



Annual Report  
1988  
Volkswagen AG



## Key Figures

		Volkswagen Group			Volkswagen AG		
		1988	1987	Change %	1988	1987	Change %
Sales	DM million	59,221	54,635	+ 8.4	44,237	43,199	+ 2.4
Vehicle Sales	units	2,854,387	2,773,613	+ 2.9	1,948,949	1,978,440	- 1.5
Production	units	2,847,616	2,771,379	+ 2.8	1,453,286	1,473,780	- 1.4
Workforce	average over year	252,066	260,458	- 3.2	125,679	129,028	- 2.6
Capital Investments	DM million	4,251	4,592	- 7.4	3,772	3,532	+ 6.8
Additions to Leasing and Rental Assets	DM million	3,447	3,318	+ 3.9	-	-	-
Cash Flow	DM million	5,018	4,874	+ 3.0	3,272	2,989	+ 9.5
Depreciation and Write-down	DM million	3,242	3,291	- 1.5	1,956	2,014	- 2.9
Depreciation on Leasing and Rental Assets	DM million	1,702	1,490	+ 14.3	-	-	-
Net Earnings	DM million	780	598	+ 30.4	523	494	+ 5.9
Dividend of Volkswagen AG	DM million				306	306	-
of which on							
Ordinary Shares	DM million				240	240	-
Preferred Shares	DM million				66	66	-

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

All percentages are based on non-rounded figures. Figures in brackets concern the previous year. The market shares given in the report are based on the vehicle category definitions laid down by the West German Office for Motor Traffic.

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.





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## Ordinary Annual Meeting of Stockholders of Volkswagen Aktiengesellschaft

### Agenda

for the Ordinary Annual Meeting of Stockholders of Volkswagen Aktiengesellschaft to be held at 10.00 a.m. on Thursday, July 13, 1989 at the Festhalle on the Messengelände in Frankfurt

1. Presentation of the confirmed financial statements, the consolidated financial statements, the Management Report and the Group Management Report for the year ended December 31, 1988 together with the Report of the Supervisory Board
2. Resolution on appropriation of net earnings available for distribution
3. Ratification of the actions of the Board of Management
4. Ratification of the actions of the Supervisory Board
5. Resolution on the creation of authorized capital stock and the appropriate amendment of the Articles of Association
6. Resolution on the authorization to issue convertible or option bonds, creation of further potential capital stock and the appropriate amendment of the Articles of Association
7. Adjustment of the potential capital stock created in 1984 and the appropriate amendment of the Articles of Association
8. Appointment of auditors for the fiscal year 1989

With respect to items 5 and 6 the holders of non-voting preferred shares will decide on the passing of a resolution at a separate meeting to be held at 3.00 p.m. on the same day regarding their approval of the resolutions passed at the Ordinary Annual Meeting of Stockholders.

The full text of the agenda with the proposals for resolutions, together with the invitation to the Ordinary Annual Meeting of Stockholders, is set out in the Bundesanzeiger No. 87 of May 11, 1989 and in the "Condensed Version of the Annual Report 1988" which will be forwarded to stockholders at the beginning of June.

## Separate Meeting of Holders of Preferred Shares of Volkswagen Aktiengesellschaft

### Agenda

for the Separate Meeting of Holders of Preferred Shares of Volkswagen Aktiengesellschaft to be held at 3.00 p.m. on Thursday, July 13, 1989 at the Festhalle on the Messengelände in Frankfurt. The start of this separate meeting of holders of preferred shares may be subject to delay depending on the length of the immediately preceding Ordinary Annual Meeting of Stockholders.

1. Announcement of the resolutions passed by the Ordinary Annual Meeting of Stockholders on July 13, 1989 regarding authorization to create authorized capital stock
2. Special resolution by the holders of preferred shares regarding approval of authorization of the Board of Management to create authorized capital stock in accordance with the resolutions passed by the Ordinary Annual Meeting of Stockholders and announced under item 1 of the agenda
3. Announcement of the resolutions passed by the Ordinary Annual Meeting of Stockholders on July 13, 1989 regarding authorization to issue convertible or option bonds and creation of further potential capital stock
4. Special resolution by the holders of preferred shares regarding approval of authorization of the Board of Management to issue convertible or option bonds and regarding the creation of further potential capital stock in accordance with the resolutions passed by the Ordinary Annual Meeting of Stockholders and announced under item 3 of the agenda

The full text of the agenda with the proposals for resolutions, together with the invitation to the Separate Meeting, is set out in the Bundesanzeiger No. 87 of May 11, 1989 and in the "Condensed Version of the Annual Report 1988" which will be forwarded to stockholders at the beginning of June.

## Supervisory Board

- |  |  |  |
|--|--|--|
| Dr. jur. Klaus Liesen (58)<br>Essen<br>Chairman<br>Chairman of the Board<br>of Management of<br>Ruhrgas AG<br>July 2, 1987*)         | Albert Hoffmeister (60)<br>Wolfsburg<br>Senior Executive of<br>Volkswagen AG<br>July 5, 1977   | Dr.-Ing. E. h.<br>Günther Saßmanns-<br>hausen (58), Hanover<br>Member of the Supervi-<br>sory Board of Preussag AG<br>July 2, 1987                                       |
| Franz Steinkühler (51)<br>Frankfurt<br>Deputy Chairman<br>Chairman of the Metalwor-<br>kers Union<br>July 2, 1987                    | Hans-Günter Hoppe (66)<br>Berlin<br>Former Member of the<br>Berlin Senate<br>July 9, 1974  | Dr. jur.<br>Wolfgang Schieren (61)<br>Munich<br>Chairman of the Board of<br>Management of Allianz -<br>Aktiengesellschaft Holding<br>June 30, 1988                       |
| Josef Bauer (49)<br>Ingolstadt<br>Member of the Works<br>Committee of AUDI AG<br>July 2, 1987  | Jann-Peter Janssen (44)<br>Norden<br>Chairman of Works<br>Council of Volkswagen AG<br>Emden Plant<br>April 9, 1986   | Dr. rer. pol.<br>Albert Schunk (47)<br>Frankfurt<br>Head of the International<br>Department on the Execu-<br>tive Committee of the<br>Metalworkers Union<br>July 5, 1977 |
| Peter Birk (51)<br>Düsseldorf<br>Senior Official of the<br>Metalworkers Union,<br>Düsseldorf Office<br>July 2, 1987                  | Walther Leisler Kiep (63)<br>Frankfurt<br>Businessman (Insurance)<br>from March 3, 1976 to<br>July 1, 1982 and since<br>January 26, 1983   | Dr. rer. pol.<br>Ulrich Weiss (52), Frankfurt<br>Member of the Board of<br>Management of Deutsche<br>Bank AG<br>June 30, 1988  |
| Birgit Breuel (51)<br>Hanover<br>Minister of Finance of<br>Lower Saxony<br>October 10, 1978  | Dr. jur.<br>Otto Graf Lambsdorff (62)<br>Düsseldorf<br>President<br>Deutsche Schutzver-<br>einigung für Wertpapier-<br>besitz e. V.<br>(German stockholders'<br>association)<br>July 2, 1987 | Changes on the Supervi-<br>sory Board:   |
| Rolf Diel (66)<br>Düsseldorf<br>Chairman of the Supervi-<br>sory Board of Dresdner<br>Bank AG<br>June 30, 1988                       | Klaus Peter Mander (46)<br>Wolfsburg<br>Deputy Chairman of the<br>Joint and Group Works<br>Council of Volkswagen AG<br>March 25, 1985  | Dr. jur.<br>F. Wilhelm Christians (66)<br>Düsseldorf<br>Member of the Supervi-<br>sory Board of Deutsche<br>Bank AG<br>July 12, 1971 to June 30,<br>1988                 |
| Walter Hiller (56)<br>Wolfsburg<br>Chairman of the Joint and<br>Group Works Council of<br>Volkswagen AG<br>April 9, 1986             | Karl Heinrich Mihr (53)<br>Kassel<br>Chairman of Works<br>Council of Volkswagen AG<br>Kassel Plant<br>November 27, 1972  | Dr. rer. pol.<br>Otto Schlecht (63)<br>Bonn-Duisdorf<br>Undersecretary of State in<br>the Federal Ministry for<br>Economic Affairs<br>August 3, 1973 to<br>June 30, 1988 |
| Walter Hirche (48)<br>Hanover<br>Minister for Economic<br>Affairs, Technology and<br>Transport of Lower Saxony<br>September 18, 1986 | Gerhard Mogwitz (55)<br>Hanover<br>Chairman of Works<br>Council of Volkswagen AG<br>Hanover Plant<br>July 5, 1977  | Dr. rer. pol.<br>Hans Tietmeyer (57), Bonn<br>Undersecretary of State in<br>the Federal Ministry of<br>Finance<br>July 2, 1987 to June 30, 1988                          |

## Board of Management

Dr. rer. pol.  
Carl H. Hahn (62)  
Chairman  
(since January 1, 1982)  
Member of the Board of  
Management from May 1,  
1964 to December 31,  
1972

Senator h. c.  
Horst Münzner (64)  
Deputy Chairman (since  
January 1, 1982)  
Purchasing and Logistics  
Member of the Board of  
Management since  
January 1, 1969

Claus Borgward (50)  
Quality Assurance  
April 11, 1980

Dr. jur. Peter Frerk (58)  
Legal Matters, Auditing  
and Economics  
December 7, 1971

Dr.-Ing. E. h.  
Günter Hartwich (53)  
Production  
July 1, 1972

Dr. jur. Martin Posth (45)  
Personnel (Director of  
Labour Relations)  
October 1, 1988  
Member of the Board of  
Management since  
August 1, 1988

Dr. rer. pol.  
Werner P. Schmidt (56)  
Sales  
August 1, 1975

Prof. Dr.-Ing.  
Ulrich Seiffert (48)  
Research and Develop-  
ment  
September 3, 1988

Dieter Ullsperger (43)  
Controlling and Finance  
August 1, 1987

Changes on the Board of  
Management:

Karl-Heinz Briam (66)  
Personnel and Social Mat-  
ters (Director of Labour  
Relations)  
October 1, 1978 to Sep-  
tember 30, 1988

Prof. Dr. techn.  
Dr. med. h. c.  
Ernst Fiala (60)  
Research and Develop-  
ment  
February 1, 1973 to Sep-  
tember 2, 1988

\*) This indicates since when the person in question has been a member of the Supervisory Board or the Board of Management, or the period for which the person was a member.

## Report of the Supervisory Board

The Supervisory Board was kept continuously informed about the situation of the Company and corporate policy in 1988 through written and oral reporting by the Board of Management. On the basis of these reports the Supervisory Board was able to advise and monitor management. 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 and its committees and decisions taken in agreement with the Board of Management.

The financial statements for Volkswagen AG and the Group as at December 31, 1988 along with the Management Report for Volkswagen AG and the Group Management Report for the fiscal year 1988 and the accounts have been audited and approved without qualification by TREUARBEIT Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hanover.

The results of the audit have been submitted to the Supervisory Board and accepted by it. A final examination gave rise to no objections on the part of the Supervisory Board, which has approved and therefore confirmed the financial statements. The Supervisory Board approves the proposal put forward by the Board of Management regarding appropriation of net earnings available for distribution.

After almost 40 years as a major shareholder, the Federal German Government sold its 20 % holding in the voting capital stock of Volkswagen AG on March 24, 1988 via an international banking consortium. The Supervisory Board would like to express its thanks and appreciation to all representatives of the Federal Government who have belonged to this board in the past for their active participation and commitment. Special thanks are due to the government representatives who ceased being members of the Supervisory Board at the end of the Annual Meeting of Stockholders on June 30, 1988: Undersecretary of State Dr. rer. pol. Otto Schlecht, who had been a member of this board since 1973 and who has made a major contribution to the Company's development, and Undersecretary of State Dr. rer. pol. Hans Tietmeyer, who had been a member of the Supervisory Board since July 2, 1987.

At the same time Dr. jur. F. Wilhelm Christians, who had given the Company the benefit of his valuable advice for seventeen years, likewise left the Supervisory Board. With his entrepreneurial farsightedness and immense international experience, Dr. Christians has played a major part in shaping the development of Volkswagen AG and the Volkswagen Group during this time. The Supervisory Board would like to thank Dr. Christians for the dedication and commitment which he has shown.

The 28th Ordinary Annual Meeting of Stockholders elected Herr Rolf Diel, Dr. jur. Wolfgang Schieren and Dr. rer. pol. Ulrich Weiss as new members of the Supervisory Board.

Professor Dr. techn. Dr. med. h. c. Ernst Fiala requested the Supervisory Board to allow him to retire from the Board of Management as of his sixtieth birthday on September 2, 1988 to enable him to dedicate himself to his academic work. The Supervisory Board has complied with this request. Professor Fiala had been responsible for Research and Development since February 1, 1973. This period witnessed not only the birth of the VW Golf – one of the most successful automobiles in the world, with over ten million produced – but also the development of the new VW Passat and the VW Corrado sports car. Professor Fiala also played a key role in developing the varied VW range of commercial

vehicles and made a major contribution to devising innovative solutions for important technical design features.

With his outstanding achievements, Professor Fiala has played a vital part in securing Volkswagen's excellent position within the worldwide automobile industry. The Supervisory Board would like to thank him for all that he has done for the Company. He has been succeeded on the Board of Management as of September 3, 1988 by Professor Dr.-Ing. Ulrich Seiffert.

The Supervisory Board would also like to express its thanks to Herr Karl-Heinz Briam, who retired from the Board of Management of Volkswagen AG on September 30, 1988 upon reaching the age of 65. Herr Briam had been Director of Labour Relations for ten years and had helped to shape the Company's personnel policy with his own principle of "cooperative resolution of conflicts". The Supervisory Board thanks Herr Briam for all that he has done in his many years with the Company.

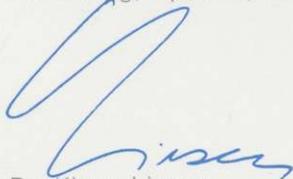
Dr. jur. Martin Posth was appointed a full member of the Board of Management as of August 1, 1988. He assumed responsibility for Personnel on October 1, 1988.

Volkswagen lost an outstanding figure on March 28, 1989 with the death of Gerd von Briel in a tragic accident. The Company is greatly indebted to Gerd von Briel for his exceptional achievements. He played a major part in the success of our joint venture with Ford, Autolatina Ltda., in Brazil and Argentina as its Director Vice-President Technical and Industrial Affairs, responsible for production, development, purchasing and quality assurance. Gerd von Briel had been appointed a member of the Board of Management of Volkswagen AG as of September 1, 1989 and was to have assumed responsibility for Purchasing and Logistics on January 1, 1990.

Shortly before Christmas 1988, the Vice-President and the Marketing Director of Volkswagen of America, James R. Fuller and Lou Marengo, lost their lives as the result of a terrorist outrage in which their plane was brought down over Scotland. James R. Fuller had made an invaluable contribution to the development of Volkswagen of America and was highly respected throughout the automobile business. Lou Marengo was his closest associate and was on the threshold of an extremely promising career.

The Volkswagen Group owes an immense debt of gratitude to all three men. We shall always honour their memory.

Wolfsburg, April 14, 1989



Dr. Klaus Liesen  
Chairman of the Supervisory Board

**Report of the Board of Management  
Management Report:  
Volkswagen AG and Volkswagen Group  
Economic Trend in the Fiscal Year 1988**

**World economy still  
exhibiting upward trend**

Although factors such as the price collapse on the international stock markets were still causing some economic research institutes to be slightly pessimistic in their economic forecasts at the beginning of 1988, their fears were not borne out as the year progressed. The world economy continued to experience an up-swing. With the general economic climate remaining conducive to consumption, exports and thus also international trade exhibited sustained growth. These favourable basic conditions significantly boosted investment, which in a number of countries became the driving force behind economic development.

The upward economic trend also continued in the USA for the sixth year in succession. In addition to the fact that private consumption remained high, exports also made a major contribution to this development as a result of the low rate for the dollar. As imports rose at the same time to a somewhat smaller extent, the USA was able to take the first effective steps in reducing its heavy trade deficit.

Japan's economic policy was successfully aimed at boosting domestic demand. Rising incomes meant that private consumption played a key role in promoting overall growth. With interest rates low, capital investment in machinery and equipment exhibited two-figure growth rates and gave the economy major impetus.

The satisfactory economic trend in the West European countries continued on a still broader scale in 1988. At 3.5 %, the growth rate recorded in real terms for the gross national products of the countries in this region was the highest since 1979. Rising domestic demand was the major reason for this upward trend, with growth also already stimulated by the prospect of a single European market from 1993 onwards.

In West Germany, the sustained economic buoyancy of the country's major trading partners led to an increase in exports, which thus became a decisive factor in economic growth. Domestic demand continued to increase too, however, as a result of rising incomes and the implementation of the second stage of the tax reform at the beginning of 1988. The high level of capacity utilization meant that investment rose significantly as well.



The new VW Passat was launched in April 1988. After only nine months it was – apart from the Audi 80 – the best-selling car in its class on the West German market.



The VW Passat has created a new dimension in the middle range, setting new standards in terms of spaciousness and comfort.

**Increase in the gross national product (in real terms) compared with previous year (in %)\*)**

	1988	1987	1986	1985	1984
USA	3.8	3.4	2.8	3.4	6.8
Japan	5.8	4.3	2.4	4.9	5.1
West Germany	3.4	1.8	2.3	1.9	3.3
All West European countries	3.5	2.8	2.6	2.6	2.6
All industrialized countries	4.1	3.3	2.7	3.4	4.9

\*1) According to OECD

**World automobile production up**

The general economic trend is also reflected in world-wide automobile production, which reached a new record level in 1988 with a total of 48.7 million vehicles (+ 5 %). One of the main centres of growth was the West European automobile industry, whose output of 15.4 million vehicles was 5 % up on the previous year's record figure.

West Germany remained the largest European manufacturer, producing a total of 4.6 million vehicles (- 0.2 %). The slight drop in domestic production contrasted with a rise of almost 14 % in the number of vehicles produced by the German automobile manufacturers at their plants abroad.

The Japanese manufacturers recorded a 4 % increase in production, achieving a total output of 12.7 million vehicles. This can be ascribed to the sharp rise in domestic demand, since exports fell at the same time to 6.1 million units (- 3 %). The export ratio consequently dropped from 51 % to 48 %. In the USA, automobile production was likewise up on the previous year's level, totalling 11.2 million vehicles (+ 3 %).

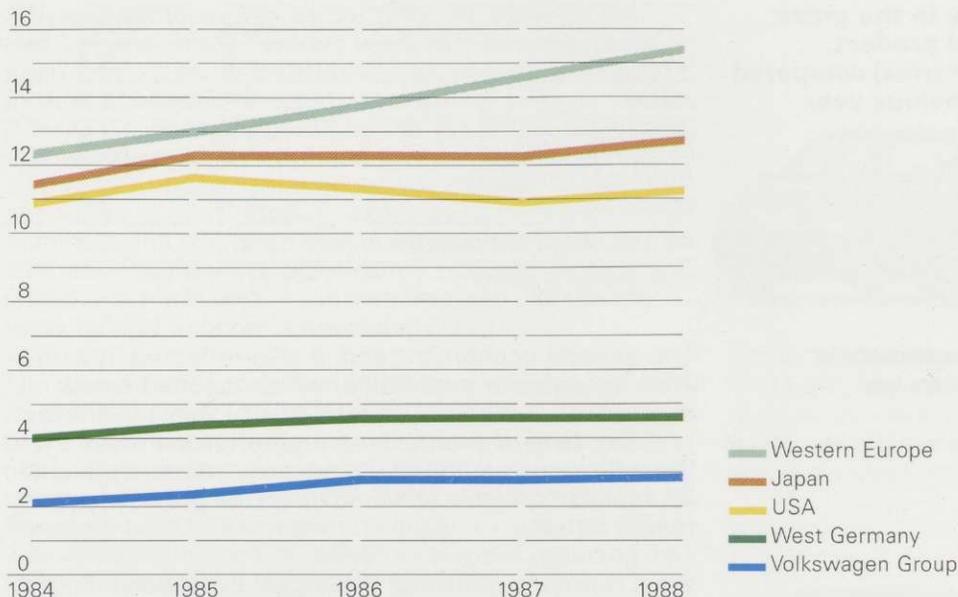
The structural changes on the world automobile market were demonstrated with particular clarity by the success achieved by South Korea. With output totalling 1.1 million vehicles (+ 11 %), it became the world's tenth largest automobile manufacturer and exported more vehicles than either Sweden or Great Britain. Other Far Eastern countries are now also starting to penetrate the world automobile market and Latin America too is endeavouring to progress in this direction.



In autumn 1988 the VW Passat was awarded the "Golden Steering Wheel" - proof that we have successfully enhanced our position in the upper middle range.

**Management Report:  
Volkswagen AG and Volkswagen Group  
Economic Trend in the Fiscal Year 1988**

**Development of  
production in the  
automobile industry  
(Million vehicles)**



**New production record  
for the  
Volkswagen Group**

Thanks to its broad model range and the general conditions favouring the automobile industry, the Volkswagen Group was able in 1988 to surpass the already high production figures achieved in recent years, with a total of 2,847,616 Volkswagen, Audi and SEAT models manufactured worldwide (+ 2.8 %). This new record enabled us to consolidate our position as the biggest automobile manufacturer in Europe and the fourth largest passenger car manufacturer in the world. A total of 2,606,011 passenger cars and 241,605 commercial vehicles came off the production lines in 1988. Improved capacity utilization meant that the average production per working day within the Group rose from 12,217 to 12,560 units.

Domestic production totalled 1,694,000 automobiles (+ 1.7 %), with 1,267,538 vehicles (+ 1.5 %) manufactured by Volkswagen AG and 426,462 (+ 2.2 %) by AUDI AG. In addition, 185,748 assembly sets were exported to subsidiaries abroad. As a result of the substantial increase in production at AUTOLATINA in Brazil (+ 15.1 %) and SEAT S.A. (+ 6.7 %) in particular, output abroad rose by 4.4 % to 1,153,616 units. The proportion of total output accounted for by production abroad thus increased to 40.5 % (39.9 %).

**Volume of purchasing by  
the Volkswagen Group**

The Volkswagen Group's volume of purchasing in 1988 amounted to DM 37.6 billion. Purchasing by Volkswagen AG totalled DM 22.4 billion, with DM 16.7 billion accounted for by raw materials and supplies as well as finished and semi-finished products. DM 5.7 billion were spent on capital goods and services.



The spaciousness and immensely variable interior of the VW Passat Variant make it an outstanding all-purpose car.

Purchases abroad were once again increased in appropriate proportion to the total volume of purchasing. A particularly important contribution was made here by suppliers with production plants throughout the world, which facilitated Group production and assembly of vehicles abroad. The close cooperation between Volkswagen and its suppliers meant that we were able to make use of every opportunity to cut costs and improve quality still further.

As a result of optimization and rationalization measures, the average number of employees in the Volkswagen Group in 1988 decreased by 3.2 % to 252,066, while the workforce of 125,679 employed by Volkswagen AG was 2.6 % down on the previous year's total.

The reduction of the workforce in the West German part of the Group to 165,388 (- 2.7 %) was largely due to decreases at the parent company and at AUDI AG. Taking the average over the year, the workforce at the Group companies abroad totalled 86,678 (- 4.2 %). The main reasons for this decrease were the phasing-out of production at the Westmoreland plant in the USA and staffing adjustments at Volkswagen de Mexico. The workforce at both SEAT S.A. and Volkswagen of South Africa was increased, the percentage rise being smaller than the increase in output achieved.

With its three marques - Volkswagen, Audi and SEAT - the Volkswagen Group maintained its leading sales position in Europe for the fourth year in succession, achieving a 14.9 % (15.0 %) share of the European passenger car market in 1988. Including deliveries to customers in West Germany, the Volkswagen Group sold well over two million passenger cars and light commercial vehicles in this region.

A total of 2,853,640 vehicles were delivered to customers worldwide (+ 4.1 %). Group passenger car sales rose by 4.3 % to 2,615,895 units, while sales of commercial vehicles increased by 2.1 % to 237,745. Volkswagen AG - which also distributes the Audi models - and SEAT S.A. increased their deliveries to customers by 2.6 %, with sales totalling 2,547,753 vehicles.

## Reduction of Group workforce

## No. 1 in Europe once again



70 car journalists voted the VW Passat Variant the best family car in its price category in the "Auto Trophy" contest.



The success of the Passat Variant rests not least on its outstanding spaciousness and comfort and on its variable load space.

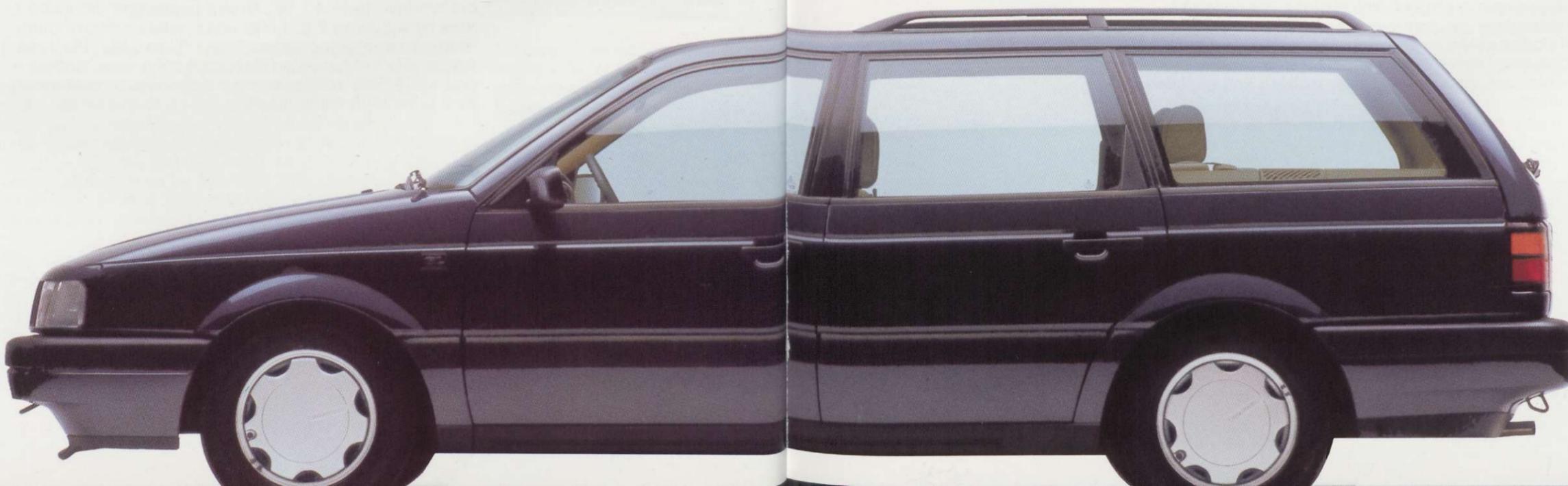
**Management Report:  
Volkswagen AG and Volkswagen Group  
Economic Trend in the Fiscal Year 1988**

The major impetus for this growth was provided by the European export markets. With automobile demand remaining buoyant, sales of our vehicles on these markets amounted to 1,173,700 units, a substantial rise of 9.9 %. We were particularly successful with the VW Golf, the new VW Passat, the Audi 80/90 model range, the SEAT Ibiza and the SEAT Marbella. The most important markets continued to include Italy with sales totalling 260,954 vehicles (+ 11.6 %), Spain with 213,708 (+ 16.8 %), France with 210,312 (+ 17.1 %) and Great Britain with 142,334 (+ 11.1 %). In addition, sales in Portugal increased almost five-fold, amounting to 30,166 vehicles.

After several years of expansion, demand for automobiles in West Germany slackened off slightly in 1988, with new passenger car registrations totalling 2,807,939 (- 3.7 %). This meant that the Volkswagen Group's sales of passenger cars and commercial vehicles on the domestic market were 5.2 % down on the previous year's figure, partly as a result of production-related delivery bottlenecks for some models, and amounted to 867,235. Demand for the new VW Passat in particular far exceeded supply capacity. The Volkswagen Group achieved a 29.4 % (29.9 %) share of the West German passenger car market.

The markets on the American continent exhibited differing trends. Keener competition meant that the situation in North America remained difficult, with the Group delivering a total of 227,599 vehicles to customers (- 17.2 %). By contrast, sales of Volkswagen models in Latin America were up by 16.0 % to 366,184.

Volkswagen of South Africa increased its deliveries to customers by 24.7 % and thus once again participated to an above-average extent in the expansion of the South African automobile market.



The VW Passat – as saloon or estate car, ideal for business travel or trips with the family.

**Management Report:  
Volkswagen AG and Volkswagen Group  
Economic Trend in the Fiscal Year 1988**

**Expenditure on research  
and development**

In 1988 Group expenditure on research and development was increased to DM 2.1 billion (+ 10.5 %), DM 1.2 billion of which was accounted for by Volkswagen AG. Activities focused in particular on the launching of a number of new models: the VW Passat, the VW Corrado with G-supercharger, the Audi V8 and the Audi Coupé. Other key areas included further development work for the VW commercial vehicle range and in the field of gearboxes and drive units. Growing use was made of CAE (Computer Aided Engineering) systems in design work and testing. Research activities centred on electronics, materials, safety and environmental protection.

The Volkswagen Group employed a total of 11,494 staff worldwide in its research and development departments, 6,683 of them at Volkswagen AG alone. We work in close cooperation with our subsidiaries in a coordinated, interlinked research and development set-up. While Volkswagen AG, AUDI AG and SEAT conduct basic development work, the emphasis at the Group companies in Latin America, South Africa and Asia – particularly in the People's Republic of China – is on model-specific adaptation measures. In this way we are at the same time creating the prerequisites for cooperation with suppliers based in these countries with a view to increasing the "local content" of vehicle production.

In addition to its development work, the Volkswagen Group is engaged in extensive research activities. For example, Volkswagen, Audi and SEAT have joined forces with thirteen other European automobile companies and numerous research institutes to work on the PROMETHEUS project – a programme aimed at designing a European traffic system which can make private transport still safer, more economical, more comfortable and less detrimental to the environment. Within this research project, Volkswagen is engaged in developing electronic systems which are intended to help the driver to recognize obstacles and keep a safe distance from the vehicle in front, including systems which can actively influence braking and vehicle guidance.



The VW Corrado – one of our most recent developments with the emphasis on fun at the wheel, sportiness and technical progress.

## Europe '92 – a totally new dimension

The international automobile industry is characterized today by numerous cooperation arrangements which are having a growing influence on the dynamics of competition. New strategic links between automobile manufacturers – in some cases designed as worldwide operational systems based on a division of activities – coupled with diversification and concentration in the supplier sector are giving rise to permanent changes in the industry's structures.

Europe in particular is about to move into a new dimension with the realization of the single market by the end of 1992. This development represents both a unique opportunity and a unique challenge, for the elimination of restrictions on the movement of goods, services and capital will create not only the world's largest single economic region, with the purchasing power of 325 million consumers, but also the biggest automobile market in the world: new passenger car registrations in the European Community countries in 1988 totalled 11.8 million. The harmonization of economic policy and technical standards, together with abolition of border controls, should help to cut costs and stimulate economic growth. This will at the same time offer companies greater scope for innovation and investment, resulting in keener competition.

As the most "European" vehicle manufacturer in Europe, Volkswagen has already largely equipped itself to meet these new challenges through the reorientation of the Group and is continuing its efforts to ensure that it is prepared for the single European market after 1992. Through our acquisition of SEAT we have established a third high-quality marque within a very short time and integrated it into the Volkswagen Group. At the same time this enabled us to acquire Spain as a new European volume market, now our second largest market in Europe after France. Volkswagen, Audi and SEAT embody the Group's multi-marque strategy and ensure a comprehensive and coordinated model range. While Audi is firmly established in the upper comfort and performance class, Volkswagen covers the large middle range and SEAT the lower segment of the market. In order to promote this strategy still more energetically – not least in view of the single European market which will become a reality by the end of 1992 – and further increase productivity within the Group, we have launched an extensive investment programme for SEAT S.A. with a total volume of DM 6 billion over the next five years. Among other things, it is planned to build a new high-tech assembly plant, with a daily output of 1,500 vehicles, at Martorell in Spain.

The fact that in the past few years we have set up subsidiaries to act as our importers in Italy, France and Spain also shows that Volkswagen is doing everything it can to optimize its structures in Europe. A company cannot be successful on the international scene unless it has a strong position on its domestic market. For us,



The performance of the VW Corrado matches its sporty appearance. Its 1.8 litre four-cylinder engine with G-supercharger produces 160 bhp.



Since the Corrado's appearance sports car driving no longer means making compromises. The Corrado has the largest interior dimension of its class.

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our "domestic market" today is not just West Germany, but the whole of Europe.

Once the West German Monopolies Commission had given the go-ahead on October 19, 1988, we were able to take steps to strengthen our position in the vehicle rental business within the European Community by merging the operations of interRent and Europcar to form a new company, Europcar International S.A., which is based in Boulogne-Billancourt. Each of the two shareholders – Compagnie Internationale des Wagons-Lits et du Tourisme S.A. and Volkswagen AG – has a 50 % holding in the new company.

Building upon its strong European basis, the Volkswagen Group is also expanding its operations worldwide. Since 1985 we have been represented in the People's Republic of China – the country with the largest growth potential of all – through our participation in the Sino-German joint venture Shanghai-Volkswagen Automotive Company, Ltd. This joint venture continued to develop well in 1988. Further progress was made in increasing the "local content" of vehicle production and the first consignments of spare parts were exported as planned to Volkswagen AG. An agreement regarding production of the Audi 100 under licence by the First Automobile Works in Changchun, the largest automobile manufacturer in China, has enabled us to increase our commitment in China and thus create the foundation for effective long-term cooperation with our Chinese associates. The People's Republic of China and Volkswagen have thereby taken a further step towards achieving the great joint goal of establishing a modern automobile industry in China.

Another important event during the year under report was the commissioning of the facilities supplied by Volkswagen to the German Democratic Republic for the production of four-stroke petrol engines, which were handed over on August 31, 1988.

The closure of the Westmoreland plant in the USA in mid-1988 and the resultant better utilization of Volkswagen production capacity in Mexico – a low-cost location – has both strengthened our worldwide interlinked production system and improved our cost structure. In South America too we have achieved major structural improvements, while at the same time limiting our risks, through our successful cooperation with Ford in the joint venture AUTOLATINA. Recent developments in particular would appear to confirm that we have taken the right course.

Volkswagen's strength is reflected not least in our innovative, market-oriented products. Five newly developed passenger car models were launched in 1988 alone, the largest number ever in a single year. After we had enhanced our position in the upper middle range with the new VW Passat, which was awarded the



The Audi V8 is the new exclusive alternative in the upper range. At its heart is an eight-cylinder V-engine with 32 valves and a capacity of 3.6 litres, which delivers a powerful 250 bhp.

**A forward-looking  
Group strategy  
throughout the world**

**Volkswagen option bonds successfully placed**

"Golden Steering Wheel" in autumn 1988, we introduced the first true sports car to be made by Volkswagen in the shape of the Corrado. The Audi 90 with 20-valve engine, the new Audi Coupé and the luxurious Audi V8 round off the upper end of our range. The Volkswagen Group can thus offer one of the most varied vehicle ranges of any manufacturer and is represented in every segment of the market, from the sub-compact sector to the exclusive luxury saloon.

In October 1988 our wholly-owned subsidiary Volkswagen International Finance N.V. issued option bonds, guaranteed by Volkswagen AG, in three currency tranches with nominal values of DM 300 million, US \$ 120 million and SFr. 230 million. The bonds are accompanied by subscription warrants entitling the holders to purchase non-voting preferred shares in Volkswagen AG at a price of DM 238. The reception given to the bonds on the international capital markets was highly encouraging and underscores the great confidence shown by investors in our company.

We have thus used virtually the whole of the volume of DM 800 million approved by the Annual Meeting of Stockholders on June 30, 1988 for the issue of convertible bonds and option bonds in bearer form. In January 1989, Volkswagen International Finance N.V. also issued a foreign bond for DM 200 million with a term of five years, guaranteed by Volkswagen AG. The issue price was fixed at 101 % with an interest rate of 5.5 %.

A Eurobond in the same amount with a ten-year term, issued in 1983, was redeemed before maturity on March 1, 1989 in accordance with the terms of the bond.

**Volkswagen on the world's stock markets**

In line with the Volkswagen Group's worldwide activities, Volkswagen shares are in future to be traded in the world's major financial centres.

As part of our measures to make Volkswagen shares truly international, we have been represented in the USA since the beginning of September with a share programme in the form of so-called "sponsored unlisted American Depositary Receipts" (ADRs). These are certificates of deposit issued by US banks for non-American shares. Volkswagen is the first German company to be involved in such a programme in the USA.

At the end of September we introduced our shares on the Paris and London stock exchanges as well, which means that the Volkswagen share is now listed on all the major European stock markets. In December the Volkswagen share was then admitted to official quotation on the Tokyo Stock Exchange, the largest financial centre in the world.



The new Audi Coupé – a sports coupé which catches the eye with its elegance and spacious interior incorporating upmarket features.



The Audi 90 – the high-performance compact saloon in the upper middle range, available with front-wheel or quattro drive.

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**A further increase  
in sales**

With worldwide unit sales increasing by 2.9 % to 2,854,387 vehicles and customers exhibiting a growing preference for more upmarket vehicles and features, the Volkswagen Group's sales rose in 1988 to DM 59.2 billion (+ 8.4 %). Domestic sales were up by 0.4 % to DM 22.6 billion.

On foreign markets, the considerable rise in Group sales in Europe and Latin America more than offset the downward trend in North America, with total foreign sales showing an above-average increase of 14.0 % to DM 36.6 billion. The proportion of total sales accounted for by foreign markets thus rose from 58.7% to 61.7 %.

Volkswagen AG's sales increased by 2.4 % to DM 44.2 billion, primarily as a result of the substantial rise in exports. The proportion accounted for by foreign sales was 54.9 % (52.6 %).

**High level of  
investment**

With an overall volume of DM 4,251 (4,592) million, investments by the Volkswagen Group remained at a high level in 1988. Tangible and intangible assets accounted for DM 3,807 million, while a total of DM 444 million was invested in financial assets. Group investments in West Germany amounted to DM 3,546 million (- 11.3 %) and a further DM 705 million (+ 19.1%) were devoted to investments abroad. In view of the steadily growing importance of the leasing and rental business, investments in this sector underwent an increase of 3.9 %, primarily in order to expand the vehicle fleet.

During the last fiscal year, Volkswagen AG invested a total of DM 3,772 million, DM 2,537 million of which was accounted for by tangible and intangible assets. The continuing high level of investment in tangible assets served primarily to assist the pinpointed extension and further development of our product range. Other major areas included the expansion and rationalization of engine production at the Salzgitter plant and gearbox manufacture at the Kassel plant, together with introduction of new production methods and improvement of existing processes in our press shops, paint shops and assembly lines.

Financial investments totalling DM 1,235 million mainly related to capital increases at SEAT S.A., Coordination Center S.A., as well as to Europcar International S.A. - our joint venture in the vehicle rental sector - and to setting-up of VW-GEDAS & Co. Projektmanagement OHG.



The VW Golf GTI 16V combines the Golf's successful product concept with a powerful, fuel-injected 16V engine.



The VW Golf GTI 16V: The performance of a sports car with the refined driving comfort and reliability of a Volkswagen.

**Group result substantially improved**

In the fiscal year 1988 the Volkswagen Group showed a result of DM 780 million, 30.4 % up on the previous year's figure. Earnings rose with regard to both automobile business and the financial services sector. Volkswagen AG increased its net earnings by 5.9 % to DM 523 million.

The consolidated result was boosted above all by the improved results returned by subsidiaries, as well as by the initial success achieved with the measures introduced to improve our corporate structure. This includes progress within the Group in terms of making production more rational and flexible, together with the effects of cost management. We were also able to prevent a further increase in labour cost by reducing the workforce.

Reversals in the result situation were achieved at a number of important companies, particularly SEAT and the AUTOLATINA group. AUDI AG also significantly improved its earnings, thanks to the outstanding reception given on the market to the Audi 80/90 model range. All major companies in the Volkswagen Group showed a profit in their national financial statements.

**A dividend of DM 10/DM 11 – the sign of a sound investment**

The net earnings of DM 523 (494) million returned by Volkswagen AG plus the profit brought forward and the amounts released from the reserve for treasury stock enable us, after transferring DM 230 million to reserves, to propose to the Annual Meeting of Stockholders the payment of a dividend of DM 10 per DM 50 ordinary share. Including the DM 5.63 tax credit per DM 50 ordinary share, eligible shareholders will be entitled to a total of DM 15.63. Each preferred share attracts DM 1.00 extra dividend and thus a total of DM 11. Taking into account the tax credit of DM 6.19, eligible holders of preferred shares will receive a total of DM 17.19.

**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 preferred shares	66,000,000 DM
Balance (carried forward)	2,491,580 DM
Net earnings available for distribution	<u>308,491,580 DM</u>



The VW Jetta – a Volkswagen based on the classic saloon concept. Available with engines delivering between 55 and 139 bhp and in a variety of equipment versions to suit every taste.

**Management Report:  
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Development in the Current Year and Prospects**

The modest but extremely steady upward trend in the world economy is continuing in 1989. Although the economic climate is certainly favourable at present, we nevertheless must not ignore various unchanged elements of uncertainty, such as foreign trade imbalances, exchange rate fluctuations, the heavy debts of the developing countries and the warning signals given by the inflation statistics. At the same time, however, the recent past in particular has shown that the world economy is now on a sounder footing than was generally expected. In the OECD countries we are consequently anticipating that the economic situation will continue to develop to our satisfaction.

Automobile sales will thus remain at a high level this year, with the European markets in particular exhibiting steady demand. In North America, and above all in South America, however, the possibility of regional fluctuations cannot be ruled out. In all the other markets in which we are represented we aim to increase our sales once again in 1989. The development during the first quarter of 1989 confirms that the positive trend is continuing, with more than 700,000 Group models delivered to customers worldwide and vehicle sales increasing by over 7 %.

In order to further strengthen its position, the Volkswagen Group will systematically continue to pursue its worldwide strategy. One key feature of this strategy is the changeover to the direct dealer system for the sale of Volkswagen and Audi models in West Germany, which came into effect on January 1, 1989. The previous wholesale level, comprising twelve sales centres, was thereby abolished by agreement for the sale of new vehicles. We should like to thank our associates for their unparalleled achievement in building up the system since 1945. The 1,700 V.A.G dealers in West Germany are now directly linked to the sales control department in Wolfsburg by means of a communication and information system of a type never used before in Europe. With this introduction of direct sales we aim to effectively speed up the ordering and delivery process for the customer, cover the automobile market on a more comprehensive scale and ensure still greater delivery readiness and clarity.

At the beginning of 1989 we concluded an agreement with our Japanese importer Yanase which enables us to operate as our own importer on the Japanese market as well. On the basis of this agreement, Volkswagen AG will shortly be setting up a company which will act as importer alongside Yanase during a transitional period up to the end of 1992. After this date the new company will then act as sole importer, while Yanase will then operate as a wholesaler.

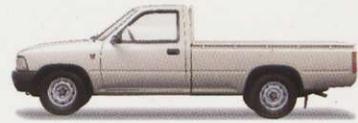


The VW Caddy is a combination of passenger car and commercial vehicle. Incorporating the technology used in the Golf, it is exceptionally economical and reliable.

Apart from improving the structure of our subsidiaries and affiliates, our strategic goals above all involve optimization of our production set-up based on a world-wide division of activities. It is our aim not only to cut costs but also to increase output at the same time. If the desired cost and productivity goals are to be rapidly achieved against the background of keener competition, extensive rationalization projects and organizational measures will be necessary. To help safeguard the future of the Volkswagen Group, it is planned to invest a volume of DM 30.5 billion by the end of 1993. The workforce at Volkswagen AG is also to be reduced by an annual average of 3,000 to a total of 115,000 over the same period. These cuts will be made fairly and without causing hardship for the workforce.

In order to expand our range, we have been producing the Volkswagen Taro at our Hanover plant since the beginning of 1989 in cooperation with Toyota. We are thus now represented for the first time in the market for one-tonne pick-ups, a sector with development potential. Like the Volkswagen Caddy, which has been on the market since 1982 and has a payload of 0.6 t, the Taro is a combination of passenger car and commercial vehicle.

Provided that business in the automobile sector does not fall off unexpectedly, our demand-oriented model range should enable us to increase deliveries to customers still further in 1989, a development which should also be reflected in our financial results.



Since the beginning of 1989 we have been producing the VW Taro at our Hanover plant in cooperation with Toyota. We are thus now represented for the first time in the high-potential market segment comprising one-tonne pick-ups.

Wolfsburg, March 13, 1989

The Board of Management

*Heinz* *Winnig*  
*Benjamin Friedrich*  
*Wolfgang* *Ullrich*

## Report of the Board of Management Additional Information about the Fiscal Year Finance

### The Volkswagen Group – financially well- equipped for the nineties

The positive business trend which characterized 1988 is also reflected in the Volkswagen Group's financial statements. Total assets as shown in the balance sheet rose by DM 6,233 million or 14.1 % to DM 50,294 million. With capital investments in tangible assets and additions to leasing and rental assets remaining at a high level, fixed assets increased to DM 20,643 million (+ 6.0 %). At DM 29,651 million, current assets were 20.6 % higher than in the previous year, primarily on account of the large rise in liquid funds and increased receivables in respect of financing. The proportion of the balance-sheet total accounted for by current assets thus rose to 59.0 % (55.8 %). Despite the expansion of the Group's business activities, it was possible at the same time to cut inventories by 1.7 % and thus further reduce the volume of capital tied up in this area.

On the stockholders' equity and liabilities side, there was an increase in the funds available on a long-term basis in the form of stockholders' equity (+ 6.3 %) and long-term liabilities (+ 18.0 %), which together rose by more than DM 2 billion.

With regard to stockholders' equity, the most notable feature was a 6.4 % increase in consolidated reserves to DM 9,040 million. Special items with an equity portion, which are also classified as stockholders' equity, rose by DM 249 million (+ 11.3 %) to DM 2,452 million. Long-term liabilities were affected in particular by the option bonds issued in 1988, which accounted for DM 786 million. Total outside capital amounted to DM 36,538 million (DM 31,123 million). At 27.3 %, the proportion of the balance-sheet total accounted for by stockholders' equity is at a sound level.

The VW Jetta combines a timeless design with the very latest technology. It is available upon request with 16V engine, "syncro" four-wheel drive and ABS.



**Structure of the consolidated balance sheet**

	Dec. 31, 1988		Dec. 31, 1987	
<b>Assets</b>	DM mil.	%	DM mil.	%
Fixed assets	20,643	41.0	19,479	44.2
Inventories	6,506	12.9	6,618	15.0
Receivables	11,848	23.6	9,403	21.4
Liquid funds	11,297	22.5	8,561	19.4
<b>Total assets</b>	<b>50,294</b>	<b>100.0</b>	<b>44,061</b>	<b>100.0</b>

	Dec. 31, 1988		Dec. 31, 1987	
<b>Stockholders' equity and liabilities</b>	DM mil.	%	DM mil.	%
Stockholders' equity	13,756	27.3	12,938	29.4
Long-term liabilities	7,895	15.7	6,688	15.2
Medium-term liabilities	8,242	16.4	7,251	16.4
Short-term liabilities	20,401	40.6	17,184	39.0
<b>Total capital</b>	<b>50,294</b>	<b>100.0</b>	<b>44,061</b>	<b>100.0</b>

**Favourable balance-sheet ratios**

The sound structure of the balance sheet is also reflected in a further improvement in balance-sheet ratios. The ratio of stockholders' equity and long-term liabilities to fixed assets rose from 100.8 % to 104.9 %. An even more marked increase of 8.7 % was recorded for the short-term liquidity ratio, which is the ratio of liquid funds plus short-term receivables and loans to short-term liabilities. The figure rose from 91.5 % in 1987 to 100.2 % in 1988 and thus exceeded 100 % for the first time since 1979.

**Internal financing capacity further improved**

The cash flow increased by 3.0 % to DM 5,018 million. The substantial rise in earnings played a key role in strengthening internal financing capability. With capital investments remaining at a high level, it was possible to finance 118.0 % (106.1 %) out of self-generated funds.

## Additional Information about the Fiscal Year Finance

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

Additions to tangible assets and intangible assets	- 3,807.6	
Additions to financial assets	- 443.7	
Additions to leasing and rental assets	- 3,446.8	
Decrease in inventories	+ 111.9	
Increase in long and medium-term receivables	- 463.8	
<b>Use of funds</b>		<b>- 8,050.0</b>
Net earnings	+ 779.9	
Depreciation of fixed assets, write-down of financial assets and disposal of assets minus write-ups	+ 3,547.1	
Depreciation and disposal of leasing and rental assets	+ 2,947.5	
Increase in undetermined liabilities for pensions and similar obligations	+ 425.4	
Increase in special items with an equity portion and special item for investment subsidies	+ 249.3	
Changes in reserves not affecting liquidity	+ 16.7	
<b>Current operations</b>		<b>+ 7,965.9</b>
Dividend payments to stockholders of Volkswagen AG in 1988	- 303.6	
Dividend payments to minorities	- 25.3	
Increase in long and medium-term liabilities	+ 1,803.1	
Increase in other items	+ 110.0	
<b>Financial transactions</b>		<b>+ 1,584.2</b>
<b>Change in liquidity position</b>		<b>+ 1,500.1</b>

	Dec. 31, 1988	Dec. 31, 1987	Change
Liquid funds	10,808.8	8,135.0	+ 2,673.8
Securities	488.5	425.5	+ 63.0
Short-term receivables and financial assets	9,142.4	7,162.0	+ 1,980.4
Short-term liabilities and undetermined liabilities	20,401.1	17,184.0	- 3,217.1
<b>Change in financial funds</b>	<b>+ 38.6</b>	<b>- 1,461.5</b>	<b>+ 1,500.1</b>

**Structure of the consolidated statement of earnings (DM million)**

	1988	%	1987	%
Sales	59,221	100.0	54,635	100.0
Cost of sales	51,315	86.6	48,526	88.8
Gross profit	+ 7,906	13.4	+ 6,109	11.2
Selling and administration expenses, other operating expenses and income, financial results	5,770	9.8	4,499	8.3
Results from ordinary business activities	+ 2,136	3.6	+ 1,610	2.9
Extraordinary results	-	-	- 443	- 0.8
Taxes	1,356	2.3	569	1.0
<b>Net earnings</b>	<b>780</b>	<b>1.3</b>	<b>598</b>	<b>1.1</b>

**Earnings situation improved**

The earnings situation of the Volkswagen Group exhibited a sustained improvement as a result of the positive sales trend, the increased demand for more expensive vehicles and features and the successful structural adjustment measures implemented with regard to subsidiaries. With cost of sales rising by 5.7 % and sales by 8.4 %, the proportion of sales proceeds taken up by cost of sales decreased to 86.6 % (88.8 %). As a result, the gross profit increased by 29.4 % to DM 7,906 million. A rise of 32.6 % was recorded in results from ordinary business activities, which totalled DM 2,136 million. This improvement in earnings involved a substantial rise in tax expenditure, which took up 2.3 % (1.0 %) of sales proceeds. At DM 780 million, net earnings were 30.4 % up on the 1987 figure.

## Additional Information about the Fiscal Year Finance

### Added value analysis of Volkswagen AG

The added value indicates the increase in value achieved by an enterprise during a specific period and represents the company's contribution to the gross national product. In 1988 Volkswagen AG recorded sales of DM 44,237 million, an increase of 2.4 % on the previous year. With the inclusion of other income totaling DM 2,726 million and after deduction of expenditures amounting to DM 35,761 million, the added value increased by 4.3 % to DM 11,202 million.

This amount is distributed to stockholders, staff, creditors, the State and the Company itself in compliance with legal and contractual obligations.

### Sources (DM million)

	1988	1987
Sales	44,237	43,199
plus other income	2,726	2,735
less expenditures	35,761	35,192
<b>Added value</b>	<b>11,202</b>	<b>10,742</b>

The VW Polo is the best-selling car in its class in West Germany. Sales of the squareback version alone on the German market in 1988 totalled 41,596.



**Distribution of added value**

Most of the added value, to be precise DM 9,428 million or 84.2 %, was distributed to staff in the form of wages, salaries, social insurance contributions and pensions. Tax payments to the State amounted to DM 1,167 million (DM 639 million) and took up 10.4 % of added value, 4.4 percentage points more than in the previous year. Interest expenses totalled DM 84 million, which meant that 0.8 % of added value went to creditors.

Of the remainder of added value, DM 217 million or 1.9 % were transferred to reserves in order to strengthen the Company's equity base. Together with the profit brought forward from the previous year and the portion of the reserve for treasury stock released as a result of the issue of shares to employees, transfers to reserves amounted to DM 230 million. A total of DM 306 million, the same as in the previous year, is to be paid to the stockholders of Volkswagen AG in the form of dividends.

**Distribution (DM million)**

	1988	%	1987	%
To staff	9,428	84.2	9,525	88.6
To the State	1,167	10.4	639	6.0
To creditors	84	0.8	83	0.8
To the Company	217	1.9	189	1.8
To the stockholders	306	2.7	306	2.8
<b>Added value</b>	<b>11,202</b>	<b>100.0</b>	<b>10,742</b>	<b>100.0</b>

The VW Polo is also available as a stylish coupé with a sporty note. There are two different versions: the young-style Fox and the high-performance GT.



**Additional Information about the Fiscal Year  
Finance  
The Volkswagen share**

**The Volkswagen share –  
traded all  
over the world**

As Volkswagen sells vehicles with great success on all five continents, it is only logical that our share should be similarly international. Following its introduction on further stock exchanges last year, the Volkswagen share is now traded in twenty financial centres in West Germany and abroad.

**Stock exchanges on  
which the Volkswagen  
share is traded**

<b>West Germany</b>		<b>Admitted to quotation</b>	
Berlin	1961	Basle	1967
Bremen	1961	Geneva	1967
Düsseldorf	1961	Zurich	1967
Frankfurt	1961	Vienna	1978
Hamburg	1961	Antwerp	1979
Hanover	1961	Brussels	1979
Munich	1961	Luxembourg	1979
Stuttgart	1961	Amsterdam	1980
		London	1988
		Paris	1988
		Tokyo	1988
		New York*)	1988

\*) Traded in the form of "sponsored unlisted American Depository Receipts" (ADRs).

The Volkswagen share thus fulfils all the requirements for an internationally recognized leading stock – as is clearly emphasized by the fact that we now have stockholders in over 120 countries. Our stockholders have provided the company with the capital with which it operates and expect both a sound investment and an appropriate return. The Volkswagen share can offer both. In 1988 its average monthly market price was always above the share price index published by the

The VW Golf was the best-selling car in Europe in 1988 for the sixth year in succession and production of the Golf has now topped the ten million mark.



Frankfurter Allgemeine Zeitung (FAZ). Indications of a sustained improvement in the earnings of subsidiaries meant that during the last quarter in particular our share was well above the comparative index. Average annual prices of DM 261.00 for the Volkswagen ordinary share and DM 239.80 for the preferred share resulted in dividend yields (including tax credit) of 6.0 % and 7.2% respectively, which can certainly match the return on fixed-interest securities. Our shares also have further growth potential for the future.

**Market performance of the Volkswagen ordinary share in 1988 (Index %)**



**Survey of stockholders: Volkswagen AG Germany's largest public company**

Following earlier surveys in 1977 and 1985, Volkswagen AG enlisted the help of West German and foreign banks in 1988 for its third survey of stockholders, which provides information about the number of stockholders and their sociological stratification. With regulations on data protection being strictly observed, 91.2 % of Volkswagen AG's total capital stock of DM 1,500 million had been accounted for by October 31. Including treasury stock, this represents a figure of DM 1,367.59 million, divided up over 667,409 security deposit accounts. These comprise:

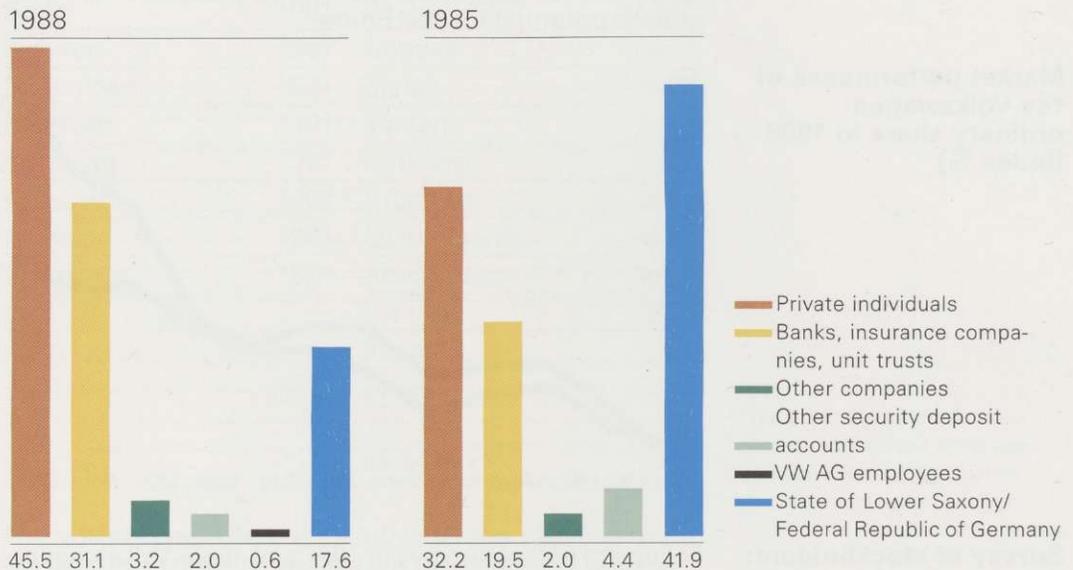
	DM million (nominal)
506,577 individual security deposit accounts reported by West German and foreign banks with a total value of	1,355.73
160,832 "individual security deposit accounts" containing shares issued to employees on the Company's anniversary in 1988 with a total value of	8.04
Treasury stock with a value of	3.82
<b>Total</b>	<b>1,367.59</b>

The issuing of anniversary shares means that Volkswagen AG employees who already owned shares may have been included twice over.

**Additional Information about the Fiscal Year  
Finance  
Survey of Stockholders**

Working on the basis that the part of the capital stock not covered in the survey involves the same average deposit account size as revealed by the survey, it can be assumed, taking the holders of anniversary shares into account, that we have around 728,000 stockholders, compared with 344,000 in 1985. This makes Volkswagen AG the largest public company in West Germany.

**Breakdown of capital stock of Volkswagen AG (as covered by the survey) by stockholder groups (in %)**



**Stockholders in West Germany**

Leaving aside the 160,832 Volkswagen AG employees, 469,957 of our stockholders in West Germany are private individuals. This represents an increase of around 165,000 (+ 53.9 %) in this category since the 1985 survey. The substantial rise in number can be ascribed among other things to the issuing of preferred shares in 1986 and to the wide distribution of the shares sold by the West German Government in March 1988.

With Company employees included, 97.4 % of the security deposit accounts reported in West Germany as at October 31 were held by private individuals, who together represent 57.0 % of the capital stock accounted for in West Germany.

The breakdown by size of holding shows that around 530,000 stockholders, in other words 81.8 % of the stockholders reported in West Germany, have a security deposit account comprising up to twenty Volkswagen shares. Even if the holders of anniversary shares are not taken into account, Volkswagen AG thus has around 369,000 small stockholders compared with 248,000 in 1985.

## Breakdown of stockholders in Germany by size of holding

Size of security deposit accounts (number of shares)	Number of security deposit accounts		% of VW shares held in Germany		Capital stock in DM million		% of VW shares held in Germany	
	1988	1985	1988	1985	1988	1985	1988	1985
1 to 10	419,874	168,211	64.85	53.02	90.98	53.28	9.06	5.86
11 to 20	109,863	79,837	16.97	25.16	88.39	59.83	8.81	6.57
21 to 100	103,445	61,249	15.97	19.31	232.79	134.73	23.19	14.81
101 to 1,000	13,538	7,551	2.09	2.38	156.20	94.62	15.56	10.40
more than 1,000 <sup>1)</sup>	756	405	0.12	0.13	435.46	567.45	43.38	62.36
Total	647,476	317,253	100.00	100.00	1,003.82	909.91	100.00	100.00

<sup>1)</sup>In 1988 the figures included the shares held by the State of Lower Saxony; in 1985 they included the shares held by the State of Lower Saxony and the West German Government.

## Foreign holding in capital stock increased

19,933 of our stockholders (1985: 8,314) are foreign nationals or have a security deposit account abroad. They hold 24.0 % (19.7 %) of the total capital stock. 88.0 % of the reported security deposit accounts are held by private individuals; this stockholder group represents 15.8 % of the DM 360 million of capital stock accounted for abroad. The major proportion of this capital stock, namely 77.5 %, is held by institutional investors.

The geographic breakdown of stockholders abroad reveals that 91.8 % of them are resident in Europe. Almost half of the foreign security deposit accounts are to be found in Switzerland.

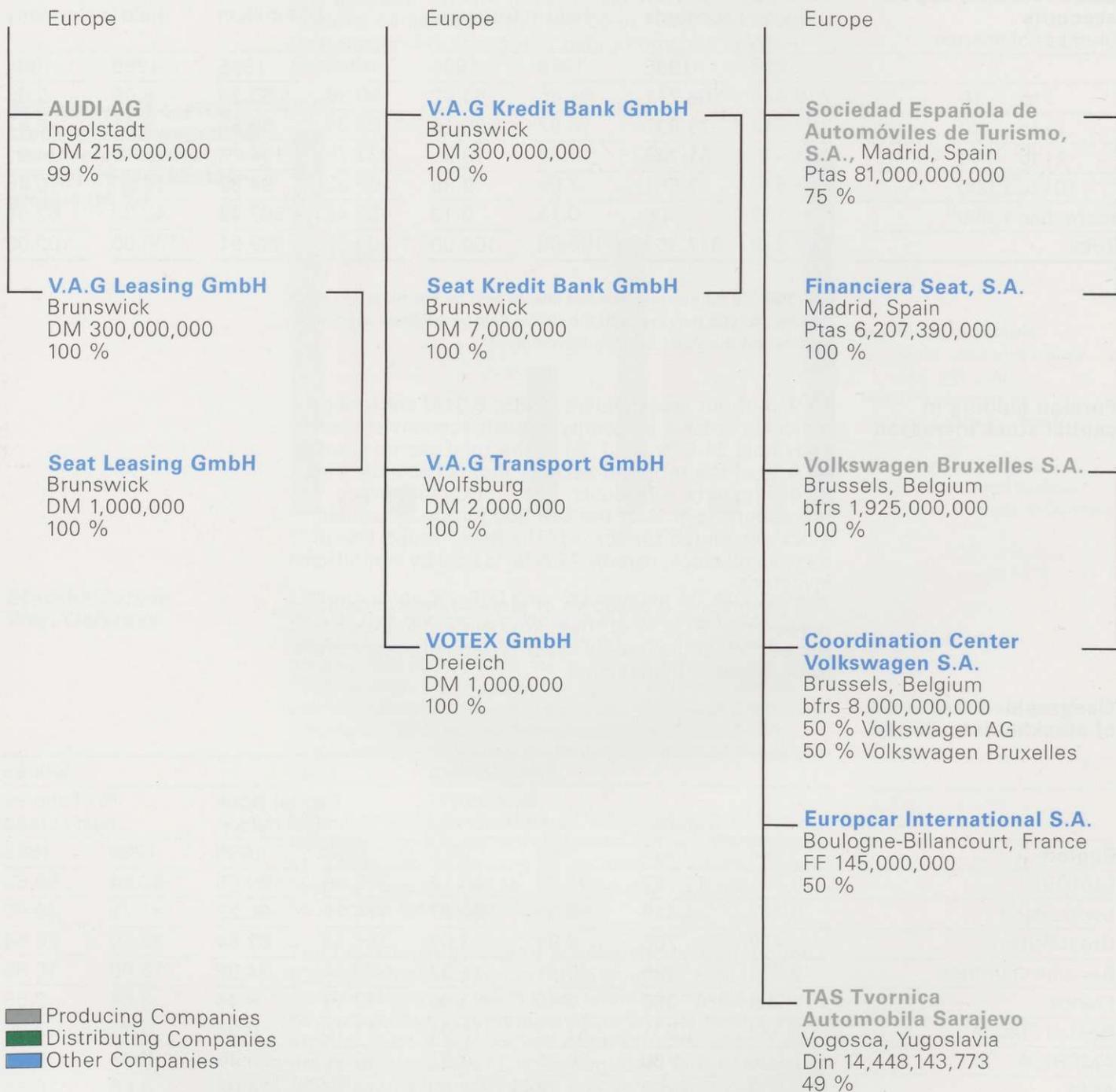
## Geographic breakdown of stockholders abroad

Region	Stockholders		% of stockholders abroad		Capital stock in DM million		Shares	
	Number						% of shares held abroad	
	1988	1985	1988	1985	1988	1985	1988	1985
EUROPE	18,291	7,160	91.76	86.12	298.56	190.85	82.94	80.62
Switzerland	9,777	4,329	49.05	52.07	114.12	85.23	31.71	36.00
Great Britain	416	255	2.09	3.07	106.56	62.84	29.60	26.54
Benelux countries	3,272	995	16.41	11.97	47.01	24.98	13.06	10.55
France	1,294	250	6.49	3.00	13.11	8.46	3.64	3.58
Rest of Europe	3,532	1,331	17.72	16.01	17.76	9.34	4.93	3.95
AMERICA	1,006	766	5.05	9.21	29.90	20.46	8.31	8.64
ASIA	352	227	1.76	2.73	13.16	24.98	3.66	10.55
AFRICA	209	130	1.05	1.57	1.82	0.28	0.50	0.12
OCEANIA	75	31	0.38	0.37	16.51	0.16	4.59	0.07
Total	19,933	8,314	100.00	100.00	359.95	236.73	100.00	100.00

**Additional Information about the Fiscal Year**  
**The Major Companies within the Volkswagen Group**  
**(December 31, 1988)**

**Volkswagen AG**

Subscribed capital DM 1,500,000,000 Plant locations: Wolfsburg, Hanover, Kassel, Emden, Salzgitter, Brunswick



\*) Volkswagen AG's direct and indirect holding

Europe	Overseas	Overseas
<p><b>AUTOGERMA S.p.A.</b> Verona, Italy Lit 90,000,000,000 100 %</p>	<p><b>Volkswagen of America, Inc.</b> Troy, Mi., USA US \$ 242,000,003 100 %</p>	<p><b>Volkswagen de Mexico, S.A. de C.V.</b> Puebla/Pue., Mexico Mex \$ 304,343,224,000 100 %</p>
<p><b>V.A.G France S.A.</b> Paris, France FF 50,000,000 100 %</p>	<p><b>Volkswagen Canada Inc.</b> Toronto, Ontario, Canada Can \$ 500,000 100 %</p>	<p><b>Volkswagen Comercial, S.A. de C.V.</b> Puebla/Pue., Mexico Mex \$ 80,000,000 100 %</p>
<p><b>V.A.G Financement S.A.</b> Paris, France FF 36,160,400 87 % V.A.G France S.A. 12.2 % HOLAD 0.8 % Volkswagen AG</p>	<p><b>Vorelco Ltd.</b> Toronto, Ontario, Canada Can \$ 6,700,000 30 % Volkswagen Canada Inc. 70 % HOLAD</p>	<p><b>Volkswagen Leasing, S.A. de C.V.</b> Puebla/Pue., Mexico Mex \$ 30,000,000 100 %</p>
<p><b>V.A.G Sverige AB</b> Södertälje, Sweden skr 84,000,000 33.3 %</p>	<p><b>Autolatina Comércio, Negócios e Participações Ltda.</b> São Paulo, Brazil Cz \$ 22,986,526,900 51 % *)</p>	<p><b>Volkswagen of South Africa (Pty.) Ltd.</b> Uitenhage, C.P. South Africa R 9,362,650 100 %</p>
<p><b>V.A.G Stockholm AB</b> Stockholm, Sweden skr 22,500,000 100 %</p>	<p><b>Volkswagen do Brasil S.A.</b> São Bernardo do Campo Brazil Cz \$ 38,590,470,000 80 %</p>	<p><b>Volkswagen of Nigeria Ltd.</b> Lagos, Nigeria N 23,000,000 40 %</p>
	<p><b>Autolatina Argentina S.A.</b> Buenos Aires, Argentina A 5,510,000 51 % *)</p>	<p><b>Shanghai-Volkswagen Automotive Company Ltd.,</b> Shanghai, China RMB 350,000,000 50 %</p>

**Additional Information about the Fiscal Year  
Salient Figures  
of Major Subsidiaries and Affiliates**

Producing Companies	Sales			Vehicle Sales		
	DM million 1988	DM million 1987	Change %	Units 1988	Units 1987	Change %
AUDI AG	11,531	11,366	+ 1.5	427,026	414,461	+ 3.0
SEAT S.A.	6,095 <sup>2)</sup>	4,879 <sup>2)</sup>	+ 24.9	488,625	433,510	+ 12.7
Volkswagen Bruxelles S.A.	2,555	2,726	- 6.3	185,326	209,662	- 11.6
TAS Tvrnica Automobila Sarajevo	478	456	+ 4.8	29,323	29,928	- 2.0
AUTOLATINA group <sup>2)</sup>	4,195 <sup>3)</sup>	3,541 <sup>3)</sup>	+ 18.5	374,799 <sup>4)</sup>	333,608 <sup>4)</sup>	+ 12.3
Volkswagen de Mexico, S.A. de C.V. <sup>2)</sup>	1,366	1,117	+ 22.3	57,678	54,561	+ 5.7
Volkswagen of South Africa (Pty.) Ltd. <sup>2)</sup>	1,253	866	+ 44.7	62,104	44,963	+ 38.1
Volkswagen of Nigeria Ltd.	40	37	+ 8.3	1,710	1,851	- 7.6
Shanghai-Volkswagen Automotive Company, Ltd.	540	343	+ 57.3	15,542	11,038	+ 40.8
<b>Distributing Companies</b>						
AUTOGERMA S.p.A.	3,610	3,266	+ 10.5	185,270	175,810	+ 5.4
V.A.G France S.A. <sup>2)</sup>	3,854	3,092	+ 24.6	178,821	155,488	+ 15.0
V.A.G Sverige AB	1,192	1,006	+ 18.5	46,442	42,232	+ 10.0
Volkswagen of America, Inc. <sup>2)</sup>	4,612	5,815	- 20.7	186,003	237,627	- 21.7
Volkswagen Canada Inc. <sup>2)</sup>	1,067	1,039	+ 2.6	35,403	42,803	- 17.3
<b>Other Companies</b>						
V.A.G Leasing GmbH	2,648	2,161	+ 22.5	-	-	-
Europcar International S.A. <sup>2) 5)</sup>	910	572	+ 59.3	-	-	-
V.A.G Kredit Bank GmbH	242	236	+ 2.6	-	-	-

<sup>1)</sup> Incl. 9,239 (25,833) Porsche models

<sup>2)</sup> And consolidated subsidiaries

<sup>3)</sup> Proportionate figures

<sup>4)</sup> Only Volkswagen models

<sup>5)</sup> Sales include the full figures for the interRent companies.

Production			Capital Investments			Workforce		
Units 1988	Units 1987	Change %	DM million 1988	DM million 1987	Change %	Dec. 31 1988	Dec. 31 1987	Change %
435,701 <sup>1)</sup>	443,067 <sup>1)</sup>	- 1.7	474	730	- 35.0	36,663	39,325	- 6.8
433,482	406,391	+ 6.7	162 <sup>2)</sup>	103 <sup>2)</sup>	+56.3	25,286 <sup>2)</sup>	24,895 <sup>2)</sup>	+ 1.6
185,326	209,662	- 11.6	172	49	x	5,866	5,422	+ 8.2
28,341	30,575	- 7.3	17	6	x	3,129	3,116	+ 0.4
375,203 <sup>4)</sup>	329,633 <sup>4)</sup>	+ 13.8	120 <sup>3)</sup>	171 <sup>3)</sup>	- 29.7	28,952 <sup>3)</sup>	30,034 <sup>3)</sup>	- 3.6
59,847	48,722	+ 22.8	194	182	+ 6.5	11,673	13,365	- 12.7
62,760	44,167	+ 42.1	42	17	x	7,926	6,811	+ 16.4
946	2,123	- 55.4	1	1	- 11.2	1,337	1,370	- 2.4
15,550	11,000	+ 41.4	135	71	+ 88.4	2,353	2,087	+ 12.7
-	-	-	2	2	- 10.2	356	333	+ 6.9
-	-	-	689	344	x	1,001	996	+ 0.5
-	-	-	230	112	x	367	365	+ 0.5
36,998	66,508	- 44.4	230	239	- 3.8	2,448	5,528	- 55.7
-	-	-	51	27	+ 90.7	817	731	+ 11.8
-	-	-	2,162	2,477	- 12.7	346	328	+ 5.5
-	-	-	388 <sup>3)</sup>	298	+ 30.4	2,075 <sup>3)</sup>	1,622	+ 27.9
-	-	-	13	7	+ 89.8	385	335	+ 14.9

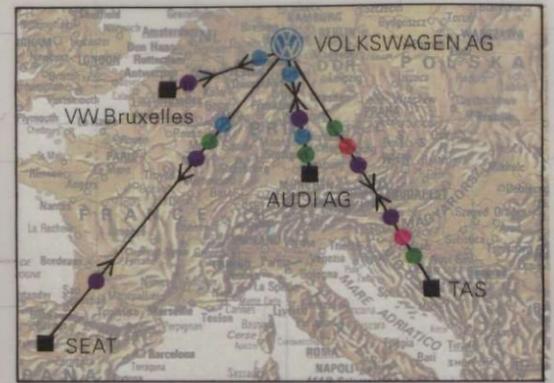




# Worldwide Interlinked Supply System of the Volkswagen Group



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







**Additional Information about the Fiscal Year  
Producing Companies  
Volkswagen AG**

**50 years of Volkswagen**

Volkswagen AG celebrated its fiftieth anniversary in 1988 and can now look back on a successful half-century in which it has developed into one of the largest and most modern automobile manufacturers in the world.

At almost the same time as Volkswagen celebrated its anniversary, to be precise on June 1, 1988, the ten millionth VW Golf came off the production line at the Wolfsburg plant. The Golf thus seems set to match the legendary Beetle, total worldwide production of which has so far amounted to over twenty million vehicles. In 1988 the Golf was the best-selling car for the fourteenth year in succession in West Germany and for the sixth consecutive year in Europe as a whole. This clearly demonstrates the immense popularity of the Golf, which not only gave its name to a new automobile class but has always set new technical standards and will continue to do so.

However, Volkswagen's anniversary year also witnessed the successful launch of new models. The VW Passat far surpassed our expectations and took fifth place in the "league table" of new passenger car registrations in West Germany in its very first year. It was also awarded the 1988 "Golden Steering Wheel" in the 1.5-2.0 litre capacity class, achieving the highest score for all the major assessment criteria. With regard to interior and controls, spaciousness, handling, comfort and economy it emerged as the winner in the face of strong competition. Since November 1988 the Passat has also been available with a 2.0 litre 16-valve engine producing 100 kW (136 bhp) and thus now also offers an attractive alternative for drivers who want a vehicle with a sporty note. The Passat received another major award at the beginning of 1989 when 70 car journalists from all over Europe and the readers of the magazine "Auto-Zeitung" voted the Passat Variant the best family car in its price category - well ahead of its competitors - in the "Auto Trophy" contest. Generous luggage space, reliability and quality at a reasonable price were the decisive factors in favour of the VW Passat Variant - the best-selling German estate car.

The VW Beetle, the VW Golf and the VW Passat are three totally different vehicles. Like all our models, though, they have one thing in common: the Volkswagen idea. Over the fifty years of the Company's existence, this idea has developed into an automobile philosophy and, apart from attaching paramount importance to comprehensive service, is characterized by the highest standards of engineering, quality, economy and comfort with minimum environmental pollution.

The most recent embodiment of this philosophy is the VW Corrado.



The Beetle, Golf, Passat and Corrado are four totally different VW models.



They nevertheless have one thing in common: our automobile philosophy.



For fifty years, Volkswagen has been a synonym all over the world for fun at the wheel, reliability, quality and innovative engineering.



The most recent embodiment of this philosophy is the Corrado.





**The new VW Corrado  
sports car – in  
a class of its own**

The VW Corrado, which was launched in the autumn of 1988 and is positioned in a somewhat more upmarket category than the VW Scirocco, is the first true sports car produced by Volkswagen. It represents the culmination of a development process in which – starting with the Golf GTI and continuing through the 16V engines in the VW Scirocco, VW Golf and VW Jetta – we have consistently broadened the Volkswagen image in the direction of fun at the wheel, sportiness and technical progress. The Corrado is an innovative, high-performance, exclusive sports coupé featuring advanced engineering together with the durability and practicality which the public have come to expect from a Volkswagen.

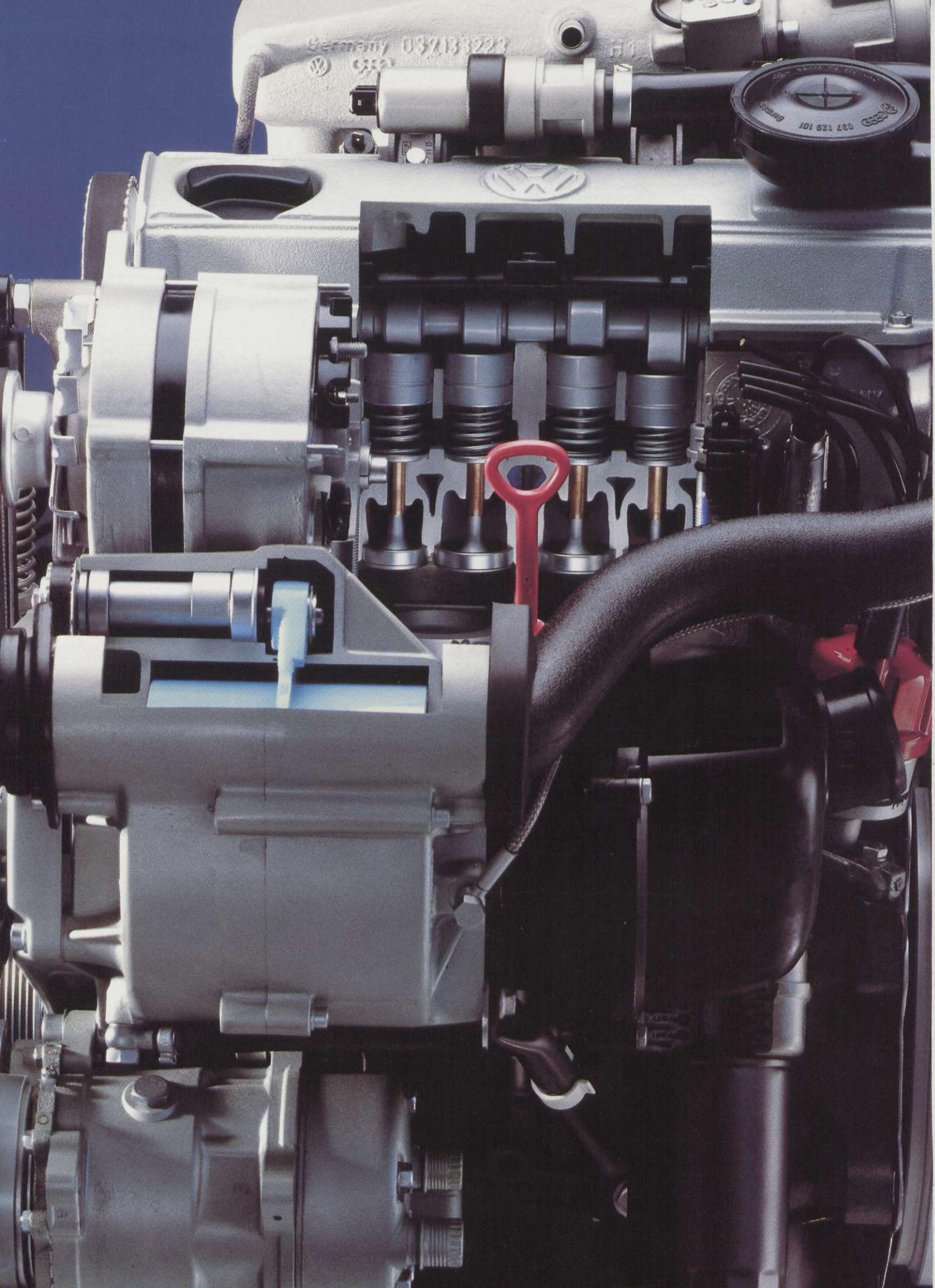
The Corrado's engine matches its compact and powerful appearance. A 1.8 litre four-cylinder engine with G60 supercharger delivers 118 kW (160 bhp) and thus ensures outstanding sprint capability.

The G60 supercharger is a further development of the smaller G40 version already used in the VW Polo. Its advantages over traditional superchargers are its high torque, even at low engine speeds, and good fuel economy. This gives the engine a flexibility not found in conventional drive units with a capacity under 2.5 litres. It also incorporates Volkswagen's own electronically controlled "Digifant" system which regulates ignition timing and fuel mixture preparation.

In terms of its interior the Corrado again sets new standards as a generously dimensioned 2 + 2-seater with a full-size rear seat. The spacious body with its large tailgate and a boot which can be varied in size by folding down the rear seat backrest offers an exceptionally large amount of room for a sports car.

Using the tried and tested running gear technology from the VW Golf and the new VW Passat, matched to the high output and torque requirements of the G60 engine, it has been possible to improve still further the superb handling which is characteristic of Volkswagen models.

Another new Volkswagen development is the rear spoiler, which is raised automatically at a speed of 120 km/h. This reduces rear lift at high speeds and thus improves directional stability. Safety is also enhanced by the provision of an anti-lock braking system (ABS) as standard, together with 15-inch wheels and larger brakes. The extensive standard equipment and a comprehensive guarantee package likewise help to make the Corrado a very special car.



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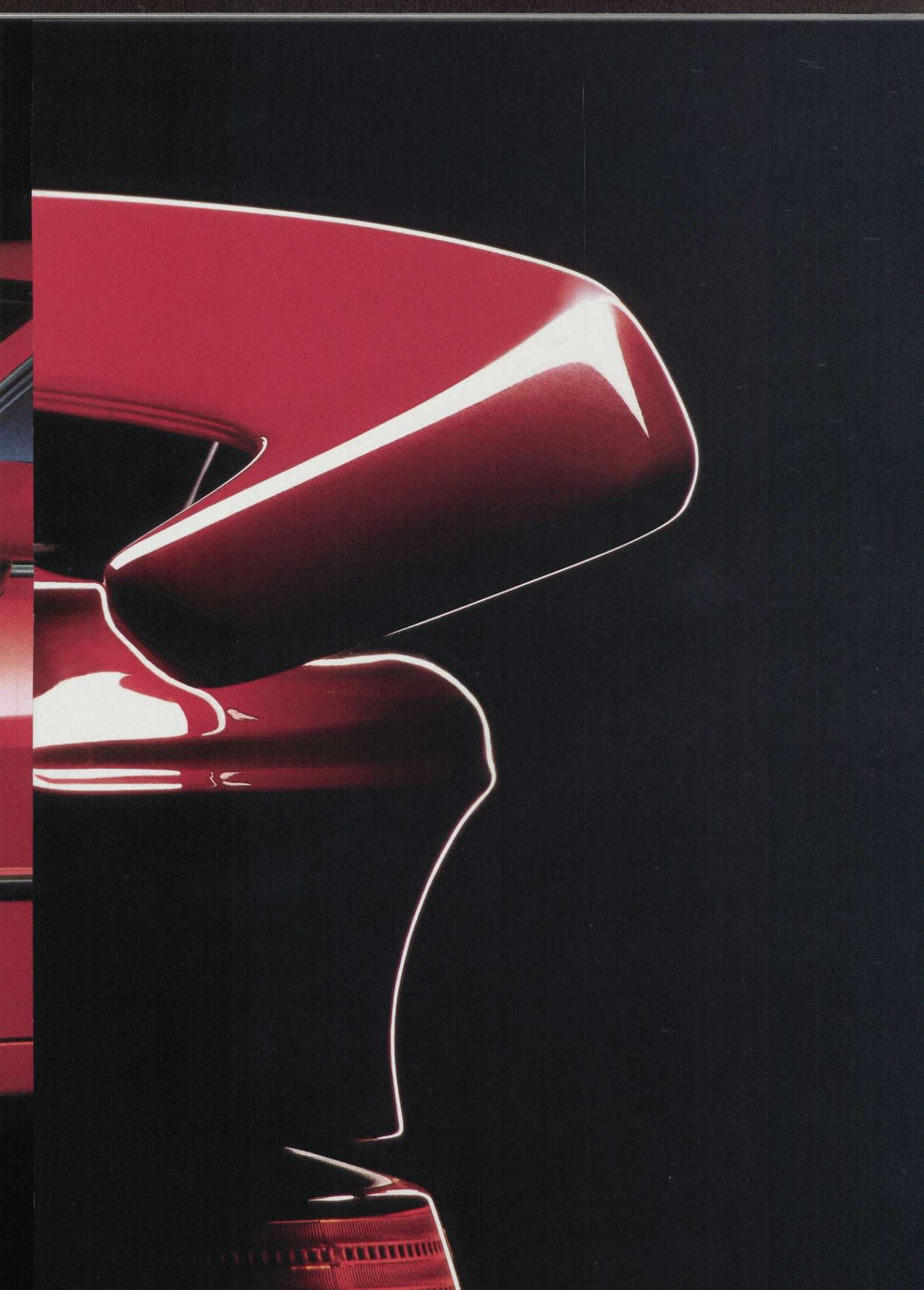
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## Additional Information about the Fiscal Year Producing Companies Volkswagen AG

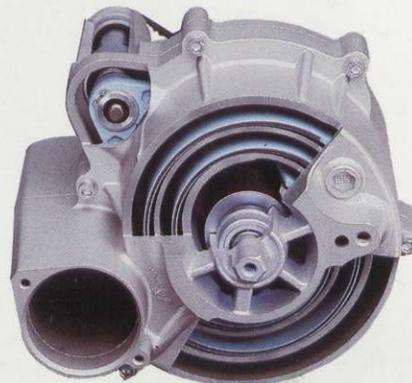
### Broader range of engines

The 1.8 litre four-cylinder engine with G-supercharger and catalytic converter used in the VW Corrado represented just one focal point of engine development work. The range of petrol engines was expanded to include two new four-cylinder engines – one with a capacity of 1.6 litres producing 55 kW (75 bhp), the other with 1.8 litres and an output of 72 kW (98 bhp) – for the VW Passat and the VW Golf syncro, together with a 2.4 litre/70 kW (95 bhp) six-cylinder engine for use in heavy vans (LT models). Two 1.8 litre engines producing 79 kW (107 bhp) and 82 kW (112 bhp) respectively have also been developed specially for the Passat.

As far as diesel engines are concerned, it was possible – by way of charge air cooling – to increase the output of the 1.6 litre four-cylinder engine to 59 kW (80 bhp) and that of the 2.0 litre five-cylinder engine to 74 kW (100 bhp). These powerful, high-torque engines are used in the Passat, the Audi 80/90 and the Audi 100.

It is not just the standard use of such advanced drive units as the G-supercharger engine in the Corrado sports car and the new eight-cylinder 32-valve engine in the exclusive Audi V8 which underscores our leading position in the engine development sector. The breadth and varied nature of our engine range and the worldwide use of our engines in every possible climatic zone under sometimes extreme conditions likewise clearly demonstrate the drive units' immense technical capabilities and efficiency.

At the same time, major attention is devoted to ensuring that our engines cause as little environmental pollution as possible. Volkswagen was a pioneer in the field of catalytic converter technology and in 1987 became one of the first vehicle mass-producers in Europe to already offer as standard petrol engines with catalytic converter which complied with the emission limits laid down in the US and European standards. Taking diesel-engine vehicles into account, 95.3% of the new Volkswagen and Audi models registered for the first time in West Germany in 1988 were low-emission vehicles – a figure which speaks for itself. We can also supply a broad range of catalytic converter kits for models not originally equipped with such systems.



The G60 supercharger ensures full power development without delay over the entire engine speed range.

The heart of the VW Corrado: the 1.8 litre engine with the new G60 supercharger guarantees acceleration from 0 to 100 km/h in 8.3 seconds.

**VW commercial vehicles  
– the right model for  
every requirement**

Volkswagen has been continuously developing its commercial vehicle range since 1950 with notable success. The spectrum now extends from the Caddy through the Commercial and heavy van (LT) to the heavy trucks produced in Brazil. The range thus covers payloads from 0.6 t to 22 t.

A major focus of activity in 1988 was the development of special vehicles such as the "US anniversary model", which includes upmarket and particularly variable interior equipment. The same technical features were incorporated in the "Wolfsburg Edition", launched to mark Volkswagen's fiftieth anniversary. Volkswagen also joined forces with body manufacturers to develop improved designs for tippers, mobile cranes, articulated vehicles, motor homes and special-purpose vehicles.

Working in close cooperation with the West German automobile club ADAC, we built demonstration models of school buses designed for seven or twelve children and based on the Commercial and heavy van. Particular importance was attached to ensuring that the buses were suitable for children and it is hoped that the features incorporated in these models will eventually become standard in all such vehicles.

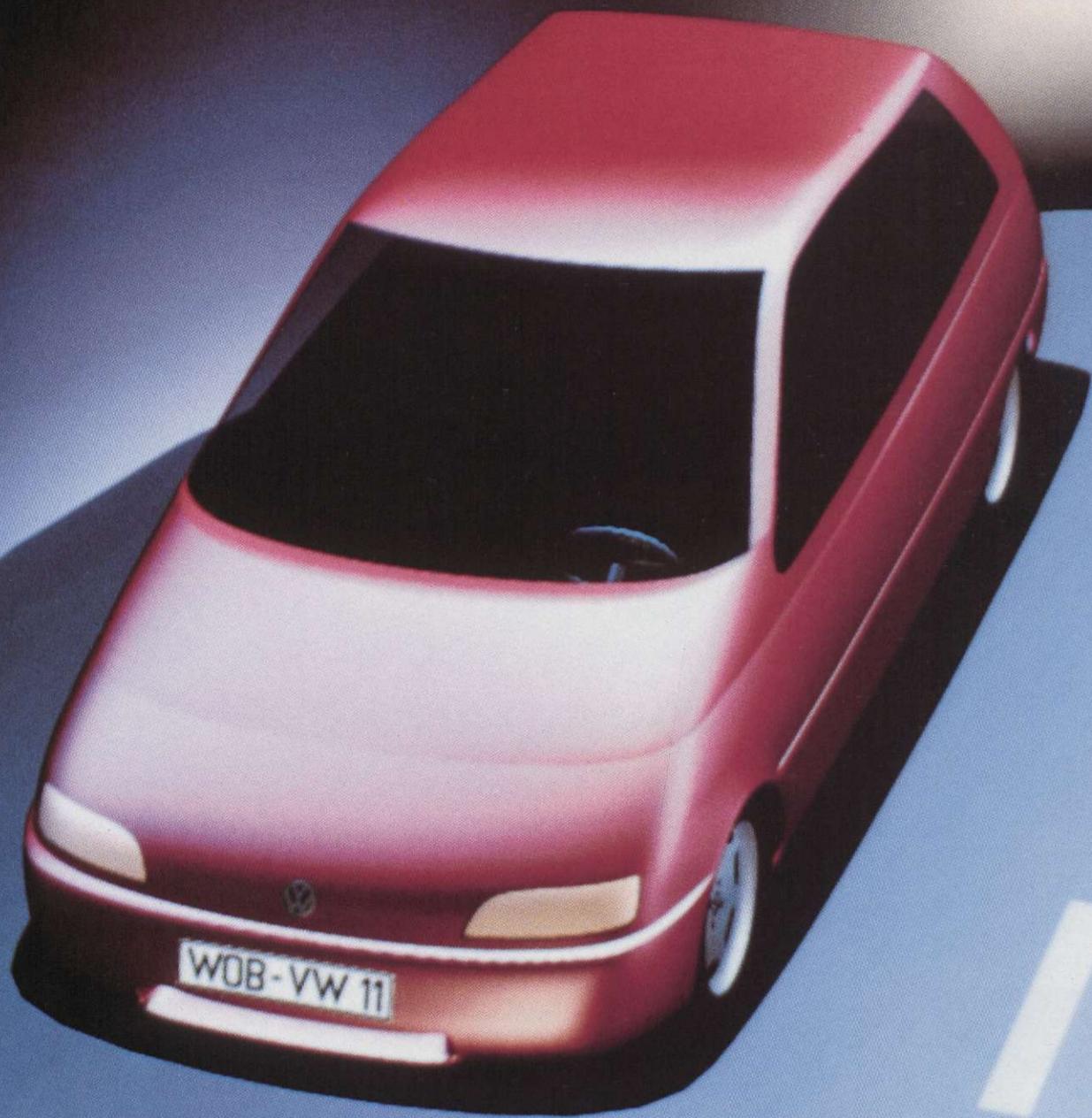
**Laser measuring technology in aerodynamics**

The starting point for any technical innovation is provided by research. An important area of activity in this sector is the designing of methods which can assist vehicle development. These include laser measuring techniques, which are used in aerodynamic optimization of new models and back up computer-aided simulation of flow conditions. Using this method, increasingly fine details can be recorded, flow fields can be made visible and the velocity of the air flowing past the vehicle can be ascertained at any point using a sensor and without interfering with the flow.

The aerodynamics of the VW Passat and the VW Corrado have already been optimized using this technique.



The VW heavy van – with the best payload to gross weight ratio in its class. The VW Commercial – the best-selling vehicle of its type in the world. The VW Caddy: the ideal vehicle for small loads.



## Additional Information about the Fiscal Year Producing Companies Volkswagen AG

### Systematic use of new key technologies in production

To permit more intensive utilization of production facilities, further steps were taken in introducing flexible automation for all areas of production as well as new key technologies such as CAD/CAM (Computer Aided Design/Computer Aided Manufacturing) and CIM (Computer Integrated Manufacturing).

Automation of assembly processes represented a particularly challenging task for the engineers in our production planning departments. In 1988 Volkswagen was able to further consolidate its leading position in this field, among other things through the use of fully automated assembly facilities for the new standard gearbox. The individual parts are placed in readiness at the individual assembly machines in bulk form or in containers permitting easy handling, while transportation of the parts within the assembly system and continuous build-up of the gearboxes takes place on pallets bearing coded assembly information. At the end of the assembly line is an automated gearbox testing facility.

A total of 2,626 industrial robots are in use at Volkswagen – 2,548 of them made by Volkswagen itself – and are being employed for increasingly sophisticated tasks. The use of computer graphics systems means that it is possible as early as the planning phase to select the most suitable robot for a particular task and determine its ideal position. Programming can also be carried out at an early stage by the production planner, so that it is not necessary to interrupt production later on to programme the robot once it is in place.

Apart from improving profitability, these new technologies permit greater flexibility in the event of programme and type changes and also increase the productivity and availability of production facilities.

### Environmental protection at Volkswagen

We regard environmental protection as an extremely important social responsibility. Protection and preservation of the environment have always been determining factors in Volkswagen's corporate policy, as is demonstrated by measures initiated many decades ago. However, we are not content to rest on our laurels. On the contrary, we are using every conceivable technical innovation and all our creativity to ensure that our production methods and products in future have even less of an impact on the environment than is already the case.

For us, environmental protection means returning production wastes – whether they be solid, liquid or gaseous – to the natural cycle without endangering human beings, animals or plants. Water, air and soil form a single ecological unit and represent the basis for any form of life.

CAD (Computer Aided Design) is a great help to the automobile designer, enabling him to rapidly simulate three-dimensional design variations on the screen.



The industrial robots developed by Volkswagen are one example of the systematic use of new key technologies.



**Additional Information about the Fiscal Year  
Producing Companies  
Volkswagen AG**

**Progressive environmental technology**

Volkswagen's exemplary environmental protection activities include, for example, the building of a new treatment facility for the sewage from the Wolfsburg plant. When complete, it will be as large as a sewage purification plant serving a town with a population of 100,000. The very latest technology is used to treat the industrial waste water so that the water can be reused. Although our total water requirements amount to 360 million cubic metres per year, repeated systematic recycling means that less than 2 % of this volume takes the form of fresh water. Such extensive recycling of water is unique in West Germany and clearly demonstrates the success of our efforts to make sparing use of natural resources.

Sophisticated waste collection and sorting techniques also allow us to recover large quantities of solid materials which can be put to further use. This includes the collection of more than 4,000 tonnes of waste paper every year – and that means that 60,000 trees are saved from having to be felled for use in paper making.

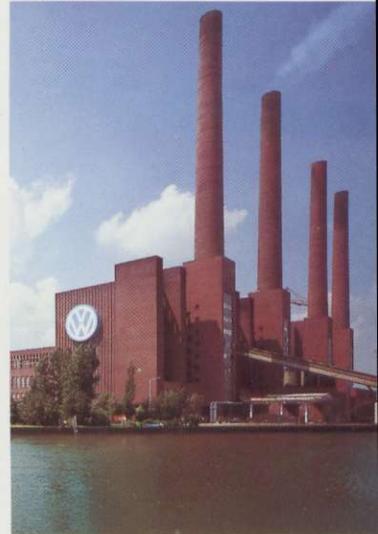
Use of advanced filter systems in waste-air cleaning has cut dust emissions in the vicinity of the Wolfsburg plant by more than 50 % in recent years. We have equipped our power stations with non-polluting fluidization furnaces or with trend-setting waste-air cleaning systems designed to remove nitrogen and sulphur.

If the continuing success of the Company is to be guaranteed, major efforts to protect the environment will remain essential in future. To this end, we are promoting a large number of research projects.

Volkswagen has long been conducting research and development of its own with a view to reducing material and energy consumption. Despite increased automation, electricity consumption per vehicle produced has been cut by around 20 % over the past fifteen years, while drinking-water consumption per vehicle has been reduced by over 60 %.

Changes in production and processes have substantially improved the quality of emissions. New paint spraying methods mean that emission of solvents into the atmosphere will be cut by 36 % in future and that emissions will be well below the limits laid down in the Technical Directive on Air Pollution Control.

All these progressive solutions represent our contribution to ensuring that future generations will be able to live in a cleaner, better environment.



Supplying energy for Volkswagen AG and the town of Wolfsburg – the North/South power station.

After repeated recycling, the water is not returned to the natural environment until it is so clean that even goldfish feel happy in it.



## Additional Information about the Fiscal Year Producing Companies Volkswagen AG

### Advanced technologies make greater demands on the workforce

The keener competition in the automobile industry today means that technological progress is becoming ever more rapid, a situation which is making increasing demands on every employee. Volkswagen is responding to this trend by pursuing a personnel policy which is designed to ensure that the workforce becomes even better qualified. In 1988 Volkswagen AG therefore spent a total of DM 265 million on basic and follow-up training.

In addition to enhancing specialist qualifications, particular importance is attached to extensive information and motivation, and to improving cooperation between all employees. One example of such measures is the "Emden integration programme", in which employees were prepared by their superiors for the launch of the new VW Passat by way of information and discussions. This encouragement of participation – typical of VW – met with a highly positive response from the works council, management and employees. It made a major contribution to ensuring a smooth production start-up in Emden and a similar scheme is now in progress in the shape of the "Hanover integration programme".

### Group work and quality circles

However, Volkswagen has not just substantially increased the number of training measures carried out; in order to ensure that employees become even better qualified for their jobs, we initiated structural measures which will characterize the working environment in the coming years. These include increased emphasis on group work, backed up by appropriate job-oriented courses.

An exemplary feature of Volkswagen's activities in this area has been the establishment of quality circles, which allow employees to participate in planning and decision-making processes at every level within the Company. This system is intended to make a major contribution to improving work quality, working conditions and safety. In 1988 Volkswagen became the first automobile manufacturer to receive the "Quality Circle Award" for this concept.



New product ideas and new technologies can only be developed by outstandingly qualified specialists. We thus view investment in training as an investment in the Company's future.

To mark Volkswagen's fiftieth anniversary, the names of all 134,525 employees at the six West German plants were "immortalized" on a new Passat on July 1, 1988. The car is now on show at the Volkswagen Museum in Wolfsburg.

**Additional Information about the Fiscal Year  
Producing Companies  
Volkswagen AG**

**New collective  
agreements**

The collective agreement on part-time working came into effect on January 1, 1988. As of August 1, 1988, the weekly working time was reduced by one and a half hours to 37 hours in accordance with the collective agreement concluded in 1987. On November 21, 1988 a new flexitime arrangement was agreed upon for employees working the normal shift; this came into effect on January 1, 1989. On the basis of the 37-hour week, the old working-hours arrangement involving days off is now replaced by a cut in the length of the working day.

**Acknowledgement  
to staff**

The Board of Management would like to thank all employees in the Volkswagen Group for their outstanding work. It would also like to thank the management teams at the subsidiaries and all the executives in West Germany and abroad for their immense personal commitment.

Our special thanks go to the bodies representing the workforce who, through their cooperative attitude, once again made a major contribution to ensuring that difficult problems could be solved in an atmosphere of mutual trust.

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

**Additional Information about the Fiscal Year  
Producing Companies  
AUDI AG**

**The Audi 90 – dynamic,  
sporty performance**

A five-cylinder four-valve engine was used in the Audi 90 for the first time in 1988. The top-of-the-range version of this model is now the Audi 90 quattro 20V. The four-valve engine, which has long since proved its worth in rallying, is combined with highly sophisticated electronics and produces an output of 125 kW (170 bhp). With its excellent pulling power and low fuel consumption, the Audi 90 20V successfully blends dynamic sportiness and economy in operation.



**The Audi Coupé –  
as spacious as a saloon**

The new Audi Coupé, offered with a choice of either quattro drive or front-wheel drive, was presented to the public at the Birmingham Motor Show in the autumn of 1988. The outstanding features of this coupé are the powerful five-cylinder engines, the sportily elegant appearance, the spacious interior with upmarket features and fully galvanized bodywork.

With a seating area of 2.57 m<sup>2</sup>, the new Audi Coupé can comfortably accommodate five people.

The customer can choose between two versions of the tried and tested 2.3 litre engine, producing either 125 kW (170 bhp) or 100 kW (136 bhp). A standard feature of the Audi Coupé is optimally tuned sports running gear, with the body 15 mm lower than on the Audi 90 saloon. This coupé rounds off Audi's programme in the upper middle range and, as a true five-seater with a variable-capacity boot, it also offers far greater comfort than normal sports coupés.



An outstanding feature is the variable boot, which has a capacity of 278 litres.

**The Audi V8 – the only  
luxury saloon in  
the world with four-  
wheel drive as standard**

The new Audi V8 constitutes the alternative in the upper range. It represents a technical challenge for the international automobile market and epitomizes Audi's "Vorsprung durch Technik".

A totally unique innovation is the combination of the V8 four-valve engine and permanent four-wheel drive matched specifically to this vehicle. The exclusive nature of the Audi V8 is demonstrated by the wide range of sophisticated features provided as standard, including

- an electronically controlled four-speed automatic gearbox
- the third-generation quattro technology, further improved by two automatic differential locks
- a new, optimized braking system with ABS
- fully galvanized bodywork with a ten-year guarantee against perforation rusting
- Audi's award-winning "procon-ten" safety system and
- an elegant interior with fine leather and high-quality wood



The practical, split-folding rear seat backrest makes it possible to more than treble the Audi Coupé's boot capacity to 959 litres.



The large, wide-opening tailgate makes it easy to load the Audi Coupé's variable-capacity boot.

**Additional Information about the Fiscal Year  
Producing Companies  
AUDI AG**

The drawn-down bonnet combines with the framed radiator grille and the rectangular headlights to form a dynamic unit and rounds off the vehicle's elegant appearance. Equally striking are the flared wheel housings containing 215/60 wide tyres on 15 x 7 1/2 alloy wheels, as well as the low front and rear aprons.

The 3.6 litre 32-valve engine delivers an output of 184 kW (250 bhp). The Audi V8 alloy engine, the most compact and powerful drive unit in its class, comprises two sets of four cylinders arranged opposite each other in a V-shape, ensuring smooth power development.

The Audi V8 is intended to open up important market potential in the highest vehicle range, which is exhibiting steady growth and is oriented towards sportiness. It represents a systematic strategic step into a market segment which, on account of its aura and image-enhancing value, is of major importance for both the Audi marque and the Group as a whole.

1988 was a successful year for AUDI AG, with significant upward trends recorded in a number of key areas. At 423,173 vehicles, worldwide sales were 1.0 % up on the previous year's record figure. Business on the European export markets was particularly good. Thanks to the success of the Audi 80/90 models in particular, our subsidiary was able to increase its deliveries to customers in these markets by no less than 29.0 % to a total of 183,289 vehicles. AUDI AG sold 187,154 automobiles (- 11.9 %) on the declining passenger car market in West Germany and thus accounted for 6.7 % (7.2 %) of new registrations.

The total of 426,462 Audis (+ 2.2 %) produced in 1988 was the highest annual figure ever recorded in the company's history. However, a reduced order volume for the 924 and 944 models manufactured for Porsche AG meant that overall production was 1.7 % down on the previous year's figure, at 435,701 vehicles.

Sales rose by 1.5 % to DM 11,531 million. Despite the substantial capital investments in connection with the new Audi V8 and the Audi Coupé, the company's financial result improved to an even greater extent. As a result of increased productivity and effective cost reduction, AUDI AG recorded net earnings of DM 151 million, 25.4 % up on the 1987 figure. This exceptionally large increase by comparison with the rise in sales clearly shows that Audi has taken the right course with its corporate policy aimed at improving earnings. Half of the company's profit was allocated to reserves and the remainder transferred to Volkswagen AG under the profit assumption agreement.

The Audi V8 – a unique combination of V8 engine, four-speed automatic gearbox and permanent quattro drive together with a wide range of sophisticated features provided as standard.



**New sales record  
for Audi**

**Additional Information about the Fiscal Year  
Producing Companies  
SEAT S.A.**

**A profit for the first time  
in eleven years**

The Spanish economy continued to exhibit vigorous growth in 1988, with the gross national product increasing by 5.1 %. A major contribution was made here by the automobile industry, whose sales rose by 15.0 %. Over the past few years, Spain has thus become one of the most important European volume markets.

SEAT S.A. has been able to participate in this trend and in 1988 – after only two and a half years as a member of the Volkswagen Group – made a profit for the first time in eleven years. This is not only a major turning point in the company's history, but also clear proof that the right strategic decisions have been taken.

**Largest vehicle manu-  
facturer in Spain**

Output rose by 6.7 % last year to 433,482 vehicles, making SEAT once again the largest Spanish vehicle manufacturer. Production of SEAT models alone totalled 327,737 vehicles (+ 19.1 %). Assembly of the Passat at the Barcelona plant was discontinued when the new Passat was launched, enabling the company to use the production capacity thereby released for an urgently needed increase in the output of SEAT models.

Deliveries of SEAT vehicles to customers on the Spanish market increased by 0.8 % to 124,965 units. A total of 88,743 Volkswagen and Audi models were also sold (+ 50.3 %), with sales of imported vehicles exhibiting a particularly large increase. This rise in sales, which surpassed the growth of the market, meant that the proportion of new registrations accounted for by Group vehicles increased to 18.6 % (17.5 %).



The SEAT Ibiza: the design comes from Europe's top designer Giugiaro, the engine from Porsche and the body from Karmann.

The Ibiza in profile –  
the unmistakable look of success.



An agreement was concluded with the Organizing Committee of the 1992 Olympic Games in Barcelona, under which SEAT is to be the sole supplier of vehicles at the Games. In addition to SEAT's highly successful Ibiza model as the official Olympic car, other Group models will also be used.

A total of 192,987 SEAT vehicles were sold on export markets last year, 22.7 % more than in 1987. The most important markets continued to be Italy with 73,219 units (+ 17.3 %), France with 39,519 (+ 14.1 %) and West Germany with 15,834 (+ 46.2 %). To assist distribution on the French market, Seat France was set up in March 1988 as a wholly-owned subsidiary of SEAT S.A., enabling SEAT to assume responsibility for distribution in France.

At the end of 1988 the workforce at SEAT S.A. totalled 23,777; this represents a rise of 1.0 %, significantly smaller than the increase in production. Since SEAT became a member of the Group in 1986, restructuring measures have boosted productivity from 15.4 vehicles per employee per year to 18.2 – a major step towards achieving a leading position in this area.

To strengthen our Spanish company, among other things in view of the forthcoming single European market, we shall be investing a total of DM 6 billion over the next five years. The most important project will be the building of the new assembly plant in Martorell. We are also devoting a sizeable volume of funds to modernization of the other production facilities and development of new models. To finance the necessary investments, additional capital totalling Ptas 24 billion was injected into the company.



The SEAT Malaga – a perfect blend of elegant styling, comfort and high performance with minimal environmental pollution.

The SEAT Malaga has everything that characterizes an ideal family car. It is economical and reliable, offers plenty of room and meets high quality standards.



## Additional Information about the Fiscal Year Producing Companies

### Volkswagen Bruxelles S.A.

#### Production reaches the three million mark

On September 14, 1988 the three millionth Volkswagen – a Golf GTI destined for export to France – came off the production line at Volkswagen Bruxelles. This achievement is above all part of the "Golf story"; around 1,000 Golf models are produced at the plant every working day. The important role which our Belgian company plays in the Group's interlinked production system is further highlighted by the fact that it also started to assemble the new VW Passat in May 1988. The high demand for this model had made it necessary for us to take this step in order to supplement the output of the Emden plant. Volkswagen Bruxelles assembled a total of 185,326 vehicles (– 11.6 %) last year, comprising 167,908 Golf models, 16,709 Passats and 709 Iltis off-road vehicles.

The company returned a profit.

### TAS Tvornica Automobila Sarajevo

#### Domestic sales at previous year's level

With the economic conditions in Yugoslavia remaining difficult, TAS Tvornica Automobila Sarajevo produced a total of 28,341 vehicles (– 7.3 %) last year. Of this total, 15,184 vehicles (– 4.1 %) were destined for export to Volkswagen AG. Unit sales in Yugoslavia amounted to 14,409 Group models and thus remained at roughly the same level as in the previous year (+ 0.9%).

TAS showed a small surplus for the year.



The Caddy – the ideal vehicle for  
small firms.



Alongside the Golf, the Jetta is  
produced by TAS and also sold on  
the Yugoslavian market.

## AUTOLATINA group

### Trend reversed with a markedly positive result

The general conditions under which our South American joint ventures in the AUTOLATINA group operated in 1988 varied considerably. Demand for automobiles revived in Brazil against the background of accelerated inflation and still unsolved economic problems. In Argentina, by way of contrast, the measures initiated to curb the severe currency erosion once again resulted in a substantial loss of purchasing power for broad sectors of the population. This had a major impact on the automobile industry in particular, with new passenger car registrations falling by 13.3 %.

The AUTOLATINA group was able to cover costs as a whole, above all because the Brazilian Government lifted its restrictive price policy in March 1988 and thus made it possible to pass on inflation-related cost increases via retail prices. Alongside the price rises, improvements in productivity, reduction of fixed costs and lower capital commitment costs brought a substantial increase in earnings. This means that it has been possible to reverse the result trend after only one and a half years of cooperation in our joint venture. The AUTOLATINA group's net earnings were included in Volkswagen's consolidated result on a pro rata basis.

The financial strength of the AUTOLATINA group in Brazil has been permanently improved through the injection of funds totalling US \$ 200 million (Cz \$ 32 billion) in May 1988. For this purpose, use was made of the opportunity offered by the Brazilian Government to convert foreign debts into company-related stockholders' equity and a so-called "debt-equity swap" was arranged.



Carnival time in Brazil is the high spot of the year. It takes many months to make the imaginative costumes and the most beautiful girls are chosen to wear them.

The VW Gol – once again the best-selling car in Brazil.



## Additional Information about the Fiscal Year Producing Companies

The unit sales achieved by the AUTOLATINA group rose by 15.1 % to 572,044 vehicles. Of this total, 374,799 were Volkswagen Group models and 197,245 were Ford vehicles.

With 259,141 passenger cars and light commercial vehicles sold in Brazil (+ 45.9 %), Volkswagen was able to achieve an above-average sales increase and significantly improve its share of the passenger car market to 39.2 % (35.1 %). A particularly successful model was the Volkswagen Gol, which was number one in the domestic registration statistics, well ahead of its competitors. In the truck market up to 22 t we sold 7,667 vehicles (- 22.9 %). Exports by AUTOLATINA in Brazil totalled 121,799 vehicles and were thus 17.7 % down on the previous year. This was due primarily to the fact that sales to Iraq came to an end, coupled with the severe over-valuation of the cruzado against the US dollar and the resultant increases in vehicle prices to compensate for the inadequate export earnings.

Autolatina Argentina S.A. sold a total of 46,194 Volkswagen and Ford models (- 12.5 %). With unit sales of 16,102, our Group vehicles were virtually able to maintain their share of the passenger car market, achieving 11.5 % (11.9 %).

As a result of the substantially improved sales situation, the output of the AUTOLATINA group was increased by 15.8 % to 573,113 Volkswagen and Ford models; despite the fact that the workforce of 56,768 was slightly smaller (- 3.6 %) than in the previous year.

The VW Fox – the successful model from Brazil produced for the North American market.



**Volkswagen de Mexico,  
S.A. de C.V.**

**Export activities  
stepped up**

The solidarity pact entered into by the Mexican Government with the employers and trade unions at the beginning of 1988 helped to stabilize the economy. The improved general conditions at the same time boosted business in the automobile sector.

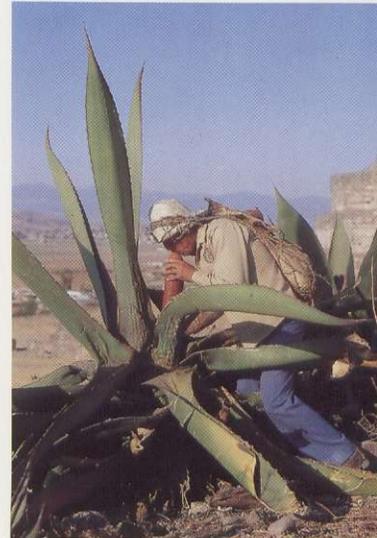
In October 1988, Volkswagen de Mexico, S.A. de C.V. commenced production of the Golf for the purpose of supplying Volkswagen of America and Volkswagen Canada. Together with the steps taken towards greater integration of the company into the Group's interlinked supply system, this will substantially improve capacity utilization. In addition, squaring of the foreign exchange balance as required by law – which means that export earnings must correspond to import expenses – is to be ensured through the export of vehicles to North America.

Our subsidiary delivered a total of 60,297 vehicles to customers and thus increased its sales by 2.7 %. However, the launching of new models and large-scale sales promotion measures by competitors, coupled with supply bottlenecks at Volkswagen de Mexico, meant that it was not possible for the company to maintain its share of the substantially increased passenger car market; it accounted for 25.6 % (32.9 %) of new registrations.

Production was increased by 22.8 % to 59,847 vehicles. The structural adjustments now under way meant that personnel cutbacks were unavoidable, as a result of which the workforce was reduced by 12.7 % to 11,673.

Under a favourable debt-equity swap arrangement the company's capital stock was increased by Mex. \$ 79 billion – equivalent to DM 61 million – to Mex. \$ 304 billion. The funds are being used primarily to finance the investments needed to make better use of the cost advantages offered by Mexico as a production location, as well as the related expansion of exports to the USA.

As a result of currency translation differences, Volkswagen de Mexico showed a loss for 1988 in the financial statements included in the consolidated figures.



A farmer cuts open the agave plant. Up to eight litres of the milky sap, the "honey water", collect each day at the point where the cut is made. Poured into vats, it ferments to produce pulque, the intoxicating Mexican drink.

In October 1988, Volkswagen de Mexico commenced production of the Golf to supply Volkswagen of America and Volkswagen Canada.



## Additional Information about the Fiscal Year Producing Companies

### Shanghai-Volkswagen Automotive Company, Ltd.

Expansion and modernization of production facilities continued as planned in our joint venture, Shanghai-Volkswagen Automotive Company, Ltd.

### Successful cooperation with Chinese associates

With a total workforce of 2,353 (+ 12.7 %), production of the VW Santana was increased by a substantial 41.4 % to 15,550 vehicles. A particularly pleasing development was the increase in the "local content", which rose from 12.6 % in 1987 to 30.6 %. Sales in China totalled 15,542 automobiles (+ 40.8 %).

In order to provide basic and follow-up training for its employees, the company opened a new training centre, which is without equal in China, at the end of August 1988. In addition, a new quality control laboratory was put into use at the end of October 1988 and will help to ensure that Shanghai-Volkswagen maintains high quality standards as the local content of production increases.

The still outstanding second portion of the capital increase approved in 1987 was paid in as agreed by the two parties in November 1988 and amounted to a total of 95 million renminbi (DM 44.8 million). In line with its holding, Volkswagen AG contributed 47.5 million renminbi (DM 22.4 million).

As in previous years, Shanghai-Volkswagen Automotive Company, Ltd. achieved a satisfactory result in 1988.



A feast for the eyes: in traditional Chinese cooking the culinary aspects are combined with age-old symbolism.



Production of the VW Santana in Shanghai was increased by a substantial 41 % in 1988 to over 15,000 vehicles.

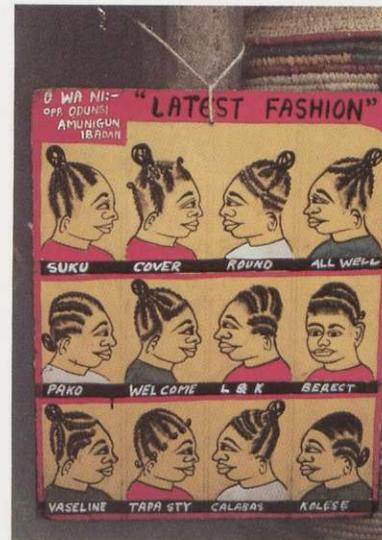
**Volkswagen of Nigeria Ltd.**

**Position maintained on a difficult market**

Despite the structural improvement programmes launched by the government, there were as yet no signs of stabilization in the Nigerian economy. A scarcity of foreign exchange meant that Volkswagen of Nigeria was able to import only limited quantities of vehicles and spare parts.

At 1,558 vehicles, deliveries to customers were 32.9 % down on the previous year. The launching of the Volkswagen Amazon from Brazil in November 1988 has ensured that the company continues to be represented in the lower market segment. The drop in production to 946 vehicles (- 55.4 %) can be ascribed to a four-month production shutdown as a result of high vehicle stocks at the beginning of the year and to a shortage of CKD sets in the subsequent months.

Despite the difficult economic conditions, the company returned a slightly positive result.



The art of hairdressing in Nigeria. There is no better way for the hairdresser to display his skills. The women just have to choose the right style and they are assured of admiring glances – after all, it's the latest fashion.

The launching of the Volkswagen Amazon on the Nigerian market in 1988 ensured that we continue to be represented in the lower market segment.



## Additional Information about the Fiscal Year Producing Companies

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

#### Another successful year

In 1988 the South African economy experienced a continuation of the recovery which had started in the previous year. The automobile industry was able to participate in this process, with new passenger car registrations increasing by 14.8 %.

Volkswagen of South Africa delivered a total of 58,901 vehicles to customers, 24.7 % more than in the previous year. The company sold 54,561 Volkswagens (+ 22.1 %) and 4,340 Audi 100 models (+ 69.6 %), the Audi range having been expanded in November to include the Audi 100 turbo.

The rise in unit sales meant that production increased by 42.1 % to 62,760 vehicles. This led to a 16.4 % increase in the workforce to 7,926 employees.

Thanks to its sales success and further improvements in productivity, Volkswagen of South Africa achieved a satisfactory result.



Imaginative and decorative house painting. This form of art has its origins in a deeply rooted tradition. Damisile Ndimande is a highly regarded artist who works with a wide variety of designs and colours.



The range of Audi models offered by Volkswagen of South Africa was expanded in November 1988 to include the Audi 100 turbo.

## Additional Information about the Fiscal Year Distributing Companies

### **AUTOGERMA S.p.A.**

#### **Sales reach new record level**

With sales totalling 187,735 Volkswagen and Audi models, AUTOGERMA S.p.A. surpassed the previous year's figure by a good 9.5 % and thus remained the largest European importer in the Volkswagen Group. As the rise in sales corresponded to the degree of market expansion, the Group maintained its share of new passenger car registrations in Italy, with 8.3 % (8.4 %). Alongside the success of the Golf, the main factor behind this development was the sizeable increase in the number of Audi 80/90 and Polo models delivered to customers. Audi's share of the market thus improved to 2.0 % (1.3 %), while Volkswagen achieved a share of 6.3 % (7.1 %).

AUTOGERMA once again returned a profit.



The Polo squareback is particularly popular with women.

### **V.A.G France S.A.**

#### **Largest importer in France**

Against the background of an expanding French market, V.A.G France not only beat last year's record sales figure by 17.8 % with a total of 170,793 vehicles sold, but also increased its share of the passenger car market from 6.1 % to 7.1 %. With a total of 133,815 Volkswagen models (+ 13.4 %) and 36,978 Audis (+ 37.3%) delivered to customers, our distributing company became the leading vehicle importer in France.

V.A.G France achieved a satisfactory result.



The Audi 80 played a large part in the sales success achieved by V.A.G France.

### **V.A.G Sverige AB**

#### **Sales at a new peak**

1988 was the best year ever for the automobile trade in Sweden, with a total of 343,963 new passenger car registrations (+ 8.9 %). V.A.G Sverige AB substantially increased deliveries to customers by 13.5 % to 48,167 vehicles and was thus able to consolidate its position as the largest automobile importer in Sweden. Audi models played a particularly large role in this success, with sales increasing by 15.2 %. Altogether, the company sold 40,697 passenger cars (+ 13.7 %) – representing a 12.3 % (11.9 %) share of the passenger car market – and 7,470 light commercial vehicles (+ 12.3 %).

As a result of the good sales situation, V.A.G Sverige returned a higher profit than in 1987.



Sales of Group models in Sweden rose by a good 13.5%.

## Additional Information about the Fiscal Year Distributing Companies

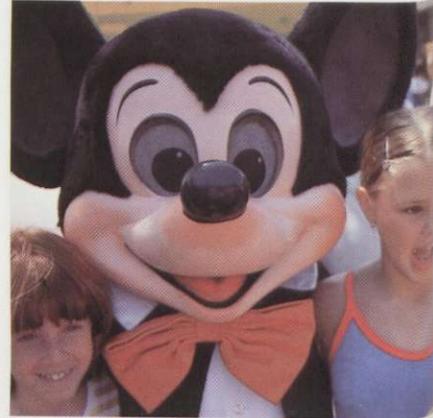
### Volkswagen of America, Inc.

#### Tough competition on the US passenger car market

With the general economic conditions remaining favourable, the automobile market in the USA was able to expand and new registrations totalled 11,337,541 (+ 4.6 %). The buoyant demand was surpassed by a steady increase in the available vehicle supply as a result of new models and excess capacities, leading to tougher competition.

Production at Volkswagen of America's Westmoreland plant was discontinued as planned on July 14, 1988. Around 2,500 employees were affected by the closure. A redundancy payments scheme was designed in collaboration with the automobile workers' union and was approved – by a large majority – by the unionized employees. Working in cooperation with the local authorities, Volkswagen also set up a job-finding centre which is proving highly successful.

Our subsidiary sold a total of 191,743 vehicles (– 17.7 %). Sales of the Volkswagen Fox imported from Brazil increased by 41.7 % to 56,932 units. This popular model was voted family car of the year by the readers of "FAMILY CIRCLE Magazine", the main criteria for its selection being its reliability, convenience for the family and price/value ratio. By contrast, there was a decline in sales of other Volkswagen models and of Audi models. We are endeavouring to stabilize the sales level through the launching of the new Audi 100/200, a comprehensive warranty programme and other pinpointed measures. Our image is likely to be enhanced not only by Audi's sensational motor racing successes in the TransAm Series, but in particular also by the results of the investigations conducted by the Japanese and Canadian ministries of transport with regard to the subject of "unintended acceleration". Both ministries rule out any possibility of a technical defect in our Audi vehicles with automatic gearbox. It has thus now been definitively confirmed by impartial bodies that the unintended acceleration was in all cases the result of driver error. The National Highway Traffic Safety Administration in the USA arrived at the same conclusion in March 1989.



A good reason to celebrate: the sixtieth birthday of Mickey Mouse, the cartoon character loved all over the world. Volkswagen too had cause for celebration: the company's fiftieth anniversary.

Despite the difficult situation on the American automobile market, there was an increase in sales of the Volkswagen Fox imported from Brazil.



Thanks to the radical restructuring measures, Volkswagen of America returned a significantly better result in its national financial statements than in 1987.

**Volkswagen Canada Inc.**

**Position among importers improved**

The Canadian automobile market exhibited a slight decline in 1988. A small increase in sales of Canadian-manufactured vehicles contrasted with a marked drop in sales of imported models.

As a result of the difficult competitive situation, deliveries of vehicles to customers by Volkswagen Canada Inc. fell by 14.4 % to 35,856 units. However, the launching of the new Audi 90 and the Audi 100/200 models meant that the sales level started to stabilize in the last quarter of 1988. With a market share of 3.4 % (3.9 %), our subsidiary achieved third position among automobile importers.

At the Barrie parts-manufacturing plant in Ontario, production of both aluminium wheels and emission control systems was stepped up. Production of pressure die-cast aluminium parts was also started.

The company achieved a slightly positive result in 1988.

**Volkswagen Asia Ltd.**

**Volkswagen Group continuing to improve its position in Japan**

Volkswagen Asia Ltd. performs consultancy and support functions to promote both our import business in Japan and the distribution of the VW Santana models manufactured under licence by Nissan.

The Volkswagen Group was able to increase its sales on the rapidly expanding Japanese automobile market by 3.5% to 41,952 vehicles. Its market share thus remained practically unchanged at 1.1 % compared with 1.3 % in the previous year. With imports of VW and Audi models increasing by 20.0 % to 38,506 automobiles, Group vehicles maintained their position as the leading foreign marques.



In Japan's Shinto religion, rice straw symbolizes purity. Used as a packing material, it makes even the simplest things appear almost sacred.

The newly developed 20-valve engine in the Audi 90 produces 125 kW (170 bhp).



## Additional Information about the Fiscal Year Other Companies

### V.A.G Leasing GmbH

#### A fleet of over 260,000 vehicles

With its attractive and comprehensive range of leasing services, V.A.G Leasing GmbH further consolidated its leading position in West Germany. In cooperation with the V.A.G Organization, a total of 120,400 new leased vehicles were supplied to customers. The company increased its fleet to 263,600 vehicles (+ 12.2 %) and thus made a major contribution to boosting the Group's unit sales.

At DM 2,648 million, total sales were up by no less than 22.5 %. The company returned an increased profit.

Seat Leasing GmbH, a wholly-owned subsidiary of V.A.G Leasing, also exhibited positive development.

### Europcar International S.A.

#### Rental business now on an international footing

The merger of interRent and Europcar to form Europcar International S.A. has created a vehicle rental company which maintains a fleet of 40,000 vehicles in Europe and has subsidiaries in West Germany and eight other countries.

Europcar operates in over 120 countries throughout the world by way of cooperation with National Car Rental (USA, Central and South America, Pacific region), Tilden (Canada) and NIPPON RENT A CAR (Japan). With the rental business becoming increasingly important worldwide, Europcar covers this sector above all in those markets where we are anticipating future growth.

In West Germany, the combining of the interRent and Europcar rental networks at the end of 1988 under the interRent name further strengthened our leading market position. Both interRent and Europcar returned positive results.

### V.A.G Kredit Bank GmbH

#### Continuing success in 1988

The company assists the sale of Volkswagen and Audi products by offering credit facilities to finance the purchase of vehicles and spare parts by V.A.G dealers as well as sales to customers.

The favourable economic situation in the automobile sector and the company's active marketing strategy helped to increase the volume of business, with the number of vehicles financed by V.A.G Kredit Bank GmbH rising to over 300,000. The private-customer sector made a particularly significant contribution to this pleasing trend.

In the year under report the company achieved a satisfactory result which was transferred to Volkswagen AG under a profit assumption agreement.

Seat Kredit Bank GmbH, which had been set up in the previous year as a wholly-owned subsidiary of V.A.G Kredit Bank GmbH, continued to exhibit positive development in 1988.



The merger of interRent and Europcar to form Europcar International S.A. has created a rental company with a fleet of 40,000 vehicles.

## Additional Information about the Fiscal Year Motor Sport

### Volkswagen successes in Formula 3 and rallying

As in previous years, vehicles with VW engines once again dominated the German Formula 3 Championship in 1988. The champion and the runner-up, Joachim Winkelhock and works driver Otto Rensing, both drove cars powered by VW GTI engines. Fourth place in the championship went to twenty-year-old Frank Krämer, a talented young driver sponsored by Volkswagen.

Klaus-Joachim Kleint and Manfred Hiemer represented "Volkswagen Motorsport" in the International German Rally Championship. Although the team did not compete in every race, they nevertheless achieved fourth position overall in a Golf GTI 16V. Until forced to retire after an accident for which they were not responsible, Erwin Weber and Matthias Feltz – likewise in a Golf GTI 16V – led the field by a long way in the Safari Rally in Kenya.

Fifty Polos equipped with G40-superchargers competed for "Volkswagen Motorsport" in the Wintershall VW Polo Cup. The 1988 season of races for these 112 bhp cars was the most exciting yet and the overall competition was a complete success.



In rallying, engine and running gear are tested to the limit.



What the Golf has to cope with in rallying is to the benefit of the buyer of a standard Golf.

## Additional Information about the Fiscal Year Motor Sport

### Audi wins two titles in the TransAm Series

Audi provided spectacular confirmation of its "Vorsprung durch Technik" slogan in the American saloon car championship. Driving modified Audi 200 quattro models with turbocharged five-cylinder engines, the works team of Hurley Haywood, Walter Röhrl and Hans-Joachim Stuck notched up eight victories and four second places in the thirteen-race series. After only ten races Audi was already assured of the manufacturers' title and after the twelfth race Hurley Haywood had an unbeatable lead in the drivers' championship.

No newcomer had ever before been so successful in the TransAm Series. The victories attracted a great deal of publicity and greatly enhanced Audi's standing in the USA. Apart from the reliability of our cars, the secret of our success was undoubtedly the technical superiority of the Audi quattro drive; this was the first time that four-wheel drive vehicles had competed in the TransAm races.

In the Three Towns Rally, the last race in the 1988 German Rally Championship, Armin Schwarz and Klaus Wicha in an Audi 200 quattro achieved their third consecutive victory and won the overall title for the second year in succession. This brought Audi the marque victory in the national championship.



The modified Audi 200 quattro with turbocharged 5-cylinder engine. Never has a newcomer to the TransAm Series been so successful.



The Audi 200 quattro – a rally winner and the ideal upmarket saloon.

中



CHINA



### Volkswagen in China

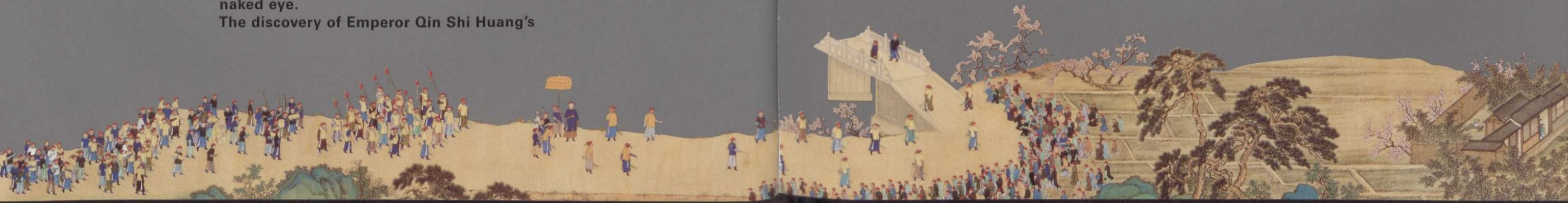
China, sometimes referred to as the "Middle Kingdom", is one of the oldest civilizations in the world, with more than 4,000 years of recorded history.

Proof that China was an advanced culture even in antiquity is provided today by the Great Wall – the only man-made structure which can be seen from space with the naked eye.

The discovery of Emperor Qin Shi Huang's

army of clay figures near Xi'an in 1974 revealed to an astounded world a fascinating collection of 7,000 life-size warriors. They had been made back in the second century B.C. during the emperor's lifetime to accompany him in his tomb.

The immense scale of the Great Wall is paralleled by the dimensions of the country itself.



The People's Republic of China is 38 times as large as West Germany and embraces many spectacular landscapes – the huge mountains of the Himalayas, extensive highlands, deserts and tropical lowlands. China is full of exotic charms and is a veritable treasure house for botanists and zoologists.



Large areas of the landscape are dominated by mighty rivers. The Yangtze Kiang is the third longest river in the world and China's major inland waterway. Far more important, however, is the Huang He, the "Yellow River". According to ancient legend it is the cradle of Chinese civilization and the symbol of vitality – and it is vitality which characterizes China today.

**Social change and  
economic  
development**

China has a large population and abundant mineral resources – immensely valuable assets for a country aspiring to economic development. Around 1.1 billion people live in China today, a situation which represents both a challenge and an opportunity. Over 80 % of the population live in rural areas along the coast, while the rest are to be found in the towns and cities, some of which have assumed vast proportions. The People's Republic of China is nevertheless able to feed and clothe its huge population through its own efforts. Happy, smiling faces are to be seen everywhere and the famed hospitality of the Chinese people is very much in evidence.

Agriculture provided the starting point for the country's economic reforms and constitutes the basis of the Chinese economy. Besides being the biggest rice producer in the world, China also grows large quantities of wheat,

maize, millet and cotton, not to mention tobacco and the tea much prized by Europeans.

Silkworms have been raised in China since the third millennium B.C. Raw silk and finished fabrics were already being transported to the West more than two thousand years ago along the Silk Road, the route which also took Marco Polo from Venice to China in the thirteenth century.

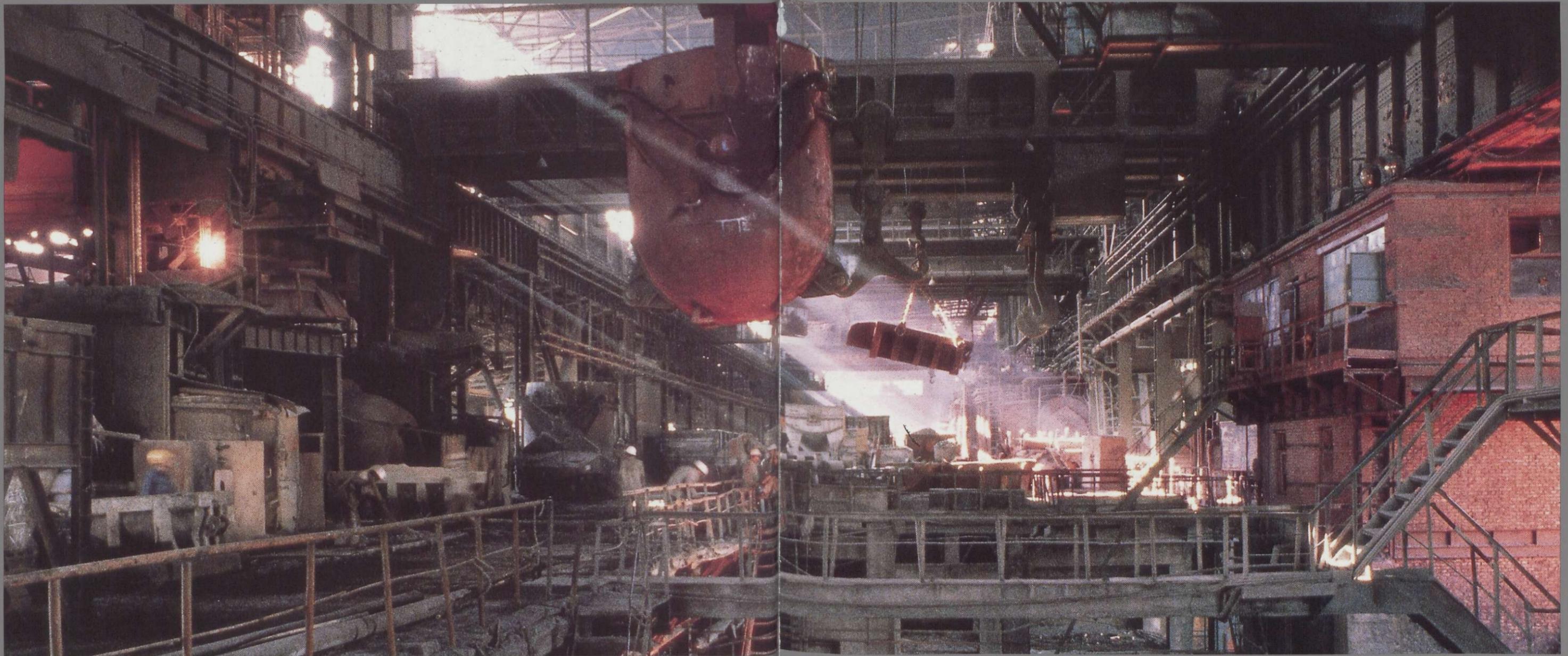
China has large coal deposits which meet around 70 % of the country's energy requirements. Major oil reserves are to be found offshore as well as in the provinces of Shandong and Guangdong and in North-East China. The most important natural-gas fields are in the province of Sichuan. China also possesses sizable deposits of iron, tin, tungsten and uranium ore.

Following the Cultural Revolution, which lasted from 1966 to 1976 and seriously retarded the country's development, the internationally respected statesman Deng Xiaoping pursued a policy of reform and started to open up China to the rest of the world, something which had hitherto been virtually unknown.

#### West Germany's links with China

West Germany established economic relations with the People's Republic of China at an early stage. With its highly advanced industries and broad-based goods structure, West Germany possesses the technological and management know-how necessary for successful cooperation.





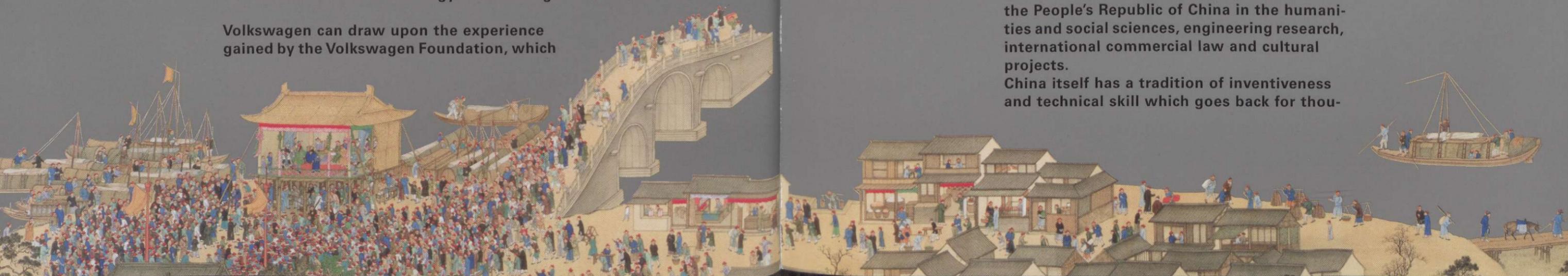
In this connection Volkswagen plays a special role as a partner for China – not merely in the commercial sense but also through cooperation in the fields of technology and training.

Volkswagen can draw upon the experience gained by the Volkswagen Foundation, which

has made China one of the focal points of its promotion programme.

More than any other institution of this type, the Volkswagen Foundation has supported the People's Republic of China in the humanities and social sciences, engineering research, international commercial law and cultural projects.

China itself has a tradition of inventiveness and technical skill which goes back for thou-



sands of years. In the pre-Christian era, iron smelting and casting techniques were already so advanced that the Chinese were able to construct cast-iron buildings. Paper was invented in the second century and printing from carved wooden blocks followed soon afterwards.



The Grand Canal, the longest artificial inland waterway in the world, dates from the sixth century and represents a unique achievement in the field of hydraulic engineering. During the eighth century the Chinese invented gunpowder, porcelain manufacture, the compass and numerous other innovations in engineering, astronomy, chemistry and medicine.

The future has  
already begun

The opening-up of China after the Cultural Revolution and its resultant increased receptiveness to free-market principles made the country an attractive partner in the economic sector. The establishment of Shanghai-Volkswagen marked the beginning of a new venture in Sino-German cooperation: the development of a Chinese automobile industry in line with international standards.

The Chinese Government too sees the automobile industry as the vital driving force in promoting industrialization and development of the transport sector in general. However, extensive infrastructure measures and systematic continuation of the economic reform policy are required if the country is to achieve its goals.

At present, the principal means of transport in China is still the bicycle. Alongside the 800 million or so bicycles owned by the Chinese,

the numbers of other vehicles appear somewhat modest – China has around half a million cars, one million trucks and buses and three million other commercial vehicles, both large and small.

Through its activities in China, Volkswagen is contributing to the development of the Chinese economy and is helping to involve the country in international trade. Efforts in this direction have not been confined to the automobile industry; the shipbuilding sector has also benefited.

To help meet its requirements as a major automobile exporter, Volkswagen has added to its fleet two new ships built in Shanghai. The People's Republic of China proved to be a reliable and efficient partner. The ships have now been placed at the disposal of V.A.G Transportgesellschaft and are extremely modern special transporters capable of holding 4,500 vehicles at a time. As a company based in the State of Lower Saxony, Volkswagen is proud that these ships were named "Hannover" and "Wolfsburg".

The exchange of experience between Volkswagen and the People's Republic of China will not be one-sided. China is already launching space rockets of its own and in the not too distant future we in Europe will be able to draw upon the results of Chinese research and development work in fields including the automobile sector.

Close links already exist between Shanghai-Volkswagen and Chinese universities and institutes. Joint activities include a methanol



research programme which is being conducted together with eight research institutes, among them the Academia Sinica in Beijing. Volkswagen has also helped to organize a number of cooperation partnerships between institutions of higher education in China and West Germany to provide support in research and teaching, such as the arrangement linking the Technical University of Brunswick and Tongji University in Shanghai.



## Volkswagen in Shanghai

Shanghai, located on the Huangpu River, is China's most important port and industrial centre. It has a population of over twelve million, contains 25 institutions of higher education – including two universities – and is the seat of the Chinese Academy of Sciences. Shanghai has an observatory and a satellite tracking station – and now it is also a "Volkswagen city".

On October 10, 1984, the agreement setting up Shanghai-Volkswagen Automotive Company, Ltd. was signed in the Great Hall of the People in Beijing, in the presence of the then Prime Minister Zhao Ziyang – now Secretary General of the Chinese Communist Party – and the West German Chancellor Dr. Helmut Kohl.

The agreement setting up this Sino-German joint venture is initially to run for 25 years. It contains specific details regarding the product range and production capacities for the first stage of cooperation.

50 % of the capital stock was contributed by Volkswagen AG; 25 % is held by the Shanghai Tractor and Automobile Company, 15 % by the

**A modern automobile plant in Anting**

Bank of China and 10 % by the umbrella organization of the Chinese automobile industry.

The foundation for a modern automobile plant was thus laid.

Anyone visiting the Shanghai-Volkswagen plant in Anting, a suburb of Shanghai, finds it difficult to believe that sixty Volkswagen Santanas are already being produced here each day. The 2,300 or so Shanghai-Volkswagen employees are outnumbered by the 3,000 construction workers currently expanding the plant. Production of the Santana reached the thirty-five thousand mark in October 1988, and at the same time a new assembly shop and a test laboratory were put into use. Quality standards at Shanghai-Volkswagen have already reached the demanding level required throughout the Volkswagen Group.

Shanghai-Volkswagen has already become one of the largest automobile factories in China. The planned annual capacity is at present 30,000 vehicles, with the possibility of an increase within a short time. It is aimed to produce a total of 20,000 vehicles in 1989.

A highly advanced engine plant is to be opened in Anting in early 1990 and will produce 100,000 VW engines a year. 70,000 of these are to be exported to Volkswagen Group plants within the framework of the worldwide interlinked production system based on a division of activities.

The overall volume of investment at present totals DM 570 million. Two thirds of this have already been utilized.





However, capital alone could not have brought about the plant's rapid development. This success is due above all to the industriousness of the Chinese employees and their eagerness to learn new skills. "Step by step" – or "yibu yibu" in Chinese – is the motto, ensuring that every stage in the development process can build upon a sound basis.



Training has top priority in Anting. Around 170 young people are being trained on modern machines and one third of the employees are engineers. The new training centre, which uses the "dual" system combining theoretical and on-the-job training, was opened at the end of August 1988. Worldwide VW standards provide the criteria for quality and producti-



vity. Parallel to the training in China, over fifty Chinese employees are working at the Volkswagen Group's German plants in order to become familiar with the latest production and development techniques.

The local content of the VW Santana is currently over 30 % – in other words, just under 70 % of the parts are still imported. However, it is intended that the local content should reach 50 % by the end of 1989 and increase to over 80 % by 1992. If these goals are to be achieved, though, great efforts will be required on the part of both the Chinese and German employees as well as the Chinese suppliers.

Jobs at Shanghai-Volkswagen are much sought after, particularly on account of the excellent prospects which they offer employees. The plant in Anting is characterized by a pioneering spirit like that which prevailed in West Germany in the early fifties.

## Life in Shanghai

Throughout the country, the day begins with the famous Chinese "shadow-boxing", which is an established part of daily life even for the elderly. Every working day, the roads then become filled with countless bicycles and buses.

Displaying the patience so typical of Asian people, the workers travel to their places of employment, where they go about their work in a purposeful manner. They see their work as an important and natural part of life, involving strong emotional ties with their company.

Leisure time is devoted above all to the family – and particularly to the child. Immense care



and a sizable proportion of the family income are devoted to clothing and feeding the children; lovingly dressed little boys and girls are to be seen everywhere.

Enjoying a meal in the company of family and friends is a very important part of the daily routine for the Chinese. Experts consider there to be at least nine different regional cuisines in China – and fast food is still largely unknown.

While cultural events remain extremely popular in China, more and more people are devoting part of their leisure time to further education and training. Yan Mei-Lin, who is aged 23 and works at a screw factory in Shanghai, is learning English and attending business courses in order to advance within her company. She would also like to travel and be able to talk to foreign visitors.

The western lifestyle is also becoming attractive to the Chinese. Western clothing, particularly jeans, is no longer frowned upon and hairdressers are never short of customers. Although not yet available everywhere, television is extremely popular and also shows commercials advertising western consumer goods.

Shanghai is the epitome of a teeming metropolis and is the most "western" city in China, with numerous port installations, businesses and service enterprises. It also has boutiques, dance halls and discos, while farmers are to be found selling their own produce at the city's countless markets.





**Changchun –  
our second venture  
in China**

If Wolfsburg were looking for a twin town in China, Changchun would undoubtedly be a good choice. Changchun is the capital of the province of Jilin in North-East China and was used by Bernardo Bertolucci as the location for shooting his award-winning film "The Last Emperor". Although Changchun has a population of 1.8 million, it is only medium-sized by Chinese standards, bearing in mind that the

population of Shanghai is 12.5 million and that of the capital city Beijing almost 10 million.

Like Wolfsburg, Changchun has acquired its present-day importance through the automobile industry in the shape of the First Automobile Works (FAW). Founded in 1953, the FAW was the first automobile factory in China.



More than 50,000 people derive their livelihood from this long-established enterprise – and that figure does not include the employees' families or the workforce at the supplier companies.

The major proportion of the FAW's output consists of trucks with payloads between four and six tonnes. The company is also well-known as the manufacturer of the state limousine, the "Red Flag". Although it has been in production for decades, this car is still guaranteed to cause a stir wherever it appears on account of its exceptional size.

Negotiations began in 1987 between Volkswagen and the FAW concerning the possibility of production of the Audi 100 combined with transfer of the necessary product and manufacturing technology as well as the supply of parts. With the relevant contracts now having been concluded, the Audi 100 will join the VW Santana as the second Group product on the Chinese market.

In mid-1988, three contracts were signed regarding production of the Audi 100 under licence by the FAW. Production is scheduled to start in autumn 1989. It is currently planned to achieve an annual capacity of 30,000 vehicles in 1992, accompanied by a gradual increase in the local content.

The cooperation between Audi and the First Automobile Works is to be extended beyond the framework agreed upon so far. With this end in view, a declaration of intent outlining the basic elements of a long-term cooperation arrangement was signed on August 24, 1988



in Wolfsburg by the President of the FAW, Geng Zhaojie, and the Chairman of the Board of Management of Volkswagen AG, Dr. Carl H. Hahn.

Volkswagen welcomes the prospect of an active exchange of components between Shanghai and Changchun. This offers advantages in terms of volume and thus also in terms of the cost of components, leading to lower vehicle prices. It is quite clear that this will represent a major step towards achieving the goal of enabling broad sectors of the population to purchase their own automobiles.

The Volkswagen name enjoys an excellent reputation in China as a synonym for a technologically sophisticated and extensive product range incorporating the highest quality standards. Although Volkswagen is the world's youngest automobile mass-producer, the company's rapid development after the Second World War meant that it very soon became the leading vehicle manufacturer in Europe and the fourth largest passenger-car maker in the world. Volkswagen has thus accumulated a wealth of experience in building up and managing an international automobile-manufacturing group and can draw upon this experience in its cooperation ventures.

However, the People's Republic of China too has achieved major technological progress within a very short time. The Chinese economy will therefore continue to develop at a rapid pace. The experts are undoubtedly right in forecasting that in a few decades' time China will be among the leading industrialized nations in Asia.

Volkswagen – a  
reliable partner for  
the People's  
Republic of China



On October 11, 1988, the Deputy Prime Minister of the People's Republic of China, Yao Yilin, visited the Volkswagen plant in Wolfsburg. Accompanied by a delegation of high-ranking Chinese politicians and economic experts, he was already the third leading Chinese politician to honour the plant in this way, following visits by Deputy Prime Minister Li Peng in 1984 and by the then Prime Minister Zhao Ziyang in 1985.

Dr. Carl H. Hahn assured Yao Yilin that Volkswagen regards its cooperation with its Chinese associates as the Volkswagen Group's most important and promising project and that Volkswagen will give its full support to the Chinese Government's economic policy even in difficult times.

The Chinese Government has repeatedly asserted that its primary aim is to be a reliable trading partner. It has no illusions about the problems inherent in an economy currently in a state of upheaval and the related dangers of overheating and inflation.

Despite the immense geographical, economic and social differences between China and Germany, trading and investment links together with modern communication technologies have brought the continents closer together.

This will allow the amicable cooperation between Volkswagen and its Chinese associates to play a key role in the process of development enabling China to become a modern, mobile industrial society.



**Financial Statements 1988 Volkswagen Group  
and Volkswagen AG**

Balance Sheet		Income Statement	
1988	1987	1988	1987
Assets		Revenue	
Current assets		Operating profit	
Cash and equivalents		Finance income	
Accounts receivable		Other income	
Inventory		Operating expenses	
Prepaid expenses		Finance expenses	
Other current assets		Other expenses	
Non-current assets		Profit before tax	
Property, plant and equipment		Tax	
Intangible assets		Profit after tax	
Other non-current assets		Income tax	
Total assets		Corporate tax	
Liabilities and Equity		Other taxes	
Current liabilities		Other taxes	
Accounts payable		Other taxes	
Other current liabilities		Other taxes	
Non-current liabilities		Other taxes	
Long-term debt		Other taxes	
Other non-current liabilities		Other taxes	
Equity		Other taxes	
Share capital		Other taxes	
Reserves		Other taxes	
Total liabilities and equity		Other taxes	

**Consolidated Balance Sheet of the Volkswagen Group**  
**December 31, 1988**  
 – DM million –

	Note	Dec. 31, 1988	Dec. 31, 1987
<b>Assets</b>			
<b>Fixed assets</b>	(1)		
Intangible assets		76.3	29.1
Tangible assets		13,835.7	13,405.6
Financial assets		1,303.8	1,125.6
Leasing and rental assets		5,426.9	4,918.9
		<b>20,642.7</b>	<b>19,479.2</b>
<b>Current assets</b>			
Inventories	(2)	6,506.0	6,617.9
Receivables and other assets	(3)	11,529.4	9,155.0
Securities	(4)	488.5	425.5
Cheques, cash on hand, deposits at German Federal Bank and postal giro balances, cash in banks		10,808.8	8,135.0
		<b>29,332.7</b>	<b>24,333.4</b>
<b>Prepaid and deferred charges</b>	(5)	<b>319.0</b>	<b>248.5</b>
		<b>50,294.4</b>	<b>44,061.1</b>
<b>Stockholders' equity and liabilities</b>	Note	Dec. 31, 1988	Dec. 31, 1987
<b>Stockholders' equity</b>			
Subscribed capital of Volkswagen AG	(6)	1,500.0	1,500.0
Ordinary shares	1,200.0		
Non-voting preferred shares	300.0		
Potential capital	400.0		
Capital reserve	(7)	3,020.0	2,803.2
Revenue reserves	(8)	6,019.6	5,692.4
Net earnings available for distribution		308.5	307.6
Minority interest in consolidated subsidiaries		446.9	422.4
		<b>11,295.0</b>	<b>10,725.6</b>
<b>Special items with an equity portion</b>	(9)	<b>2,451.7</b>	<b>2,202.8</b>
<b>Special item for investment subsidies</b>	(10)	<b>9.7</b>	<b>9.4</b>
<b>Undetermined liabilities</b>	(11)	<b>17,090.2</b>	<b>14,864.1</b>
<b>Liabilities</b>	(12)	<b>18,962.6</b>	<b>15,817.8</b>
<b>Deferred income</b>		<b>485.2</b>	<b>441.4</b>
		<b>50,294.4</b>	<b>44,061.1</b>

## Consolidated Statement of Earnings of the Volkswagen Group

	Note	1988 DM million	1987 DM million
<b>Sales</b>	(13)	<b>59,221.1</b>	<b>54,634.9</b>
Cost of sales		51,314.5	48,525.9
<b>Gross profit</b>		<b>+ 7,906.6</b>	<b>+ 6,109.0</b>
Selling and distribution expenses		4,661.7	3,980.0
General administration expenses		1,659.1	1,518.2
Other operating income	(14)	2,817.3	3,162.9
Other operating expenses	(15)	2,779.6	2,231.5
Results from participations	(16)	+ 90.8	+ 80.2
Interest results	(17)	+ 615.2	+ 210.9
Write-down of financial assets and securities classified as current assets		193.3	222.8
<b>Results from ordinary business activities</b>		<b>+ 2,136.2</b>	<b>+ 1,610.5</b>
Extraordinary expenses		—	443.3
Taxes on income		1,356.3	569.2
<b>Net earnings</b>		<b>779.9</b>	<b>598.0</b>

**Balance Sheet of Volkswagen AG**  
**December 31, 1988**  
 - DM million -

	Note	Dec. 31, 1988	Dec. 31, 1987
<b>Assets</b>			
<b>Fixed assets</b>	(1)		
Intangible assets		40.3	21.6
Tangible assets		7,352.2	6,698.1
Financial assets		5,502.6	4,494.7
		<b>12,895.1</b>	<b>11,214.4</b>
<b>Current assets</b>			
Inventories	(2)	2,811.6	2,686.8
Receivables and other assets	(3)	5,533.9	5,741.8
Securities	(4)	10.4	250.8
Cash on hand, deposits at German Federal Bank and postal giro balances, cash in banks		6,371.0	6,063.6
		<b>14,726.9</b>	<b>14,743.0</b>
<b>Prepaid and deferred charges</b>	(5)	<b>172.3</b>	<b>189.1</b>
		<b>27,794.3</b>	<b>26,146.5</b>
<b>Stockholders' equity and liabilities</b>			
	Note	Dec. 31, 1988	Dec. 31, 1987
<b>Stockholders' equity</b>			
Subscribed capital	(6)	1,500.0	1,500.0
Ordinary shares	1,200.0		
Non-voting preferred shares	300.0		
Potential capital	400.0		
Capital reserve	(7)	3,020.0	2,803.2
Revenue reserves	(8)	2,768.5	2,549.9
Net earnings available for distribution		308.5	307.6
		<b>7,597.0</b>	<b>7,160.7</b>
<b>Special items with an equity portion</b>	(9)	<b>2,194.2</b>	<b>1,955.6</b>
<b>Undetermined liabilities</b>	(11)	<b>12,756.1</b>	<b>11,585.8</b>
<b>Liabilities</b>	(12)	<b>5,247.0</b>	<b>5,444.4</b>
		<b>27,794.3</b>	<b>26,146.5</b>

## Statement of Earnings of Volkswagen AG

	Note	1988 DM million	1987 DM million
<b>Sales</b>	(13)	<b>44,237.1</b>	<b>43,198.6</b>
Cost of sales		40,640.0	39,954.4
<b>Gross profit</b>		<b>+ 3,597.1</b>	<b>+ 3,244.2</b>
Selling and distribution expenses		2,318.1	2,207.7
General administration expenses		730.1	707.5
Other operating income	(14)	1,779.1	2,152.1
Other operating expenses	(15)	1,680.0	2,023.3
Results from participations	(16)	+ 631.7	+ 749.0
Interest results	(17)	+ 396.9	+ 384.7
Write-down of financial assets and securities classified as current assets		165.9	633.8
<b>Results from ordinary business activities</b>		<b>+ 1,510.7</b>	<b>+ 957.7</b>
Taxes on income		987.5	463.6
<b>Net earnings</b>		<b>523.2</b>	<b>494.1</b>

**Notes on the Financial Statements of the Volkswagen Group and Volkswagen AG for the Fiscal Year ended Dec. 31, 1988**

**Financial statements in accordance with commercial law**

The financial statements of the Volkswagen Group and Volkswagen AG have been prepared in accordance with the provisions of the West German Commercial Code.

In order to improve clarity,

we have combined certain individual items in the balance sheet and the statement of earnings. These items are shown separately in the notes on the financial statements. In the interest of improved international comparabi-

lity, the statements of earnings have been prepared according to the cost of sales method.

All figures for the Volkswagen Group and Volkswagen AG are given in DM million.

**Scope of consolidation**

The fully consolidated Group companies comprise all companies in which Volkswagen AG has a direct or indirect interest of over 50 % and which are under unified direction. Apart from Volkswagen AG, this involves 22 German Group companies and 51 foreign Group companies.

Three companies were included in the consolidated financial statements as fully consolidated subsidiaries for the first time in the year under report, while five companies ceased to be fully consolidated Group companies.

Three German and six foreign Group companies were not consolidated. These companies do not conduct any business and/or it is not intended to maintain a permanent interest in them.

The interRent group, comprising interRent Autover-

mietung GmbH, Hamburg, Selbstfahrer Union GmbH, Hamburg, interRent S.A., Brussels, and interRent Trucks S.A., Brussels, has ceased to be fully consolidated. These companies have been brought into Europcar International S.A., Boulogne-Billancourt, a company run jointly with Compagnie Internationale des Wagons-Lits et du Tourisme S.A., Brussels. Volkswagen AG has a direct 50 % holding in this company group. As a joint venture, Europcar International S.A., Boulogne-Billancourt, with 19 subsidiaries and three associated companies, is included in the consolidated financial statements on a pro rata basis in accordance with the percentage holding of Volkswagen AG.

The AUTOLATINA companies, which are likewise run as joint ventures, have been included in the consolidated financial

statements on a pro rata basis.

28 German and eight foreign companies in which participations are held and on which Volkswagen AG or another Group company exerts a significant influence are included in the consolidated financial statements as associated companies on the basis of the proportionate net worth (equity method).

An overview of the fully consolidated Group companies, major joint ventures, associated companies and other companies in which participations are held is given on pages 34 and 35. A list detailing all interests held by the Volkswagen Group and Volkswagen AG is deposited in the Wolfsburg register of companies under HRB 215. It can also be obtained direct from Volkswagen AG\*).

\*) The full address is given on the last page of this Annual Report.

## Consolidation principles

The assets and liabilities of the German and foreign companies included in the consolidated financial statements are shown in accordance with the uniform accounting and valuation methods used within the Volkswagen Group. In the case of the associated companies, their own figures are used as the basis for determining the proportionate stockholders' equity, except in cases where the figures for foreign Group companies have to be adjusted to bring them into line with German accounting regulations.

Capital consolidation for the companies included in

the consolidated financial statements for the first time and determination of figures for associated companies are carried out on the basis of the revaluation or share method. The AUTOLATINA companies and the Europcar group are included in the consolidated financial statements pro rata in accordance with the provisions to be applied for full consolidation.

The goodwill arising from the proportionate initial consolidation of Europcar International S.A., Boulogne-Billancourt, has been set off against the revenue reserves. Receivables, liabilities,

expenses and income arising between individual consolidated companies are eliminated. Group inventories and used assets are adjusted to eliminate intra-Group profits and losses.

Consolidation operations affecting results are subject to apportionment of deferred taxes. Deferred tax liabilities in connection with consolidation operations are set off against the assets-side balance of deferred taxes from the individual companies' financial statements, although these last-mentioned deferred taxes are not shown in the balance sheets.

## Translation of currencies

For the purpose of the consolidated financial statements, additions to tangible assets in the individual financial statements of foreign companies and the amounts brought forward in respect of companies consolidated for the first time are translated at the average rates for the months of acquisition. Depreciation and disposals are translated at middle rates weighted in line with the monthly additions (historical rates).

With the exception of loans, financial assets are translated at the rates applying on the date of acquisition and are carried forward on this basis. Loans are translated at the middle rate for the balance-sheet date.

In countries with high inflation, the raw materials and supplies, work in progress, finished goods and

merchandise shown under inventories are translated into DM at historical rates.

The other assets and liabilities are translated at the middle rate for the balance-sheet date.

The change in currency translation differences which results from the exchange rate development in the current year is treated as having an effect on the result.

Average monthly rates are used for the most part in the statement of earnings. However, write-downs of financial assets are taken over on a historical basis. The depreciation of tangible assets which is included in cost of sales, selling and distribution expenses and general administration expenses is likewise translated at historical rates. The cost of sales from the financial

statements of the Latin American Group companies is included in the consolidated statement of earnings in the form of historical values. In countries with high inflation, the inflation-related components of interest expenses and interest income have been combined with the exchange rate differences and translation differences.

In the individual financial statements of Volkswagen AG, receivables and liabilities in foreign currencies are valued at the rate applying at the time the initial entry was made or the rate applying on the balance-sheet date if this is less favourable. Receivables which are matched by liabilities in the same currency and amount and with the same maturity are translated at the same rate. Participations are stated on the basis of the rate applying at the time they were acquired.

## Accounting and valuation principles

The accounting and valuation methods used in the previous year have been retained.

**Intangible Assets** are shown at acquisition cost and depreciated pro rata temporis.

**Tangible Assets** are valued at acquisition or manufacturing cost minus depreciation. Investment subsidies are deducted or depreciated. Manufacturing cost is determined on the basis of the directly attributable cost of materials and labour cost as well as proportionate material overheads and production overheads including depreciation. Administration expenses are not taken into account.

The regular straight-line depreciation is based for the most part on the following useful lives:

Buildings 25–50 years

Technical buildings and site utilities 10–18 years

Production machinery 6–8 years

Power generators 14 years

Factory and office equipment 4–8 years

Special tools, jigs and fixtures are amortized using unit rates based on expected production quantities.

On the basis of the opportunities offered by tax law, Group companies in West Germany charge regular depreciation on tangible assets pro rata temporis using the declining-balance method with a scheduled changeover to the straight-line method at a later date, in each case taking account of the number of shifts run. In the financial statements of Volkswagen AG, depreciation on additions during the first half of the year is charged at the full annual rate and depreciation on additions during the second half of the year is charged at half the annual rate, on the basis of the provisions for simplification contained in tax law.

Low-value assets are fully depreciated and deleted from the accounts in the year of acquisition.

Differences between the values required under commercial law and those permitted under tax law are shown under the special items with an equity portion. The value of the tangible assets is thus increased by an amount corresponding to this total.

**Holdings in Affiliated Companies and Participations** are shown by Volkswagen AG at acquisition cost or the lower applicable value.

**Long-Term Financial Investments** are valued at acquisition cost or at the market price applying at the end of the year if this is lower.

Under **Loans** the interest-free and low-interest loans granted by German Group companies are discounted; the values thus determined have been retained in accordance with tax regulations. Loans granted by foreign Group companies are stated at cash value.

Within **Inventories**, raw materials and supplies as well as merchandise are valued at average acquisition cost or the lower replacement cost.

For German Group companies, possible deductions from the value of imported goods as provided for in § 80 of the Income Tax Directive are allocated to the special items with an equity portion.

In addition to direct materials, the values given for work in progress and finished goods also comprise direct labour, material overheads and production overheads including depreciation and commensurate administration expenses. In the case of German companies, only the manufacturing cost to be stated in accordance with tax-law provisions is taken into account.

Provision is made for all discernible storage and inventory risks by way of adequate value adjustments.

**Receivables and Other Current Assets** are stated at the nominal amount. Provision is made for discernible individual risks and general credit risks by way of appropriate value adjustments.

**Securities** classified as current assets are stated at acquisition cost or at the market price on the balance-sheet date where lower, unless lower values are permissible in order to prevent future value fluctuations.

**Undetermined Liabilities for Pensions and Similar Obligations** are based on actuarial computation and the going-value method for German companies, taking an interest rate of 6 %, and on comparable principles for foreign companies.

Provision is made for discernible risks and uncertain liabilities by way of adequate allocations to **Undetermined Liabilities**.

**Liabilities** are shown at the amount at which they must be repaid.

The figures given for **Contingent Liabilities** correspond to the extent of the liability.

In the statements of earnings prepared according to the cost of sales method, expenses are allocated to the fields of production, selling/distribution and general administration on the basis of cost-accounting rules.

**Cost of Sales** comprises all expenses relating to production and material procurement, all expenses relating to merchandise, research and development costs and expenses in connection with warranties and product liability.

**Selling and Distribution Expenses** comprise labour cost and cost of materials for our selling and distribution departments as well as costs in connection with freight, advertising, market research and service.

**General Administration Expenses** comprise the labour cost and cost of materials for the administration departments.

**Other Taxes** are allocated in full to the individual functional areas.

## Notes on the Balance Sheet

### (1) Fixed assets

A breakdown of the fixed-asset items condensed in the balance sheets and their development during the year under report can be found on pages 108 to 111.

The book value of the Group fixed assets on balance-sheet date was DM 20,642.7 million. This figure comprises intangible, tangible, financial and leasing and rental assets.

Intangible assets
Tangible assets
Leasing and rental assets

As the interRent companies ceased to be fully consolidated Group companies and have now been incorporated in the consolidated financial statements on a pro rata basis via Europcar International S.A., the fixed assets of the companies no longer fully consolidated are shown in the development of fixed assets as disposals and the fixed assets of the Europcar group as additions.

The book value of the fixed assets of Volkswagen AG on balance-sheet date was DM 12,895.1 million. This figure comprises intangible, tangible and financial assets.

Additions to intangible and tangible assets and additions to leasing and rental assets were as follows:

	Volkswagen Group	Volkswagen AG
	DM million	DM million
Intangible assets	130.6*)**)	24.4
Tangible assets	3,677.0**)	2,513.0
Leasing and rental assets	3,446.8**)	-

\*) Incl. adjustment item arising from initial consolidation, totaling DM 74.3 million

\*\*\*) Incl. amounts brought forward in respect of companies consolidated for the first time

Depreciation for the fiscal year was as follows:

Intangible assets
Tangible assets
Leasing and rental assets

	Volkswagen Group	Volkswagen AG
	DM million	DM million
Intangible assets	12.6	9.0
Tangible assets	3,036.2	1,781.5
Leasing and rental assets	1,702.2	-

The following companies became fully consolidated Group companies in the last fiscal year:

VW-GEDAS & Co.  
Projektmanagement OHG,  
Berlin

Volkswagen  
United Kingdom Ltd.,  
London

Seat France S.A.,  
Saint-Ouen-L'Aumône

Volkswagen United Kingdom Ltd., which was

established in 1987, has been fully consolidated since commencing business operations in 1988. Agencia Libre de Seguros, S.L. (ALSE), which became a fully consolidated Group company in 1987, now operates under the name Coissa S.L.

Pertec Systems, Inc. has been merged with Volkswagen of America, Inc.

As a result of the cooperation agreement with Compagnie Internationale des Wagons-Lits et du Tourisme, S.A., Brussels, the scope of consolidation has been expanded to include the proportionate holdings in the Europcar companies. In addition to the companies which were already fully consolidated in the past, these comprise the following:

Europcar International S.A., Boulogne-Billancourt

Europcar International & Cie. (SNC), Saint-Quentin-en-Yvelines

Locatruck Rental S.A., Brussels

Europcar S.A., Brussels

Europcar Holding Ltd., Watford

Godfrey Davis Europcar Ltd., Watford

CAROP Godfrey Davis Europcar Ltd., Watford

S.A. pour la représentation de la Compagnie Internationale Europcar, Zurich

Europcar Autoverhuur B.V., Amsterdam

Godfrey Davis Autoverhuur B.V., Amsterdam

Ravero Autoverhuur B.V., Amsterdam

Europcar Italia S.p.A., Rome

Europcar IB S.A., Madrid

Europcar International Aluguer de Automoveis LDA, Lisbon

Europcar International S.A. & Co. OHG, Hamburg

interRent Immobilien GmbH, Hamburg

On account of the special circumstances, Volkswagen TM Bulgaria, Sofia, which was established in 1988 in cooperation with the Association for Heavy Mechanical Engineering, Bulgaria, and TAS Tvoronica Automobila Sarajevo, Vojvodina, in which Volkswagen AG has a 49 % holding, are not included in the consolidated financial statements and are treated as participations.

The group of associated companies now additionally includes V.A.G Leasing GmbH & Co. Besitz oHG, Berlin. The holdings valued using the equity method also include Volkswagen Asia, Ltd., Tokyo, a subsidiary which is not consolidated on account of its minor significance.

Volkswagen AG now additionally has holdings in the following companies:

Coordination Center Volkswagen S.A., Brussels

Europcar International S.A., Boulogne-Billancourt

Volkswagen TM Bulgaria, Sofia

VW-GEDAS & Co. Projektmanagement OHG, Berlin

V.A.G Leasing GmbH & Co Besitz oHG, Berlin

Institut für Management und Technologie IMT GmbH, Berlin

The addition of DM 250.7 million to the long-term financial investments of the Volkswagen Group results in particular from long-term investments in a special security fund at a German subsidiary.

The Volkswagen Group's "Other loans" relate above all to loans by our American subsidiaries which arose from the sale of plant installations. Apart from these, this item primarily comprises loans to employees.

**Development of Fixed Assets of the Volkswagen Group  
(DM million)**

	Acquisition or manufac- turing cost Jan. 1, 1988	Amounts brought forward <sup>1)</sup>
<b>Intangible Assets<sup>2)</sup></b>		
Concessions, industrial and similar rights (e.g. patents) and licences in such rights	28.2	1.5
Payments on account	2.8	-
	<b>31.0</b>	<b>1.5</b>
<b>Tangible Assets</b>		
Land, land rights and buildings incl. buildings on land owned by others	11,488.8	15.5
Technical equipment and machinery	15,124.3	-
Other equipment and factory and office equipment	11,431.2 <sup>3)</sup>	16.7
Payments on account and construction in progress	1,441.4	-
	<b>39,485.7</b>	<b>32.2</b>
<b>Financial Assets</b>		
Holdings in affiliated companies	54.1	1.0
Loans to affiliated companies	0.7	-
Holdings in associated companies	181.5	-
Participations	657.8	-
Loans to associated companies and companies linked through participation	7.4	-
Long-term financial investments	57.1	-
Other loans	903.3	-
Other financial assets	12.2	2.6
	<b>1,874.1</b>	<b>3.6</b>
	<b>41,390.8</b>	<b>37.3</b>
	<b>7,161.4</b>	<b>351.0</b>
<b>Leasing and Rental Assets</b>		

<sup>1)</sup> Amounts brought forward in respect of companies consolidated for the first time

<sup>2)</sup> Acquired goodwill has been set off against the revenue reserves.

<sup>3)</sup> The amount brought forward has been adjusted by DM 1.4 million to take account of a revaluation from the previous year.

<sup>4)</sup> Including exchange rate differences in the amount of DM -81.9 million.

<sup>5)</sup> Including exchange rate differences in the amount of DM 47.7 million.

For tax reasons, a total of DM 37.3 million in respect of write-downs on loans has not been written back.

Additions	Transfers	Disposals	Acquisition or manufacturing cost Dec. 31, 1988	Accumulated depreciation	Book-values Dec. 31, 1988	Depreciation (current year)
26.7	4.1	1.2	59.3	14.2	45.1	12.6
28.1	0.3	-	31.2	-	31.2	-
<b>54.8</b>	<b>4.4</b>	<b>1.2</b>	<b>90.5</b>	<b>14.2</b>	<b>76.3</b>	<b>12.6</b>
421.8	166.1	199.5	11,892.7	6,080.9	5,811.8	503.7
982.5	446.2	597.5	15,955.5	12,637.0	3,318.5	1,335.0
966.2	353.9	613.1	12,154.9	9,084.0	3,070.9	1,189.2
1,274.3	-979.3	67.4	1,669.0	34.5	1,634.5	8.3
<b>3,644.8</b>	<b>- 13.1</b>	<b>1,477.5</b>	<b>41,672.1</b>	<b>27,836.4</b>	<b>13,835.7</b>	<b>3,036.2</b>
20.8	0	8.1	67.8	6.2	61.6	5.2
0.4	- 0.5	-	0.6	-	0.6	-
81.3	-	4.0	258.8	24.7	234.1	0.6
4.6	0	0	662.4	406.3	256.1	154.5
-	-	0.2	7.2	6.7	0.5	-
250.7	4.1	56.1	255.8	5.7	250.1	4.8
74.6	0.5	- 34.7 <sup>4)</sup>	1,013.1	515.3 <sup>5)</sup>	497.8	19.8
7.7	- 4.1	0	18.4	15.4	3.0	8.2
<b>440.1</b>	<b>-</b>	<b>33.7</b>	<b>2,284.1</b>	<b>980.3</b>	<b>1,303.8</b>	<b>193.1</b>
<b>4,139.7</b>	<b>- 8.7</b>	<b>1,512.4</b>	<b>44,046.7</b>	<b>28,830.9</b>	<b>15,215.8</b>	<b>3,241.9</b>
<b>3,095.8</b>	<b>8.7</b>	<b>2,566.9</b>	<b>8,050.0</b>	<b>2,623.1</b>	<b>5,426.9</b>	<b>1,702.2</b>
					<b>20,642.7</b>	

**Development of Fixed Assets of Volkswagen AG  
(DM million)**

	Acquisition or manufac- turing cost Jan. 1, 1988	Additions
<b>Intangible Assets</b>		
Concessions, industrial and similar rights (e.g. patents) and licences in such rights	19.3	20.9
Payments on account	2.7	3.5
	<b>22.0</b>	<b>24.4</b>
<b>Tangible Assets</b>		
Land, land rights and buildings incl. buildings on land owned by others	5,173.9	232.8
Technical equipment and machinery	8,620.1	773.4
Other equipment and factory and office equipment	6,362.5	672.6
Payments on account and construction in progress	976.6	834.2
	<b>21,133.1</b>	<b>2,513.0</b>
<b>Financial Assets</b>		
Holdings in affiliated companies	5,801.9	996.6
Loans to affiliated companies	346.5	1.5
Participations	818.3	194.2
Loans to companies linked through participation	7.2	-
Other loans	212.6	42.8
	<b>7,186.5</b>	<b>1,235.1</b>
<b>Total Fixed Assets</b>	<b>28,341.6</b>	<b>3,772.5</b>

For tax reasons, a total of DM 33.7 million in respect of write-downs on loans has not been written back.

Transfers	Disposals	Acquisition or manufacturing cost Dec. 31, 1988	Accumulated depreciation	Book-values Dec. 31, 1988	Depreciation (current year)
3.3	-	43.5	9.4	34.1	9.0
0	-	6.2	-	6.2	-
<b>3.3</b>	<b>-</b>	<b>49.7</b>	<b>9.4</b>	<b>40.3</b>	<b>9.0</b>
140.1	34.8	5,512.0	3,137.2	2,374.8	260.4
279.5	230.1	9,442.9	7,505.9	1,937.0	882.2
304.2	218.6	7,120.7	5,114.8	2,005.9	638.9
- 727.1	49.2	1,034.5	-	1,034.5	-
<b>- 3.3</b>	<b>532.7</b>	<b>23,110.1</b>	<b>15,757.9</b>	<b>7,352.2</b>	<b>1,781.5</b>
-	42.6	6,755.9	2,302.5	4,453.4	0.2
-	2.5	345.5	37.4	308.1	0.8
-	0.1	1,012.4	429.6	582.8	155.2
-	0.2	7.0	6.6	0.4	-
-	29.6	225.8	67.9	157.9	9.7
<b>-</b>	<b>75.0</b>	<b>8,346.6</b>	<b>2,844.0</b>	<b>5,502.6</b>	<b>165.9</b>
<b>-</b>	<b>607.7</b>	<b>31,506.4</b>	<b>18,611.3</b>	<b>12,895.1</b>	<b>1,956.4</b>

## Notes on the Balance Sheet

### (2) Inventories

	Volkswagen Group		Volkswagen AG	
	Dec. 31, 1988 DM million	Dec. 31, 1987 DM million	Dec. 31, 1988 DM million	Dec. 31, 1987 DM million
Raw materials and supplies	1,529.2	1,611.2	604.7	568.9
Work in progress	1,833.7	1,770.3	1,148.4	1,140.8
Finished goods and merchandise	3,117.6	3,228.8	1,036.3	971.1
Advance payments	25.5	7.6	22.2	6.0
	<b>6,506.0</b>	<b>6,617.9</b>	<b>2,811.6</b>	<b>2,686.8</b>

### (3) Receivables and other current assets

	Volkswagen Group		Volkswagen AG	
	Dec. 31, 1988 DM million	Dec. 31, 1987 DM million	Dec. 31, 1988 DM million	Dec. 31, 1987 DM million
Trade receivables	2,548.9	1,948.8	703.1	352.8
– of which amounts due in more than one year	( 13.1)	( 12.4)	( 6.1)	( 3.4)
Receivables from affiliated companies	4.7	6.7	3,572.4	4,353.5
– of which trade receivables	( 4.4)	( 3.0)	( 599.1)	(1,398.8)
– of which amounts due in more than one year	( –)	( –)	(1,516.2)	(1,056.1)
Receivables from companies in which participations are held	353.9	299.3	221.3	281.1
– of which trade receivables	( 132.2)	( 203.4)	( 92.3)	( 173.9)
– of which amounts due in more than one year	( –)	( –)	( –)	( –)
Other current assets	8,621.9	6,900.2	1,037.1	754.4
– of which amounts due in more than one year	(2,464.6)	(2,060.3)	( 231.9)	( 241.3)
	<b>11,529.4</b>	<b>9,155.0</b>	<b>5,533.9</b>	<b>5,741.8</b>

Significant items under the Group's "Other current assets" are the receivables relating to the business activities of our leasing and finance companies.

The "Receivables from affiliated companies" shown by Volkswagen AG include medium-term loans. Roughly half of the "Other current assets" relate to amounts which

do not come into being in law until after the balance-sheet date, such as interest claims as well as cost and tax refunds not yet due.

#### (4) Securities

	Volkswagen Group		Volkswagen AG	
	Dec. 31, 1988 DM million	Dec. 31, 1987 DM million	Dec. 31, 1988 DM million	Dec. 31, 1987 DM million
Treasury stock	5.4	16.7	5.4	16.7
Other securities	483.1	408.8	5.0	234.1
	<b>488.5</b>	<b>425.5</b>	<b>10.4</b>	<b>250.8</b>

Treasury stock was acquired in 1971 in connection with a conversion offer to Audi stockholders on the occasion of a capital increase. The average price was DM 190.04 per share. On the occasion of the company's fiftieth anniversary in 1988, Volkswagen AG gave away to current and former employees treasury stock amounting to 159,924 ordinary shares with a nominal value of DM 7,996,200,

corresponding to 0.5 % of the capital stock. It also sold 908 shares with a nominal value of DM 45,400 to domestic subsidiaries, for which it received DM 236,080. The proceeds of the sale were incorporated in the net earnings for the year.

Volkswagen AG still holds treasury stock in the form of 76,473 shares with a nominal value of DM 3,823,650; this corres-

ponds to 0.3 % of the capital stock.

The reserve required by law for treasury stock exists in the amount of the relevant balance-sheet value. It was adjusted in 1988 to take account of the change in the holding of treasury stock.

"Other securities" relate primarily to short-term money market papers held by the AUTOLATINA companies.

#### (5) Prepaid and deferred charges

This item comprises for the most part those amounts not yet dissolved and charged to interest expenses in respect of

the contra items to the transfers to the legal reserve made in connection with the issue of warrants with low-interest bonds.

The amounts in question are DM 239.2 million for the Volkswagen Group and DM 169.5 million for Volkswagen AG.

#### (6) 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 preferred shares with nominal value of 50 DM. In addition, there is an authorized

capital stock of DM 300 million, expiring on June 30, 1989.

A potential capital stock of DM 200 million can be utilized up to a total of DM 97.5 million by the holders of the 192,000 warrants attaching to the option bonds issued in 1986.

Additional potential capital stock of DM 200 million was created in 1988. This can be utilized up to a total of DM 193.5 million by the holders of the 944,000 warrants attaching to the option bonds issued in 1988 by Volkswagen International Finance N.V., Amsterdam.

## Notes on the Balance Sheet

### (7) Capital reserve

	Volkswagen Group		Volkswagen AG	
	Dec. 31, 1988	Dec. 31, 1987	Dec. 31, 1988	Dec. 31, 1987
	DM million	DM million	DM million	DM million
	3,020.0	2,803.2	3,020.0	2,803.2
The capital reserve consists of the premium of DM 2,590.7 million on the capital increases and the premium of DM 429.3 million on the issue of option bonds. In the year under report DM 216.8 million were allocated to the capital			reserve in respect of the proceeds for the subscription rights on shares deriving from the three option bonds issued.	

### (8) Revenue reserves

	Volkswagen Group		Volkswagen AG	
	Dec. 31, 1988	Dec. 31, 1987	Dec. 31, 1988	Dec. 31, 1987
	DM million	DM million	DM million	DM million
Legal reserve	60.0	60.0	60.0	60.0
Reserve for treasury stock	5.4	16.7	5.4	16.7
Other revenue reserves	5,954.2	5,615.7	2,703.1	2,473.2
	<b>6,019.6</b>	<b>5,692.4</b>	<b>2,768.5</b>	<b>2,549.9</b>
DM 11.3 million have been withdrawn from the reserve for treasury stock to take account of the disposal of treasury stock. An amount of DM 230.0 million was transferred			from the net earnings of Volkswagen AG to "Other revenue reserves" in accordance with § 58 subsection 2 of the German Corporation Act. The goodwill of DM 74.3 million deriving from the proportionate initial consolidation of Europcar International S.A., Boulogne-Billancourt, has been set off against the Volkswagen Group's "Other revenue reserves".	

### (9) Special items with an equity portion

	Volkswagen Group		Volkswagen AG	
	Dec. 31, 1988	Dec. 31, 1987	Dec. 31, 1988	Dec. 31, 1987
	DM million	DM million	DM million	DM million
Reserves for tax purposes	193.9	249.9	148.3	176.9
Depreciation for tax purposes	2,257.8	1,952.9	2,045.9	1,778.7
	<b>2,451.7</b>	<b>2,202.8</b>	<b>2,194.2</b>	<b>1,955.6</b>
Volkswagen AG has reserves in accordance with § 52 subsection 5 of the Income Tax Act, Section 35 of the Income Tax Guidelines and § 1 of the Developing Countries Tax Act. Depreciation for tax purposes comprises value adjustments in accordance with § 3 of the Border Area Promotion Act, § 7 d of the Income Tax Act, § 82 d of the Income Tax Directive, § 6 b of the Income Tax Act/Section 35 of the Income Tax Guidelines and § 80 of the Income Tax Directive. The consolidated financial statements also include special items with an equity portion deriving			from value adjustments in accordance with § 82 a of the Income Tax Directive and § 14 of the Berlin Promotion Act. Two foreign subsidiaries have created special items with an equity portion on the basis of corresponding national regulations.	

**(10) Special item for investment subsidies**

The special item for investment subsidies, amounting to DM 9.7 million (1987: DM 9.4

million), stems from the financial statements of a foreign company.

**(11) Undetermined liabilities**

	<b>Volkswagen Group</b>		<b>Volkswagen AG</b>	
	Dec. 31, 1988 DM million	Dec. 31, 1987 DM million	Dec. 31, 1988 DM million	Dec. 31, 1987 DM million
Undetermined liabilities for pensions and similar obligations	6,314.5	5,889.1	5,448.4	5,046.0
Undetermined liabilities in respect of taxes	1,357.5	924.7	1,156.0	839.4
Other undetermined liabilities	9,418.2	8,050.3	6,151.7	5,700.4
	<b>17,090.2</b>	<b>14,864.1</b>	<b>12,756.1</b>	<b>11,585.8</b>

Other undetermined liabilities comprise among other things undetermined liabilities for war-

ranty obligations, miscellaneous selling and distribution expenses, long-service awards, early

retirement schemes and other workforce-related costs.

## Notes on the Balance Sheet

### (12) Liabilities

Type of liability	Volkswagen Group			
	Total Dec. 31, 1988	of which payable within up to 1 year	Total Dec. 31, 1987	of which payable within up to 1 year
	DM million	DM million	DM million	DM million
Loans	1,963.4	203.0	1,123.0	-
- of which convertible	( -)	( -)	( -)	( -)
Liabilities due to banks	9,204.5	7,646.8	7,516.6	6,181.5
Advance payments received	149.6	149.6	323.4	323.4
Trade payables	4,150.3	4,149.4	3,562.2	3,562.0
Notes payable	132.0	131.0	195.1	192.0
Amounts payable to affiliated companies	0.2	0.2	0.1	0.1
Amounts payable to companies in which participations are held	159.4	159.4	205.4	205.4
Other liabilities	3,203.2	2,734.3	2,892.0	2,379.5
- of which taxes	( 693.3)	( 693.3)	( 617.6)	(617.6)
- of which in respect of social insurance	( 439.3)	( 430.2)	( 427.9)	(390.6)
	<b>18,962.6</b>	<b>15,173.7</b>	<b>15,817.8</b>	<b>12,843.9</b>

The Volkswagen Group's liabilities payable within more than five years amount to DM 1,928.7 million (1987: DM 1,217.5 million). Of this total, DM 1,466.5 million are accounted for by loans, DM 208.9 million by liabilities due to banks and DM 253.3 million by other liabilities. For Volkswagen AG, liabilities payable

within more than five years total DM 783.1 million (1987: DM 769.7 million). Liabilities due to banks account for DM 20.6 million, while DM 762.5 million consists of amounts payable to affiliated companies.

Of the liabilities shown in the consolidated balance sheet, a total of DM

1,312.9 million is secured through pledges or similar. In most cases the securities furnished take the form of assignment or charges on real estate. There are also securities in the form of transfer of ownership and, in the case of supply of goods, the usual retention of title.

**Volkswagen AG**

Total Dec. 31, 1988	of which payable within up to 1 year	Total Dec. 31, 1987	of which payable within up to 1 year	Type of liability
DM million	DM million	DM million	DM million	
-	-	-	-	Loans
( -)	( -)	( -)	( -)	- of which convertible
728.9	697.7	898.0	888.2	Liabilities due to banks
31.7	31.7	254.1	254.1	Advance payments received
1,921.7	1,921.7	1,825.8	1,825.8	Trade payables
-	-	-	-	Notes payable
1,091.4	328.9	1,063.6	301.1	Amounts payable to affiliated companies
125.8	125.8	70.7	70.7	Amounts payable to companies in which participations are held
1,347.5	1,347.5	1,332.2	1,302.2	Other liabilities
( 431.5)	( 431.5)	( 501.7)	( 501.7)	- of which taxes
( 331.3)	( 331.3)	( 266.7)	( 236.8)	- of which in respect of social insurance
<b>5,247.0</b>	<b>4,453.3</b>	<b>5,444.4</b>	<b>4,642.1</b>	

## Notes on the Balance Sheet

### Contingencies and commitments

	Volkswagen Group		Volkswagen AG	
	Dec. 31, 1988 DM million	Dec. 31, 1987 DM million	Dec. 31, 1988 DM million	Dec. 31, 1987 DM million
Contingent liabilities with respect to notes	524.9	575.0	1,705.4	1,896.5
Contingent liabilities with respect to guarantees	162.2	81.3	501.1	483.5
Contingent liabilities with respect to warranties	103.5	47.7	786.7	227.1
Pledges on company assets to secure another party's liabilities	17.2	20.1	—	—
Other contingent liabilities	0.9	0.9	—	—

For the loans granted to Volkswagen AG by Volkswagen International Finance N.V. and stemming from bond issues by this company, Volkswagen AG

has given guarantees to all the bondholders in the same amount. The guarantees are for DM 250 million in the case of a DM bond and for US \$ 150

million in the case of a US dollar bond, the total figure amounting to DM 518 million.

### Additional details

In addition to the contingent liabilities, Volkswagen AG is liable in the amount of DM 9.5 million in the form of subscription obligations concerning private limited companies and in the amount of DM 361.0 million in respect of subscription obligations concerning foreign companies; it also has a contingent obligation towards a German company to pay a further contribution of DM 1.0 million. Volkswagen AG has unlimited

liability in respect of its holdings in Volkswagen AG PreussenElektra AG OHG, VW-GEDAS & Co. Projektmanagement OHG and V.A.G Leasing GmbH & Co Besitz oHG. Of the real estate, about 63 hectares (balance-sheet value DM 2.7 million) are encumbered with building leases. Out of the total securities classified as current assets, Volkswagen AG has pledged securities at a nominal value of DM 2.0 million to

safeguard routine handling of imports.

For affiliated companies, Volkswagen AG has furnished letters of support not subject to compulsory reporting in the amount of DM 243.2 million.

Liabilities to a cooperative and a private limited company (obligation to pay a further contribution in accordance with the Articles of Association) totalled DM 0.2 million.

### Other financial obligations

The Volkswagen Group's other financial obligations from long-term rental and leasing contracts amount annually to some DM 293.1 million. This figure includes payment obligations towards an associated leasing company in the form of future leasing instalments on the basis of average terms of 36

months; these obligations amount to DM 105.4 million for 1989 and are matched by corresponding claims on customers.

The other financial obligations of Volkswagen AG arising from long-term rental and leasing contracts amount annually to some DM 33.6 million. Of

this total, DM 2.1 million is in the form of obligations to affiliated companies.

The obligations in respect of capital investment projects have remained at the usual level in the case of both the Volkswagen Group and Volkswagen AG.

## Notes on the Statement of Earnings

### (13) Sales in 1988

	Volkswagen Group		Volkswagen AG	
	Total DM million	Share %	Total DM million	Share %
West Germany	22,653.5	38.3	19,970.3	45.1
Europe (excl. West Germany)	22,642.4	38.2	18,883.4	42.7
North America	5,828.4	9.8	2,448.0	5.5
Latin America	4,689.5	7.9	680.3	1.6
Africa	1,567.9	2.7	612.0	1.4
Asia / Oceania	1,839.4	3.1	1,643.1	3.7
<b>Total</b>	<b>59,221.1</b>	<b>100.0</b>	<b>44,237.1</b>	<b>100.0</b>

Vehicle sales of the Volkswagen Group in 1988 accounted for 79 % of sales proceeds, and part sales for 9 %. 12% related to other sales. As in 1987,

other sales include the proceeds from the sale of used assets of leasing and rental companies. In the case of Volkswagen AG, 79 % of sales were

accounted for by vehicle business, 7 % by part sales and 14 % by other sales.

### (14) Other operating income

	Volkswagen Group		Volkswagen AG	
	1988 DM million	1987 DM million	1988 DM million	1987 DM million
Other operating income	2,817.3	3,162.9	1,779.1	2,152.1
– of which income from elimination of special items with an equity portion	( 464.7)	( 439.9)	( 384.6)	( 379.8)

Apart from income from elimination of special items with an equity portion, the other operating income of the Volkswagen Group resulted primarily from differences from the translation of the items in the statements of earnings of consolidated foreign companies, elimination of undetermined liabilities,

leasing and rental business, sale of catering goods, disposal of fixed assets, rebilling of warranty costs and handling of foreign exchange transactions.

In addition to income from the elimination of special items with an equity portion, the other operating

income of Volkswagen AG resulted mainly from rebilling of costs to affiliated companies, elimination of undetermined liabilities for labour and selling expenses and receipt of investment subsidies.

## Notes on the Statement of Earnings

### (15) Other operating expenses

	Volkswagen Group		Volkswagen AG	
	1988 DM million	1987 DM million	1988 DM million	1987 DM million
Other operating expenses	2,779.6	2,231.5	1,680.0	2,023.3
– of which transfers to special items with an equity portion	( 713.7)	( 815.6)	( 623.2)	( 731.7)

The other operating expenses of the Volkswagen Group also include the result from balance-sheet currency translation with an effect on earnings, depreciation of current assets and expenses for various risks.

In addition to transfers to the special items with an

equity portion, the other operating expenses of Volkswagen AG relate in particular to expenses rebilled to subsidiaries.

The Volkswagen Group charged depreciation for tax purposes in the amount of DM 709.4 million on fixed assets and DM 0.2 million on current

assets. Of the depreciation charged for tax purposes by Volkswagen AG, DM 623.1 million was in respect of fixed assets and DM 0.1 million in respect of current assets.

### (16) Results from participations

	Volkswagen Group		Volkswagen AG	
	1988 DM million	1987 DM million	1988 DM million	1987 DM million
Income from participations	145.4	80.2	263.9	395.8
– of which from affiliated companies	( –)	( –)	(190.6)	(324.8)
– of which from associated companies	(135.9)	( 73.7)	( –)	( –)
Income from profit assumption agreements	–	–	405.4	353.2
Expenses from holdings in associated companies	54.2	–	–	–
Expenses from loss assumptions	0.4	–	37.6	–
	<b>90.8</b>	<b>80.2</b>	<b>631.7</b>	<b>749.0</b>

The income from participations shown for Volkswagen AG and the income from profit assumption

agreements include on-debited result-dependent taxes.

**(17) Interest results**

	<b>Volkswagen Group</b>		<b>Volkswagen AG</b>	
	1988 DM million	1987 DM million	1988 DM million	1987 DM million
Income from other securities and long-term loans	11.8	14.5	29.4	24.6
– of which from affiliated companies	( – )	( – )	( 24.7 )	( 20.3 )
Other interest and similar income	1,444.8	1,095.0	451.8	443.2
– of which from affiliated companies	( – )	( – )	( 162.4 )	( 118.0 )
Interest and similar expenses	841.4	898.6	84.3	83.1
– of which to affiliated companies	( – )	( – )	( 43.8 )	( 57.2 )
	<b>615.2</b>	<b>210.9</b>	<b>396.9</b>	<b>384.7</b>

To improve the information value of the financial statements, the inflation-related components of interest for the fiscal year 1988 have been set aside in countries with high

inflation, above all on account of the exceptional increase in the inflation rate in Brazil, and combined with the inflation-related components of other operating expenses and

other operating income. The previous year's figures have been adjusted accordingly.

**Other taxes**

The other taxes of the Volkswagen Group amount to DM 306.6 mil-

lion, while those of Volkswagen AG total DM 179.1 million.

## Notes on the Statement of Earnings

### Progression from net earnings to net earnings available for distribution in the financial statements of the Volkswagen Group and Volkswagen AG

	Volkswagen Group		Volkswagen AG	
	1988 DM million	1987 DM million	1988 DM million	1987 DM million
Net earnings	779.9	598.0	523.2	494.1
Net earnings of Volkswagen AG brought forward	+ 4.0	+ 3.5	+ 4.0	+ 3.5
Transfer from Volkswagen AG's reserve for treasury stock	+ 11.3	-	+ 11.3	-
Change in revenue reserves and in minority interest in same as well as change in minority interest in net earnings brought forward (Volkswagen AG: Transfer to other revenue reserves)	- 445.2	- 294.1	- 230.0	- 190.0
Minority interest in profit	- 42.1	- 16.7	-	-
Minority share in loss	+ 0.6	+ 16.9	-	-
<b>Net earnings available for distribution</b>	<b>308.5</b>	<b>307.6</b>	<b>308.5</b>	<b>307.6</b>

In order to facilitate comparison with the figures of other companies publishing financial statements, we have modified

the form of presentation used for derivation of the net earnings available for distribution.

### Total expenses for the period

	Volkswagen Group		Volkswagen AG	
	1988 DM million	1987 DM million	1988 DM million	1987 DM million
<b>Cost of materials</b>				
Raw materials and supplies, purchased goods	30,582.7	29,420.1	28,563.6	28,626.5
Purchased services	2,305.2	1,911.2	965.6	821.7
	<b>32,887.9</b>	<b>31,331.3</b>	<b>29,529.2</b>	<b>29,448.2</b>
<b>Labour cost</b>				
Wages and salaries	12,361.5	12,609.4	7,650.7	7,575.5
Social insurance and pension costs	2,782.1	2,582.7	1,777.3	1,949.1
- of which in respect of pensions	( 825.8)	( 987.5)	( 574.6)	( 739.0)
	<b>15,143.6</b>	<b>15,192.1</b>	<b>9,428.0</b>	<b>9,524.6</b>

## Other Particulars

The net earnings of the Volkswagen Group and Volkswagen AG have been reduced as a result of the creation of special items with an equity portion and by capitalizations not effected. The principal influencing factor is the creation of a special item in accordance with § 3 of the Border Area Promotion Act, particularly in the financial statements of Volkswagen AG.

As a consequence of these measures taken in

the fiscal year and earlier years and the resultant influence on tax expenses, the net earnings shown for Volkswagen AG and the net earnings of the Volkswagen Group are around 16 % lower than the figure which would otherwise have been shown.

Expenses attributable to other fiscal years amounted to DM 453.8 million for the Volkswagen Group and DM 362.4 million for Volkswagen AG.

Income not relating to the period under report totalled DM 454.3 million for the Volkswagen Group and DM 471.2 million for Volkswagen AG.

On the basis of U.K. standards, the net earnings of the Volkswagen Group totalled DM 983 million. Major differences between German law and U.K. accounting standards result from the differing treatment of depreciation for tax purposes, investment subsidies and leasing business.

### Total extraordinary depreciation is as follows

	Volkswagen Group		Volkswagen AG	
	1988 DM million	1987 DM million	1988 DM million	1987 DM million
Depreciation of tangible assets	134.1	486.3	1.2	0.1
Write-down of participations and discounting of financial assets	271.5	222.8	165.9	633.8
	<b>405.6</b>	<b>709.1</b>	<b>167.1</b>	<b>633.9</b>

### Average numbers of employees during the year

	Volkswagen Group		Volkswagen AG	
	1988	1987	1988	1987
Wage-earners	127,161	131,114	65,739	67,166
Salaried workers	70,234	73,943	37,022	38,929
Salaried staff	54,671	55,401	22,918	22,933
	<b>252,066</b>	<b>260,458</b>	<b>125,679</b>	<b>129,028</b>
Apprentices and trainees	6,462	6,667	4,171	4,128
	<b>258,528</b>	<b>267,125</b>	<b>129,850</b>	<b>133,156</b>

Autolatina Comércio, Negócios e Participações Ltda., São Paulo, and Autolatina Argentina S.A.,

Buenos Aires, had a total of 59,940 employees (1987: 55,393). The average number of persons

employed by Europcar International S.A., Boulogne-Billancourt, was 4,152.

**The workforce of Volkswagen AG is divided up as follows between the individual plants**

Wolfsburg	63,787
Hanover	18,809
Brunswick	7,245
Kassel	19,922
Emden	10,312
Salzgitter	9,775
	<b>129,850</b>

The members of the Board of Management and the Supervisory Board, together with changes in the membership of these bodies, are listed on pages 6 and 7 of this Annual Report.

The remuneration of the members of the Board of Management for the fiscal year 1988 totalled DM 12,012,698 in respect of Volkswagen AG and DM 12,473,308 in respect of the Group.

Retired members of the Board of Management and their surviving dependants received DM 5,982,490 in respect of Volkswagen AG and the Group. These payments are covered by undetermined liabilities for current pensions, amounting to DM 56,699,393, set up by Volkswagen AG and the Group.

The remuneration of the Supervisory Board amounted to DM 310,250 in respect of Volkswagen AG and the Group.

Interest-free loans granted to members of the Board of Management totalled DM 270,000 in respect of Volkswagen AG. They have an agreed term of four years. DM 90,000 were redeemed in 1988.

Loans totalling DM 143,000 have been granted to members of the Supervisory Board (amount redeemed in 1988: DM 18,000). The loans have an interest rate of 4 % and an agreed term of 12.5 years.

Wolfsburg, March 13, 1989

**VOLKSWAGEN AKTIENGESELLSCHAFT**

The Board of Management

**Audit certificate**

"Our audit, carried out in accordance with our professional duties, has established that the accounts, the annual financial statements and the consolidated financial statements comply with the provisions of the law. The annual financial statements and the consolidated financial statements are in line with generally accepted accounting principles and provide a true and fair view of the net assets position, financial situation and earnings situation of the joint stock company and the Group. The management report on the joint stock company and the Group is in accord with the annual financial statements and the consolidated financial statements."

Hanover, March 15, 1989

**TREUARBEIT Aktiengesellschaft**

Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Prof. Dr. Forster  
Auditor

Siepe  
Auditor

**The Volkswagen Group in Figures  
1979-1988**

Year	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Production (units)	1,000,000	1,100,000	1,200,000	1,300,000	1,400,000	1,500,000	1,600,000	1,700,000	1,800,000	1,900,000
Export (units)	400,000	450,000	500,000	550,000	600,000	650,000	700,000	750,000	800,000	850,000
Revenue (billion DM)	100	110	120	130	140	150	160	170	180	190
Profit (billion DM)	10	11	12	13	14	15	16	17	18	19
Employees (thousands)	1,000	1,100	1,200	1,300	1,400	1,500	1,600	1,700	1,800	1,900
Investment (billion DM)	10	11	12	13	14	15	16	17	18	19
Research & Development (billion DM)	5	5.5	6	6.5	7	7.5	8	8.5	9	9.5
Production (units)	1,000,000	1,100,000	1,200,000	1,300,000	1,400,000	1,500,000	1,600,000	1,700,000	1,800,000	1,900,000
Export (units)	400,000	450,000	500,000	550,000	600,000	650,000	700,000	750,000	800,000	850,000
Revenue (billion DM)	100	110	120	130	140	150	160	170	180	190
Profit (billion DM)	10	11	12	13	14	15	16	17	18	19
Employees (thousands)	1,000	1,100	1,200	1,300	1,400	1,500	1,600	1,700	1,800	1,900
Investment (billion DM)	10	11	12	13	14	15	16	17	18	19
Research & Development (billion DM)	5	5.5	6	6.5	7	7.5	8	8.5	9	9.5

	1979	1980	1981	1982	1983
<b>Sales</b> (DM million)	30,707	33,288	37,878	37,434	40,089
Change on previous year in %	15	8	14	- 1	7
Domestic	12,499	11,850	12,064	12,027	14,453
Abroad	18,208	21,438	25,814	25,407	25,636
Export of domestic Group companies	12,337	14,102	14,957	15,733	15,460
Net contribution of foreign Group companies	7,398	8,733	12,398	11,346	11,812
<b>Vehicle Sales</b> (thousand units)	2,539	2,495	2,279	2,120	2,127
Change on previous year in %	6	- 2	- 9	- 7	0
Domestic	901	788	738	672	750
Abroad	1,638	1,707	1,541	1,448	1,377
<b>Production</b> (thousand units)	2,542	2,574	2,246	2,130	2,116
Change on previous year in %	7	1	- 13	- 5	- 1
Domestic	1,558	1,499	1,410	1,381	1,413
Abroad	984	1,075	836	749	703
<b>Workforce</b> (thousand employees) <sup>1)</sup>	240	258	247	239	232
Change on previous year in %	16	8	- 4	- 3	- 3
Domestic	157	159	160	158	156
Abroad	83	99	87	81	76
<b>Capital Investments</b> (DM million) <sup>2)</sup>	3,100	4,279	4,851	4,892	4,858
Change on previous year in %	56	38	13	1	- 1
Domestic	2,374	3,163	3,089	3,654	3,476
Abroad	726	1,116	1,762	1,238	1,382
<b>Additions to Leasing and Rental Assets</b> (DM million)					
Change on previous year in %					
<b>Cash Flow</b> (DM million) <sup>3)</sup>	2,993	3,141	3,936	3,452	5,207
Change on previous year in %	15	5	25	- 12	51
<b>Net Earnings/Loss</b> (DM million)	667	321	136	-300	-215
<b>Dividend of Volkswagen AG</b> (DM million)	240	192	120	-	-
Ordinary shares (DM million)	240	192	120	-	-
Preferred shares (DM million)					

<sup>1)</sup> Workforce at year end; as of 1986 average over year

<sup>2)</sup> Up to 1983 including additions to leasing and rental assets

<sup>3)</sup> Up to 1983 including depreciation on and disposal of leasing and rental assets

1984	1985	1986	1987	1988	
45,671	52,502	52,794	54,635	59,221	<b>Sales</b> (DM million)
14	15	1	3	8	Change on previous year in %
14,638	16,171	18,839	22,555	22,653	Domestic
31,033	36,331	33,955	32,080	36,568	Abroad
20,108	24,025	23,414	22,898	24,395	Export of domestic Group companies
12,864	14,698	14,127	13,080	15,961	Net contribution of foreign Group companies
2,145	2,398	2,758	2,774	2,854	<b>Vehicle Sales</b> (thousand units)
1	12	15	1	3	Change on previous year in %
708	722	838	921	848	Domestic
1,437	1,676	1,920	1,853	2,006	Abroad
2,148	2,398	2,777	2,771	2,848	<b>Production</b> (thousand units)
2	12	16	0	3	Change on previous year in %
1,474	1,635	1,654	1,666	1,694	Domestic
674	763	1,123	1,105	1,154	Abroad
238	259	276	260	252	<b>Workforce</b> (thousand employees) <sup>1)</sup>
3	9	7	- 6	- 3	Change on previous year in %
160	170	169	170	165	Domestic
78	89	107	90	87	Abroad
2,782	3,388	6,371	4,592	4,251	<b>Capital Investments</b> (DM million) <sup>2)</sup>
x	22	88	- 28	- 7	Change on previous year in %
1,889	2,508	3,849	4,000	3,546	Domestic
893	880	2,522	592	705	Abroad
2,021	3,217	2,738	3,318	3,447	<b>Additions to Leasing and Rental Assets</b> (DM million)
	59	- 15	21	4	Change on previous year in %
4,081	4,558	4,285	4,874	5,018	<b>Cash Flow</b> (DM million) <sup>3)</sup>
x	12	- 6	14	3	Change on previous year in %
228	596	580	598	780	<b>Net Earnings/Loss</b> (DM million)
120	240	306	306	306	<b>Dividend of Volkswagen AG</b> (DM million)
120	240	240	240	240	Ordinary shares (DM million)
		66	66	66	Preferred shares (DM million)

**Balance-sheet Structure**

(DM million) December 31

	1979	1980	1981	1982	1983	1984
<b>Assets</b>						
Tangible assets	6,648	8,326	10,205	11,474	11,801	9,082
Financial assets	726	839	414	449	464	544
Leasing and rental assets						2,433
<b>Fixed Assets</b>	7,374	9,165	10,619	11,923	12,265	12,059
Inventories and advance payments to suppliers	4,400	6,073	5,996	5,662	5,878	6,654
Receivables and the like	4,000	4,437	4,771	5,065	6,269	7,388
Liquid funds, trade accept.	4,781	3,971	2,822	1,953	1,815	5,253
Securities, treasury stock	1,123	1,151	1,129	1,290	2,528	1,588
<b>Current Assets</b>	14,304	15,632	14,718	13,970	16,490	20,883
<b>Total Assets</b>	21,678	24,797	25,337	25,893	28,755	32,942
<b>Stockholders' Equity a. Liab.</b>						
Capital stock	1,200	1,200	1,200	1,200	1,200	1,200
Reserves of the Group	4,625	4,757	4,990	4,911	5,227	5,165
Minority inter. i. consol. subs.	373	205	198	223	281	320
<b>Stockholders' Equity</b>	6,198	6,162	6,388	6,334	6,708	6,685
Undetermined liabilities in respect of old-age pensions	2,749	3,107	3,475	3,626	4,235	4,739
Other undetermined liabilities	4,152	4,326	4,232	4,570	5,597	7,417
<b>Undetermined Liabilities</b>	6,901	7,433	7,707	8,196	9,832	12,156
Liabilities payable within more than						
4 years	1,273	1,161	1,053	847	1,283	992
1 to 4 years	457	466	712	990	1,004	1,411
up to 1 year	6,592	9,378	9,351	9,485	9,925	11,570
<b>Liabilities</b>	8,322	11,005	11,116	11,322	12,212	13,973
Net earnings available for distribution (Volkswagen AG)	240	193	124	38	-	124
Minority interest in earnings to be distributed	17	4	2	3	3	4
<b>Outside Capital</b>	15,480	18,635	18,949	19,559	22,047	26,257
<b>Total Capital</b>	21,678	24,797	25,337	25,893	28,755	32,942

**Statement of Earnings (Condensed)**

(DM million) January-December

Gross performance	31,638	34,989	38,197	38,030	40,680	46,772
Cost of materials	15,835	18,238	19,752	19,573	20,852	23,824
Labour cost	9,113	10,782	11,779	12,069	12,371	13,227
Depreciation and write-down	1,696	2,102	2,934	3,038	3,689	2,961
Depreciation on leasing and rental assets						1,060
Taxes on income, earnings and property	2,081	1,400	848	543	580	1,368
Sundry expenses less sundry income	2,004	1,329	772	458	494	1,266
Net earnings / Loss	667	321	136	- 300	- 215	228

1985	1986 <sup>1)</sup>	1987 <sup>1)</sup>	1988 <sup>1)</sup>	Change 1988/87 in %	<b>Balance-sheet Structure</b> (DM million) December 31
	2	29	76	x	<b>Assets</b>
8,740	12,111	13,406	13,836	3.2	Intangible assets
574	1,099	1,125	1,304	15.8	Tangible assets
3,717	4,106	4,919	5,427	10.3	Financial assets
13,031	17,318	19,479	20,643	6.0	Leasing and rental assets
	6,802	6,618	6,506	- 1.7	<b>Fixed Assets</b>
6,348					Inventories
7,157	8,675	9,403	11,848	26.0	Receivables and other
4,326	364	426	488	14.8	assets
3,960	8,553	8,135	10,809	32.9	Securities
21,791	24,394	24,582	29,651	20.6	Liquid funds
34,822	41,712	44,061	50,294	14.1	<b>Current Assets</b>
					<b>Total Assets</b>
					<b>Stockholders' Equity and Liabilities</b>
1,200	1,500	1,500	1,500	-	Subscribed capital
5,929	7,891	8,496	9,040	6.4	Reserves of the Group
266	408	405	405	0	Minority interest in consolidated subsid.
7,395	307	308	308	0.3	Net earnings available for distribution
					Minority interest in net earnings to
5,029	3	17	42	x	be distributed
9,343	1,828	2,203	2,452	11.3	Special items with an equity portion
	10	9	9	3.8	Special item for investment subsidiaries
14,372	11,947	12,938	13,756	6.3	<b>Stockholders' Equity</b>
	5,294	5,889	6,314	7.2	Undetermined liabilities (pensions)
	992	925	1,358	46.8	Undetermined liabilities (taxes)
947	8,228	8,050	9,418	17.0	Other undetermined liabilities
1,291	14,514	14,864	17,090	15.0	<b>Undetermined Liabilities</b>
10,569					
12,807					Liabilities payable within
	1,344	1,217	1,929	58.4	more than 5 years
244	1,456	1,999	2,121	6.1	1 to 5 years
	12,451	13,043	15,398	18.1	up to 1 year
4	15,251	16,259	19,448	19.6	<b>Liabilities</b>
27,427	29,765	31,123	36,538	17.4	<b>Outside Capital</b>
34,822	41,712	44,061	50,294	14.1	<b>Total Capital</b>
					<b>Statement of Earnings</b> (Condensed) (DM million) January-December
52,709	52,794	54,635	59,221	8.4	Sales
26,623	46,746	48,526	51,315	5.7	Cost of sales
13,913					
3,411	5,380	5,498	6,321	15.0	Selling and administration expenses
					Other operating income less
1,259	632	931	38	-95.9	other operating expenses
2,124	295	68	513	x	Financial results
					Results
	1,595	1,610	2,136	32.6	from ordinary business activities
1,993	- 473	- 443	-	x	Extraordinary results
					Taxes on
4,783	542	569	1,356	x	income
596	580	598	780	30.4	Net earnings

<sup>1)</sup> As of 1986 presentation in accordance with the new Accounting and Reporting Law

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