

The Supervisory Board and the Board of Management of Volkswagen Aktiengesellschaft present the Annual Report 1987 with their compliments.

This version of our Annual Report is a translation from the German original. However, it does not include the financial statements of Volkswagen AG and their explanatory notes. The German text is authoritative.

Wolfsburg, May 1988

Key Figures

		Volkswagen Group			VOLKSWAGEN AG		
		1987	1986	Change %	1987	1986	Change %
Sales	DM million	54,635	52,794	+ 3.5	43,199	41,134	+ 5.0
Vehicle Sales	units	2,773,613	2,757,793	+ 0.6	1,978,440	1,926,652	+ 2.7
Production	units	2,771,379	2,776,554	- 0.2	1,473,780	1,509,439	- 2.4
Workforce	average over year	260,458	276,459	- 5.8	129,028	126,354	+ 2.1
Capital Investments	DM million	4,592	6,371	- 27.9	3,532	4,469	- 21.0
Additions to Leasing and Rental Assets	DM million	3,318	2,738	+ 21.2	—	—	—
Cash Flow	DM million	4,874	4,285	+ 13.8	2,989	2,516	+ 18.8
Depreciation and Write-down	DM million	3,291	2,948	+ 11.6	2,014	1,521	+ 32.4
Depreciation on Leasing and Rental Assets	DM million	1,490	1,491	- 0.1	—	—	—
Net Earnings	DM million	598	580	+ 3.1	494	485	+ 1.8
Dividend of Volkswagen AG	DM million				306	306	—
of which on:							
Ordinary Shares	DM million				240	240	—
Preference Shares	DM million				66	66	—

The number of staff and the financial figures for the AUTOLATINA companies as a joint venture between Volkswagen AG and Ford Motor Company, Dearborn, USA, have been taken into account in the consolidated figures pro rata on the basis of Volkswagen's 51 % holding. The production and unit sales figures for the AUTOLATINA companies relate to the Volkswagen models only.

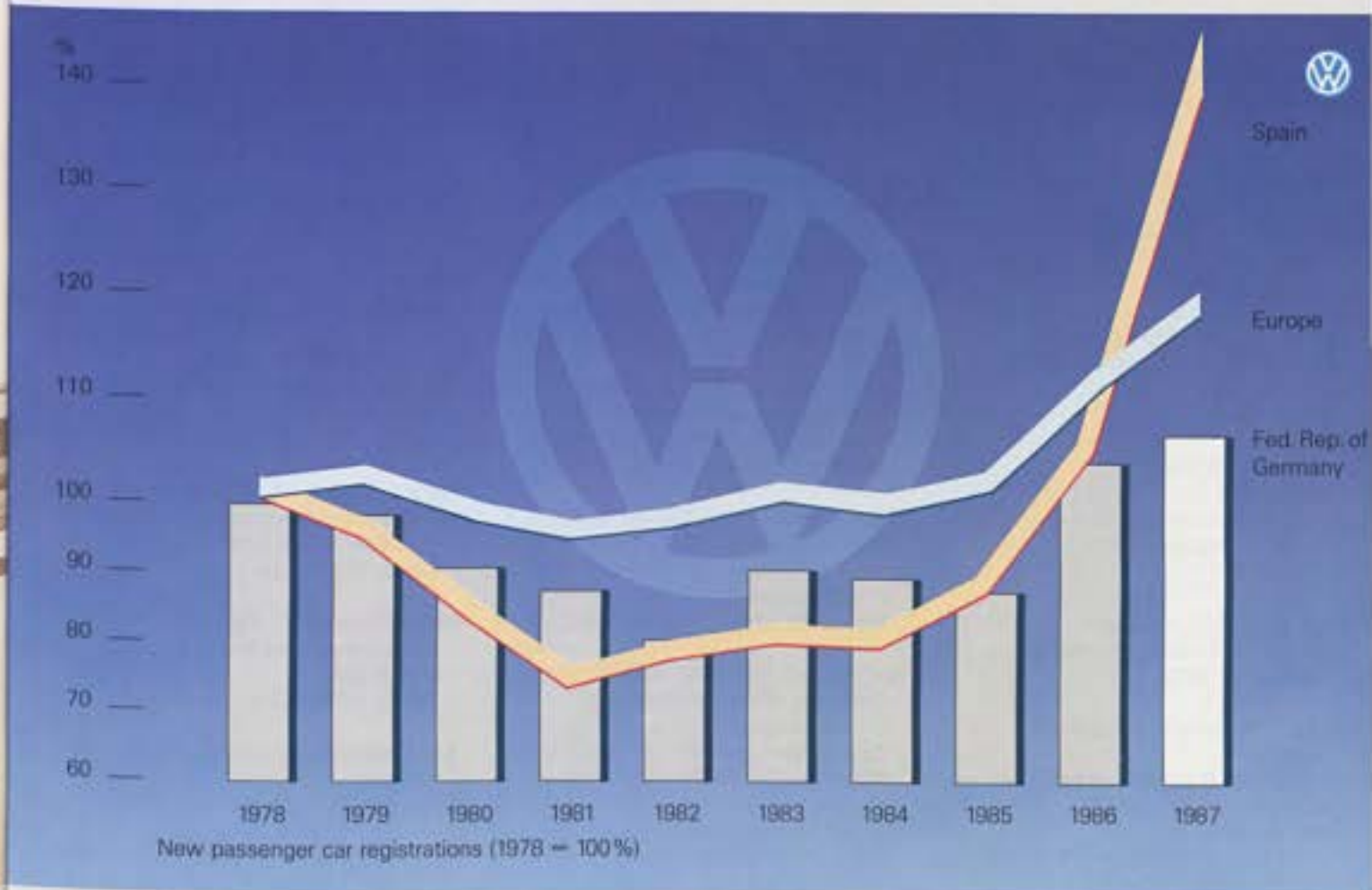
All percentages are based on non-rounded figures. Figures in brackets concern the previous year.

Table of Contents

	Page
Supervisory Board	6
Board of Management	7
Report of the Supervisory Board	8
Management Report: Volkswagen AG and Volkswagen Group	9
Economic Trend in the Fiscal Year 1987	9
Research and Development	12
Sales, Capital Investments, Result	12
Development in the Current Year and Prospects	16
Further Information about the Fiscal Year	18
Finance	18
Shares and Holdings Chart	22
Companies within the Volkswagen Group	26
Europe	26
North America	50
Latin America	52
Africa	56
Asia	59
Motor Sport	62
SEAT — a contribution to Europe	64
Financial Statements of the Volkswagen Group	81
Notes on the Financial Statements	84
The Volkswagen Group in Figures 1978–1987	92



The new Passat.
Design studies from three angles.



Development of passenger car registrations in West Germany, Spain and Europe, 1978 — 1987

Supervisory Board

Dr. jur. Klaus Liesen (57), Essen
Chairman
Chairman of the Board of
Management of Ruhrgas AG
July 2, 1987 *)

Franz Steinkühler (50), Frankfurt
Deputy Chairman
Chairman of the Metalworkers Union
July 2, 1987

Josef Bauer (48), Ingolstadt
Member of the Works Committee
of AUDI AG
July 2, 1987

Peter Birk (50), Frankfurt
Trade Union Secretary to the
Executive Committee of the
Metalworkers Union
July 2, 1987

Birgit Breuel (50), Hanover
Minister of Finance of Lower Saxony
October 10, 1978

Dr. jur. F. Wilhelm Christians (65)
Düsseldorf
Member of the Board of Management
of Deutsche Bank AG
July 12, 1971

Walter Hiller (55), Wolfsburg
Chairman of the Joint and Group
Works Council of
Volkswagen AG
April 9, 1986

Walter Hirsche (47), Hanover
Minister for Economic Affairs,
Technology and
Transport of Lower Saxony
September 18, 1986

Albert Hoffmeister (59), Wolfsburg
Senior Executive of Volkswagen AG
July 5, 1977

Hans-Günter Hoppe (65), Berlin
Former Member of the Berlin Senate
July 9, 1974

Jann-Peter Janssen (43), Norden
Chairman of Works Council
of Volkswagen AG
Emden Plant
April 9, 1986

Dr. jur. Otto Graf Lambsdorff (61)
Düsseldorf
President
Deutsche Schutzvereinigung für
Wertpapierbesitz e. V.
(German stockholders' association)
July 2, 1987

Walther Leisler Kiep (62), Frankfurt
Businessman (Insurance)
from March 3, 1976 to July 1, 1982
and since January 26, 1983

Klaus Peter Mander (45), Wolfsburg
Deputy Chairman of the Joint
and Group Works Council
of Volkswagen AG
March 25, 1985

Karl Heinrich Mühr (52), Kassel
Chairman of Works Council
of Volkswagen AG
Kassel Plant
November 27, 1972

Gerhard Mogwitz (54), Hanover
Chairman of Works Council
of Volkswagen AG
Hanover Plant
July 5, 1977

Dr.-Ing. E. h. Günther Saßmannshausen
(57), Hanover
Chairman of the Board of
Management of Preussag AG
July 2, 1987

Dr. rer. pol. Otto Schlecht (62)
Bonn-Duisdorf
Undersecretary of State in the Federal
Ministry for Economic Affairs
August 3, 1973

Dr. rer. pol. Albert Schunk (46), Frankfurt
Trade Union Secretary to the Executive
Committee of the Metalworkers Union
July 5, 1977

Dr. rer. pol. Hans Tietmeyer (56), Bonn
Undersecretary of State in the Federal
Ministry of Finance
July 2, 1987

Changes on the Supervisory Board:

Dr. rer. pol. Hans Friderichs (56)
Frankfurt
Former Federal Minister
March 24, 1981 to July 2, 1987

Helmut Kramer (56), Frankfurt
Trade Union Secretary to the Executive
Committee of the
Metalworkers Union
May 14, 1986 to July 2, 1987

Hans Mayr (66), Frankfurt
Former Chairman of the Metalworkers
Union
February 10, 1984 to July 2, 1987

Hans L. Merkle (75), Stuttgart
Chairman of the Supervisory Board
of Robert Bosch GmbH
July 9, 1974 to July 2, 1987

Walter Neuert (62), Ingolstadt
Chairman of Joint Works Council
of AUDI AG
July 5, 1977 to July 2, 1987

Karl Gustaf Ratjen (68), Frankfurt
Lawyer
October 31, 1975 to July 2, 1987

Toni Schmücker (66), Bergisch Gladbach
Former Chairman of the Board
of Management of
Volkswagen AG
July 1, 1982 to July 2, 1987

Board of Management

Dr. rer. pol. Carl H. Hahn (61)
Chairman
(since January 1, 1982)
Member of the Board of Management
from May 1, 1964
to December 31, 1972

Senator h. c. Horst Münzner (63)
Deputy Chairman
(since January 1, 1982)
Purchasing and Logistics
Member of the Board of Management
since January 1, 1969

Claus Borgward (49)
Quality Assurance
April 11, 1980

Karl-Heinz Briam (65)
Personnel and Social Matters
(Director of Labour Relations)
October 1, 1978

Prof. Dr. techn. Dr. med. h. c. Ernst Fiala
(59)
Research and Development
February 1, 1973

Dr. jur. Peter Frerk (57)
Legal matters, Auditing and
Economics
December 7, 1971

Dr.-Ing. E. h. Günter Hartwich (52)
Production
July 1, 1972

Dr. rer. pol. Werner P. Schmidt (55)
Sales
August 1, 1975

Dieter Ullsperger (42)
Controlling and Finance
August 1, 1987

Changes on the Board of Management:

Dr. jur. Wolfgang R. Habbel (64)
AUDI AG
January 1, 1979 to December 31, 1987

Dr. rer. pol. Rolf Selowsky (57)
Finance and Business Administration
May 6, 1982 to March 13, 1987

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

Report of the Supervisory Board

The Supervisory Board has been kept regularly informed by the Board of Management about the trend and situation of the Company, about planned corporate measures and the development of Group strategy. Measures requiring the Supervisory Board's prior approval by law or under the Company's Articles of Association were discussed in detail at meetings of the Supervisory Board prior to resolutions being passed. Based on the oral and written reporting by the Board of Management the Supervisory Board has been able to advise and monitor management.

The financial statements submitted by the Board of Management for Volkswagen AG and the Group as at December 31, 1987 along with the Management Report for Volkswagen AG and the Group Management Report for the fiscal year 1987 and the accounts have been audited by TREUARBEIT Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hanover. Having established that they were in compliance with the law and the Articles of Association, the auditors gave their full approval in accordance with § 322 of the German Commercial Code.

The Supervisory Board has been informed in writing and orally about the results of the audit. After a final examination of the financial statements of Volkswagen AG and the Group statements as well as the Management Report for Volkswagen AG and the Group Management Report the Supervisory Board has no objections and the financial statements are therefore confirmed. It approves the proposal put forward by the Board of Management regarding appropriation of net earnings available for distribution.

Herr Karl Gustaf Ratjen ceased being a member of the Supervisory Board at the end of the Annual Meeting of Stockholders on July 2, 1987. Herr Ratjen, who had been a member of this body since 1975 and took over the position of chairman in 1979, has exerted an important influence on the development of the Volkswagen Group over a long period with entrepreneurial farsightedness. The Supervisory Board would like to thank Herr Ratjen for his constructive collaboration and the great amount of personal commitment for the benefit of the Company.

At the same time the Deputy Chairman of the Supervisory Board, Herr Hans Mayr, and Herr Dr. Hans Friderichs, Herr Helmut Kramer, Herr Hans L. Merkle, Herr Walter Neuert and Herr Toni Schmücker ceased being members of the Supervisory Board of Volkswagen AG. The Supervisory Board would like to express its gratitude to all the members leaving for their meritorious collaboration.

The Federal Republic of Germany relieved Herr Walther Leisler Kiep of his office as of July 2, 1987 and delegated Herr Dr. Hans Tietmeyer to replace him on the Supervisory Board in accordance with § 12 of the Articles of Association in conjunction with § 101 subsection 2 of the German Stock Corporation Act. As a result of the rotational elections to the Supervisory Board Herr Josef Bauer, Herr Peter Birk, Herr Dr. Otto Graf Lambsdorff, Herr Walther Leisler Kiep, Herr Dr. Klaus Liesen, Herr Dr. Günther Saßmannshausen and Herr Franz Steinkühler became new members of this body.

At the constituent meeting of the Supervisory Board on July 2, 1987 Herr Dr. Klaus Liesen was elected chairman and Herr Franz Steinkühler his deputy.

As at August 1, 1987 the Supervisory Board appointed Herr Dieter Ullsperger member of the Board of Management of Volkswagen AG with responsibility for Controlling and Finance. Herr Ullsperger thus succeeded Herr Dr. Rolf Selowsky who had left the Board of Management on March 13, 1987.

Herr Dr. Wolfgang R. Habbel resigned from his office as member of the Board of Management of Volkswagen AG as at December 31, 1987. Since 1979 he has been managing AUDI AG with great dedication and sense of responsibility. The Supervisory Board would like to thank Herr Dr. Habbel for his meritorious work. Herr Dr. Habbel was appointed a member of the Supervisory Board of AUDI AG as of January 1, 1988 and is available to the Volkswagen Group in an advisory capacity.

The Supervisory Board would like to express its thanks and recognition to the members of Volkswagen AG's Board of Management, the management teams at all the Group companies and

all the employees in the Volkswagen Group for the work they have performed with a great sense of responsibility.

On March 24, 1988 the Federal Republic of Germany sold its 20% holding in the capital stock of Volkswagen AG in the amount of DM 1,200 million (ordinary shares), the shares being placed via a consortium of 75 national and international banks. In accordance with § 12 of the Articles of Association of Volkswagen AG in conjunction with § 101 subsection 2 of the Stock Corporation Act the two members of the Supervisory Board of Volkswagen AG nominated by the Federal Republic of Germany, Herr Dr. Otto Schlecht and Herr Dr. Hans Tietmeyer, announced that they are to relinquish their positions at the close of the Annual Meeting of Stockholders on June 30, 1988.

Herr Dr. F. Wilhelm Christians also gave notice that he would at the same time be relinquishing his membership of the Supervisory Board which he has held since 1971.

For nearly 40 years the Federal German Government has been with the Company as a major shareholder. Particularly in the reconstruction period before and after the setting up of the stock corporation in 1960, significant impulses resulted from this participating relationship. Through its members in the Supervisory Board the Federal Government helped influence the way in which the Company developed. The Supervisory Board thanks all representatives of the Federal Government who have belonged to this board in the past for their commitment and their contribution which were made always, independently of the political complexion of the government of the day, for the benefit of Volkswagen AG.

Wolfsburg, April 12, 1988



Dr. Klaus Liesen

Chairman of the Supervisory Board

Management Report: Volkswagen AG and Volkswagen Group

Economic trend in the fiscal year 1987

World economy still showing growth

The growth of the world economy continued in 1987 with restraint. World trade reached a growth rate of 4% as a result of the high imports by West European countries and Japan. There was growth in gross national product in virtually all the industrialised countries. The events which occurred on the international money markets during the fourth quarter of the year, however, demonstrated once again the unstable and hazardous constitution of the world economy. They took place against a background of continued foreign trade imbalances and still unsolved financial problems in some countries.

In the USA domestic demand showed only slight expansion, whilst the low rate for the dollar led to a sustained recovery in exports. The economic situation of the Latin American region was all in all still characterised by high budgetary deficits and again by rising inflation rates.

In Japan there was a significant improvement in the economic climate during the second six months of 1987. Under the influence of expansive economic policy, domestic demand continued to rise. The reduction in exports was particularly due to the deterioration in Japan's position with regard to rival manufacturers from the dollar region, which had been caused by the exchange rate. One consequence was the increase in production of CKD vehicles for North America.

The West European countries can look back, virtually without exception, on a stable upward-looking economic trend, whereby private demand, as in Japan, was the factor which determined the rate of growth. This especially applied to the economic trend in West Germany. However, growth amounted to 1.7%, which was less than expected as a result of the weakness of the dollar and its damping effect on exports.

World automobile production record

In 1987 the automobile industry continued to contribute to the upward trend in the world economy. At 46.3 million vehicles the production of automobiles worldwide was 1% above the previous year's figure. The West European auto-

mobile industry experienced a new record year with a production output of 14.6 million vehicles and further raised its share of world automobile production to 31%, particularly as a result of production cutbacks by US-American manufacturers. Domestic production by Japanese manufacturers was stagnant at a high level of 12.2 million units but saw a 4% rise taking exported sets of knocked-down vehicle components into account.

In West Germany, the largest European manufacturer, a total of 4.6 million passenger cars and commercial vehicles (+1%) came off the production lines in 1987.

Volkswagen Group — fourth largest passenger car manufacturer in the world

The business trend of the Volkswagen Group in 1987 was characterised by the further rise in demand for Volkswagen, Audi and SEAT models in Europe. In the past year the Group managed to successfully maintain its 1985 position as the largest automobile manufacturer in Europe and keep fourth position among the passenger car manufacturers in the world. 2,771,379 vehicles (— 0.2%) were manufactured worldwide, of which 2,543,184 were passenger cars and 228,195 commercial vehicles. The average production per working day within the Group increased to 12,217 units although the number of days worked fell.

Domestic Group production rose by 0.8% to 1,666,296 automobiles (not including knocked-down vehicles for the foreign subsidiaries), of which 1,249,062 vehicles (— 4.0%) were accounted for by Volkswagen AG and 417,234 units (+18.3%) by Audi. By contrast, output abroad showed a 1.6% decline to 1,105,083 vehicles, despite the considerable rise in production at SEAT (+20.0%). This was particularly due to the decreases shown by the manufacturing subsidiaries on the American continent.

Management Report: Volkswagen AG and Volkswagen Group

The Group manufactured the following numbers of each model:

Passenger cars	1987	1986
Golf	896,847	876,772
Audi 80/90	290,298	179,648
Passat	267,383	351,639
Polo	232,158	214,508
Jetta	228,214	274,627
Ibiza	160,907	121,526
Voyage	121,118	69,961
Audi 100/200	118,117	157,711
Gol	63,057	69,798
Panda/Marbella	56,893	36,879
Malaga	37,653	41,292
Scirocco	23,013	32,964
Beetle	17,166	46,633
Audi Coupé/quattro	11,412	17,666
Other passenger cars	18,968	35,350
Commercial vehicles		
Commercial	145,380	161,712
Heavy van (LT)	23,221	20,825
Trans/Terra	18,238	18,444
Voyage pick-up	15,304	14,028
Volkswagen trucks 6-22 t	11,677	15,245
Golf pick-up/Caddy	10,906	14,694
Volkswagen-M.A.N. trucks 6-9 t	—	2,908
Other commercial vehicles	3,469	1,724

Average production per working day for the individual Group companies was:

	Vehicles per day	
VOLKSWAGEN AG ¹⁾	5,480	
SEAT S.A.	1,816	
AUDI AG ¹⁾	1,797	
Autolatina in Brazil ¹⁾	1,279	
Volkswagen Bruxelles	928	¹⁾ Not including knocked
Volkswagen of America	384	down vehicles deliv-
Volkswagen de Mexico	258	ered within the Group;
Volkswagen of South Africa	190	AUDI AG: not including
Autolatina Argentina	85	Porsche 924/944

Materials management in the worldwide interlinked system

The close collaboration with our 35,120 suppliers all over the world continued in 1987 to guarantee a smooth supply to the production plants and implementation of the investment programme on schedule. The materials and components delivered complied with the recognised high standards of the Volkswagen Group both in terms of technical level and quality.

The Group's volume of purchasing saw a worldwide increase of 1.9% to DM 37.8 billion. At Volkswagen AG demand showed an 8.7% increase to DM 23.5 billion in the light of the increased demand for more upmarket vehicles. DM 16.8 billion was accounted for by purchases of raw materials and supplies, semi-finished and finished products and DM 6.7 billion was due to the purchase of capital goods and services. With this high volume of purchasing the Volkswagen Group again made a major



Visit of the President of the State Commission for Mechanical Engineering of the People's Republic of China, Zou Jiahua, in Wolfsburg

contribution towards bolstering the economic situation.

Group staffing adjustments

The Volkswagen Group employed a total of 260,458 worldwide on an annual average for 1987, i.e. 16,001 employees or 5.8% less than the previous year. The West German part of the Group showed a slight increase by 0.5% to 169,997 employees, whilst staff at the foreign subsidiaries fell by 15.7% to 90,461. Apart from a reduction in Group staff it was also the merger of the Brazilian and Argentinian manufacturing companies of Ford and Volkswagen which had an effect. Volkswagen has a 51% holding in the joint venture AUTOLATINA.

The average number of staff at Volkswagen AG was 129,028, a rise of 2.1% and just above the previous year's level.

Acknowledgement to staff

The Board of Management would like to thank all employees in the Volkswagen Group for the high level of commitment to their work. It would also like to thank the works councils for their cooperation and sense of responsibility. Trusting and positive collaboration between corporate management and the bodies representing the workforce have made it possible

to solve the difficult tasks of 1987 in a reasonable manner.

Our special thanks go to the management teams at the subsidiaries and all the executives in West Germany and abroad for their great sense of commitment.

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

Volkswagen Group No. 1 in Europe for the third time

In Europe the Volkswagen Group delivered 1,982,678 Volkswagen, Audi and SEAT vehicles to customers in 1987, which was a new sales record (+7.5%), achieving a 15.1% (14.7%) share of the passenger car market and thus consolidating its position as leading manufacturer of automobiles in Europe for the third consecutive year. It meant that the losses in the North and South American regions as a consequence of various influencing factors were thus virtually offset.

Worldwide sales of vehicles by the Volkswagen Group amounted to 2,739,883 units (+0.9%). Volkswagen AG delivered 2,201,829 Volkswagen and Audi models to customers in the markets it serves, which is a further rise of

2.4%. By contrast, the Volkswagen division of AUTOLATINA suffered a 34.4% drop in sales in the markets it serves, the total amounting to 256,854 vehicles.

Structural improvements within the Group

During the phase of restrained world economic upswing the structural upheaval in the world automobile industry has accelerated and thus brought about keener competition. The main factors have been the penetration by modern manufacturers from low-wage countries and further efforts in the direction of collaboration and concentration on the part of all manufacturers. In North America Japanese manufacturers have also continued building up extra production capacity for passenger cars, partially with the aim of exporting to Europe. The Volkswagen Group pursued its endeavours to strengthen the Group in the fiscal year 1987.

The unsatisfactory utilisation of production capacity at the American assembly plant in Westmoreland, Pennsylvania, is compelling us to phase out production in 1988. In future the Golf and Jetta models will be imported from West Germany and Mexico. This will serve to optimise worldwide manufacturing capacity within the Group's interlinked production system.

To secure our commitment in South America the Volkswagen Group has been working on a partnership basis in the joint venture AUTOLATINA with the Ford Motor Company since January 1, 1987. Against a background of difficult economic conditions the aim of the cooperation is to maintain the strong market position in this region and simultaneously contain risks. Improved exploitation of resources will boost competitiveness, as has been confirmed by initial results.

To extend the range of vehicles at the Hanover commercial vehicle plant we are planning a cooperative agreement with the Toyota Motor Corporation. From 1989 onwards a pick-up vehicle in the one-tonne payload category is to be manufactured under licence. Volkswagen has not yet been represented at all in this segment of the market.

Management Report: Volkswagen AG and Volkswagen Group

Research and development

Research and development activities indicate the potential which is employed to secure the future of a company. The Volkswagen Group spent DM 1.9 billion on research and development last year, which represents a 5% increase on the previous year. Volkswagen AG spent DM 1.2 billion (+5%) which was the largest part.

Automobile manufacture is being increasingly dominated by the use of new types of materials and the increasing utilisation of electronics in the fields of vehicle safety, performance, economy and comfort. Last year the emphasis of aims was on researching new drive technologies, using computer-aided simulation models for examining vehicle and material behaviour and in the further development of low-pollution engines. In developing new models the focus was on the Passat successor.

Sales, capital investments, result

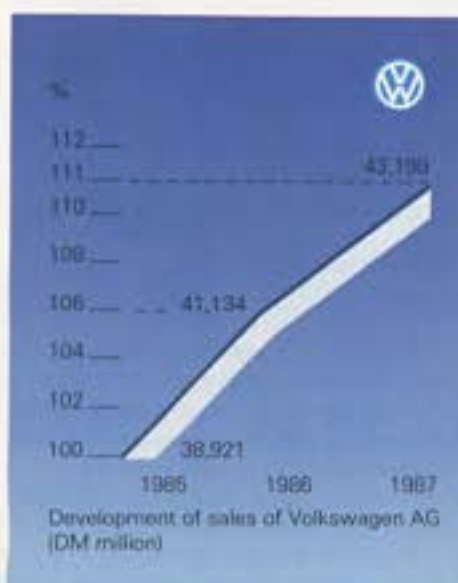
Another increase in sales

The positive sales situation, necessary price adjustments and the continuing trend towards more upmarket and hence higher-priced vehicles and features led to another increase in the Volkswagen Group's sales, that is, a 3.5% rise to DM 54.6 billion. Furthermore, in addition to the income from leasing and rental, the effect was also felt for the first time of the proceeds from the sale of used assets of leasing and rental companies being included in the amount of approx. DM 1.2 billion. Domestic sales at DM 22.5 billion showed a 19.7% increase and more than managed to offset the 5.5% decline in foreign sales which amounted to DM 32.1 billion. The proportion accounted for by foreign sales fell from 64.3% to 58.7%.

The setbacks abroad were mainly due to lower sales in North and South America and the much lower value of the American dollar. The influence exerted by the dollar also affected the translation of sales figures for our South American companies because the currencies in those countries are closely related to the price of the dollar.



Volkswagen AG's sales came to DM 43.2 billion and were 5.0% above the previous year's figure. The proportion accounted for by foreign sales was 52.6% (55.8%).



Investment programme continued as planned

The competitiveness and safeguarding of the market position of the Volkswagen Group are more than ever dependent on how successful it is at economically implementing new technologies both in the automobile as a product and in its manufacture. It is also of decisive importance to optimise capital deployment, to train and motivate staff and thus to improve their productivity.

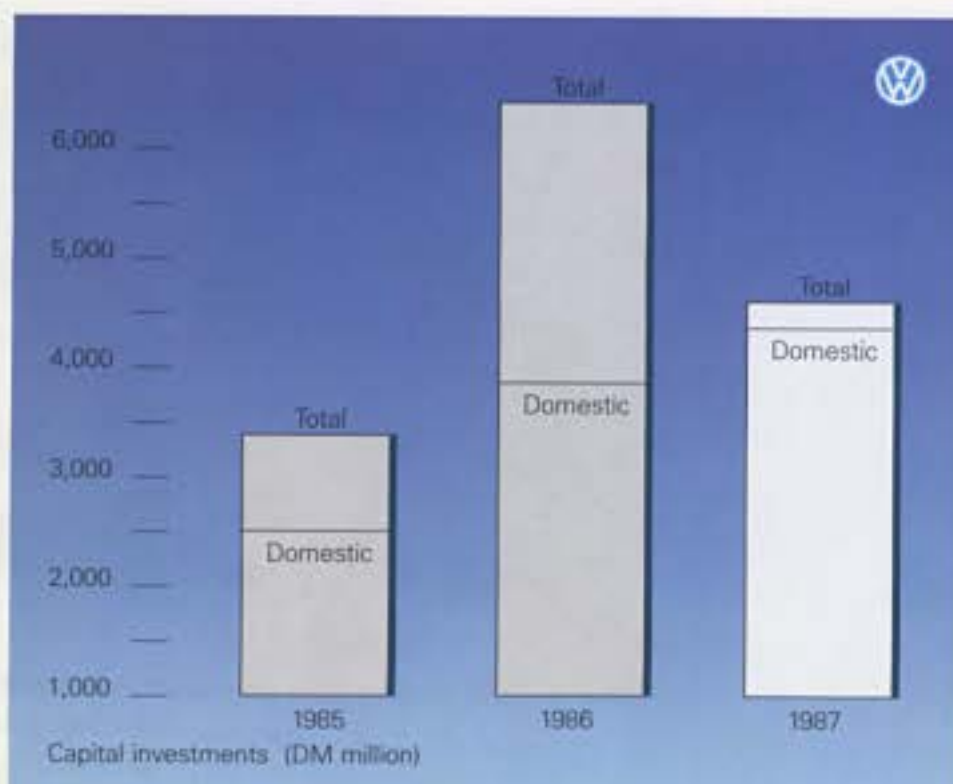
To meet the high requirements involved, the Group investment programme was continued at a volume of DM 4,592 (6,371) million. Capital investments in tangible and intangible assets amounted to DM 4,430 million; after the considerable additions in the previous year DM 162 million was invested in financial assets.

The increase in tangible assets was particularly due to the development and extension of our vehicle and assemblies programme as well as modernisation of production facilities.

In West Germany investments by the Volkswagen Group amounted to DM 4,324 million; the proportion accounted for by foreign countries came to DM 268 million or 5.8%. The additions to leasing and rental assets, which are no longer shown under capital investments, amounted to DM 3,318 million, that is, 21.2% above the previous year's figure owing to the expanding leasing and rental business. A major contribution was made by the subsidiaries V.A.G. Leasing, V.A.G. France and interRent.

During the year under report Volkswagen AG invested a total of DM 3,532 million, DM 3,067 million of which was accounted for by tangible and intangible

Management Report: Volkswagen AG and Volkswagen Group



assets and DM 465 million by financial investments. Investments in tangible assets particularly related to the Passat successor and the extensive modernisation and automation involved. A total of DM 830 million was spent on this.

Another major area was the development of new gearboxes. Through introduction of modern production methods such as the flexible body shell production and the full-scale production of large plastic parts of the outer skin there have been improvements in the quality, flexibility and economy of production.

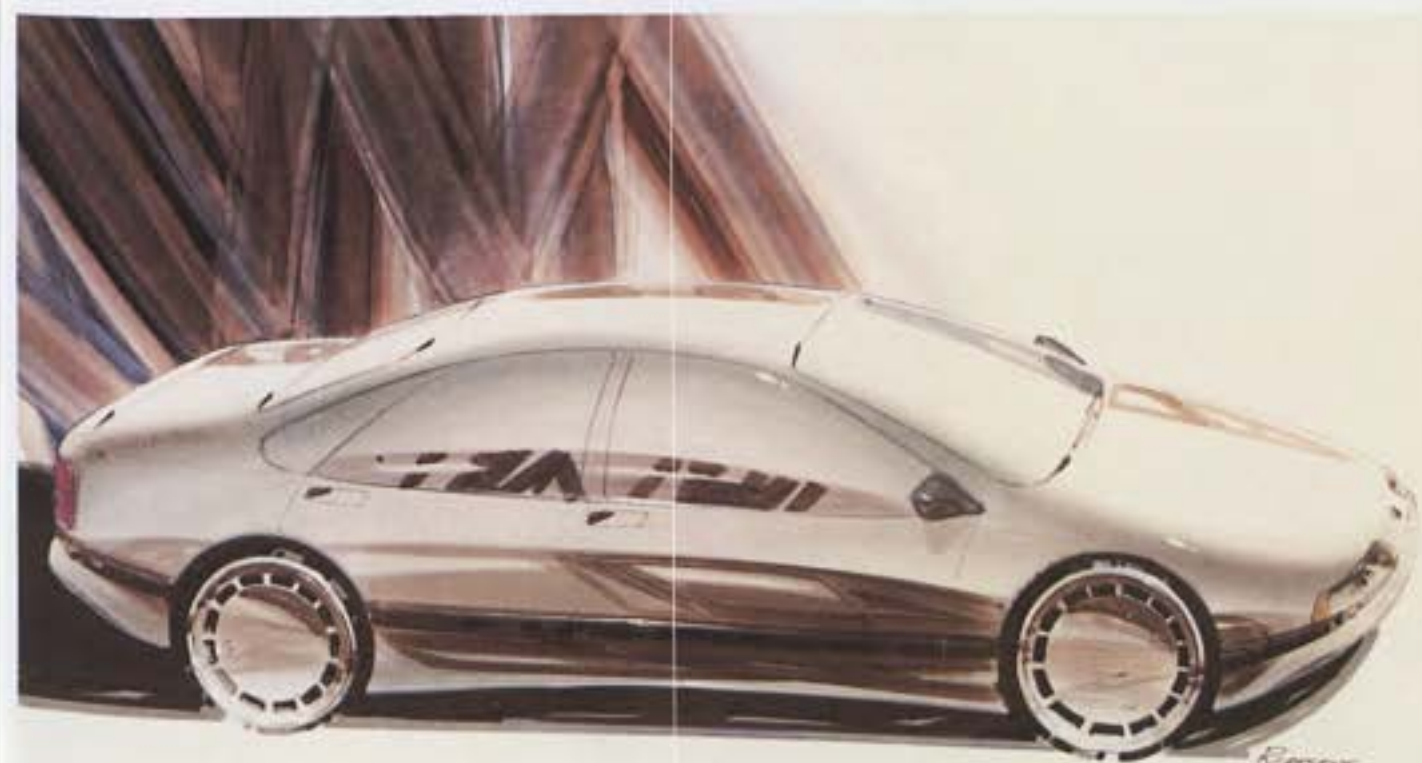
Additions to financial assets consisted chiefly of injections of capital in the AUTOLATINA group, Volkswagen de Mexico and interRent Autovermietung GmbH, the purchase of more shares in a domestic sales centre, the setting up of the Lissane Investments N.V. and an improvement in the capital structure of the joint venture Shanghai-Volkswagen Automotive Company, Ltd.

Group result at previous year's level

The financial statements of the Volkswagen Group and of Volkswagen AG for the fiscal year 1987 were prepared in accordance with the regulations of the new accounting legislation.

For the fiscal year 1987 the Volkswagen Group shows a result of DM 598 million which is 3.1 % up on the previous year. The main contributor was Volkswagen AG with a surplus of DM 494 million, compared with DM 485 million in 1986.

The companies manufacturing in Europe achieved positive financial results owing to the favourable economic situation in the automobile industry — with the exception of the SEAT group which is still showing a loss, although it did manage to significantly reduce the loss compared with the previous year as planned.



Early sketches for the new Passat saloon

The distributing, financing and leasing/rental companies in the Volkswagen Group returned a profit.

In the North American market the Group companies showed various trends. Whilst Volkswagen Canada again made a profit, Volkswagen of America showed a negative result owing to the heavy drops in sales, the increasing level of competition and the structural measures introduced.

The earnings situation at the Latin American subsidiaries was characterised by the still difficult parameters. Inadequate government price permits, simultaneous partial deregulation of prices for products for further processing and the over-valuation of the national currencies led to a negative result for AUTOLATINA. At Volkswagen de Mexico it was not only the general economic conditions which had a detrimental effect but also a two-month strike, so this company showed a loss for the year.

By contrast, Volkswagen of South Africa, which again managed to take an above-average share of the expansion of the domestic automobile market, returned a profit.

The unsecured foreign exchange items which had resulted in connection with the fraudulent manipulation of currency dealings have now been settled. DM 471 million of the provisions totalling DM 473 million, which had been created in the 1986 financial statements to cover the loss, were utilised.

Proposed continuity in dividend

Volkswagen AG has returned net earnings in the amount of DM 494 (485) million, which, after transferring DM 190

million to reserves, permits proposal to the Annual Meeting of Stockholders of payment of a dividend of DM 10 per DM 50 ordinary share. Taking the DM 5.63 tax credit per DM 50 share into account, eligible holders of ordinary shares will be entitled to a total of DM 15.63. Each preference share attracts DM 1.00 extra dividend and thus a total of DM 11.00. Together with the tax credit of DM 6.19, each eligible shareholder will receive a total return of DM 17.19 per DM 50 preference share.

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 subscribed capital of DM 1,500 million	306,000,000 DM
of which:	
on ordinary shares	240,000,000 DM
on preference shares	66,000,000 DM
Balance (carried forward)	1,605,864 DM
Net earnings available for distribution	307,605,864 DM

Management Report: Volkswagen AG and Volkswagen Group

Development in the current year and prospects

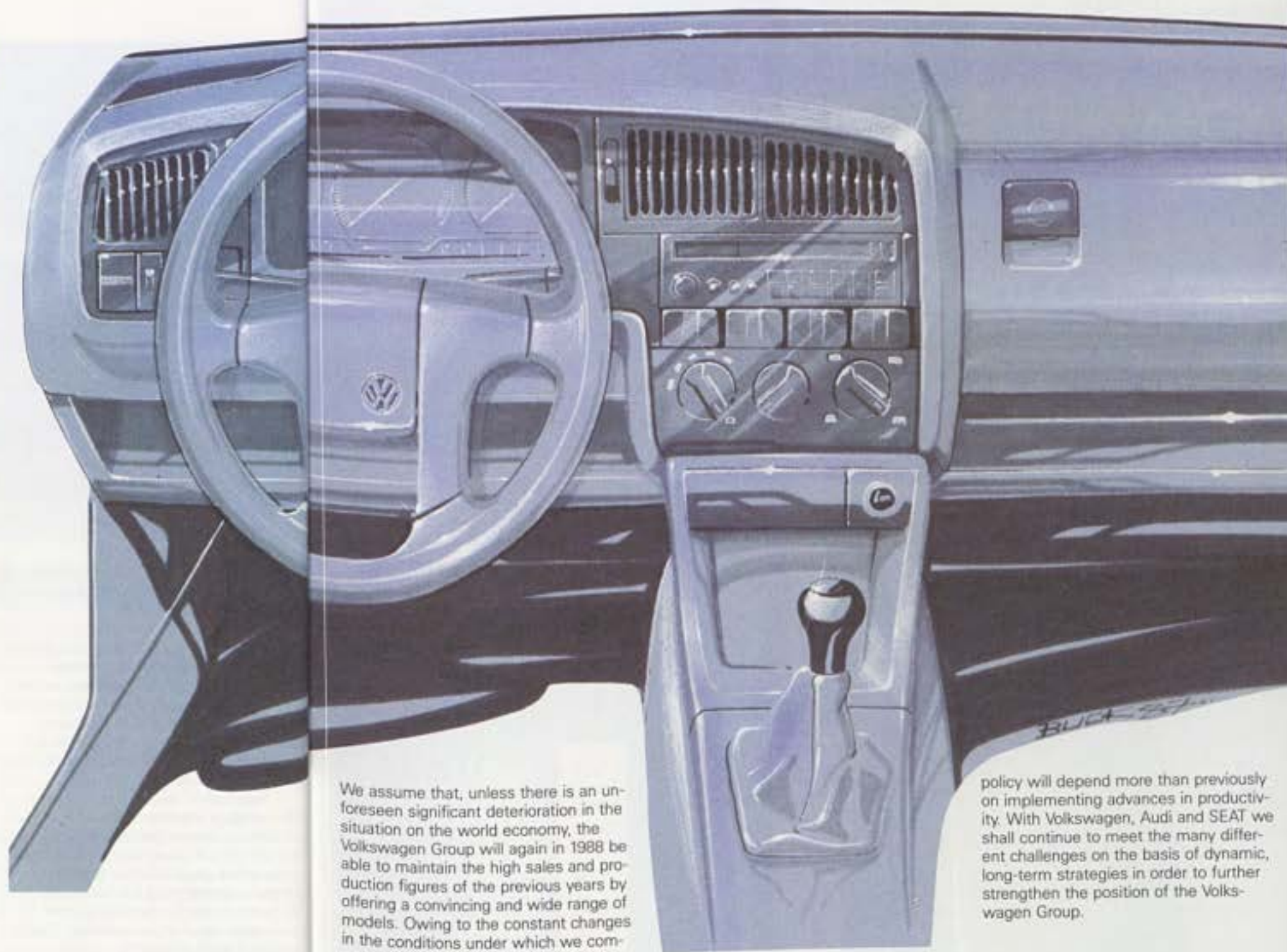
The modest growth in the world economy is not expected to flatten out during the first half of 1988. However, unforeseeable influences are resulting from foreign trade imbalances, exchange rate risks with the American dollar and from the financial markets. The American economy is receiving additional impetus on account of the boost in export activity. As far as Japan and the West European economies are concerned, including West Germany, the economic trend will again be dependent on private consumption, whereby the Japanese economy will show a higher rate of growth because of the large reserve in domestic demand. On the other hand, dampening influences could originate from the reduction of exports due to the devaluation of the dollar.

After five years of upward movement the automobile industry in Europe is now approaching the peak of its economic cycle. Backed up by a favourable trend in real incomes and new Volkswagen models, the vehicle sales of the Volkswagen Group in this region will again take a positive course. Internationalisation of our sales promotion will also be a contributing factor.

In the automobile leasing and rental business we intend to place the activities of interRent and Europcar, the subsidiary of the Belgian leisure and travel company Compagnie Internationale des Wagons-Lits et du Tourisme S.A., on a common European footing.

In the North American market we expect sales to be even more difficult in the light of the structural upheaval in the automobile industry and the ever increasing competition.

In Latin America we are working under conditions which make it difficult to plan activities even in the short and medium term. Nevertheless, demand is beginning to stabilise at a low level. The change in the restrictive price approvals policy for motor vehicles on the part of the Brazilian government also contributes to the improved earnings situation. It is now possible again to set prices at more realistic levels.



We assume that, unless there is an unforeseen significant deterioration in the situation on the world economy, the Volkswagen Group will again in 1988 be able to maintain the high sales and production figures of the previous years by offering a convincing and wide range of models. Owing to the constant changes in the conditions under which we compete in the international markets, our

policy will depend more than previously on implementing advances in productivity. With Volkswagen, Audi and SEAT we shall continue to meet the many different challenges on the basis of dynamic, long-term strategies in order to further strengthen the position of the Volkswagen Group.

In all the other markets in which the Volkswagen Group is represented there are likely to be increases in sales in 1988. This includes Japan, where we intend to further intensify our working together with the Japanese Volkswagen and Audi importer Yanase in order to strengthen distribution. The aim is to take better advantage of market potential.

Wolfsburg, March 15, 1988

The Board of Management

[Handwritten signatures of the Board of Management]

Further Information about the Fiscal Year Finance

WKN 766 403

Stück 10
Stück 10

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The financial statements of Volkswagen AG and the Volkswagen Group for the fiscal year 1987 were prepared for the first time according to the new accounting legislation which came into effect on January 1, 1986. The presentation of the financial statements for the previous year and of the tables derived from them has been adjusted accordingly. The Statement of Earnings was based on the cost of sales method. Fiscal depreciation which exceeded the limit imposed by commercial law was no longer deducted from fixed assets but shown as special item with an equity portion.

Stockholders' equity ratio matches international levels

The course of business during 1987 was also reflected in a rise in the balance-sheet total for the Volkswagen Group. Total assets rose by DM 2,349 million to DM 44,061 million, which corresponds to a rise of 5.6 %.

	Assets		Stockholders' equity and liabilities		
	1987	1986	1987	1986	
Fixed assets	19,479	17,318	12,938	11,947	Stockholders' equity
			6,688	6,305	Long-term liabilities
Inventories	6,618	6,802	7,251	5,911	Medium-term liabilities
Receivables	9,403	8,675			
Liquid funds	8,561	8,917	17,184	17,549	Short-term liabilities
	1987	1986	1987	1986	

Structure of the consolidated balance sheet (DM million)

Current assets remained virtually constant and the increase originated from fixed assets which rose by 12.5 % to DM 19,479 million. This reflects the high level of capital investments in tangible assets, particularly for the new Passat ("Quantum" in the United States) at the Emden plant, and an enlargement of the fleet of leasing vehicles.

The proportion of the balance-sheet total accounted for by fixed assets amounted to 44.2 %, compared with 41.5 % in 1986. The rise in current assets to DM 24,582 million was only minimal though and this caused their proportion of the total to fall from 58.5 % to 55.8 %.

Inventories were lower but receivables, including other current assets, were up on the previous year, whilst liquid funds remained at a high level.

The change in total capital was chiefly due to the further increase in stockholders' equity by almost one billion (DM 991 million) to DM 12,938 million. Apart from the special items with an equity portion in the amount of DM 2,212 million, which are regarded as stockholders' equity, consolidated reserves also saw an increase of 7.7 % to DM 8,496 million. The proportion of the balance-sheet total accounted for by stockholders' equity in line with international levels improved again by 0.8 percentage points to 29.4 %.

Accordingly the proportion accounted for by outside capital fell from 71.4 % to 70.6 %, whereby within the due dates structure we managed to achieve a shift from short-term liabilities to medium-term liabilities.

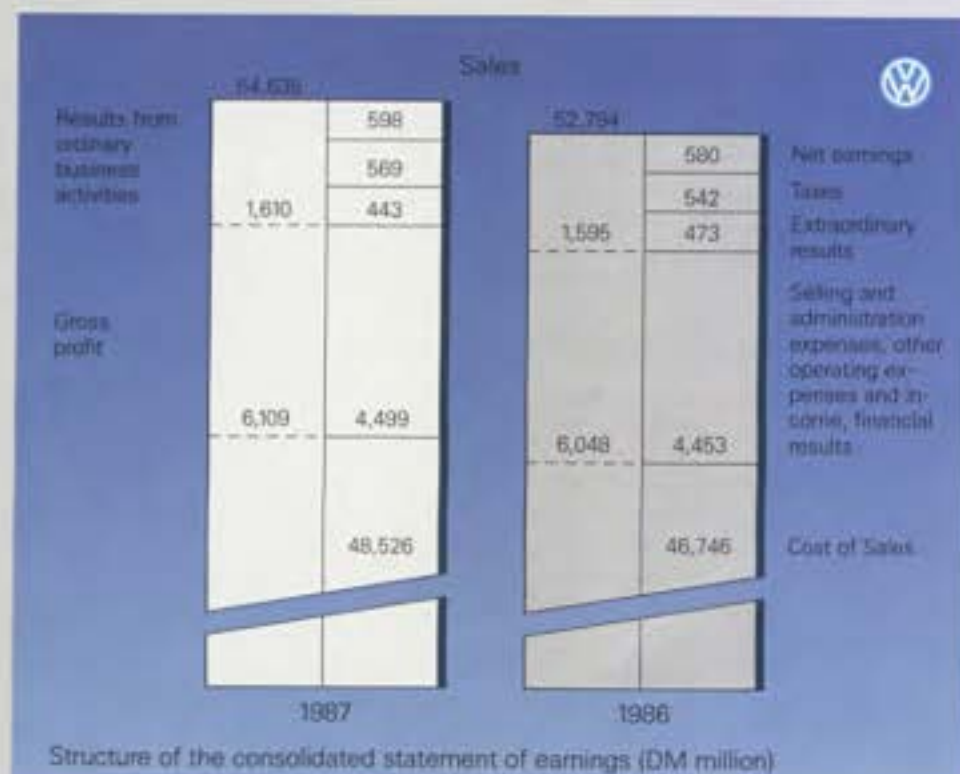
Favourable balance-sheet ratios

The key balance-sheet ratios for the Volkswagen Group again remained at a high level in 1987. Despite the substantial increase, with 100.8 % coverage, we were able to finance fixed assets entirely with stockholders' equity and long-term outside capital.

The favourable balance-sheet structures are also reflected in our short-term liquidity: Liquid funds plus short-term receivables and loans in relation to short-term outside capital was 91.5 % (93.2 %).

Development of short-term liquidity of the Volkswagen Group (in DM million)

Additions to fixed assets and intangible assets	- 4,430		
Additions to financial assets	- 162		
Additions to leasing and rental assets	- 3,318		
Decrease in inventories	+ 184		
Increase in long and medium-term receivables	- 1,003	- 8,729	
Use of funds			
Net earnings	+ 598		
Depreciation of fixed assets, write-down of financial assets and disposal of assets minus write-ups	+ 3,291		
Depreciation and disposal of leasing and rental assets	+ 2,470		
Increase in provisions for pensions and similar obligations	+ 595		
Increase in special items with an equity portion	+ 374		
Changes in reserves not affecting liquidity	+ 17	+ 7,345	
Current operations			
Dividend payments to stockholders of Volkswagen AG and minorities in 1987	- 307		
Increase in long and medium-term liabilities	+ 1,140		
Increase in other items	+ 285	+ 1,118	
Financial transactions			
Change in liquidity position		- 266	
	Dec. 31 1987	Dec. 31 1986	Change
Liquid funds	8,135	8,553	- 418
Securities	426	384	+ 62
Short-term receivables and financial assets	7,162	7,437	- 275
Short-term liabilities and undetermined liabilities	17,184	17,549	+ 365
Change in financial funds			- 266



Financing of capital investments out of cash flow

The still high level of capital investments was entirely financed by self-generated funds (106.1 %) and the cash flow of the Volkswagen Group increased by 13.8 % to DM 4,874 million as against the previous year.

Stable earnings situation

The favourable sales situation of the Volkswagen Group was also reflected in the structure of the Statement of Earnings. Although manufacturing costs increased by 3.8 % to DM 48,526 million owing to the continuing demand for more expensive vehicles and features, they remained — despite a weaker dollar rate — virtually unchanged at 88.8 % of sales proceeds, which are 3.5 % up. Consequently the gross profit saw a 1.0 % increase to DM 6,109 million.

Compared with the previous year the results from ordinary business activities increased slightly to DM 1,610 million. After deduction of the lower extraordinary loss and of taxes, the Volkswagen Group showed net earnings totalling DM 598 million (DM 580 million).

Added value analysis of Volkswagen AG

Sales of Volkswagen AG amounted to DM 43,199 million, an increase of 5.0 % or DM 2,065 million on the previous year. After including other income totalling DM 2,735 million and deducting expenditures of DM 35,192 million, which were mainly due to cost of materials, the added value of Volkswagen AG came to DM 10,742 million (+9.9 %).

This result reflects the economic performance of Volkswagen AG and constitutes its contribution to West Germany's gross national product. It is distributed to stockholders, staff, the State, creditors and the Company itself in compliance with legal and contractual obligations.

Sources (DM million)

	1987	1986
Sales	43,199	41,134
plus other income	2,735	2,461
less expenditures	35,192	33,820
Added value	10,742	9,775

Distribution of added value

Most of the added value, DM 9,525 million or 88.6 %, was distributed to staff. The tax payments of Volkswagen AG amounted to DM 639 million representing a 6.0 % share of added value paid to the State. In the past fiscal year creditors received DM 83 million (DM 66 million) so their proportion increased by 0.1 of a percentage point to 0.8 %.

Of the remainder of added value DM 189 million or 1.8 % was transferred to reserves in order to strengthen the Company's equity base and secure its future. Together with the profit brought forward from the previous year DM 190 million was transferred to reserves. The total amount of dividend, DM 306 million, to be paid to the stockholders of Volkswagen AG is the same as the previous year's figure.

Distribution (DM million)

	1987	1986	
	9,525	8,736	to staff
	639	489	to the State
	83	66	to creditors
	189	178	to the Company
	306	306	to the stockholders



Fünzig Deutsch

Der Inhaber dieser Sammlermappe über 10 Vorzugsaktien zu je 10 Fünzig Deutsche Mark ist Volkswagen Aktiengesellschaft nach Maßgabe ihrer Satzung als Aktionär beteiligt.

Wolfsburg im

Wo

The Major Companies within the Volkswagen Group

December 31, 1987

Europe



VOLKSWAGEN AG

Subscribed capital DM 1,500,000,000

Plant locations: Wolfsburg, Hanover, Kassel, Emden, Salzgitter, Brunswick

AUDI AG
Ingolstadt
DM 215,000,000
99 %

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

Seat Leasing GmbH
Brunswick
DM 1,000,000
100 %

interRent
Autovermietung GmbH
Hamburg
DM 45,000,000
100 %

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

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

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

Seat Kredit
Bank GmbH
Brunswick
DM 3,000,000
100 %

V.A.G. Transport GmbH
Wolfsburg
DM 2,000,000
100 %

VOTEX GmbH
Dreieich
DM 1,000,000
100 %

Sociedad Española de
Automóviles de Turismo,
S.A., Madrid, Spain
Ptas 80,000,000,000
75 %

Financiera SEAT,
S.A., Madrid, Spain
Ptas 6,207,390,000
100 %

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

Coordination Center
Volkswagen S.A.
Brussels, Belgium
bfrs 2,000,000,000
100 %

TAS Tvorinica
Automobila Sarajevo
Vogosca, Yugoslavia
Din 3,593,355,321
49 %

AUTOGERMA S.p.A.
Verona, Italy
Lit 90,000,000,000
100 %

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

V.A.G. Financement S.A.
Paris, France
FF 20,961,400
77.5 %
21.1 % HOLAD
1.4 % VOLKSWAGEN AG

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 %

Overseas

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

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

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

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

Autolatina
Comércio, Negócios e
Participações Ltda.
São Paulo, Brazil
Cz \$ 15,426,230,149
51 %

Autolatina Argentina
S.A., Buenos Aires
Argentina
A \$ 5,510,000
51 %

Volkswagen de Mexico,
S.A. de C.V.
Puebla/Pue., Mexico
Mex \$ 225,678,987,000
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 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 %

Shanghai-Volkswagen
Automotive Company,
Ltd., Shanghai, China
RMB 255,000,000
50 %

- Producing Companies
- Distributing Companies
- Other Companies

Salient Figures of Major Subsidiaries and Affiliates

Producing Companies				Sales			Vehicle Sales			Production			Capital Investments			Workforce		
	DM million 1987	DM million 1986	Change %	Units 1987	Units 1986	Change %	Units 1987	Units 1986	Change %	DM million 1987	DM million 1986	Change %	Dec. 31 1987	Dec. 31 1986	Change %			
AUDI AG	11,366	9,908	+ 14.7	414,461	351,321	+ 18.0	443,067	383,519	+ 15.5	730	889	− 17.9	39,325	39,843	− 1.3			
SEAT S.A.	4,879	3,821	+ 27.7	433,510	347,147	+ 24.9	406,391	338,548	+ 20.0	103	1,263	− 91.8	24,895	23,591	+ 5.5			
Volkswagen Bruxelles S.A.	2,726	2,536	+ 7.5	209,662	192,753	+ 8.8	209,662	192,753	+ 8.8	49	128	− 61.4	5,422	5,636	− 3.8			
TAS Tvoronica Automobila Sarajevo	456	377	+ 21.1	29,928	32,145	− 6.9	30,575	30,940	− 1.2	6	10	− 39.7	3,116	3,006	+ 3.7			
Volkswagen of America, Inc.	5,815 ⁽¹⁾	8,766	− 33.7	237,627	285,013	− 16.6	66,508	84,331	− 21.1	239	559	− 57.2	5,528	6,448	− 14.3			
AUTOLATINA	3,541 ⁽²⁾	4,692	− 24.5	345,893 ⁽¹⁾	409,977	− 15.6	341,909 ⁽²⁾	411,055	− 16.8	171 ⁽²⁾	414	− 58.8	30,034 ⁽³⁾	48,766	− 38.4			
Volkswagen de Mexico, S.A. de C.V.	1,117 ⁽⁴⁾	1,280	− 12.7	54,561	66,806	− 18.3	48,722	71,554	− 31.9	182	163	+ 11.9	13,365	14,007	− 4.6			
Volkswagen of South Africa (Pty.) Ltd.	866	645	+ 34.3	44,963	37,993	+ 18.3	44,167	38,836	+ 13.7	17	8	x	6,811	5,830	+ 16.8			
Volkswagen of Nigeria Ltd.	37	118	− 68.5	1,851	2,744	− 32.5	2,123	3,747	− 43.3	1	5	− 89.8	1,370	2,046	− 33.0			
Shanghai-Volkswagen Automotive Company, Ltd.	343	251	+ 37.1	11,038	8,471	+ 30.3	11,000	8,500	+ 29.4	71	46	+ 53.9	2,087	1,911	+ 9.2			
		</																

¹ incl. proceeds from disposal of used assets ² In line with the 51 % holding ³ Only Volkswagen models

Companies within the Volkswagen Group Europe

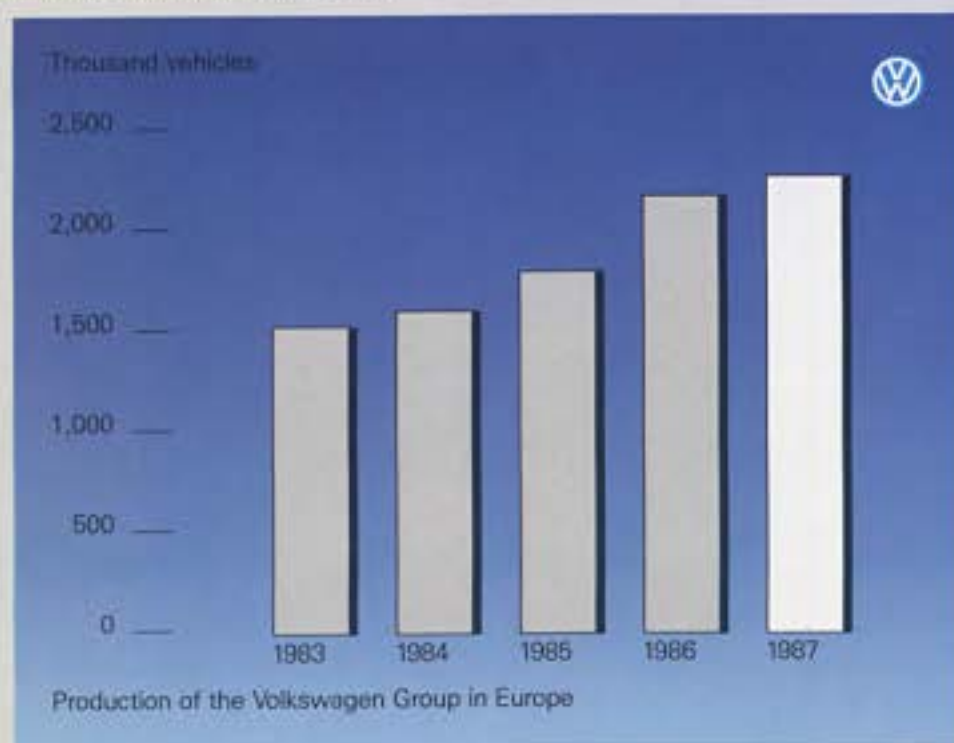
Leading position in Europe consolidated

In Europe the buoyancy of the automobile industry continued in 1987. As a result of the sharp rise in private consumption, new passenger car registrations amounted to 11.9 million vehicles (+6.3%), a new record level.

The Volkswagen Group was able to derive above-average benefit from the expansion in the automobile business on account of its attractive range of models in terms of technical features and

quality. This expansion, to which the entire range of products contributed, is the result of systematic implementation of our three-marque strategy: Volkswagen, Audi and SEAT.

The models worthy of special mention are the Golf, which has been the best-selling vehicle in West Germany since 1975 and in Europe since 1983 and is still enjoying growth rates, as well as the exceptionally successful new range of Audi 80/90 models.



A major contribution has been made by the Spanish subsidiary SEAT, whose rises in sales even exceeded high expectations both in the domestic market and in other European countries particularly on account of the successful Ibiza model. Spain thus became the second most important foreign market in Europe for the Volkswagen Group after Italy, followed by France and Great Britain.

Share of domestic market increased again

Enhanced by the renewed rise in real incomes and by virtual price stability, private demand (particularly the increasing interest in low-pollution vehicles) contributed to the fact that the automobile industry remained a major pillar of overall economic development in West Germany.

New passenger car registrations amounted to 2.8 million vehicles, that is, 2.7% above the previous year, thus

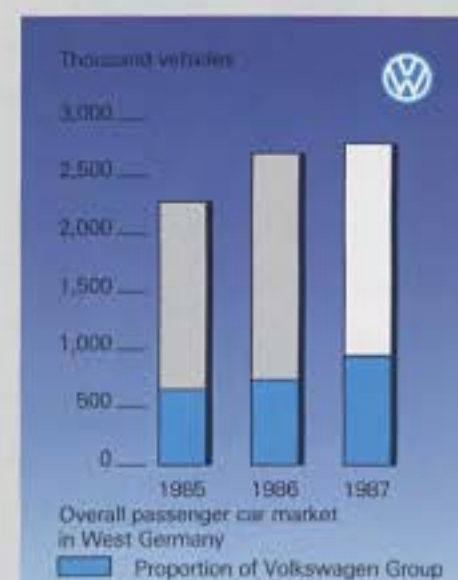
In West Germany the Volkswagen Group achieved a sales increase of 6.0% to 915,060 vehicles, which was well above the average for the industry. The market share accounted for by our three marques thus saw a rise to 30.1% (28.8%), of which 22.2% (23.1%) were Volkswagens. Audi and SEAT managed to improve considerably on their market positions at 7.5% (5.5%) and 0.4% (0.2%) respectively. Of the new registrations of Group models 81.4% were low-pollution vehicles.

Since February 1987 all the Audi vehicles, and since November all the Volkswagen passenger cars fitted with a petrol engine, were available with a catalytic converter as standard. The Volkswagen Group, which was the market leader in 1987 with a market share of 29.6% of all the new reduced-pollution vehicles in West Germany, demonstrated its sense of responsibility towards the environment in its range of products. Moreover, many customers driving vehicles without a catalytic converter have taken the opportunity of having one fitted.



As far as commercial vehicles are concerned, Volkswagen was able to achieve a growth rate of 3.3% to 64,237 units sold in the category up to a licensed weight of 6 tonnes and thus maintain its clear lead over competitors with a market share of 39.3% (40.7%). However, since demand for commercial vehicles saw a considerable decline, particularly in the US market, short-time working became necessary at the commercial vehicle plant in Hanover.

attaining a new peak. This development was characterised by a 3.7% rise in sales of domestic makes. At the same time, the number of rival foreign makes was stagnant (+0.1%).



VOLKSWAGEN AG — looking to the future with the new Passat

In the markets it serves, Volkswagen AG delivered 1,782,831 Volkswagen vehicles (— 0.3%) to customers, 1,619,529 pas-



senger cars (+ 0.1 %) and 163,302 light commercial vehicles (— 3.6%). It also handles the worldwide distribution for Audi.

In West Germany deliveries of Volkswagen passenger cars to customers amounted to 624,273 (— 2.0 %), which was virtually the same as the previous year's high level. It was the Golf with 380,756 units (+ 1.1 %) which again far and away exceeded the sales figures of all the other Group model ranges. Sales of the Polo showed an above-average rise of 7.1 % compared with the total of new passenger cars registered.

In the West European volume markets Volkswagen deliveries to customers again rose by 2.8 % to 674,218 vehicles. Further successes were achieved above all in the large markets of Italy, Spain, France and Great Britain.

The Passat Variant received a unique award in the year of its model change. 70 car journalists from all over Europe and the readers of "Auto-Zeitung" voted this model the best family car, whereby it was particularly the high level of con-

venience and comfort, the refined quality and the high resale value, as with all Volkswagen products, which were highlighted. The first place of the Golf GTI in the compact sports saloon class served to round off Volkswagen's success.

In addition the Golf was the undisputed victor in its class of the readership competition "The best cars in the world" in the magazine "auto motor und sport".

Research and Development

Passat — a new dimension in driving

Since its launch in 1973, that is, 15 years ago, there have been 4.2 million Passat cars made, a figure which speaks for itself.

The new Passat, in which it is only the name which is connected with the old model, is designed to lead on from this accomplishment and moreover gain new customers. Volkswagen has employed its entire wealth of ability and know-how in developing and designing the new generation of Passat and the result it is now presenting is a vehicle which meets the highest standards of engineering, quality, economy, comfort and minimum environmental pollution.

In terms of its characteristics the Passat has remained a typical representative of the advanced, trend-setting Volkswagen philosophy and constitutes the alternative to the successful Audi 80/90 models.

With regard to spaciousness, comfort and convenience the newly developed Passat is setting new standards in the middle range. This has been possible also as a result of implementation of the transverse engine concept which has allowed us to take full advantage of this design in terms of spacious interior.

To make the Volkswagen and Audi ranges more different from one another we have not only introduced different engineering but also different styling in order to address different groups of potential customers.

As a typical Audi model the Audi 80 has a marked similarity to the Audi 100 and, with its definite sportiness, constitutes a vehicle for the individualistically inclined sporting driver.

On account of its enormous spaciousness and the great variability of its interior the new Passat is an excellent family saloon with a high level of technical functionality — a car for a wide customer group, in line with the Volkswagen marque.

The new transverse engine concept permits an extremely low-profile engine bonnet, whereby the Passat has been given a new front without radiator grille. The exceptionally aerodynamic design is also continued in the rounded shape





The running gear is also state-of-the-art. The conversion to 14-inch wheels (15-inch on request) and larger brakes, an extended wheelbase, a wider track and the newly designed track correcting torsion beam trailing arm rear axle ensure exemplary road holding and safety. Another contributing factor is the anti-lock braking system (ABS) which is offered as an option for all the versions of engine.

The high level of running gear technology is complemented by a newly developed manual gearbox, modern centralised electrics, a luxury heating and ventilation system, and air conditioning if required.

A key aspect for the customer will be the fact that the car is so easy to service and maintain. On the Passat this advantage has been achieved by employing the modern, low-maintenance engineering of the new Volkswagens. It ensures reliability and safety in operation with only a minimum of maintenance plus a reduction in running costs brought about by easy-to-service well arranged assemblies.

The extensive guarantee package for the new vehicle includes:

- 1 year of freedom from defects without any km limit
- 3 years' guarantee on paintwork
- 6 years' guarantee against rusting through.

Naturally a completely new design of vehicle also calls for a new engine programme. It ranges from the 1.6 litre/53 kW (72 bhp) carburettor engine with non-regulated catalytic converter through to the high-tech engine of the 2.0 litre 16-valve model providing 100 kW (136 bhp) and a top speed of 206 km/h. It also includes the 1.8 litre/66 kW (90 bhp) engine with regulated catalytic converter and monojet injection system or, a 1.8 litre/79 kW (107 bhp) fuel injection engine with DIGIFANT (an electronically controlled ignition timing/fuel mixture preparation system). The 1.6 litre/59 kW (80 bhp) turbo diesel engine with charge air cooling and increased performance provides a sporty economic alternative to the petrol engine.



**auto
motor
sport**
TITEL

Der Stoff, aus dem die Räume sind

Vorstellung Volkswagen Passat
Außen Mittelklasseformat,
innen Großraumlimousine.

Von Bernd Ostermann



**New Passat leads
of new cars
Geneva**



LA VOLKSWAGEN PASSAT: GENERAZIONE '90

Apparue au début des années 1980, la limousine de VW aurait aujourd'hui besoin d'une refonte complète qui, à défaut de la rendre concurrentielle avec les autres modèles européens. En France, la limousine 3 volumes et le

Beaucoup plus ro-
un capot avant p-
dénudé de caland-
sat 88 est résolut-
derne. Le refroid-
du moteur s'effe-
des prises d'air situ-
le pare-chocs alors
mission d'air du r-
guidée à travers.



GROSS IN FORM

Von Rüdiger Boun

Volkswagen, das ist für viele der Golf, der Golf und nochmals der Golf. Im Golf, das auch. Aber neben

...sich die zwei
1980 eingeführt
achten Jahr nach
le (siehe auch Diag
ab April 1988 der No
rund 3300 VAG-Händlermodell hat
Mit dem Vorgängermodell
Passat etwa zwei gemein
...rücken mit einem Hur
...Windes

présent en 3 versions, 2 et 3 volumes et Variant (break), ne sera plus disponible qu'en limousine 3 volumes et

CARS ARE NO longer such easy pickings for roving thieves as they once were. On reading the specification for the first handful of this year's

Passat the barrier

SUE BAKER welcomes the grandchild
first Passat: James

New VW Passat

Outside, depending upon engine specification, the new Passat saloon is equipped either with a spoiler integrated into the boot lid or with a separate mounted lip spoiler color-matched to the vehicle. Volkswagen's standard

Research and Development

Product progress — yardstick of innovation

As a result of research and development work we were again able to introduce product improvements which have led to an increase in safety and a reduction in environmental pollution throughout the entire range of models.

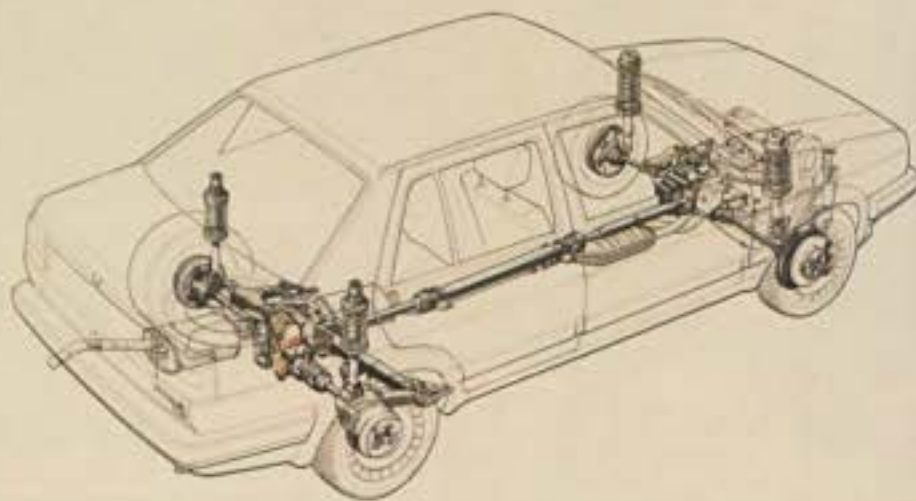
The permanent Volkswagen all-wheel "syncro" drive has proved successful as a superior drive system. At the heart of this concept with slip-sensitive power distribution, the viscous coupling, Volkswagen has been a pioneer. This reliable technology, still being offered on the Commercial and on the Golf, is now also available on the Jetta and soon on the Passat.

Alongside the Scirocco and the Golf, the Jetta is now also available with the successful 16-valve engine. Thus this model also offers increased performance without any need for extra engine capacity, with improved fuel utilisation and less environmental pollution. As for the Passat syncro and the Commercial series, model upgrading has included the introduction of a fully electronic anti-lock braking system which meets our high requirements in terms of quality and safety in the Golf and Jetta classes too.



Jetta syncro

Allradantrieb



Further development of the engine range

In the engines sector work was focused on meeting the worldwide exhaust emission regulations. Although many of our engines already provide figures much less than the noxious substance limits which are low in some countries, the further reduction in exhaust emissions and the extension of our range of

low-pollution engines still constituted a major part of our development work.

A large role has also been played by improving engines now in series production and developing new engines and gearboxes. In the case of the petrol engine vehicles the use of DIGIFANT technology, which serves to optimise air/fuel mixing and ignition, was extended.

Diesel / Elektro - Hybridantrieb



After methanol had been examined in the past in various additives for conventional fuel, an electro-hybrid drive, comprising a decoupling 37 kW diesel engine and a 5 kW electric motor was developed in collaboration with the Bosch company as a potential alternative and put to test in a Golf.

The engine and the motor are controlled via automatic couplings so that at low speeds, and therefore in city traffic, it is mainly the electric motor which propels the vehicle. The output necessary for accelerating and achieving higher velocities is created by the diesel engine. Fuel consumption in urban areas can thereby be reduced to 2.4 litre per 100 km, thus reducing the already low noxious substance emission of the diesel engine by half. Noise emission is also reduced. As a pioneering concept the electro-hybrid drive was awarded the special prize for environmental protection in the context of the "Grand Austrian Automobile Prize".

Large-capacity computer to simulate tests

In mid-1987 a computer was put into operation which is opening up new dimensions in the simulation of tests. It is a system which can work up to 200 times faster than conventional industrial computers.

The fields of application of the new computer include the simulation of air flow past vehicles, behaviour in crashes, engine research and testing vehicle design.

Vehicle development and research is to be accelerated by the use of optimised computer models. The advantage of such modern methods of computing is that they can be used at a time long before paper drafts, bodywork tools or even prototypes exist.



A top component for the engine range of Volkswagen is the G-charger. G-charger engines combine compact design and high performance. They have a high level of efficiency and display a very high torque over the entire range of engine speeds.

The electro-hybrid drive — a trend-setting concept

A key item of research has for years been the development of alternative drive systems with which fuel consumption and emissions are reduced and therefore a contribution is made towards relieving the environment.

Restructuring production plants, new production technologies

With new production methods and measures to improve the organisation of work, major steps were taken again in 1987 to maintain competitiveness at all Volkswagen AG's plants.

Investment focused on the restructuring of the Emden plant for the new Passat. The now achieved level of flexibility permits us to convert production to different vehicles in a minimum space of time. This means that we can respond rapidly to market situations and improve utilisation of production capacity. We are thus not only taking account of increasing requirements in terms of profitability, productivity and product quality but also of an improvement in work conditions and environmental protection.

The new flexible body shell shop at Emden is designed in such a way that in an interlinked system of high-volume welding machines bodywork parts can be welded fully automatically. The combination of clamping and welding robots permits, within a short space of time, production of a different or a new model without any major capital investments.

A further step towards flexibility of production is automation systems in assembly. Automated gearbox assembly at the Kassel plant permits adaptability with regard to programme changes and continuous utilisation of equipment.



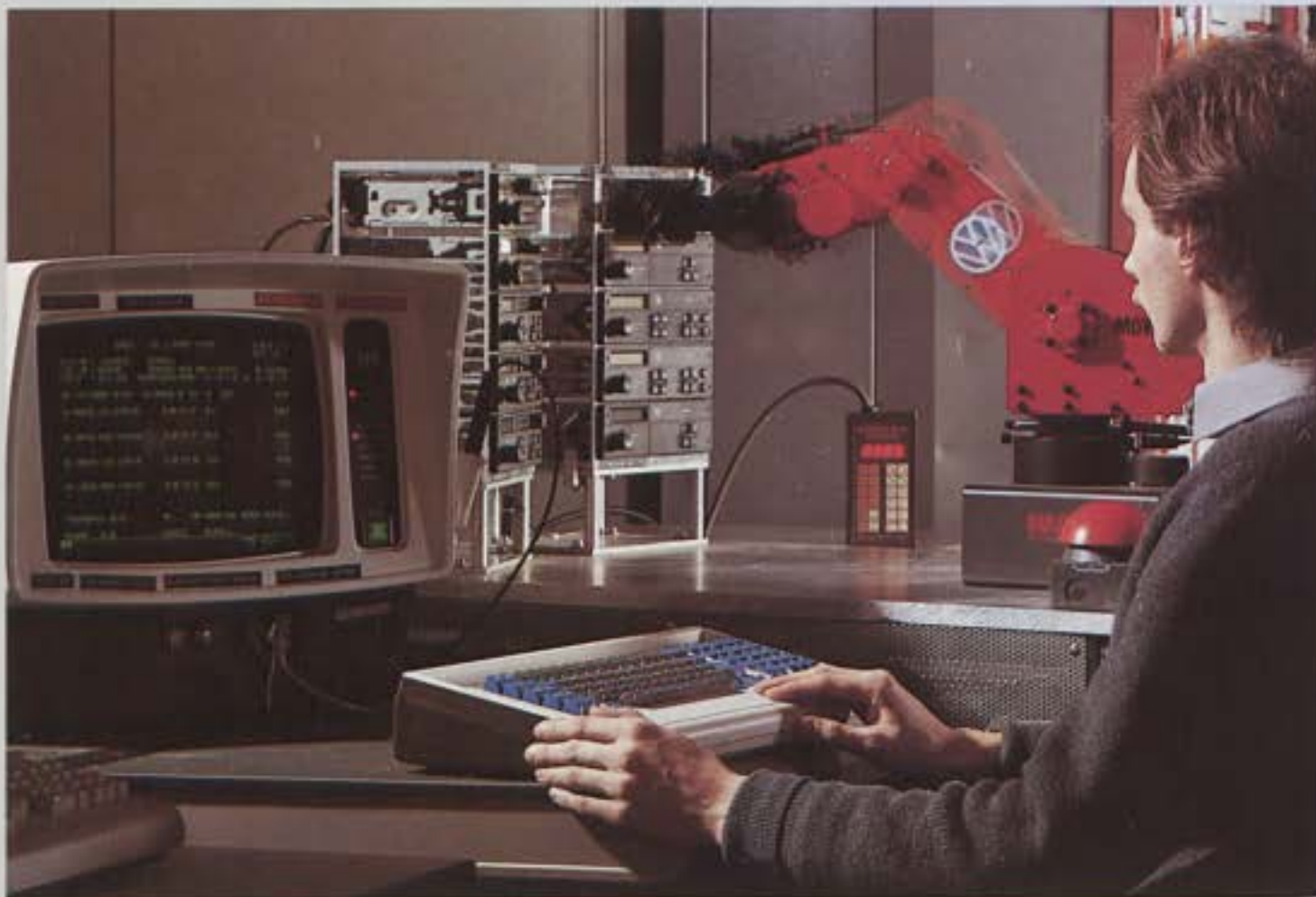
Information processing in production

To boost productivity a CAD (Computer Aided Design) system was developed in our design departments which introduced automated design of deep-drawing tools.

We also began implementing a CAD programme for factory planning which supports rationalisation of the planning process and thus makes a contribution towards reducing investment time.

Further computer-aided means of production are used at our new toolmaking section in Brunswick. Machine tools connected up via DNC (Distributed Numerical Control) are directly linked to the control computer which processes control data, thus optimising work procedures.





Quality knows no limits

Quality does not arise by chance, nor does it arise solely from the skill of a craftsman, from functional design or the correct choice of materials. Quality is the result of collaboration between people who have set themselves the aim of meeting the ever increasing requirements of the market with rational means.

It is a task of quality assurance, as the customer's advocate, to ensure that our products meet the high quality expectations worldwide. It was therefore possible from the start to manufacture Polos at SEAT in Pamplona at the same level of quality to which the customers of Wolfsburg production are accustomed.

Everywhere in the world Volkswagen quality is based on the same standards, aims and principles, and even if the instruments differ according to local conditions, standards do not. A high level of quality calls particularly for close collaboration between all those concerned, starting from research and development through to our suppliers.

In the manufacture of the new Passat in Emden measuring methods are being used which have so far only been applied outside the automobile industry, for example in the aircraft industry, in shipbuilding and in land survey work. By taking a look at completely different disci-

plines we have been able to apply in Volkswagen's quality assurance a technique which checks complete production facilities for compliance with the specified dimensions and shapes in a fraction of the time previously required.

This new electronic method, also called the theodolite measuring technique, improves quality and productivity at Volkswagen by reliable adherence to yet smaller tolerances. Quality control is also performed on the finished bodies by flexible measuring robots, which is a further innovation. This technique will be used worldwide.



projects make both the suppliers and Volkswagen more competitive and are therefore of mutual benefit.

Improvement in material flow

Together with selected suppliers, material fine control projects have been implemented which secure the supply of our plants despite an increasing variety of products and parts and reduce inventories both at the supplier's and at Volkswagen.

When production of the Passat was launched at the Emden plant it was possible by selecting suppliers near the plant to set up a virtually inventory-less or "just-in-time" supply of materials. By synchronising the flow of production and materials with supplying companies and by having pre-assembled components delivered to the assembly line in correct order the Emden plant operates almost without any inventory of its own. Apart from reducing cycle time these projects also called for joint planning of an improved communication system and new quality assurance measures. Such

Environmental protection — an unceasing quest

In times of scarcer resources and increasing competition, environmental protection is gaining more and more importance and is simultaneously becoming a key corporate challenge. Volkswagen has tackled this challenge particularly by further restricting noxious emissions through improved methods of production.

For example, the solvents escaping during the drying process of sprayed vehicles are burned in so-called "thermal incinerators". In future we shall be largely replacing solvents by water in this technically elaborate and cost-intensive method of air cleaning in order to further reduce the level of noxious substances. To test the new techniques Volkswagen has set up a pilot paintshop in Wolfsburg which operates under series conditions.

A further point of emphasis in environmental protection is at the Volkswagen power stations where until 1989 considerable resources will be spent on improving further the quality of air in the Wolfsburg region.

Our efforts at environmental protection are a never-ending process in which the latest findings of research are incorporated. We work closely with universities and research institutes, for instance in the following fields:

- Cleaning waste air from paintshops with microorganisms
- Avoidance strategies for special waste materials
- Large-scale tests to improve sewage treatment.

These examples of activities pursued constitute, together with the measures related to vehicles and places of work, Volkswagen's contribution towards preserving and improving our environment.



Training at Volkswagen

In future the qualification of employees will play a crucial role even more than previously, and this is why educational activities at Volkswagen concentrate on specialised follow-up training. One basic prerequisite has been the setting up of a technology training centre in Brunswick in which six laboratories and training rooms are used to teach the specialised fields of electrical engineering and control engineering.

After a construction period of 12 months the extended training and communication skills centre "Haus Rhode" was reopened, thus taking due account of the rising capacity requirements with regard to follow-up training of our managers and junior managers.

In the field of vocational training the training courses were reorganised as a result of a rearrangement of the industrial metalwork and electrical trades and matched to suit operational and production procedures. Volkswagen AG has filled 1,543 training posts in industrial and commercial training, so the total number of apprentices and trainees has

risen to 4,538. This has played a major role in relieving the situation on the regional labour markets.

Collective agreements

On April 1, 1987 the "Collective Agreement for Social Security of Employees in the Case of Technical and Organisational Changes" took effect and is due to run until March 31, 1992. This superseded the previous rationalisation agreement from the year 1968. The new agreement contains an improved protection of jobs (occupation and pay) in connection with rationalisation investments and provides for a suitable training of employees, also in the interests of the Company.

New collective agreements on working times and pay were concluded in May 1987 for the staff of Volkswagen AG. The new arrangements are valid for a period of three years and can be terminated on October 31, 1990 for the first time. They contain a percentage increase in pay for 12 months in each case, in the years 1987 to 1989 from November 1 by 3.7%, by 2.0% and by 2.5%. Increases across the board for

trainees' pay were agreed upon for each training year and are valid for the same periods.

The agreements also provide for a reduction in the weekly working time as of August 1, 1988 by 1 1/2 hours to 37 hours. The training time was shortened by 1 1/2 hours to 38.5 hours a week as of April 1, 1988.

In December 1987 the "Collective Agreement on Part-time Working" was concluded and came into effect on January 1, 1988. It contains bargained general arrangements and can be terminated on October 31, 1990 for the first time. Among other things this agreement establishes a minimum average working time of 20 hours a week for each month. This also ensures that part-time jobs at Volkswagen AG are subject to the statutory social insurance scheme.

Company pension scheme

On December 31, 1987 28,210 former employees of Volkswagen AG or their surviving dependants received a company pension. As a result of the statutory adjustment of pensions to take account of the cost of living 10,792 persons eligible for benefits received higher payments as of January 1, 1987.

At the beginning of 1987 a new pension scheme was agreed upon with the Joint Works Council. As of January 1, 1987 a reduced scale of company pension payments will apply to new employees. Pension payments remain unchanged for all members of staff employed at Volkswagen prior to this date.

Early retirement scheme

As in previous years a so-called age-58 scheme was used. This meant that 2,405 employees were able to retire before time. In past years about 27,000 members of Volkswagen AG's staff have taken advantage of this scheme.

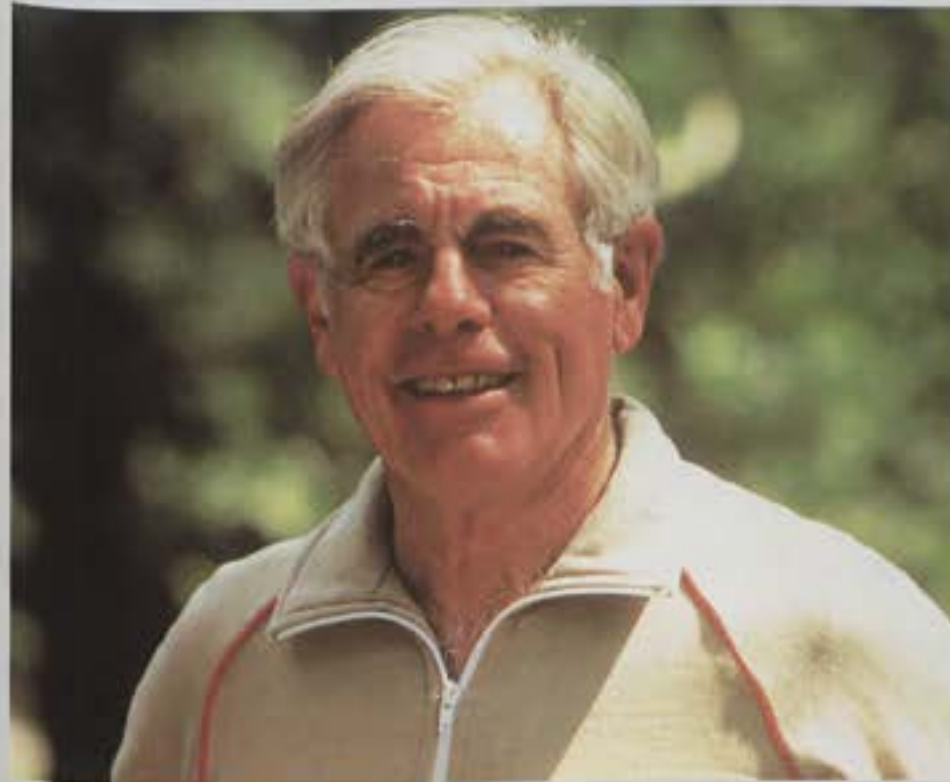
Participation in the suggestion scheme

The suggestions submitted by our employees increasingly serve to improve productivity, work procedures and work place conditions as well as to increase the quality of products. The successes in these fields are a reflection of our staff's sense of identification with the Company and the aims of corporate policy.



Compared with the fiscal year 1986 the number of suggestions for improvement submitted rose by 4.9% to 49,737. The total amount of awards for ideas actually put into practice increased from DM 15.9 million to DM 17.5 million. The highest award of DM 100,000 was made in twenty individual cases.

The refurbished training and communication skills centre "Haus Rhode"



**AUDI AG —
considerable increases in sales**

The business trend at AUDI AG was particularly characterised by the success of the two models Audi 80 and 90. These vehicles were extremely well received in Europe so worldwide deliveries of Audis to customers rose by 15.3 % to 418,998 automobiles.

In West Germany sales amounted to 212,455 vehicles (+37.8 %), which was much greater than the expansion of the market as a whole. The upward trend of Audi is also reflected by the 3rd place of the Audi 80/90 range of models in the domestic registration statistics. In other European countries unit sales amounted to 142,057 (+12.2 %) which was also well above the previous year's figure.



Owing to the favourable sales situation the company was able to boost production by 15.5 % to 443,067 units (including 25,833 Porsche models), which is the highest level so far in the company's history. In August the six millionth Audi vehicle was completed since Auto Union GmbH was taken over by Volkswagen AG: It was an Audi 100 quattro.

As at December 31, 1987 the number of staff totalled 39,325 (-1.3 %), which was only slightly less than the figure for the same time the previous year.

At the Neckarsulm plant, models 924 and 944 are being manufactured for Porsche AG. For 1988 Porsche AG has ordered about 4,000 vehicles less than in 1987 within the scope of the assembly contract which runs until December 31, 1989. For this reason it has been necessary to agree upon short-time working for employees involved in manufacturing Porsche vehicles.

As a result of the rise in vehicle sales and the continuing trend towards more upmarket features, sales saw a 14.7 % increase to DM 11,366 million. Whilst there were increases in sales in West Germany and in the other European markets, decreases were suffered in the North American market as a result of the low exchange rate for the dollar and dwindling total unit sales.

The surplus achieved was transferred to Volkswagen AG under the profit assumption agreement.

**The new Audi 90 — an example
of superb engineering
and upmarket features**

The new Audi 90 serves to close the gap between the economic, compact Audi 80 and the spacious saloons Audi 100 and 200. With the powerful 2.0 litre/85 kW (115 bhp) or 2.3 litre/100 kW (136 bhp) five-cylinder engines and upmarket features it constitutes the dynamic alternative in the upper compact class. The new Audi safety system



"procon-ten" is also available for this model. This contribution by Audi to passive safety in road traffic has been awarded national and international prizes.

In the quattro version the Torsen differential now replaces the previously used intermediate differential, as already on the new Audi 80. The new differential regulates mechanically and steplessly the distribution of torque between the front and rear axles. Consequently the axle with the greater road holding automatically receives more power and thereby improves the behaviour of the vehicle, particularly in critical situations.

As of the fiscal year 1987 all the Audi quattro models are fitted with ABS as standard. The excellent behaviour of these vehicles is thus backed up by a maximum level of active safety.

At the beginning of 1988 the Audi 100/200 series was significantly upgraded. The new features adopted in the Audi 80/90 range, such as the "procon-ten" safety system, are now available for this model series too. This series also presents a newly designed interior and an extended set of basic features, including height-adjustable safety belts and a five-speed gearbox as standard. The Audi 100 was also fitted with a new 1.8 litre/65 kW (88 bhp) base engine with non-regulated catalytic converter as well as a new five-cylinder 2.0 litre/85 kW (115 bhp) injection engine and regulated catalytic converter. On the Audi 200 the output of the five-cylinder turbo engine was raised to 147 kW (200 bhp).

For all the new vehicles registered in Europe with fully galvanised bodywork AUDI AG has been providing a 10-year warranty against bodywork perforation rusting since January this year and is thus setting new standards in large-series production.



Europe: V.A.G Leasing GmbH, interRent Autovermietung GmbH

V.A.G Leasing — market leadership reinforced

V.A.G Leasing GmbH again improved on its leading position in the German automobile leasing business delivering a total of 124,500 vehicles to customers. The fleet of vehicles was increased by 24.3% to 235,000. This expansive trend was particularly due to the continuing growth in the private customer sector.

As a result of the favourable trend in business, sales increased to DM 2,161 million. The company returned a profit for the year.

To back up the selling activities of Seat Deutschland GmbH, Seat Leasing GmbH was formed on May 6, 1987 as a wholly-owned subsidiary of V.A.G Leasing GmbH.

interRent — again successful in 1987

interRent Autovermietung GmbH rents out passenger cars, vans and trucks together with its collaborating companies via 1,700 hire agencies in 61 countries. The fleet of rental vehicles, which has been constantly increased and matched to demand in recent years, now totals about 85,000.

In West Germany the company again achieved a favourable position with around 11,500 rental vehicles. In the rest of Europe business is handled by two subsidiaries and a separate system of interRent licensees. In the North American market the company collaborates with the Dollar Rent-A-Car System, Inc.

In the light of the overall expansion in business the capital stock of interRent was increased by DM 33.0 million to DM 45.0 million by ploughing profits back into the company.

The successful business development was reflected by a rise in sales volume. For 1987 the company returned a profit.



Europe: V.A.G Kredit Bank GmbH, V.A.G Transport GmbH, VOTEX GmbH

V.A.G Kredit Bank — volume of business rose significantly

The favourable economic situation in the automobile industry and the increased activities of V.A.G Kredit Bank GmbH led to an above-average expansion in lending in West Germany and in segments of other European markets. This is also reflected in an increase in the balance-sheet total, which was 16.4% up on the previous year at DM 3,143 million.

With competitive credit facilities for V.A.G customers and a realistic, advantageous financial service tailored to the requirements of the V.A.G organisation, the company has managed to improve on its position and make an important contribution to increasing sales of Volkswagen Group products.

V.A.G Kredit Bank achieved a positive result in 1987 which was transferred to Volkswagen AG under the profit assumption agreement.



To support the sales of SEAT vehicles, Seat Kredit Bank GmbH was formed on April 15, 1987 as a wholly-owned subsidiary of V.A.G Kredit Bank GmbH.

V.A.G Transport — positive earnings situation

V.A.G Transport GmbH is a service company operating worldwide which undertakes international sea, land and air transport operations as well as forwarding, transshipment and stevedoring for the Volkswagen Group and others. The firm uses charter and scheduled carrier services.

The company transported 539,346 automobiles, which was 4.6% less than the previous year, particularly owing to the drops in sales on the American continent. A major share of the transport operations was again accounted for by vehicle parts.

The business development at V.A.G Transport was severely affected by the decline in the value of the dollar. Nevertheless the company achieved a surplus which was transferred to Volkswagen AG under the profit assumption agreement. interRent's 25% share in V.A.G Transport was purchased by Volkswagen AG at the end of the year.

To intensify shipping business the cargo-handling company Autoport Emden GmbH was formed on October 15, 1987



and V.A.G Transport GmbH holds a 25% interest.

VOTEX GmbH — considerable expansion in domestic business

The business activity of VOTEX GmbH comprises dealing in, developing and manufacturing specific accessories for Volkswagen and Audi models.

In 1987 the sales of VOTEX GmbH increased — mainly as a result of the considerable rise in domestic sales of vehicle accessories — by 11.4% to DM 127.6 million. At the same time there was an improvement in the financial result.



**SEAT S.A. —
largest automobile manufacturer
in Spain**

The fiscal year 1987 was a year of progress for Sociedad Española de Automóviles de Turismo, S.A. With the impressive upward trend in Spain, which is now the fourth largest exporter of passenger cars in the world and ranks as sixth manufacturing country in the world, SEAT managed to considerably improve on its sales and production figures.

Deliveries of SEAT models amounted to 281,200 vehicles and thereby significant-

ly exceeded the previous year's level by 26.7%. In the rapidly expanding Spanish automobile market with over one million new vehicles registered SEAT's sales increased by 21.9% to 123,980 units. Nevertheless it was not possible to completely meet the brisk demand because of production bottlenecks with the Ibiza and the supply difficulties involved, so the market share of SEAT vehicles receded to 11.3% (12.2%).

Exports saw a pleasing growth in sales at 157,220 automobiles (+30.7%). The most important markets apart from Italy, where there was a 44.0% rise in unit sales to 62,414 vehicles, were France

and West Germany. In fact deliveries to customers in the German automobile market almost doubled.

In Spain 59,039 Volkswagen and Audi models were sold in addition to the SEAT vehicles, which represents an 18.3% increase on the previous year.

At 406,391 vehicles manufactured (+20.0%) SEAT S.A. was again in 1987 the largest Spanish motor vehicle manufacturer. 275,151 units (+18.7%) were the SEAT products Ibiza, Marbella, Málaga and Terra whilst 131,240 vehicles (+23.0%), of which 88,185 were supplied to Volkswagen AG's sales organisation, were Passat and Polo models manufactured under licence.

Owing to the considerable expansion in production the number of staff employ-

ed by the SEAT group was increased by 5.5% to 24,895 by the end of the year. To intensify basic and follow-up training for the workforce a new training centre was opened in Barcelona.

Due to the structural measures introduced the company was able to significantly improve productivity. The number of vehicles manufactured per employee at SEAT during the past two years rose from 13.7 to 17.6. This is also an indication of the positive synergetic effects of the collaboration between Volkswagen AG and the Spanish subsidiary.

To tighten up structures the business activities of three Spanish financing companies were reorganised at the end of the year and merged with FISEAT. An insurance company which had already been excluded from consolidation the

previous year was sold. SEAT's shares in a company of insurance agents were taken over by VW-Versicherungsvermittlungs-GmbH.

Although SEAT S.A. is still showing a loss for 1987, it was much less than the previous year because of the substantial increase in productivity.



Europe: Volkswagen Bruxelles S.A., TAS Tvornica Automobila Sarajevo

Volkswagen Bruxelles — new production record

Owing to the continuing favourable demand for the Golf Volkswagen Bruxelles S.A. achieved a new production record of 209,498 units of this model (+8.7%). In order to attain this volume, it was necessary to introduce a further increase in production per working day from 834 to 927 Golf vehicles. In addition the company assembled a total of 164 Volkswagen Iltis off-road vehicles in the year under report.

Volkswagen Bruxelles returned a profit.



TAS — another positive result in 1987

Production at TAS Tvornica Automobila Sarajevo saw only a slight reduction of 1.2% to 30,575 vehicles despite the difficult overall economic conditions in Yugoslavia. Of this total 15,837 units were destined for export to Volkswagen AG.

In Yugoslavia unit sales, including those of imported vehicles, rose by 3.5% to 14,284 Volkswagen and Audi models.

TAS showed a small surplus for the year.



Europe: AUTOGERMA S.p.A., V.A.G France S.A., V.A.G Sverige AB

AUTOGERMA — the most successful European distributing company in the Group

At 171,504 Volkswagen and Audi deliveries to customers AUTOGERMA S.p.A. surpassed the sales of the previous year considerably by 15.7%. Its share of the passenger car market in Italy thus improved to 8.4% (7.8%), of which 7.1% (7.0%) was accounted for by Volkswagen and 1.3% (0.8%) by Audi. The company was still the largest importer within the Volkswagen Group in Europe.

This success may be largely attributed not only to the Golf but also to the favourable reception of the Audi 80 and 90 ranges of models by the market, with deliveries to customers more than doubling. Of the Volkswagen marque 146,661 automobiles were sold (+9.2%) and of Audi 24,843 (+79.3%).

AUTOGERMA again returned a good result.



V.A.G France — sales at a new peak

Our French subsidiary V.A.G France S.A. delivered 144,976 Volkswagen and Audi models (+10.0%) to customers, which was the highest annual sales figure since it came into being. Its share of the expanding French passenger car market at 6.1% mirrored the high level of the previous year. The most popular Group model in France was again the Golf.

In 1987 V.A.G France again showed a profit.



In reorganising the financing and leasing business in France these activities were brought together under the subsidiary V.A.G Financement.

V.A.G Sverige — market position improved

V.A.G Sverige AB managed to further improve on its leading position as the largest automobile importer in Sweden during the past year, achieving a figure of 42,445 vehicles (+18.4%). 35,787 passenger cars (+20.1%) were delivered to customers, which corresponds to a market share of 11.6%, compared with 11.2% the previous year. In the light commercials segment of the market Volkswagen sold 6,658 units (+9.8%).

V.A.G Sverige achieved a surplus for the year.



North America: Volkswagen of America, Inc., Volkswagen Canada Inc.

Slackening tendency in the automobile industry

In the US automobile market registrations of new passenger cars remained much lower in 1987 than the previous year's figure at 10,842,859 vehicles (-9.5%). It was mainly the domestic manufacturers who were hit by the weaker demand whilst particularly Japanese vehicles produced in America recorded a considerable rise in sales of 64.3%. In the subcompact car sector the increasing competition from Far East suppliers and American makes produced in Korea or Mexico had a drastic effect. The slackening tendency of the automobile industry in conjunction with an excess of vehicles available led to massive sales promotion campaigns from virtually all competitors to an unprecedented extent.

Sales of passenger cars in the Canadian market showed a slightly declining tendency (-2.6%) during the year under report. Whilst sales of vehicles manufactured within the country declined (-8.7%), deliveries of imported models to customers saw an increase (+10.4%).

Volkswagen of America — successful launching of the Volkswagen Fox

The slackening tendency in demand for automobiles and price increases due to exchange rates brought about a reduction in deliveries to customers of 15.9% to 233,027 vehicles at Volkswagen of America, Inc. Of this total, 191,705 vehicles (-11.7%) were sold via the Volkswagen division, whilst the Audi division delivered 41,322 vehicles (-30.9%) to customers.

Positive impetus for the Volkswagen models emanated particularly from the Volkswagen Fox imported to the US market from Brazil in the spring. Of this compact class vehicle, with which Volkswagen is returning to the lower price category, 40,176 units were sold to customers. At the beginning of November another range of models was launched on the US market, the Audi 80/90.

In order to refinance its business VW Credit, Inc., a wholly-owned subsidiary of Volkswagen of America, issued bonds totalling US \$ 150 million on the US

capital market in October 1987 via a newly formed subsidiary, Volkswagen Lease Finance Corporation.

As a result of the unsatisfactory utilisation of capacity, the serious influence of the weak dollar, high expenditure on marketing and provisions for the closure of the Westmoreland plant now under way, Volkswagen of America showed a loss.

Transfer of production

Production at the Westmoreland assembly plant in Pennsylvania, which Volkswagen had commenced in April 1978, had been undertaken against a background of constantly growing demand for compact class vehicles. It was especially the diesel engine versions of the Golf which had enjoyed great popularity because of the low price of diesel fuel.

Owing to the setting up of new production capacity, chiefly on the part of Japanese manufacturers, the pressure of competition increased during the ensuing years. This was accompanied by more and more fragmentation of vehicle classes which were simultaneously shrinking. Consequently utilisation of production capacity at the Westmoreland plant had become more and more unsatisfactory.

In deciding to phase out production in Westmoreland at the end of the model year 1988 the inevitable adjustment to the changed market conditions was completed in November 1987, the South Charleston press shop having already been closed down in June 1987. To minimise the effects both for employees concerned and for the region, a redundancy payments scheme was prepared which includes severance pay scaled according to the length of an employee's service. In addition and backed by the government of the State of Pennsylvania, Volkswagen is seeking a buyer for the Westmoreland plant.

Volkswagen Canada — market position maintained

Volkswagen Canada Inc. delivered 41,881 vehicles to customers and thus just about maintained the previous year's figure (-3.0%). This was chiefly due to the success of the Volkswagen Fox from Brazil. A market share of 3.9% (3.9%) again meant the company was positioned fourth among automobile importers.

At the Barrie plant in Ontario the capacity for manufacturing parts and compo-

nents (particularly based on aluminium) under the Group's worldwide interlinked production system was enlarged according to plan, whereby the current low exchange rate of the Canadian dollar had a favourable effect on supplies to Volkswagen AG.

Volkswagen Canada showed a surplus for the year.



Latin America: AUTOLATINA Companies

Initial stabilising tendency in the demand for automobiles

In Latin America the general economic conditions have continued to deteriorate, although in Mexico slight stabilising tendencies were evident. The automobile industry too was affected by the difficult economic conditions in this region.

In Brazil the economy was not only affected by dwindling demand for automobiles but particularly by the price approval policy for motor vehicles which brought about legal disputes during the last quarter of the year. This conflict was resolved with the decision of the Brazilian Minister of Finance of March 8, 1988 which permits the entire automotive industry to pass on inflation-related cost increases in retail prices.

In the Mexican automobile market demand was also on the decline owing to continuing disconcertion about the future economic trend. After a number of years of an extremely weak demand for motor vehicles there was a certain amount of backlog demand in Argentina in 1987 and this led to a 14.0% increase in registrations of new passenger cars compared with the previous year.

AUTOLATINA — cooperation to secure the company's future

The South American region will continue to be a very important market for the Volkswagen Group on account of the still considerable potential for growth, despite many imponderables. In line with this assessment the formation of the AUTOLATINA companies constituted an important step towards actively and expansively securing our future position in this region.

Their importance for the economies of Brazil and Argentina, particularly for the automobile industry, is manifested not only by the strong market position achieved but also by the high number of jobs, including at dealers and suppliers, which are directly or indirectly dependent on the Volkswagen/Ford joint venture AUTOLATINA in both countries.

The successes achieved in bringing about the necessary reduction in costs even during the first six months after the official launching of AUTOLATINA with close collaboration between the two parent companies are characteristic of the great potential of synergetic effects created by the cooperation.

Latin America: Autolatina Comércio, Negócios e Participações Ltda.

AUTOLATINA in Brazil — distinct rise in vehicle exports

Autolatina Comércio, Negócios e Participações Ltda. sold a total of 456,487 units. Of these 326,237 models were accounted for by the Volkswagen marque (— 15.7%) and 130,250 by Ford.

With 177,653 passenger cars and light commercials sold in Brazil (— 43.6%) Volkswagen achieved a market share of 36.7%. In the truck market up to 22 t Volkswagen sales fell by 31.5% to 9,947 units. This corresponded to a market share of 14.6%.

By contrast, exports were boosted and came to 147,912 Volkswagen and Ford models, although this was only possible at the cost of domestic business. Volkswagen exports more than doubled and amounted to 138,637 vehicles. The main contributing factor was the supplies of the Fox to North America, commenced in February 1987, the figure for the year being 73,937 vehicles.

Joint venture production had to be cut back owing to difficult domestic sales conditions and problems at the suppliers. Additionally production was impaired through labour disputes and a temporary delivery stoppage in consequence of insufficient price approvals. Production of Volkswagen and Ford vehicles amounted to 453,848 units.

At the end of 1987 staff totalled 50,858.

3,784 million cruzados (DM 161 million) were injected into the joint venture to strengthen its equity base.

Because domestic prices failed to cover costs and export sales fell as a result of the inadequate adjustment of the exchange rate for the cruzado to the American dollar the company showed a loss for the year which detracted from the financial result of the Volkswagen Group as a whole in proportion to the 51% holding.



Latin America: Autolatina Argentina S.A.

AUTOLATINA in Argentina — merger of vehicle production

In the year under report Autolatina Argentina S.A. sold 52,820 automobiles, 19,656 Volkswagen (— 14.8%) and 33,164 Ford models. Volkswagen's share of the increased number of new vehicles registered in Argentina fell from 13.6% to 10.3%.

Autolatina Argentina S.A. was unable to fully participate in the expansion of the market because there were interruptions in production owing to the transfer of vehicle production from the San Justo plant to the plants at Pacheco and Monte Chingolo. Total production amounted to 53,248 vehicles, of which

20,112 were Volkswagen models (— 13.0%) and 33,136 Ford models.

As at December 31, 1987 the company employed a total of 8,032.

The negative result of Autolatina Argentina S.A. during the fiscal year was chiefly due to the non-recurring cost of merging the two companies Volkswagen and Ford. However, in Argentina as well a synergetic effect was already becoming evident, demonstrating that we are on the right lines.



Latin America: Volkswagen de Mexico, S.A. de C.V.

Volkswagen de Mexico — market share sustained

Volkswagen de Mexico, S.A. de C.V. delivered 58,734 vehicles to customers (— 12.4%) in the past fiscal year. Aided by the favourable reception of the Golf and Jetta successor models launched at the beginning of the year, the company managed to virtually maintain its share of the passenger car market at 32.9% (34.2%). For the light commercials there was a 26.4% drop in sales, which totalled 7,347 vehicles.

As a result of unsatisfactory sales and the two-month interruption of work in mid-year the company's production amounted to 48,722 vehicles and thus remained 31.9% less than in 1986. Supply of the Group's interlinked production system with engines and components during the strike period was maintained with no significant shortfalls. The size of the workforce fell by 4.6% to 13,365 employees.

To make best use of the cost-favourable location of Mexico and to meet existing export obligations capacity for the interlinked production system was stepped

up. These capital investments were financed by injections of capital from Volkswagen AG totalling DM 118 million.

At Volkswagen de Mexico the further decline in sales, the rise in the prices of imports due to substantial changes in the value of the currency and the effects of the industrial dispute led to a negative result.



Africa: Volkswagen of South Africa (Pty.) Ltd.

Volkswagen of South Africa – further consolidation of market position

Volkswagen has been active in South Africa for over 30 years. Since the very beginning the corporate policy has been characterised by furthering of the abil-

ties of the employees on an equal basis and developing local industry and the community with the aim of increasing the quality of life. This particularly applies to the improvement in training and social conditions of the non-white population, the high level of wages compared with the national average and the trusting collaboration with the trade unions.

In South Africa the economic process of recovery stabilised in 1987. For the motor industry as well this meant an improvement in essential overall conditions. The positive trend is illustrated by the 17.3% increase in demand for passenger cars and light commercial vehicles.



Volkswagen of South Africa (Pty.) Ltd. delivered 47,237 vehicles to customers (+30.6%) which represents a sales increase of more than market expansion so its share of new passenger cars registered improved to 19.9% (17.4%). With the Golf and the Jetta the Volkswagen marque also had the best-selling range of models in the South African market.

In line with the rise in unit sales production increased to 44,167 units. This also led to a 16.8% increase in the number of staff to 6,811 employees.

Through its sales success and improvements in productivity Volkswagen of South Africa was able to achieve a surplus for the year.



Africa: Volkswagen of Nigeria Ltd.

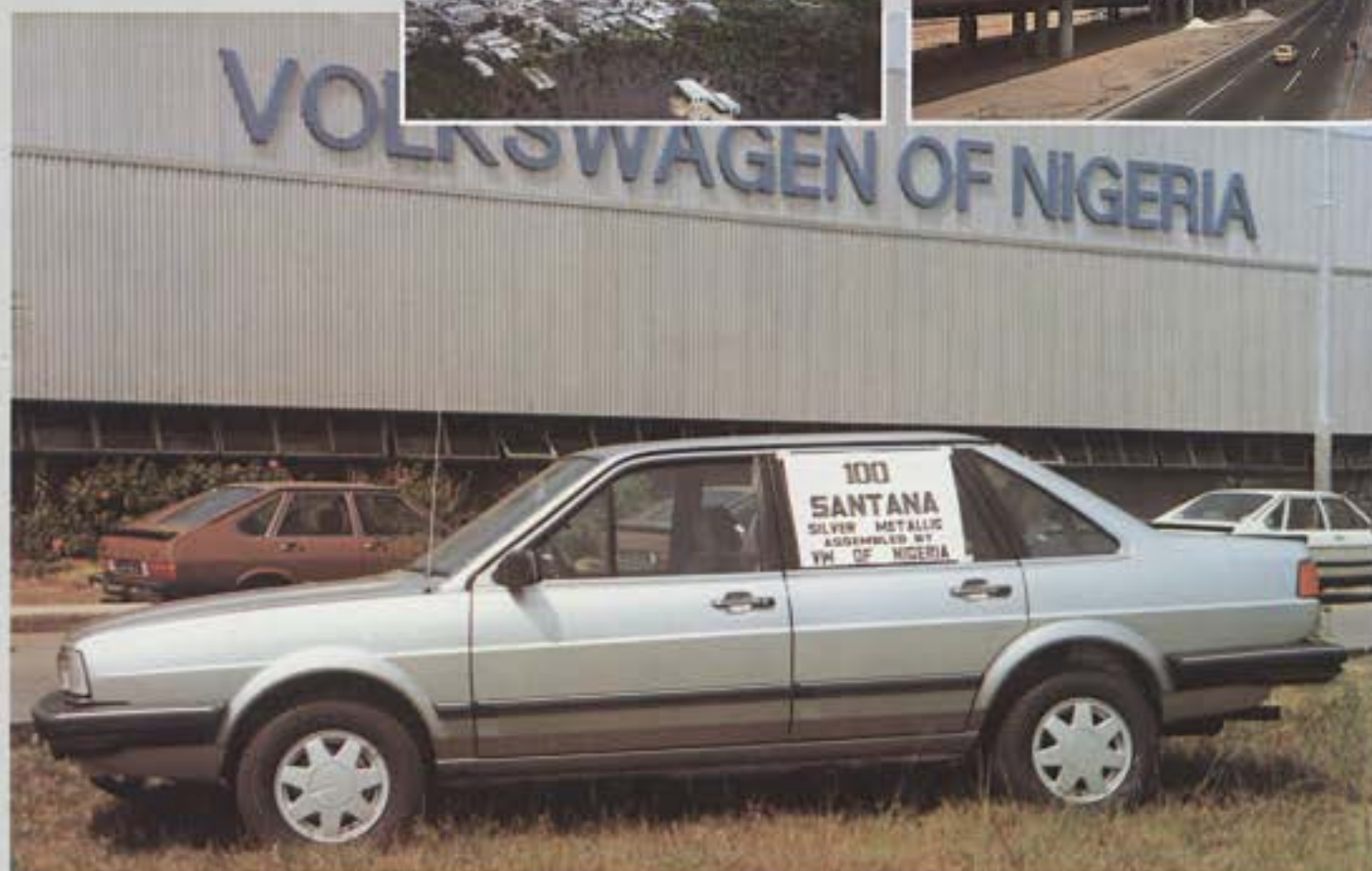
Volkswagen of Nigeria — a positive result

The still difficult economic situation in Nigeria had a detrimental influence on the demand for automobiles, which remained at the very low level of the previous year. Deliveries by Volkswagen of Nigeria Ltd. to customers therefore fell to 1,574 passenger cars (—29.0%) and 747 light commercials (—14.2%).

Owing to the high level of inventories all manufacturers were compelled to close their plants for lengthy periods. In the case of the Nigerian Volkswagen company work was discontinued for a total of almost three months so production, which amounted to 2,123 vehicles, was 43.3% less than the previous year. By

the end of the year the size of the workforce had been reduced by 33.0% to 1,370 employees.

Volkswagen of Nigeria showed a slightly positive result.



Asia: Shanghai-Volkswagen Automotive Company, Ltd.

Shanghai-Volkswagen — positive development

In Asia the Volkswagen Group is pursuing the aim of improving its position in one of the most important markets, Japan, and at the same time contributing from the outset to the setting up of a domestic automobile industry in the big market of the future, the People's Republic of China. Following this strategy, further progress was made with regard to our long-term positioning in this high-potential, high-volume region.

In expanding production of the joint venture Shanghai-Volkswagen Automotive Company, Ltd., together with three Chinese associates, considerable progress was made. The production volume of the Santana was 30.4% up on the previous year to 10,470 vehicles. In addition Shanghai-Volkswagen assembled 499 Audi 100 cars. In line with the increased output, unit sales of our models in the Chinese domestic market rose by 30.3% to 11,038 vehicles.

Staff numbered 2,087 (+9.2%) which reflects measures to match production.

To finance the capital investments the shareholders passed a resolution to increase capital stock in two stages by a total of 190 million renminbi, which currently corresponds to about DM 80 million. Volkswagen AG's share of the first portion, which was paid in in November 1987, amounted to 47.5 million renminbi (DM 21.5 million).

Shanghai-Volkswagen again achieved a positive result for the year.



Japan — significant rise in Group sales

In the slightly expanding Japanese automobile market the Volkswagen Group managed to considerably boost deliveries to customers by 33.0% to 40,512 vehicles and thus achieved an improvement in market share to 1.3% (1.0%). Volkswagen and Audi remained by far the leading foreign marques. Here too the Audi 80, sales of which amounted to 5,456 units, proved to be particularly successful. Deliveries of the Santana models manufactured under licence by the Nissan company in Japan rose by 22.4% to 8,426 automobiles.



Other Major Subsidiaries and Affiliates

December 31, 1987

I. Distributing Companies

Holding (%)	Field of activity
V.A.G. Vertriebszentrum GmbH und Co. Südbayern KG, Munich	63.4
and 10 other V.A.G. sales centres in West Germany	26.0 each
Supplying V.A.G. retailers with automobiles, spare parts and accessories of the Volkswagen Group, including service, advice and training	
WESER-EMS Vertriebsgesellschaft mbH, Bremen (and consolidated subsidiaries)*)	81.3
Wholesaling in the Bremen sales region	

II. Other Companies

1. West Germany

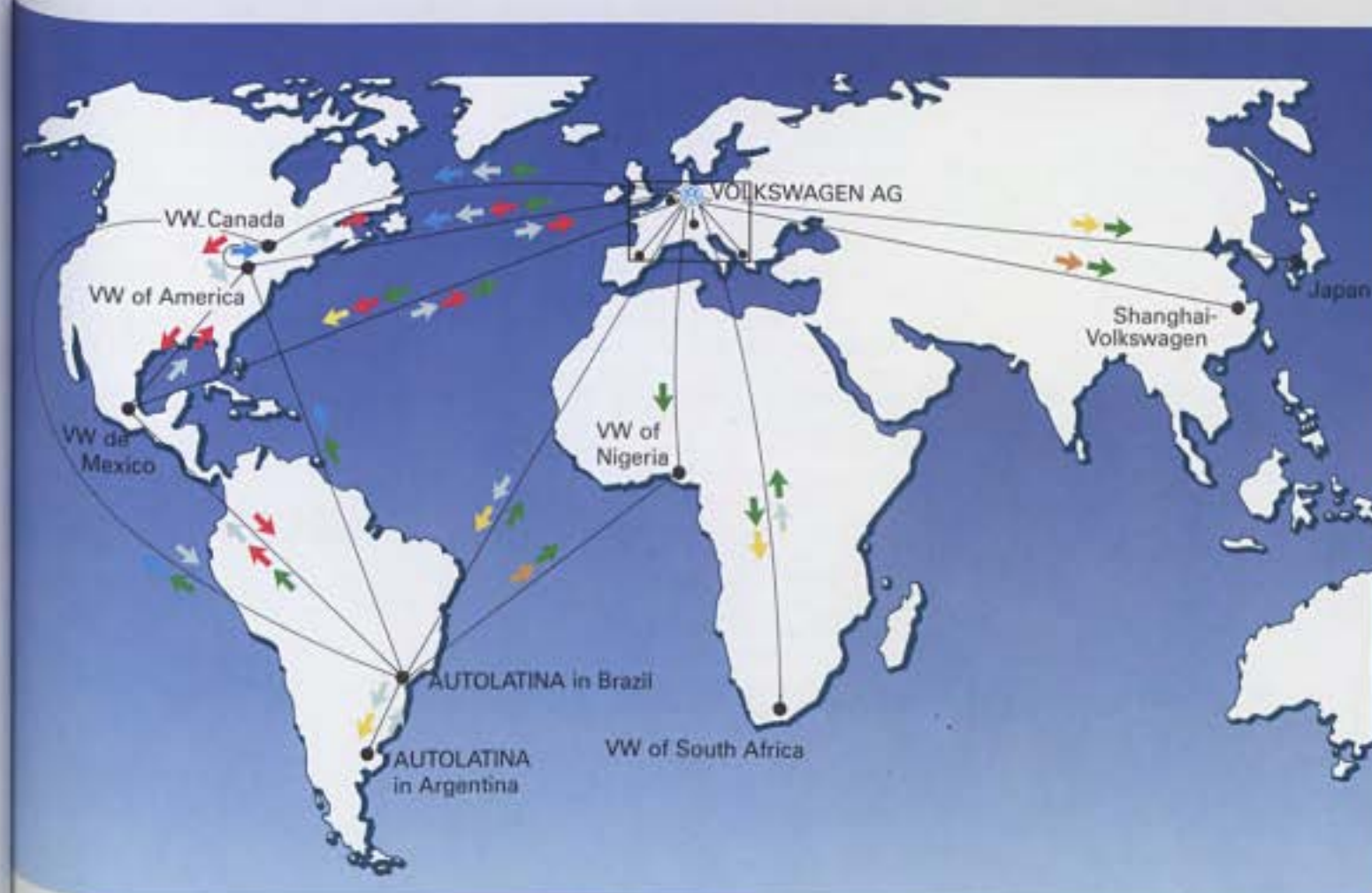
V.A.G. Marketing Management Institut GmbH, Brunswick*)	100.0	Providing training and follow-up training for proprietors and managers within the V.A.G. sales organisation
VW KRAFTWERK GmbH, Wolfsburg*)	100.0	Generating electricity and heat at the combined heating and power stations in Wolfsburg, Kassel and Hanover, as well as supplying Volkswagen AG and others with energy
Deutsche Automobilgesellschaft mbH, Hanover*)	50.0	Research and development work in the fields of electrical engineering and electrochemical storage systems
GmbH für ausländische Vertriebsbeteiligungen M.A.N.-Volkswagen Wolfsburg	100.0	Holdings in various European M.A.N.-Volkswagen commercial vehicle importers
VW-Wohnungsbau Gemeinnützige Gesellschaft mbH, Wolfsburg	100.0	Building, administering, modernising and maintaining housing at Volkswagen AG locations
VW-Siedlungsgesellschaft mbH, Wolfsburg*)	100.0	Building, purchasing and administering housing, business premises and other structures at Volkswagen AG locations
VW-Versicherungsvermittlungs-GmbH, Wolfsburg	66.7	Handling insurance for the Volkswagen Group, acting as an insurance broker in providing all kinds of cover, including certain services
VW-Gesellschaft für technische Datenverarbeitungssysteme mbH, Berlin	50.0	Software research and development, consultancy services
IAV Ingenieurgesellschaft für Aggregate-technik und Verkehrsfahrzeuge mbH, Berlin	50.0	Research and development work in the field of automotive engineering
Innovationsgesellschaft für fortgeschrittene Produktionssysteme in der Fahrzeugindustrie mbH, Berlin	20.0	Research and development of advanced production systems, particularly for the automobile industry
Volkswagen Bordnetze GmbH, Berlin	50.0	Wiring loom production for the Volkswagen Group

2. Other countries

HOLAD Holding & Administration AG, Basle, Switzerland	100.0	Investing in domestic and foreign companies, portfolio and property management
Volkswagen International Finance N.V., Amsterdam, Netherlands (and consolidated subsidiaries)	100.0	Raising of long-term capital on behalf of Volkswagen Group companies

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

Worldwide Interlinked Supply System of the Volkswagen Group



- Finished vehicles
- CKD vehicles
- Part sets
- Individual parts
- Assemblies
- Spare parts

Victory for Volkswagen in the Ivory Coast Rally

The emphasis of all Volkswagen's motor sport activities was again on rallying in 1987. The greatest success was achieved by the Volkswagen works team of Kenneth Eriksson with co-driver Peter Diekmann in the Ivory Coast Rally: It was the first time that a Golf GTI 16 V won a Rally-Drivers' World Championship race. Driving in the second Golf GTI 16 V Erwin Weber and Matthias Feltz took third place and thus rounded off the Volkswagen triumph.

This result was achieved in a discipline which is regarded as the toughest tested for new automotive technologies. Once again it serves to impressively highlight the durability and performance of our production models, whose engineering provides the basis for those entered in motor sports.

In the International German Rally Championship "Volkswagen Motorsport" ran up three overall victories with the team of Klaus-Joachim Kleint and Manfred Hiemer in a Golf GTI 16 V.

For six years "Volkswagen Motorsport" has also been competing in Formula 3. During this period most of the victories and national titles worldwide have been won with vehicles using Volkswagen engines. A new fact was recorded in Great Britain where since 1981 there have been 75 victories in Formula 3 championship races, 63 of which were in succession.

The outstanding results in 1987 were the wins in the German and British Championships.

State-of-the-art catalytic converter technology ensures environmentally safe driving in motor sport too — a fact which Volkswagen put into practice in the popular competition for up-and-coming drivers, the International Wintershall VW Polo Cup. Volkswagen has always felt an obligation to also promote junior drivers in sporting activities and to pave the



way for beginners so they can participate in a low-cost competition with the same level of technical performance. Last year again about 40 drivers took part in the ten races organised in Germany and abroad. Seven different winners from ten races served to clearly demonstrate the very high general level of driving talent in this exciting competition.

Sensational record time for Audi in the Pikes-Peak Hill Climb

In 1987 Walter Röhrl in an Audi Sport quattro created a sporting sensation when he not only won the traditional "Pikes-Peak Hill Climb" in the USA but also knocked a considerable amount off the old record time.

During the past season Audi's works teams successfully participated in four

selected rallies in Audi 200 cars based on production models, and the over 4,000 km Safari Rally finished with a double victory for the Audi 200 quattro.

Moreover, private drivers in Audi vehicles also won numerous victories at national and international rallying events, particularly in the USA and in the Scandinavian countries.





SEAT— a contribution to Europe

Spain — a country that brings to mind sunshine and the sea, the snorting bull in the arena, Carmen, flamenco, the taste of sherry, red wine and garlic. Accompanied of course by the guitar and the staccato rhythm of the castanets. Almost all of us have visited Spain — as a tourist or at least in literature: perhaps in the tracks of Don Quijote in the world-famous novel by Miguel de Cervantes.



Is that the real Spain? In search of typically Spanish attributes and specialities we quickly discover how little we know about our neighbours.

The image of the second largest European country after France is too heavily characterised by the purely tourist perspective. We are acquainted with Spanish music, Spanish fruits, wines and leather

goods, but what about Spanish makes of car?

In the golden infancy of motorisation a Spanish emblem decorated one of the most splendid luxury carriages, the Hispano Suiza. It is a name from Barcelona which even nowadays makes the hearts of car enthusiasts beat faster and which is mentioned in the same breath as Rolls Royce



and Bugatti. But what came after it?

Without a doubt Spain cannot look back on a continuous automotive history. It was only in the last few years that the motor industry has been achieving the economic dimensions of certain other European countries. "Spaniards" were only seldom to be found among the German, French, Italian and British cars. Even though there are many vehicles on the roads of Europe which were manufactured on Spanish soil, we scarcely associate Spanish industry with attractive Spanish makes.

We are making a mistake though. Spain has already moved up to fourth place in the list of top European automobile exporters. Last year alone over 700,000 vehicles produced in Spain rolled out onto the roads of Europe.

And yet another mistake needs correcting. There is a large Spanish make — a manufacturer of whom many people outside only became aware when its takeover by Volkswagen AG was commented upon in detail by the press. Suddenly there was a name in the limelight which we had so far only seldom heard about: SEAT.

Spain — the country with two countenances

Certainly, one aspect of Spain is the holiday country with thousands of kilometres of Atlantic and Mediterranean coastline, and picturesque islands such as the Balearics and the Canaries. It is difficult for us therefore to imagine the sober production buildings of a large-scale industry in the country of eternal holiday sunshine and fascinating scenery.

But the other side to Spain is precisely that of an up-and-coming industrial nation. In the region of Bilbao, one of the large industrial centres, the chimneys of steel plants have been smoking for generations. Steel production and mechanical engineering can look back on a long tradition here.

With a sturdy agricultural sector as a backbone the Spanish government promoted industrial advancement in the 1960's and invested billions in the setting up of a competitive au-

tomotive industry. Foreign manufacturers such as Fiat and Renault provided initial assistance and laid the foundation stones for a widely branching supply industry.

Further billions are now being invested by Volkswagen in the wake of the SEAT takeover. With SEAT at the top the automobile industry has thus finally consolidated its importance as a strong pillar of the Spanish economy.

Spanish precision

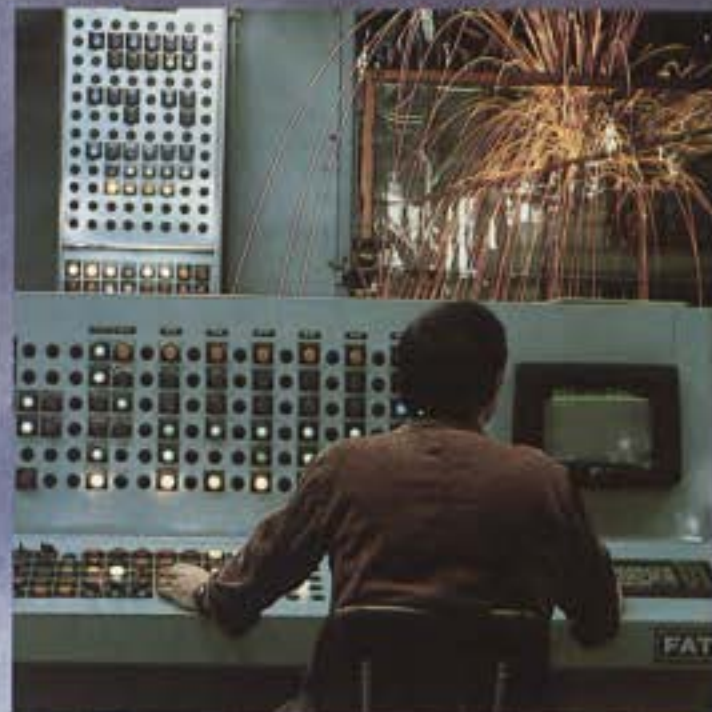
Magnificently embedded in a hilly plain is Barcelona, with around 3.1 million inhabitants the second largest city in Spain and main location of the new company. In the Volkswagen Group with the Zona Franca, Prat and Martorell plants in the near vicinity.

The visitor can obtain the most impressive view of the city and port from the column of the fifty-metres high Columbus Monument. The Maritime Museum and the Paseo de Colón, the splendid Columbus Avenue lined with palm trees testify to the long seafaring tradition of this famous port.

Magnificent parks, museums full of impressive art treasures from many eras and sumptu-

ous architecture can easily create a misleading impression as to the economic importance of this lively city. It is Spain's second most important industrial and trading centre. In the north of Spain, but still within the Mediterranean region, Barcelona is completely characterised by the Catalanian pioneering spirit.

As a region devoid of any mineral resources worth mentioning Catalonia has always been dependent on the industriousness and flair for business of its inhabitants. Their proverbial diligence, which is said to "even turn stones into bread", has contributed to the formation of a marked middle class and to



Computer-controlled machine minding at the Pamplona factory



the wealth of the city. The Catalanian reputation for carefulness, sense of duty and correctness go well with the precision and reliability required for building vehicles.

Although this industry is still very new, it has already provided the region with definite status and the Catalonians are proud of every SEAT being driven on the roads of Europe.

History — a long way in the direction of Europe

Everyone in the enlarged European Community benefits from the opening up of the Spanish market as a result of Spain's becoming a member of the EEC in 1986.

There is a fresh wind blowing in the Spanish economy and it is blowing more and more European products onto the shelves of Spanish shops. Spanish consumers are taking advantage and thereby animate trade within the Community. In this way the newly arisen brisk demand also creates jobs in the neighbouring countries and attracts fresh capital from the European neighbours to Spain — in 1987 alone there was a flow of DM 4 billion.

At the same time Spanish exports in the EEC countries are ensuring that the range of products on offer becomes even broader and more attractive. The import and export figures impressively illustrate how German-Spanish trade relations are in full blossom: In 1960 West Germany exported goods to Spain for about DM 397 million, and now the figure is DM 12.1

billion. In the opposite direction goods with a value of DM 7.4 billion were despatched for West Germany last year. In the case of the Spanish goods the ratio between agricultural products and industrial goods has seen a considerable shift towards more expensive merchandise, i.e. less fruit and more machinery.

However, trade across the Pyrenees has not always flourished as well as nowadays. Up to the economic linking of Spain to Europe the country has experienced periods of great prosperity, but also hard times.



The Plaza de España in the heart of Barcelona

Port of Barcelona



In the port of Barcelona a caravel recalls the one-time magnitude of the Spanish empire. Compared with modern-day standards, its dimensions are modest. It is hard to imagine crossing the Atlantic on board a nut-shell like this. But the vessel upon which this model is based, the Santa Maria, actually sailed far into the Caribbean. And from its crow's nest, the small lookout high up on the main mast, a Spanish sailor discovered the western hemisphere nearly 500 years ago.

The captain of the vessel, Christopher Columbus, was searching for the sea route to India on behalf of the Spanish crown in 1492.

He landed on the Bahamas on October 12 believing that he had reached the Indian coast and occupied the territory for the Spanish crown. With this chance discovery of the New



The Santa Maria replica in the port of Barcelona

World and the almost simultaneous shaking off of the eight-hundred year foreign dominance by the Moors a momentous chapter in world history had begun — so too Spain's rise to become the largest empire which has ever existed on earth.

Enormous treasures from conquests in America filled the country with wealth. On other expeditions the Aztec empire of Mexico was conquered by Hernán Cortés and the empire of the Incas by Pizarro, whilst the Portuguese Magellan on behalf of the Spanish crown

was the first to sail round the world and Pedro de Mendoza founded Buenos Aires. The group of islands called the Philippines was also discovered and incorporated into the Spanish empire.

At its peak of power the Spanish world empire covered the entire Iberian peninsula, the Netherlands and parts of Italy. It stretched across North Africa, Angola and Mozambique, South and Central America to California and Florida. Spain ruled over the Philippines and the one-time Portuguese possessions of Goa, Macao, Timor and the Moluccas.

A successful marital policy also made a major contribution to this unique position of power. Ferdinand of Aragon and his wife Isabella of Castile married

of German-Spanish ties.

A strength-sapping fluctuation between monarchy, republic, civil war and dictatorship determined the recent history of the country. The historical backgrounds of Basques and Catalans, Aragonians and Castilians are too different, and the mentalities along the Atlantic and the Mediterranean and the borders with Portugal and France are too varied.

An inappropriate land reform and internal quarrelling impaired social and economic development for a long time. Whilst the disastrous consequences of the Second World War with the destruction of large parts of German industry simultaneously laid the foundation stone for its rebirth, Spain completely isolated it-



King Juan Carlos during the King's Speech in parliament

their daughters into English, Portuguese and German dynasties.

It was in this period that the connections with the Hapsburg monarchy resulted: Joan of Aragon and Castile married Philip the Fair, Archduke of Austria.

Their son became King Charles I of Spain in 1516 and was elected Kaiser of the Holy Roman Empire by the German Electors in Frankfurt am Main in 1519. As Charles V he took over responsibility for an empire in which the sun was never to set. This was the historical climax

self from the rest of Europe.

As a result the Spanish "economic miracle" began at a later stage in the 1960's and it was only during the process of democratisation, which had seen its climax so far in Spain's becoming a member of the European Community in 1986, that the country finally opened itself up to its neighbours economically and culturally: Spain became a firm part of Europe.

Impetus for the continent

"La movida" has turned Madrid upside down. No one can explain what it is and no one can show it to you. But la movida can be felt everywhere.

With "momentum" a cultural avalanche was triggered off in the old and venerable capital of Philip II, the hard beauty with the monumental buildings and seemingly chaotic road traffic. Not only has Plaza Mayor, one of the most marvellous squares in Europe, which has seen fiestas, bull-fights, burning at the stake, art and theatre, since the 17th century, become a unique vast stage. Madrid is bubbling over in a renaissance of literature, music, painting and theatre.

Where cultural enthusiasts were so far magically attracted to Paris and London, Madrid has now advanced to become the personal tip as far as culture is concerned. A firework display of theatre performances, fashion shows, vernissage days and concerts bombard the visitor every day. But

of liberty and creativity, particularly for young people and women.

For the tourist the day is already strenuous enough. Apart from the fascinating archaeological museum he or she cannot avoid visiting one of the largest galleries in the world: the famous Prado. Bosch, Rubens, van Dyck, Titian, Velázquez, Goya, Botticelli, Raffael, Giorgione, El Greco, Tintoretto, Brueghel, Dürer, Cranach and Rembrandt are just a few names which make this art gallery something not to miss.

An annexe of the Prado has become something of a place of pilgrimage for friends of art all over the world. Since 1982 one of the most impressive paintings in the world can be viewed here, the history of which also elucidates a tragic chapter of Spanish history: the Guernica anti-war painting by Pablo Picasso.

And with Picasso we have mentioned one of the names which have had a major influence on the art scene of the world only in recent times, as with Joan Miró and Salvador



only at night, when the "gatos", the "cats" as only the true night-revellers of Madrid are allowed to call themselves, are out and about, does the city's subculture awake.

Madridians have always liked going out, enjoyed football or a bull-fight and spent the night having heated discussions in the characteristic cafés and stand-up bars. But la movida is far more than that: It is the start of a new identity, a new feeling

Dali. No matter whether you are talking about the director Luis Buñuel or the filming of Carmen only recently by Carlos Saura or Paco de Lucía's guitar music, Spanish influence inspires Europe at all levels, just as Europe inspires Spain.

In a few years' time the country will present itself to the world for the Olympics: When the Olympic flame flares up in the Barcelona stadium in 1992, the whole world will be Spain's

guest. This is more than just proof of the world's confidence in the economic potency and political stability of the country, it is also a compliment to the energy and culture of its people.

Fiesta

The Fiesta de San Fermin in Pamplona is celebrated on July 7 every year. It is one of more than 3,000 fiestas which take place every year in Spain, generally in honour of the local patron saint. In Pamplona, the capital of the historic Navarra at the foot of the Pyrenees with 100,000 inhabitants, it lasts a full seven days and brings tourists from all over the world under its spell.

The fiesta de San Fermin every year attracts thousands of tourists from all over the world.



A long way to the economic miracle

For a classical agricultural country it has not been easy to change its face overnight. The negative balance of trade was, if at all, only compensated for by the foreign exchange of holiday makers and bank transfers from people employed abroad. Spain imported far more than it exported.

For this reason the government in Madrid had been pursuing a course of systematic industrialisation long before Spain became a member of the Common Market and had been endeavouring to make the country attractive to foreign investors by offering specific incentives.

The first fruits of these efforts were borne by the germinating automobile industry — first of all

The climax, excitedly awaited by young men in particular, is the encierro. When a sign is given and the paddock or *corralillo* is opened, bulls charge out, bursting with energy and vehemence, through the narrow alleys of the old part of the town. An uncountable stream of people follows them, driving them loudly in the direction of the *plaza de toros*.

The test of nerves in the arena is an inseparable part of Spain, and no event, apart from the realm of football with its stars Real Madrid and FC Barcelona, excites the temperament of Spaniards more than the *corrida*.

with the SEAT 1400 and a little later, in 1957, with the "600". It was particularly this subcompact car, which was built under Fiat's auspices, which visibly indicated the beginning of the automotive upward trend of a country which had to struggle with considerable economic difficulties for decades.

This Spanish people's car, of which there are still estimated to be 100,000 models on the road, was the first concrete evidence of the reward for hard work. Social rise, painstakingly saved up for or bought on credit, ran throughout the country full of pride.

In 1972 SEAT presented the famous "127" which has come to be the best-selling car in Spain with a total of 1.4 million vehicles. Over the years SEAT, with sales of DM 2.4 billion, has entered the league of the 200 major companies in the world.

United we stand

Various automobile groups from Europe and the USA have been taking full advantage of the large supply of qualified workers and the investment incentives offered by the government to manufacture in Spain. Owing to economic growth and rising wages the roads became more and more populated with cars — unfortunately there were less and less SEATs among them.

detrimental effect.

After the withdrawal of Fiat the company finally no longer had the strength to hold its own on the market in the long term. By resolving to separate SEAT from the state-owned group of companies INI the Spanish government took an important step, in conjunction with great financial sacrifices. The way towards new cooperation was opened. The requirements that SEAT be only associated with a really competitive partner and that the SEAT marque, i.e. the Spanish company, be retained, fitted

ready signed a cooperation and licence agreement limited to seven years in 1982 in order to secure extra production capacity. In 1983 production of the Passat was commenced in Barcelona and a little later of the Polo in Pamplona. When nearly two years later 95,000 Volkswagens rolled off Spanish assembly lines Volkswagen had achieved a market share of 8.5 % in Spain. A few years previously the share was only a bare 0.5 %.

The opportunity of taking over the whole of SEAT seemed to be promising in

tion of SEAT in Spain also made a commitment here attractive. A SEAT export sales organisation was set up efficiently and quickly with advice from and utilisation of Volkswagen distribution facilities.

With the existing facilities at SEAT the problem of short-term increase in capacity was solved at a stroke: Growing demand for the Golf had to be met urgently. Together with the Polo and Passat manufactured by SEAT, Volkswagen achieved its corporate aim of being "No. 1 in Europe". And last but not least, Spain itself has the added attraction of being the fifth largest automobile market in Europe.

King Juan Carlos I himself gave a clear indication of the future of SEAT. The monarch, who has not only studied political science but also philosophy, the history of literature and economics, was well aware of the economic importance of SEAT, and of the opportunity available. Volkswagen offered technological and administrative know-how and, with its commitment, promised to become the largest foreign investor in Spain. His personal interest in German-Spanish collaboration was underlined by the visit to Wolfsburg of the King in 1986 in the course of a



With dwindling market shares there was an ever greater lack of resources for indispensable investments in production facilities, research and development. The lack of the company's own export sales organisation also had a

perfectly into the strategy of the Volkswagen Group of operating in divisions: SEAT ranks alongside Audi and Volkswagen and thus closes a major gap.

Volkswagen and SEAT had al-

many respects — not least from a European point of view. For the Volkswagen Group SEAT offered not only the opportunity of having a third independent marque in the market. The dynamic sales and service organisa-

state visit to West Germany. He was accompanied by Queen Sofia, a great granddaughter of the last German Kaiser.



A piece of unity — with no politics involved

Competitiveness in the world automobile market calls for uncompromising quality throughout the entire Volkswagen Group. "Made-in-Germany" quality can be achieved not only in Germany with Spanish and other European employees but just as well in their home countries.

Some hard work is being done in Barcelona and Pamplona, and the company's linking up to the international Volkswagen quality standard is assured. But being competitive nowadays also calls for a systematic division of production. For this reason, planning will provide for a refined inter-linked production system between the various locations in Europe.

Before the target is reached, there have to be massive capital investments in Spain in the years to come — investments which will not only allow Volks-

wagen and SEAT to grow close together but which will also bring both countries even nearer to one another.

Even in the past Spanish employees wondered why there have not been many more Germans "taking over" the plants in Barcelona and Pamplona. Why indeed? The Spanish management identified itself with the objectives of corporate head office in Wolfsburg right from the very beginning. Specialists from the parent company are only called in when, from time to time know-how transfer from Wolfsburg is indispensable.

Whilst more and more German dictionaries can be seen on Spanish desks, German colleagues are learning to speak proper Castilian. Both sides now know much more than "please" and "thank you" in the language of the equal-ranking counterpart.



Friendly collaboration is now very well established and everyone is aware of the fact that such cooperation is to everyone's benefit and that in the Volkswagen Group there are no one-way streets or second-class citizens. From this aspect, the commitment purposely involving mutual dependence is a step towards the European Community of 1992. At SEAT the European idea is already being put into practice; Spaniards and Germans full of pride regard themselves as Europeans.

SEAT — fastest growing European marque

Just one year after the take-over by Volkswagen the first success stories are coming in: The Ibiza and Marbella models are selling fast on the overall European market. And what is more, SEAT is growing faster than any other automobile manufacturer in Europe, staff reduction seen in recent years is even being replaced by the taking on of new staff. With about 25,000 employees there are now a few thousand employees more working at SEAT than when the company was taken over.

With 25 % growth in 1987 the trend in Spain is surpassing even the boldest of expectations. The Spanish market is becoming the second most im-

Volkswagen has at its disposal as a result of more than 50 million vehicles sold in five decades on all continents.

The employees in Barcelona and Pamplona are motivated. On the one hand, by the high standard of quality achieved so quickly, and on the other by the perceptible "momentum" inside the plants: Whereas 6 vehicles per employee per year were being built at the beginning of the 1980's, productivity has increased so far to 18 per employee per year. Things are moving.

Over 500 Polos come off the lines at the SEAT plant in Pamplona every day. The visitor looks in vain for a difference

Cars for Europe

Low-priced but completely equipped subcompact and middle-range cars are a market which still promises healthy rates of growth in Europe. On the one hand, because they are uncomplicated and manoeuvrable, on the other because in many countries they balance the increasing automobile demand with purchasing power. This segment of the market is now covered by the Volkswagen Group with an attractive range of models. SEAT has gained a profile of its own, and been given a separate strategic function.



The SEAT Marbella quickly conquered the hearts of the buying public. This smart subcompact car at the lower end of the price-scale is an ideal leader model for young people or an attractive second car.

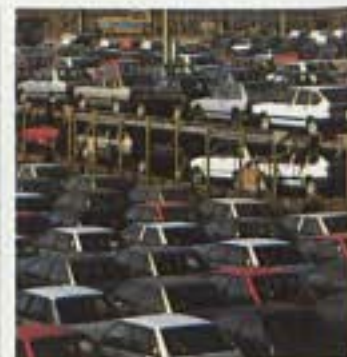
With the compact and sporty SEAT Ibiza drivers are being addressed who wish to classify themselves between the Polo and Golf. In the GLX version with regulated 3-way catalytic converter it meets the requirements for a clean, environment-friendly car.

Buyers who are looking for more comfort, spaciousness and possibly more power are attracted by the SEAT Malaga. With a dynamic 100 bhp injection engine it is already moving in the direction of sportiness.

In future SEAT vehicles will become more and more common on the roads of Europe. The great age of Spanish cars is just beginning.



Control line in the paintshop



State-of-the-art production at the Pamplona factory



SEAT Ibiza



SEAT Marbella



SEAT Malaga



SEAT Terra



Styling study



SEAT gearbox plant at Prat near Barcelona

portant European foreign market for Volkswagen. In 1987 SEAT already achieved a 2 % share of the European market, which had originally only been expected for 1990.

Owing to the joint work with Volkswagen SEAT is taking the best approach towards linking up to the forefront of European automobile manufacture. From research and development through planning and production to quality assurance, the enormous know-how can be utilised which

from the Wolfsburg production. What Volkswagen technicians simply describe as "identical nuts and bolts production" characterises the high standard of manufacture in Pamplona and in Barcelona: Not even an insider would see any difference between a Polo from Spain and an "original" from the Wolfsburg parent plant — it is indeed the same vehicle.

SEAT — its strength is its workforce



Talking about the great successes of SEAT during the last two years, one cannot avoid mentioning the hard work and great sense of commitment on the part of its staff. There have

been burdens and sacrifices though on the difficult road to competitiveness, which however has still not been completely achieved despite considerable progress.

The fact that the German-Spanish cooperation is posing so few problems is due to the new corporate policy, is the feeling at SEAT. More independent responsibility at all levels is called for, and all are prepared to bear it.

And the fact that the Germans bring with them a different philosophy is regarded in a favourable light at SEAT. "Work is



better defined and organised," and people also talk more with



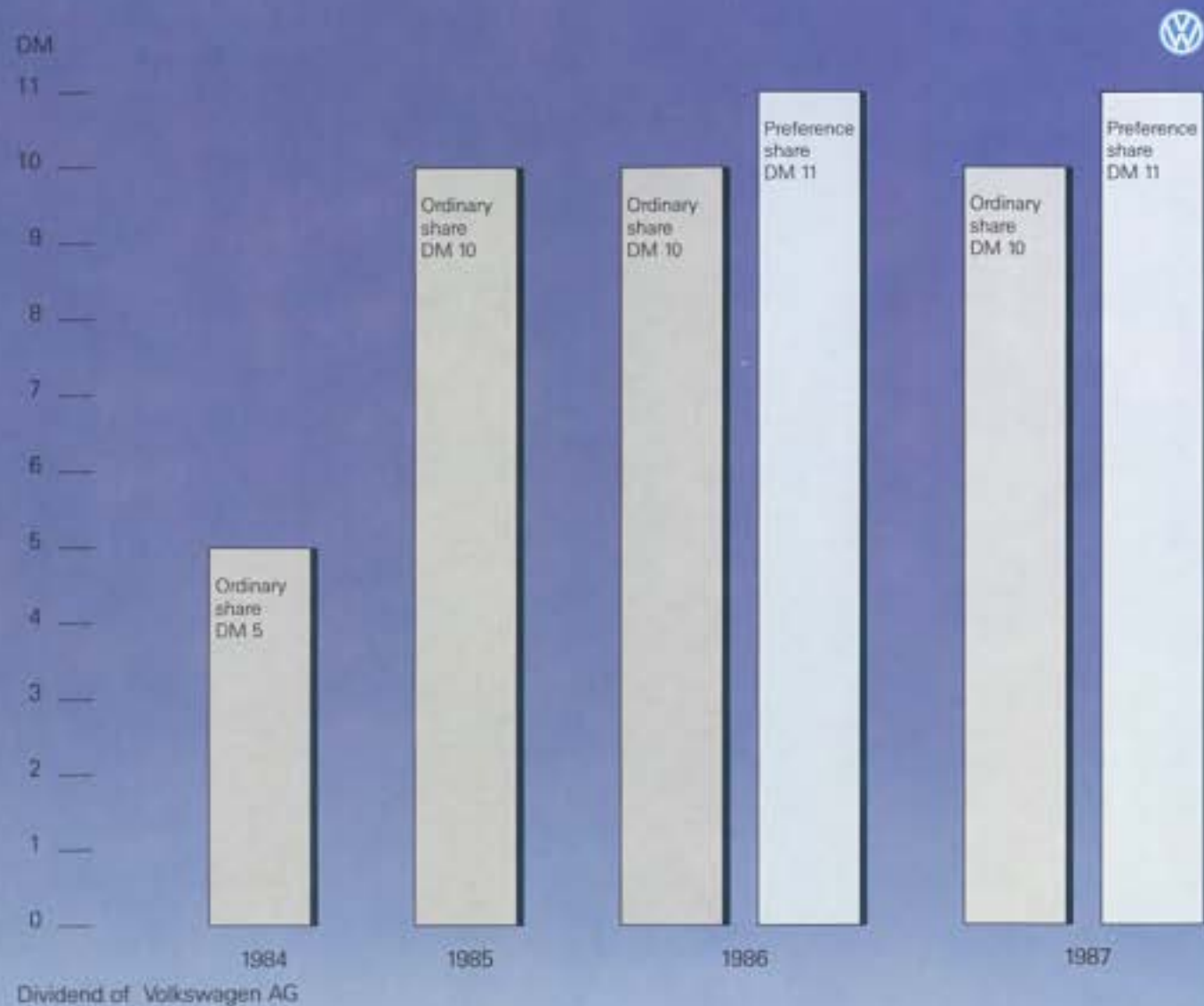
one another: "Consequently we have more motivation."

However, as Dr. Carl H. Hahn clearly states, "only 70% of the target has been achieved". Although over 400,000 vehicles manufactured in 1987, earlier than anyone expected, signify the first major milestone, further considerable efforts are necessary for successful SEAT automobile manufacture in



Europe during the 1990's if SEAT is to remain a competitive independent marque in the long term and be equipped to cope with recessions. "The target," says Dr. Hahn, "is still a long way off; but it can clearly be seen today that together we shall achieve it."





Financial Statements 1987

Volkswagen Group

Consolidated Balance Sheet of the Volkswagen Group December 31, 1987

— DM million —

Assets	Note	Dec. 31, 1987	Dec. 31, 1986
Fixed assets	(1)		
Intangible assets		29.1	1.5
Tangible assets		13,405.6	12,111.3
Financial assets		1,125.6	1,099.5
Leasing and rental assets		4,918.9	4,106.3
		19,479.2	17,318.6
Current assets			
Inventories	(2)	6,617.9	6,801.7
Receivables and other assets	(3)	9,155.0	8,369.3
Securities		425.5	364.2
Cheques, cash on hand, deposits at German Federal Bank and postal giro balances, cash in banks		8,135.0	8,552.8
		24,333.4	24,088.0
Prepaid and deferred charges		248.5	305.8
		44,061.1	41,712.4

Stockholders' equity and liabilities	Note	Dec. 31, 1987	Dec. 31, 1986
Stockholders' equity			
Subscribed capital of Volkswagen AG	(4)	1,500.0	1,500.0
Ordinary shares		1,200.0	
Non-voting preference shares		300.0	
Potential capital		200.0	
Capital reserve		2,803.2	2,803.2
Revenue reserves	(5)	5,692.4	5,087.7
Net earnings available for distribution		307.6	307.1
Minority interest in consolidated subsidiaries		422.4	411.1
		10,725.6	10,109.1
Special items with an equity portion	(6)	2,202.8	1,828.4
Special item for investment subsidies		9.4	9.5
Undetermined liabilities	(7)	14,864.1	14,513.7
Liabilities	(8)	15,817.8	14,936.8
Deferred income		441.4	314.9
		44,061.1	41,712.4

Consolidated Statement of Earnings of the Volkswagen Group

As at December 31, 1987

	Note	1987 DM million	1986 DM million
Sales	(9)	54,634.9	52,794.3
Cost of sales		48,525.9	46,745.9
Gross profit		+ 6,109.0	+ 6,048.4
Selling and distribution expenses		3,980.0	3,904.8
General administration expenses		1,518.2	1,474.7
Other operating income	(10)	3,361.8	2,562.3
Other operating expenses	(11)	2,231.5	1,930.3
Results from participations	(12)	+ 80.2	+ 65.9
Interest results	(13)	+ 12.0	+ 268.1
Write-down of financial assets and securities classified as current assets		222.8	39.3
Results from ordinary business activities		+ 1,610.5	+ 1,595.6
Extraordinary expenses	(14)	443.3	473.0
Taxes on income		569.2	542.4
Net earnings		598.0	580.2

Notes on the Financial Statements of the Volkswagen Group for the Fiscal Year ended Dec. 31, 1987

Conversion to the new Accounting and Reporting Law

The financial statements of the Volkswagen Group have for the first time been prepared in accordance with the regulations of the Accounting and Reporting Law which came into force on January 1, 1986. In doing so we have made use of the possibility of an early application of the new law.

The previous year's figures of the balance sheet and the statement of earnings have been adapted to the new regulations on presentation. The actual values have been adopted unchanged.

Notes on the Balance Sheet

(1) Fixed assets

The book value of the Group fixed assets on balance-sheet date was DM 19,479.2 million. This figure comprises intangible, tangible, financial and leasing and rental assets.

Additions to tangible and intangible assets and additions to leasing and rental assets amounted to

	DM million
Intangible assets	57.7 ¹⁾
Tangible assets	4,372.3 ²⁾
Leasing and rental assets	3,317.8

¹⁾ Incl. adjustment items arising from initial consolidation

²⁾ Amounts brought forward of companies consolidated for the first time

Depreciation for the current year was as follows:

	DM million
Intangible assets	1.8
Tangible assets	3,066.8
Leasing and rental assets	1,489.8

As a result of the valuation of participations in associated companies undertaken for the first time by the equity

method, changes in value resulted especially within the financial assets.

(2) Inventories

	Dec. 31, 1987 DM million	Dec. 31, 1986 DM million
Raw materials and supplies	1,611.2	1,834.9
Work in progress	1,770.3	1,772.2
Finished goods and merchandise	3,228.8	3,177.0
Advance payments	7.6	17.6
	6,617.9	6,801.7

(3) Receivables and other current assets

	Dec. 31, 1987 DM million	Dec. 31, 1986 DM million
Trade receivables	1,948.8	1,860.7
Receivables from affiliated companies	6.7	6.0
of which trade receivables	(3.0)	(0.1)
Receivables from companies in which participations are held	299.3	349.1
of which trade receivables	(203.4)	(63.4)
Other current assets	6,900.2	6,153.5
	9,155.0	8,369.3

Significant items under "Other current assets" are the receivables relating to

the activities of the finance and leasing companies.

(4) Subscribed capital

The subscribed capital of DM 1,500 million is composed of 6 million bearer shares with nominal value of 100 DM, 12 million bearer shares with nominal value of 50 DM and 6 million non-voting preference shares with nominal value of 50 DM. In addition there is an authoris-

ed capital stock of DM 300 million and a potential capital stock of DM 200 million, both expiring on June 30, 1989; the latter can be utilised by the holders of the 192,000 warrants attaching to the option bonds issued in 1986 up to a total of DM 97.5 million.

(5) Revenue reserves

	Dec. 31, 1987 DM million	Dec. 31, 1986 DM million
Legal reserve	60.0	60.0
Reserve for treasury stock	16.7	16.7
Other revenue reserves	5,615.7	5,011.0
	5,692.4	5,087.7

(6) Special items with an equity portion

	Dec. 31, 1987 DM million	Dec. 31, 1986 DM million
Reserves for tax purposes	249.9	292.5
Depreciation for tax purposes	1,952.9	1,535.9
	2,202.8	1,828.4

(7) Undetermined liabilities

	Dec. 31, 1987 DM million	Dec. 31, 1986 DM million
Undetermined liabilities for pensions and similar obligations	5,889.1	5,293.7
Undetermined liabilities in respect of taxes	924.7	992.2
Other undetermined liabilities	8,050.3	8,227.8
	14,864.1	14,513.7

Undetermined liabilities for pensions and similar obligations are based on actuarial computation and the going-value method for the German companies, taking an interest rate of 6% as basis, and on comparable principles for the foreign companies.

Other undetermined liabilities comprise among other things undetermined liabilities for warranty obligations, long-service awards, early retirement scheme and other workforce-related costs.

(8) Liabilities

Type of liability	Dec. 31, 1987 DM million	Dec. 31, 1986 DM million
Loans	1,123.0	1,287.1
of which convertible	(—)	(—)
Liabilities due to banks	7,516.6	6,039.2
Advance payments received	323.4	195.2
Trade payables	3,562.2	3,221.5
Notes payable	195.1	1,050.8
Amounts payable to affiliated companies	0.1	1.1
Amounts payable to companies in which participations are held	205.4	85.3
Other liabilities	2,892.0	3,056.6
of which taxes	(617.6)	(591.1)
of which in respect of social security	(427.9)	(321.8)
	15,817.8	14,936.8

Of the liabilities shown in the balance sheet a total of DM 609.6 million is secured through pledges or similar.

Contingencies and Commitments

In addition to the liabilities shown in the balance sheet there were the following contingent liabilities:	Dec. 31, 1987 DM million	Dec. 31, 1986 DM million
Contingent liabilities with respect to notes	2,059.0	296.8
Contingent liabilities with respect to guarantees	81.3	132.4
Contingent liabilities with respect to warranties	47.7	30.0
Pledges on company assets to secure another party's liabilities	20.1	21.8
Other contingent liabilities	0.9	0.9

Other financial obligations

The other financial obligations from long-term rental and leasing contracts amount annually to some DM 175.6 million.

Notes on the Statement of Earnings

(9) Sales in 1987

	Total DM million	Share %
West Germany	22,554.6	41.3
Europe (excl. West Germany)	18,658.4	34.2
North America	6,855.4	12.6
Latin America	3,792.9	6.9
Africa	1,108.3	2.0
Asia/Oceania	1,665.3	3.0
Total	54,634.9	100.0

Vehicle sales of the Volkswagen Group in 1987 accounted for 78% of sales proceeds, and part sales for 9%. 13% related to other sales. Other sales included

for the first time the income from leasing and rental as well as the proceeds from the sale of used assets of leasing and rental companies.

(10) Other operating income

	Dec. 31, 1987 DM million
Other operating income	3,361.8
of which income from elimination of special items with an equity portion	(439.9)

Other operating income resulted additionally in the Volkswagen Group primarily from the elimination of undetermined liabilities, differences from the translation of items in the statements of earnings

of consolidated foreign companies, disposal of fixed assets and write-ups of tangible assets, rebilling of costs, handling of foreign exchange transactions and leasing and rental business.

(11) Other operating expenses

	Dec. 31, 1987 DM million
Other operating expenses	2,231.5
of which transfers to the items with an equity portion	(815.6)

In the Volkswagen Group other operating expenses comprise among other things write-downs of receivables,

expenses from handling of foreign exchange transactions and expenses for various risks.

(12) Results from participations

	Dec. 31, 1987 DM million	Dec. 31, 1986 DM million
Income from participations	80.2	67.0
of which from affiliated companies	(2.6)	(2.8)
of which from associated companies	(73.7)	(61.8)
Expenses from loss assumptions	—	1.1
	80.2	65.9

(13) Interest results

	Dec. 31, 1987 DM million	Dec. 31, 1986 DM million
Income from other securities and long-term loans	14.5	51.3
of which from affiliated companies	(3.6)	(11.8)
Other interest and similar income	1,443.7	1,347.5
of which from affiliated companies	(0.5)	(49.2)
Interest and similar expenses	1,446.2	1,130.7
of which to affiliated companies	(11.1)	(—)
	12.0	268.1

(14) Extraordinary expenses

Extraordinary expenses included the costs connected with the closure of the Westmoreland plant and the expenses

associated with the restructuring of production capacities at the AUTOLATINA companies.

Total expenses for the period

	Dec. 31, 1987 DM million
Cost of materials	
Raw materials and supplies, purchased goods	29,420.1
Purchased services	1,911.2
	31,331.3
	Dec. 31, 1987 DM million
Labour cost	
Wages and salaries	12,609.4
Social security and pension costs	2,582.7
of which in respect of pensions	(987.5)
	15,192.1

Structure of the workforce

Wage-earners	131,114
Salaried workers	73,943
Salaried staff	55,401
	260,458
Apprentices and trainees	6,667
	267,125

**Particulars relating to the
Supervisory Board and the Board
of Management of Volkswagen AG**

The members of the Supervisory Board and the Board of Management are listed on pages 6 and 7.

The remuneration of the members of the Board of Management for the fiscal year 1987 totalled DM 11,697,172 in respect of Volkswagen AG and DM 12,203,440 in respect of the Group.

Retired members of the Board of Management or their surviving dependants received DM 6,564,004 in respect of Volkswagen AG and the Group.

The remuneration of the Supervisory Board amounted to DM 318,500 in respect of Volkswagen AG and the Group.



The Volkswagen Group in Figures 1978—1987

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Sales (DM million)	26,724	30,707	33,288	37,878	37,434	40,089	45,671	52,502	52,794	54,635
Change on previous year in %	11	15	8	14	— 1	7	14	15	1	3
Domestic	11,229	12,499	11,850	12,064	12,027	14,453	14,638	16,171	18,839	22,555
Abroad	15,495	18,208	21,438	25,814	25,407	25,636	31,033	36,331	33,955	32,080
Export of domestic Group companies	10,932	12,337	14,102	14,957	15,733	15,460	20,108	24,025	23,414	22,898
Net contribution of foreign Group companies	5,970	7,398	8,733	12,398	11,346	11,812	12,864	14,698	14,127	13,080
Vehicle Sales (thousand units)	2,393	2,539	2,495	2,279	2,120	2,127	2,145	2,398	2,758	2,774
Change on previous year in %	7	6	— 2	— 9	— 7	0	1	12	15	1
Domestic	895	901	788	738	672	750	708	722	838	921
Abroad	1,498	1,638	1,707	1,541	1,448	1,377	1,437	1,676	1,920	1,853
Production (thousand units)	2,385	2,542	2,574	2,246	2,130	2,116	2,148	2,398	2,777	2,771
Change on previous year in %	7	7	1	— 13	— 5	— 1	2	12	16	0
Domestic	1,569	1,558	1,499	1,410	1,381	1,413	1,474	1,635	1,654	1,668
Abroad	816	984	1,075	836	749	703	674	763	1,123	1,105
Workforce at year end (thousand employees) ¹⁾	207	240	258	247	239	232	238	259	276	260
Change on previous year in %	8	16	8	— 4	— 3	— 3	3	9	7	— 6
Domestic	139	157	159	160	158	156	160	170	169	170
Abroad	68	83	99	87	81	76	78	89	107	90
Capital Investments (DM million) ²⁾	1,990	3,100	4,279	4,851	4,892	4,858	2,782	3,388	6,371	4,592
Change on previous year in %	17	56	38	13	1	— 1	x	22	88	— 28
Domestic	1,559	2,374	3,163	3,089	3,654	3,476	1,889	2,508	3,849	4,324
Abroad	431	726	1,116	1,762	1,238	1,382	893	880	2,522	268
Additions to Leasing and Rental Assets (DM million)							2,021	3,217	2,738	3,318
Change on previous year in %								59	— 15	21
Cash Flow (DM million) ³⁾	2,609	2,993	3,141	3,936	3,452	5,207	4,081	4,558	4,285	4,874
Change on previous year in %	5	15	5	25	— 12	51	x	12	— 6	14
Net Earnings/Loss (DM million)	574	667	321	136	— 300	— 215	228	596	580	598
Dividend of Volkswagen AG (DM million)	189	240	192	120	—	—	120	240	308	306
Ordinary shares (DM million)	189	240	192	120	—	—	120	240	240	240
Preference shares (DM million)									66	66

¹⁾ Workforce at year end; as of 1986 average over year

²⁾ Up to 1983 including additions to leasing and rental assets

³⁾ Up to 1983 including depreciation on and disposal of leasing and rental assets

The Volkswagen Group in Figures 1978—1987

Balance Sheet (Structure) (DM million) December 31	1978	1979	1980	1981	1982
Assets					
Tangible assets	5,903	6,648	8,326	10,205	11,474
Financial assets	410	726	839	414	449
Leasing and rental assets					
Fixed Assets	6,313	7,374	9,165	10,619	11,923
Inventories and advance payments to suppliers	3,491	4,400	6,073	5,996	5,662
Receivables and the like	2,996	4,000	4,437	4,771	5,065
Liquid funds, trade acceptances	4,364	4,781	3,971	2,822	1,953
Securities, treasury stock	1,016	1,123	1,151	1,129	1,290
Current Assets	11,867	14,304	15,632	14,718	13,970
Total Assets	18,180	21,678	24,797	25,337	25,893
Stockholders' Equity and Liabilities					
Capital stock	1,200	1,200	1,200	1,200	1,200
Reserves of the Group	4,224	4,625	4,757	4,990	4,911
Minority interest in consolidated subsidiaries	192	373	205	198	223
Stockholders' Equity	5,616	6,198	6,162	6,388	6,334
Undetermined liabilities					
in respect of old-age pensions	2,341	2,749	3,107	3,475	3,626
Other undetermined liabilities	3,244	4,152	4,326	4,232	4,570
Undetermined Liabilities	5,585	6,901	7,433	7,707	8,196
Liabilities payable within					
more than 4 years	1,284	1,273	1,161	1,053	847
1 to 4 years	708	457	468	712	990
up to 1 year	4,776	6,592	9,378	9,351	9,485
Liabilities	6,768	8,322	11,005	11,116	11,322
Net earnings available for distribution (Volkswagen AG)	189	240	193	124	38
Minority interest in earnings to be distributed	22	17	4	2	3
Outside Capital	12,564	15,480	18,635	18,949	19,559
Total Capital	18,180	21,678	24,797	25,337	25,893
Statement of Earnings (Condensed) (DM million)					
January — December					
Gross performance	27,285	31,638	34,989	38,197	38,030
Cost of materials	14,099	15,835	18,238	19,752	19,573
Labour cost	7,656	9,113	10,782	11,779	12,069
Depreciation and write-down	1,456	1,696	2,102	2,934	3,038
Depreciation on leasing and rental assets					
Taxes	1,692	2,081	1,400	848	543
on income, earnings and property	1,624	2,004	1,329	772	458
Sundry expenses less sundry income	1,808	2,246	2,146	2,748	3,107
Net earnings/Loss	574	667	321	136	-300

Balance Sheet (Structure) (DM million) December 31	1983	1984	1985	1986 ¹⁾	1987 ¹⁾	Change 1987/86	in %	Balance Sheet (Structure) (DM million) December 31
Assets								Assets
				2	29	x		Intangible assets
	11,801	9,082	8,740	12,111	13,406	10.7		Tangible assets
	464	544	574	1,099	1,125	2.4		Financial assets
		2,433	3,717	4,106	4,919	19.8		Leasing and rental assets
	12,265	12,059	13,031	17,318	19,479	12.5		Fixed Assets
	5,878	6,654	6,348	6,802	6,618	-2.7		Inventories
	6,269	7,388	7,157	8,675	9,403	8.4		Receivables and other assets
	1,815	5,253	4,326	364	426	16.8		Securities
	2,528	1,588	3,960	8,553	8,135	-4.9		Liquid funds
	16,490	20,883	21,791	24,394	24,582	0.8		Current Assets
	28,755	32,942	34,822	41,712	44,061	5.6		Total Assets
Stockholders' Equity and Liabilities								Stockholders' Equity and Liabilities
	1,200	1,200	1,200	1,500	1,500	-		Subscribed capital
	5,227	5,165	5,929	7,891	8,496	7.7		Reserves of the Group
	281	320	266	408	405	-0.9		Minority interest in consolidated subsidiaries
	6,708	6,685	7,395	307	308	0.2		Net earnings available for distribution
				3	17	x		Minority interest in net earnings to be distributed
	4,235	4,739	5,029	1,828	2,203	20.5		Special items with an equity portion
	5,597	7,417	9,343	10	9	-1.7		Special item for investment subsidies
	9,832	12,156	14,372	11,947	12,938	8.3		Stockholders' Equity
	1,283	992	947	5,294	5,889	11.2		Undetermined liabilities (pensions)
	1,004	1,411	1,291	992	925	-6.8		Undetermined liabilities (taxes)
	9,925	11,570	10,569	8,228	8,050	-2.2		Other undetermined liabilities
	12,212	13,973	12,807	14,514	14,864	2.4		Undetermined Liabilities
	-	124	244	1,344	1,217	-9.4		Liabilities payable within more than 5 years
				1,456	1,999	37.3		1 to 5 years
				12,451	13,043	4.8		up to 1 year
	3	4	4	15,251	16,259	6.6		Liabilities
	22,047	26,257	27,427	29,765	31,123	4.6		Outside Capital
	28,755	32,942	34,822	41,712	44,061	5.6		Total Capital
Statement of Earnings (DM million) (Condensed)								Statement of Earnings (DM million) (Condensed)
January — December								January — December
Gross performance	40,680	46,772	52,709	52,794	54,635	3.5		Sales
Cost of materials	20,852	23,824	26,623	46,746	48,526	3.8		Cost of sales
Labour cost	12,371	13,227	13,913	5,380	5,498	2.2		Selling and administration expenses
Depreciation and write-down	3,689	2,961	3,411					Other operating income less other operating expenses
		1,060	1,259	632	1,130	78.8		Financial results
	580	1,368	2,124	295	-131	x		Results from ordinary business activities
				1,595	1,610	0.9		Extraordinary results
	494	1,266	1,993	-473	-443	6.3		Taxes on income
	3,403	4,104	4,783	542	569	4.9		Net earnings
	-215	228	596	580	598	3.1		

¹⁾ Presentation in accordance with the new
Accounting and Reporting Law

Commercial vehicles
from the Volkswagen range





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