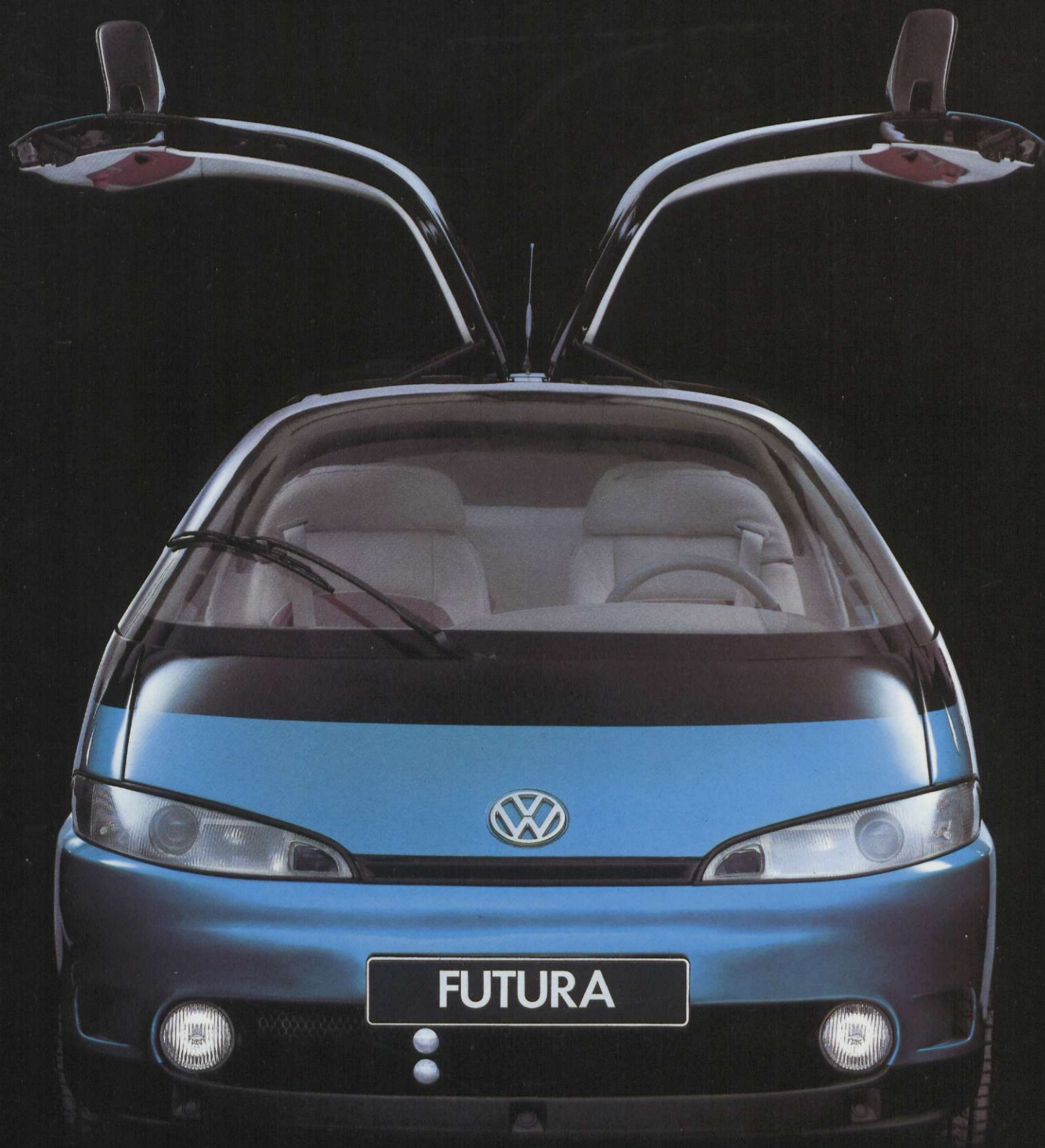




Annual Report
1989
Volkswagen AG



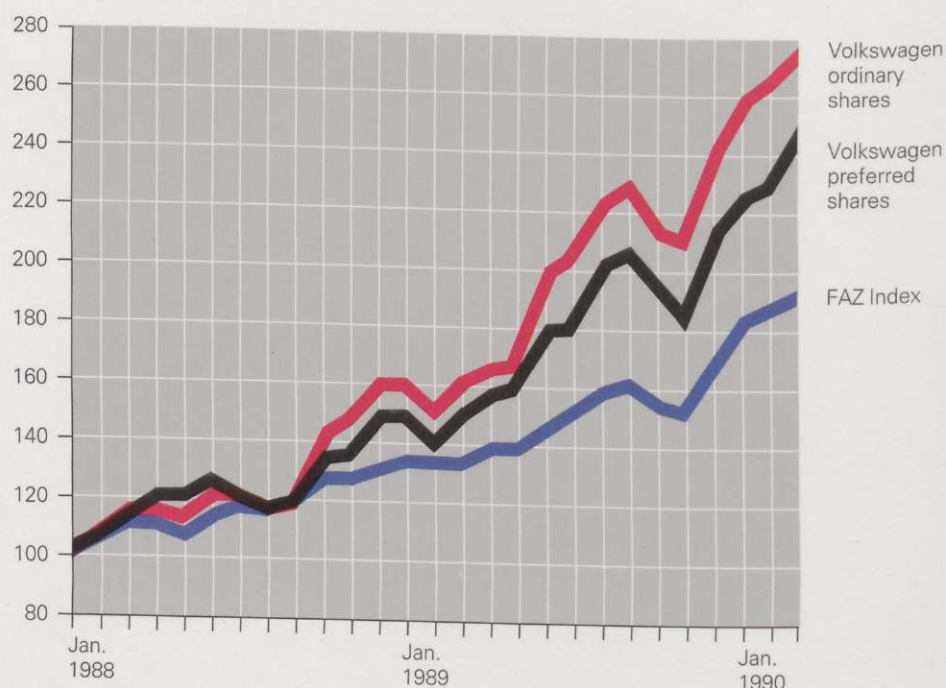
Key Figures

		Volkswagen Group			Volkswagen AG		
		1989	1988	Change %	1989	1988	Change %
Sales	DM million	65,352	59,221	+ 10.4	48,533	44,237	+ 9.7
Vehicle Sales	units	2,940,950	2,854,387	+ 3.0	2,066,189	1,948,949	+ 6.0
Production	units	2,947,569	2,847,616	+ 3.5	1,548,175	1,453,286	+ 6.5
Workforce	average over year	250,616	252,066	- 0.6	123,991	125,679	- 1.3
Capital Investments	DM million	5,606	4,251	+ 31.9	4,278	3,772	+ 13.4
Additions to Leasing and Rental Assets	DM million	4,069	3,447	+ 18.1	-	-	-
Cash Flow	DM million	5,412	5,018	+ 7.8	3,730	3,272	+ 14.0
Depreciation and Write-down	DM million	3,230	3,242	- 0.4	2,257	1,956	+ 15.4
Depreciation on Leasing and Rental Assets	DM million	2,088	1,702	+ 22.7	-	-	-
Net Earnings	DM million	1,038	780	+ 33.1	655	523	+ 25.3
Dividend of Volkswagen AG	DM million				336	306	+ 9.8
of which on							
Ordinary Shares	DM million				264	240	+ 10.0
Preferred Shares	DM million				72	66	+ 9.1

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

Development of average monthly stock exchange price (Index in %)

The Volkswagen ordinary and preferred shares have consolidated their sound position and exhibited above-average development. The capital increase effected in March 1990 was successfully placed on the market.



The cover picture shows the new VW research vehicle IRVW-Futura.

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

VOLKSWAGEN AKTIENGESELLSCHAFT

The Supervisory Board
The Board of Management
The Joint Works Council
The Workforce

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 19, 1990 at the Internationales Congress Centrum in Berlin

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, 1989 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 increasing the compensatory payment for AUDI AG shares and amendment of the inter-company agreement
6. Resolution on approval of inter-company agreements
7. Resolution on the creation of authorized capital stock and the appropriate amendment of the Articles of Association
8. Resolution on adjustment of the remuneration of the members of the Supervisory Board and the appropriate amendment of the Articles of Association
9. Appointment of auditors for the fiscal year 1990

With respect to item 7 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 10, 1990 and in the "Condensed Version of the Annual Report 1989" 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 19, 1990 at the Internationales Congress Centrum in Berlin. 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 19, 1990 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

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 10, 1990 and in the "Condensed Version of the Annual Report 1989" which will be forwarded to stockholders at the beginning of June.

Supervisory Board

Dr. jur. Klaus Liesen (59)
Essen
Chairman
Chairman of the Board
of Management of
Ruhrgas AG
July 2, 1987*)

Franz Steinkühler (52)
Frankfurt
Deputy Chairman
Chairman of the Metal-
workers Union
July 2, 1987

Josef Bauer (50)
Ingolstadt
Member of the Works
Committee of AUDI AG
July 2, 1987

Birgit Breuel (52)
Hanover
Minister of Finance of
Lower Saxony
October 10, 1978

Rolf Diel (67)
Düsseldorf
Chairman of the Supervi-
sory Board of Dresdner
Bank AG
June 30, 1988

Wilhelm Hemer (46)
Frankfurt
Trade Union Secretary to
the Executive Committee
of the Metalworkers Union
May 3, 1989

Walter Hiller (57)
Wolfsburg
Chairman of the Joint and
Group Works Council of
Volkswagen AG
April 9, 1986

Walter Hirche (49)
Hanover
Minister for Economic
Affairs, Technology and
Transport of Lower Saxony
September 18, 1986

Albert Hoffmeister (61)
Wolfsburg
Senior Executive of
Volkswagen AG
July 5, 1977

Hans-Günter Hoppe (67)
Berlin
Former Member of the
Berlin Senate
July 9, 1974

Jann-Peter Janssen (45)
Norden
Chairman of Works
Council of Volkswagen AG
Emden Plant
April 9, 1986

Walther Leisler Kiep (64)
Frankfurt
General partner,
Gradmann & Holler
from March 3, 1976 to
July 1, 1982 and since
January 26, 1983

Dr. jur.
Otto Graf Lambsdorff (63)
Düsseldorf
President
Deutsche Schutzver-
einigung für Wertpapier-
besitz e. V.
(German stockholders'
association)
July 2, 1987

Klaus-Peter Mander (47)
Wolfsburg
Deputy Chairman of the
Joint and Group Works
Council of Volkswagen AG
March 25, 1985

Karl Heinrich Mihr (54)
Kassel
Chairman of Works
Council of Volkswagen AG
Kassel Plant
November 27, 1972

Gerhard Mogwitz (56)
Hanover
Chairman of Works
Council of Volkswagen AG
Hanover Plant
July 5, 1977

Dr.-Ing. E. h.
Günther Saßmanns-
hausen (59)
Hanover
Member of the Supervi-
sory Board of Preussag AG
July 2, 1987

Dr. jur.
Wolfgang Schieren (62)
Munich
Chairman of the Board of
Management of Allianz
Aktiengesellschaft Holding
June 30, 1988

Dr. rer. pol.
Albert Schunk (48)
Frankfurt
Head of the International
Department on the Execu-
tive Committee of the
Metalworkers Union
July 5, 1977

Dr. rer. pol.
Ulrich Weiss (53)
Frankfurt
Member of the Board of
Management of Deutsche
Bank AG
June 30, 1988

Changes on the Supervi-
sory Board:

Peter Birk (52)
Düsseldorf
Senior Official of the
Metalworkers Union
Düsseldorf Office
July 2, 1987 to
April 14, 1989

Board of Management

Dr. rer. pol.
Carl H. Hahn (63)
Chairman
(since January 1, 1982)
Member of the Board of
Management from May 1,
1964 to December 31,
1972

Dr. jur. Peter Frerk (59)
Legal Matters, Auditing
and Economics
December 7, 1971

Daniel Goeudevert (48)
Purchasing and Logistics
January 1, 1990
(Member of the Board of
Management since
September 1, 1989)

Dr.-Ing. E. h.
Günter Hartwich (54)
Production
July 1, 1972

Dr. jur. Martin Posth (46)
Human Resources
October 1, 1988
(Member of the Board of
Management since
August 1, 1988)

Dr. rer. pol.
Werner P. Schmidt (57)
Sales
August 1, 1975

Prof. Dr.-Ing.
Ulrich Seiffert (49)
Research and Develop-
ment
September 3, 1988

Dieter Ullsperger (44)
Controlling and Finance
August 1, 1987

Changes on the Board of
Management:

Senator h. c.
Horst Münzner (65)
Deputy Chairman
from January 1, 1982 to
December 31, 1989
Purchasing and Logistics
Member of the Board of
Management from
January 1, 1969 to
December 31, 1989

Claus Borgward (51)
Quality Assurance
April 11, 1980 to
April 10, 1990

*) 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 Board of Management provided the Supervisory Board with full regular reports about the situation of the Company, corporate policy and business trends in 1989. Measures of particular importance or 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. The Company's management was continuously monitored by the Supervisory Board on the basis of the written and oral reporting by the Board of Management. The Supervisory Board was able to perform in full this function assigned to it by law, which it fulfils on behalf of the Company's stockholders.

At the Annual Meeting of Stockholders held on July 13, 1989, TREUARBEIT Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hanover, was appointed auditor for the fiscal year 1989 with 99.96% of the votes cast. As two stockholders brought an action before the Brunswick Regional Court to have this resolution set aside, the Board of Management, acting in agreement with the Chairman of the Supervisory Board, requested the Wolfsburg District Court to appoint a second auditor. This application was granted and Wollert-Elmendorff Deutsche Industrie-Treuhand GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, appointed as a second independent auditor for the fiscal year 1989.

The financial statements for Volkswagen AG and the Group as at December 31, 1989, along with the Management Report for Volkswagen AG and the Group Management Report for the fiscal year 1989 and the accounts, were examined by each of the auditors independently and approved by both without qualification. The Supervisory Board has accepted the results of these audits.

The Supervisory Board's examination of the financial statements, the Management Report and the proposal regarding appropriation of net earnings available for distribution gave rise to no objections. The Supervisory Board approves and therefore confirms the financial statements and approves the proposal put forward by the Board of Management regarding appropriation of net earnings available for distribution.

Herr Peter Birk ceased to be a member of the Supervisory Board on April 14, 1989 and was succeeded by Herr Wilhelm Hemer, appointed by the Wolfsburg District Court with effect from May 3, 1989. The Supervisory Board would like to thank Herr Birk for the great sense of duty and responsibility which he displayed at all times.

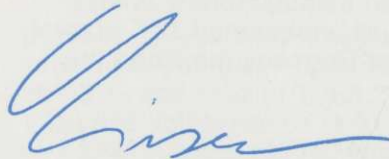
Herr Horst Münzner retired on December 31, 1989 after many years on the Board of Management as Deputy Chairman and as the Board member responsible for Purchasing and Logistics. He played a major part in shaping corporate policy and at the same time gave

supplier industries new impetus. The Supervisory Board would like to express its thanks to Herr Münzner for his dedication to the Company and the contribution which he has made in helping to create the Volkswagen Group's outstanding worldwide reputation.

The Supervisory Board appointed Herr Daniel Goeudevert a member of the Board of Management of Volkswagen AG as of September 1, 1989. He assumed responsibility for Purchasing and Logistics on January 1, 1990.

Herr Claus Borgward requested the Supervisory Board to release him from his duties as member of the Board of Management with responsibility for Quality Assurance until the end of his period of office on April 10, 1990. The Supervisory Board agreed unanimously at its meeting on July 12, 1989 to comply with this request. During his nine years on the Board of Management, Herr Borgward was the driving force behind further development of the Volkswagen Group's high quality standards. The Supervisory Board thanks him for his commitment and untiring efforts.

Wolfsburg, April 4, 1990



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 1989**

**World economy and
automobile industry
exhibiting sustained
growth – Europe taking
on new dimensions**

The world economy continued to experience an upswing in 1989, with good market and earnings prospects at the beginning of the year once again having a stimulating effect on international trade. Alongside demand for consumer goods, a high level of investment was the principal factor characterizing the trend in the Western industrialized nations. While steps towards realization of the single European market meant that the European Community countries benefited from new expansive forces, there were signs that the upward trend in the USA was starting to flag. The main reasons for West Germany's good economic situation were the high level of private consumption in the second half of the year and a substantial increase in both industrial investment and exports. The political upheavals in Eastern Europe which began in late 1989 will without question have a major impact on economic development. The opening of the frontiers and the democratization process now under way offer a unique opportunity to give Europe a historically new dimension allowing all nations to live at peace with one another.

Against the background of this favourable economic situation, 1989 saw the world automobile industry achieve a new production record. At 49.5 million vehicles, production was 2 % up on the previous year's record level. The major contribution to this growth was made by the West European manufacturers, whose output of 15.8 million vehicles represented 32% of total worldwide production. West Germany remained the



The GTI 16V – a sporty version of the Golf.

largest European manufacturer, with production rising by 5 % to 4.9 million vehicles. Alongside a sustained high level of domestic demand, it was above all the considerable increase in exports (+ 8 %) which helped to boost output.

Good domestic sales meant that automobile production in Japan was 3 % up on the 1988 figure, totalling 13.0 million vehicles. By contrast, production in the USA failed to match the previous year's level, dropping by 3 %. A total of 10.8 million vehicles were made in the USA, 1.1 million of them (compared with 800,000 in 1988) by Japanese manufacturers.

New production record for the Volkswagen Group

In response to the high demand, the Volkswagen Group manufactured a total of 2,947,569 vehicles worldwide in 1989, 3.5% more than in the previous year. This new production record reinforces the Volkswagen Group's position as the major European automobile manufacturer and the fourth largest passenger car manufacturer in the world. A total of 2,790,840 passenger cars (+ 3.6 %) and 156,729 commercial vehicles (+ 1.6 %) came off the production lines in 1989. Optimization and rationalization measures boosted average production per working day within the Group from 12,560 to 12,732 units. Extra shifts were necessary to prevent delivery delays.

Domestic production – excluding assembly sets for subsidiaries abroad – underwent a substantial increase of 5.3 % and rose to 1,783,208 vehicles, comprising 1,361,965 Volkswagens (+ 7.4 %) and 421,243 Audis (– 1.2 %). Output abroad was also up on the 1988 figure, rising by 0.9 % to 1,164,361 units.

Volume of purchasing

The Volkswagen Group's volume of purchasing in 1989 amounted to DM 31.6 billion; for the first time, the figure does not include sales tax or purchasing by AUTOLATINA. Purchasing by Volkswagen AG totalled DM 20.5 billion, with DM 15.2 billion accounted for by raw materials and supplies as well as finished and semi-finished products. DM 5.3 billion were spent on capital goods and services. The excellent cooperation with suppliers throughout the world enabled us to further optimize our supply channels and benefit from cost reductions achieved through joint efforts.

Reduction of workforce

The average number of employees in the Volkswagen Group decreased by 0.6 % in 1989 to 250,616, while the workforce of 123,991 employed by Volkswagen AG was 1.3 % down on the previous year's figure.

The reduction of the workforce in the West German part of the Group to 160,753 (– 2.8 %) contrasted with an increase in the number of employees at Group companies abroad. The rise of 3.7 % to an average of 89,863 was largely due to the need to recruit additional staff as a result of expanded production operations at Volkswagen de Mexico.

**Management Report:
Volkswagen AG and Volkswagen Group
Economic Trend in the Fiscal Year 1989**

**Substantial increase
in sales**

The Volkswagen Group's sales rose by no less than 10.4 % in 1989, totalling DM 65.4 billion. This can be attributed primarily to the 3.0 % increase in worldwide unit sales – which amounted to 2,940,950 Volkswagen, Audi and SEAT models – accompanied by continuing demand for more upmarket models and features, as well as to expansion of leasing and rental business. While domestic sales were up by 4.5 % to DM 23.7 billion, foreign sales exhibited an above-average increase of 14.0 % and totalled DM 41.7 billion. Sales abroad thus accounted for 63.8 % of overall sales, compared with 61.7 % in 1988.

Volkswagen AG's sales increased by 9.7 % to DM 48.5 billion, mainly as a result of a substantial rise in the number of vehicles sold on the European volume markets. Foreign sales made up 56.6 % of the total as against 54.9 % in the previous year.

**Vehicle sales close to
three million mark –
Volkswagen Group
once again the market
leader in Europe**

The Volkswagen Group delivered almost three million vehicles to customers worldwide in 1989, a figure which has never been matched by any other European manufacturer. A total of 2,934,385 Volkswagen, Audi and SEAT models were sold, 2.8 % more than in 1988. The extent of the increase was limited by the available production capacities and it was not always possible to prevent delivery bottlenecks.

The total of 2,189,040 vehicles delivered to customers in Europe meant that we maintained our leading sales position for the fifth year in succession with a 15.0 % share of the passenger car market. This success is due above all to our dynamic product policy and the dedication shown by our sales organizations, whose aim at all times is to fulfil our customers' wishes. The major source of impetus continued to be the European export markets, where sales totalling 1,335,204 units represented a 9.3 % increase on the previous year's already high figure. All three Group marques contributed to this growth. We were particularly successful once again with the VW Golf, which was the best-selling car in Europe for the seventh year in succession, the VW Passat, the VW Polo, the Audi 80/90 model range, the SEAT Ibiza and the SEAT Marbella. The new models – the VW Corrado, the Audi V8 and the Audi Coupé – also played a part in helping us to achieve these outstanding sales figures. As in previous years, our major markets were Italy with sales totalling 297,756 vehicles (+ 14.1 %), Spain with 242,672 (+ 13.6 %), France with 242,186 (+ 15.2 %) and Great Britain with 151,364 (+ 6.3 %).

With new passenger car registrations in West Germany increasing by 0.8 % to 2,831,740, the Volkswagen Group's sales on the domestic market remained at roughly the same level as in 1988, dropping by 1.5 % to 853,836 vehicles. Sales of the new Passat in particular were exceptionally good, rising by 28.7 % to 158,209. The product upgrading measures for all Volkswagen passenger cars, which were launched at the beginning of the 1990 model year under the motto "Volkswagen offers you more for your money" with no increase in prices, met with an excellent reception on the part of the vehicle-buying public.

Demand on the Latin American markets continued to revive, with Group sales rising by 1.3 % to 370,880 vehicles. A substantial increase of 17.4 % was also recorded for sales in Japan, where we have been the most successful importer for no less than 36 years. By contrast, North American sales were down by 19.0 %.

Investment stepped up

Investments provide a sound basis for growth and help to safeguard a company's future. The Volkswagen Group increased its volume of investment in 1989 to DM 5,606 million, 31.9 % up on the previous year's total. Tangible and intangible assets accounted for DM 5,059 million, while DM 547 million were invested in financial assets. Group investments in West Germany totalled DM 4,477 million (+ 26.2 %) and a further DM 1,129 million (+ 60.3 %) were devoted to investments abroad. The marked expansion of leasing and rental business meant that investments in this sector rose by 18.1 % to DM 4,069 million.

The VW Passat Variant is a popular family car and in 1989 was once again the best-selling German estate car.



**Management Report:
Volkswagen AG and Volkswagen Group
Economic Trend in the Fiscal Year 1989**

Volkswagen AG invested a total of DM 4,278 million, 13.4 % more than in 1988. Investments in tangible assets amounting to DM 3,615 million were devoted primarily to further development of our product range. Another focal point of investment comprised the new paintshops at the Wolfsburg, Hanover and Emden plants. Their environmental protection facilities far surpass existing standards, thereby minimizing pollution and substantially improving paintwork quality. We have also continued to further develop the automation of production in order to reduce the burden on employees.

Financial investments by Volkswagen AG related in particular to capital increases at Coordination Center Volkswagen S.A., Brussels, V.A.G Kredit Bank GmbH, Brunswick, and Volkswagen Audi Nippon K.K., Tokyo, setting-up of Volkswagen Investments Ltd., Dublin, and establishment of two security funds in accordance with the provisions of the Investment Companies Act.

**Best result in the
Group's history**

In 1989 the Volkswagen Group achieved net earnings of DM 1,038 million, 33.1 % up on the previous year's figure and the best result in the Group's history. Alongside excellent vehicle sales and improved cost structures, the good results returned by major subsidiaries also played a key part in our success.

**Higher dividend
proposed**

Our stockholders provide the Company with the capital with which it operates and expect both a sound investment and an appropriate return. The success of our operations in 1989 means that Volkswagen AG closed the fiscal year with net earnings of DM 655 (523) million which enable us to transfer DM 320 million to free reserves and to propose to the Annual Meeting of Stockholders the payment of a dividend increased by DM 1.00 to DM 11.00 per DM 50 ordinary share. Including the DM 6.19 tax credit per DM 50 ordinary share, eligible holders of ordinary shares will be entitled to a total of DM 17.19. Holders of preferred shares receive an extra dividend of DM 1.00. Taking into account the DM 6.75 tax credit per DM 50 share, holders of preferred shares will receive a total of DM 18.75.

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	336,000,000 DM
of which:	
on ordinary shares	264,000,000 DM
on preferred shares	72,000,000 DM
Balance (carried forward)	2,533,913 DM
Net earnings available for distribution	<u>338,533,913 DM</u>

Research and development expenditure increased – the mark of immense innovation capacity

The modern, technically advanced vehicles which Volkswagen produces for almost every segment of the international market testify to an immense innovation capacity based on targeted research and development activities. In 1989 alone Group expenditure in this sector totalled DM 2.3 billion (+ 12.1 %), DM 1.3 billion of which was accounted for by Volkswagen AG (+ 7.1 %).

Particular attention was devoted to further development of the passenger car and commercial vehicle ranges, as well as to engine and gearbox development. Other focal points of research were appropriate use of electronics, traffic engineering, reduction of fuel consumption and recycling, with special emphasis on environmental protection. The Volkswagen Group employed a total of 11,726 staff worldwide in its research and development departments, 6,602 of them at Volkswagen AG alone.

Volkswagen Group undergoing radical changes

The automobile industry today is characterized by new strategic links between companies, price wars, shifts of capacity, gradual penetration of the market by manufacturers from low-wage countries and increasingly rapid technical progress. All these factors are combining to make worldwide competition ever keener. Standards are becoming more exacting, the stakes are becoming higher and at the end of the day some companies will emerge as winners, others as losers.

Globalization of business activities has always been established policy at Volkswagen and is one of the key factors behind the Group's success. What is needed today are attractive, internationally mobile forms of organization covering every aspect of the Group's operations. The Volkswagen Group is currently going through a period of radical change. Attention is centred on structural adjustments relating to subsidiaries and affiliates as well as on optimization of our development and production operations based on a worldwide division of activities. In addition, we are in the process of reshaping the Group's internal functional areas. This

**Management Report:
Volkswagen AG and Volkswagen Group
Economic Trend in the Fiscal Year 1989**

calls for a foresighted personnel policy which gives employees the opportunity for self-realization and creativity in thought and action, as well as for open, flexible channels of communication between all levels. Other steps marking out the Volkswagen Group's course for the nineties have included giving the development, production and purchasing divisions greater responsibility for quality assurance in cooperation with suppliers and our decision to operate as our own importer on the Japanese market.

The measures being implemented by Volkswagen in preparation for meeting the challenges of the future are accompanied and supported by targeted cost management. This made it possible to achieve considerable savings in 1989, particularly in material overheads and through rationalization of production and the indirect sector. Successful introduction of the direct dealer system also helped to cut costs.

Global finance strategy

Our dynamic product and market concept is backed up by a global financial policy. Key elements of this strategy are expansion of our presence on the international capital markets and use of new forms of financing and investment. To provide the necessary backing for our worldwide business and investment activities, for example, additional credit lines amounting to US\$ 1.5 billion and DM 1.5 billion have been established.

We have also become the first German company group to take advantage of the opportunity, newly created by the German Federal Bank, to issue medium-term notes at a favourable interest rate in German marks. Our medium-term note programme has a value of DM 300 million and terms of between two and ten years.

The Volkswagen Group thus has at its disposal a flexible range of instruments which can be adapted to suit the situation at any given time and which can be used to finance its extensive future investment and refinancing programmes in line with prevailing capital-market conditions.

**Acknowledgement to
the Group's employees**

The success achieved by the Volkswagen Group in 1989 is first and foremost the result of the commitment shown by all employees. The Board of Management would like to express its thanks to the management teams at the subsidiaries, to all executives and staff of the Volkswagen Group in West Germany and abroad, and to the bodies representing the workforce who, through their constructive and responsible attitude, played a major part in ensuring that difficult problems could be solved.

**Management Report:
Volkswagen AG and Volkswagen Group
Development in the Current Year and Prospects**

The world economy seems likely to remain on a steady upward course in 1990, even though it must be assumed that prices will tend to increase slightly and that growth will not be so marked. At the same time, however, we must not ignore economic factors such as foreign trade imbalances, the heavy debts of the developing countries, the budget deficit in the USA and possible exchange rate fluctuations.

The growing international détente now in evidence is having increasingly stimulating effects on economic activity. The democratization and liberalization processes now under way as the East European countries open their borders are in particular helping to create the basis for future-oriented developments which will be of lasting mutual benefit. The market economy has emphatically demonstrated that it is superior to every conceivable alternative when it comes to offering the prerequisites for political, economic and social progress.

Europe today is characterized by a new spirit of solidarity which promises great things for the future. National frontiers are barriers no longer, and East and West are now faced with immense challenges offering unparalleled opportunities. Once merely on the periphery and suffering all the attendant disadvantages, the region constituting the Volkswagen Group's "home base" will be in the centre of a new Europe whose nations work together in a constructive and harmonious atmosphere. We must not, however, lose sight of the considerable economic risks which these new developments can bring.

Alongside the engine project already realized, Volkswagen and VEB IFA-Kombinat Personenkraftwagen, Karl-Marx-Stadt, have now expanded their cooperation still further. VOLKSWAGEN IFA-Pkw GmbH, Wolfsburg, was set up in late 1989 as a joint planning venture with the aim of preparing for the development, production and sale of internationally competitive automobiles in East Germany. In the course of 1990 it is intended to create the prerequisites for daily assembly of around fifty units of a Polo-class model in Zwickau, with production then being gradually expanded over the next few years to an annual capacity of 250,000 vehicles. The related capital investments will total around DM 5 billion. To realize this project, we and our East German associates will be setting up a production company. In addition, we are aiming to establish without delay a company which will organize marketing of IFA cars, Volkswagen, Audi and SEAT vehicles, along with after-sales service and parts supplies, in East Germany. We are also currently engaged in talks with Skoda, the Czechoslovak vehicle manufacturer, with a view to possible cooperation. All these projects represent important steps towards a common European future.

**Management Report:
Volkswagen AG and Volkswagen Group
Development in the Current Year and Prospects**

In view of the major investments planned for the coming years, we increased the capital stock of Volkswagen AG by DM 150 million in March 1990 by issuing three million bearer ordinary shares with a par value of DM 50 each. These new shares, carrying dividend rights as of January 1, 1990, were subscribed by banks in West Germany and abroad, which undertook to offer them to stockholders in proportion to their existing holdings in a ratio of 10:1 at a price of DM 440 per share. This represents an influx of equity capital amounting to over DM 1.3 billion. The subscription right attaching to each existing share was traded on the stock exchanges at a price of around DM 16. The international placement of the capital increase was well received by the market – a success for the Company and its stockholders.

We have also decided to increase the capital of Volkswagen Investments Ltd., set up in August 1989 as a wholly-owned subsidiary of Volkswagen AG, by up to DM 500 million in the course of 1990 and at the same time to expand the purpose of the company to include Group financing.

In the light of the development shown by AUDI AG and the important role which this company plays in the Volkswagen Group, we shall be proposing to the 1990 Annual Meetings of Stockholders of Volkswagen AG and AUDI AG, as well as to the minority Audi stockholders, that the inter-company agreement be amended. The intention is to increase the compensatory payment made to minority stockholders from two fifths of the dividend paid on a Volkswagen ordinary share with the same par value to the full amount of this dividend.

Building upon our excellent cooperation with the First Automobile Works in Changchun, we and our Chinese associates will be establishing a joint venture for construction of a new automobile plant with a capacity of 150,000 units.

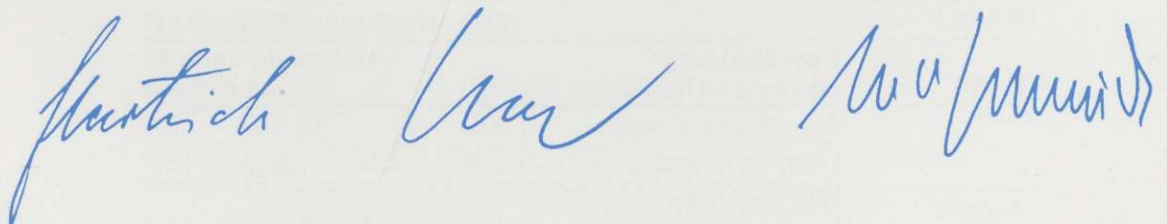
With the exception of North and South America, we expect vehicle sales to remain at a high level this year on all the major international markets. Factors specific to individual countries may mean that the possibility of regional fluctuations cannot be ruled out. It is to be feared that the consequences of the restrictive Brazilian economic programme announced in March 1990, under which among other things tax increases and a drastic reduction in the volume of money in circulation have been imposed, will have a marked adverse effect both on vehicle sales and on the result of AUTOLATINA. The otherwise healthy market situation is confirmed by the development in the first two months of 1990, with over 470,000 Volkswagen Group models (+ 8 %) delivered to customers worldwide during this period.

Backed by its three marques, Volkswagen is looking to the future and is determined to play its part in two immensely important processes: realization of the single European market, which will then be by far the largest automobile market in the world, and construction of a common "European house". The advanced technology which we incorporate in our vehicles with the aim of minimizing environmental pollution will enable us to meet the enormous challenges of the future, while at the same time ensuring that our customers' wishes are fulfilled. Since February 1990, Volkswagen AG has consequently been offering a regulated catalyst as standard in West Germany on all petrol-engine passenger cars – in some cases even at reduced prices. Our varied, innovative model range, coupled with technically advanced production facilities, should enable us to consolidate our competitive and market position still further in 1990.

Wolfsburg, April 2, 1990

The Board of Management

 Frank Meundero

 Hartwich

 H. Lin

 D. Müller

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

**A solid foundation
for the nineties**

The business trend during 1989 is also reflected in the financial statements, with key balance-sheet ratios remaining at a high level.

The ratio of stockholders' equity and long-term liabilities to fixed assets once again topped the 100 % mark, standing at 101.5 % compared with 104.9 % in 1988. The short-term liquidity ratio, which is the ratio of liquid funds plus short-term receivables and loans to short-term liabilities, was 96.5 % as against 100.2 % in the previous year. Stockholders' equity accounted for 26.3 % of the balance-sheet total, which rose as a result of the expansion of business.

The Volkswagen Group's cash flow – an indicator of internal financing capacity – increased by 7.8 % to DM 5,412 million. With capital investments significantly up on the previous year's total, almost the entire volume (96.5 % as against 118.0 % in 1988) was financed out of self-generated funds – a sound basis for meeting the strategic challenges of the nineties.

Structure of the consolidated balance sheet

	Dec. 31, 1989		Dec. 31, 1988	
Assets	DM mil.	%	DM mil.	%
Fixed assets	22,809	40.1	20,643	41.0
Inventories	7,301	12.8	6,506	12.9
Receivables	14,472	25.5	11,848	23.6
Liquid funds	12,289	21.6	11,297	22.5
Total assets	56,871	100.0	50,294	100.0

	Dec. 31, 1989		Dec. 31, 1988	
Stockholders' equity and liabilities	DM mil.	%	DM mil.	%
Stockholders' equity	14,936	26.3	13,756	27.3
Long-term liabilities	8,226	14.5	7,895	15.7
Medium-term liabilities	9,624	16.9	8,242	16.4
Short-term liabilities	24,085	42.3	20,401	40.6
Total capital	56,871	100.0	50,294	100.0

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

Additions to tangible assets and intangible assets	- 5,059.7	
Additions to financial assets	- 546.8	
Additions to leasing and rental assets	- 4,069.5	
Increase in inventories	- 794.9	
Increase in long and medium-term receivables	- 824.2	
Use of funds		- 11,295.1
Net earnings	+ 1,038.1	
Depreciation of fixed assets, write-down of financial assets and disposal of assets minus write-ups	+ 3,536.5	
Depreciation and disposal of leasing and rental assets	+ 3,949.5	
Increase in undetermined liabilities for pensions and similar obligations	+ 338.1	
Increase in special items with an equity portion and special item for investment subsidies	+ 475.9	
Changes in reserves not affecting liquidity	+ 23.5	
Current operations		+ 9,361.6
Dividend payments to stockholders of Volkswagen AG in 1989	- 305.2	
Dividend payments to minorities	- 9.6	
Increase in long and medium-term liabilities	+ 1,380.3	
Decrease in other items	- 8.5	
Financial transactions		+ 1,057.0
Change in liquidity position		- 876.5

	Dec. 31, 1989	Dec. 31, 1988	Change
Liquid funds	9,929.2	10,808.8	- 879.6
Securities	2,360.0	488.5	+ 1,871.5
Short-term receivables and financial assets	10,958.1	9,142.4	+ 1,815.7
Short-term liabilities and undetermined liabilities	24,085.2	20,401.1	+ 3,684.1
Change in financial funds	- 837.9	+ 38.6	- 876.5

Additional Information about the Fiscal Year Finance

Structure of the consolidated statement of earnings (DM million)

	1989	%	1988	%
Sales	65,352	100.0	59,221	100.0
Cost of sales	56,196	86.0	51,315	86.6
Gross profit	+ 9,156	14.0	+ 7,906	13.4
Selling and administration expenses, other operating expenses and income, financial results	6,169	9.4	5,770	9.8
Results from ordinary business activities	+ 2,987	4.6	+ 2,136	3.6
Taxes	1,949	3.0	1,356	2.3
Net earnings	1,038	1.6	780	1.3

Earnings reach the one billion mark

The Volkswagen Group's statement of earnings clearly reflects the results of structural adjustment measures, increased productivity and cost reductions. With business expanding in both the automobile and services sectors, sales rose by 10.4 % to DM 65,352 million. As cost of sales increased by only 9.5 %, gross profit went up by 15.8 % to DM 9,156 million. An increase of 39.8 % was recorded in results from ordinary business activities, which totalled DM 2,987 million. This consequently also led to an exceptionally large rise in tax expenditure, which took up 3.0 % of sales proceeds compared with 2.3 % in 1988. The good figures returned by key Group companies meant that net earnings rose by 33.1 % to DM 1,038 million.

Added value of Volkswagen AG

The added value generated during a specific period reflects an enterprise's economic performance and represents its contribution to West Germany's gross national product. It is calculated on the basis of sales, which in the case of Volkswagen AG rose by 9.7 % in 1989 to DM 48,533 million. With the inclusion of other income amounting to DM 3,657 million and after deduction of expenditures comprising mainly cost of materials, the added value increased by 5.9 % to DM 11,868 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)**

	1989	1988
Sales	48,533	44,237
plus other income	3,657	2,726
less expenditures	40,322	35,761
Added value	11,868	11,202

**Distribution
(DM million)**

To:	In the form of:	1989	%	1988	%
Staff	Wages, salaries, fringe costs	9,660	81.4	9,428	84.2
The State	Taxes, levies	1,319	11.1	1,167	10.4
Creditors	Interest	234	2.0	84	0.8
The Company	Transfers to reserves	319	2.7	217	1.9
Stockholders	Dividends	336	2.8	306	2.7
Added value		11,868	100.0	11,202	100.0



The Audi Coupé quattro – the new, attractive sports coupé. The quattro drive, the slightly wedge-shaped body featuring the typical Audi front end and the short rear end with integral all-round spoiler make this a highly distinctive car.

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

Europe	Europe	Europe
AUDI AG Ingolstadt DM 215,000,000 99 %	V.A.G Kredit Bank GmbH Brunswick DM 400,000,000 100 %	Sociedad Española de Automóviles de Turismo, S.A., Madrid, Spain ESP 81,000,000,000 75 %
V.A.G Leasing GmbH Brunswick DM 300,000,000 100 %	Seat Kredit Bank GmbH Brunswick DM 18,000,000 100 %	Financiera Seat, S.A. Madrid, Spain ESP 6,207,390,000 100 %
Seat Leasing GmbH Brunswick DM 1,000,000 100 %	V.A.G Transport GmbH Wolfsburg DM 2,000,000 100 %	Seat Motors International B.V. Amsterdam, Netherlands NLG 3,000,000 100 %
VOTEX GmbH Dreieich DM 1,000,000 100 %	VW-GEDAS & Co. Projektmanagement OHG Berlin DM 300,000,000 99.97 %	Volkswagen Bruxelles S.A. Brussels, Belgium BEC 1,925,000,000 100 %
		Coordination Center Volkswagen S.A. Brussels, Belgium BEC 10,000,000,000 60 % Volkswagen AG 40 % Volkswagen Bruxelles S.A.
		Europcar International S.A., Boulogne-Billancourt France FRF 406,000,000 50 %
		interRent-Europcar Autovermietung GmbH Hamburg DM 49,159,800 100 %

Producing Companies
Distributing Companies
Other Companies

*) Volkswagen AG's direct and indirect holding

Europe	Overseas	Overseas
AUTOGERMA S.p.A. Verona, Italy ITL 90,000,000,000 100 %	Volkswagen of America, Inc., Troy, Mi., USA USD 242,422,222.92 100 %	Volkswagen de Mexico, S.A. de C.V. Puebla/Pue., Mexico MXP 304,343,224,000 100 %
V.A.G France S.A. Paris, France FRF 50,000,000 100 %	VW Credit, Inc. Troy, Mi., USA USD 100,000 100 %	Volkswagen of South Africa (Pty.) Ltd. Uitenhage, C.P. South Africa ZAR 9,362,650 100 %
V.A.G Financement S.A. Paris, France FRF 95,000,000 99 % V.A.G France S.A. 1 % Volkswagen AG	Volkswagen Canada Inc. Toronto, Ontario, Canada CAD 500,000 100 %	Volkswagen of Nigeria Ltd. Lagos, Nigeria NGN 23,000,000 40 %
V.A.G Sverige AB Södertälje, Sweden SEK 84,000,000 33.3 %	Autolatina Comércio, Negócios e Participações Ltda. São Paulo, SP, Brazil BRC 210,570,000 51 % *)	Shanghai-Volkswagen Automotive Company Ltd., Shanghai, China CNY 350,000,000 50 %
Volkswagen International Finance N.V. Amsterdam, Netherlands NLG 1,000,000 100 %	Volkswagen do Brasil S.A. São Bernardo do Campo, SP Brazil BRC 353,510,960 80 %	Volkswagen Audi Nippon K.K. Tokyo, Japan JPY 160,000,000 100 %
Volkswagen Investments Ltd. Dublin, Ireland DM 100,000,005 100 %	Autolatina Argentina S.A. Buenos Aires, Argentina ARP 2,518,701,340 51 % *)	
TAS Tvoronica Automobila Sarajevo Vogosca, Yugoslavia YUD 20,335,524,073 49 %		

Additional Information about the Fiscal Year
Salient Figures
of Major Companies

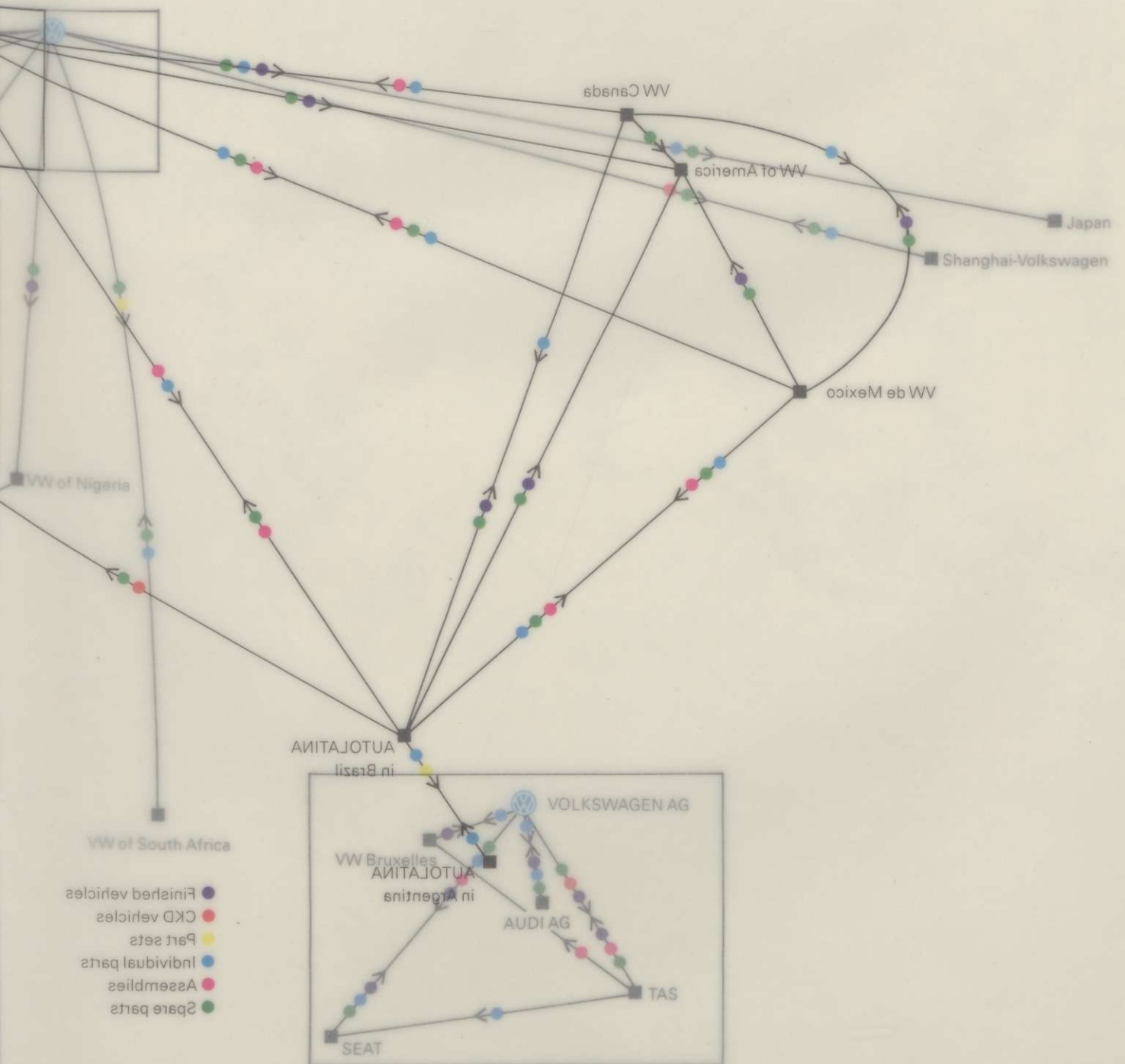
Producing Companies	Sales			Vehicle Sales		
	DM million 1989	DM million 1988	Change %	Units 1989	Units 1988	Change %
Volkswagen AG	48,533	44,237	+ 9.7	2,066,189	1,948,949	+ 6.0
AUDI AG	12,215	11,531	+ 5.9	419,780	427,026	- 1.7
SEAT, S.A.	7,715 ²⁾	6,095 ²⁾	+ 26.6	561,122	488,625	+ 14.8
Volkswagen Bruxelles S.A.	2,846	2,555	+ 11.4	186,210	185,326	+ 0.5
TAS Tvrnica Automobila Sarajevo	484	478	+ 1.3	36,472	29,323	+ 24.4
AUTOLATINA-Group ²⁾	4,686 ³⁾	4,195 ³⁾	+ 11.7	336,647 ⁴⁾	374,799 ⁴⁾	- 10.2
Volkswagen de Mexico, S.A. de C.V. ²⁾	2,129	1,366	+ 55.9	103,017	57,678	+ 78.6
Volkswagen of South Africa (Pty.) Ltd. ²⁾	1,355	1,253	+ 8.1	58,168	62,104	- 6.3
Volkswagen of Nigeria Ltd.	49	40	+ 22.9	1,541	1,710	- 9.9
Shanghai-Volkswagen Automotive Company Ltd.	596	540	+ 10.4	15,580	15,542	+ 0.2
Distributing Companies						
AUTOGERMA S.p.A.	4,336	3,610	+ 20.1	218,522	185,270	+ 17.9
V.A.G France S.A. ²⁾	4,507	3,854	+ 17.0	204,124	178,821	+ 14.1
V.A.G Sverige AB	1,240	1,192	+ 4.0	42,742	46,442	- 8.0
Volkswagen of America, Inc. ²⁾	4,285	4,612	- 7.1	149,592	186,003	- 19.6
Volkswagen Canada Inc. ²⁾	1,126	1,067	+ 5.6	27,725	35,403	- 21.7
Other Companies						
V.A.G Leasing GmbH	3,076	2,648	+ 16.2	-	-	-
Europcar International S.A. ²⁾	1,065 ³⁾	910 ⁵⁾	+ 17.0	-	-	-
V.A.G Kredit Bank GmbH	370	272	+ 35.8	-	-	-

¹⁾ Incl. 10,012 (9,239) Porsche models
²⁾ And consolidated subsidiaries
³⁾ Proportionate figures
⁴⁾ Only Volkswagen models
⁵⁾ Sales include the full figures for the interRent companies.

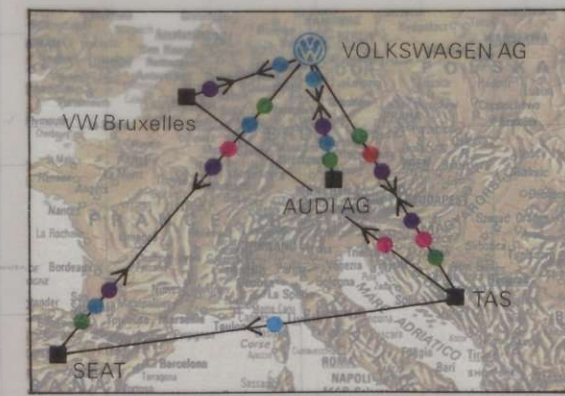
Production			Capital Investments			Workforce		
Units 1989	Units 1988	Change %	DM million 1989	DM million 1988	Change %	Dec. 31 1989	Dec. 31 1988	Change %
1,548,175	1,453,286	+ 6.5	4,278	3,772	+ 13.4	128,305	127,538	+ 0.6
431,255 ¹⁾	435,701 ¹⁾	- 1.0	520	474	+ 9.5	36,020	36,663	- 1.8
474,149	433,482	+ 9.4	339 ²⁾	162 ²⁾	x	25,426 ²⁾	25,286 ²⁾	+ 0.6
186,210	185,326	+ 0.5	90	172	- 47.8	6,564	5,866	+ 11.9
35,459	28,341	+ 25.1	6	17	- 65.3	3,189	3,129	+ 1.9
337,421 ⁴⁾	375,203 ⁴⁾	- 10.1	227 ³⁾	120 ³⁾	+ 89.4	30,987 ³⁾	28,952 ³⁾	+ 7.0
107,815	59,847	+ 80.2	159	194	- 18.2	16,985	11,673	+ 45.5
58,766	62,760	- 6.4	85	42	x	8,523	7,926	+ 7.5
1,686	946	+ 78.2	0	1	- 62.5	1,291	1,337	- 3.4
15,688	15,550	+ 0.9	136	135	+ 0.7	2,684	2,353	+ 14.1
-	-	-	4	2	x	382	356	+ 7.3
-	-	-	576	689	- 16.4	1,007	1,001	+ 0.6
-	-	-	243	230	+ 5.7	377	367	+ 2.7
-	36,998	x	469	230	x	1,962	2,448	- 19.9
-	-	-	29	51	- 44.1	865	817	+ 5.9
-	-	-	2,294	2,162	+ 6.1	367	346	+ 6.1
-	-	-	792 ³⁾	388 ³⁾	x	2,173 ³⁾	2,075 ³⁾	+ 4.7
-	-	-	23	13	+ 74.2	409	385	+ 6.2



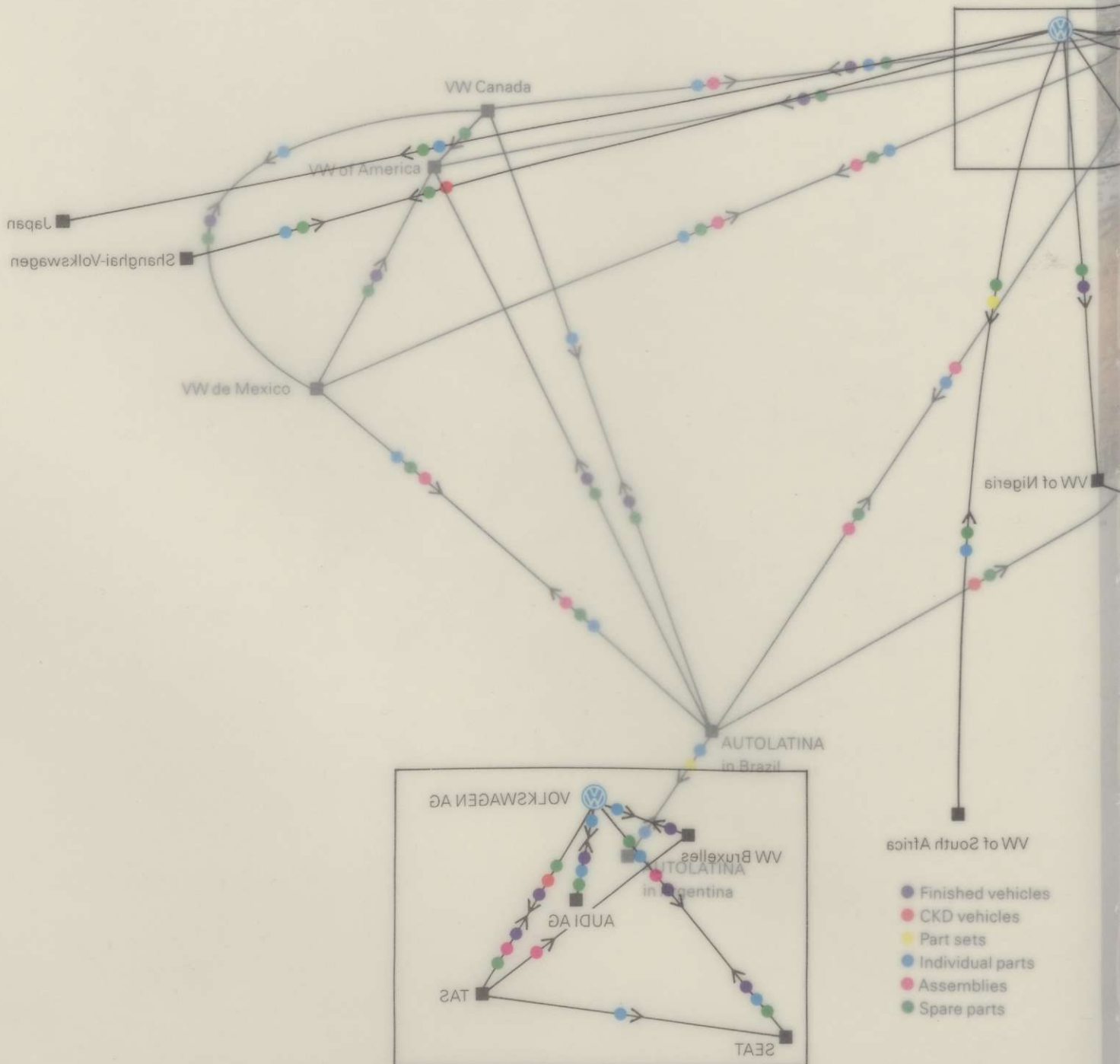
Worldwide Interlinked Supply System of the Volkswagen Group



Worldwide Interlinked Supply System of the Volkswagen Group



Worldwide Interlinked Supply System of the Volkswagen Group





Additional Information about the Fiscal Year Producing Companies Volkswagen AG

1989 – an outstandingly successful year

1989 was another good year for Volkswagen AG. A total of 2,304,791 vehicles were delivered to customers, an increase of 3.4 % to which every model in the Volkswagen range contributed. However, other key figures such as production, unit sales, sales, capital investments and earnings also exhibited an upward trend, in some cases with percentage increases running into double figures. The sustained improvement in income led to a particularly marked rise in net earnings, which increased by 25.3 % to DM 655 million.

Twenty-five million Volkswagens made in Wolfsburg

On July 4, 1989 the twenty-five millionth Volkswagen came off the production line in Wolfsburg – a silver-grey Golf with regulated catalyst. No other automobile-manufacturing plant in the world has ever matched this output, which testifies to Volkswagen's pioneering achievements in automating mass production. At the same time, however, it proves that Volkswagen's vehicle concepts have always been tailored to market demand and customer wishes. It has become something of a tradition at Volkswagen that one model in the range is produced in record-breaking numbers – as is demonstrated by the many millions of Beetles and Golfs which have left our plants.

The IRVW-Futura – automobile engineering for tomorrow

Continuing an established Volkswagen tradition, we were able to give visitors to the 53rd International Motor Show in Frankfurt am Main, the 28th Tokyo Motor Show and the 2nd North American International Motor Show in Detroit an impressive demonstration of the technical innovations possible in the next few years in the shape of our new research vehicle, the IRVW-Futura. Conceived as a 2+2-seater, the Futura embodies a new design trend and incorporates innovative details making it a quiet, economical low-pollution car offering exceptional ease of operation coupled with outstanding active and passive safety.

The body, featuring a new type of glass which reflects up to 60 % of heat, is based on the "one-box design" principle, with the bonnet integrated into the overall vehicle body and merging directly with the windscreen. The compact, aerodynamic vehicle has split gull-wing doors; when the upper section is lifted, the lower section disappears into the broad side sills.

Revolutionary drive unit

The Futura's striking bodywork conceals a revolutionary drive unit – a 1.7 litre/60 kW (82 bhp) high-compression petrol engine. With a compression ratio of 16:1, direct injection and a mechanical G-charger, it combines the low fuel consumption of a diesel engine with all the advantages of a petrol engine. Fuel economy is also enhanced by the new, energy-saving evaporation cooling system and the reduced power requirements of the alternator.

**Four-wheel steering
for automatic
parking manoeuvres**

All wheels on the IRVW-Futura are steerable. A battery of sensors which continuously measure the distance from other vehicles and possible obstacles allow the Futura to warn the driver if he is too close to another vehicle and enable it to manoeuvre automatically into even the smallest parking space at the press of a button. Four-wheel steering also improves active safety, with electronic control systems compensating for cross winds, track grooves and variations in tyre grip on the road surface during braking. Safety is further enhanced by a new electronic anti-lock braking system (EBS) and electrical power-assisted steering.

The Futura is an impressive demonstration of innovative VW research, with every detail embodying the automotive engineering trends of tomorrow.

The IRVW-Futura – compact, manoeuvrable, versatile and incorporating numerous features designed to enhance environment friendliness, comfort and safety.



**Pinpointed further
development
of the range**

Work on expanding our range of engines, gearboxes and equipment features continued in 1989. The Passat is now also available with a new, electronically controlled four-speed automatic gearbox allowing the driver to choose between economical and sporty shift programmes. The automatic gearbox can be paired with two different engines: the 1.8 litre engine producing 79 kW (107 bhp) or the 2.0 litre 16-valve engine with an output of 100 kW (136 bhp). A new addition to the Passat engine range is a 1.9 litre diesel engine delivering 50 kW (68 bhp), which sets new standards in terms of minimizing exhaust emissions.

Another new diesel engine developed by Volkswagen successfully controls particulate emissions at source – the first diesel engine with catalytic converter to be used in production vehicles anywhere in the world. Included in the engine range for the VW Golf and the VW Jetta, this low-pollution engine has met with an excellent reception on the market, particularly on account of its high output.



**VW commercial vehicles
selling well**

To round off our model range, we launched the sporty Rallye Golf with G-supercharger engine, electronically controlled anti-lock braking system (ABS) and permanent "syncro" four-wheel drive. 1989 also saw the introduction of the off-road Golf "Country" model, a hydraulic self-levelling suspension system for the Passat and the new Passat GT syncro with a 118 kW G-charger engine producing 160 bhp.

Our attractive range of versatile vehicles in the Commercial and heavy van (LT) class meant that Volkswagen was able to participate to an above-average extent in the growth of the European commercial vehicle market. The vehicle-buying public gave a particularly good reception to our new special models – the "California" and "Atlantic" motor homes, together with the "White Star" and "Blue Star" versions of the Multivan, which are exceptionally spacious and versatile seven-seaters. Proof of their outstanding quality was also provided by the fact that a VW Caravelle GL emerged the winner in a comparative test conducted by the magazine "Auto Motor und Sport" in May 1989. Last but not least, the launch of the VW Taro – a pick-up with a payload of one tonne – has expanded our product range in a European market segment with considerable development potential.

Volkswagen heavy vans – commercial vehicles meeting every conceivable requirement.

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

**Improved production
methods to meet the
demands of the future**

In addition to our new paintshops, measures designed to optimize production methods also involved further restructuring of the press shops in Wolfsburg, Hanover and Kassel. New, high-capacity multiple-die presses for large parts, which permit automatic tool changing with very short set-up times, have allowed us to expand our internal "just-in-time" systems. A new logistical concept, focussing on automation of the material flow, was also developed in cooperation with our suppliers at our engine plant in Salzgitter, the largest plant of its type in the world. To ensure that the plant's engine production can be quickly adapted to keep pace with engine development, highly flexible short-run production facilities have also been commissioned which make it possible to build engines, test them and make them ready for series production while the actual development work is still being carried out.

To boost productivity still further, new forms of work organization have been tried out and introduced at all our plants in the form of pilot projects. One example of such measures is group work, in which seven to twelve employees work together as a team and are responsible for their own production operations, the quality of their products and equipment maintenance. The aim of this new set-up is to give employees greater responsibility for their own work and at the same time increase cost-consciousness. Results to date have been encouraging, with the increased sense of motivation felt by employees leading to greater willingness to contribute through personal efforts.

**Quality geared to
market demands**

Our endeavours to improve the high quality standard of our products still further continued in 1989, with particular attention focussed on corrosion resistance, reliability and durability. Steps have now been taken to make quality assurance an integral part of development, purchasing and production operations, enabling every employee to contribute to enhancing product quality.

**Learning –
a never-ending process**

Sophisticated, trail-blazing technology calls for employees who display responsibility and commitment, and who can work together in a team to tackle a continuing succession of complex tasks in the fields of organization, information and production. Learning on the job, personal learning processes triggered by initiative on the part of the individual and new learning methods therefore play a key role in making Volkswagen a company in which learning never ceases.

In just one example of Volkswagen's innovative approach, the shop floor is the venue for familiarizing employees with the importance of maintaining high quality standards. A mobile training centre – known as the "Qualimobile" – is used to provide on-the-spot instruction. A further innovation is the computer learning station installed in the Qualimobile, at which employees can themselves work through the learning program "Quality – our responsibility". Although

computer-aided learning of course cannot replace the training provided by instructors and superiors, it effectively complements existing training methods.

Twenty years of "Haus Rhode"

Established twenty years ago as a training centre for Volkswagen Group management personnel, "Haus Rhode" is the place where strategies can be formulated and controversial subjects discussed away from the hectic working environment and free from any hierarchical constraints. It thus makes a vital contribution to developing our corporate culture and enhancing job-related knowledge by promoting international communication and exchange of views.

A forward-looking personnel policy

The rapid technological and organizational changes taking place at Volkswagen today call more than ever for integrated, interlinked personnel planning which is tailored to long-term trends, investment plans and projects and which is geared more strongly to qualitative structural changes. The essential requirements are team spirit, a global, internationally oriented way of thinking and the dismantling of outmoded structures by way of innovative personnel policy.

With these demands in mind, the trainee programme for young university and college graduates, as well as measures fostering the development of the rising generation of managers, were expanded on an international basis. The principle of equal opportunities for all means that everyone should have the chance to reach the top, irrespective of nationality.

One important element of our personnel policy is represented by our endeavours to gear working life more effectively to the needs of women and families. For this purpose a department to promote women within the Group has been established. In addition, Volkswagen has already taken further steps towards realizing this objective by offering flexible working hours, numerous part-time working arrangements and the opportunity to take leave of absence to care for relatives with a subsequent guarantee of re-employment.

Record participation in suggestion scheme

Staff participation in the suggestion scheme broke all records in 1989. A total of 60,501 suggestions for improvement were submitted and DM 17.9 million were paid out in awards for the 15,194 ideas actually put into practice. This exceptionally high level of participation is an impressive demonstration of our employees' commitment and creativity.

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

**The new Audi 200
quattro 20V – a saloon
offering sports-car
performance**

The Audi 200 quattro 20V, presented to the public at the 1989 Geneva Motor Show, rounds off the Audi 200 range as an attractive top-of-the-range model with a sporty note and outstanding performance. Available both as a saloon and in the Avant estate car version, it offers a wide range of sophisticated features. The saloon can accelerate from 0 to 100 km/h in only 6.6 seconds. The running gear is matched to the car's high performance and the front axle features the internally ventilated disc brakes used in the Audi V8. Flared wheel housings and forward-extended bumpers help to give the car its sporty appearance.

**Further innovations
presented at the 1989
Frankfurt International
Motor Show**

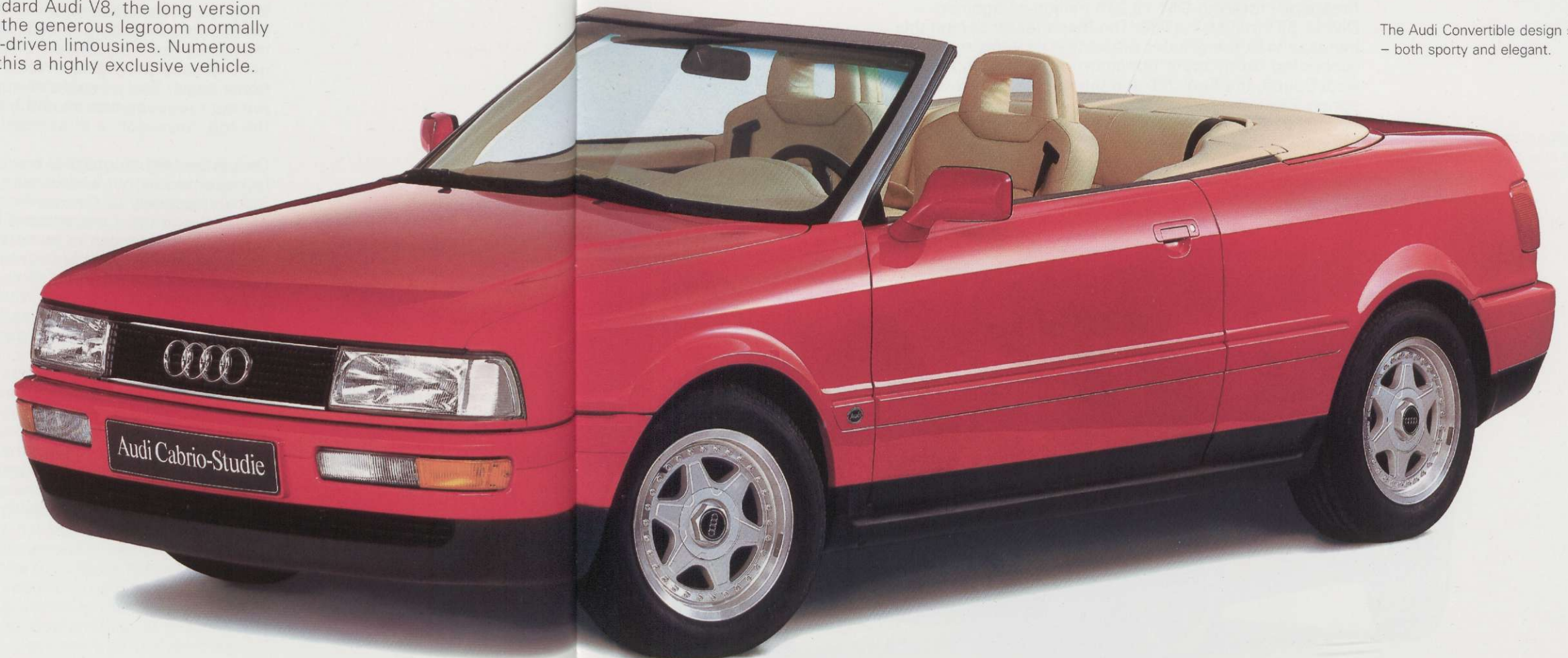
Audi presented numerous product innovations at the International Motor Show in Frankfurt, with the Audi Convertible design study attracting particular attention. As a result of the immense interest shown by the public and the highly favourable reactions to this model, it was decided that it should go into series production at a later date.

An interesting addition has been made to the model range in the top market segment: the long version of the Audi V8. With a body and wheelbase 31.6 cm longer than on the standard Audi V8, the long version offers rear passengers the generous legroom normally found only in chauffeur-driven limousines. Numerous special features make this a highly exclusive vehicle.

Another focus of great attention at the Frankfurt International Motor Show was the 2.5 litre turbo-diesel engine with direct injection, which was being presented to the public for the first time. It is this engine, which combines unparalleled fuel economy with exceptional performance, that has made the Audi 100 TDI the world record holder in its class.

The Audi 100 TDI required 84.7 litres of fuel to cover a distance of 4,818.4 kilometres, thereby setting a new record. At an average speed of 60.2 km/h, fuel consumption amounted to 1.76 litres per 100 kilometres. Just as impressive as this engine's uniquely low fuel consumption are its high output and excellent pulling power. The Audi 100 TDI is the ideal car for the driver who really wants to make a contribution to protecting the environment.

The Audi Convertible design study
– both sporty and elegant.



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

**Sustained improvement
in Audi's
earnings situation**

The total of 421,292 Audi vehicles delivered to customers worldwide in 1989 was only just short of the previous year's record figure (- 0.4 %). Export business remained at a high level. AUDI AG was able to further consolidate its position in particular on the major European export markets, where sales rose by 9.2 % to 202,156 vehicles. With the exception of North America, increases in sales were also recorded on the other export markets. By contrast, domestic sales fell by 13.0 % to 162,911, giving AUDI AG a 5.6 % share of the market compared with 6.7 % in 1988.

At 421,243, the total number of Audis produced in 1989 fell just 1.2 % short of the previous year's figure. In addition, Audi manufactured 10,012 (1988: 9,239) units of the 944 model for Porsche AG at the Neckarsulm plant.

Cost-cutting and structural adjustment measures continued in 1989, so that the workforce of 36,020 employed by Audi at the end of the year was 1.8 % down on the 1988 figure.

Sales exceeded the twelve billion mark for the first time ever, totalling DM 12,215 million as against DM 11,531 million in 1988. The major factor behind this increase was the greater proportion of vehicle sales accounted for by more upmarket models such as the Audi Coupé, the Audi 200 and the Audi V8, which as of spring 1990 is now also available with a five-speed manual gearbox. The success of the cost-cutting programme meant that net earnings were up from DM 151 million in 1988 to DM 228 million, half of which was transferred to Volkswagen AG under the profit assumption agreement.

Additional Information about the Fiscal Year Producing Companies

SEAT, S.A.

Productivity up once again

Spain continued to experience an economic upswing in 1989, with the gross national product rising by 5 %. The automobile industry made a major contribution to this growth. Our Spanish subsidiary delivered a total of 129,132 SEAT vehicles to customers on its domestic market, 3.3 % more than in 1988. Sales of Volkswagen and Audi models increased significantly, rising by 27.9 % to 113,540. Exports of SEAT models were likewise up and totalled 214,084 vehicles, an increase of 10.9 %. The most important markets were once again Italy with 83,647 units (+ 14.2 %), France with 43,042 (+ 8.9 %) and West Germany with 24,041 (+ 51.8 %).

Output rose by 9.4 % in 1989 to 474,149 vehicles, making SEAT, S.A. once again the largest vehicle manufacturer in Spain. Production of the SEAT Marbella, Ibiza, Malaga and Terra models totalled 350,034 units (+ 6.8 %) and 124,115 Polos were also manufactured (+ 18.6 %). On September 5, 1989 the total number of Polos produced in Spain reached 500,000.

The Ibiza – the most successful SEAT model available with a wide choice of engines and features.



Additional Information about the Fiscal Year Producing Companies

At the end of 1989 the workforce at SEAT, S.A. totalled 23,847, 0.3 % up on the 1988 figure. The fact that this increase is significantly smaller than the rise in output emphatically demonstrates the continued improvement in productivity achieved last year.

Net earnings in 1989 were well up on the previous year's figure, which had represented the first profit made by SEAT, S.A. following eleven years of losses and after only two and a half years as a member of the Volkswagen Group. This financial success is vital for ensuring that the company is well-positioned to take advantage of the opportunities which the single European market will offer. The new, high-tech SEAT plant at Martorell in Spain, scheduled for completion by 1992 and involving capital investments totalling DM 2.8 billion, can be seen as another important step in this direction.

Volkswagen Bruxelles S.A.

Good capacity utilization

Volkswagen Bruxelles plays an important role in the Group's worldwide interlinked production system. The sustained high level of demand meant that our Belgian subsidiary increased its output by 0.5 % to 186,210 vehicles, assembling 131,137 VW Golfs and 55,073 VW Passats. Additional employees were taken on, boosting the workforce to 6,564 (+ 11.9 %), to meet the greater labour requirements involved in production of the Passat.

The company closed the fiscal year with a profit.

TAS Tvornica Automobila Sarajevo

Production reaches 300,000 Volkswagens

On September 28, 1989 the three hundred thousandth Volkswagen – an alpine-white Golf – came off the production line at TAS Tvornica Automobila Sarajevo. Although economic conditions in Yugoslavia remained difficult in 1989, the company was able to achieve its highest ever output with production totalling 35,459 vehicles (+ 25.1 %). Of this total, 16,521 vehicles (+ 8.8 %) were destined for export to Volkswagen AG. Unit sales in Yugoslavia rose by 35.5 % to 19,521 Group models.

TAS showed a surplus for the year.

AUTOLATINA group

Marked improvement in earnings

South America continued to be faced with a difficult economic situation in 1989. Although currency erosion rapidly gathered pace in Brazil, the Brazilian economy nevertheless experienced a recovery. However, the automobile industry found itself confronted with a difficult supply situation as a result of strikes in protest against the loss of purchasing power, coupled with official price controls limiting opportunities to pass on cost increases via prices. The extremely high inflation rate in Argentina was temporarily curbed with the aid of targeted economic-policy measures, but shot up again towards the end of the year. The country's continuing recession meant that demand for automobiles declined still further.

As the AUTOLATINA group – particularly in its position as market leader in Brazil – was inevitably affected by this overall economic situation, sales fell by 7.6 % to 528,694 vehicles. Of this total, 336,647 were Volkswagen models and 192,047 were Ford vehicles. With 255,270 passenger cars and light commercial vehicles sold in Brazil (– 1.5 %), Volkswagen achieved a 37.5 % share of the market, compared with 39.2 % in 1988. Volkswagen sales on the truck market up to 22 t totalled 6,559 vehicles, a drop of 14.5 %. Exports by the Brazilian AUTOLATINA companies fell by 38.4 % to 75,016 Volkswagen and Ford vehicles. This can be ascribed primarily to reduced sales of the Fox in North America as a result of over-valuation of the cruzado against the US dollar, as well as to the fact that sales to Iraq had come to an end in 1988.

The VW Fox – the Brazilian model
for the North American market.



Additional Information about the Fiscal Year Producing Companies

Autolatina Argentina S.A. sold a total of 36,724 vehicles (– 20.5 %) in 1989, including 12,003 Volkswagen models. With vehicle demand at a low level in Argentina, Volkswagen was just about able to maintain its position with a 10.4 % share of the market.

The strikes and supply bottlenecks meant that the output of the AUTOLATINA group fell by 7.5 % to 530,050 Volkswagen and Ford models. The workforce was increased in order to catch up on the production backlog and at the end of the year totalled 60,759 (+ 7.0 %).

Despite the drop in production and sales, the AUTOLATINA group was nevertheless able to reduce fixed costs and improve productivity in 1989. Furthermore, the high real interest level in Brazil and increased liquidity resulted in above-average earnings. The significant improvement in the earnings situation meant that AUTOLATINA was able to pay dividends. These developments also testify to the excellent cooperation which we have enjoyed with Ford since setting up our AUTOLATINA joint venture in Brazil and Argentina in 1987.

The VW Beetle is still making automobile history today.



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

**VW Beetle experiencing
a renaissance –
domestic market
growing**

The Mexican economy continued to stabilize in 1989, with the 19.7 % inflation rate the lowest for ten years. The favourable economic conditions led to major expansion of the Mexican automobile market, which grew by 30.7 %.

With sales increasing by 40.1 % to 84,502 vehicles, Volkswagen de Mexico accounted for an above-average share of this growth and thus regained its position as the market leader in Mexico. A major contribution to this success was made by the VW Beetle, which is sold as the "Sedan Clasico" and is the least expensive model on the market. The company also exported 22,760 VW Golfs and VW Jettas to North America.

With production increased by 80.2 % to 107,815 vehicles in order to meet demand, additional staff had to be taken on and at the end of the year the workforce totalled 16,985 (+ 45.5 %). Improved capacity utilization and cost reductions meant that the company showed a positive result under German law.

**Shanghai-Volkswagen
Automotive Company
Ltd.**

**New paintshop now
in operation**

Restructuring and modernization of plant facilities continued as planned. Following commissioning of the new paintshop – the most advanced of its type in China – in October 1989, attention is now focussed on setting up the engine plant and large-scale press shop scheduled for completion in spring 1990.

Production was slightly up on the previous year's figure, totalling 15,688 vehicles. Since commencing production operations on September 1, 1985, our joint venture has thus already manufactured over 50,000 VW Santanas. Continued progress was made in increasing the "local content" of production. Sales also rose slightly, totalling 15,580 vehicles. As a result of the greater vertical range of manufacture, the workforce was increased by 14.1 % to 2,684.

Shanghai-Volkswagen Automotive Company Ltd. once again returned a profit.

Additional Information about the Fiscal Year Producing Companies

Volkswagen of South Africa (Pty.) Ltd.

Satisfactory result

Economic expansion in South Africa was not so marked in 1989. At 1.5 %, the growth rate was only half that achieved in the previous year. Although the automobile industry continued to be a mainstay of the economy, labour disputes – in which no vehicle manufacturer remained unaffected – led to numerous production stoppages.

Production by Volkswagen of South Africa thus fell by 6.4 % to 58,766 vehicles. Despite a high level of demand, the resultant shortage of new vehicles meant that deliveries to customers rose by only 1.1 % to 59,533 Volkswagen and Audi models.

The company achieved a satisfactory result.



The Golf GTI G60 – with a G-charger guaranteeing high performance and outstandingly smooth running.

Additional Information about the Fiscal Year Distributing Companies

AUTOGERMA S.p.A.

Another successful year

AUTOGERMA S.p.A. was once again the largest importer in the Volkswagen Group, delivering a total of 214,109 vehicles to customers and surpassing the previous year's figure by 14.0 %. Sales of Volkswagen models amounted to 158,864 vehicles (+ 10.7 %), while Audi sales totalled 55,245 (+ 25.0 %). AUTOGERMA's 8.8 % share of the passenger car market represented an increase of 0.5 percentage points over the 1988 figure. In addition to the continuing popularity of the VW Golf, major contributions to this success were made by the VW Polo, the VW Passat and the Audi 80. Business in the parts sector was also good.

Including the vehicles sold by our SEAT importer, we delivered almost 300,000 automobiles to customers in Italy. With new registrations of Group models increasing by 14.1 % to 297,756, the Volkswagen Group achieved a 12.3 % share of the market compared with 11.6 % in 1988.

AUTOGERMA once again returned a profit.

V.A.G France S.A.

New sales record

With sales totalling 199,144 vehicles, V.A.G France beat the previous year's already high figure by 16.6 % and achieved a new record. Our distributing company was able to maintain its leading position among vehicle importers on the expanding French automobile market, delivering 164,408 Volkswagen models (+ 22.9 %) and 34,736 Audis (- 6.1 %) to customers in 1989. Its share of the passenger car market increased from 7.1 % to 7.5 %.

With the inclusion of the 43,042 vehicles delivered to customers by Seat France S.A., sales of Group models in France totalled 242,186, an increase of 31,874 or 15.2 % over 1988.

V.A.G France achieved a positive result.

V.A.G Sverige AB

Volkswagen and Audi sales once again high

New passenger car registrations in Sweden amounted to 307,104 in 1989, 10.7 % down on the 1988 record figure. Our distributing company V.A.G Sverige AB was able to maintain its position and was once again the country's largest vehicle importer, delivering a total of 44,972 vehicles to customers (- 6.6 %) and achieving a 12.2 % share of the passenger car market compared with 12.3 % in 1988. The major factors behind this success were the good leasing business and increased sales of commercial vehicles.

The company closed the fiscal year with a positive result.

**Additional Information about the Fiscal Year
Distributing Companies**

**Volkswagen of America,
Inc.**

**Keener competition on
the US automobile
market**

Despite large-scale sales promotion campaigns by all manufacturers, new automobile registrations in the USA fell by 6.6 % in 1989 to 10,586,772. Reduced demand and excess capacities resulted in keener competition which was increasingly based on prices. Our subsidiary delivered a total of 154,942 Volkswagen and Audi models to customers, a drop of 19.2 %. With the parent company's support, advertising and sales promotion measures were stepped up at the beginning of the new model year and helped to improve the difficult sales situation. There were already signs in the second half of 1989 that our efforts were starting to bear fruit.

As part of its strategy aimed at concentrating activities on automobile distribution, Volkswagen of America sold its plant at Fort Worth in Texas to the French VALEO group. The Fort Worth plant will continue to supply the Volkswagen Group with components for air conditioning systems.

Volkswagen of America was able to return a slightly positive result in 1989.

Volkswagen Canada Inc.

**Parts production
stepped up**

Canada also experienced a slight decline in demand for automobiles in 1989. It was primarily the Canadian manufacturers who were hit by this development, while imports of Japanese models increased.

Although the competitive situation meant that deliveries of vehicles to customers by Volkswagen Canada fell in the first six months of 1989, new marketing measures made it possible to limit the drop in sales in the second half of the year. As in the USA, sales promotion campaigns were conducted at the beginning of the new model year. Taking 1989 as a whole, deliveries to

customers fell by 18.1 % to 29,371 Volkswagen and Audi models. With a market share of 3.0 % (3.4 %), Volkswagen Canada held fourth position among vehicle importers. Production of aluminium wheels, pressure die-cast aluminium parts and catalytic converters at the Barrie parts-manufacturing plant in Ontario was further stepped up.

The company broke even in 1989.

**Volkswagen Audi
Nippon K.K.**

**Volkswagen assumes
responsibility for
importing**

In view of the ever-growing importance of the Japanese market, Volkswagen Audi Nippon K.K. was set up in mid-October 1989 as an independent importing and distributing company to succeed our former consultancy enterprise Volkswagen Asia Ltd. It is intended that this new company should take over importing of Volkswagen and Audi models and their distribution on the expanding Japanese automobile market, while at the same time further consolidating the Volkswagen Group's leading position. Preparations for commencement of business operations are proceeding on schedule. The company's capital has been initially raised by 150 million yen (DM 2 million) and further increases are planned.

The Yanase group has been acting as our Japanese importer since 1953 and we are greatly indebted to this company for its pioneering work on the Japanese market. Yanase will continue to play an important role in our future distribution set-up.



The Golf Convertible Coast – a
special model in every sense.

Additional Information about the Fiscal Year Other Companies

V.A.G Leasing GmbH

The undisputed market leader

Backed by its comprehensive range of vehicles and services, V.A.G Leasing GmbH was able to maintain its leading position in the West German vehicle leasing business despite keener competition, with a total of 124,300 new leased vehicles in 1989. The company expanded its fleet to 280,700 vehicles, an increase of 6.5 %. The high level of business meant that sales rose by 16.2 % to DM 3,076 million.

Seat Leasing GmbH, a wholly-owned subsidiary of V.A.G Leasing GmbH, surpassed expectations with the development which it exhibited in 1989.

Europcar International S.A.

A fleet of 47,000 vehicles

The Volkswagen Group's activities in the vehicle rental sector are concentrated in Europcar International S.A., Boulogne-Billancourt, a holding company run as a joint venture between Volkswagen and the service enterprise Wagons-Lits with each having a 50 % interest. Europcar maintains a modern rental fleet of 47,000 vehicles and has subsidiaries in West Germany and eight other countries. Through cooperation agreements with other rental firms, the company is represented in over 120 countries worldwide. Both interRent-Europcar Autovermietung GmbH in West Germany and the Europcar group recorded a sizeable increase in business last year.

V.A.G Kredit Bank GmbH

Leading position consolidated

Offering competitive credit facilities and outstanding service, V.A.G Kredit Bank GmbH was able to consolidate its position as the largest institution specializing in vehicle financing in West Germany. Its innovative marketing strategy helped to increase the number of vehicles financed by 18.5 % to 359,000 and thus played a key role in promoting sales. This expansion can be ascribed above all to a sustained upward trend in the private-customer sector. To take account of the increased volume of business, Volkswagen AG contributed a further sum of DM 100 million in August 1989 to raise the capital stock of V.A.G Kredit Bank GmbH to DM 400 million.

The profit assumption agreement with Volkswagen AG which had existed since 1983 was terminated with effect from the beginning of 1989. V.A.G Kredit Bank GmbH achieved a substantially improved result in 1989 and its wholly-owned subsidiary Seat Kredit Bank GmbH likewise exhibited positive development.



"What infests the earth also infests the children of the earth. Man did not create the fabric of life, he is merely a thread therein. Whatever you do to the fabric you do to yourselves."

Chief Seattle,
Chief of the Duwamish,
in a speech to the President of the
United States of America in 1855

An unequivocal declaration of environmentalism. As valid today as it was in 1855. Between then and now came a whole industrial revolution, from the horse to the high-tech automobile. And yet even then the message was clear: the necessity of incorporating environmental protection in our daily life, and of treating nature with respect.

Effective environmental protection is a vitally important consideration in our mobile society. It is no less than the prime precondition for the continued existence of all living creatures on planet Earth. Greenhouse effect, ozone layer, acid rain, smog, the death of forests, scarcity of water and water pollution – these are the keywords. Environmental burdens do not take effect in isolation; rather, they are interlinked and in part even mutually-intensifying. It is primarily for future generations that we must solve the environmental problems of our own age.

So what can an automotive corporation contribute to this? A lot. An organisation such as the Volkswagen Group which produces nearly three million vehicles per year world-wide has a correspondingly great responsibility. This relates to the motor vehicle itself, to its production and to traffic planning. Environmentally benign motor vehicles are those which are characterised by technologies optimising emissions (exhaust and noise), consumption and the possibility of recycling.



**Volkswagen –
the catalyst pioneer**

The regulated three-way catalytic converter concept for the spark-ignition engine currently represents the best solution for removing pollutants from exhausts. This is a technically sophisticated emission control system consisting of the catalytic converter, lambda probe, air flow meter, mixture preparation unit and an electronic control unit which passes on the signals from the lambda probe to the fuel supply control.

We at Volkswagen were the first to suggest the three-way catalyst as a possible solution – at a conference in Detroit in 1972 (P. Öser, D. H. Pundt, W. Buttgereit, SAE Paper 720482). Further important innovations – such as the lambda probe – came from Messrs. Bosch. We at Volkswagen and Audi can thus claim with justification to be among the pioneers of the development of catalytic converter technology.

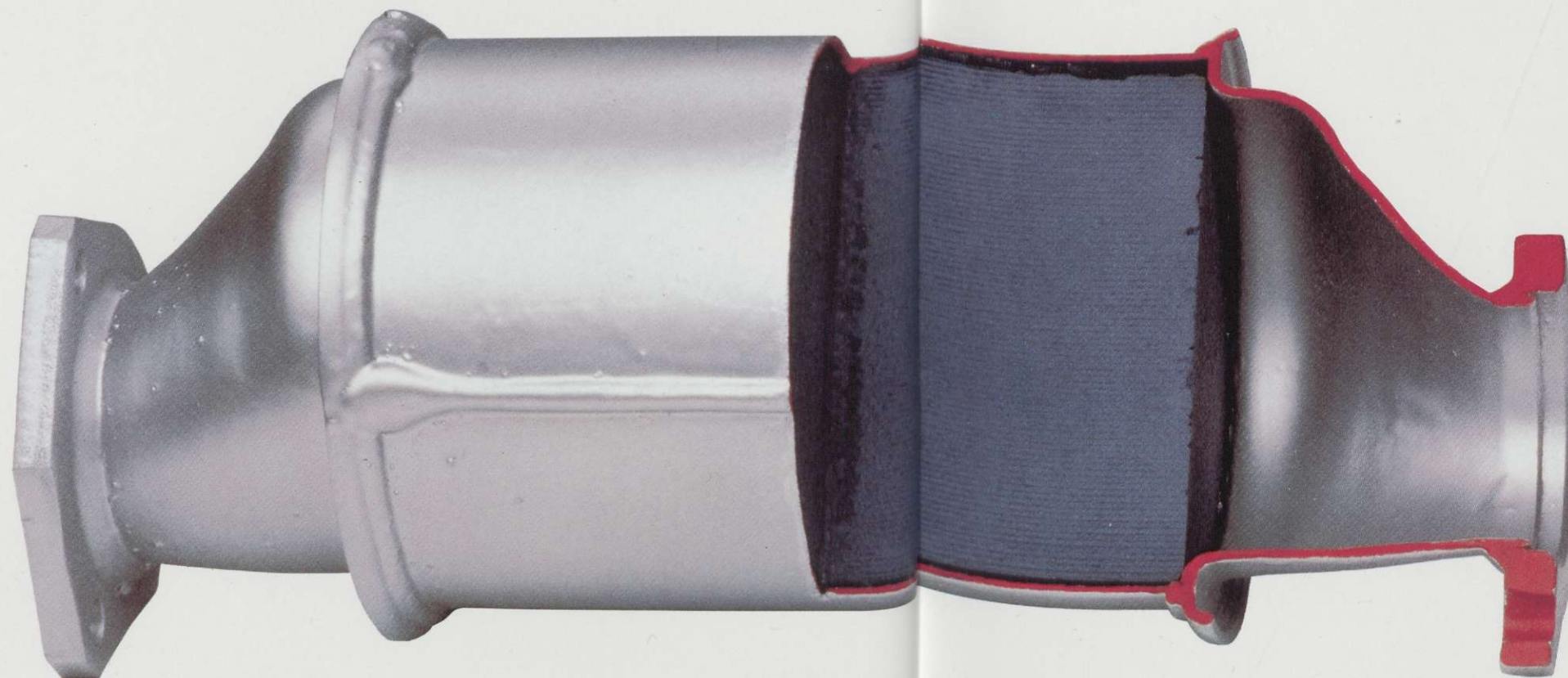
The VW vehicles with catalytic converter far underbid even the strictest statutory limits. Since 1987 the Volkswagen Group has offered regulated catalysts as standard for Volkswagen and Audi passenger cars with spark-ignition engines in Europe, the USA and Japan, from the VW Polo to the luxury Audi V8. In 1989 the Volkswagen Group with its three marques – Volkswagen, Audi and SEAT – was for example not only

**Markedly reduced fuel
consumption for
Volkswagen, Audi
and SEAT**

market leader in West Germany but also at 28.4 % had the biggest proportion of registrations of low-pollution vehicles. Apart from the engines with regulated and unregulated catalyst, all diesel engines are low-pollution. For older vehicles Volkswagen offers its customers via the V.A.G Organisation low-cost catalyst retro-installation kits.

For years vehicles have been sold in Brazil with environment-friendly alcohol engines. There are agreements with the People's Republic of China for the testing of engines running on the alcohol fuel methanol. Methanol vehicles are also planned for California in order to reduce emissions burdens especially in the population centre of Los Angeles.

The fleet consumption of our vehicles is today some 20 % below that of 10 years ago. In addition to the energy saving effect this also has direct benefits for the environment, since fuel that isn't burnt cannot produce exhaust gases. Because there is a direct connection between fuel saved and CO₂ reduction in the exhaust, every decrease in consumption is also a contribution to reducing the greenhouse effect and maintaining the vital natural balance.



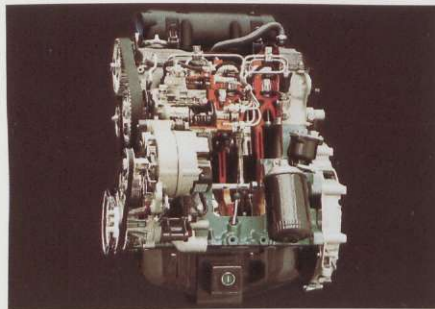
The catalytic converter in which the chemical conversion and cleaning process takes place has a wash coat whose surface area is equivalent to that of a football field.

Environmental world première – the new VW catalyst diesel

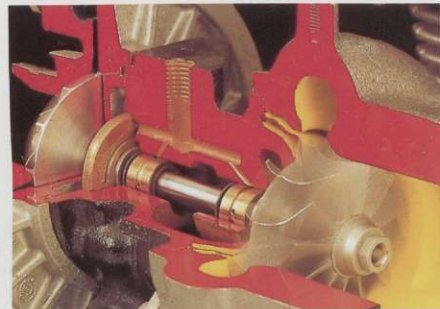
Others will follow, but the "people's car" is once again the trail-blazer – for the sake of the environment. Because we are not content to rest on our achievements. The first diesel engine with catalytic converter comes from Wolfsburg and can be had as standard equipment on the Golf and Jetta. Practically no diesel smell, no black clouds from the exhaust, less noise (comparable with a petrol engine) and higher economy without sacrificing performance and pulling power: these are its salient qualities.

A major proportion of particulate emissions from conventional diesel engines is soot, that is, solid carbon. It is formed when the injected fuel does not have sufficient oxygen for combustion. On the new VW catalyst diesel therefore an exhaust turbocharger forces additional air into the cylinders without the quantity of fuel injected being increased. This means that even at full throttle there is no more soot to be seen.

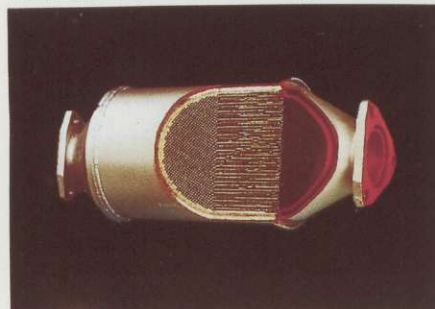
At the same time this optimised combustion means better energy utilisation. Lower fuel consumption and a slight increase in output are further advantages. The new catalyst diesel has an output of 60 bhp (44 kW) and a consumption of 4.6 l/100 km at 90 km/h. In addition the oxidation catalyst ensures that hydrocarbon emissions – which are already below the strict limits – are halved again. Engines of this kind thus quite decisively reduce the burden on the atmosphere.



1.6 l swirl chamber diesel engine

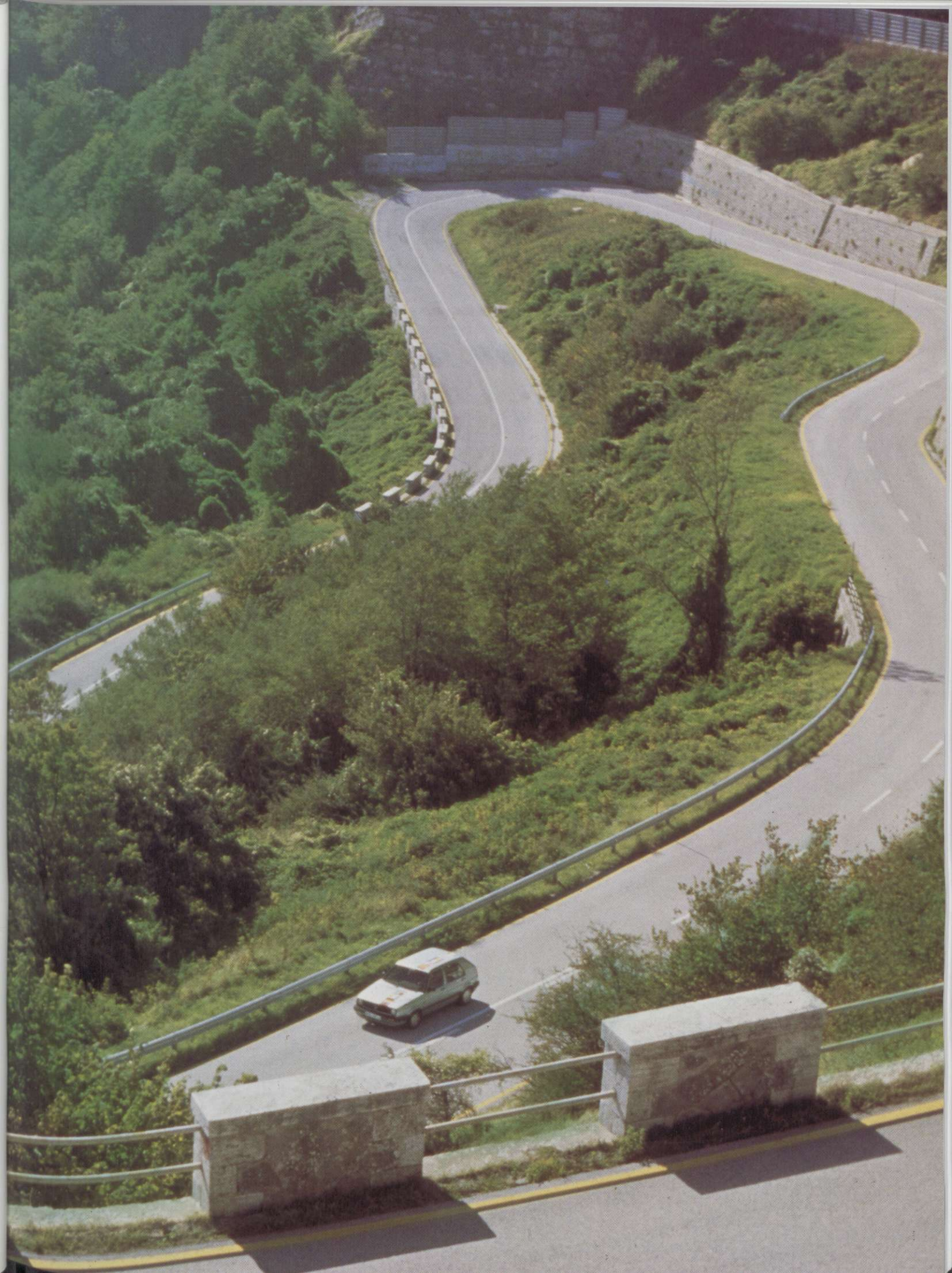


Turbocharger



Diesel catalyst

The especially environment-friendly VW Golf catalyst diesel on a test drive for "Auto Zeitung" through Europe.



Environmental Protection

Manoeuvrable, fast and fully-equipped – the VW "Environment Specialist"

Nowadays no household is without chemicals. And there is certainly no firm that does not use solvents, paints, acids, lyes or oils. Volkswagen has developed a special environmental vehicle for preventive measures and especially for when a calamity occurs.

This is an LT 50 turbo-diesel with container body and an output of 75 kW (102 bhp). From the outside one would think it was an ordinary fire service vehicle. But this truck has got what it takes. Everything has been thought of. Full acid protective clothing, in which the firemen look like astronauts, pumps for the removal of leaked liquids and the necessary containers and much more go to make up the comprehensive equipment. The Volkswagen "Environment Specialist" is an extremely practical, manoeuvrable vehicle which has aroused great interest particularly among local authorities.

New Eco-Golf on trial

For two years as of autumn 1989 police officers in greater Hanover are also acting as environmental test-drivers. For a joint research and demonstration programme of Volkswagen and the Land of Lower Saxony, brand-new catalyst diesels – already highly benign in standard form – have been equipped with an inertia-utilisation system.

The momentum of the vehicle continues to drive it forward when the accelerator is released, and at the same time the engine is switched off. When the driver depresses the accelerator again the momentum of the vehicle acts as a starter. This inertia-utilisation system, which decouples and switches off the engine when no drive is required, makes possible a further marked reduction of consumption and emissions, especially in urban traffic.



Gleaming paintwork

Multi-layer paint gives vehicles a lasting shine and long-term protection against rust. But gleaming paintwork is not always what it seems. Volkswagen engineers together with the paint manufacturers are constantly working on the development of an environment-friendly paint composition. Today Volkswagen uses no chromate of lead or cadmium pigments in its finishes.

This is only one example of many. In the field of immission protection we have for a long time been working on a consistent reduction of solvent consumption. The essential steps in this reduction programme began in 1979 with the introduction of solvent-free cavity sealing. This was followed by a similar measure in connection with axle preservation. In 1990 we shall also dispense with solvents in exterior vehicle transport protection.

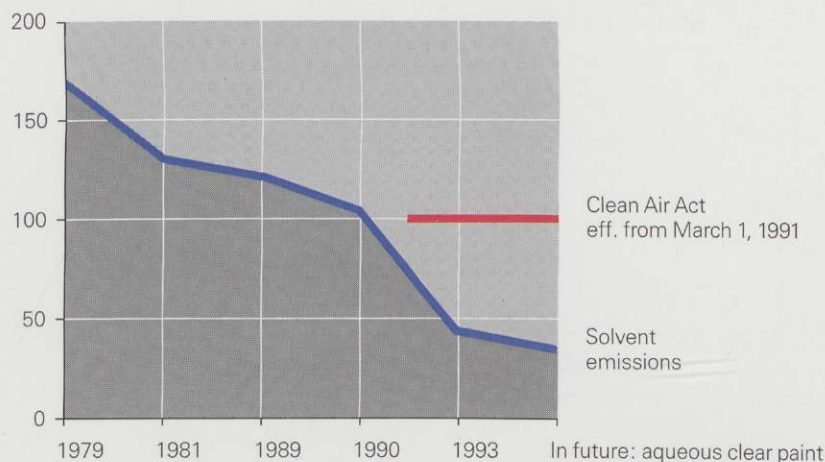
And what about paintshop technology? Here too Volkswagen is setting new standards with the new paintshops at the Wolfsburg, Hanover and Emden factories. This will involve capital investments of 1.7 billion DM over several years. Some 30 per cent of this is to be spent on environmental solutions alone.

Of particular importance at Wolfsburg and Emden is the conversion of two further paint coats to benign water-based paints. Here all vehicles will have a four-coat finish. Of these only the high-solid clear top coat will then still have a higher proportion of solvents than the others, although this will in any case be a much smaller proportion than is currently the case. But this too will be almost entirely replaced by water by the mid-nineties. With the introduction of the new paint technology in 1991 we shall already underbid the statutory limits by nearly 60 %.

A whole series of environmental protection measures is being realised in the new paintshops. Volkswagen can proudly speak of having the most environmentally benign paintshop systems in the world.

Per diem solvent emission at the Wolfsburg paintshop is constantly falling as a result of specific measures, in particular the new plant.

Reduction of solvent emissions (Figures in %)



A precious liquid

There is not an unlimited supply of clear, clean water. There is a shortage of it. For this reason Volkswagen has various different water supply and distribution concepts at its factories. The Wolfsburg plant alone circulates an annual quantity of water equivalent to that consumed by 7 million people: 375 million cubic metres. Circulates, let it be noted, not consumes; we are careful with the precious liquid. Less than 2 % of this quantity is taken in as freshwater. Each drop of water required for production and human consumption is used at least six times through the factory water system before leaving the system thoroughly purified. This guarantees a specific and effective water utilisation which is exemplary and forward-looking.

For the extension of this efficient water utilisation Volkswagen in 1989 alone took 50 million DM worth of plant into commission. For example the entire Kassel factory water supply was restructured. At the Wolfsburg factory we have achieved a constant improvement of water quality which can stand comparison with local authority water purification.

Not only at our German factories, but also in foreign locations, water conservation and high-grade water purification are important operating principles for us. We frequently exercise a pioneering function – for example the first biological water conditioning plant in an industrial concern was set up at the construction of the Nigerian factory. The chemico-physical water treatment plant for paintshop waste water at the Brussels factory is still exemplary today.

Valuable raw materials

Metals – the classic materials of the motor vehicle – still account for some 70 % of the content of a passenger car. They are today to a large extent economically recyclable. However plastics are gaining steadily in importance both for functional reasons and on account of their lower weight which results in reduced consumption. Thus every motor vehicle consists of valuable raw materials. The relation between the design of a vehicle and subsequent reuse of its component materials is an important factor in environment-friendly motor manufacture.

Volkswagen therefore places increased emphasis on the selection of materials which are recyclable and on a vehicle design which permits of easy disassembly. For example the design of the new Passat permits most of the plastics to be removed in a relatively short space of time.

In production too, great care is taken with raw materials and residual materials. Considerable quantities of the latter are put back into the production process. Non-reusable residues are disposed of in an environment-friendly fashion.

An important part of the environment-conserving water recycling system at the Wolfsburg factory is the water retaining basin.



Environmental Protection

High-output production facilities for motor vehicle manufacture are today a matter of course. But disassembly factories for the recycling of vehicles? This too is no longer a vision of the future. Volkswagen is currently setting up in Leer, East Friesland, a trial plant for the recycling of used vehicles. Design, production and finally reuse form a continuum.

Clean energy

Our day-to-day existence requires large quantities of electrical energy and heat. The thermal power stations operated by VW-Kraftwerk GmbH in Wolfsburg, Hanover and Kassel with a total output of 739 megawatts of electricity and 1,380 megawatts of heat are among the foremost in matters of environmental protection. The VW power stations work with benign fluidised bed coal boilers and the most up-to-date waste air purification systems for desulphuration and the removal of nitrogen oxides.

Of great significance for clean air in Wolfsburg is also the coupling of power and heat. Volkswagen supplies both electricity and heat to the town and parts of its environs. A centralised energy generator with very high efficiency is simply more economical and better for the environment, as it makes thousands of private heating systems unnecessary.

Not for nothing is the Volkswagen town Wolfsburg called a green town: no other with a high vehicle density has such clean air.

Environmental protection – a constant corporate task

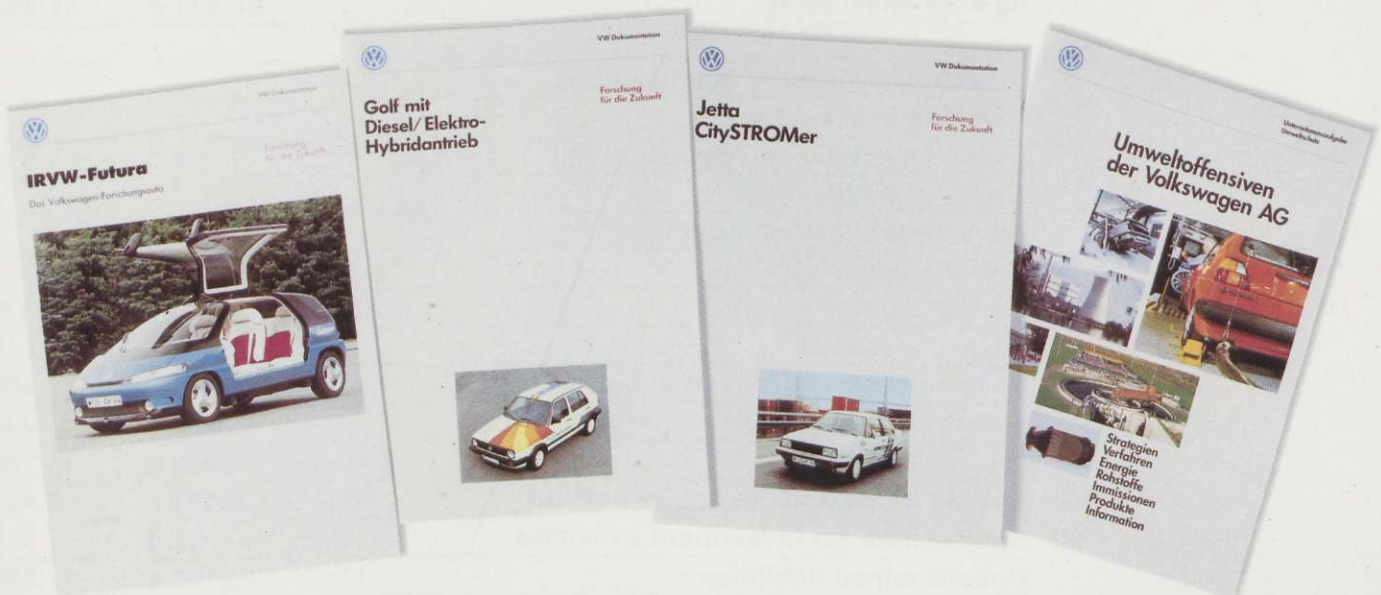
"Wherever Volkswagens are built around the world, new technology is playing its part in protecting the environment. Our thoughts and actions are governed by the realisation that products and production processes must be designed in such a way that pollutants are avoided, or – if this is not yet entirely possible – extensively reduced. Specific environmental protection is a contribution to the quality of life and a part of our corporate culture."

Dr. Carl H. Hahn,
Chairman of the Board of Management
of Volkswagen AG,
September 12, 1989

Effective environmental protection is thus for us a corporate task and a part of corporate philosophy. The current changeover from an afterthought to an integrated environmental protection technology is being actively and consistently pressed ahead with at Volkswagen. In the European and international situation the future belongs to him alone who proves capable of

developing practical technical solutions, ecologically and economically, out of the interplay of production, product and environment. Volkswagen has for a long time been working intensively on specific environmental strategies. In addition to the examples quoted from various different sectors, these include electronic vehicle guidance and information systems, the electric vehicle VW Jetta CitySTROMer, the VW Golf with diesel/electric hybrid drive, the Audi duo drive concept, and not least the recently presented VW research vehicle IRVW-Futura. It is a tradition of many years standing at Volkswagen to communicate this to all who profess an interest by means of information bulletins promoting environmental awareness.

Volkswagen, a Group with many and varied international environmental protection activities. Because nature recognises no frontiers – and we need nature.



The Volkswagen AG brochures on environmental protection can be had in German and English ("Umweltoffensiven der Volkswagen AG" also in French) from Volkswagen AG, Postfach, D-3180 Wolfsburg 1, Tel. 53 61/ 92 03 94 or 53 61/92 68 20.

**Financial Statements 1989 Volkswagen Group
and Volkswagen AG**

**Consolidated Balance Sheet of the Volkswagen Group
December 31, 1989 – DM million –**

	Note	Dec. 31, 1989	Dec. 31, 1988
Assets			
Fixed assets	(1)		
Intangible assets		134.1	76.3
Tangible assets		15,492.7	13,835.7
Financial assets		1,621.2	1,303.8
Leasing and rental assets		5,561.6	5,426.9
		22,809.6	20,642.7
Current assets			
Inventories	(2)	7,300.9	6,506.0
Receivables and other assets	(3)	14,155.1	11,529.4
Securities	(4)	2,360.0	488.5
Cash on hand, deposits at German Federal Bank and postal giro balances, cash in banks		9,929.2	10,808.8
		33,745.2	29,332.7
Prepaid and deferred charges	(5)	316.6	319.0
Balance-sheet total		56,871.4	50,294.4
Stockholders' equity and liabilities			
Stockholders' equity			
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	497.5		
Capital reserve	(7)	3,020.0	3,020.0
Revenue reserves	(8)	6,647.3	6,019.6
Net earnings available for distribution		338.5	308.5
Minority interest in consolidated subsidiaries		493.0	446.9
		11,998.8	11,295.0
Special items with an equity portion	(9)	2,925.3	2,451.7
Special item for investment subsidies	(10)	12.0	9.7
Undetermined liabilities	(11)	19,107.4	17,090.2
Liabilities	(12)	22,318.1	18,962.6
Deferred income		509.8	485.2
Balance-sheet total		56,871.4	50,294.4

Consolidated Statement of Earnings of the Volkswagen Group

	Note	1989 DM million	1988 DM million
Sales	(13)	65,352.2	59,221.1
Cost of sales		56,195.7	51,314.5
Gross profit		+ 9,156.5	+ 7,906.6
Selling and distribution expenses		5,202.6	4,661.7
General administration expenses		1,948.8	1,659.1
Other operating income	(14)	3,732.3	2,817.3
Other operating expenses	(15)	3,523.9	2,779.6
Results from participations	(16)	- 130.4	+ 90.8
Interest results	(17)	+ 998.5	+ 615.2
Write-down of financial assets and securities classified as current assets		94.8	193.3
Results from ordinary business activities		+ 2,986.8	+ 2,136.2
Taxes on income		1,948.7	1,356.3
Net earnings		1,038.1	779.9

Balance Sheet of Volkswagen AG
December 31, 1989 – DM million –

	Note	Dec. 31, 1989	Dec. 31, 1988
Assets			
Fixed assets	(1)		
Intangible assets		44.9	40.3
Tangible assets		8,721.2	7,352.2
Financial assets		6,104.8	5,502.6
		14,870.9	12,895.1
Current assets			
Inventories	(2)	3,129.1	2,811.6
Receivables and other assets	(3)	5,057.6	5,533.9
Securities	(4)	1,035.3	10.4
Cash on hand, deposits at German Federal Bank and postal giro balances, cash in banks		5,493.3	6,371.0
		14,715.3	14,726.9
Prepaid and deferred charges	(5)	154.7	172.3
Balance-sheet total		29,740.9	27,794.3
Stockholders' equity and liabilities			
Stockholders' equity			
Subscribed capital	(6)	1,500.0	1,500.0
Ordinary shares	1,200.0		
Non-voting preferred shares	300.0		
Potential capital	497.5		
Capital reserve	(7)	3,020.0	3,020.0
Revenue reserves	(8)	3,088.6	2,768.5
Net earnings available for distribution		338.5	308.5
		7,947.1	7,597.0
Special items with an equity portion	(9)	2,665.4	2,194.2
Undetermined liabilities	(11)	13,307.1	12,756.1
Liabilities	(12)	5,821.3	5,247.0
Balance-sheet total		29,740.9	27,794.3

Statement of Earnings of Volkswagen AG

	Note	1989 DM million	1988 DM million
Sales	(13)	48,532.7	44,237.1
Cost of sales		44,539.2	40,640.0
Gross profit		+ 3,993.5	+ 3,597.1
Selling and distribution expenses		2,807.5	2,318.1
General administration expenses		779.4	730.1
Other operating income	(14)	1,926.0	1,779.1
Other operating expenses	(15)	2,039.6	1,680.0
Results from participations	(16)	+ 1,126.9	+ 631.7
Interest results	(17)	+ 449.8	+ 396.9
Write-down of financial assets and securities classified as current assets		80.1	165.9
Results from ordinary business activities		+ 1,789.6	+ 1,510.7
Taxes on income		1,134.3	987.5
Net earnings		655.3	523.2

**Notes on the Financial Statements of the
Volkswagen Group and Volkswagen AG for the
Fiscal Year ended Dec. 31, 1989**

**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, with due regard to the provisions of the Corporation Act.

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 comparability,

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 55 foreign Group companies.

Five companies were included in the consolidated financial statements as fully consolidated subsidiaries for the first time in the year under report, while one subsidiary which had hitherto been fully consolidated has formally ceased to be a consolidated company as a result of merger with another company.

Three German and ten 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 AUTOLATINA companies and Europcar International S.A., Boulogne-Billancourt, which are run as joint ventures, are included in the consolidated financial statements, along with their subsidiaries and associated companies, on a pro rata basis in accordance with the percentage holding of Volkswagen AG. Altogether, this involves 36 companies consolidated on a pro rata basis and four associated companies. The savings associations and trust companies belonging to the AUTOLATINA group, which up to 1988 were treated as associated companies, are included in the consolidated financial statements pro rata from 1989 onwards, excluding the trust assets and liabilities stated under "Additional details".

28 German and 16 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 major fully consolidated Group companies, joint ventures, associated companies and other companies in which participations are held is given on pages 24 and 25. 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 method. The companies of the AUTO-LATINA and Europcar groups 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 acquisition of an associated company has been set off against the revenue reserves.

Receivables, liabilities, expenses and income arising

between individual consolidated companies are eliminated. Group inventories and fixed 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 net earnings/losses

of foreign subsidiaries are determined by translating the relevant amounts in local currency at the rate applying on the balance-sheet date, taking into account the balance-sheet currency translation with an effect on results.

The inventory consumption incorporated in cost of sales in the financial statements of companies in countries with high inflation is included in the consolidated statement of earnings in the form of historical rates. The inflation-related components of interest expenses and interest income have been combined with the exchange rate differences and translation differences under "Other operating expenses" and "Other operating income".

In the individual financial statements of Volkswagen AG, transactions in

Accounting and valuation principles

foreign currencies are valued at the rate applying on the day on which they were effected or at the rate agreed. Anticipated exchange losses at the

balance-sheet date are taken into account in valuation. Where receivables are matched by liabilities in the same amount and with the same maturity,

both are translated at the same rate. Participations are stated on the basis of the rate applying at the time they were acquired.

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 at acquisition cost or the lower applicable value.

Long-Term Financial Investments are shown at acquisition cost or, in the event of a probably permanent reduction in value, at the applicable lower value.

Loans 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 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 lower applicable value on the balance-sheet date, 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 or the amount required for fulfilment of the obligation in question.

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, sales promotion, market research and service.

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

Other Taxes are allocated 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 72 to 75.

The book value of the Group fixed assets, total-

Intangible assets
Tangible assets
Leasing and rental assets

ling DM 22,809.6 million, comprises intangible, tangible, financial and leasing and rental assets.

The book value of the fixed assets of Volkswagen AG on balance-sheet date was DM 14,870.9 million.

Volkswagen Group
DM million
94.0*)**)
4,965.7**)
4,069.5

*) Incl. goodwill arising from acquisition of an associated company

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 AG
DM million
25.7
3,588.8
-

**) 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
DM million
23.4
3,123.0
2,088.2

Volkswagen AG
DM million
16.6
2,168.7
-

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

Volkswagen Investments Ltd., Dublin (new subsidiary of Volkswagen AG)

Gearbox del Prat, S.A., El Prat (new subsidiary of SEAT, S.A., Barcelona)

VOTEX Inc., Troy, Michigan, has been merged with V-Crest Systems, Inc., Troy, Michigan, which was established in 1989 through renaming of a non-consolidated com-

pany. The new company has been fully consolidated.

Volkswagen Audi Nippon K.K., Tokyo, established through renaming of Volkswagen Asia Ltd., Tokyo, has likewise been fully consolidated.

The companies

Consorcio Nacional Ford Ltda., São Paulo, SP

Consorcio Nacional Volkswagen Ltda., São Paulo, SP

Autolatina S.A. de Ahorro para Fines Determinados, Buenos Aires

Volkswagen S.A. de Ahorro para Fines Determinados, Buenos Aires

which were previously included in the financial statements as associated companies have now been consolidated on a pro rata basis in accordance with the percentage holding.

Associated companies now additionally include the Italian SEAT importing group

Bepi Koelliker Importazioni S.p.A., Milan

Bepi Koelliker Ricambi S.p.A., Milan

Bepi Koelliker Finanziaria S.p.A. Milan

and

Europcar Lease S.N.C., Boulogne-Billancourt.

Inter-Locadora S.A., São Paulo, SP, and Invercred S.A. Cia Financiera de Inversiones y Credito, Buenos Aires, have ceased to be associated companies.

In December 1989, Volkswagen AG and VEB IFA-Kombinat Personenkraftwagen, Karl-Marx-Stadt, set up VOLKSWAGEN IFA-Pkw GmbH, Wolfsburg. As this joint venture has not yet commenced business operations, it is not included in the consolidated financial statements and has been valued at acquisition cost.

The addition of DM 401.3 million to the long-term financial investments of the Volkswagen Group (Volkswagen AG: DM 200.0 million) results almost exclusively from long-term investments in special security funds.

The Volkswagen Group's "Other loans" relate above all to loans by our American subsidiary 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, 1989	Amounts brought forward ¹⁾
Intangible Assets²⁾		
Concessions, industrial and similar rights (e.g. patents) and licences in such rights	59.3	0.1
Payments on account	31.2	–
	90.5	0.1
Tangible Assets		
Land, land rights and buildings incl. buildings on land owned by others	11,892.7	7.2
Technical equipment and machinery	15,955.5	–
Other equipment and factory and office equipment	12,154.9	1.9
Payments on account and construction in progress	1,669.0	–
	41,672.1	9.1
Financial Assets		
Holdings in affiliated companies	67.8	0
Loans to affiliated companies	0.6	–
Holdings in associated companies	258.8	–
Participations	662.4	–
Loans to associated companies and companies linked through participation	7.2	–
Long-term financial investments	255.8	0
Other loans	1,013.1	–
Other financial assets	18.4	–
	2,284.1	0
	44,046.7	9.2
Leasing and Rental Assets	8,050.0	–

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

²⁾ Acquired goodwill has been set off against the revenue reserves.

³⁾ Including exchange rate differences in the amount of
DM 34.6 million.

⁴⁾ Including exchange rate differences in the amount of
DM –20.4 million.

Additions	Transfers	Disposals	Acquisition or manufac- turing cost Dec. 31, 1989	Accumu- lated depre- ciation	Write-ups (current year)	Book- values Dec. 31, 1989	Deprecia- tion (current year)
34.1	2.9	0.9	95.5	37.3	–	58.2	23.4
51.1	– 1.5	4.9	75.9	–	–	75.9	–
85.2	1.4	5.8	171.4	37.3	–	134.1	23.4
408.0	425.3	151.4	12,581.8	6,441.8	–	6,140.0	473.2
1,249.8	633.4	817.2	17,021.5	13,178.6	–	3,842.9	1,334.8
1,251.2	407.1	622.5	13,192.6	9,832.9	–	3,359.7	1,315.0
2,047.6	– 1,482.0	59.6	2,175.0	24.9	–	2,150.1	–
4,956.6	– 16.2	1,650.7	44,970.9	29,478.2	–	15,492.7	3,123.0
8.4	– 1.0	65.0	10.2	0.9	–	9.3	–
0.7	–	0	1.3	–	–	1.3	–
30.3	0.7	61.1	228.7	25.4	1.0	204.3	0.8
0.3	0.3	0.9	662.1	467.5	–	194.6	61.5
–	–	0.2	7.0	6.5	1.8	2.3	–
401.3	–	–	657.1	5.7	–	651.4	–
66.5	–	81.3 ³⁾	998.3	501.4 ⁴⁾	27.5	524.4	14.6
39.3	–	1.8	55.9	22.3	–	33.6	6.9
546.8	–	210.3	2,620.6	1,029.7	30.3	1,621.2	83.8
5,588.6	– 14.8	1,866.8	47,762.9	30,545.2	30.3	17,248.0	3,230.2
4,069.5	14.8	3,406.3	8,728.0	3,166.4	–	5,561.6	2,088.2
						22,809.6	

Development of Fixed Assets of Volkswagen AG
(DM million)

	Acquisition or manufac- turing cost Jan. 1, 1989	Additions
Intangible Assets		
Concessions, industrial and similar rights (e.g. patents) and licences in such rights	43.5	25.0
Payments on account	6.2	0.7
	49.7	25.7
Tangible Assets		
Land, land rights and buildings incl. buildings on land owned by others	5,512.0	237.2
Technical equipment and machinery	9,442.9	1,074.3
Other equipment and factory and office equipment	7,120.7	938.7
Payments on account and construction in progress	1,034.5	1,338.6
	23,110.1	3,588.8
Financial Assets		
Holdings in affiliated companies	6,755.9	415.0
Loans to affiliated companies	345.5	0.1
Participations	1,012.4	4.5
Loans to companies linked through participation	7.0	–
Long-term financial investments	–	200.0
Other loans	225.8	44.1
	8,346.6	663.7
Total Fixed Assets	31,506.4	4,278.2

Transfers	Disposals	Acquisition or manufac- turing cost Dec. 31, 1989	Accumu- lated depre- ciation	Write-ups (current year)	Book- values Dec. 31, 1989	Deprecia- tion (current year)
1.7	–	70.2	26.0	–	44.2	16.6
– 1.2	5.0	0.7	–	–	0.7	–
0.5	5.0	70.9	26.0	–	44.9	16.6
308.8	59.5	5,998.5	3,363.9	–	2,634.6	281.1
331.2	217.6	10,630.8	8,355.4	–	2,275.4	1,063.6
308.9	206.8	8,161.5	5,739.9	–	2,421.6	824.0
– 949.4	34.1	1,389.6	–	–	1,389.6	–
– 0.5	518.0	26,180.4	17,459.2	–	8,721.2	2,168.7
–	0	7,170.9	2,302.5	–	4,868.4	–
–	2.4	343.2	35.3	9.8	317.7	0
–	0.4	1,016.5	491.7	–	524.8	62.1
–	0.2	6.8	6.4	1.8	2.2	–
–	–	200.0	–	–	200.0	–
–	31.0	238.9	70.7	23.5	191.7	9.3
–	34.0	8,976.3	2,906.6	35.1	6,104.8	71.4
–	557.0	35,227.6	20,391.8	35.1	14,870.9	2,256.7

Notes on the Balance Sheet

(2) Inventories

	Volkswagen Group		Volkswagen AG	
	Dec. 31, 1989 DM million	Dec. 31, 1988 DM million	Dec. 31, 1989 DM million	Dec. 31, 1988 DM million
Raw materials and supplies	1,947.6	1,529.2	729.7	604.7
Work in progress	1,923.9	1,833.7	1,221.7	1,148.4
Finished goods and merchandise	3,402.7	3,117.6	1,148.9	1,036.3
Advance payments	26.7	25.5	28.8	22.2
	7,300.9	6,506.0	3,129.1	2,811.6

(3) Receivables and other assets

	Volkswagen Group		Volkswagen AG	
	Dec. 31, 1989 DM million	Dec. 31, 1988 DM million	Dec. 31, 1989 DM million	Dec. 31, 1988 DM million
Trade receivables	2,914.5	2,548.9	640.3	703.1
– of which amounts due in more than one year	(4.0)	(13.1)	(1.0)	(6.1)
Receivables from affiliated companies	0.2	4.7	2,925.5	3,572.4
– of which trade receivables	(0.2)	(4.4)	(589.4)	(599.1)
– of which amounts due in more than one year	(–)	(–)	(1,026.1)	(1,516.2)
Receivables from companies in which participations are held	445.8	353.9	214.4	221.3
– of which trade receivables	(141.1)	(132.2)	(105.6)	(92.3)
– of which amounts due in more than one year	(–)	(–)	(–)	(–)
Other current assets	10,794.6	8,621.9	1,277.4	1,037.1
– of which amounts due in more than one year	(3,295.3)	(2,464.6)	(531.6)	(231.9)
	14,155.1	11,529.4	5,057.6	5,533.9

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 three quarters 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, 1989 DM million	Dec. 31, 1988 DM million	Dec. 31, 1989 DM million	Dec. 31, 1988 DM million
Treasury stock	5.4	5.4	5.4	5.4
Other securities	2,354.6	483.1	1,029.9	5.0
	2,360.0	488.5	1,035.3	10.4

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. Volkswagen AG holds treasury stock in the form

of 76,472 shares with a nominal value of DM 3,823,600.00; this corresponds 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.

The "Other securities" shown for the Volkswagen Group relate primarily to short-term money market papers held by various Group 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 capital reserve made in connection with the issue of warrants with low-interest

bonds. The amounts in question are DM 217.6 million for the Volkswagen Group and DM 153.2 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, 1994.

An existing potential capital stock of DM 200 million has been reduced to

DM 97.5 million and 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.

A further potential capital stock of DM 200 million 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. In addition, capital stock has been raised conditionally by

DM 200 million through the issuing of up to 4,000,000 bearer ordinary shares and/or bearer preferred shares with nominal value of 50 DM each. The potential capital increase will be effected only to the extent that the holders of the convertible and option bonds to be issued up to July 13, 1994 in a total amount of up to DM 800 million exercise the conversion and option rights attaching to these bonds.

Notes on the Balance Sheet

(7) Capital reserve

	Volkswagen Group		Volkswagen AG	
	Dec. 31, 1989 DM million	Dec. 31, 1988 DM million	Dec. 31, 1989 DM million	Dec. 31, 1988 DM million
	3,020.0	3,020.0	3,020.0	3,020.0

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.

(8) Revenue reserves

	Volkswagen Group		Volkswagen AG	
	Dec. 31, 1989 DM million	Dec. 31, 1988 DM million	Dec. 31, 1989 DM million	Dec. 31, 1988 DM million
Legal reserve	60.0	60.0	60.0	60.0
Reserve for treasury stock	5.4	5.4	5.4	5.4
Other revenue reserves	6,581.9	5,954.2	3,023.2	2,703.1
	6,647.3	6,019.6	3,088.6	2,768.5

A total of DM 320 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 8.7 million deriving from acquisition of the associated

company Bepi Koelliker Importazioni S.p.A., Milan, has been set off against the Volkswagen Group's revenue reserves.

(9) Special items with an equity portion

	Volkswagen Group		Volkswagen AG	
	Dec. 31, 1989 DM million	Dec. 31, 1988 DM million	Dec. 31, 1989 DM million	Dec. 31, 1988 DM million
Reserves for tax purposes	165.6	193.9	120.3	148.3
Depreciation for tax purposes	2,759.7	2,257.8	2,545.1	2,045.9
	2,925.3	2,451.7	2,665.4	2,194.2

Volkswagen AG has reserves in accordance with § 52 subsection 5 of the Income Tax Act 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, § 7d of the Income Tax Act, § 82d of the

Income Tax Directive, § 6b of the Income Tax Act/Section 35 of the Income Tax Guidelines 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 § 82a of the Income Tax Directive and § 14 of the Berlin Promotion Act as well as reserves in accordance with § 6b of the Income Tax 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 12.0 million (1988: DM 9.7

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

(11) Undetermined liabilities

	Volkswagen Group		Volkswagen AG	
	Dec. 31, 1989 DM million	Dec. 31, 1988 DM million	Dec. 31, 1989 DM million	Dec. 31, 1988 DM million
Undetermined liabilities for pensions and similar obligations	6,652.6	6,314.5	5,732.8	5,448.4
Undetermined liabilities in respect of taxes	2,000.7	1,357.5	1,352.1	1,156.0
Other undetermined liabilities	10,454.1	9,418.2	6,222.2	6,151.7
	19,107.4	17,090.2	13,307.1	12,756.1

Other undetermined liabilities comprise among other things undetermined liabilities for warranty obligations, miscellaneous selling and distribution expenses, early retirement schemes, long-service awards and other workforce-related costs.

In accordance with § 249 subsection 2 of the Commercial Code, undetermined liabilities for expenses – which are non-deductible for tax purposes – have been created in the consolidated financial statements in respect of various Group companies

to make provision for financial burdens which have already been occasioned, among other things in connection with model changes and reorganization. Without these measures, pre-tax earnings would have been 18 % higher.

(12) Liabilities

	Volkswagen Group			
Type of liability	Total Dec. 31, 1989 DM million	of which payable within up to 1 year DM million	Total Dec. 31, 1988 DM million	of which payable within up to 1 year DM million
Loans	2,541.9	26.0	1,963.4	203.0
– of which convertible	(–)	(–)	(–)	(–)
Liabilities due to banks	11,007.3	9,426.7	9,204.5	7,646.8
Advance payments received	147.8	147.8	149.6	149.6
Trade payables	4,674.4	4,673.9	4,150.3	4,149.4
Notes payable	121.5	121.2	132.0	131.0
Amounts payable to affiliated companies	8.3	8.3	0.2	0.2
Amounts payable to companies in which participations are held	64.6	64.6	159.4	159.4
Other liabilities	3,752.3	2,893.5	3,203.2	2,734.3
– of which taxes	(668.1)	(668.1)	(693.3)	(693.3)
– of which in respect of social insurance	(440.7)	(431.5)	(439.3)	(430.2)
	22,318.1	17,362.0	18,962.6	15,173.7

The Volkswagen Group's total liabilities payable within more than five years amount to DM 1,934.3 million (1988: DM 1,928.7 million). Of this total, DM 1,282.6 million are accounted for by loans, DM 216.1 million by liabilities due to banks and DM 435.6 million by other liabilities. For Volkswagen AG, liabilities

payable within more than five years total DM 579.2 million (1988: DM 783.1 million). Liabilities due to banks account for DM 16.7 million, while DM 562.5 million consists of amounts payable to affiliated companies.

Of the liabilities shown in the consolidated balance sheet, a total of DM 955.9

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				Type of liability
	Total Dec. 31, 1989 DM million	of which payable within up to 1 year DM million	Total Dec. 31, 1988 DM million	of which payable within up to 1 year DM million	
–	–	–	–	–	Loans
(–)	(–)	(–)	(–)	(–)	– of which convertible
1,286.5	1,252.3	728.9	697.7		Liabilities due to banks
55.5	55.5	31.7	31.7		Advance payments received
2,229.7	2,229.7	1,921.7	1,921.7		Trade payables
–	–	–	–		Notes payable
786.4	223.9	1,091.4	328.9		Amounts payable to affiliated companies
34.2	34.2	125.8	125.8		Amounts payable to companies in which participations are held
1,429.0	1,428.9	1,347.5	1,347.5		Other liabilities
(398.0)	(398.0)	(431.5)	(431.5)		– of which taxes
(398.8)	(398.8)	(331.3)	(331.3)		– of which in respect of social insurance
5,821.3	5,224.5	5,247.0	4,453.3		

Notes on the Balance Sheet

Contingencies and commitments

	Volkswagen Group		Volkswagen AG	
	Dec. 31, 1989 DM million	Dec. 31, 1988 DM million	Dec. 31, 1989 DM million	Dec. 31, 1988 DM million
Contingent liabilities with respect to notes	288.6	524.9	1,320.4	1,705.4
Contingent liabilities with respect to guarantees	319.2	162.2	376.5	501.1
Contingent liabilities with respect to warranties	84.3	103.5	2,920.4	786.7
Pledges on company assets to secure another party's liabilities	16.3	17.2	—	—
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 the bondholders in the same amount. The guaran-

tees 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 505 million.

The contingent liabilities with respect to warranties shown by Volkswagen AG for 1989 relate for the most part to guarantees for subsidiaries in connection with swap transactions involving banks.

Additional details

In addition to the contingent liabilities, Volkswagen AG is liable in the amount of DM 9.8 million in the form of subscription obligations concerning private limited companies and in the amount of DM 310.0 million in respect of subscription obligations concerning a foreign company; it also has a contingent obligation towards a German company to pay a further contribution of DM 1.0 million.

An obligation to compensate for losses, in the amount of DM 0.1 million, exists with respect to another German company. 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 64 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 2.7 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 163.4 million.

The Volkswagen Group has liabilities to a cooperative and a private limited company (obligation to pay a further contribution in accordance with the Articles of Association) totalling DM 0.2 million.

The trust assets and liabilities not included in the consolidated balance sheet in respect of the savings associations and trust companies belonging to the AUTOLATINA group amount to DM 32.0 million.

Other financial obligations

The Volkswagen Group's other financial obligations from long-term rental and leasing contracts amount annually to some DM 429.7 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 253.3 million for 1990 and are matched by corresponding claims on customers. The other financial obligations of Volkswagen AG arising from long-term rental and leasing contracts with terms of up to four years amount annually to some DM 32.6 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 1989

	Volkswagen Group		Volkswagen AG	
	Total DM million	Share %	Total DM million	Share %
West Germany	23,682.0	36.2	21,081.6	43.4
Europe (excl. West Germany)	26,595.0	40.7	20,992.2	43.3
North America	5,382.9	8.2	2,565.4	5.3
Latin America	5,636.8	8.6	1,141.0	2.3
Africa	1,668.8	2.6	613.5	1.3
Asia / Oceania	2,386.7	3.7	2,139.0	4.4
Total	65,352.2	100.0	48,532.7	100.0

Vehicle sales of the Volkswagen Group in 1989 accounted for 79 % of sales proceeds, and part sales for 9 %. 12 % related to

other sales. As in 1988, other sales include the proceeds from the sale of used assets of leasing and rental companies.

In the case of Volkswagen AG, 80 % of sales were accounted for by vehicle business, 7 % by part sales and 13 % by other sales.

(14) Other operating income

	Volkswagen Group		Volkswagen AG	
	1989 DM million	1988 DM million	1989 DM million	1988 DM million
Other operating income	3,732.3	2,817.3	1,926.0	1,779.1
– of which income from elimination of special items with an equity portion	(559.9)	(464.7)	(484.4)	(384.6)

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, balance-sheet currency translation with an effect on earnings, elimination of undetermined liabilities, handling of foreign exchange transactions and rebilling of expenses. 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 and receipt of investment subsidies.

(15) Other operating expenses

	Volkswagen Group		Volkswagen AG	
	1989 DM million	1988 DM million	1989 DM million	1988 DM million
Other operating expenses	3,523.9	2,779.6	2,039.6	1,680.0
– of which transfers to special items with an equity portion	(1,032.4)	(713.7)	(955.6)	(623.2)

In addition to transfers to the special items with an equity portion, the other operating expenses of the Volkswagen Group include in particular depreciation of current assets and expenses for various risks.

In the case of Volkswagen AG, this item additionally includes expenses rebilled to subsidiaries.

The Volkswagen Group charged depreciation for tax purposes in the amount of DM 1,016.1 million

on fixed assets and DM 0.2 million on current assets. Of the depreciation charged for tax purposes by Volkswagen AG, DM 955.5 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	
	1989 DM million	1988 DM million	1989 DM million	1988 DM million
Income from participations	46.1	145.4	611.3	263.9
– of which from affiliated companies	(0.1)	(–)	(571.4)	(190.6)
– of which from associated companies	(36.1)	(135.9)	(–)	(–)
Income from profit assumption agreements	–	–	516.6	405.4
Expenses from holdings in associated companies	176.5	54.2	–	–
Expenses from loss assumptions	–	0.4	1.0	37.6
	– 130.4	90.8	1,126.9	631.7

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

agreements include on-debited result-dependent taxes.

Notes on the Statement of Earnings

(17) Interest results

	Volkswagen Group		Volkswagen AG	
	1989 DM million	1988 DM million	1989 DM million	1988 DM million
Income from other securities and long-term loans	18.1	11.8	28.4	29.4
– of which from affiliated companies	(–)	(–)	(23.4)	(24.7)
Other interest and similar income	2,588.4	1,444.8	655.8	451.8
– of which from affiliated companies	(–)	(–)	(186.3)	(162.4)
Interest and similar expenses	1,608.0	841.4	234.4	84.3
– of which to affiliated companies	(–)	(–)	(197.0)	(43.8)
	998.5	615.2	449.8	396.9

To improve the information value of the financial statements, inflation-related components of interest have once again been set aside in the case of companies in countries

with high inflation and have been combined with the inflation-related components of other operating expenses and other operating income.

The interest results of Volkswagen AG include expenses in connection with the sale of non-interest-bearing trade receivables.

Other taxes

The other taxes of the Volkswagen Group amount to DM 409.4 mil-

lion, while those of Volkswagen AG total DM 184.4 million.

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	
	1989 DM million	1988 DM million	1989 DM million	1988 DM million
Net earnings	1,038.1	779.9	655.3	523.2
Net earnings of Volkswagen AG brought forward	+ 3.2	+ 4.0	+ 3.2	+ 4.0
Transfer from Volkswagen AG's reserve for treasury stock	0	+ 11.3	0	+ 11.3
Change in revenue reserves (Volkswagen AG: Transfer to other revenue reserves)	– 681.6	– 646.6	– 320.0	– 230.0
Minority interest in change in revenue reserves and minority interest in net earnings brought forward minus advance dividends	+ 32.8	+ 201.4	–	–
Minority interest in profit	– 54.0	– 42.1	–	–
Minority share in loss	0	+ 0.6	–	–
Net earnings available for distribution	338.5	308.5	338.5	308.5

Total expenses for the period

	Volkswagen Group		Volkswagen AG	
	1989 DM million	1988 DM million	1989 DM million	1988 DM million
Cost of materials				
Raw materials and supplies, purchased goods	34,716.9	30,582.7	32,028.2	28,563.6
Purchased services	2,815.6	2,305.2	1,051.6	965.6
	37,532.5	32,887.9	33,079.8	29,529.2
Labour cost				
Wages and salaries	13,189.2	12,361.5	7,952.6	7,650.7
Social insurance and pension costs	2,918.1	2,782.1	1,707.3	1,777.3
– of which in respect of pensions	(885.3)	(825.8)	(470.4)	(574.6)
	16,107.3	15,143.6	9,659.9	9,428.0

Other Particulars

The net earnings of the Volkswagen Group and Volkswagen AG have been reduced as a result of tax-related measures. These mainly involve 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 are around 20 % lower than the figure which would otherwise have been shown, while those of the Volkswagen Group are around 14 % lower. This will probably result in reduced expenses in future years together with taxes on earnings at the rates applicable at the time.

Expenses attributable to other fiscal years amounted to DM 177.1 million for the Volkswagen Group and DM 146.1 million for Volkswagen AG. Income

not relating to the period under report totalled DM 395.7 million for the Volkswagen Group and DM 307.3 million for Volkswagen AG.

On the basis of U.K. standards, the net earnings of the Volkswagen Group totalled DM 1,510 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.

Extraordinary depreciation

	Volkswagen Group		Volkswagen AG	
	1989 DM million	1988 DM million	1989 DM million	1988 DM million
Depreciation of tangible assets	25.2	134.1	5.4	1.2
Write-down of participations and discounting of financial assets	90.5	271.5	71.4	165.9
	115.7	405.6	76.8	167.1

Average numbers of employees during the year

	Volkswagen Group		Volkswagen AG	
	1989	1988	1989	1988
Wage-earners	130,165	127,161	66,318	65,739
Salaried workers	65,963	70,234	34,553	37,022
Salaried staff	54,488	54,671	23,120	22,918
	250,616	252,066	123,991	125,679
Apprentices and trainees	6,945	6,462	4,499	4,171
	257,561	258,528	128,490	129,850

The AUTOLATINA group employed an average of 58,663 people (1988: 59,940). The average number of persons employed

by the Europcar group was 4,336 (1988: 4,152). The numbers of people employed by these companies have been included in

the Group figure pro rata on the basis of Volkswagen AG's percentage holding.

Workforce at the Volkswagen AG plants

Wolfsburg	62,584
Hanover	18,635
Brunswick	7,001
Kassel	19,452
Emden	11,114
Salzgitter	9,704
	128,490

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 1989 totalled DM 13,645,941 in respect of Volkswagen AG and the Group.

Retired members of the Board of Management and their surviving dependants received DM 7,784,793 in respect of Volkswagen AG and the Group. These payments are covered by undetermined liabilities for current pensions, amounting to DM 64,670,487, set up by Volkswagen AG and the Group.

The remuneration of the Supervisory Board amounted to DM 312,683 in respect of Volkswagen AG and the Group.

Interest-free loans granted to members of the Board of Management totalled DM 180,000 in respect of Volkswagen AG. They have an agreed term of four years. DM 90,000 were redeemed in 1989.

Loans totalling DM 125,000 have been granted to members of the Supervisory Board (amount redeemed in 1989: DM 18,000). The loans have an interest rate of 4 % and an agreed term of 12.5 years.

Wolfsburg, March 12, 1990

VOLKSWAGEN AKTIENGESELLSCHAFT
The Board of Management

Audit certificate

"The accounting, the annual financial statements and the consolidated financial statements, which we have audited in accordance with professional standards, comply with the German legal provisions. With due regard to the generally accepted accounting principles, the annual financial statements and the consolidated financial statements give a true and fair view of the company's and the Group's assets, liabilities, financial position and profit or loss. The management report on the company and the Group is consistent with the annual financial statements and the consolidated financial statements."

Hanover, March 14, 1990 / April 2, 1990

TREUARBEIT Aktiengesellschaft

Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Prof. Dr. Dr. h.c. Forster
Wirtschaftsprüfer

Siepe
Wirtschaftsprüfer

Audit certificate

"The accounting, the annual financial statements and the consolidated financial statements, which we have audited in accordance with professional standards, comply with the German legal provisions. With due regard to the generally accepted accounting principles, the annual financial statements and the consolidated financial statements give a true and fair view of the company's and the Group's assets, liabilities, financial position and profit or loss. The management report on the company and the Group is consistent with the annual financial statements and the consolidated financial statements."

Düsseldorf/Hanover, March 14, 1990 / April 2, 1990

Wollert-Elmendorff

Deutsche Industrie-Treuhand GmbH
Wirtschaftsprüfungsgesellschaft

Thoennes
Wirtschaftsprüfer

Prof. Dr. Emmerich
Wirtschaftsprüfer

The Volkswagen Group in Figures

The Group manufactured the following numbers of each model:

	1989	1988
Passenger cars	2,790,840	2,693,364
VW Golf	879,981	875,592
VW Passat	346,442	280,571
Audi 80/90	299,402	317,897
VW Polo	228,867	215,332
SEAT Ibiza	208,210	192,024
VW Jetta	199,850	211,538
VW Voyage	114,448	136,990
VW Gol	105,328	100,894
Audi 100/200	101,743	104,652
VW Bus	84,175	84,979
SEAT Marbella	82,935	71,519
SEAT Malaga	36,882	39,269
VW Beetle	32,421	19,008
VW Corrado	24,389	3,206
Audi Coupé/quattro	17,604	6,250
VW Scirocco	8,865	13,606
Audi V8	6,918	2,331
Other passenger cars	12,380	17,706
Commercial vehicles	156,729	154,252
VW Commercial	63,442	66,020
VW heavy van (LT)	22,338	21,756
SEAT Terra pick-up	22,007	24,925
VW Voyage pick-up	19,295	15,773
VW Golf pick-up	10,177	12,087
VW trucks	8,484	9,471
Other commercial vehicles	10,986	4,220



The VW-Corrado sports car – combining fun at the wheel, advanced technology, comfort and unmistakable styling.

	1980	1981	1982	1983	1984
Sales (DM million)	33,288	37,878	37,434	40,089	45,671
Change on previous year in %	8	14	– 1	7	14
Domestic	11,850	12,064	12,027	14,453	14,638
Abroad	21,438	25,814	25,407	25,636	31,033
Export of domestic Group companies	14,102	14,957	15,733	15,460	20,108
Net contribution of foreign Group companies	8,733	12,398	11,346	11,812	12,864
Vehicle Sales (thousand units)	2,495	2,279	2,120	2,127	2,145
Change on previous year in %	– 2	– 9	– 7	0	1
Domestic	788	738	672	750	708
Abroad	1,707	1,541	1,448	1,377	1,437
Production (thousand units)	2,574	2,246	2,130	2,116	2,148
Change on previous year in %	1	– 13	– 5	– 1	2
Domestic	1,499	1,410	1,381	1,413	1,474
Abroad	1,075	836	749	703	674
Workforce (thousand employees) ¹⁾	258	247	239	232	238
Change on previous year in %	8	– 4	– 3	– 3	3
Domestic	159	160	158	156	160
Abroad	99	87	81	76	78
Capital Investments (DM million) ²⁾	4,279	4,851	4,892	4,858	2,782
Change on previous year in %	38	13	1	– 1	×
Domestic	3,163	3,089	3,654	3,476	1,889
Abroad	1,116	1,762	1,238	1,382	893
Additions to Leasing and Rental Assets (DM million)					2,021
Change on previous year in %					
Cash Flow (DM million) ³⁾	3,141	3,936	3,452	5,207	4,081
Change on previous year in %	5	25	– 12	51	×
Net Earnings/Loss (DM million)	321	136	–300	–215	228
Dividend of Volkswagen AG (DM million)	192	120	–	–	120
Ordinary shares (DM million)	192	120	–	–	120
Preferred shares (DM million)					

¹⁾ Workforce at year end; as of 1986 average over year
²⁾ Up to 1983 including additions to leasing and rental assets
³⁾ Up to 1983 including depreciation on and disposal of leasing and rental assets

	1985	1986	1987	1988	1989	
	52,502	52,794	54,635	59,221	65,352	Sales (DM million)
	15	1	3	8	10	Change on previous year in %
	16,171	18,839	22,555	22,653	23,682	Domestic
	36,331	33,955	32,080	36,568	41,670	Abroad
	24,025	23,414	22,898	24,395	27,601	Export of domestic Group companies
	14,698	14,127	13,080	15,961	18,256	Net contribution of foreign Group companies
	2,398	2,758	2,774	2,854	2,941	Vehicle Sales (thousand units)
	12	15	1	3	3	Change on previous year in %
	722	838	921	848	849	Domestic
	1,676	1,920	1,853	2,006	2,092	Abroad
	2,398	2,777	2,771	2,848	2,948	Production (thousand units)
	12	16	0	3	4	Change on previous year in %
	1,635	1,654	1,666	1,694	1,783	Domestic
	763	1,123	1,105	1,154	1,165	Abroad
	259	276	260	252	251	Workforce (thousand employees) ¹⁾
	9	7	– 6	– 3	– 1	Change on previous year in %
	170	169	170	165	161	Domestic
	89	107	90	87	90	Abroad
	3,388	6,371	4,592	4,251	5,606	Capital Investments (DM million) ²⁾
	22	88	– 28	– 7	32	Change on previous year in %
	2,508	3,849	4,000	3,546	4,477	Domestic
	880	2,522	592	705	1,129	Abroad
	3,217	2,738	3,318	3,447	4,069	Additions to Leasing and Rental Assets (DM million)
	59	– 15	21	4	18	Change on previous year in %
	4,558	4,285	4,874	5,018	5,412	Cash Flow (DM million) ³⁾
	12	– 6	14	3	8	Change on previous year in %
	596	580	598	780	1,038	Net Earnings/Loss (DM million)
	240	306	306	306	336	Dividend of Volkswagen AG (DM million)
	240	240	240	240	264	Ordinary shares (DM million)
		66	66	66	72	Preferred shares (DM million)

Balance-sheet Structure (DM million) December 31	1980	1981	1982	1983	1984	1985
Assets						
Tangible assets	8,326	10,205	11,474	11,801	9,082	8,740
Financial assets	839	414	449	464	544	574
Leasing and rental assets					2,433	3,717
Fixed Assets	9,165	10,619	11,923	12,265	12,059	13,031
Inventories and advance payments to suppliers	6,073	5,996	5,662	5,878	6,654	6,348
Receivables and the like	4,437	4,771	5,065	6,269	7,388	7,157
Liquid funds, trade accept.	3,971	2,822	1,953	1,815	5,253	4,326
Securities, treasury stock	1,151	1,129	1,290	2,528	1,588	3,960
Current Assets	15,632	14,718	13,970	16,490	20,883	21,791
Total Assets	24,797	25,337	25,893	28,755	32,942	34,822
Stockholders' Equity a. Liab.						
Capital stock	1,200	1,200	1,200	1,200	1,200	1,200
Reserves of the Group	4,757	4,990	4,911	5,227	5,165	5,929
Minority inter. i. consol. subs.	205	198	223	281	320	266
Stockholders' Equity	6,162	6,388	6,334	6,708	6,685	7,395
Undetermined liabilities in respect of old-age pensions	3,107	3,475	3,626	4,235	4,739	5,029
Other undetermined liabilities	4,326	4,232	4,570	5,597	7,417	9,343
Undetermined Liabilities	7,433	7,707	8,196	9,832	12,156	14,372
Liabilities payable within more than						
4 years	1,161	1,053	847	1,283	992	947
1 to 4 years	466	712	990	1,004	1,411	1,291
up to 1 year	9,378	9,351	9,485	9,925	11,570	10,569
Liabilities	11,005	11,116	11,322	12,212	13,973	12,807
Net earnings available for distribution (Volkswagen AG)	193	124	38	—	124	244
Minority interest in earnings to be distributed	4	2	3	3	4	4
Outside Capital	18,635	18,949	19,559	22,047	26,257	27,427
Total Capital	24,797	25,337	25,893	28,755	32,942	34,822

Statement of Earnings (Condensed) (DM million) January–December						
Gross performance	34,989	38,197	38,030	40,680	46,772	52,709
Cost of materials	18,238	19,752	19,573	20,852	23,824	26,623
Labour cost	10,782	11,779	12,069	12,371	13,227	13,913
Depreciation and write-down	2,102	2,934	3,038	3,689	2,961	3,411
Depreciation on leasing and rental assets					1,060	1,259
Taxes	1,400	848	543	580	1,368	2,124
on income,						
earnings and						
property	1,329	772	458	494	1,266	1,993
Sundry expenses less sundry income	2,146	2,748	3,107	3,403	4,104	4,783
Net earnings / Loss	321	136	— 300	— 215	228	596

	1986 ¹⁾	1987 ¹⁾	1988 ¹⁾	1989 ¹⁾	Change 1989/88 in %	Balance-sheet Structure (DM million) December 31
						Assets
2	29	76	134	75.7		Intangible assets
12,111	13,406	13,836	15,493	12.0		Tangible assets
1,099	1,125	1,304	1,621	24.3		Financial assets
4,106	4,919	5,427	5,561	2.5		Leasing and rental assets
17,318	19,479	20,643	22,809	10.5		Fixed Assets
6,802	6,618	6,506	7,301	12.2		Inventories
						Receivables and other assets
8,675	9,403	11,848	14,472	22.1		Securities
364	426	488	2,360	x		Liquid funds
8,553	8,135	10,809	9,929	— 8.1		Current Assets
24,394	24,582	29,651	34,062	14.9		Total Assets
41,712	44,061	50,294	56,871	13.1		Stockholders' Equity and Liabilities
						Subscribed capital
1,500	1,500	1,500	1,500	—		Reserves of the Group
7,891	8,496	9,040	9,667	6.9		Minority interest in consolidated subsid.
408	405	405	439	8.3		Net earnings available for distribution
307	308	308	339	9.7		Minority interest in net earnings to be distributed
3	17	42	54	29.8		Special items with an equity portion
1,828	2,203	2,452	2,925	19.3		Special item for investment subsidies
10	9	9	12	23.2		Stockholders' Equity
11,947	12,938	13,756	14,936	8.6		Undetermined liabilities (pensions)
5,294	5,889	6,314	6,652	5.4		Undetermined liabilities (taxes)
992	925	1,358	2,001	47.4		Other undetermined liabilities
8,228	8,050	9,418	10,454	11.0		Undetermined Liabilities
14,514	14,864	17,090	19,107	11.8		Liabilities payable within more than 5 years
						1 to 5 years
1,344	1,217	1,929	1,934	0.3		up to 1 year
1,456	1,999	2,121	3,289	55.1		Liabilities
12,451	13,043	15,398	17,605	14.3		Outside Capital
15,251	16,259	19,448	22,828	17.4		Total Capital
29,765	31,123	36,538	41,935	14.8		Statement of Earnings (Condensed) (DM million) January–December
41,712	44,061	50,294	56,871	13.1		Sales
						Cost of sales
52,794	54,635	59,221	65,352	10.4		
46,746	48,526	51,315	56,196	9.5		
5,380	5,498	6,321	7,151	13.1		Selling and administration expenses
						Other operating income less other operating expenses
632	931	38	209	x		Financial results
295	68	513	773	0.8		Results
						from ordinary business activities
1,595	1,610	2,136	2,987	39.8		Extraordinary results
— 473	— 443	—	—	—		Taxes on income
						Net earnings
542	569	1,356	1,949	43.7		
580	598	780	1,038	33.1		

¹⁾ As of 1986 presentation in accordance with the new Accounting and Reporting Law

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