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Corporate Governance

Revision to Code in 2006

In 2006, the Federal Ministry of Justice revised the German Corporate Governance Code and promulgated the version dated June 12, 2006. The Board of Management and Supervisory Board of AUDI AG discussed the amendments at length in the past financial year and passed the appropriate resolutions.

Implementation of the recommendations and suggestions

The Code in the version dated June 12, 2006 is complied with. However, the restriction applies that AUDI AG will not disclose the remuneration of members of the Supervisory Board individually, broken down by component (Section 5.4.7 Para. 3 Sentence 1 of the Code), in order not to infringe privacy rights.

The Code's suggestion of taking long-term performance into consideration in the Supervisory Board's remuneration (Section 5.4.7 Para. 2 Sentence 2 of the Code) and taking one-off variable components tied to business success into consideration in the Board of Management's remuneration (Section 4.2.3 Para. 2 Sentence 2 of the Code) is not currently implemented by AUDI AG, as the debate in specialist quarters as to the specific form to be taken has still not yet reached a conclusion. The outcome of this debate is to be awaited.

The restriction moreover applies that the elections to the Supervisory Board do not take the form of elections of individuals (Section 5.4.3 Sentence 1 of the Code). Elections by list are a common practice in democratic elections. The following qualifications moreover apply to the suggestions made in the Code:

The Annual General Meeting will not be broadcast on the internet (Section 2.3.4 of the Code) in order not to infringe the privacy rights of individual shareholders. For this reason, the provision for absent shareholders to contact the company's proxy exercising voting rights (Section 2.3.3 Sentence 3, 2nd half of sentence of the Code) even during the Annual General Meeting is not necessary.

Particulars pursuant to Section 6.6 of the Code

No notifiable acquisition and sale transactions were carried out in the past financial year.

Stock option schemes and similar securities-based incentive arrangements

AUDI AG does not offer any such schemes or incentive arrangements.

System of remuneration

The basic principles of the system of remuneration for the members of the Board of Management are described in detail in the Notes to this Annual Report, under "Details of the Supervisory Board and Board of Management". This information is also available on the company's website (www.audi.com/notes).

Internet declaration on the Code

The joint declaration of the Board of Management and Supervisory Board of AUDI AG on the recommendations of the German Corporate Governance Code was placed on the Audi website (www.audi.com/cgk-declaration) on December 6, 2006.

Audi shares

Stock market developments

Whereas most stock markets made a lively start to 2006, they experienced a sharp slump in the second and third quarters. This bear market was driven in particular by growing fears of higher interest and inflation rates, rising raw materials prices and political instability in the Middle East. Following a phase of stabilisation, international stock markets recovered to reach new record highs towards the end of the year. This positive development was underpinned by robust global economic growth, healthy financial performances in the corporate sector and interest rates remaining low compared with the long-term average. The German Share Index (DAX) mirrored the development of international stock markets. It initially touched a year-low of 5,243.71 points in June 2006 after having started the year on 5,410.24 points. It then rallied to close the year on 6,596.92 points. The Prime Automobile, the sector index for German automotive shares, likewise finished 2006 with high growth rates. It closed the year on 569.60 points, having gained 24 percent overall in the course of the year, which it had started on 459.22 points.

Audi share price trend

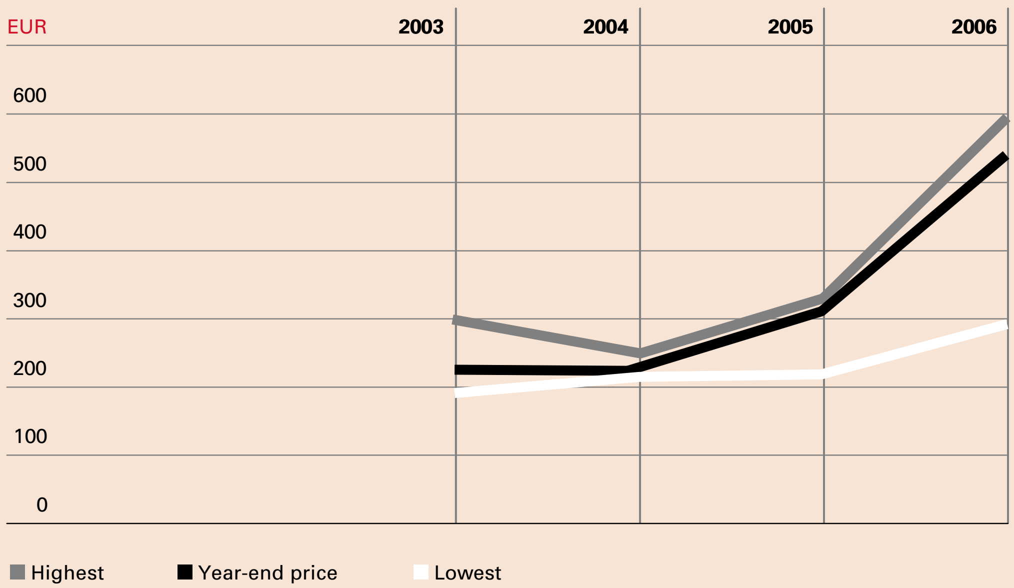
The development in the AUDI AG share price represented an impressive gain in value. The shares started 2006 on EUR 308. After an initial sideways shift lasting until mid-way through the year, they soared to a record-high of EUR 587 in the second half. They closed 2006 on EUR 540, having gained in value by 75 percent. The past financial year was the first occasion on which AUDI AG shares were included in the studies of leading analysts. The decidedly successful progress of the Audi Group and the anticipated future successes fuelled by Strategy 2015 resulted in the securities being emphatically recommended as a "buy". This recommendation naturally also had a positive influence on the price of Audi shares.

Profit transfer and compensatory payment for shareholders

There exists a control and profit transfer agreement between AUDI AG and Volkswagen AG, which controls around 99 percent of the share capital of the former. Instead of a dividend payment, the outside shareholders receive a compensatory payment. The level of this payment is equivalent to the dividend paid on one Volkswagen AG ordinary share for the same financial year, as will be determined by the Annual General Meeting on April 19, 2007.

Audi share price trend

(ISIN: DE0006757008, German Securities Identification Number (WKN): 675700)



Business and underlying situation

The Group

Company

As a manufacturer of high-quality, innovative cars, Audi is one of the world's leading premium brands and is among the most admired on the world market. The basis of its success comprises pioneering concepts in the domains of company management and advanced technological development. The high expectations of its customers serve as the catalyst of a continuing quest to find ever better solutions. Within the brand essence "Vorsprung durch Technik", this is expressed through the brand values sportiness, sophistication and progressiveness, which are thus manifestations of the Audi brand philosophy.

The customer experiences these values through the diverse range of models that enabled the Audi Group to expand on global car markets yet again in 2006, and thus further strengthen its position.

Sales of Audi vehicles by market

	2006	Share in %
Germany	257,792	28,5
Europe excluding Germany	400,671	44,3
USA	90,116	10,0
China	81,708	9,0
Other	74,901	8,2
Total	**905,188**	**100,0**

Group structure and principal group companies

The headquarters of the Audi Group, with the core areas Technical Development, Sales and Administration, along with substantial parts of the production operations, are located in Ingolstadt. The A3, A3 Sportback, A4 saloon and Avant, S4 saloon and Avant models and also the bodyshells for the TT Coupé and TT Roadster are manufactured there.

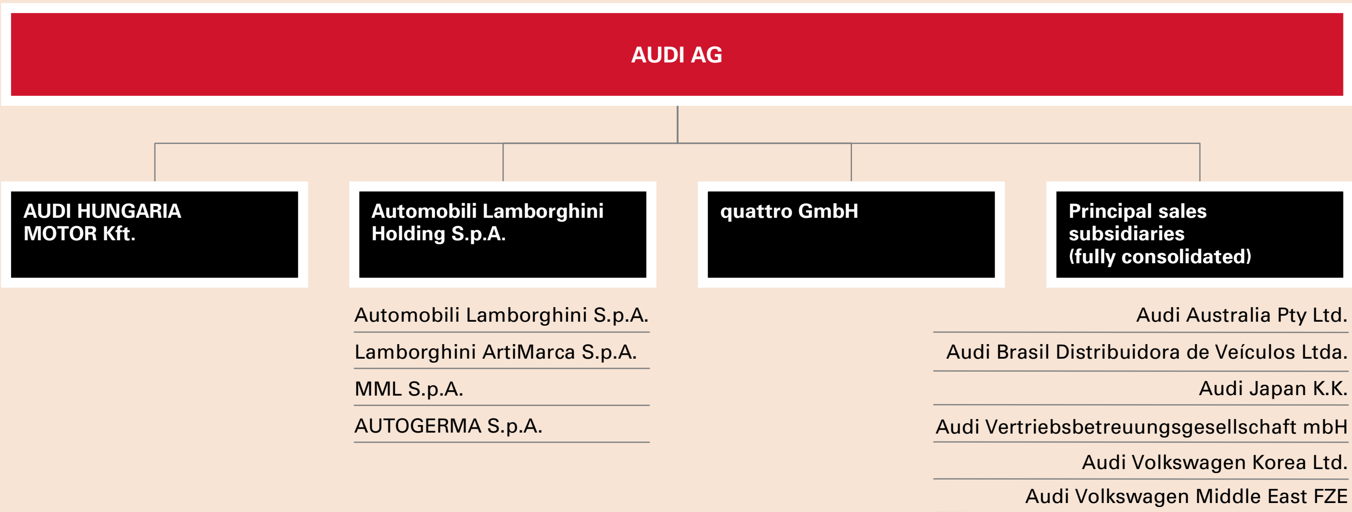
The A6 saloon, Avant and allroad quattro, S6 saloon and Avant, A8, A8 W12, and S8 models are built at the second German plant in Neckarsulm. quattro GmbH, likewise based in Neckarsulm, is a manufacturer of the RS range of high-performance vehicles and built the RS 4 saloon and Avant models in the past financial year. This fully owned subsidiary of AUDI AG has in addition been building the Audi R8 since autumn 2006; the new model will go on sale in 2007. This thoroughbred mid-engined sports car is assembled on a high-quality craft scale, creating a new landmark in the history of the Audi Group. The product range of quattro GmbH in addition includes an extensive customisation range (e.g. S line, exclusive line) for all Audi models, as well as sophisticated lifestyle articles associated with the Audi brand.

AUDI HUNGARIA MOTOR Kft. develops and builds engines for AUDI AG, other Volkswagen Group companies and third parties at Győr, Hungary. Production of the TT Coupé and TT Roadster furthermore takes place there. This company has also had its own toolmaking shop since 2005. AUDI HUNGARIA MOTOR Kft. has emerged as one of Hungary's largest exporters and highest-revenue enterprises.

Automobili Lamborghini S.p.A., located in the Bologna region, Italy, builds the extreme and uncompromising super sports cars Gallardo Coupé, Gallardo Spyder, Murciélago LP640 Coupé and Murciélago LP640 Roadster.

AUTOGERMA S.p.A., a subsidiary of Automobili Lamborghini Holding S.p.A. and based in Verona, sells vehicles of the Audi brand and of the other Volkswagen brands in Italy.

Main companies within the Audi Group



The Group

Volkswagen AG, which currently controls around 99 percent of the share capital of AUDI AG, is the major shareholder. A profit transfer and control agreement exists between the two companies. Volkswagen includes the consolidated financial statements of AUDI AG in its own consolidated financial statements.

Profit transfer agreements have been agreed between AUDI AG and the principal subsidiaries Audi Vertriebsbetreuungsgesellschaft mbH and quattro GmbH.

The following changes to the Audi Group occurred in the past financial year:
The fully consolidated companies Audi Synko GmbH and Audi Zentrum Hannover GmbH, as well as Audi Zentrum Stuttgart GmbH & Co. KG, which was accounted for using the equity method, have been withdrawn from the group. In order to implement the brand and exclusivity strategy at Audi's own dealerships, Audi Retail GmbH was established. A profit transfer agreement, which remains to be ratified by the 2007 Annual General Meeting, exists between AUDI AG and Audi Retail GmbH.

AUTOGERMA S.p.A. was renamed VOLKSWAGEN GROUP ITALIA S.P.A. with effect from January 1, 2007.

Additional disclosures pursuant to Section 315 Para. 4 of the German Commercial Code

On the introduction of the German Takeover Directive Implementation Act on July 14, 2006, Directive 2004/25/EC of the European Parliament and Council of April 21, 2004 on takeover bids ("EU Takeover Directive") was implemented in German law. The law envisages among other aspects changes to the German Commercial Code and necessitates additional particulars in the Management Report, which are provided below:

Capital structure

On December 31, 2006 the share capital of AUDI AG amounted to EUR 110,080,000 (110,080,000) and comprised 43,000,000 bearer individual share certificates. Each share represents a mathematical share of EUR 2.56 in the issued capital.

Shareholders' rights and obligations

The shareholder has property and administrative rights.

The property rights include above all the right to a share in the profit (Section 58 Para. 4 of German Stock Corporation Law) and in the proceeds of liquidation (Section 271 of German Stock Corporation Law) as well as a subscription right to shares in the event of capital increases (Section 186 of German Stock Corporation Law).

The administrative rights include the right to participate in the Annual General Meeting and the right to speak, ask questions, table motions and exercise voting rights there. The shareholder may assert these rights in particular by means of a disclosure and avoidance action.

Every share shall carry an entitlement to one vote at the Annual General Meeting. The Annual General Meeting shall elect the members of the Supervisory Board to be appointed by it, as well as the auditors; it shall decide in particular on the discharge of the members of the Board of Management and the Supervisory Board, on amendments to the articles of incorporation as well as capital measures, on authorisations to acquire treasury shares and, if necessary, on the conducting of a special audit, the dismissal of members of the Supervisory Board within their term of office and the liquidation of the company.

The Annual General Meeting shall normally pass resolutions by a simple majority of votes cast, unless a qualified majority is specified by statutory requirements.

A control and profit transfer agreement exists between AUDI AG and Volkswagen AG as the controlling company. This agreement permits Volkswagen to issue instructions. The unappropriated profit of AUDI AG available for distribution shall be transferred to Volkswagen. Volkswagen AG shall be obliged to make good any loss. Outside Audi shareholders shall receive a compensatory payment that is tied to the dividend distributed on each Volkswagen share.

Composition of the Supervisory Board

The Supervisory Board shall comprise 20 members. Half of them shall be representatives of the shareholders, elected by the Annual General Meeting. The other half of the Supervisory Board members shall be employees' representatives who are elected by the employees in accordance with German Codetermination Law. A total of seven of these employees' representatives shall be employees of the company; the remaining three Supervisory Board members shall be representatives of the unions. The Chairman of the Supervisory Board, a shareholders' representative elected by the members of the Supervisory Board, shall ultimately have two votes on the Supervisory Board in the event of a tied vote, pursuant to Section 13 Para. 3 of the articles of incorporation.

Statutory requirements and provisions under the articles of incorporation on the appointment and dismissal of members of the Board of Management and on the amendment of the articles of incorporation

The appointment and dismissal of members of the Board of Management are laid down in Sections 84 and 85 of German Stock Corporation Law. Members of the Board of Management are accordingly appointed by the Supervisory Board for a period of no more than five years. Reappointment or an extension of the term of office, in each case for no more than five years, shall be permitted. Section 6 of the articles of incorporation moreover stipulates that the number of members of the Board of Management shall be determined by the Supervisory Board and that the Board of Management must comprise at least two persons.

Key agreements by the parent company that are conditional on a change of control following a takeover bid

AUDI AG has not reached any key agreements that are conditional on a change of control following a takeover bid. Nor has any compensation been agreed with members of the Board of Management or employees in the event of a takeover bid.

Corporate steering

Strategy

The management of the Audi Group is systematically focusing its business activities on the objective of establishing Audi as the most successful premium brand in the world by 2015. The 2006 financial year consequently again saw the development of a detailed set of measures designed to ensure that the defined milestones along this ambitious path are reached. There are four strategic objectives that serve as the cornerstone measures:

The underlying conviction behind the strategic pillar of being the most attractive employer on the market is that the company needs to engender long-term loyalty in its expert, dedicated employees. One means of achieving this is to propagate an outstanding external image as an employer. The central aim is also to offer a context in which a highly motivated team is permanently able to keep developing. A highly motivated workforce will also reap rewards in monetary terms: the employees' performance-dependent profit share was reorganised in 2005 to make it even more attractive.

Only with such a high-performing team can the fascinating cars of the Audi brand be developed and built to the exacting standards that customers expect. Representative surveys confirm that the products themselves are one of the key driving forces behind a brand's image and prestige rating. Particularly at times of growing competition, having as strong and desirable a brand as possible provides the basis for sustained success. The aim for the next few years therefore remains to continue strengthening the image position of the Audi brand worldwide. The Audi Group again made good progress in that respect in 2006. The brand's sporty credentials are underlined by the historic victory of the new R10 TDI in the Le Mans 24 Hours, where it won the overall standings with the first racing car ever to be powered by a diesel engine. The A3, A6 and A8 each came top of their respective categories in the reader poll staged by the major German motoring magazine auto motor und sport. In

AUTO ZEITUNG's "Auto Trophy 2006" poll, Audi actually scooped four of the coveted awards with its A3, A6, A8 and R8 models. The international press likewise showered awards on Audi vehicles. In the United Kingdom – one of the Audi brand's most important export markets – the Audi brand was even recently voted "Brand of the Year". The high quality of Audi vehicles is reflected for instance in the first place achieved in the J.D. Power Asia Pacific study.

As part of its goal to become the most successful premium manufacturer, the Audi Group has moreover set itself the target of selling over 1.5 million vehicles by 2015. New product families and derivatives are consequently being added to the existing model range. The market launch of the Audi Q7 and the unveiling of the R8 super sports car are the first manifestations of this product initiative. The company is simultaneously focusing specifically on new markets: growth markets such as India are being purposely developed early on. The brand with the four rings is already represented there by imported models. From autumn 2007, locally built vehicles will moreover be available. The company likewise continues to invest in established growth markets such as China in order to further extend the Audi brand's market lead in the premium segment.

The company bases its growth strategy in the first instance on qualitative, sustained growth. Alongside attaining ambitious volume targets, improved profitability is therefore at the heart of the strategy. This can be achieved above all by the ongoing analysis and enhancement of all corporate processes. One measure that particularly helps to boost long-term profitability is the modular longitudinal toolkit, which ensures that future vehicle projects are implemented flexibly and cost-effectively. As well as implementing efficient cost management measures, the company uses systematic investment management in order to make optimum use of the available financial resources.

Internal steering system

The return on investment (RoI), which makes it possible to evaluate the return on the capital employed for different types and sizes of investment project, is used as an instrument of internal steering within the Audi Group. It thus permits an assessment of the development in a company's profitability and is calculated according to the following formula:

$$\text{Return on investment (RoI)} = \frac{\text{operating result after tax}}{\text{invested assets}} \times 100$$

The average effective tax rate for the group is assumed to be 35 percent for the purpose of calculating the operating result after tax, based on the varying tax rates for the companies that make up the group.

EUR million	2006	2005
Operating result before tax	2,015	1,407
– Tax (35 %)	705	492
= Operating result after tax	**1,310**	**915**
Average operating assets	11,575	11,608
– Non-interest-bearing liabilities	2,321	2,150
= Invested assets	**9,254**	**9,458**
Return on investment (in %)	**14.2**	**9.7**

For the 2006 financial year, the Audi Group achieved a return on investment of 14.2 percent. Audi has therefore easily exceeded its long-term target of ten percent for the first time and this figure consequently now places it among the leaders in the car industry.

System of remuneration for the Supervisory Board and Board of Management
Information on the system of remuneration for the Supervisory Board and Board of Management is provided in the Notes to the Consolidated Financial Statements under "Details of the Supervisory Board and Board of Management" on pages 203 to 205.

Research and development

The Audi Group lives up to its brand identity "Vorsprung durch Technik" in particular by systematically bringing innovations to product maturity.

The employee total in the Research and Development area averaged 5,946 (5,653) employees over the year, comprising 5,717 (5,419) at AUDI AG, 99 (93) at AUDI HUNGARIA MOTOR Kft. and 130 (141) at Automobili Lamborghini S.p.A.

Research and development expenditure recognised as an expense

EUR million	2006	2005
Research expenditure and development expenditure not recognised as an intangible asset	1,077	999
Amortisation and disposals of development expenditure recognised as an intangible asset	905	586
Total research and development expenditure recognised as an expense	**1,982**	**1,585**

Technical innovations

Engines for the future: 1.8 TFSI and 2.8 FSI
The new 1.8 TFSI engine develops 118 kW (160 bhp) and generates up to 250 Newton-metres of torque. It constitutes the basis of a completely new consumption-optimised family of engines. The engine is designed for worldwide use and in particular to meet all known emission limits.

The 2.8-litre FSI engine has an output of 154 kW (210 bhp) and 280 Newton-metres of torque. In addition to FSI petrol direct injection, this V6 engine is the first to incorporate the innovative Audi valvelift system. This intelligent system of actuation directly by the camshafts cuts petrol consumption by as much as ten percent and boosts low-end torque, simultaneously enhancing driving fun quite appreciably.

V8 FSI mid-engine in the Audi R8

The evolution of FSI petrol direct injection has reached a new high point with the V8 FSI mid-engine. The high-revving engine of the Audi R8 develops 309 kW (420 bhp) from a swept volume of 4.2 litres, generates 430 Newton-metres of torque and accelerates the super sports car from 0 to 100 km/h in 4.6 seconds.

LED headlights for the Audi R8

The Audi R8 will become the first production car with all main headlight functions (low-beam headlights, high-beam headlights, daytime running lights, turn indicators) available in LED technology. The marked advantages compared with conventional headlights include a significantly longer operating life and, above all, greater flexibility in automotive design.

All-aluminium body of the Audi R8

An Audi Space Frame serves as the supporting structure for the all-aluminium body. With its perfect blend of low weight and extremely high rigidity, it provides the basis of superior handling characteristics coupled with outstanding crash behaviour. The entire body weighs only 272 kilograms – and is therefore around 20 percent lighter than conventional designs.

V12 TDI – an international sensation in the Audi Q7

The world's most powerful diesel engine for a passenger car was unveiled in the Audi Q7, and will soon go into production. In the roadgoing version derived from the Le Mans-winning R10, the 12-cylinder diesel unit develops 368 kW (500 bhp) and 1,000 Newton-metres of torque, and accelerates from 0 to 100 km/h in only 5.5 seconds. The average fuel consumption over the overall cycle is 11.9 litres.

Audi TDI with "Bluetec®"

Audi is launching Bluetec® technology in the American market in 2008 via a partnership with Volkswagen and DaimlerChrysler, with a view to increasing the popularity of its high-performance but economical diesel models in the USA. The aim is to demonstrate the advantages of modern diesel technology to consumers in the USA, too. These innovative emissions treatment systems from Audi involve injecting an aqueous urea solution into the exhaust system in small amounts, thus extensively reducing emissions of harmful nitrogen oxides. This enables the diesel engines to meet the strict US emission standards in all US states. The Audi Q7 V6 TDI will be the first model to feature this advanced technology.

Audi photomix detectors

In systematically pushing forward with the development of photomix detector technology (PMD) Audi Electronics Venture GmbH, a fully owned subsidiary of AUDI AG, in conjunction with PMDTechnologies and Harman/Becker, is making a major contribution towards improving safety standards in road traffic. This emerging technology helps a vehicle to "see spatially" and thus actively and rapidly respond to hazards such as sudden obstructions or drifting out of the lane. It is virtually unaffected by direct sunlight and also functions in the dark, thanks to a light source that emits invisible infrared light ahead of the vehicle. The light reflected by objects in front of the vehicle is then picked up by a PMD sensor and used to generate a three-dimensional image. Thanks to the high speed of light, this is achieved with a precision of 6.6 billionths of a second. Photomix detectors could also be used for occupant protection and in intelligent operating systems in vehicles in the near future.

Innovations that bring greater safety

New generation of adaptive cruise control (ACC) in the Audi Q7

ACC represents an advance on the cruise control system and, subject to certain system limits, can also maintain a preselected distance from the vehicle in front by means of a radar sensor. As one of the first manufacturers to supply this system, Audi has launched a new generation in the Audi Q7; it is capable of slowing down the premium SUV even to a standstill, and therefore covers the speed range below 30 km/h for the first time.

The braking function – another "first" in the Audi Q7 – is performed by an active brake servo. It achieves deceleration of up to 4 m/s^2. The driver will find this feature convenient particularly in slow-moving traffic and traffic jams. After the car has halted, the driver can simply restart the system via the control lever, accelerating the car again in pace with the traffic.

Innovative companion – braking guard in the Audi Q7

Braking guard, a brand new concept available in conjunction with adaptive cruise control (ACC), met with considerable interest at the press presentation of the Audi Q7. The wheel sensor constantly monitors the lane ahead of the Audi Q7, irrespective of whether ACC is being actively used. If a vehicle braking abruptly or driving much more slowly is identified in front of the Audi Q7, braking guard warns the driver initially by means of an optical-acoustic signal. If the driver does not react, a brief brake jolt is triggered as a second-tier measure. In test group studies this brake jolt proved an appropriate means of alerting inattentive drivers with as little reaction time as possible lost, prompting them to apply the brakes hard with the aid of brake assist. For safety reasons, however, the emergency stop is not prompted by the system itself.

Employee matters

Workforce

	2006	2005
Audi Group, average for the year	52,297	52,412
of which:		
AUDI AG	44,701	44,902
Ingolstadt plant	31,276	31,236
Neckarsulm plant	13,425	13,666
AUDI HUNGARIA MOTOR Kft.	5,204	5,046
Lamborghini Group*	720	725
AUTOGERMA S.p.A.	873	836

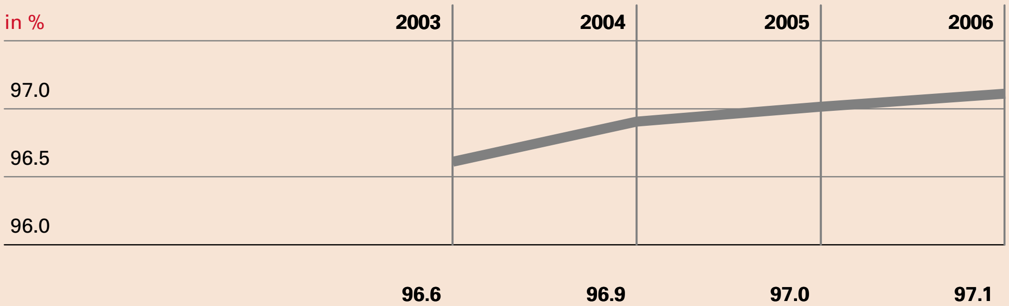
* excluding AUTOGERMA S.p.A.

The Audi Group employed an average of 52,297 (52,412) people in 2006.

The workforce of AUDI AG remained on a par with the previous year at 44,701 (44,902) employees. At AUDI HUNGARIA MOTOR Kft., the number of employees rose to 5,204 (5,046) in particular as a result of the establishment of the toolmaking shop and the start of TT production. The employee total for the Lamborghini Group (excluding AUTOGERMA S.p.A.) was essentially unchanged from the previous year. The employee total at AUTOGERMA S.p.A. rose by 4.4 percent above all as a result of recruitment in the areas of Sales, Marketing and Service.

The proportion of people with severe disabilities in relation to the total workforce of AUDI AG was 5.2 (5.1) percent at the end of the year. Audi in addition awards contracts to “Lebenshilfe” workshops for the handicapped in the Ingolstadt and Neckarsulm regions. Employees at Lebenshilfe establishments perform such tasks as assembling shock absorbers and gear lever trims for AUDI AG.

Attendance figures



AUDI AG saw the attendance figures rise to 97.1 percent for 2006 as a whole. This result was made possible by continuing improvements to workplace organisation and very many preventive health initiatives.

Strategic goal: Audi the most attractive employer

One of the pillars of the long-term corporate strategy is to be among the most attractive employers on the market. The declared aim is to attract and hold onto the best people. Internal studies show how strong the bond is between the employees and the brand and company. The mood barometer, a company-wide online survey within the company network, is an important instrument of human resources work. The replies to ten questions gauging the subjective response to the working environment are processed for each organisation unit. Management and personnel departments can then deal with bottlenecks or problems in a department swiftly and effectively. In 2006, around 80 percent of the workforce used the Audi mood barometer.

The company’s internal appeal as an employer includes job security, commensurate pay, a good internal atmosphere, an interesting location, the image of the products and company, an interesting area of activity – and of course clear development options for the employees. Audi consequently launched a large-scale pilot project on personnel development for standard-wage employees in 2006. Its focus was on medium and long-term development prospects and training opportunities for the workforce.

The company has moreover earned a place among the top-ranking companies in German industry for employer appeal as perceived externally. Audi is one of the most sought-after prospective employers in Germany for students of Engineering Sciences and Business Management.

New remuneration system: performance-related pay

2006 witnessed intensive preparations for the introduction of an entirely new remuneration system for the standard-wage employees at the German locations. The company agreement “Audi’s Future – Performance, Success, Sharing”, agreed by the negotiating parties two years ago, envisaged the implementation of the remuneration framework agreement (ERA) in 2007 – in conjunction with an employment guarantee and other aspects of attractiveness such as better compatibility of family and work.

Key aspects of the ERA project are the reassessment of all activities within the company, the emphasis placed on the performance component of pay and the abandonment of the traditional distinction between blue-collar workers and white-collar staff. This offers better development prospects for many employees. At the start of 2007, the Audi workforce of around 45,000 at the two German plants will be allocated to the collectively negotiated pay groups. ERA also creates greater transparency for the employees themselves: their pay is broken down into a basic, a performance-related and (for certain production activities) a physical strain component. There is in addition a so-called Audi component for all employees, above the blanket pay level.

Internationalisation

Around two out of three new Audi cars are sold outside Germany, with the tendency rising. Anyone wishing to serve the needs of customers in another country has to know the people and their customs. International personnel assignments have therefore become much more widespread at Audi over the past few years. Whereas just under 100 employees were assigned to international locations in 1996, the total in 2006 was over 500. The main destinations for those sent on assignments were Hungary, the USA, China, Spain and Italy. Audi employees are also being deployed in other up-and-coming markets such as Dubai and South Korea. The nascent premium market in India will be added in the current year.

Foreign assignments are an important element in the professional and personal development of many Audi employees. From the company's viewpoint, employees on an international assignment are ambassadors of the brand. They also acquire international skills as well as cultural and market-specific knowledge that help the company to focus even more accurately on its export markets' requirements.

Training at Audi

AUDI AG employed a total of 2,231 (2,236) apprentices at the end of 2006. Of this total, 2,053 (2,061) were engaged in industrial activities and 178 (175) in the technical/clerical area. 694 young people started their training at the German locations in September 2006, in a total of 20 different vocations. These include the new vocation of "Technical Product Designer", which supplies the virtual basics for reconciling the diverging wishes of design studio, technology and workshop.

Audi has developed a special programme to ease the transition from vocational training to the world of work: the personnel hub. On the one hand, it serves to broaden the specialist and personal horizons of young employees at Audi, and, on the other hand, it enables the company to respond flexibly to variations in the number of workers needed at its individual locations. Employees are able to broaden their skills and talents at other group locations or at external companies, for instance suppliers, for a period of up to 24 months. An additional qualification that is specific to the job and company process is moreover acquired over the two-year hub period.

As in the past, Audi offers the prospect of attractive, secure employment to young people who have completed their training at the company. The hub concept promotes the development of skills, mobility and flexibility among young adults. Around 850 Audi employees participated in the personnel hub in 2006.

Research partnerships

Audi started to place its partnership with universities on a new footing in 2003. The first step was the joint project INI.TUM between the Technical University of Munich, in which the city of Ingolstadt is also involved. The purpose of this partnership is to foster the transfer of knowledge between basic research and industrial application. Doctoral projects that closely match the current research and development requirements of the Audi Group as an innovative car manufacturer are chosen by a steering group in which each partner has equal representation. The advantage for those involved is that the students gain an insight into the world of industrial development and production, the universities secure outside funding for their research, and Audi in return obtains ideas on how to solve topical problems in the spheres of production technology, mechanical engineering and information technology. Close contact between the researchers and the Audi locations is an essential aspect of the partnerships. As well as practical application by the company remaining squarely in the foreground, the participants are also able to become well acquainted with each other.

Following the successful example of INI.TUM, Audi has entered into other partnerships, including the “Institute for Applied Research” with the Ingolstadt University of Applied Science and the Neckarsulm Technical Institute (HIN) involving the Universities of Stuttgart and Karlsruhe. These were followed in 2006 by agreements with the Friedrich Alexander University of Erlangen-Nuremberg (INI.FAU) and the Technical and Economics University of Budapest (Audi Hungaria Institute AHI).

Two of the universities with which Audi is associated are in the cluster of excellence created by the Federal Ministry of Education and Research: the University of Karlsruhe and the Technical University of Munich. Within the Initiative for Excellence, Friedrich Alexander University, Erlangen, was declared a “Graduate School for the Furtherance of Junior Researchers”.

By the end of last year, Audi was sponsoring 54 doctoral projects from its partnerships with German universities alone, seven projects with the Ingolstadt University of Applied Science and a further seven in Hungary. The company has in addition filled around 30 doctoral projects internally.

Location-specific partnerships

Away from research projects, Audi maintains an in-depth partnership with the city of Ingolstadt in the areas of tourism and transport management. For example, the “Travolution” project has the objective of developing an efficient, dynamic traffic control system using complex computing methods in traffic light systems and vehicles.

An internet portal developed jointly by Audi, Ingolstadt Tourismus und Kongress GmbH and other partners (www.living-ingolstadt.de) has been online since the start of 2006. Audi attaches considerable importance to developing Ingolstadt as a tourist centre. In 2006 alone, around 40,000 new cars were collected from the Audi Forum Ingolstadt by visiting customers. With an average of 2.5 visitors per vehicle, the brand with the four rings thus brought around 100,000 people to Ingolstadt last year solely for that purpose.

Environmental aspects

Environmental management

Sustainable management is an integral component of the Audi Group strategy and strives to reconcile environmental protection with innovations. Through its pioneering technical innovations, the Audi Group is contributing towards major advances in protecting the environment and displays the European Union's symbol of environmental excellence. This gives customers the reassurance that optimum environmental compatibility was heeded in the manufacturing of their vehicle, alongside such aspects as durability, quality and safety.

Environmental protection organisation of the Audi Group

Coordinating Committee for Environmental Protection

Steering Committee for Ecology AUDI AG
Production plants: Ingolstadt, Neckarsulm (Germany)

- Work group: End-of-Life Vehicles
- Work group: Sustainability
- Work group: Environmental Report
- Work group: Environmental Management
- Work group: IPP

Environmental Management Officer AUDI HUNGARIA MOTOR Kft.
Production plant: Győr (Hungary)

Environmental Management Officer Automobili Lamborghini Holding S.p.A.
Production plant: Sant´Agata Bolognese (Italy)

The Audi Group is among the pioneers of location-based environmental protection both in Germany and internationally.

AUDI AG for example covers up to 95 percent of the overall water requirements of its production facilities at Ingolstadt within a closed cycle and conducts analyses to verify that the specified limit values for waste water are complied with. A modern, ultra-efficient emulsion evaporation plant for the physical treatment of the emulsions and wash water arising at the location was moreover opened in March 2006. This cut such components as the transport costs for their disposal by around 70 percent.

A new waste water treatment plant in which process water is purified was opened at Neckarsulm. This investment, costing EUR 3.7 million, significantly boosted the output of the central industrial waste water treatment plant. Saving energy at engine test rigs at Neckarsulm furnishes another example. At the new engine test rig centre, the electrical energy that is generated by the electric machines during testing of the internal combustion engines is used to cover the energy requirements of the building's technical facilities in full. This represents an efficient form of energy recovery.

Complex recycling management arrangements also now help to avoid waste at AUDI HUNGARIA MOTOR Kft. in Győr, Hungary. Recycling management includes for instance comprehensively checking the waste that arises until it reaches the point of its re-use, and the delivery of components in returnable packaging. Predominantly emissions-free cold tests are used as a means of minimising the environmental impact of developing and testing engines. The recovery of heat means that the waste air from the production halls serves as an additional source of energy.

Automobili Lamborghini S.p.A., the Italian manufacturer of high-performance sports cars, likewise reconciles technology with ecology. Automobili Lamborghini S.p.A., a low-volume manufacturer, maintains the same high safety and emissions standards as large-volume manufacturers.

Emissions trading

Climate change and energy efficiency are the key environmental issues of our age. The European Union has therefore adopted a pioneering role in the field of climate protection and introduced trading of CO_2 emissions rights on January 1, 2005. The Audi plants at Ingolstadt and Neckarsulm participate in this emissions trading system.

Thanks to measures to increase energy efficiency and the targeted reduction of energy consumption, both plants are achieving a positive overall balance between the emissions rights issued to them and their anticipated CO_2 emissions in the first trading period (2005 to 2007). A surplus of emissions rights from the first two reporting years was sold in 2006.

Environmental Pact for Bavaria III

AUDI AG is participating in the third phase of the Environmental Pact for Bavaria, which focuses on boosting innovativeness and promoting environmentally acceptable economic growth. Through its involvement in the working forums within the Environmental Pact for Bavaria, AUDI AG is helping to create incentives for environmentally acceptable economic growth and is thus contributing towards the pact’s success. The Ingolstadt plant is involved in various projects on Integrated Product Policy (IPP).

According to the IPP principle, AUDI AG adopts a holistic view of all phases of the product life-cycle, from raw materials extraction to disposal. IPP furthermore enables AUDI AG to tie suppliers systematically into the sustainable production process.

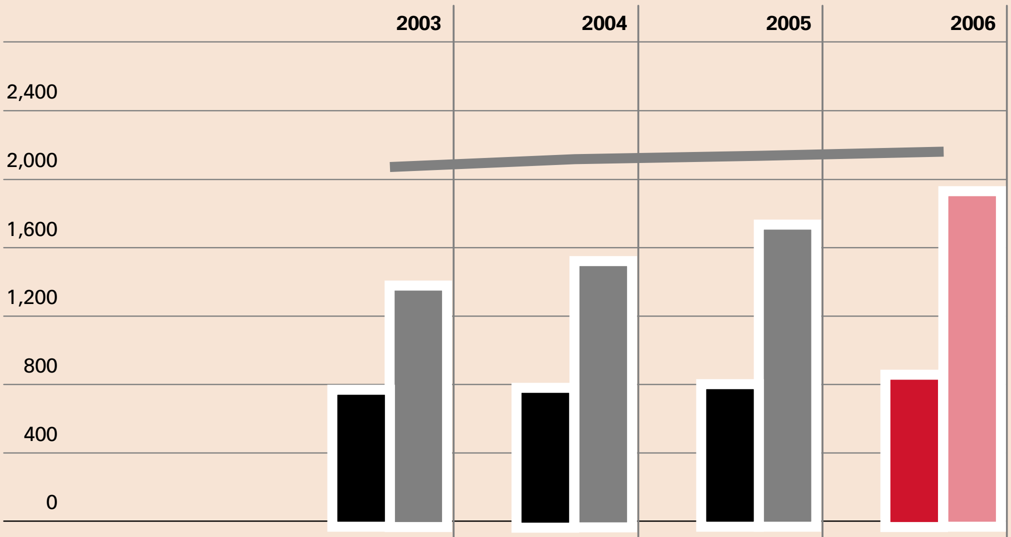
Fall in environmental pollution at group locations

Even considering the welcome rise in production, the overall energy consumption of the Audi Group was kept stable.

The painting of vehicles during the production process is of particular environmental relevance. In 2006, the paint shop at Ingolstadt was therefore further automated. The resulting improvement in the way paint is applied to bodies helped to cut paint consumption per vehicle by around ten percent and thus also reduced solvent emissions further.

Detailed notes on environmental aspects can be found on the internet, in the Audi Environmental Report at www.audi.de/umwelt, and in the environmental declarations as well as on the group portal at www.volkswagen-sustainability.com.

Development in overall energy consumption, vehicle and engine production by the Audi Group [1]



	2003	2004	2005	2006
Vehicle production [2] ('000 units)	**732**	**745**	**765**	**826**
Engine production ('000 units)	**1,343**	**1,486**	**1,695**	**1,896**
Overall energy consumption (GWh)	**2,070**	**2,114**	**2,139**	**2,156**

1) Ingolstadt, Neckarsulm, Győr and Sant'Agata Bolognese plants

2) excluding Audi A4 Cabriolet, RS 4 Cabriolet, Audi Q7 and aspects of the A3 production

Underlying economic situation

Global economic situation

The global economy maintained its dynamic growth in 2006. The upswing was broad-based, because, in addition to the continued expansion of national economies in Asia and the USA, Western European countries enjoyed substantial economic growth. The global upturn was held back by rising interest rates and persistently high raw materials prices. The further rise in the price of oil in the course of the year nevertheless did not hold back the economy to the same extent as in previous periods.

The economy in the USA cooled down slightly after a very lively start to the year. Higher interest rates, rising petrol prices and the marked weakening of the real estate sector undermined private demand. With overall growth for the year running at 3.4 (3.2) percent, economic output was, however, up on the prior-year level.

In Western Europe, economic development was vigorous compared with the previous year. The eurozone experienced growth of 2.6 (1.4) percent, and the United Kingdom 2.7 (1.9) percent. This positive development in Western European countries was due, on the one hand, to higher exports and, on the other hand, to increased domestic demand, which played a key role in stimulating corporate investment. There was, moreover, mild growth in consumer spending, thanks to the improved health of the labour market. The sharp economic upswing in Central and Eastern Europe continued.

The German economy enjoyed its highest growth rate for six years in 2006, at 2.5 (0.9) percent. The key factor here, apart from exports, was increased domestic demand for capital goods. Private consumption, on the other hand, rose only moderately. The improved situation on the labour market was offset by the stronger upward trend in prices above all for energy, eroding households' real incomes.

Economic expansion in the countries of Latin America was robust. Domestic demand was the principal driving force behind growth in most countries. As an exporter of raw materials, the region furthermore benefited from the sharp rise in raw materials and energy prices on the world markets.

The Asia-Pacific region remained economically dynamic. Whereas the pace of growth slowed down somewhat towards the middle of the year in some emerging countries, the Chinese economy continued to expand at a high pace, growing by 10.7 (10.4) percent. The modest expansion in Japan continued, though momentum slackened off somewhat in the course of the year. The growth rate for gross domestic product was slightly up on the previous year, at 2.1 (1.9) percent.

International car market

Despite the sharp rise in fuel prices in 2006, worldwide demand for passenger cars was up 2.8 percent on the previous year at 54.6 million passenger cars, representing a new all-time record. The driving forces behind this growth were primarily the car markets in China and India, as well as Russia and Brazil. Demand for passenger cars in Western Europe, Japan and the USA, on the other hand, remained flat or was slightly recessive.

The Western European car market (excluding Germany) experienced a sideways shift in 2006. The figure of 11.2 million passenger cars registered as new was 0.2 percent down on the prior-year total. There was a marked downturn in certain high-volume markets. For example, the volume of newly registered cars in the United Kingdom and France fell by 3.9 and 3.3 percent respectively. The growth trend in Spain was likewise halted for the first time in many years, with passenger car sales yielding by 2.0 percent. On the other hand, the Italian car market helped to stabilise the overall situation, growing by a notable 4.0 percent.

Registrations of new cars in Central and Eastern European countries rose by 19.8 percent to 3.2 million vehicles. The Russian market in particular benefited from steep economic growth and was 26.6 percent up on the previous year, with 1.7 million passenger cars registered as new.

In the US car market, the fuel price increases during the year under review dampened vehicle sales. Market activity continued to be dominated by intensive sales incentives, which did not suffice to reverse the negative trend. Unit sales of cars consequently fell by 2.6 percent to 16.6 million.

The upward trend on car markets in South America gathered pace along with the expansion of the economy. In Brazil, passenger car sales rose by 13.6 percent to almost 1.6 million vehicles, and the market in Argentina expanded by 16.1 percent.

The Asia-Pacific region was again the main driving force behind the worldwide car market in 2006. Unit sales totalled 13.3 million passenger cars, representing a rise of 6.4 percent. The Indian car market exceeded one million units for the first time, with just over 1.0 million vehicles sold – an increase of 15.4 percent. The car boom in China continued. The overall market volume was in the order of 4.2 million passenger cars sold, up 26.1 percent on the prior-year figure. By contrast, registrations of new cars in Japan fell by 2.2 percent to 4.6 million vehicles.

The German car market

The German car market experienced very mixed fortunes in the course of the year, and there were sharp fluctuations in the month-by-month registration totals. Towards the end of the year, the prospect of a rise in the VAT rate on January 1, 2007 became noticeable, with private customers bringing forward vehicle purchases, particularly during November and December; this prompted a marked acceleration in demand for passenger cars. New registrations of vehicles in Germany totalled around 3.5 million, representing an increase of 3.8 percent.

Following a downturn in sales in the previous year, diesel models came back into favour with buyers in 2006. The diesel share of total first-time registrations rose by 1.6 percentage points to 44.3 percent. This development was prompted in particular by the broader range of models with diesel particulate filters.

Domestic car production grew, not least because of the rise in demand from abroad. With 5.4 million vehicles built, German manufacturers bettered the previous year's total by 0.9 percent. The number of German-branded cars built abroad was 12.2 percent up on the previous year, at 4.7 million units.

German manufacturers again improved on the previous year's record-breaking car exports. 3.9 million passenger cars, an increase of 2.6 percent, were exported. The countries of Western Europe were the most important sales region; in view of the weaker market development in those major markets, the 2.4 million cars supplied to those markets was down 3.6 percent on the previous year. On the other hand, new models gave a boost to exports to the USA. Around 555,000 German-built cars were sold in the United States, a gain of 1.6 percent.

Overall assessment by the management

Competition in the car sector gained in intensity in 2006. The rising cost of mobility, driven primarily by higher fuel prices, dented vehicle sales in many car markets. Meanwhile, higher prices for raw materials and energy created greater pressure of costs at the procurement end.

In order to safeguard and boost competitiveness in the long term, the Audi Group is working towards securing a lasting improvement in its own productivity. In an effort to realise ongoing advances in productivity, the company is concentrating first and foremost on refining its established, successful approach to product, process and cost management.

The success of the measures taken is reflected in the new record figures for production, unit sales and revenue for the past financial year. The substantial rise in earnings figures supplies impressive evidence of the qualitative growth of the Audi Group and of the sustainability of the measures taken.

Business progress

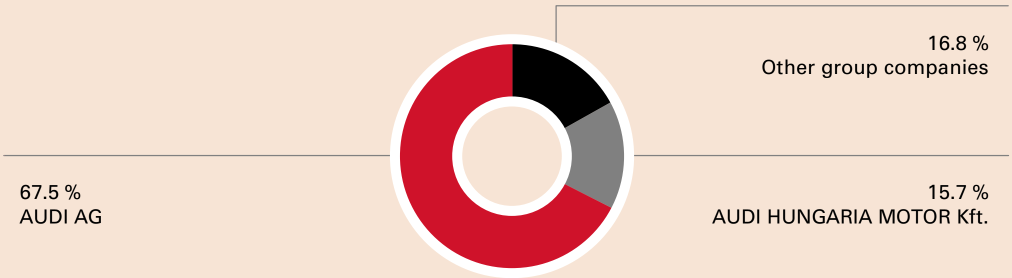
Procurement

The purchasing operations of the Audi Group strive to establish lasting relations with the world’s most efficient suppliers in terms of quality, reliability, innovativeness, service, price and overall economy.

This is done in close cooperation with VW Group Procurement in order to make optimum use of synergy potential.

The cost of materials within the Audi Group amounted to EUR 21,627 (19,139) million in 2006. This includes all raw materials and consumables used as well as purchased goods and services.

Breakdown of the consolidated cost of materials by group company



Procurement was faced with major challenges in the past financial year as a result of the considerable price rises for raw materials and energy. The financial impact on overall earnings was largely cushioned in particular through intensive collaboration with the partners in the supply industry. Meanwhile, inventory control and capacity management came under closer scrutiny as a result of last year’s rise in production volume.

The Audi Group prepared the way for its ambitious growth strategy by selecting specific suppliers for the future volume to be procured for new projects.

As a reflection of its increasingly close ties with the supply industry, the Audi Group staged a Supplier Meeting for both existing and new partners. The outcome was a common basis for tackling future projects, taking account of the challenges that the procurement market is likely to present. This basis depends on intensive collaboration with partners in the supply industry early on in the product development phase. This development has been supported by increased use of the B2B supplier platform during the past year, decisively improving communication between AUDI AG and its suppliers.

Production

Vehicle production by model

	2006	2005
Audi A2	–	10,026
Audi A3	69,813	70,395
Audi A3 Sportback	159,581	150,091
Audi TT Coupé	21,461	8,368
Audi TT Roadster	2,214	3,939
Audi A4 saloon	165,139	157,310
Audi A4 Avant	142,027	155,620
Audi A4 Cabriolet	27,735	22,076
Audi RS 4 saloon	4,384	544
Audi RS 4 Avant	2,666	12
Audi RS 4 Cabriolet	589	13
Audi A5 Coupé	487	10
Audi A6 saloon	150,901	131,344
Audi A6 Avant	70,430	73,334
Audi A6 allroad quattro	11,838	4,295
Audi Q7	72,188	1,194
Audi A8	22,468	21,509
Audi R8	164	6
Total, Audi brand	**924,085**	**810,086**
Lamborghini Gallardo	1,651	972
Lamborghini Murciélago	444	464
Total, Lamborghini brand	**2,095**	**1,436**
Total, Group	**926,180**	**811,522**

The Audi Group stepped up production to 926,180 (811,522) vehicles in 2006. This represents an increase of 14.1 percent and marks a new all-time production record for the company. The production total comprised 924,085 (810,086) Audi vehicles and 2,095 (1,436) sports cars of the Lamborghini brand.

High demand for the A3 Sportback resulted in a 6.3 percent rise in production output to 159,581 (150,091) units.

The new Audi TT Coupé was launched in September 2006. This model, built jointly by the Ingolstadt and Győr (Hungary) plants, is available with a four-cylinder petrol engine featuring innovative TFSI technology or a V6 petrol engine with quattro drive as standard. By the end of December, the production total for the TT Coupé had already reached 21,461 (8,368) units. The TT Coupé was followed by the production launch of the new TT Roadster at the end of the year.

Thanks to high demand, 307,166 (312,930) units of the Audi A4 (saloon and Avant) were built last year. Production of the new Audi A4 Cabriolet in its first full year in production rose by 25.6 percent to 27,735 (22,076) units. A total of 7,639 (569) of the RS 4 model family (saloon, Avant and Cabriolet) were built in the 2006 financial year.

As part of the preparations for the production start of the new Audi A5, 487 (10) of this coupé were already built during the past year.

The Neckarsulm plant manufactured 233,169 (208,673) units of the A6 car line last year. As well as the saloon and Avant, the A6 allroad quattro and the S6 have been in production there since 2006.

In its first full year in production, the Audi Q7 premium SUV exceeded all expectations. 72,188 (1,194) units of this model were built by the end of the year. The daily production capacity was already stepped up from 200 to 300 units shortly after this model's launch, in response to high demand.

22,468 (21,509) deluxe saloons of the Audi A8 series were built at the Neckarsulm plant during the past financial year. This surpassed the previous year's high total by 4.5 percent. Mid-way through the year, the ultra-sporty Audi S8 version joined it on the market, adding impetus to demand for the car line.

Engine production

	2006	2005
Audi Group	1,895,695	1,695,045
of which AUDI HUNGARIA MOTOR Kft.	1,893,600	1,693,609
of which Automobili Lamborghini S.p.A.	2,095	1,436

In the past financial year, the Audi Group increased engine production to a total of 1,895,695 (1,695,045) units, representing a rise of 11.8 percent. The proportion of diesel engines in the production total remained at the previous year's high level of 53.5 (53.9) percent.

Of the engines manufactured by AUDI HUNGARIA MOTOR Kft., 728,191 (682,337) were supplied to companies within the Audi Group. 1,056,504 (954,282) engines were built on behalf of other companies in the Volkswagen Group, and 91,287 (32,950) for third-party customers.

Automobili Lamborghini S.p.A. produced 2,095 (1,436) power units in the past financial year, comprising 1,651 (972) ten-cylinder and 444 (464) twelve-cylinder engines.

Production start of the new Audi R8

The celebrations to mark "100 Years of Car Production at Neckarsulm" last autumn coincided with the start of production of the new Audi R8 super sports car at Neckarsulm. The Neckarsulm plant boasts many years of experience in lightweight aluminium construction, which is also used in the building of the Audi R8. This permits competitive small-scale production of a high technological calibre.

New hybrid-construction TT

The official production start of the new TT Coupé in March 2006 also heralded in a new departure in body manufacturing. Audi Space Frame technology was refined for the new TT, with high-strength steel components now incorporated. The current hybrid-design TT body comprises around 70 percent aluminium and 30 percent steel. This has appreciably reduced the car's overall weight and given it good weight distribution; the TT consequently already has the ideal basis for outstanding handling characteristics in its body. The TT Coupé was followed by the production launch of the new TT Roadster in November. The production line is capable of turning out 270 bodies for this sports car every day.

Audi Toolmaking wins “Excellence in Production” competition

The AUDI AG Toolmaking Division scooped the award “Toolmaker of the Year” in the “Excellence in Production” competition in 2006; it had already earned this distinction once before, in 2004. The division successfully fended off the challenge from 321 other toolmakers and mould makers. The Audi Toolmaking Division has in recent years evolved from being an out-and-out operating materials manufacturer into a system supplier. Around 1,500 people were employed by the Audi Group within this division at the end of the year, at the locations Ingolstadt, Neckarsulm, Győr and Barcelona.

Sales and Distribution

The Audi Group boosted worldwide sales of Audi vehicles by 9.2 percent in the past financial year, to 905,188 (829,109) units, thus setting a new all-time record. 257,792 (247,125) Audi models were sold in the domestic market, 4.3 percent more than in the previous year.

Audi was also very successful in the USA in 2006. Between January and December, 90,116 (83,066) vehicles – an increase of 8.5 percent – were delivered to their new owners there, despite the fact that the overall market shrank by 2.6 percent. Among other factors, this welcome development is the first evidence that the optimised dealer network in the USA is bearing fruit. Through its involvement in the diesel initiative “Bluetec®”, Audi has joined forces with its partners Volkswagen and DaimlerChrysler in an effort to boost the popularity of these high-performance but economical vehicles in the USA. The aim is to further bolster the growth that it is targeting.

Vehicle sales – largest markets

	Vehicle sales 2006	Year-on-year percentage change	2006 market share, percent	Year-on-year percentage change in overall market
Audi worldwide	**905,188**	**9.2**		
Germany	257,792	4.3	7.6	3.8
USA	90,116	8.5	0.5	– 2.6
United Kingdom	86,003	5.7	3.6	– 3.9
China	81,708	38.8	2.0	26.1
Italy	59,002	6.2	2.5	4.0
Spain	54,557	10.3	3.4	– 2.0
France	45,525	9.7	2.2	– 3.3
Belgium	26,517	9.0	4.7	9.6
Netherlands	17,573	4.5	3.1	4.0
Austria	17,103	0.3	5.5	0.2
Japan	14,976	– 2.7	0.3	– 2.2
Sweden	14,583	17.0	4.8	3.1
Switzerland	13,947	8.7	5.4	1.7
South Africa	13,104	11.0	2.7	14.0
Russia	10,050	64.3	0.6	26.6

In China, the third-largest export market of the Audi Group, the brand with the four rings succeeded in enlarging its market share by 38.8 percent to 81,708 (58,878) units, and as a result was yet again the unchallenged market leader in the premium segment. Audi has an exclusive dealer network of over 120 outlets in China. These sell both the A4 and A6, assembled locally from CKD kits, and imported Audi models.

69.8 (72.2) percent of all Audi vehicles sold by the Audi Group in the past financial year were destined for Western Europe. It registered significant growth rates in the key markets of this region, despite these markets as a whole contracting. Audi for example boosted its unit sales in the United Kingdom – the brand's most important export market in Western Europe – by 5.7 percent to 86,003 (81,374) units. Audi is yet again the market leader in Spain's premium segment, with 54,557 (49,453) units sold.

Vehicle sales by model

	2006	2005
Audi A2	260	13,321
Audi A3	73,658	75,673
Audi A3 Sportback	161,906	139,496
Audi TT Coupé	16,753	10,633
Audi TT Roadster	2,745	5,635
Audi A4 saloon	162,239	170,390
Audi A4 Avant	142,302	154,422
Audi A4 Cabriolet	27,410	23,560
Audi RS 4 saloon	4,375	509
Audi RS 4 Avant	2,661	11
Audi RS 4 Cabriolet	585	–
Audi A6 saloon	148,227	141,059
Audi A6 Avant	76,556	64,878
Audi A6 allroad quattro	9,799	7,431
Audi Q7	52,771	674
Audi A8	22,601	21,417
Total, Audi brand*	**905,188**	**829,109**
Lamborghini Gallardo	1,610	1,071
Lamborghini Murciélago	477	529
Total, Lamborghini brand	**2,087**	**1,600**
Other Volkswagen Group brands	**228,279**	**214,405**
Total, Group	**1,135,554**	**1,045,114**

* including internal vehicles for launch purposes

Partnership with renowned market research institute
In partnership with the University of St. Gallen, AUDI AG and a market research lab have established a leading international research centre that focuses on integrating customer requirements even more deeply into the development and marketing processes for cars. The aim of this Audi market research activity is to identify customers' individual and market-specific preferences using innovative methods of market research, and to incorporate the findings into the Audi development process at an early stage.

The market research lab will be spearheaded by a well-established researcher and has access to an international network of high-calibre experts.

Financial performance

The Audi Group increased its revenue by 17.1 percent in the 2006 financial year to EUR 31,142 (26,591) million, the highest ever in the lengthy history of the company.

Of the revenue total, the amount of EUR 23,404 (19,370) million was generated by sales of Audi vehicles. As in previous years, the A4 car line was the revenue mainstay. There was, however, another marked increase in the revenue produced by sales of the A3, A6 and A8 car lines. Even though the new Audi TT Coupé was only gradually launched from September 2006, its outstanding sales performance is already reflected in the revenue figures. The high demand for the Audi Q7 in the past financial year is noted with particular satisfaction; in its very first year, this model emerged as a major source of revenue.

The Audi Group also sells vehicles of the Bentley, SEAT, Škoda, VW Passenger Car, VW Commercial Vehicle brands via the sales subsidiaries AUTOGERMA S.p.A., Audi Volkswagen Korea Ltd. and Audi Volkswagen Middle East FZE. Revenue from sales of these brands of vehicles enjoyed an increase of 5.0 percent in the 2006 financial year.

The cost of sales for the Audi Group rose by 16.5 percent and therefore by a slower rate than revenue. The purchase price reductions and productivity advances secured partially compensated for the increase in direct materials prompted by the higher sales volume.

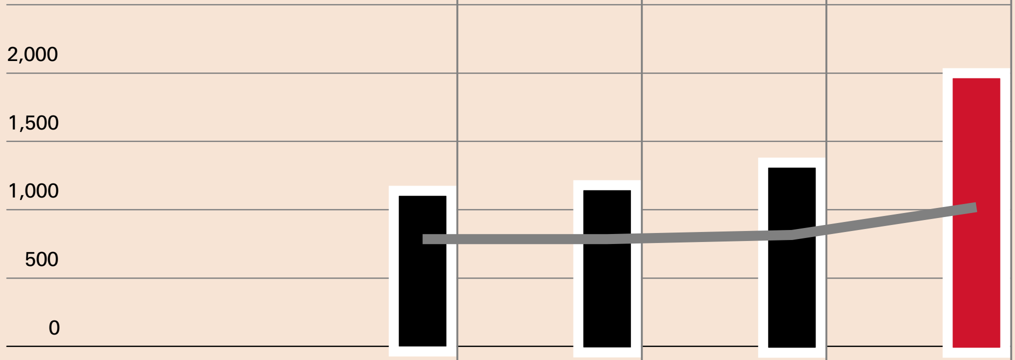
The Audi Group was thus able to boost its gross profit by 21.6 percent to EUR 3,833 (3,152) million.

Although the 2006 financial year witnessed a large number of new models launched, distribution costs rose only underproportionally in relation to revenue, to EUR 2,164 (1,877) million. Administrative expenses were on a par with the previous year at EUR 237 (240) million.

The EUR 211 million rise in the other operating result stemmed principally from the reversal of provisions.

The Audi Group's operating result of EUR 2,015 (1,407) million at the close of the financial year was EUR 608 million, i.e. 43.2 percent, up on the previous year, supplying yet further impressive evidence of how successful the ongoing cost-cutting and process improvement measures have been. The EUR 28 million rise in the financial result is attributable in the first instance to higher interest income and the improved result for investments accounted for using the equity method.

Development of profit before tax and rate of return before tax



	2003	2004	2005	2006
Profit before tax (EUR million)	1,101	1,143	1,310	1,946
Rate of return before tax (in %)	4.7	4.7	4.9	6.2

The Audi Group consequently posted an impressive 48.5 percent rise in profit before tax to EUR 1,946 (1,310) million. Profit after tax reached EUR 1,343 (824) million and therefore likewise showed a rise of 63.0 percent.

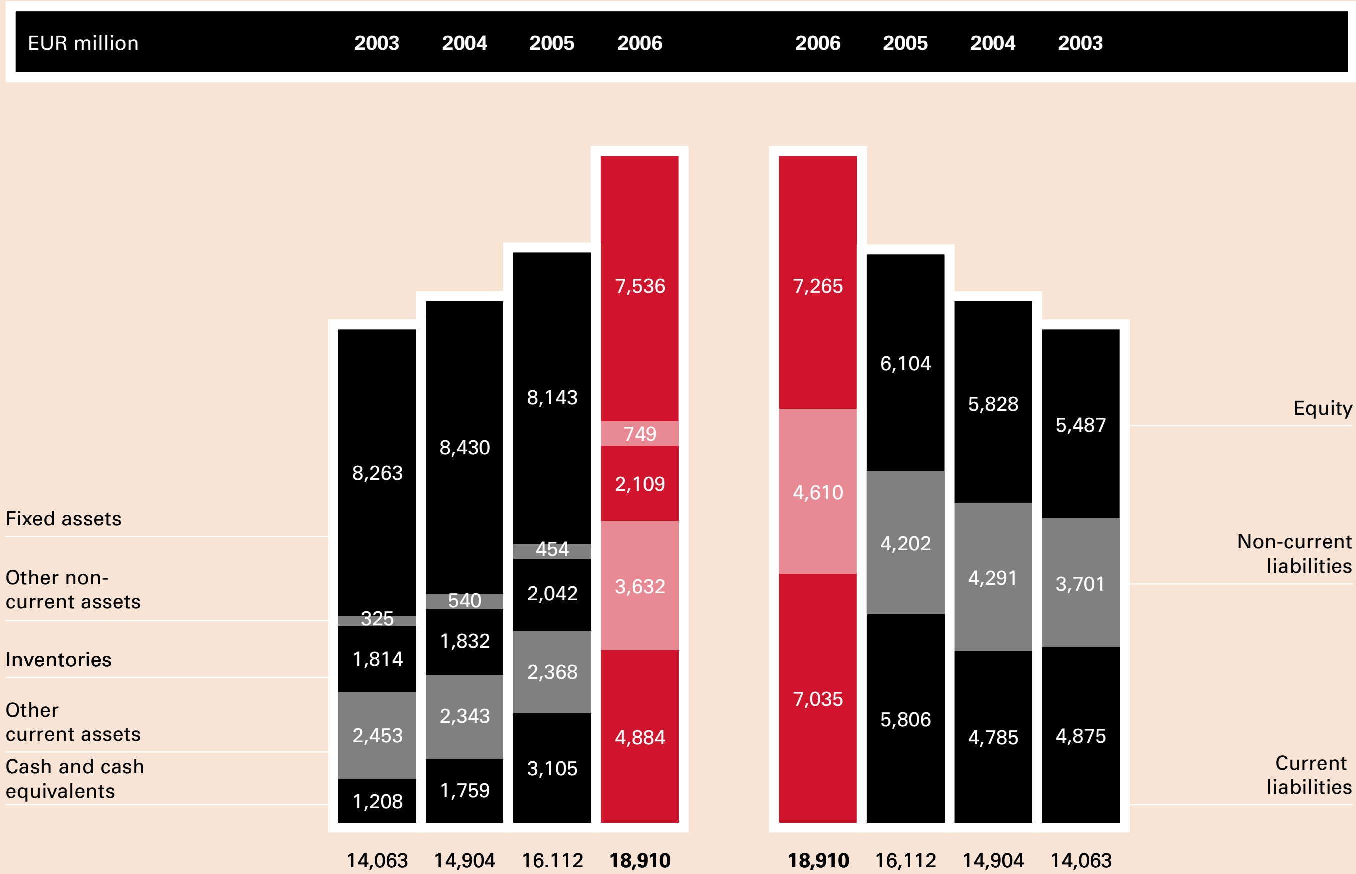
Key earnings data

%	2006	2005
Rate of return before tax	6.2	4.9
Equity return after tax	20.1	13.8
Return on investment	14.2	9.7

The positive business trend is also reflected in an improvement in the key return ratios. The rate of return before tax, for instance, rose from 4.9 percent to 6.2 percent. The return on investment, as an indication of the profitability of a company, showed an impressive rise from 9.7 to 14.2 percent, for the first time exceeding the threshold of the long-term target of the Audi Group of ten percent.

Net worth

Balance sheet structure



The balance sheet total of the Audi Group at December 31, 2006 was EUR 18,910 (16,112) million, an increase of 17.4 percent on the prior-year total.

Non-current assets were down 3.6 percent to EUR 8,285 (8,597) million mainly as a result of higher depreciation and lower development expenditure recognised as an intangible asset.

Current assets, on the other hand, were up 41.4 percent to EUR 10,625 (7,515) million. This change is attributable above all to the increase in cash and cash equivalents (plus EUR 1,779 million), the rise in trade receivables (plus EUR 342 million) and the higher level of securities held as current assets (plus EUR 555 million).

Capital investments were 12.7 percent up on the previous year at EUR 1,925 (1,708) million, mainly due to increased production capacity. EUR 1,256 (1,138) million of this total was spent on property, plant and equipment, representing a rise of 10.4 percent.

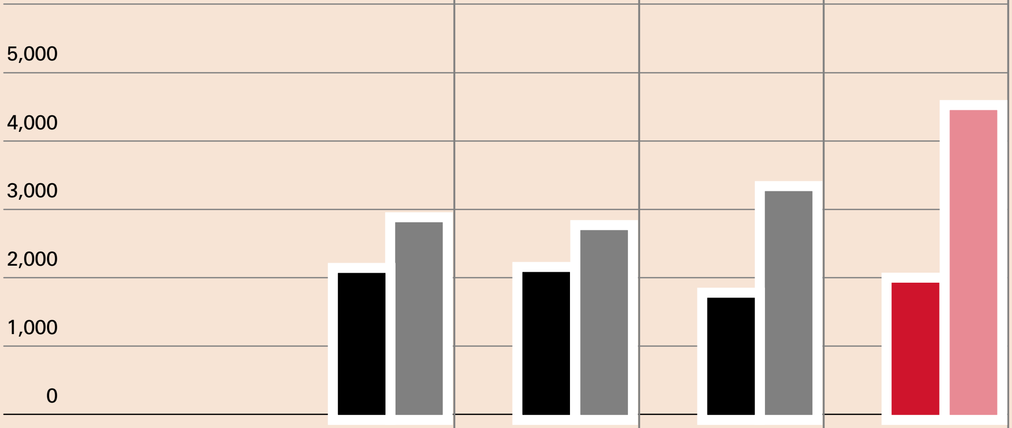
The 19.0 percent rise in equity to EUR 7.265 (6,104) million is primarily due to the capital injection of EUR 231 million by Volkswagen AG and the allocation to the other retained earnings of the balance of EUR 487 (362) million remaining after the transfer of profit. Actuarial gains from the remeasurement of defined benefit liabilities moreover affected this figure.

The equity ratio of the Audi Group consequently rose to 38.4 (37.9) percent.

Non-current liabilities were up on the previous year at EUR 4,610 (4,202) million. In particular, other liabilities and provisions also rose.

Current liabilities rose to EUR 7,035 (5,806) million. Within this, current provisions showed an increase on the prior-year level due to the sales volume, and other liabilities rose following the higher profit transfer to Volkswagen AG.

Capital investments and cash flow in the Audi Group



	2003	2004	2005	2006
Capital investments (EUR million)	2,047	2,056	1,708	1,925
Cash flow from operating activities (EUR million)	2,786	2,690	3,252	4,428

Financial position

The Audi Group boosted its cash flow from operating activities by 36.2 percent in the 2006 financial year to EUR 4,428 (3,252) million. This rise results principally from the higher earnings in conjunction with higher depreciation. The cash outflow for investing activities was well up on the previous year at EUR 2,442 (1,712) million. The upward change is largely due to the purchase of securities. After adjustment for this effect, the cash outflow is EUR 1,890 million. As already the case in previous years, the cash flow from operating activities covered the cash outflow for investing activities in full. The priority capital investments in 2006 were the start of TT production and the capacity extensions for Audi Q7 production.

Net liquidity at December 31, 2006 was EUR 5,720 (3.391) million, an increase of 68.7 percent on the previous year.

Cash flow statement

EUR million	2006	2005
Cash flow from operating activities	4,428	3,252
Cash flow from investing activities	– 2,442	– 1,712
Net cash flow	**1,986**	**1,540**
Cash flow from financing activities	– 202	– 203
Net liquidity	5,720	3,391

Cash pooling within the Audi Group is centralised at AUDI AG. Surpluses and shortages of cover are equalised via the cash pool at Volkswagen AG. All transactions are handled on market terms.

At the end of the financial year, the Audi Group had other financial obligations amounting to EUR 1,520 (1,202) million, mainly in the form of ordering commitments. An overview is provided in the Notes on page 199, Section 4, Other financial obligations.

Report on post-balance sheet date events

No events of particular significance which must be reported according to IAS 10 occurred after December 31, 2006.

Risk report

The risk management system within the Audi Group

In accordance with the risk management strategy of the Audi Group, the wide-ranging risks that are inseparably associated with the business activities of the company are minimised or if possible avoided in order to prevent potential losses to the company. Risks are consciously taken only where they are readily calculable and where this course of action appears justifiable within the context of seizing favourable business opportunities.

The Audi Group maintains a group-wide risk management and risk early warning system. This covers the parent company and all subsidiaries from which potential existence-threatening developments could spread to the parent company.

The tasks of risk management in the Audi Group are reflected non-centrally by organisational processes at the level of the individual corporate divisions and subsidiaries. Risk management is thus an integral aspect of the existing business processes of the Audi Group. Clearly defined task areas as well as reporting and recording obligations are laid down for the corporate divisions and subsidiaries.

In the context of the defined spheres of responsibility within the risk management system, potential risks are identified, appropriate measures are elaborated and implemented for their management and monitoring, and the success of the measures taken is constantly monitored. The effectiveness of the management and monitoring system is constantly examined.

Within the process of identifying and evaluating risks, the probability of individual risks materialising is estimated and the potential extent of the loss in each individual case quantified. The lost profit contribution serves as the measure for this purpose.

Reports on key risks are submitted to the Board of Management and the Supervisory Board on a regular basis.

In the context of its business activities, the Audi Group encounters the following key risk areas:

Risks from the economic context and the car industry

As a market player with activities worldwide, the Audi Group is highly dependent on the general underlying state of the economy. This affects in particular the major sales markets of the group, which are Western Europe, the USA, China and Japan. Although the general economic situation can currently be rated as positive throughout the aforementioned sales regions, a weakening or even reversal of the positive trends can have a direct impact on consumer behaviour in the car sector. The positive state of the economy in general in the USA, for instance, is not currently reflected by the current fortunes of the car market there. Protracted high prices or further price rises for energy and raw materials on the one hand harbour financial risks for production and, on the other hand, can lead to consumer reticence, thus hampering vehicle sales.

The premium segment, in which the models of the Audi and Lamborghini brands are positioned, is fundamentally less exposed to the negative impact of cyclical fluctuations. The possibility of sales risks from a deterioration in the general economy and the consequent downturn in the market can, however, not be excluded even in that segment. The other Volkswagen Group brands, whose products are sold via Audi sales subsidiaries in Italy, Korea and the Arab world, are more exposed to cyclical sales risks than the Audi brand.

Because of the international emphasis of its business activities, the Audi Group earns a significant proportion of its revenue in foreign currency. This revenue is exposed to risks from exchange rate movements. In particular, unanticipated changes in the exchange rate between the US dollar and the euro can severely diminish revenues and the consolidated net profit.

Accessing the private consumer market in China could potentially entail further market risks for Audi.

The continuing predatory competition in the car trade as a result of the increasing use of sales incentives, not least in the important Audi markets of USA and China, but also in Germany, may lead to price erosion and higher marketing costs, with a correspondingly negative impact on revenue and earnings. In Europe, the Italian car market in particular has been dominated by an exceptionally high level of sales incentives for some time now. This unfavourable development, which could lead to a considerable rise in marketing costs, may diminish the earnings of the Italian subsidiary AUTOGERMA S.p.A.

Price developments among competitors, which Audi may be obliged to follow, could likewise have a lasting adverse effect on the group’s revenue and earnings performance in the event of a negative trend.

As an innovative car manufacturer, the company is constantly exploring new niches in the product range. Not every detail of the market’s response to new models can be anticipated, in spite of meticulous market studies that have accompanied the product decision-making process. The level of acceptance by the market of new generations of established car lines may moreover not live up to expectations.

Changes to the legal context, such as tougher statutory requirements for vehicle safety, fuel consumption and exhaust emissions, continue to be a risk factor for the car industry.

Risks from operating activities

There are diverse risks within the context of the Audi Group's operating activities which can substantially undermine its financial position and financial performance.

These include major fires and explosions that, on the one hand, damage or destroy the group's assets and, on the other hand, may cause considerable consequential losses by hindering the production process. Production hitches may take the form of disruptions to the energy supply and technical disruptions, in particular to electronic data processing. Although such occurrences could potentially lead to high losses, their likelihood is relatively low. The group counteracts such risks through preventive measures such as fire protection and by taking out adequate insurance cover.

The close, economically advantageous collaboration between car manufacturers and suppliers that is customary in this industry is increasingly leading to interdependence. This trend is gaining momentum as a result of the exclusive use of innovative technologies by globally active suppliers. The risks arising from this are counteracted within the company through appropriate contractual arrangements, and in particular through the retention of ownership of tools by the Audi Group.

Delivery delays or non-delivery as a result of tool breakage, emergency losses and strikes at suppliers or in the transport sector hamper the production process. A rise in the number of crises at suppliers, in some cases leading to their insolvency, has been observed. The risks of loss of income from the above factors are limited within the Audi Group by taking out appropriate insurance cover and the use of suitable methods of selecting and monitoring suppliers.

The complex product development process for new vehicles and components goes hand in hand with risks from delays, from changes to the product at short notice and from the loss of expertise as a result of the involvement of third-party service providers in the development process.

Despite the presence of an efficient, systematic quality management approach within the Audi Group, potential product liability risks cannot be entirely excluded. These can both result in considerable financial losses to the company and also harm its image.

Financial risks

The financial risks to which the Audi Group is exposed as a result of its business activities comprise market price risks (exchange-rate, interest-rate and price risks from commodities), creditworthiness risks and liquidity risks.

As a result of its worldwide sales markets, the Audi Group is exposed to particular risks from exchange-rate movements, above all of the US dollar and the pound sterling.

Detailed information on the hedging policy and on risk management in the area of financial risks, in particular in relation to the use of derivative financial instruments in hedging transactions, is provided in the notes to the consolidated financial statements of the Audi Group from page 197, in the chapter "Other particulars" under the item "Hedging policy and risk management".

Overall assessment of the risk situation

Compared with the previous year, there is no substantial change in the risk situation of the Audi Group.

The risks described harbour the potential to undermine the financial position and financial performance of the Audi Group to a significant degree. However, on the basis of all known particulars and circumstances, there are currently no risks that can endanger the company's survival in the foreseeable future.

Report on expected developments

Anticipated development in the underlying economic situation

General economic situation

The Audi Group expects the global upswing to continue in 2007 with marginally less vigour. The incipient slowdown in the US economy in particular will restrict growth worldwide. South America and Asia will therefore prove to be important centres of growth.

In the USA, economic growth is expected to slow to less than 3.0 percent. On the back of high energy prices and higher interest rates, private consumption will lose momentum somewhat. Growth in investment, too, will be weaker than in the previous year due to the deterioration in the sales and earnings prospects.

There are early indications of an easing of economic growth in the eurozone as a result of falling global demand and tighter fiscal policy. The Audi Group expects economic growth of slightly more than 2.0 percent in the eurozone.

In Germany, the economy will cool down again in 2007 following the high growth in gross domestic product in the previous year. Export activity is likely to be held back by the continuing strength of the euro and the moderate development of the global economy. Domestic demand will not provide any lasting stimuli. On the one hand, this is due to private consumption being dampened by the rise in the VAT rate and other fiscal measures. On the other hand, investment activity will weaken. The cumulative effect of these factors will be to reduce economic growth, probably to less than 2.0 percent.

The pace of economic expansion in many emerging countries in South America and Asia remains high.

Economic growth in China should virtually match the high level of the previous year. As a result of slightly weaker demand worldwide, the Japanese economy will continue to expand at the modest rate of around 2.0 percent.

The car industry

Global demand for cars is expected to lose some of its vigour in 2007. For the year as a whole, the Audi Group expects worldwide unit sales to grow by around 1 percent to 55 million vehicles.

Vehicle sales should recover somewhat on the highly competitive US car market, and rise to 16.8 million units.

By contrast, in Western Europe (excluding Germany) the Audi Group expects the car market to be slightly recessive. With vehicle sales forecast to reach 11.1 million, the Western European car market would be 0.8 percent down on the previous year.

A further overall rise in car sales is expected in Central and Eastern European countries. In Russia, the most significant market in the region, Audi’s forecast envisages sales growth to around 1.8 million cars.

The market will remain dynamic in the Asia-Pacific region. However, the pace of growth in India and China is likely to slow down considerably compared with the previous year. In China, the Audi Group expects slight growth in the overall market. Japan is expected to enjoy a positive trend in registrations of new cars.

The registration statistics for the German car market in 2007 will be adversely affected by the increase in the VAT rate on January 1, 2007. This prompted many customers planning to buy a new car to bring forward their purchase into 2006. For the market as a whole, the Audi Group therefore expects to see a slight drop in the volume of cars registered to just under 3.4 million vehicles.

Anticipated development of the Audi Group

The underlying economic situation and the market context remain challenging for the Audi Group. It will consequently take quite some effort to extend the consistently positive run of results over recent years. These past successes set the yardstick for the company very high. The management is nevertheless convinced that Audi will yet again be able to present a positive overall record of its business activities for the 2007 financial year.

Anticipated development in vehicle sales

Upholding sales growth remains an important objective of the Audi Group in 2007. It aims to maintain the sustained positive trend of recent years during the current financial year. The objective for worldwide vehicle sales is therefore to establish another new record. Alongside the existing product range, a large number of new models and derivative versions will help by increasing the choice for customers in the premium segment, as well as enhancing the brand's appeal.

The company's established markets, Germany and Western Europe, will remain the pillars of its success. Thanks to the impressive string of new models that it has unveiled, the Audi Group has already performed the groundwork for successfully tackling the market conditions, which could in some cases be problematic.

In the Eastern European region, the successful growth of recent years is expected to be maintained.

Audi believes it is moreover equipped to withstand the intensive competition in the USA in 2007. On the one hand the Audi Q7 will now be available for the full twelve months, following its launch last year. On the other hand additional attractive models will be appearing on the North American market. In parallel, the company will be working intensively on enhancing its brand image and on optimising the dealer network in that region. The growth rate is likewise to be maintained unabated in the Asia-Pacific region. The Audi Group has particularly high expectations of China, where it hopes to build on its market lead. Unit sales there are expected to rise yet again in 2007. The company moreover anticipates a positive overall development in unit sales in the other countries of that region.

Anticipated financial performance

In line with the higher unit sales anticipated, the revenue of the Audi Group is likely to exceed the 2006 level in the 2007 financial year. The regional distribution of the sales trend forecast will approximately mirror growth in unit sales.

Despite higher capital investments on extensions to the model and engine range and on the further expansion of the worldwide dealer and service network, the key earnings data for 2007 will remain at the outstanding level of the previous year.

Thanks to the positive impact of our continuous process improvement and productivity enhancement programmes, the company can even expect to better the previous year's earnings.

Anticipated financial position

The priority aim for 2007 remains to finance growth from the positive cash flow generated. Once again, no external sources of financing will be used. The intra-group cash pool is able to guarantee the liquidity required by all group companies.

The cash flow from operating activities will probably match the high level of 2006. Against the backdrop of the model initiative's longer-term perspective, higher cash outflows for investing activities are expected for the 2007 financial year. The cash outflow for financing activities will probably be up on the level of the 2006 financial year due to the higher profit transfer to Volkswagen AG.

The net liquidity of the Audi Group will continue to develop positively as planned up until the end of 2007, despite higher capital investments.

Capital investments
Capital investments scheduled for the medium term are intended predominantly for customer-oriented additions to the model and engine range, the essential expansion of development and production structures, improving the productivity and quality of process chains, and strengthening customer loyalty. All investment measures share the same objective of lastingly strengthening the market position of the Audi Group through a forward-looking model and brand strategy.

The investment volume for property, plant and equipment and for financial assets envisaged for the period from 2007 to 2011, together with development expenditure recognised as an intangible asset, amounts to just under EUR 13 billion for the Audi Group. The 2007 financial year accounts for around one fifth of this sum. The cash flow from operating activities will cover investment spending in full for the entire planning period.

Capital investments principally concern direct production activities and will for the most part be earmarked for the production areas at Ingolstadt, Neckarsulm and Győr. Capital investments at suppliers represent a further focal area.

Anticipated development in the workforce
The workforce will remain largely unchanged in 2007 compared with the past financial year.

Opportunities for future development
The main determining factors behind the future development of the Audi Group again consist above all in forward-looking strategies and measures designed to assure the steady qualitative and quantitative growth of the company in the long term.

Systematically pushing forward with the model initiative that is already under way remains of key importance. The large number of new models launched in the past financial year will be joined by the Audi TT Roadster, the Audi A5 and the new Audi R8 super sports car in the first half of 2007. Further new models will fit seamlessly into the ongoing process of extending and rejuvenating the range in the second half of the year and also in subsequent years.

The objective of serving existing markets even more successfully remains valid for 2007. Following the successful establishment of the group’s own subsidiaries in the important sales regions of the Middle East and South Korea in 2005, the spotlight will shift to the restructuring of the sales organisation in North America. The domestic sales organisation also merits particular attention.

The Audi Group expects the aforementioned measures to provide lasting prospects of growth that will determine the development of the company’s volume figures as well as its financial performance data over the coming years.

Over and above the strategy-related determining factors listed above, external factors may provide additional opportunities. Falls in the price of raw materials and advantageous exchange rate movements could, for instance, have a positive impact on financial performance.

Overall assessment of anticipated future developments

The Audi Group is striving for sustained, qualitative and quantitative growth in 2007 and indeed in subsequent financial years. This objective will moreover be evident from the business figures for 2007.

Disclaimer

The management Report contains statements relating to anticipated future developments. These statements are based on current assessments and are by their very nature exposed to risks and uncertainty. Actual outcomes may differ from those predicted in these statements.

Independent Auditor's Report

This report was originally prepared in German. In case of ambiguities the German version shall prevail:

"Auditor's Report

We have audited the consolidated financial statements prepared by AUDI AG, Ingolstadt, comprising the balance sheet, income statement, statement of recognised income and expense, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with the IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (Paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements 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 consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company´s Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the group 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 based on the findings of our audit, the consolidated financial statements comply with the IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Para. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Munic, February 13, 2007

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wagner	ppa. Justenhoven
Wirtschaftsprüfer	Wirtschaftsprüferin

Declaration of the AUDI AG Board of Management

on the 2006 consolidated financial statements

The Board of Management of AUDI AG is responsible for the preparation of the consolidated financial statements and group management report. Reporting is performed on the basis of the International Financial Reporting Standards (IFRS) as applicable within the European Union, and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). The group management report is prepared in accordance with the requirements of the German Commercial Code. Under Section 315a of the German Commercial Code, AUDI AG is obliged to prepare its consolidated financial statements in accordance with the requirements of the International Accounting Standards Board (IASB).

The regularity of the consolidated financial statements and group management report is assured by means of internal controlling systems, the implementation of uniform guidelines throughout the group, and employee training and advancement measures. Compliance with the legal requirements and with internal group guidelines, as well as the reliability and functioning of the systems of controlling, are checked on an ongoing basis throughout the group. The early warning function required by law is achieved by means of a group-wide risk management system that enables the Board of Management to identify potential risks at an early stage and initiate corrective action as necessary.

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Munich, has examined the consolidated financial statements and group management report in its capacity as independent auditor, in accordance with the resolution of the Annual General Meeting, and issued its unqualified certification as shown on the page opposite.

The consolidated financial statements, the group management report, the audit report and the measures to be taken by the Board of Management for the prompt identification of risks which could pose a threat to the company's survival were discussed at length by the Supervisory Board in the presence of the auditors. The findings of this examination are indicated in the Report of the Supervisory Board.

Income statement of the Audi Group

for the 2006 financial year

EUR million	Notes	2006	2005
Revenue	1	31,142	26,591
Cost of sales	2	27,309	23,439*
Gross profit		**3,833**	**3,152***
Distribution costs	3	2,164	1,877*
Administrative expenses	4	237	240*
Other operating income	5	1,051	790
Other operating expenses	6	468	418*
Profit from operating activities		**2,015**	**1,407***
Result from investments accounted for using the equity method	7	17	– 12
Finance cost	8		
Interest expense		128	126
Interest on provisions		126	114*
Other financial results	9	168	155
Financial result		– 69	– 97*
Profit before tax		**1,946**	**1,310**
Income tax expense	10	603	486
Profit after tax		**1,343**	**824**
Interests of AUDI AG shareholders		1,343	824
Appropriation of profits			
Profit transfer to Volkswagen AG	11	856	462
Transfer to retained earnings		**487**	**362**

EUR		2006	2005
Earnings per share	12	31.24	19.17
Diluted earnings per share	12	31.24	19.17

* Figures adjusted for ease of comparison due to the reclassification of anticipated returns on plan assets pursuant to IAS 19.

Balance sheet of the Audi Group

at December 31, 2006

ASSETS EUR million	Notes	Dec. 31, 2006	Dec. 31, 2005
NON-CURRENT ASSETS		**8,285**	**8,597**
Fixed assets			
Intangible assets	13	2,335	2,685
Property, plant and equipment	14	5,023	5,221
Investment property	15	9	10
Investments accounted for using the equity method		128	121
Other long-term investments	16	41	106
Deferred tax assets	17	636	403
Other receivables and other financial assets	18	113	51
CURRENT ASSETS		**10,625**	**7,515**
Inventories	19	2,109	2,042
Trade receivables	20	1,840	1,498
Effective income tax assets	21	7	2
Other receivables and other financial assets	18	771	384
Assets held for sale	22	–	25
Securities	23	1,014	459
Cash and cash equivalents	24	4,884	3,105
		18,910	**16,112**

EQUITY AND LIABILITIES EUR million	Notes	Dec. 31, 2006	Dec. 31, 2005
EQUITY		**7,265**	**6,104**
Issued capital	25	110	110
Capital reserve	25	483	252
Retained earnings	25	6,672	5,742
LIABILITIES		**11,645**	**10,008**
Non-current liabilities		**4,610**	**4,202**
Financial liabilities	26	3	15
Deferred tax liabilities	27	7	52
Other liabilities	28	201	81
Defined benefit liabilities	29	1,974	2,180
Effective income tax obligations	30	520	426
Other provisions	31	1,905	1,448
Current liabilities		**7,035**	**5,806**
Financial liabilities	26	210	165
Trade payables	32	2,255	2,150
Effective income tax obligations	30	536	348
Other liabilities	28	2,109	1,615
Other provisions	31	1,925	1,508
Liabilities held for sale	22	–	20
		18,910	**16,112**

Cash flow statement of the Audi Group

from January 1 to December 31, 2006

EUR million	2006	2005
Profit before profit transfer and taxation	1,946	1,310
Income tax payments	– 889	– 691
Amortisation of development expenditure recognised as an intangible asset	904	583
Depreciation of and write-ups on property, plant and equipment and amortisation of intangible assets	1,538	1,282
Impairment losses on long-term investments	73	46
Result from asset disposals	3	25
Result from accounting using the equity method	– 12	29
Change in provisions (excluding tax provisions)	961	424
Change in inventories	– 85	– 204
Change in receivables	– 425	– 35
Change in liabilities	425	457
Other non-cash expenses / income	– 11	26
Cash flow from operating activities	**4,428**	**3,252**
Additions for development expenditure recognised as an intangible asset	– 625	– 544
Investments in property, plant and equipment and in intangible assets	– 1,292	– 1,161
Acquisition of affiliated companies and participating interests	– 8	– 11
Change in securities	– 552	– 42
Sale of shares	13	0
Investments in investment property	0	– 1
Cash inflows arising from asset disposals	22	47
Cash flow from investing activities	**– 2,442**	**– 1,712**
Capital contributions	231	195
Transfer and distribution of profit (of which to Volkswagen AG: EUR 462 million (previous year EUR 405 million))	– 462	– 407
Change in financial liabilities and in credit extended	30	11
Lease payments	– 1	– 2
Cash flow from financing activities	**– 202**	**– 203**
Effect of changes to the group	– 2	5
Effect of foreign exchange-rate changes	– 3	4
Change in cash and cash equivalents	**1,779**	**1,346**
Cash and cash equivalents at start of period	3,105	1,759
Cash and cash equivalents at end of period	**4,884**	**3,105**

EUR million	2006	2005
Cash and cash equivalents	4,884	3,105
Securities and credit extended	1,050	474
Gross liquidity	**5,934**	**3,579**
Credit outstanding	– 214	– 188
Net liquidity	**5,720**	**3,391**

Statement of changes in equity of the Audi Group

for the 2006 financial year

EUR million	2006	2005
Securities available for sale		
Fair value changes recognised directly in equity	4	26
Income and expense recognised from the sale of securities	0	– 31
Cash flow hedges		
Fair value changes recognised directly in equity	471	– 199
Income and expense recognised from the settlement of cash flow hedges	– 19	14
Currency translation differences	– 15	36
Tax items credited directly to equity	– 282	194
Actuarial gains and losses from defined benefit liabilities	284	– 321
Income and expense recognised directly in equity	**443**	**– 281**
Profit after tax	1,343	824
Total expense and income recognised in the financial year	**1,786**	**543**

Development of fixed assets in the 2006 financial year

EUR million	Gross carrying amounts							
	Costs Jan.1, 2006	Changes in con-solidated companies	Currency changes	Additions	Additions from accounting using the equity method	Transfers	Disposals	Disposals from accounting using the equity method
Intangible assets								
Concessions, industrial property rights and similar rights and values, as well as licences thereto	287	–	–	35	–	10	11	–
Goodwill	172	–	–	–	–	–	–	–
Development expenditure recognised as an intangible asset, products currently in development	740	–	–	532	–	– 389	–	–
Development expenditure recognised as an intangible asset, products currently in use	2,938	–	–	93	–	389	464	–
Payments on account for intangible assets	2	–	–	1	–	– 1	–	–
	4,139	**–**	**–**	**661**	**–**	**9**	**475**	**–**
Property, plant and equipment								
Land, land rights and buildings, including buildings on land owned by others and leased buildings	3,248	–	– 2	78	–	29	22	–
Plant and machinery	3,910	–	–	152	–	85	294	–
Furniture, fixtures and office equipment, as well as leased furniture, fixtures and office equipment	7,956	–	–	530	–	144	192	–
Payments on account and assets in course of construction	353	–	–	496	–	– 267	4	–
	15,467	**–**	**– 2**	**1,256**	**–**	**– 9**	**512**	**–**
Investment property	**14**	**–**	**– 1**	**–**	**–**	**–**	**–**	**–**
Investments accounted for using the equity method	**121**	**–**	**– 9**	**–**	**19**	**–**	**–**	**3**
Other long-term investments								
Investments in affiliated companies	143	–	–	8	–	–	–	–
Participating interests	11	–	–	–	–	–	–	–
	154	**–**	**–**	**8**	**–**	**–**	**–**	**–**
Total fixed assets	**19,895**	**–**	**– 12**	**1,925**	**19**	**–**	**987**	**3**

	Reduction in gross carrying amounts									Carrying amounts	
Costs	Accumulated depreciation and amortisation	Changes in consolidated companies	Currency changes	Additions, scheduled	Additions, unscheduled	Transfers	Disposals	Write-ups	Accumulated depreciation and amortisation		
Dec. 31, 2006	Jan. 1, 2006								Dec. 31, 2006	Dec. 31, 2006	Dec. 31, 2005
321	138	–	–	62	50	3	11	–	242	79	149
172	–	–	–	–	–	–	–	–	–	172	172
883	1	–	–	–	31	– 1	–	–	31	852	739
2,956	1,315	–	–	567	306	1	463	–	1,726	1,230	1,623
2	–	–	–	–	–	–	–	–	–	2	2
4,334	**1,454**	**–**	**–**	**629**	**387**	**3**	**474**	**–**	**1,999**	**2,335**	**2,685**
3,331	1,546	–	–	115	–	–	22	–	1,639	1,692	1,702
3,853	2,758	–	–	333	–	–	292	–	2,799	1,054	1,152
8,438	5,942	–	–	818	160	– 3	178	–	6,739	1,699	2,014
578	–	–	–	–	–	–	–	–	–	578	353
16,200	**10,246**	**–**	**–**	**1,266**	**160**	**– 3**	**492**	**–**	**11,177**	**5,023**	**5,221**
13	**4**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4**	**9**	**10**
128	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**128**	**121**
151	46	–	–	–	73	–	–	–	119	32	97
11	2	–	–	–	–	–	–	–	2	9	9
162	**48**	**–**	**–**	**–**	**73**	**–**	**–**	**–**	**121**	**41**	**106**
20,837	**11,752**	**–**	**–**	**1,895**	**620**	**–**	**966**	**–**	**13,301**	**7,536**	**8,143**

Development of fixed assets in the 2005 financial year

EUR million	Gross carrying amounts							
	Costs Jan. 1, 2005	Changes in con-solidated companies	Currency changes	Additions	Additions from accounting using the equity method	Transfers	Disposals	Disposals from accounting using the equity method
Intangible assets								
Concessions, industrial property rights and similar rights and values, as well as licences thereto	280	0	–	24	–	10	27	–
Goodwill	172	–	–	–	–	–	–	–
Development expenditure recognised as an intangible asset, products currently in development	572	–	–	488	–	– 317	3	–
Development expenditure recognised as an intangible asset, products currently in use	2,773	–	–	56	–	317	208	–
Payments on account for intangible assets	5	–	–	1	–	– 4	–	–
	3,802	**0**	**–**	**569**	**–**	**6**	**238**	**–**
Property, plant and equipment								
Land, land rights and buildings, including buildings on land owned by others and leased buildings	3,170	–	1	62	–	50	35	–
Plant and machinery	3,924	–	1	134	–	150	299	–
Furniture, fixtures and office equipment, as well as leased furniture, fixtures and office equipment	7,501	0	1	641	–	95	282	–
Payments on account and assets in course of construction	353	–	–	301	–	– 299	2	–
	14,948	**0**	**3**	**1,138**	**–**	**– 4**	**618**	**–**
Investment property	**15**	**–**	**–**	**1**	**–**	**– 2**	**–**	**–**
Investments accounted for using the equity method	**135**	**–**	**17**	**–**	**–**	**–**	**3**	**28**
Other long-term investments								
Investments in affiliated companies	151	–	–	–	–	–	8	–
Investments in associates	–	–	–	–	–	–	–	–
Participating interests	11	–	–	–	–	–		–
	162	**–**	**–**	**–**	**–**	**–**	**8**	**–**
Total fixed assets	**19,062**	**0**	**20**	**1,708**	**–**	**–**	**867**	**28**

	Reduction in gross carrying amounts									Carrying amounts	
Costs Dec. 31, 2005	Accumulated depreciation and amortisation Jan. 1, 2005	Changes in consolidated companies	Currency changes	Additions, scheduled	Additions, unscheduled	Transfers	Disposals	Write-ups	Accumulated depreciation and amortisation Dec. 31, 2005	Dec. 31, 2005	Dec. 31, 2004
287	101	0	–	61	–	1	25	–	138	149	179
172	–	–	–	–	–	–	–	–	–	172	172
740	–	–	–	1	–	–	–	–	1	739	572
2,938	941	–	–	582	–	–	208	–	1,315	1,623	1,832
2	–	–	–	–	–	–	–	–	–	2	5
4,139	**1,042**	**0**	**–**	**644**	**–**	**1**	**233**	**–**	**1,454**	**2,685**	**2,760**
3,248	1,436	–	–	123	–	1	14	–	1,546	1,702	1,734
3,910	2,707	–	1	346	–	–	279	17	2,758	1,152	1,217
7,956	5,439	0	1	770	–	– 1	267	–	5,942	2,014	2,062
353	–	–	–	–	–	–	–	–	–	353	353
15,467	**9,582**	**0**	**2**	**1,239**	**–**	**–**	**560**	**17**	**10,246**	**5,221**	**5,366**
14	**5**	**–**	**–**	**–**	**–**	**– 1**	**–**	**–**	**4**	**10**	**10**
121	**–**	**–**	**–**	**–**	**1**	**–**	**1**	**–**	**–**	**121**	**135**
143	–	–	–	–	46	–	–	–	46	97	151
–	–	–	–	–	–	–	–	–	–	–	–
11	2	–	–	–	–	–	–	–	2	9	9
154	**2**	**–**	**–**	**–**	**46**	**–**	**–**	**–**	**48**	**106**	**160**
19,895	**10,631**	**0**	**2**	**1,883**	**47**	**–**	**794**	**17**	**11,752**	**8,143**	**8,431**

General information

AUDI AG has the legal form of a German share-issuing company (Aktiengesellschaft). Its registered office is in Ettinger Strasse, Ingolstadt, and it is entered in the Commercial Register in Ingolstadt under HR B 1.

Around 99 percent of the share capital of AUDI AG is held by Volkswagen AG, Wolfsburg, with which a control and profit transfer agreement exists. The consolidated financial statements of AUDI AG are included in the consolidated financial statements of Volkswagen AG, which are deposited with the Local Court of Wolfsburg.

The object of the company is the development, production and sale of motor vehicles, other vehicles and engines of all kinds, together with their accessories, as well as machinery, tools and other technical articles.

Primary accounting basis

AUDI AG prepares its consolidated financial statements on the basis of the International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). All pronouncements of the International Accounting Standards Board (IASB) where application is mandatory have been observed. The prior-year figures have been calculated according to the same principles.

The income statement is prepared according to the internationally practised function of expense method.

The consolidated financial statements provide a true and fair view of the financial performance and financial position of the Audi Group.

The requirements pursuant to Section 315a of the German Commercial Code regarding the preparation of the consolidated financial statements in accordance with IFRS, as applicable within the EU, are met.

Over and above the disclosure obligations pursuant to IFRS, the particulars and notes required under German commercial law are published.

Effects of new or revised standards

Standard/ Interpretation		Mandatory from	Adopted by EU Commission*	Effects
IFRS 6	Exploration for and evaluation of mineral resources	Jan. 1, 2006	yes	none
IAS 21	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation	Jan. 1, 2006	yes	none
IAS 39	Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts – Financial guarantee contracts	Jan. 1, 2006	yes	none
IAS 39	Financial Instruments: Recognition and Measurement: cash flow hedge accounting and fair value hedge accounting	Jan. 1, 2006	yes	none
IFRIC 4	Determining Whether an Arrangement Contains a Lease	Jan. 1, 2006	yes	no significant
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	Jan. 1, 2006	yes	none
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	Dec. 1, 2005	yes	none

* At December 31, 2006.

New or revised standards not applied

Standard/ Interpretation		Mandatory from	Adopted by EU Commission*	Anticipated effects
IFRS 7	Financial Instruments: Disclosures	Jan. 1, 2006	yes	notes
IFRS 8	Operating Segments	Jan. 1, 2009	no	segment reporting
IAS 1	Presentation of Financial Statements – particulars of capital	Jan. 1, 2007	yes	notes
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	Mar. 1, 2006	yes	none
IFRIC 8	Scope of IFRS 2	May 1, 2006	yes	none
IFRIC 9	Reassessment of Embedded Derivatives	Jun. 1, 2006	yes	no significant
IFRIC 10	Interim Financial Reporting and Impairment	Nov. 1, 2006	no	not foreseeable
IFRIC 11	IFRS 2: Group and Treasury Share Transactions	Mar. 1, 2007	no	none
IFRIC 12	Service Concession Arrangements	Jan. 1, 2008	no	none

* At December 31, 2006.

Presentation of anticipated return on plan assets pursuant to IAS 19

From the 2006 financial year, the anticipated return on plan assets is presented in the financial result, for ease of comparison. For the 2005 financial year, the anticipated return on plan assets (EUR 11 million) recognised in the functional areas were reclassified under the financial result.

The Group

In addition to AUDI AG, the consolidated financial statements include all principal companies where AUDI AG directly or indirectly has scope for determining the financial and business policy in such a way that other group companies benefit from the activities of the companies in question (subsidiaries). Consolidation begins at that point in time from which it acquires the opportunity for control; it ends when that opportunity ceases to be available.

Companies where AUDI AG is able to exercise significant direct or indirect influence on financial and operating policy decisions (“associates”) are accounted for using the equity method.

The following changes to the consolidated companies occurred in the past financial year: the fully consolidated companies Audi Synko GmbH and Audi Zentrum Hannover GmbH, as well as Audi Zentrum Stuttgart GmbH & Co. KG, which was accounted for using the equity method, have been withdrawn from the group.

Subsidiaries excluded from consolidation and participating interests are always reported at their cost of purchase, as no active market exists for the shares of these companies and no fair value can reliably be determined with a justifiable amount of effort. These subsidiaries are substantially dormant companies or companies with only limited business operations.

The following table shows the composition of the Audi Group:

Total	2006	2005
AUDI AG and fully consolidated subsidiaries		
Germany	3	5
Other countries	12	12
Enterprises whose shares are accounted for using the equity method		
Germany	0	1
Other countries	2	2
Subsidiaries reported at cost of purchase and other associates		
Germany	10	10
Other countries	7	5
	34	**35**

The principal companies within the Audi Group are listed after the Notes. A list of all companies in which shares are held is filed with the Ingolstadt Commercial Register under HR B 1, and published on the Audi website under www.audi.com/subsidiaries. This list can in addition be requested directly from AUDI AG, Finance Analysis and Publications I/FF-12, 85045 Ingolstadt, Germany.

As a result of their inclusion in Audi's consolidated financial statements, quattro GmbH, Neckarsulm, and Audi Vertriebsbetreuungsgesellschaft mbH, Ingolstadt, satisfy the conditions of Section 264 Para. 3 of German Commercial Code and make use of the exemption rule.

Consolidation principles

The assets and liabilities of the domestic and foreign companies included in the consolidated financial statements are accounted for in accordance with the standard accounting policies of the Audi Group.

For subsidiaries fully consolidated for the first time, the assets and liabilities are to be measured at their fair value at the time of acquisition. Thus, differences between pre-acquisition carrying amounts and fair values of assets acquired and liabilities assumed are carried, depreciated or dissolved in accordance with the corresponding assets and liabilities. If the purchase prices of the shares exceed the group's interest in the equity calculated in this way for the individual company, goodwill arises. Goodwill acquired in a business combination is tested for impairment regularly, at the balance sheet date, and an impairment loss recognised if necessary.

Receivables and liabilities between consolidated companies are offset, and expenses and income eliminated. Intra-group profits and losses are eliminated from group inventories and fixed assets.

Consolidation processes affecting income are subject to deferrals of income taxes, with deferred tax assets and liabilities offset where the term and tax creditor coincide.

The same accounting policies are used to determine the pro rata equity for the companies of the Audi Group that are measured using the equity method (FAW-Volkswagen Automotive Company, Ltd., Changchun (China), and YANASE Audi Sales Company Ltd., Tokyo (Japan)). The last set of audited accounts of the company in question serves as the basis for this purpose.

Currency translation

The currency of the Audi Group is the euro (EUR).

Foreign currency transactions in the separate financial statements of AUDI AG and the subsidiaries are translated at the prevailing exchange rate on the date of the transaction. Monetary items in foreign currency are reported at the balance sheet date on the basis of the exchange rate on that date. Exchange differences are recognised in the current-period income statements of the respective group companies.

The foreign companies belonging to the Audi Group are foreign entities which prepare their financial statements in their local currency. The only exceptions are AUDI HUNGARIA MOTOR Kft. and Audi Volkswagen Middle East FZE, which prepare their annual financial statements in euros and US dollars respectively, rather than in local currency. The concept of the "functional currency" is applied when translating financial statements prepared in foreign currency. Assets and liabilities are translated at the closing rate. The effects of foreign currency translation on equity are reported in the currency exchange reserve. The items in the income statement are translated using weighted average monthly rates. Exchange differences resulting from the use of diverging exchange rates in the balance sheet and income statement are recognised in equity with no effect on the income statement.

1 EUR=		Dec. 31, 2006	Dec. 31, 2005	2006	2005
		Closing rate		Average rate	
Australia	AUD	1.6691	1.6109	1.6667	1.6320
Brazil	BRL	2.8152	2.7608	2.7336	3.0368
People's Republic of China	CNY	10.2793	9.5204	10.0082	10.2025
Japan	JPY	156.9300	138.9000	146.0624	136.8482
South Korea	KRW	1,224.8100	1,184.4200	1,198.1480	1,273.6043
United Arab Emirates	USD	1.3170	1.1797	1.2557	1.2441

As all consolidated subsidiaries have their registered offices in countries in which there is currently no hyperinflation, IAS 29 does not apply.

Recognition and measurement principles

Recognition of income and expenses

Revenue is always recorded at the time of rendering of the services or delivery of the goods or products, in other words upon passage of risk to the customer. The percentage of completion method is only applied in exceptional cases, as the dates on which a service is commenced and completed regularly fall within the same accounting period.

Proceeds from the sale of vehicles for which buy-back agreements exist are realised not immediately, but at a linear rate over the rental period, on the basis of the difference between the selling price and the anticipated buy-back price. These vehicles are reported under inventories.

Operating expenses are recognised when the service is rendered or at the time they are incurred economically.

Intangible assets

Intangible assets acquired for consideration are recognised at cost of purchase, taking account of ancillary costs and cost reductions, and amortised on a scheduled straight-line basis over their useful life.

Concessions, rights and licences relate to purchased computer software and subsidies paid.

Research costs are treated as current expenses in accordance with IAS 38. The development expenditure for products going into series production is recognised as an intangible asset, provided that the production of these products is likely to bring economic benefit to the Audi Group. If the conditions for recognition as an intangible asset are not met, the expenditure is recognised as an expense in the income statement in the year in which it occurs.

Development expenditure recognised as an intangible asset comprises all direct costs and overheads directly allocable to the development process. Borrowing costs are not capitalised. Amortisation is performed on a straight-line basis from the start of production, over the anticipated model life of the developed products.

The amortisation plan is based principally on the following useful lives:

	Useful life
Concessions, industrial property rights and similar rights and values	3-15 years
of which software	3 years
Development expenditure recognised as an intangible asset	5-10 years

The amortisation is allocated to the corresponding functional areas.

Goodwill acquired in a business combination is recognised pursuant to IAS 36 and tested for impairment regularly, at the balance sheet date. If necessary, an impairment loss resulting from this test is recognised.

Property, plant and equipment

Property, plant and equipment are measured at cost, less scheduled straight-line depreciation according to the pro rata temporis method.

The costs of purchase include the purchase price, ancillary costs and cost reductions.

In the case of self-constructed fixed assets, the cost of construction includes both the directly allocable cost of materials and cost of labour, and indirect materials and indirect labour which must be capitalised, together with pro rata depreciation. Interest on borrowings is not included.

The depreciation plan is based on the following useful lives, which are reassessed yearly:

	Useful life
Buildings	25-33 years
Plant fixtures	10-18 years
Plant and machinery	6-12 years
Furniture and fixtures, including special tools	3-15 years

Minor assets with a cost of purchase of up to EUR 410 are fully depreciated in the year of acquisition.

In accordance with IAS 17, property, plant and equipment used on the basis of lease agreements are recognised in the balance sheet if the conditions of a financial lease are met, in other words if the significant risks and opportunities which result from their use have passed to the lessee. Recognition is performed at the time of the agreement, at cost or at the present value of the minimum lease payments if lower. The straight-line depreciation method is based on economic life, or on the term of the lease contract if shorter. The payment obligations resulting from the future lease instalments are recognised as a liability at the present value of the leasing instalments.

Investment property

Investment property is measured at amortised cost. Buildings are depreciated on the basis of a useful life of 33 years.

Investments accounted for using the equity method

Companies where AUDI AG is able to exercise significant direct or indirect influence on financial and operating policy decisions (associates) are accounted for using the equity method.

Impairment tests

Fixed assets are tested regularly for impairment at the balance sheet date. To test for impairment, cash flows anticipated in the future are discounted at rates of between 9.0 and 9.8 percent.

Impairment loss pursuant to IAS 36 is recognised where the recoverable amount from the use of the asset in question has fallen below its carrying amount.

Within the Audi Group, the value in use of the cash-generating unit in question, determined according to the entity method, is used in the annual assessment of goodwill impairment. The planning data is compiled on the basis of available knowledge and is influenced by the prevailing macroeconomic developments, as well as by past developments. The planning period extends over five years, with plausible assumptions on future developments made for subsequent years.

If the reasons for impairment performed in previous years cease to apply, the impairment loss is reversed. Goodwill impairment, however, remains unchanged pursuant to IAS 36.

Financial assets

IAS 39 subdivides financial assets (financial instruments) into the following categories:
– financial assets at fair value through profit or loss,
– loans and receivables,
– held-to-maturity investments,
– available-for-sale financial assets.

Financial liabilities are divided into the following categories:
– financial liabilities at fair value through profit or loss,
– financial liabilities measured at amortised cost.

The classification depends on the respective purpose for which a financial asset has been acquired, and is reassessed at each balance sheet date. No financial instruments in the category of “held-to-maturity investments” are in use within the Audi Group.

Financial assets include both primary instruments and derivative instruments. Derivative financial instruments are used as a hedge for items on the balance sheet and for future cash flows.

Where financial instruments are purchased or sold in the customary manner, they are recognised using settlement date accounting, in other words at the value on the day on which the asset is delivered.

Where hedging instruments that serve currency or price hedging purposes according to business administration criteria do not satisfy the special eligibility requirements of IAS 39 in full, they are classified as “financial instruments at fair value through profit or loss”.

Financial instruments are reported at amortised cost (using the effective interest method) or at fair value. They are derecognised if the rights to payments from the investment have expired or been transferred and the Audi Group has in essence transferred all risks and opportunities associated with their title.

The amortised cost of a financial asset or financial liability, using the effective interest method, is the amount at which the financial asset or liability was measured at initial recognition minus principal repayments and any impairment losses. Receivables and liabilities denominated in foreign currencies are measured at the middle rate on the balance sheet date. In the case of liabilities, amortised costs always correspond to the nominal or settlement value.

The fair value generally corresponds to the market value or quoted market price. If no active market exists, the fair value is determined by means of investment mathematics methods. These comprise references to recently completed transactions between independent business partners, the use of the current market prices of other assets that are essentially similar to the asset in question, discounted cash flow methods, and option pricing models that take account of the specific circumstances of the issuer.

It is assessed at each balance sheet date whether there is any objective basis for impairment of a financial asset or group of financial assets.

Primary financial instruments

Investments in subsidiaries excluded from consolidation and participating interests are generally shown at their respective cost of purchase, as no active market exists for these companies and no fair value can reliably be determined with a justifiable amount of effort.

Loans and receivables originated by the enterprise, as well as liabilities, are measured at amortised cost. These include in particular

– loans advanced,
– trade receivables and payables,
– other current assets and liabilities.

In the case of current items, the fair values to be indicated additionally in the Notes correspond to the amortised cost. For non-current assets and liabilities with more than one year to maturity, fair values are determined by discounting future cash flows at market rates.

Liabilities from financial lease agreements are carried at the present value of the leasing instalments.

Available-for-sale financial assets are always measured at their fair value. In the case of quoted financial instruments – within the Audi Group, these comprise exclusively securities – the fair value corresponds to the market value on the balance sheet date. The fluctuations in value of available-for-sale securities are accounted for within a separate equity reserve with no effect on income, after taking account of deferred tax. Unless there is evidence of lasting impairment, the financial result includes only gains or losses realised from sales. However, if there is evidence of a lasting fall in the value of securities, the accumulated loss is booked against the equity reserve and recognised in the income statement; once impairment losses have been included in the income statement, they are no longer reversed by recognition in the income statement. In the 2006 financial year – as in previous years – there was no evidence of lasting impairment of the securities portfolio.

Derivative financial instruments and hedge accounting

Derivative financial instruments are used as a hedge for items on the balance sheet and for future cash flows. Derivative financial instruments, e.g. futures and options, are the principal hedging instruments used.

In the case of hedges against the risk of changes in value of balance sheet items (fair value hedges), both the hedging transaction and the hedged risk portion of the underlying transaction are recognised at fair value. Changes in the value of hedging and underlying transactions are included in the financial result.

When hedging future cash flows, the fluctuations in the market value of the effective portion of a derivative financial instrument are initially reported in a special reserve within equity with no effect on income, and are only recognised as income or expense once the hedged item is due. The ineffective portion of a hedge is recognised immediately in income.

Derivative financial instruments that serve currency or price hedging purposes according to business administration criteria but do not satisfy the strict criteria of IAS 39 are measured at fair value through profit or loss.

Deferred tax

Pursuant to IAS 12, deferred tax is determined according to the balance sheet focused liability method. This method specifies that tax deferrals are to be created for all temporary differences between the tax base of assets and liabilities and the carrying amounts of them in the consolidated financial statements (temporary concept). Deferred tax assets regarding the carryforward of unused tax losses are in addition to be recognised.

Deferrals amounting to the anticipated tax burden or tax relief in subsequent financial years are created on the basis of the likely tax rate at the time of realisation. In accordance with IAS 12, the tax consequences of distributions of profit are not recognised until the resolution on the appropriation of profits is passed.

Deferred tax assets include future tax relief resulting from temporary differences between the carrying amounts in the consolidated balance sheet and the valuations in the balance sheet for tax purposes. Deferred tax assets for the carryforward of unused tax losses that can be realised in the future and from tax relief are also to be recognised.

Deferred tax assets and deferred tax liabilities are offset, provided there is identity of the tax creditors and maturities.

Pursuant to IAS 1.70, deferred tax is reported as non-current.

A reduction of the carrying amount is performed for deferred tax assets which are unlikely to be realised.

Inventories

Raw materials and supplies are measured at the updated average cost of purchase or at the lower net realisable value (net selling price). Other costs of purchase and purchase cost reductions are taken into account as appropriate.

Work in progress and finished goods are valued at cost of conversion or at the lower net realisable value. The cost of conversion includes direct materials and direct labour, as well as a systematically allocated portion of the necessary indirect materials and indirect labour, production-related depreciation and expenses allocable to the products from the amortisation of series development expenditure recognised as an intangible asset. Distribution costs, administrative expenses and interest on borrowings are not capitalised.

Merchandise is valued at cost of purchase or at the lower net realisable value.

Provision has been made for all discernible storage and inventory risks by way of appropriate write-downs. Individual downward valuation adjustments are made on all inventories as soon as the probable proceeds from their sale or use are lower than the carrying amounts of the inventories. The estimated selling price less the estimated costs incurred up until their sale is regarded as the net realisable value of inventories.

Securities, cash and cash equivalents

Securities held as current assets are measured at market value, in other words at the quoted market price at the balance sheet date.

Cash and cash equivalents are measured at nominal value.

Defined benefit liabilities

The actuarial measurement of defined benefit liabilities is based on the Projected Unit Credit Method for defined retirement benefit plans as specified in IAS 19 (Employee Benefits). This method takes account of pensions and entitlements to future pensions known at the balance sheet date as well as anticipated future pay and pension increases.

Other provisions

In accordance with IAS 37, provisions are recognised if an obligation existing towards third parties is likely to lead to cash outflows and where the amount of the obligation can reliably be estimated.

Pursuant to IAS 37, the other provisions for all discernible risks and uncertain liabilities are reported at their probable cost and not offset against recourse entitlements.

Provisions with over one year to maturity are measured at their discounted settlement value at the balance sheet date. Interest rates in real terms of between 2.0 and 2.3 percent are used as the discount rates. The settlement value also includes the cost increases to be taken into account at the balance sheet date, according to IAS 37.

Notes to the consolidated income statement

1 Revenue

The revenue of the group, by brand, is made up as follows:

EUR million	2006	2005
Audi brand	23,404	19,370
Lamborghini brand	322	226
Volkswagen brand	2,772	2,611
SEAT brand	374	347
Škoda brand	193	225
Bentley brand	3	–
Total revenue from vehicles	**27,068**	**22,779**
Other sales	4,074	3,812
Total revenue	**31,142**	**26,591**

Revenue is categorised by region for the purpose of segment reporting, along the same lines as those used for internal group steering and reporting.

The other sales constitute goods and services supplied to affiliated companies and sales to third parties.

2 Cost of sales

The cost of sales comprises the costs incurred in generating revenue and purchase prices in trading transactions. This item also includes expenses resulting from the creation of provisions for warranty costs as well as development expenditure which cannot be recognised as an intangible asset.

The cost of sales rose underproportionally compared with revenue in 2006. The cost of sales included EUR 547 (–) million in impairment losses on intangible assets and property, plant and equipment.

3 Distribution costs

Distribution costs substantially comprise expenses for marketing and sales promotion, advertising, public relations activities and outward freight, as well as depreciation for the sales sector.

4 Administrative expenses

The administrative expenses include labour and materials costs, as well as depreciation for the administrative sector.

5 Other operating income

EUR million	2006	2005
Income from the reversal of provisions and accruals	326	153
Income from rebilling	324	282
Income from ancillary business	88	75
Income from realised derivative currency hedging transactions	87	44
Income from the processing of payments in foreign currency	54	66
Income from the reversal of reductions for impairment on receivables and other assets	13	8
Income arising from asset disposals	8	7
Miscellaneous operating income	151	155
Total other operating income	**1,051**	**790**

Income from the processing of payments in foreign currency substantially comprises gains resulting from exchange-rate movements between the dates of output and payment, and exchange-rate gains as a result of measurement at the average rate on the closing date. In the same way, exchange rate losses are reported under other operating expenses.

The overall item of hedging instruments is shown under other particulars (item 1.1).

6 Other operating expenses

EUR million	2006	2005
Expense from realised derivative currency hedging transactions	164	111
Expense from the processing of payments in foreign currency	72	56
Expenses from the allocation of costs and rebilling	57	19
Losses arising from asset disposals	22	32
Expenses from the measurement of currency option premiums	10	39
Impairment losses on receivables	10	14
Miscellaneous operating expenses	133	147
Total other operating expenses	**468**	**418**

The losses arising from asset disposals include expenses from disposals of development expenditure recognised as an intangible asset as well as of property, plant and equipment.

The miscellaneous operating expenses include EUR 10 (46) million in write-down allocable to operations for the pro rata operating assets of a Brazilian partnership. The write-down stems from the recognition of pro rata losses from operating activities and from currency translation.

The overall item of hedging instruments is shown under other particulars (item 1.1).

7 Result from investments accounted for using the equity method

EUR million	2006	2005
Income from investments accounted for using the equity method	18	–
Expense from investments accounted for using the equity method	1	12
Total result from investments accounted for using the equity method	**+ 17**	**– 12**

8 Finance cost

EUR million	2006	2005
Interest expense		
Other interest and similar expenses	128	126
of which to affiliated companies	122	123
Total interest expense	**128**	**126**
Interest on provisions		
Interest on employee benefit obligations	91	90
Interest on other provisions	35	24
Total interest on provisions	**126**	**114**

Interest expense is attributed on an accrual basis.

9 Other financial results

EUR million	2006	2005
Investment result	– 35	+ 26
Income from investments in affiliated companies	23	22
Income from profit transfer agreements	5	4
Expenses from investments in affiliated companies	– 63	–
Income from the sale of securities	7	31
Expense from the sale of securities	– 5	–
Income from the measurement of commodity futures	23	–
Expense from the measurement of commodity futures	– 9	–
Other interest and similar income	187	98
of which from affiliated companies	134	65
Total other financial results	**+ 168**	**+ 155**

The income from investments in affiliated companies relates above all to a share in the profits of Volkswagen Logistics GmbH & Co. OHG, Wolfsburg.

Of the expenses from investments in affiliated companies, the sum of EUR 59 million is attributable to an impairment loss on the investment in a Brazilian partnership.

The overall item of hedging instruments is shown under other particulars (item 1.1). Interest income is attributed on an accrual basis.

10 Income tax expense

Income tax expense includes taxes passed on by Volkswagen AG on the basis of the single-entity relationship between the two companies for tax purposes, along with taxes owed by AUDI AG and its consolidated subsidiaries, as well as deferred taxes.

Tax expense consists of the following:

EUR million	2006	2005
Current income tax expense	1,207	707
of which for Germany	1,119	673
of which for other countries	88	34
of which income from the reversal of tax provisions	0	– 3
Deferred tax income	– 604	– 221
of which for Germany	– 614	– 207
of which for other countries	10	– 14
Total income tax expense	**603**	**486**
of which tax income not relating to the period	– 138	– 8
of which deferred tax expense from the measurement of tax relief and tax loss carryforwards	86	1

Of the current tax expense, an amount of EUR 1,118 (673) million was passed on by Volkswagen AG.

The current taxes in Germany are calculated at the tax rate of 38.3 (38.3) percent. This represents the sum of the corporate income tax rate of 25.0 percent, the solidarity surcharge of 5.5 percent and the average trade earnings tax rate for the group. Deferred taxes are likewise calculated at a rate of 38.3 percent in the financial year under review, as in the previous year.

The national income tax rates applicable for foreign companies range from 0 percent to 40 percent.

Due to the current statutory framework in Hungary, the deferred tax assets for AUDI HUNGARIA MOTOR Kft. for tax relief on capital investments were reduced by EUR 86 million, as no taxable income is expected until tax exemption expires in 2011. The effects arising as a result of the tax benefits on research and development expenditure in Hungary are reported in the reconciliation accounts under tax-exempt income.

There exist loss carryforwards totalling EUR 94 million, of which an amount of EUR 88 million can be used indefinitely. The realisation of tax losses resulted in a reduction of EUR 20 (15) million in current income tax expense in the 2006 financial year. Deferred tax assets totalling EUR 88 million were not carried for reasons of impairment. Unused tax loss carryforwards accounted for EUR 2 million of this amount, and tax rebates for the remaining EUR 86 million.

Deferred tax totalling EUR – 282 (194) million relates to business transactions reported directly in equity. One portion amounting to EUR – 109 (123) million relates to defined benefit liabilities and another portion of EUR – 173 (71) million relates to derivative financial instruments.

Deferred tax effects of EUR – 8 (–) million resulted from tax-rate changes.

The following deferred tax assets and liabilities carried in the balance sheet are attributable to the individual balance sheet items:

EUR million	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2005
	Deferred tax assets		Deferred tax liabilities	
Intangible assets	127	38	608	724
Property, plant and equipment	181	84	239	290
Long-term investments	114	91	5	–
Inventories	44	40	38	43
Receivables and other assets	22	22	153	10
Other current assets	93	221	5	33
Defined benefit liabilities	199	305	–	0
Other provisions	860	578	89	46
Liabilities	100	81	14	11
Loss carryforwards	22	35	–	–
Gross value	**1,762**	**1,495**	**1,151**	**1,157**
of which non-current	1,183	1,066	748	859
Offsetting measures	– 1,136	– 1,116	– 1,136	– 1,116
Consolidation measures	10	25	– 8	11
	636	**404**	**7**	**52**
Reclassifications pursuant to IFRS 5	–	– 1	–	–
Carrying amount	**636**	**403**	**7**	**52**

Deferred taxes are explained in greater detail in the recognition and measurement principles.

Reconciliation from anticipated to reported income tax expense

The anticipated tax expense is above the reported income tax expense. The reasons for the difference between the anticipated and reported tax expense are illustrated by the following reconciliation:

EUR million	2006	2005
Profit before tax	1,946	1,310
Anticipated income tax expense 38.3 % (38.3 %)	745	502
Progression:		
Divergent foreign tax burden	– 84	– 72
Tax portion for:		
tax-exempt income	– 58	– 65
expenses not deductible for tax purposes	23	28
temporary differences and losses for which no deferred tax has been recorded	64	79
Tax income/expense not relating to the period	– 138	– 8
Effects of tax-rate changes	– 8	–
Other tax effects	59	22
Income tax expense reported	**603**	**486**
Effective tax rate in %	31.0	37.1

The tax income not relating to the period substantially relates to deferred tax resulting from adjustments following tax audits.

11 Profit transfer to Volkswagen AG

An amount of EUR 856 (462) million is to be transferred to Volkswagen AG on the basis of the profit transfer agreement.

12 Earnings per share

Basic earnings per share are calculated by dividing the profit share due to AUDI AG shareholders by the weighted average number of shares outstanding during the financial year.

In Audi's case, the diluted earnings per share are the same as the basic earnings per share, as there were no potential shares in AUDI AG in existence at either December 31, 2005 or December 31, 2006.

	2006	2005
Profit share of AUDI AG shareholders in EUR million	1,343	824
Weighted average number of shares (basic and diluted totals are identical)	43,000,000	43,000,000
Earnings per share in EUR	**31.24**	**19.17**

Outside shareholders in AUDI AG receive a compensatory payment for each individual share certificate instead of a dividend for the 2006 financial year. The level of this payment corresponds to the dividend that is paid on one Volkswagen AG ordinary share. The dividend payment will be determined by the Annual General Meeting of Volkswagen AG on April 19, 2007.

Notes to the consolidated balance sheet

13 Intangible assets

EUR million	Dec. 31, 2006	Dec. 31, 2005
Concessions, industrial property rights and similar rights and values, as well as licences thereto	79	149
Goodwill	172	172
Development expenditure recognised as an intangible asset for		
products currently in development	852	739
products currently in use	1,230	1,623
Payments on account for intangible assets	2	2
	2,335	**2,685**

The goodwill results from the consolidation in full of AUTOGERMA S.p.A., Verona (Italy).

In accordance with IAS 36, impairment of this goodwill is tested at the end of the year. The Audi Group uses the value in use as the basis for determining any possible impairment. The planning data was prepared on the basis of available knowledge. A slight increase in demand for cars in Italy is expected.

Research and development expenditure recognised as an expense

EUR million	2006	2005
Research expenditure and development expenditure not recognised as an intangible asset	1,077	999
Amortisation and disposals of development expenditure recognised as an intangible asset	905	586
Total research and development expenditure recognised as an expense	**1,982**	**1,585**

Spending on research and development activities in the 2006 financial year totalled EUR 1,702 (1,542) million. Of this total, EUR 625 (544) million satisfy the criteria for recognition as an asset according to IAS 38.

14 Property, plant and equipment

EUR million	Dec. 31, 2006	Dec. 31, 2005
Land, land rights and buildings, including buildings on land owned by others	1,692	1,702
Plant and machinery	1,054	1,152
Furniture, fixtures and office equipment	1,699	2,014
of which finance lease	1	3
Payments on account and assets in course of construction	578	353
	5,023	**5,221**

The carrying amounts for the item “Finance lease” correspond to the fair values.

Payments totalling EUR 57 (53) million for assets rented on the basis of operating lease agreements were recognised as an expense.

There are no significant restrictions on ownership and disposal for the reported property, plant and equipment.

15 Investment property

Land and buildings held for the purpose of generating rental income (investment property pursuant to IAS 40) are reported under investment property. The fair value of investment property amounts to EUR 9 (10) million.

16 Other long-term investments

EUR million	Dec. 31, 2006	Dec. 31, 2005
Investments in affiliated companies	32	97
Participating interests	9	9
	41	**106**

The change in investments in affiliated companies stems principally from the impairment loss on the investment in a Brazilian partnership (cf. sections 6 and 9).

17 Deferred tax assets

The temporary differences between tax bases and carrying amounts in the consolidated balance sheet are explained in the recognition and measurement principles under the item "Deferred tax". Pursuant to IAS 1 (revised 2005), deferred tax liabilities are reported as non-current liabilities irrespective of their maturities.

18 Other receivables and other financial assets

There are no significant restrictions on ownership or disposal for the reported receivables and other assets.

Derivative financial instruments are measured at market value. The overall item of hedging instruments is shown under other particulars (item 1.1).

Non-current other receivables and other financial assets

EUR million	Dec. 31, 2006	Dec. 31, 2005
Loans advanced to affiliated companies	1	1
Loans advanced to associates	13	14
Other loans advanced	1	2
Other receivables from affiliated companies	81	3
of which from derivative currency hedging instruments (cash flow hedges)	63	3
of which from commodity futures	17	–
Other tax assets	7	29
Other assets	10	2
	113	**51**

The loans advanced have a fair value of EUR 15 (17) million. The non-current other assets have a fair value of EUR 98 (34) million.

Current other receivables and other financial assets

EUR million	Dec. 31, 2006	Dec. 31, 2005
Other receivables from affiliated companies	481	98
of which from derivative currency hedging instruments (cash flow hedges)	310	82
of which from commodity futures	6	–
Other receivables from associates	5	17
Other tax assets	55	67
Other assets	230	202
	771	**384**

All current other receivables and financial assets are due within one year of the balance sheet date. The carrying amounts correspond to the fair values.

19 Inventories

EUR million	Dec. 31, 2006	Dec. 31, 2005
Raw material and supplies	373	367
Work in progress	316	279
Finished goods and merchandise	1,418	1,396
Payments on account for inventories	2	0
	2,109	**2,042**

Inventories amounting to EUR 27,442 (23,552) million were booked to the cost of sales at the same time that revenue from them was realised.

The write-down as a result of the measurement of inventories on the basis of sales market amounted to EUR 44 (106) million.

No reversal of write-downs was performed in the financial year. There are no significant restrictions on ownership or disposal for the reported inventories.

20 Trade receivables

EUR million	Dec. 31, 2006	Dec. 31, 2005
Trade receivables from		
third parties	972	1,010
affiliated companies	709	371
joint ventures, associates and other investments	159	117
	1,840	**1,498**

The fair value of trade receivables amounts to EUR 1,840 (1,498) million.

The trade receivables not realised until more than twelve months after the balance sheet date amount to EUR 4 (3) million.

21 Effective income tax assets

Entitlements to income tax rebates predominantly for foreign group companies are reported under this item.

22 Assets and liabilities held for sale

There were no assets or liabilities held for sale at December 31, 2006. The assets and liabilities held for sale in the previous year concerned exclusively Audi Synko GmbH, which was sold with effect from January 1, 2006. The profit from the sale was booked to other operating income.

23 Securities

Securities held as current assets comprise fixed-interest or variable-interest securities and shares. The rates of return ranged between 2.28 percent and 4.38 percent.

24 Cash and cash equivalents

Cash and cash equivalents comprise largely balances with banks and affiliated companies amounting to EUR 4,884 (3,105) million.

The rates of return for overnight money and term money ranged between 2.21 percent and 3.71 percent.

Balances existed with various banks and in various currencies. Liquid funds were invested with affiliated companies via the cash pooling arrangements.

EQUITY

25 Changes in equity

EUR million	Issued capital	Capital reserve	Retained earnings					Equity	
			Legal reserve and other retained earnings	Currency exchange reserve	Reserve for cash flow hedges	Reserve for market-price measure-ment of securities	Reserve pursuant to IAS 19	Minority interests	Overall
Position at Jan. 1, 2005	**110**	**57**	**5,833**	**– 47**	**32**	**–**	**– 161**	**4**	**5,828**
Currency adjustments	–	–	1	34	–	–	–	–	35
Transfer to retained earnings	–	–	362	–	–	–	–	–	362
Changes in measurement not affecting income	–	–	–	–	– 199	26	– 321	–	– 494
Result from the sale of securities	–	–	–	–	–	– 31	–	–	– 31
Result from settled cash flow hedges	–	–	–	–	14	–	–	–	14
Tax items credited directly to equity	–	–	–	–	69	2	123	–	194
Differences from changes in consolidated companies	–	–	– 2	–	–	–	7	–	5
Dividends paid	–	–	–	–	–	–	–	– 2	– 2
Withdrawal of holders of minority interests	–	–	–	–	–	–	–	– 2	– 2
Capital contributions	–	195	–	–	–	–	–	–	195
Position at Dec. 31, 2005	**110**	**252**	**6,194**	**– 13**	**– 84**	**– 3**	**– 352**	**–**	**6,104**
Currency adjustments	–	–	1	– 16	–	–	–	–	– 15
Transfer to retained earnings	–	–	487	–	–	–	–	–	487
Changes in measurement not affecting income	–	–	–	–	471	4	284	–	759
Result from the sale of securities	–	–	–	–	–	0	–	–	–
Result from settled cash flow hedges	–	–	–	–	– 19	–	–	–	– 19
Tax items credited directly to equity	–	–	–	–	– 171	– 2	– 109	–	– 282
Differences from changes in consolidated companies	–	–	–	–	–	–	–	–	–
Dividends paid	–	–	–	–	–	–	–	–	–
Withdrawal of holders of minority interests	–	–	–	–	–	–	–	–	–
Capital contributions	–	231	–	–	–	–	–	–	231
Position at Dec. 31, 2006	**110**	**483**	**6,682**	**– 29**	**197**	**– 1**	**– 177**	**–**	**7,265**

The issued capital of AUDI AG totals EUR 110,080,000.00. Each share represents a mathematical share of EUR 2.56 in the issued capital. It is divided into 43,000,000 bearer individual share certificates.

The capital reserves contain shareholder contributions from the issue of shares in the company. In the year under review, it rose to EUR 483 million as a result of a contribution of EUR 231 million by Volkswagen AG to the capital reserve of AUDI AG.

The opportunities and risks from foreign exchange contracts and currency option transactions serving as hedges for future cash flows are deferred with no effect on the income statement in the reserve for cash flow hedges. When the cash flow hedges fall due, the results from the settlement of the exchange-rate hedging contracts are reported in the other operating result. Gains and losses from the measurement at fair value of financial assets available for sale are recognised in the reserve for the market-price measurement of securities. Adjustments to actuarial assumptions on retirement benefit obligations are recognised in the reserve for IAS 19.

The balance of EUR 487 (362) million remaining after the transfer of profit to Volkswagen AG is allocated to the other retained earnings.

LIABILITIES

26 Financial liabilities

Non-current financial liabilities

EUR million	Dec. 31, 2006	Dec. 31, 2005
Liabilities to banks	3	14
Liabilities from financial lease agreements	0	1
	3	**15**

Non-current financial liabilities with a time to maturity of more than five years amount to EUR 1 (2) million. The carrying amounts correspond to the fair values.

Current financial liabilities

EUR million	Dec. 31, 2006	Dec. 31, 2005
Liabilities to affiliated factoring companies	140	112
Liabilities from cash pooling to affiliated companies	24	14
Liabilities from cash pooling to enterprises in which the company has participating interests	0	5
Liabilities to banks	45	33
Liabilities from financial lease agreements	1	1
	210	**165**

Measurement of the non-current and current financial lease agreements is based on an interest rate of 4.6 percent p.a. in each case.

27 Deferred tax liabilities

The temporary differences between tax bases and carrying amounts in the consolidated balance sheet are explained in the recognition and measurement principles under the item "Deferred tax". Pursuant to IAS 1 (revised 2005), deferred tax liabilities are reported as non-current liabilities irrespective of their maturities.

28 Other liabilities

The derivative currency hedging instruments reported under other liabilities are measured at market values. The overall item of currency hedging instruments is shown under other particulars (item 1.1).

Non-current other liabilities

EUR million	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2005
	Carrying amounts		Fair values	
Liabilities to affiliated companies	131	42	114	38
of which from derivative currency hedging instruments (cash flow hedges)	17	30	17	30
of which from commodity futures	6	–	6	–
Other liabilities	70	39	70	39
of which in respect of social insurance	20	3	20	3
	201	**81**	**184**	**77**

Other liabilities with a time to maturity of more than five years amount to EUR 148 (56) million.

Current other liabilities

EUR million	Dec. 31, 2006	Dec. 31, 2005
Liabilities to affiliated companies	1,112	854
of which from derivative currency hedging instruments (cash flow hedges)	38	149
of which from commodity futures	4	–
Liabilities to associates	16	–
Advances received for orders from customers	170	63
Other liabilities	811	698
of which taxes	106	120
of which in respect of social insurance	94	117
	2,109	**1,615**

29 Defined benefit liabilities

Defined benefit liabilities are created on the basis of plans to provide retirement, invalidity and surviving dependents' benefits. The benefit amounts generally depend on the length of service and the remuneration of the employees.

Within the Audi Group, a distinction is made between benefit systems based on provisions and those financed externally via pension funds.

Obligations for retirement benefits both within Germany and in other countries are measured according to the Projected Unit Credit Method pursuant to IAS 19. Here, the future obligations are measured on the basis of benefit claims vested pro rata at the balance sheet date. For purposes of measurement, trend assumptions are used for the relevant quantities which affect the level of benefit.

The pension fund model introduced in Germany on January 1, 2001 is based on contribution-based retirement benefit commitments, which are classified as defined benefit plans pursuant to IAS 19 (Employee Benefits). The remuneration-based annual cost of providing employee benefits is invested in funds on a fiduciary basis by Volkswagen Pension Trust e.V. This model offers AUDI AG employees the opportunity to increase their pension claims, while providing full risk cover. As the units administrated on a fiduciary basis satisfy the requirements of IAS 19 as plan assets, these funds were offset against the retirement benefit obligations.

The calculation is based on the following individual actuarial assumptions:

%	Dec. 31, 2006	Dec. 31, 2005
Remuneration trend	1.50–3.50	2.25–3.50
Retirement benefit trend	1.00	1.50
Interest rate	2.00–4.50	2.00–4.25
Fluctuation rate	2.00	1.40
Expected return on plan assets	5.00	5.00

The biometric mortality was determined using the "2005 G Reference Tables" by Dr. K. Heubeck.

Progression from the present value of defined benefit obligations to the defined benefit liabilities for meeting retirement benefit commitments recognised in the balance sheet:

EUR million	Dec. 31, 2006	Dec. 31, 2005
Present value of funded defined benefit obligations	306	238
Fair value of plan assets	– 306	– 238
Deficit	–	–
Present value of unfunded defined benefit obligations	1,974	2,180
Defined benefit liabilities recognised in the balance sheet	**1,974**	**2,180**

The experience adjustments, in other words the effects of differences between the previous actuarial assumptions and what has actually occurred, are shown in the following table:

EUR million	2006	2005	2004
Difference between anticipated and actual performance			
as % of the present value of the obligation	0.29	0.15	2.43
as % of the fair value of the plan asset	1.65	4.75	1.05

The amounts recognised in the income statement are as follows:

EUR million	2006	2005
Current service cost for services provided by the employees in the financial year	71	66
Past service cost	28	–
Interest cost	104	100
Expected return on plan assets	– 13	– 11
Total of expense and income recognised in the income statement	**190**	**155**

The interest element in pension costs is shown as interest cost in the other financial result. The anticipated return on plan assets is likewise shown in the financial result.

There was an actual gain from plan assets of EUR 18 (22) million in the past financial year.

The defined benefit liabilities recognised in the balance sheet are determined by offsetting the present value against the fund assets pursuant to IAS 19. The provisions changed as follows:

EUR million	2006	2005
Defined benefit liabilities at January 1	2,180	1,820
Changes to the group	–	– 10
Employee benefit expenses	190	155
Actuarial gains / losses	– 284	322
Pension payments from company assets	– 61	– 57
Contributions paid to funds	– 50	– 50
Transfers received from affiliated companies	– 1	2
Transfers made to affiliated companies	1	– 2
Currency differences	– 1	0
Defined benefit liabilities at December 31	**1,974**	**2,180**
of which non-current	1,913	2,121

Actuarial gains and losses result from changes in the number of people participating in the pension scheme and from a deviation in the actual trends (for example, increases in pay or retirement benefit) from the figures assumed for calculation purposes. In accordance with IAS 19, such gains and losses are recognised under a separate item within equity, after taking account of deferred tax.

The present value of defined benefit obligations changed as follows:

EUR million	2006	2005
Present value at January 1	2,418	2,016
Service cost	99	66
Interest cost	104	100
Actuarial losses	– 279	334
Pension payments from company assets	– 61	– 57
Pension payments from fund assets	–	– 1
Changes in consolidated companies	–	– 40
Currency differences	– 1	–
Present value at December 31	**2,280**	**2,418**

The fund assets changed as follows:

EUR million	2006	2005
Fund assets at January 1	238	196
Expected net investment income	13	11
Actuarial gains	5	12
Employer contributions	50	50
Benefits paid	0	– 1
Changes in consolidated companies	–	– 30
Fund assets at December 31	**306**	**238**

Employer contributions totalling EUR 48 million are expected for the following financial year.

The fund assets are made up as follows:

% of fund assets	2006	2005
Shares	39.8	40.5
Fixed-interest securities	51.3	52.2
Cash in hand	7.3	7.3
Other	1.5	–

30 Effective income tax obligations

The effective income tax obligations consist primarily of tax liabilities to Volkswagen AG from apportioning.

31 Other provisions

EUR million	Dec. 31, 2006		Dec. 31, 2005	
	Total	Of which due within one year	Total	Of which due within one year
Obligations from sales operations	2,835	1,373	2,259	1,180
Workforce-related provisions	552	153	390	69
Other provisions	443	399	307	259
	3,830	**1,925**	**2,956**	**1,508**

The obligations from sales operations comprise risks from the sale of vehicles, components and original parts, including the disposal of end-of-life vehicles. These are for the most part warranty claims that are determined on the basis of the previous or the estimated future loss experience. This item in addition includes discounts, bonuses and similar due to be granted and arising after the balance sheet date but occasioned by sales before the balance sheet date.

The workforce-related provisions are created among other reasons for long-service awards, pre-retirement part time arrangements, suggested improvements and ex gratia payments.

The other provisions relate to a wide range of one-off risks.

The provisions changed as follows:

EUR million	Jan. 1, 2006	Consumed	Reversed	Allocated	Transferred	Compounded	Dec. 31, 2006
Obligations from sales operations	2,259	843	92	1,483	–	28	2,835
Workforce-related provisions	390	51	28	236	–	5	552
Other provisions	307	80	71	285	–	2	443
Overall	**2,956**	**974**	**191**	**2,004**	**–**	**35**	**3,830**

32 Trade payables

EUR million	Dec. 31, 2006	Dec. 31, 2005
Trade payables in respect of		
third parties	1,741	1,636
affiliated companies	501	503
associates	13	11
	2,255	**2,150**

The fair value of trade payables in respect of third parties amounts to EUR 1,737 (1,631) million. In the case of liabilities to affiliated companies, the fair value corresponds to the carrying amount.

The customary retention of title moreover applies for liabilities from deliveries of goods.

Notes to the cash flow statement

The cash and cash equivalents indicated in the cash flow statement comprise exclusively the cash and cash equivalents as reported in the balance sheet.

The cash flow statement explains the streams of payments for both the 2006 financial year and the previous year, categorised according to cash inflows and outflows from operating, investing and financing activities. Effects of changes to the group and to foreign exchange rates on cash flows are shown separately.

The item income tax payments substantially comprises payments made to Volkswagen AG on the basis of the single-entity relationship for tax purposes in Germany, and payments to foreign tax authorities.

The change in cash and cash equivalents as a result of changes to the group relates to companies that are consolidated for the first time and were carried at cost in previous years.

The cash flow from investing activities includes additions to property, plant and equipment and long-term investments, as well as development expenditure recognised as an intangible asset. The change in investment property, the cash inflows arising from asset disposals and the change in securities effective as payment are likewise reported in the cash flow from investing activities.

Financing activities include cash outflows from the transfer and distribution of profit, as well as changes in other financial liabilities.

In 2006, the cash flow from operating activities includes payments for interest received amounting to EUR 175 (89) million and for interest paid amounting to EUR 71 (65) million. The Audi Group accrued dividends and profit transfers totalling EUR 37 (19) million in 2006.

Other particulars

1 Hedging policy and risk management

1.1 Price and foreign exchange exposure

The Audi Group is exposed to price and exchange rate fluctuations in view of its international business activities. These risks are limited by concluding appropriate hedging transactions for matching amounts and maturities. The measures to hedge against foreign exchange exposure are coordinated regularly between AUDI AG and the group treasury of Volkswagen AG in accordance with the Volkswagen organisational guideline.

Marketable derivative financial instruments (foreign exchange contracts, currency option transactions and commodity futures) are used for this purpose. The hedging transactions are performed centrally on behalf of Audi by Volkswagen AG on the basis of an agency agreement. Contracts are concluded exclusively with top-grade national and international banks whose creditworthiness is regularly examined by leading rating agencies. The results from hedging contracts are credited or charged to the Audi Group each month on the basis of the proportion of the Volkswagen Group's overall hedging volume.

In accordance with the Volkswagen organisational guideline, AUDI AG moreover concludes hedging transactions of its own to a limited extent, where this helps to simplify current operations.

Currency hedging in 2006 related principally to the US dollar, the pound sterling and the Japanese yen.

Nominal volume of derivative financial instruments

The nominal volumes of the hedging transactions shown represent the total of all buying and selling prices on which the transactions are based:

EUR million	Nominal volumes				Market values	
	Dec. 31, 2006	Time to maturity up to 1 year	Dec. 31, 2005	Time to maturity up to 1 year	Dec. 31, 2006	Dec. 31, 2005
Foreign exchange contracts	6,667	4,569	5,493	3,448	205	– 128
Currency option transactions	3,186	3,158	2,902	2,836	235	34
Commodity futures	635	191	–	–	14	–
Currency swaps	1	1	–	–	–	–
Total portfolio	**10,489**	**7,919**	**8,395**	**6,284**	**454**	**– 94**

1.2 Market risk

A market risk exists if price changes on financial markets have a negative influence on the value of financial instruments. The market values shown in the table have been calculated on the basis of the market information available at the balance sheet date and represent the redemption (cash-in) values of the derivative financial instruments. The redemption values are calculated on the basis of quoted prices or standardised methods.

1.3 Raw material risk

Raw material risks are excluded or limited by the conclusion of commodity futures or long-term supply agreements. Hedging measures relate principally to the supply of the raw materials aluminium, copper, palladium, platinum and rhodium.

1.4 Interest rate risk

An interest rate risk, in other words potential fluctuations in the value of financial instruments as a result of changes to market rates, can occur above all in the case of medium and long-term, fixed-interest receivables or liabilities.

Fixed-interest loans advanced totalled EUR 15 (17) million at December 31, 2006. In view of the low volume of these financial instruments, no interest-rate hedging contracts were taken out.

1.5 Liquidity risk

High net liquidity and credit facilities of Volkswagen AG assure the adequate liquidity of the Audi Group at all times.

1.6 Credit risk

The credit risk from financial assets consists in the risk of default by a counterparty and therefore does not exceed the positive fair values of these assets.

We work on the assumption that the actual risk from primary financial instruments is covered by reductions for impairment or uncollectability.

The credit risk from derivative financial instruments does not exceed the balance of positive market values in the event of default by a counterparty of Volkswagen AG or the Audi Group companies. The actual credit risk is negligible, as Volkswagen AG and AUDI AG only conclude contracts with top-class business partners and trading limits are defined for each business partner as a risk management measure.

2 Contingencies

Contingencies are unrecognised contingent liabilities, the amount of which corresponds to the maximum possible claim at the balance sheet date.

The liabilities from guarantees amounted to EUR 8 (4) million.

3 Litigation settlements

Neither AUDI AG nor any of its group companies are involved in ongoing or prospective legal or arbitration proceedings which could have a significant influence on their economic position. Appropriate provisions have been created within each group company, or adequate insurance benefits are anticipated, for possible financial charges resulting from other legal or arbitrational proceedings.

4 Other financial obligations

EUR million	Dec. 31, 2006				Dec. 31, 2005	
	Due				Due	
	within 1 year	1-5 years	over 5 years	Overall	after 1 year	Overall
Ordering commitments for						
property, plant and equipment	803	392	–	1,195	273	822
intangible assets	209	55	–	264	117	292
Obligations from						
long-term rental and lease agreements	26	31	4	61	29	52
agreed loans	–	–	–	–	–	36
	1,038	**478**	**4**	**1,520**	**419**	**1,202**

5 Discontinued operations

There are no plans to discontinue or cease operations as defined by IFRS 5.

6 Cost of materials

EUR million	2006	2005
Raw materials and consumables used as well as purchased goods	19,925	17,758
Purchased services	1,702	1,381
	21,627	**19,139**

7 Personnel costs

EUR million	2006	2005
Wages and salaries	2,804	2,578
Social insurance as well as expenses for employee benefits and maintenance payments	636	558
of which in respect of retirement benefit plans	104	73
of which defined contribution pension plans	220	214
	3,440	**3,136**

8 Total average employees for the year

	2006	2005
Domestic group companies	45,179	45,504
Foreign group companies	7,118	6,908
Overall	**52,297**	**52,412**
of which apprentices	2,031	2,019

9 Related party disclosures

Related parties as defined in IAS 24 are:

– the parent company Volkswagen AG and its subsidiaries outside the Audi Group;
– other parties (persons and companies) which could be affected by the reporting entity or which could exert influence on the reporting entity, such as
  - the members of the Board of Management and Supervisory Board of AUDI AG,
  - the members of the Board of Management and Supervisory Board of Volkswagen AG,
  - associates.

The volume of transactions with the parent company Volkswagen AG and other subsidiaries which do not belong to the Audi Group is indicated by the following summary:

EUR million	2006	2005
Sales and services supplied to		
Volkswagen AG	3,937	3,821
Volkswagen AG subsidiaries not belonging to the Audi Group	10,319	8,221
Purchases and services received from		
Volkswagen AG	4,930	4,674
Volkswagen AG subsidiaries not belonging to the Audi Group	3,446	1,345
Receivables from		
Volkswagen AG	5,582	3,255
Volkswagen AG subsidiaries not belonging to the Audi Group	487	257
Liabilities to		
Volkswagen AG	2,307	1,645
Volkswagen AG subsidiaries not belonging to the Audi Group	630	645

At December 31, 2006, loan asset sales to Volkswagen AG subsidiaries not belonging to the Audi Group amounted to EUR 1,168 million.

The extent of business relations between fully consolidated companies of the Audi Group, joint ventures and associates is indicated by the following tables:

EUR million		Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2005
	Share in %	Goods and services supplied		Goods and services received	
FAW-Volkswagen Automotive Company Ltd., Changchun (China)	10.0	1,031	710	0	1
YANASE Audi Sales Company Ltd., Tokyo (Japan)	33.4	138	141	16	27
Audi Zentrum Stuttgart GmbH & Co. KG, Stuttgart*	51.0	–	47	–	8

EUR million		Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2005
	Share in %	Receivables from		Liabilities to	
FAW-Volkswagen Automotive Company Ltd., Changchun (China)	10.0	118	116	26	45
YANASE Audi Sales Company Ltd., Tokyo (Japan)	33.4	32	47	4	5
Audi Zentrum Stuttgart GmbH & Co. KG, Stuttgart*	51.0	–	27	–	0

* The investment in Audi Zentrum Stuttgart GmbH & Co. KG was sold with effect from January 1, 2006.

All business with related parties has been conducted on the basis of international comparable uncontrolled price methods pursuant to IAS 24, according to the terms that customarily apply to outside third parties. The goods and services procured from related parties include primarily supplies for production, as well as development, transport, financial and distribution services and, to a lesser extent, design, training and other services and supplies of original parts. Business to related parties comprises for the most part sales of new and used cars, engines and components.

Members of the Boards of Management or Supervisory Boards of Volkswagen AG and AUDI AG also belong to the supervisory or management boards of other companies with which the Audi Group maintains business relations. All transactions with such companies are likewise conducted according to the terms that customarily apply to outside third parties.

Cash management within the Audi Group is centralised at AUDI AG. The group companies invest their liquid funds with AUDI AG or raise liquid funds from it. Residual amounts are equalised via the cash pool of Volkswagen AG. All transactions are handled on market terms.

10 Auditor’s fees

EUR ‘000	2006	2005
Auditing of the financial statements	565	594
Other certification or valuation services	–	130
Tax consultancy services	12	8
Other services	116	–
	693	**732**

Segment reporting

The Audi Group comprises primarily only the “Cars” segment.

The secondary segment reporting structure is based on the arrangement for internal group steering and reporting. The Audi Group is structured into the segments Germany, Rest of Europe and Rest of world on the basis of the regional locations of its assets.

Transactions between the segments are conducted on generally accepted market terms, in the way that is customary for transactions with outside third parties.

EUR million	2006	2005	2006	2005	2006	2005
	External revenue		Internal revenue		Total revenue	
Germany	21,950	18,379	3,238	2,723	25,188	21,102
Rest of Europe	7,824	7,249	2,728	2,177	10,552	9,426
Rest of world	1,368	963	2	1	1,370	964
Consolidation measures	–	–	– 5,968	– 4,901	– 5,968	– 4,901
Audi Group	**31,142**	**26,591**	**–**	**–**	**31,142**	**26,591**

EUR million	2006	2005	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2005
	Profit before tax		Segment assets*		Segment liabilities	
Germany*	1,542	993	16,110	13,546	12,029	9,948
Rest of Europe	462	388	5,166	4,662	1,386	1,296
Rest of world	– 56	– 65	674	623	639	529
Consolidation measures	– 2	– 6	– 3,675	– 3,123	– 2,427	– 1,831
Audi Group	**1,946**	**1,310**	**18,275**	**15,708**	**11,627**	**9,942**

* The German segment assets for 2005 include a sum of EUR 25 million for the “Assets and liabilities held for sale” of Audi Synko GmbH, bracketed together as a disposal group.

EUR million	2006	2005	2006	2005
	Investments in intangible asset and property, plant and equipment		Long-term investments	
Germany	1,511	1,252	3	0
Rest of Europe	399	452	5	–
Rest of world	7	3	–	–
Consolidation measures	–	–	–	–
Audi Group	**1,917**	**1,707**	**8**	**0**

EUR million	2006	2005	2006	2005
	Depreciation and amortisation		Other non-cash expenses	
Germany	2,027	1,607	1,522	1,700
Rest of Europe	417	273	270	199
Rest of world	71	50	130	249
Consolidation measures	–	–	– 6	– 397
Audi Group	**2,515**	**1,930**	**1,916**	**1,751**

Revenue by region	Share 2006		Share 2005	
	EUR million	%	EUR million	%
Germany	9,101	29.2	8,389	31.5
Rest of Europe	15,530	49.9	13,473	50.7
North America	3,067	9.9	2,370	8.9
Asia/Oceania	2,992	9.6	2,016	7.6
Africa	286	0.9	210	0.8
South America	166	0.5	133	0.5
Overall	**31,142**	**100.0**	**26,591**	**100.0**

German Corporate Governance Code

The Board of Management and Supervisory Board of AUDI AG submitted the declaration pursuant to Section 161 of German Stock Corporation Law on the "German Corporate Governance Code" on December 6, 2006 and made it accessible on the website www.audi.com/cgk-declaration.

Details of the Supervisory Board and Board of Management

The remuneration of members of the Board of Management complies with the legal requirements of German Stock Corporation Law as well as the recommendations and most of the suggestions of the "German Corporate Governance Code". The overall remuneration is made up of fixed and variable components.

The fixed components assure a basic remuneration that enables the board member to execute his duties conscientiously and in the best interests of the company, without becoming dependent upon the attainment of short-term targets. Conversely, variable components that are dependent on the economic reality of the company reconcile the interests of the Board of Management with those of the other stakeholders.

The remuneration of members of the Board of Management for the 2006 financial year amounted to EUR 4,531 (4,496) thousand, of which variable components accounted for EUR 2,479 (2,345) thousand. The fixed remuneration components for the members of the Board of Management totalled EUR 2,052 (2,151) thousand in the 2006 financial year. The disclosure of the remuneration of each individual member of the Board of Management, by name, pursuant to Section 314 Paragraph 1 No. 6a) Sentences 5 to 9 of the German Commercial Code is not made, as the 2006 Annual General Meeting passed a corresponding resolution that is valid for a period of five years.

As well as fixed payments in cash, there are varying levels of contributions in kind, including in particular the use of company cars.

Every member of the Board of Management is paid a variable annual gratuity. The variable gratuity comprises components recurring annually that are tied to the economic success of the company. It is largely based on the earnings achieved by the company and its economic situation.

Share options serve as variable remuneration components providing a long-term incentive. These options are based on the performance of Volkswagen ordinary shares. In the context of the eighth tranche of the share options plan, in the 2006 financial year each member of the Board of Management was able to subscribe to up to 500 non-transferable convertible bonds at a price of EUR 2.56 each, entitling the holder to up to 5,000 Volkswagen ordinary shares. A condition of participation in this share options plan was the contribution of between EUR 5,000 and EUR 25,000 in time bonds, depending on the number of convertible bonds being acquired.

The structure of the share options plan is essentially as follows: the basis for determining the conversion price (basic conversion price) of a tranche is the average Xetra closing prices of Volkswagen ordinary shares on the five trading days preceding each decision to issue convertible bonds. Conversion may take place for the first time after a qualifying period of 24 months and then up until a period of five years from the time of issue of the convertible bonds has elapsed. The conversion price is initially 110 percent of the basic conversion price, rising by five percentage points in each subsequent year. The Board of Management may exercise its conversion rights only three times a year, during four-week exercise periods, each of which commences on a public reporting date of Volkswagen AG. The share options plan is thus centred on demanding, relevant comparative parameters in the spirit of the German Corporate Governance Code. Further details are given in the Agenda to the Annual General Meeting of Volkswagen AG on April 16, 2002, at which authorisation to introduce the share options plan was granted.

The purpose of the share options plan's structure is to grant the Board of Management a remuneration component that is based on appreciation in the company's share price. It is thus intended to contribute towards increasing value creation and towards enhancing the value of Volkswagen AG. The share options plan is in addition a widely used instrument for recruiting and retaining board members.

The retrospective adjustment of the stock option plan's performance targets or comparative parameters is excluded.

Inappropriate inflows from the share options are not to be expected due to the link with the share price performance of Volkswagen ordinary shares and the restricted number of options per tranche. In order to implement the recommendation of the German Corporate Governance Code, the Supervisory Board is prepared to come to an agreement with the members of the Board of Management on a cap in the event of exceptional, unforeseen developments.

In the context of the eighth tranche of the share options plan, the members of the Board of Management of AUDI AG subscribed to a total of 1,700 of the aforementioned convertible bonds in the 2006 financial year. In the period under review, the number of share options exercised by members of the Board of Management of AUDI AG totalled 3,400. At December 31, 2006 the members of the Board of Management held entitlements to purchase a total of 37,000 ordinary shares of Volkswagen AG in the event of the conditions of conversion being met. The value of the share options from all tranches totalled EUR 713 thousand at December 31, 2006. This calculation is based on a binominal model and takes all parameters of the share options plan into account.

In certain circumstances, members of the Board of Management are entitled to retirement benefits and a disability pension.

The defined benefit liabilities for pensions for current members of the Board of Management totalled EUR 7,454 (9,033) thousand at December 31, 2006.

Former members of the Board of Management and their surviving dependents received payments totalling EUR 1,359 (5,344) thousand. The defined benefit liabilities for this group of persons amount to EUR 22,175 (20,895) thousand.

The members of the Board of Management, together with their membership of other supervisory boards and regulatory bodies – pursuant to Sections 285 Sentence 1 No. 10 of the German Commercial Code and 125 Para. 1 Sentence 3 of German Stock Corporation Law – are indicated in the Notes to the financial statements of AUDI AG.

The basic features of the Supervisory Board´s remuneration are laid down in Section 16 of the articles of incorporation. The overall remuneration is made up of fixed and variable components. The level of the variable remuneration components is based on the compensatory payment made for the 2006 financial year in accordance with the applicable provision in the articles of incorporation. The remuneration of the Supervisory Board of AUDI AG totalled EUR 459 (382) thousand, including EUR 172 (172) thousand in fixed remuneration components and EUR 287 (210) thousand in variable remuneration components.

Supervisory Board [1)]

Position at December 31, 2006	
Dr.-Ing. e.h. Bernd Pischetsrieder	Chairman [2)] Shareholders’ representative
Berthold Huber	Deputy Chairman [2), 6)] Employees’ representative
Dr. rer. pol. h.c. Bruno Adelt	Shareholders’ representative [2)]
Senator h.c. Helmut Aurenz	Shareholders’ representative
Joachim Dilger	Employees’ representative [6)]
Heinz Eyer	Employees’ representative [6)]
Dr. rer. pol. Thomas R. Fischer	Shareholders’ representative
Wolfgang Förster	Employees’ representative [6)]
Francisco Javier Garcia Sanz	Shareholders’ representative [5)]
Dr. jur. Claus Helbig	Shareholders’ representative
Johann Horn	Employees’ representative [6)]
Peter Mosch	Employees’ representative [2), 4), 6)]
Dr. rer. pol. Horst Neumann	Shareholders’ representative
Dr.-Ing. Franz-Josef Paefgen	Shareholders’ representative
Hans Dieter Pötsch	Shareholders’ representative [3)]
Richard Polzmacher	Employees’ representative [6)]
Norbert Rank	Employees’ representative [5), 6)]
Dr. rer. pol. Axel Freiherr von Ruedorffer	Shareholders’ representative
Jörg Schlagbauer	Employees’ representative [6)]
Max Wäcker	Employees’ representative [6)]
Dr. rer. pol. Carl H. Hahn	Honorary Chairman

1) The profession and company of the members of the Supervisory Board, together with other non-executive directorships, are indicated in the Notes to the financial statements of AUDI AG.

2) Member of the Presiding Committee and the Negotiating Committee.

3) Chairman of the Audit Committee.

4) Deputy Chairman of the Audit Committee.

5) Member of the Audit Committee.

6) The employees’ elected representatives have stated that their remuneration as Supervisory Board members be paid to the Hans Böckler Foundation, in accordance with the guidelines of the German Confederation of Trade Unions.

Events occurring after the balance sheet date

No events which must be reported according to IAS 10 occurred after December 31, 2006.

Ingolstadt, February 13, 2007

The Board of Management

Statement of interests held by the Audi Group

at December 31, 2006

Principal group companies

Name and registered office	Capital share in %
AUDI AG, Ingolstadt	
Audi Australia Pty Ltd., Botany (Australia)	100.00
Audi Brasil Distribuidora de Veículos, São Paulo (Brazil)	100.00
AUDI DO BRASIL E CIA., Curitiba (Brazil)	100.00
AUDI HUNGARIA MOTOR Kft., Győr (Hungary)	100.00
Audi Japan K.K., Tokyo (Japan)	100.00
Audi Vertriebsbetreuungsgesellschaft mbH, Ingolstadt	100.00
Audi Volkswagen Korea Ltd., Seoul (South Korea)	100.00
Audi Volkswagen Middle East FZE, Dubai (United Arab Emirates)	100.00
Automobili Lamborghini Holding S.p.A., Sant'Agata Bolognese (Italy)	100.00
AUTOGERMA S.p.A., Verona (Italy)	100.00
Automobili Lamborghini S.p.A., Sant'Agata Bolognese (Italy)	100.00
MML S.p.A., Sant'Agata Bolognese (Italy)*	100.00
Lamborghini ArtiMarca S.p.A., Sant'Agata Bolognese (Italy)	100.00
quattro GmbH, Neckarsulm	100.00
YANASE Audi Sales Company Ltd., Tokyo (Japan)	33.40
FAW-Volkswagen Automotive Company Ltd., Changchun (China)	10.00

* Formerly Motori Marini Lamborghini S.p.A.

Fuel consumption and emission figures

	Power output (kW)	Trans-mission	Fuel consumption (l/100 km)			CO_2 emissions (g/km)
			urban	extra urban	combined	combined
Audi A3 1.8 TFSI	118	M6	10.0	5.7	7.3	174
Audi S3	195	M6	12.4	7.2	9.1	217
Audi A6 Avant 2.7 TDI	132	multitronic*	10.2	5.9	7.5	199
Audi S6	320	A6	19.7	9.7	13.4	319
Audi Q7 3.0 TDI	171	A6	14.6	8.3	10.5	282
Audi S8	331	A6	19.7	9.7	13.4	319
Audi A8 W12 quattro	331	A6	21.4	10.8	14.7	353
Audi A8 L W12 quattro	331	A6	20.7	10.0	13.9	334
Audi R8	309	M6	22.1	10.2	14.6	349
Lamborghini Gallardo Coupé	382	M6	24.8	12.4	17.0	400
Lamborghini Murciélago LP640 Coupé	471	M6	32.2	15.0	21.3	495
Ibiza Cupra 1.8 20V T	132	M5	11.0	6.2	8.0	192

* continuously variable

Key:

M: manual gearbox

A: automatic transmission

The transmission/gearbox type is followed by the number of gears/speeds (e.g. M6).

10-Year Overview

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
		German Commercial Code			IFRS						
Production	Cars	557,777	619,030	626,059	650,850	727,033	735,913	761,582	784,972	811,522	926,180
	Engines	763,928	1,241,351	1,266,896	1,187,666	1,225,448	1,284,488	1,342,883	1,485,536	1,695,045	1,895,695
Vehicle sales	Cars	546,436	599,509	634,973	919,621	991,444	995,531	1,003,791	971,832	1,045,114	1,135,554
Audi	Cars	546,436	599,509	634,708	653,404	726,134	742,128	769,893	779,441	829,109	905,188
Germany	Cars	238,735	244,127	257,642	239,644	254,866	243,650	237,786	235,092	247,125	257,792
Outside Germany	Cars	307,701	355,382	377,066	413,760	471,268	498,478	532,107	544,349	581,984	647,396
Outside Germany	Percent	56.3	59.3	59.4	63.3	64.9	67.2	69.1	69.8	70.2	71.5
Market share, Germany	Percent	6.8	6.5	6.8	6.9	7.5	7.4	7.4	7.2	7.4	7.6
Lamborghini	Cars	–	–	265	296	297	424	1,305	1,592	1,600	2,087
Other Volkswagen Group brands	Cars	–	–	–	265,921	265,013	252,979	232,593	190,799	214,405	228,279
Employees	Average	37,761	41,011	45,800	49,396	51,141	51,198	52,689	53,144	52,412	52,297
Revenue	EUR million	11,458	13,918	15,146	19,952	22,032	22,603	23,406	24,506	26,591	31,142
Cost of materials	EUR million	7,568	9,578	10,155	14,539	15,860	16,726	17,163	17,676	19,139	21,627
Personnel costs	EUR million	1,973	2,111	2,291	2,542	2,660	2,739	2,938	3,072	3,136[1]	3,440
Personnel costs per employee	EUR	52,251	51,485	50,022	51,456	52,018	53,496	55,763	57,798	59,834[1]	65,771
Depreciation and amortisation	EUR million	556	885	945	1,179	1,412	1,614	1,833	1,852	1,930	2,515
Profit before tax	EUR million	569	861	839	971	1,286	1,219	1,101	1,143	1,310	1,946
Profit after tax	EUR million	188	237	324	725	747	752	811	871	824	1,343
Share price (year-end price)[2]	EUR	70.81	75.16	61.20	59.59	160.00	191.00	225.00	220.15	308.00	540.00
Compensatory payment	EUR	0.61	0.77	0.77	1.20	1.30	1.30	1.05	1.05	1.15	X[3]
Added value	EUR million	2,606	3,039	3,198	3,590	3,892	4,000	4,287	4,585	4,801	6,156
Capital investments	EUR million	1,006	1,620	1,516	2,378	2,084	2,342	2,047	2,056	1,708	1,925
Cash flow from operating activities	EUR million	1,020	1,213	1,163	2,058	2,393	2,440	2,786	2,690	3,252	4,428
Non-current assets	EUR million	2,412	3,126	3,679	7,039	7,685	8,308	8,588	8,970	8,597	8,285
Current assets	EUR million	3,182	3,359	3,024	3,219	3,437	4,342	5,475	5,934	7,515	10,625
Equity	EUR million	1,109	1,231	1,441	3,749	4,222	4,761	5,487	5,828	6,104	7,265
Liabilities	EUR million	4,485	5,254	5,262	6,509	6,900	7,889	8,576	9,076	10,008	11,645
Balance sheet total	EUR million	5,594	6,485	6,703	10,258	11,122	12,650	14,063	14,904	16,112	18,910

[1] Figures adjusted for ease of comparison due to the reclassification of anticipated returns on plan assets pursuant to IAS 19.
[2] Year-end price on Munich Stock Exchange.
[3] In accordance with the resolution to be passed by the Annual General Meeting of Volkswagen AG on April 19, 2007.