

# VOLKSWAGEN LEASING

GMBH

Annual Report 2006



## AT A GLANCE

### VOLKSWAGEN LEASING GMBH INCLUDING VOLKSWAGEN LEASING ANLAGEN GMBH AND EUROPCAR FLEET SERVICES GMBH

<b>in € million</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Investments in leased assets	5,761	5,270	5,178	4,690	4,008
Leased assets	10,661	10,027	9,027	7,790	6,711
Total assets	11,267	10,267	9,914	8,597	7,467
Sales	5,848	5,302	5,171	4,837	4,614

<b>in thousands</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
New contracts	253	224	232	212	192
Current contracts	664	623	595	567	538

To improve the information about business trends, we have combined the figures of the companies to create a Group presentation.

As at 1 January 2005, Europcar Fleet Services GmbH was merged with Volkswagen Leasing GmbH. Volkswagen Leasing Anlagen GmbH discontinued its operations in August 2004.

Key IFRS data of Volkswagen Leasing GmbH is available on our website at <http://www.vwfsag.de> (Investor Relations/Key Data).

## Volkswagen Leasing GmbH

In the previous financial year, Volkswagen Leasing GmbH was able to strengthen its position as the largest automobile leasing company in the German market.

The company's business model caters in particular for commercial customers whose fleets are dominated by brands of the Volkswagen Group. Key roles in the business concept of Volkswagen Leasing GmbH are played not only by its preeminent expertise in the management of residual values and pre-owned vehicles, but also by the operational integration with Group brands.

Volkswagen Leasing GmbH decisively extended its capital market activities in 2006 through its own issues on the capital market.

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Publishing information



### Ladies and Gentlemen,

The deregulation of automotive sales has also affected the leasing market. In particular, non-captive leasing companies have joined the established providers of automobile leasing and are using aggressive pricing and terms to enter the business and increase their market share. The current situation in the automobile leasing market shows the typical characteristics of predatory competition – increasing pressure on margins and profits, and the initial indications of an imminent market consolidation.

Given this dynamic environment, it is particularly pleasing that we still remained on our growth trajectory, and fortified and expanded our position as the leader in the German market. Our leasing portfolio reached the record number of 664,000 contracts. However, it should be noted that market development was highly differentiated.

### The market segments are developing differently

In contrast to past years, the market for commercial leasing customers showed less growth than the overall market, since the business with larger vehicle fleets was unable to continue its growth trend. However, the individual commercial customer segment, which is smaller in terms of volume, showed above-average growth. For the first time we were able to exceed the magic limit of 250,000 contracts under management in the fleet customers segment. We are especially pleased that we were able to counter the current market trend, using innovative products and services.

From our viewpoint, two factors were particularly decisive for this success: our expertise in pre-owned cars and vehicle residual value on the one hand, and our integration with the Group brands on the other.

### Optimal pre-owned vehicle management as a success factor

The success of the Volkswagen Group's brands is based on the high stability of their value. Attractive prices for pre-owned cars increase the brand image and reduce the mobility costs of the vehicles because they depreciate more slowly. Development of the business in automobile leasing is dependent on precisely these factors. Stability of value determines competitive ability in new car leasing: only through the optimal marketing of pre-owned cars can residual values be obtained that, in turn, enable attractively-costed lease payments.

We made significant strides in 2006 in the two strategic fields of activity that are central to our business: residual value and pre-owned vehicle management. Regarding residual value, we have developed forecasting systems and portfolio management procedures which have made us the know-how leader in the Volkswagen Group and a standard-setter in the industry. In pre-owned vehicle management, we offer our dealers marketing security that is distinguished by our competency in residual values, a large trading volume, logistical and appraisal services, and the launch of international marketing. The expansion of our pre-owned cars franchise programme "First Class", the pre-owned car trademark of Volkswagen Financial Services AG, is supporting these goals.

#### **Dovetailing with the Volkswagen Group's brands**

In addition to efficient pre-owned vehicle management, the key to improving sales numbers lies in interaction: with the brands, with the other financial services, and with the dealers of the Volkswagen Group. We took a major step forward in 2006, and used innovative products to achieve market successes. This has proven the worth of the close coordination of sales goals and activities between Volkswagen Leasing GmbH and the Group brands.

The advantages of closer integration can be seen in the commercial customer business, for which we developed two innovative service packages that include services such as maintenance and wear and tear repairs as well as tyre change and storage, in addition to the classical leasing product. The bundling of services benefits everyone: our customers, the brands and our dealers. The satisfaction of our business partners enabled us to achieve a significant increase in sales of new vehicles.

#### **Favourable prospects in an intensely competitive environment**

In spite of intensified competition, the factors above demonstrate favourable prospects for our business in 2007. Our competitive ability will be supported by internal restructuring measures, together with an optimisation of quality standards aimed at an improved quality of service. Our efforts were rewarded with the 2006 Auto Fleet Award, presented by the prestigious "Autoflotte" magazine, in the "Best leasing and fleet company" category. The taking over of leasing for employees of Volkswagen AG at the beginning of 2006 also placed our opportunities for development on a broader basis. This business has already exceeded an order of magnitude of 22,800 contracts in the portfolio, and we expect further growth opportunities for the future.

Our growing customer base, innovative and customer-focused products, stable earnings position and competitive cost/income ratio put us in a very good position to further expand our leadership in automobile leasing on the German market.

We would like to thank everyone who contributed to our positive development: our employees in particular, for their commitment and dedication, but also our brand and business representatives for their trust and cooperation. Last but not least, we thank our customers, who often give us their trust over many years.

We look forward to you continuing to place your trust in us.

Sincerely,

A handwritten signature in grey ink, appearing to read 'Lars-Henner Santelmann', written in a cursive style.

Lars-Henner Santelmann  
Spokesman of the Board of Management

Brunswick, March 2007

## Full-service leasing – a true customer advantage

The market has undergone significant change as a result of developments in the leasing business witnessed in 2006. Customers are looking to leasing as a financing alternative to buying a car: It is primarily the predictability of the lease payments – which include any necessary services – that is attracting not only private customers, but also commercial customers and corporate fleet managers.

Independent leasing companies wishing to participate in the favourable prospects for growth have become increasingly aware of this market, and are attempting to gain market share using aggressive terms. Volkswagen Leasing GmbH has adjusted to this challenging competitive environment with innovative offers.

### Status of the development in full-service leasing

In a climate of uncertain economic development, customers become more interested in spreading their expenditures over the period they will use the car, in order to increase their liquidity. Private customers in particular refrain from using their income and savings to purchase a car, and turn to individual mobility solutions, in which leasing and various services such as special vehicle insurance, extended warranties or residual value insurance are included in the lease payment. Apart from fuel costs, which vary from person to person, the customer thus gains long-term planning security from costs that remain constant and transparent over the entire contractual period.

As a result, the mobility models for the private customer are slowly approaching the models for commercial customers: the latter have long preferred to receive offers of integrated service solutions. The only recognisable differences are in the reasons for agreeing on a mobility package. While a private customer's primary consideration is often freedom from liquidity risks, commercial customers, whose business volume has a considerably greater scope – particularly in the fleet segment – have a number of arguments in favour of a full-service package. The option of outsourcing the entire fleet management to a single source is being increasingly

seen as a key reason to use full-service leasing packages, even by smaller companies. In addition to the cost savings, tax and financial reasons are also stimulating sales.

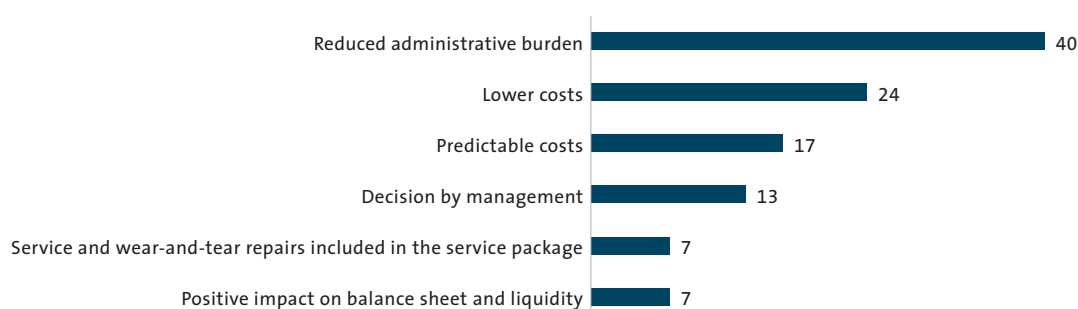
### The fleet business is providing growth momentum in automobile leasing

One reason for the continuing growth of corporate vehicle fleets is the increased mobility requirement demanded by increased field service work. Another is the trend towards offering company vehicles as a pay component. These solutions are also being increasingly used by small and mid-sized commercial customers, and are resulting in the establishment of small fleets. It is this customer group in particular that is expected to provide strong growth momentum in automobile leasing through its demand for comprehensive mobility solutions.

Large fleets with more than 50 vehicles dominate commercial fleet leasing. Companies that operate small or medium fleets are only hesitantly taking advantage of full-service leasing. As documented by the study on full-service leasing conducted jointly by the F.A.Z. Institute and Volkswagen Leasing GmbH in 2005, these customer groups often lack sufficient information about the advantages of leasing in fleet management.

## REASONS FOR USING FULL-SERVICE LEASING

in % of all fleet decision-makers polled <sup>1</sup>



<sup>1</sup> Multiple answers possible

Source: F.A.Z. institute

The company has particularly good opportunities for expanding business in small fleet management of up to 20 vehicles. As the study shows, managers of smaller vehicle fleets prefer uniform brands and servicing by a single leasing company. This favours the manufacturers' financial services providers – the captives.

Volkswagen Leasing GmbH is the clear market leader among captives in Germany. Savings in fleet management are the fleet managers' primary reason for utilising full-service lease agreements. Thanks to its nationwide dealer network, the company has the ability to present flexible, tailored leasing or mobility offers to local companies. These offers depend on the intended use of the fleet in question and take mileage and contractual period into account. Just as full-service lease agreements can be offered, which provide insurance, maintenance, repairs and replacement tyres, so can complete fleet management and consulting also be considered.

## Successful residual value and pre-owned vehicle management

Residual values are a significant calculation factor for determining lease payments. They play a key role in determining the competitiveness of an offer. Volkswagen Leasing GmbH has developed outstanding expertise concerning residual values and the essential task of accurately forecasting them. Using our own experiences in lease returns, it is based on statistical methods, and includes macroeconomic as well as Group-internal parameters. The forecast accuracy of the process is verified by regular tests.

Business Leasing

# Jetzt auf Sieg spielen:

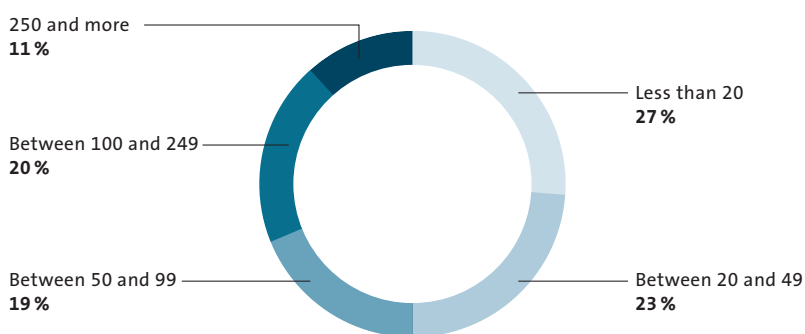
Das FairPlay-Leasing für fast alle neuen Volkswagen Pkw.

99€

Finanzieren. Leasen. Versichern. Direct Banking.

## FLEETS, BY SIZE

in % of all fleet decision-makers polled



Source: F.A.Z. institute

Pre-owned vehicle management relates to the marketing security of lease returns, whilst aiming to avoid residual value risks. It forms the core of a system that looks at the marketing of pre-owned cars, as well as the sale of financial services and possible pooling effects.

In particular, the close interaction between the brands, the dealers and Volkswagen Leasing GmbH in our business model helps prevent discount battles, ultimately resulting in greater brand loyalty and customer retention.

### Role model for automobile leasing outside Germany

This excellent know-how offers an ideal prerequisite for the company's international expansion. In 2007, the expansion will begin in Italy and Spain: identified target groups include individual customers, together with small and medium-sized companies with fleets of 5 to 70 vehicles. Compared to the non-captive competitors, who are specialised in managing very large fleets, Volkswagen Leasing GmbH can achieve special prominence in this group as a captive provider.

## Capital market activities of Volkswagen Leasing GmbH

*As with previous years, 2006 was a year that will be vividly remembered by many issuers of unsecured bonds. The capital market environment continued to be favourable, with increasing, albeit still relatively low yields. This environment, combined with strong demand among investors, provided attractive refinancing levels.*

In 2006, this environment allowed many companies to optimally cover not only their normal refinancing requirements but also an increased refinancing need resulting from stronger mergers & acquisition activities. Even the correction in the stock market that began in the first half of the year exerted only a temporary, volatile influence on the generally stable or positive development of the bond markets.

The buyback of more than € 1.1 billion in outstanding bonds of Volkswagen AG was also an important capital market event for Volkswagen Leasing GmbH in 2006. This strategic step, which most certainly surprised the market, supported the positive assessment of Volkswagen's credit risk by investors during the rest of the year, and thus resulted in a further decline in risk premiums on the bonds of the Volkswagen Financial Services AG Group.

In these circumstances, Volkswagen Leasing GmbH successfully issued a benchmark bond of over € 1 billion following a pan-European road show in May 2006. The company was able to achieve a very attractive pricing for the five-year term, without the premium that is customary for large-volume bond in the capital market. The company's debut in this segment of the bond market again underscored the strategic separation of liquidity between the VW Group and VW Financial Services.

An additional bond issue was privately placed at the end of the year: the issuance, with a term of three years, had a volume of € 300 million.

Following the example in previous years, the expansion of funding for Volkswagen Leasing GmbH that is independent of the corporate rating was again of strategic significance in 2006. The use of asset-backed securities as a refinancing instrument plays a significant role in this regard and also realises extremely attractive risk premiums on the market.

In June 2006, the German leasing receivables of Volkswagen Leasing GmbH were securitised through the VCL 8 transaction. VCL 8 was structured with a revolving period of three years, giving a weighted term of approximately four years. As with VCL 7 in 2004, the residual value of the vehicles was not a component of the transaction. The spreads achieved were + 8 basis points (Class A) and + 18 basis points (Class B) respectively, over one-month Euribor. As the transaction was issued in a positive market environment at the time of the placement of the bonds, investor demand was high, and the Class A and Class B bond loans were both strongly oversubscribed. VCL 8 also pursued the goal of gradually expanding the collateralised refinancing, in order to attain more diversification and to achieve greater independence of refinancing costs from the corporate rating.



# Management report

## Business and economic environment

### Global economy

The upturn in the global economy continued in 2006. However, the rate of expansion diminished somewhat during the course of the year. This was primarily caused by the continued increase in commodity and energy prices, as well as the more restrictive monetary policy in many countries. However, overall global economic growth was still slightly above the previous year's level.

In Western Europe, the upturn strengthened in 2006. In addition to exports, domestic demand for capital goods in particular provided significant growth momentum. The GDP growth rate in the euro zone climbed from 1.4 % in the previous year to 2.6 %. The average unemployment rate declined year-on-year by 0.7 percentage points to 7.9 %. At 6.0 %, growth continued to remain very strong in Central and Eastern Europe (previous year: 5.7 %).

The German economy recorded a growth rate of 2.5 % in 2006 – the highest since 2000 (previous year: 0.9 %). The upturn was primarily carried by exports and the increasing domestic demand for capital goods, while private consumption saw only a hesitant upturn. The unemployment rate declined to an average of 10.8 % (previous year: 11.7 %).

### Financial and automobile markets

The attractiveness of the market for automotive financing in Europe increased in 2006 due to a rising number of new passenger car registrations. The market continues to be competitive. This development could also be witnessed on the automobile leasing market. With the restructuring of the block exemption regulation as decreed by the European Union in 2005 and the resultant deregulation of automotive

sales, the brand-independent leasing companies are also facing considerable structural challenges. The intensification of competition is reflected in the growing pressure on margins.

The increased pressure on the leasing business makes refinancing even more important for profitability. In spite of a slight increase in yields, the continued worldwide liquidity of the capital markets kept refinancing at an attractive level. In this environment, the company's refinancing requirements were well satisfied in 2006.

The global demand for passenger cars, which is a key factor for the development of Volkswagen Leasing GmbH, increased in 2006 by 2.6 % to 54.4 million vehicles. However, in Western Europe, demand for new passenger cars only slightly surpassed the previous year's figure. Worldwide automobile production increased by 3.4 % to 67.2 million units, 56.8 million of which were passenger cars (+ 3.4 %).

Demand for automobiles in Germany rose by 4.4 % to 3.8 million vehicles in 2006. An increase in new passenger car registrations, as well as a significant upturn in commercial vehicles both contributed to the best overall market result in the last seven years. The increase in demand for passenger cars of 3.8 % to 3.5 million vehicles is attributable to both the large number of models introduced on the market in the year under review, as well as to early purchases in view of the VAT increase as of 1 January 2007. In the year under review, domestic manufacturers produced a total of 5.8 million automobiles (+ 1.1 %), of which 4.2 million (+ 2.4 %) were exported.

## Management and organisation

### Key objectives and management

The founding of Volkswagen Leasing GmbH in 1966 also marked the beginning of automobile leasing in Germany. Today, as part of the Volkswagen Group's Financial Services division, Volkswagen Leasing GmbH performs the operational tasks required for the leasing transactions of private and business customers.

The business primarily concentrates on commercial customers that are divided into individual commercial buyers and fleet customers. The leasing business with private customers has a share of approximately 16 % of the entire lease contract portfolio. Within the fleet business, Volkswagen Leasing GmbH offers its customers a comprehensive range of services of complete fleet management systems in addition to pure finance leasing. The services include fleet planning, administration, and controlling of the fleet vehicles. With a vehicle portfolio in excess of 250,000, the company is also the market leader in the German fleet business.

### Organisation of Volkswagen Leasing GmbH

At the executive level of Volkswagen Leasing GmbH, the following changes occurred on 1. 10. 2006:

Dr. H.-P. Lützenkirchen and Mr. K. H. Schmidt left the company, Mr. L.-H. Santelmann became spokesman of the Board of Management, and Mr. D. H. Pinkvos was named managing director of Volkswagen Leasing GmbH.

The branches of Volkswagen Leasing GmbH in Germany are operated as Audi Leasing, SEAT Leasing, and Škoda Leasing to support the respective brands and as AutoEuropa Leasing to support the non-captive business and caravan and motorcycle leasing. In addition, the company maintains branches in Italy.

### Analysis of the company's business performance and position

#### Business trends

Volkswagen Leasing GmbH further expanded its strong position in the automobile value chain within the Volkswagen Group. The company has systematically continued its development from a financial services provider to a mobility provider – offering complete fleet management plans, as well as comprehensive customer consulting in all areas related to fleet vehicles. The significance of the fleet customer business for the company has continued to grow.

Commercial vehicle registrations, which are relevant for the leasing business, saw only below average growth in the German market. Indeed, the fleet market (car pools with more than ten vehicles) recorded a slight decline. The 3.8 % growth in registrations in the financial year just ended is particularly attributable to the positive growth in the private customer segment in Germany.

Volkswagen Leasing GmbH managed to increase both its current contract volume as well as its total assets and sales revenue compared to the previous year. The current level of leased vehicles rose from 623,000 to 664,000 as at the balance sheet date. This increase resulted from the addition of 253,000 new contracts, compared to disposals of 212,000 vehicles. This growth is essentially attributable to the fleet customer business and the takeover of the leasing business with Volkswagen employees.

The trend to partially or completely outsource the fleet either to leasing companies or suppliers of fleet management services also continued in the financial year just ended. It is the operators of small and mid-sized fleets in particular that utilise the cost advantages in terms of indirect costs that outsourcing offers. Furthermore, an increased demand for individual employee models was also noticeable. Despite continued strong competition and an increasing trend towards consolidation, the fleet customer sector strengthened its position as market leader in fleet leasing within Germany. In so doing, the threshold of 250,000 managed contracts was surpassed for the first time. Following 3.1 % growth in the previous year, current contracts grew by 5 % in 2006.

Cross-brand fleet management was introduced in the context of enhancing and strengthening the service portfolio. Special service packages were developed for operators of small and mid-sized fleets. The company's website was optimised to support this business.

Against the backdrop of an increase in new passenger car registrations in Germany, new leasing contracts in the private and individual commercial customer sector declined by 9.5 %. This decline is predominantly attributable to the substitution effect from the use of all-inclusive financing packages. The portfolio of leasing contracts with private customers, excluding Volkswagen employees, showed a slight increase compared to the previous year. Of the 652,000 leased vehicles under contract in total, approximately 16 % are attributable to private lessees and approximately 44 % to individual commercial customers. In addition, approximately 12,000 vehicles are managed by the Italian branch in Milan.

Europcar Leasing, a branch of Volkswagen Leasing GmbH that was renamed AutoEuropa Leasing as of 1 November 2006, continued to develop along positive lines. The portfolio grew by some 20 % compared to the previous year.

Against the backdrop of a wage decline in real terms, customers are finding it increasingly important to view the total monthly costs for the vehicle – including service – as a monthly instalment. In this respect, the attractive leasing offers of Volkswagen Leasing GmbH and AutoEuropa Leasing offer an optimal basis for financial flexibility. Customers do not pay the full purchase price of their desired vehicle, but merely an individually agreed lease instalment for a fixed period. This leaves enough room for other financial plans.

The product range of Volkswagen Leasing GmbH includes further service components in addition to pure finance leasing. During the “Goal Weeks” promotion in 2006, comprehensive carefree packages were used to offer Volkswagen customers interesting leasing packages for the special Goal models of the Polo, Golf, Golf Plus, and Touran. The service scope consisted of an attractive leasing offer in connection with PrämieLight insurance and extended warranty insurance.

A comprehensive automobile insurance offer is indispensable for carefree mobility: it also includes protection against insufficient coverage in the case of vehicle loss or total loss. Insurers often pay only the cash value once the replacement value cover has expired – even though the sales value of the new vehicle may be higher. In September 2005, a “GAP” insurance was introduced for the insurance policies PrämieLight and PrämieLight PLUS, which eliminates the risk of insufficient coverage for the customer. By purchasing leasing instalment insurance with PrämieLight PLUS, up to 12 months of instalments will be paid in the case of unemployment.

In addition to the existing leasing offers, Volkswagen Leasing GmbH has also been offering special leasing products for Volkswagen employees since 2006. As of the balance sheet date, the company had over 22,800 leasing contracts for Volkswagen employees in its portfolio.

As part of its refinancing strategy, the company issued a benchmark bond of over € 1 billion in May 2006, following a pan-European road show. The large-volume bond with a five-year term was floated without the premium that is customary in the capital market. An additional bond issue, with a volume of € 300 million and a three-year term, was privately placed at the end of the year.

In addition to the issuance of these unsecured bonds, the established programmes for securitised bond issues were also used in 2006. In June, VCL 8 was founded under the recognised VCL programme of Volkswagen Leasing GmbH, in which, as with the preceding transactions, lease payments were securitised, but not residual values. VCL 8 was the first VCL transaction featuring a three-year revolving period.

#### Assets and financial position

In the financial year just ended, Volkswagen Leasing GmbH profited from the improved German automotive market. The company's business trends become clear when viewed over several years, using the development of current contracts as a benchmark – a standard applied in the leasing sector. As the activities of the leasing companies originally active within the Volkswagen Financial Services AG Group were transferred to Volkswagen Leasing GmbH in recent years, we have combined the figures related to Volkswagen Leasing GmbH, Volkswagen Leasing Anlagen GmbH and Europcar Fleet Services GmbH, to enable a comparison to be made:

#### DEVELOPMENT OF CURRENT CONTRACTS

in thousands of contracts

2006		2005		2004		2003		2002	
New contracts	Current contracts	New contracts	Current contracts	New contracts	Current contracts	New contracts	Current contracts	New contracts	Current contracts
253	664	224	623	232	595	212	567	192	538

Investments in Volkswagen Leasing GmbH rose by € 0.5 billion to € 5.8 billion (previous year: € 5.3 billion) as a result of growing numbers of new contracts. At the same time, the gross book value of the leased assets rose from € 14.3 billion to € 15.7 billion. The net book value was € 10.7 billion (previous year: € 10.0 billion), an increase of € 0.7 billion or 7%.

The equity ratio was 1.9%, compared to 2.1% in previous year.

In recent years, Volkswagen Leasing GmbH placed eight asset-backed securities transactions (ABS transactions) on the market to refinance its lending business. As at the balance sheet date, the volume of future leasing receivables financed through the ABS transactions was € 1.2 billion (previous year: € 0.8 billion).

The company refinances itself largely through loans obtained by Volkswagen Financial Services AG, which are then passed on to its subsidiaries. The loan volume of Volkswagen Leasing GmbH is € 5.9 billion (previous year: € 5.8 billion).

To finance its leased assets, Volkswagen Leasing GmbH also issued its own debentures, which were expanded to € 2.0 billion, from € 1.3 billion in the previous year.

Please see the notes to the financial statements for information regarding the cash flow statement.

### Results of operations

Sales revenue in the financial year ended rose by € 0.5 billion to € 5.8 billion. This revenue growth is accounted for by € 0.2 billion of increased revenue from current leasing contracts, as well as a € 0.3 billion increase in proceeds from sales of previously leased vehicles (€ 2.4 billion). The expansion of the leased assets portfolio will significantly boost future revenue.

The cost of sales increased by € 1.0 billion to € 5.9 billion compared to the previous year. This increase resulted in particular from the use of the tax option for increasing accelerated depreciation for additions to leased assets in the current year from 20% to 30%, the increased vehicle portfolio, and higher residual book values of vehicle disposals. This figure includes depreciation, commissions, residual book values and the expenses from service leasing.

Volkswagen Leasing GmbH recorded a gross result of € – 18.9 million in the 2006 financial year. This corresponds to a decline of € 412 million compared to the previous year. The downturn resulted predominantly from the increase in amortisation and depreciation.

The other income primarily includes subsidies for special leasing campaigns, in the amount of € 128 million (previous year: € 72 million).

Interest expense of € 311 million (previous year: € 249 million) was incurred in connection with the financing of leasing transactions.

The financial year just ended saw a loss from ordinary business activities of € 282 million (previous year: profit of € 198 million), attributable in particular to the first-time use of a tax option for increasing accelerated amortisation, as well as lower income from shareholdings and increased refinancing costs. After offsetting contributions to taxes on income, this loss will be transferred to the parent company under the existing profit transfer agreement.

### Risk report

#### Strategy, standards and organisation of risk management

##### *Strategy and standards*

To ensure appropriate and consistent treatment of risks within Volkswagen Leasing GmbH, the company has established risk management guidelines, which take its risk strategy into account.

Risk management essentially involves the identification, analysis and quantification of possible risks, as well as risk assessment. Decisions regarding assuming or avoiding risks are supported by the use of appropriate control instruments, such as credit assessment procedures or early warning systems. Ongoing risk monitoring, transparent and direct communication with the Board of Management and integrating newly acquired findings into operational risk management form the foundation for the best possible utilisation of market potentials based on the deliberate and effective control of the total risk of Volkswagen Leasing GmbH.

Volkswagen Leasing GmbH deploys a system for measuring and monitoring risk positions (risk controlling) as well as controlling them (risk management). This system document rules, is continually further developed, and is reviewed as to appropriateness of its risk orientation by Internal Audit.

### Organisation

The staff and control functions for Volkswagen Leasing GmbH are organised in the Controlling/Accounting/Group Risk Management, and Legal Services/Audit and Treasury units of Volkswagen Bank GmbH.

The risk management guidelines are laid down by the Board of Management of Volkswagen Leasing GmbH.

As a neutral and independent department, Group Risk Management reports directly to the Board of Management of Volkswagen Leasing GmbH.

Risks in all business sectors are identified, monitored, evaluated, aggregated and reported in the form of an annual risk map. In addition to defining the likelihood of risks actually occurring and assessing their possible negative effects, the risk map also contains information about existing procedures and rules, areas of responsibility and derived measures. All terminologies and methodologies used are defined in a risk manual.

Furthermore, Group Risk Management reports the credit, market price and residual value risks as well as legal risks by submitting a risk management report to the Board of Management and the Supervisory Board at least once a quarter.

The Treasury unit is responsible for securing the supply of liquidity within the context of active operational risk management, and also for balance sheet structuring with regard to controlling the interest rate risk.

Organisational separation of risk management and risk controlling is ensured up to senior management level. Risk controlling in this context, which is integrated in the Controlling department of Volkswagen Bank GmbH, is responsible for the measurement, analysis and monitoring of items affected by market price risks including the overall interest rate positions.

Furthermore, Internal Audit at Volkswagen Bank GmbH independently examines all of the company's material operational and business procedures on behalf of the Board of Management of Volkswagen Financial Services AG and Volkswagen Leasing GmbH, taking due account of applicable regulatory and internal provisions, both in Germany and abroad. This activity is based on an annual audit plan, which is drawn up on the basis of the legal provisions in a risk-oriented manner. Internal Audit informs the Board of Management of Volkswagen Leasing GmbH about the result of the audits carried out by submitting audit reports and an annual summary report. Implementation of the measures and recommendations agreed in the audit reports is monitored by Internal Audit.

The Corporate Security unit was established in 2006 as part of an integrated security concept with the aim of ensuring security for individuals and property at Volkswagen Leasing GmbH, both domestically and internationally, and avoiding damage to its image and losses from operational disruptions.

### Risk types

Volkswagen Leasing GmbH defines risk as any uncertainty about future developments that might have a negative impact on the company's economic situation. Depending on its source, this risk can itself be divided into different types of risk. At the same time, the company constantly analyses and assesses the opportunities that arise from consciously entering into risks.

The principal risks to which Volkswagen Leasing GmbH is exposed are categorised in the following groups:

- Risk of counterparty default
- Market price risk:
  - Interest rate risk
- Liquidity risk:
  - Liquidity risk in the narrow sense
  - Refinancing risk
- Operational risk
- Other risk:
  - Residual value risk

The principles of risk policy are laid out in the risk strategy.

### Risk of counterparty default

Risk of counterparty default is taken to mean possible losses in value due to non-payment by a customer or deterioration of a customer's creditworthiness.

A core competence of Volkswagen Leasing GmbH lies in utilising opportunities and assuming risks of counterparty default resulting from leasing transactions in the automobile business.

Scoring systems for private and commercial customers (small and medium-sized enterprises) are integrated into Volkswagen Leasing GmbH's purchasing systems. They provide an objective basis for decisions on granting leases and leasing decisions made by the technical departments.

Transactions with comparable risks are placed in uniform risk categories using a risk category scale. This ensures similar processing of leasing enquiries/applications of equal risk content in the purchasing process.

The definition of cut-offs related to the acceptance or further review of a transaction supports the implementation of our purchasing policy.

Standardised monitoring (stability, selectivity, individual feature analyses etc.) based on a database that is updated and historicised each month serves to review the quality of the scoring systems employed at regular intervals. The result of this monitoring is reported at regular intervals.

Volkswagen Financial Services AG's rating procedures are used to assess the credit worthiness of corporate customers. The assessment includes both key performance indicators from annual financial statements as well as qualitative factors – such as the outlook for future business development, the quality of management, the climate in both the market and industry, as well as the customer's payment behaviour.

The result of the rating provides a material basis for decisions on the approval and prolongation of leasing commitments and value adjustments. In addition, the customer's classification from the rating procedure is taken into account when regulating the authority to approve loans and monitoring the corporate portfolio.

An even greater individualisation of the rating procedure is planned for the future in view of market- or portfolio-specific circumstances in individual countries.

As a rule, leasing transactions are secured in ways adequate to the risks concerned. The types of security accepted, assessment procedures, assessment principles, and the valuations for the respective security are set forth in Group-wide security guidelines.

#### *Market price risk*

Market price risk refers to the potential loss resulting from disadvantageous changes in market prices or parameters that influence prices. At Volkswagen Leasing GmbH, this risk is limited to interest rate risk.

Interest rate risk is the term used for the risk of a negative discrepancy between a realised interest result and an expected result due to changes in market interest rates. The risk results from refinancing at non-matching maturities and from different degrees of interest rate elasticity of individual assets and liabilities.

Interest rate risks are managed on the basis of recommendations given by an Asset/Liability Management Committee (ALM Committee), which, on behalf of the Board of Management of Volkswagen Financial Services AG, draws up risk-limiting requirements also for Volkswagen Leasing GmbH with regard to market price risks and asset/liability management.

The basis on which the resolutions of the ALM Committee are passed is provided by the interest rate development statements submitted by Volkswagen Leasing GmbH and the interest rate forecasts based on various interest rate scenarios. After analysis of the figures by Treasury, the ALM Committee makes recommendations as strategic decision-making support for the respective interest rate policy course. The quantified risk and the mismatch items are subject to uniform maximum limits. The ALM Committee monitors Group-wide adherence to these limits.

#### *Liquidity risk*

The liquidity risk is centrally controlled by Treasury. The prime objective of cash flow management at Volkswagen Leasing GmbH is to ensure the ability to pay at all times.

#### *Liquidity risk in the narrow sense*

Control of cash flow is performed on a daily basis, the expected cash flows being bundled and evaluated at Volkswagen Bank GmbH. To ensure professional cash flow management, Treasury establishes cash flow development statements and carries out cash flow forecasts. Volkswagen Bank GmbH takes precautions to protect the Group against potential cash flow bottlenecks by keeping confirmed credit lines at other commercial banks.

#### *Refinancing risk*

The refinancing structure is centrally controlled by Treasury on the basis of a funding plan. Volkswagen Leasing GmbH possesses a broad refinancing base: liquidity is secured by a high degree of diversification into different investor groups and by utilising the capital market programmes of Volkswagen Financial Services AG. Further expansion of activities for securitising receivables has additionally strengthened the refinancing opportunities.

The decision regarding the type of refinancing actually undertaken is influenced by market conditions, while the fixed-interest period is specified by the ALM Committee.

### *Operational risk*

Operational risks at Volkswagen Leasing GmbH are defined as the threat of losses that occur as a result of inadequate or failing internal processes (process risks), personnel (personnel risks), technology (infrastructure and IT risks) or as a result of external events (external risks). The definitions of these four risk categories include the respective legal risks. Strategic risks and reputation risks are not considered under operational risks.

Responsibility for managing operational risks, in the sense of minimising them, basically rests with the divisions of Volkswagen Leasing GmbH. They are supported in this task by the corporate competency centres at Volkswagen Financial Services AG and Volkswagen Bank GmbH on the one hand, and by a risk management system that considerably increases efficiency with respect to identifying, measuring, and monitoring operational risks on the other hand. This system was developed based on regulatory requirements and, among other things, comprises a central loss database and tools for systematically assessing operational risks including expert opinions (self assessments).

Comprehensive risk reporting is done by using regular risk maps, while cross-divisional risk communication makes all the business units more aware of operational risks.

### *Other risk*

#### *Residual value risk*

Management of residual value risks ensures complete risk identification, quantification, analysis and control. The risks are made transparent in an overarching and standardised process using a feedback control system. Besides providing professional residual value risk management, this process is designed to ensure systematic improvement and development of the treatment of residual value risks.

Risk identification is ensured by means of an established approval procedure. Residual value risks are quantified regularly throughout the year by means of evaluations and analyses of individual contracts. The contractually stipulated residual values are compared to attainable market values that are generated from both the data of external providers and our own marketing data.

Risk analysis entails measuring the results of such risk quantification with regard to the risk potential and creating the requisite risk provisions. In connection with risk management, Group Risk Management regularly reviews whether the risk provisions are adequate, as well as the potential for residual value risks, and submits a quarterly report to the

Board of Management of Volkswagen Leasing GmbH. The scope of residual value risks assumed is small because the residual value risks are largely secured by repurchase agreements with third parties (indirect risks).

### **Opportunities report**

#### **Macroeconomic opportunities**

The growth of major European national economies expected in the coming years provides the company with the opportunity to benefit from the attendant rise in automobile sales and related financial services provision.

#### **Strategic opportunities**

##### *Geographic expansion*

As a result of the Group's interest in promoting vehicle sales via appropriate financial services with the aim of meeting the Group's targets for rate of return, opportunities exist for the continued geographic expansion of Volkswagen Leasing GmbH.

##### *Positioning in the market*

Growth potential is seen in saturated national economies, as a result of changing customer attitudes. Concerns about cost of usage come increasingly to the fore when automobile purchases are considered, which leads in turn to an increased importance of product packages that consolidate total usage costs into one monthly payment. Accordingly, the company expects further growth in these markets for the share of leased vehicles in total sales.

##### *Cost synergies*

IT systems contribute significantly to the success of the cost structure of a financial services company. Improvements in efficiency are expected after the implementation of current and planned IT projects.

## Personnel report

The operating business of Volkswagen Leasing GmbH in Germany is performed by employees of Volkswagen Bank GmbH under an agency agreement concluded with our sister company. Due to national regulations, the staff employed in the branches in Milan and Verona (Italy) have employment contracts with Volkswagen Leasing GmbH.

The company intensified its international focus in 2006 yet again. International assignments also increased in this context.

The implementation of a General Management Program (GMP) in 2006 laid the cornerstone for developing systematic, international knowledge transfer at the executive level.

Additional personnel exchanges occurred as part of the international talent management programme. The postings in other companies offer a multitude of development and learning opportunities for the delegates and the individual organisation. In addition, they increasingly provide greater understanding in a cross-cultural context and improved cooperation across borders.

On 5 October 2006, Volkswagen AG concluded a supplemental agreement to the collective agreement for the future that has been in place since 3 November 2004, and which also applies to the employees working at Volkswagen Leasing GmbH. The principal arrangements include safeguarding employment and sites in the long term, plus the future extension of the working week from 35 to 38 hours – with the option of continuing to work 35 hours per week and accepting a corresponding adjustment in salary. Compensation packages were agreed, such as the granting of a one-off pension contribution or a financial settlement, and a bonus system based on the operating result.

In 2006, personnel development continued to make a significant contribution to the company's success and future viability, with events tailored to the special needs of an automotive services provider.

Talent recruitment was expanded and further developed in order to secure a sufficient number of applicants in the future. The company presented its vocations in training in cooperation with schools in the region, and projects such as "Business direct" were conducted jointly with other companies. In addition, intensive training sessions for applicants were conducted to support the students. The company also enhanced its presence on the job market by attending career fairs.

Mutual trust and constructive conduct formed the basis for an excellent collaboration between the works council and the Board of Management.

Without the great commitment of our employees and managers, the company's success would not have been possible; the Board of Management would like to express its thanks for the work performed in the financial year just ended.

## Events after the balance sheet date

No important events beyond those described in this report occurred after the end of the 2006 financial year.

## Anticipated developments

### Global economy remains in good shape

Global economic growth will weaken slightly in 2007 compared to 2006. In many countries, damping effects will continue to emanate from high commodity and oil prices, as well as a more restrictive monetary policy.

In Western Europe, GDP growth in 2007 is expected to slow compared to the previous year. Economic growth will also probably weaken in Central and Eastern Europe. Following the sharp climb in 2006, German economic growth will fall back to below 2.0 %, as a result of slackening domestic demand. The average unemployment rate for the year will fall only slightly.

In 2007, growth in the worldwide demand for cars will probably slow in comparison with previous years. This estimate is based on the expected slight decline in new passenger car registrations in Western Europe, as well as a lower growth rate for the overall Chinese market.

In the Western European market as a whole, the demand for passenger cars in 2007 is expected to be slightly below the previous year's level. Of the major markets, only France is likely to exhibit growth compared to the previous year. In Central and Eastern Europe, new passenger car registrations will probably increase further – in Russia in particular. A slight decline in registration volumes is expected for the German passenger car market, primarily as a result of purchases made in 2006 to avoid the 2007 VAT increase.

### Development of Volkswagen Leasing GmbH

Based on cautiously positive expectations regarding the German automobile market, and taking the launch of new models into account, the Volkswagen Group assumes its sales figures to be on a par with the previous year.

Substantial momentum for further development is expected from the growing awareness of equity-preserving forms of financing in both SMEs and large enterprises. As a result, there will be a greater focus on leasing.

Business activities will increasingly focus on leasing pre-owned cars for private customers and individual commercial customers in the coming financial years. Processes are being planned for the qualification of pre-owned car sellers and the optimisation of the sellers' workplace systems. The Board of Management expects these measures to further stabilise the leasing business in the private customer segment.

Additional growth opportunities are seen for Volkswagen Leasing in the fleet customers segment. The company expects to expand its market leadership in the German automotive leasing market by intensifying its service business. The company plans to transfer its highly successful German business model to selected foreign markets, in order to continue to meet the increased requirements of international fleet customers.

The increased use of capital market programmes will help the company optimise its refinancing costs and thus its funding.

Higher depreciation on vehicles added in 2006 will have a negative impact on earnings in 2007. In light of generally positive economic forecasts and the expected one-off effects from early vehicle purchases, the Board of Management expects the company's business volume to grow in a market environment that is becoming more difficult.



## BALANCE SHEET OF VOLKSWAGEN LEASING GMBH, BRUNSWICK, AS AT 31.12.2006

Assets	31.12.2006 € 000	31.12.2005 € 000
<b>A. Fixed assets</b>		
I. Tangible fixed assets	13,494	14,007
II. Leased assets	10,660,774	10,027,093
	<b>10,674,268</b>	<b>10,041,100</b>
<b>B. Current assets</b>		
I. Inventories	17,335	326
II. Receivables and other assets	542,154	198,663
III. Cash in hand and cash in financial institutions	1,701	177
	<b>561,190</b>	<b>199,166</b>
<b>C. Prepaid and deferred expenses</b>	<b>31,707</b>	<b>26,395</b>
<b>Total assets</b>	<b>11,267,165</b>	<b>10,266,661</b>

Equity and liabilities	31.12.2006 € 000	31.12.2005 € 000
<b>A. Equity</b>		
I. Subscribed capital	76,004	76,004
II. Capital reserve	142,471	142,471
III. Net income	649	649
	<b>219,124</b>	<b>219,124</b>
<b>B. Special item with an equity portion</b>	<b>2,917</b>	<b>3,022</b>
<b>C. Provisions</b>	<b>117,363</b>	<b>72,530</b>
<b>D. Liabilities</b>	<b>9,241,585</b>	<b>8,703,579</b>
<b>E. Deferred income</b>	<b>1,686,176</b>	<b>1,268,406</b>
<b>Total equity and liabilities</b>	<b>11,267,165</b>	<b>10,266,661</b>

PROFIT AND LOSS ACCOUNT OF VOLKSWAGEN LEASING GMBH, BRUNSWICK,  
FOR THE PERIOD FROM 1.1. TO 31.12.2006

	2006 € 000	2005 € 000
Sales	5,848,445	5,301,693
Cost of sales	5,867,346	4,908,593
<b>Gross profit</b>	<b>- 18,901</b>	<b>393,100</b>
Selling and distribution expenses	29,684	27,516
General administrative expenses	86,921	90,486
Other operating income	172,342	194,318
Other operating expenses	13,118	29,647
Income from shareholdings	-	373
Interest result	- 305,621	- 241,735
<b>Result from ordinary business activities</b>	<b>- 281,903</b>	<b>198,407</b>
Taxes on income and earnings (refunded by the parent company € 84,776,000; previous year, debited: € 50,609,000)	- 80,473	52,309
Expenses from profit transfer	-	146,098
Income from loss transfer	201,430	-
<b>Net income for the year</b>	<b>0</b>	<b>0</b>
Profit brought forward	649	649
<b>Net income</b>	<b>649</b>	<b>649</b>

**Notes to the financial statements of Volkswagen Leasing GmbH, Brunswick,  
as at 31.12.2006****I. General comments about the annual financial statements**

The annual financial statements of Volkswagen Leasing GmbH have been prepared in accordance with the commercial regulations for large capital stock companies.

To improve clarity, individual items on the balance sheet and in the profit and loss account have been combined. These items are presented separately in the notes. The breakdown of assets has been extended to include the item "Leased assets".

The profit and loss account has been prepared in accordance with the cost of sales method customary in the Volkswagen Group to improve international comparability.

**II. Accounting and valuation methods**

The accounting and valuation methods applied the previous year have been adopted unchanged, with the exception of leased assets.

Tangible fixed assets and leased assets are valued at the cost of acquisition minus regular depreciation.

Depreciation for the administrative building is charged by the straight-line method (period of use: fifty years for old building and twenty-five years for new building).

The leased assets are almost all subjected to the reducing-balance method of depreciation with a subsequent scheduled transition to the straight-line method. For assets added in 2006, a depreciation rate of 30 %, which is permitted by tax law, has been applied. From 2001 to 2005, a rate of 20 % was applied. The period of use for passenger cars is six years, and the period of use for heavy vehicles is nine years.

Based on the tax simplification provisions in the previous years, the full annual depreciation amount was deducted for additions to movable fixed assets during the first half of the year and half the annual rate was deducted for additions during the second half of the year. Effective 1 January 2004, depreciation in the year of acquisition is calculated only pro rata temporis.

Discrepancies between commercial valuations and permissible fiscal valuations are shown under the special item with an equity portion.

Inventories concern vehicles for sale which were transferred from fixed assets to current assets at their residual book values. As of the closing date, they are carried at the lower of residual book value and market value.

Receivables and other assets are shown at nominal value. The non-payment risk has been taken into account by making reasonable value adjustments.

Discernible risks and undetermined liabilities are taken into account by creating adequate provisions.

Liabilities are shown at the repayment amount.

Deferred income covers sales revenue and other operating income from leasing business which is attributable to future accounting periods.

Derivative financial instruments are used solely for hedging purposes. Derivative financial instruments (interest rate swaps) are valued by applying the general valuation provisions under commercial law. The company recognises hedging relationships to the extent legally permissible.

### III. Notes to the balance sheet

The breakdown of the fixed assets combined on the balance sheet and their development during the period under review can be seen from the table of assets.

Inventories essentially comprise vehicles intended for sale from leasing arrangements with Volkswagen employees.

Receivables and other assets (residual term up to 1 year) break down as follows:

	31.12.2006 € 000	31.12.2005 € 000
1. Trade receivables	91,936	80,902
2. Receivables from affiliated companies (of which from the shareholder € 283,272,000; previous year: € 9,545,000) (of which trade receivables € 778,000; previous year: € 2,670,000)	284,050	12,589
3. Other assets	166,168	105,172
<b>Total</b>	<b>542,154</b>	<b>198,663</b>

The prepaid and deferred expenses essentially comprise discounts for loans taken up and debentures which are eliminated pro rata temporis. In addition, the pre-paid vehicle taxes and insurance premiums from service leasing as well as other deferred items are shown in the balance sheet.

The special item with an equity portion comprises the value adjustments resulting from fiscal depreciation in accordance with § 3 of the Law for the Promotion of the Economy of the Border Regions (ZonenRFG) for the administrative building. The release of the special item with an equity portion and the resulting change in tax expenditure do not significantly increase the annual result shown. Nor is the change in future annual results due to this fiscal valuation of any major significance.

The provisions comprise tax provisions (€ 6,487,000, previous year: € 4,587,000) and other provisions (€ 110,876,000, previous year: € 67,943,000).

Other provisions serve to hedge risks resulting from existing leasing contracts. In the year under review, especially future expenses under service leases were taken into account. In addition, provisions were made for our lessees' claims resulting from investment promotion in the former East German states and for invoices still outstanding and commission to be paid to dealers. Furthermore, obligations incurred under disinvestments in the previous year were taken into account.

The liabilities are made up as follows:

	31.12.2006 € 000	31.12.2005 € 000
1. Bonds (residual term up to 1 year € 400,000,000; previous year: € 550,000,000)	2,000,000	1,250,000
2. Liabilities to financial institutions (residual term up to 1 year)	3,973	2,733
3. Trade accounts payable (residual term up to 1 year)	41,405	23,828
4. Liabilities to affiliated companies (of which to the shareholder € 6,023,740,000; previous year: € 5,970,427,000) (of which trade accounts payable € 147,312,000; previous year: € 180,028,000) (residual term up to 1 year € 1.782.469,000; previous year: € 1,435,655,000) (residual term more than 5 years € 1,000,000,000; previous year: € 2,000,000,000)	6,923,518	7,268,180
5. Other liabilities (of which resulting from taxes € 55,000; previous year: € 55,000) (residual term up to 1 year € 250,891,000; previous year: € 137,222,000)	272,689	158,838
<b>Total</b>	<b>9,241,585</b>	<b>8,703,579</b>

Development of the fixed assets of Volkswagen Leasing GmbH, Brunswick,  
for the 2006 financial year

Description	Brought forward 1.1.06 € 000	Addi- tions € 000	Disposals € 000	Gross book values		Brought forward 1.1.06 € 000	Addi- tions € 000	Disposals € 000	Value adjustments		Net book values	
				Transfers € 000	Balance 31.12.06 € 000				Balance 31.12.06 € 000	Balance 31.12.06 € 000	Balance 31.12.05 € 000	
<b>I. Tangible fixed assets</b>												
Land and buildings	21,438	21	-	-	21,459	7,431	534	-	7,965	13,494	14,007	
<b>II. Leased assets</b>												
Vehicles, plant and equipment	14,306,702	5,736,910	4,436,153	23,312	15,630,771	4,304,751	2,969,519	2,279,787	4,994,483	10,636,288	10,001,951	
Payments on account	25,142	24,486	1,830	-23,312	24,486	-	-	-	-	24,486	25,142	
	14,331,844	5,761,396	4,437,983	-	15,655,257	4,304,751	2,969,519	2,279,787	4,994,483	10,660,774	10,027,093	
<b>Total fixed assets</b>	<b>14,353,282</b>	<b>5,761,417</b>	<b>4,437,983</b>	<b>-</b>	<b>15,676,716</b>	<b>4,312,182</b>	<b>2,970,053</b>	<b>2,279,787</b>	<b>5,002,448</b>	<b>10,674,268</b>	<b>10,041,100</b>	

#### IV. Notes to the profit and loss account

Sales relate solely to the leasing business.

The cost of sales comprise the expenses necessary to achieve sales. In the leasing business these are essentially depreciation, residual book values of leased assets withdrawn, commissions, expenses from service leasing and administration costs. The change in valuation in the year under review had an impact of € 279,259,000.

The cost of materials totals € 2,800,007,000. It is divided up into € 630,040,000 in expenses for services purchased and € 2,169,967,000 in expenses for leased items sold.

The result for the year is influenced by income in the amount of € 35,164,000 attributable to other financial years.

Other operating income contains € 106,000 from the release of special items with an equity portion.

Personnel expenses for our members of staff at the Milan and Verona branches amount to € 2,395,000, of which € 1,694,000 is attributable to wages and salaries and € 701,000 to social security contributions.

Under the existing profit transfer agreement, the loss incurred, amounting to € 201,430,000 is compensated by Volkswagen Financial Services AG.

The interest result is divided up as follows:

	2006 € 000	2005 € 000
Other interest and similar income (of which from affiliated companies € 2,470,000; previous year: € 1,887,000)	5,310	7,033
Interest and similar expenses (of which to affiliated companies € 240,169,000; previous year: € 184,909,000)	310,931	248,768
<b>Total</b>	<b>- 305,621</b>	<b>- 241,735</b>

## V. Other notes

The interest rate risk is hedged by interest rate swaps with a total nominal volume of € 11.8 billion. As at the balance sheet date, the positive market values amount to € 104.0 million while negative market values amount to € 11.9 million. Market values are determined on the basis of market information available at the balance sheet date and appropriate IT-based evaluation methods. Of these derivative financial instruments, accrued interest income of € 76.9 million is shown under assets and accrued interest expenses of € 52.8 million are reported under liabilities.

In 2002, a profit transfer agreement was concluded between Volkswagen Financial Services AG and Volkswagen Leasing GmbH.

Our company's annual financial statements are included in the consolidated annual financial statements of Volkswagen AG, Wolfsburg, which are drawn up according to the International Financial Reporting Standards and filed at Brunswick Local Court.

Furthermore, the financial statements of our company are included in the consolidated financial statements of Volkswagen Financial Services AG Group, which are filed with Brunswick Local Court.

In the period under review, audit fees amounting to € 108,000 were recognised as expenses, of which € 85,000 were attributable to the audit of the annual financial statements and € 23,000 to other certifications.

To pursue its business activities in Germany, Volkswagen Leasing GmbH does not have any personnel of its own. The staff are made available by Volkswagen Bank GmbH in return for a fee. The Milan and Verona branches, on the other hand, employed 46 members of staff on an annual average.

The managing directors do not receive any emoluments from the company. No payments have been made to the members of the Supervisory Board by Volkswagen Leasing GmbH.

## Branches

Name and registered office
<b>Branches</b>
Audi Leasing, Brunswick
SEAT Leasing, Brunswick
Škoda Leasing, Brunswick
AutoEuropa Leasing, Brunswick
Volkswagen Leasing GmbH, Berlin
<b>Branches outside Germany</b>
Volkswagen Leasing, Milan, Italy
Volkswagen Leasing, Verona, Italy

## Cash flow statement of Volkswagen Leasing GmbH for the period from 1.1. to 31.12.2006

€ 000	2006	2005
Net loss/previous year: net income (before transfer of profit/loss)	- 201,430	146,098
Amortisation/depreciation of fixed assets	2,970,053	2,441,016
Changes in provisions	44,833	22,022
Profit from the disposal of leased assets	- 332,849	- 300,144
Profit from the disposal of financial assets	-	- 89,297
Interest result	305,621	241,735
Other adjustments	- 80,473	66,022
Changes in trade receivables and other assets not part of investment or financing activities	- 164,381	538,067
Changes in trade accounts payable and other liabilities not part of investment or financing activities	472,700	- 654,251
Interest received	5,310	7,034
Interest paid	- 310,931	- 248,768
Income tax refunds/income tax payments, previous year	80,473	- 66,022
<b>I. Cash flow from current business activities</b>	<b>2,788,926</b>	<b>2,103,512</b>
Cash inflows from the disposal of leased assets	2,491,045	2,129,438
Cash outflows for investments in leased assets	- 5,761,396	- 5,270,359
Cash outflows for investments in tangible and intangible assets used by the company	- 21	- 80
Cash inflows from the disposal of financial assets	-	124,097
<b>II. Cash flow from investment activities</b>	<b>- 3,270,372</b>	<b>- 3,016,904</b>
Cash outflows to company owners	- 146,098	- 231,851
Cash inflows from issuing bonds and taking up loans	8,458,636	6,943,969
Cash outflows from the redemption of bonds and loans	- 7,829,568	- 5,799,568
<b>III. Cash flow from financing activities</b>	<b>482,970</b>	<b>912,550</b>
Net change in funds (I., II. and III.)	1,524	- 842
Funds available at the beginning of the period	177	1,019
Funds available at the end of the period	1,701	177

## VI. Corporate bodies of Volkswagen Leasing GmbH

### *Board of Management*

*Lars-Henner Santelmann (from 1.10.2006)*

Spokesman of the Board of Management

*Dr. Hans-Peter Lützenkirchen (until 30.9.2006)*

Chairman of the Board of Management

*Dietrich Paul*

Managing Director

*Dirk H. Pinkvos (from 1.10.2006)*

Managing Director

*Karl Heinz Schmidt (until 30.9.2006)*

Managing Director

### *Supervisory Board*

*Hans Dieter Pötsch*

Chairman

Member of the Board of Management of Volkswagen AG

Finance and Controlling

*Giuseppe Savoini*

Deputy Chairman

Executive Vice President of Volkswagen AG

Group Treasurer

*Alfred Rodewald*

Deputy Chairman

Deputy Chairman of the Works Council of Volkswagen Bank GmbH

*Waldemar Drosdziok*

Chairman of the Works Council of Volkswagen Bank GmbH

*Sabine Ferken*

General Secretary of the Works Council of Volkswagen Bank GmbH

*Stefan Jacoby*

Executive Vice President of Volkswagen AG

Marketing and Sales

*Detlef Kunkel*

General Secretary/Principal Representative of IG Metall Brunswick

*Günther Müller*

Head of Controlling of Volkswagen Bank GmbH

*Dr. Horst Neumann (from 28.6.2006)*

Member of the Board of Management of Volkswagen AG  
Human Resources

*Michael Riffel*

General Secretary of the General Works Council and Group Works Council of Volkswagen AG

*Lothar Sander*

Member of the Board of Management Volkswagen Division  
Controlling and Accounting

*Rupert Stadler*

Chairman of the Board of Management  
AUDI AG

Brunswick, 8 February 2007

The Board of Management



Lars-Henner Santelmann



Dietrich Paul



Dirk H. Pinkvos

## Auditors' report

We have audited the annual financial statements – comprising the balance sheet, the profit and loss account and the notes – including the accounting, and the management report of Volkswagen Leasing GmbH, Brunswick, for the financial year from 1 January to 31 December 2006. The accounting and preparation of the annual financial statements and management report according to German commercial regulations are the responsibility of the company's Managing Directors. Our responsibility is to express an opinion on the annual financial statements, including the accounting, and on the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 of the German Commercial Code (HGB) and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit so that misstatements materially affecting the presentation of the net assets, financial situation and results of operations in the annual financial statements in accordance with principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and the evaluations of possible errors are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the accounting, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Managing Directors, as well as evaluating the overall presentation of the annual financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, which is based on the findings of the audit, the annual financial statements are in compliance with legal provisions and give a true and fair view of the net assets, financial situation and results of the operations of the company in accordance with the principles of proper accounting. The management report is consistent with the annual financial statements, provides a suitable understanding of the company's situation and suitably presents the risks of future development.

Hanover, 8 February 2007

PricewaterhouseCoopers Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Gadesmann  
Auditor

Eckes  
Auditor

### **Supervisory Board**

**Hans Dieter Pötsch**  
Chairman  
Member of the Board of Management of Volkswagen AG  
Finance and Controlling

**Giuseppe Savoini**  
Deputy Chairman  
Executive Vice President of Volkswagen AG  
Group Treasurer

**Alfred Rodewald**  
Deputy Chairman  
Deputy Chairman of the Works Council of Volkswagen Bank GmbH

**Waldemar Drosdziok**  
Chairman of the Works Council of Volkswagen Bank GmbH

**Sabine Ferken**  
General Secretary of the Works Council of Volkswagen Bank GmbH

**Stefan Jacoby**  
Executive Vice President of Volkswagen AG  
Marketing and Sales

**Detlef Kunkel**  
General Secretary/Principal Representative of IG Metall Brunswick

**Günther Müller**  
Head of Controlling of Volkswagen Bank GmbH

**Dr. Horst Neumann (from 28.6.2006)**  
Member of the Board of Management of Volkswagen AG  
Human Resources

**Michael Riffel**  
General Secretary of the General Works Council and Group Works Council of Volkswagen AG

**Lothar Sander**  
Member of the Board of Management Volkswagen Division  
Controlling and Accounting

**Rupert Stadler**  
Chairman of the Board of Management  
AUDI AG

## Report of the Supervisory Board

The Supervisory Board was regularly informed by the Board of Management about the situation of the company, the course of business and the corporate policy during the period under review. Based on the written and verbal reports received from the Board of Management, the Supervisory Board monitored the company's Board of Management continuously and was thus able to perform the functions entrusted to it by law and by the statutes without any restrictions. Business requiring consent from the Supervisory Board was examined and discussed with the Board of Management before resolutions were passed.

The Supervisory Board is made up of twelve members. There was a change in membership compared to the prior year, which is shown on the previous page.

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, was commissioned to audit the annual financial statements of Volkswagen Leasing GmbH as at 31 December 2006 including the accounting and the related management report.

The Supervisory Board had at its disposal the annual financial statements of Volkswagen Leasing GmbH as at 31 December 2006 and the related management report. The auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, have audited these financial statements, including the accounting, and the management report and issued an unqualified auditors' report. The Supervisory Board approves the results of these audits.

The Supervisory Board's review of the annual financial statements and the related management report did not give rise to any reservations. The auditors were present at the Supervisory Board meeting when this item of the agenda was dealt with and they reported on the main results of their audit.

The Supervisory Board approves the financial statements of Volkswagen Leasing GmbH and proposes that the meeting of shareholders give its formal approval to the acts of the Board of Management. In accordance with the existing profit transfer agreement, the loss made in 2006 will be compensated by Volkswagen Financial Services AG.

The Supervisory Board wishes to acknowledge and express its appreciation to the Board of Management, the members of the works council, the members of management and all members of staff for their work.

Brunswick, 21 February 2007



Hans Dieter Pötsch  
Chairman of the Supervisory Board

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## Glossary

### Asset-backed securities structure

Specific form of conversion of payment claims into negotiable securities vis-à-vis a single-purpose company, which have come about through the bundling of certain financial assets of a company.

### Captive

Financial enterprise owned and/or managed by an industrial company.

### Cash flow

Net payment flows of a period from current business activities, investments and financing activities.

### Cost / income ratio

General administration expenses divided by the sum of surplus from lending and leasing transactions after provisions for risks and commission surplus.

### Derivative

Financial instrument whose value depends on the value of another original financial instrument. Derivatives is a generic term covering, for example, options, futures, forwards, interest rate swaps and currency swaps.

### Derivative financial instrument (hedging transaction)

Rights and obligations for covering financial risks associated with original financial instruments.

### Equity ratio

Ratio between equity and total capital.

### Finance leasing

Type of leasing where the economic ownership of the leased asset passes to the lessee upon expiry of the term of the lease. The leased asset is recognised on the balance sheet of the lessee.

### Fleet management

Fleet management providers relieve customers of all activities in connection with operating and maintaining a vehicle fleet comprising cars of all Group brands requested by the customer.

### Full-service leasing

Full-service leasing offers lease agreements which provide insurance, maintenance, repairs and replacement tyres or even complete fleet management and consulting.

### Funding

Refinancing

### GAP

A "gap" may occur if a vehicle leasing contract is terminated prematurely because of theft or total loss and the value of the vehicle is lower than the sum of the outstanding leasing payments.

### International Financial Reporting Standards (IFRS)

Accounting rules prepared by the International Accounting Standards Board (IASB, previously International Accounting Standards Committee [IASC]), an independent association.

### Rating

Ratings reflect the opinion of institutions specialising in checking creditworthiness (rating firms, banks, credit insurance providers) with regard to the economic capability, legal obligation and willingness of creditors to meet their payment obligations fully and in due time.

### Scoring

Credit rating for the private customer business.

### Securitisation

Conversion of a pool (clearly defined amount) of assets of the same type into marketable securities. Asset-backed securities (ABS) are securitisation products. The owner of such assets "sells" the pool to an intermediary – a so-called special purpose vehicle (SPV) – which refinances itself through the issuance of securities.

### Swap

Exchange of payment streams which can also take place between different currencies.

### Volatility

Range of fluctuation, e. g. of markets or in the value of financial instruments.

**Note regarding forward-looking statements:**

This report contains statements concerning the future business development of Volkswagen Leasing GmbH. These statements include, among others, assumptions about the development of the global economy, as well as the automobile markets. Volkswagen Leasing GmbH has made these assumptions on the basis of available information and believes that they can be currently said to offer a realistic picture. These estimates necessarily include certain risks, and actual development may differ from these expectations.

Should actual development therefore deviate from these expectations and assumptions, or should unforeseen events occur that impact the business of Volkswagen Leasing GmbH, then the business development will be accordingly affected.

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