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Comments on Discussion Paper 2 - The Performance Reporting Debate

Dear Ladies and Gentlemen,

We appreciate the opportunity to comment on the Discussion Paper 2 - The Performance Reporting Debate.

From our point of view there is no need for fundamental changes to performance reporting. We find that the separate presentation of income statement and SORIE (two statement approach) is adequate, clear and understandable. However we are striving for a more standardised breakdown of the income statement itself. We much appreciate you gathering the views of the "other side". It is clear from an analysis of the comment letters to the Amendments to IAS 1 that the majority of participants in the debate were against the proposed changes. We thus are surprised that the IASB seems to take little account of these opposing views. It is extremely important for us that no unnecessary divergence be caused between internal and external reporting. Changes would also lead to significant costs to be borne by industry.

If you have any questions to our comments please do not hesitate to contact us.

Yours sincerely
ppa.

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Comments on Discussion Paper 2 – The Performance Reporting Debate

Question A: *Is there a need to have a key line in the statement(s) of income and expense that succinctly summarises entity performance, acts as a headline number in corporate communication and can be used as a starting point for further analysis? If so, what should this (or these) key line(s) represent?*

We would much appreciate a key line in the income statement acting as a headline number in corporate communication e.g. operating result. This is an important indicator to show operating performance.

Question B: *What are the attributes of 'performance' in the context of financial reporting of an entity? Are there different types of performance (for example, management performance, entity performance) and if so, what are the types? What do they encapsulate and how can/should they be differentiated?*

The performance of a company is determined by many broader factors (management, employee know-how, products etc.). In our view the financial figures in the income statement adequately represent the entity performance (operating, financial, result before tax and net income). These figures have the advantage that they correspond exactly to our internal reporting. Written information and disclosures give sufficient further information about the broader factors.

Question C: *Is 'net income' (in its current form or a variation thereof) a meaningful and necessary notion? If so, what should it represent and how are items included in net income to be differentiated from other items of income and expense?*

We see a direct link to question A. Net income is an important key figure and should remain but other headline numbers may even be more important e.g. operating result. We would appreciate if the calculation steps that result in net income remain the same (operating, financial, result before tax).

Question D: *Does the bottom line of a statement of income and expense bear more weight and significance than other lines of the statement simply by virtue of being at the bottom? Consequently, how many statements of income and expense should there be and why?*

The final total of the income statement does not have to be the most important line. We find that two statements are sufficient: income statement and SORIE as they are clear and understandable. Furthermore we find it positive to remain consistent.

Question E: *Is recycling needed? If so, what should it be used for and on what criteria should it be based?*

We are of the opinion that recycling is needed to represent the economic effects of certain complicated transactions (e.g. cash flow hedging). Generally performance of an entity should be reported once only when it occurs. Recycling may confuse the users of financial statements but it is necessary to show the substance of certain transactions. We recommend that recycling should only be used when immediate recognition in the income statement would lead to a distorted picture of the economic event.

Question F: *Which of the following disaggregation criteria both have merit and are capable of being implemented? How would you define the terms used in those criteria and what are the pros and cons of using the criteria for disaggregation purposes? (NB. Please specify your own criteria if the criteria you believe to be necessary are not listed below.)*

The disaggregation options of realised items in income statement vs. unrealised items in SORIE, operating vs. financing vs. other and by function are essential for us.

Question G: *Are the current IFRS provisions in relation to the netting of items of income and expense appropriate? What (if any) are the specific areas where the current requirements allow information essential for analysis to be concealed or, alternatively, do not permit netting where it would result in more useful information?*

We find that the criticism of netting is being exaggerated. In practice there are very few items that are relevant for netting.

Question H: *What is the underlying nature of the adjustments made by entities when reporting non-GAAP measures in their communications with the markets? What are the adjustments seeking to achieve? Please provide specific examples illustrating this. Should any of these non-GAAP measures be incorporated into the IFRS financial reporting model? If that would be desirable, is it feasible and how should it be done?*

We find the current flexible reporting practice acceptable. There will always be diverse non-GAAP measures which cannot be forced into existing structures. Thus it must be possible to reflect such special items in a flexible form, which should not be strictly specified. Furthermore written information and disclosures can be used to give sufficient further information to users about non-GAAP measures.

Question I: *In determining the optimum degree of standardisation of the reporting formats, what is the right balance between comparability and flexibility? In other words, is the level of standardisation in the current IAS 1 appropriate or should more precise formats be prescribed? If the latter, what are the specific areas that should be more stringently prescribed?*

We encourage more standardisation and precise formats. Along with our preferred main categories of operating, financial, result before tax and net income we suggest further breakdown. This breakdown should reflect the functional areas suitable for traditional industries but should also allow enough flexibility for other specific industries.