

2.1 FOREIGN CURRENCY RISK

Currency forwards, currency options, currency swaps and cross-currency swaps are used to limit the foreign currency risk. These transactions relate to the exchange rate hedging of all cash flows denominated in foreign currencies arising from operating activities, as well as to matching currencies for financing activities.

We hedge expected foreign-currency sales revenue and materials purchases by means of forward exchange transactions and currency options, depending on the market assessment. In 2006, hedging related primarily to the US dollar, sterling, the Swiss franc, the Japanese yen and the Swedish krone.

2.2 INTEREST RATE RISK

Interest rate risk, i.e. possible fluctuations in the value of a financial instrument due to changes in market interest rates, primarily affects medium- and long-term fixed-interest receivables and liabilities. Interest rate swaps, cross-currency swaps and other types of interest rate contracts are entered into to hedge against this risk, depending on market conditions. Interest rate risk is hedged by fair value and cash flow hedges using the hedging instruments described above. Intercompany financing arrangements are normally structured to match the maturities of their refinancing.

2.3 COMMODITY RISK

The Volkswagen Group is exposed to commodity risks relating to sharp price fluctuations and availability. It eliminates or limits these risks by entering into commodity futures transactions. Hedging relates to substantial volumes of the commodities aluminum and copper, as well as the precious metals platinum, rhodium and palladium.

NOTIONAL AMOUNT OF DERIVATIVES

€ million	Remaining term			Notional amount Total Dec. 31, 2006	Notional amount Total Dec. 31, 2005
	under one year	within one to five years	over five years		
Interest rate swaps	8,678	27,519	5,481	41,678	41,241
Interest rate option contracts	–	–	–	–	100
Cross-currency swaps	511	1,720	8	2,239	3,435
Currency forwards	15,780	5,507	–	21,287	19,610
Currency options	6,355	57	–	6,412	6,770
Currency swaps	2,154	–	–	2,154	2,291
Commodity futures contracts	552	1,287	–	1,839	416

The fair values of the derivatives are estimated using market data at the balance sheet date as well as by appropriate valuation techniques. The following term structures were used for the calculation:

in %	EUR	USD	GBP	JPY	CAD	SEK
Interest rate for six months	3.853	5.370	5.430	0.631	4.334	3.453
Interest rate for one year	4.028	5.329	5.582	0.753	4.310	3.744
Interest rate for five years	4.111	5.045	5.428	1.360	4.188	4.155
Interest rate for ten years	4.178	5.124	5.165	1.792	4.429	4.213

3. LIQUIDITY RISK

A liquidity forecast with a fixed planning horizon, unused lines of credit within the Volkswagen Group and globally available debt issuance programs safeguard liquidity at all times.

4. RISK OF DEFAULT

The risk of default arising from financial assets involves the risk of default by counterparties, and therefore comprises at a maximum the amount of the positive fair value receivable from them. The risk arising from primary financial instruments is accounted for by recognizing bad debt losses. Cash and capital investments and derivatives are only entered into with prime-rated counterparties. Risk is additionally limited by a limit system based on credit assessments by the international rating agencies.

[30] CONTINGENT LIABILITIES

€ million	Dec. 31, 2006	Dec. 31, 2005
Liabilities from guarantees	56	114
Liabilities from warranty contracts	893	32
Pledges on company assets as security for third-party liabilities	12	13
Other contingent liabilities	192	105
	1,153	264

The liabilities from warranty contracts relate primarily to compensation payments pledged during the course of the sale of the gedas group in the event that gedas does not achieve contractually agreed sales revenues.

In the course of the acquisition of a 100% equity interest in LeasePlan Corporation N.V., Amsterdam, and the subsequent sale of 50% of the shares to two co-investors, Volkswagen AG reached an agreement with the co-investors on put options entitling these investors to sell their shares to Volkswagen AG. These put options can be exercised (a) at any time or (b) under certain conditions within a fixed period. The price of the shares should be the higher of (a) the fair value of the shares as calculated by an expert using a standard valuation method, and (b) the co-investors' initial investment. The fair value of the put options is contained in Other liabilities.

The trust assets and liabilities of the savings and trust entities belonging to the South American subsidiaries not included in the consolidated balance sheet amount to €591 million (previous year: €775 million).

[31] LITIGATION

Neither Volkswagen AG nor any of its Group companies is party to any legal or arbitration proceedings that may have a material effect on the economic position of the Group, or have had such an effect within the last two years. Equally, no such proceedings are foreseeable. Appropriate provisions are established by the Group company concerned for any potential costs arising from other legal or arbitration proceedings pending, or the company has adequate insurance cover.

[32] CONTINGENT ASSETS

Current European court tax rulings may result in future benefits for the Group; the amount involved could be in the low hundreds of millions.

[33] OTHER FINANCIAL OBLIGATIONS

€ million	Payable 2007	Payable 2008 – 2011	Payable from 2012	Total Dec. 31, 2006	Total Dec. 31, 2005
Purchase commitments in respect of					
property, plant and equipment	1,185	419	–	1,604	2,001
intangible assets	171	38	–	209	222
investment property	0	–	–	0	0
Obligations from					
agreed loans	84	–	–	84	74
long-term leasing and rental contracts	217	648	1,061	1,926	2,068
Other financial obligations	109	66	4	179	141

[34] AUDITORS' FEES RECOGNIZED AS EXPENSES

Under the provisions of the German Commercial Code (HGB), Volkswagen AG is obliged to disclose the audit fees of the Group auditors in Germany that are recognized as expenses.

€ thousand	2006	2005
Audits of financial statements	4,401	4,756
Other assurance or valuation services	186	292
Tax advisory services	384	289
Other services	2,219	1,889
	7,190	7,226

[35] TOTAL EXPENSE FOR THE PERIOD

€ million	2006	2005
Cost of materials		
Cost of raw materials, consumables and supplies, purchased merchandise and services	66,935	62,620
Personnel expenses		
Wages and salaries	14,240	11,825
Social security, post-employment and other employee benefit costs	3,160	2,971
	17,400	14,796

[36] AVERAGE NUMBER OF EMPLOYEES DURING THE YEAR

	2006	2005
Performance-related wage-earners	165,056	168,863
Time-rate wage-earners	47,635	48,352
Salaried staff	87,411	98,688
	300,102	315,903
Apprentices	8,337	7,928
	308,439	323,831
Vehicle-producing investments not fully consolidated	20,160	21,383
	328,599	345,214

[37] EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events up to February 20, 2007.

[38] RELATED PARTY DISCLOSURES IN ACCORDANCE WITH IAS 24

Related parties as defined by IAS 24 are parties that the reporting entity has the ability to control or over which it can exercise significant influence, or parties that have the ability to control or exercise significant influence over the reporting entity.

On November 13, 2006, Dr. Ing. h.c. F. Porsche AG held 27.40% of the voting rights of Volkswagen AG and appointed two members of the Supervisory Board.

On January 20, 2007, the State of Lower Saxony held 20.26% of the voting rights of Volkswagen AG and also appointed two members of the Supervisory Board. Transactions with private companies owned by the State of Lower Saxony are conducted on an arm's length basis.

All business relationships with unconsolidated subsidiaries, joint ventures and associates are transacted on an arm's length basis.

Members of the Board of Management and Supervisory Board of Volkswagen AG are members of supervisory and management boards of other companies with which Volkswagen AG has relations in the normal course of business. All transactions with these companies are conducted on an arm's length basis.

The majority of the supplies and services transacted between fully consolidated companies of the Volkswagen Group and related parties (unconsolidated subsidiaries, joint ventures, associates, Porsche AG and other related parties) are presented in the following tables, although only material transactions are listed:

RELATED PARTIES

€ million	Interest in % ¹⁾	Supplies and services rendered		Supplies and services received	
		2006	2005	2006	2005
Audi Zentrum Berlin-Charlottenburg GmbH & Co. KG, Berlin	100	73	–	19	–
Automobile Rhein-Neckar GmbH, Mannheim	100	63	53	8	9
Autostadt GmbH, Wolfsburg	100	26	29	108	116
AVG Automobil Vertriebsgesellschaft mbH, Hanover	100	5	9	2	5
DFM Autofinanciering B.V., Amersfoort	100	–	–	–	–
Din Bil Göteborg Aktiebolag, Göteborg ²⁾	100	–	111	–	–
Din Bil Stockholm AB, Södertälje ²⁾	100	–	186	–	0
Din Bil Syd AB, Malmö ²⁾	100	–	74	–	–
Din Bil Sverige Aktiebolag, Södertälje	100	475	–	123	–
Eduard Winter Automobilbetriebe GmbH & Co. KG, Berlin	100	97	–	16	–
Osterkamp Automobile GmbH, Aurich	100	54	29	10	–
Volkswagen Coaching Gesellschaft mbH, Wolfsburg	100	94	97	121	140
Volkswagen Retail Leipzig GmbH, Leipzig	100	73	–	–	–
Volkswagen Retail Rhein-Main GmbH, Frankfurt am Main	100	93	–	–	–
Audi Zentrum Stuttgart GmbH & Co. KG, Stuttgart	51	101	87	25	8
Hahn + Lang Automobile GmbH & Co. KG, Stuttgart	51	106	169	15	39
VDF Holding A.S., Istanbul	51	–	–	–	–
VOLKSWAGEN DOGUS TÜKETICI FINANSMANI ANONIM SİRKETİ, Maslak-Istanbul	51	0	0	6	0
IAV GmbH Ingenieurgesellschaft Auto und Verkehr, Berlin	50	2	5	158	141
Shanghai-Volkswagen Automotive Company Ltd., Shanghai	50	338	406	1	2
Volkswagen Bordnetze GmbH, Wolfsburg ³⁾	50	0	9	71	319
Wolfsburg AG, Wolfsburg	50	16	31	51	28
FAW-Volkswagen Automotive Company, Ltd., Changchun	40	1,240	1,260	1	3
YANASE Audi Sales Company Ltd., Tokyo	33	137	141	23	36
Dr. Ing. h. c. F. Porsche Aktiengesellschaft, Stuttgart		710	921	65	40
Porsche Austria GmbH & Co., Salzburg		1,331	–	15	–
Porsche Hungaria Handels Kft, Budapest		304	–	7	–
Porsche Inter Auto CZ spol. s.r.o., Prague		116	–	4	–
Porsche Konstruktionen GmbH & Co. KG, Salzburg		192	–	0	–
Porsche SCG d.o.o., Belgrade		114	–	0	–
Porsche Slovakia spol. s.r.o., Bratislava		115	–	1	–
Porsche Slovenija d.o.o., Ljubljana		156	–	1	–
SC Porsche Romania s.r.l., Bucharest		300	–	1	–
Georgsmarienhütte Holding GmbH, Georgsmarienhütte		–	–	44	–

¹⁾ In accordance with list of total shareholdings.

²⁾ Merged with Din Bil Sverige, Södertälje, as of December 31, 2006.

³⁾ Until March 31, 2006.

€ million	Interest in % ¹⁾	Receivables from		Payables to	
		2006	2005	2006	2005
Audi Zentrum Berlin-Charlottenburg GmbH & Co. KG, Berlin	100	22	-	-	-
Automobile Rhein-Neckar GmbH, Mannheim	100	27	24	1	0
Autostadt GmbH, Wolfsburg	100	4	0	11	4
AVG Automobil Vertriebsgesellschaft mbH, Hanover	100	4	157	0	0
DFM Autofinancierung B.V., Amersfoort	100	427	36	-	-
Din Bil Göteborg Aktiebolag, Göteborg ²⁾	100	-	15	-	4
Din Bil Stockholm AB, Södertälje ²⁾	100	-	25	-	7
Din Bil Syd AB, Malmö ²⁾	100	-	10	-	2
Din Bil Sverige Aktiebolag, Södertälje	100	93	-	29	-
Eduard Winter Automobilbetriebe GmbH & Co. KG, Berlin	100	45	-	-	-
Osterkamp Automobile GmbH, Aurich	100	32	5	-	0
Volkswagen Coaching Gesellschaft mbH, Wolfsburg	100	19	0	27	20
Volkswagen Retail Leipzig GmbH, Leipzig	100	1	-	-	-
Volkswagen Retail Rhein-Main GmbH, Frankfurt am Main	100	17	-	1	-
Audi Zentrum Stuttgart GmbH & Co. KG, Stuttgart	51	7	28	-	0
Hahn + Lang Automobile GmbH & Co. KG, Stuttgart	51	24	23	0	0
VDF Holding A.S., Istanbul	51	105	107	-	4
VOLKSWAGEN DOGUS TÜKETICI FINANSMANI ANONIM SİRKETİ, Maslak-Istanbul	51	506	509	-	-
IAV GmbH Ingenieurgesellschaft Auto und Verkehr, Berlin	50	0	0	23	37
Shanghai-Volkswagen Automotive Company Ltd., Shanghai	50	154	297	28	0
Volkswagen Bordnetze GmbH, Wolfsburg ³⁾	50	0	0	0	21
Wolfsburg AG, Wolfsburg	50	6	13	27	2
FAW-Volkswagen Automotive Company, Ltd., Changchun	40	265	318	32	46
YANASE Audi Sales Company Ltd., Tokyo	33	39	53	4	5
Dr. Ing. h. c. F. Porsche Aktiengesellschaft, Stuttgart		43	38	2	0
Porsche Austria GmbH & Co., Salzburg		70	-	-	-
Porsche Hungaria Handels Kft, Budapest		78	-	-	-
Porsche Inter Auto CZ spol. s.r.o., Prague		-	-	-	-
Porsche Konstruktionen GmbH & Co. KG, Salzburg		13	-	3	-
Porsche SCG d.o.o., Belgrade		0	-	-	-
Porsche Slovakia spol. s.r.o., Bratislava		7	-	0	-
Porsche Slovenija d.o.o., Ljubljana		18	-	0	-
SC Porsche Romania s.r.l., Bucharest		37	-	-	-
Georgsmarienhütte Holding GmbH, Georgsmarienhütte		-	-	-	-

¹⁾ In accordance with list of total shareholdings.

²⁾ Merged with Din Bil Sverige, Södertälje, as of December 31, 2006.

³⁾ Until March 31, 2006.

The Board of Management and Supervisory Board of the Volkswagen Group are related parties within the meaning of IAS 24. The following benefits and remuneration were recorded for these persons:

€	2006	2005
Short-term benefits	16,063,254	13,597,082
Termination benefits	6,652,062	4,152,142
Post-employment benefits	-	-
Other long-term benefits	-	-
Share-based payment	546,950	143,700
	23,262,266	17,892,924

The post-employment benefits relate to additions to pension provisions for current members of the Board of Management. The expenses shown above do not correspond to the definition of remuneration of members of the Board of Management and the Supervisory Board in accordance with the German Corporate Governance Code.

[39] NOTICES AND DISCLOSURE OF CHANGES REGARDING THE OWNERSHIP OF VOTING RIGHTS IN VOLKSWAGEN AG IN ACCORDANCE WITH THE WERTPAPIERHANDELSGESETZ (GERMAN SECURITIES TRADING ACT)

STATE OF LOWER SAXONY

Hannoversche Beteiligungsgesellschaft mbH, Hanover, Germany, notified us in accordance with section 41(4a) of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) that it held 20.19% of the voting rights (corresponding to 57,953,870 voting shares) of Volkswagen AG, Wolfsburg, Germany, on January 20, 2007.

The State of Lower Saxony, Hanover, Germany, notified us in accordance with section 41(4a) of the WpHG that it held 20.26% of the voting rights (corresponding to 58,155,310 voting shares) of Volkswagen AG, Wolfsburg, Germany, on January 20, 2007. Of this amount, 20.19% (corresponding to 57,953,870) of the voting rights are attributable to the State of Lower Saxony via Hannoversche Beteiligungsgesellschaft mbH, Hanover, Germany in accordance with section 22(1) sentence 1 no. 1 of the WpHG.

PORSCHE

Ferdinand Porsche Privatstiftung, Salzburg/Austria, and Ferdinand Porsche Holding GmbH, Salzburg/Austria, notified us in accordance with section 21(1) sentence 1 of the WpHG in a letter dated October 27, 2006 that the share of voting rights of the two notifying parties in Volkswagen AG each exceeded the thresholds of 5% and 10% on October 20, 2006 and amounted to 21.19%. The notifying parties stated that these voting shares were attributable to the notifying parties in accordance with section 22(1) no. 1 of the WpHG.

Dr. Ing. h.c. F. Porsche Aktiengesellschaft, Stuttgart, notified us that its share of voting rights in Volkswagen AG exceeded the threshold of 25% on November 13, 2006 and amounted to 27.40%.