

# Volkswagen AG (condensed, according to German Commercial Code)

## Stronger vehicle sales worldwide boosts sales

### NET INCOME FOR THE YEAR

In fiscal year 2006, Volkswagen AG's sales rose by 5.6% year-on-year to €53.0 billion. This increase was primarily due to stronger vehicle sales worldwide. 60.4% (60.5%) of sales were generated outside Germany. The cost of sales, which rose primarily due to restructuring measures, produced a gross profit of €- 1.2 billion. The 10.8% rise in selling, general and administrative expenses is mainly attributable to the

increase in sales promotion measures necessitated by the intensified competitive situation. Accordingly, the ratio of selling, general and administrative expenses to sales increased slightly. In particular, positive exchange rate effects relating to deliveries of goods and services caused the other operating result to increase by 34.7% to €1.2 billion. The financial result rose by 11.3% to €4.1 billion.

### INCOME STATEMENT OF VOLKSWAGEN AG

€ million	2006	2005
Sales	53,036	50,245
Cost of sales	54,238	50,225
<b>Gross profit on sales</b>	<b>- 1,202</b>	<b>+ 20</b>
Selling, general and administrative expenses	3,979	3,591
Other operating result	+ 1,175	+ 873
Financial result*	+ 4,051	+ 3,639
<b>Result from ordinary activities</b>	<b>+ 45</b>	<b>+ 941</b>
Taxes on income	- 900	200
<b>Net income for the year</b>	<b>945</b>	<b>741</b>
Retained profits brought forward	11	10
Appropriations to revenue reserves	450	290
<b>Net retained profits</b>	<b>506</b>	<b>461</b>

\* Including write-downs of financial assets.

### BALANCE SHEET OF VOLKSWAGEN AG AS OF DECEMBER 31

€ million	2006	2005
Fixed assets	23,583	21,351
Inventories	2,785	3,146
Receivables	10,663	9,056
Cash and bank balances	8,571	10,110
<b>Total assets</b>	<b>45,602</b>	<b>43,663</b>
Equity	10,335	11,064
Long-term debt	8,348	7,634
Medium-term debt	6,088	5,863
Short-term debt	20,831	19,102

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In total, Volkswagen AG's result from ordinary activities amounted to €45 million (€941 million). A change in German corporation tax legislation was the main factor resulting in tax income of €900 million for Volkswagen AG, leading to a 27.5% year-on-year increase in net income for the year to €945 million.

**NET ASSETS AND FINANCIAL POSITION**

During the reporting period, Volkswagen AG's net assets increased by 4.4% to €45.6 billion. Investments in tangible assets were reduced by 34.7%, mainly as a result of the continuation of the ForMotionplus performance enhancement program, the even more efficient implementation of product-related projects and savings in non product-related items. Investments were made primarily in new products at the Kassel and Wolfsburg plants, as well as in special machines and equipment for suppliers. Financial investments increased year-on-year, particularly due to the 34.2% equity interest acquired in MAN Aktiengesellschaft. In total, fixed assets increased by 10.5% compared with December 31, 2005 to €23.6 billion.

Current assets remained virtually unchanged at €22.0 billion. Increased receivables were offset by lower inventories and cash and bank balances.

Since Volkswagen AG retired its treasury shares during the reporting period, equity (including special tax-allowable reserves) was reduced by 6.6% to €10.3 billion. As a result, the equity ratio dropped by 2.6 percentage points to 22.7%. By the end of the year, provisions increased by 11.8% year-on-year to €18.8 billion. Liabilities rose to €16.4 billion (+ 4.3%), of which €12.0 billion (€11.5 billion) was interest-bearing.

**DIVIDEND PROPOSAL**

€450 million of the net income for the year was appropriated to other revenue reserves in accordance with section 58(2) of the AktG (German Stock Corporation Act). The Board of Management and Supervisory Board are proposing to the Annual General Meeting to pay a dividend of €497 million from net retained profits, i.e. €1.25 per ordinary share and €1.31 per preferred share.

**PROPOSAL ON THE APPROPRIATION OF NET PROFIT**

€	2006
Dividend distribution on subscribed capital (€1,004 million)	496,587,230.55
thereof on: ordinary shares	358,725,083.75
preferred shares	137,862,146.80
Balance (carried forward to new account)	9,207,287.87
<b>Net retained profits</b>	<b>505,794,518.42</b>

**EMPLOYEE PAY AND BENEFITS AT VOLKSWAGEN AG**

€ million	2006	%	2005	%
Direct pay including cash benefits	6,126*	72.9	4,334	63.0
Social security contributions	898	10.7	965	14.0
Compensated absence	757	9.0	800	11.6
Old-age pensions	620	7.4	780	11.4
<b>Total expense</b>	<b>8,401</b>	<b>100.0</b>	<b>6,879</b>	<b>100.0</b>

\* Including expenses for severance payments and partial retirement arrangements.

**SALES TO THE DEALER ORGANIZATION**

Volkswagen AG sold 2,268,830 vehicles to the dealer organization in the reporting period. This was 5.4% more than in the previous year. The percentage of vehicles sold outside Germany remained virtually unchanged at 66.5% (66.6%).

**PRODUCTION**

Output at Volkswagen AG's vehicle production plants (Emden, Hanover and Wolfsburg) fell slightly by 0.3% to 953,131 vehicles. The increased number of Passat and Multivan/Transporter models produced in particular was offset by declines in Touran, Golf Plus and Golf Variant production. Average daily production at Volkswagen AG increased by 6.6% year-on-year to 4,402 units, despite the reduction in the number of working days compared with 2005.

**NUMBER OF EMPLOYEES**

At December 31, 2006, a total of 94,000 people were employed at the sites of Volkswagen AG, excluding staff employed at subsidiaries. The workforce was 7.0% smaller than during the previous year. There were 4,445 apprentices.

The percentage of female employees was 13.3% (13.8%) of the total headcount of Volkswagen AG. The Company employed 2,249 part-time workers (2.4%). The percentage of foreign employees was 6.4% (6.9%). A total of 64.9% (64.8%) of employees held a vocational qualification in an area relevant to Volkswagen, while 11.1% (11.2%) were graduates. The average age of Volkswagen employees was 41.7 years.

**RESEARCH AND DEVELOPMENT**

Volkswagen AG's research and development costs according to the German Commercial Code rose by 4.6% to €2.1 billion. On December 31, 2006, 8,980 people were employed in this area.

**PURCHASING VOLUME**

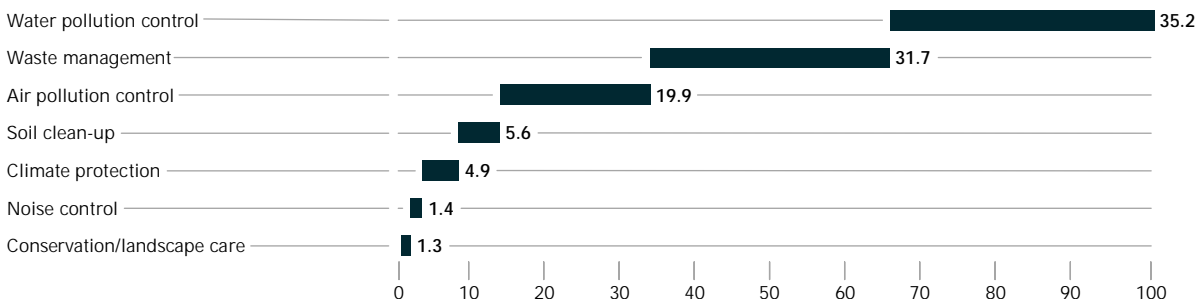
The purchasing volume across the six Volkswagen AG sites in Germany increased to €23.9 billion (+0.7%), of which 71.9% (74.8%) was sourced from German suppliers. Of the total purchasing volume, €20.6 billion (€20.4 billion) was spent on production materials and €2.7 billion (€2.7 billion) on capital goods and services.

**VOLKSWAGEN AG EXPENDITURE ON ENVIRONMENTAL PROTECTION**

€ million	2006	2005	2004	2003	2002
Investments	19	27	16	24	32
Operating costs	170	194	202	195	187

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**OPERATING COSTS FOR ENVIRONMENTAL PROTECTION AT VOLKSWAGEN AG IN 2006**  
SHARE OF ENVIRONMENTAL PROTECTION AREAS AS PERCENT



**EXPENDITURE ON ENVIRONMENTAL PROTECTION**

Investments for environmental protection consist of both product-related as well as production-related measures. The investments in product-related measures relate mainly to the reduction of exhaust emissions. The investments for environmental protection focused on expenditures on water pollution control and waste management. Operating costs relating to environmental protection result exclusively from production-related measures. They are broken down into expenditures for the operation of environmental protection equipment and expenditures not relating to such equipment. Operating costs relating to environmental protection were reduced by 12.3% to €170 million due to process optimization.

**BUSINESS DEVELOPMENT RISKS AT VOLKSWAGEN AG**

The business development of Volkswagen AG is exposed to essentially the same risks as the development of the Volkswagen Group. These risks are explained in the Risk Report on pages 102 to 107 of this Annual Report.

**RISKS ARISING FROM FINANCIAL INSTRUMENTS**

Risks for Volkswagen AG arising from the use of financial instruments are the same as those to which the Volkswagen Group is exposed. An explanation of these risks can be found in the Risk Report on page 106 of this Annual Report.

The annual financial statements of Volkswagen AG (in accordance with the HGB) can be accessed from the electronic companies register at [www.unternehmensregister.de](http://www.unternehmensregister.de). They are also published on our Investor Relations website at [www.volkswagen-ir.de](http://www.volkswagen-ir.de), or can be requested free of charge from Volkswagen AG from the address listed in the Contact Information for this Annual Report.