VOLKSWAGEN AG

Annual Report 1999

Key Figures

Volume Data

		Volkswagen Group*			VOLKSWAGEN AG		
		1999	1998	%	1999	1998	%
Vehicle Sales	Units	4,922,996	4,747,818	+ 3.7	2,187,689	2,285,884	– 4.3
Production	Units	4,853,192	4,822,679	+ 0.6	1,365,020	1,470,850	– 7.2
Workforce as per Dec. 31		306,275	297,916	+ 2.8	104,203	103,792	+ 0.4

* The Volkswagen Group figures include the volume data of the not fully consolidated vehicle-producing holdings Shanghai-Volkswagen, FAW-Volkswagen, Chinchun Motor (to January 26, 1999) and AUTOEUROPA (1998; since January 1, 1999 AUTOEUROPA is consolidated).

Financial Data (million DM)

	Volkswagen Group			VOLKSWAGEN AG		
	1999	1998	%	1999	1998	%
Sales Proceeds	147,013	134,243	+ 9.5	78,417	74,381	+ 5.4
Net Earnings before Tax	4,933	6,287	– 21.5	3,752	4,442	– 15.5
Net Earnings after Tax	1,651	2,243	– 26.4	1,276	1,241	+ 2.8
Dividend of VOLKSWAGEN AG				641*	619	+ 3.4
of which on Ordinary Shares				470*	463	+ 1.4
Preferred Shares				171*	156	+ 9.6
Research & Development Expenditure	7,409	5,881	+ 26.0	4,377	3,132	+ 39.8
Capital Investments	28,316	24,304	+ 16.5	6,159	7,796	– 21.0
Depreciation and Write-Down	14,480	13,611	+ 6.4	2,701	3,336	– 19.0
Cash Flow	16,771	16,804	– 0.2	4,367	5,491	– 20.5
Automotive Division:						
Investments in Tangible Fixed Assets	12,436	11,013	+ 12.9			
Capital Investments	14,499	11,924	+ 21.6			
Depreciation and Write-Down	7,917	8,277	– 4.3			
Cash Flow	11,056	11,271	– 1.9			

* For information only; the distribution is made in Euro.

For information only: Financial Data (million €)

	Volkswagen Group		VOLKSWAGEN AG	
	1999	1998	1999	1998
Sales Proceeds	*75,167*	*68,637*	*40,094*	*38,031*
Net Earnings before Tax	*2,522*	*3,215*	*1,918*	*2,271*
Net Earnings after Tax	*844*	*1,147*	*652*	*634*
Dividend of VOLKSWAGEN AG			*327*	*317*
of which on Ordinary Shares			*240*	*237*
Preferred Shares			*87*	*80*
Research & Development Expenditure	*3,788*	*3,007*	*2,238*	*1,601*
Capital Investments	*14,478*	*12,426*	*3,149*	*3,986*
Depreciation and Write-Down	*7,403*	*6,959*	*1,381*	*1,706*
Cash Flow	*8,575*	*8,592*	*2,233*	*2,808*
Automotive Division:				
Investments in Tangible Fixed Assets	*6,358*	*5,631*		
Capital Investments	*7,413*	*6,097*		
Depreciation and Write-Down	*4,048*	*4,232*		
Cash Flow	*5,653*	*5,763*		

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

The Volkswagen Group

The Volkswagen Group is the largest European automobile manufacturer. With production facilities in 15 countries and a product range stretching from the ultra-economical "3-litre" car to the Bentley, Volkswagen has grown into a global supplier with broad market coverage. The aim of the Company is to respond to its customers' needs for individual, safe and environmentally friendly motor vehicles.

The core element of the corporate philosophy is the multi-brand and product development strategy. In 1999 the Group comprised nine different brands of automobile.

The Challenge of Convention

The Gentleman's Sporting Tourer

Masterpiece of Automotive Design and Engineering

The Ultimate Force in Sportscars

The Icon of Luxury

Automotive Joy of Life

Creative Solutions for Smart People

Creating Transportation Solutions for Each and Every Individual

Benchmark for Automotive Values

Events 1999

January New Beetle is named "North American Car of the Year"

February Founding of the holding company Volkswagen (China) Investment Company Ltd., Beijing

March Annual press conference of VOLKSWAGEN AG in Wolfsburg

April Official opening of a new Development Center at Škoda

May Launch of the first tranche of the stock option plan of VOLKSWAGEN AG

June 25 years of the Golf – a piece of automotive history

July Foundation stone laid for the glass-walled showcase plant in Dresden

August Opening of a new engine plant in Polkowice, Poland

September European record – The Volkswagen Group presents its 100 millionth vehicle: a New Beetle

October 50th anniversary of the transfer of the Volkswagenwerk company from the British Government to the Federal Republic of Germany

November Market launch of the Seat León

December Best Volkswagen sales in the USA for 25 years

Annual Report 1999

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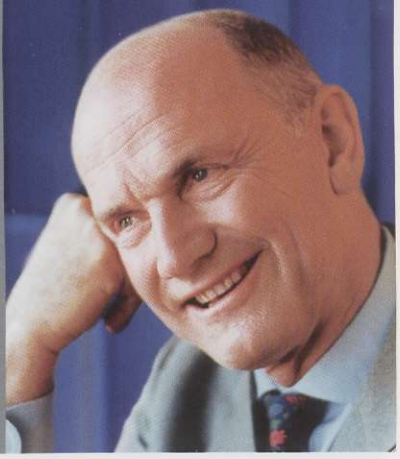
Information about the Fiscal Year

The Annual Report contains the consolidated financial statements of the Volkswagen Group, the summary management report of the Group and of VOLKSWAGEN AG, as well as additional information.



Dr. Ferdinand Piëch

Letter to Stockholders

Dear Stockholder,

In the fiscal year 1999 the Volkswagen Group, with its attractive model range, was once again successful on global markets and continuously built on its position as a global player. Nevertheless, we have still not reached our goal. In the current year we will continue working to develop and secure the long-term future potential of the Volkswagen Group.

The multiplicity of new products launched in 1999 further strengthened the position of the Volkswagen Group and once again delivered evidence of its expertise in technical innovation. With 4,869,203 vehicles delivered and a growth rate of 6.3 %, we have been able to attract and satisfy customers all over the world. Our global market share rose from 11.7 % to 12.0 %. In Western Europe the Volkswagen Group extended its longstanding market leadership to a share of 18.8 %. But sales records alone are not enough to ensure long-term competitiveness.

That is why the lasting implementation of our product development strategy is a decisive factor in safeguarding the future of the Volkswagen Group. Consequently, we will be continuing to pursue our long-term oriented investment policy. Our current investment programme in the automotive sector for the years 2000 to 2004 totalling 61.3 billion DM follows on consistently from the high levels laid down in the last plan but one. The main focus of investment activity, involving 65 % of the total expenditure, is on the expansion and modernization of our product range. Germany will remain a key business location for us in the years to come. This is illustrated by the fact that some 58 % of the total investments in tangible assets in the automotive sector through to the year 2001 will be in the plants in Germany.

In the past year over 8,000 new jobs were created in the Volkswagen Group, of which some 2,900 were in Germany.

The sales proceeds of the Volkswagen Group rose much more strongly than unit sales in 1999, reaching a level of 147.0 billion DM. The 9.5 % growth rate indicates a sustained trend towards higher-specification vehicles.

One of the highlights of 1999 was the market launch of the world's first mass produced car offering fuel consumption of just three litres per 100 kilometres (the "3-litre car"). 4,254 of the new vehicles were delivered to customers in the past year: a major success for our engineers, and a giant step into the future of motoring.

Conditions for growth in some core markets in 1999 did not permit us to attain, or indeed beat, the outstanding results of the previous year. We detected this development at an early stage of the year. Performance was also affected by special factors such as the German tax reform, without which we would have reached virtually the same level of results as last year. The net earnings of 1,651 million DM were 592 million DM below those of the previous year. Aggressive competition on all markets, only a modest rise in demand for automobiles in Germany, and the sustained economic crisis in South America prevented further growth in profitability in 1999. Accordingly, the return on sales before taxes of the Volkswagen Group was 3.4 %, against 4.7 % in 1998.

The Board of Management and Supervisory Board propose to the Annual Meeting of Stockholders the payment of a dividend maintained at the previous year's level of 0.77 € per ordinary share and 0.83 € on each preferred share.

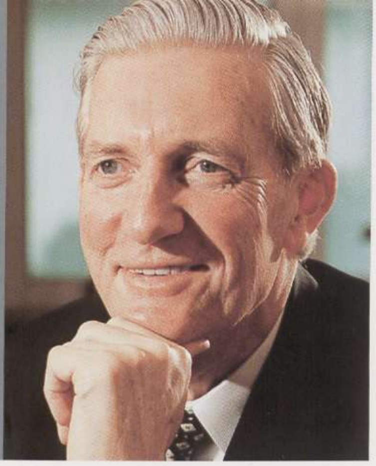
With the planned investments, we are laying the foundations for the further growth of our business and earnings. This growth will also be driven by the launch of new models by our established brands as well as our entry into the top-class luxury segment. We do not see the up-front expenditures involved in these developments as burdens. Rather, we see them as essential steps to attaining our long-term goals.

In order to cut costs and deliver the best product quality, we are working continuously to optimize our processes and methods. Therefore, further effort is required in all divisions and departments in order to sustain the dynamics earnings growth of past years. Based on the consistent implementation of its corporate strategy, the Volkswagen Group is well equipped to meet the challenges which will be faced by the automotive industry in the coming years. We are certain that the Volkswagen Group will secure and strengthen its position as a successful global player. We therefore ask you once again to place your trust in us as you have in the past.

Yours sincerely,

F. Piëch

Ferdinand Piëch



Dr. Klaus Liesen

Report of the Supervisory Board

The Supervisory Board was able to monitor the development of the Volkswagen Group closely throughout the past fiscal year. At four scheduled Supervisory Board meetings verbal and written reports from the Board of Management were received and reviewed. The Board of Management also 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 Volkswagen Group as a whole, the brands, regions and divisions, set against budget and against the previous year, 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 Presidium of the Supervisory Board, comprising four of its members, was convened prior to each scheduled 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. The four-person Mediation Committee was not required to convene. Memberships of the respective committees are indicated in the list of Supervisory Board members.

Major topics at the meetings of the Supervisory Board were the Company's current business position and the future strategic alignment of the Volkswagen Group. The medium-term corporate planning for the years 2000 to 2004 was routinely presented, discussed in detail and approved at the Autumn meeting. The investment programme of VOLKSWAGEN AG for the year 2000 was approved.

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

- The matter of the EU directive concerning the return of vehicles at the end of their useful lives.
- The capital measures as set out in the Agenda to the 1999 Annual Meeting of Stockholders.
- The effects of the German tax reforms.
- The status report on the progress of business at ROLLS-ROYCE & BENTLEY MOTOR CARS LIMITED.
- The full acquisition of AUTOEUROPA-AUTOMÓVEIS LDA., Palmela.
- The full acquisition of Europcar International S.A.
- The VOLKSWAGEN AG humanitarian aid fund for former forced labourers.
- The Sports Utility Vehicle development project.
- The implementation of the first tranche of the stock option plan.
- The future development of the German sites.

The main items on the agenda of the Spring 2000 meeting of the Supervisory Board were the consolidated financial statements of the Group and of VOLKSWAGEN AG for 1999, as well as the accompanying Management Reports of the Group and of VOLKSWAGEN AG, which, together with the accounts, had previously been examined by the auditors and approved without qualification. PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Hanover, had been appointed auditors for the fiscal year 1999 at the Annual Meeting of Stockholders held on June 2, 1999. The audit also covered the measures to be undertaken by the Board of Management to ensure early detection of any risk endangering the continued existence of the Company. The Supervisory Board accepted the results of the audit. The Supervisory Board's examination of the Group consolidated financial statements, the financial statements of VOLKSWAGEN AG, the associated Management Reports and the proposal regarding appropriation of net earnings available for distribution gave rise to no objections. 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, and reported on the principal results of their audit. The Supervisory Board approved and thereby adopted the financial statements, and approved the proposal put forward by the Board of Management regarding appropriation of net earnings available for distribution.

With effect from June 30, 1999 Mr. Josef Bauer resigned his seat on the Supervisory Board after 12 years' service. Likewise with effect from June 30, 1999, Mr. Siegfried Schinowski resigned from the Supervisory Board after having served a period of seven years. The Supervisory Board would like to express its special thanks to both gentlemen for their great commitment and support during their period in office. Mr. Günter Lenz and Mr. Xaver Meier have been appointed to sit on the Supervisory Board of VOLKSWAGEN AG as their successors.

With effect from January 27, 2000 Mr. Gerhard Glogowski resigned from the Supervisory Board after more than three years' service. We would like to thank Mr. Glogowski for his valuable service and commitment. With effect from January 28, 2000 the State of Lower Saxony appointed Minister President Sigmar Gabriel as its new delegate member on the Supervisory Board of VOLKSWAGEN AG. At the Supervisory Board meeting on March 17, 2000 Mr. Gabriel was elected as a member of the Presidium of the Supervisory Board of VOLKSWAGEN AG, said body also being the relevant committee pursuant to Section 27 of the German Law governing co-determination, and as a member of the Finance and Investment Committee.

On December 16, 1999 the Supervisory Board appointed Mr. Bernd Pischetsrieder to be a member of the Board of Management of VOLKSWAGEN AG with effect from July 1, 2000. Mr. Pischetsrieder takes over the newly created Group Quality Assurance Division and becomes Chief Executive of SEAT.

At its meeting on March 17, 2000, the Supervisory Board appointed Dr. Martin Winterkorn to the Board of Management of VOLKSWAGEN AG. With effect from July 1, 2000, Dr. Winterkorn will head the Research and Development function in addition to his duties on the Volkswagen Brand Management Body.

Our former Supervisory Board member and former Minister President of the state of Lower Saxony, Mr. Alfred Kubel, passed away on May 22, 1999 at the age of 89. Mr. Kubel was a member of the Supervisory Board of Volkswagenwerk AG between 1965 and 1970, and by virtue of his commitment and initiative was a major force in the positive development of the Company during that time. We shall treasure the memory of him as an outstanding personality in our Company's history.

On February 15, 2000 Mr. Volkhard Köhler passed away at the age of 56. Mr. Köhler held a variety of posts in the Company between 1969 and 1997. As the Deputy Chairman of the Board of Management of Škoda, he made a decisive contribution to the establishment of the German-Czech joint venture, and his outstanding skills and high level of personal commitment played a major role in the development of Škoda. We will treasure the memory of his courteous nature and his humanity.

The Supervisory Board would like to thank the members of the Board of Management, the Works Councils and all the employees of VOLKSWAGEN AG and its affiliated companies for their efforts and achievements.

Wolfsburg, March 17, 2000

Dr. Klaus Liesen
Chairman of the Supervisory Board

Supervisory Board

Dr. jur.
Klaus Liesen (68) 1)2)3)
Essen
Chairman
Chairman of the Supervisory Board of Ruhrgas AG
July 2, 1987*

Klaus Zwickel (60) 1)2)
Frankfurt
Deputy Chairman
Chairman of the Metalworkers Union
October 21, 1993

Dr. jur.
Gerhard Cromme (56) 3)
Düsseldorf
Chairman of the Board of Management of Thyssen Krupp AG
June 19, 1997

Dr. rer. pol.
Peter Fischer (58) 3)
Hanover
Minister of Economics, Technology and Transport of the State of Lower Saxony
November 19, 1998

Sigmar Gabriel (40) 1)2)
Hanover
Minister President of the State of Lower Saxony
January 28, 2000

Dr. jur.
Hans Michael Gaul (57) 2)
Düsseldorf
Member of the Board of Management of VEBA AG
June 19, 1997

Wilhelm Hemer (56) 3)
Frankfurt
Trade Union Secretary to the Executive Committee of the Metalworkers Union
May 3, 1989

Gerhard Kakalick (53) 2)
Kassel
Chairman of the Works Council of VOLKSWAGEN AG Kassel Plant
June 3, 1993

Wolfgang Klever (59) 2)
Braunschweig
Chairman of the Works Council of VOLKSWAGEN AG Braunschweig Plant
October 1, 1995

Dr. rer. pol.
Jürgen Krumnow (55) 2)
Frankfurt
Member of the Advisory Board of Deutsche Bank AG
June 1, 1994

Günter Lenz (40) 2)
Hanover
Chairman of the Works Council of Volkswagen Commercial Vehicles
July 1, 1999

Xaver Meier (55) 3)
Ingolstadt
Chairman of the General Works Council of AUDI AG
July 1, 1999

Roland Oetker (50) 3)
Düsseldorf
President Deutsche Schutzvereinigung für Wertpapierbesitz e. V. (German Stockholders' Association)
June 19, 1997

Dr. jur.
Heinrich v. Pierer (59) 2)
Munich
Chairman of the Board of Management of Siemens AG
June 27, 1996

Dr.-Ing. E. h.
Günther Saßmannshausen (69)
Hanover
July 2, 1987

Dr. rer. pol.
Albert Schunk (58)[3]
Frankfurt
Head of the International Department on the Executive Committee of the Metalworkers Union
July 5, 1977

Bernd Sudholt (53)[3]
Wolfsburg
Deputy Chairman of the Group and Joint Works Councils of VOLKSWAGEN AG
July 2, 1992

Klaus Volkert (57)[1)2)]
Wolfsburg
Chairman of the Group and Joint Works Councils of VOLKSWAGEN AG
July 2, 1990

Dr. rer. pol.
Bernd W. Voss (60)[3]
Frankfurt
Member of the Board of Management of Dresdner Bank AG
July 22, 1993

Dr. rer. pol.
Ekkehardt Wesner (60)[3]
Wolfsburg
Senior Executive of VOLKSWAGEN AG
June 18, 1996

Changes on the Supervisory Board:

Josef Bauer (60)[3]
Ingolstadt
Member of the Works Committee of AUDI AG
July 2, 1987 to June 30, 1999

Gerhard Glogowski (57)[1)2)]
Hanover
Minister President of the State of Lower Saxony (ret.)
November 13, 1996 to January 27, 2000

Siegfried Schinowski (59)[2]
Wolfsburg
Chief Executive of Bauhof e.V.
July 2, 1992 to June 30, 1999

[1] Member of the Presidium and Mediation Committee in accordance with Section 27 subsection 3 of the German Co-Determination Act.
[2] Member of the Finance and Investment Committee.
[3] Member of the Balance Sheet and Personnel Committee.

* The date signifies the beginning or the period of membership of the respective body.

Board of Management of VOLKSWAGEN AG

Dr. techn. h. c. Dipl.-Ing. ETH
Ferdinand Piëch (62)
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 (60)
Controlling and Accounting
January 1, 1995

Dr. Robert Büchelhofer (57)
Sales and Marketing
April 1, 1995

Dr. rer. pol. h. c.
Peter Hartz (58)
Human Resources
October 1, 1993

Dr. jur.
Jens Neumann (54)
Group Strategy, Treasury, Legal Matters and Organization
January 1, 1993

In accordance with Section 285 subsection 10 of the German Commercial Code, details of the memberships of the members of the Board of Management and the Supervisory Board on other statutory supervisory boards and comparable supervisory bodies are listed in the Notes to the separate financial statements of VOLKSWAGEN AG, which are available free of charge from the address given on the last page of this Report.

Volkswagen

Dr. techn. h. c. Dipl.-Ing. ETH Ferdinand Piëch (62)
Chairman of the Volkswagen Management Body
August 1, 1993*

Dr. Robert Büchelhofer (57)
Marketing
June 1, 1999
Sales and Marketing
April 1, 1995 to May 31, 1999

Francisco Javier Garcia Sanz (42)
Procurement
November 30, 1996

Dr. rer. pol. h. c. Peter Hartz (58)
Human Resources
October 1, 1993

Dr. phil. Klaus Kocks (47)
Communications
July 1, 1996

Dr. jur. Jens Neumann (54)
Organization and Systems
September 3, 1993

Prof. Hans-Ulrich Sachs (47)
Sales
June 1, 1999

Lothar Sander (49)
Controlling and Accounting
January 1, 1995

Folker Weißgerber (58)
Production and Logistics
March 16, 1993
Production and Logistics (Deputy)
December 1, 1991 to March 16, 1993

Dr. rer. nat. Martin Winterkorn (52)
Technical Development
January 1, 1996

Volkswagen Commercial Vehicles

Bernd Wiedemann (57)
Chairman of the Management Body of Volkswagen Commercial Vehicles
August 1, 1995

Audi

Dr.-Ing. Franz-Josef Paefgen (53)
Chairman of the Board of Management of AUDI AG
March 18, 1998
Spokesman of the Board of Management of AUDI AG
July 1, 1997 to March 17, 1998
Marketing and Sales
March 1, 1997 to June 30, 1997
Technical Development
March 22, 1995 to April 30, 1997
Deputy Chairman of the Board of Management of AUDI AG
January 1, 1997 to June 30, 1997

Peter Abele (58)
Finance and Organization
June 1, 1997

Dr. jur. Georg Flandorfer (53)
Marketing and Sales
July 1, 1997

Jürgen Gebhardt (55)
Production
February 1, 1993

Dr.-Ing. Werner Mischke (51)
Technical Development
May 1, 1997

Dr. h. c. Andreas Schleef (56)
Human Resources
March 27, 1985

Erich Schmitt (53)
Purchasing
June 1, 1997
Purchasing, Finance and Organization
November 25, 1992 to May 31, 1997

Seat

Bruno Adelt (60)
Chairman of the Board of Management of SEAT, S.A.
June 18, 1999

Dr. Ing. Winfried Burgert (53)
Research and Development
September 1, 1999

Josef Anton Habla (51)
Production
June 1, 1997

Erich Krohn (50)
Finance
April 1, 1997
Member without Portfolio
January 1, 1997 to March 31, 1997

Rodrigo Sergio Navarro Segura (37)
Human Resources
January 1, 1997

Detlev Schmidt (55)
Sales and Marketing
January 1, 1994

Changes on the Seat Management Body:

Pierre-Alain De Smedt (55)
Chairman of the Board of Management of SEAT, S.A.
July 1, 1997 to June 17, 1999
Procurement
January 1, 1997 to June 17, 1999
Deputy Chairman of the Board of Management of SEAT, S.A.
January 1, 1997 to June 30, 1997

Dr. rer. nat. Martin Winterkorn (52)
Research and Development
September 24, 1998 to August 31, 1999

Škoda

Vratislav Kulhánek (56)
Chairman of the Board of Management of ŠKODA AUTO a.s.
April 16, 1997

Detlef Wittig (57)
Deputy Chairman, Commercial Affairs
April 16, 1997
Sales and Marketing
July 1, 1995

Wilfried Bockelmann (58)
Technical Development
April 16, 1997
Production and Logistics
August 1, 1997
to December 31, 1997

Karl-Günter Büsching (58)
Production and Logistics
January 1, 1998

Dr. jur. Pavel Nováček (51)
Human Resources
April 16, 1991

Rolls-Royce/Bentley

Anthony Gott (44)
Chairman of the Board
May 1, 1999
Engineering
December 15, 1997
to April 30, 1999

Douglas Dickson (52)
Manufacturing
January 1, 1999

Christine Gaskell (40)
Personnel
September 1, 1997

Dr. Ing. Ulrich Hackenberg (49)
Technical Development
May 1, 1999

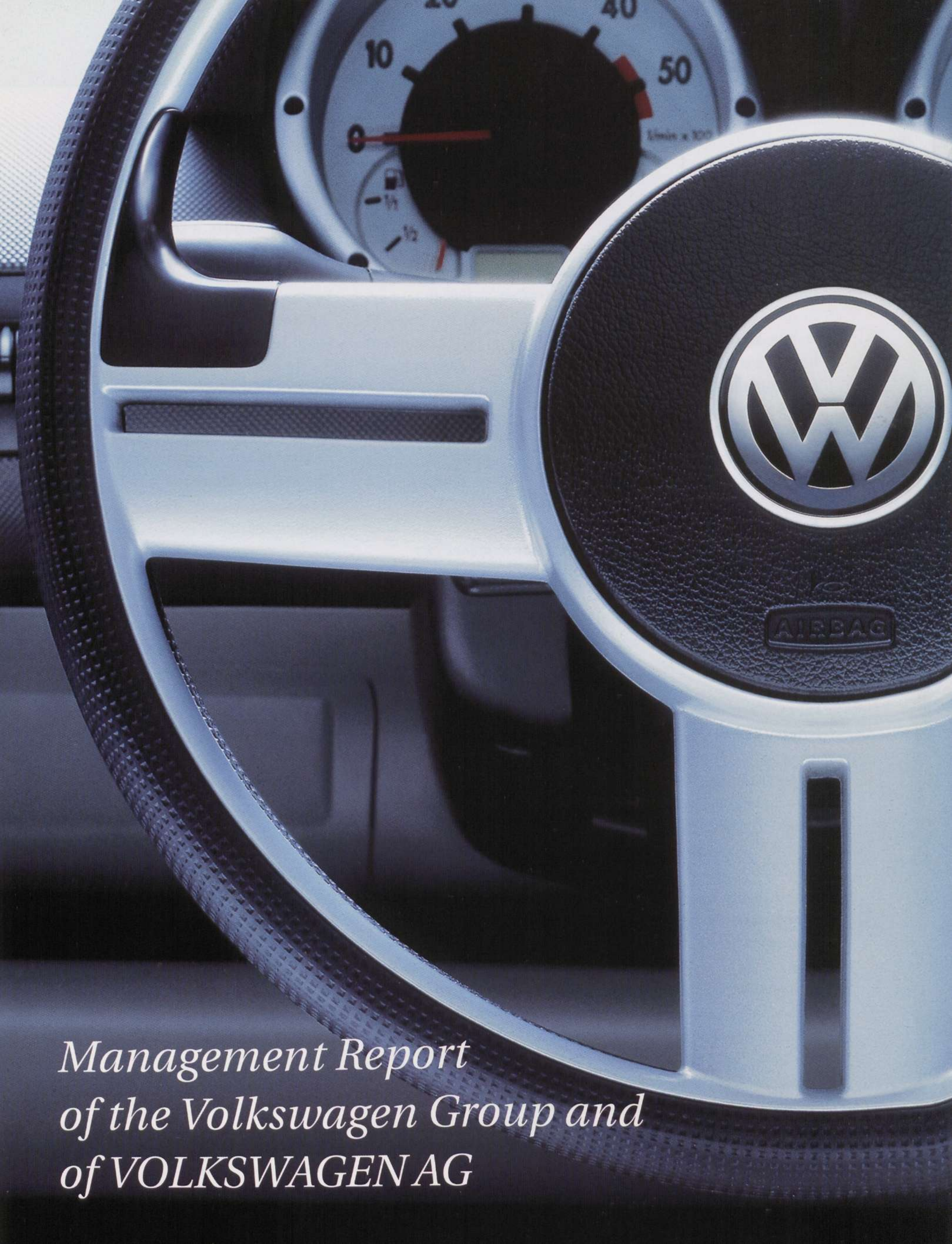
Adrian Hallmark (37)
Sales and Marketing
May 1, 1999

Hans-Georg Melching (50)
Finance and Systems
July 15, 1998

Changes on the Rolls-Royce/Bentley Management Body:

Keith Sanders (55)
Sales and Marketing
September 1, 1997
to April 30, 1999

* The date signifies the beginning or the period of membership of the respective body.



Management Report of the Volkswagen Group and of VOLKSWAGEN AG

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Recovery in world economy

The global economic upturn grew stronger in the course of 1999. In the industrial nations as a whole growth stabilized, with the individual economic cycles converging more closely. In the developing countries there was a significant upturn following the severe fall in production output in 1998. World trade again expanded markedly, while at the same time raw material prices and capital market interest rates rose. On average over the year, the world economy grew by 2.7 (+ 2.2) % in 1999.

In the USA, fuelled by the sustained dynamism of domestic demand, the gross domestic product grew by 4.0 (+ 4.3) %, only slightly below the previous year's rate. The Mexican economy overcame its period of economic weakness based on an increase in exports to the USA and lively domestic demand; gross domestic product rose by 4.0 (+ 4.8) %.

Brazil's gross domestic product again grew only to a minor degree, at a rate of 0.8 (+ 0.1) %. The Argentinian economy went through a severe recession in 1999, resulting in a 3.3 (+ 4.2) % decline in gross domestic product. Growth in South Africa was 1.2 (+ 0.1) % higher than in 1998, and the fight against inflation brought even greater success.

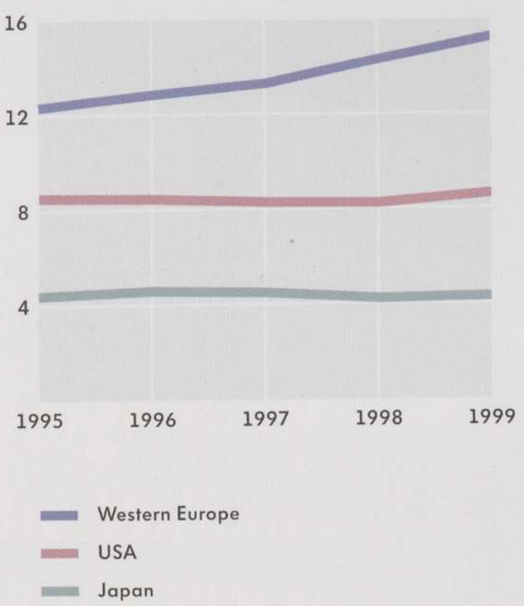
China's economy again grew strongly, at a rate of 7.1 (+ 7.8) %. The fall in the growth rate resulted from a lower increase in exports and the weaker domestic demand. In Japan the recession was overcome only with the aid of a number of extensive economic recovery programmes; gross domestic product rose by 0.7 (– 2.8) %.

In Western Europe production output recovered after the weak economic phase at the beginning of 1999. A favourable price and interest rate climate and the positive development of exports brought about economic growth of 2.0 (+ 2.7) %.

The improvement in global economic conditions also favoured economic development in the reforming countries of Central Europe. In Poland and Hungary in particular, production was on a clearly upward trend, while the Czech economy only gradually overcame its recession.

The economic upturn in Germany only gained momentum in the second half of the year, so that the growth rate of 1.4 (+ 2.2) % remained well below the Western European average. The recovery in domestic demand was weak, and the labour market recovered only to a minor degree.

The major world passenger car markets (million units)



Positive development in the international automotive business

The competitive pressure in the international automotive industry substantially intensified. Mergers, acquisitions and strategic alliances between major vehicle manufactures and component suppliers, as well as large-scale brand and model offensives, led to fundamental changes in the structure of the competitive landscape. Under-used production capacities in South America, in particular, were a factor in the heightened competitive pressure. While the decline in new vehicle registrations in the Latin American region persisted, demand in the other regions increased substantially in some cases. With 37.3 million new vehicle registrations (+ 4.4 %), global passenger car demand just about returned to growth. Worldwide production volumes totalled 55.9 million units (+ 5.4 %), of which 39.7 million were passenger cars (+ 3.8 %).

In Western Europe new registrations of passenger cars increased by 4.8 % to 15.1 million units, reaching a new record level. Of those, 11.3 million units (+ 5.9 %) were registered in Western Europe outside Germany. The automobile market in Spain, in particular, recorded a rise of 17.7 %, based on the bonus scheme to encourage the scrapping of old vehicles in force since 1997, in conjunction with historically low interest rates and increased purchasing power resulting from a tax reform. In France new vehicle registrations increased by 10.5 %, mainly owing to increasing disposable incomes.

The passenger car markets in Central and Eastern Europe were 10.5 % above the previous year's level overall. Poland, Hungary and Slovenia recorded rises, while new registrations on the market of the Czech Republic stagnated. In Slovakia and, in particular, on the import market in Russia, new registrations declined.

New vehicle registrations in Germany totalled 4,127,077 units, an increase of 2.3 %. Of those, 3,802,176 were passenger cars (+ 1.8 %) and 222,600 light trucks up to 6 tonnes (+ 7.4 %). Stronger impetus in the demand for passenger cars was dampened by consumer

Key markets of the Volkswagen Group[1]

	Deliveries 1999 (units)[2]	Change over 1998 (%)	Share of passenger car market 1999 (%)	Share of passenger car market 1998 (%)
Worldwide	**4,869,203**	**+ 6.3**	**12.0**	**11.7**
Western Europe	3,053,713	+ 7.9	18.8	18.0
of which: Germany	1,155,140	+ 4.8	29.7	28.2
Italy	300,123	+ 1.1	12.2	12.0
Spain	330,650	+ 19.1	22.3	21.8
France	264,371	+ 11.1	11.4	11.0
Great Britain	252,473	+ 10.4	10.7	9.3
Central/Eastern Europe	289,324	+ 1.1	12.8	13.8
of which: Czech Republic	90,601	– 3.8	58.2	62.3
Slovakia	36,665	– 9.4	62.0	55.0
North America Region	554,821	+ 32.4	5.5	4.5
of which: USA (import market)	382,328	+ 42.8	9.9	7.7
Canada	47,050	+ 13.7	5.8	5.5
Mexico	125,443	+ 14.1	26.4	25.2
South America/Africa Region	490,281	– 16.4	23.4	22.4
of which: Brazil	370,853	– 16.8	31.3	30.2
Argentina	57,060	– 9.8	16.7	16.9
South Africa	46,253	– 3.0	22.5	21.2
Asia-Pacific Region	390,844	+ 3.8	5.1	5.3
of which: China	315,232	+ 4.1	53.8	56.0
Japan (import market)	52,159	+ 6.2	21.8	20.8

[1] Deliveries and market shares for 1998 are updated based on statistical recording.
[2] Passenger cars and commercial vehicles; Rolls-Royce and Bentley vehicles are included as from July 4, 1998 and Lamborghini vehicles as from January 1, 1999.

uncertainty arising, among other factors, from the reforms to tax and social security legislation. The key impulses for German manufacturers came from business with Western Europe and North America; exports rose by 3.5 % to 4,048,287 units. Motor vehicle production in Germany totalled 5,687,590 units, down 0.7 % owing to the cutting of inventories.

4.9 million vehicles delivered

With a worldwide total of 4,869,203 vehicles delivered, the Volkswagen Group achieved a new sales record in 1999. The 6.3 % increase on 1998 demonstrates the outstanding level of acceptance of our products, as a result of which the Company's share of the world passenger car market increased to 12.0 (11.7) %. The various product lines contributed to this positive result as follows: Volkswagen Passenger Cars 3,055,855 (+ 7.1 %), Volkswagen Commercial Vehicles 310,240 (– 7.0 %), Audi 634,708 (+ 5.9 %), Seat 481,414 (+ 11.5 %), Škoda 385,330 (+ 6.0 %), Rolls-Royce and Bentley 1,391 and Lamborghini 265 units. The percentage of the Group's total vehicle sales outside Germany increased slightly, from 75.9 % to 76.3 %.

Market leadership extended

With a share of the passenger car market of 18.8 (18.0) %, the Volkswagen Group increased its lead over its competitors in Western Europe. Overall deliveries in the year under review increased by 7.9 % to 3,053,713 units. Sales and market shares developed as follows: Volkswagen Passenger Cars strengthened its leading position with 1,692,105 units (+ 8.8 %) and a market share of 11.5 (11.0) %; Volkswagen Commercial Vehicles delivered 205,989 units (+ 0.5 %); Audi delivered 519,141 units (+ 3.6 %), attaining the same 3.4 % market share as in the previous year; Seat and Škoda with 443,659 (+ 12.2 %) and 192,156 (+ 11.7 %) units respectively attained market shares of 2.7 (2.5) % and 1.2 (1.1) % respectively. Rolls-Royce/Bentley and Lamborghini sold 568 and 95 units respectively.

Overall deliveries to customers of the Group on the markets of Central and Eastern Europe increased slightly over 1998, to 289,324 units. On the Central European markets Volkswagen achieved a new record in the year under review, with 262,747 vehicles delivered. All the passenger car brands of the Group contributed to that success with new record figures. On the Eastern European markets the Group delivered 26,577 units, down 26.1 % on the previous year. However, it was able to expand its market position further. In Russia, for example, it attained the number one position among passenger car importers.

In Germany – the largest automobile market in Europe – the Volkswagen Group delivered 1,155,140 vehicles to customers (+ 4.8 %). On a 1.8 % stronger passenger car market, the Group's leadership was further extended, with a market share of 29.7 (28.2) %. With a market share of 29.2 (27.4) %, the Group also strengthened its number one position in the new federal states in the East of Germany.

North America Region

Units	1999	1998	%
Total deliveries	**554,821**	**419,057**	**+ 32.4**
Volkswagen Passenger Cars	472,159	361,673	+ 30.5
Volkswagen Commercial Vehicles	9,096	4,919	+ 84.9
Audi	72,757	52,098	+ 39.7
Rolls-Royce/Bentley*	674	367	x
Lamborghini*	135	–	x

* Rolls-Royce/Bentley is included in Group figures with effect from July 4, 1998, and Lamborghini with effect from January 1, 1999.

South America/Africa Region

Units	1999	1998	%
Total deliveries	**490,281**	**586,429**	**– 16.4**
Volkswagen Passenger Cars	405,403	476,442	– 14.9
Volkswagen Commercial Vehicles	65,469	89,614	– 26.9
Audi	12,026	12,453	– 3.4
Seat	4,741	4,385	+ 8.1
Škoda	2,640	3,535	– 25.3
Lamborghini*	2	–	x

* Lamborghini is included in Group figures with effect from January 1, 1999.

Upturn in the North America Region

In the USA passenger car demand rose by 6.9 % in 1999, to 8,699,821 units. The Volkswagen Group achieved an impressive increase in sales, to 382,328 vehicles – its best result since 1974. The sustained enthusiasm for the New Beetle led to a marked strengthening of the Volkswagen brand image which benefited all the models of the Group on sale in the region. Consequently, the new Jetta and the Passat likewise substantially increased sales. The Audi brand increased sales of all its current models. The newly launched Audi TT exceeded expectations. The Group's overall share of new imported passenger car registrations was 9.9 (7.7) %.

Passenger car demand in Canada rose by 8.9 %. Volkswagen Canada Inc. increased its market share to 5.8 (5.5) %, primarily with the Jetta and Passat models and with the Audi models. With 47,050 vehicles sold (+ 13.7 %), the company achieved the best sales results in its history.

In Mexico the overall passenger car market grew by 6.4 % over the previous year, to 453,545 units. Volkswagen de Mexico, S.A. de C.V. increased its deliveries based on the substantial increases in sales of the Pointer and the Derby, as well as of the new Pickup model. As a result it further increased its market share to 26.4 (25.2) %.

Difficult background conditions in the South America/Africa Region

Brazil has developed into a key investment country for vehicle manufacturers. Whereas a few years ago a small number of large companies shared 95 % of the market, Brazil will soon be the country with the highest density of manufacturers in the world. In order to provide optimum support for the Latin American region and to strengthen the selling of our products, the Volkswagen Group Latin America, Inc. was founded. The existing plants of Volkswagen do Brasil Ltda. in Anchieta and Taubaté are being restructured in order to produce still more cost-effectively. In particular, no longer needed production halls and infrastructures are being demolished to make way for state-of-the-art manufacturing technologies.

Overall, new passenger car registrations in Brazil fell by 17.5 % to 1,016,567 units. The Volkswagen Group maintained its number one position with a 31.3 (30.2) % share of the passenger car market. In the light trucks segment the Group sold 41,519 units (– 33.6 %), attaining a market share of 21.9 (24.1) %. In the 7 to 35 tonnes segment the Group sold 11,392 Volkswagen trucks and buses (+ 0.1 %); its market share was 19.8 (16.9) %.

In Argentina the overall passenger car market fell by 14.9 %, even though a new bonus scheme to encourage the scrapping of old vehicles was intended to provide incentives to buy new cars. Volkswagen held a 16.7 (16.9) % share of the passenger car market. For the first time selling trucks imported from Brazil, the Group attained an immediate market share of 5.9 % in that segment.

The South African automobile market fell by a further 7.1 % on the previous year. Although sales of Volkswagen of South Africa (Pty.) Ltd. also fell on the domestic market, the company maintained its market leadership. The main pillar of business development proved to be the export of Golf models to Europe.

Asia-Pacific Region

Units	1999	1998	%
Total deliveries	**390,844**	**376,443**	**+ 3.8**
Volkswagen Passenger Cars	363,352	345,301	+ 5.2
Volkswagen Commercial Vehicles	6,523	8,837	– 26.2
Audi	18,806	21,830	– 13.9
Seat	1,037	376	x
Škoda	1,000	4	x
Rolls-Royce/Bentley*	97	95	x
Lamborghini*	29	–	x

* Rolls-Royce/Bentley is included in Group figures with effect from July 4, 1998, and Lamborghini with effect from January 1, 1999.

Good news from the Asia-Pacific Region

China was again the most important selling territory of the Volkswagen Group in the Asia-Pacific Region in 1999. The overall passenger car market totalled 586,145 units, 8.3 % up on the previous year. Volkswagen increased its deliveries by 4.1 % to 315,232 vehicles. In cooperation with our two joint ventures in Shanghai and Changchun, one area of focus was on the qualitative improvement of the selling organizations. Following on from the successful business operations of a sales joint venture involving FAW-Volkswagen, at the end of 1999 Shanghai-Volkswagen, too, signed a joint venture agreement launching a sales company.
A further focus was the safeguarding of the Group's market leadership with preparations for the launch of the Chinese versions of the Passat and of the Audi A6 at the beginning of the year 2000.

In Japan new vehicle registrations on the passenger car market increased slightly to 4,154,131 units (+ 1.5 %), primarily carried by sales in the mini-car segment. Sales of the Volkswagen Group were 6.2 % up on those of the previous year. With the launch of the New Beetle and the Bora, the Group's share of the import market was increased to 21.8 (20.8) %.

In the other markets of the Asia-Pacific Region, overall passenger car market demand substantially recovered in 1999 in comparison with the previous year, achieving an increase of 15.5 %. The Volkswagen Passenger Cars, Audi and Seat brands, too, exceeded their 1998 figures, with a total of 17,684 deliveries to customers.

Anniversary at Volkswagen Financial Services AG

The expansion of the Financial Services Division's business was sustained throughout its anniversary year 1999 – 50 years after the founding of Volkswagen Bank GmbH. In April of the year under review Volkswagen Financial Services AG acquired the shares in Volkswagen-Versicherungsdienst GmbH, Wolfsburg. The "ifm international fleet management GmbH" company, Braunschweig, founded in December 1998, began its business operations in the second quarter of 1999. In December 1999 VOLKSWAGEN DOĞUŞ TÜKETİCİ FİNANSMANI A.Ş. was founded in Turkey, with Volkswagen Financial Services AG holding 51 % of the shares. In Slovakia preparations are underway for the merger between ŠkoFIN s.r.o. (a 100 % subsidiary of Volkswagen Financial Services AG) and SK-Auto Leasing spol. s r.o. (a subsidiary of Porsche Bank AG, Salzburg) in order to establish a new company located in Bratislava. Volkswagen Financial Services AG will have a 58 % share in that company.

Additional customer-oriented leasing and financing offers in the year under review resulted in a 12.4 % increase in the number of outstanding contracts worldwide, to 3,033,500. A total of 1,262,500 new contracts were signed. 26.6 % of all new vehicles delivered by the Group were leased or financed, as against 26.1 % in the previous year. The balance-sheet total of the Financial Services Division increased by a substantial 25.3 % in the past fiscal year, to 59.6 billion DM.

Volkswagen Leasing GmbH, one of the leading companies in the European auto leasing business, concluded 210,400 new leasing agreements in the year under review. As per December 31, 1999, the company held 486,100 outstanding agreements.

In its anniversary year, Volkswagen Bank GmbH concluded 430,300 new customer credit agreements. As of end of the year under review, the company held a total of 1,001,500 outstanding agreements, an increase of 9.4 %. Receivables in respect of dealer financing on the balance-sheet date increased by 7.9 % to 5.7 billion DM. The continuous expansion of the direct-banking division resulted in a new record: Deposits totalled 5.2 billion DM, an increase of 22.1 %.

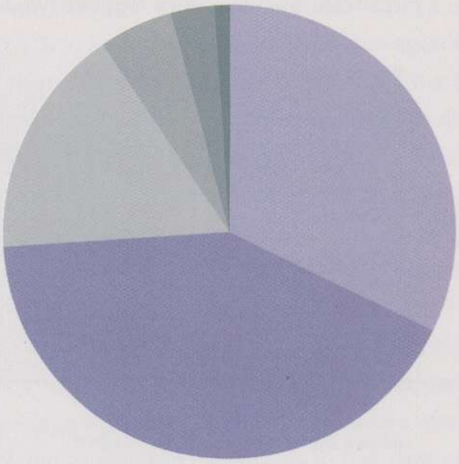
In the year under review, the companies belonging to the Volkswagen Financial Services AG financial holding group, and Volkswagen Bank GmbH as an individual company, fully complied at all times with the requirements of the German Credit Act (Kreditwesengesetz).

Financial Services key figures (worldwide)

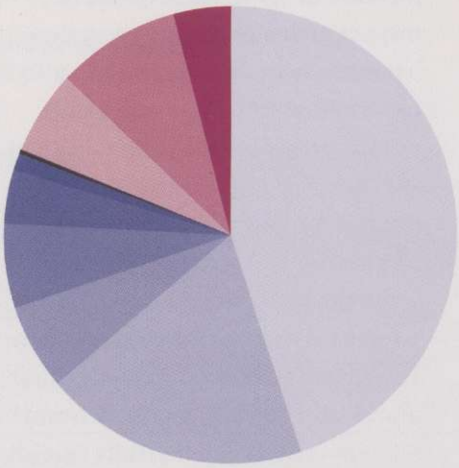
thousands	1999	1998	%
New contracts	1,263	1,146	+ 10.2
Customer financing	847	734	+ 15.5
Leasing	416	412	+ 0.8
Outstanding agreements	3,033	2,700	+ 12.4
Customer financing	2,012	1,729	+ 16.4
Leasing	1,021	971	+ 5.2

million DM	1999	1998	%
Investments in leasing and rental assets	13,575	10,391	+ 30.6
Receivables in respect of			
Customer financing	25,099	19,586	+ 28.1
Dealer financing	9,412	8,340	+ 12.8
Direct bank deposits	5,195	4,255	+ 22.1
Balance-sheet total	59,618	47,586	+ 25.3

Shares of sales 1999 by market (in %)



Shares of sales 1999 by sector (in %)



Unit sales and sales proceeds rising

In 1999 the brands of the Volkswagen Group again pursued their model offensive. At the beginning of the year, for example, the new Golf Variant and Bora Variant models were launched. At Audi, both the A4 and the A8 were attractively enhanced by extensive facelifts. The second half of the year saw the launch of the Lupo 3L TDI and the new Polo series. The models launched at the year-end, including the Seat León, the Škoda Fabia and the Bentley Arnage "Red Label" further added to the diversity of products offered by the Group.

Overall, sustained high demand resulted in increased unit sales and sales proceeds for the Volkswagen Group. However, reduced deliveries to the dealer organization in order to cut inventories meant that the growth rates for unit sales to the dealer organization worldwide were less than the deliveries to customers. In Germany, this normalization of inventory levels led to a slight fall in unit sales in comparison with the previous year. Worldwide sales to the dealer organization rose to 4,922,996 units (+ 3.7 %), of which 77.6 (75.7) % were outside Germany. The highest volume of unit sales was again in the Golf, with 17.9 (18.5) %, followed as in the previous year by the Passat and the Polo, with 13.8 (15.3) % and 8.5 (12.0) % respectively. The total sales figure includes 59,476 Ford Galaxy units sold to Ford-Werke AG. The unit sales of VOLKSWAGEN AG fell by 4.3 % to 2,187,689 vehicles.

Sales to the dealer organization by product line[1]

Units	1999	1998	%
Volkswagen Group	**4,922,996**	**4,747,818**	**+ 3.7**
Germany	1,104,221	1,152,604	– 4.2
Abroad	3,818,775	3,595,214	+ 6.2
Volkswagen Passenger Cars	3,148,994	3,099,177	+ 1.6
Volkswagen Commercial Vehicles	203,178	223,878	– 9.2
Audi	635,343	605,658	+ 4.9
Seat	503,319	432,784	+ 16.3
Škoda	371,095	385,556	– 3.8
Rolls-Royce/Bentley[2]	1,327	765	x
Lamborghini[3]	264	–	x
Ford Galaxy[3]	59,476	–	x
VOLKSWAGEN AG	2,187,689	2,285,884	– 4.3

[1] Including 317,194 (309,401) vehicles of the not fully consolidated vehicle-producing holdings Shanghai-Volkswagen, FAW-Volkswagen, Chinchun Motor (to January 26, 1999) and AUTOEUROPA (1998).
[2] Included in Group figures with effect from July 4, 1998.
[3] Included in Group figures with effect from January 1, 1999.

Sales proceeds increased in comparison with 1998 by 9.5 % to 147.0 billion DM. Of that total, the major contributors were the Golf with 15.0 (15.9) %, the Passat with 10.1 (11.4) % and the Audi A4 with 7.4 (7.9) %. Sales proceeds in Germany rose to 47.4 billion DM (+ 1.4 %), and outside Germany to 99.6 billion DM (+ 13.9 %). Consequently, sales outside Germany represented 67.8 (65.2) % of total sales proceeds.

Volume of purchasing increased

The volume of goods and services purchased by the Volkswagen Group increased in 1999 to 96.0 (80.5) billion DM, as a result of the upgraded outfitting specification of our models, capital investments and up-front expenditures in the field of research and development. Of the total purchasing, 56.6 (55.6) % originated in Germany.

The volume of purchasing of VOLKSWAGEN AG totalled 33.0 billion DM, against 30.5 billion DM in the previous year. 73.0 (73.2) % of total purchasing originated in Germany. 25.9 (22.7) billion DM was attributable to raw materials and supplies and merchandise purchases, and 7.1 (7.8) billion DM to capital goods and services.

Safeguarding jobs together

The average number of employees in the Volkswagen Group in the year under review was 305,667 (+ 3.8 %). Of that total, 158,741 (+ 3.5 %) were employed in Germany and 146,926 (+ 4.2 %) abroad. Consequently, employees in Germany represented 51.9 (52.1) % of the total worldwide workforce. As of December 31, 1999 the workforce of the Volkswagen Group worldwide totalled 306,275 people (+ 2.8 %).

As of December 31, 1999 VOLKSWAGEN AG employed 104,203 people (+ 0.4 %), of whom 4,641 were on limited-term contracts. 7.3 (7.4) % of the total workforce were non-German.

Resulting from the expansion of the product range, the increased fitting rates for special equipment and additional activities in the research and development field, more than 8,000 new jobs were created in the Volkswagen Group in the year under review. As per December 31, 1999, the workforce figure includes 1,091 employees of the COSWORTH TECHNOLOGY LTD. and Automobili Lamborghini Holding S.p.A. companies consolidated for the first time in 1999.

On April 23, 1999 the VOLKSWAGEN AG and IG Metall trade union negotiators reached agreement on a new collective pay round. The key features of the collective pay agreements were a 3.2 % pay increase with effect from August 1st of the year under review for a period of 14 months, the continuation of the bonus system and the payment of a one-off sum to full-time employees.

The "Time Asset" scheme introduced in 1998 offers all employees the opportunity to structure their working lives according to their individual wishes. It securitizes the entitlement to early retirement dependent on the number of working hours or portion of gross income contributed. Contributions are invested in a special securities fund. In cooperation with the Hypo-Vereinsbank, Munich, this labour market and pension policy instrument created by Volkswagen is to be marketed nationally throughout Germany.

Workforce

Employees	1999	1998	%
Volkswagen Group average over year*	**305,667**	**294,385**	**+ 3.8**
Volkswagen Group as per Dec. 31*	**306,275**	**297,916**	**+ 2.8**
Germany	158,316	155,435	+ 1.9
Abroad	147,959	142,481	+ 3.8
VOLKSWAGEN AG as per Dec. 31	104,203	103,792	+ 0.4

* Including the workforce of the not fully consolidated vehicle-producing holdings Shanghai-Volkswagen, FAW-Volkswagen, Chinchun Motor (to January 26, 1999) and AUTOEUROPA (1998; since January 1, 1999 AUTOEUROPA is consolidated). 15,229 (18,802) people on average over the year and 15,367 (18,773) people as per December 31st.

Production by product line[1]

Units	1999	1998	%
Volkswagen Group	**4,853,192**	**4,822,679**	**+ 0.6**
Germany	1,879,327	1,982,368	– 5.2
Abroad	2,973,865	2,840,311	+ 4.7
Volkswagen Passenger Cars	3,076,430	3,168,319	– 2.9
Volkswagen Commercial Vehicles	201,292	223,675	– 10.0
Audi	630,136	617,763	+ 2.0
Seat	516,910	413,097	+ 25.1
Škoda	367,253	399,099	– 8.0
Rolls-Royce/Bentley[2]	1,440	726	x
Lamborghini[3]	252	–	x
Ford Galaxy[3]	59,479	–	x
VOLKSWAGEN AG	1,365,020	1,470,850	– 7.2

[1] Including 313,791 (385,415) units of the not fully consolidated vehicle-producing holdings Shanghai-Volkswagen, FAW-Volkswagen, Chinchun Motor (to January 26, 1999) and AUTOEUROPA (1998).
[2] Included in Group figures with effect from July 4, 1998.
[3] Included in Group figures with effect from January 1, 1999.

Production at previous year's level

A total of 4,853,192 vehicles were manufactured in the year under review, 0.6 % more than in 1998. At the same time, the proportion of vehicles manufactured abroad rose from 58.9 % to 61.3 %. The total production figure includes 59,479 Ford Galaxy units built by AUTOEUROPA-AUTOMÓVEIS LDA. The average number of vehicles produced per working day in the Group stood at 20,157 (19,490). VOLKSWAGEN AG produced 1,365,020 units (– 7.2 %). Average daily production increased to 5,866 units (+ 3.3 %).

Quality management

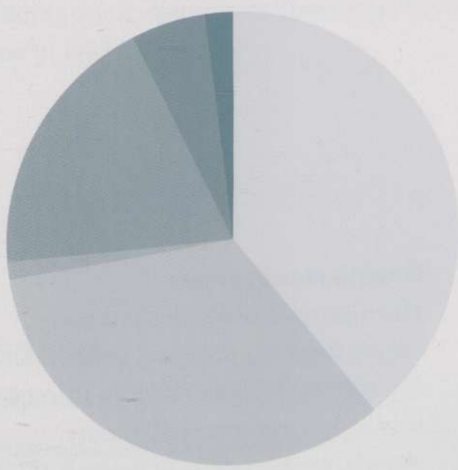
The high quality which customers expect from our products and services can only be safeguarded by a throughgoing, process-oriented quality management system. Our aim is to exceed our customers' expectations in order to create an even stronger sense of identification with the brands of the Volkswagen Group.

Quality assurance is a key element of the Company's core processes. It begins with preventive quality work, with the aim of incorporating feedback from customers, and their wishes, in the planning of new products; it covers the entire product development process through to production maturity. In the production phase, quality assurance supports all the processes designed to ensure efficient production at a high quality level.

Stock option plan launched

In 1999 the Board of Management and the workforce acquired convertible bonds totalling 3.3 million DM from the first tranche of the stock option plan. According to the conversion terms, the bonds entitle the bearers to purchase up to 6.7 million ordinary shares in the period from June 11, 2001 to June 4, 2004. By launching this scheme, Volkswagen has begun to implement one of the most significant employee share programmes ever established by a European company.

Operating costs by environmental protection sector 1999 (in %)



Protecting the environment together

Environmental protection is a firmly established component element of our corporate strategy. An outstanding example of the technological environmental intelligence of Volkswagen is the production of the world's first full-specification mass produced vehicle offering fuel consumption of less than three litres per 100 kilometres. One of the foundation stones of this innovation is also an environmental management system covering the entire product development, procurement and production cycle, as well as marketing, and through to recycling. Component suppliers are integrated into this system: Over 60 % of every vehicle is already recycled as raw materials, supplies and service products and as systems and components by our suppliers. In continuous dialogue with suppliers, Volkswagen exchanges information which helps to optimize environmental protection and the Company's products. At the second Environmental Symposium held in Wolfsburg in May 1999, six component suppliers received the VOLKSWAGEN AG Environment Award.

In the year under review VOLKSWAGEN AG invested 83.0 million DM (+ 25.8 %) in concrete environmental protection facilities. These not only ensure that our plant and equipment conform to the relevant legislation, they also in specific cases reduce operating expenses. For example, in June the Wolfsburg plant commissioned into operation a washing water recycling facility requiring an investment of 3.1 million DM. In the year under review the replacement of PCB-containing transformers was also completed, involving expenditures of 6.4 million DM. The operation of environmental protection facilities and equipment at the plants of VOLKSWAGEN AG incurred operating costs totalling 293 million DM, which were calculated on the basis of a new recording method. Additional information on the subject of environmental protection is contained in the latest Environment Report published by VOLKSWAGEN AG.

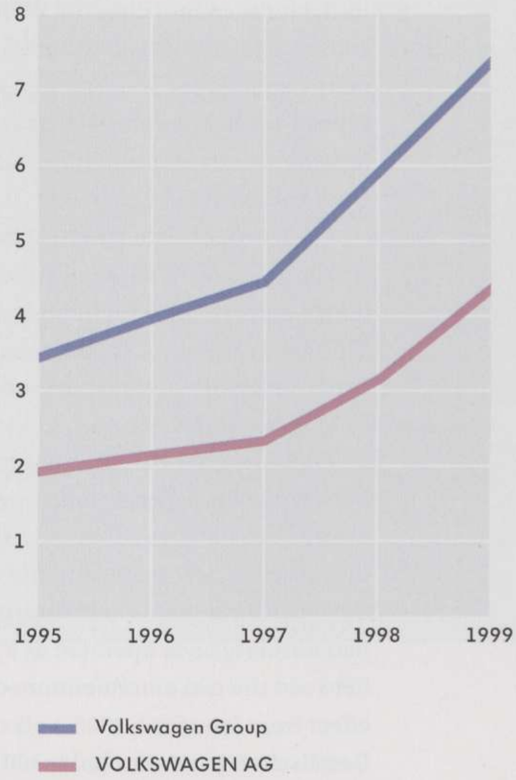
New standards in research and development

In pursuance of its model offensive and in the development of technical innovations, the Volkswagen Group spent 7.4 billion DM (+ 26.0 %) in the past fiscal year. The focus was on product updates and model facelifting of the Group's core products, as well as engine development. Further areas on which activities were focussed included the Concept D project for a luxury-class saloon car and the Sports Utility Vehicle project. Research and development expenditure represented 5.0 (4.4) % of total Group sales proceeds. In 1999 the Research and Development function employed 17,580 people (+ 8.6 %). Expenditure by VOLKSWAGEN AG increased to 4.4 billion DM (+ 39.8 %); the number of people it employed in this sector increased to 9,059 (+ 9.8 %). Our innovative strength is also demonstrated by the increase in the number of patents registered: in Germany by 52 % to 1,033 and internationally by 41 % to 368.

The vehicles launched in the year under review – above all the ultra-low-consumption "3-litre" car – are impressive examples of the performance capability of the Group's technical development functions. In order to safeguard that capability for the future, the Group invested further in the modernization of technical testing facilities. It spent 69.9 million DM on the construction of one new engine testing facility alone in 1999. In order to provide even closer cooperation with suppliers and development partners, the construction of a Simultaneous Engineering centre was begun as part of the AutoVision scheme at the Group head office site in Wolfsburg.

Further information on the subject of research and development is given in the Product Creation section of the report.

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



Major new companies and acquisitions

Following the approval issued on January 19, 1999 by the Chinese authorities, the VOLKSWAGEN AG 100 % subsidiary, Volkswagen (China) Investment Company Ltd., Beijing, was founded with effect from February 4th. The company has the character of a holding company, bundling existing and future Group activities in China.

On March 2, 1999, Volkswagen Beteiligungs-Gesellschaft mbH, with registered office in Wolfsburg, acquired the 50 % holding in AUTOEUROPA-AUTOMÓVEIS LDA., Palmela, formerly held by Ford-Werke AG, Cologne; the other 50 % is still held by VOLKSWAGEN AG.

On December 15, 1999 a contract was signed between Volkswagen Beteiligungs-Gesellschaft mbH, Wolfsburg, and Compagnie des Wagons-Lits et du Tourisme S.A., Paris, relating to the acquisition of the remaining shares in the Europcar Group, which had formerly been operated as a joint venture between the two aforementioned companies. With effect from January 1, 2000, Volkswagen Beteiligungs-Gesellschaft mbH now holds 100 % of the shares in Europcar International S.A., Paris. By this acquisition, Volkswagen is underlining the importance of the car hire business as part of its package of vehicle-related services within its Mobility concept.

Voluntary humanitarian aid for former forced labourers

In September 1998 VOLKSWAGEN AG created a 20 million DM humanitarian fund for the benefit of persons forced to work during World War II for the Volkswagen company existent at that time. The fund is under the supervision of a board of trustees composed of leading public figures. By December 31, 1999 a total of 10.1 million DM had been paid out to 1,007 former forced labourers in 24 countries worldwide.

In February 1999 VOLKSWAGEN AG, jointly with 11 other companies, had issued a statement concerning the establishment of an endowment foundation named "German Economy Foundation Initiative: Remembrance, Responsibility and the Future". On December 17, 1999 an agreement in principle was reached between the Governments of the Federal Republic of Germany, the United States of America, Israel and five Eastern European countries, victims' representatives and German business. The member companies of the Foundation have undertaken to do all in their powers to collect a total of 5 billion DM in contributions from German business as a whole.

Also on December 17, 1999, VOLKSWAGEN AG officially opened a memorial commemorating forced labour on the historic site of the former air raid shelter in Hall 1 of the Volkswagen plant in Wolfsburg.

Aid to Volkswagen Sachsen GmbH

On December 15, 1999 the European Court of First Instance resolved the legal dispute concerning the investment grants allotted to the plants in Mosel and Chemnitz in favour of the European Commission. The court did not share Volkswagen's interpretation of the law in a number of key points, and thereby upheld the decision made by the Commission in 1996.

The European Commission had approved aid in the amount of 539 million DM, but viewed further investment

Balance-sheet structure by Division

million DM	Automotive				Financial Services				Volkswagen Group			
	1999	%	1998	%	1999	%	1998	%	1999	%	1998	%
Fixed assets	42,204	43.7	37,010	41.2	19,048	31.9	14,609	30.7	55,098	42.0	45,895	39.1
Current assets	54,270	56.3	52,800	58.8	40,570	68.1	32,977	69.3	76,173	58.0	71,458	60.9
Inventories	15,007	15.6	13,045	14.5	116	0.2	33	0.1	15,124	11.5	13,078	11.1
Receivables	29,927	31.0	24,992	27.8	38,879	65.2	32,388	68.0	51,672	39.4	43,468	37.1
Liquid funds	9,336	9.7	14,763	16.5	1,575	2.7	556	1.2	9,377	7.1	14,912	12.7
Total assets	**96,474**	**100.0**	**89,810**	**100.0**	**59,618**	**100.0**	**47,586**	**100.0**	**131,271**	**100.0**	**117,353**	**100.0**
Stockholders' equity	22,330	23.1	20,720	23.1	2,776	4.7	2,875	6.0	19,702	15.0	18,745	16.0
Outside capital	74,144	76.9	69,090	76.9	56,842	95.3	44,711	94.0	111,569	85.0	98,608	84.0
long-term	14,375	14.9	14,030	15.6	1,563	2.6	1,282	2.7	16,881	12.9	16,431	14.0
medium-term	13,709	14.2	12,970	14.4	22,635	38.0	18,489	38.9	27,325	20.8	23,937	20.4
short-term	46,060	47.8	42,090	46.9	32,644	54.7	24,940	52.4	67,363	51.3	58,240	49.6
Total capital	**96,474**	**100.0**	**89,810**	**100.0**	**59,618**	**100.0**	**47,586**	**100.0**	**131,271**	**100.0**	**117,353**	**100.0**

subsidies in the amount of 241 million DM as being contrary to the principles of the Common Market. After 90.7 million DM in aid had been paid out in that same year, Volkswagen had already repaid the amount to a trust account outside the powers of disposal of the Company by 1997.

The Free State of Saxony and VOLKSWAGEN AG have lodged an appeal against the decision of the Court of First Instance. The suit filed by the Federal Republic of Germany in the same matter is in any case already pending at the European Court of Justice.

Aid to Automobilmanufaktur Dresden GmbH

On the basis of the subsidies approved by the Free State of Saxony and the German Investment Subsidies Act, Automobilmanufaktur Dresden GmbH submitted due application to the European Commission for state aid. The European Commission initiated the review procedure in November 1999.

Balanced asset and capital structure

The investments in tangible assets required to implement our strategies and the sustained expansion in the financial services sector resulted in an increase in the Group's fixed assets to 55.1 (45.9) billion DM in 1999. The expansion of the model range and the trend towards higher-grade vehicles and outfitting resulted in an increase in inventories. Receivables increased in particular as a result of the growing customer financing business. Liquid funds including the securities classified as current assets totalled 9.4 billion DM, below the level of the previous year. Overall, the balance-sheet total of the Group increased to 131.3 (117.4) billion DM. After payment of the dividend for the fiscal year 1998, Group net earnings resulted in an increase in stockholders' equity of 1.0 billion DM to 19.7 billion DM. Mainly resulting from the growing banking and financing business for sales promotion purposes, outside capital increased to 111.6 (98.6) billion DM, of which 46.2 (39.6) billion DM were interest-bearing borrowings.

In the Group's Automotive Division the balance-sheet total increased to 96.5 billion DM (+ 7.4 %), in particular as a result of a further rise in capital investments aimed at updating and expanding our model range. The stockholders' equity increased by 1.6 billion DM to 22.3 billion DM; the equity ratio of 23.1 % was at the previous year's level.

The assets of the Financial Services Division increased as a result of the expansion of activities in Europe, Asia and the North America Region; as per December 31, 1999 its balance-sheet total was 59.6 billion DM (+ 25.3 %). The book value of the leasing and rental assets contained in the Group's fixed assets rose by a substantial 28.1 % to 17.7 billion DM. The receivables included in "Current assets" as per the balance-sheet date in respect of customer and dealer financing totalled 34.5 billion DM (+ 23.6 %). The stockholders' equity fell by 0.1 billion DM against the 1998 figure, to 2.8 billion DM. The equity ratio in the published financial statements according to commercial law was 4.7 %, against 6.0 % in the previous year. The causes of this fall lie in higher depreciation of the increased volume

Development of short-term liquidity 1999 (Condensed)

million DM	Automotive[1]	Financial Services	Volkswagen Group
Cash flow	11,056	6,334	16,771
Other internal financing	459	– 5,630	– 5,178
Inflow of funds from current operations	11,515	704	11,593
Capital investments[2]	– 12,386	– 10,817	– 22,722
Inflow/outflow of funds in respect of financing operations	– 289	11,132	5,838
Change in gross liquidity	– 1,160	1,019	– 5,291
Gross liquidity at end of period	33,206	1,575	13,202
Total third-party borrowings	– 17,470	– 50,571	– 45,624
Net liquidity	15,736	– 48,996	– 32,422

[1] Excluding the capital tie-up arising from loans to the Financial Services Division.
[2] Investments balanced against disposals of fixed assets at net book values.

of leasing assets, one-off effects arising from the German tax reform, and the effects of exchange rate changes on the South American companies. Of the outside capital stated in the consolidated balance sheet, 16.4 billion DM (+ 7.6 %) relate to liabilities to banks. The liabilities to affiliated companies include intra-Group loans from companies in the Automotive Division in the amount of 19.5 billion DM (+ 27.2 %). The "Other liabilities", "Provisions" and "Deferred income" items relating to the Financial Services Division together amount to 16.9 billion DM (+ 50.9 %).

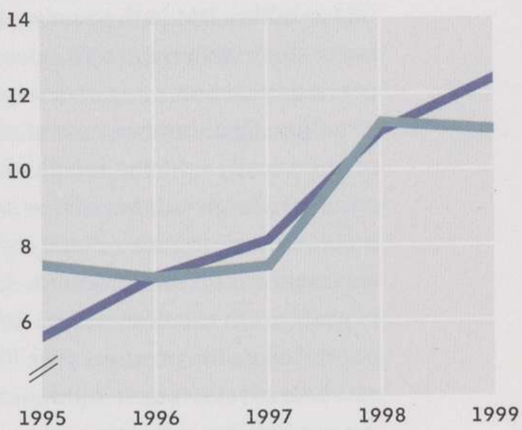
Financing of capital investments

In the past year the Volkswagen Group generated a cash flow in the amount of 16.8 billion DM, holding steady at the previous year's level. Taking account of "Other internal financing", the inflow of funds from current operations totalled 11.6 billion DM (+ 2.5 billion DM). With capital investment activity (including additions to the leasing and rental assets) totalling – 22.7 billion DM, a substantial 5.2 billion DM up on 1998, taking into account the financing activity the gross liquidity of the Group changed by – 5.3 billion DM to 13.2 billion DM as per December 31, 1999. Total third-party borrowings increased to – 45.6 billion DM. The net liquidity in the Group was thus – 32.4 billion DM.

In the Automotive Division, 89.3 % of the again substantially increased outflow of capital investment funds totalling 12.4 billion DM was financed from cash flow. Funds from "Other internal financing" (excluding the capital tie-up arising from intra-Group loans to the Financial Services Division in the amount of 4.2 billion DM) were also deployed for investment financing. Our goal of financing capital investments in our core business only from our own resources was virtually achieved. Taking into account an outflow of funds arising from financing activities, gross liquidity fell by 1.2 billion DM to 33.2 billion DM. Balanced against the total third-party borrowings, a net liquidity of 15.7 billion DM resulted. Consequently, the core automotive business remains free of debt in net terms.

In the Financial Services Division additions to the leasing and rental assets were financed in particular by intra-Group loans and – as is common in the industry – by borrowings on the international capital markets.

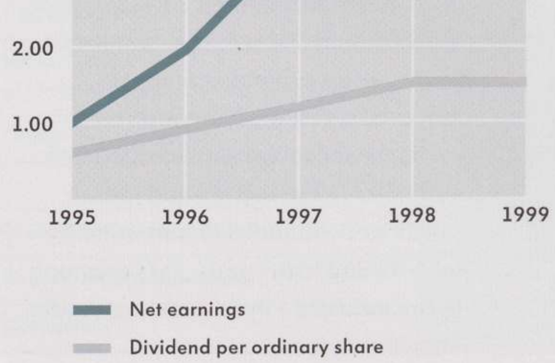
Investments in tangible fixed assets and cash flow in the Automotive Division (billion DM)



Earnings growth in the Group temporarily restrained

The slight increase in unit sales – associated with the trend towards higher-grade outfitting of vehicles – led to an increase in sales proceeds of 9.5 % to 147.0 (134.2) billion DM in the year under review. The lower share of German unit sales relative to the previous year had a negative impact on the revenue structure. Furthermore, cost of sales rose as a result of more costly vehicle specifications, higher start-up costs for a large number of new models, and increased investment-related costs and up-front expenditures for new products. As a result, the ratio of gross profit to sales was 11.3 %, 1.1 percentage points below the previous year. The cautious estimate of results development for 1999 proved correct from an early stage.

Net earnings for the year and dividend per share (DM)



Selling and distribution costs rose beyond the volume-related increases, primarily as a result of higher freight and packaging costs for deliveries to the European market of the New Beetle from Mexico and the Golf from South Africa. Other increases resulted from higher expenditure on advertising and sales promotion in response to greater competitive pressure. The gross profit fully covered both the selling and distribution costs and the less significantly increased administration costs. The balance of other operating income and expenses was again positive, at 1.4 (1.6) billion DM. With a net financial result up by 0.3 billion DM on the previous year to 2.1 billion DM, the Volkswagen Group overall returned an operating profit from ordinary business totalling 4,933 (6,287) million DM. The return on sales fell to 3.4 (4.7) %.

Performance of the brands

The main profit-generating units of the Group were once again the Volkswagen Passenger Cars and Audi brands. However, the Volkswagen Passenger Cars brand was unable to attain the same level as in 1998. The main reasons for this were the reduction in deliveries to German dealers in order to normalize inventories, increasing pressure on margins, and the increased development costs as up-front expenditures for new projects aimed at extending and expanding the product range. Moreover, the 1998 result had benefited from a number of special influencing factors.

Audi was unable to sustain its dynamic profits growth of recent years. The 1999 result just failed to reach the previous year's level, primarily because of expenditure on new products aimed at building on the brand's market position.

Profits of the Volkswagen Commercial Vehicles brand were slightly up on the previous year, although high up-front expenditures were incurred for the new generation of the Transporter.

The Seat brand significantly increased unit sales, especially in Spain. With the product facelifts of the Ibiza and Cordoba, the complete redesign of the Toledo series and the launch of the León, a major part of the model range underwent renewal. The resultant start-up costs and lower revenues as a consequence of reduced production of the Polo Classic and Polo Variant models for the Volkswagen Passenger Cars brand led to a fall in overall profits relative to the previous year.

As a result of lower overall sales volumes on the Eastern European markets and its expenditure on the new Fabia, Škoda was unable quite to reach the level of its previous year's result.

The Rolls-Royce/Bentley brand returned a loss, owing to unsatisfactory sales volumes and the development cost for model facelifting and for new products.

Performance in the regions

In the North America Region the market success of the Volkswagen and Audi models and deliveries to the European market of the New Beetle led to a substantial improvement in results and made a significant contribution to the overall Group result.

In South America the fall in demand for automobiles resulting from the general economic conditions also affected Volkswagen, although it was able to build further on its market leadership in Brazil. The substantial loss in South America resulted from falls in unit sales owing to the ongoing economic crisis begun at the end of 1997, the burdens placed by the devaluation of the Brazilian currency and, for the most part, to the one-off effects connected with necessary adjustments of personnel levels and the production start-up of the Curitiba plant. Nonetheless, we remain committed to updating our product range and modernizing our factories in response to competitive pressures and with a view to the expected recovery of the economy as a whole in this key market. We also see opportunities in the region's enhanced export capability to markets outside Central and South America based on modernization of the product range.

With a slight increase in unit sales, the Asia-Pacific Region made a higher contribution to Group profits than in the previous year. The sound market position of the Group in China was thereby strengthened further.

Expansion of business in financial services

In the Financial Services Division business volumes grew significantly as a result of the favourable background conditions in Europe and North America. In South America, prevailing economic conditions meant that business declined. Overall, owing to the declining-balance depreciation applied to the increased leasing assets and the situation in South America, profit before tax was slightly below the previous year's level.

Tax reform impacts on earnings

Taking into account the taxes on income – with a tax load ratio of 66.5 (64.3) % – the Group as a whole returned net earnings for the year in the amount of 1,651 million DM, against 2,243 million DM in 1998. Stripping out the one-off charges arising from the tax reform, mainly involving the discounting of provisions, the limitation of write-offs to the lower going-concern value and the introduction of a strict requirement to reinstate original values, earnings totalled 2,040 million DM, virtually at the same level as the previous year.

Dividend proposal at previous year's level

Notwithstanding the decline in Group profits, the net earnings of VOLKSWAGEN AG of 1,276 million DM (+ 2.8 %) were at the previous year's level. Consequently, a dividend per no-nominal-value share at the level of the previous year is to be paid, resulting in a slight increase in dividend volume over the previous year based on the increased amount of capital entailing dividend entitlement. The Board of Management and Supervisory Board, after transferring 637 million DM to free reserves, propose to the Annual Meeting of Stockholders the payment of a dividend of 0.77 € (previous year: 0.77 €*/1.50 DM) per ordinary share and 0.83 € (previous year: 0.82 €*/1.60 DM) on each preferred share. Taking into account the tax credit of 0.33 € per share, eligible holders of ordinary shares will receive a total of 1.10 € per no-nominal-value share. Holders of preferred shares will be entitled to 1.19 € per no-nominal-value share, including the tax credit of 0.36 €.

* The dividend values per no-nominal-value share in DM from the previous year have been converted into Euro at a rate of 1.95583 DM and rounded according to standard commercial practice.

Proposal on appropriation of net earnings available for distribution

	€	DM
Dividend distribution on subscribed capital – 1,068 million €* –	327,523,338.80	640,579,971.73
of which on ordinary shares	240,175,566.40	
on preferred shares	87,347,772.40	
Balance (carried forward)		5,468,089.55
Net earnings available for distribution		**646,048,061.28**

* 0.1 million € deriving from the exercising of option rights in the year under review carried no dividend rights for the fiscal year 1999.

Sources and allocation of funds of the Volkswagen Group

Sources	million DM	1999		1998	
Sales		147,013		134,243	
plus other income		12,534		11,976	
less expenditures		127,883		113,969	
Added value		**31,664**		**32,250**	

Appropriation	million DM	1999	%	1998	%
To stockholders	Dividends	641	2.0	619	1.9
To employees	Wages, salaries, fringe benefits	23,406	73.9	22,457	69.6
To the State	Taxes, levies	3,656	11.6	4,362	13.5
To creditors	Interest	2,950	9.3	3,187	9.9
To the Company	Transfer to reserves	1,011	3.2	1,625	5.1
Added value		**31,664**	**100.0**	**32,250**	**100.0**

DVFA-based earnings calculated according to new method

The earnings per no-nominal-value share under the terms of commercial law were 3.96 (5.52) DM in 1999. Earnings according to the DVFA (German Association for Financial Analysis and Investment Consultancy), which express the net earnings adjusted by special effects, were 2.4 billion DM in the past fiscal year. Earnings per no-nominal-value share were 5.75 (7.45) DM. Excluding the impact of the German tax reform, DVFA-based earnings per share in 1999 would have been 6.15 DM.

In determining earnings according to the DVFA in 1999, changes in methodology meant that for the first time latent taxes arising from provisions and from losses carried forward were also to be included. Furthermore, write-down of goodwill treated as not affecting profit and loss in the previous years was to be included on a pro rata temporis basis. The comparison value for 1998 was calculated accordingly.

Added value of the Volkswagen Group

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 the Volkswagen Group's added value decreased slightly by 1.8 % to 31.7 billion DM, representing added value per employee of 112,000 DM (– 6.8 %).

Net earnings of VOLKSWAGEN AG at previous year's level

In the past fiscal year the new orders in Germany and in Western Europe outside Germany were satisfactory, rising by 7.7 % and 19.7 % respectively. Orders in hand in Germany as per the year-end fell to 86,943 units. Primarily owing to increased sales in North America and on the European volume markets, VOLKSWAGEN AG increased sales proceeds by 5.4 % to 78.4 billion DM, of which 61.5 (57.9) % were exports. Cost of sales rose in the same period by 6.5 % to 73.1 billion DM, so that gross profit fell by 7.8 % to 5.3 billion DM. Selling and distribution expenses rose as a result of increased expenditure on advertising and sales promotion and the increase in packaging costs related to higher volumes. The balance of other operating income less other operating expenses was below the level of the previous year, in particular as a result of negative foreign exchange effects . The net financial result exceeded that of 1998. Overall, the result before taxes fell by 15.5 % to 3,752 million DM. After taxes VOLKSWAGEN AG generated net earnings of 1,276 million DM, up 2.8 % on the previous year. The burden arising from the German tax reform included in the tax expenses totalled 286 million DM.

Structure of the VOLKSWAGEN AG statement of earnings

million DM	1999	%	1998	%
Sales proceeds	**78,417**	**100.0**	**74,381**	**100.0**
Cost of sales	73,132	93.3	68,647	92.3
Gross profit	**+ 5,285**	**6.7**	**+ 5,734**	**7.7**
Selling, distribution and administration expenses	5,214	6.6	4,842	6.5
Other operating income and expenses	+ 539	0.7	+ 1,019	1.4
Financial result	+ 3,142	4.0	+ 2,531	3.4
Results from ordinary business activities	**+ 3,752**	**4.8**	**+ 4,442**	**6.0**
Taxes	2,476	3.2	3,201	4.3
Net earnings	**+ 1,276**	**1.6**	**+ 1,241**	**1.7**

Balance-sheet structure of VOLKSWAGEN AG

Assets million DM	Dec. 31, 1999	%	Dec. 31, 1998	%
Fixed assets	25,276	49.7	22,088	46.1
Inventories	4,059	8.0	3,824	8.0
Receivables	18,974	37.2	15,894	33.2
Liquid funds	2,579	5.1	6,061	12.7
Total assets	**50,888**	**100.0**	**47,867**	**100.0**

Stockholders' equity and liabilities million DM	Dec. 31, 1999	%	Dec. 31, 1998	%
Stockholders' equity	17,215	33.8	16,591	34.7
Long-term liabilities	10,380	20.4	10,373	21.6
Medium-term liabilities	7,536	14.8	6,790	14.2
Short-term liabilities	15,757	31.0	14,113	29.5
Total capital	**50,888**	**100.0**	**47,867**	**100.0**

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-Analytik und -Publizität, Brieffach 1848-2, D-38436 Wolfsburg.

At 50.9 billion DM, the balance-sheet total was 3.0 billion DM above the previous year's figure. While the fixed assets increased substantially to 25.3 billion DM as a result of capital investments, current assets decreased slightly to 25.6 billion DM. Stockholders' equity increased to 17.2 billion DM as a result of earnings development; it represented 33.8 % of the balance-sheet total, slightly below the previous year's level. Outside capital increased, particularly in terms of short-term liabilities. Provisions remained virtually unchanged.

The total capital investments of VOLKSWAGEN AG decreased by 21.0 % in 1999 to 6,159 million DM. Investments in fixed assets including intangible assets totalled 3,653 million DM (+ 28.4 %), and were primarily deployed for the expansion of the product range, for model facelifts and to sustain our engine, gearbox and chassis programme. Financial investments totalling 2,506 million DM (– 49.4 %) were mainly attributable to a capital injection in Volkswagen Beteiligungs-Gesellschaft mbH for the acquisition of the 50 % share of Ford-Werke AG in AUTOEUROPA-AUTOMÓVEIS LDA., loans to subsidiaries and the creation of Time Assets for employees in special securities funds.

Risk report

Business is conducted in an environment characterized by opportunity and risk. Consequently, one of the key management functions at Volkswagen is the systematic detection, analysis and control of risk which may impede the Company's development. In view of that fact, the recent German legislation relating to risk management is already embodied in the organizational structure at Volkswagen, in which the fundamental objects of the German Law governing controls and transparency in business ("KonTraG") are already integrated in the form of principles of corporate management and organizational controls in process chains. The auditors carried out an assessment of the risk management systems of VOLKSWAGEN AG and of AUDI AG in 1998; in 1999 the assessment of the risk analysis practices of the remaining brands and regions of the Volkswagen Group was completed. The results show that the major subsidiaries, too, operate a functional risk management system. We thereby comply with the legal requirement for an early-warning function by means of a Group-wide risk management system; the fundamental regulations for monitoring have been drafted.

Risk to the Company arises not only from commercial activity, but also from the product itself, for which the manufacturer is liable within legally defined bounds. By means of technical innovations, certification of processes and an efficient quality management system, the risk arising from warranty claims and product liability is reduced. A generous, customer-oriented repairs practice helps to keep the cost and damage incurred by possible recalls to a minimum. The discernible risk is taken into appropriate account by means of provisions.

The European Directive concerning the return of used vehicles which is currently under consultation entails a substantial financial risk for the automotive industry, by which Volkswagen as the European market leader would be affected to a particularly high degree. It provides for the return of used vehicles to the manufacturer at no charge to the last registered owner. It is expected that manufacturers will have to bear the cost, either in its entirety or to a major extent, of the disposal of new vehicles as from 2001 and of existing older vehicles with a negative market value as from 2006. The extent to which manufacturers will be able to utilize financing models at a national implementation level and engage other commercially involved parties in order to cover costs remains to be seen. The level of the corporate risk arising from the over 30 million Group vehicles currently in use in the European Union as of the end of 1999 also depends on how the recycling regulations are stipulated in detail. In view of the still incomplete standardization process, no reliable estimate of the level of risk can be given at present.

European automobile manufacturers sell their products as a general principle by means of selective distribution. That is to say, the manufacturers select their – usually brand-exclusive – dealers according to qualitative and quantitative factors. This guarantees a commercially sound and efficient selling and aftersales service network. The Block Exemption Regulation issued by the European Commission for selective distribution of automobiles remains in force until the year 2002. In the year 2000 the European Commission will present a report on the functioning of the Block Exemption Regulation which will form the basis for the consultations on the future legal framework for European automobile distribution.

The German legislation relating to ecologically based tax reform aroused major resistance initially, in view of the potential impact on German business. In response, the German Federal Government has adopted a discount and reimbursement scheme for manufacturing industry. The current resolutions passed in relation to the eco tax entail no discernible direct material disadvantage for VOLKSWAGEN AG. The burden placed will be balanced by the reduction in incidental wage costs and the liberalization of the electricity market.

At present no concrete developments are discernible which may lastingly and substantially impair the asset, financial and earnings position of the Volkswagen Group and of VOLKSWAGEN AG. Commercial development is subjected to continuous critical analysis in order to counter any risk-generating developments promptly and by appropriate means. All current known commercial, technical or legal risks were covered in the 1999 financial statements of the Volkswagen Group and of VOLKSWAGEN AG by means of provisions and value adjustments.

However, the most effective means of risk limitation lies in a range of products which is superior to the competition, with high quality and continuous improvement of productivity and cost-effectiveness. The Volkswagen Group is working permanently and at high intensity to attain those goals.

System changeover at the Spares Centre

In 1999 the Kassel Spares Centre underwent a system changeover based on the deployment of standard software. During the changeover phase bottlenecks occurred in supplies to the dealer organization. As a result of the measures undertaken to stabilize the processes, the initial start-up difficulties have now largely been eliminated. In the year 2000 we will again be in a position to offer our customers the usual standard of high-quality service.

Successful year 2000 changeover

The Volkswagen Group entered the year 2000 with no disturbances in any of its corporate units. Production in the Group was started to schedule at the beginning of the year 2000. The information systems in the other business processes likewise operated without disturbance. The Procurement and Sales functions reported that their business partners were all operational at the start of the year.

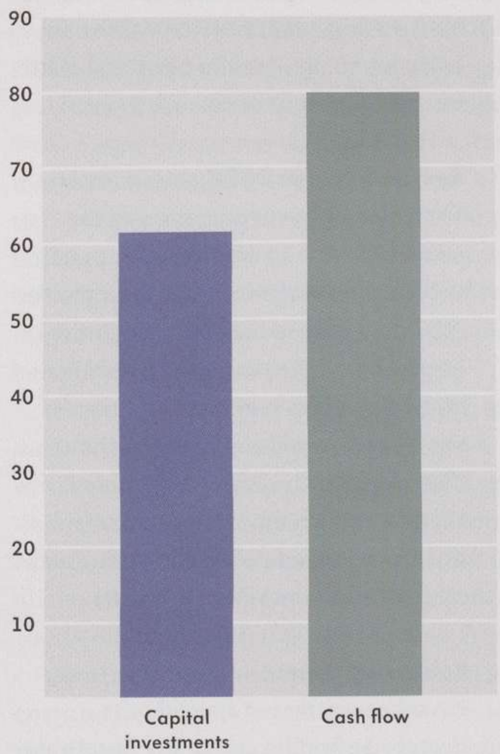
Follow-up report

No other matters of special note occurred after the end of the fiscal year, beyond those already known.

Forecast

The upturn in the world economy will continue in the year 2000, accompanied by a further convergence of the differing economic cycles in the individual regions. While growth in Western Europe will strengthen, the upward trend in the USA is losing momentum. The Japanese economy will grow only to a minor extent in the medium term. However, higher increases in gross domestic product are to be expected in future in Latin America and in the Asian region outside Japan. Overall, the improvement in Central and Eastern Europe will continue.

Capital investments and cash flow in the Automotive Division 2000–2004 (billion DM)



After low economic growth in Germany in the past year, a substantial rise from 2.5 % to 3.0 % is forecast for the year 2000. The positive developments in the export sector will be maintained, and at the same time domestic demand will become a stronger factor. The labour market will improve only haltingly, however.

The automotive industry will not profit in full from the global economic upturn. The increasing saturation on the Western European and North American markets and the intensifying predatory competition pressure is impeding further development. In the medium and long term, however, there are sound prospects for strong growth especially on the markets in Eastern Europe, Asia and Latin America.

We remain committed to our long-term investment policy. A total of 61.3 billion DM is planned to be invested in the Automotive Division of the Volkswagen Group in the years 2000-2004. This confirms the investment volume in the last-but-one investment plan. The Group will be concentrating still more intensively on its core automotive business. The future investments in tangible assets, of which approximately 58 % will be made in the plants in Germany up to the year 2001, will be deployed primarily to expand and modernize the product range.

The focus of these investments will be on the development and market launch of luxury-class models, the updating of the Transporter series and the joint project with Porsche to develop

Investment and financial planning 2000–2004

billion DM		Investments	Cash flow
Automotive Division		**61.3**	**79.7**
of which:	Volkswagen Passenger Cars	25.4	38.4
	Volkswagen Commercial Vehicles	2.9	3.6
	Audi	16.1	19.0
	Seat	3.1	4.3
	Škoda	3.3	4.8
	Rolls-Royce/Bentley	0.7	0.4
	North America Region	3.4	5.3
	South America/Africa Region	3.9	5.0
	Asia-Pacific Region*	0.1	0.3

* Excluding the Group companies in China, which will be investing approx. 2.9 billion DM in new models and engines.

and produce offroad sports utility vehicles. In addition, a new MPV (multi-purpose vehicle) will be developed. The demand-oriented adjustment of capacities in vehicle and engine manufacture will be continued, accompanied by modernization of production facilities focussing on press plants, paintshops and assembly lines. Beyond the Production area, we also plan to expand the R&D, Quality and Information Systems functions.

In the planning period the capital investments in all brands and regions – with the exception of Rolls-Royce/Bentley – will be financed from our own funds. Overall, cash flow covers the capital investments in the Automotive Division with a surplus of 18.4 billion DM.

The year 2000, too, will see numerous new model launches. Fuel consumption, vehicle safety and electronic driving aids are dominant themes. Quality, performance and comfort are the identifying characteristics of our image, and underscore the high quality of our products.

At the beginning of the year Audi started mass production of the A2. The new Sharan from Volkswagen Passenger Cars will be presented in mid 2000. Škoda is running up production of the new Fabia to schedule, and Seat launches in the current year will be focussed on the new Alhambra and a facelift for the Arosa. In 2001 the first units of the VW luxury saloon will be produced in Dresden. At Rolls-Royce/Bentley, further product improvements and an expansion of the model range are planned following that company's integration into the Group.

The Group models will be successively fitted with the low-consumption, environmentally friendly petrol engines with direct fuel injection (FSI technology). Together with the pump/nozzle assembly and Common Rail diesel technologies, these will form the future engine programme.

Expenditure on research and development will remain at a high level in the coming years. We will thereby strengthen the outstanding positioning of our models on the key markets, and attract new customers to the Volkswagen Group.

Our planning is based on a generally positive development in economic conditions. Against this background, for the year 2000 we expect to see a further increase in unit sales and sales proceeds, and growth in profits.

Founded on our long-term corporate strategy and the intensified efforts to improve earnings power, we remain committed to our return on sales target of 6.5 % before taxes.

Wolfsburg, February 22, 2000
The Board of Management

This Report contains forecasts of the future business performance of the Volkswagen Group. Those forecasts are based on assumptions regarding the development of the economies of individual countries, in particular the automotive industry, which we made on the basis of the information available to us and which we at present consider realistic. The estimates entail risk, and the actual developments may differ from our expectations.

Consequently, if unexpected falls in demand or stagnation should occur in our key selling markets, such as Western Europe, in particular Germany, or the USA, Brazil or China, our business development and the associated profit expectations will be affected accordingly. The same applies in the event of a deterioration in prevailing currency exchange rates against the US Dollar, the British Pound Sterling or the Japanese Yen.

Ferdinand Piëch

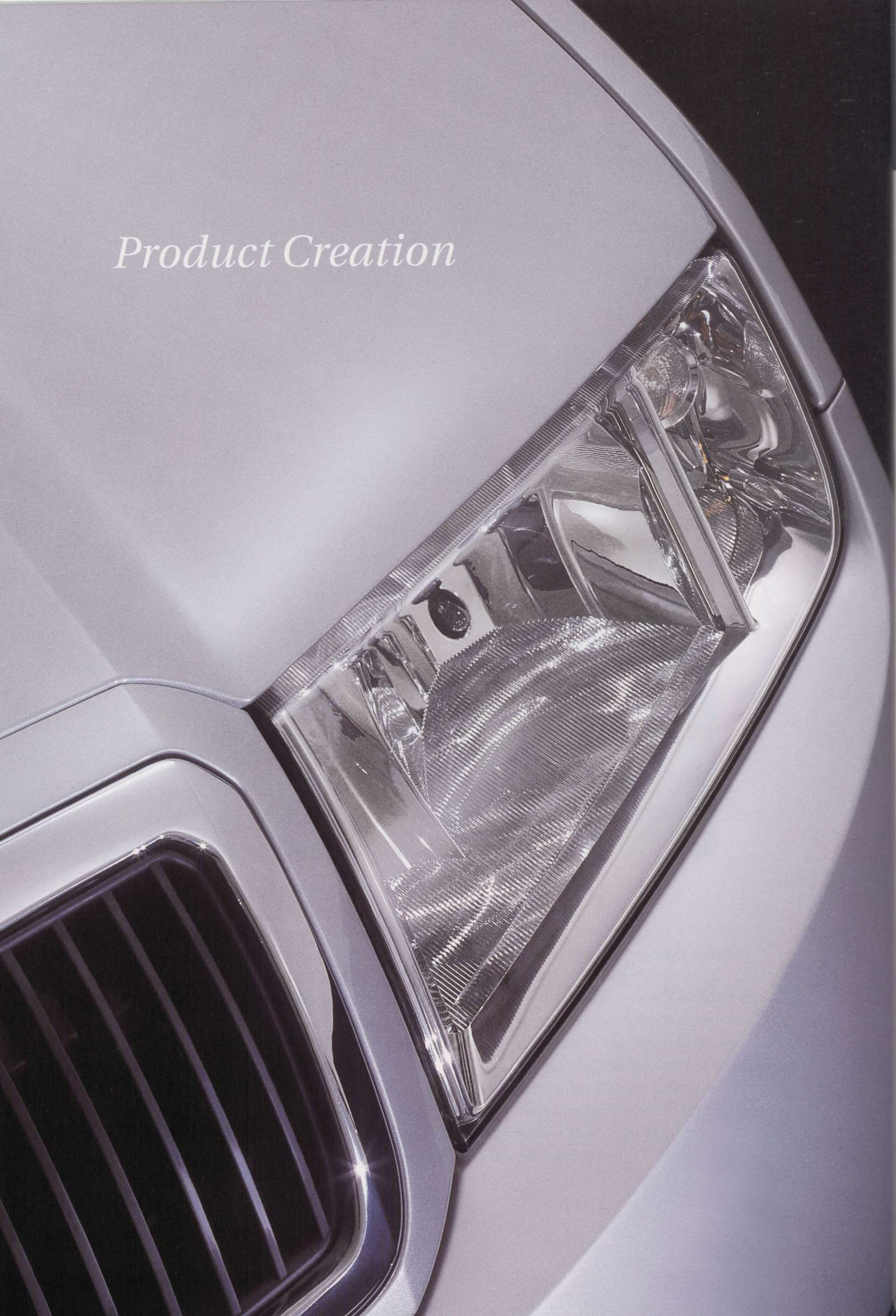
Jens Neumann

Peter Hartz

Robert Büchelhofer

Bruno Adelt

Product Creation



Škoda Fabia

The development and enhancement of new and existing low-consumption, environmentally friendly vehicles is a priority for Volkswagen alongside those of safety, quality and reliability. In terms of spark-ignition and diesel engines in particular, outstanding improvements have been achieved in the past year.

Product development at full speed

Volkswagen's multi-brand and product development strategy provide it with an excellent basis for the economically viable implementation of new, complex and groundbreaking technologies. High-grade components and state-of-the-art innovations from luxury-class automobiles can be applied in very high volumes when incorporated into the volume models, thereby making them economically viable. In this way we are meeting customers' wishes for individual, technically state-of-the-art, high-quality vehicles.

In product development the latest processes and methods are always applied to shorten development lead times further with no impairment of quality. Through the use of computer-aided methods such as digital mock-ups, assembly tests can be performed and assessed right from the draft design stage. Lengthy feasibility studies and iteration loops for prototypes are drastically reduced. However, due to the complexity of the systems involved and the quality demands, a fully virtual vehicle development process is still barely conceivable from today's standpoint. The actual vehicle test with comprehensive measuring and testing equipment under a wide variety of test track and climatic conditions will still in future have to deliver the ultimate confirmation of conformance to the specified product characteristics at the end of any vehicle development process.

A prime example of the consistent implementation of our safety strategy is the standard deployment of the Electronic Stability Programme ESP in the Volkswagen Golf, Bora, New Beetle and Passat models. With this, Volkswagen is maintaining its offensive aimed at making innovative technology accessible to all vehicle segments, thereby making a major contribution to enhancing vehicle safety.

The new era of the spark-ignition engine

Reducing fuel consumption and emissions is and will remain in future one of the most important development goals for Volkswagen. With a new petrol direct injection technique from Volkswagen – named FSI (Fuel Stratified Injection) technology – a decisive step was taken to reduce fleet consumption. The Lupo FSI achieves 15 % lower consumption in the test cycle than other comparable engines, while delivering improved torque and power output. With its low-pollutant combustion and a new exhaust gas aftertreatment system, this engine variant already complies with European emissions standard EU-IV, which does not actually come into force until 2005.

In the low engine speed range the FSI engine operates in so-called stratified charge mode. By way of a "Common-Rail" fuel distributor, petrol is injected at a pressure of up to 100 bar directly into the combustion chamber. An optimized ignition process and targeted air flow produces higher efficiency and thus lower consumption. The nitrogen oxides arising from the high air surplus in the lower engine speed range are stored in a catalytic converter and then, during normal homogeneous operation, are regenerated into nitrogen. Still a problem at present is the sulphur contained in the fuel, which increasingly reduces the activity of the NOx storage catalyst. By means of a NOx sensor, deployed for the first time, the sulphur content in the storage catalyst can be precisely determined and specifically targeted desulphurization can be initiated. Only when sulphur-free fuel is available everywhere on the market in the year 2001 will all the consumption benefits of this new engine design concept be usable.

Starting in Summer 2000 the FSI technology will be deployed in a 1.4-litre engine producing 77 kW in the Lupo, in two variants. In the standard

version of the Lupo petrol consumption will be 5.5 litres per 100 km. In the lightweight version – as in the Lupo 3L TDI – with automated manual transmission, consumption will be below 5 litres per 100 km. The new technique is then additionally planned for deployment in the Polo and Golf series.

The 18-cylinder mid-mounted engine of the Bugatti studies 18/3 Chiron and 18/4 Veyron, also using FSI technology, sets new standards. With a capacity of 6.3 litres, the direct-injection engine delivers 408 kW and a maximum torque of 650 Nm.

Škoda added to its range of engines for the Octavia with an entirely newly developed 1.4-litre aluminium engine delivering 44 kW. The maximum torque of the engine, 120 Nm at 2,500 rpm, provides a good level of elasticity.

Bugatti 18/4 Veyron

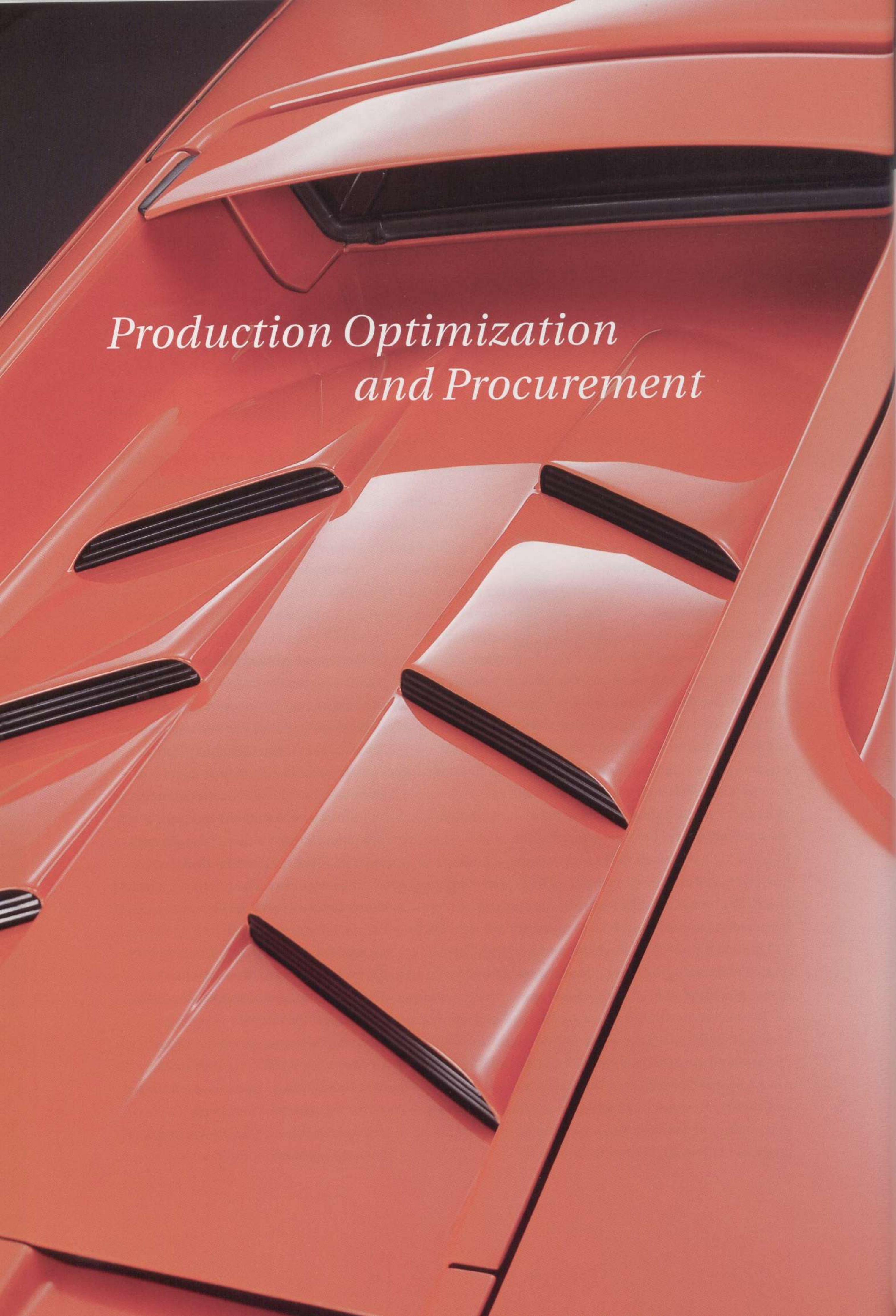
An idea becomes reality

The pump/nozzle technique for diesel direct injection will be successively introduced into the mass production lines of more of the Group's engine variants. This once again illustrates that Volkswagen's innovations not only produce revolutionary studies. The high-pressure fuel injection system will be deployed in the 3-cylinder version with 1.4-litre capacity in the new models of the Polo, Audi A2 and Seat Arosa. For the Golf, Bora Variant, Passat, Sharan and Seat León the technology is available as a 4-cylinder configuration with 1.9-litre capacity and 66 kW or 85 kW power output respectively. A power-boosted 110 kW variant of this engine with a 6-speed gearbox was developed for the Golf. This technology is also deployed in the Concept D, the study for a luxury-class saloon from Volkswagen, in a 5.0-litre V10 diesel engine with biturbo supercharging. The engine delivers a power output of 230 kW at 4,000 rpm and a torque of 750 Nm at 2,000 rpm.

The Volkswagen Commercial Vehicles brand added to its range with a new entry-level power unit. For the Transporter, Caravelle, Multivan and California a 2.5-litre TDI engine delivering 65 kW is offered as a high-power, low-cost alternative, delivering its maximum torque of 195 Nm over an engine speed range of 1,900 to 2,500 rpm.

Presentation of revolutionary studies

The Volkswagen Group once again presented an impressive range of vehicles at the IAA International Motor Show in Frankfurt. Special attention was attracted by the Volkswagen Concept D study already mentioned. With this automobile we are setting new standards in terms of design and technology as well as emotional appeal and functionality. The four-door model thus provides an initial hint at the luxury saloon which will be manufactured starting in the year 2001. At the Tokyo Motor Show the familiar Bugatti studies were supplemented by the Bugatti 18/4 Veyron. The sporty and unique design resurrects the myth surrounding the Bugatti brand. The New Beetle study, Dune, demonstrated all the vivacity and funloving enthusiasm of the New Beetle at the Los Angeles Motor Show.



Production Optimization and Procurement

Lamborghini Diablo

Volkswagen has been producing vehicles for over 50 years, and over that time has grown into a global player. With its pioneering work, the Group has been a major force in driving forward technical developments in automotive engineering.

Optimization in production

The many different outfitting and equipment variants of a new car and the increasing number of legal restrictions mean that the term "mass production" needs to be redefined. Whereas in previous times automobiles were so alike that they could roll off the assembly line uninterrupted, today we have to build a wide variety of different products, flexibly and in accordance with the wishes of our customers, on one production line, to schedule and in a cost-effective manner. The product development strategy is a key prerequisite in achieving this.

In order to maintain competitiveness, it is important to bring an in-development vehicle up to production maturity as soon as possible. To this end, Volkswagen has constructed production facilities in a pilot manufacturing hall, where pilot production vehicles are manufactured in small volumes and the model's readiness for mass production is checked. Analyses permit prompt detection of faults so that the production process and the vehicle design concept can be optimized.

The experience gained from the pilot hall is utilized to benefit all the Group's manufacturing plants through the deployment of a group of experts who accompany production startups on-site, throughout the world. Support and assistance in the construction of pilot production vehicles and in the training of production personnel safeguards the high Volkswagen quality standard group-wide, right from the start.

An innovative technology transfers to production

An outstanding event in 1999 was the production startup of the first mass-produced car in automotive history to achieve a fuel consumption of just three litres per 100 kilometres (the "3-litre" car). The lightweight design of this vehicle, using aluminium and magnesium alloys and plastic components, placed very high demands on the production function. The technical prerequisite for this combination design was the deployment of innovative joining techniques. In the Lupo 3L TDI the components made from different materials are permanently interconnected exclusively by means of mechanical joining techniques and bonding.

Transparency in production

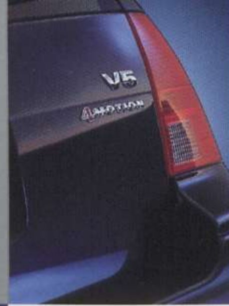
The restructuring of the largest automobile manufacturing facility in the world – the Volkswagen mother plant in Wolfsburg – to form several different clearly defined segments was completed in 1999. In addition to the four automobile production lines for the Lupo, Golf, Bora and the Golf Variant and Bora Variant are the component manufacturing facility, the Research and Development unit, and the CKD unit. The creation of smaller units permits greater cost transparency. The responsibility for optimum production running and for the necessary quality is now unambiguously assigned – anonymity for possible defects is replaced by transparency.

100 million vehicles

Volkswagen has made history: It was a New Beetle which rolled off the production line to make the Group the first European manufacturer to attain the impressive production figure of 100 million vehicles. The Volkswagen Group celebrated this unique achievement on September 21st, with attractions galore, at the Automobile Forum in Berlin. The key milestones on the road to this record figure are set out on the time line.

The success of Volkswagen began at the end of the Second World War with a single model – the Beetle. As early as 1947 the first saloons were being exported, and by the 1950s the Volkswagen Beetle was on the road all around the globe. The acquisition of Auto Union GmbH in 1964 added a second brand – Audi – to the emerging Group. The expansion of the brand identity continued with the purchase of the Spanish manufacturer Seat and the long-established Czech name Škoda, and peaked in 1998 with the acquisition of the luxury brands Bentley, Bugatti and Lamborghini. Consequently, the Volkswagen Group is today represented in virtually every market segment by a major brand name.

1946 10 thousand Beetles
1955 1 million Beetles
1962 1 million Transporters
1967 10 million Beetles
1976 1 million Golfs, 1 million Passats
1977 1 million Audi 100s
1979 1 million Audi 80s
1980 20 million Beetles
1983 1 million Polos



Bora Variant

New logistical processes

The Logistics function is responsible for supply of parts to Production, among other tasks. The work of the Pilot Production Logistics function begins right from the time the Product Strategy Commission decides on the production of a new model and the Procurement function has selected the suppliers. Pilot Production Logistics defines the work flows and milestones in conjunction with the suppliers; as early as 18 months later the general trials of component function and process capability begin with the trial production run in the pilot hall. Findings from those trials are jointly implemented by the representatives of Pilot Production Logistics and the line departments, together with the suppliers. In this way the quality of components is assured, scheduled start of production is safeguarded, and customer satisfaction is enhanced.

To enable the Logistics function to cope with the increasing globalization of supply systems in the Group, a number of new control instruments were introduced, and existing systems enhanced, in 1999. To provide early detection of capacity bottlenecks in supply of production material, the system of rolling adaptation of capacity to demand in the Group was expanded. A Supply Chain Management System has been introduced as an instrument to aid the decision-making process across the entire supply chain, based on a long-term time horizon. The system simulates possible scenarios in a changed planning environment in terms of effects on the logistical supply system.

In the operational material flow control function, a new computer system lays out all intercontinental supply lines to the Group and provides the necessary transparency in shipment.

Engineering the procurement process with success

The increase in production volumes resulting from the successful multi-brand and multi-model strategy has meant that the volume of purchasing of Volkswagen has more than doubled in the last four years, rising from 44.8 billion DM to 96.0 billion DM. The

1985 1 million Jettas

1988 10 million Golfs

1991 1 million Seat Ibizas

1998 1 million Škoda Felicias

1999 100 million Group vehicles

Production by brand and region – worldwide*

Volkswagen Passenger Cars	1999	1998
Golf	791,969	804,221
Passat	420,233	484,682
Polo	315,500	443,462
Bora	125,158	34,112
Toledo	100,759	2,104
Lupo	89,757	64,855
Sharan	50,306	56,472
Alhambra	27,440	21,300
Arosa	–	24,004
Ford Galaxy	59,479	–
	1,980,601	1,935,212

Volkswagen Commercial Vehicles	1999	1998
Caravelle, Kombi	71,199	70,147
Felicia	33,843	30,385
Octavia	7,596	4,975
Passat	4,416	4,606
Polo	3,529	8,217
Cordoba	2,769	5,340
LT Kombi	2,414	2,619
Audi A6	217	234
Transporter	77,687	84,835
LT	33,036	30,419
Škoda Pickup	1,059	3,031
Caddy delivery van	404	258
Inca delivery van	2	321
	238,171	245,387

Audi	1999	1998
A4	248,428	265,414
A6	162,573	174,867
A3	143,505	143,974
TT Coupé	44,022	13,593
A8	14,636	15,355
TT Roadster	8,557	89
Cabriolet	4,086	5,738
Lamborghini	252	–
	626,059	619,030

Seat	1999	1998
Ibiza	194,245	180,775
Cordoba	109,121	103,409
Polo Classic/ Variant	56,951	91,323
Arosa	46,410	14,334
Inca Kombi	8,573	7,708
León	6,080	–
Caddy Kombi	5,702	6,688
Toledo	5,059	40,221
Marbella	–	2,337
Caddy delivery van	36,059	36,800
Inca delivery van	18,103	16,905
	486,303	500,500

Škoda	1999	1998
Felicia	198,008	250,847
Octavia	146,847	117,734
Fabia	3,883	–
Pickup	18,488	30,185
Caddy Pickup	4,204	4,749
	371,430	403,515

Rolls-Royce/Bentley	1999	1998
Rolls-Royce	439	312
Bentley Arnage	763	261
Bentley Azure	128	68
Bentley Continental	105	75
Other Bentley	5	10
	1,440	726

North America Region	1999	1998
Jetta (Bora/Vento)	196,777	123,297
New Beetle	160,147	107,090
Beetle	36,446	36,492
Golf	16,691	72,906
	410,061	339,785

South America/ Africa Region	1999	1998
Gol	279,270	309,406
Golf	71,638	23,657
Parati	39,564	41,558
Polo Classic	38,086	53,159
Passat/Santana	18,495	20,030
Caravelle, Kombi	17,351	22,576
Audi A4	3,143	4,135
Jetta (Bora/Vento)	2,513	4,737
Audi A3	1,758	–
Cordoba	4	–
Audi A6	–	213
Saveiro	24,243	45,343
VW trucks	10,660	9,835
Caddy delivery van	8,540	1,026
Transporter	4,138	7,160
Buses	1,724	2,788
Inca delivery van	1,116	–
Golf Pickup	1,001	720
	523,244	546,343

Asia-Pacific Region	1999	1998
Santana	230,947	235,000
Jetta	75,579	60,118
Audi A6/100	6,657	6,000
Caravelle	608	6,525
	313,791	307,643

* Including the not fully consolidated vehicle-producing holdings Shanghai-Volkswagen, FAW-Volkswagen, Chinchun Motor (to January 26, 1999) and AUTOEUROPA (1998; since January 1, 1999 AUTOEUROPA is consolidated). The Lamborghini vehicles and the Ford Galaxy (produced by AUTOEUROPA) are included as from January 1, 1999; the Rolls-Royce/Bentley figures as from July 4, 1998.

Bentley Arnage

foundation stone for this success was the good level of cooperation with suppliers. The Group can only present first-class products if its component suppliers, too, are first-class and are continuously improving. They have responded successfully to the changes on global markets and have adapted their processes and structures to the new, higher demands. Combined with creativity and innovation, a potential is available which Volkswagen will utilize and build on in order to master the challenges of the future.

Production events in 1999

The year under review was marked by a number of impressive production milestones. As well as production of the Group's 100 millionth vehicle, which rolled off the production line in Mexico, a remarkable record was also reached by the Wolfsburg plant: It has now been producing the Golf for a total of 25 years. Group-wide production volumes will shortly reach

Volume of purchasing by brand and region

billion DM	1999	%
Volkswagen Group	**96.0**	**100.0**
Volkswagen Passenger Cars	39.1	40.7
Volkswagen Commercial Vehicles	3.8	4.0
Audi*	20.8	21.7
Seat	7.3	7.6
Škoda	4.2	4.4
Rolls-Royce/Bentley	0.5	0.5
North America Region	8.5	8.8
South America/Africa Region	5.4	5.6
Asia-Pacific Region	6.4	6.7

* Including Lamborghini.

the 20 million mark, following on from production of the 19 millionth Golf celebrated in May 1999. Production startups of the Golf Variant and Bora Variant estate versions rounded off those two model families in the Spring of 1999. Responding to customers' wishes for special colour options, a special colours paintshop was commissioned into operation in Wolfsburg.

At the new Curitiba plant in Brazil production of the Golf and the Audi A3 started in the first half of 1999. The production is intended for the Latin American market.

In February 1999 construction of the new press plant began in Emden. The quality of the sheet-metal panels is substantially enhanced as a result of the elimination of component transportation. With the installed high-capacity suction presses, this plant will be one of the most modern in the world on its scheduled completion in the year 2002. The same facility is being built at the Ingolstadt plant of AUDI AG, and production-ready delivery to the Neckarsulm plant is scheduled for the beginning of 2001. At the Volkswagen Commercial Vehicles plant in Hanover the largest high-capacity suction press in the Group is currently under construction.

In the Summer the Seat brand switched production to the new Ibiza and Cordoba models. At the end of August, production of the new Seat León started simultaneously in Martorell, Spain, and at the Volkswagen plant in Brussels, Belgium. All major body parts for the Seat Toledo and León models assembled in Brussels are made at the Zona Franca press plant in Barcelona.

In June, VOLKSWAGEN SLOVAKIA, a.s. began producing the new Polo at its Bratislava plant, adding a new class of vehicle to the range manufactured there.

On August 25th, Volkswagen Motor Polska Sp. z o. o. opened a new engine plant at the Polkowice site in Poland. Having taken just under a year to complete, and involving an investment volume of 200 million DM, the plant is designed for an annual capacity of 540,000 engines. Polkowice will supply 4-cylinder turbodiesel engines and

Audi A2

state-of-the-art pump/nozzle technology to 19 Group manufacturing plants worldwide.

In August 1999 the Audi brand started mass production of the Audi TT Roadster in Györ, Hungary. On September 6, 1999, a ceremony at the Changchun plant in north eastern China marked the start of production of a variant of the Audi A6; the chassis and engine are specially adapted to the demands of the Chinese market.

In September 1999 the Škoda brand started production of the new Fabia at its Mladá Boleslav plant. With an investment of some 600 million DM, a new modern, modular manufacturing facility – from the press plant and bodyshop through to final assembly – was established. Its capacity can be expanded to 1,200 vehicles per day. For production of the Octavia Combi 4x4 launched in May at the Vrchlabí plant, new bodyshop facilities were commissioned into operation.

The launch into the year 2000

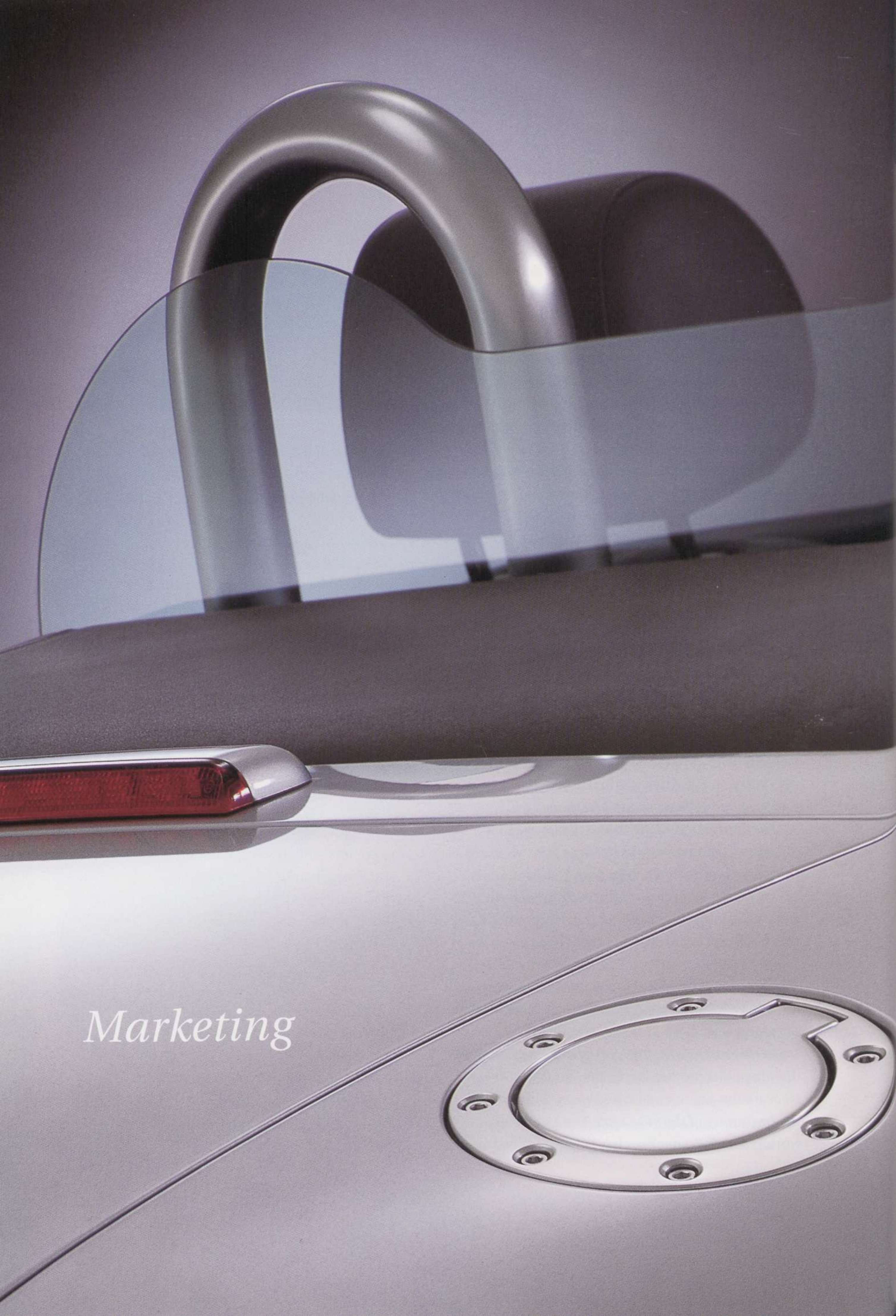
In Bangkok a CKD facility for 10,000 vehicles per year was established in 1999. At the beginning of the new year it began assembly of a high-spec Passat saloon and, in a later phase, an Audi A6 model.

For production of the Passat, Volkswagen in Shanghai together with its Chinese joint venture partners constructed a third automobile manufacturing facility with its own press plant, bodyshop, paintshop and assembly line; start of production was in the Spring of 2000. Its capacity is for up to 150,000 vehicles per year. The expansion of the model range is intended to safeguard the Company's already very strong position on the Chinese market on a long-term basis.

In November 1999 the Audi brand celebrated the opening of its production facility for the A2 at the Neckarsulm plant, and started mass production at the beginning of the year 2000. The A2 will be the world's first full-specification mass produced automobile to have an entirely aluminium body, and as a result will be 150 kg lighter than any other vehicle in its class. With the start of production of the Audi allroad quattro in the Spring of 2000 in Neckarsulm, the Audi brand will be making just as strong an impression off the road as on it. The vehicle perfectly combines the comfort, safety and exclusivity of a passenger car with offroad capability.

On July 27th 1999 the foundation stone was laid for the glass-walled showcase manufacturing plant in Dresden. Starting in the year 2001, up to 150 luxury models a day of the Volkswagen Passenger Cars brand will be assembled before the eyes of customers and visitors alike.

Assembly of the Sports Utility Vehicle currently in joint development with Porsche is scheduled to be started by Volkswagen in the year 2001 in Bratislava. The manufacturing network will incorporate other production sites, in particular of VOLKSWAGEN AG.



Marketing

Audi TT Roadster

The Volkswagen Group has established itself as a global supplier with presence on all world markets. Its sustained selling success is underpinned by a consistently applied multi-brand strategy with innovative models; the brand diversity is also reflected in the design of the pavilions at our Autostadt automotive skills and heritage centre.

Effective marketing policy

The automotive industry is undergoing significant change. Business is becoming more and more globalized. The number of different segments is increasing as a result of customers' demands for individualistic vehicles, while at the same time brand loyalty is declining.

Volkswagen responded at an early stage to these developments with a differentiated multi-brand strategy. Today the portfolio of the Volkswagen Group, with nine brands, comprises some of the most successful and renowned names in the world.

The goal is to achieve a lasting improvement in coverage of all segments and markets, as far as is possible. To this end, the product range is being expanded both horizontally, with new vehicle concepts, as well as vertically, with new products in the luxury, small car and supermini segments.

The clearly identified positioning of the brands serves as the basis for a global marketing policy. Each brand pursues a mission within the overall image of the Group, which is solidly founded on its origins and has been developed consistently into a comprehensive personality with values. As a result, every customer can be offered the automobile which conforms to his or her individual wishes and lifestyle.

The consistency and credibility of the brand personalities is not just limited to the products, however; it relates to the entire value adding chain. Exclusive distribution channels, Corporate Identity and, above all, the creation of heritage and skills centres such as Autostadt in Wolfsburg serve to present the brand personalities in an attractive way and to enhance customers' loyalty and sense of identification. In order to create a specific image for each brand, the dealers have made substantial investments in conjunction with us.

The new Corporate Design is a further cornerstone of the characteristic brand image of Seat, which is marked by high quality and emotional appeal. These brand values are also reflected in the new architectural and showroom design concept, which will provide Seat dealers with a unique identity and appeal in future.

A stunning cascade of models

At the IAA International Motor Show in Frankfurt, in particular, the Volkswagen Group presented a wide variety of new vehicles, thereby sustaining its successful new model offensive.

The Lupo 3L TDI is a milestone in the history of the automotive industry and of Volkswagen – the world's first, production-ready car with fuel consumption of just three litres per 100 kilometres. However it is not only the low consumption of this new vehicle – with its large number of weight-saving aluminium and magnesium components – which impresses, it is also the safety, comfort and driving pleasure which it also offers.

Since October 1999 the Polo has been showing itself in a new shape. Stylistically and technically modified, the new Polo has a significantly enhanced profile. The "Generation" special model was a worthy celebration of the 25th anniversary of the start of production of the Golf. Since May 1999 the model range has been expanded to include the Golf Variant and Bora Variant.

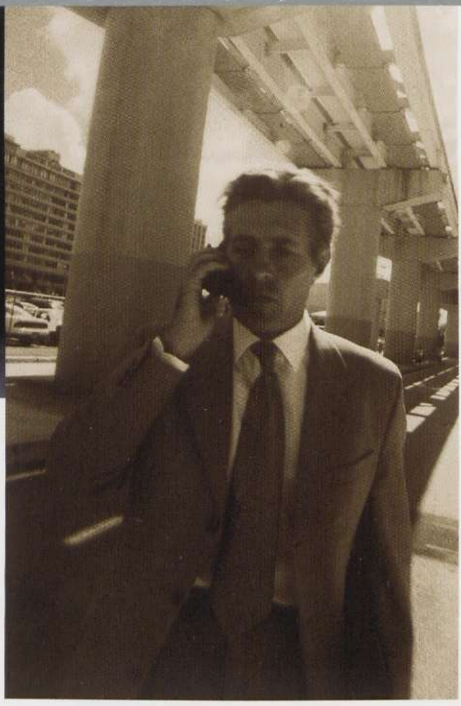
In the year under review, Audi launched a model offensive the like of which has never been undertaken before. The updated Audi A8, with its innovative aluminium chassis, offers a unique level of ride comfort. The "S" series was rounded off with the S3 and the S6. These models place Audi at the very top of a market segment characterized by driving fun, a high degree of sportiness, and technical expertise. A highlight in design development is the Audi TT Roadster. By virtue of its extravagant lines, its eyecatching roll bar and unmistakable interior, this vehicle embodies the mission of the Audi brand as reflected in the slogan: "The Challenge of Convention".

The Lamborghini Diablo GT embodies the ultimate in sportiness. The fastest road car in the world is being built as a limited edition of just 80 units.

The repositioning of the successful Seat brand was sustained with the launch of the stylish design line of the new Cordoba and Ibiza models.

Automotive Joy of Life is radiated by new Seat León. The modern, sporty vehicle is the first in the history of the Company to be offered with four-wheel

Škoda Octavia



drive and a 6-speed gearbox. In addition to its sporty design, the León also offers comfort and functionality at the highest technical level.

With the Fabia the Škoda brand is presenting a whole new class in its model range. The 5-door vehicle impresses not only by the value for money it offers, but also by its modern safety details, including side airbags, its high equipment specification and its outstanding roominess. The successful Octavia series was added to with the four-wheel drive Octavia Combi 4x4.

In June 1999 the Volkswagen Commercial Vehicles brand launched the new version of the Multivan. Germany's bestselling multipurpose vehicle was further enhanced in terms of comfort and functionality. The high equipment specification makes the Multivan a versatile family and leisure vehicle. The California Coach has now been made even more attractive with its new interior.

The Rolls-Royce/Bentley brand presented its upgraded luxury models. The Bentley Arnage "Red Label" impresses with more room in the rear and more precise roadholding; its new power unit is the legendary 6.75-litre Bentley engine, delivering a maximum torque of 830 Nm. The Rolls-Royce Silver Seraph underwent a large number of modifications. The ultimate in safety features and luxurious outfitting as standard mean that the expectations of even the most demanding customers are fully met.

Europcar – more than just hiring a car

Europcar is the number one car hire firm of European origin, with offices in 88 countries and an average fleet of around 142,000 vehicles. In 1999 Europcar expanded its worldwide car hire network to include new territories such as Mexico and China. With a new logo and innovative service offers, such as self-service terminals for issue of the hire contract and the car keys, online reservations over the Internet and traffic information consoles in its offices, the company strengthened its brand identity. To promote customer loyalty, Europcar has launched its own loyalty scheme, with over 82,000 registered customers, and is also a partner in frequent-flyer schemes operated by the airlines.

Autostadt

Autostadt – an automotive heritage and skills centre

Autostadt, founded as the Autostadt GmbH company on November 1st, 1999, will open its wing doors to visitors as the "World Automobility Forum" at the beginning of the EXPO 2000 World's Fair.

Autostadt is being built as an automotive heritage and skills centre. For the Volkswagen Group, Autostadt represents a new-style service and communication platform. The Volkswagen Group will use that platform to present its brands. As a centre of excellence, Autostadt is the foundation of a new service quality and service awareness for the Company. Together with our dealer organization, it will win over customers and help to sustain their loyalty, thereby helping to achieve the volume targets of the Group. Autostadt will also promote in-house innovation processes at VOLKSWAGEN AG. The acknowledgement of Wolfsburg as the central location of the Group has a positive impact on employment, particularly in the service sector.

Autostadt offers extraordinary experiences to its visitors: The GroupForum with three cinemas; the CustomerCenter as a delivery area for up to 1,000 vehicles a day; the interactive AutoLab; the AutoMuseum; the pavilions of the various Group brands; the glass AutoTowers; the Piazza; six restaurants; and the 5-star Hotel "The Ritz-Carlton Wolfsburg".

Seat Toledo

Seamless product development by Volkswagen Financial Services AG

Volkswagen Financial Services AG is pursuing a uniform international expansion strategy. The Financial Services Division follows the operations of the Automotive Division in accordance with the Group's worldwide presence. In its operations, ongoing observation of the market is the key to developing appropriate market penetration strategies.

In view of changing customer behaviour, Volkswagen Financial Services AG is increasingly offering product packages which satisfy virtually all customers' automotive needs beyond the vehicle itself, and so ensure lasting customer loyalty. Decisive competitive advantages are offered by close cooperation with the dealers, who are able to offer the vehicle itself, financing and insurance, all from one source.

Sponsorship pays

In 1999 Volkswagen intensified its commitment to cultural and music sponsoring. The goal was, and remains, to enhance the emotional appeal of Volkswagen to the public at large. The Company was recognized well beyond the borders of Germany for its sponsorship of Weimar as the 1999 Cultural Capital of Europe. Over five million visitors attended the numerous events and exhibitions held in Goethe's home city. The initiative launched with the Volkswagen Sound Foundation to support young rock and pop musicians with material assistance, promotion and advice was expanded further. The Volkswagen Sound Foundation was rewarded for this "successful and exemplary rock and pop sponsoring network" with the Sponsoring Award 1999.

Successes in motorsport

In the 1999 motor racing season Volkswagen's smallest produced the biggest success. The Lupo Cup in its second season again showed itself to be the absolute favourite among the racegoing public as part of the German Super Touring Car Championship. Fresh impetus was also provided by the newly created New Beetle Cup organized by Volkswagen Motorsport. 18 drivers, all driving the same specification vehicle, battled for points and a championship cup.

Audi rose to one of the greatest challenges in international motorsport, participating for the first time in the Le Mans 24 Hour race. The newly developed R8R racing cars sensationally managed to finish third and fourth on their first outing in this, the toughest long-distance race in the world. Škoda delivered proof of its technical expertise in motorsport with the Octavia World Rally Car. In its very first season Team Octavia WRC won World Championship points.

People and Management

Sharan

The success and the entire future of the Volkswagen Group in the global competitive environment are closely linked to the personal development and satisfaction of each individual. The ever changing work processes are placing increasing demands on our employees' specialist skills and knowledge, their flexibility, social skills and powers of self-reliance, and on their ability to learn.

A new approach to education and training

A new, practice-oriented approach to vocational training has been adopted in order to provide young employees with the best possible start as the basis for their future career development. With effect from September 1, 1999, and in cooperation with a number of German federal states, VOLKSWAGEN AG launched the "GAB" model, in which the focus is on "business and work process oriented vocational training". This reform offers greater scope to design training courses tailored to specific industries and company operations, crossing the borders between individual disciplines and professions. This approach also involves early integration in industrial work processes, enabling trainees to gain a detailed insight into the value adding process within the Company and to be directly engaged in the continuous improvement of it. The existing dual education and training system is complemented by an element of intensive cooperation between college and Company, so that the practical demands of the workplace are incorporated into tuition at vocational colleges.

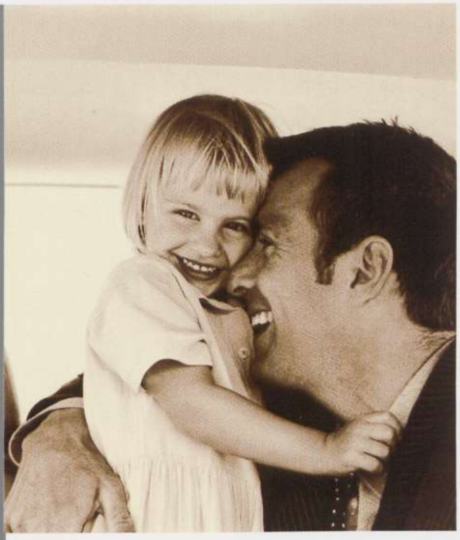
In 1999 a total of 3,976 young employees were in professional training at VOLKSWAGEN AG; 1,059 apprentices successfully passed their exams and were taken on in full employment.

As at the year-end, 77.0 (76.5) % of the industrial workforce were skilled technical personnel. The percentage of the total workforce who are university or college graduates increased to 8.6 (7.6) %.

Leadership with top grade management

Lasting success at the highest level demands an outstanding management team. Volkswagen's decades of international operation, and the experience thereby gained in personnel management, form a sound basis for success in the increasingly global competition to recruit the best technical specialists and management staff.

Right from their student days, young, talented people are attracted by our targeted, tried and proven university and college marketing system. In addition to course and career advice, as well as case studies at universities, we also offer excursions to our Group companies. In this way we gradually show ourselves more and more to be the ideal partner for the first step on the career ladder. Our major interest in the development of new academic talent is also reflected in our involvement in the building of the new library at the Technical University of Berlin – for the first time a building of this kind will be officially named after its sponsor: the Volkswagen University Library of the Technical University and College of Arts of Berlin.



Promoting ideas

"No good idea must be lost": This is the new principle on which ideas management at VOLKSWAGEN AG has been based since the adoption of the in-company agreement of June 16, 1999. As an active management instrument to attain productivity and quality goals, the involvement of employees in the continuous improvement of products and work processes, in particular, is being intensified. The submission of suggestions directly to the respective employee's immediate superior allows suggestions to be rapidly implemented and rewarded – small cash prizes are especially motivational. In the year under review a wide variety of ideas produced a remarkable result: 16,376 implemented suggestions were rewarded by cash prizes totalling 39.3 million DM (+ 28.9 %) in 1999.

10 years promoting opportunities for women

In 1989 Volkswagen adopted the "Principles relating to opportunities for women" and three years later established the first Commission on Opportunities for Women in Germany. Half-yearly meetings determine how the development of female personnel within the Company can be promoted. By overcoming structural barriers, the proportion of women in the workforce of VOLKSWAGEN AG was increased marginally to 12.4 % in the year under review. Against the general social trend, targeted career choice orientation increased the proportion of women in the technical professions from 14.9 % in 1989 to a current level of 20.1 %.

Health preservation on-site

Company healthcare services were expanded and optimized in the year under review. With the establishment of localized health centres, our employees' healthcare is now centred close to the workplace. The reduced travelling and waiting times cut costs

Polo

and increase the commitment and motivation of each individual employee. Our overall goal is an attendance rate of 97 %.

Attendance rate

in %	1995	1996	1997	1998	1999
VOLKSWAGEN AG	95.1	95.8	96.1	96.0	95.7
Volkswagen Group*	95.6	96.5	96.6	96.8	96.6

* Based on the producing plants.

Making visions come true

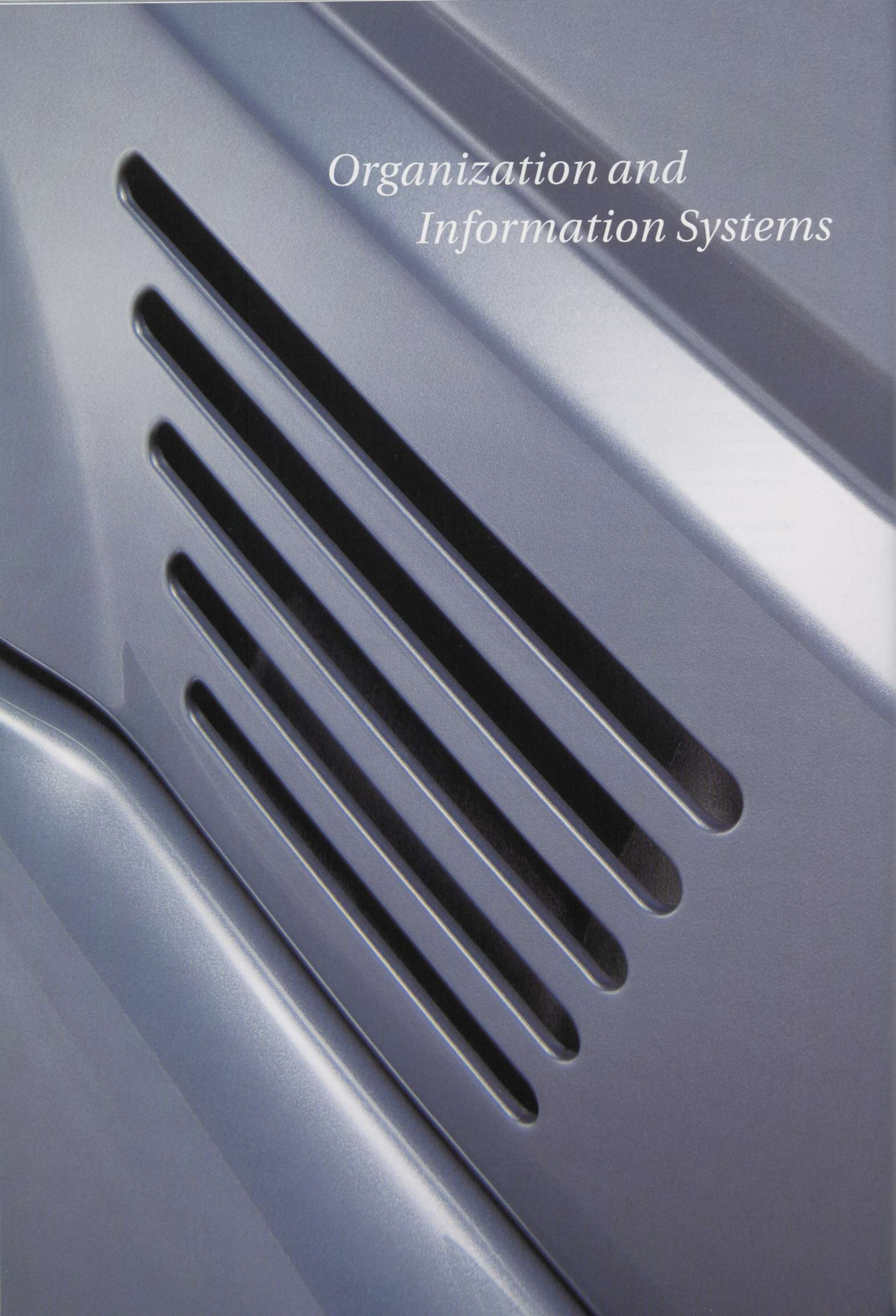
The AutoVision concept, devised in 1998 with the aim of halving unemployment in the Wolfsburg area, is taking shape. The "Wolfsburg AG" stock corporation founded in July 1999 from the original "GIZ Gründungs- und Innovationszentrum Wolfsburg GmbH" limited company has already implemented a number of measures in its four fields of business. These include:

– Innovation Campus
  The launch competition "**pro**motion" realized 12 innovative business ideas;
  "Promotion 2000" has been building on that initial success since its launch on November 11, 1999.
– Supplier relocation
  The relocation of 50 component suppliers has led to the creation of 510 new jobs.
– Experience Wolfsburg
  The masterplan sets out the framework for the future development of leisure and entertainment facilities.
– Personnel service agency
  938 unemployed people were reintegrated into the employment world by means of temporary placements in the year under review.

Employee pay and benefits at VOLKSWAGEN AG

million DM	1999	%	1998	%
Direct pay incl. fringe benefits in cash	7,920.0	64.0	7,284.4	60.0
Social insurance contributions	1,751.6	14.2	1,693.0	13.9
Payment for hours not worked	1,657.9	13.4	1,626.2	13.4
Pensions	1,044.2	8.4	1,547.9	12.7
Total	**12,373.7**	**100.0**	**12,151.5**	**100.0**
The total labour cost includes:				
Education and training	197.5	1.6	177.2	1.5
Welfare services	72.7	0.6	69.0	0.6

Organization and Information Systems



Multivan

The business processes of the Volkswagen Group are being optimized by the deployment of information systems utilizing state-of-the-art information technology.

Engineering business processes

Orientation of business practices to the wishes of customers is a decisive factor in determining the future success of Volkswagen. This demands active engineering of business processes as well as through-going transformation of traditional hierarchical and function-oriented working practices. Completing this transformation requires the support of all employees.

Processes and information systems working together

Described business processes are the basis for the development and efficient deployment of information systems. Conversely, innovative systems open up new possibilities and so in turn help in the engineering and optimization of business processes. User-friendly communications systems and the global exchange of product-defining data permit new forms of teamworking in product creation; electronic delivery call-offs improve logistics flows in product manufacture; the Marketing function is able to develop entirely new selling and distribution channels by utilizing the latest possibilities for electronic commerce on the Internet.

Internet technology revolutionizing processes

Virtually all the processes in the Group are now supported by the Intranet, the protected system of data communication within the Volkswagen Group based on Internet technology, as well as over the Internet itself.

In the product creation process – from the first vehicle concept, through prototype construction to start of mass production – systems aid design engineers with facilities such as the construction of virtual vehicles based on computation and simulation. The vision is to prepare and safeguard the development of a new vehicle on computer in such a way that even the initial prototypes and pilot production vehicles meet Volkswagen's high quality requirements. Modern communications and research systems based on the Intranet complement the process with global teamwork. It is only possible for a variety of different sites to share the development of new components for our vehicles if all the parties involved are able to access common data resources.

Virtual vehicles are an important element of preproduction operations in a digital factory. IT tools such as computer-aided hall layouts and material flow plans for entire manufacturing facilities are also valuable aids. The aim is to safeguard the production process with virtual technologies such as computer-aided planning, visualization and simulation. In this context, too, Intranet-based exchange of large-volume data and planning resources between manufacturing sites in the Group has become an essential element. In addition, suppliers and partner firms handle the complete ordering, call-off and accounting process in communication with the assembly plants over the Extranet. The Extranet is a section of the Internet to which only a defined group of partners has access, but still utilizing the full functionality of the Internet.

The Internet is also changing the traditional selling and distribution structures of the automotive industry worldwide. Customers now not only passively receive information, but also have the opportunity to use it interactively. They can find details of the product range, use a so-called Car Configurator to specify their individual vehicle, and contact a local dealer. For direct customers, such as the press, Volkswagen already operates Electronic Business facilities. The entire transaction, including the binding purchase order and confirmation of delivery, is handled over the Internet.

Golf

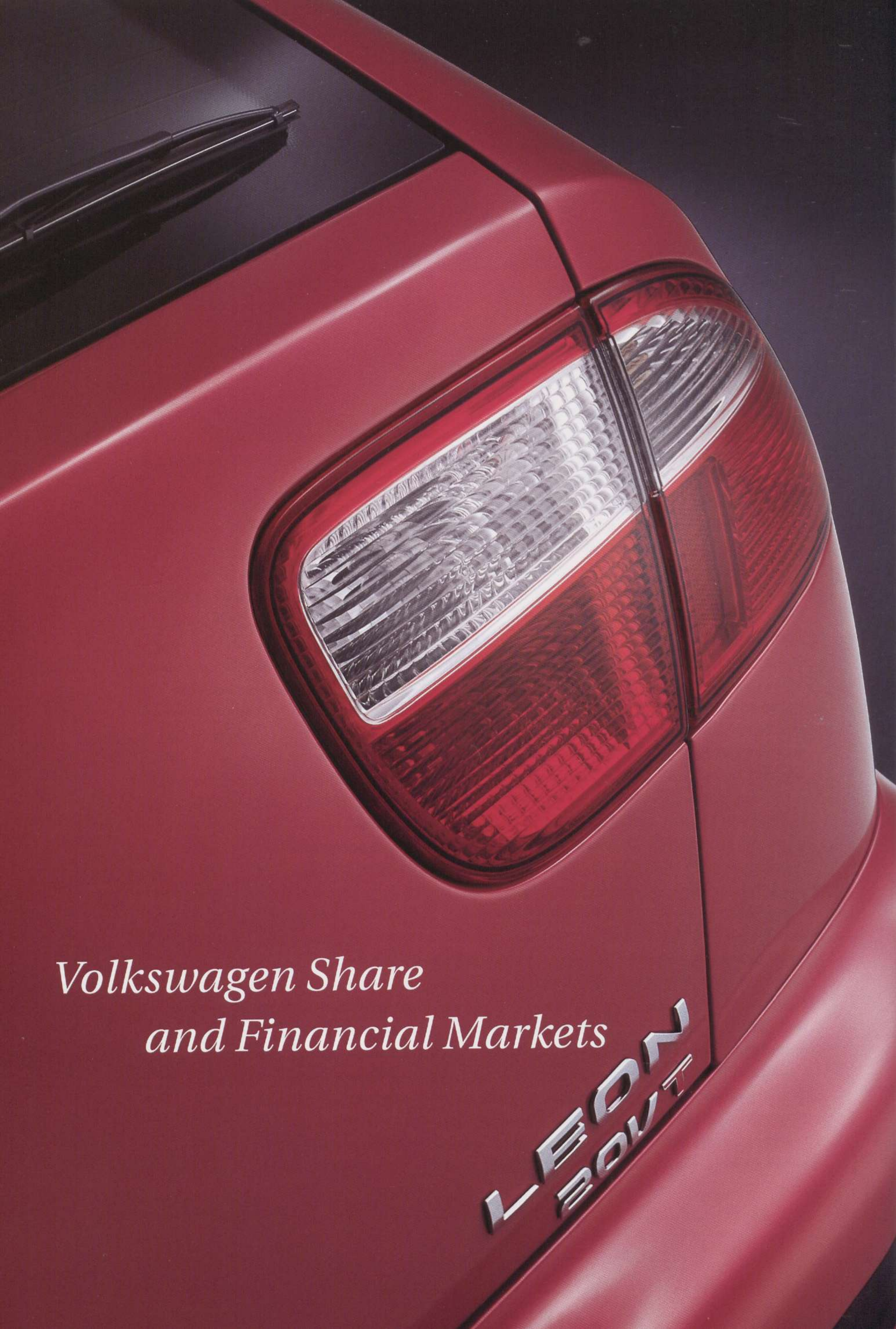
gedas – a global player in the IT field

The gedas GmbH company is the IT know-how bank and system integrator of the Volkswagen Group. The 100 % subsidiary of VOLKSWAGEN AG not only knows and optimizes the many and varied business processes of the Group, it has aligned its structure and its service portfolio consistently to the global IT market.

As the fourth largest German IT consulting company, gedas maintained the dynamic trend of previous years in 1999 with growth of around 60 %, making it one of the leading IT service providers in Europe. In conjunction with VOLKSWAGEN OF AMERICA, on June 24, 1999 gedas, Inc., based in Auburn Hills, Michigan, was founded. As a result, the gedas Group now comprises 13 companies, nine of them outside Germany. As at the end of 1999, gedas employed 2,994 (1,969) people at 30 locations worldwide. Around one third of sales were generated from customers outside the Volkswagen Group.

Mobility and safety based on telematics services

The future application of information technology in every aspect of the motor vehicle environment has been indicated by the groundbreaking telematics services. Telematics services not only offer accessing and intelligent processing of traffic information, right through to complete route planning and tracking, they also provide motorists with a previously unknown level of safety. In critical situations in particular, vital processes can be handled automatically and at speed. When an airbag is triggered in an accident, for example, the telematics system automatically transmits a signal to an emergency call centre, including details of the vehicle's precise location. If the motorist also recorded voluntary personal details in the system, the response times of the emergency services can be significantly shortened. Another major component of the telematics service package is the breakdown assistance call system, which calls up specialist help by way of the telematics control centre. As a result, motorists are provided with an entirely new sense of security and support.



Volkswagen Share and Financial Markets

Seat León

The financial management system of a global Group demands permanent orientation to developments on world markets and within the Company itself. The long-term success of the Volkswagen Group is therefore also dependent on the quality of its financial management.

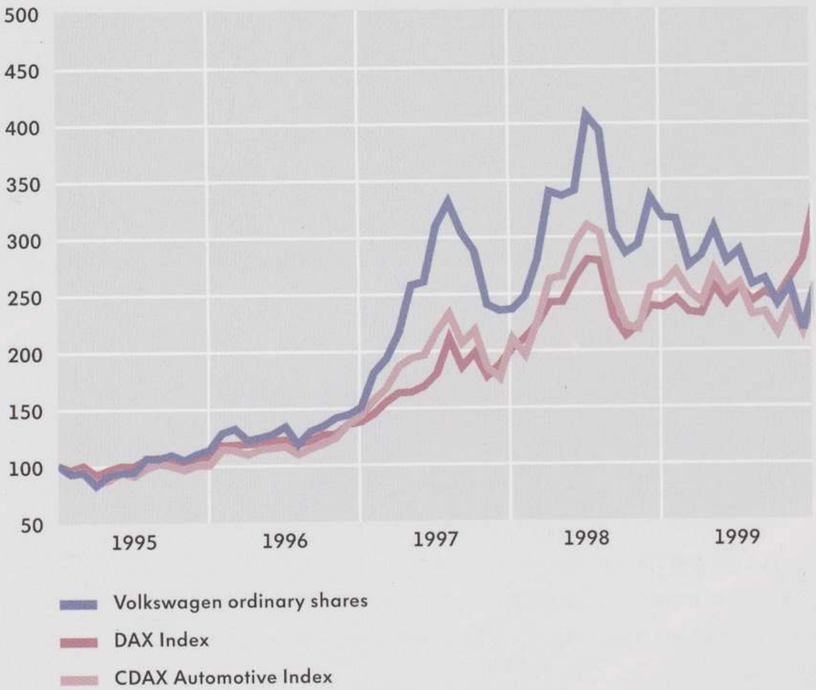
Enhancement of financial management

The Volkswagen Group is managed financially on the basis of an integrated key figures system. Previously the focus of operational management was on the return on sales as the key figure, ascertained from sales and pre-tax earnings.

In the difficult years 1992/1993, in particular, with a virtually global collapse in sales resulting from economic downturn and the special problems of individual brands within the Group, the easily communicable "return on sales" variable enabled us to formulate corporate growth and an urgently needed improvement in absolute earnings as our goals.

In the year under review we added return on investment to our defined management variables, with the aim of providing more value-oriented financial management. As a result, the return demands of the capital markets are more strongly incorporated into our system of goals. The components of the "return on investment" variable are the standardized operating profit after taxes and the capital invested for the respective return achieved. This applies to the Group's Automotive Division. In contrast, for our Financial Services companies we apply equity as the reference variable for business success.

Development of share prices (month-end prices)



(Index: as at Dec. 31, 1994 ≙ 100)

The required return on investment is also the target variable for analysis and decision-making in respect of our investment policy as a whole and of individual projects. The interlinking of product decision-making based and periodic accounting ensures the structural soundness of the management concept.

In our core automotive business we aim for a return on investment after tax in the Group of 10 %. For 1999 the Automotive Division produced an after-tax return on investment of 6.9 (7.3) %. We aim to improve that figure substantially in future years.

Automotive industry shares under pressure

In the first 10 months of 1999 the German Share Index (the DAX) stagnated for long periods. From mid October the index rose in line with a general economic upturn. At the year-end the DAX stood at 6,958 points, 39.1 % up on the previous year-end.

In contrast, responding to the indications of a downturn in the automotive business in Germany, the CDAX Automotive Index came under pressure in the year under review. The Volkswagen ordinary share was unable to buck that trend. At the year-end the ordinary share was priced at 56.00 €, 18.7 % down on the previous year's level at the same date. The price of the preferred share, too, was 24.6 % down on the previous year, at 32.00 €.

Development of dividends[1)2)]		1995	1996	1997	1998	1999
Number of no-nominal-value shares at Dec. 31						
Ordinary shares	in thousands	277,490	277,490	308,961	311,916	311,955[3)]
Preferred shares	in thousands	65,350	87,454	97,384	105,238	105,238
Dividend						
per ordinary share	€	0.31	0.46	0.61	0.77	0.77
per preferred share	€	0.36	0.51	0.66	0.82	0.83
Tax credit						
per ordinary share	€	0.13	0.20	0.26	0.33	0.33
per preferred share	€	0.15	0.22	0.29	0.35	0.36

Key figures per share[1)]		1995	1996	1997	1998	1999
Net earnings[4)]	DM	1.00	1.98	3.45	5.52	3.96
Earnings acc. to DVFA/SG[5)] (new method)	DM				7.45	5.75
Earnings acc. to DVFA/SG[5)] (old method)	DM	2.20	5.50	8.15	9.50	
Cash flow[4)]	DM	31.07	32.34	30.84	41.35	40.20
Stockholders' equity	DM	36.91	36.50	35.24	44.94	47.22
P/E ratio acc. to DVFA/SG[5)] (new method)	Factor				18.1	19.0
P/E ratio acc. to DVFA/SG[5)] (old method)	Factor	21.9	11.6	12.3	14.2	
Price/cash flow ratio	Factor	1.5	2.0	3.3	3.3	2.7
Dividend return	%	1.8	2.0	1.7	1.6	2.0

Sales turnover on German stock markets		1995	1996	1997	1998	1999
Turnover in Volkswagen ordinary shares	billion DM	81.1	110.2	192.3	231.6	151.6
Volkswagen portion of DAX turnover	%	6.0	5.8	7.0	5.9	3.8

Development of the share price[1)2)]		1995	1996	1997	1998	1999
Ordinary share						
Closing	€	24.59	32.59	51.38	68.92	56.00
High	€	24.83	32.59	75.88	101.18	78.60
Low	€	17.15	24.55	32.33	49.34	46.48
Preferred share						
Closing	€	17.78	25.10	39.42	42.44	32.00
High	€	18.11	25.23	56.55	71.33	46.30
Low	€	13.57	17.73	24.85	31.85	26.10
Stock market valuation on Dec. 31	billion €	8.0	11.2	19.7	26.0	20.8

1) 1995–1997 adjusted at a ratio of 1:10 as a result of the conversion to no-nominal-value shares in 1998.
2) Figures for years 1995 to 1998 converted into Euro for information purposes only at a rate of 1,95583 DM and rounded according to standard commercial practice.
3) Including the 38,930 new shares issued in connection with the exercise of option rights.
4) Based on the capital stock carrying dividend rights.
5) German Association for Financial Analysis and Investment Consultancy/Schmalenbach Society.

Active interest rate and currency management

With the introduction of the Euro in the Treasury department as the Group-wide reference currency, the number of currency transactions on the foreign exchange market fell with effect from January 1999. Notwithstanding that development, high demands were still placed on the management of interest rate and currency positions.

To hedge against interest rate and currency risks arising from the underlying commercial transactions of the Group companies, the Volkswagen Group continued to deploy derivative financial instruments. We further improved the efficacy of risk analysis and limitation in respect of the said transactions by means of system-aided workflows and automated controls. For the period under review, forward foreign exchange and option transactions were valued on the basis of imparity.

At the year-end 1999, the nominal values of the derivative financial instruments used were as follows:

Refinancing concepts within the Group

In addition to the conventional financing of automotive and financial services operations by way of the banking market, the Group also utilized constant-issue programmes as well as alternative forms of financing such as sale of trade debts by way of Asset Backed Securities (ABS) in the period under review.

As well as the consolidation of Europe-wide commercial paper programmes into a uniform Group Multi-Issuer Multi-Currency Programme, and the continuous utilization of our Euro Medium Term Note Programmes, the focus of activities was on ABS transactions.

New financing alternatives are also to be utilized in future. To this end, all existing programmes were updated and volumes were adjusted to financing requirements.

Use of the derivative financial instruments

million DM	Dec. 31, 1999	Dec. 31, 1998
Forward foreign exchange transactions	6,992	9,326
Interest swaps and combined interest/currency swaps*	23,347	20,758
Interest/currency options	3,328	2,412
Other forward transactions	501	200
Total	**34,168**	**32,696**

* Partly in connection with bond issues. Some of the said bonds include option elements. The obligations arising from the said options are covered by congruent claims against banks with first-class credit rating.

Stockholder-oriented key figures[1]

	1995	1996	1997	1998	1999
Fixed asset utilization (%)	21.7	21.8	22.2	21.5	22.0
Inventory turnover rate	9.4	9.7	10.5	10.3	9.7
Equity ratio (%)					
Automotive	19.3	20.5	20.8	23.1	23.1
Financial Services	7.0	7.0	7.8	6.0	4.7
Group	15.1	14.1	14.1	16.0	15.0
Cash flow as % of investments in tangible fixed assets[2]	137.5	99.7	92.7	102.3	88.9
Cash flow as % of sales[2]	9.7	7.9	7.3	9.2	8.2
Investments in tangible fixed assets as % of sales[2]	7.0	8.0	7.9	9.0	9.3
Total indebtedness (years)[3]	3.4	3.7	3.9	3.3	4.1
Return on sales before tax (%)	1.3	2.0	3.4	4.7	3.4
Return on sales after tax (%)	0.4	0.7	1.2	1.7	1.1
Return on equity after tax (%)	2.5	5.2	9.8	13.6	8.6
Return on investment after tax (%)[2][4]			4.8	7.3	6.9

[1] Additional key figures are presented in the 10-year overview at the end of the Report.
[2] Automotive Division
[3] Effective indebtedness (outside borrowings minus liquid funds, securities classified as current assets and short-term receivables and loans given) in relation to cash flow.
[4] Standardized operating profit after tax as a percentage of the capital invested for the respective return achieved on a year average.

Information for stockholders and analysts

The global activities of the Volkswagen Group and the large stockholder base have further increased interest in the Volkswagen share, which is traded on 20 stock exchanges in Germany and abroad. In the past fiscal year we therefore intensified our contacts with investors and financial analysts. In addition to numerous roadshows in Europe and the USA, Volkswagen also provided detailed information on the Company's position at one-to-one meetings, in videoconferences and in quarterly telephone conferences. In collaboration with financial institutions, efforts were also strengthened to attract private investors, and corporate presentations were also made to that target group.

In order to respond to analysts' and stockholders' need for information, in the past year we established Investor Relations pages on the Internet. They can be visited directly at www.volkswagen-ir.de. Interested parties are provided with up-to-date information, in German and English, covering all routine publications, details of the share price, and analysts' reports.

Internationally based Group financing companies

One of the basic principles of a sound financing policy is that international commercial operations should also be backed by international financing sources, in the most innovative ways possible. This diversification is essential to a reliable liquidity assurance and to cost-optimized refinancing of the Group. In this connection, our financing companies in Belgium, the Netherlands and Ireland are of special significance.

The main areas of activity of Coordination Center Volkswagen S.A., founded in 1986 in Brussels, were in 1999 again focussed on the financing of vehicle and component exports from the major European manufacturing companies in the Group to importers all over the world. Additionally, loans were made to Group companies, especially in the European financial services sector. These activities were financed on the international money and capital markets. The services offered by Coordination Center Volkswagen S.A. to other Group companies in the consulting sector were further expanded in the year under review.

Volkswagen International Finance N.V., founded in 1977 in Amsterdam, concentrates on low-cost take-up of long-term funds on the international capital markets, deploying primary and derivative financial instruments. In order to monitor the risks entailed by interest rate and exchange rate changes, Volkswagen International Finance N.V. operates an efficient risk management system.

Volkswagen Investments Ltd., founded in 1989 in the International Financial Services Centre in Dublin, likewise provides Group companies worldwide with loans, as well as providing the employees of the Group with funds to purchase Group vehicles and performing service functions for its affiliated subsidiaries.

The Euro

The ongoing preparations to change the official in-house currency from the national currency (in Germany the Deutschmark) to the Euro are running to schedule. The Volkswagen Group will switch from national currency (in Germany the Deutschmark) to the Euro with effect from fiscal year 2001 . Exempted from this are a small number of Group companies which will be operating the Euro as their in-house currency with effect from fiscal 1999 or 2000 as appropriate.

In order to safeguard the changeover, all systems and additional aspects of all Group companies affected by the new currency have been categorized according to their relevance. The conversion processes are defined and the plans have been drafted.

Balance Sheet of the Volkswagen Group, December 31, 1999 – million DM –

			Note	Dec. 31, 1999		Dec. 31, 1998	
Assets							
Fixed assets			(1)				
Intangible assets					903		190
Tangible assets					28,888		25,270
Financial assets					7,592		6,611
Leasing and rental assets					17,715		13,824
					55,098		**45,895**
Current assets							
Inventories			(2)		15,124		13,078
Receivables and other assets			(3)		51,502		43,344
Securities			(4)		3,500		3,244
Cash on hand, deposits at German Federal Bank and cash in banks					5,877		11,668
					76,003		**71,334**
Prepaid and deferred charges			(5)		**170**		**124**
Balance-sheet total					**131,271**		**117,353**
Stockholders' equity and liabilities							
Stockholders' equity							
Subscribed capital of VOLKSWAGEN AG			(6)	2,089		2,086	
Ordinary shares		1,562					
Non-voting preferred shares		527					
Potential capital	368						
Called-up capital					2,089		2,086
Capital reserve			(7)		8,361		8,360
Revenue reserves			(8)		7,708		6,775
Net earnings available for distribution					646		625
Minority interests					385		350
					19,189		**18,196**
Special items			(9)		**513**		**549**
Provisions			(10)		**42,184**		**40,435**
Liabilities			(11)		**65,578**		**55,206**
Deferred income			(12)		**3,807**		**2,967**
Balance-sheet total					**131,271**		**117,353**

Statement of Earnings of the Volkswagen Group for the fiscal year ended December 31, 1999 – million DM –

	Note	1999	1998
Sales	(13)	**147,013**	**134,243**
Cost of sales		130,347	117,568
Gross profit		**+ 16,666**	**+ 16,675**
Selling and distribution expenses		11,944	10,786
General administration expenses		3,334	3,108
Other operating income	(14)	7,471	6,933
Other operating expenses	(15)	6,039	5,283
Results from participations	(16)	+ 854	+ 222
Interest results	(17)	+ 1,299	+ 1,651
Write-down of financial assets		40	17
Results from ordinary business activities		**+ 4,933**	**+ 6,287**
Taxes on income		3,282	4,044
Net earnings	(18)	**+ 1,651**	**+ 2,243**

Notes on the Balance Sheet

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

Gross book values

	Acquisition or manufacturing cost Jan. 1, 1999	Amounts brought forward in respect of companies consolidated for the first time	Additions	Transfers	Disposals	Acquisition or manufacturing cost Dec. 31, 1999
Business start-up and expansion expenses	–	**392**	–	–	**392**	–
Intangible Assets						
Concessions, industrial and similar rights and licences in such rights	434	15	181	– 3	30	597
Goodwill	1,217	–	575	–	8	1,784
Payments on account	22	–	176	5	1	202
	1,673	**15**	**932**	**2**	**39**	**2,583**
Tangible Assets						
Land, land rights and buildings incl. buildings on land owned by others	19,236	335	983	573	163	20,964
Technical equipment and machinery	31,425	653	2,591	1,426	1,190	34,905
Other equipment and factory and office equipment	33,191	1,181	3,804	665	1,975	36,866
Payments on account and construction in progress	3,643	85	2,987	– 2,693	120	3,902
	87,495	**2,254**	**10,365**	**– 29**	**3,448**	**96,637**
Financial Assets						
Holdings in affiliated companies	634	5	947	10	414	1,182
Loans to affiliated companies	28	–	92	–	2	118
Holdings in associated companies	2,512	0	326	– 10	533	2,295
Participations	132	0	14	–	0	146
Loans to associated companies and companies linked through participation	0	0	–	–	0	0
Long-term financial investments	3,615	–	406	–	171	3,850
Other loans	462	0	212	–	94[1]	580
Other financial assets	69	–	2	–	26	45
	7,452	**5**	**1,999**	**–**	**1,240**	**8,216**
	96,620	**2,274**	**13,296**	**– 27**	**4,727**	**107,436**
Leasing and Rental Assets	**23,044**	**–**	**13,575**	**27**	**8,197[2]**	**28,449**

Value Adjustments

	Accumulated depreciation Jan. 1, 1999	Amounts brought forward in respect of companies consolidated for the first time	Depreciation current year	Transfers	Disposals	Write-ups	Accumulated depreciation Dec. 31, 1999	Book values Dec. 31, 1999	Book values Dec. 31, 1998
Business start-up and expansion expenses	–	**305**	**87**	–	**392**	–	–	–	–
Intangible Assets									
Concessions, industrial and similar rights and licences in such rights	288	11	97	– 9	29	–	358	239	146
Goodwill	1,195	–	127	–	–	–	1,322	462	22
Payments on account	–	–	–	–	–	–	–	202	22
	1,483	**11**	**224**	**– 9**	**29**	**–**	**1,680**	**903**	**190**
Tangible Assets									
Land, land rights and buildings incl. buildings on land owned by others	10,365	46	687	29	95	1	11,031	9,933	8,871
Technical equipment and machinery	26,089	291	3,065	– 55	1,099	–	28,291	6,614	5,336
Other equipment and factory and office equipment	25,687	566	3,885	119	1,832	–	28,425	8,441	7,504
Payments on account and construction in progress	84	2	0	– 84	–	–	2	3,900	3,559
	62,225	**905**	**7,637**	**9**	**3,026**	**1**	**67,749**	**28,888**	**25,270**
Financial Assets									
Holdings in affiliated companies	2	–	22	–	1	–	23	1,159	632
Loans to affiliated companies	–	–	–	–	–	–	–	118	28
Holdings in associated companies	579	0	–	–	81	151	347	1,948	1,933
Participations	112	–	2	–	0	–	114	32	20
Loans to associated companies and companies linked through participation	0	–	–	–	–	0	0	0	0
Long-term financial investments	34	–	0	–	8	2	24	3,826	3,581
Other loans	78	–	18	–	2	14	80	500	384
Other financial assets	36	–	–	–	–	–	36	9	33
	841	**0**	**42**	**–**	**92**	**167**	**624**	**7,592**	**6,611**
	64,549	**916**	**7,903**	**0**	**3,147**	**168**	**70,053**	**37,383**	**32,071**
Leasing and Rental Assets	**9,220**	**–**	**6,490**	**0**	**4,976[3]**	**–**	**10,734**	**17,715**	**13,824**
								55,098	**45,895**

[1] Including exchange rate differences in the amount of – 8 million DM.
[2] Including exchange rate differences in the amount of – 1,299 million DM.
[3] Including exchange rate differences in the amount of 407 million DM.

Development of Short-Term Liquidity

million DM	Volkswagen Group		Financial Services	
	1999	1998	1999	1998
Net earnings	1,651	2,243	– 14	– 71
Depreciation and write-up of fixed assets[1]	7,972	7,996	54	48
Depreciation and write-up of leasing and rental assets	6,490	5,430	6,324	5,219
Change in medium and long-term provisions	1,383	1,946	– 29	86
Other expenses and income not affecting payments	– 725	– 811	– 1	45
Cash flow	**16,771**	**16,804**	**6,334**	**5,327**
Change in short-term provisions	367	1,069	121	– 303
Change in inventories and trade receivables	– 10,261	– 10,949	– 6,574	– 6,446
Change in liabilities (excluding credit liabilities)	4,716	2,142	823	213
Other internal financing	**– 5,178**	**– 7,738**	**– 5,630**	**– 6,536**
Inflow of funds from current operations	**11,593**	**9,066**	**704**	**– 1,209**
Disposals of fixed assets and leasing and rental assets	4,638	4,487	3,254	3,956
Business start-up and expansion expenses	– 87	–	–	–
Capital investments in tangible fixed assets [1]	– 12,651	– 11,152	– 215	– 139
Capital investments in financial assets [2]	– 1,047	– 511	– 281	– 37
Additions to leasing and rental assets	– 13,575	– 10,391	– 13,575	– 10,391
Capital investments	**– 22,722**	**– 17,567**	**– 10,817**	**– 6,611**
Net cash flow	**– 11,129**	**– 8,501**	**– 10,113**	**– 7,820**
Inpayments in respect of capital increases	5	3,340	10	25
Outpayments to stockholders (dividends)	– 632	– 491	– 68	– 143
Other equity changes	– 31	– 45	– 26	– 97
Change in financial liabilities	6,496	6,137	11,216	7,862
Inflow/outflow of funds in respect of financing operations	**5,838**	**8,941**	**11,132**	**7,647**
Change in gross liquidity	**– 5,291**	**440**	**1,019**	**– 173**
Gross liquidity at start of period	**18,493**	**18,053**	**556**	**729**
Gross liquidity at end of period	**13,202**	**18,493**	**1,575**	**556**
Liquid funds	5,877	11,668	462	384
Securities	3,500	3,244	1,113	172
Long-term financial investments	3,825	3,581	–	–
Total third-party borrowings	**– 45,624**	**– 39,128**	**– 50,571**	**– 39,355**
Net liquidity	**– 32,422**	**– 20,635**	**– 48,996**	**– 38,799**

1) Including intangible assets.
2) Excluding part of the long-term financial investments and excluding equity valuation of the companies not fully consolidated into the Group financial statements.

Notes on the Financial Statements of the Volkswagen Group for the Fiscal Year Ended December 31, 1999

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 unified management control of the parent company. Apart from VOLKSWAGEN AG, this involves 29 German Group companies and 97 foreign Group companies.

On March 2, 1999 Volkswagen Beteiligungs-Gesellschaft mbH, Wolfsburg, acquired from Ford-Werke AG, Cologne, 50 % of the shares in AUTOEUROPA-AUTOMÓVEIS LDA., Palmela, previously operated as a joint venture between the two companies. The transaction was effective retrospectively from January 1, 1999. Including the additional 50 % of the shares held by VOLKSWAGEN AG, the company is now fully consolidated.

The gedas GmbH subsidiary, Berlin, acquired all the shares in "Datenrevision - Beratungsgesellschaft für Datenverarbeitung und EDV- Revision mit beschränkter Haftung", Hamburg, which is now likewise fully consolidated.

By the acquisition of additional shares in a previously non-consolidated affiliated company abroad, the said company together with two subsidiary companies is consolidated for the first time. Furthermore, one affiliated company in Germany formerly valued on the basis of the proportionate stockholders' equity and 11 affiliated companies abroad formerly entered at acquisition cost are now fully consolidated. These are companies which were not consolidated in the previous year in accordance with Section 296, subsection 1, no. 2 and subsection 2 of the German Commercial Code.

Two affiliated companies located abroad have been formally removed from the scope of consolidation as a result of merger. One newly established company abroad was consolidated for the first time.

The changes in the scope of consolidation result in no substantial changes to the asset, financial and earnings positions of the Volkswagen Group.

Furthermore, the scope of affiliates consolidated in the Volkswagen Group on the basis of the proportionate stockholders' equity has changed by the inclusion of one previously non-consolidated company and by one company now being valued at acquisition cost.

VOLKSWAGEN AG contributed its shares in a Chinese joint venture company to the newly established Volkswagen (China) Investment Company Ltd., Beijing. The newly established company, like the joint venture company before it, is consolidated on the basis of the proportionate stockholders' equity. Consequently, six affiliated companies in Germany and four abroad are now valued on the basis of the proportionate stockholders' equity.

25 German and 55 foreign affiliated companies are not consolidated. The companies in question are subsidiaries which are omitted under the provisions of Section 296 subsection 1, no. 2, and subsection 2 of the German Commercial Code.

On December 15, 1999 a contract was signed between Volkswagen Beteiligungs-Gesellschaft mbH, Wolfsburg, and Compagnie des Wagons-Lits et du Tourisme S.A., Paris, relating to the acquisition of the remaining shares in the Europcar Group, which had formerly been operated as a joint venture between the two aforementioned companies. With effect from January 1, 2000, Volkswagen Beteiligungs-Gesellschaft mbH now holds 100 % of the shares in Europcar International S.A., Paris.

Including the Europcar Group, seven joint ventures in Germany and 46 abroad are included in the consolidated financial statements on the basis of the proportionate stockholders' equity. One further joint venture abroad is valued at acquisition cost.

28 German and nine 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.

Receivables, liabilities, expenses and income arising between the individual consolidated companies are eliminated. Group inventories are adjusted to eliminate intra-Group profits and losses. Interim balances on intra-Group sales of tangible fixed assets are not eliminated, as they are undertaken at market terms.

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.

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

The methods of consolidation applied in the previous year were retained.

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 that historical 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 order to secure our foreign currency cash flows – principally from expected future sales, material purchases and credit transactions – against exchange rate and interest rate fluctuations, derivative financial instruments including forward foreign exchange and option transactions as well as interest rate transactions such as caps and forward rate agreements are deployed, mainly on a centralized basis by VOLKSWAGEN AG. These transactions are valued on a strict imparity basis. Assets or liabilities backed by combined interest/currency swaps (cross currency interest swaps) and forward foreign exchange transactions are translated at contractually agreed rates.

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

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

Average monthly rates are used for the most part in the statement of earnings. However, write-downs of financial assets are taken over on a historical basis. The depreciation of tangible assets which is included in cost of sales, selling and distribution expenses and general administration expenses is likewise translated at historical rates. The net earnings/losses of foreign subsidiaries are determined by translating the relevant amounts in local currency at the rate applying on the balance-sheet date, taking into account the balance-sheet currency translation affecting results.

Accounting and valuation principles

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

In the Volkswagen Group the option to state **business start-up and expansion expenses** on the balance sheet is not exercised. We have therefore written off in full the expenses capitalized by a Group company consolidated for the first time.

Intangible assets are shown at acquisition cost, with regular depreciation charged over a three-year period using the straight-line method. In contrast, newly acquired goodwill is written off over a period of five years.

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

Buildings 25–50 years
Building and site utilities 10–18 years
Technical equipment and machinery 5–10 years
Power generators 15 years
Factory and office equipment including special tools, jigs and fixtures 3–14 years

On the basis of the opportunities offered by tax law, regular depreciation is charged in the Volkswagen Group 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. The straight-line method is applied to assets on which special depreciation is charged for tax purposes.

For the purpose of simplification, depreciation on additions to movable assets during the first half of the year is based on the full annual rate and depreciation on additions during the second half of the year is based on half the annual rate. Low-value assets are fully depreciated and written off in the year of acquisition.

The additions of special tools are depreciated according to the declining-balance method as from date of completion, with a scheduled changeover to the straight-line method at a later date.

Differences between the values required under commercial law and those permitted under tax law are shown under the special items with an equity portion on the "stockholders' equity and liabilities" side of the balance sheet.

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 of German Group companies are shown at acquisition cost or at the lower applicable market value; those of Group companies outside Germany are shown at the retained lower market price from the balance-sheet date of the previous year.

Interest-free and low-interest-bearing **loans** are stated at cash value; other 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.

Work in progress and finished goods are stated at the minimum applicable value allowed by commercial law; that is to say, direct materials and labour minus value adjustments.

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.

Acquired foreign exchange and interest option rights are stated at acquisition cost or at lower market values up to their due date.

Securities classified as current assets are stated at acquisition cost or the lower applicable value, unless in the case of Group companies outside Germany it is permissible to retain lower values from previous years.

Provisions for pensions and similar obligations of German Group companies are based on actuarial computation based on the going-value method in accordance with Section 6a of the Income Tax Act; those for Group companies outside Germany are based on comparable principles.

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 – is applied. Full account is taken of the biometric changes resulting from the new 1998 guide tables for Germany. Provisions for long-service gratuities in Germany are discounted at 5.5 %, taking account of regulations governing accounting and valuation for tax purposes, likewise utilizing the new graduated life tables.

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

Allowance is made, on the basis of reasonable commercial judgement, for discernible risks and uncertain liabilities by way of adequate allocations to provisions. The provisions cover all risks arising from future claims.

For the valuation of forward foreign exchange transactions, the agreed rate for the transaction is compared against the corresponding forward rate on the same due date as of the balance-sheet date. Provision is made for any unrealized losses arising therefrom. Positive differences (book profits) are not taken into account. Profits and losses are not set off.

To determine possible risks arising from forward rate agreements (interest rate hedging transactions), the contractually stipulated interest rate is compared against the agreed market reference rate (e.g. LIBOR) at the balance-sheet date. Provision is made for the cost to us of any compensation obligations deriving therefrom. Any claims for compensation in our favour are not entered.

Liabilities are shown at the amount at which they must be repaid or the amount required for fulfillment of the obligation in question. Bonds with a higher agreed repayment amount are entered at their issue price plus pro rata interest. 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 in the amount of 375 million DM (previous year: 318 million DM) are allocated to the individual functional areas.

Notes on the Balance Sheet

(1) Fixed assets

The book value of the Volkswagen Group's fixed assets, totalling 55,098 million DM, comprises intangible, tangible, financial and leasing and rental assets.

Additions to fixed assets were as follows:

million DM	1999	1998
Business start-up and expansion expenses	87	–
Intangible assets	936	1,323
Tangible assets	11,714	9,829
Financial assets	2,004	2,761
	14,654	13,913
Leasing and rental assets	13,575	10,391
	28,316	24,304

The additions to fixed assets also include the amounts brought forward in respect of companies consolidated for the first time.

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

Extraordinary depreciation was charged as follows:

million DM	1999	1998
Business start-up and expansion expenses	14	–
Intangible assets	14	1,191
Tangible assets	74	68
Holdings in affiliated and associated companies and other participations	24	45
Long-term financial investments and loans	18	19
	130	1,323
	144	1,323

Extraordinary depreciation on tangible assets was charged for the most part on decommissioned production facilities.

(2) Inventories

million DM	Dec. 31, 1999	Dec. 31, 1998
Raw materials and supplies	3,659	3,148
Work in progress	2,135	2,152
Finished goods and merchandise	9,270	7,695
Payments on account	60	83
	15,124	13,078

(3) Receivables and other assets

million DM	Dec. 31, 1999	Dec. 31, 1998
Trade receivables	7,124	6,695
– of which amounts due in more than one year	(1)	(0)
Receivables from affiliated companies	940	442
– of which trade receivables	(740)	(203)
– of which amounts due in more than one year	(338)	(40)
Receivables from companies in which participations are held	511	304
– of which trade receivables	(190)	(162)
– of which amounts due in more than one year	(–)	(–)
Other assets	42,927	35,903
– of which amounts due in more than one year	(18,393)	(15,263)
	51,502	43,344

Significant items of "Other assets" are the receivables relating to financing and leasing operations in the amount of 37.0 billion DM.

(4) Securities

million DM	Dec. 31, 1999	Dec. 31, 1998
Treasury stock	5	5
Other securities	3,495	3,239
	3,500	3,244

VOLKSWAGEN AG holds treasury stock in the form of 764,670 ordinary shares with a total nominal value of 1,957,555.20 € (= 3,828,645.19 DM); this corresponds to 0.18 % 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 19 preferred shares held at December 31, 1998 stemming from the capital increase in 1998 were sold on the stock market, together with 42 shares returned by employees. At an average price of 70.62 DM per share, the sale brought a small profit, which was taken.

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

A further 4,000 ordinary shares in VOLKSWAGEN AG are currently held by Volkswagen-Versicherungsdienst GmbH, the shares in which were acquired by Group companies in the fiscal year. The shares were acquired in 1998 at a price of 0.7 million DM. They represent 0.01 million € (= 0.001 %) of the share capital.

"Other securities" relate primarily to readily cash-convertible capital-market papers as well as shares in special securities funds held by various Group companies.

(5) Prepaid and deferred charges

In addition to those amounts not yet dissolved and charged to interest expenses in respect of contra items to the transfers to the capital reserve totalling 16 million DM (previous year: 26 million DM) made in connection with the issue of warrants with low-interest bonds, this item comprises for the most part interest expenses of the following year.

(6) Subscribed capital

By resolution of the Annual Meeting of Stockholders passed on June 2, 1999, with effect from fiscal year 1999 the share capital of VOLKSWAGEN AG is now quoted in Euro. The changeover effected as per December 31, 1998, accompanied by a capital increase from corporate funds (1.5 million € or 2.9 million DM), entitles each share held to a nominal share in the Company capital of 2.56 €. The shares are no-nominal-value bearer shares.

Following the capital increases effected in the fiscal year – utilizing part of the existing potential capital stock – through the issue of 38,930 ordinary shares (0.1 million € = 0.2 million DM) based on the exercising of options, the subscribed capital as of the year-end now amounts to 1,068 million € (2,089 million DM).

The subscribed capital is composed of 311,955,250 no-nominal-value ordinary shares and 105,238,280 preferred shares. In addition, there is an authorized capital stock of 400 million € (782 million DM), expiring on June 1, 2004.

A potential capital stock of 69.0 million € (135.0 million DM) exists for the bearers of rights arising from convertible bonds issued by VOLKSWAGEN AG on the basis of the authorization passed by the Annual Meeting of Stockholders on June 19, 1997 for the purpose of issue to the Board of Management, Group senior management and the management and standard-rate employees of VOLKSWAGEN AG.

Exercising the said authorization, the Board of Management with the consent of the Supervisory Board established the first tranche of a stock option plan in 1999. The plan entitles the beneficiaries by subscribing to convertible bonds to acquire options for the purchase of shares in VOLKSWAGEN AG at a unit price of 5 DM. The initial conversion price, reflecting the price of the Volkswagen share at the beginning of 1999, was set at 69.48 € per Volkswagen ordinary share. It will increase by 5 percentage points per year in the following years. After a 24-month embargo, the conversion rights can be exercised between June 11, 2001 and June 4, 2004. For the first conversion period starting on June 11, 2001 the conversion price will be 76.43 €. It will then increase on publication of each quarterly report for the period January to September 2001 to 79.90 €, for January to September 2002 to 83.38 € and for January to September 2003 to 86.85 €.

The first tranche of convertible bonds was structured for a volume of up to 7.3 million DM. Each bond securitizes the right of conversion into 10 ordinary shares. The value of the total convertible bonds issued as per December 31, 1999 is 3,337,235 DM (= 667,447 bonds), entitling the bearers to purchase 6,674,470 ordinary shares. The liabilities arising from convertible bonds are entered under "Other liabilities". In the fiscal year, 484 convertible bonds to a value of 2,420 DM were returned by employees who have since left the Company.

In addition, a potential capital stock of 19.3 million € (37,7 million DM) can be utilized by August 1, 2001 by the bearers of the warrants attaching to the option bond issued in 1986. Of the resultant 30,000 warrants for the purchase of 10 shares, the 30,000 warrants for the purchase of every 70 shares, and the 12,000 warrants for the purchase of every 800 shares (together 12,000,000 option rights), a total of 4,465,280 option rights had been exercised by December 31, 1999. The warrants still in circulation thus entail option rights for the purchase of 7,534,720 no-nominal-value shares.

There is an additional potential capital stock of 100 million € arising from the issue of up to 39,062,500 ordinary and/or preferred shares. This potential capital increase will only be carried out to the extent that the bearers of the option bonds and convertible bonds to be issued up to June 1, 2004 exercise their conversion rights.

(7) Capital reserve

The capital reserve increased by 1 million DM as a result of allocation of the premium on the increase in subscribed capital arising from the exercising of options. It comprises the premium on a total of 7,932 million DM from the capital increases and the premium on the issue of option bonds totalling 429 million DM.

No amounts were withdrawn from the capital reserve.

(8) Revenue reserves

million DM	Dec. 31, 1999	Dec. 31, 1998
Legal reserve	60	60
Reserve for treasury stock	5	5
Other revenue reserves	7,643	6,710
	7,708	6,775

A total of 637 million DM was transferred from the net earnings of the parent company to the "Other revenue reserves" in accordance with Section 58 subsection 2 of the German Corporation Act. In the course of the capital increase from corporate funds, 3 million DM was converted into subscribed capital from "Other revenue reserves".

The first-time consolidation of a South American company resulted in a difference on the Stockholders' equity and liabilities side in the amount of 1 million DM, which was set off against "Other revenue reserves".

(9) Special items

million DM	Dec. 31, 1999	Dec. 31, 1998
Reserves for tax purposes	54	47
Depreciation for tax purposes	402	445
Fund for general banking risks	50	50
Special item for investment subsidies	7	7
	513	549

The Volkswagen Group has tax-free reserves in accordance with Section 6 b of the Income Tax Act/Section 35 of the Income Tax Guidelines and Section 52 subsection 16 and subsection 5 of the Income Tax Act.

Depreciation for tax purposes comprises value adjustments in accordance with Section 3 subsection 2 of the Border Area Promotion Act, Section 6b of the Income Tax Act/Section 35 of the Income Tax Guidelines, Section 7d of the Income Tax Act, Section 14 of the Berlin Promotion Act, Section 82d of the Income Tax Directive, Section 82a of the Income Tax Directive and Section 4 of the Development Area Act.

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

To safeguard against general banking risks, a company in Germany created a special item in accordance with Section 340g of the Commercial Code totalling 50 million DM.

The special item for investment subsidies stems from the financial statements of three foreign companies and one German company.

(10) Provisions

million DM	Dec. 31, 1999	Dec. 31, 1998
Provisions for pensions and similar obligations	16,493	15,559
Provisions in respect of taxes	2,550	3,344
Other provisions	23,141	21,532
	42,184	40,435
of which: short-term	16,345	15,978
medium-term	11,277	10,070
long-term	14,562	14,387

In accordance with Section 249 subsection 2 of the German 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. This adjustment of provisions resulted in a net expense in the year under review. Without these measures, pre-tax earnings would have been 4 % higher (previous year: 5 % lower).

"Other provisions" includes warranty provisions (7.3 billion DM), personnel provisions (4.2 billion DM for early retirement, long-service awards and other workforce-related costs) and provisions for selling and distribution expenses (3.3 billion DM).

(11) Liabilities

"Other liabilities" include loans totalling 8.5 billion DM taken up by way of note loans, medium-term notes and commercial papers, among others. Liabilities also exist in the amount of 5.2 billion DM arising from deposits from the direct-banking operations of Volkswagen Bank GmbH.

The liabilities in the amount of 46,199 million DM (previous year 39,619 million DM) bear interest.

Of the liabilities shown in the consolidated balance sheet, a total of 932 million DM (previous year: 1,007 million DM) is secured, for the most part, through charges on real estate. In the case of supply of goods, the usual retention of title exists.

Liabilities

million DM	Payable within up to 1 year	Payable within over 5 yeas	Dec. 31, 1999	Dec. 31, 1998	Payable within up to 1 year
Bonds	1,575	–	3,740	2,988	1,071
– of which convertible	(100)	(–)	(833)	(735)	(384)
Liabilities to banks	19,312	390	26,879	25,833	19,007
Payments on account received	1,401	–	1,401	1,340	1,340
Trade payables	11,565	2	11,623	9,383	9,311
Notes payable	1,109	–	1,170	906	637
Amounts payable to affiliated companies	203	–	203	165	165
Amounts payable to companies in which participations are held	212	–	212	248	248
Other liabilities	14,238	1,927	20,350	14,343	9,386
– of which taxes	(1,564)	(321)	(1,885)	(1,401)	(1,137)
– of which in respect of social security	(636)	(0)	(637)	(615)	(615)
	49,615	2,319	65,578	55,206	41,165

(12) Deferred income

The deferred income in the amount of 3,807 million DM (previous year: 2,967 million DM) mainly comprises values arising from the forfaiting of future leasing instalments.

Contingencies and commitments

million DM	Dec. 31, 1999	Dec. 31, 1998
Contingent liabilities in respect of notes	–	1,208
Contingent liabilities in respect of guarantees	363	263
Contingent liabilities in respect of warranties	425	905
Pledges on company assets to secure another party's liabilities	45	22
	833	2,398

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 2,316 million DM (previous year: 2,148 million DM).

Other financial obligations

million DM	Dec. 31, 1999	Dec. 31, 1998
Obligations in respect of capital contributions	4	227
Annual obligations in respect of long-term leasing and rental contracts	366	468

Financial obligations totalling 4 million DM in respect of capital contributions exist for the year 2000 in relation to our commitments in the Russian Federation.

The other financial obligations in respect of leasing and rental contracts include payment obligations towards one leasing company in the form of future leasing instalments on the basis of average terms; these obligations amount to 99 million DM for the year 2000 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

	1999 million DM	1999 Share in %	1998 million DM	1998 Share in %
Germany	47,390	32.2	46,744	34.8
Europe (excl. Germany)	61,467	41.8	55,735	41.5
North America	24,206	16.5	15,356	11.4
South America	7,731	5.3	11,103	8.3
Africa	1,586	1.1	1,567	1.2
Asia-Pacific	4,633	3.1	3,738	2.8
Total	**147,013**	**100.0**	**134,243**	**100.0**
of which:				
Volkswagen vehicles	66,048	44.9	61,663	46.0
Audi vehicles	27,859	18.9	25,256	18.8
Commercial vehicles	8,912	6.1	9,550	7.1
Seat vehicles	8,873	6.0	7,000	5.2
Škoda vehicles	5,520	3.8	5,102	3.8
Ford vehicles	1,727	1.2	–	–
Bentley vehicles	327	0.2	151	0.1
Rolls-Royce vehicles	118	0.1	99	0.1
Lamborghini	78	0.0	–	–
Spares	8,675	5.9	7,808	5.8
Leasing and rental business	12,907	8.8	11,681	8.7
Other sales	5,969	4.1	5,933	4.4

(14) Other operating income

million DM	1999	1998
Other operating income	7,471	6,933
– of which income from elimination of special items with an equity portion	(49)	(687)

Other operating income resulted from the elimination of provisions (1.6 billion DM) and from exchange rate changes in respect of supplies and services (1.2 billion DM). Also included is income from the elimination of value adjustments on receivables (0.4 billion DM) and from the sale of promotional material (0.4 billion DM).

(15) Other operating expenses

million DM	1999	1998
Other operating expenses	6,039	5,283
– of which transfers to special items with an equity portion	(12)	(22)
– of which transfers to the fund for general banking risks	(–)	(50)

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 (2.1 billion DM), depreciation of current assets (0.8 billion DM) and expenses for various risks. Depreciation for tax purposes was charged in the amount of 3 million DM (previous year: 2 million DM), solely in respect of fixed assets.

(16) Results from participations

million DM	1999	1998
Income from participations	892	288
– of which from affiliated companies	(47)	(29)
– of which from associated companies	(138)	(25)
– of which from valuation of holdings in associated companies	(701)	(232)
– of which other income from participations	(6)	(2)
Income from profit assumption agreements	3	2
Write-down of holdings in associated companies	0	44
Expenses from holdings in associated companies	3	11
Expenses from loss assumptions	38	13
	854	**222**

(17) Interest results

million DM	1999	1998
Income from other securities and long-term loans	203	223
Other interest and similar income	4,054	4,616
– of which from affiliated companies	(16)	(11)
Interest and similar expenses	2,958	3,188
– of which to affiliated companies	(4)	(4)
	1,299	**1,651**

(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 972 million DM (previous year: 1,149 million DM) and income not relating to the period under review totalling 2,704 million DM (previous year: 2,061 million DM). Of the out-of-period income, 1,570 million DM relates to the elimination of provisions.

The net earnings of the Volkswagen Group have been increased marginally as a result of tax-related measures. These mainly involve the necessary elimination of special items in accordance with Section 3 subsection 2 of the Border Area Promotion Act. Without these measures, profits of the Volkswagen Group would have been 1 % (previous year: 15 %) less. In the year 2000 the scheduled liquidation of the special items will have only a minor positive effect on net earnings.

Net earnings include minority interests in profit totalling 45 million DM (previous year: 27 million DM) and no minority shares in losses (previous year: 3 million DM).

Total expenses for the period

million DM	1999	1998
Cost of materials		
Raw materials and supplies, purchased goods and purchased services	**90,458**	**84,327**
Labour cost		
Wages and salaries	18,122	17,080
Social insurance, pension costs and benefits	5,284	5,377
– of which in respect of pensions	(1,482)	(1,656)
	23,406	**22,457**

Segmental Reporting by Division, Brand and Region

In segmental reporting, the activities of the Volkswagen Group are broken down into the Automotive and Financial Services segments.

The Automotive segment is in turn broken down by brand into Volkswagen Passenger Cars, Volkswagen Commercial Vehicles, Audi, Seat, Škoda and Rolls-Royce/Bentley, as well as by region into North America, South America/Africa and Asia-Pacific. Segmental reporting therefore follows the breakdown of Group activities based on internal control and monitoring. In order to provide better transparency of the business volumes in the Asia-Pacific region, in addition to the fully consolidated Japanese companies the companies in the region consolidated only on the basis of their proportionate stockholders' equity are also included pro rata. The accounting and valuation of those companies is subject to the principles laid down by commercial law.

The Financial Services segment mainly comprises vehicle leasing as well as credit financing for customers and dealers.

	Unit sales		Production		Workforce Dec. 31	
	1999	1998	1999	1998	1999	1998
Automotive						
Volkswagen Passenger Cars	2,490,422	2,356,900	1,980,601	1,935,212	123,321	121,999
Volkswagen Commercial Vehicles	284,459	294,202	238,171	245,387	17,538	17,516
Audi	624,966	614,107	626,059	619,030	46,252	42,089
Seat	751,296	671,405	486,303	500,500	17,391	17,279
Škoda	374,947	403,815	371,430	403,515	21,465	21,275
Rolls-Royce/Bentley	1,327	765	1,440	726	2,277	2,333
North America Region	649,207	454,313	410,061	339,785	17,477	17,420
South America / Africa Region	551,829	591,427	523,244	546,343	37,255	36,396
Asia-Pacific Region	366,861	359,430	313,791	307,643	15,937	15,447
Financial Services	–	–	–	–	4,194	4,011
Consolidation/Other	– 1,172,318	– 998,546	– 97,908	– 75,462	3,168	2,151
Volkswagen Group	4,922,996	4,747,818	4,853,192	4,822,679	306,275	297,916

million DM	External sales 1999	External sales 1998	Sales with other segments, brands and regiones 1999	Sales with other segments, brands and regiones 1998	Total sales 1999	Total sales 1998
Automotive						
Volkswagen Passenger Cars	65,570	64,056	23,151	15,689	88,721	79,745
Volkswagen Commercial Vehicles	6,118	5,867	2,385	2,440	8,503	8,307
Audi	12,565	12,129	17,059	15,093	29,624	27,222
Seat	12,361	9,365	3,949	4,170	16,310	13,535
Škoda	4,465	4,426	1,614	1,688	6,079	6,114
Rolls-Royce/Bentley	510	283	1	0	511	283
North America Region	20,742	13,090	1,870	1,141	22,612	14,231
South America/Africa Region	8,124	11,594	1,827	727	9,951	12,321
Asia-Pacific Region (pro rata)	6,139	5,093	0	0	6,139	5,093
Financial Services	**12,888**	**11,669**	**10**	**6**	**12,898**[1]	**11,675**[1]
Consolidation/Other	**– 2,469**	**– 3,329**	**– 51,866**	**– 40,954**	**– 54,335**	**– 44,283**
Volkswagen Group	**147,013**	**134,243**	**–**	**–**	**147,013**	**134,243**

million DM	Result before taxes 1999	Result before taxes 1998	Cash flow 1999	Cash flow 1998	Investments as per "Development of short-term liquidity"[2] 1999	Investments as per "Development of short-term liquidity"[2] 1998
Automotive						
Volkswagen Passenger Cars	2,775	4,177	5,757	6,188	6,958	3,656
Volkswagen Commercial Vehicles	487	459	452	519	395	262
Audi	1,638	1,684	2,274	2,373	3,353	3,168
Seat	382	482	857	1,116	815	416
Škoda	176	208	513	528	584	511
Rolls-Royce/Bentley	– 433	– 94	– 180	– 20	63	9
North America Region	727	156	1,314	531	487	747
South America/Africa Region	– 710	– 81	– 70	502	598	1,244
Asia-Pacific Region (pro rata)	475	367	623	445	397	297
Financial Services	**371**	**383**	**6,334**	**5,327**	**14,071**	**10,567**
Consolidation/Other	**– 955**	**– 1,454**	**– 1,103**	**– 705**	**– 361**	**1,177**
Volkswagen Group	**4,933**	**6,287**	**16,771**	**16,804**	**27,360**	**22,054**

[1] Excluding income from financing, only sales proceeds according to German Commercial Code.
[2] Excluding additions to securities and excluding equity valuation.

Other Particulars

Average number of employees during the year

	1999	1998
Performance-linked wage-earners	159,458	153,029
Time-rate wage-earners	51,784	49,574
Salaried staff	72,197	66,550
	283,439	**269,153**
Apprentices	6,999	6,430
	290,438	**275,583**
Not fully consolidated vehicle-producing holdings	15,229	18,802*
	305,667	**294,385**

* Including 26 apprentices.

The members of the Board of Management and the Supervisory Board, together with changes in the membership of those 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 1999 in respect of the Volkswagen Group totalled 16,820,791 DM. As part of the stock option plan, the members of the Board of Management subscribed to 4,000 convertible bonds entailing the right to purchase 40,000 ordinary shares in VOLKSWAGEN AG.

Retired members of the Board of Management and their surviving dependants received 12,649,904 DM. Pension payments to this group of people are covered by provisions amounting to 138,617,338 DM.

The remuneration of the members of the Supervisory Board amounted to 2,568,432 DM.

Loans totalling 209,500 DM have been granted to members of the Supervisory Board (amount redeemed in 1999: 108,000 DM). The loans have an interest rate of 4 % and an agreed term of up to 12.5 years.

Wolfsburg, February 22, 2000

VOLKSWAGEN AKTIENGESELLSCHAFT
The Board of Management

Independent auditors' report

"We have audited the consolidated financial statements and the Group Management Report prepared by VOLKSWAGEN AG for the fiscal year ending December 31, 1999. The preparation of the consolidated financial statements and the Group Management Report in accordance with German commercial law is the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and the Group Management Report based on our audit.

We conducted our audit of the consolidated annual financial statements in accordance with Section 317 of the German Commercial Code and the generally accepted standards for the auditing of financial statements promulgated by the German Institute of Auditors (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with German principles of proper accounting and in the Group Management Report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group Management Report are examined primarily on a test basis within the framework of the audit. The audit includes assessment of the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Management, as well as evaluation of the overall presentation of the consolidated financial statements and the Group Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with German principles of proper accounting. On the whole the Group Management Report provides a suitable understanding of the Group's position and suitably presents the risks of future development."

Hanover, February 24, 2000

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Eichner	Dr. Heine
Wirtschaftsprüfer	Wirtschaftsprüfer

The Volkswagen Group in Figures

	1990 million DM	1991 million DM	1992 million DM	1993 million DM	1994 million DM	1995 million DM
Sales	68,061	76,315	85,403	76,586	80,041	88,119
Change on previous year in %	4	12	12	– 10	5	10
Domestic	26,929	36,360	39,508	34,326	32,907	34,504
Abroad	41,132	39,955	45,895	42,260	47,134	53,615
Export of domestic Group companies	28,323	28,093	33,884	26,797	27,090	32,038
Net contribution of foreign Group companies	18,242	18,809	15,412	23,104	26,944	30,311
Vehicle Sales (thousand units)[1]	3,030	3,237	3,433	2,962	3,108	3,607
Change on previous year in %	3	7	6	– 14	5	x
Domestic	945	1,264	1,211	914	901	937
Abroad	2,085	1,973	2,222	2,048	2,207	2,670
Production (thousand units)[1]	3,058	3,238	3,500	3,019	3,042	3,595
Change on previous year in %	4	6	8	– 14	1	x
Domestic	1,816	1,814	1,929	1,411	1,425	1,526
Abroad	1,242	1,424	1,571	1,608	1,617	2,069
Cost of Materials	40,469	47,039	54,817	47,530	48,230	52,166
Change on previous year in %	8	16	17	– 13	2	8
As % of sales	59	62	64	62	60	59
Workforce (thousand employees)[1,2]	261	277	273	253	238	257
Change on previous year in %	4	6	– 1	– 7	– 6	x
Domestic	166	167	164	150	141	143
Abroad	95	110	109	103	97	114
Labour Cost	17,056	18,872	20,753	18,887	18,364	19,005
Change on previous year in %	6	11	10	– 9	– 3	3
As % of sales	25	25	24	25	23	22
Capital Investments[3]	5,372	9,910	9,254	4,840	5,651	6,863
Change on previous year in %	– 4	84	– 7	– 48	17	21
Domestic	3,016	6,311	4,853	2,675	3,899	4,053
Abroad	2,356	3,599	4,401	2,165	1,752	2,810
Additions to Leasing and Rental Assets	4,419	4,961	6,139	5,438	5,781	7,278
Change on previous year in %	9	12	24	– 11	6	26
Cash Flow	9,864	11,510	12,079	9,073	11,797	10,400
Change on previous year in %	5	17	5	– 25	30	– 12
Result after Taxes	1,086	1,114	147	– 1,940	150	336
Dividend of VOLKSWAGEN AG	369	369	66	67	107	207
Ordinary shares	297	297	54	54	81	162
Preferred shares	72	72	12	13	26	45

[1] The volume data of the not fully consolidated vehicle-producing holdings Shanghai-Volkswagen, FAW-Volkswagen, Chinchun Motor (to January 26, 1999) and AUTOEUROPA (1995–1998; since January 1, 1999 AUTOEUROPA is consolidated) have been included as from 1995.
[2] Workforce (excluding apprentices) as average over year; as from 1995 including apprentices as average over year.
[3] Capital investments excluding additions to leasing and rental assets.
[4] For information only; the distribution is made in Euro.

	1996 million DM	1997 million DM	1998 million DM	1999 million DM	For information only: 1998 million €	For information only: 1999 million €
Sales	100,123	113,245	134,243	147,013	*68,637*	*75,167*
Change on previous year in %	14	13	19	10		
Domestic	36,419	39,191	46,744	47,390	*23,900*	*24,231*
Abroad	63,704	74,054	87,499	99,623	*44,737*	*50,936*
Export of domestic Group companies	37,624	43,580	58,286	65,537	*29,801*	*33,509*
Net contribution of foreign Group companies	36,199	42,377	44,956	54,041	*22,986*	*27,631*
Vehicle Sales (thousand units)[1]	3,994	4,250	4,748	4,923		
Change on previous year in %	11	6	12	4		
Domestic	958	993	1,153	1,104		
Abroad	3,036	3,257	3,595	3,819		
Production (thousand units)[1]	3,977	4,291	4,823	4,853		
Change on previous year in %	11	8	12	1		
Domestic	1,591	1,619	1,983	1,879		
Abroad	2,386	2,672	2,840	2,974		
Cost of Materials	61,536	68,184	84,327	90,458	*43,116*	*46,250*
Change on previous year in %	18	11	24	7		
As % of sales	61	60	63	62		
Workforce (thousand employees)[1,2]	261	275	294	306		
Change on previous year in %	1	5	7	4		
Domestic	139	144	153	159		
Abroad	122	131	141	147		
Labour Cost	20,708	20,686	22,457	23,406	*11,482*	*11,967*
Change on previous year in %	9	– 0	9	4		
As % of sales	21	18	17	16		
Capital Investments[3]	8,742	9,843	13,913	14,741	*7,114*	*7,537*
Change on previous year in %	27	13	41	6		
Domestic	6,098	7,048	8,778	9,466	*4,489*	*4,840*
Abroad	2,644	2,795	5,135	5,275	*2,625*	*2,697*
Additions to Leasing and Rental Assets	7,639	7,734	10,391	13,575	*5,313*	*6,941*
Change on previous year in %	5	1	34	31		
Cash Flow	11,088	12,181	16,804	16,771	*8,592*	*8,575*
Change on previous year in %	7	10	38	– 0		
Result after Taxes	678	1,361	2,243	1,651	*1,147*	*844*
Dividend of VOLKSWAGEN AG	315	483	619	641[4]	*317*	*327*
Ordinary shares	250	369	463	470[4]	*237*	*240*
Preferred shares	65	114	156	171[4]	*80*	*87*

The Volkswagen Group in Figures

	1990 million DM	1991 million DM	1992 million DM	1993 million DM	1994 million DM	1995 million DM
Balance-Sheet Structure Dec. 31						
Assets						
Intangible assets	261	372	631	646	101	91
Tangible assets	16,826	21,126	24,050	23,067	20,429	18,271
Financial assets	1,418	2,655	2,747	1,823	2,608	3,198
Leasing and rental assets	5,834	6,293	7,393	7,517	8,234	10,297
Fixed Assets	24,339	30,446	34,821	33,053	31,372	31,857
Inventories	8,703	9,049	9,736	11,026	9,246	9,392
Receivables and other assets	15,065	19,011	21,394	22,943	24,554	27,498
Securities	2,764	2,329	1,497	1,119	2,595	2,156
Liquid funds	11,842	9,255	7,836	11,157	13,317	13,174
Current Assets	38,374	39,644	40,463	46,245	49,712	52,220
Total Assets	62,713	70,090	75,284	79,298	81,084	84,077
Stockholders' Equity and Liabilities						
Subscribed capital	1,650	1,656	1,664	1,671	1,674	1,714
Reserves of the Group	11,491	12,098	11,800	9,521	9,202	8,595
Minority interest	145	164	859	905	733	490
Net earnings available for distribution	374	373	71	71	111	209
Minority interest in result after taxes	33	12	68	98	1	– 18
Special items with an equity portion	2,882	3,823	3,659	3,191	2,498	1,649
Other special items[2]	13	19	18	23	20	15
Stockholders' Equity	16,588	18,145	18,139	15,480	14,239	12,654
Provisions for pensions	7,283	8,089	9,113	9,553	10,160	11,531
Provisions for taxes	1,828	2,032	1,773	1,784	1,762	1,902
Other provisions	10,680	10,161	11,323	14,575	16,476	18,309
Provisions	19,791	20,282	22,209	25,912	28,398	31,742
Liabilities payable within more than 5 years	1,840	3,813	4,557	4,289	4,426	2,293
1 to 5 years	3,339	3,900	6,222	8,707	9,271	11,782
up to 1 year	21,155	23,950	24,157	24,910	24,750	25,606
Liabilities	26,334	31,663	34,936	37,906	38,447	39,681
Outside Capital	46,125	51,945	57,145	63,818	66,845	71,423
Total Capital	62,713	70,090	75,284	79,298	81,084	84,077
Statement of Earnings (Condensed) January–December						
Sales	68,061	76,315	85,403	76,586	80,041	88,119
Cost of sales	61,890	69,472	79,155	71,117	72,720	80,699
Selling and general administration expenses	7,308	7,599	7,977	8,278	8,786	9,457
Other operating income less other operating expenses	2,615	1,302	1,612	782	1,315	2,152
Financial results	914	1,239	719	391	611	998
Results from ordinary business activities	2,392	1,785	602	– 1,636	461	1,113
Taxes on income	1,306	671	455	304	311	777
Result after taxes	1,086	1,114	147	– 1,940	150	336

[1] In 1997 reduced by uncalled outstanding capital contributions totalling 112.5 million DM.
[2] As from 1998 including fund for general banking risks as well as special items for investment subsidies.

1996 million DM	1997 million DM	1998 million DM	1999 million DM		For information only: 1998 million €	1999 million €
				Balance-Sheet Structure Dec. 31		
				Assets		
120	111	190	903	Intangible assets	97	462
20,631	22,594	25,270	28,888	Tangible assets	12,921	14,770
3,274	4,006	6,611	7,592	Financial assets	3,380	3,881
12,118	12,804	13,824	17,715	Leasing and rental assets	7,068	9,058
36,143	39,515	45,895	55,098	**Fixed Assets**	23,466	28,171
10,368	10,827	13,078	15,124	Inventories	6,687	7,733
31,478	34,801	43,468	51,672	Receivables and other assets	22,225	26,420
3,499	3,880	3,244	3,500	Securities	1,659	1,789
13,080	12,613	11,668	5,877	Liquid funds	5,965	3,005
58,425	62,121	71,458	76,173	**Current Assets**	36,536	38,947
94,568	101,636	117,353	131,271	**Total Assets**	60,002	67,118
				Stockholders' Equity and Liabilities		
1,825	1,919[1]	2,086	2,089	Subscribed capital	1,066	1,068
9,324	10,421	15,135	16,069	Reserves of the Group	7,738	8,216
449	301	326	341	Minority interest	167	174
318	487	625	646	Net earnings available for distribution	320	330
19	22	24	45	Minority interest in result after taxes	13	23
1,374	1,161	492	455	Special items with an equity portion	252	233
11	9	57	57	Other special items[2]	29	29
13,320	14,320	18,745	19,702	**Stockholders' Equity**	9,585	10,073
13,651	14,578	15,559	16,493	Provisions for pensions	7,955	8,433
2,188	2,619	3,344	2,550	Provisions for taxes	1,710	1,304
20,187	20,226	21,532	23,141	Other provisions	11,009	11,832
36,026	37,423	40,435	42,184	**Provisions**	20,674	21,569
1,939	2,035	2,044	2,319	Liabilities payable within more than 5 years	1,045	1,186
11,991	12,108	13,867	16,049	1 to 5 years	7,090	8,205
31,292	35,750	42,262	51,017	up to 1 year	21,608	26,085
45,222	49,893	58,173	69,385	**Liabilities**	29,743	35,476
81,248	87,316	98,608	111,569	**Outside Capital**	50,417	57,045
94,568	101,636	117,353	131,271	**Total Capital**	60,002	67,118
				Statement of Earnings (Condensed) January–December		
100,123	113,245	134,243	147,013	Sales	68,637	75,167
90,504	100,926	117,568	130,347	Cost of sales	60,111	66,646
10,961	11,809	13,894	15,278	Selling and general administration expenses	7,104	7,811
1,727	1,250	1,650	1,433	Other operating income less other operating expenses	844	732
1,587	2,086	1,856	2,112	Financial results	949	1,080
1,972	3,846	6,287	4,933	Results from ordinary business activities	3,215	2,522
1,294	2,485	4,044	3,282	Taxes on income	2,068	1,678
678	1,361	2,243	1,651	Result after taxes	1,147	844

Scheduled dates:

Interim Report January to March 2000:	Beginning of May
2000 Annual Meeting of Stockholders:	May 23rd
Interim Report January to June 2000:	Mid-August
Interim Report January to September 2000:	End of October
2001 Annual Meeting of Stockholders:	June 7th

Published by:

VOLKSWAGEN AG
Finanz-Analytik und -Publizität
Brieffach 1848-2
D-38436 Wolfsburg
Phone: +49 53 61 9-0
Fax: +49 53 61 9-2 82 82

The Annual Report for 1999 is published in English and German. Should you require further information on the Report, please contact the above office.
The Annual Report will also be available from April on the Internet:
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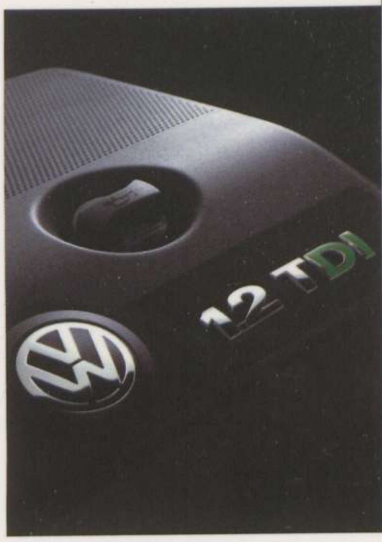
ISSN 0933-7504

1058.809.453.20
Printed in Germany

The Annual Report is printed on 100 % non-chlorinated, acid-free paper.



Published by:
VOLKSWAGEN AG
Finanz-Analytik und -Publizität
Brieffach 1848-2
D-38436 Wolfsburg
Phone: +49 53 61 9-0
Fax: +49 53 61 9-2 82 82

319/7344