



The Supervisory Board
and the Board of Management of
Volkswagen Aktiengesellschaft
present the Annual Report 1985 with
their compliments.

This version of our Annual Report is a
translation from the German original.
The German text is definitive.

Wolfsburg, May 1986

Key Figures

		Volkswagen Group			VOLKSWAGEN AG		
		1985	1984	Change %	1985	1984	Change %
Sales	DM million	52,502	45,671	+ 15.0	38,921	33,774	+ 15.2
Vehicle Sales	units	2,398,004	2,145,134	+ 11.8	1,817,208	1,638,000	+ 10.9
Production	units	2,398,196	2,147,706	+ 11.7	1,457,272	1,280,836	+ 13.8
Workforce	at year end	259,047	238,353	+ 8.7	123,598	115,874	+ 6.7
Capital Investments	DM million	3,388	2,782	+ 21.8	1,791	1,809	- 1.0
Additions to Leasing and Rental Assets	DM million	3,217	2,021	+ 59.2	—	—	—
Cash Flow	DM million	4,558	4,081	+ 11.7	2,889	2,583	+ 11.8
Depreciation and Write-down	DM million	3,411	2,961	+ 15.2	2,124	1,898	+ 11.9
Depreciation on Leasing and Rental Assets	DM million	1,259	1,060	+ 18.8	—	—	—
Cost of Materials	DM million	26,623	23,824	+ 11.7	25,483	21,827	+ 16.8
Labour Cost	DM million	13,913	13,227	+ 5.2	7,901	7,809	+ 1.2
Net Earnings	DM million	596	228	x	477	183	x
Dividend of Volkswagen AG	DM million				240	120	x

All percentages are based on
non-rounded figures. Figures in brackets concern
the previous year.

Table of Contents

4	Agenda	71	Financial Statements and Notes
6	Supervisory Board	72	Notes on the Financial Statements of the Volkswagen Group
7	Board of Management	77	Notes on the Financial Statements of Volkswagen AG
8	Report of the Supervisory Board	81	Explanation of Certain Financial Terms
9	Report of the Board of Management		
9	Review		
21	Development of Result		Appendix:
22	Finance		Consolidated Balance Sheet of the Volkswagen Group
26	Survey of Stockholders		Consolidated Statement of Earnings of the Volkswagen Group
28	Prospects		Balance Sheet of Volkswagen AG
30	Research and Development		Statement of Earnings of Volkswagen AG
33	Motor Sport		The Volkswagen Group in Figures 1976–1985
34	Production and Quality Assurance		
36	Report on Social Matters at Volkswagen AG		
53	Companies within the Volkswagen Group		
58	Europe		
64	North America		
66	Latin America		
69	Africa		
70	Asia		
41	The Real Miracle		



The modern SEAT factory in Pamplona. Volkswagen and SEAT have been associated since 1982.

Agenda

for the Annual Meeting of Stockholders of Volkswagen Aktiengesellschaft to be held at 10.00 a.m. on Friday, July 4, 1986 at the Stadthalle in Wolfsburg

1. Presentation of the confirmed financial statements for the year ended December 31, 1985, the Annual Report for 1985 together with the report of the Supervisory Board, the proposal on appropriation of net earnings available for distribution, the consolidated financial statements for the year ended December 31, 1985 and the Annual Report of the Volkswagen Group for the fiscal year 1985

2. Resolution on appropriation of net earnings available for distribution
The Supervisory Board and the Board of Management propose that from the DM 244,372,578 net earnings available for distribution a dividend of DM 10 per DM 50 share be paid on the capital stock of DM 1,200,000,000, that is, DM 240,000,000.

The remainder and the amount which would be paid out on the treasury stock owned by the Company on the date of the Annual Meeting of Stockholders and which is precluded from distribution in accordance with § 71b of the German Corporation Law will be carried forward.

3. Resolution on ratification of the actions of the Board of Management for the fiscal year 1985

4. Resolution on ratification of the actions of the Supervisory Board for the fiscal year 1985

With respect to items 3 and 4, the Supervisory Board and the Board of Management recommend that their actions be formally ratified.

5. Resolution on the creation of further authorised capital stock

The Supervisory Board and the Board of Management propose

a) that by issuing new non-voting preference shares eligible for a 4 % p.a. preference dividend payable cumulatively and a 2 % p.a. additional dividend in return for cash contributions the Board of Manage-

ment be authorised to raise capital stock once or more than once by up to a total of DM 300 million until July 4, 1991 with the approval of the Supervisory Board. The stockholders shall be granted subscription rights. The Board of Management shall decide on the further share rights and the conditions of issue with the approval of the Supervisory Board.

b) that § 4 of the Articles of Association be extended by the following subsection 4:

"By issuing new non-voting preference shares eligible for a 4 % p.a. preference dividend payable cumulatively and a 2 % p.a. additional dividend in return for cash contributions the Board of Management is authorised to raise capital stock once or more than once by up to a total of DM 300 million until July 4, 1991 with the approval of the Supervisory Board. The stockholders shall be granted subscription rights. The Board of Management shall decide on the further share rights and the conditions of issue with the approval of the Supervisory Board."

The previous subsection 4 of § 4 of the Articles of Association shall become subsection 5.

c) that the Articles of Association also be modified and amended as follows to take account of the resolution regarding item 5 a):

§ 4 shall be amended by adding the following subsection 2:

"Holders of non-voting preference shares shall be eligible for preference rights established in § 28 of the Articles of Association when the profits are distributed. The Company reserves the right in accordance with § 141, subsection 2, clause 2 of the German Corporation Law to issue further preference shares which rank equally with the currently existing non-voting preference shares when the profits or the Company assets are distributed."

The previous subsection 2 shall become subsection 3 and numbering of the following subsections shall be changed accordingly.

In § 24, subsection 1, clause 1 the word "shares" shall be replaced by "ordinary shares". Following clause 1 the following clauses shall be inserted:

"The preference stockholders shall not be eligible for voting rights. However, inasmuch as preference stockholders are eligible for voting rights by law, one vote shall be granted for each DM 50 par value preference share."

The following § 28 of the Articles of Association shall be adopted as a new section:

"Appropriation of net earnings available for distribution

(1) The net earnings available for distribution shall be distributed to the stockholders unless the Annual Meeting of Stockholders decides otherwise.

(2) The stockholders' shares in net earnings available for distribution shall always be distributed in proportion to the payments made on the par value of the shares and in proportion to the period since the point in time determined for payment provided that

1. the preference stockholders be paid a preference share of net earnings available for distribution in the amount of 4 % of the par value of the preference shares held. If the net earnings available for distribution is not adequate to allow payment of the preference share of profit, the balances shall be paid at a later date without interest out of the net earnings available for distribu-

tion for the following fiscal years prior to distribution of a share in the profits to the ordinary stockholders such that the older arrears be paid before the more recent ones and the 4 % preference share in profit payable out of the earnings of a fiscal year for this one only has to be paid when all the arrears have been paid;

2. the ordinary stockholders be paid shares in earnings in the amount of up to 4 % of the par value of the ordinary shares held;

3. the preference and ordinary stockholders be paid further shares in earnings according to the proportion of share par values such that the preference shares be eligible for a dividend which is 2 % of the par value higher than for the ordinary shares.

(3) When new shares are issued, a new arrangement can be made with regard to entitlement to earnings which is different from the provisions contained in § 60 of the German Corporation Law."

The previous § 28 shall become § 29.

The changes and amendments to the Articles of Association in accordance with 5 c) shall be filed for entry in the Register of Companies only when use has been made of the authorisation to issue non-voting preference shares.

6. Appointment of auditors for the fiscal year 1986

The Supervisory Board proposes that TREUARBEIT Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hannover, be appointed auditors for the fiscal year 1986.

Supervisory Board (Aufsichtsrat)

Karl Gustaf Ratjen (66), Frankfurt
Chairman (since November 16, 1979)
Lawyer
October 31, 1975*)

Hans Mayr (64), Frankfurt
Deputy Chairman (since April 11, 1984)
Chairman of the Metalworkers Union
February 10, 1984

Hans-Günter Hoppe (63), Berlin
Former Member of the Berlin Senate
July 9, 1974

Jann-Peter Janssen (41), Norden
Chairman of Works Council of
Volkswagen AG
Emden Plant
April 9, 1986

Walther Leisler Kiep (60), Bonn
Businessman (Insurance)
from March 3, 1976 to July 1, 1982
and since January 26, 1983

Gerd Kühl (63), Frankfurt
Trade Union Secretary to the Executive
Committee of the Metalworkers Union
July 5, 1977

Klaus Peter Mander (43), Wolfsburg
Deputy Chairman
of Works Council of
Volkswagen AG
Wolfsburg Plant
March 25, 1985

Hans L. Merkle (73), Stuttgart
Chairman of the Supervisory Board
of Robert Bosch GmbH
July 9, 1974

Karl Heinrich Mihr (50), Kassel
Chairman of Works Council of
Volkswagen AG
Kassel Plant
November 27, 1972

Gerhard Mogwitz (52), Hanover
Chairman of Works Council of
Volkswagen AG
Hanover Plant
July 5, 1977

Walter Neuert (60), Ingolstadt
Chairman of Joint Works Council
of AUDI AG
July 5, 1977

Dr. agr. Burkhard Ritz (54), Hanover
Minister of Finance of Lower Saxony
July 1, 1982

Dr. rer. pol. Otto Schlecht (60)
Bonn-Duisdorf
Undersecretary of State in the Federal
Ministry for Economic Affairs
August 3, 1973

Toni Schmücker (64)
Bergisch-Gladbach
Former Chairman of the Board
of Management
of Volkswagen AG
July 1, 1982

Dr. rer. pol. Albert Schunk (44)
Frankfurt
Trade Union Secretary to the Executive
Committee of the Metalworkers Union
July 5, 1977

Changes on the Supervisory Board:

Siegfried Ehlers (61), Wolfsburg
Chairman of Group Works Council
of Volkswagen AG
October 10, 1958
† March 6, 1986

Heinz Pabst (54), Brunswick
Chairman of Works Council of
Volkswagen AG
Brunswick Plant
July 1, 1982
† February 21, 1986

Manfred Pusch (47), Wolfsburg
Former Deputy Chairman of Group
Works Council of Volkswagen AG
October 14, 1981 to February 28, 1985

Birgit Breuel (48), Hanover
Minister for Economic Affairs and
Transport of Lower Saxony
October 10, 1978

Dr. jur. F. Wilhelm Christians (63)
Düsseldorf
Member of the Board of Management
of Deutsche Bank AG
July 12, 1971

Dr. rer. pol. Hans Friderichs (54)
Frankfurt
Former Federal Minister
March 24, 1981

Walter Hiller (53), Wolfsburg
Chairman of Works Council of
Volkswagen AG
Wolfsburg Plant
April 9, 1986

Albert Hoffmeister (57), Wolfsburg
Senior Executive of Volkswagen AG
July 5, 1977

*) This date indicates in each case since
when the person has been a member of
the Supervisory Board.

Board of Management (Vorstand)

Dr. rer. pol. Carl H. Hahn (59)
Chairman
(since January 1, 1982)
Member of the Board of Management
from May 1, 1964
to December 31, 1972

Horst Münzner (61)
Deputy Chairman
(since January 1, 1982)
Purchasing and Logistics
Member of the Board of Management
since January 1, 1969

Claus Borgward (47)
Quality Assurance
April 11, 1980

Karl-Heinz Briam (63)
Personnel and Social Matters
(Director of Labour Relations)
October 1, 1978

Prof. Dr. techn. Ernst Fiala (57)
Research and Development
February 1, 1973

Dr. jur. Peter Frerk (55)
Legal Matters, Auditing and
Economics
December 7, 1971

Dr. jur. Wolfgang R. Habbel (62)
AUDI AG
January 1, 1979

Dr.-Ing. E. h. Günter Hartwich (50)
Production
July 1, 1972

Dr. rer. pol. Werner P. Schmidt (53)
Sales
August 1, 1975

Dr. rer. pol. Rolf Selowsky (55)
Finance and Business Administration
May 6, 1982

Report of the Supervisory Board

During the past year the Board of Management kept the Supervisory Board regularly and comprehensively informed about the Company's affairs, the current state of business and corporate policy. Matters requiring the Supervisory Board's approval by law or under the Company's Articles of Association, were discussed in detail at meetings of the Supervisory Board before a decision was made. The Supervisory Board has kept a regular check on the management of the Company with the aid of written and verbal reports from the Board of Management.

The Supervisory Board is satisfied that the financial statements for the Group and Volkswagen AG for the year ended December 31, 1985 along with the accounts and the Annual Report, have been audited and approved without qualification by TREUARBEIT Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hanover.

The financial statements of Volkswagen AG, the Annual Report and the proposal for appropriation of the net earnings available for distribution were examined by the Supervisory Board, which found no grounds for objection. The Group financial statements for the year ended December 31, 1985 have also been received and approved by the Supervisory Board.

The Supervisory Board accordingly concurs with the auditors' findings and approves the annual financial statements, which are thereby confirmed. It also approves the Board of Management's proposal regarding appropriation of net earnings available for distribution.

Wolfsburg District Court appointed Herr Klaus Peter Mander a member of the Supervisory Board of Volkswagen AG as of March 25, 1985 to succeed Herr Manfred Pusch, who retired from his posts on the Works Council and the Supervisory Board of Volkswagen AG as of February 28, 1985 and whom we should like to thank for his service.

Herr Heinz Pabst, Member of the Supervisory Board, died on February 21, 1986 at the age of 54. He was Chairman of the Works Council at the Brunswick Plant of Volkswagen AG and had been a member of the Supervisory Board since July 1, 1982. We have lost a personality who was dedicated and tireless in furthering the interests of Volkswagen AG and its employees.

After a serious illness Herr Siegfried Ehlers died on March 6, 1986. He had been employed by the Company since 1949 and had been a member of the Works Council since 1953. He was elected Chairman of the Works Council at the Wolfsburg Plant in 1971, Chairman of the Joint Works Council in 1972 and Chairman of the Group Works Council in 1974. He had been representing the employees on the Company's Supervisory Board since as long ago as 1958.

With the death of Herr Siegfried Ehlers the Volkswagen Group has lost one of its outstanding personalities. He represented the interests of the workforce for years and years with a great sense of responsibility and exemplary success. His ability to reach agreement and his commitment to social peace showed the way, not only at Volkswagen.

With effect from April 9, 1986 Herr Walter Hiller and Herr Jann-Peter Janssen were appointed Members of the Supervisory Board by the Wolfsburg District Court.

Wolfsburg, April 17, 1986



Karl Gustaf Ratjen

Chairman of the Supervisory Board

Report of the Board of Management

Review

Slower rate of growth on the world economy

The levelling off of the economic upswing in the United States influenced the trend on the world economy in 1985. Exports by major industrial countries did not remain unaffected, so the growth of world trade dropped from 9 % the previous year to 3 % in 1985.

In the United States the first 6 months of 1985 saw continued sluggish growth which had already been observed towards the end of the previous year. During the second half of the year too the American economy failed to restore the trend experienced during the years 1983 and 1984.

The Japanese economy also registered more moderate expansion because of slower growth of exports and investment. But with domestic demand again strengthening, Japan remains in the forefront of the world's industrialised nations in terms of overall economic growth.

The more moderate US performance had the effect of narrowing the gap between growth rates in the US and Western Europe. The economic recovery in West European industrialised nations made further steady progress. The strongest impetus came from exports and investment; consumer spending was restrained.

In West Germany, the upswing became evident across a wider spectrum of the economy and proceeded relatively smoothly. The driving forces came from increased investment in plant and equipment and continued high demand for West German exports. Low inflation, low interest rates and the high US dollar were also important factors. Progress in curbing the public sector net borrowing requirement also helped to set the framework for economic recovery.

New record in world automobile production

The world automobile industry produced a record 44.9 million vehicles in 1985.

This was 6 % more than the previous record in 1978.

The West German automobile industry made a significant contribution to this expansion. It increased its output by as much as 10 % to 4.4 million vehicles. As the UK and Spain also substantially increased their vehicle output, West European production rose 5 % to 13.0 million motor vehicles.

In the US, the rise in automobile production slowed down after the strong expansion in 1984. The US industry produced 11.6 million vehicles, an increase of 7 %.

In Japan, production again rose during the year ended and finally totalled 12.3 million units (+7 %). The manufacture of Japanese vehicles in other countries which almost solely consist of parts made in Japan is showing an even higher increase, particularly in North America and Asia, but also in Europe. This tendency has not been taken into account in the overall number of units for Japan nor has the supply of vehicle components for US and European makes.

Improvement in position compared with international competitors

The extensive efforts made to improve our products and manufacturing processes, to reduce costs and improve the qualifications of our staff, have made 1985 a good year for the Volkswagen Group.

The Group achieved an increase in world sales, as a result of a model range well suited to meet market requirements and because of broadly favourable economic conditions.

Deliveries of motor vehicles to customers showed above-average growth in North America and most West European countries, greatly strengthening our position.

Because of increased market demand, capacity at our West German plants in particular was heavily utilised and in some cases plants suffered from bottlenecks in production. The Group sold 2,398,004 Volkswagen and Audi models

Report to the
Board of Directors
Management

*The versatile Passat Variant —
a success abroad too*



to dealers worldwide in 1985. This was 11.8 % more than in the previous year. Volkswagen AG sold 1,817,208 vehicles (+10.9 %).

Substantial increase in deliveries to customers

We delivered 2,418,202 Volkswagen and Audi models to customers worldwide in 1985. This was 12.7 % up on the sales performance of the previous year. Passenger cars and commercial vehicles both registered an increase, with deliveries totalling 2,198,976 and 219,226 respectively. Lower sales in Argentina and South Africa were more than offset by increases, in some cases substantial, in other markets, notably Europe and North America.

In the markets served by Volkswagen AG, which also distributes the Audi models, the number of vehicles delivered amounted to 2,067,680 (+12.7 %), the highest level ever.

West German market unsettled in first half

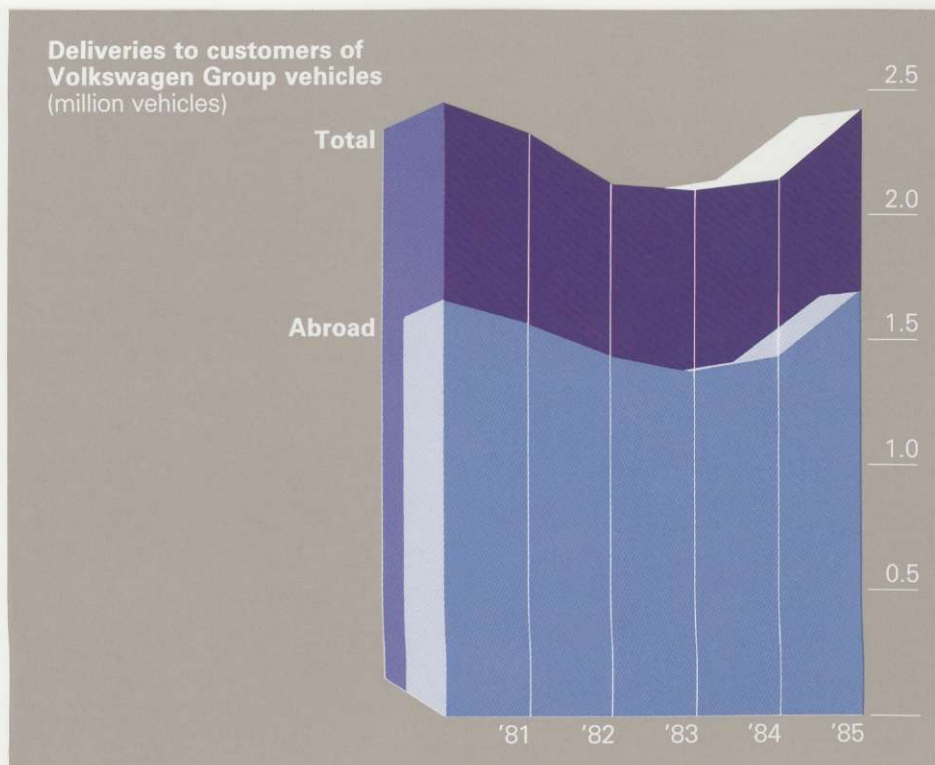
The unsettling debate which built up from mid-1984 about emission reductions and speed limits continued well into 1985. This had an impact on new car registrations in West Germany.

Many motorists who had held back from buying new cars did not start entering the market again until after European authorities had reached an agreement about new emission standards. For the year as a whole, new car registrations in West Germany were again at a comparatively low level at 2.3 million, 0.9 % down on the previous year. Imported cars took 26.1 % of the market, compared with 25.7 % in 1984. The Japanese gained at the expense of European producers.

With the economy continuing to recover and investment on the increase, the decline in the commercial vehicle sector came to a halt in 1985 and sales began to rise again in the second half of the year. New registrations, including all-terrain vehicles, were up 4.4 % on 1984.

Development of production in the automobile industry
(million vehicles)





Improved market share

In its deliveries to customers in West Germany, the Volkswagen Group performed better than the car market as a whole. A total of 730,420 Volkswagen and Audi models were sold to customers, 1.9 % more than in 1984. With the overall market contracting slightly, the Volkswagen Group strengthened its competitive position; the combined Volkswagen and Audi share of the passenger car market reached 28.6 %, compared with 27.9 % in 1984.

Volkswagen models improved their market share from 21.7 % in 1984 to 22.9 % last year. This success was due not only to the popularity of the Golf, which alone accounted for 13 % of all new car registrations and which increased its lead as the top-selling car in West Germany. The Polo and particularly the Passat were also very successful and improved their competitive position in their market segments. Audi vehicles registered a decline in market share to 5.7 % from 6.2 % in 1984. But the Audi 90

and the Audi Coupé, as well as all quattro models, showed a positive trend.

The increase in the proportion of diesel vehicles compared with overall Volkswagen Group sales, particularly in West Germany, once again underlined the attractiveness of these engines to buyers. In this way we made a rapid, effective contribution to increasing the proportion of low-pollution vehicles.

With the recovery in commercial vehicles, the Volkswagen models enjoyed above-average success in their sector, the class of vehicles up to 6 tonnes. With new registrations of 56,008, the market share improved from 39.7 % to 40.8 %.

Leading position in Europe

During the past year the Volkswagen Group sold 759,125 Volkswagen and Audi models (+ 24.3 %) in its European export markets. Including deliveries within West Germany this meant that the

Group took the lead in Europe for the first time. Increases in unit sales were achieved in the major markets: Italy (+ 49.4 %), France (+ 15.8 %), Britain (+ 9.2 %), Spain (+ 69.6 %) and Austria (+ 33.5 %).

Our share in the German automobile industry's exports rose by 0.9 % to 39.8 % and exceeded a million for the first time since 1973.

At the same time the percentage of imports in the overall passenger car market, including vehicles manufactured by German companies abroad amounted to 34.2 % (34.3 %).

Special notice has been taken of the fact that we have achieved a leading position in Europe. However, we regard such a position as of no particular merit on its own. Continuity in achieving adequate earnings is more important, and in 1985 significant progress was made. Only if there is a successful return on investment can the competitive position of the Volkswagen Group and the jobs of its employees be secured in the long term and only in this way can future projects be financed on a firm footing. It is very satisfying to note that there has been a significant market swing to Volkswagen and Audi vehicles because of our product policy — to such an extent that it was impossible to meet demand fully.

The Spanish royal couple visit Wolfsburg.



Investment in SEAT

With our Spanish sales and our relations with SEAT (Sociedad Española de Automóviles de Turismo, S.A.), developing very well, the Supervisory Board of Volkswagen AG agreed in principle on February 21, 1986 to the purchase of a holding in SEAT. When the appropriate agreement, the final details of which are still being negotiated, is signed, an initial 51 % of the Spanish automobile manufacturer would be taken over. A majority holding by Volkswagen AG was made possible when the Spanish government authorised the government-owned holding company Instituto Nacional de Industria (INI) at the end of last year to take over the former SEAT liabilities.

The Spanish State's strong interest in Volkswagen AG's investing in SEAT was officially emphasised on February 27, 1986 when King Juan Carlos and Queen Sofía visited Wolfsburg.

At the end of 1983 SEAT commenced assembling the Passat and in 1984 this was followed by production of the Polo. During the past year a total of 95,307 Volkswagens were produced, of which 75,764 were Polos. 53,954 Polos were exported to other European countries. Deliveries to customers in Spain came to 48,611 Volkswagen and Audi models, including the imported Group vehicles. This represented an increase of 69.6 % on the previous year; the market share for Volkswagen and Audi rose to 8.6 % (5.5 %).

As a result of the cooperation with SEAT we now see more opportunity to strengthen our position in the lower model ranges. Within the Group SEAT will assume a role similar to that which Audi has achieved in the upper market segments.

Because of the necessary restructuring, our SEAT strategy will involve considerable outlay on investment and reorganisation during a lengthy starting period. However, we see this as a justified and essential step in securing the Group's future.

SEAT fills the gap in the lower segment of the market

In order to further improve and reinforce our current position in Europe we have to develop more strength in the long term particularly in the model ranges where the Volkswagen Group has hitherto been underrepresented.

Prices in the mini and small car ranges depend on the lower cost basis in France and Italy, and particularly in Spain. Owing to high production cost in West Germany, the Volkswagen Group was unable to achieve a satisfactory share of the European market in these ranges or create satisfactory earnings, despite the excellence of the Polo. In Europe this segment of the market already comprises more than 3 million vehicles a year and 30 % of new vehicles registered. Until now both ranges have been dominated by Italian and French manufacturers or the subsidiaries of American automobile groups manufacturing in Spain. The vehicles in the lower ranges are not only important within the market as a whole but also as introductory models for buyers of first and second cars.

From this point of view, and owing to a large increase in West German parts production for automobile assembly in Spain, our investment in SEAT will contribute to the employment situation in Spain and Germany and improve the structure of the interlinked production system within the Group, having a positive effect on cost per unit.

Substantial growth in North America; differing trends in other regions

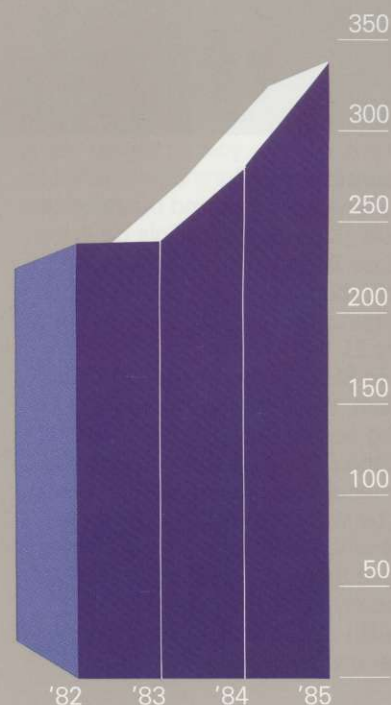
The Volkswagen Group was able to take advantage of favourable market conditions in North America in 1985. The number of vehicles sold rose 21.2 % to 338,905, with imported Volkswagen and Audi models showing an even greater increase of 27.5 %. Strong demand for the Jetta, our top seller in North America last year, was one of the driving forces behind this improved performance, as well as a further increase in sales of Audi vehicles. In North America we are by far the market leader among European manufacturers.

The Mexican car market again registered some growth in 1985 despite temporary setbacks as a result of unfavourable economic conditions and earthquake disruption. Deliveries to customers by Volkswagen de Mexico were 2.1 % above the previous year. In Argentina, on the other hand, the extremely difficult economic situation led to a sharp drop in sales.

The previous year, Brazil's commercial vehicle business was swept along with the economic tide and began to recover. This continued into 1985 and also embraced demand for passenger cars. In the year as a whole the number of vehicles delivered to customers in Brazil rose by 6.4 %.

By contrast, automobile business in the Republic of South Africa was highly unsatisfactory for all the manufacturers. The country's difficult situation led to plant closures, considerable losses and several manufacturers giving up production there altogether. The trend for Volkswagen of South Africa, however, was not so bad compared with the average for the industry as a whole thanks to the market popularity of the Golf and Jetta, and we even managed to considerably improve on our position.

**Deliveries to customers
of Volkswagen Group vehicles
in North America**
(thousand vehicles)



The Polo Fox — low in price and big in technology



Increase in sales due to exports

The sales of the Volkswagen Group exceeded DM 50 billion for the first time. They actually totalled DM 52.5 billion, that is, 15.0 % up on the previous year.

Apart from increased sales in Europe and North America it was also the rise in demand for more upmarket models which contributed to the surge in sales. Whilst West German business produced an increase in sales to DM 16.2 billion (+ 10.5 %), foreign sales saw an above-average rise by 17.1 % to DM 36.3 billion. The foreign share of Group sales rose accordingly to 69.2 % (67.9 %).

Volkswagen AG sales totalling DM 38.9 billion meant growth amounting to 15.2 %. Foreign sales accounted for 59.7 % (57.6 %).

Close connections with the supply industry

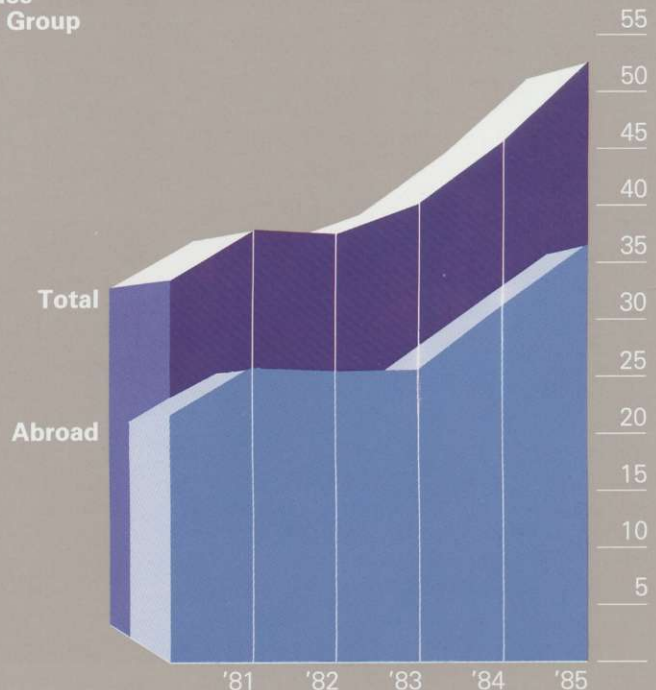
The 1985 figure for raw materials and supplies, semi-finished products, finished products, capital goods and services purchased by the Volkswagen Group totalled DM 33.7 billion, that is, 24.6 % more than the previous year.

The value of goods and services bought in by Volkswagen AG came to DM 18.1 billion, 19.6 % up on 1984. Production materials accounted for DM 14.3 billion whereas capital goods and services accounted for DM 3.8 billion.

These amounts underline the importance of our volume of purchasing for the economy as a whole, in particular for the supply industry and its employees.

It is also worth mentioning the importance of the employment effect which results for German toolmakers and mechanical engineering companies swept along with foreign projects initiated by Volkswagen, the setting up of new production plants, particularly for engines, and in the expansion of local supply industries. Utilisation of capacity in the capital goods industry will therefore be

Development of sales of the Volkswagen Group (billion DM)



Regional breakdown of the sales of Volkswagen AG for 1985 (million DM)



positively influenced for years to come.

Our company is considerably dependent on close cooperation and division of labour with the supply industry on a partnership basis. The continuously growing demands made of vehicles and more and more capital-intensive production plants result in increasing demands being made of our suppliers. Particularly with regard to the ever increasing diversity of models and parts called for by the market it is the know-how and the capability of our suppliers to make technically high-level concepts mature enough for series production rapidly and in the quality required, which have a substantial amount of influence on the flexibility of our company with regard to strategy.

Expansion of capacity again

To secure its international competitiveness the Volkswagen Group made further efforts in 1985 to develop its product range, to modernise plants and to reduce costs. For the first time it was an expansion of capacity which played a role in our investments again. High priority was also given to extension of our rental and leasing activities.

Our investments totalled DM 3,388 million, thus exceeding the previous year's level by 21.8 %. Property, plant and equipment accounted for DM 3,133 million and financial investments came to DM 255 million. In Germany we invested DM 2,508 million, abroad the figure was DM 880 million. There were also additions to leasing and rental assets amounting to DM 3,217 million.

During the year under review Volkswagen AG spent DM 1,791 million (— 1.0 %) on investments, of which DM 1,366 million was accounted for by fixed assets and DM 425 million by financial investments. The majority of financial investments was due to an injection of capital into Volkswagen of America. The stockholders' equity base was also strengthened at AUTOGERMA and our Chinese joint venture.

Increases in production in West Germany and abroad

In 1985 the Volkswagen Group produced worldwide 2,398,196 automobiles, 11.7 % more than the previous year. Passenger car production increased by 12.5 % to 2,179,597 units, whilst production of commercial vehicles rose to 218,599 vehicles (+ 3.8 %). Per working day the Group's output was 10,543 (9,897) automobiles.

The foreign producing companies Volkswagen do Brasil (+ 15.7 %), Volkswagen Bruxelles (+ 25.7 %) and Volkswagen of America (+ 31.8 %) increased their production. However, there were declines in production at Volkswagen of South Africa (— 22.2 %), Volkswagen Argentina (— 21.3 %) and Volkswagen de Mexico (— 5.4 %). As far as West German output for 1985 was concerned there was an 11.0 % rise to 1,635,582 units.

As a result of high demand, particularly from abroad, production at Volkswagen AG showed a further substantial increase of 13.8 % to 1,457,272 vehicles last year. In addition to recruitment to build up the workforce, major steps were taken to reorganise the pattern of work in order to make more efficient use of capacity — a process facilitated by our new general collective agreement. By shifting part of our Polo production to Spain, we were able to free some capacity in Wolfsburg for increased production of Golfs and Jettas, to make the best of market opportunities. Even so, delivery delays could not be entirely avoided; they are an indication of the increasing demand. Our European plants produced a total of 3,838 (3,425) Golf and Jetta models on average each working day. Production of Passat and Polo models also increased substantially. Including vehicles produced through SEAT, their production rose 20.6 % and 12.1 % respectively to 1,406 and 804 vehicles per working day.

*The syncro Bus — top model of the
6-million-strong Transporter series*



It is also a way to participating in the
growth of the employment which is
results for German institutions and the
chemical engineering companies which
along with foreign projects initiated by
Guttmann. The setting up of new pro-
duction plants, particularly for engines
and in the expansion of local supply in
Germany. Utilization of capacity in the
chemical goods industry will therefore be

Development of Result

The Group manufactured the following numbers of each model:

Passenger cars	1985	1984	Commercial vehicles	1985	1984	Average production per working day for the individual Group companies was:	Vehicles per day
Golf	777,547	673,695	Commercial	155,423	157,596	VOLKSWAGEN AG ¹⁾	5,502
Passat	314,081	254,572	Heavy van			Volkswagen do Brasil ¹⁾	1,620
Jetta	258,180	175,191	(LT)	21,714	20,980	AUDI AG ¹⁾	1,558
Audi 80/90	191,591	169,458	Golf pick-up/			Volkswagen Bruxelles	750
Polo	185,093	156,054	Caddy	12,795	11,608	Volkswagen of America	436
Audi 100/200	149,336	179,739	Volkswagen			Volkswagen de Mexico	432
Scirocco	33,674	34,029	trucks 6 — 22 t	11,737	5,396	Volkswagen of South Africa	159
Audi Coupé/			Voyage pick-up	11,674	9,777	Volkswagen Argentina	86
quattro	23,372	22,846	Volkswagen-				
Beetle	86,189	118,138	M.A.N. trucks				
Voyage	75,628	75,535	6 — 9 t	2,618	2,086		
Gol	66,641	55,034	Other commercial				
Gacel	8,576	10,760	vehicles	2,638	3,166		
Other passenger cars	9,689	12,046					

¹⁾ Not including knocked down vehicles delivered within the Group; AUDI AG: not including Porsche 924/944

Main supply relationships between Volkswagen AG and the affiliated producing companies

	Finished vehicles	CKD vehicles	CKD part sets	Individual parts	Supplies of assemblies	Spare parts
AUDI AG	○			● ○		○
Volkswagen Bruxelles	○	●				
TAS Yugoslavia	● ○	●			○	● ○
Volkswagen of America	●			● ○	○	●
Volkswagen Canada	●			○		●
Volkswagen do Brasil				●	○	
Volkswagen de Mexico	○		●		● ○	● ○
Volkswagen of South Africa			●		○	●
Volkswagen of Nigeria						●
Shanghai-Volkswagen		●				●

● Supplies by Volkswagen AG
○ Supplies to Volkswagen AG

Increase in workforce

At the end of December 1985 the Volkswagen Group had 259,047 employees, 20,694 or 8.7 % more than the previous year, and 11.8 % more than on December 31, 1983.

The number of employees in West Germany rose by 9,694 (+ 6.0 %) to 170,344. This was mainly due to recruitments at Volkswagen and Audi in order to boost production and seize sales opportunities. Improved demand also led to an increase in the workforce at TA Triumph-Adler AG in West Germany.

The workforce abroad increased at a greater pace than in West Germany, growing by 14.2 % to 88,703. Employment rose in particular at Volkswagen do Brasil, as production was stepped up and measures taken to recoup strike losses and at Volkswagen de Mexico, due to increased production of parts and assemblies within the interlinked production system.

As in previous years, we again helped to provide more places for apprentices and trainees and increased the number of young staff undergoing training in West Germany and abroad to a total of 7,371.

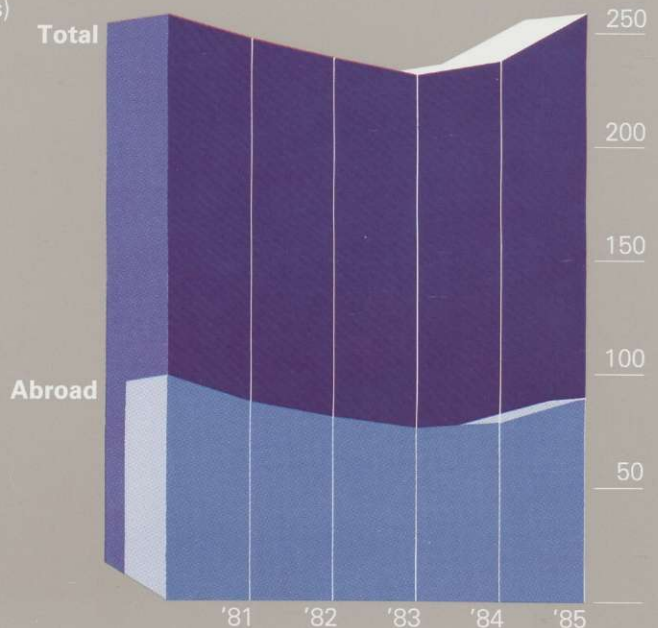
Acknowledgement to staff

The Board of Management would like to thank all employees for their efforts and commitment, which made the 1985 result possible. It would like to express its gratitude to bodies representing the workforce for the constructive cooperation and sense of responsibility in solving problems.

Our special thanks go to all the executives in West Germany and abroad and to the Boards of Management and the Managing Directors of our subsidiaries for their work and high level of personal commitment.

We honour the memory of all members of staff, former employees and friends of the Company who have passed away.

Workforce of the Volkswagen Group at year end
(thousand employees)



Development of Result

Positive trend in the financial result

Increased sales of vehicles enabled Volkswagen AG and AUDI AG to achieve better results. Along with the favourable exchange rate for the dollar they played a major part in enabling the Volkswagen Group to report a profit of DM 596 million compared with DM 228 million in 1984.

All the European Group companies, apart from TA Triumph-Adler achieved positive contributions to the financial result. The companies in North America engaged in the automobile business managed to do so as well.

Business at our Latin American Group companies varied considerably. Whilst Volkswagen Argentina had to accept a worse financial result due to the poorer general economic situation and Volkswagen do Brasil particularly because of

price controls, Volkswagen de Mexico returned a profit.

Volkswagen of South Africa failed to emerge from the awkward economic and social situation unscathed, and it was impossible to avoid another loss despite great efforts.

Higher dividend

Volkswagen AG, as the parent company of the Volkswagen Group, achieved a profit of DM 477 million in 1985. After the necessary valuation of Group risks the profit returned was DM 294 million higher than the previous year.

Increased sales, the resulting improvement in utilisation of capacity, efficient production technology and cost-saving efforts all contributed to this result. The high US dollar, which was favourable for

exporting companies, contributed considerably to the positive trend.

Alongside transfer of DM 238 million to reserves, net earnings have made it possible to propose to the Annual Meeting of Stockholders that a DM 10 dividend be paid per DM 50 share. Eligible stockholders will receive DM 15.63 per DM 50 share after taking into account a DM 5.63 tax credit.

Proposal on appropriation of net earnings available for distribution:

The Board of Management proposes that the net earnings available for distribution of Volkswagen AG be appropriated as follows:

Dividend distribution on capital stock of DM 1,200 million	240,000,000 DM
Balance (carried forward)	4,372,578 DM
Net earnings available for distribution	<u>244,372,578 DM</u>

Financial resources strengthened

The improved earnings, along with the generally favourable economic conditions, the high dollar and the model range well suited to market demand all helped to bolster the financial structure of the Volkswagen Group.

Assets rose in 1985 by 5.7 % to DM 34,822 million, particularly because of an increase in property, plant and equipment and liquid funds. The proportion of fixed assets and investments in the balance-sheet volume increased from 36.6 % to 37.4 %; liquid funds accounted for 23.8 % (20.8 %) of the balance-sheet total.

The increase in the total on the liabilities side was mainly due to a rise in medium-term outside capital in the form of provisions and an increase in stockholders' equity. The proportion of stockholders' equity in the balance-sheet total rose by 0.9 % to 21.2 %. This level is still unsatisfactory in comparison with companies abroad. Nevertheless, overall long-term funds available, comprising stockholders' equity and long-term outside capital, rose by 9.6 % to DM 13,718 million.

Favourable ratios

Despite the exceptionally high level of investment in 1985 it was possible to increase stockholders' equity coverage of the fixed assets and investments to 56.8 %. The long-term capital covered fixed assets and investments by 105.3 % (103.8 %).

The ratio between liquid funds plus short-term receivables and short-term liabilities, as an indication of the level of liquidity, continued to take a positive turn, increasing from 85.9 % to 96.2 %.

Option bond issued

In order to improve the Group's capital structure our wholly-owned subsidiary Volkswagen International Finance N.V., Amsterdam, issued a 3 % option bond for DM 250 million on the Euromarket in January 1986. For each DM 1,000 bond there are warrants entitling bearers to purchase three VW shares in the nominal amount of DM 50 for DM 407 each. On account of a resolution passed by the Annual Meeting of Stockholders in 1984 regarding the creation of potential capital stock in the amount of up to DM 200 million we availed ourselves for the first time of the opportunity to issue option bonds.

Structure of the consolidated balance sheet compared with the previous year

DM million	Dec. 31 1985		Dec. 31 1984	
Assets		%		%
Fixed assets and investments	13,031	37	12,059	37
Current assets	21,791 ¹⁾	63	20,883 ¹⁾	63
Total assets	34,822 ¹⁾	100	32,942 ¹⁾	100
Stockholders' Equity and Liabilities				
Stockholders' equity	7,395	21	6,685	20
Liabilities payable				
within more than four years	6,323	18	5,832	18
1 to 4 years	6,261	18	5,468	17
up to one year	14,843	43	14,957	45
Total capital	34,822 ¹⁾	100	32,942 ¹⁾	100

¹⁾Decreased by the amounts shown on the stockholders' equity and liabilities side as allowance for doubtful trade acceptances and accounts

Creation of further authorised capital stock

We have requested the Annual Meeting of Stockholders to authorise the Board of Management to create additional authorised capital stock in the amount of DM 300 million for the issue of non-voting preference shares. The stockholders will be granted subscription rights.

For the Company the issue of preference shares has the advantage that equity capital flows into the Company to improve the capital structure and finance investments.

For the stockholder too, the issue of non-voting preference shares proves to be favourable. He has the financial advantage of cumulative preference dividend. With regard to the investment risk this means a more secure position compared with the ordinary stockholder. At the Annual Meeting of Stockholders the preference stockholder will maintain all the other major stockholder rights apart from the right to vote: right to information, right to raise objections, right to speak.

Capital investments financed by cash flow

Cash flow at DM 4,558 million was up by 11.7 %, a significant increase on the previous year. For the first time this figure no longer included depreciation and disposals of leased assets. Together they amounted to DM 1,933 (1,589) million. 134.6 % of the increased investments was covered by cash flow.

Development of short-term liquidity of the Volkswagen Group

(in DM million)

Additions to fixed assets	— 3,133	
Additions to investments incl. increase in the adjustment items arising from initial consolidation	— 255	
Additions to leasing and rental assets	— 3,217	
Decrease in inventories and advance payments ¹⁾	+ 306	
Decrease in long and medium-term receivables ¹⁾	+ 212	
Use of funds		— 6,087
Net earnings	+ 596	
Depreciation of fixed assets, write-down of investments and disposal of assets	+ 5,616	
Increase in provision for old-age pensions	+ 290	
Decrease in stockholders' equity in reserves for special purposes	— 10	
Current operations		+ 6,492
Dividend payments to stockholders of Volkswagen AG and minorities in 1985	— 121	
Increase in long and medium-term liabilities	+ 999	
Increase in other items	+ 377	
Financial transactions		+ 1,255
Change in liquidity position		+ 1,660

	Dec. 31 1985	Dec. 31 1984	Change
Liquid funds, trade acceptances	4,326	5,253	— 927
Securities, treasury stock	3,960	1,588	+ 2,372
Short-term receivables and investments (advance payments not included) ¹⁾	6,010	6,030	— 20
Short-term liabilities and undetermined liabilities (including liabilities in reserves for special purposes) ²⁾	14,595	14,830	+ 235
Change in financial funds			+ 1,660

¹⁾ Decreased by the amounts shown on the stockholders' equity and liabilities side as allowance for doubtful trade acceptances and accounts

²⁾ Not including amounts intended for distribution

Increase in earnings

The earnings situation of the Volkswagen Group improved in 1985. Gross performance went up by 12.7 % to DM 52,709 million. The reason for the increase in earnings was particularly a rise in unit sales, price increases due to higher costs, a shift in demand towards more upmarket models and the higher US dollar.

Cost structure was improved. Although cost of materials rose by 11.7 % owing to the increase in production, its share in the gross performance which rose more, declined from 50.9 % to 50.5 %. The 5.2 % rise in labour cost is related to the 6.3 % increase in the average size of workforce, to pay increases and a reduction in working time as of January 1, 1985. However, its share in gross performance fell from 28.3 % to 26.4 %. The higher profit led to a rise in taxes (+ DM 756 million), their share of gross performance rising to 4.0 % (2.9 %).

Structure of the consolidated statement of earnings

DM million	1985	%	1984	%
Sales	52,502	100	45,671	98
Change in inventories	— 299	— 1	630	1
Material, wages and overhead capitalised as additions to plant and equipment	506	1	471	1
Gross performance	52,709	100	46,772	100
Cost of materials	26,623	51	23,824	51
Labour cost	13,913	26	13,227	28
Depreciation	3,411	7	2,961	6
Depreciation of leasing and rental assets	1,259	2	1,060	2
Taxes	2,124	4	1,368	3
Sundry expenses less sundry income	4,783	9	4,104	9
Net earnings	596	1	228	1

*A success from its first appearance
— the sporty elegant Audi 90*



Survey of Stockholders

The first survey of stockholders was carried out in 1977, and on September 30, 1985, we carried out the second survey with the aim of obtaining up-to-date information. Changes in the composition of our stockholders are of particular interest, in view of the stock market boom, in which our stock has been particularly prominent. Our stockholders have made available the capital with which we operate and they expect an appropriate return for this. Investors who bought the first shares issued in 1961 have received an average return of 9.3 % up to the end of 1985.

The stockholder analysis was made with the help of West German and foreign banks. While strictly observing regulations on data protection, they reported on 325,567 security deposit accounts. Including the 20 % stakes held by the Federal Republic of Germany and the State of Lower Saxony, these accounts comprise Volkswagen stock with a nominal value of DM 1,146,633,400. Together with the stock in our own possession with a nominal value of DM 15,060,300, this accounts for 96.81 % of our capital stock totalling DM 1,200 million.

344,000 stockholders

Leaving aside stock owned by the Federal Republic of Germany and the State of Lower Saxony, and the stock in our own possession, the survey embraced 94.57 % of remaining stock. Assuming that the stock not covered in the survey would show similar results to that surveyed, it can be said that Volkswagen has about 344,000 stockholders, compared with 588,000 in 1977.

The sharp decline is entirely due to a drop in the number of stockholders in West Germany to 317,253 from 521,614 in 1977. The number of foreign stockholders increased slightly from 7,747 to 8,314. This is very similar to the trend with other West German companies. It illustrates that much still has to be done to make company stock a more attractive form of investment in West Germany. Efforts to bring this about need to be made by politicians and also by companies themselves through improving profit levels. The capital resources of West German companies are too low in relation to borrowing and in some cases the position has been continuously deteriorating. It is strategically important for West German companies to improve their position as regards capital if they are to face up to international competition at a time of increasing risks and if they are to safeguard the jobs of their employees.

Foreign stockholders covered in the stockholders' survey held 19.73 % of Volkswagen's capital, almost three times as much as in 1977. This is mainly due to a sharp increase in holdings by banks, insurance companies and investment funds. This institutional interest is pleasing as it is another illustration of confidence in the Company's future.

Each West German stockholder, on average, has VW stock with a nominal value of DM 1,355. The average foreign stockholder has stock with a nominal value of DM 28,474. As in the earlier survey, most stockholders have small holdings. About 248,000 stockholders have up to 20 shares. They account for

12.43 % of the West German holdings accounted for in the survey.

West German holdings

Private individuals comprise 96.27 % of the West German stockholders. They are the largest single group of stockholders, with 37.12 % (1977: 42.36 %) of the West German holdings accounted for in the survey. Banks, insurance companies and investment funds have 7.54 % (1977: 8.63 %).

Foreign stake rises to 19.73 %

Foreign stockholders have 19.73 % of our capital compared with 6.83 % in 1977. The increase is mainly attributable to buying from Switzerland, the UK and the US.

Almost half of the foreign holdings are in countries where Volkswagen shares are traded on the local stock exchanges (the Benelux countries, Austria and Switzerland). But the proportion held in these countries has declined from 62.21 % to 47.78 %. European countries apart from West Germany hold 80.62 %.



Groups of stockholders
and their shares
in the capital stock
of Volkswagen AG

I. Breakdown of stockholders in Germany by size of holding

Size of security deposit accounts	Number of security deposit accounts	% of VW shares held in Germany	Capital stock in DM million	% of VW shares held in Germany
1 to 10	168,211 (367,855)	53.02 (70.53)	53.28 (109.48)	5.86 (14.19)
11 to 20	79,837 (99,321)	25.16 (19.04)	59.83 (71.45)	6.57 (9.26)
21 to 100	61,249 (49,209)	19.31 (9.43)	134.73 (97.54)	14.81 (12.65)
101 to 1,000	7,551 (4,961)	2.38 (0.95)	94.62 (57.12)	10.40 (7.41)
more than 1,000	405 (268)	0.13 (0.05)	567.45 (435.66)	62.36 (56.49)
Total	317,253 (521,614)	100.00 (100.00)	909.91 (771.25)	100.00 (100.00)

II. Geographic breakdown of stockholders abroad

	Number of stockholders	% of stockholders abroad	Capital stock in DM million	% of VW shares held abroad
EUROPE	7,160 (6,466)	86.12 (83.47)	190.85 (48.40)	80.62 (78.71)
Switzerland	4,329 (3,601)	52.07 (46.48)	85.23 (24.36)	36.00 (39.62)
Great Britain	255 (237)	3.07 (3.06)	62.84 (4.84)	26.54 (7.87)
Benelux countries	995 (879)	11.97 (11.35)	24.98 (12.94)	10.55 (21.05)
Rest of Europe	1,581 (1,749)	19.01 (22.58)	17.80 (6.26)	7.53 (10.17)
ASIA	227 (232)	2.73 (3.00)	24.98 (9.26)	10.55 (15.06)
AMERICA	766 (868)	9.21 (11.20)	20.46 (2.94)	8.64 (4.78)
OTHERS	161 (181)	1.94 (2.33)	0.44 (0.89)	0.19 (1.45)
Total	8,314 (7,747)	100.00 (100.00)	236.73 (61.49)	100.00 (100.00)

The figures shown in brackets are from the 1977 survey.

Prospects

Stockholders

Opportunities for growth in almost all markets

Worldwide demand for passenger cars, which amounted to about 31 million vehicles in 1984 and reached a record level of 33 million in 1985, is expected to increase to nearly 40 million vehicles by 1990. Although about 80 % of demand is accounted for by the traditional automobile markets of the OECD countries, some fast-growing countries in the Far East are playing an ever greater role. In this region the Volkswagen Group has entered into cooperation arrangements to open up new markets in this part of the world.

The Latin American countries will continue to retain importance in any strategic planning — particularly on account of their huge potential as far as natural resources and their population's readiness to work and learn are concerned, despite heavy debts with which they will still be encumbered at least in the short and medium term.

For the automobile manufacturing industry there are still good prospects for growth even in the traditional automobile markets. The growing number of cars on the road means that the replacement market is also increasing. At the same time higher value cars are becoming more important with the development of technological improvements.

In West Germany there is expected to be an increase in the number of passenger cars on the road from currently 26 million to 31 million by the year 2000. An important factor in this growth is the increase in motorisation generally, particularly owing to families having two or three cars. In addition, the age structure of the population is improving from the automobile industry's point of view. Demand for new cars to replace old ones is decisive, but it is extremely susceptible to economic fluctuations, as experience has shown.

Free world trade is the key to expansion

It is vital for the automobile industry that the world upholds free trade and does not lapse deeper into protectionism. In many countries with growing trade deficits there is an increasing tendency to protect domestic industries by means of tariffs and non-tariff barriers to trade.

Japan's current economic policies should be viewed in this context. Long-run disequilibrium in trade is bound to cause a reaction from deficit countries. Such moves would have unforeseeable consequences for the modern industrial world, which has been built up on the basis of a worldwide division of labour.

Transition to the low-emission car

European countries have taken a major step with the agreement on emission controls. Car emission levels have already been reduced over the years. The trend now is towards the low-emission car and efforts are being made to adjust rapidly to the new standards.

Volkswagen and Audi already have a comprehensive range of low-emission cars, well suited to future requirements. All of our models, from the Polo to the Audi 200 Avant quattro, can be supplied in catalytic converter versions.

In addition, Volkswagen and Audi models made from 1980 can be fitted with an open-loop three-way catalytic converter system, a feature unparalleled in the market. If the device is fitted to these cars — about 3 million cars are involved — this would be a prompt way of reducing emission levels.

Now that the availability of unleaded petrol and the price differential have improved, we are expecting a considerable increase in the sale of catalytic converter kits. As all Volkswagen and Audi cars built from 1977 can be run on unleaded petrol, their owners can benefit from the more favourable price of lead-free petrol. The growing number of diesels being sold by the Volkswagen Group has also been contributing to improvement

of the environment since 1976. Diesels have been accounting for a steadily growing proportion of Volkswagen Group sales in West Germany since 1983 and currently make up nearly 30 %. In West Germany, the Volkswagen Group has the biggest share of the diesel car market.

The Volkswagen Group will continue its considerable efforts to find ways of further reducing the level of noxious emissions, particularly by reducing fuel consumption, and of making the vehicles kinder to the environment.

Expectations for 1986

West Germany will continue to enjoy above-average economic growth and exemplary price stability in 1986. With economic recovery in its fourth year, the main impetus is shifting from exports to domestic demand. Consumer spending will play an increasing part, stimulated by the tax reforms introduced from January 1986. Industrial investment is also expected to gather pace. These developments should help to keep up the level of activity and employment, our most important concern.

The drastic slide in oil prices will give additional stimulus to economic growth in West Germany, as an oil importer. The cost saving will help to stimulate incomes and consumer spending. We do not fail to recognise the risks and problems resulting from the abrupt changes in economic figures due to the fall in the price of oil for oil-exporting countries with which we have economic links.

In the face of these remarkably favourable circumstances, we expect and are already experiencing at the moment an exceptionally strong domestic demand for cars in 1986. As in 1985, we are in a good position to win orders as our model range is well suited to market requirements.

We regard the trend in other European high-volume markets this year as equally favourable. There may well be a certain return to normality in these mar-

In many industrial countries the low oil price is giving additional growth impetus.



kets. But even so, the continuing economic upswing in Western Europe — particularly in our main markets Italy, the UK, France and Spain — should ensure a further, though perhaps modest, increase in deliveries to customers.

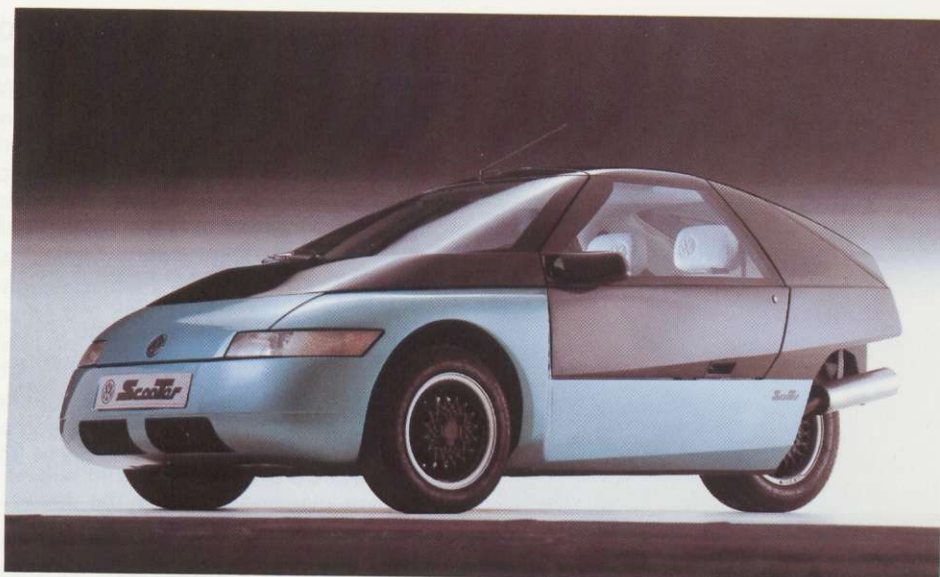
For North America we are also confident for 1986, despite severely increasing competition, with all the burdens it imposes. The creation of new capacity by Japanese car manufacturers in the US and the efforts of Korean manufacturers to move into the US market will intensify the competition.

In addition, US and Japanese manufacturers are investing heavily in the development and production of new models aimed at winning motorists in the exclusive upper bracket, the European High Class.

In the US market a lot will depend on how the dollar exchange rate develops in the course of the year. Much depends on whether the US government succeeds with plans to curb the budget deficit and reduce the balance of payments deficit without endangering economic growth.

Sales, production and orders in the opening months of this year are all in line with our expectations for the year as a whole. As a result we can press ahead confidently with our ambitious investment programme for 1986. But we are likely to encounter production bottlenecks for almost all our models, despite the investment being carried out to extend our capacity.

Research and Development



A cross between motorbike and car — the Scooter, an experimental three-wheeler

More spent on Research and Development

In 1985 the Volkswagen Group spent a total of DM 1.7 billion on Research and Development. Apart from numerous research projects one of the main points of emphasis was on developing low-pollution engines, particularly for catalytic converter models. This was temporarily at the expense of other key projects but the result was that we were able to cope relatively well with the awkward situation in Germany.

Main fields of research

The automobile will make enormous progress as new materials are used and as electronics is increasingly applied to improve fuel consumption, vehicle safety, traffic engineering, noise levels, exhaust emissions and reliability. At Volkswagen and Audi we are carrying out intensive work to secure our leading position in automobile technology and to ensure reliability and high value for our vehicles throughout their exceptionally long life and model cycles.

The proportion of new materials will increase. This applies both to the body-shell and to the components in the various assemblies. In the long term glass fibre reinforced plastic is a feasible material for fast-moving components in the

engine, e.g. connecting rods, and will bring about lower noise levels. The use of ceramics in the engine, which is still at the experimental stage, can be expected to bring about lower levels of fuel consumption and improved performance as a result of higher thermal resistance and better thermal insulation.

Electronics is being used more and more, in the field of design and engineering for instance. Systematic further development of computer-aided work will make it possible to calculate acoustic and aerodynamic designs or the crash behaviour of vehicles in advance right from when the first prototype is built. Microelectronics ensures improved engine/transmission management and thus contributes to a further reduction in noise levels and noxious emissions.

We are continuing intensive research in the field of traffic control in order to achieve a more efficient flow of traffic. For example, if the driver were provided at the traffic lights with information about the synchronised green lights along the road ahead, this would achieve substantial reductions in fuel consumption and emissions. Information is currently being collected and evaluated on a pilot project in Wolfsburg.

New vehicles at the IAA

At the 51st International Automobile Exhibition in Frankfurt Volkswagen and Audi displayed the latest results of their Research and Development work.

Again there were innovations in automotive engineering to be seen, including the 16-valve engine for the Golf and Scirocco, the compressor Polo Coupé GT G40 and the Golf and Commercial synchro, complemented by the now fully galvanised bodies for the Audi 100 and Audi 200.



Powerful and low on fuel consumption — the new 16-valve versions

Since the end of 1985 we have been offering new top versions of the Scirocco range, the Scirocco GT and the GTX 16V. In February 1986 they were followed by a Golf equipped with the same engine, the Golf GTI 16V. Having 4 valves per cylinder the low-consumption 1.8 litre engine provides 139 bhp and displays excellent acceleration coupled with low fuel consumption and exhaust emissions.

The new 16V models of the Golf and Scirocco are ideally suited to the requirements of everyday motoring and combine cultivated driving with the more sporty attitude to motoring, without having to make any compromises as far as the level of comfort or convenience is concerned. Orders for these types of vehicle are exceeding our expectations.

The Golf syncro — all-wheel drive in large series production

When Volkswagen displayed the Golf syncro at the International Automobile Exhibition in Frankfurt it was presenting for the first time all-wheel drive on a saloon produced in large series.

The salient feature of this drive technology with slip-sensitive power distribution is the viscous coupling. It allows variable distribution of power between front and rear axle and adapts automatically to the road surface conditions acting on the wheels. In respect of the extra charge for syncro and the car's superior technology experts regard our vehicles as exemplary.

Golf syncro — a new type of mobility in the compact class

The Polo Coupé GT G40

Polo Coupé GT G40 — with new compressor system

The new most powerful model in the Polo range is based on a new compressor, the G charger. It is driven by the engine direct, ensures a considerable gain in power and provides a high level of torque in the lower engine speed range. The 1.3 litre 4-cylinder engine turns out 85 kW/115 bhp and the Coupé version achieves a maximum speed of 195 km/h.

The slightly modified catalytic converter version of the Polo Coupé GT G40 passed the test in a hitherto unique record trial which ended up with two international records in its category:

- new record for 24 hours at an average speed of 208 km/h and
- new record for 5,000 km at an average speed of 204 km/h.

Range of models extended

At AUDI AG the demand for vehicles with permanent all-wheel drive increased during 1985. Due account was taken of this trend by introducing more models with permanent all-wheel drive such as the Audi 80 GTE quattro, the Audi 100 quattro with 90 bhp and the Audi 200 Avant quattro. In the American market the new top model launched was the Audi 5000 CS Turbo quattro, the US version of the Audi 200 quattro.

As in previous years, Volkswagen and Audi buyers were again offered numerous special models. Cars like the Golf Hit and Golf Match, the Passat Arena, the Jetta Strada or the Audi 80 SC and Audi 80 GT continued the successful range of reasonably priced, lavishly equipped models.



Improvement in long-term quality

As of the model year 1986 our vehicles feature major improvements as standard. Virtually all the Volkswagen and Audi models are now fitted with electronic ignition, long-life spark plugs and hydraulic tappets. These innovations cause a shift in the main areas of car servicing and reduce the amount of servicing necessary, thus creating a new maintenance concept and bringing about a considerable saving in terms of time and money for our customers. A major advance towards an improvement in long-term quality and an increase in used car price is the complete galvanising of every Audi 100 and Audi 200 body since the beginning of the 1986 model year. This feature has necessitated a high level of investment in extensive long-term experimentation and new production facilities. Audi is the first manufacturer in the world to launch a completely galvanised mass-produced saloon.

Mobility guarantee rounds off the guarantee package

One can see just how advanced we are in quality with the introduction of our mobility guarantee which covers round-the-clock breakdown assistance and, if necessary, a tow to the nearest V.A.G. garage for vehicles made from the 1986 model year. If it is impossible to remedy the breakdown on the same day any customer who renews this guarantee until the next recommended date for servicing by putting the car in for a check-up is entitled to a free rented vehicle for two days or one stay in a hotel overnight.

The mobility guarantee serves to round off our present guarantee package which provides one year's cover for the entire vehicle, on genuine VW/Audi spare parts and genuine accessories as well as garage services, three years on paintwork and six years for no rusting through.

Motor Sport

In 1985 Audi won the renowned "Pikes Peak Hill Climb" in Colorado/USA for the first time.



The Polo Cup for up-and-coming drivers was held for the third time in 1985.

Numerous international successes

In 1985 Volkswagen entered two identical category A Golf GTI 1800's in the Rally World Championship. The chief successes were the victories in the Acropolis Rally and the San Remo Rally. In international Formula 3 racing Volkswagen can almost refer to a tradition of success. Engines based on the Golf GTI unit are now built into over 80 % of vehicles in this category and last year too they achieved more victories and won more national and international titles than ever before.

Audi quattro — one of the most successful rally cars

After highly successful rallying years including four world championship titles up to 1984, Audi managed to win the runners-up award in the Manufacturers' World Rally Championship. In the Rally Drivers' World Championship Audi works teams came in second and third.

After 23 victories within only 5 years the Audi quattro is one of the most successful vehicles since the Rally World Championship has been run.

As in previous years there were also major international victories apart from those at the Rally World Championship. Six different Swedish championships alone were won on an Audi quattro. At the first Hongkong-Peking rally the Audi quattro took first place and in the United States it won the famous "Pikes Peak Hill Climb" for the first time.

Exclusive position in all-wheel drive

To us it seems important not only to succeed in rallying but also to remember that our quattro cars are successful for the customer in her or his everyday motoring. We have still maintained our exclusive position in applying this concept to large series production whilst all-wheel drive now dominates the entire field of rallying.

Production and Quality Assurance

Changes in the organisation of production flow

Technical, organisational and social factors are having an increasing effect on our production flow. Engineering and production are changing faster and faster. As a result, new control and material coordination systems have been introduced which make possible computer-integrated manufacturing (CIM). Computer-aided design (CAD) is changing procedures in design and production planning. Decentralised maintenance and responsibility with respect to quality necessitate organisational restructuring. So we have to further develop our staff's qualifications at all levels more than we used to, in order to meet changing demands by creating new occupations and an appropriate long-term policy with regard to training and recruitment.

Strengthening competitiveness by the introduction of new manufacturing processes and technologies

To strengthen competitiveness, new production processes and technologies have been developed further at all the plants of Volkswagen AG. One main area of investment for the next few years will be the Emden plant. Between 1986 and 1989 several large-scale projects are to be realised here, the total volume of investment being DM 1.2 billion. This amount is as much as the entire investment in the plant since it was set up in 1964. The projects now underway are a systematic effort to turn Emden into one of the most modern production plants.

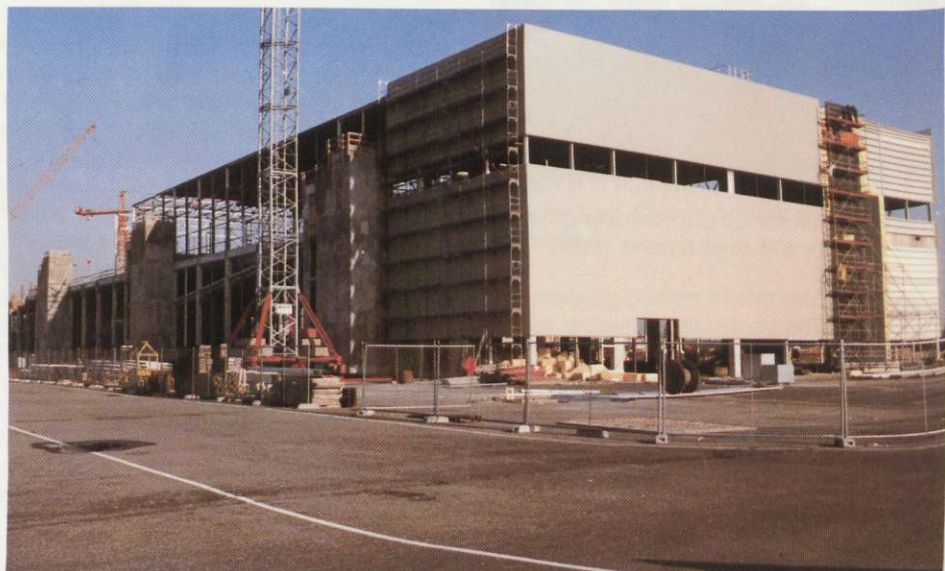
In mid-1985 the decision was taken to erect a special building for all toolmaking, including the design and administration sections, at the Brunswick plant. This investment amounts to about DM 200 million.

To improve productivity and quality in the field of engine-making the assembly of short engines was automated at the Salzgitter plant after the automation of the cylinder head assembly.

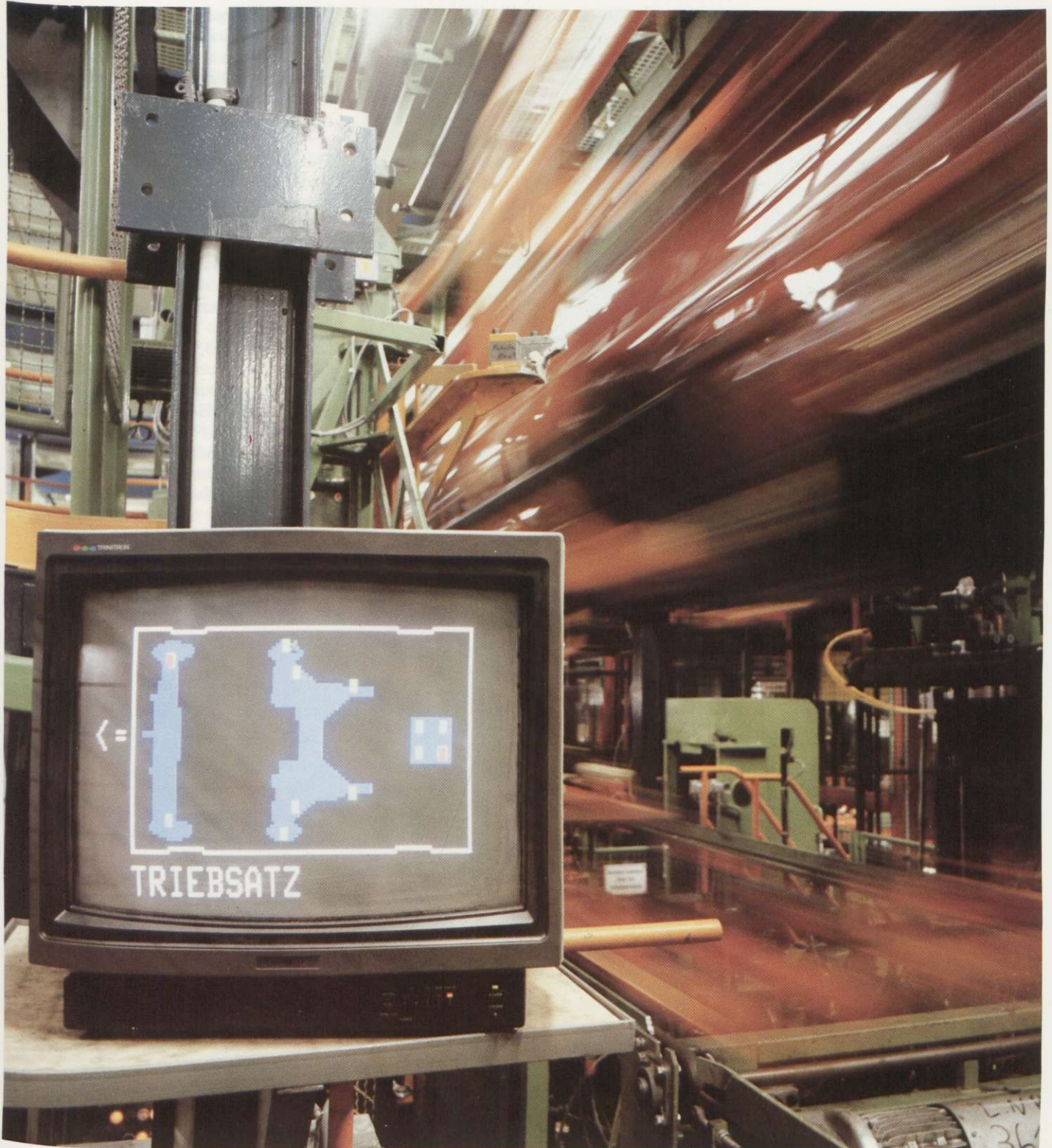
Progress in quality and reduction of costs due to MODAS

Apart from the work directly related to products our activities last year were particularly focused on mobile data storage units MODAS. This flexible control and quality information system makes it possible to call up all the key control information without any wiring involved at the vehicle direct via stationary or mobile terminals. This means there is no longer any need for expensive wiring or large central computers to be installed. MODAS, which is made by TA Triumph-Adler for the companies in the Volkswagen Group, means a reduction in costs and an increase in quality.

New Hall 16 at the Emden factory. This houses assembly preparation, cavity sealing and wiring loom production.



*The mobile data storage unit MODAS —
more quality at lower cost through the
use of stationary and mobile terminals
for quality control*



Report on Social Matters at Volkswagen AG

Largest workforce since 1973

As at December 31, 1985 Volkswagen AG employed a total of 123,598 staff, that is, 6.7 % more than in 1984. Owing to the increase in demand for our models, the effects of a reduction in working time and the modified arrangement in respect of retirement, 12,649 employees were taken on at our six West German plants during the past fiscal year. Staff were taken on at the Hanover plant owing to improved orders in the commercial vehicle sector.

The good inflow of orders also necessitated work on 6 Saturdays at the Wolfsburg, Hanover, Brunswick, Kassel and Salzgitter plants during the first six months of 1985. Another measure to increase production was the taking on of 2,810 students for about 4 weeks each during term holidays. We shall be taking advantage of this opportunity again in the 1986 summer holidays.

Again more apprenticeships and traineeships available

In 1985 Volkswagen raised the number of young people undergoing training to 4,303 for industrial and commercial occupations by taking on 1,527. This level of training was again well above the number of skilled employees actually required. Nevertheless, all those completing our vocational training, not least as a result of the retirement of older employees at 58, do find a permanent job at our company, even if it is not always in the occupation in which they have trained.

The main fields of specialised follow-up training in 1985 were electrical engineering and microelectronics. Special emphasis was placed on project-oriented qualification programmes for the purpose of introducing new technologies.

Through close cooperation with our Vocational Training Division it is assured that follow-up training and vocational training activities are matched to one another both with respect to subject matter and teaching methods.

The inauguration of the Schulenberg/Harz Mountains Training Center in 1984 helped considerably in facilitating training.

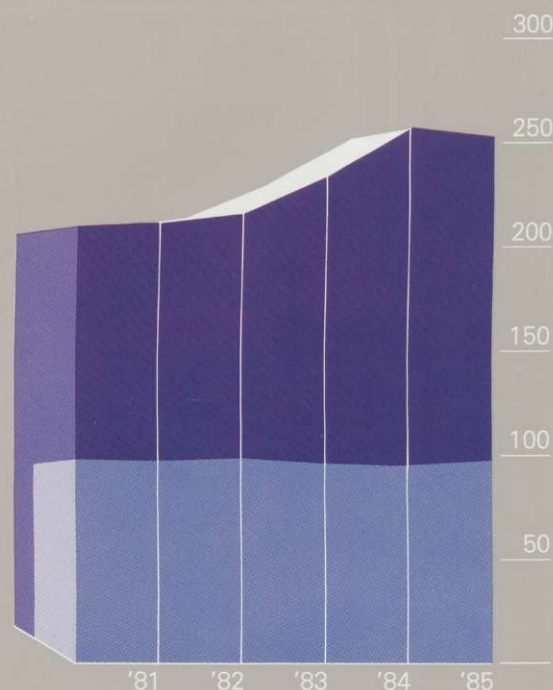
Collective agreements

In 1984 new collective pay agreements regarding wage and salary increases were signed on behalf of the staff at Volkswagen AG, running up to October 31, 1986. In accordance with the agreements wages and salaries rose by 3.3 % as of May 1, 1984; last year a 2 % rise was paid as of November 1 as mutually agreed upon. Apprentices' and trainees' pay was increased by varying amounts depending on the year of training.

Workforce and labour cost of Volkswagen AG
(1972 = 100)

Labour cost
(excluding old-age
pensions)
per employee

Average
workforce



The collective agreement and supplementary works agreements regarding working time have been in force since January 1, 1985 and will remain effective until December 31, 1986. They provide for a weekly working time of 38.5 hours on average over the year. As for reasons of improved utilisation of capacity the working time continues to be 8 hours per working day, the staff were granted nine free shifts which are spread over the whole year, taking into account company requirements.

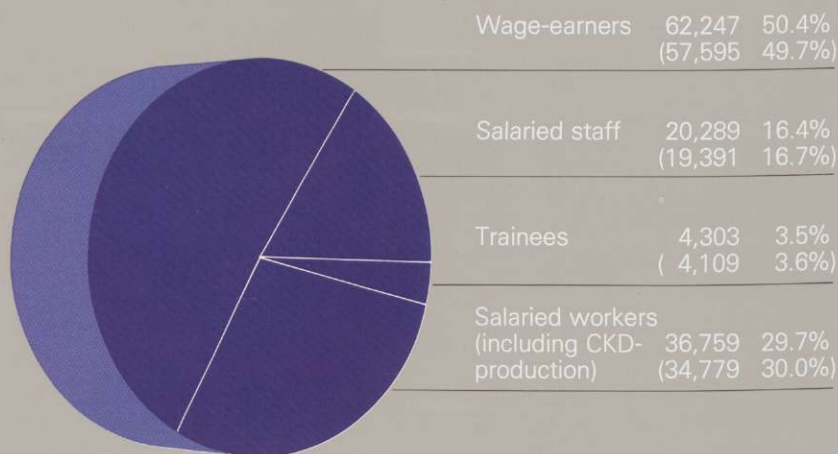
Payments to former members of staff

On December 31, 1985 24,922 former members of staff of Volkswagen AG or their survivors received a company old-age pension. At the end of 1984 the number of former employees receiving a pension was 23,088. Owing to the statutory adjustment of pensions to take account of the cost of living, 5,224 persons eligible for benefits received higher payments as of January 1, 1985.

Added value of Volkswagen AG

The result of the added value analysis of a company shows its contribution to the gross national product, i.e. its overall economic performance. The corporate performance of Volkswagen AG was DM 41,114 million in 1985 and was thus 14.5 % or DM 5,191 million above the figure for the previous year. After deducting expenditure totalling DM 28,859 million and depreciation amounting to DM 2,192 million the added value for Volkswagen AG came to a total of DM 10,063 million (+ 10.2 %). This increase in value created by the Company is distributed to the stockholders, staff, the State, creditors and to the Company itself to comply with contractual and legal obligations.

Structure of the workforce at Volkswagen AG (at year end)



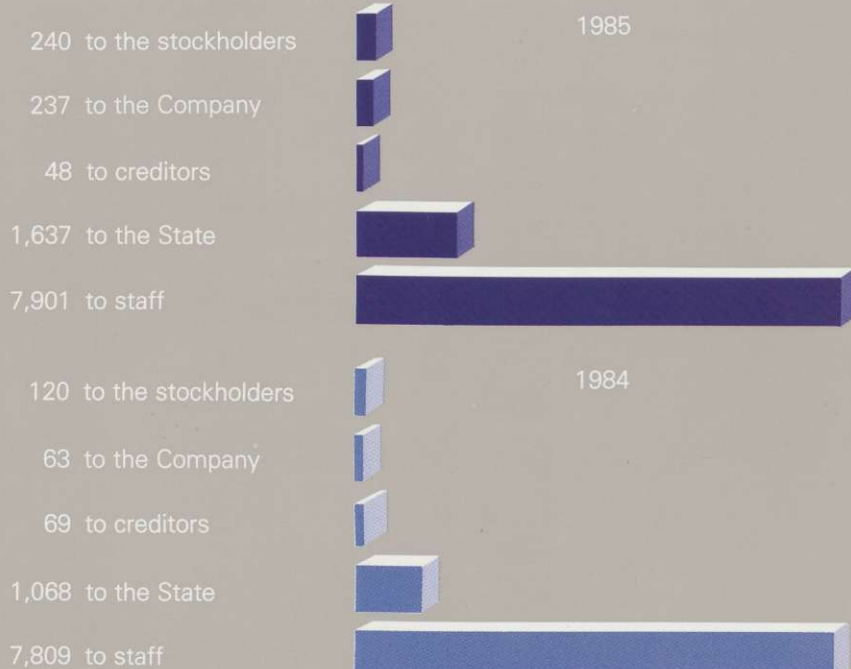
Sources

(in DM million)

	1985	1984
Gross performance as shown in the statement of earnings, drawn up as required under Corporation Law	39,187	33,974
plus other income	1,927	1,949
= Total performance	41,114	35,923
less expenditures	28,859	24,802
(incl. cost of materials)	(25,483)	(21,827)
less depreciation and losses on disposals	2,192	1,992
= Added value	<u>10,063</u>	<u>9,129</u>

Report on Social Matters at Volkswagen AG

Distribution (in DM million)



Distribution of added value

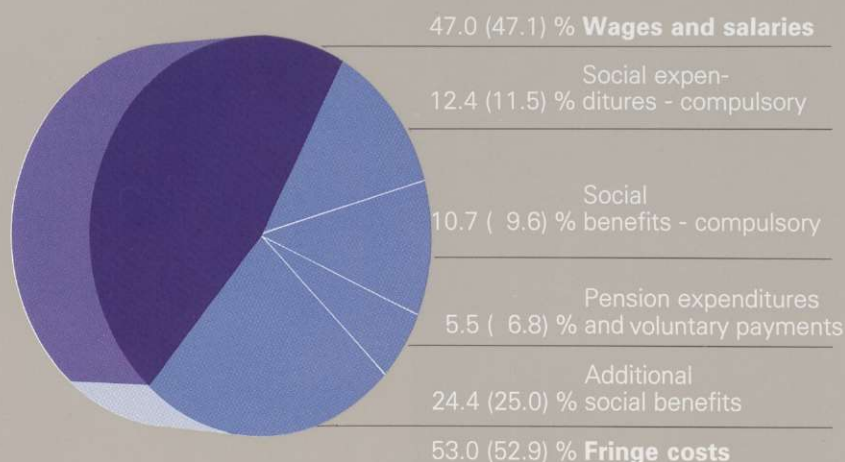
Most of the added value was distributed to staff. However, the improved result of 1985 and the resulting rise in tax expenditure as well as the creation of a provision for expenditure on long-service anniversaries in 1984 caused their percentage to drop from 85.5 % to 78.5 %.

The improved result of Volkswagen AG compared with the previous year caused tax payments to increase to DM 1,637 (1,068) million. The share of added value distributed to the State now came to 16.3 % compared with 11.7 % the previous year.

In 1985 an amount of DM 48 (69) million was paid to creditors. Owing to this reduction their share in the higher added value declined to 0.5 %.

To improve the capital structure and strengthen the investment capability DM 237 million or 2.3 % of added value was allocated to reserves out of the result from the past fiscal year. Out of the amount remaining DM 240 million is being paid out to stockholders of the Company in the form of dividend; their share in added value has thus risen to 2.4 %.

Structure of labour cost of Volkswagen AG in 1985



Suggestions for improvements: trend still on the increase

The suggestions made by employees for improvements play an increasingly important role in cutting costs and improving product quality, work procedures and working conditions.

Compared with the fiscal year 1984 the number of suggestions for improvements rose by 12.9 % to 44,544. The total bonuses which Volkswagen AG paid for the suggestions accepted increased from DM 11.7 million to DM 13.2 million. The maximum bonus of DM 100,000 was awarded 12 times. In a special campaign which was designed to achieve a completely smooth flow of work a total of 6,839 suggestions were submitted. Compared with the special campaign in 1983 that amounts to an increase of 111 %.

The increasing quality and number of suggestions for improvements demonstrate that the suggestion scheme is also an important means of contributing to staff identification with the Company and motivation.

Health Service: close collaboration with other departments

The routine activities of industrial medicine, such as precautionary check-ups, laboratory tests, X-ray screenings and initial medical examination on engaging employees, continued to be the chief tasks performed by the Company Health Service.

Another main point of emphasis was the extensive measures to solve ergonomic and social problems when introducing new production and process technologies, designing workplaces and applying new materials. The tasks of industrial medicine against a background of changing production conditions necessitate, on account of their complexity, close collaboration between the departments based on scientific principles, particularly in the field of ergonomics.

New areas of emphasis established by the Industrial Safety Department

Despite the introduction of new technol-

ogies and production equipment and simultaneous high utilisation of capacity the number of industrial accidents which have to be reported remained low. This result was solely due to the enormous efforts by the Industrial Safety Department, which had to cope with new fields of activity as a result of the introduction of new production processes and the increased application of sophisticated plant technology.

At our company this trend was recognised at an early stage and taken into account by launching appropriate safety programmes.

Number of sick unchanged

Absences due to sickness were virtually unchanged at 7.8 %. The average level of absences overall rose from 17.7 % to 21.3 % particularly because of the agreed free shift arrangement.

Acknowledgement of long service

Again in 1985 there were many staff at Volkswagen AG who were able to celebrate long-service anniversaries. 1,281 staff were congratulated on 10 years' service whereas 4,249 members of staff were honoured for 25 years' service and 743 individuals for 35 years' service.

Building loans to employees

By granting low-interest building loans to employees Volkswagen AG has been helping its staff to finance their own apartments and houses since 1948. By the end of 1985 a total of 33,959 homes were financially sponsored, the past year accounting for 1,595 alone. To this end the Company made available funds totalling DM 33.8 million during the period under review.

In order to offer our members of staff adequate living space to meet personal requirements, our subsidiaries VW-Siedlungsgesellschaft and VW-Wohnungsbau-gesellschaft have continuously modernised the firm's rented apartments and increased their number. As at December 31, 1985 both companies were administering a total number of 19,600 homes.

Some two-thirds of the factory were in ruins by the end of the war.



The Real Miracle

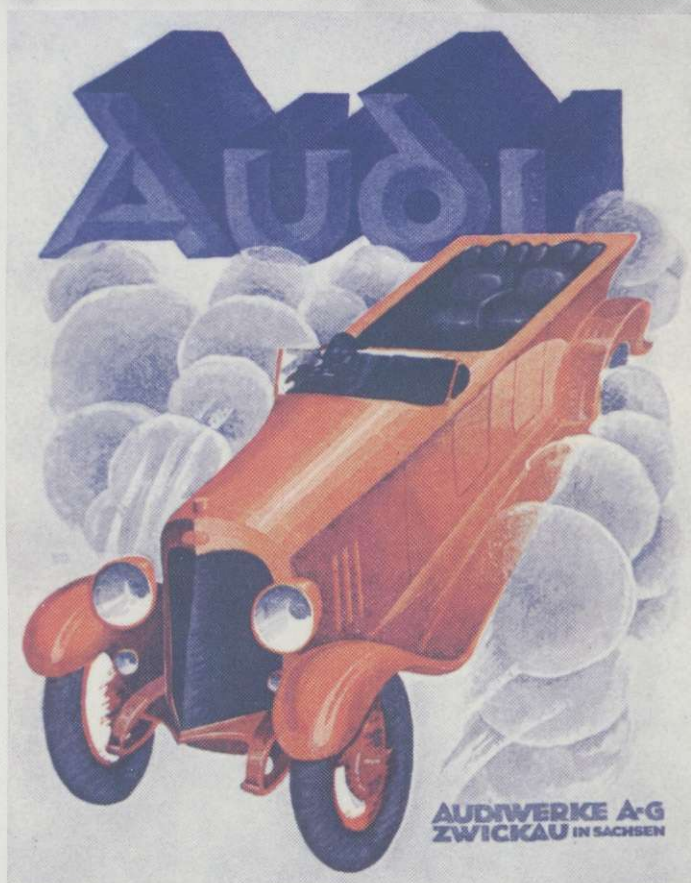


The dream of a people's car is as old as the automobile itself. The first motorised carriages gave as yet no hint of the popularisation of motoring — a bicycle was as much as the average wage-earner could afford at the time; yet even before the turn of the century there were innumerable attempts to make the miracle of automotive progress accessible to the broad mass.

Europe was the Old World of caste and class divisions, while the vastness of America pointed the way ahead. In 1902 Ransom Eli Olds began selling the first mass-production model, a motor buggy based on the long-legged light horse-drawn vehicle. Two cylinders provided power at the rear; the dashboard in front of the two high seats

had a characteristic curved shape, giving the runabout its unmistakable appearance.

Even before the famous Tin Lizzie, America discovered the epochal significance of the motor vehicle. The lonely hamlets in the far country with no made-up roads were linked by this astonishing means of transport with the trade and bustle of the booming towns; in the economic centres the congested traffic situation was eased early on by the automobile — the concentration of horse-drawn vehicles with their distinct lack of controllability and their animal pollution of the environment was a scourge that, as early as the 18th century, the first steam vehicle designers had hoped to alleviate.





Europe had the same problems on a smaller scale. The distances across country were not so large, and only the metropolises were choking in horse-drawn traffic, while traditional ideas of order on the part of the authorities applied numerous limitations to motorised mobility. America was bigger, freer, richer, and mass-production was already established over there. The American Frederick Winslow Taylor (1856 — 1915) made history with his system of efficient factory organisation. In big mills and the slaughterhouses of Chicago the first moving belt systems were employed. In the new century they made it possible to increase production at the same time as reducing costs. The unskilled worker became more productive than the craftsman.

At the time when in Europe each part had still to be individually built, a mudwing represented eight hours' work and engine technology required laborious fine engineering, the American machine tool expert Henry Martin Leland was developing, on the basis of Swedish models, the fine-measuring methods with which workpieces could be produced to exact specifications. Interchangeable parts became a possibility.

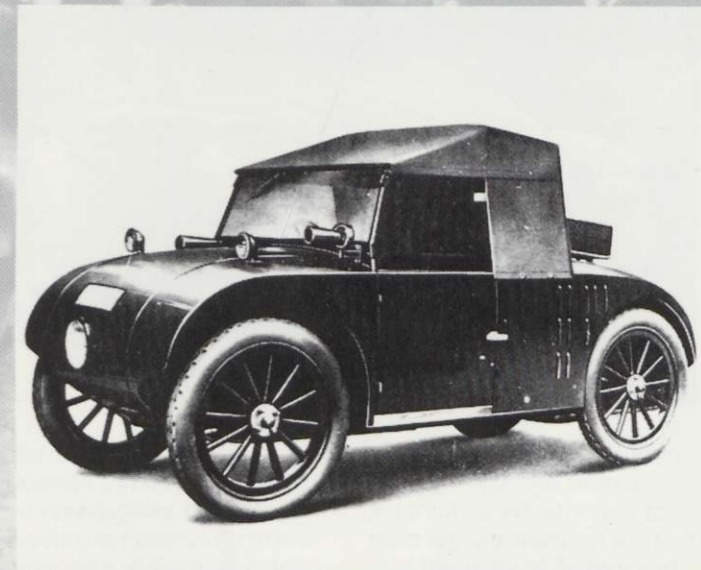
The European producers had not yet grasped the message of this revolution when the Great War destroyed their

world. Their automobiles had become accessible only to the wealthy, whereas in the USA even small farmers and workers could enjoy the benefits and the pleasures of their own vehicle. Henry Ford's idea was that what is not good for everybody is not good at all. In 1923 he built 2.2 million vehicles, the Tin Lizzie at that time numbered almost 9.8 million units, and in 1927 the miracle was over after 15 million had been produced. Only the VW Beetle has ever exceeded this.

Along with falling prices, the mass of vehicles produced also reduced operating costs, and driving without a chauffeur had in America long been the norm when in Europe the owner-driver was still rather proud of himself.

Even in the twenties many European producers remained oblivious to the signals from the New World. It cost them dear: innumerable makes disappeared under the pressure of imports flooding in from the USA. In Germany whole groups of faithful customers were ruined by the war.

The first mass-produced cars of smaller, European dimensions raised hopes that a people's car must be possible. Light vehicles based on motorcycle technology had been in the news since the turn of the century; voiturette and cyclecar were recognised terms for these endeavours. But cars for the people they could not be.



Heated debates of experts gave rise to new concepts, and to illusions. The motoring Press was full of suggestions, many a project survived to the point of short-lived production. But the little man did not want a "driving machine" such as were developed even for kit construction. An ingenious little Hanomag had no more than a succès d'estime, the spartan two-seater being built only between 1925 and 1928. If we are to have a car, then we want a real one however small it is, was the popular attitude — that is, when other preoccupations permitted. Even for the victorious nations the economic flowering of the "golden twenties" was but a brief one.

In 1922 for the first time there were over a million automobiles in Europe; at the onset of the world economic slump which marked the terrible end of the twenties there were just over five million. Recent years had brought only temporary fortune; now the sales figures rose agonisingly slowly, and the USA was no longer a land of hope.

This was the age in which Ferdinand Porsche, who had run his independent development company in Stuttgart since 1931, was engaged to engineer salvation for struggling motorcycle factories. Affordable advances were combined in new kinds of car. First Zündapp, then NSU placed the contracts, but in the end they funk'd the first step.



Then came the Third Reich. The well-being of the people was to embrace a people's car, and Porsche the engineer was clear in his mind: It must be a proper car with four seats, powerfully-engined and long-lived, with no stinting on proper comfort. The running gear must do for various bodies, and for the normal body a closed standard bodysheet was a matter of course.

Precursors and patterns existed, but Porsche was after his own optimum solution. The conception proceeded from the prototypes for Zündapp and NSU, the details were developed from a uniquely broad spectrum of concepts and experiments.

Ferdinand Porsche never regarded a design as the final one so long as another decision remained a possibility. And his team of thinkers, designers, development engineers, foremen and mechanics stamped their people's car not with cool calculation but with high hopes: it was to be the first car of their own.



The trial series VW 30 seemed to be ready to go into production, but not until Ferdinand Porsche recruited engineers of German extraction with experience of American automobile factories for the setting up of the factory and the production plant did

the car achieve its final form. To begin with the German automobile industry was to build it in coordinated work; it was the unity of factory and product that finally gave the Volkswagen its uncompromising character.

As a practical instrument the enterprise failed; the running gear and drive unit of the vehicle gained respect in military misuse, but the beginning for the real Beetle was still as difficult as if the car had only just been born.

Streamlining was the watchword for the future on the constantly improving roads; the authoritarian State went ahead with the long-planned

autobahns without regard for economic calculations. The shape of the Volkswagen was perfected in the model wind tunnel and improved in practice. An astonishingly simple suspension system was realised, which it took laborious development work to perfect. And deliberations on the engine principle ranged from the then much-talked-about new type of two-stroke to various four-strokes with

two and four cylinders. Some projects made it to production maturity, whilst the worthy horizontally-opposed "boxer" engine was used for driving trials and proved its qualities. A rear-mounted engine saving space in the Beetle bodywork which represented the state of the art in streamlining was not necessarily the final word. The drive unit was to be directly linked to the axle, but this was also possible with front-wheel drive which was still being considered in 1939 — the result of competitors' development work in this area.

The number of improvements and modifications including the skin is without parallel. Yet for decades the Beetle retained its face and figure,

remaining an individual — the only car that all over the world everybody can name at a glance.

In contrast to the competition, the Beetle formed a class of its own right from the start, every further development of the VW of its time stayed in the family, and the 50th anniversary of the Beetle concept was celebrated by the classic VW 1200, for its supporters in no way superannuated. Far beyond the year 2000 the valiant little cars will run and run.





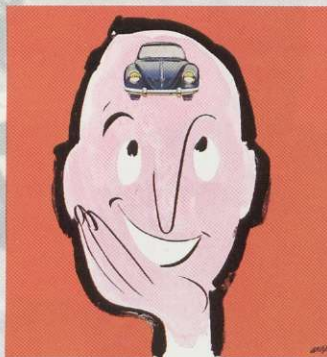
Always the Beetle had its innate faults, and yet distinguished itself by outstanding advantages. In the grey post-war years it rose phoenix-like from the ashes of shattered hopes and was as serviceable as possible, yet the impossible seemed to pile up. 64 percent of the factory was destroyed, 20 percent of the machines damaged, 10 percent irretrievably. One name deserves to be mentioned: chief engineer Rudolf Brörmann was made plant manager by the British in 1945. There was little hint of the later Wolfsburg — only

huts stood in addition to but few of the planned residential buildings. Yet cars were built; in the lone factory rearing up from beside the Mittelland Canal there emerged a community of men and women of multifarious provenance, and out of the chaos they constructed their new home.

They could not foresee the future miracle; the business of subsistence was the reality of that time. Heinrich Nordhoff too, who took over the leadership in 1948, first had to solve basic problems, and the car still had, as he put it "as many defects as a dog has fleas".

Yet, in the sparse traffic that even after the Currency Reform in 1948 could not increase fast for lack of purchasing power, the certainty grew that this car really was the People's Car. The rear-mounted engine gave traction to the driving wheels on the rutted roads and tracks, and the Beetle could climb slippery slopes at a time when snow-clearing and winter tyres were not yet thought of.





Jedermanns Wunschtraum
ein Volkswagen



The country doctor swore by his Beetle, and his urban colleague crumpled no modish sheet-metal if he caught the edge of a wall turning in the unlit streets of the ruined towns. In 1949 began the flood of improvements, some visible and well noted but for the most part more to be felt than seen. The VW Transporter was produced on the universal chassis and introduced a new era of the commercial vehicle in trade and commerce; the VW bus became a byword.

The success served the people. As previously in the USA, with increasing production the future customers were recruited through falling prices; the modest boxer went down in history as the engine of the Economic Miracle. Heinrich Nordhoff as a king of industry. The world sat up and took notice as the unprecedented car overran the German border, and the VW miracle in the USA brought profit not only for Wolfsburg. The Beetle was an ambassador for the "Made in Germany" tag and was more than just a product. It became the new Tin Lizzie among the gas guzzlers, looked tiny and was still more than enough of a car. It became so well-loved in America as a second and third car that it often turned into the first car; it became a film star as Herbie the crazy Beetle; a car with a soul, with wit and intelligence.

If something other than a Beetle was wanted, it willingly allowed itself to be given a different body. From the start it could be enjoyed as an open vehicle. Karmann of Osnabrück brought out the VW Convertible, the Hebmüller two-seater has gone down in history as a highly-prized rarity, and the series of body-makers grew above all in the USA where unlimited possibilities had room to develop.

The VW world grew phenomenally; Wolfsburg reproduced itself in the form of domestic and foreign production facilities — Belgium, Brazil, Mexico, South Africa. Everywhere the yardstick of original quality was strictly applied and transferred to the many assembly plants.



When Heinrich Nordhoff died in 1968, Beetle variations had long reached maturity. Transferring the basic principle to middle-range cars of a new shape had succeeded many times over. The Karmann Ghia had already proved that the Beetle remained enchanting in a different stylistic form. It was inevitable that the concept should finally reach its limits; technology forges ahead, and yesterday's miracle cannot go on forever.

The challenge of overcoming the turbulence brought about by a change of climate was what led to the fundamental transformation of VW technology. A new profile had to be found for the products without disavowing the Beetle, and this was an unqualified success. The VW Golf, the radical break with the Beetle, was offered to a

Beetle public as the first model of the new era and again was a car like no other. The face of VW remained unmistakable, the role of the Group in mass-produced competition unique.

As a means to an end the Volkswagenwerk was once a delusive foundation; as a corporation with a wide share distribution it has truly become a factory of the people, and Heinrich Nordhoff stamped the style of the social partnership thus: "The only valuable thing about a company is the people who

work for it and the spirit in which they do so."

The name Wolfsburg embraces not only the factory and town in Lower Saxony, but has become a byword for quality of work and products, a contribution to the profile of the Federal Republic of Germany in the world. And service to the VW customer is not restricted to the obvious aspects of customer service. Here too Heinrich Nordhoff set the course. The spirit of cooperation includes dealers and workshops the world over, and the VW Golf was

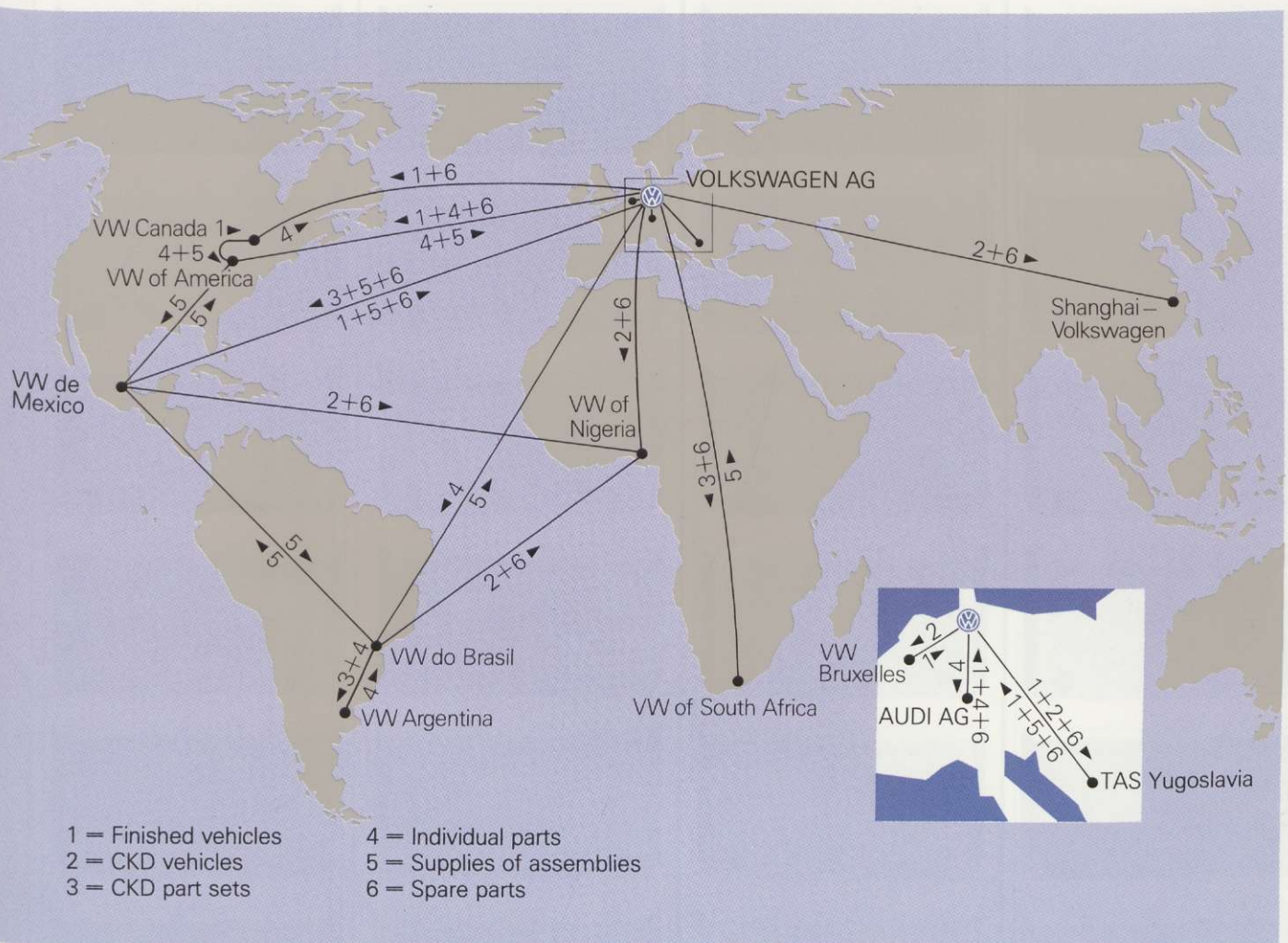
the first car developed in closest cooperation with the practitioners at the sharp end so to speak, designed with the object of making even the misfortune of a collision a matter for rejoicing for the user.

The Beetle has been overtaken by the demands and the progress of modern times. But it survives strong in the memory even of those it no longer serves. Millions of people experienced their first car in driving school behind a steering wheel with the Wolfsburg badge; for millions it was a matter of course that their first car should be a Beetle, new or used. It is familiar to today's generation of motorists as a trusted friend, even while they enjoy the fruits of progress of the new era. A motorcar can have no higher accolade than that of being a "people's car", a Volkswagen.



Companies within the Volkswagen Group

Worldwide interlinked supply system



The Major Companies within the Volkswagen Group

December 31, 1985



Producing Companies
Distributing Companies
Other Companies

● Companies included in consolidated financial statements¹⁾

VOLKSWAGEN AG

Plant Locations: Wolfsburg Hanover Kassel Emden Salzgitter Brunswick

Capital Stock
DM 1,200,000,000

AUDI AG
Ingolstadt
DM 215,000,000
99%

V.A.G Kredit Bank GmbH
Brunswick
DM 300,000,000
100%

V.A.G Leasing GmbH
Brunswick
DM 70,000,000
100%

V.A.G Transport GmbH
Wolfsburg
DM 2,000,000
75%
25% interRent
Hamburg

WESER-EMS Vertriebs-
gesellschaft mbH
Bremen
DM 8,000,000
81.3%

V.A.G Vertriebszentrum
WESER-EMS GmbH
Bremen
DM 50,000
58.6%
26% VOLKSWAGEN AG

V.A.G Vertriebszentrum
WESER-EMS GmbH &
Co. KG, Bremen
DM 5,250,000
58.6%
26% VOLKSWAGEN AG

VOTEX GmbH
Dreieich
DM 1,000,000
100%

interRent
Autovermietung GmbH
Hamburg
DM 12,000,000
100%

interRent S.A.
Brussels, Belgium
bfrs 11,000,000
100%

interRent Trucks S.A.
Brussels, Belgium
bfrs 1,250,000
100%

VW KRAFTWERK GmbH
Wolfsburg
DM 75,000,000
100%

VW-Siedlungs-
gesellschaft mbH
Wolfsburg
DM 20,000,000
100%

VW-Wohnungsbau
Gemeinnützige
Gesellschaft mbH
Wolfsburg
DM 2,000,000
100%

V.A.G Marketing
Management
Institut GmbH
Brunswick
DM 1,000,000
100%

VW-Versicherungs-
vermittlungs-GmbH
Wolfsburg
DM 500,000
66.7%

TA TRIUMPH-ADLER AG
Nuremberg
DM 80,500,000
98.4%

Adlerwerke vorm.
Heinrich Kleyer AG
Frankfurt (Main)
DM 20,000,000
97.4%

GmbH für ausländische
Vertriebsbeteiligungen
M.A.N. — Volkswagen
Wolfsburg
DM 3,000,000
100%

Deutsche Automobil-
gesellschaft mbH
Hanover
DM 5,000,000
50%

VW-Gesellschaft für
technische Datenver-
arbeitungssysteme mbH
Berlin
DM 1,000,000
50%

IAV Institut für Aggre-
gatetechnik und Ver-
kehrsfahrzeuge GmbH
Berlin
DM 400,000
50%

VW Credit, Inc.
Troy, Mi., USA
US \$ 100,000
100%

Volkswagen of America,
Inc.
Troy, Mi., USA
US \$ 242,000,003
100%

Vorelco, Inc.
Warren, Mi., USA
US \$ 40,000,000
100%

Triumph-Adler
North America Inc.
Hartford, Conn., USA
US \$ 1,000
100%

Adler-Royal Business
Machines Inc.
Union, N.J., USA
US \$ 1,000
100%

TA Systems Inc.
Los Angeles, Cal., USA
US \$ 2,000
100%

TA-Business System²⁾
Inc., Los Angeles, Cal.,
USA
US \$ 100
100%

Pertec Peripherals
Corp.
Los Angeles, Cal., USA
US \$ 1,000
100%

Volkswagen Financial
Corporation
Troy, Mi., USA
US \$ 1,000
100%

²⁾ formerly Pertec Computer
Corp., Los Angeles, Cal., USA

Volkswagen do Brasil S.A.
São Bernardo do Campo
Brazil
Cr \$ 1,631,490,000,000
80%

Financiadora
Volkswagen S.A.
São Bernardo do Campo
Brazil
Cr \$ 16,363,040,150
100%

Volkswagen Leasing S.A.
São Paulo, Brazil
Cr \$ 7,945,000,000
70%

Distrivols S.A.
São Paulo, Brazil
Cr \$ 1,239,184,675
100%

Forjaria São Bernardo S.A.
São Bernardo do Campo
Brazil
Cr \$ 10,074,287,628
33.3%

Companhia Vale do Rio
Cristalino S.A., Santana
do Araguaia, Pará, Brazil
Cr \$ 62,936,194,239
52.5%
4.2% Transalme

Volkswagen
Argentina S.A.
Buenos Aires, Argentina
A 220,733
99.97%

Volkswagen de Mexico,
S.A. de C.V.
Puebla/Pue., Mexico
Mex \$ 28,431,771,000
100%

Volkswagen Comercial,
S.A. de C.V.
Puebla/Pue., Mexico
Mex \$ 80,000,000
100%

Volkswagen Leasing,
S.A. de C.V.
Puebla/Pue., Mexico
Mex \$ 30,000,000
100%

Volkswagen Canada Inc.
Toronto, Ontario, Canada
Can \$ 500,000
100%

Vorelco Ltd.
Toronto, Ontario, Canada
Can \$ 6,700,000
30%
70% HOLAD

Volkswagen
of South Africa (Pty.) Ltd.
Uitenhage, C.P., South Africa
R 9,362,650
100%

Volkswagen of
Nigeria Ltd.
Lagos, Nigeria
N 23,000,000
40%

Volkswagen Bruxelles S.A.
Brussels, Belgium
bfrs 1,925,000,000
100%

TAS Tvoronica
Automobila Sarajevo
Vogosca, Yugoslavia
Din 1,956,027,572
49%

V.A.G France S.A.
Paris, France
FF 50,000,000
100%

V.A.G Financement S.A.
Paris, France
FF 17,500,000
73.1%
25.2% HOLAD
1.7% VOLKSWAGEN AG

V.A.G Bail S.A.
Paris, France
FF 15,000,000
100%

AUTOGERMA S.p.A.
Verona, Italy
Lit 75,000,000,000
100%

Shanghai-Volkswagen
Automotive Company
Ltd., Shanghai, China
RMB 160,000,000
50%

V.A.G Sverige AB
Södertälje, Sweden
skr 84,000,000
33.3%

V.A.G Stockholm AB
Stockholm, Sweden
skr 22,500,000
100%

HOLAD Holding &
Administration AG
Basle, Switzerland
sfrs 110,000
100%

Volkswagen International
Finance N.V.
Amsterdam, Netherlands
hfl 1,000,000
100%

Volkswagen Overseas
Finance N.V.
Willemstad, Curaçao
Netherlands Antilles
hfl 1,000,000
100%

AUDI FINANCE N.V.
Amsterdam, Netherlands
hfl 500,000
50%
50% AUDI AG

Volkswagen Asia Ltd.
Tokyo, Japan
Yen 10,000,000
100%

¹⁾ The following companies
which have been included in
the consolidation do not ap-
pear in this table:

Selbstfahrer Union GmbH, Hamburg,
ZERAL Verwaltung GmbH & Co.
Bissendorf KG, Munich,
quattro GmbH, Ingolstadt,
Triumph-Adler Büromaschi-
nen-Vertriebs-GmbH, Munich,

TA Triumph-Adler Centrum für Bürokommunikation Nürnberg GmbH, Nuremberg,
TA Triumph-Adler Centrum für Bürokommunikation Frankfurt GmbH, Frankfurt,
TA Triumph-Adler Centrum für Bürokommunikation Düsseldorf GmbH, Düsseldorf,
TA Triumph-Adler Centrum für Bürokommunikation Stuttgart GmbH, Stuttgart,
Royal Business Machines Inc.,
Hartford, Conn., USA
(sold on Jan. 27, 1986),

Adler Business Machines (Pty.)
Ltd., Sydney,
Adler Business Machines (N.Z.) Ltd.,
Wellington, New Zealand, with one negli-
gible subsidiary,
Triumph-Adler France S.A., Paris,
Triumph-Adler (U.K.) Ltd., London,
Royal Business Machines, Ltd.,
Willowdale, Canada,
Pertec International, Los Angeles, Cal., USA,
VOTEX, Inc., Troy, Mi., USA,

Volkswagen Properties (Pty.)
Ltd., Uitenhage, and its subsidiaries
Volksprop Algoa Road and
Volksprop Halfway House,
Transalme Ltda., São Bernardo do Cam-
po, Brazil,
Triumph-Adler Italia S.p.A., Milan,
Volkswagen Immobiliaria, S.A. de C.V.,
Mexico/D.F., Mexico.

Salient Figures of Major Subsidiaries and Affiliates

Producing Companies	Sales			Vehicle Sales ¹⁾			Production	Capital Investments			Workforce					
	DM million 1985	DM million 1984	Change %	Units 1985	Units 1984	Change %		Units 1985	Units 1984	Change %	DM million 1985	DM million 1984	Change %	Dec. 31 1985	Dec. 31 1984	Change %
Automobile sector																
AUDI AG	9,611	8,726	+10.1	354,677 ²⁾	344,733 ²⁾	+ 2.9	392,052 ³⁾	372,407 ³⁾	+ 5.3	943	501	+88.2	36,393	35,403	+ 2.8	
Volkswagen Bruxelles S.A.	2,045	1,602	+27.6	168,756 ²⁾	134,277 ²⁾	+25.7	168,756	134,277	+25.7	33	55	−40.7	4,883	4,679	+ 4.4	
TAS Tvornica Automobila Sarajevo	368	364	+ 1.1	28,102	28,151	− 0.2	25,312	27,688	− 8.6	12	2	x	2,934	2,873	+ 2.1	
Volkswagen of America, Inc. ⁴⁾	12,735	11,573	+10.0	318,017	252,511	+25.9	97,128	73,681	+31.8	1,381	640	x	10,557	11,247	− 6.1	
Volkswagen do Brasil S.A. ⁴⁾ of which car sector of which truck sector	4,680 (4,295) (385)	3,635 (3,399) (236)	+28.8 (+26.4) (+62.9)	354,744 (342,956) (11,788)	311,876 (305,253) (6,623)	+13.7 (+12.4) (+78.0)	357,969 (345,982) (11,987)	309,357 (302,697) (6,660)	+15.7 (+14.3) (+80.0)	520 (513) (7)	336 (333) (3)	+54.9 (+54.0) (x)	46,396 (43,862) (2,534)	36,295 (34,367) (1,928)	+27.8 (+27.6) (+31.4)	
Volkswagen Argentina S.A.	429	542	−20.9	21,442	25,425	−15.7	20,059	25,497	−21.3	17	35	−51.2	3,374	3,353	+ 0.6	
Volkswagen de Mexico, S.A. de C.V. ⁴⁾	2,109	1,809	+16.6	92,236	106,729	−13.6	98,039	103,626	− 5.4	106	79	+34.8	14,632	13,284	+10.1	
Volkswagen of South Africa (Pty.) Ltd. ⁴⁾	598	896	−33.2	33,625	37,462	−10.2	30,099	38,668	−22.2	84	144	−41.8	6,010	6,312	− 4.8	
Volkswagen of Nigeria Ltd.	726	561	+29.4	20,671	19,223	+ 7.5	20,829	17,582	+18.5	12	10	+23.0	2,976	3,015	− 1.3	
Business Machines and Information Technology																
TA TRIUMPH-ADLER AG ⁴⁾⁵⁾	1,171	1,018	+15.1	—	—	—	—	—	—	77	81	− 5.5	8,436	7,783	+ 8.4	
Distributing Companies																
AUTOGERMA S.p.A.	2,737	—	x	158,668	103,228	+53.7	—	—	—	6	—	x	298	267	+11.6	
V.A.G France S.A. ⁴⁾	2,353	2,074	+13.5	124,510	110,357	+12.8	—	—	—	270	150	+80.6	969	985	− 1.6	
V.A.G Sverige AB	783	611	+28.0	33,953	28,512	+19.1	—	—	—	151	128	+18.4	349	329	+ 6.1	
Volkswagen Canada Inc. ⁴⁾	1,559	1,058	+47.3	47,751	29,973	+59.3	—	—	—	14	18	−25.7	590	493	+19.7	
Other Companies																
V.A.G Leasing GmbH	960	904	+ 6.2	—	—	—	—	—	—	1,415	1,245	+13.6	268	249	+ 7.6	
interRent Autovermietung GmbH ⁶⁾	311	285	+ 9.1	—	—	—	—	—	—	250	205	+22.1	1,501	1,429	+ 5.0	
V.A.G Kredit Bank GmbH	213 ⁷⁾	205 ⁷⁾	+ 3.8	—	—	—	—	—	—	2	2	+14.7	270	246	+ 9.8	
¹⁾ To the dealer organisation ²⁾ To Volkswagen AG ³⁾ Including 33,440 (27,674) Porsche cars ⁴⁾ And consolidated subsidiaries ⁵⁾ 1984 including Triumph-Adler Italia S.p.A. ⁶⁾ And domestic subsidiaries ⁷⁾ Income from financing																

¹⁾To the dealer organisation ²⁾To Volkswagen AG ³⁾Including 33,440 (27,674) Porsche cars ⁴⁾And consolidated subsidiaries ⁵⁾1984 including Triumph-Adler Italia S.p.A. ⁶⁾And domestic subsidiaries ⁷⁾Income from financing

Europe

Figures
of Major
Subsidiaries and
Affiliates

*Powerful and commanding
— the Golf GTI 16V*



Greater demand for automobiles

In West European countries the economic upswing continued on a broad basis in 1985. With the exception of Britain, however, real economic growth in our major markets was slightly below the previous year's level, as in West Germany.

In parallel with this development inflation again declined in virtually all countries. Only the British economy showed a significant rise in the inflation rate, which was due to the weaker exchange rate for the pound sterling and the resulting rise in the cost of imports.

The demand for automobiles in Western Europe was pleasing throughout 1985. In 1984 registrations of new passenger cars experienced a downward trend and in the past year they rose by 3.9 % to 10.2 million vehicles. There were particularly marked increases in Italy and Britain. The number of new registrations exceeded the previous year's level in all European countries except West Germany, France and Switzerland.

AUDI AG: good export business

AUDI AG, Ingolstadt, continued to expand its sales volume in its export markets in 1985. It was particularly in the European markets that the sales of Audi models saw a significant rise in some cases. This was primarily due to the high popularity of the new Audi 90 introduced at the end of 1984.

In the largest foreign market, the United States, Audi was also able once again to improve its sales after the considerable success of the previous year. In 1985 74,061 vehicles (+ 4.0 %) were delivered to customers in the United States.



Audi 100 and Audi 200 — the first fully-galvanised saloons

Total Audi sales in foreign markets increased by 9.4 % to 233,861 units, more than compensating for the decline in deliveries to customers in West Germany.

In West Germany sales of Audi models were particularly affected by the controversy over exhaust emission and speed limits. During the year under review deliveries to customers in West Germany were consequently 7.5 % below those for the previous year.

AUDI AG manufactured 392,052 vehicles (including 33,440 Porsche 924/944 cars) during the past year, thus exceeding the previous year's level by 5.3 %. In the fourth quarter it was necessary to run special shifts in order to eliminate bottlenecks at the two plants at Ingolstadt and Neckarsulm.

At the end of the year Audi was employing 36,393 (35,403) staff. Audi therefore reached the largest workforce in its company history.

The volume of investment was increased significantly compared with the

previous year. For the model-related measures the introduction of more vehicles with exhaust cleaning systems and the fully galvanised body in the Audi 100/200 ranges, which increases the used car price, were at the centre of attention. Efforts were also made to develop the range of models further.

Audi again invested considerable amounts in the further modernisation of production facilities.

The company's sales came to DM 9,611 million in 1985. The rise in the volume of unit sales and the continuing trend towards more upmarket vehicles (the percentage of models with quattro drive almost doubled compared with the previous year) led to a 10.1 % increase.

The result of AUDI AG, with which there is a profit assumption agreement, was well above the previous year's figure. In the light of high investment during the next few years and the necessary level of liquidity, net earnings are being transferred to reserves.

Above-average growth at V.A.G Leasing

V.A.G Leasing GmbH, Brunswick, was able to increase the fleet of vehicles hired out to businesses and private customers by 9.8 % to 163,000 vehicles and thus maintain its lead in German automobile leasing. Businesses accounted for 77 % while private customers accounted for 23 % of the fleet.

Sales, which were almost solely due to vehicle leasing, rose by 6.2 % to DM 960 million in the fiscal year 1985. V.A.G Leasing returned a loss as a result of the investments made during this fiscal year.

interRent maintained its market position

interRent Autovermietung GmbH, Hamburg, hires out cars and trucks on a short-term basis. Rental activities are chiefly concentrated on West Germany where interRent is the market leader. Here business is run via a closely knit network of 350 agencies and with a fleet of about 11,000 rental vehicles.

In Belgium cars and trucks are hired out by two subsidiaries. In other European countries and in numerous other parts of the world they are hired out via an independent interRent licensee system. In the North American market the company cooperates with Dollar Rent-A-Car System, Inc., Los Angeles. Together with its authorised agencies interRent offers its customers worldwide about 80,000 rental vehicles through more than 1,600 branches in 60 different countries.

Last year business expanded despite keener competition and the company maintained its position in the market. It increased sales by 9.1 % to DM 311 million and returned a positive result for 1985.

interRent has a variegated vehicle range available for its customers.



V.A.G Kredit Bank: increase in business volume

V.A.G Kredit Bank GmbH, Brunswick, supports the sale of Volkswagen and Audi products by offering credit in order to finance the purchase of vehicles and parts distributed by the V.A.G sales organisation, and vehicle sales to customers.

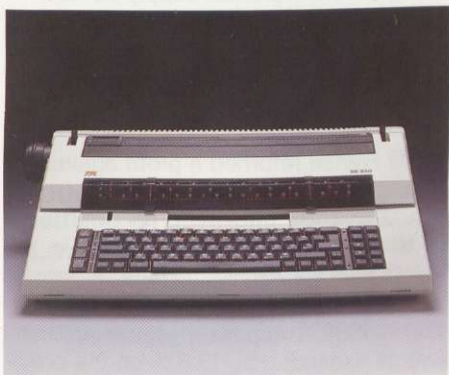
The bank was able to further improve on its market position. The balance-sheet total rose by DM 145 million compared with the previous year to DM 2,615 million. Special sales promotion campaigns for the V.A.G sales organisation also contributed to this trend in West Germany; the level of receivables in dealer financing was the same as the previous year.

In the fiscal year 1985 the company, with which there is a profit assumption agreement, showed a positive result which has been transferred to reserves in order to reinforce stockholders' equity.

Other Major Subsidiaries and Affiliates

with a lot of activity

The new class of compact electronic typewriters was extended in 1985 by the SE 320.



Increased sales by TA TRIUMPH-ADLER

TRIUMPH-ADLER Aktiengesellschaft für Büro- und Informationstechnik, Nuremberg, was renamed TA TRIUMPH-ADLER Aktiengesellschaft, Nuremberg, as of October 4, 1985.

The activity of this group of companies covers the development, production and distribution of business machines and computers. The range of products is supplemented by a comprehensive service package.

As from mid-1984 a large-scale network of modern TA Triumph-Adler centers was set up in collaboration with specialist retailers in West Germany, particularly for distributing data processing systems. This now means that the entire range of goods and services in the computer sector (hardware, software and services) is available close to customers everywhere in West Germany.



SYSTEM M 32 — a multifunctional workplace for modern office communications for use in conjunction with other systems

The TA Triumph-Adler group managed to further maintain its international leadership in the sector of electronic typewriters during the past fiscal year by achieving a boost in sales of about 45 %.

The range of computers was enhanced by the SYSTEM M 32. This multifunctional terminal system combines the key functions of office and administration in one unit and can be used in conjunction with other systems.

The personal computer family "alphatronic" saw the addition of the P 60 and PC 16 models in 1985.

Group sales increased by 15.1 % to DM 1,171 million during the fiscal year 1985, which was especially due to business in electronic typewriters.

As in the previous year, financial burdens resulting from the computer sector did not allow TA Triumph-Adler to return a satisfactory result for 1985. In order to consolidate the company financially Volkswagen AG waived some of the liquidity aid granted (less than the previous year) so that the company was able to virtually break even.

Car loading at Volkswagen Bruxelles



Volkswagen Bruxelles: full utilisation of capacity

During the fiscal year 1985 Volkswagen Bruxelles S.A., Brussels, benefited from the high demand for Golf vehicles worldwide. Fully utilising capacity, production came to 168,756 units, 25.7 % more than the previous year. To achieve this substantial increase, capacity per working day was increased from 720 to over 800 Golf models throughout the year by applying organisational measures.

On March 26, 1985 the seven millionth Golf manufactured in the Group came off the assembly line at our Belgian subsidiary.

Volkswagen Bruxelles returned a profit for the year under review.

TAS: new Golf introduced

TAS Tvrnica Automobila Sarajevo, Vogosca, manufactured 25,312 vehicles (— 8.6 %) during the past year. Of these 13,440 Golfs and 305 Caddies were destined for the Yugoslav market and 11,567 Caddies for export to Volkswagen AG.

Including the imported vehicles the company sold 16,509 Volkswagen and Audi models in the Yugoslav market (— 9.7 %). The decline in unit sales is due to the continuing poor economic situation in Yugoslavia which also led to a decline in purchasing power in 1985.

We expect our position in the market to stabilise as a result of the introduction of the new Golf in autumn 1985.

TAS showed a positive result for the fiscal year.

AUTOGERMA achieved the largest growth in sales

In December 1984 we acquired the majority of stocks in the Italian importing company AUTOGERMA S.p.A., Verona, via the newly formed subsidiary Automobili Germania S.p.A. By taking over the remaining capital stock we were able to finalise the purchase in mid-year in the form of a merger between both companies. Our Italian distributing company has therefore been fully included in the scope of consolidation. Its name, **AUTOGERMA S.p.A., Verona**, remained the same.

In December 1985 the reorganised Triumph-Adler Italia S.p.A., Milan, was affiliated to AUTOGERMA in order to optimise Group structure.

In the expanding Italian automobile market (+ 6.8 %) 152,518 Volkswagen and Audi models were delivered to customers, 49.4 % more than in 1984. The company thus achieved the largest growth in sales of all importers in Italy. The share of the passenger car market rose from 5.9 % the previous year to 8.4 %.

AUTOGERMA returned a small loss for the fiscal year 1985 as a result of valuation measures despite a considerable operating profit.

V.A.G France: sales increases in a declining market

For our French subsidiary, V.A.G France S.A., Paris, there was a change in trend during the past fiscal year. Owing to the recovery in demand in the automobile sector during the second six months V.A.G France increased its deliveries to customers by 15.8 % to 124,793 Volkswagen and Audi vehicles. Its market share rose accordingly from 5.6 % to 6.3 %. In 1985 the Golf continued to be the most popular Group model sold, although there were still supply bottlenecks with the diesel versions. Sales volume for the Polo was increased by about 70 % compared with the previous year.

V.A.G France returned a profit again.

V.A.G Sverige improved its position in the market

V.A.G Sverige AB, Södertälje, was able to strengthen its market position in 1985. The passenger car market overall expanded by 13.8 % on the previous year so the company's share rose from 11.0 % to 11.7 % on account of above-average increases in sales.

All in all, the company delivered 36,689 Group vehicles to customers throughout the year, 21.6 % more than in 1984. The Audi models played a considerable role in achieving this success through stepping up activities particularly in the leasing sector.

The market share for light commercials, of which 5,957 were sold in the past year, also improved from 30.7 % to 30.9 %.

V.A.G Sverige returned a profit for the year under review.

Other Major Subsidiaries and Affiliates

(with field of activity)

I. Distributing Companies

12 V.A.G Sales Centers in West Germany

Supplying V.A.G retailers with automobiles, spare parts and accessories from the Volkswagen Group, including service, advice and training.

WESER-EMS Vertriebsgesellschaft mbH Bremen (and consolidated subsidiaries)*)

Wholesaling in the Bremen sales region

II. Other Companies

1. West Germany

V.A.G Transport GmbH Wolfsburg*)

Providing international services in the fields of sea, land and air transport, forwarding, transshipment and stevedoring; advising the Volkswagen Group and others on arranging and coordinating transport

V.A.G Marketing Management Institut GmbH, Brunswick*)

Providing training and follow-up training for proprietors and managers of our associates within the V.A.G sales organization

VOTEX GmbH Dreieich

Developing, manufacturing and dealing in automobile accessories; acting as purchasing agents for Volkswagen AG in Austria and Eastern Europe

VW KRAFTWERK GmbH Wolfsburg*)

Operating a power station in Wolfsburg

Deutsche Automobilgesellschaft mbH Hanover*)

Research and development work in the fields of electrical engineering and electrochemical storage systems

GmbH für ausländische Vertriebsbeteiligungen M.A.N.-Volkswagen Wolfsburg

Holdings in various European M.A.N.-Volkswagen commercial vehicle importers in order to promote unified distribution

VW-Wohnungsbau Gemeinnützige Gesellschaft mbH Wolfsburg

Building, administering, modernising and maintaining housing at Volkswagen AG locations

VW-Siedlungsgesellschaft mbH Wolfsburg*)

Building, purchasing and administering housing, business premises and other structures at Volkswagen AG locations

VW-Versicherungsvermittlungs-GmbH, Wolfsburg

Acting as an insurance broker in providing all kinds of cover in West Germany and abroad, including certain services

VW-Gesellschaft für technische Datenverarbeitungssysteme mbH Berlin

Software research and development, consultancy services

IAV Institut für Aggregatetechnik und Verkehrsfahrzeuge GmbH Berlin

Research and development work in the field of automotive engineering

2. Europe

HOLAD Holding & Administration AG Basle, Switzerland

Investing in domestic and foreign companies, portfolio and property management

Volkswagen International Finance N.V. Amsterdam, Netherlands (and consolidated subsidiaries)

Raising of long-term capital on behalf of Volkswagen Group companies

*) There is a profit assumption agreement with these companies.

North America

The Audi 5000 CS turbo quattro — new top model in the USA



Keener competition in North America

Economic growth in the United States stagnated during the first half of 1985 and it was particularly private consumption stimulated by lower interest rates which led to slight economic recovery during the second half of the year.

Nevertheless, real growth amounting to an average of 2.2 % for the year slowed down considerably compared with the high growth rates of 1983 and 1984.

The favourable economic situation in Canada is primarily due to increased investment in plant and equipment and a rise in private consumption.

In the United States competition in the automobile market has continued to stiffen. Chief reasons are increased sales of imported Japanese vehicles, made possible by the rise in the now voluntary import quotas by 25 %, an increase in capacity by Japanese automobile manu-

facturers producing in the United States, and stronger sales promotion efforts by American manufacturers. Registrations of new passenger cars in the United States continued to show an overall positive trend in 1985 (+ 7.3 %), amounting to 11.4 million vehicles.

Since 1982 the American automobile market has experienced a significant shift in demand from the passenger car to light trucks. This particularly includes the highly popular mini-buses with the character of a passenger car — the minivans. Owing to the variable interior they can also be used for commercial purposes.

Imported models (+ 39.1 %) mainly contributed to sales increases in the Canadian automobile market. One Korean manufacturer, who has now also become active in the United States, was particularly successful, constituting the most popular imported make of all.

Volkswagen of America: Jetta showed the highest growth rate

Despite keen competition in the American market Volkswagen of America, Inc., Troy, Michigan, managed to show 17.4 % growth, selling altogether 292,105 vehicles. Volkswagen sales rose by 22.7 % and Audi sales rose by 4.0 %. The company's share of the passenger car market improved slightly from 2.2 % the previous year to 2.4 %.

With the Volkswagen models the Jetta exceeded our expectations by more than doubling unit sales compared with 1984. It was not always possible to fulfil all our customers' wishes owing to the supply bottlenecks with this model. During the past year it was the most popular European car in the United States and also the imported model which had the highest growth rate. 4.5 % more Golfs manufactured at the Westmoreland plant were sold than the year before. The unit sales of our diesel models displayed a pleasing trend by showing a 26.6 % increase in an overall declining diesel passenger car market. Volkswagen was thus the largest supplier of diesel vehicles in the United States market in 1985.

The new Audi 4000 quattro (Audi 90 in Europe) introduced in 1984 in particular contributed to the rise in sales of Audi vehicles.

Volkswagen of America distribution was reorganised according to our marketing strategy in the United States, with the aim of further emphasising the individuality and separate identity of the Volkswagen and Audi makes. Distribution and after-sales service for the Volkswagen make will in future be handled by Volkswagen of United States, Inc. and for the Audi make by Audi of America, Inc. These newly established companies are not subsidiaries of Volkswagen of America with their own legal entity but divisions of Volkswagen of America.

In 1985 the Jetta was No. 1 among European cars in North America.



We hope to secure our market position in the small car range in the American market by introducing the US versions of the small cars Voyage and Parati (made by Volkswagen do Brasil) in North America. This is planned for the 1987 model year.

In order to systematically exhaust all the possibilities of cutting costs, steps were taken to shut down pressed parts production at South Charleston. This will be moved to other Group companies in the interlinked production system.

As a consequence of structural adjustments in the field of business machines and information technology the number of staff was reduced by 6.1 % compared with the previous year to 10,557; 3,889 of these were employed by Triumph-Adler North America (TANA).

In 1985 Volkswagen of America showed a 10.0 % increase in sales to DM 12,735 million. TANA, which ranked as a consolidated subsidiary since December 1984, accounted for DM 1,503 million (+ 3.2 %).

To secure the capital base for Volkswagen of America's holding function, stockholders' equity was raised by US \$ 120 million (DM 303 million) in December 1985.

The company returned a profit in the automobile sector for the past fiscal year but had to sustain a loss in the field of business machines and information technology (TANA).

In January 1986 TANA transferred its 66 % share in Royal Business Machines Inc., Hartford, Conn., to Konishiroku Photo Industry Co. Ltd., Tokyo/Japan, leaving a remainder of 1 %. The Japanese company had already been holding the remaining capital stock of Royal Business Machines, which distributes its copying machines in North America, since 1984. TANA will thus in future be concentrating on a range of sophisticated business communication equipment manufactured and developed by itself.

Volkswagen Canada was the fourth largest importer

In 1985 Volkswagen Canada Inc., Toronto, returned the best sales result in its history. With 46,800 Group models delivered to customers, passenger car sales were 52.7 % up on the previous year. Its 4.1 % market share made the company the fourth largest importer.

It was particularly the great popularity of the Jetta and the increased efforts to promote sales which contributed to this success.

Production of aluminium wheels for the North American interlinked production system was increased at the Barrie plant in Ontario. Volkswagen Canada will in future also be manufacturing aluminium wheels for other US automobile manufacturers.

The company showed a positive result for 1985.

Latin America

The general economic development in the Latin American countries continued to be characterised in 1985 by a high level of inflation, high unemployment and a high level of foreign debt. Our subsidiaries based on this continent were operating in varying economic environments. Whilst considerable growth set in in Brazil during the past year, Mexico saw signs of economic recovery only at the beginning of the year. In Argentina the recession is expected to continue.



Truck loading for export

Volkswagen do Brasil boosted exports considerably

An upward trend in the Brazilian automobile industry was interrupted by the strike from mid-April to the end of May 1985. Volkswagen do Brasil S.A., São Bernardo do Campo, was partially able to overcome the consequences of the strike in the production and sales sector by taking special measures and introducing two and three-shift operation.

In 1985 the company sold 354,744 vehicles, which was 13.7 % more than the previous year. The increase chiefly resulted from exports totalling 76,092 units (+ 52.2 %).

This result was made possible particularly because of the follow-up contract signed with Iraq at the end of 1984 for the delivery of 100,000 Passat models in 1985 and 1986 in return for supplies of oil. 1,000 trucks were sold to China for the first time and this too had a positive effect.

There were growth rates also for domestic sales at Volkswagen do Brasil, whilst towards the middle of the year it was expected that production and unit sales would only reach the previous year's level because of the strike. In September 1985 the Santana Quantum (Passat Variant in Europe) was well received in the Brazilian market.

For passenger cars and light commercials, domestic unit sales rose by 4.9 % to 268,390 vehicles. Despite the increase in sales the 38.3 % market share was below that of the previous year (40.7 %). In the 6 to 22 t truck market the company managed to boost its domestic unit sales by 71.3 % to 10,262 vehicles and thus extend its market share in this segment of the market to 23.7 % (17.9 %). It therefore achieved third position among truck manufacturers.

The workforce at Volkswagen do Brasil was increased by 27.8 % compared with the previous year to 46,396. This considerable increase in staff was needed

to catch up and overcome the consequences of the strike, to bring about considerable increases in production towards the end of the year and to start up new projects in the export and product fields.

In accordance with Brazilian law, capital stock was raised by Cr \$ 934 billion to Cr \$ 1,631 billion by converting reserves which had been created to take account of inflation.

The result for Volkswagen do Brasil was negative despite the increase in unit sales. Apart from the strike it was particularly the mismatched price/cost relationship due to price controls reintroduced in January 1985 which had a detrimental effect on the result.

A cooperation agreement was signed with the American truck manufacturer PACCAR at the end of 1985. It provides for the supply of 11 t and 13 t trucks to the North American market. This agreement is designed to put Volkswagen do Brasil's truck business firmly on a broader base.

Volkswagen Argentina almost maintained its share of the passenger car market

Sales at Volkswagen Argentina S.A., Buenos Aires, including light commercials, totalled 21,442 vehicles, 15.7 % below the previous year's volume. The company was almost able to maintain its share of the passenger car market, with 15.7 % compared with 16.3 % the previous year.

Production volume was cut by 21.3 % to 20,059 units in order to take account of the trend in unit sales. At the end of the year Volkswagen Argentina employed 3,374 members of staff (+ 0.6 %).

The package of measures to cut costs led to a diminished loss in the Argentinean financial statements for our subsidiary. When German principles of accounting and valuation are applied there was in fact an increased negative result again for the past year.



The sporty Gol GT 1.8 litres



Volkswagen de Mexico affected by difficult market conditions

During the first six months of 1985 demand was still satisfactory in the Mexican automobile market but in the second half of the year the poorer overall economic situation led to a slackening of unit sales, intensified by the consequences of the earthquake.

Volkswagen de Mexico, S.A. de C.V., Puebla/Pue., sold 89,828 vehicles in the year under review and thus exceeded the previous year's figure by 2.1 %. Competition in the Mexican market became keener owing to unutilised capacity, which led to a 4.1 percentage point decrease in the share of the passenger car market to 31.5 %. In the light commercial sector, on the other hand, market share increased from 12.9 % to 15.1 %.

Owing to the termination of Beetle deliveries to Europe and exports to Nigeria foreign sales fell to 3,775 units. Production was adapted to the receding trend in unit sales by the introduction of short-time working.

To maintain the market position in the Golf range, which is of great importance for Volkswagen de Mexico, it is intended that the Golf and Jetta successors also be manufactured as of 1986. Engines, axles and pressed parts for the Golf are already being delivered to the United States.

The increase in the workforce to 14,632 was mainly due to increases in the flow of parts and assemblies to the United States and Europe under the interlinked production system.

Despite difficult economic conditions the company managed to achieve a positive result.

The overall economic situation in Mexico will continue to be badly affected in 1986 by the substantial loss in oil revenue. In the face of high inflation and the country's high foreign debt the recessionary consequences for automobile demand will not leave Volkswagen de Mexico unscathed.

In the year it stopped being exported to Europe the Beetle was voted "Car of Cars" by the readers of the magazine "auto, motor und sport".

Africa

The new Golf has also been assembled in South Africa since 1984.



Volkswagen of South Africa: increase in market share despite weak unit sales

In 1985 the economic climate in South Africa was impaired, as a result of the difficult situation, by the continuing weakness of the market in conjunction with a high level of inflation. Foreign investors were also unsettled by the fall of the exchange rate for the rand, the moratorium on foreign debt repayment and the reintroduction of a two-tier exchange rate system, not to mention the very serious internal political difficulties. On account of the poor economic situation, demand for automobiles in South Africa declined by one quarter.

Although the unit sales at Volkswagen of South Africa (Pty.) Ltd., Uitenhage, C.P., fell by 10.1 % to 34,444 vehicles, the company was able to expand its share of the market to 14.4 % thanks to the great popularity of the Golf and Jetta successor models. A further improve-

ment was prevented particularly by work stoppages and plant closures.

The workforce fell by 4.8 % to 6,010 as a result of the drop in production. Further measures were taken to adapt by adjusting the number of working hours accordingly.

The earnings situation at Volkswagen of South Africa continued to deteriorate in the fiscal year 1985 particularly as a result of the low volume of business and the unfavourable exchange rate for the rand. Volkswagen AG therefore took extensive measures to assist the company. Despite this, Volkswagen of South Africa returned a loss.

Nigeria's shortage of foreign currency prompted the government to introduce drastic measures and restrictions to cut costs and reduce imports. Restraints on production in industries which are dependent on imports, increased during the second half of the year. Nevertheless, Nigeria was able to record an expansion in the automobile market compared with the previous year.

In 1985 Volkswagen of Nigeria Ltd., Lagos, managed uninterrupted production for the first time since 1982. The improved supply of materials was mainly due to the bilateral trade agreement between Nigeria and Brazil. The agreement also covered the supply of CKD parts from Volkswagen do Brasil; Brazil received oil from Nigeria in return. Thus production was increased, compared with the previous year, by 18.5 % to 20,829 vehicles.

The company's deliveries of passenger cars to customers rose by 4.0 % to 18,360 units. As a result its market share increased from 31.3 % to 40.1 %. In the first six months the company began assembling light commercials and sold 2,311 vehicles altogether.

The company, in which we still have a 40 % interest, has returned a positive result again, as in the previous year.

The drop in prices on the world oil market and the resulting losses in income will further exacerbate the present shortage of foreign currency throughout this year. It will therefore be extremely difficult to avoid direct consequences for the Nigerian automobile market and our affiliate.

In China and Japan the Volkswagen Group is currently manufacturing Volkswagen models in collaboration with national counterparts. Cooperation was agreed in order to open up markets on a joint basis with local industrial companies.

Since September 1, 1985 the new company formed jointly with Chinese counterparts, **Shanghai-Volkswagen Automotive Company, Ltd.**, Shanghai, has been manufacturing the VW model Santana. 1,700 Santanas were assembled during the abbreviated fiscal year. The plans to achieve an initial level of 30,000 vehicles per year are at the implementation stage and those for annual produc-

tion of 100,000 engines are in preparation. As agreed Volkswagen AG made its first contribution to capital stock amounting to RMB 60 million (about DM 60 million) in April 1985.

In the Japanese market in 1985 deliveries to customers were below the previous year's level. Sales to customers totalled 30,499 Volkswagen and Audi vehicles (— 7.2 %), including 12,281 Santanas manufactured under licence by the Nissan company.

Wolfsburg, March 20, 1986

The Board of Management

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Financial Statements and Notes

Notes on the Financial Statements of the Volkswagen Group

Consolidation Principles

Scope of Consolidation

It is our policy to include in the scope of consolidation all Group companies in which Volkswagen AG has a direct or indirect interest of over 50 %. The consolidated financial statements cover Volkswagen AG, 25 other German Group companies and 47 foreign Group companies. These companies are identified in the chart of major Volkswagen Group companies on pages 54 and 55. The following companies were incorporated into the consolidated financial statements for the first time in the year under report:

GmbH für ausländische Vertriebsbeteiligungen M.A.N.-Volkswagen, Wolfsburg, TA Triumph-Adler Centrum für Bürokommunikation Frankfurt GmbH, Frankfurt, TA Triumph-Adler Centrum für Bürokommunikation Düsseldorf GmbH, Düsseldorf, TA Triumph-Adler Centrum für Bürokommunikation Stuttgart GmbH, Stuttgart, AUTOGERMA S.p.A., Verona, Volkswagen Inmobiliaria, S.A. de C.V., Mexico D.F.

After the departure of M.A.N. Maschinenfabrik Augsburg-Nürnberg AG, which, along with Volkswagen AG, held a 50 % interest in the GmbH für ausländische Vertriebsbeteiligungen M.A.N.-Volkswagen, Volkswagen AG has now been holding 100 % of the shares since the beginning of 1985. To streamline its West German sales organisation TA Triumph-Adler AG purchased majority holdings in three centers for business communications.

The acquisition of AUTOGERMA S.p.A. was finalised during the first half of 1985 by the merger with Automobili Germania S.p.A. and subsequent re-naming AUTOGERMA S.p.A. Volkswagen Inmobiliaria, S.A. de C.V., whose corporate object is to hire out residential buildings, started business in the year under report.

DIRANUS Versicherungs-Vermittlungs-

GmbH, Hamburg, was excluded from the scope of consolidation because it was sold.

In December 1985 AUTOGERMA S.p.A. acquired from TA Triumph-Adler AG the stocks in Triumph-Adler Italia S.p.A. The scope of consolidation was not affected by this though.

7 German Group companies and 16 foreign Group companies were not included in consolidation. The German companies not included were the following:

Auto Union GmbH, Ingolstadt, Triumph-Adler Wohnungsbaugesellschaft mbH, Nuremberg, Schulteß GmbH, Hamburg (currently being dissolved), Schultess & Ziehn (GmbH & Co.), Hamburg (currently being dissolved), NSU GmbH, Neckarsulm, Computer Union GmbH, Frankfurt, TA Software e. G., Berlin.

The overall picture of the assets and earnings situation of the Group is not affected by the exclusion of these and the foreign companies because these companies do not conduct any or much business and their total volume is negligible.

Form of Presentation and Valuation

In preparing the consolidated financial statements we have, as in previous years, made it our policy to take into consideration the Schmalenbach-Gesellschaft study group recommendations on global financial statements. The manner in which the financial statements are presented complies with the requirements laid down by the German Corporation Law. In the balance sheet we indicated the changes in fixed assets and investments, and the statement of earnings was prepared in the fully consolidated, detailed form. Certain items have been reclassified to fall in line with Group requirements. As a result of the increasing importance of leasing and rental business for the Volkswagen Group we have for the first time shown

the assets hired out, which had previously been listed under the item plant and office equipment, as a separate item for the fiscal year 1985. Additions and disposals as well as depreciation were referred to in a balance-sheet footnote. On account of their special nature we define additions of assets rented out no longer as Group investment. The valuation principles applied to fixed assets and investments remained the same. There has therefore merely been a change in listing Group assets and investments. For the purposes of comparison we have adjusted the corresponding figures for the previous year. On account of legal restrictions placed on the capital of non-profit companies, the reserves and the undistributed portion of the net earnings available for distribution of one Group company have been allocated to undetermined liabilities in the consolidated balance sheet.

As in previous years, for consolidation purposes the financial statements drawn up by the consolidated foreign companies in accordance with respective national regulations have been prepared in accordance with uniform accounting and valuation principles in compliance with the Corporation Law and audited in this form.

Translation of Currencies

Additions to fixed assets were translated at the average rates for the months of acquisition, whereas depreciation and disposals were translated at middle rates weighted in line with the monthly additions (historical rates).

Loans with an initial term of four years or longer were translated at the middle rate for the balance-sheet date, but we have translated the other financial investment items at the rates applied on the date of acquisition and carried them forward on this basis.

The other asset items, and debts, were translated at the middle rates for the balance-sheet date. With the exception of items where the historical rates for fixed assets and investments were ap-

plied for translation purposes (depreciation, gains or losses on disposals), we have translated expenses and income in the statement of earnings at the average monthly rates for the fiscal year. Net earnings, on the other hand, have been translated at the middle rates for the balance-sheet date.

Differences arising from the translation of balance-sheet items have not affected net earnings but have been allocated direct to other reserves. Any translation differences arising from the use of differing exchange rates in the statement of earnings were balanced out before the profit on the year was calculated and had no effect on the result.

Capital Consolidation

Capital was consolidated by dividing up the differences into adjustment items from initial and subsequent consolidation. In this way, acquisition costs of interests in Group companies have been set off against the capital to be consolidated available at the time the interests were acquired. The resulting differences arising from initial consolidation are shown separately either as a special item of fixed assets and investments on the assets side, or under consolidated reserves on the stockholders' equity and liabilities side, as the case may be.

Other reserves include:

- Unappropriated earnings of Volkswagen AG
- Adjustment items from subsequent consolidation together with the reserves of the other consolidated companies and the value adjustments in respect of consolidated companies, insofar as they were not deductible from the differences arising from initial consolidation shown on the assets side
- Intra-Group profits resulting from current or fixed assets

- Differences due to the translation of foreign financial statements at different exchange rates.

In addition, the net earnings available for distribution of the Group companies — less sums earmarked for distribution to stockholders outside the Group — have been transferred to the other reserves.

We have deducted from the other reserves amounts equalling the parent company's income from trade investments and listed them separately in the consolidated financial statements as required. The difference between the Group's net earnings and net earnings available for distribution of Volkswagen AG plus the minorities' shares in the Group result has been transferred to the other reserves. This means the changes in the Group result arising from consolidation are balanced out so that the consolidated net earnings available for distribution are equal to the net earnings available for distribution of Volkswagen AG.

Ascertainment of the minority interest in consolidated foreign subsidiaries was based on the financial statements translated into DM, valued in accordance with uniform valuation principles and adapted to the generally accepted accounting principles. Differences arising from currency translation in the process of consolidation have been apportioned to minority stockholders on a pro rata basis.

Balance Sheet

Assets

Property, Plant, Equipment and Intangible Assets was again assessed, as with the leasing and rental assets shown for the first time as a separate item, at acquisition or manufacturing cost minus regular depreciation. Extraordinary depreciation was charged by the German companies in accordance with the tax regulations. It was particularly consolidated companies abroad which made use of extraordinary depreciation for economic reasons.

The net book value of property, plant and equipment was DM 342 million less than the previous year and came to DM 8,740 million. There were additions amounting to DM 3,133 million and depreciation and disposals totalling DM 3,475 million. Additions were 20.8 % up on the previous year's level and 43.6 % of them were accounted for by Volkswagen AG, 30.0 % by AUDI AG and 16.2 % by Volkswagen do Brasil. The main emphasis of investment, in which capacity increases played a role for the first time again, was on efforts to continue developing the range of products and to further modernise the plants.

Investments rose by DM 17 million to DM 443 million. The item **Investments in Subsidiaries and Affiliates** chiefly concerns Volkswagen AG's holdings in the Shanghai-Volkswagen Automotive Company Ltd., the West German sales centers, V.A.G Sverige AB, TAS Tvrnica Automobila Sarajevo, Deutsche Automobilgesellschaft mbH and Volkswagen of Nigeria Ltd.

Other Investment Securities chiefly shows securities held by Volkswagen of South Africa.

Loans Receivable with an Initial Term of Four Years or Longer mostly comprise loans granted by Volkswagen AG, V.A.G France and Volkswagen of America. Interest-free and low-interest loans are shown at cash value, as in previous years. Interest amounts deducted are

shown under write-downs. Values of loans are the same taking into consideration the sums accounted for by redemption.

Other Investments pertained mainly to the amounts which had to be raised for compulsory loans in Brazil.

Compared with December 31, 1984 the net book value of **Leasing and Rental Assets** rose by DM 1,284 million to DM 3,717 million. Additions amounted to DM 3,217 million and chiefly involved replacements to the leasing and rental vehicle fleet owned by V.A.G Leasing GmbH and Volkswagen of America. Depreciation and disposals, the latter being particularly due to the sale of used leasing and rental vehicles, totalled DM 1,933 million.

Adjustment Items Arising from Initial Consolidation on the assets side show excess values over and above the net book values of holdings at the time of acquisition insofar as they have not already been written down. As of December 31, 1985 the item mainly comprised the differential amounts arising from the consolidation of AUDI AG, the newly acquired TA Triumph-Adler Centers and interRent Autovermietung GmbH, reduced by write-downs where necessary.

Inventories fell by DM 355 million or 5.3 % compared with the previous year to DM 6,284 million. The change on the previous year was particularly due to reductions at Volkswagen of America, Volkswagen of South Africa and Volkswagen de Mexico. There were increases at the Italian distributing company, AUTOGERMA, which was consolidated for the first time, and at Volkswagen do Brasil.

Advance Payments to Suppliers mainly concerned Volkswagen do Brasil and Volkswagen AG.

Of the **Trade Accounts Receivable** 42.0 % pertained to domestic Group companies and 58.0 % to foreign ones.

Most Trade Acceptances were held by the TA Triumph-Adler group, V.A.G France and Volkswagen AG.

Cash in Banks fell by DM 774 million compared with the previous year to DM 4,249 million. The change was particularly due to reductions at Volkswagen AG, AUDI AG and Volkswagen de Mexico. Increases were due to the inclusion of AUTOGERMA S.p.A., and to rises at Volkswagen of America, Volkswagen Bruxelles S.A. and Volkswagen of South Africa.

The portfolio of **Securities** rose by DM 2,372 million compared with the previous year to DM 3,939 million. The main increases were at Volkswagen AG and AUDI AG.

Miscellaneous Other Current Assets chiefly comprised receivables from the financing of purchases (dealer financing) and sales (customer financing), as well as receivables in the form of interest payments and tax refunds. The increase of DM 152 million to DM 4,915 million was mainly due to a rise in receivables deriving from financing and interest.

Prepaid and Deferred Expenses mainly consisted of commissions and expenditure in connection with financing by West German and foreign financing companies.

Stockholders' Equity and Liabilities
Consolidated Reserves show the reserve from capital stock surplus, the reserves arising from earnings and the adjustment items arising from initial consolidation.

The **Reserve from Capital Stock Surplus** consists of the premium amounts contained in Volkswagen AG's legal reserve.

The **Reserves Arising from Earnings** show the amounts allocated to the legal reserve from the net earnings of Volkswagen AG, as well as other reserves. The other reserves, in which we include differences resulting from translation of

the foreign financial statements at different exchange rates (historical/balance-sheet date rates), rose by DM 774 million compared with the previous year to DM 4,913 million. This item also consists of the pro rata reserves accrued since becoming a member of the Group, net earnings available for distribution and losses of Group companies, as well as value adjustments made by parent companies for Group companies and eliminated in the course of consolidation. It also includes the amounts to be eliminated in fixed assets and inventories from intra-Group supplies, the discounts on interest-free or low-interest loans granted by Volkswagen AG to housing companies and cancelled in the course of consolidation, as well as other cases of elimination arising from consolidation and having an effect on the result.

The **Adjustment Items Arising from Initial Consolidation** consist of the surplus of net assets exceeding acquisition cost at the time of acquisition. They were mainly accounted for by the consolidation of Volkswagen of South Africa, the former Volkswagen Caminhões Ltda. and Volkswagen Argentina S.A.

Minority Interest in Consolidated Subsidiaries chiefly related to Volkswagen do Brasil, Volkswagen of America and consolidated subsidiaries as well as AUDI AG.

Reserves for Special Purposes were shown by Volkswagen AG and other West German Group companies and V.A.G France.

The **Allowance for Doubtful Trade Acceptances and Accounts** was made to cover the general credit risk, as in previous years, by the German and foreign companies according to uniform principles.

Total **Undetermined Liabilities** rose by DM 2,227 million compared with the previous year to DM 14,206 million. Of this amount, 37.3 % may be regarded as long-term, 34.5 % as medium-term and 28.2 % as short-term.

Undetermined Liabilities in respect of **Old-age Pensions**, which stem from the financial statements of the West German Group companies, were based on actuarial computation and the going value method. The reserve for special purposes created in 1982 as a result of the change in interest rate from 5.5 % to 6 % was eliminated pro rata.

Undetermined Liabilities for Maintenance Not Performed during Current Year pertained mainly to Volkswagen AG and AUDI AG.

Undetermined Liabilities for Warranties without Legal Obligation came mainly from the financial statements of Volkswagen AG and Volkswagen of South Africa.

Other Undetermined Liabilities chiefly consisted of warranty and marketing expenses, taxes and workforce obligations.

Liabilities with an Initial Term of Four Years or Longer fell by DM 545 million compared with the previous year. Decreases shown at Volkswagen de Mexico and Volkswagen International Finance were due to the fluctuation in the exchange rates and to regular redemption of loans by V.A.G Leasing GmbH, Volkswagen AG and interRent Autovermietung GmbH. V.A.G Kredit Bank GmbH showed an increase.

Of the **Trade Accounts Payable** 66.6 % was accounted for by German companies and 33.4 % by foreign companies.

Liabilities Resulting from the Acceptance of Bills Drawn and the Issuing of Promissory Notes were primarily shown by Volkswagen do Brasil and the TA Triumph-Adler group.

Liabilities Due to Banks were DM 336 million down on the previous year, mainly as a result of the reduction shown in the financial statements of Volkswagen of America.

Advance Payments from Customers chiefly involved the financial statements of Volkswagen AG and Volkswagen Argentina S.A.

Miscellaneous Other Liabilities mainly arose from liabilities to the workforce and from taxes and customs duties.

Deferred Income mainly comprised financing income which has to be booked as pro rata amounts during the term of loan agreements made.

In addition to the **Contingent Liabilities** shown on the balance sheet, the following liabilities have to be stated:

Out of the total securities held as current assets, Volkswagen AG has pledged securities at a nominal value of DM 2 million to safeguard routine handling of imports. It is also liable in the amount of DM 2,859,600 in respect of returned contributions to limited partnerships (Kommanditgesellschaften). There were contribution liabilities of DM 635,000 towards a private limited company (GmbH) and DM 1,300,000 towards a limited liability company partnership (GmbH & Co. KG). Liabilities to a cooperative, a private limited company (liability to contribute in accordance with the Articles of Association) and another German private limited company totalled DM 4,723,600.

Statement of Earnings

The figures given in the 1985 statement of earnings have been affected by the substantial changes in the exchange rates so it is difficult to make a fair comparison with the previous year's figures.

Sales of the Volkswagen Group rose by DM 6,831 million (15.0 %) to DM 52,502 million during the year under report. The percentage of foreign sales was 69.2 % (67.9 % the previous year).

Gross Performance rose by DM 5,937 million (12.7 %) to DM 52,709 million.

The increase in **Expenditures on Raw Materials, Supplies and Other Materials** was particularly due to the increase in production and in the percentage of more upmarket features on vehicles.

Income from Investments in Subsidiaries and Affiliates stemmed almost entirely from the financial statements of Volkswagen AG and mainly related to the Company's shares in the profits of German sales centers.

Income from Other Financial Investments chiefly originated at V.A.G France, Volkswagen of America, Volkswagen do Brasil and Volkswagen AG.

Other Interest and Similar Income derived mainly from the financial statements of Volkswagen do Brasil, Volkswagen AG and V.A.G Kredit Bank GmbH.

Gains from Disposal of Fixed Assets and Investments came largely from the financial statements of Volkswagen AG and Volkswagen of America.

Gains from Disposal of Leasing and Rental Assets derived chiefly from the sale of used vehicles owned by the leasing and rental companies.

Income from Elimination of Reserves for Undetermined Liabilities no Longer Required was chiefly accounted for by Volkswagen AG, the TA Triumph-Adler

group, Volkswagen of America and AUDI AG.

Income from Elimination of Reserves for Special Purposes no Longer Required derived mainly from German companies eliminating the item created in accordance with § 52 subsection 5 of EStG (Income Tax Act), and from the elimination of items created in accordance with § 1 of the Developing Countries Tax Act.

Other Income resulted especially from foreign exchange gains, from the rebilling of advertising material and sales promotion expenses, from renting and leasing, and from the sale of catering goods.

Labour Cost came to DM 13,913 million, that is, DM 686 million or 5.2 % up on the previous year. The increase was due to the larger average workforce (caused by the reduction in working hours for example) and pay rises.

The item **Write-down of Financial Investments** comprised mainly value adjustments for other financial investments and long-term lendings.

Losses on Disposal of Fixed Assets and Investments derived mainly from AUDI AG, Volkswagen AG and Volkswagen Bruxelles S.A.

Losses on Disposal of Leasing and Rental Assets chiefly stemmed from the sale of vehicles used in leasing and rental business.

The item **Interest and Similar Charges** was still affected to a great extent by the high financing costs in the Latin American countries, due to inflation.

Taxes on Income, Earnings and Property were DM 727 million up on the previous year, particularly owing to the more favourable earnings situation at Volkswagen AG and AUDI AG.

Other Taxes mainly consisted of sales

taxes and other taxes levied on the Group's foreign companies.

Additions to Reserves for Special Purposes mainly occurred at Volkswagen AG owing to the price increase reserve created in accordance with § 74 of EStDV (Income Tax Directive).

Most of the **Other Expenses** consisted of advertising and sales promotion costs, currency losses, expenditure on servicing and maintenance, and expenses for shipment of finished products.

The Group closed the fiscal year 1985 with **Net Earnings** amounting to DM 596 million (DM 228 million the previous year). It was especially the results for Volkswagen AG and AUDI AG which contributed to the improvement in the earnings situation. The earnings position of the South American companies and Volkswagen of South Africa was still unsatisfactory. In Volkswagen of America's financial statements the field of business and information technology showed an unfavourable trend.

Notes on the Financial Statements of Volkswagen AG

Balance Sheet

Assets

Investments in Property, Plant and Equipment amounted to DM 1,366 million in the fiscal year, 33 % up on the previous year. About half of these investments served to further develop and improve our vehicles. Other chief areas of investment were restructuring and the increase of flexibility in production.

Additions to finished buildings and plant, including transfers of buildings and plant under construction and advance payments on fixed assets, came to DM 1,055 (989) million. Out of this total, DM 461 (461) million was expended on plant and office equipment, DM 458 (363) million on machinery and fixtures and DM 136 (165) million on real estate and buildings.

The total cost of acquisition and manufacture for property, plant and equipment reached DM 17,029 (16,025) million at the end of the fiscal year. After deduction of the value adjustments on this sum in the amount of DM 14,228 (12,869) million, the net book value of property, plant and equipment to be shown on the balance sheet came to DM 2,801 (3,156) million.

As previously, property, plant and equipment have been valued at acquisition or manufacturing cost, less depreciation. Manufacturing cost was based on the directly attributable cost of materials and labour and on the portions of general operating costs permitted by tax regulations, including pro rata depreciation.

Shares in administrative costs were not taken into consideration.

Investment subsidies and grants have been deducted from acquisition or manufacturing cost. Subsidies and grants made available for the previous year's additions were shown on the balance sheet as disposals. Advance payments on fixed assets were shown at their nominal value.

The following list shows a breakdown of investments in property, plant and equipment by the various plants of Volkswagen AG (in DM million):

Plant		Incl. movable assets
Wolfsburg	616	576
Kassel	378	321
Salzgitter	161	157
Hanover	79	60
Emden	71	36
Brunswick	61	37
	<u>1,366</u>	<u>1,187</u>

We have not availed ourselves of the possibility of creating an assets item for intangible assets.

Regular depreciation on the cost of acquisition and manufacture for finished fixed assets was in each case charged either according to the straight-line method or the reducing-balance method to the extent permitted by fiscal law, with a later switch to the straight-line method as planned. Depreciation on special tools and jigs was calculated on the basis of unit rates which correspond to the expected volumes of units produced.

Regular depreciation is based on the following system of years of useful life:

Buildings	usually 30 to 50 years
Engineering buildings and site utilities	usually 10 to 18 years
Production machinery	usually 6 to 8 years
Power generators	usually 14 years
Plant and office equipment	usually 4 to 8 years

It is our depreciation policy to utilise to full advantage all the opportunities available with regard to taxes on income and earnings.

Regular depreciation consisted of the following:

- Rates of depreciation by the reducing-balance method
 - Full rates of annual depreciation on subsequent cost of acquisition or manufacture and on additions to movable assets during the first six months, half the annual rate on additions during the second six months
 - Full depreciation of low-value assets during the year of addition
 - Extraordinary depreciation in accordance with § 3 of the Border Area Promotion Act; during the fiscal year including special tools, also for previous years' additions
 - § 7d of the Income Tax Act
 - § 82d of the Income Tax Directive
 - § 6b of the Income Tax Act
 - Section 35 of the Income Tax Guidelines.
- These measures totalled DM 635 (214) million.

Additions to Investments in Subsidiaries and Affiliates shown under Investments chiefly involved Group companies abroad. There were increases in capital stock at Volkswagen of America, Inc., Automobili Germania S.p.A., which took over AUTGERMA S.p.A. in 1985 and whose name it is continuing to use, and TAS Tvrnica Automobila Sarajevo. Another addition occurred when the Shanghai-Volkswagen Automotive Company Ltd. was formed. Disposals were mainly due to partial repayment of the contribution to the capital of the general partnership Volkswagen AG PreussenElektra AG OHG.

Trade investments have been valued at acquisition cost, less value adjustments. On account of the risks entailed in various investments and because of capital losses the firm charged write-downs on five foreign companies and one West German company in 1985. The companies involved were mainly in the Latin American region.

Out of the total amount for write-downs

DM 5 million was accounted for by additions throughout the fiscal year.

Loans Receivable with an Initial Term of Four Years or Longer included funds which were made available to housing associations and Company employees. 7 % discount has been applied to loans granted since 1955. Loans granted up to December 31, 1954, under § 7c of the Income Tax Act, have been fully written down. The figures shown on the balance sheet and to which discount has been applied will be retained until redemption. Write-downs amounting to about DM 8.9 million pertained to additions during the fiscal year.

Inventories fell by DM 20 million from the previous year to a total of DM 2,347 million. As of the fiscal year 1985 inventory of finished Audi vehicles is kept by AUDI AG.

Raw materials and supplies were valued at average acquisition cost or reacquisition cost where lower. Incidental acqui-

sition costs such as freight, customs duty, cash discounts etc. were taken into account accordingly. We took advantage of the opportunity to charge a write-down on imported goods in accordance with § 80 of the Income Tax Directive. The value shown for unfinished and finished products contains the direct materials assessed at average acquisition cost, direct labour cost as well as material and manufacturing overheads which have to be carried as assets in accordance with fiscal regulations. Administrative costs were not taken into account. Commercial goods were valued at the respective acquisition cost. Vehicles used for company purposes are shown at the value permissible by fiscal law. Appropriate value adjustments were made to account for any foreseeable warehousing and inventories risks.

Trade Accounts Receivable amounted to DM 672 million, DM 525 million being accounted for by foreign business and DM 147 million being accounted for by domestic business. Apart from minor exceptions, accounts due for payment

Depreciation on additions for 1985 was distributed as follows:

DM thousand	Real estate and land rights		Build- ings on leased real estate	Machinery and fixtures	Plant and office equipment	Cons- truction in progress	Advance payments on fixed assets
	with office, factory and other buildings	with residential buildings					
1985 additions ^{*)}	134,677	181	893	458,063	424,759	117,600	58,500
Depreciation on 1985 additions	42,197	2	311	250,892	203,391	57,570	29,320

^{*)} Additions inclusive of transfers from construction in progress and advance payments on fixed assets (not including special tools not yet in operational use

and on which depreciation has not yet been applied, but including additions to land and buildings eligible for depreciation as provided for under § 6b EStG (Income Tax Act))

have been settled in the meantime. Value adjustments were made with respect to non-payment risks.

Cash in Banks consisted chiefly of short-term time deposits.

The value of **Securities** rose as a result of the acquisition of bonds for the purpose of investing liquid funds. The securities were assessed at acquisition cost or at the value on the balance-sheet date where lower. Securities with a nominal value of DM 2 million were pledged as security in favour of the customs authorities in Hanover to ensure routine import clearance.

The balance-sheet value of **Treasury Stock** remained unchanged. It was acquired in 1971 in connection with a conversion offer to Audi stockholders on the occasion of a capital increase. The total of 301,206 shares were acquired at a nominal value of DM 15,060,300, the average price being DM 190.04 per share. The nominal value of the treasury stock is equal to 1.3 % of capital stock. As required by law a reserve has been created in respect of our treasury stock.

Receivables from Subsidiaries and Affiliates chiefly concerned V.A.G Leasing GmbH, V.A.G France S.A., Volkswagen of America, Inc., AUDI AG and interRent GmbH. Out of the total amount for receivables, DM 2,439 million was accounted for by West German companies and DM 1,526 million by Group companies abroad. They were mainly short-term loans given and trade accounts receivable. Value adjustments have been made for non-payment and foreign exchange risks.

Miscellaneous Other Current Assets chiefly consisted of a short-term loan to a West German subsidiary, amounts receivable from the tax office in respect of input tax as well as interest receivable but not yet due. We made value adjustments for high-risk amounts receivable.

Stockholders' Equity and Liabilities

Capital Stock remains unchanged at DM 1,200 million. There also continues to be authorised capital stock in the amount of DM 300 million and **Potential Capital Stock** in the amount of DM 200 million up to June 30, 1989, which can be partially converted to Capital Stock if bearers of warrants from the option bond issued at the beginning of 1986 exercise their subscription right.

Legal Reserve and Reserve for Treasury Stock remained unchanged.

An amount of DM 238 million from net earnings was transferred to **Other Reserves**.

Reserves for Special Purposes were DM 19 million down on the previous year. We performed eliminations in accordance with the legal regulations but also created a reserve to take account of inflation in accordance with § 74 of the Income Tax Directive.

The **Allowance for Doubtful Trade Acceptances and Accounts** was again made to cover the general credit risk in respect of trade accounts receivable and advance payments to suppliers.

Undetermined Liabilities in respect of **Old-age Pensions** were assessed at the going value of liabilities in accordance with § 6a of the Income Tax Act on the basis of actuarial methods.

Most of the **Other Undetermined Liabilities** consisted of tax provisions, provisions for warranty and marketing expenses and for labour costs, especially for long-service anniversaries and early retirement schemes.

Liabilities with an Initial Term of Four Years or Longer decreased owing to the redemption instalment due on the DM 300 million loan issued in 1972 and on account of premature repayments to meet liabilities towards banks.

Trade Accounts Payable was mainly in respect of domestic suppliers.

Due to Banks related almost solely to current business.

The reduction in **Accounts Payable to Subsidiaries and Affiliates** was chiefly in respect of Volkswagen of America, Inc. and Volkswagen de Mexico, S.A. de C.V.

Miscellaneous Other Liabilities mainly consisted of regular payroll liabilities, other staff payments and tax liabilities.

Statement of Earnings

Sales rose by DM 5,147 million or 15.2 % to DM 38,921 million. This increase was chiefly due to the rise in unit sales particularly abroad, more upmarket features on vehicles and price increases. The high exchange rate for the US dollar exerted a considerable influence on the level of sales. Abroad they were 19.4 % above the previous year's figure while in West Germany they were 9.6 % higher. Of total sales 76.4 % was accounted for by vehicle business, 6.8 % by spare part sales and 16.8 % by other miscellaneous sales.

Expenditures on Raw Materials, Supplies and Other Materials rose by DM 3,656 million or 16.8 % to DM 25,483 million. The reasons for this rise were the large increase in the number of vehicles purchased from subsidiaries and SEAT, higher vehicle production with a larger proportion of more upmarket vehicle features, the rise in production of components for the interlinked production system, and price increases.

Income from Profit and Loss Assumption Agreements derived from the domestic subsidiaries V.A.G Transport GmbH, WESER-EMS Vertriebsgesellschaft mbH, VW KRAFTWERK GmbH, VW-Siedlungsgesellschaft mbH, V.A.G Marketing Management Institut GmbH and Deutsche Automobilgesellschaft mbH.

Income from Investments in Subsidiaries and Affiliates consisted mainly of the proportionate profits for the fiscal year shown by domestic sales centers, and dividends paid out by Volkswagen Bruxelles S.A. and VW-Versicherungsvermittlungs-GmbH.

Income from Other Financial Investments involved interest on loans granted.

Other Interest and Similar Income derived chiefly from securities in the current assets, from fixed deposits and from loans to subsidiaries and affiliates.

Gains from Disposal of Fixed Assets and Investments arose from the sale of fixed assets and from the repayment of housing loans.

Income from Elimination of Reserves for Undetermined Liabilities consisted particularly of provisions no longer required for staff and marketing expenses.

Other Income chiefly resulted from the rebilling of tax to subsidiaries and affiliates, the settling of business in foreign currency, catering sales and rebilled services.

Labour Cost rose during the fiscal year by DM 92 million or 1.2 % to DM 7,901 million (cf. "Report on Social Matters at Volkswagen AG", pages 38 ff.). This increase does not fully reflect the increased expenditure due to the rise in the number of staff, the pay increase and changes in social legislation because in the previous year future long-service anniversary payments were taken into account for the first time.

Interest and Similar Charges chiefly concerned liabilities to subsidiaries and affiliates, as well as loans.

The rise in **Taxes on Income, Earnings and Property** consisted largely of tax on earnings for the current year.

Expenses under Profit and Loss Assumption Agreements resulted primarily from the waiving of amounts receivable from TA Triumph-Adler AG.

Other Expenses chiefly showed freight costs for the distribution of our products, costs connected with the servicing and maintenance of plant, advertising and sales promotion expenses, expenditure related to early retirement schemes and tax risks, as well as currency losses.

Additional Details

In addition to the **Contingent Liabilities** shown on the balance sheet, we were liable in the amount of DM 62,135,000 in the form of subscription obligations con-

cerning private limited liability companies and had a contingent obligation towards a German company to pay a further contribution of DM 4,585,000. In addition we had liabilities in the amount of DM 2,859,600 for returned capital contributions from limited partnerships. We have unlimited liability in respect of our holding in Volkswagen AG PreussenElektra AG OHG. Of the real estate, about 64 hectares (balance-sheet value DM 2,525,212.49) is encumbered with building leases.

For the DM 200 million loan granted to us by Volkswagen International Finance N.V. and stemming from a bond issue by this company, we gave a guarantee to bondholders in the same amount.

The differential amount according to § 160 subsection 2 clause 5 of the Corporation Law, which led to a reduction in net earnings, totalled DM 325,293,033.92 for the fiscal year. It arose mainly as a result of charging special depreciation in accordance with § 3 of the Border Area Promotion Act on special tools, accounting for risks connected with Group companies, and as a result of fiscally permissible valuation of vehicles used for company purposes.

The **Remunerations of the Members of the Board of Management** totalled DM 11,867,191 in 1985. Retired members of the Board of Management or their surviving dependants received DM 4,935,024.

The **Remunerations of the Supervisory Board** amounted to DM 307,485.

Explanations of Certain Financial Terms

Since our Annual Report is intended to be read by as wide a circle as possible, and some of the technical terms used in it are subject to varying definitions, we should like to explain them. We make no attempt to be comprehensive, nor do we claim scientific exactitude. Rather we wish to indicate the interpretations current within the Company.

Added value: The increase in value achieved by a company in a period (added value) is calculated at Volkswagen AG as follows: Gross performance as shown in the statement of earnings + other income — expenditures (predominantly material costs) — depreciation and losses from disposals. The calculation of the added value also shows, to what extent the employees, the creditors, the State, and the stockholders participate in the total performance of the Company.

Additions: Every actual quantitative addition of items in the fixed assets and investments (physical alteration of the fixed assets and investments) is designated as an addition. Additions can only be shown as such in the accounting period in which the quantitative addition in the fixed assets and investments actually occurred.

Adjustment items arising from initial consolidation: The difference resulting when the acquisition costs of a holding in a group company do not correspond to the capital to be consolidated available at the time of acquisition (capital stock, reserves, profit or loss). The resulting sum is shown in the balance sheet under "Adjustment items arising from initial consolidation". Thus for example an adjustment item on the assets side can contain valuation reserves in acquired group companies or future profits already contained in the acquisition price.

Advance payments: These are prepayments on agreed supply and service contracts in connection with which a delivery or service has not yet been completed.

Allowance for doubtful trade acceptances and accounts: In order to cover the general credit risk attaching to the receivables, a flat value adjustment can for reasons of business circumspection be made. Account must on the other hand be taken of individual bad debts through value adjustments made on the assets side in the case of the receivables concerned.

Authorised capital: Authorised capital is one of the four forms of capital increase provided for in the Corporation Law and comprises the authorisation of the Board of Management by the Annual Meeting of Stockholders to increase the capital stock of the company within a maximum of five years by up to an agreed nominal value through the issue of new shares.

The conditions and the exact date of the share issue are decided by the Board of Management after approval by the Supervisory Board. Since a further resolution of the Annual Meeting of Stockholders directly prior to the increase of capital stock is not necessary, the authorised capital represents a flexible instrument for capital raising as far as the time of the increase is concerned which makes it possible to adapt the time and conditions swiftly to the situation on the capital market at any given point. At the Annual Meeting of Stockholders of 1984 the Board of Management was authorised to increase the capital stock of Volkswagen AG from the present DM 1,200 million to up to DM 1,500 million through the issue of new bearer shares up to June 30, 1989. The stockholders are to have subscription rights.

Capital investments: These are additions of property, plant and equipment for long-term use — e. g. real estate, machines and plant and office equipment. They also include additions of intangible fixed assets and also financial investments such as the acquisition of shares, limited liability company holdings and bonds. The consolidated financial statements also include under additions for example the fixed assets and investments of companies included in the consolidation scope for the first time and an increase of the adjustment items arising from initial consolidation. As of the fiscal year 1985 the capital investments no longer include the additions in leasing and rental assets; the figures for the previous year have been adjusted accordingly.

Cash flow: This is the sum of money

available to a company for financing purposes in any fiscal year from the sales proceeds after deduction of expenses such as material, labour and other costs. In practice it is ascertained in different ways. We ascertain cash flow for the Volkswagen Group as follows: Result + provision for depreciation of fixed assets and write-down of investments + disposals of property, plant, equipment and investments (not including depreciation and disposals of leasing and rental assets) +/— increase/decrease in provision for old-age pensions +/— increase/decrease of stockholders' equity in reserves for special purposes. The cash flow is a figure for the rating of the internal financing capacity of a company.

Consolidation: This is the integration of the individual financial statements (balance sheets and profit and loss accounts) of the legally independent group companies being consolidated into group financial statements, setting off intra-group transactions to avoid double counts. The following items have to be set off: equity capital of the subsidiary against the corresponding item "Investments in subsidiaries and affiliates" of the parent company (capital consolidation), receivables against liabilities (debt consolidation) and expenses of the one company against the corresponding income of the other group company, where necessary eliminating inter-company profits (expenses and income consolidation).

Contingent liabilities: These are liabilities whose reason and extent are known but where it is uncertain whether the company will have to meet them. For example guarantees are shown in these sums. Because this kind of liability has as yet no fixed character, it is shown outside the actual balance sheet structure.

Current assets: All assets which do not serve the longer-term business operation and are not advance payments for expenses of the following year (item "Prepaid and deferred expenses") are

referred to as current assets. In principle these include all objects which are to be used up, processed or disposed of. Current assets are subdivided into the groups "Inventories" and "Other current assets". The assets under these headings are characterised by the fact that they have a relatively fast turnover.

Deferred income/Prepaid and deferred expenses: Revenues or expenditures of the company which do not result in income or expenses until after the balance sheet date (e.g. rent paid in advance).

Depreciation: By means of depreciation the acquisition or manufacturing costs of items making up the fixed assets are distributed over the accounting periods (fiscal years) in accordance with their planned useful life. In addition to this regular depreciation there is extraordinary depreciation for covering unforeseen value reducing factors and for tax purposes. Such depreciation can for example take account of the obsolescence of machinery as a result of technical progress.

Disposals: The statement of reductions in fixed assets and investments presupposes the (physical) disposal of assets in particular through sale, demolition or scrapping. Higher or lower proceeds compared with the book values can thus be achieved; the difference between proceeds and book value is shown in the statement of earnings under gains or losses on disposal of fixed assets and investments.

At Volkswagen AG the investment allowances granted from government funds on the previous year's capital investments, whereby the acquisition or manufacturing costs are reduced, are also shown as disposals.

Fixed assets and investments: These include all items which on the balance sheet date are intended to serve the operation of the company over the longer term. Fixed assets and investments are subdivided into tangible and intangible

assets (e.g. licences, patents, rights) and financial investments.

Gross performance: This is the performance which has been achieved by a company during a given period and consists mainly of the sales proceeds. Along with this the gross performance includes changes of inventories of the products and the other self-produced assets.

Intangible fixed assets: Rights acquired against payment, e.g. concessions, licences and patents.

Inventories: These comprise raw materials and supplies, work in progress, finished products and goods. Raw materials are all materials which go direct into the product as essential components; auxiliary materials are only minor components of the product; supplies (e.g. lubricants) are not a part of a product but are necessary for its manufacture. "Goods" are all objects which have been purchased from outside and disposed of without processing or reworking. At Volkswagen AG for example these include the vehicles assembled by Volkswagen Bruxelles.

Investments in subsidiaries and affiliates: These are holdings in other companies (stock companies or unincorporated companies) which were acquired with the intention of a longer-term participation.

Liquid funds: These are the financial assets of a company which are available at all times. They include cheques, cash on hand, deposits in postal checking accounts, and cash in banks.

Liquidity: The company's ability to meet its financial obligations whenever they are due. In order to secure constant ability to pay it is necessary to match incoming payments and obligations to pay in such a way that the inflow and outflow balance as far as possible. Since in practice this target can only be approached, every company is forced for reasons of security to hold a liquidity reserve.

Loans receivable in accordance with §§ 89 and 115 of AktG (Corporation Law): This includes loans to members of the Board of Management, senior executives and persons on a level with this group, and loans and advances to members of the Supervisory Board. This obligatory statement also includes loans to companies in whose statutory bodies a member of the Board of Management or Supervisory Board of the loan-providing company is represented.

Loss: See "Net earnings/Loss".

Loss as shown in the balance sheet: This is the loss after net earnings (loss) brought forward and change in reserves.

Material, wages and overhead capitalised as additions to plant and equipment: These are for example self-produced plant and tools. They are shown in the statement of earnings under the income item "Material, wages and overhead capitalised as additions to plant and equipment" since the expenses arising from the production of the company-constructed assets (wages, materials etc.) are contained in the corresponding items in the statement of earnings.

Minority interest in consolidated subsidiaries: If outside (non-group) parties have an interest in the companies included in the consolidated financial statements, then a "Minority interest in consolidated subsidiaries" has to be shown separately in the consolidated balance sheet for their share in the capital, reserves and profit/loss. This adjustment item is necessary, since all assets and liabilities of the group companies are included in the balance sheet in full although they only belong partially to the group companies. For example under this item the Volkswagen Group balance sheet has to show the minority interests that exist in Volkswagen do Brasil and VW-Versicherungsvermittlungs-GmbH.

Net earnings/Loss: The sum is arrived at mathematically from the difference

between all income and expenses and represents the result of the year under review before transfers to or from reserves.

Net earnings available for distribution: This is the profit of a company after transfers to or from reserves and taking account of net earnings (loss) brought forward. It forms the basis for the Annual Meeting of Stockholders' resolution as to a dividend distribution.

Net earnings brought forward: This is what remains of the net earnings available for distribution in accordance with the resolution of the Annual Meeting of Stockholders and is carried forward to the new year.

Option bond: This is a security yielding a fixed rate of interest. It certifies that the holder is not only entitled to fixed interest but also has a separately negotiable right to purchase shares in the issuing company during a certain period, with a specified ratio of shares to bonds and at a fixed price. As far as the option bond issued by Volkswagen International Finance N.V., Amsterdam, is concerned the option relates to shares in Volkswagen Aktiengesellschaft.

Potential capital: The main feature of a potential capital increase is that an increase in the capital stock is adopted by the Annual Meeting of Stockholders, but the amount as well as the date remain undetermined in contrast to an ordinary capital increase. Primarily the potential capital serves to enable the management to issue convertible or option bonds.

Provision for old-age pensions: These are set up on the basis of actuarial computations. Precondition for the setting up of a provision for pensions is a promise of pension on the basis of which the company employees have a legal claim to continued or once-only pension payments when they retire from work.

Receivables from subsidiaries and affiliates: These companies are legally independent companies which are defined in detail in the Corporation Law. All receivables from subsidiaries and affiliates have to be shown separately in the balance sheet. One example of this in Volkswagen AG's financial statements are the receivables from AUDI AG.

Reserves: These are a part of the stockholders' equity shown on the liabilities side of the balance sheet and are subdivided into legal and other reserves. Transfers to reserves are made either by payments by stockholders (e.g. the premium payable on the issue of new shares for the capital increase of Volkswagen AG) or by transfers from the net earnings. Whilst allocations to the legal reserve are regulated by the Corporation Law, the company managing bodies or the stockholders decide on the formation of other reserves. Allocations to reserves from net earnings permit whole or partial maintenance of self-financed assets (maintenance of capital) and thus in the long term lead to a higher intrinsic value of the company.

Reserves for special purposes: In certain circumstances tax law provides the possibility of setting up a tax-free reserve which in later years has to be liquidated in such a way as to affect results and increase earnings. When such reserves are adopted in the financial statements then they must be shown separately after the free reserves in the "Reserves for special purposes". It must be indicated under which statutory provisions these reserves were set up (e.g. reserve for investments in developing countries in accordance with § 1 of the Developing Countries Tax Act).

Reserve for treasury stock: In accordance with § 150a of the Corporation Law Volkswagen AG set up in 1979 a reserve for treasury stock. This reserve, which had to be set up in the amount of the book value shown on the assets side of the balance sheet for treasury stock in accordance with § 155 AktG serves in the sense of protection

of creditors the safeguarding of stockholders' equity.

This is achieved by the withholding from possible distribution of profit a sum corresponding to the value of treasury stock by showing it as a legal reserve with the concomitant statutory restriction of disposal. This prevents the assets of the company being reduced by the sum of these shares and thus an indirect repayment of liable equity capital to the stockholders.

Sales: In the case of a group this refers to the sales proceeds adjusted for internal transactions — i.e. transactions between the individual consolidated group companies. Transactions conducted for example between Volkswagen AG and AUDI AG have within the Group the character of supplies between legally dependent plants.

Sales to the dealer organisation; deliveries of vehicles to customers: In the Annual Report of Volkswagen AG figures are given both for deliveries of cars to customers and for sales to the dealer organisation. Sales to the dealer organisation means Volkswagen Group vehicles sold to the Volkswagen and Audi outlets not belonging to the Group. Deliveries to customers means vehicles sold by the dealerships to final consumers.

Subsidiaries and affiliates: See "Receivables from subsidiaries and affiliates".

Transfers: As a rule these are transfers from one item within the fixed assets and investments to another. They do not represent any alteration in value or quantity, but are alterations of statement with purely formal significance.

Treasury stock: This represents that part of the capital stock of a company which the company has acquired itself and is shown in the current assets with the acquisition costs or the possibly lower stock exchange value. The Corporation Law makes the acquisition of

treasury stock dependent on the existence of certain preconditions and limits it to 10 % of the capital stock. Thus the treasury stock of Volkswagen AG for example was acquired in 1971 in conjunction with the conversion offer to the stockholders of the AUDI AG.

Undetermined liabilities: These are a part of outside capital and are formed for obligations whose nature is known but whose amount and due date are unknown. Undetermined liabilities are not reserves and are thus not profits withheld. They are set up for example to cover concrete litigation risks which can lead to a subsequent claim being made on the company.

Consolidated Balance Sheet of the Volkswagen Group
December 31, 1985

Assets	DM thousand							
	Jan. 1, 1985	Amounts brought forward ¹⁾	Additions	Disposals	Transfers	Depreciation	Dec. 31, 1985	Dec. 31, 1984
Fixed Assets and Investments								
A. Property, Plant, Equipment and Intangible Assets								
Real estate and land rights								
with office, factory and other buildings	3,857,115	—	283,105	21,655	105,114	381,701	3,841,978	3,857,115
with residential buildings	382,870	—	12,934	823	1,890	15,118	381,753	382,870
without buildings	132,253	—	21,883	1,695	— 6,124	—	146,317	132,253
Buildings on leased real estate	55,944	—	11,712	297	3,256	11,194	59,421	55,944
Machinery and fixtures	1,965,421	—	809,083	8,991	171,299	1,231,554	1,705,258	1,965,421
Plant and office equipment	2,018,478	3,430	863,681	34,614	227,583	1,640,078	1,438,480	2,018,478
Construction in progress and advance payments on fixed assets	665,778	—	1,120,637	30,841	—502,886	91,676	1,161,012	665,778
Trademarks and the like	3,719	745	5,547	2,869	— 132	1,240	5,770	3,719
	9,081,578	4,175	3,128,582	101,785	—	3,372,561	8,739,989	9,081,578
B. Investments								
Investments in subsidiaries and affiliates	173,477	215	66,320	103,543	—	5,552	130,917	173,477
Other investment securities	3,913	—	130	244	—	42	3,757	3,913
Loans receivable with an initial term of four years or longer	227,903	194	164,991	82,739 ²⁾	—	10,080	300,269	227,903
Par value at Dec. 31, 1985	389,796							
of which secured								
by mortgages	78,242							
loans in accordance with § 89 AktG	3,213							
loans in accordance with § 115 AktG	170							
of which from subsidiaries and affiliates	738							
Other investments	20,168	—	10,806	10	—	23,047	7,917	20,168
	425,461	409	242,247	186,536	—	38,721	442,860	425,461
	9,507,039	4,584	3,370,829	288,321	—	3,411,282	9,182,849	9,507,039
C. Leasing and Rental Assets³⁾								
							3,716,769	2,432,930
D. Adjustment Items Arising from Initial Consolidation								
							131,303	119,170
							13,030,921	12,059,139
Current Assets								
A. Inventories								
							6,284,169	6,639,188
B. Other Current Assets								
Advance payments to suppliers							65,752	15,296
Trade accounts receivable							2,114,115	2,318,543
of which amounts due in more than one year	10,576							
Trade acceptances							40,136	208,222
of which acceptances discountable at German Federal Bank	13,289							
Cheques on hand							27,801	7,681
Cash on hand and deposits in postal checking accounts							9,261	13,834
Cash in banks							4,249,363	5,023,430
Securities							3,939,342	1,567,006
Treasury stock							21,235	21,235
Par value at Dec. 31, 1985	15,060							
Receivables from subsidiaries and affiliates							12,066	84,701
of which amounts for goods and services rendered	6,170							
Miscellaneous other current assets							4,915,244	4,763,539
of which receivables in accordance with § 89 AktG	1,130							
							15,394,315	14,023,487
							21,678,484	20,662,675
Prepaid and Deferred Expenses								
							165,152	271,270
							34,874,557	32,993,084

¹⁾ Amounts brought forward of companies consolidated for the first time

²⁾ Including differences in foreign exchange rates in the amount of DM 16,800 thousand

³⁾ Development of leasing and rental assets (DM thousand):

Jan. 1, 1985	2,432,930
Additions	3,217,224
Disposals	674,456
Depreciation	1,258,929
Dec. 31, 1985	3,716,769

⁴⁾ This item comprises the share premium included in the legal reserve of Volkswagen AG in the amount of DM 843,387 thousand.

⁵⁾ Offset with differences arising from currency translation and including the reserve for treasury stock of Volkswagen AG in the amount of DM 21,235 thousand

Stockholders' Equity and Liabilities			
		Dec. 31, 1985	Dec. 31, 1984
Capital Stock of Volkswagen AG			
Potential capital	200,000	1,200,000	1,200,000
Consolidated Reserves			
Reserve from capital stock surplus ⁴⁾		783,387	783,387
Reserves of the Group arising from earnings			
Legal reserve of Volkswagen AG		60,000	60,000
Other reserves ⁵⁾		4,913,020	4,139,213
Adjustment items arising from initial consolidation		34,761	34,761
		5,791,168	5,017,361
Minority Interest in Consolidated Subsidiaries			
in net earnings	5,034	269,413	323,452
in loss	74,613		
Reserves for Special Purposes			
Reserve in accordance with § 52 subsection 5 of the Income Tax Act		145,086	163,249
Reserve for investment in developing countries in accordance with § 1 of the Developing Countries Tax Act		101,931	108,473
Reserves in accordance with French legislation		49,015	49,054
Reserve for price increases in accordance with § 74 of the Income Tax Directive		4,837	—
Reserve in accordance with § 1 of the Foreign Investment Act		2,894	4,342
Reserve in accordance with § 6b of the Income Tax Act		188	156
Reserve for replacement in accordance with section 35 of the Income Tax Guidelines		—	156
		303,951	325,430
Allowance for Doubtful Trade Acceptances and Accounts			
		52,884	51,038
Undetermined Liabilities			
Old-age pensions		5,028,789	4,738,903
Other undetermined liabilities			
Maintenance not performed during current year		34,941	29,442
Warranties without legal obligation		13,046	18,637
Other		9,128,761	7,191,755
		14,205,537	11,978,737
Liabilities with an Initial Term of Four Years or Longer			
Loans		828,072	961,205
of which secured by mortgages	60,000		
Due to banks		714,416	1,111,865
of which secured by mortgages	238,321		
Other liabilities		299,532	313,869
of which secured by mortgages	130,609		
		1,842,020	2,386,939
Of which amounts due within four years	903,245		
Other Liabilities			
Trade accounts payable		3,201,757	3,094,035
Liabilities resulting from the acceptance of bills drawn and the issuing of promissory notes		301,596	659,255
Due to banks		5,015,685	5,351,863
Advance payments from customers		151,655	141,939
Accounts payable to subsidiaries and affiliates		3,451	569
of which trade accounts payable	1,141		
Miscellaneous other liabilities		2,067,111	2,139,989
		10,741,255	11,387,650
Deferred Income			
		223,956	198,446
Net Earnings Available for Distribution			
		244,373	124,031
Contingent liabilities with respect to trade acceptances	296,875		
Contingent liabilities with respect to guaranty obligations	200,728		
Contingent liabilities with respect to warranties	10,975		
Other contingent liabilities	26,724		
		34,874,557	32,993,084

Consolidated Statement of Earnings of the Volkswagen Group

Year ended December 31, 1985
DM thousand

	1985	1984
Sales	52,501,844	45,671,078
Decrease/Increase in inventories	-298,989	630,214
	52,202,855	46,301,292
Material, wages and overhead capitalised as additions to plant and equipment	505,792	470,363
Gross Performance	52,708,647	46,771,655
Expenditures on raw materials, supplies and other materials	26,622,833	23,824,152
Excess of Gross Performance over Expenditures for Raw Materials, etc.	26,085,814	22,947,503
Income from profit and loss assumption agreements	35	—
Income from investments in subsidiaries and affiliates	50,247	41,242
Income from other financial investments	32,528	15,971
Other interest and similar income	1,621,282	1,212,665
Gains from disposal of fixed assets and investments	51,493	68,155
Gains from disposal of leasing and rental assets	206,923	171,217
Income from elimination of reserves for undetermined liabilities no longer required	315,298	158,185
Income from elimination of reserves for special purposes no longer required	28,271	104,677
Other income	2,073,622	1,764,795
of which extraordinary income	223,126	—
	4,379,699	3,536,907
	30,465,513	26,484,410
Wages and salaries	11,274,823	10,801,650
Social expenditures — compulsory	1,952,425	1,673,413
Pension expenditures and voluntary payments	685,750	752,373
Depreciation of fixed assets and intangibles	3,372,561	2,902,931
Write-down of financial investments (in 1984 including write-down of consolidated subsidiaries in the amount of DM 4,013 thousand)	38,721	58,764
Depreciation of leasing and rental assets	1,258,929	1,059,704
Write-down of other current assets and provision for doubtful trade acceptances and accounts	361,520	236,117
Losses on disposal of fixed assets and investments	17,498	43,197
Losses on disposal of leasing and rental assets	47,540	27,468
Interest and similar charges	1,449,067	1,462,252
Taxes		
a) on income, earnings and property	1,992,986	1,265,822
b) other	131,511	102,512
	2,124,497	1,368,334
Expenses under profit and loss assumption agreements	—	4,005
Additions to reserves for special purposes	6,925	2,972
Other expenses	7,279,623	5,863,255
	29,869,879	26,256,435
Net earnings	595,634	227,975
Volkswagen AG's net earnings (loss) brought forward	5,537	(58,762)
	601,171	169,213
Change in consolidated reserves		
Transferred from reserves	6,401	76,216
Transferred to reserves	432,778	138,134
	426,377	61,918
Minority interest in net earnings of consolidated subsidiaries	5,034	3,734
Minority interest in losses of consolidated subsidiaries	74,613	20,470
Net Earnings Available for Distribution	244,373	124,031

According to our legally required audit, the consolidated financial statements and the annual report comply with statutory provisions.

Hanover, March 20, 1986

Wolfsburg, March 20, 1986

VOLKSWAGEN AKTIENGESELLSCHAFT

The Board of Management

TREUARBEIT Aktiengesellschaft

Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Prof. Dr. Forster
Wirtschaftsprüfer

Siepe
Wirtschaftsprüfer
(independent auditors)

VOLKSWAGEN AG
Balance Sheet December 31, 1985

Assets								
	Jan. 1, 1985	Additions	Disposals	Transfers	Depreciation	Dec. 31,1985	Dec. 31, 1984	
	DM	DM	DM	DM	DM	DM	Thousand DM	DM
Fixed Assets and Investments								
A. Property, Plant and Equipment								
Real estate and land rights								
with office, factory and								
other buildings	1,506,122,537	110,870,865	12,483,480	23,940,998	164,018,007	1,464,432,913	1,506,122	
with residential buildings	8,710,655	359,844	—	—	312,882	8,757,617	8,711	
without buildings	40,582,553	117,088	3,987	—	—	40,695,654	40,582	
Buildings on leased real estate	16,386,567	664,584	282,790	228,497	6,279,723	10,717,135	16,387	
Machinery and fixtures	435,144,002	402,064,571	1,729,768	49,656,627	483,512,914	401,622,518	435,144	
Plant and office equipment	987,100,642	409,330,710	25,987,949	57,889,474	923,438,333	504,894,544	987,101	
Construction in progress	114,774,353	227,137,637	15,897,939	— 95,561,327	57,570,000	172,882,724	114,774	
Advance payments on fixed assets	47,381,905	215,070,382	335,464	— 36,154,269	29,320,000	196,642,554	47,382	
	3,156,203,214	1,365,615,681	56,721,377	—	1,664,451,859	2,800,645,659	3,156,203	
B. Investments								
Investments in subsidiaries and affiliates	2,145,518,627	389,452,345	3,500,200	—	450,176,130	2,081,294,642	2,145,519	
Loans receivable with								
an initial term of four years or longer	132,202,182	35,554,078	21,002,390	—	8,891,432	137,862,438	132,202	
Par value at Dec. 31, 1985								
DM 252,204,741								
of which secured by mortgages								
DM 77,055,506								
granted to subsidiaries and affiliates								
DM 52,553,524								
loans in accordance with § 89 AktG								
DM 1,321,624								
loans in accordance with § 115 AktG								
DM 132,800								
	2,277,720,809	425,006,423	24,502,590	—	459,067,562	2,219,157,080	2,277,721	
	5,433,924,023	1,790,622,104	81,223,967	—	2,123,519,421	5,019,802,739	5,433,924	
Current Assets								
A. Inventories								
Raw materials and supplies						583,213,520	618,948	
Work in progress						980,522,670	887,867	
Finished products and bought-in goods						783,614,009	860,462	
						2,347,350,199	2,367,277	
B. Other Current Assets								
Advance payments to suppliers						14,561,563	4,935	
Trade accounts receivable						672,097,685	726,745	
of which amounts due in								
more than one year	DM 9,307,326					12,164,178	16,870	
Trade acceptances								
of which from subsidiaries and affiliates	DM 1,815,092							
of which acceptances discountable								
at German Federal Bank	DM —							
Cash on hand and deposits in postal checking accounts						1,404,459	3,288	
Cash in banks						2,633,726,140	3,410,357	
Securities						3,457,482,690	1,338,767	
Treasury stock (par value at Dec. 31, 1985: DM 15,060,300)						21,234,776	21,235	
Receivables from subsidiaries and affiliates						3,965,060,366	3,378,131	
Miscellaneous other current assets						695,800,458	429,028	
of which receivables in accordance with § 89 AktG	DM 1,130,000							
						11,473,532,315	9,329,356	
						13,820,882,514	11,696,633	
Prepaid and Deferred Expenses								
						1,965,408	434	
						18,842,650,661	17,130,991	

Stockholders' Equity and Liabilities					
				Dec. 31, 1985	Dec. 31, 1984
				DM	Thousand DM
Capital Stock				1,200,000,000	1,200,000
Potential capital	DM	200,000,000			
Reserves					
Legal reserve				843,387,000	843,387
Reserve for treasury stock				21,234,776	21,235
Other reserves					
Jan. 1, 1985	DM	1,855,179,345			
Transfer from net earnings	DM	238,000,000			
				2,093,179,345	1,855,179
				2,957,801,121	2,719,801
Reserves for Special Purposes					
Reserve in accordance with § 52 subsection 5					
of the Income Tax Act				125,400,000	141,100
Reserve for investments in developing countries in accordance with § 1 of the Developing Countries Tax Act				101,931,183	108,473
Reserve for price increases in accordance with § 74					
of the Income Tax Directive				4,836,987	—
Reserve in accordance with § 1 of the					
Foreign Investment Act				2,894,400	4,342
Reserve in accordance with § 6b of the Income Tax Act				—	156
Reserve for replacement in accordance with section					
35 of the Income Tax Guidelines				—	156
				235,062,570	254,227
Allowance for Doubtful Trade					
Acceptances and Accounts				6,867,000	7,317
Undetermined Liabilities					
Old-age pensions				4,074,800,000	3,859,200
Other undetermined liabilities					
Maintenance not performed					
during current year				20,400,000	17,900
Warranties without legal obligation				7,300,000	5,900
Other				6,369,236,467	5,140,732
				10,471,736,467	9,023,732
Liabilities with an Initial Term					
of Four Years or Longer					
Loans, secured by mortgages				60,000,000	90,000
Due to banks				6,100,000	46,385
Other liabilities				200,105,794	200,113
of which due to subsidiaries and affiliates	DM	200,000,000			
				266,205,794	336,498
Of which amounts due within four years	DM	61,360,305			
Other Liabilities					
Trade accounts payable				1,421,801,702	1,347,949
Due to banks				645,475,669	620,560
Advance payments from customers				76,847,549	35,083
Accounts payable to subsidiaries and affiliates				152,456,017	275,432
Miscellaneous other liabilities				1,163,904,499	1,186,212
				3,460,485,436	3,465,236
Deferred Income				119,695	149
Net Earnings Available for Distribution				244,372,578	124,031
Contingent liabilities with respect to					
trade acceptances	DM	967,180,168			
Contingent liabilities with respect to					
guaranty obligations	DM	2,126,677,624			
Contingent liabilities with respect to warranties	DM	202,015,842			
				18,842,650,661	17,130,991

VOLKSWAGEN AG

Statement of Earnings

Year ended December 31, 1985

	1985 DM	1984 Thousand DM
Sales	38,920,555,383	33,773,997
Increase in inventories	139,039,899	28,074
Material, wages and overhead capitalised as additions to plant and equipment	39,059,595,282	33,802,071
	127,695,261	172,029
Gross Performance	39,187,290,543	33,974,100
Expenditures on raw materials, supplies and other materials	25,483,465,131	21,827,169
Excess of Gross Performance over Expenditures on Raw Materials, etc.	13,703,825,412	12,146,931
Income from profit and loss assumption agreements	73,417,551	306,728
Income from investments in subsidiaries and affiliates	63,398,132	199,475
Income from other financial investments	3,971,229	4,108
Other interest and similar income	553,315,721	424,287
Gains from disposal of fixed assets and investments	31,644,555	40,484
Income from reduction of allowance for doubtful trade acceptances and accounts	450,000	—
Income from elimination of reserves for undetermined liabilities no longer required	142,573,547	14,406
Income from elimination of reserves for special purposes no longer required	24,001,086	32,679
Other income	1,034,359,961	927,141
of which extraordinary income	DM 98,348,206	
	1,927,131,782	1,949,308
	15,630,957,194	14,096,239
Wages and salaries	6,431,284,100	6,362,083
Social expenditures — compulsory	1,037,629,827	915,000
Pension expenditures and voluntary payments	432,562,929	532,248
Depreciation of fixed assets	1,664,451,859	1,291,840
Write-down of financial investments	459,067,562	606,555
Write-down of other current assets and provision for doubtful trade acceptances and accounts	63,489,351	91,978
Losses on disposal of fixed assets and investments	5,002,820	1,289
Interest and similar charges	48,196,378	69,107
Taxes		
a) on income, earnings and property	DM 1,632,856,755	1,063,650
b) other	DM 3,577,862	4,610
	1,636,434,617	1,068,260
Expenses under profit and loss assumption agreements	70,173,672	352,782
Additions to reserves for special purposes	4,836,987	156
Other expenses	3,300,991,267	2,622,148
	15,154,121,369	13,913,446
Net Earnings	476,835,825	182,793
Net earnings (loss) brought forward from previous year	5,536,753	(58,762)
	482,372,578	124,031
Transfer from net earnings to other reserves	238,000,000	—
Net Earnings Available for Distribution	244,372,578	124,031

During 1985 pension payments amounted to DM 117,382,169; payments during the next five years will be approximately 107, 113, 115, 122, 137 % of this amount.

According to our legally required audit, the accounting, the financial statements and the annual report comply with statutory provisions and the Company's articles of association.

Hanover, March 20, 1986

Wolfsburg, March 20, 1986

VOLKSWAGEN AKTIENGESellschaft

The Board of Management

TREUARBEIT Aktiengesellschaft

Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Prof. Dr. Forster
Wirtschaftsprüfer

(independent auditors)

Siepe
Wirtschaftsprüfer

The Volkswagen Group in Figures 1976 — 1985

1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	
21,423	24,152	26,724	30,707	33,288	37,878	37,434	40,089	45,671	52,502	Sales (DM million)
14	13	11	15	8	14	— 1	7	14	15	Change on previous year in %
8,068	9,714	11,229	12,499	11,850	12,064	12,027	14,453	14,638	16,171	Domestic
13,355	14,438	15,495	18,208	21,438	25,814	25,407	25,636	31,033	36,331	Abroad
8,744	9,914	10,932	12,337	14,102	14,957	15,733	15,460	20,108	24,025	Export of domestic Group companies
5,570	5,634	5,970	7,398	8,733	12,398	11,346	11,812	12,864	14,698	Net contribution of foreign Group companies
2,142	2,240	2,393	2,539	2,495	2,279	2,120	2,127	2,145	2,398	Vehicle Sales (thousand units)
5	5	7	6	— 2	— 9	— 7	0	1	12	Change on previous year in %
726	811	895	901	788	738	672	750	708	722	Domestic
1,416	1,429	1,498	1,638	1,707	1,541	1,448	1,377	1,437	1,676	Abroad
2,166	2,219	2,385	2,542	2,574	2,246	2,130	2,116	2,148	2,398	Production (thousand units)
11	2	7	7	1	— 13	— 5	— 1	2	12	Change on previous year in %
1,436	1,561	1,569	1,558	1,499	1,410	1,381	1,413	1,474	1,635	Domestic
730	658	816	984	1,075	836	749	703	674	763	Abroad
183	192	207	240	258	247	239	232	238	259	Workforce at year end (thousand employees)
4	5	8	16	8	— 4	— 3	— 3	3	9	Change on previous year in %
124	133	139	157	159	160	158	156	160	170	Domestic
59	59	68	83	99	87	81	76	78	89	Abroad
1,141	1,697	1,990	3,100	4,279	4,851	4,892	4,858	2,782	3,388	Capital Investments (DM million) ³⁾
21	49	17	56	38	13	1	— 1	x	22	Change on previous year in %
657	969	1,559	2,374	3,163	3,089	3,654	3,476	1,889	2,508	Domestic
484	728	431	726	1,116	1,762	1,238	1,382	893	880	Abroad
								2,021	3,217	Additions to Leasing and Rental Assets (DM million)
									59	Change on previous year in %
3,055	2,488	2,609	2,993	3,141	3,936	3,452	5,207	4,081	4,558	Cash Flow (DM million) ⁴⁾
131	— 19	5	15	5	25	— 12	51	x	12	Change on previous year in %
1,004 ¹⁾	419	574	667	321	136	—300	—215	228	596	Net Earnings/Loss (DM million)
90	144 ²⁾	189	240	192	120	—	—	120	240	Dividend of Volkswagen AG (DM million)

¹⁾ Not comparable with other years because of loss brought forward

²⁾ Incl. bonus

³⁾ Up to 1983 including additions to leasing and rental assets

⁴⁾ Up to 1983 including depreciation on and disposal of leasing and rental assets

The Volkswagen Group in Figures 1976 — 1985

1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	Change 1985/84 in %	
Balance Sheet (Structure) (DM million) December 31											
Assets											
5,474	5,425	5,903	6,648	8,326	10,205	11,474	11,801	9,082	8,740	— 3.8	Property, plant and equipment ¹⁾
560	530	410	726	839	414	449	464	544	574	+ 5.4	Investments
6,034	5,955	6,313	7,374	9,165	10,619	11,923	12,265	2,433	3,717	+ 52.8	Leasing and rental assets
								12,059	13,031	+ 8.1	Fixed Assets and Investments
3,267	3,180	3,491	4,400	6,073	5,996	5,662	5,878	6,654	6,348	— 4.6	Inventories and advance payments to suppliers ²⁾
2,098	1,992	2,996	4,000	4,437	4,771	5,065	6,269	7,388	7,157	— 3.1	Receivables and the like ²⁾
2,888	3,837	4,364	4,781	3,971	2,822	1,953	1,815	5,253	4,326	— 17.6	Liquid funds, trade acceptances
173	560	1,016	1,123	1,151	1,129	1,290	2,528	1,588	3,960	x	Securities, treasury stock
8,426	9,569	11,867	14,304	15,632	14,718	13,970	16,490	20,883	21,791	+ 4.3	Current Assets²⁾
14,460	15,524	18,180	21,678	24,797	25,337	25,893	28,755	32,942	34,822	+ 5.7	Total Assets²⁾
Stockholders' Equity and Liabilities											
900	900	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	—	Capital stock
2,903	3,161	4,224	4,625	4,757	4,990	4,911	5,227	5,165	5,929	+ 14.8	Reserves of the Group ³⁾
198	199	192	373	205	198	223	281	320	266	— 16.9	Minority interest in consolidated subsidiaries ⁴⁾
4,001	4,260	5,616	6,198	6,162	6,388	6,334	6,708	6,685	7,395	+ 10.6	Stockholders' Equity
1,754	2,048	2,341	2,749	3,107	3,475	3,626	4,235	4,739	5,029	+ 6.1	Undetermined liabilities in respect of old-age pensions
2,109	2,200	3,244	4,152	4,326	4,232	4,570	5,597	7,417	9,343	+ 26.0	Other undetermined liabilities ⁵⁾
3,863	4,248	5,585	6,901	7,433	7,707	8,196	9,832	12,156	14,372	+ 18.2	Undetermined Liabilities
1,322	1,450	1,284	1,273	1,161	1,053	847	1,283	992	947	— 4.6	Liabilities payable within more than 4 years
952	1,032	708	457	466	712	990	1,004	1,411	1,291	— 8.5	1 to 4 years
4,220	4,355	4,776	6,592	9,378	9,351	9,485	9,925	11,570	10,569	— 8.6	up to 1 year
6,494	6,837	6,768	8,322	11,005	11,116	11,322	12,212	13,973	12,807	— 8.3	Liabilities
90	173 ⁶⁾	189	240	193	124	38	—	124	244	+ 97.0	Net earnings available for distribution (Volkswagen AG) ⁷⁾
12	6	22	17	4	2	3	3	4	4	+ 8.6	Minority interest in earnings to be distributed
10,459	11,264	12,564	15,480	18,635	18,949	19,559	22,047	26,257	27,427	+ 4.5	Outside Capital
14,460	15,524	18,180	21,678	24,797	25,337	25,893	28,755	32,942	34,822	+ 5.7	Total Capital²⁾
Statement of Earnings (Condensed) (DM million) January — December											
22,029	24,503	27,285	31,638	34,989	38,197	38,030	40,680	46,772	52,709	+ 12.7	Gross performance
11,598	12,746	14,099	15,835	18,238	19,752	19,573	20,852	23,824	26,623	+ 11.7	Cost of materials
6,413	6,810	7,656	9,113	10,782	11,779	12,069	12,371	13,227	13,913	+ 5.2	Labour cost
1,263	1,600	1,456	1,696	2,102	2,934	3,038	3,689	2,961	3,411	+ 15.2	Depreciation and write-down
								1,060	1,259	+ 18.8	Depreciation on leasing and rental assets
486	1,503	1,692	2,081	1,400	848	543	580	1,368	2,124	+ 55.3	Taxes
438	1,454	1,624	2,004	1,329	772	458	494	1,266	1,993	+ 57.4	on income, earnings and property
1,265	1,425	1,808	2,246	2,146	2,748	3,107	3,403	4,104	4,783	+ 16.6	Sundry expenses less sundry income
1,004 ⁸⁾	419	574	667	321	136	—300	—215	228	596	x	Net earnings/Loss
+211	+248	+366	+443	+121	+104	—266	— 45	+ 62	+426	x	Change in reserves

¹⁾ Up to 1983 including leasing
and rental assets

²⁾ Decreased by the amounts shown
under liabilities as allowance for
doubtful trade acceptances and
accounts (In previous years
additional items on the assets side
were affected.)

³⁾ Including stockholders' equity in
reserves for special purposes and
reduced by the loss as shown in
the balance sheet of Volkswagen
AG

⁴⁾ Excluding shares in net earnings
to be distributed

⁵⁾ Including outside capital in
reserves for special purposes

⁶⁾ In 1977 for disposition by
Annual Meeting of Stockholders,
of which DM 144 million
distributed as dividend
(incl. bonus)

⁷⁾ 1976 only amounts
intended for distribution

⁸⁾ Not comparable with other years
because of loss brought forward



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