fourth largest car manufacturer in the world, with annual sales of around 5 million units, and the market leader in Western Europe with a share of more than 18%. The group had annual sales of EUR89 billion in 2004.

Frankfurt
Michael West
Managing Director
Corporate Finance Group
Moody's Deutschland GmbH
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Frankfurt
Falk Frey
VP - Senior Credit Officer
Corporate Finance Group
Moody's Deutschland GmbH
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

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