Changes in presentation and measurement criteria in the 2004 Consolidated Financial Statements of the Volkswagen Group relating to revised/new IASs/IFRSs

As part of its "Improvements Project", the International Accounting Standards Board (IASB) made improvements and revisions to existing International Accounting Standards (IASs). In addition, a number of new International Financial Reporting Standards (IFRSs) were issued as part of the IASB's "Convergence Project" to align IFRSs more closely with Generally Accepted Accounting Principles in the United States (US GAAP). The revised and newly issued Standards must be applied for fiscal years beginning on or after January 1, 2005.

At the same time, the IASB encourages the early adoption of the Standards by companies reporting under IFRSs. Volkswagen has decided to implement this recommendation, and has adopted at an early stage the following revised and newly issued Standards for its 2004 consolidated financial statements: IAS 1 *Presentation of Financial Statements*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 36 *Impairment of Assets*, IAS 38 *Intangible Assets* and IFRS 3 *Business Combinations*.

Application of the revised IAS 1 results in a change in the format of both the consolidated balance sheet, which is now classified by maturity, and the consolidated income statement. Along with the reclassification of the income statement, including a change in the presentation of the financial result, among other things, Volkswagen has also modified the presentation of gross profit to facilitate comparability. This means that the interest income and expenses previously presented net in the gross profit from the financing business of the Financial Services Division are now incorporated in sales revenue and cost of sales respectively. At the same time, the sales revenue and cost of sales recognized at the commencement of finance leases and previously included in equal amounts in sales revenue and cost of sales are now presented as a net amount. In addition, Volkswagen has reclassified commission income and expenses of the Financial Services Division from other operating income and other operating expenses to sales revenue and cost of sales respectively. Overall, these changes in presentation result in a reduction in sales revenue and cost of sales, and in other operating income and expenses, although there has been no overall change in the Volkswagen Group's operating profit. The prior-year amounts have been restated.

One consequence of the newly issued IFRS 3, in conjunction with the revised IAS 36, is the discontinuation of the previous amortization of goodwill. Goodwill amortization has been replaced by an impairment test at least once a year to determine whether goodwill has been impaired. If there is evidence of impairment of goodwill, an impairment loss must be recognized. The new/revised Standards must be applied prospectively, and result in higher earnings in 2004 for the Volkswagen Group.

A major consequence of the revision to IAS 38, Volkswagen has changed the method of calculating indirect components of development costs to be capitalized so that certain indirect costs charged to the development cost centers will no longer be capitalized in the future. Because the application of different measurement criteria for development costs capitalized in the past and those to be capitalized in the future would have impaired the meaningfulness of the consolidated financial statements, Volkswagen has retrospectively modified the method of calculating development cost components eligible for capitalization as of December 31, 2003 with the aim of improving comparability in accordance with IAS 8. One outcome of this revaluation is a reduction in the prior-period development costs capitalized as of January 1, 2003. The amount was eliminated against retained earnings, net of the related tax effects. The result of this change in measurement policies is a reduction in the capitalization ratio for development costs. The net effect of the lower amount capitalized and the reduced amortization of development costs capitalized in previous years is to reduce earnings for the 2003 comparative period and for fiscal year 2004.

Application of the revised IAS 21 had no material effects on the Volkswagen Group.

14.02.2005