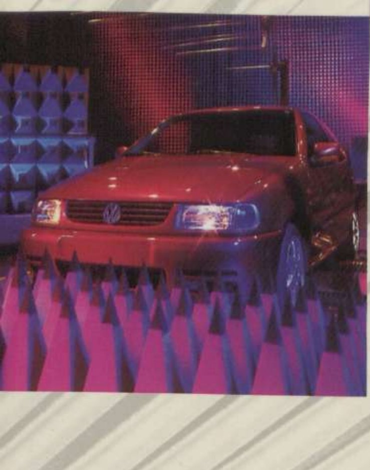
VOLKSWAGEN AG

Annual Report 1996



Key Figures

		Volkswagen Group			VOLKSWAGEN AG		
		1996	1995	%	1996	1995	%
Vehicle Sales*	units	3,994,312	3,607,300	+ 10.7	1,692,318	1,575,535	+ 7.4
Production*	units	3,976,896	3,594,855	+ 10.6	1,331,886	1,317,656	+ 1.1
Workforce 31.12.*		260,811	259,342	+ 0.6	95,176	100,698	– 5.5
Sales	million DM	100,123	88,119	+ 13.6	49,891	44,598	+ 11.9
Net earnings	million DM	678	336	x	630	410	+ 53.6
Dividend of VOLKSWAGEN AG	million DM				315	207	+ 52.0
of which on Ordinary shares	million DM				250	162	+ 54.2
of which on Preferred shares	million DM				65	45	+ 44.3
Capital Investments	million DM	8,742	6,863	+ 27.4	3,725	5,618	– 33.7
Additions to Leasing and Rental Assets	million DM	7,639	7,278	+ 5.0	–	–	–
Cash flow							
excl. Leasing and Rental Assets	million DM	7,047	6,922	+ 1.8	2,457	4,156	– 40.9
incl. Leasing and Rental Assets	million DM	11,088	10,400	+ 6.6	–	–	–
Depreciation and Write-Down	million DM	4,933	6,452	– 23.5	1,993	3,285	– 39.3
Depreciation on Leasing and Rental Assets	million DM	4,075	3,479	+ 17.1	–	–	–

*The volume data of the not fully consolidated vehicle-producing holdings AUTOEUROPA, Shanghai-Volkswagen, FAW-Volkswagen and Chinchun Motor are included.

Production figures**

Volkswagen Passenger Cars	1996	1995
Golf	701,475	717,873
Polo	459,811	379,957
Passat	205,625	214,254
Vento	57,609	65,250
Sharan	55,676	19,708
Alhambra	10,513	–
Taro, Hilux	7,440	2,901
Jetta, Corrado	192	16,056
	1,498,341	1,415,999

Volkswagen Commercial Vehicles	1996	1995
Caravelle, Kombi	72,777	71,362
Transporter	68,677	69,993
LT	10,370	14,439
LT Kombi	929	1,035
Taro, Hilux	–	4,930
	152,753	161,759

Audi	1996	1995
A4/80	313,927	290,653
A6/100	106,326	131,825
A3	51,813	–
A8	11,098	12,705
Cabriolet, Coupé	8,337	12,500
	491,501	447,683

Seat	1996	1995
Ibiza	153,000	158,284
Cordoba	77,436	79,793
Toledo	53,404	55,493
City Golf/Derby, Polo Classic	44,102	12,477
Marbella	21,930	29,621
Inca-, Caddy Kombi	15,979	127
Inca-, Caddy delivery van	49,362	7,651
	415,213	343,446

Škoda	1996	1995
Felicia	238,958	189,358
Octavia	1,168	–
Forman	–	3,805
Pickup	20,744	15,116
Caddy Pickup	2,323	–
	263,193	208,279

North America Region	1996	1995
Jetta (Vento)	107,041	106,911
Golf	88,429	61,187
Beetle	33,099	15,933
Derby	2,509	4,570
Caravelle, Kombi	–	497
Transporter	–	2,396
	231,078	191,494

South America/ Africa Region	1996	1995
Gol	397,071	312,116
Passat/Santana	54,841	45,915
Caravelle, Kombi	50,562	48,666
Golf	36,558	35,463
Gacel, Parati, Voyage, Senda	34,681	55,034
Logus, Pointer	28,348	61,700
Jetta (Vento)	11,567	19,057
Polo Classic	9,942	–
Beetle	6,623	17,428
Audi A4/80, A6/100	6,313	2,614
Voyage Saveiro	35,280	37,026
Transporter	10,492	11,028
VW trucks	10,426	14,552
Golf Pickup	2,112	1,352
Omnibus	1,069	2,048
	695,885	663,999

Asia-Pacific Region	1996	1995
Santana	200,222	160,070
Jetta	26,381	17,888
Caravelle, Kombi	9,222	6,651
Audi 100	521	–
	236,346	184,609

**Including intra-Group assembly kits.

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

The Annual Report consists of the financial statements of the Volkswagen Group, the summary management report of the Volkswagen Group and of VOLKSWAGEN AG, and other information voluntarily made available.

The financial statements of VOLKSWAGEN AG will be published in the Bundesanzeiger and submitted to the Register of Companies at the Wolfsburg District Court. Copies of the financial statements are available free of charge from VOLKSWAGEN AG, Finanz-Publizität und Statistik, D-38436 Wolfsburg, Germany.

Annual Report 1996


PASSAT

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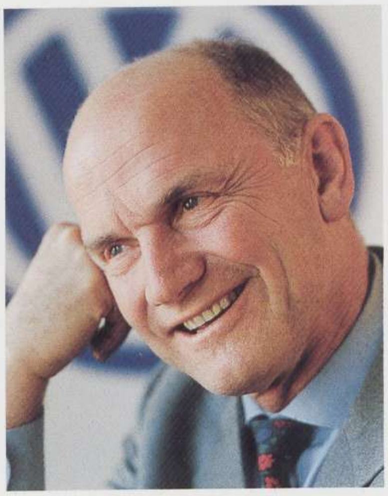


Dr. Ferdinand Piëch

Dear Stockholder,

1996 was a successful year for Volkswagen. We defended our position as number one in Western Europe and continued to extend our lead. We were also able to increase our sales in the USA, in Japan, and in the key Asia-Pacific and Latin America growth regions. Earnings development was positive, and was in keeping with our expectations.

The Volkswagen Group is on the right track. Sales revenues rose by 13.6 % to some 100 billion DM. The net earnings of 678 million DM permit us to pay a higher dividend than last year, namely DM 9 per ordinary share and DM 10 per preferred share. The improvement in cost structures resulting from the initiation of our transformation process and our position on the markets are the foundation stones of our upward progression. Nevertheless, we cannot yet be fully satisfied with the achieved levels of earnings and the return.

In the coming years increasing efficiency and cutting costs will therefore be our priorities. The key to success lies in optimizing business processes. In order to strengthen the competitiveness of the Group in the long term, it is essential that we continue the transformation of business processes already begun. The application of Simultaneous Engineering and our platform strategy will enable us to make the development and production processes even more efficient. Lean Manufacturing is a component element of our strategy for attaining more cost-effective production. Flexible working hours models permit more efficient utilization of capacities and higher productivity, and at the same time help to safeguard jobs.

In addition to providing value for money, the achievement of top quality in all our products is a key factor in terms of gaining and holding a competitive lead and remaining attractive to buyers. From receipt of the customer's order, through continuous vehicle scheduling, optimum materials supply with short lead times, flexible manufacturing with variable capacities, to accelerated distribution, all the efforts and strengths within the company must without exception be oriented towards the customer. That is why we have devised the "Customer to Customer" project. The principal object of this ambitious and strategically important project is to increase delivery reliability and shorten delivery lead times significantly. We also intend to continue the effective implementation of the concept of the "Breathing Company", which means orienting production to market demand based on the appropriate degree of flexibility.

Developments over the past year show: the Volkswagen Group is moving in the right direction. Further efforts are needed to achieve our aim of being the most successful vehicle manufacturers on the market. We intend to exploit additional potentials and improvement opportunities in order to continue creating attractive value for you, the owners of our company. We ask you, the stockholders of VOLKSWAGEN AG, to give us your continuing support to that end.

I would like to thank our customers throughout the world for the confidence they have placed in our products. We shall continue in future to deploy all our efforts in developing vehicles which are technology leaders and which offer the optimum in quality and service at a competitive price.

Yours sincerely,

Ferdinand Piëch

Dr. Klaus Liesen

The Supervisory Board was able to monitor the development of the Volkswagen Group closely throughout the past fiscal year. It was regularly updated on the course of business and the company's position. At four scheduled Supervisory Board meetings the verbal and written reports from the Board of Management were received and reviewed. In addition, the Board of Management provided the Supervisory Board with monthly detailed reports on significant developments throughout the Group. These reports included the latest key volume and financial data of the various marques and regions of the Volkswagen Group, as well as a forecast through to the year-end. Written and verbal questions from the Supervisory Board were answered directly by the Board of Management. The Supervisory Board consulted in detail on all decisions and undertakings of the Board of Management which were of significance for the future of the Group.

The Presidium of the Supervisory Board, comprising four of its members, was convened prior to each meeting. The Balance Sheet and Personnel Committee and the Finance and Investment Committee each met once in the course of the past year. They each comprise five representatives of the stockholders and five employee representatives. Memberships of the respective committees are indicated in the list of Supervisory Board members. The four-person Mediation Committee was not required to convene.

A major topic at the meetings of the Supervisory Board was the transformation process of the Volkswagen Group. Regular reports were submitted on the legal dispute between General Motors/Opel and Volkswagen. The plans for the years 1997 to 2001 were presented, discussed in detail and approved at the Autumn meeting. The investment programme for VOLKSWAGEN AG was approved.

Further topics of importance dealt with at Supervisory Board meetings in the past year were:

- The Volkswagen and Audi sales strategy and its implementation in Western Europe;
- Future capital investment measures for Volkswagen de Mexico, S.A. de C.V.;
- The commitments of the Volkswagen Group in China, including the development of the FAW-Volkswagen joint venture;
- Progress made in the recovery of Seat and of Europcar;
- Progress in the construction of a Volkswagen plant in Brazil to expand commercial vehicle production capacities.

At its Spring 1997 meeting the Supervisory Board received detailed reports on the measures being undertaken to uncover possible irregularities in procurement operations. The main item on the agenda was examination of the financial statements of the Group and of VOLKSWAGEN AG for 1996, as well as the accompanying Management Report of the Group and of VOLKSWAGEN AG, which, together with the accounts, had previously been examined by the auditors and approved without qualification. At the Annual Meeting of Stockholders held on June 5th, 1996, C&L Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, were appointed auditors for the fiscal year 1996. The Supervisory Board accepted the results of the audit.

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 approved and therefore confirmed the financial statements, and approved the proposal put forward by the Board of Management regarding appropriation of net earnings available for distribution. The auditors were present at the relevant meeting of the Supervisory Board at which this item was reviewed, as well as at the preceding meeting of the Balance Sheet and Personnel Committee.

On May 15th, 1996 Dr. Manfred Pilgrim, who had been a member of the Supervisory Board since 1993 and with VOLKSWAGEN AG for over 22 years, passed away. He was greatly admired and respected as a committed spokesman on behalf of the Company management and an outstanding jurist. On May 31st Dr. Friedrich Schiefer, the Deputy Chairman of Robert Bosch GmbH, passed away. Dr. Schiefer had been a member of the Supervisory Board since 1991, and contributed significantly to the progress of the Company through his outstanding commitment and great specialist knowledge. The Supervisory Board will honour the memory of Dr. Pilgrim and of Dr. Schiefer. The Supervisory Board appointed Dr. Ekkehardt Wesner as the successor to Dr. Pilgrim, as from June 18th, 1996; and Dr. Heinrich von Pierer as the successor to Dr. Schiefer, as from June 27th, 1996.

On November 6th, 1996 Mr. Toni Schmücker, the former Chairman of the Board of Management of VOLKSWAGEN AG, passed away at the age of 76. From February 1975 until the end of 1981, Mr. Schmücker guided the Company out of its years of economic hardship on the road to being a successful, competitive global automobile manufacturer. Mr. Schmücker was a member of the Supervisory Board from 1982 to 1987. His contribution to the Volkswagen Group was marked by far-sighted thinking, an unshakeable confidence, and great commitment. His name and achievements will never be forgotten at Volkswagen.

The Minister for Social Affairs of the State of Lower Saxony, Mr. Walter Hiller, retired from his post on November 12th, 1996 after more than 10 years' service on the Supervisory Board. He was replaced by Mr. Gerhard Glogowski, the Minister of the Interior and Deputy Minister President of the State of Lower Saxony. The Supervisory Board would like to express its thanks to Mr. Hiller for his many years of outstanding service and untiring commitment to the company.

The Chairman of the Board of Management of ŠKODA, automobilová a.s., Mr. Ludvík Kalma, was tragically killed in a road traffic accident on November 24th, 1996. Ludvík Kalma made a highly successful mark on the Company and, with great integrating skill, was able to develop it into a high-performing European automobile concern. We have lost an esteemed partner and friend in Mr. Kalma.

On November 29th, 1996 Mr. López de Arriortúa resigned from the Board of Management of VOLKSWAGEN AG, of which he had been a member for over three years. In that time Mr. López made great efforts to improve the added value created by the Company. The Supervisory Board wishes to thank Mr. López for his efforts. With effect from November 30th, 1996 the Supervisory Board assigned to Dr. Ferdinand Piëch the responsibility for Production Optimization and Procurement. At the same time, Dr. Peter Hartz was appointed as director of the South America/Africa region, previously headed by Mr. López.

The contract with Dr. Martin Posth, member of the Board of Management of VOLKSWAGEN AG, will be terminated by mutual consent with effect from April 5th, 1997. Dr. Posth has been with the Volkswagen Group for almost 25 years, including almost nine years as a member of the Board of Management of VOLKSWAGEN AG. Of particular note during this time was the highly successful establishment of Shanghai-Volkswagen, which brought Dr. Posth great international acclaim. The Supervisory Board would like to express its thanks to Dr. Posth for his service to the Volkswagen Group. With effect from the same date, Dr. Robert Büchelhofer will assume responsibility for the Asia-Pacific region, in addition to his responsibility for the Sales and Marketing function.

Wolfsburg, March 21st, 1997

Dr. Klaus Liesen
Chairman of the Supervisory Board

Supervisory Board

Dr. jur. Klaus Liesen (65)[1)2)3)]
Essen
Chairman
Chairman of the Board of Management of Ruhrgas AG
July 2, 1987*

Klaus Zwickel (57)[1)2)]
Frankfurt
Deputy Chairman
Chairman of the Metalworkers Union
October 21, 1993

Josef Bauer (57)[3)]
Ingolstadt
Member of the Works Committee of AUDI AG
July 2, 1987

Gerhard Glogowski (54)[3)]
Hanover
Minister of the Interior and Deputy Minister President of the State of Lower Saxony
November 13, 1996

Dr. rer. pol. Carl H. Hahn (70)[3)]
Wolfsburg
Former Chairman of the Board of Management of VOLKSWAGEN AG
January 1, 1993

Wilhelm Hemer (53)[3)]
Frankfurt
Trade Union Secretary to the Executive Committee of the Metalworkers Union
May 3, 1989

Gerhard Kakalick (50)[2)]
Kassel
Chairman of the Works Council of VOLKSWAGEN AG Kassel Plant
June 3, 1993

Walther Leisler Kiep (71)
Frankfurt
General partner, Gradmann & Holler
From March 3, 1976 to July 1, 1982 and since January 26, 1983

Wolfgang Klever (56)[2)]
Brunswick
Chairman of the Works Council of VOLKSWAGEN AG Brunswick Plant
October 1, 1995

Dr. rer. pol. Jürgen Krumnow (52)[2)]
Frankfurt
Member of the Board of Management of Deutsche Bank AG
June 1, 1994

Dr. jur. Otto Graf Lambsdorff (70)[3)]
Düsseldorf
President, Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (German stockholders' association)
July 2, 1987

Dr. jur. Heinrich von Pierer (56)[2)]
Munich
Chairman of the Board of Management of Siemens AG
June 27, 1996

Dr.-Ing. E. h. Günther Saßmannshausen (66)[2)]
Hanover
Chairman of the Supervisory Board of Deutsche Bahn AG
July 2, 1987

Siegfried Schinowski (56)[2)]
Hanover
Chairman of the Works Council of VOLKSWAGEN AG Hanover Plant
July 2, 1992

Gerhard Schröder (52)[1)2)]
Hanover
Minister President of the State of Lower Saxony
July 17, 1990

Dr. rer. pol. Albert Schunk (55)[3)]
Frankfurt
Head of the International Department on the Executive Committee of the Metalworkers Union
July 5, 1977

Bernd Sudholt (50)[3]
Wolfsburg
Deputy Chairman of the Group and Joint Works Councils of VOLKSWAGEN AG
July 2, 1992

Klaus Volkert (54)[1) 2)]
Wolfsburg
Chairman of the Group and Joint Works Councils of VOLKSWAGEN AG
July 2, 1990

Dr. rer. pol. Bernd W. Voss (57)[3]
Frankfurt
Member of the Board of Management of Dresdner Bank AG
July 22, 1993

Dr. rer. pol. Ekkehardt Wesner (57)[3]
Wolfsburg
Senior Executive of VOLKSWAGEN AG
June 18, 1996

Changes on the Supervisory Board:

Walter Hiller (64)[3]
Hanover
Minister of Social Affairs of the State of Lower Saxony
April 9, 1986 to June 20, 1990 and July 17, 1990 to November 12, 1996

Dr. jur. Manfred Pilgrim (54)[3]
Wolfsburg
Senior Executive of VOLKSWAGEN AG
June 3, 1993 to May 15, 1996

Dr. rer. pol. Friedrich Schiefer (57)[2]
Stuttgart
Deputy Chairman of the Board of Management of Robert Bosch GmbH
July 4, 1991 to May 31, 1996

[1] Member of the Presidium and the Mediation Committee in accordance with § 27 subsection 3 of the Co-Determination Act

[2] Member of the Finance and Investment Committee

[3] Member of the Balance Sheet and Personnel Committee

Board of Management of VOLKSWAGEN AG

Dr. techn. h. c. Dipl.-Ing. ETH Ferdinand Piëch (59)
Chairman
January 1, 1993
Research and Development
December 1, 1995
Production Optimization and Procurement
November 30, 1996
Member of the Board of Management
April 10, 1992

Bruno Adelt (57)
Controlling and Accounting
January 1, 1995

Dr. Robert Büchelhofer (54)
Sales and Marketing
April 1, 1995

Dr. rer. pol. h. c. Peter Hartz (55)
Human Resources
October 1, 1993

Dr. jur. Jens Neumann (51)
Group Strategy, Treasury, Legal Matters and Organization
January 1, 1993

Dr. jur. Martin Posth (53)
Asia Pacific
January 13, 1993 to April 5, 1997
Human Resources
August 1, 1988 to January 13, 1993

Changes on the Board of Management:

José Ignacio López de Arriortúa (56)
Production Optimization and Procurement
March 16, 1993 to November 29, 1996

*This indicates since when the person in question has been a member of the body concerned, or the period for which the person was a member.

Volkswagen

Dr. techn. h. c. Dipl.-Ing. ETH
Ferdinand Piëch (59)
Chairman of the Volkswagen Management Body
August 1, 1993*

Dr. Robert Büchelhofer (54)
Sales
April 1, 1995

Francisco Javier García Sanz (39)
Procurement
November 30, 1996

Dr. rer. pol. h. c.
Peter Hartz (55)
Human Resources
October 1, 1993

Dr. phil. Klaus Kocks (44)
Communications
July 1, 1996

Dr. jur. Jens Neumann (51)
Organization and Systems
September 3, 1993

Lothar Sander (46)
Controlling and Accounting
January 1, 1995

Folker Weißgerber (55)
Production, Logistics
March 16, 1993
Deputy, Production and Logistics
December 1, 1991 to
March 16, 1993

Dr. rer. nat. Martin Winterkorn (49)
Technical Development
January 1, 1996

Volkswagen Commercial Vehicles

Bernd Wiedemann (54)
Chairman of the Management Body of Volkswagen Commercial Vehicles
August 1, 1995

Seat

Dr. techn. h.c. Dipl.-Ing. ETH
Ferdinand Piëch (59)
Chairman of the Board of Management of SEAT, S.A.
January 1, 1997 to June 30, 1997

Pierre-Alain de Smedt (52)
Deputy Chairman of the Board of Management of SEAT, S.A.
January 1, 1997 to June 30, 1997
Procurement
January 1, 1997
Chairman of the Board of Management of SEAT, S.A.
July 1, 1997

Dr. rer. pol. Utz Claassen (33)
Finance
May 12, 1994 to March 31, 1997

Erich Krohn (47)
Member without Portfolio
January 1, 1997 to March 31, 1997
Finance
April 1, 1997

Rodrigo Navarro Segura (34)
Human Resources
January 1, 1997

Detlev Schmidt (52)
Sales
January 1, 1994

Dr. rer. nat.
Barthel Schröder (47)
Technology and Engineering
May 12, 1994

Changes on the Seat Management Body:

Dr. Juan Llorens Carrió (62)
Chairman of the Board of Management of SEAT, S.A.
November 4, 1993 to December 31, 1996

Francisco Javier García Sanz (39)
Procurement
September 6, 1995 to December 31, 1996

Jochen Schumm (49)
Human Resources
May 12, 1994 to December 31, 1996

Škoda

Vratislav Kulhánek (53)
Chairman of the Board of Management of ŠKODA, automobilová a.s.
April 16, 1997

Volkhard Köhler (53)
Deputy Chairman
Commercial Affairs
April 16, 1991 to April 15, 1997

Wilfried Bockelmann (55)
Technical Development
April 16, 1997

Dr. jur. Pavel Nováček (48)
Human Resources
April 16, 1991

Detlef Wittig (54)
Sales and Marketing
July 1, 1995
Deputy Chairman
Commercial Affairs
April 16, 1997

Rolf Zimmermann (50)
Technology and Engineering
February 1, 1996 to April 15, 1997
Production and Logistics
April 16, 1997

Changes on the Škoda Management Body:

Ing. Ludvík Kalma (55)
Chairman of the Board of Management of ŠKODA, automobilová a.s.
April 16, 1991 to November 24, 1996

Audi

Dr. techn. Herbert Demel (43)
Chairman of the Board of Management of AUDI AG
March 22, 1995 to June 30, 1997
Spokesman of the Board of Management of AUDI AG
February 4, 1994 to March 21, 1995
Marketing and Sales
February 4, 1994 to March 31, 1995
Technical Development
March 1, 1993 to March 21, 1995

Dr.-Ing. Franz-Josef Paefgen (50)
Deputy Chairman of the Board of Management of AUDI AG
January 1, 1997 to June 30, 1997
Marketing and Sales
March 1, 1997
Technical Development
March 22, 1995 to June 30, 1997
Spokesman of the Board of Management of AUDI AG
July 1, 1997

Peter Abele (55)
Finance and Organization
June 1, 1997

Jürgen Gebhardt (52)
Production
February 1, 1993

Dr. Ing. Werner Mischke (48)
Technical Development
July 1, 1997

Andreas Schleef (53)
Human Resources
March 27, 1985

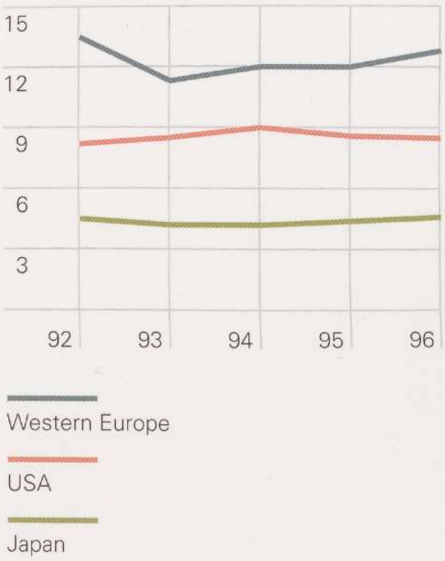
Erich Schmitt (50)
Purchasing, Finance and Organization
November 25, 1992 to May 31, 1997
Purchasing
June 1, 1997

Changes on the Audi Management Body:

Graham John Morris (47)
Marketing and Sales
April 1, 1995 to February 28, 1997

*This indicates since when the person in question has been a member of the body concerned, or the period for which the person was a member.

The major world passenger car markets (million units)



On the growing overall market in Western Europe, the Volkswagen Group further extended its market leadership.

Economic recovery

After the weak growth in the world economy in 1995, the past year saw a recovery in the economic cycle. The economic upturn in the USA gathered pace. In South East Asia development was again dynamic. The People's Republic of China, with an increase in gross domestic product of almost 10 %, was one of the fastest growing economies in the world. Japan successfully overcame its longest period of economic stagnation since the Second World War. Brazil, Mexico and Argentina saw significant upturns after a weak start to the year. Rising exports, in particular, have been improving the economic situation in the Western European countries since mid 1996. In Germany, however, growth weakened to 1.4 (1.9) %. The growth process was sustained in most of the reforming countries of Central Europe.

Positive development in the global automotive business

The global automotive industry is marked by competitive pressure and overcapacities. Global vehicle business nevertheless grew. A key factor in the increased demand in 1996, apart from the economic recovery, was the launch of new models and major sales promotion measures undertaken by the manufacturers.

The German passenger car market increased by 5.5 %, to 3.5 million new registrations. In other Western European countries the rise was 6.8 %, with 9.3 million new registrations. In France, Government aid in the form of bonuses paid on scrapped vehicles triggered a 10.4 % rise in demand. The US market for new cars was slightly below the previous year's level (– 1.4 %). In Japan new registrations rose by 5.1 %, in particular due to the strong demand for imported marques.

Worldwide increase in vehicles delivered

The Volkswagen Group delivered 11.4 % more vehicles, a total of 3,965,650 units, in the past year. The rise was seen across all product lines: Volkswagen 2,868,321 units (+ 11.3 %); Audi 492,046 units (+ 9.9 %); Seat 344,216 units (+ 5.7 %); and Škoda 261,067 units (+ 24.6 %).

Increased demand in Western Europe

On the growing overall market in Western Europe, the Volkswagen Group further extended its market leadership with sales of 2,356,453 vehicles (+ 9.7 %), representing a share of 17.2 (16.8) % of the passenger car market. Volkswagen increased unit sales by 10.1 % to 1,539,481 vehicles, with a 11.1 (10.7) % share of the passenger car market. Its share of the commercial vehicles market up to 6 tonnes was 12.1 (10.8) %. Audi sold 416,871 cars (+ 9.9 %) and increased its market share to 3.2 (3.1) %. Seat delivered 311,571 vehicles to customers (+ 3.9 %) and attained a market share of 2.2 (2.4) % of new car registrations. With 88,530 vehicles sold (+ 25.9 %), Škoda attained a market share of 0.6 (0.5) %.

In Germany, the largest automobile market in Europe, the Volkswagen Group sold 969,361 vehicles (+ 2.6 %), and retained its unchallenged leadership of the passenger car market with a 27.3 (28.1) % share. The market share in the new federal states of Germany was likewise down, at 25.5 (26.9) %, but the Group was able to uphold its leadership on that market, too.

Improved economic situation in the North America region

The US economy developed better than expected in the 1996 fiscal year. It was principally marked by steady growth and low unemployment. The passenger car market fell by 1.4 %, however. With sales of 163,286 Volkswagen and Audi vehicles, the Volkswagen Group exceeded the previous year's sales figure by 22.6 %. These were the best figures for Volkswagen since 1990, and for Audi since 1987. The Volkswagen Group's share of imported passenger car new registrations was 4.9 (4.1) %.

On the still falling Canadian passenger car market (– 1.4 %) sales of VW Canada Inc. rose, against the trend, to a total of 27,070 units, a rise of 16.8 % over the previous year. Its share of the passenger car market thus rose to 4.0 (3.4) %.

In Mexico the economy is once again in a period of growth, a fact reflected in the 38.3 % rise in the passenger car market over the previous year. Volkswagen de Mexico, S.A. de C.V. also profited from this development, with an increase in new car sales of 11.5 % to 51,545 units. With a share of 25.1 (30.2) %, the Group retained its leadership on the passenger car market. Whereas the poor economic conditions in Mexico had brought about a collapse of the financial services market in 1995, Volkswagen Financial Services, S.A. de C.V. was able to resume its new vehicle business in the course of 1996.

Thus, in the fiscal year 1996, the Volkswagen Group improved its position in the North America region and increased unit sales by 19.4 % to 241,901 vehicles. Of that figure, Volkswagen sold 212,781 units (+ 15.7 %) and Audi 29,120 units (+ 54.9 %).

The Volkswagen Group improved its position on the markets of the North America region.

Positive development in the South America/Africa region

After the economic slowdown at the turn of the year 1995/96, growth rates in Brazil recovered over the course of the period under review. After the split with Ford effected by mutual consent in 1995, Volkswagen do Brasil Ltda. is now once again a legally autonomous entity, and can look back on a successful 1996 fiscal year. Although the Brazilian passenger car market grew only slightly by 2.4 %, to 1,402,651 units, the Volkswagen Group extended its lead on the market with a 35.5 % share. This was achieved as a result of a 5.6 % increase in sales over the previous year, to 498,160 units. In the light commercial vehicles segment Volkswagen do Brasil Ltda. increased sales volumes by 1.5 % to 82,734 units, and defended its market leadership with a 30.4 (34.6) % share. In the heavy commercial vehicles segment between 7 and 35 tonnes, 8,803 Volkswagen trucks and buses were sold

The Volkswagen Group extended its lead on the Brazilian passenger car market.

Vehicles delivered to customers	1996	1995	%
Western Europe	**2,356,453**	**2,147,962**	**+ 9.7**
of which:			
Germany	969,361	944,558	+ 2.6
Italy	232,762	231,380	+ 0.6
France	228,051	196,162	+ 16.3
Spain	202,713	176,229	+ 15.0
Great Britain	183,427	139,001	+ 32.0

(– 26.1 %). As a result, Volkswagen's market share fell to 14.8 % on a market which lost 19.5 % of its overall volume.

The Argentinian economy came through the worst of its troubles in 1996 and entered a recovery phase based on rising export business. The domestic economy continued to suffer from high unemployment and weak consumer demand, however. The passenger car market grew by 6.8 % to 299,079 vehicles. With various product-related and marketing measures, Volkswagen Argentina S.A. was able to increase sales by 46.2 % to 71,312 units. With a 22.2 % share, the Volkswagen Group for the first time became the market leader in the Argentinian passenger car segment.

The economic situation in South Africa remained difficult. The increasingly competitive automobile market grew by 6.0 %. Volkswagen of South Africa (Pty.) Ltd. sold 65,077 vehicles, 5.5 % more than in the previous year, and, with a 23.1 % share, defended its leading position on the passenger car market.

Deliveries to customers in the South America/Africa region totalled 757,541 units (+ 6.1 %). Of those, 736,302 were Volkswagen vehicles (+ 6.0 %), 9,557 Audi, 3,741 Seat, and 7,941 Škoda.

Sales in the Asia-Pacific region significantly exceeded the previous year's level.

Continuing dynamic growth in the Asia-Pacific region

The Chinese economy recorded virtually double-figure growth. In 1996 demand for passenger cars in part increased less than domestic capacities. Government demand limitation measures and the increasing tax burden on cars affected demand, while capacities increased dramatically due to the ongoing investment programmes as part of the officially approved automotive projects. This led to an over-supply situation, even though the overall market grew by 21.1 %. As a countermeasure, the Government ordered price cuts to reduce the build-up of stocks along the sales channels. The Volkswagen Group increased sales by 8.5 % over the previous year, to 239,388 Volkswagen, Audi and Škoda models.

In Japan the economy underwent unexpectedly strong growth at the beginning of 1996 but, primarily due to the ending of a number of far-reaching recovery programmes, it weakened again in the second half of the year. The passenger car market grew by 5.1 %, mainly as a result of imports. The VOLKSWAGEN Group Japan K.K. increased deliveries by 31.6 % to 59,053 units, and attained a 15.3 % share of the import sector.

Significant rises on the remaining markets of the region contributed to a 13.3 % increase in overall sales in the Asia-Pacific region to 334,884 units.

Growth trend in the Financial Services Division

The Group Financial Services Division also profited from the growth trend on European and American markets. After the termination of the joint venture with Ford in Brazil and Argentina, financial services in the South America region are now offered by independent Volkswagen companies, and since 1996 have been allocated to the Financial Services Division in terms of their financial accounting.

Customer-oriented finance and leasing offers brought about an increase in the Financial Services Division's outstanding credit agreements of 21.3 %, to a total of 2,307,600 agreements. A total of 1,125,300 new agreements were signed. 28.4 % of the Group's total deliveries were of leased or financed new vehicles. The balance-sheet total of the Financial Services Division increased by 26.9 % to 35.0 billion DM in the year under review.

Volkswagen Leasing celebrated its thirtieth year of existence. It has for years been the market leader in the European car leasing sector. Leasing agreements for 207,700 vehicles were concluded in the reporting year. As per the year end, the company held 478,900 outstanding agreements (+ 2.0 %).

Volkswagen Bank GmbH concluded 369,600 new customer credit agreements, which meant that the total outstanding agreements as per December 31st, 1996 increased to 834,400 (+ 10.9 %). Receivables in respect of dealer financing on the balance-sheet date amounted to 3 billion DM. Attractive terms offered by Volkswagen Bank GmbH in direct-banking operations meant that deposits increased by 38.3 % to 1.9 billion DM, and passed the 2 billion DM mark in January 1997.

As from December 31st, 1995, the 5th Amendment to the German Credit Act (Kreditwesengesetz) stipulates that all companies in which Volkswagen Financial Services AG has a direct or indirect holding must comply with the banking provisions of that Act. Accordingly, all risk assets must be backed by at least 8 % guarantee capital. Furthermore, loans of 3 million DM or more, large exposures and loans to managers and affiliated companies are subject to statutory notification and limitation. The Volkswagen Financial Services AG Group, and Volkswagen Bank GmbH as an individual company, fully complied with these requirements in the year under review.

On December 31st, 1996 Volkswagen Financial Services AG took over the 49 % of shares in the Volkswagen Group's Japanese financial services company, VANS Finance Corporation, previously held by outside interests.

Volkswagen Leasing GmbH celebrated its thirtieth year of existence.

Improved unit sales and sales proceeds

The continuation of our model offensive made our Group product range still more attractive to customers. The extensions to the range included the new Passat saloon, the Audi A3, Audi A4 Avant, Audi S6 plus, Audi S8 and Seat Alhambra. Other new products included the Seat Cordoba SX, the Škoda Octavia, the LT and the Caddy Pickup.

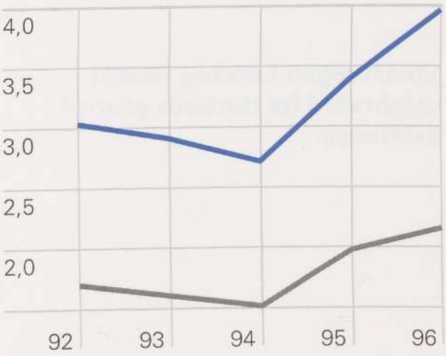
Overall, the high demand for our models has resulted in a double-figure increase in unit sales and sales proceeds of the Volkswagen Group. Worldwide sales to dealers rose by 10.7 % to 3,994,312 units. Sales proceeds increased by 13.6 % over the previous year, to 100.1 billion DM, breaking through the 100 billion Mark barrier for the first time. Virtually every Group company con-

The high demand for our models has resulted in a double-figure increase in unit sales and sales proceeds.

Unit sales* to dealers (by product line) Units	1996	1995	%
Worldwide	**3,994,312**	**3,607,300**	**+ 10.7**
Germany	958,522	937,323	+ 2.3
Abroad	3,035,790	2,669,977	+ 13.7
Volkswagen Passenger Cars	2,719,873	2,454,886	+ 10.8
Volkswagen Commercial Vehicles	181,148	160,433	+ 12.9
Audi	495,568	451,611	+ 9.7
Seat	339,149	324,419	+ 4.5
Škoda	258,574	215,951	+ 19.7

*Including 232,000 (165,000) vehicles of the not fully consolidated vehicle-producing holdings Shanghai-Volkswagen, FAW-Volkswagen and Chinchun Motor.

Expenditure on research and development by the Volkswagen Group and VOLKSWAGEN AG (billion DM)



Some 80 % of purchasing by VOLKSWAGEN AG originated from German suppliers.

tributed to this positive development. Satisfactory sales were recorded both in Germany and on international markets. Sales proceeds in Germany grew by 5.6 % to 36.4 billion DM, and on the international market by 18.8 % to 63.7 billion DM. The proportion of total revenue generated by sales outside Germany increased to 63.6 %, from a level of 60.8 % in the previous year.

Unit sales of VOLKSWAGEN AG increased by 7.4 % to 1,692,318. Sales proceeds increased by 11.9 % to 49.9 billion DM. 55.6 (53.7) % of this figure was generated by export business.

Increased volume of purchasing

The increased unit sales in 1996 were accompanied by an increase in the volume of purchasing of the Volkswagen Group – excluding sales tax – to 60.1 (44.8) billion DM. As from 1996, with the end of the Ford joint venture, the purchasing volumes of the subsidiaries in Brazil and Argentina amounting to 6.2 billion DM were incorporated into the above figure. The corresponding figure for VOLKSWAGEN AG rose to 23.3 billion DM from 21.3 billion DM in the previous year. Of that figure, 17.6 billion DM was attributable to raw materials and supplies and 5.6 billion DM to capital goods and services. Some 80 % of component suppliers were German. In order to counter the cost pressure on the purchasing side, we shall be further intensifying our manufacturer/supplier relations. We intend in particular to progress the "Simultaneous Engineering" process, as well as the level of in-development cooperation with our suppliers. The object of these efforts is to exploit more effectively the synergy effects between the Development, Procurement, Production and Quality functions, as well as between suppliers.

Research and development at a high level

In the past fiscal year the Volkswagen Group spent 4.0 billion DM (+ 17.6 %) on research and development, the key area of activity in terms of safeguarding the future of the company. This represented 4.0 % of sales proceeds. The Group employed a total of 14,192 people in this sector in the past year. VOLKSWAGEN AG employed 7,463 people in research and development, spending a total of 2.2 billion DM (+ 10.0 %) on that sector.

Shares of sales proceeds (before consolidation) %	1996	1995
Volkswagen Passenger Cars	43.4	44.0
Volkswagen Commercial Vehicles	5.2	5.1
Audi	15.2	15.3
Seat	7.7	8.8
Škoda	2.7	2.3
North America Region	6.0	5.2
South America/Africa Region	10.9	10.2
Asia Pacific Region	1.6	1.7
Financial Services/Financing	7.3	7.4

Production* (by product line) Units	1996	1995	%
Worldwide	**3,976,896**	**3,594,855**	**+ 10.6**
Germany	1,590,956	1,525,580	+ 4.3
Abroad	2,385,940	2,069,275	+ 15.3
Volkswagen Passenger Cars	2,701,751	2,449,197	+ 10.3
Volkswagen Commercial Vehicles	180,715	164,395	+ 9.9
Audi	491,113	445,768	+ 10.2
Seat	342,447	327,216	+ 4.7
Škoda	260,870	208,279	+ 25.3

*Including 302,000 (186,000) vehicles of the not fully consolidated vehicle-producing holdings AUTOEUROPA, Shanghai-Volkswagen, FAW-Volkswagen and Chinchun Motor.

Rise in production volume

Based on healthy unit sales, the Volkswagen Group's worldwide production rose by 10.6 % to 3,976,896 automobiles. Of these, VOLKSWAGEN AG produced 1,331,886 units (+ 1.1 %). The proportion of vehicles manufactured abroad rose from 57.6 % to 60.0 %. The average number of vehicles produced per working day stood at 16,640 (15,529) units.

The past fiscal year saw a number of new manufacturing facilities commissioned into operation. On November 1st, 1996 Volkswagen do Brasil opened a new truck and bus plant, with an annual capacity of some 30,000 vehicles, in Resende in the state of Rio de Janeiro. In October the engine plant at São Carlos in the state of São Paulo started production, with a capacity of 1,200 units per day. Volkswagen Sachsen GmbH in Mosel, Saxony, started production of the Passat saloon at the end of October, at the same time commissioning its newly constructed vehicle assembly hall into operation. In Autumn 1996 Audi began SKD assembly of A4 and A6 models in the Philippines. Škoda is now producing its Octavia model in the new hall at Mladá Boleslav in the Czech Republic, which was officially opened on September 3rd.

The Volkswagen Bratislava site in Slovakia celebrated its fifth anniversary on September 18th, 1996. A total of 30,147 complete automobiles and 259,600 gearboxes produced represents an impressive performance over the past year.

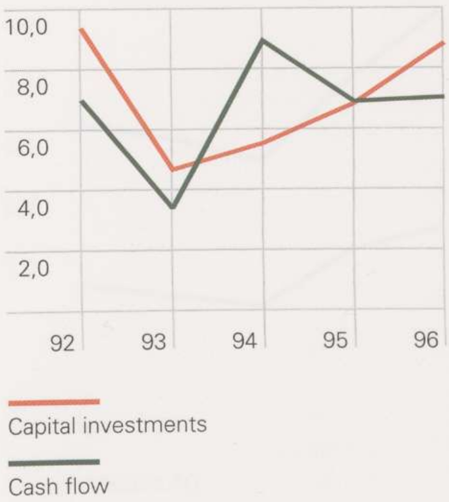
On November 13th, the seventeen millionth Golf rolled off the production line in Wolfsburg, and in mid 1996 the Golf GTI celebrated 20 years in production.

Improved productivity per employee

The average number of employees in 1996 worldwide increased by 1.2 % to 260,504. While the workforce in Germany fell by 2.8 % to 139,119, the number of employees of Group companies abroad increased by 6.3 % to 121,385. The rise outside Germany was primarily due to expansions of production. The increased production was accompanied by an increase in output per employee of 9.4 % against the previous year, based on the average worldwide workforce.

A 9.4 % increase in productivity was attained in the past year.

Capital investments and cash flow within the Volkswagen Group (billion DM) (excluding leasing and rental assets)



With specifically targeted programmes and measures, the attendance rate of the company workforce was improved by more than half a percentage point, to 95.8 %.

With the "eco analysis" concept Volkswagen has opened up a whole new perspective in environmental management.

The workforce of the Volkswagen Group totalled 260,811 people (+ 0.6 %) on December 31, 1996; VOLKSWAGEN AG employed 95,176 people (– 5.5 %).

The focus of human resources policy was on implementation of the 1995 collective pay agreement. In-company agreements were concluded with the workforce with the aim of realising the concept of the "breathing company", and thus attaining greater orientation to customer needs. 1,000 new jobs were created within the framework of insourcing projects, and to cover the increasing demand for diesel engines. A further key event was the conversion of the company pension scheme into a "building block" system, involving the creation of annual pension accruals from an individual's income over the entire period of a working life, which later form the basis for the level of pension. At the same time a contributory with-profits pension scheme was launched for employees. With specifically targeted programmes and measures, the attendance rate of the company workforce was improved by more than half a percentage point, to 95.8 %.

Increased capital investments

In the years prior to 1996 the liquidity position of the Volkswagen Group steadily improved, primarily as a result of an investment policy attuned to prevailing economic conditions. The model offensive launched in 1996, unique in the history of the company, and the associated optimization of manufacturing structures again resulted in higher investments in tangible assets in 1996. In the past fiscal year the capital investments of the Volkswagen Group therefore increased substantially by 27.4 % to 8,742 million DM, of which 80.6 % was covered by cash flow. A large portion of the capital investment undertaken was by VOLKSWAGEN AG and the Audi Group. An increase in additions to leasing and rental assets of 5.0 %, to 7,639 million DM, reflects the further expansion of the Financial Services Division.

VOLKSWAGEN AG invested a total of 3,725 million DM. Of this figure, 2,820 million DM was invested in fixed assets, including intangible assets, mainly for new models and the optimization of manufacturing processes. Financial investments totalling 905 million DM (– 79.6 %) were attributable mainly to the purchase of long-term securities and capital contributions in respect of subsidiaries.

The Eco Analysis – Incorporation of environmental protection into the product

With the launch of the "total eco analysis" concept for automobiles Volkswagen has opened up a whole new perspective in terms of environmental management. Based on the ISO standard, and in collaboration with the University of Stuttgart, an overall ecological "balance sheet" was drawn up for the Golf. The analysis covered materials and material quantities, input energy in the manufacturing process, product usage over a defined period of time, and disposal of the product at the end of its useful life. This data forms the starting point for comparative analyses which allow for utterly new

Workforce* Employees	1996	1995	%
Worldwide average over year	**260,504**	**257,334**	**+ 1.2**
Worldwide as per Dec. 31	**260,811**	**259,342**	**+ 0.6**
Germany	137,769	142,195	– 3.1
Abroad	123,042	117,147	+ 5.0

*Including apprentices and an average workforce over the year of 17,734 (15,049) of the not fully consolidated vehicle-producing holdings AUTOEUROPA, Shanghai-Volkswagen, FAW-Volkswagen and Chinchun Motor; 18,268 (16,922) people as per December 31st.

forms of product assessment. In a second step, an analysis of effect is to be conducted to ascertain the actual effect of a product on various environmental categories.

Changes on the Volkswagen Marque Management Board

In the interests of an optimized and integrated approach to dialogue with internal and external target groups, the Volkswagen marque established a new board level function, Communications, with effect from July 1st, 1996. The Procurement function, also newly established, has been in operation since November 30th, 1996.

Aid for the Volkswagen Saxony companies

The investments made by Volkswagen in Saxony for the new production segments are taken by the European Commission as being partially investments in expansion, and not new investments. Against this background, on June 26th, 1996 the European Commission decided to reduce the projected aid for the Volkswagen plants at Mosel and Chemnitz by 241 million DM. The Federal Republic of Germany, the State of Saxony and Volkswagen consider the decision to be incorrect. In parallel with the associated legal disputes, a mutually agreeable solution is being sought in consultation with the European Commission.

Volkswagen and General Motors/Opel reach agreement

At the beginning of 1997 VOLKSWAGEN AG and the General Motors Corporation/Adam Opel AG reached an out-of-court settlement. The agreement provides for the immediate cessation of all civil proceedings between the companies, including the action commenced by GM/Opel at the US Federal Court in Detroit in March 1996.

Progress in the Seat recovery programme

For the first time since 1991, Seat was able to show a profit in its annual financial statements drawn up in accordance with national law. Contributing factors were state aid from the Spanish central government and the Catalan regional government, as well as the disposal of redundant plant and buildings. The success of the cost-cutting measures, which were implemented as scheduled, also helped to improve results. Since the company continued to suffer from a narrow equity base, while still being burdened with high depreciation and financing costs in connection with the Martorell plant, assistance from VOLKSWAGEN AG was again required in the past fiscal year. The measures aimed at achieving lasting recovery are being continued.

Improved economic position at Europcar

The losses of the Europcar Group were substantially reduced in 1996. This turnaround was achieved through changes in the fleet management, significant cost cutting, and higher sales proceeds from Spain, France and Portugal. A return to profit is expected in 1997.

Future capital injections for Volkswagen de Mexico

To improve the equity situation, and to provide investment financing, VOLKSWAGEN AG plans to increase the share capital of Volkswagen de Mexico, S.A. de C.V. in 1997 and 1998. The substantial increase in capital investment is mainly in respect of new products, and also relates to component production and quality improvement.

Within the Volkswagen marque, the new board-level functions Communications and Procurement were established.

The main contributors to the profits of the Volkswagen Group were the Volkswagen Passenger Cars and Audi marques, the Asia-Pacific region, and the Financial Services Division.

FAW-Volkswagen improves results

The FAW-Volkswagen Automotive Company, Ltd. improved on the previous year's results but, as a result of the start-up situation, the underuse of capacities, and high financing costs, again returned a loss.

Positive development of earnings across the board in 1996

The Volkswagen Group achieved after-tax earnings of 678 million DM in the 1996 fiscal year, after a figure of 336 million DM in the previous year. Contributing factors were improvements in operating performance, as well as higher income from holdings and bank earnings. VOLKSWAGEN AG achieved net earnings of 630 million DM, after returning 410 million DM in the previous year.

The main contributors to the profits of the Volkswagen Group were the Volkswagen Passenger Cars and Audi marques, the Asia-Pacific region, and the Financial Services Division.

The following companies in particular returned net profits in accordance with uniform Group accounting and valuation methods:

- AUDI AG
- Volkswagen do Brasil Ltda.
- Volkswagen leasing companies
- Groupe VOLKSWAGEN France s.a.
- AUTOGERMA S.p.A.
- Shanghai-Volkswagen Automotive Company Ltd. (consolidated at equity)
- Volkswagen Bruxelles S.A.
- ŠKODA, automobilová a.s.
- Volkswagen Navarra, S.A.
- Volkswagen Saxony companies
- VOLKSWAGEN Group Japan K.K.
- Volkswagen Transport GmbH & Co. OHG
- Volkswagen Financial Services AG
- Coordination Center Volkswagen S.A.

Net losses were recorded by:

- SEAT, S.A.
- VOLKSWAGEN OF AMERICA, INC.
- Volkswagen de Mexico, S.A. de C.V.
- Volkswagen Argentina S.A.
- Volkswagen of South Africa (Pty.) Ltd.
- FAW-Volkswagen Automotive Company, Ltd. (consolidated at equity)

The results of major companies based on national accounting regulations are set out in the summary on pages 60/61.

Proposal on appropriation of net earnings available for distribution	DM
Dividend distribution on subscribed	
capital of 1,824.7 million DM*	315,090,673
of which	
on ordinary shares	249,740,973
on preferred shares	65,349,700
Balance	
(carried forward)	2,764,527
Net earnings available for distribution	**317,855,200**

*2.7 million DM deriving from the capital increase effected in November 1996 and 107.8 million DM deriving from the exercising of option rights in 1996 carried no dividend rights for the fiscal year 1996.

The positive overall development of business operations in 1996 enables the Board of Management and the Supervisory Board, after transferring 315 million DM to free reserves, to propose to the Annual Meeting of Stockholders the payment of an increased dividend of 9 DM per ordinary share and 10 DM on each preferred share. Taking into account the tax credit of 3.86 DM per share, eligible holders of ordinary shares will receive a total of 12.86 DM per share. Holders of preferred shares will be entitled to 14.29 DM per share, including the tax credit of 4.29 DM.

Prospects

The world economy will continue its revival through 1997. Conditions for lasting growth in the Western industrial nations are favourable. In particular low interest rates, the devaluation of most currencies against the Dollar, and slowly reviving consumer demand will enable the upward trend in Western Europe to take a firm hold in the current year. For the Western industrial nations, including Germany, there are, however, a number of restraining effects resulting from cuts being introduced by many governments to meet the conditions of the projected European Currency Union.

The German economy will grow still more strongly in 1997, but without lasting improvement on the employment front. Export demand will continue to be the rock upon which economic growth is built.

In the USA, 1997 will again see steady economic growth with relatively low inflation. In Japan, the serious structural problems mean that only moderate growth is to be expected.

In these global economic conditions, the automotive industry can expect only a slight rise in worldwide demand for motor vehicles. We expect the ongoing globalization of markets through increasing regional integration to bring positive impulses for the automotive industry in Asia and Latin America, and in Central and Eastern Europe. In Western Europe and Germany we expect to see a slight rise in demand.

The Volkswagen Group started 1997 with 286,000 orders in hand from Western Europe, including Germany. We expect to see a total market volume of 12.8 million passenger cars in this region in 1997. In the USA we forecast 9.7 million units, and in Japan a market volume of 4.6 million. The continuation of our model offensive and our greater customer orientation will enable us to exploit additional buying potential on these markets.

Key areas of emphasis of our capital investments of 83.4 billion DM through to the year 2001 will include the updating and extension of our model range and the expansion of our leasing business. 68.3 % of investment will be made within Germany, representing a substantial contribution to the strengthening of the German economy. Through to the year 2001, Volkswagen will be investing 3.8 billion DM in the Wolfsburg plant alone. Of that figure, 1.7 billion DM will be for new products. In the first half of 1997 Audi will be adding to its product range with the new Audi A6; Seat will be launching the Arosa; and Škoda its Felicia Fun. At Volkswagen, the launch of the new Passat Variant is also scheduled. By the end of this decade we will have put into production a vehicle with fuel consumption as low as 3 litres per 100 kilometres. Light-weight construction, optimized aerodynamics and rolling resistance, as well as the further development of diesel technology, form the cornerstones of this project.

The continuation of our model offensive and our greater customer orientation will enable us to exploit additional buying potential.

Key areas of emphasis of our capital investments will include the updating and extension of our model range and the expansion of our leasing business.

The strategic orientation towards globalization, process orientation and product innovation will help us to achieve our economic goals.

Model facelifts are a key element in the safeguarding of our competitive position. However, improving competitiveness also requires a change in the Group's internal structures and the continuous reduction of fixed costs. Implementation of the concept of the "breathing" company must also be stepped up. This also includes continuation of the platform strategy, the Continuous Improvement Process (CIP[2]), and adjustment of personnel levels. Based on an unchanged legal structure of the Group, the strategic orientation towards globalization, process orientation and product innovation will help us to achieve our economic goals. Our measures to increase productivity and strengthen competitiveness will be sustained.

Based on our assessment of overall economic conditions, we again expect business to develop positively in 1997. The Volkswagen Commercial Vehicles, Seat and Škoda marques, and the North America region, will improve on their economic position. The Volkswagen Passenger Cars and Audi marques, the South America and Asia-Pacific regions, and the financing and financial services sector, will be the major generators of Group profits. Our stockholders will be assured appropriate participation in the positive development of the company's performance.

Wolfsburg, February 25th, 1997

The Board of Management

Capital investments billion DM	1997–2001	%
Group	**83.4**	**100.0**
of which:		
Volkswagen Passenger Cars	13.7	16.4
Volkswagen Commercial Vehicles	2.4	2.9
Audi	7.6	9.2
Seat	1.6	1.9
Škoda	1.8	2.2
North America Region	2.1	2.5
South America/Africa Region	3.8	4.5
Asia-Pacific Region*	0.1	0.1
Financial Services/Financing	49.7	59.5

*Excluding capital investments of the companies in China consolidated at equity in the proportional amount of 1.0 billion DM.

Left to right: Dr. Posth, Dr. Büchelhofer, Dr. Neumann, Mr. Adelt, Dr. Hartz, Dr. Piëch

Innovation and excellence as the basis for corporate success

The primary objective of product creation is to develop vehicles which reflect customer wishes in terms of economy, ecology, quality and engineering, and which are also pleasing in design and look.

A key element of corporate success is the innovative strength of our development team. An example of this innovation is the consistent reduction in fuel consumption of all the vehicles in our product range. This is achieved through lightweight construction, optimized vehicle dynamics, reduced rolling resistance, TDI technology, and economical petrol engines.

A further focus of our research and development efforts is safety. The Volkswagen Passenger Cars and Audi marques already offer all their models with ABS and twin airbags as standard. The new Passat was the first mass-produced vehicle in the world to be fitted with side airbags as standard.

Another key building brick in the success of Volkswagen is the fact that the company's established efficiency of function is being more and more strongly supplemented by the most demanding quality standards, attractive aesthetics, and emotional appeal. An example of this is the loving attention to detail on the new Passat.

The Polo in the EMC hall – measuring electromagnetic compatibility

As well as its efforts in terms of continuous improvement of vehicle products, Volkswagen is also intensively researching the optimization of traffic and transport systems as a whole. An example of this is the deployment of information and communication technologies in traffic systems.

Environmental management from A to Z

Environmental management is an integral part of the overall management system at Volkswagen; from the product creation process, through production and marketing, to recycling. In addition to environmental auditing on the basis of the EU Eco-Audit Regulation as an integral element of site-specific environmental management, environmental protection also enjoys high priority in the development phase.

Volkswagen is already a trendsetter in the automotive industry in terms of clean-air standards. This is also reflected in the environmental objectives which Volkswagen has set itself. The implementation of our objectives is incorporated directly into the project flows of the product creation process. Concrete objectives include:

- Using environmentally friendly materials;
- Selecting environmentally friendly production methods;
- Development with a view to subsequent recycling;
- Reducing fuel consumption;
- Reducing pollutant emissions;
- Reducing noise by attaining levels within noise limitation standards;
- Avoiding soil and water pollution through improved sealing and drying-off of vehicles.

More wide-ranging and detailed information is given in our Environmental Report, which can be obtained from the address on the inside back cover of this Report.

The primary objective of product creation is to develop vehicles which reflect customer wishes and which are also pleasing in design and look.

Volkswagen is already a trendsetter in the automotive industry in terms of clean-air standards.

With the TDI engine we are close to achieving a fuel consumption level of just 3 litres per 100 kilometres.

Developments in diesel engines

We have made diesel engines both environmentally friendly and economical. The improved combustion, especially, delivers significant opportunities to reduce consumption and emissions even further. A major step in this direction was the direct-injection diesel car engine, which is already achieving consumption figures as low as below five litres per 100 kilometres in current production models. The turbodiesel direct-injection engine (TDI) and naturally-aspirated direct-injection diesel engine (SDI) are designations which have become as well-known names as the Golf. With the TDI engine we are close to achieving a fuel consumption level of just 3 litres per 100 kilometres.

The extremely fuel-economical 1.9 litre SDI diesel engine, tried and proven in the Golf, has now been modified for fitting in the Polo. The 1.7 litre 42 kW SDI engine has been developed for the Volkswagen Caddy and Seat Inca commercial vehicles. The optimized injection system with improved mixture preparation in the combustion chamber means that here, too, exhaust emissions are well within standard limits.

Customer-oriented spark-ignition engine range

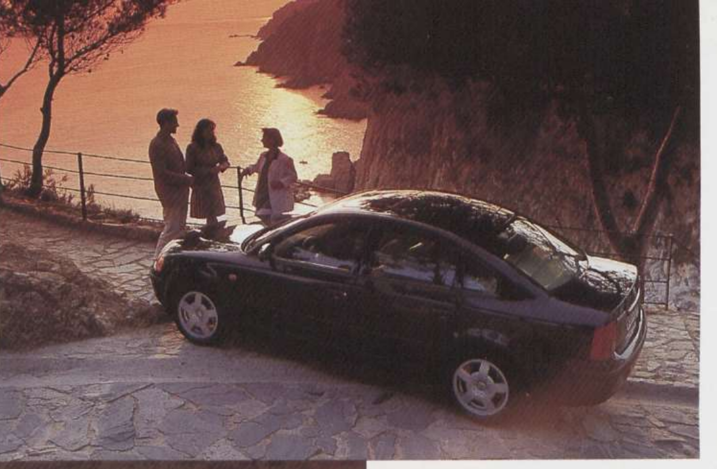
The multi-faceted, reliable and comfortable petrol engine will continue to have a firm place in a customer-oriented engine range. The aim in this segment is to make good some of the disadvantages in consumption in relation to the diesel engine by the more widespread introduction of multi-valve technology, variable intake manifolds and variable valve timing. Volkswagen is also researching roller drag lever technology and the principle of direct injection for petrol engines. We are intensifying the application of compact design in multi-cylinder spark-ignition engines.

An example of state-of-the-art development work is the completely new 1.0 litre two-valve aluminium engine introduced in the Polo in September. The use of an aluminium crankcase delivered a substantial weight reduction, and so reduced fuel consumption. A compact combustion chamber and a good surface-to-volume ratio provide optimum thermodynamic conditions for additional fuel savings. Other modifications improved friction loss and acoustic behaviour. With its sporty power transmission, this unit also offers well-balanced performance.

Entertainment and information in-car: The Infotainment Car

In the information age the demand for better traffic information is rising. At the same time, the in-car units have to be easily operated. The object of the Infotainment Car (Information and Entertainment) developed by Volkswagen is to combine the new technologies in such a way that the car user perceives entertainment, information and communication as a single unified concept. The car occupants are provided with a large number of sources, such as a TV receiver, video recorder, CD-i player ("i" for interactive) and PC,

The new Passat
sets new standards



which can all be operated from simple control elements. For safety reasons, the driver is not able to share in the entertainment programme while driving. He can, however, access visual and acoustic navigational information.

The Audi duo hybrid model: Visionary high-tech

At the 1996 Berlin Motor Show Audi presented its new hybrid car, the Audi duo, for the first time. Based on the A4 Avant, with most of its equipment, the Audi duo is fitted with a 66 kW TDI engine and with a 21 kW electric motor; that is to say, the Audi duo can be driven electrically or by diesel. As well as purely electric and purely diesel power, the Audi duo also offers an automatic driving mode which switches between electric and diesel depending on vehicle speed and load requirements.

In this way the Audi duo permits low-emission, quiet running, without the mobility limits of a purely electric motor. The ecological aspect is underlined by the facility for using bio-diesel. Also, the Audi duo's battery set can be charged from a solar charging station.

Lean Manufacturing

Lean Manufacturing – an umbrella term for efficient organization of the overall production process – has been intensively implemented in all Group planning projects. All investments and processes are put to the test.

Key elements of Lean Manufacturing are group working, modular production, employee motivation and information, and development of the commercially independent business units. A further area of emphasis is product line orientation of the plants, placing the responsibility for an entire product line (e.g. the Golf or Polo) in one set of hands. The production process is supervised by one manager, from the bodyshell stage through to delivery to the sales network, ensuring distinct identification with the product. Production segmenting – division of the plant into units (control loops) with through-going competencies – is the prerequisite for through-going product line orientation. This structure is the foundation stone for high levels of availability, flexibility and efficiency. All the marques either progressed or completed their product line oriented restructuring in the past fiscal year. The clearest expression of the modular concept was seen in the new truck plant at Resende. All elements of the Lean Manufacturing concept were also integrated into the new Octavia assembly hall at Mladá Boleslav.

Benchmarking is a means of becoming the best. This instrument of performance improvement measures, classifies and optimizes the production and logistics processes. The plants are increasingly carrying out benchmarking internally and with partner companies, in terms of their own special areas of activity and demands.

Management of ideas at Volkswagen

The management of ideas at Volkswagen covers the company suggestion scheme and the Continuous Improvement Process (CIP²). The suggestion scheme is to be decentralized further, and thus incorporated more directly into in-plant activities, in order to motivate employees even more strongly. The Continuous Improvement Process (CIP²) has become a recognized process of optimization for the Volkswagen Group; with 5,521 workshops held in the course of 1996, it is now an integral part of our company's practices.

Component production at Volkswagen

The reduction of production and development depth at the automobile manufacturer requires competitive suppliers of development components. This process involves evolution from a parts maker to a system and module developer and supplier, as a partner of the first-tier manufacturer. It affects internal component makers just as much as external suppliers.

Lean Manufacturing has been intensively implemented in all Group planning projects.

The Continuous Improvement Process (CIP²) has become a recognized process of optimization for the Volkswagen Group.

Quality on the move – body parts for the Passat

Production (by marque and region) Automobiles	1996	1995	%
Group*	**3,976,896**	**3,594,855**	**+ 10.6**
Volkswagen Passenger Cars	1,498,341	1,415,999	+ 5.8
Volkswagen Commercial Vehicles	152,753	161,759	– 5.6
Audi	491,501	447,683	+ 9.8
Seat	415,213	343,446	+ 20.9
Škoda	263,193	208,279	+ 26.4
North America Region	231,078	191,494	+ 20.7
South America/Africa Region	695,885	663,999	+ 4.8
Asia-Pacific Region	236,346	184,609	+ 28.0

* Including 302,000 (186,000) vehicles of the not fully consolidated vehicle-producing holdings AUTOEUROPA, Shanghai-Volkswagen, FAW-Volkswagen and Chinchun Motor. Adjusted for intra-Group assembly sets.

Insourcing is of decisive importance in the safeguarding and creation of jobs.

A substantial part of the value created by Volkswagen originates from its own component production. In this respect, the process of change means acquiring market and product competency above and beyond the mere production function, and accepting responsibility for commercial success. For Volkswagen this involves the creation of commercially autonomous business units. At the Brunswick components plant this new form of organization and competencies has been in operation since January 1997. Other sites – such as the component production facility at Wolfsburg and the Salzgitter engine plant – are preparing for the change.

Safeguarding and creating jobs through insourcing

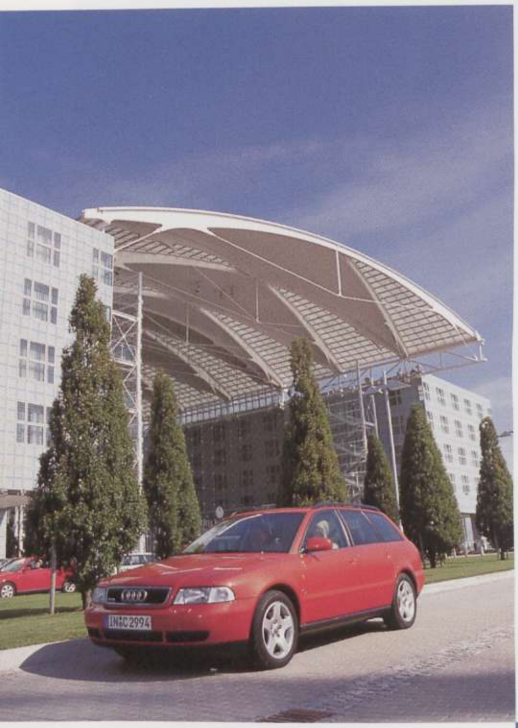
For the future business units, insourcing will mean utilizing existing capacities in a competitive manner, and winning orders for new products. This may be effected alone, or in cooperation with competent partners as development suppliers. Insourcing is therefore of decisive importance in the safeguarding and creation of jobs.

The Škoda Felicia estate shows its fine lines

The new Škoda Octavia – modern, dynamic, but retaining tradition

Always in good company with the Škoda Felicia

Volume of purchasing (by marque and region) billion DM	1996	%
Group	**60.1**	**100.0**
Volkswagen Passenger Cars	25.2	42.0
Volkswagen Commercial Vehicles	2.4	4.0
Audi	11.9	19.8
Seat	4.7	7.7
Škoda	2.7	4.5
North America Region	2.6	4.3
South America/Africa Region	6.8	11.3
Asia-Pacific Region	3.8	6.4



The Audi A4 Avant – the challenge of the conventional

Certification of the quality system

The quality systems of our non-European production facilities in Brazil, South Africa and Mexico have been certified to the international standard DIN ISO 9000. This furnishes them with an essential prerequisite for supplying complete vehicles under the Volkswagen name onto the EU market. The certification confirms that the production processes, quality conditions and skills and knowledge of the employees meet the requirements of the standard and of Volkswagen's own internal standards.

Key events at the Group production companies

Volkswagen in Saxony comprises three 100 % subsidiaries: Volkswagen Sachsen GmbH, Sächsische Automobilbau GmbH, and Volkswagen Sachsen Immobilienverwaltungs GmbH (real estate management). Volkswagen Sachsen GmbH started production of the new Passat saloon at the end of October in Mosel. Production of the new 1.0 litre aluminium engine replaced production of the 1.05 litre engine at the Chemnitz engine plant.

The new Audi A3 – groundbreaking technology

The new Audi A3 impresses by its extravagance

The Passat saloon production for the US market was taken over by Volkswagen Bruxelles S.A. in 1996, to support the Emden plant.

Volkswagen Commercial Vehicles completed a major facelift of the Transporter/Caravelle series, including an extension of the range of engines. Parallel to the facelift, the new LT production plant was commissioned into operation.

From 1998 Audi will be producing the TT Coupé and TT Roadster in a joint production project between its Ingolstadt plant and AUDI HUNGARIA MOTOR Kft. The bodyshell will be produced and painted at Ingolstadt, and the vehicle will be assembled at Györ in Hungary. In this way Audi will be safeguarding jobs in Ingolstadt and using the cost benefits of the Hungarian site. The total investment covers some 800 million DM. As from Autumn 1997, all V6 engines will be assembled in Györ. Start of production of the V8 units by the Hungarian subsidiary is scheduled for the Spring of 1998.

On September 3rd, 1996 the new assembly hall for the Škoda Octavia was commissioned into operation.

AUDI AG will be the lead company in a joint venture with Volkswagen to construct an automobile plant at Curitiba in Brazil, which will be ready by the end of 1998. The planned annual capacity is for some 30,000 Audi A3 and 30,000 Vento units respectively. The new plant is expected to create between 1,500 and 2,000 new jobs; some 40 % of components will be supplied from other Audi sites.

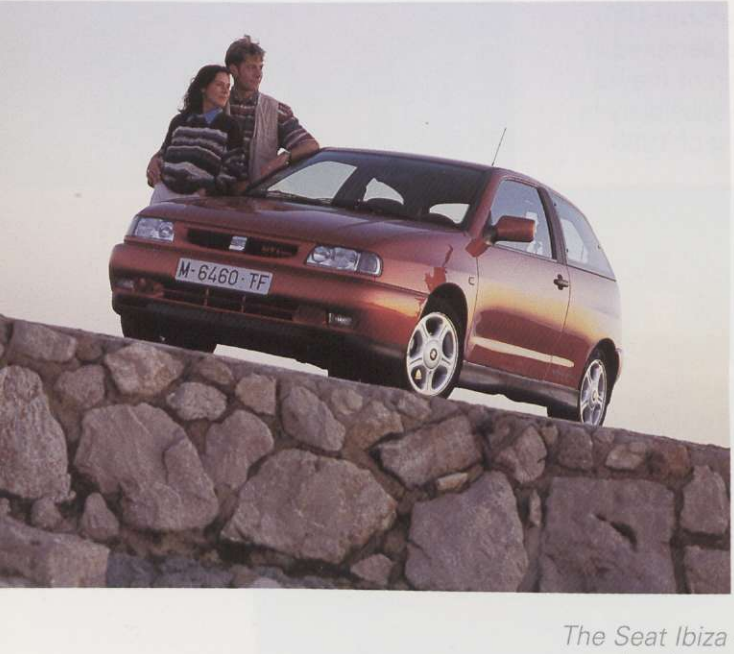
On November 27th, 1996 the one millionth vehicle rolled off the production line at the Martorell plant. Production of the two-door Cordoba, Ibiza GTi, Inca and Caddy Kombi started in the course of the past year. The Martorell plant for the first time delivered CKD parts of the Polo Classic to the plants in South Africa and Argentina.

On September 3rd, 1996, in the presence of the President of the Czech Republic, Václav Havel, ŠKODA, automobilová a.s. commissioned into operation the new assembly hall for the Octavia. The commercial vehicles plant at Kvasiny started production of the Volkswagen Caddy Pickup; and at the Vrchlabí site preparations were made for production of the Felicia Fun.

On October 12th, 1996 Volkswagen do Brasil Ltda. opened a new engine plant at São Carlos, some 225 kilometres from São Paulo. The plant will produce the EA-111 engine series. A total of 250 million US dollars has been invested, and 550 new jobs created. The plant will produce 300,000 engines a year. Some of the components will be supplied from the German engine plants, thus also helping to safeguard jobs in Germany. The new engine plant has established the capacities to be able to service fully the A0 vehicle segment, which represents 69 % of the car market in Brazil.

The opening of the new truck and bus plant on November 1st, 1996 in Resende, 160 kilometres west of Rio de Janeiro, was also attended by the President of Brazil, Fernando Henrique Cardoso. This is the first production facility to integrate a so-called "modular consortium". The term "modular consortium" signifies the sharing of responsibility between second-tier suppliers and the first-tier manufacturer.

The Shanghai-Volkswagen Automotive Company Ltd. continued to extend its leadership of the Chinese automotive industry during the past year, and also substantially increased production. The increase in production capacities was completed by the end of 1996; the completion of an additional engine plant is scheduled for the end of 1997. The FAW-Volkswagen Automotive Company, Ltd. in Changchun – a second joint venture, in which Volkswagen holds



The Seat Ibiza – pure joy in motoring

a 30 % share, Audi 10 %, and FAW 60 % – was able to increase its output over the previous year. Production of the Audi 200, the successor model to the Audi 100 previously built under licence by FAW, was integrated into the joint venture.

The Seat Toledo – travel in style

Our cooperation partner in the Philippines, Proton Pilipinas Corporation (PPC), was granted a licence to assemble Volkswagen and Audi models, and constructed a plant in Pangasinan to supply models of both marques to the Philippino market.

The new Seat Alhambra – a real personality in every respect

Strong sales growth at Volkswagen

In 1996 the Volkswagen Group was able to increase its worldwide sales to dealers by 10.7 %, to 3,994,312 units, and its worldwide deliveries to customers by 11.4 % to 3,965,650 units. This increased the company's worldwide share of the passenger car market from 9.4 % in the previous year to 10 %. Increased demand in coming years is expected in particular from the Asian and Eastern European regions. We intend to exploit that potential through our intensified commitment and new projects – including in Malaysia, the Philippines, Indonesia, Russia and Belarus. We will also strengthen our position in Western Europe, North and South America, in particular through the launch of a new product range.

Major factors in the sales success of the past year were the Western European markets. Although competitive pressures increased in Western Europe, the Group was able to extend its lead over its competitors. This was aided by effective marketing activities, in addition to our new models and extensions. The broad range of our activities stretched from attractive special models and diverse sponsoring operations, through to low-cost finance and leasing offers.

The brand image: Individual and unmistakable – alloy wheel for a Passat

Passenger car market shares of the Volkswagen Group %	1996	1995
Worldwide	**10.0**	**9.4**
Western Europe total	17.2	16.8
Germany	27.3	28.1
France	10.2	9.3
Great Britain	8.5	6.8
Italy	11.8	11.9
Spain	20.5	19.9
USA (import market share)	4.9	4.1
Canada	4.0	3.4
Mexico	25.1	30.2
Brazil	35.5	34.5
Argentina	22.2	16.1
South Africa	23.1	22.9
China	54.6	60.1
Japan (import market share)	15.3	12.7

Brand separation: The through-going implementation of the multi-brand strategy

The individual marques forming part of the Group each have their own historical origins. As a result of those traditions, our customers have differing experiences and expectations in relation to "their" marque. Distinctive customer marketing is therefore of special importance to the individual marques; it guarantees the long-term satisfaction of the customer. At the same time, the only modestly growing markets, such as in Western Europe in particular, can be exploited more efficiently.

The central element of a differentiated marketing strategy is appropriate product differentiation between the various marques. For this reason, we are developing target group-specific vehicle concepts which will enable us to attain a high level of exploitation of the total market across a broad scope. The new Audi A3, for example, represents a redefinition of the premium segment within the

The company's worldwide share of the passenger car market increased from 9.4 % in the previous year to 10.0 %.

The Audi A8 – elegance and style

Unit sales to dealers Automobiles (by marque and region)	1996	1995	%
Group*	**3,994,312**	**3,607,300**	**+ 10.7**
Volkswagen Passenger Cars	1,757,685	1,673,957	+ 5.0
Volkswagen Commercial Vehicles	200,295	164,314	+ 21.9
Audi	489,424	444,434	+ 10.1
Seat**	508,449	418,776	+ 21.4
Škoda	277,200	227,705	+ 21.7
North America Region	300,849	242,010	+ 24.3
South America/Africa Region	752,237	661,979	+ 13.6
Asia-Pacific Region	295,475	232,693	+ 27.0

* Including 232,000 (165,000) vehicles of the not fully consolidated vehicle-producing holdings Shanghai-Volkswagen, FAW-Volkswagen and Chinchun Motor. Adjusted for intra-Group supplies.

** The Polo models produced by Volkswagen Navarra, S.A. are no longer included in the Seat production figures; the previous year's figure has been adjusted.

compact class. In the mid-range class, the Passat saloon represents a new standard previously seen only in the classes above it. With the Škoda Octavia we offer modern quality and safety standards at a highly attractive price. The Seat Alhambra in the MPV segment is particularly targeted at price-conscious families.

The object of the reorientation of the Volkswagen and Audi marque sales networks is to retain the differentiated customer marketing approach. The establishment of specialist dealers for each marque ensures differentiated and marque-specific targeting of customers. We also plan to extend the Škoda and Seat sales networks further. We would like to take this opportunity to thank our dealers and suppliers most sincerely for their cooperation and commitment.

The product offensives of the marques

The 1996 product event of the year at Volkswagen, the new Passat saloon, was launched onto the market in the Autumn. With the quality of the luxury class, the comfort of the executive class and the economy of the traditional mid-range class, the new Passat sets new standards. Its design and high levels of vehicle safety underscore its competitive lead. Its overall characteristics combined with its value for money are symbolic of the reorientation of the Volkswagen marque.

One of the impressive features of the Audi A4 Avant, launched in February 1996, is its look; market response in Germany and on export markets was more than promising. A question of style: the Audi S6 plus had its world premiere in Geneva in March 1996. Key features are impressive engine dynamics and elasticity, harmonious proportioning, elegant lines and striking details in design.

All good things come in threes: the Audi A3 Attraction, Ambition and Ambiente. The young Audi model has been enjoying success in the premium segment of the compact class with its three variants since September 1996.

The object of the reorientation of the Volkswagen and Audi marque sales networks is to retain the differentiated customer marketing approach.

The Audi A4 Avant: open space instead of an enclosed boot, style instead of status

A car to experience, not just to impress: the Audi S8. Since the Autumn the Audi S8 has been offering outstanding engine performance, distinctive visual appeal and an exclusive interior.

Seat launched its product offensive with the presentation of the Cordoba SX, a distinctly sport vehicle. The main features of the Cordoba are its comfort and safety details. Another key event was the launch of the Alhambra people-carrier, gaining Seat access to the booming MPV segment. The Mediterranean flair and distinctive look of the Alhambra's design is built on tried and proven engineering stemming from the cooperation between Volkswagen and Ford.

The Golf – a versatile companion

A milestone in the development of the Škoda marque, the Octavia, made its first public appearance at the Paris Motor Show. For the customer, the Octavia brings together all the values for which the Škoda marque stands: attractive price, modern European vehicle engineering and top product quality. State-of-the-art technology – including the fully galvanized body – guarantees the highest quality and safety standards.

The key event for the Commercial Vehicles marque came at the start of the year, with the major facelift to the Transporter series, involving a clear visual distinction between the purely commercial vehicles and the more car-like Caravelle, Multivan and California variants. A further product event came in mid-year, with the new LT series. This at the same time represented the birth of a new generation. The new version not only incorporated practical solutions, but also paid great attention to aspects of economy. Also at the start of the year, the Caddy van was launched across Europe. Towards the end of the year a further Caddy variant, the Pickup, was launched.

Expansion of the market position in North America

The position of the Volkswagen Group in North America continued to improve in 1996. On a slightly falling overall car market in the USA, the sales of both Volkswagen and Audi rose substantially. A key factor in this, in addition to the attractive product range, was a new advertising concept. The Mexican market was characterized by increasing competitive pressure, although Volkswagen was still able to maintain its market leadership in the passenger car sector. With the upcoming launch of the new Passat and the New Beetle, we expect our market position to be strengthened still further in this region in the coming years.

Market leadership in the South America/Africa region

In the year under review Volkswagen was the market leader on the passenger car markets of Brazil, Argentina and South Africa, although all those markets were subject to increasing model diversity, price competition, and difficult economic conditions. The leadership was attained by increased marketing activities and an attractive range of models, with products which were market leaders in their respective segments. The Gol has been the best-selling vehicle in Brazil for the last 10 years. The Golf was the most successful import model on the Brazilian market. In the light commercial vehicles sector, too, sales in the South America region during the year under review exceeded those of the previous year. The Polo Classic, which is built in Argentina, was launched successfully onto the markets of the region in September. In South Africa the model range was updated, including facelifts for the City-Golf and the minibus series, and the Audi A4 model range was rounded off.

The Gol has been the best-selling vehicle in Brazil for the last 10 years.

The new LT – the first steps into new territory

The Caravelle is an excellent leisure vehicle too

Volkswagen is continually expanding its sales network in the Asia-Pacific region.

Success in the Asia-Pacific growth region

In 1996 Volkswagen maintained its high growth rates in the key Asia-Pacific growth region. The most important selling market remains China. The Santana, the Jetta and the Audi 100 were among the best-selling automobiles on the market. Measured against the sales of locally produced cars, the Volkswagen and Audi marques together held a market share of 61.5 %, with the Santana alone accounting for over 50 %. The range of our models on offer was rounded off by imports. We operate a full service network throughout China, and our marques enjoy high recognition levels.

Volkswagen is continually expanding its sales network in the Asia-Pacific region. Key markets, along with Taiwan, are especially Thailand, Australia, the Philippines, New Zealand, Singapore and Hong Kong. Our experience leads us to expect high double-figure growth rates in these regions. However, government intervention or economic uncertainty may cause short-term fluctuations in demand on some markets. The examples of Taiwan and Thailand nevertheless show that the Group has been able to make ground against the overall downward trend of the market, and gain greater market shares.

The VOLKSWAGEN Group Japan K.K. improved on its lead in the purely import market for the Volkswagen marque. We intend to strengthen that lead by further extending the sales network and establishing single-marque specialist dealers.

VOLKSWAGEN presented BON JOVI

Volkswagen continued its successful international communications strategy in the field of pop music by sponsoring the tour of the US rock band BON JOVI. Some 1.5 million fans attended the 31 concerts of the "These Days" tour in Japan and Europe, including a concert in Wolfsburg on July 15th. The partnership with rock music had a positive effect on Golf sales, and on the brand image. In Japan, Volkswagen positioned itself as a customer-oriented brand associated with big occasions.

Active in motorsport

Volkswagen has again strengthened its engagement in motorsport, which in 1996 reached its 30th year. The main emphasis is on customer sport. Activities range from the construction of complete vehicles and kits for the Golf III, through sales of spares, to leasing offers for racing cars. The successes of two GOLF TDIs entered by us in various races were particularly impressive: at the Spa and Nürburgring 24-hour events the works TDIs presented quite a few problems to many a higher-powered competitor, and were clear winners of the diesel classes.

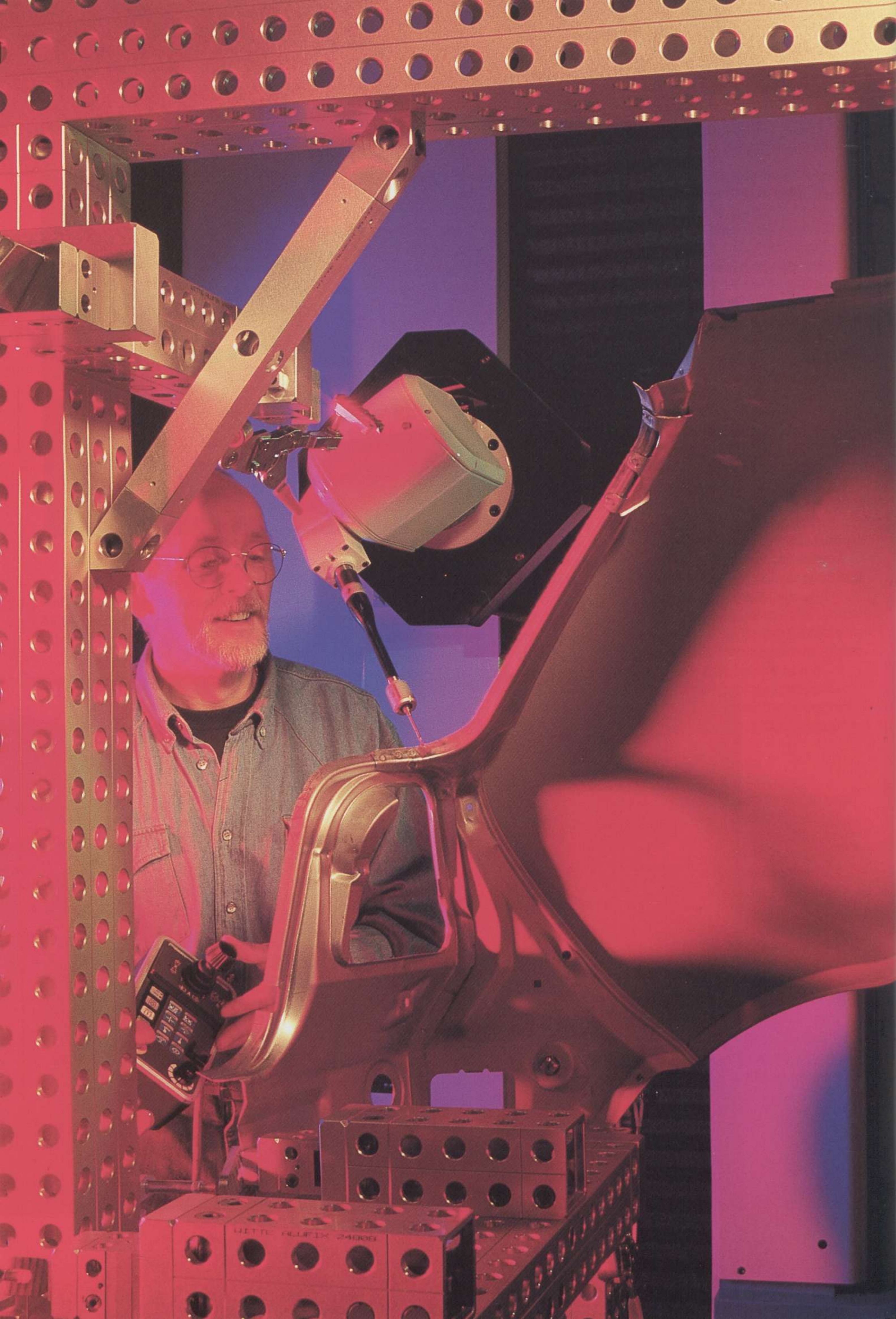
The Polo Open Air – all the joys of Summer

Innovative concepts from Volkswagen Financial Services AG

In 1996 Volkswagen Financial Services AG (VW FS AG) and its subsidiaries again made a major contribution to sales promotion and customer loyalty within the five Group marques. In conjunction with Volkswagen, VW FS AG, Volkswagen Bank and Volkswagen Leasing developed the Electronic Sales Assistant ("ESA"). This system, which will be available to our dealers as from Spring 1997, includes an electronic sales manual for vehicle specification, calculates leasing and finance quotations, and assists in customer support and acquisition activities. The range of products offered by VW FS AG and its subsidiaries was again upgraded and extended in 1996.

We are leaders in diesel technology too

The Golf BON JOVI – an attractive partnership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Great importance of communication

With the newly-created marque management function "Communications" the Volkswagen Group is demonstrating the great importance it assigns to a modern approach in dialogue with internal and external target groups of the company. At the same time it underlines the need for further optimization of operations in the information and communications areas. In the year under review the main emphasis was on promoting understanding and confidence with regard to the necessary ongoing structural changes within all Group companies.

Innovative human resources concepts safeguard competitiveness

Pleasing the customer and safeguarding jobs are maxims on which all our business activities are founded. The "breathing company", oriented to its customers, brings together both aspects. Flexible personnel capacities and working hours are essential to fulfilment of customer orders. In response to the need for demand-oriented personnel availability, agreements reached with the Joint Works Council included the abolition of the three-week works holiday closure as from 1997, to be replaced by a window in which the three-week main annual holiday is to be taken, from mid-June to mid-September. New working hours models, including progressive reduction of working hours for older employees approaching retirement, are essential to safeguard jobs, and to respond to the demands of increased productivity and cost pressure. The innovative "Time Asset" concept of accumulating time credits to facilitate early retirement offers us the possibility of implementing progressive retirement procedures in a cost-effective manner based on the new legislation.

At Volkswagen every worker has a customer

The tougher the international competition, the more important it is for our management staff to be forward-thinking in their approach and to prepare for the challenges of the future. In an age of constant change we need dynamic management to translate our visions and objectives into concrete reality. This requires an active, strategic human resources policy which will produce even more active management

Flexible personnel capacities and working hours are essential to fulfilment of customer orders.

Workforce on Dec. 31* Employees (by marque and region)	1996	1995	%
Group	**260,811**	**259,342**	**+ 0.6**
Volkswagen Passenger Cars	104,733	109,775	– 4.6
Volkswagen Commercial Vehicles	14,623	15,234	– 4.0
Audi	34,958	33,001	+ 5.9
Seat	15,621	15,111	+ 3.4
Škoda	17,216	15,736	+ 9.4
North America Region	14,088	13,340	+ 5.6
South America/Africa Region	39,919	40,491	– 1.4
Asia-Pacific Region	14,825	13,484	+ 9.9
Financial Services	3,579	2,576	+ 38.9
Other/Financing	1,249	594	x

*Including apprentices and the workforce of 18,268 (16,922) of the not fully consolidated vehicle-producing holdings AUTOEUROPA, Shanghai-Volkswagen, FAW-Volkswagen and Chinchun Motor.

Employee pay and benefits at VOLKSWAGEN AG

million DM	1996	%	1995	%
Direct pay incl. fringe benefits in cash	6,138.9	56.7	6,041.5	53.9
Payment for hours not worked	1,565.8	14.5	1,609.7	14.4
Social insurance contributions	1,433.8	13.2	1,421.1	12.7
Early retirement	775.1	7.2	887.4	7.9
Pensions	907.3	8.4	1,246.5	11.1
Total	**10,820.9**	**100.0**	**11,206.2**	**100.0**
The total labour cost includes:				
Welfare services	67.2	0.6	66.4	0.6
Education and training	154.9	1.4	157.4	1.4

Over 1,100 apprentices successfully completed their training courses at Volkswagen in 1996.

We expect a clear improvement in on-site employee healthcare from further decentralization of the healthcare function.

planning and development, and exploit worldwide mobility potential. We would like to express our sincere thanks to all our employees for their commitment and cooperation.

Volkswagen Coaching: Competence in all automotive areas

The concentration of all training and human resources development activities in Volkswagen Coaching GmbH has proved successful. In the second year of its existence, and against the market trend, the company was able substantially to increase its external sales and, based on measures including increased efficiency, returned a profit. The greatest external demand was in relation to the Continuous Improvement Process. The range of services offered stretches from education and training, through management development, to projects relating to the labour market and social policy.

Over 1,100 apprentices successfully completed their training courses at Volkswagen in 1996. In addition to theoretical and practical knowledge and skills, the contemporary forms of work organization were also taught. Value-adding projects, particularly for the Production function, were an important element of practical training. This ensures that our apprentices are capable of meeting the requirements of a modern, demanding workplace. Works-integrated practical courses were added to the Volkswagen Coaching range of training facilities offered in 1996.

A further key area of the business activities of Volkswagen Coaching GmbH is aiding and supporting new processes in automotive engineering. For example, some 9,000 employees were prepared for start of production of the new Passat with the aid of a newly-developed teaching and learning method.

In-company agreement on "partnership at the workplace"

The in-company agreement on "partnership at the workplace" concluded in July represented, among other effects, an important step towards sexual equality. For the first time within a major company, this agreement details provisions for dealing with sexual harassment, "mobbing", and discrimination based on nationality, skin colour and religion. Degrading and offensive conduct is to be avoided in order to promote a climate of partnership and cooperation. A positive working climate is an essential prerequisite for the commercial success of our company.

Improving performance goes hand-in-hand with maintaining health standards

Measures to protect and promote employees' health in 1996 were focused on the systematic updating of existing measures and programmes. Activities included ergonomic workplace design, active employee participation in the design of their workplace, and training in health-conscious behaviour. One of the key elements of health promotion, which also helps to reduce general sickness rates in the company, is the holding of discussions with employees after periods of absence. The discussions give us the opportunity to uncover problem areas and to eliminate the causes. Healthcare is being further intensified by decentralization. We expect this to lead to a clear improvement in on-site employee healthcare.

Attendance rate of VOLKSWAGEN AG (in %)

1992	1993	1994	1995	1996
92.7	95.4	95.2	95.1	95.8

The Golf Cabriolet –
an open invitation to holiday fun


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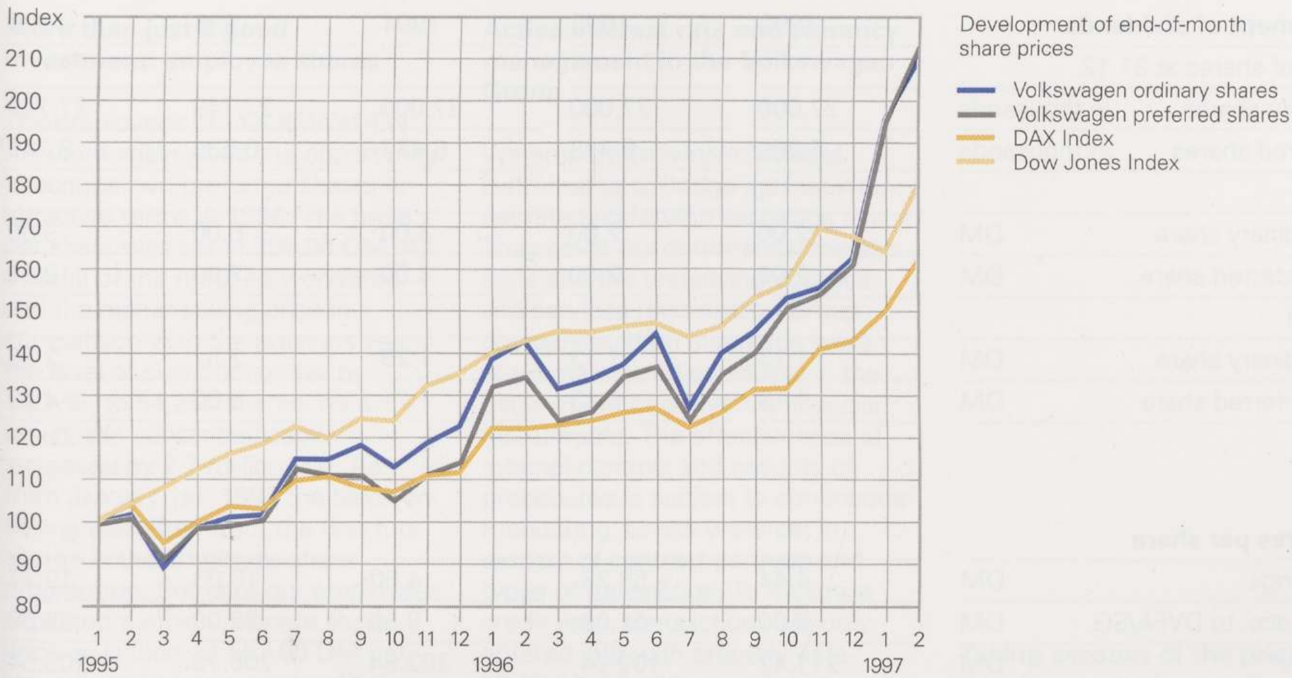

Positive trend also seen in Volkswagen share price

In the opening months of 1996 substantial gains were seen on the German stock market, which were sustained through the second half of the year. The German Share Index (the DAX) reached new record highs. The weakening of the Deutschmark against major currencies and the associated boost for exports had a favourable effect. In the course of the year the market profited from low interest rate levels and low inflation. After severe fluctuations, the Volkswagen share price recovered significantly. The positive rating of our company and the generally favourable economic development on the German stock market underpinned that trend. For the first time since 1990, the ordinary share price broke through the 600 DM barrier in the course of the year. The ordinary share rose by 32.5 % from 481.00 DM at the end of 1995 to 637.50 DM by the end of December 1996. This was also the high for the year. In the same period the preferred shares also increased in value, with a 41.2 % rise to 491.00 DM. The high for the year was 493.50 DM. This positive development was continued into 1997. On February 28th the price of the Volkswagen ordinary share reached 821.00 DM.

Development of the Volkswagen share price

The earnings per share under the terms of commercial law for the fiscal year 1996 amounted to 19.77 DM, well above the previous year. Earnings per share according to the DVFA/SG (German Association for Financial Analysis and Investment Consultancy/Schmalenbach Society), which express the net earnings adjusted by special effects and thus represent a profitability figure suitable for period and inter-company comparison, also increased, to 55.00 DM.

For the first time since 1990, the ordinary share price broke through the 600 DM barrier in the course of the year.

Development of dividends		1992	1993	1994	1995	1996
Number of shares at 31.12.						
Ordinary shares	in thousands	27,000	27,000	27,000	27,749	27,749
Preferred shares	in thousands	6,289	6,413	6,472	6,535	8,745*
Dividend						
per ordinary share	DM	2.00	2.00	3.00	6.00	9.00
per preferred share	DM	2.00	2.00	4.00	7.00	10.00
Tax credit						
per ordinary share	DM	1.13	1.13	1.29	2.57	3.86
per preferred share	DM	1.13	1.13	1.71	3.00	4.29

Key figures per share						
Net earnings	DM	4.44	– 58.28	4.50	10.03	19.77
Earnings acc. to DVFA/SG	DM	5.00	– 51.00	9.50	22.00	55.00
Cash flow**	DM	211.42	109.24	263.94	206.79	205.54
Stockholders' equity	DM	544.90	463.30	425.41	369.09	365.00*
Price/earnings ratio acc. to DVFA/SG	Factor	48.4	– 8.5	44.8	21.9	11.6
Price/cash flow** ratio	Factor	1.2	4.0	1.6	2.3	3.1
Dividend return	%	1.3	0.7	1.0	1.8	2.0

Development of the share price						
Ordinary share						
Closing	DM	242.20	435.00	425.50	481.00	637.50
High	DM	411.50	439.20	548.00	485.70	637.50
Low	DM	235.20	243.00	404.00	335.50	480.20
Preferred share						
Closing	DM	211.30	359.00	340.50	347.80	491.00
High	DM	352.00	362.50	438.00	354.20	493.50
Low	DM	203.00	210.00	324.00	265.50	346.80

Sales turnover on German stock markets						
Turnover in VW ordinary shares	billion DM	96.9	112.2	111.4	81.1	110.2
Turnover in DAX quoted shares	billion DM	1,125.1	1,533.9	1,572.1	1,349.0	1,889.5
Volkswagen portion	%	8.6	7.3	7.1	6.0	5.8

*Including the shares issued to employees which do not carry dividend rights until January 1, 1997 and the new shares issued in connection with the exercise of option rights.
**Since 1994 cash flow has been determined on the basis of the recommendations of the Schmalenbach Society.

More than just a good investment: employee shares

The employees of VOLKSWAGEN AG were again given the opportunity to acquire two preferred shares on attractive terms in 1996. The price per share was set at 286.00 DM. As a result of the reduced workforce and the higher selling price in comparison with the previous year, the level of subscription fell by 14.2 %, to 54,260 shares. As a result, the subscribed capital increased by 2.7 million DM. As from January 1st, 1997 the block on selling was lifted from the first four shares in the employee share programme. Some of our employees exploited the high average share price in January of 557.00 DM per share to realise a correspondingly healthy profit. The purchase price of an employee share in 1991 was 165.50 DM.

Active interest rate and currency management in the Volkswagen Group

We employ derivative financial instruments to hedge against interest rate and foreign exchange risk. They cover our commercial transactions and the underlying supplies and services rendered by Group companies. High standards were again maintained especially in the deployment of derivative financial instruments. The effectiveness of internal controls and security of procedures is subject to continuous monitoring. Limits were set in respect of contract partners and types of transaction. To minimize credit risks, transactions are only entered into with properly established bank addresses in Germany and abroad, with an appropriate credit rating from a recognized rating agency.

At the year-end, the nominal values of the derivative financial instruments used were as follows:

million DM	31.12.1996	31.12.1995
Forward foreign exchange transactions	26,502	19,472
Interest swaps and combined interest/currency swaps	14,834	11,702
Interest/currency options	4,288	2,549
Other forward transactions	40	280
Total	**45,664**	**34,003**

Taking account of the price development, the employee share was able to achieve a high internal interest rate.

The improved earnings situation was also reflected in the stockholders' equity.

Expansion of business reflected in financial ratios

The expansion of business in 1996 was also reflected in the increase of the balance-sheet total of the Volkswagen Group from 84.1 billion DM to 94.6 billion DM. Although there was a substantial increase in tangible fixed assets, the ratio of tangible fixed assets to total assets changed only slightly, at 21.8 %. As a consequence of the expansion of the financial services business, leasing and rental assets in particular showed a significant increase, as did receivables from that sector. The growth in stockholders' equity within the Group mainly resulted from the change in subscribed capital and Group reserves based on the exercising of option rights arising from a number of bearer bonds. The improved overall earnings situation was also reflected in the stockholders' equity. This was countered by the retransfer of special items from border-area grants.

Nevertheless, the disproportionately high increase in the balance-sheet total brought about a reduction in the equity ratio from 15.1 % to 14.1 %. A breakdown of the equity ratio by division does, however, again show an improvement in the stockholders' equity in the automotive sector. Outside capital increased, mainly due to increased pension provisions, as well as higher trade payables and deferred income. The latter are primarily the result of deferrals of sales of leasing receivables in the financial services sector.

Key financial ratios of the Volkswagen Group

	1992	1993	1994	1995	1996
Ratio of tangible fixed assets to total assets (%)[1]	31.9	29.1	25.2	21.7	21.8
Rate of inventory turnover (factor)[2]	8.8	6.9	8.7	9.4	9.7
Equity ratio (%)					
– Automotive	27.1	22.2	20.8	19.3	20.5
– Financial Services	8.3	8.3	6.9	7.0	7.0
– Group	24.1	19.5	17.6	15.1	14.1
Cash flow as % of capital investments[3]	75.7	75.1	156.1	100.9	80.6
Cash flow as % of sales[4]	8.2	4.7	11.0	7.9	7.0
Return on sales before tax (%)	0.7	– 2.1	0.6	1.3	2.0
Return on sales after tax (%)	0.2	– 2.5	0.2	0.4	0.7

[1] Percentage of net book values of total assets represented by tangible fixed assets (balance-sheet total).
[2] Quotient of sales proceeds and inventories.
[3] Cash flow excluding depreciation/write-up of leasing and rental assets; capital investments excluding additions to leasing and rental assets.
[4] Cash flow excluding depreciation/write-up of leasing and rental assets.
Since 1994 cash flow has been determined on the basis of the recommendations of the Schmalenbach Society.

A substantial increase in capital investments – in particular for new products and the associated optimization of manufacturing structures – led to a reduction of financing through cash flow. However, self-generated funds were again sufficient to finance 80.6 % of investments. The ratio of stockholders' equity and long-term liabilities to fixed assets, which indicates the degree to which the latter are financed by the former, fell to 74.3 %. However, the ratio of interest-bearing outside borrowings to the balance-sheet total fell by 1.6 percentage points, to 31.3 %.

The positive trend in earnings of the Volkswagen Group seen in the last two years was continued. As a result of high sales volumes, and thus higher sales proceeds, gross profit increased by 29.6 % to 9.6 billion DM, with a disproportionately low increase in cost of sales. The ratio of cost of sales to sales proceeds increased from 8.4 % to 9.6 %. After deduction of selling, distribution and administration costs, and taking account of other operating income and expenses, an operating profit of 385 million DM was achieved, against 115 million DM in the previous year. In addition to the operating profit, a further contributing factor to the substantial improvement in results from ordinary business activities to an amount of 1,972 million DM was the improved financial result. After deduction of taxes amounting to 1,294 million DM, the Volkswagen Group returned after-tax net earnings of 678 million DM. This was more than twice as high as the previous year's figure. The high rate of taxation on the Group is the result of improved earnings. It should also be taken into account that results are influenced by positive and negative contributions from the subsidiaries. Cross-border offsetting of holding companies' losses is not possible, and is not able to reduce the tax liability. The improved earnings led to an improved return on sales after tax of 0.7 (0.4) %.

The Volkswagen Group returned after-tax net earnings of 678 million DM, more than twice as high as the previous year's figure.

The positive trend in earnings of the Volkswagen Group seen in the last two years was continued.

Development of short-term liquidity of the Volkswagen Group million DM	1996	1995
Net earnings	+ 678	+ 336
Depreciation and write-up of tangible assets	+ 4,780	+ 6,345
Depreciation and write-up of leasing and rental assets	+ 4,042	+ 3,479
Change in medium and long-term provisions	+ 2,294	+ 1,307
Other expenses and income not affecting payments	– 706	– 1,067
Cash flow	**+ 11,088**	**+ 10,400**
Change in short-term provisions	+ 2,070	+ 2,038
Change in inventories and trade receivables	– 4,973	– 3,111
Change in liabilities (excluding liabilities to banks and customer deposits)	+ 4,146	+ 2,085
Change in other items	– 263	+ 175
Inflow of funds from current operations	**+ 12,068**	**+ 11,587**
Inpayments from disposal of fixed assets	+ 2,433	+ 2,344
Outpayments for additions to fixed assets	– 15,279	– 13,072
Outflow of funds in respect of capital investments	**– 12,846**	**– 10,728**
Inpayments in respect of capital increases	+ 500	+ 294
Outpayments to stockholders (dividends)	– 220	– 137
Change in medium and long-term liabilities to banks	– 1,135	– 341
Outflow of funds in respect of financing operations	**– 855**	**– 184**
Change in funds	**– 1,633**	**+ 675**
Funds at start of period	**+ 2,392**	**+ 1,717**
Funds at end of period	**+ 759**	**+ 2,392**

million DM	Automotive Dec. 31, 96	Automotive Dec. 31, 95	Financial Services Dec. 31, 96	Financial Services Dec. 31, 95	Volkswagen Group Dec. 31, 96	Volkswagen Group Dec. 31, 95	Change
Liquid funds	12,944	12,987	184	187	13,080	13,174	– 94
Securities	3,311	2,156	188	–	3,499	2,156	+ 1,343
Long-term financial investments	1,903	2,255	–	–	1,353	1,706	– 353
Gross liquidity	**18,158**	**17,398**	**372**	**187**	**17,932**	**17,036**	**+ 896**
Short-term liabilities to banks and customer deposits	– 7,442	– 7,786	– 9,778	– 6,858	– 17,173	– 14,644	– 2,529
Total funds	**+ 10,716**	**+ 9,612**	**– 9,406**	**– 6,671**	**+ 759**	**+ 2,392**	**– 1,633**

Improved liquidity

At the end of 1996 the overall liquidity of the Volkswagen Group – as the sum of liquid funds, securities and long-term financial investments – increased by 0.9 billion DM to 17.9 billion DM. Total Group funds fell, however, by 1.6 billion DM to 759 million DM. This change was mainly attributable to the increase in short-term liabilities to banks in the expanding financial services sector.

Financial Services Division sustains strong growth

The balance-sheet total of the Financial Services Division once again increased substantially in 1996. The contributing factors were the expansion of business and the inclusion for the first time of the South America/Africa region. The proportion of the overall Group balance-sheet total accounted for by the Division increased from 32.8 % at the end of 1995 to 37.0 % as at December 31st, 1996.

The book value of the leasing and rental assets contained in the Group's fixed assets totalled 12.1 billion DM at the end of 1996, against 10.3 billion DM in 1995. This rise was primarily the result of the positive development of business. Included in "Other current assets"

The book value of the leasing and rental assets contained in the Group's fixed assets totalled 12.1 billion DM.

Sales revenue by region

million DM	Sales revenue originating in the region 1996	%	1995	%	Sales revenue achieved in the region 1996	%	1995	%
Germany	63,924	63.9	57,808	65.6	36,419	36.4	34,504	39.2
Rest of Europe	17,762	17.7	14,923	16.9	37,724	37.7	29,974	34.0
North America	2,784	2.8	1,607	1.8	6,928	6.9	5,258	6.0
Latin America	14,254	14.2	12,157	13.8	12,828	12.8	11,062	12.5
Other countries	1,399	1.4	1,624	1.9	6,224	6.2	7,321	8.3
Total	**100,123**	**100.0**	**88,119**	**100.0**	**100,123**	**100.0**	**88,119**	**100.0**

Balance-sheet structure by Division (before consolidation)

	Automotive				Financial Services				Volkswagen Group			
million DM	1996	%	1995	%	1996	%	1995	%	1996	%	1995	%
Fixed assets	28,460	38.6	25,769	37.0	12,730	36.4	10,845	39.3	36,143	38.2	31,857	37.9
Current assets	45,356	61.4	43,850	63.0	22,277	63.6	16,750	60.7	58,425	61.8	52,220	62.1
Total assets	**73,816**	**100.0**	**69,619**	**100.0**	**35,007**	**100.0**	**27,595**	**100.0**	**94,568**	**100.0**	**84,077**	**100.0**
Stockholders' equity	15,120	20.5	13,460	19.3	2,446	7.0	1,923	7.0	13,320	14.1	12,654	15.1
Outside capital	58,696	79.5	56,159	80.7	32,561	93.0	25,672	93.0	81,248	85.9	71,423	84.9
Total capital	**73,816**	**100.0**	**69,619**	**100.0**	**35,007**	**100.0**	**27,595**	**100.0**	**94,568**	**100.0**	**84,077**	**100.0**

The Volkswagen Group has further broadened its refinancing base.

are receivables as per the balance-sheet date totalling 19.4 billion DM (+ 26.8 %) in respect of sales and purchase financing.

Of the Group's liabilities to banks, 59 %, or 12.0 billion DM, relate to financial services operations. Other liabilities, provisions and deferred income relating to this sector have a total value of 7.6 billion DM. The stockholders' equity of the Financial Services Division as at December 31st, 1996 amounted to 2.4 billion DM, representing an equity ratio in the published financial statements of 7 %, as in the previous year.

Innovative refinancing concepts of the Financial Services Division

Following the first ever issue onto the German capital market of an asset-backed bond by Volkswagen Leasing GmbH in February 1996, a second tranche was issued in November. The underlying leasing receivables are bought up by non-Group companies founded specially for the purpose (Volkswagen Car Lease No. 1 Limited and Volkswagen Car Lease No. 2 Limited) and refinanced by the issue of leasing collection bonds. Capital is repaid to investors in amortized monthly instalments including variable interest on the invested amount.

To broaden its refinancing base, Volkswagen Financial Services AG (VW FS AG) issued a programme of Multi-Currency Euro Medium-Term Notes (EMTN). The issuers were VW FS AG and the Amsterdam-based Volkswagen Financial Services N.V. The object of this instrument, under guarantee from VW FS AG, is the issue of bonds within the framework of a constant issue in various currencies and in a number of different tranches, up to a total amount of 1.5 billion DM. In this way we are able to react flexibly to the refinancing requirements of our European financial services companies.

Added value of VOLKSWAGEN AG up on previous year

The added value indicates the increase in value generated by a company during a specific period and represents its contribution to the gross national product. In the past year VOLKSWAGEN AG's added value increased by 1.3 % to 12.4 billion DM.

Sources	million DM	1996	1995
Sales		49,891	44,598
plus other income		6,175	4,643
less expenditures		43,684	37,022
Added value		**12,382**	**12,219**

Distribution To:	million DM In the form of:	1996	%	1995	%
the workforce	wages, salaries, fringe costs	10,821	87.5	11,206	91.7
the State	taxes, levies	630	5.1	254	2.1
creditors	interest	301	2.4	349	2.8
the Company	transfer to reserves	315	2.5	203	1.7
stockholders	dividend	315	2.5	207	1.7
Added value		**12,382**	**100.0**	**12,219**	**100,0**

Structure of the VOLKSWAGEN AG balance sheet

Assets million DM	31.12.1996	%	31.12.1995	%
Fixed assets	17,515	43.7	17,196	43.7
Inventories	3,059	7.6	2,892	7.4
Receivables	11,505	28.7	13,079	33.3
Liquid funds	7,993	20.0	6,146	15.6
Total assets	**40,072**	**100.0**	**39,313**	**100.0**

Stockholders' equity and liabilities million DM	31.12.1996	%	31.12.1995	%
Stockholders' equity	11,755	29.3	11,248	28.6
Long-term liabilities	8,666	21.6	9,381	23.9
Medium-term liabilities	7,252	18.1	6,862	17.4
Short-term liabilities	12,399	31.0	11,822	30.1
Total capital	**40,072**	**100.0**	**39,313**	**100.0**

Structure of the VOLKSWAGEN AG statement of earnings
January 1 – December 31, 1996

million DM	1996	%	1995	%
Sales	**49,891**	**100.0**	**44,598**	**100.0**
Cost of Sales	46,969	94.1	42,202	94.6
Gross profit	**+ 2,922**	**5.9**	**+ 2,396**	**5.4**
Selling, distribution and administration expenses	4,040	8.1	3,940	8.8
Other operating income and expenses	+ 448	0.9	+ 2,197	4.9
Financial results	+ 1,798	3.6	– 93	0.2
Results from ordinary business activities	**+ 1,128**	**2.3**	**+ 560**	**1.3**
Taxes	498	1.0	150	0.4
Net earnings	**+ 630**	**1.3**	**+ 410**	**0.9**

Key Figures of the Marques and Regions

	Vehicle sales		Production		Workforce		Sales		Capital investments	
	000 units 1996	Change %	000 units 1996	Change %	31.12. 1996	Change %	DMm 1996	Change %	DMm 1996	Change %
Volkswagen Passenger Cars	1,758	+ 5.0	1,498	+ 5.8	104,733	– 4.6	53,776	+ 11.7	3,410	+ 48.3
Volkswagen passenger cars	1,492	+ 5.7	1,179	+ 2.0	80,553	– 5.7	44,832	+ 11.1	2,634	+ 66.2
Volkswagen Saxony companies	88	– 12.2	88	– 12.2	2,989	– 2.5	2,157	– 1.9	563	x
Volkswagen Bruxelles S.A.	196	– 3.3	196	– 3.3	5,871	+ 2.0	3,600	– 1.0	89	+ 96.7
Volkswagen Navarra, S.A.	252	+ 5.2	252	+ 5.2	4,511	– 2.2	3,210	+ 10.4	37	– 75.8
Groupe VOLKSWAGEN France s.a.	227	+ 17.8	–	–	640	– 2.0	5,448	+ 21.9	7	x
AUTOGERMA S.p.A.	226	– 5.8	–	–	542	– 0.9	5,179	+ 12.7	9	– 9.1
VOLKSWAGEN Group United Kingdom Ltd.	184	+ 30.5	–	–	383	– 11.1	4,804	+ 29.4	3	– 56.7
Volkswagen Commercial Vehicles	200	+ 21.9	153	– 5.6	14,623	– 4.0	6,403	+ 14.4	324	+ 56.5
Audi	489	+ 10.1	492	+ 9.8	34,958	+ 5.9	18,807	+ 12.8	1,445	+ 67.0
Seat*	508	+ 21.4	415	+ 20.9	15,621	+ 3.4	9,519	+ 32.8	353	+ 69.8
Škoda	277	+ 21.7	263	+ 26.4	17,216	+ 9.4	3,306	+ 37.1	593	x
North America Region	301	+ 24.3	231	+ 20.7	14,088	+ 5.6	7,504	+ 34.0	487	+ 43.3
Volkswagen de Mexico, S.A. de C.V.	231	+ 20.5	231	+ 20.7	13,092	+ 10.0	4,245	+ 24.6	383	+ 43.9
VOLKSWAGEN OF AMERICA, INC.	163	+ 16.8	–	–	733	+ 4.3	4,975	+ 28.2	97	+ 58.0
Volkswagen Canada Inc.	27	+ 29.1	–	–	263	– 64.3	779	+ 22.6	7	– 44.5
South America/Africa Region	752	+ 13.6	696	+ 4.8	39,919	– 1.4	13,564	+ 21.3	798	– 55.7
Volkswagen do Brasil Ltda.	610	+ 10.8	561	+ 2.2	29,905	– 3.4	10,952	+ 15.1	624	– 64.6
Volkswagen Argentina S.A.	96	+ 74.9	67	+ 36.6	3,508	+ 19.2	1,868	x	131	x
Volkswagen of South Africa (Pty.) Ltd.	67	– 6.1	68	+ 3.0	6,506	– 1.4	1,414	– 15.0	43	+ 10.7
Asia-Pacific Region	295	+ 27.0	236	+ 28.0	14,825	+ 9.9	2,042	+ 8.7	7	– 76.1
Shanghai-Volkswagen Automotive Company Ltd.	200	+ 25.2	200	+ 25.1	10,333	+ 10.9	4,420	+ 36.2	188	+ 8.7
FAW-Volkswagen Automotive Company, Ltd.	26	+ 28.9	27	+ 50.4	3,705	+ 21.6	549	+ 28.9	283	– 4.1
VOLKSWAGEN Group Japan K.K.	61	+ 30.9	–	–	346	+ 3.0	2,042	+ 8.7	7	– 76.1
Volkswagen Group	3,994	+ 10.7	3,977	+ 10.6	260,811	+ 0.6	100,123	+ 13.6	8,742	+ 27.4

*The Polo models produced by Volkswagen Navarra, S.A. are no longer included in the Seat volume and sales figures; the previous year's figures have been adjusted. The volume data of the not fully consolidated vehicle-producing holdings AUTOEUROPA, Shanghai-Volkswagen, FAW-Volkswagen and Chinchun Motor are included.

Results of Major Companies
(million DM)

Company	Subscribed capital 31.12.1996	Results for year* 1996	Results for year* 1995
VOLKSWAGEN AG	1,825	630	410
Volkswagen Sachsen GmbH	10	2**	– 55**
Sächsische Automobilbau GmbH	10	207	225
Volkswagen Bruxelles S.A.	105	95	126
Volkswagen Navarra, S.A.	832	67	5
Volkswagen Bratislava, spol. s r.o.	108	10	9
Groupe VOLKSWAGEN France s.a.	25	150	14
AUTOGERMA S.p.A.	143	53	16
VOLKSWAGEN Group United Kingdom Ltd.	23	83	8
AUDI AG 98.99 % VOLKSWAGEN AG	215	250**	160**
SEAT, S.A.	0	63	– 133
ŠKODA, automobilová a.s. 70 % VOLKSWAGEN AG	934	9	– 87
Europcar International S.A. 50 % VOLKSWAGEN AG	296	– 1***	– 40***

*The figures are based on financial statements drawn up according to national regulations.
**Before profit assumption.
***Pro rata result.

Producing Companies
Distributing Companies
Other Companies

Company	Subscribed capital 31.12.1996	Results for year* 1996	Results for year* 1995
VOLKSWAGEN OF AMERICA, INC.	534	63	– 149
Volkswagen Canada Inc.	2	14	– 38
Volkswagen de Mexico, S.A. de C.V.	1,271	31	– 114
Volkswagen do Brasil Ltda.	892	292	– 279
Volkswagen Argentina S.A.	322	16	– 77
Volkswagen of South Africa (Pty.) Ltd.	25	18	79
Shanghai-Volkswagen Automotive Company Ltd. 50 % VOLKSWAGEN AG	225	258***	172***
FAW-Volkswagen Automotive Company, Ltd. 30 % VOLKSWAGEN AG, 10 % AUDI AG	562	0***	1***
VOLKSWAGEN Group Japan K.K.	300	56	28
Volkswagen Financial Services AG	863	102**	102**
Volkswagen Bank GmbH 100 % Volkswagen Financial Services AG	623	60**	31**
Volkswagen Leasing GmbH 100 % Volkswagen Financial Services AG	100	68	126
Coordination Center Volkswagen S.A. 60 % VOLKSWAGEN AG, 40 % Volkswagen Bruxelles S.A.	674	180	188
Volkswagen International Finance N.V.	204	10	20
Volkswagen Investments Ltd.	600	40	51

Balance Sheet of the Volkswagen Group, December 31, 1996 – DM million –

Assets			Note	Dec. 31, 1996	Dec. 31, 1995
Fixed assets			(1)		
Intangible assets				120	91
Tangible assets				20,631	18,271
Financial assets				3,274	3,198
Leasing and rental assets				12,118	10,297
				36,143	**31,857**
Current assets					
Inventories			(2)	10,368	9,392
Receivables and other assets			(3)	31,205	27,248
Securities			(4)	3,499	2,156
Cash on hand, deposits at German Federal Bank and Post Office Bank, cash in banks				13,080	13,174
				58,152	**51,970**
Prepaid and deferred charges			(5)	**273**	**250**
Balance-sheet total				**94,568**	**84,077**
Stockholders' equity and liabilities					
Stockholders' equity					
Subscribed capital of Volkswagen AG			(6)	1,825	1,714
Ordinary shares		1,387			
Non-voting preferred shares		437			
Potential capital	346				
Capital reserve			(7)	4,946	4,557
Revenue reserves			(8)	4,378	4,038
Net earnings available for distribution				318	209
Minority interests				468	472
				11,935	**10,990**
Special items with an equity portion			(9)	**1,374**	**1,649**
Special item for investment subsidies			(10)	**11**	**15**
Provisions			(11)	**36,026**	**31,742**
Liabilities			(12)	**41,996**	**37,823**
Deferred income				**3,226**	**1,858**
Balance-sheet total				**94,568**	**84,077**

Statement of Earnings of the Volkswagen Group for the Fiscal Year Ended December 31, 1996 – DM million –

	Note	1996	1995
Sales	(13)	**100,123**	**88,119**
Cost of sales		90,504	80,699
Gross profit		**+ 9,619**	**+ 7,420**
Selling and distribution expenses		8,301	7,089
General administration expenses		2,660	2,368
Other operating income	(14)	7,487	6,811
Other operating expenses	(15)	5,760	4,659
Results from participations	(16)	+ 509	+ 229
Interest results	(17)	+ 1,209	+ 979
Write-down of financial assets and securities classified as current assets		131	210
Results from ordinary business activities		**+ 1,972**	**+ 1,113**
Taxes on income		1,294	777
Net earnings	(18)	**+ 678**	**+ 336**

Financial statements in accordance with commercial law

The consolidated financial statements of the Volkswagen Group have been prepared in accordance with the provisions of the German Commercial Code, with due regard to the provisions of the Corporation Act.

In order to improve clarity, we have combined certain items in the balance sheet and statement of earnings. These items are shown separately in the notes on the financial statements. In the interest of improved international comparability, the statement of earnings has been prepared according to the cost of sales method.

Scope of consolidation

The fully consolidated Group companies comprise all companies in which Volkswagen AG has a direct or indirect interest of over 50 % or which are under management control of the parent company. Apart from Volkswagen AG, this involves 28 German Group companies and 78 foreign Group companies.

Three previously consolidated companies in Germany and one abroad have been omitted from the scope of consolidation, since they conduct little business. They are now entered at acquisition cost. A further four companies have ceased trading and are therefore no longer consolidated. Seven companies previously valued at equity and two non-consolidated affiliated companies are now fully consolidated. One newly established company in Germany is likewise consolidated.

One newly established affiliated company is now incorporated in the Volkswagen Group on the basis of the proportionate stockholders' equity. One company is omitted from consolidation after being liquidated. Accordingly, seven domestic and seven foreign affiliates are now valued on the basis of the proportionate stockholders' equity.

14 German and 23 foreign subsidiaries are not consolidated. The companies in question are subsidiaries which are omitted under the provisions of § 296 subsection 1 item 2 or subsection 2 of the German Commercial Code.

Six joint ventures in Germany and 16 abroad are included in the consolidated financial statements on the basis of the proportionate stockholders' equity. A further six joint ventures are valued at acquisition cost.

25 German and eight foreign companies in which participations are held and on which Volkswagen AG or other Group companies exert a significant influence are included in the consolidated financial statements as associated companies.

A list detailing all interests held by the Volkswagen Group is deposited in the Wolfsburg register of companies under HRB 215. It can also be obtained direct from Volkswagen AG*.

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 accounts and valuations 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 at the time of acquisition on the basis of the revaluation method.

In contrast to the previous year, goodwill arising from the acquisition of shares in consolidated and associated companies is capitalized in the amount of five million DM and written off over five years, for the sake of greater transparency.

Receivables, liabilities, expenses and income arising between the 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.

Short-term leasing and rental assets, together with the related liabilities, 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. Exchange rate profits are assigned to a provision for currency risk.

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 statements of earnings of the Group in the form of historical values. To improve the information value of the financial statements, the inflation-related components of interest expenses and interest income have been set aside and combined with the exchange rate differences and translation differences under "Other operating expenses" and "Other operating income".

Accounting and valuation principles

The accounting and valuation methods used in the previous year have been retained, with the exception of the changes indicated.

Intangible assets are shown at acquisition cost and written down over 3 years as regular straight-line depreciation.

Tangible assets and **leasing and rental assets** are valued at acquisition or manufacturing cost minus depreciation. Investment subsidies are always 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 depreciation is based on the following useful lives:

Buildings 25–50 years

Buildings and site utilities 10–18 years

Technical equipment and machinery 5–8 years

Power generators 14 years

Factory and office equipment including special tools, jigs and fixtures 3–8 years

To the extent permissible for tax purposes, Group companies in Germany charge regular depreciation on movable assets using the declining-balance method with a scheduled changeover to the straight-line method at a later date, taking account of multi-shift operation. For the first time, Group companies abroad also charge regular depreciation on additions to movable assets using the declining-balance method with a scheduled changeover to the straight-line method at a later date, as in Germany. This change of method has a negative effect on Group results amounting to 170 million DM. The straight-line method is applied to assets on which special depreciation is charged.

Additions to special tools, jigs and fixtures up to and including 1995 are depreciated by the straight-line method as from the model launch. Additions as from 1996 are subject to depreciation using the declining-balance method as from date of manufacture, with a scheduled changeover to the straight-line method at a later date. This change of method reduces the profit for 1996 by 218 million DM.

*The full adress is given on the back cover.

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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.

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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.

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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 on the stockholders' equity and liabilities side of the balance sheet under the special items with an equity portion.

Holdings in affiliated and associated companies – if not valued on the basis of the equity method – and other **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 lower applicable value.

Non and low-interest-bearing **loans** are stated at cash value; interest-bearing loans at the nominal value.

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

In addition to direct materials, the values given for work in progress and finished goods also comprise direct labour, proportionate material overheads and production overheads including depreciation, to the extent permissible by law for the parent company.

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. In contrast to the principle applied in the financial statements of Volkswagen AG, receivables in foreign currencies are valued at the middle rates applying on the balance-sheet date or the rates agreed in respect of these receivables.

Securities classified as current assets are stated at acquisition cost or at the lower applicable value on the balance-sheet date, unless the retention of lower values from previous years is permissible.

Provisions for pensions and similar obligations up to December 31st, 1995 are based on actuarial computation and the going-value method in accordance with § 6a of the Income Tax Act for German companies, taking an interest rate of 6 %; and on comparable principles for foreign companies.

In order to establish more effective provision for the future financial burden arising from pension payments, an interest rate of 5 % – in contrast to the principle applied in the financial statements of Volkswagen AG – has been applied as from January 1st, 1996. This adjustment reduces profit by 1,489 million DM. Provisions for long-service gratuities are discounted at 5.5 %, taking account of regulations governing valuation for tax purposes.

The **provisions** for warranty obligations are based on historical and estimated loss in relation to vehicles sold.

Allowance is made for discernible risks and uncertain liabilities by way of adequate allocations to provisions. The provisions cover all risks arising from future claims.

Liabilities are shown at the amount at which they must be repaid or the amount required for fulfillment of the obligation in question. In contrast to the principle applied in the financial statements of Volkswagen AG, liabilities in foreign currencies are valued at the middle rates applying on the balance-sheet date or the rates agreed in respect of these liabilities.

The figures given for **contingent liabilities** correspond to the extent of the liability.

In the statement of earnings, 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. The difference between full cost and the lower limit for tax balance sheet entry in valuation of inventories is also stated here.

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 totalling 371 million DM (1995: 340 million DM) are allocated to the individual functional areas.

(1) Fixed assets

A breakdown of the fixed-assets items condensed in the balance sheet and their development during the year under report can be found on pages 68 and 69.

The book value of the Volkswagen Group's fixed assets, totalling 36,143 million DM, comprises intangible, tangible, financial and leasing and rental assets.

Additions to fixed assets were as follows:

	1996 DM million	1995 DM million
Intangible assets	74	1,278
Tangible assets	7,255	4,434
Financial assets	1,413	1,151
Leasing and rental assets	7,639	7,278

The additions to fixed assets also include the amounts brought forward in respect of companies consolidated for the first time. Furthermore, additions to intangible assets include goodwill arising from the acquisition of additional shares in one company.

Increases in value of associated companies valued on the basis of the proportionate stockholders' equity are shown in the Additions/Write-ups column.

Extraordinary depreciation was charged for the most part on inadequately utilized capacities. In the case of financial assets, the lasting depletion of the proportionate net worth of one associated company was the principal factor necessitating adjustment of the book value of the relevant holding.

	1996 DM million	1995 DM million
Tangible assets	131	841
Holdings in affiliated and associated companies and other participations	108	191
Long-term financial investments and loans	23	17
	262	**1,049**

Development of Fixed Assets of the Volkswagen Group – DM million –

	Gross Book Values						Value Adjustments								
	Acquisition or manufacturing cost Jan. 1, 1996	Amounts brought forw. in resp. of comps. consol. for the first time	Additions	Transfers	Disposals	Acquisition or manufacturing cost Dec. 31, 1996	Accumulated depreciation Jan. 1, 1996	Amounts brought forw. in resp. of comp. cons. for the first time	Depreciation current year	Transfers	Disposals	Write-ups	Accumulated depreciation Dec. 31, 1996	Book values Dec. 31, 1996	Book values Dec. 31, 1995
Intangible Assets															
Concessions, industrial and similar rights and licences in such rights	777	9	52	5	25	818	705	2	47	1	25	–	730	88	72
Goodwill	–	–	5	–	–	5	–	–	1	–	–	–	1	4	–
Payments on account	60	–	9	– 1	1	67	41	–	–	– 1	1	–	39	28	19
	837	**9**	**66**	**4**	**26**	**890**	**746**	**2**	**48**	**0**	**26**	**–**	**770**	**120**	**91**
Tangible Assets															
Land, land rights and buildings incl. buildings on land owned by others	17,204	–	463	388	428	17,627	8,836	–	585	53	337	0	9,137	8,490	8,368
Technical equipment and machinery	25,478	–	1,547	446	809	26,662	21,319	–	1,847	2	772	–	22,396	4,266	4,159
Other equipment and factory and office equipment	24,641	35	2,681	573	1,582	26,348	20,709	13	2,252	– 4	1,508	–	21,462	4,886	3,932
Payments on account and construction in progress	2,016	0	2,543	– 1,433	52	3,074	204	–	71	– 51	4	135	85	2,989	1,812
	69,339	**35**	**7,234**	**– 26**	**2,871**	**73,711**	**51,068**	**13**	**4,755**	**0**	**2,621**	**135**	**53,080**	**20,631**	**18,271**
Financial Assets															
Holdings in affiliated companies	85	–	43	9	2	135	2	–	2	–	3	–	1	134	83
Loans to affiliated companies	10	–	0	–	–	10	–	–	–	–	–	–	–	10	10
Holdings in associated companies	1,386	–	511	– 9	30	1,858	496	–	94	–	3	6	581	1,277	890
Participations	237	–	0	– 1	1	235	202	–	11	–	–	–	213	22	35
Loans to associated companies and companies linked through participation	6	–	–	–	5	1	0	–	–	–	–	0	0	1	6
Long-term financial investments	1,737	–	740	1	1,109	1,369	32	–	7	–	24	0	15	1,354	1,705
Other loans	539	–	73	–	111[1]	501	77	–	16	–	5	10	78	423	462
Other financial assets	44	–	45	–	1	88	37	–	0	–	–	2	35	53	7
	4,044	**–**	**1,412**	**–**	**1,259**	**4,197**	**846**	**–**	**130**	**–**	**35**	**18**	**923**	**3,274**	**3,198**
	74,220	**44**	**8,712**	**– 22**	**4,156**	**78,798**	**52,660**	**15**	**4,933**	**0**	**2,682**	**153**	**54,773**	**24,025**	**21,560**
Leasing and Rental Assets	**15,505**	**–**	**7,639**	**22**	**4,531**[2]	**18,635**	**5,208**	**–**	**4,075**	**0**	**2,733**[3]	**33**	**6,517**	**12,118**	**10,297**
														36,143	**31,857**

[1] Including exchange rate differences in the amount of – 4 million DM.
[2] Including exchange rate differences in the amount of – 338 million DM.
[3] Including exchange rate differences in the amount of 93 million DM.

(2) Inventories

	Dec. 31, 1996 DM million	Dec. 31, 1995 DM million
Raw materials and supplies	2,220	1,868
Work in progress	2,178	1,835
Finished goods and merchandise	5,956	5,652
Advance payments	14	37
	10,368	**9,392**

(3) Receivables and other assets

	Dec. 31, 1996 DM million	Dec. 31, 1995 DM million
Trade receivables	4,976	5,592
– of which amounts due in more than one year	(4)	(4)
Receivables from affiliated companies	329	812
– of which trade receivables	(184)	(131)
– of which amounts due in more than one year	(28)	(137)
Receivables from companies in which participations are held	1,377	1,332
– of which trade receivables	(265)	(248)
– of which amounts due in more than one year	(17)	(396)
Other current assets	24,523	19,512
– of which amounts due in more than one year	(8,043)	(6,594)
	31,205	**27,248**

Significant items under "Other current assets" are the receivables relating to financing and leasing operations.

(4) Securities

	Dec. 31, 1996 DM million	Dec. 31, 1995 DM million
Treasury stock	5	5
Other securities	3,494	2,151
	3,499	**2,156**

Volkswagen AG holds treasury stock in the form of 76,475 shares, comprising 76,467 ordinary shares and eight preferred shares with a total nominal value of DM 3,823,750; this corresponds to 0.2 % of the subscribed capital. The ordinary shares were acquired in 1971 in connection with a conversion offer to Audi stockholders on the occasion of a capital increase. The preferred shares represent the residual stock in connection with the issue of 54,260 shares with a value of DM 50 each – giving a total nominal value of DM 2,713,000 (= 0.1 % of the subscribed capital) – to employees in November 1996. The issue price was DM 436.00 per share. The issue price for 52,480 shares to employees was fixed at DM 286.00 per share, the difference being debited to the result for the year. A further 1,772 shares have been issued to employees of subsidiaries at the original issue price. The 26 preferred shares held at 31.12.1995 stemming from the capital increase in 1995 have been sold, together with two shares returned by employees. The profit on the sale has been treated as income, based on prices averaging DM 405.90 per share.

The reserve required by law for treasury stock exists in the amount of the relevant balance-sheet value.

"Other securities" relate primarily to readily cash-convertible capital-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 contra items to the transfers to the capital reserve made in connection with the issue of warrants with low-interest bonds. The amount in question here is DM 74 million (1995: DM 90 million).

(6) Subscribed capital

Following the capital increases effected in the fiscal year – utilizing part of the existing potential capital stock and authorized capital stock – through the issue to employees of 54,260 non-voting preferred shares at a price of DM 50 per share, with a total value of DM 2,713,000, and 2,156,184 non-voting preferred shares at a price of DM 50 per share, with a total value of DM 107,809,200.00 through the exercising of options, the subscribed capital now amounts to DM 1,825 million. The subscribed capital is composed of 27,748,997 ordinary bearer shares with nominal value of DM 50 and 8,745,414 non-voting preferred shares with nominal value of DM 50. In addition, there is an authorized capital stock of DM 300 million expiring on May 31, 2000, and a second authorized capital stock of DM 94 million for the issue of preferred shares to employees.

A potential capital stock of DM 60 million can be utilized in full by August 1, 2001 by the holders of the 72,000 warrants attaching to the option bond issued in 1986. A further potential capital stock can be utilized up to a total of DM 86 million by October 27, 1998 by the holders of the 835,996 warrants attaching to the option bonds issued in 1988. There is an additional potential capital stock of DM 200 million arising from the issue of up to 4,000,000 ordinary and/or preferred shares. This potential capital increase will only be carried out to the extent that the holders of the option bonds and convertible bonds to be issued up to May 31, 2000, with a nominal value of up to DM 1.5 billion, exercise their subscription rights.

(7) Capital reserve

The capital reserve exclusively comprises premiums on capital increases and the issue of option bonds. A total of DM 390 million was transferred to the capital reserve in 1996 in connection with the increase in subscribed capital of Volkswagen AG.

(8) Revenue reserves

	Dec. 31, 1996 DM million	Dec. 31, 1995 DM million
Legal reserve	60	60
Reserve for treasury stock	5	5
Other revenue reserves	4,313	3,973
	4,378	**4,038**

A total of DM 315 million was transferred from the net earnings of the parent company to "Other revenue reserves" in accordance with § 58 subsection 2 of the German Corporation Act.

(9) Special items with an equity portion

	Dec. 31, 1996 DM million	Dec. 31, 1995 DM million
Reserves for tax purposes	38	51
Depreciation for tax purposes	1,336	1,598
	1,374	**1,649**

The Volkswagen Group has reserves in accordance with § 6 b of the Income Tax Act/Section 35 of the Income Tax Guidelines. Depreciation for tax purposes comprises value adjustments in accordance with § 4 of the Development Area Act, § 3 subsection 2 of the Border Area Promotion Act, § 6 b of the Income Tax Act/Section 35 of the Income Tax Guidelines, § 7 d of the Income Tax Act, § 14 of the Berlin Promotion Act, § 82 d of the Income Tax Directive, § 82 a of the Income Tax Directive and § 80 of the Income Tax Directive. The European Union authorization required in accordance with the "Community Framework for State Aid to the Motor Industry" for special depreciation under § 4 of the Development Area Act has not yet been granted.

Two foreign companies have created special items with an equity portion on the basis of corresponding regulations.

(10) Special item for investment subsidies

The special item for investment subsidies, amounting to DM 11 million (1995: DM 15 million) stems from the financial statements of two foreign companies.

(11) Provisions

	Dec. 31, 1996 DM million	Dec. 31, 1995 DM million
Provisions for pensions and similar obligations	13,651	11,531
Provisions in respect of taxes	2,188	1,902
Other provisions	20,187	18,309
	36,026	**31,742**

In accordance with § 249 subsection 2 of the Commercial Code, provisions for expenses – which are non-deductible for tax purposes – have once again been created in the consolidated financial statements in respect of various Group companies to make allowance for specific financial burdens which have already been occasioned, among other things in connection with model changes and ongoing restructuring measures. These provisions led to increased expenses in 1996. Without these measures, pre-tax earnings would have been 3 % higher (1995: 15 % higher).

"Other provisions" includes warranty provisions (DM 5.6 billion), personnel provisions (DM 4.2 billion for early retirement, long-service awards and other workforce-related costs), provisions for other selling and distribution expenses (DM 1.9 billion), and for forward currency transactions (DM 1.0 billion).

(12) Liabilities

	Payable within up to 1 year DM million	Payable within over 5 years DM million	Dec. 31, 1996 DM million	Dec. 31, 1995 DM million	Payable within up to 1 year DM million
Bonds	368	1,000	3,966	4,205	419
– of which convertible	(–)	(–)	(947)	(1,161)	(250)
Liabilities to banks	14,892	490	20,253	19,150	12,841
Advance payments received	969	–	969	674	674
Trade payables	6,862	28	6,990	5,636	5,592
Notes payable	633	–	636	402	76
Amounts payable to affiliated companies	104	–	104	94	94
Amounts payable to companies in which participations are held	630	–	630	665	665
Other liabilities	5,674	420	8,448	6,997	4,564
– of which taxes	(727)	(–)	(732)	(536)	(532)
– of which in respect of social insurance	(507)	(0)	(507)	(479)	(479)
	30,132	**1,939**	**41,996**	**37,823**	**24,925**

The liabilities in the amount of DM 29,641 million (1995: DM 27,639 million) bear interest.

Of the liabilities shown in the consolidated balance sheet, a total of DM 1,538 million (1995: DM 1,720 million) is secured, for the most part, through charges on real estate. In the case of supply of goods, the usual retention of title exists.

Contingencies and commitments

	Dec. 31, 1996 DM million	Dec. 31, 1995 DM million
Contingent liabilities with respect to notes	269	872
Contingent liabilities with respect to guarantees	232	476
Contingent liabilities with respect to warranties	1,044	950
Pledges on company assets to secure another party's liabilities	11	12

The trust assets and liabilities not included in the consolidated balance sheet in respect of the savings associations and trust companies belonging to the South American subsidiaries amount to DM 2,376 million (1995: DM 1,611 million).

Other financial obligations

	Dec. 31, 1996 DM million	Dec. 31, 1995 DM million
Obligations in respect of capital contributions	250	260
Annual obligations in respect of long-term rental and leasing contracts	579	790

Financial obligations in respect of capital contributions exist in 1997 in respect of our joint project with Ford in Portugal and our commitments in Poland and Israel.

The other financial obligations in respect of leasing and rental contracts include payment obligations towards two associated leasing companies in the form of future leasing instalments on the basis of average terms of 36 months and eight months; these obligations amount to DM 249 million for 1997 and are matched by corresponding claims on customers.

Obligations towards third parties may arise from the demerger of the Autolatina companies, matched by claims on the former co-shareholder in the same amount.

The obligations in respect of capital investment projects have remained at the usual level.

Notes on the Statement of Earnings

(13) Sales

	1996 DM million	1996 Share %	1995 DM million	1995 Share %
Germany	36,419	36.4	34,504	39.2
Europe (excl. Germany)	37,724	37.7	29,974	34.0
North America	6,928	6.9	5,258	6.0
Latin America	12,828	12.8	11,062	12.5
Africa	1,693	1.7	1,784	2.0
Asia/Oceania	4,531	4.5	5,537	6.3
Total	**100,123**	**100.0**	**88,119**	**100.0**

Vehicle sales of the Volkswagen Group accounted for 79 % of sales proceeds, parts sales for 7 % and other sales for 14 %. Other sales include the proceeds from the sale of used assets of leasing and rental companies.

(14) Other operating income

	1996 DM million	1995 DM million
Other operating income	7,487	6,811
– of which income from elimination of special items with an equity portion	(627)	(909)

Apart from income from elimination of special items with an equity portion, other operating income resulted primarily from the elimination of provisions (DM 1.6 billion) and from exchange rate changes in respect of supplies and services (DM 1.6 billion).

(15) Other operating expenses

	1996 DM million	1995 DM million
Other operating expenses	5,760	4,659
– of which transfers to special items with an equity portion	(350)	(52)

In addition to transfers to the special items with an equity portion, other operating expenses include in particular expenses from exchange rate changes in respect of supplies and services, including valuation of our forward currency transactions on a strict imparity basis (DM 2.9 billion), depreciation of current assets (DM 0.6 billion), and expenses for various risks. Depreciation for tax purposes was charged in the amount of DM 341 million (1995: DM 38 million), solely in respect of fixed assets.

(16) Results from participations

	1996 DM million	1995 DM million
Income from participations	517	392
– of which from affiliated companies	(7)	(18)
– of which from associated companies	(64)	(51)
– of which from valuation of holdings in associated companies	(445)	(322)
Income from profit assumption agreements	3	1
Expenses from holdings in associated companies	2	87
Expenses from loss assumptions	9	77
	509	**229**

(17) Interest results

	1996 DM million	1995 DM million
Income from other securities and long-term loans	122	119
Other interest and similar income	3,533	3,204
– of which from affiliated companies	(7)	(54)
Interest and similar expenses	2,446	2,344
– of which to affiliated companies	(4)	(3)
	1,209	**979**

(18) Net earnings

The difference between the net earnings and the net earnings available for distribution has been absorbed in the consolidated revenue reserves. The consolidated net earnings available for distribution consequently correspond to the parent company's net earnings available for distribution.

The net earnings have been influenced by expenses attributable to other fiscal years amounting to DM 767 million (1995: DM 352 million) and income not relating to the period under report totalling DM 1,841 million (1995: DM 1,677 million).

The net earnings of the Volkswagen Group have been increased as a result of tax-related measures. These mainly involve the necessary elimination of special items in accordance with § 3 subsection 2 of the Border Area Promotion Act and § 4 of the Development Area Act, which were matched by special depreciation in accordance with § 4 of the Development Area Act. Without these measures profits of the Volkswagen Group would have been approximately one fifth less.

Net earnings include minority interests in profit totalling DM 19 million (1995: DM 17 million) and no minority shares in losses (1995: DM 35 million).

Total expenses for the period

	1996 DM million	1995 DM million
Cost of materials		
Raw materials and supplies, purchased goods and purchased services	**61,536**	**52,166**
Labour cost		
Wages and salaries	15,040	14,319
Social insurance, pension costs and benefits	5,668	4,686
– of which in respect of pensions	(2,631)	(1,841)
	20,708	**19,005**

Average numbers of employees during the year

	1996	1995
Wage-earners	127,392	125,784
Salaried workers	50,590	53,313
Salaried staff	58,796	57,536
	236,778	**236,633**
Apprentices	5,992	5,652
	242,770	**242,285**
Not fully consolidated vehicle-producing holdings	17,734	15,049
	260,504	**257,334**

The members of the Board of Management and the Supervisory Board, together with changes in the membership of these bodies, are listed on pages 8 and 9 of this Annual Report.

The remuneration of the members of the Board of Management for the fiscal year 1996 in respect of the Volkswagen Group totalled DM 13,216,632.

Retired members of the Board of Management and their surviving dependants received DM 15,663,820. Pension payments to this group of people are covered by provisions for pensions amounting to DM 133,833,707.

The remuneration of the members of the Supervisory Board amounted to DM 833,700.

Loans totalling DM 365,400 have been granted to members of the Supervisory Board (amount redeemed in 1996: DM 45,200). The loans have an interest rate of 4 % and an agreed term of 12.5 years.

Wolfsburg, February 25, 1997

VOLKSWAGEN AKTIENGESELLSCHAFT
The Board of Management

Independent auditors' report

"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 consolidated financial statements give a true and fair view of the Group's assets, liabilities, financial position and profit or loss. The Group management report is consistent with the consolidated financial statements."

Hanover, February 27, 1997

C&L Deutsche Revision

Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

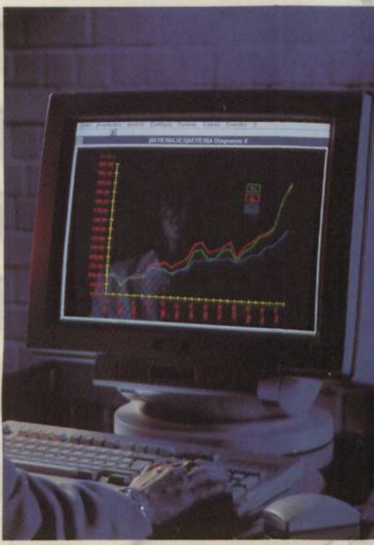
Eichner
Wirtschaftsprüfer

Dr. Heine
Wirtschaftsprüfer

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Sales (DM million)	54,635	59,221	65,352	68,061	76,315	85,403	76,586	80,041	88,119	100,123
Change on previous year in %	3	8	10	4	12	12	– 10	5	10	14
Domestic	22,555	22,653	23,682	26,929	36,360	39,508	34,326	32,907	34,504	36,419
Abroad	32,080	36,568	41,670	41,132	39,955	45,895	42,260	47,134	53,615	63,704
Export of domestic Group companies	22,898	24,395	27,601	28,323	28,093	33,884	26,797	27,090	32,038	37,624
Net contribution of foreign Group companies	13,080	15,961	18,256	18,242	18,809	15,412	23,104	26,944	30,311	36,199
Vehicle Sales (thousand units)[1]	2,774	2,854	2,941	3,030	3,237	3,433	2,962	3,108	3,607	3,994
Change on previous year in %	1	3	3	3	7	6	– 14	5	x	11
Domestic	921	848	849	945	1,264	1,211	914	901	937	958
Abroad	1,853	2,006	2,092	2,085	1,973	2,222	2,048	2,207	2,670	3,036
Production (thousand units)[1]	2,771	2,848	2,948	3,058	3,238	3,500	3,019	3,042	3,595	3,977
Change on previous year in %	0	3	4	4	6	8	– 14	1	x	11
Domestic	1,666	1,694	1,783	1,816	1,814	1,929	1,411	1,425	1,526	1,591
Abroad	1,105	1,154	1,165	1,242	1,424	1,571	1,608	1,617	2,069	2,386
Cost of Materials (DM million)	31,331	32,888	37,533	40,469	47,039	54,817	47,530	48,230	52,166	61,536
Change on previous year in %	9	5	14	8	16	17	– 13	2	8	18
As % of sales	57	56	57	59	62	64	62	60	59	61
Workforce (thousand employees)[1][2]	260	252	251	261	277	273	253	238	257	261
Change on previous year in %	– 6	– 3	– 1	4	6	– 1	– 7	– 6	x	1
Domestic	170	165	161	166	167	164	150	141	143	139
Abroad	90	87	90	95	110	109	103	97	114	122
Labour Cost (DM million)	15,192	15,144	16,107	17,056	18,872	20,753	18,887	18,364	19,005	20,708
Change on previous year in %	3	0	6	6	11	10	– 9	– 3	3	9
As % of sales	28	26	25	25	25	24	25	23	22	21
Capital Investments (DM million)[3]	4,592	4,251	5,606	5,372	9,910	9,254	4,840	5,651	6,863	8,742
Change on previous year in %	– 28	– 7	32	– 4	84	– 7	– 48	17	21	27
Domestic	4,000	3,546	4,477	3,016	6,311	4,853	2,675	3,899	4,053	6,098
Abroad	592	705	1,129	2,356	3,599	4,401	2,165	1,752	2,810	2,644
Additions to Leasing and Rental Assets (DM million)	3,318	3,447	4,069	4,419	4,961	6,139	5,438	5,781	7,278	7,639
Change on previous year in %	21	4	18	9	12	24	– 11	6	26	5
Cash flow (DM million)[4]	4,874	5,018	5,412	5,701	7,133	7,004	3,636	8,819	6,922	7,047
Change on previous year in %	14	3	8	5	25	– 2	– 48	x	– 22	2
Result after Taxes (DM million)	598	780	1,038	1,086	1,114	147	– 1,940	150	336	678
Dividend of VOLKSWAGEN AG (DM million)	306	306	336	369	369	66	67	107	207	315
Ordinary shares (DM million)	240	240	264	297	297	54	54	81	162	250
Preferred shares (DM million)	66	66	72	72	72	12	13	26	45	65

[1] The volume data of the not fully consolidated vehicle-producing holdings AUTOEUROPA, Shanghai-Volkswagen, FAW-Volkswagen and Chinchun Motor have been included as from 1995.
[2] Workforce (excluding apprentices) as average over year; as from 1995 including apprentices as average over year.
[3] Investments in intangible assets, tangible fixed assets and financial assets.
[4] Since 1994 cash flow has been determined on the basis of the recommendations of the Schmalenbach Society.

Balance-Sheet Structure (DM million) December 31	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	Change 1996/95 in %
Assets											
Intangible assets	29	76	134	261	372	631	646	101	91	120	31.6
Tangible assets	13,406	13,836	15,493	16,826	21,126	24,050	23,067	20,429	18,271	20,631	12.9
Financial assets	1,125	1,304	1,621	1,418	2,655	2,747	1,823	2,608	3,198	3,274	2.4
Leasing and rental assets	4,919	5,427	5,561	5,834	6,293	7,393	7,517	8,234	10,297	12,118	17.7
Fixed Assets	19,479	20,643	22,809	24,339	30,446	34,821	33,053	31,372	31,857	36,143	13.5
Inventories	6,618	6,506	7,301	8,703	9,049	9,736	11,026	9,246	9,392	10,368	10.4
Receivables and other assets	9,403	11,848	14,472	15,065	19,011	21,394	22,943	24,554	27,498	31,478	14.5
Securities	426	488	2,360	2,764	2,329	1,497	1,119	2,595	2,156	3,499	62.2
Liquid funds	8,135	10,809	9,929	11,842	9,255	7,836	11,157	13,317	13,174	13,080	– 0.7
Current Assets	24,582	29,651	34,062	38,374	39,644	40,463	46,245	49,712	52,220	58,425	11.9
Total Assets	44,061	50,294	56,871	62,713	70,090	75,284	79,298	81,084	84,077	94,568	12.5
Stockholders' Equity and Liabilities											
Subscribed capital	1,500	1,500	1,500	1,650	1,656	1,664	1,671	1,674	1,714	1,825	6.4
Reserves of the Group	8,496	9,040	9,667	11,491	12,098	11,800	9,521	9,202	8,595	9,324	8.5
Minority interest	405	405	439	145	164	859	905	733	490	449	– 8.4
Net earnings available for distribution	308	308	339	374	373	71	71	111	209	318	51.7
Minority interest in results after taxes	17	42	54	33	12	68	98	1	– 18	19	x
Special items with an equity portion	2,203	2,452	2,925	2,882	3,823	3,659	3,191	2,498	1,649	1,374	– 16.7
Special item for investment subsidies	9	9	12	13	19	18	23	20	15	11	– 26.4
Stockholders' Equity	12,938	13,756	14,936	16,588	18,145	18,139	15,480	14,239	12,654	13,320	5.3
Provisions for pensions	5,889	6,314	6,652	7,283	8,089	9,113	9,553	10,160	11,531	13,651	18.4
Provisions for taxes	925	1,358	2,001	1,828	2,032	1,773	1,784	1,762	1,902	2,188	15.0
Other provisions	8,050	9,418	10,454	10,680	10,161	11,323	14,575	16,476	18,309	20,187	10.3
Provisions	14,864	17,090	19,107	19,791	20,282	22,209	25,912	28,398	31,742	36,026	13.5
Liabilities payable within more than 5 years	1,217	1,929	1,934	1,840	3,813	4,557	4,289	4,426	2,293	1,939	– 15.4
1 to 5 years	1,999	2,121	3,289	3,339	3,900	6,222	8,707	9,271	11,782	11,991	1.8
up to 1 year	13,043	15,398	17,605	21,155	23,950	24,157	24,910	24,750	25,606	31,292	22.2
Liabilities	16,259	19,448	22,828	26,334	31,663	34,936	37,906	38,447	39,681	45,222	14.0
Outside Capital	31,123	36,538	41,935	46,125	51,945	57,145	63,818	66,845	71,423	81,248	13.8
Total Capital	44,061	50,294	56,871	62,713	70,090	75,284	79,298	81,084	84,077	94,568	12.5
Statement of Earnings (Condensed) (DM million) January–December											
Sales	54,635	59,221	65,352	68,061	76,315	85,403	76,586	80,041	88,119	100,123	13.6
Cost of sales	48,526	51,315	56,196	61,890	69,472	79,155	71,117	72,720	80,699	90,504	12.1
Selling and general administration expenses	5,498	6,321	7,151	7,308	7,599	7,977	8,278	8,786	9,457	10,961	15.9
Other operating income less other operating expenses	931	38	209	2,615	1,302	1,612	782	1,315	2,152	1,727	– 19.7
Financial results	68	513	773	914	1,239	719	391	611	998	1,587	59.0
Results from ordinary business activities	1,610	2,136	2,987	2,392	1,785	602	– 1,636	461	1,113	1,972	77.2
Extraordinary results	– 443	–	–	–	–	–	–	–	–	–	–
Taxes on income	569	1,356	1,949	1,306	671	455	304	311	777	1,294	66.3
Results after taxes	598	780	1,038	1,086	1,114	147	– 1,940	150	336	678	x



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