

Income statement items are translated into euros at weighted average rates using the modified closing rate method. The rates applied are presented in the following table:

	€1 =	Balance sheet Middle rate on December 31,		Income statement Average rate	
		2006	2005	2006	2005
Argentina	ARS	4.04253	3.57630	3.86003	3.63920
Australia	AUD	1.66910	1.61090	1.66668	1.63260
Brazil	BRL	2.81522	2.76080	2.73362	3.03920
United Kingdom	GBP	0.67150	0.68530	0.68182	0.68391
India	INR	58.22720	53.09400	56.79643	54.81600
Japan	JPY	156.93000	138.90000	146.06235	136.87040
Canada	CAD	1.52810	1.37250	1.42422	1.50970
Mexico	MXN	14.26044	12.56760	13.68452	13.55330
Poland	PLN	3.83100	3.86000	3.89512	4.02260
Republic of Korea	KRW	1,224.81000	1,184.42000	1,198.14796	1,274.38350
Russia	RUB	34.68000	33.92000	34.11236	35.19960
Sweden	SEK	9.04040	9.38850	9.25331	9.28010
Slovak Republic	SKK	34.43500	37.88000	37.21442	38.59480
South Africa	ZAR	9.21240	7.46420	8.52228	7.91680
Czech Republic	CZK	27.48500	29.00000	28.33810	29.78530
USA	USD	1.31700	1.17970	1.25567	1.24480
People's Republic of China	CNY	10.27930	9.52040	10.00815	10.20250

ACCOUNTING POLICIES

INTANGIBLE ASSETS

Purchased intangible assets are recognized at cost and amortized over their useful life using the straight-line method. This relates in particular to software, which is amortized over three years.

In accordance with IAS 38, research costs are recognized as expenses when incurred. Development costs for future series products and other internally generated intangible assets are capitalized at cost, provided manufacture of the products is likely to bring the Volkswagen Group an economic benefit. If the criteria for recognition as assets are not met, the expenses are recognized in the income statement in the year in which they are incurred.

Capitalized development costs include all direct and indirect costs that are directly attributable to the development process. Borrowing costs are not capitalized. The costs are amortized using the straight-line method from the start of production over the expected life cycle of the models or powertrains developed – generally between five and ten years.

Amortization recognized during the year is allocated to the relevant functions in the income statement.

- Income Statement
- Balance Sheet
- Statement of Recognized Income and Expense
- Cash Flow Statement
- Notes to the Consolidated Financial Statements
- Auditors' Report

Goodwill and intangible assets with indefinite useful lives are tested for impairment at least once a year; capitalized development costs and intangible assets with finite useful lives are tested for impairment only if there are specific indications that they may be impaired. The Volkswagen Group applies value in use to determine the recoverable amount of goodwill and indefinite-lived intangible assets. This is based on management's current planning. The planning assumptions are adapted to reflect the current state of knowledge. They include reasonable assumptions on macroeconomic trends and historical developments. Estimation of cash flows is generally based on the expected growth trends for the automobile markets concerned. We apply country-specific discount factors of at least 9% when determining value in use for the purpose of impairment testing of intangible assets.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at cost less depreciation and – where necessary – write-downs for impairment. Investment grants are generally deducted from cost. Cost is determined on the basis of the direct costs as well as proportionate material and production overheads, including depreciation. The cost of repairs and borrowing costs are recorded as current expenses. Property, plant and equipment is depreciated using the straight-line method over its estimated useful life. The useful lives of items of property, plant and equipment are reviewed at each balance sheet date and adjusted if required.

Depreciation is based mainly on the following useful lives:

	Useful life
Buildings	25 to 50 years
Site improvements	10 to 18 years
Technical equipment and machinery	6 to 12 years
Other equipment, operating and office equipment, including special tools	3 to 15 years

Impairment losses on property, plant and equipment are recognized in accordance with IAS 36 where the recoverable amount of the asset concerned has fallen below the carrying amount. Recoverable amount is the higher of value in use and fair value less costs to sell. We apply country-specific discount factors of at least 9% when determining value in use for the purpose of impairment testing of property, plant and equipment. If the reasons for impairments recognized in previous years no longer apply, the impairment losses are reversed accordingly.

Where leased items of property, plant and equipment are used, the criteria for classification as a finance lease as set out in IAS 17 are met if all material risks and rewards incidental to ownership have been transferred to the Group company concerned. In such cases, the assets concerned are recognized at cost or at the present value of