VOLKSWAGEN AG

Annual Report 1993

Not for Publication
before March 25, 1994

Volkswagen
Seat
Škoda
Audi

		Volkswagen Group			Volkswagen AG		
		1993	1992	%	1993	1992	%
Sales	DM million	76,586	85,403	– 10.3	42,949	53,182	– 19.2
Vehicle Sales	Units	2,962,159	3,432,631	– 13.7	1,402,953	1,876,134	– 25.2
Production	Units	3,018,650	3,499,678	– 13.7	1,240,124	1,657,605	– 25.2
Workforce (excluding trainees)	Average over year	253,108	273,309	– 7.4	111,901	122,749	– 8.8
Capital Investments	DM million	4,840	9,254	– 47.7	1,793	4,063	– 55.9
Additions to Leasing and Rental Assets	DM million	5,438	6,139	– 11.4	–	–	–
Cash Flow							
excl. Leasing/Rental Assets	DM million	4,556	7,004	– 35.0	4,349	4,814	– 9.7
incl. Leasing/Rental Assets	DM million	9,993	12,079	– 17.3	–	–	–
Depreciation and Write-Down	DM million	4,917	5,037	– 2.4	4,507	3,240	+ 39.1
Depreciation on Leasing and Rental Assets	DM million	3,012	2,758	+ 9.2	–	–	–
Loss/Net Earnings	DM million	– 1,940	147	x	71	132	– 46.3
Dividend of Volkswagen AG	DM million				67	66	+ 0.5
of which on Ordinary Shares	DM million				54	54	–
Preferred Shares	DM million				13	12	+ 2.6

Production figures

Volkswagen	1993	1992
Golf	725,191	914,178
Passat	216,097	326,853
Vento	133,309	100,118
Caravelle, Kombi	74,681	97,237
Corrado	8,623	16,085
Jetta	3,912	5,592
LT-Kombi	1,232	1,914
Polo	0	84,268
Scirocco	0	3,317
Transporter	55,098	78,847
LT	13,077	16,030
Taro, Hilux	8,904	11,598
Caddy	0	1,645
	1,240,124	1,657,682

112,000 vehicles – incl. 11,000 from CKD sets – were produced by the companies of the Asia Pacific Region consolidated at equity.

*Including assembly kits for Volkswagen of South Africa.

Audi	1993	1992
Audi 80	214,194	319,370
Audi 100*	110,239	150,564
Audi Convertible	9,603	9,855
Audi Coupé/quattro	5,481	9,265
Audi V8	1,439	3,031
	340,956	492,085

Seat	1993	1992
Polo	176,327	222,222
Ibiza	142,987	112,334
Toledo	90,533	144,205
Marbella	33,216	74,637
Cordoba	19,289	0
Terra	10,626	25,034
	472,978	578,432

Škoda	1993	1992
Favorit	127,101	118,714
Forman	72,295	64,516
Pick-up	20,216	16,829
	219,612	200,059

North America	1993	1992
Beetle	98,321	86,613
Jetta (Vento)	79,517	53,241
Golf	49,351	35,137
Caravelle, Kombi	828	968
Transporter	11,060	12,490
	239,077	188,449

South America/Africa	1993	1992
Gol	207,478	153,715
Voyage, Gacel, Parati	80,860	87,326
Passat	38,905	31,252
Jetta (Vento)	21,563	19,946
Golf	20,518	15,469
Logus, Pointer, Apollo	44,068	10,093
Caravelle, Kombi	29,686	19,796
Beetle	6,389	0
Audi 100/200	1,760	2,618
Audi Coupé	78	36
Voyage Saveiro	33,760	27,070
Transporter	10,959	10,280
VW trucks	6,353	3,333
Gol Furgao	2,947	3,868
Omnibus	1,313	0
Golf pick-up	856	857
	507,493	385,659

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

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

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

Annual Report 1993

Volkswagen
Seat
Škoda
Audi

Launched in 1991, the Toledo is Seat's first middle-range model

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Report of the Supervisory Board

Dr. Klaus Liesen

The Board of Management provided the Supervisory Board with comprehensive regular reports about the situation of the Company, business trends and corporate policy during 1993. Measures of particular importance or requiring the Supervisory Board's prior approval by law or under the Company's Articles of Association were discussed in detail at Supervisory Board meetings. The Supervisory Board continuously monitored the Company's management on the basis of the written and oral reporting by the Board of Management and was thus able to perform in full this function assigned to it by law.

The financial statements for Volkswagen AG and the Group as at December 31, 1993, along with the 1993 Management Report for Volkswagen AG, the Group Management Report for the fiscal year 1993 and the accounts, were examined by the auditors and approved without qualification. The Supervisory Board accepts the results of this audit.

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

Having been requested by the Supervisory Board to establish whether any confidential GM/Opel documents or data were passed to or used by Volkswagen, KPMG Deutsche Treuhandgesellschaft conducted its own detailed investigation and found no evidence whatsoever that Volkswagen had been passed, was in possession of or had used such documents or data.

Mr. Karl Heinrich Mihr and Mr. Albert Hoffmeister, who had been members of the Supervisory Board for twenty years and sixteen years respectively, retired from the Board at the end of the Annual Meeting of Stockholders on June 3, 1993. Their places on the Supervisory Board were taken by Mr. Gerhard Kakalick and Dr. jur. Manfred Pilgrim.

After five years as a member, Mr. Rolf Diel resigned from the Supervisory Board on June 30, 1993. Dr. rer. pol. Bernd W. Voss was appointed by the Wolfsburg District Court to succeed him.

Mr. Franz Steinkühler resigned from the Supervisory Board, to which he had belonged for six years, on September 30, 1993. The Wolfsburg District Court subsequently appointed Mr. Klaus Zwickel to the Supervisory Board with effect from October 21, 1993. At its meeting on November 26, 1993 the Supervisory Board elected Mr. Zwickel to the post of Deputy Chairman.

The Supervisory Board would like to thank Mr. Mihr, Mr. Hoffmeister, Mr. Diel and Mr. Steinkühler for their many years of valuable service and their untiring dedication.

Volkswagen lost an outstanding figure on May 9, 1993 with the death of Mr. Alexander Kowling, a man whose leadership qualities, integrative skills, imagination and consideration for others will be greatly missed. Mr. Kowling had been with the Volkswagen Group since 1969. Having worked successfully in the field of human resources for many years, he was appointed to the Volkswagen Management Body in January 1991, assuming responsibility for Human Resources, and became a member of the Board of Management of Volkswagen AG, with responsibility for the same area, on January 13, 1993. The Volkswagen Group is deeply indebted to Mr. Kowling for all that he accomplished over the years. We shall always honour his memory.

With effect from June 2, 1993 the Supervisory Board temporarily assigned responsibility for the field of Human Resources on the Board of Management of Volkswagen AG to Dr. jur. Jens Neumann, who subsequently held this post until September 30, 1993.

Mr. Daniel Goeudevert, Deputy Chairman of the Board of Management of Volkswagen AG and Chairman of the Volkswagen Management Body, left the Company by mutual agreement on July 31, 1993. The Supervisory Board would like to thank Mr. Goeudevert for his commitment to the Company's interests. The chairmanship of the Volkswagen Management Body has now been assumed by Dr. techn. h. c. Dipl.-Ing. ETH Ferdinand Piëch.

At its meeting on September 3, 1993 the Supervisory Board appointed Mr. Peter Hartz, with effect from October 1, 1993, to the post on the Board of Management of Volkswagen AG carrying responsibility for Human Resources. Mr. Hartz has also assumed responsibility for the area of Human Resources on the Volkswagen Management Body.

Prof. Dr.-Ing. Ulrich Seiffert was appointed to the Board of Management of Volkswagen AG with effect from September 3, 1993. This appointment was made in the light of the increasingly global nature of the Volkswagen Group's development activities, which necessitates supervision of overall product development. Professor Seiffert had previously been a member of the Board of Management of Volkswagen AG from September 3, 1988 to March 16, 1993 and was subsequently responsible for Research and Development on the Volkswagen Management Body.

The area of responsibility covered on the Board of Management by Dr. jur. Peter Frerk was restructured with effect from September 3, 1993. Responsibility for Legal Matters and Economics remained with Dr. Frerk until the end of the year and passed to Dr. Neumann on January 1, 1994. The post held by Dr. Neumann on the Board of Management is now designated as covering "Group Strategy, Legal Matters and Organization". Dr. Neumann is also responsible for the field of Organization and Systems on the Volkswagen Management Body. Responsibility for Auditing and Government Relations has been assumed by the Chairman of the Board of Management of Volkswagen AG, Dr. Piëch. Excepted from this arrangement is responsibility for auditing in connection with the matter pending between GM/Opel and Volkswagen, which has been assigned to the new Board of Management member responsible for Human Resources.

Mr. Juan Antonio Díaz Alvarez, Chairman of the Board of Management of SEAT, S.A. and member of the Board of Management of Volkswagen AG, left the Company on September 30, 1993 by mutual agreement.

After more than twenty-two years on the Board of Management of Volkswagen AG, Dr. Frerk retired from his post on December 31, 1993. The Supervisory Board would like to express its sincere thanks to Dr. Frerk for all that he achieved during his many years with the Company.

Wolfsburg, March 17, 1994

Dr. Klaus Liesen
Chairman of the Supervisory Board

Dr. Ferdinand Piëch

Dear Stockholder,

In past years the unquestioning assumption that the future would bring continuous growth encouraged the automobile industry to pursue expansion strategies entailing large-scale investment. It is quite clear today, however, that this way of thinking no longer holds good. Only companies capable of manufacturing top-quality customer-oriented products at low cost and marketing them at a reasonable price will be able to emerge successfully from the current recession and structural crisis with good prospects for future growth and earnings.

The Volkswagen Group lost no time in radically restructuring its strategy to take account of the changed economic situation. Rather than thinking solely in terms of market shares and sales figures, we are now focusing greater attention on productivity, quality and progress towards achieving a sustained increase in earning power. Volkswagen is tackling these areas with the aid of a comprehensive programme aimed at improving cost structures. Key elements of this programme are measures to further lower non-personnel overheads, continuously reduce component diversity, cut material costs and above all improve production operations by introducing "lean" processes within the framework of the "Continuous Improvement Process" (CIP^2). These steps have already led to significant improvements in productivity, quality and other areas such as material in process and lead times. In addition to curtailment and postponement of investments in the automobile sector – with the exception of investments in product development – the package of measures also involves cuts in the workforce, which have been realized without social hardship by means of a recruitment freeze, voluntary redundancies and early-retirement schemes.

Despite the sharp decrease in the workforce, it became apparent that as a result of the productivity-boosting measures implemented by Volkswagen during 1993 and the continuing absence of an upward trend on the automobile markets we shall still have around 30,000 employees more than are actually needed in 1994 and 1995.

This situation prompted the Board of Management to reach agreement with the trade union on the introduction of a four-day working week accompanied by wage and salary adjustments. This move is intended to safeguard jobs and ensure that there will be no compulsory redundancies at Volkswagen AG in the next two years.

We were able to achieve major progress during 1993 in further enhancing the quality of the models produced by all four Group marques. The quality standard exhibited from the outset by the new models launched last year was in particular considerably higher than that displayed by previous models at the same stage. To ensure that in future we have an edge over the competition, we have designated certain areas of individual Group companies as "Centres of Excellence", which are intended to serve as models for the corresponding areas at other Group companies. The basic idea behind this policy is that the know-how available within a particular Group company should also benefit the rest of the Group. The decisive criterion for a Centre of Excellence is the standard achieved by comparison with our competitors on the world market. Three Centres of Excellence have already been created and others will follow.

In addition to pursuing the strategic goals set out above, we shall continue to devote our innovative skills to developing new products for customers all over the world and in so doing also move into segments of the market in which we have hitherto not been represented. All measures aimed at optimizing the added-value chain are not an end in themselves, but are intended to benefit the customer by ensuring that we can offer high-quality, reasonably priced and reliable products.

All in all, I am firmly convinced that our endeavours will be crowned with success. The same goes for the efforts of our suppliers, with whom we work in close cooperation so that they too can further enhance their productivity and quality standards.

We therefore hope that you as Volkswagen AG stockholders will continue to place your confidence in us so that we can not only emerge from the current recession and structural crisis in a stronger competitive position but also realize our goal of making Volkswagen the most successful vehicle manufacturer in the coming years where quality, productivity and earning power are concerned.

Against the background of the generally difficult situation, Volkswagen AG was able to close the fiscal year with a profit enabling us to pay – as for 1992 – a dividend of DM 2 on both ordinary and preferred shares.

Yours sincerely,

Ferdinand Piëch

Supervisory Board and Board of Management

Supervisory Board

Dr. jur. Klaus Liesen (62)
Essen
Chairman
Chairman of the Board of Management of Ruhrgas AG
July 2, 1987*

Klaus Zwickel (54)
Frankfurt
Deputy Chairman
Chairman of the Metalworkers Union
October 21, 1993

Josef Bauer (54)
Ingolstadt
Member of the Works Committee of AUDI AG
July 2, 1987

Dr. rer. pol. Carl H. Hahn (67)
Wolfsburg
Former Chairman of the Board of Management of Volkswagen AG
January 1, 1993

Wilhelm Hemer (50)
Frankfurt
Trade Union Secretary to the Executive Committee of the Metalworkers Union
May 3, 1989

Walter Hiller (61)
Hanover
Minister for Social Affairs of Lower Saxony
From April 9, 1986 to June 20, 1990 and since July 17, 1990

Jann-Peter Janssen (49)
Norden
Chairman of Works Council of Volkswagen AG Emden Plant
April 9, 1986

Gerhard Kakalick (47)
Kassel
Chairman of Works Council of Volkswagen AG Kassel Plant
June 3, 1993

Walther Leisler Kiep (68)
Frankfurt
General partner, Gradmann & Holler
From March 3, 1976 to July 1, 1982 and since January 26, 1983

Dr. jur. Otto Graf Lambsdorff (67)
Düsseldorf
President, Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (German stockholders' association)
July 2, 1987

Dr. jur. Manfred Pilgrim (52)
Wolfsburg
Senior Executive of Volkswagen AG
June 3, 1993

Dr. -Ing. E. h. Günther Saßmannshausen (63)
Hanover
Chairman of the Supervisory Board of Deutsche Bahn AG
July 2, 1987

Dr. rer. pol. Friedrich Schiefer (54)
Munich
Member of the Board of Management of Robert Bosch GmbH
July 4, 1991

Siegfried Schinowski (53)
Hanover
Chairman of Works Council of Volkswagen AG Hanover Plant
July 2, 1992

Gerhard Schröder (49)
Hanover
Minister President of the State of Lower Saxony
July 17, 1990

Dr. rer. pol. Albert Schunk (52)
Frankfurt
Head of the International Department on the Executive Committee of the Metalworkers Union
July 5, 1977

Bernd Sudholt (47)
Wolfsburg
Deputy Chairman of the Group and Joint Works Councils of Volkswagen AG
July 2, 1992

Klaus Volkert (51)
Wolfsburg
Chairman of the Group and Joint Works Councils of Volkswagen AG
July 2, 1990

Dr. rer. pol. Bernd W. Voss (54)
Frankfurt
Member of the Board of Management of Dresdner Bank AG
July 22, 1993

Dr. rer. pol. Ulrich Weiss (57)
Frankfurt
Member of the Board of Management of Deutsche Bank AG
June 30, 1988

Changes on the Supervisory Board:

Rolf Diel (71)
Düsseldorf
Former Chairman of the Supervisory Board of Dresdner Bank AG
June 30, 1988 to June 30, 1993

Albert Hoffmeister (65)
Wolfsburg
Senior Executive of Volkswagen AG
July 5, 1977 to June 3, 1993

Karl Heinrich Mihr (58)
Kassel
Member of Works Council of Volkswagen AG Kassel Plant
November 27, 1972 to June 3, 1993

Franz Steinkühler (56)
Frankfurt
Deputy Chairman
Former Chairman of the Metalworkers Union
July 2, 1987 to September 30, 1993

Board of Management of Volkswagen AG

Dr. techn. h. c. Dipl.-Ing. ETH Ferdinand Piëch (56)
Chairman
(since January 1, 1993)
Member of the Board of Management
April 10, 1992

Peter Hartz (52)
Human Resources
October 1, 1993

José Ignacio López de Arriortúa (53)
Production Optimization and Procurement
March 16, 1993

Dr. jur. Jens Neumann (48)
Group Strategy, Legal Matters and Organization
January 1, 1993

Dr. jur. Martin Posth (50)
Asia Pacific
(since January 13, 1993)
Human Resources
August 1, 1988 to January 13, 1993

Dr. rer. pol. Werner P. Schmidt (61)
Controlling and Finance
(since March 16, 1993)
Overseas Operations and Sales Strategy
August 1, 1975 to March 16, 1993

Prof. Dr.-Ing. Ulrich Seiffert (52)
Research and Development
(since September 3, 1993)
Research and Development (Group Purchasing Strategy and Coordination)
September 3, 1988 to March 16, 1993

Changes on the Board of Management:

Juan Antonio Díaz Alvarez (55)
Chairman of the Board of Management of SEAT, S.A.
April 10, 1992 to September 30, 1993

Dr. jur. Peter Frerk (63)
Legal Matters and Economics
December 7, 1971 to December 31, 1993

Daniel Goeudevert (52)
Deputy Chairman
January 1, 1993 to July 31, 1993
Member of the Board of Management
September 1, 1989

Alexander Kowling
Human Resources
January 13, 1993 to May 9, 1993

Marque Management Bodies

Volkswagen

Dr. techn. h. c. Dipl.-Ing. ETH Ferdinand Piëch (56)
Chairman of the Volkswagen Management Body
August 1, 1993

Peter Hartz (52)
Human Resources
October 1, 1993

Bruno Adelt (54)
Controlling and Accounting
August 1, 1992

Dr. jur. Jens Neumann (48)
Organization and Systems
September 3, 1993

Herbert Schuster (52)
Development
September 3, 1993

Folker Weißgerber (52)
Production
(since March 16, 1993)
Deputy, Production and Logistics
December 1, 1991 to March 16, 1993

Changes on the Volkswagen Management Body:

Daniel Goeudevert (52)
Chairman of the Volkswagen Management Body
January 1, 1991 to July 31, 1993

Hans-Jörg Hungerland (52)
Sales
March 1, 1991 to March 31, 1993

Alexander Kowling
Human Resources
January 1, 1991 to May 9, 1993

Prof. Dr.-Ing. Ulrich Seiffert (52)
Research and Development
March 16, 1993 to September 3, 1993
Development
January 1, 1991 to March 16, 1993

Werner Svetlik (55)
Procurement
January 1, 1991 to March 31, 1993

Seat

Dr. Juan Llorens Carrió (59)
Chairman of the Board of Management of SEAT, S.A.
November 4, 1993

Prof. Dr.-Ing. Peter Walzer (56)
Deputy Chairman of the Board of Management of SEAT, S.A.
(since May 5, 1993)
Technology and Engineering
November 1, 1990 to May 4, 1993 and since March 2, 1994

Detlev Schmidt (49)
Sales
January 1, 1994

Roland Schober (42)
Finance
September 1, 1993

Changes on the Seat Management Body:

Juan Antonio Díaz Alvarez (55)
Chairman of the Board of Management of SEAT, S.A.
June 18, 1986 to September 30, 1993

Ricardo Ibarreche Balda (46)
Production
May 5, 1993 to March 2, 1994
Human Resources
October 1, 1989 to May 4, 1993

Manuel García Moreno (46)
Sales
March 1, 1993 to December 31, 1993

Dr. rer. pol. Eberhard Müller (60)
Finance
July 1, 1986 to June 16, 1993

Juan José Díaz Ruiz (50)
Sales
March 1, 1988 to February 28, 1993

Rafael Alvarez Vazquez (52)
Human Resources
May 5, 1993 to March 2, 1994

Škoda

Ing. Ludvík Kalma (52)
Chairman of the Board of Management of ŠKODA, automobilová a. s.
April 16, 1991

Volkhard Köhler (50)
Deputy Chairman
Commercial Affairs
April 16, 1991

Dr. jur. Pavel Novácek (45)
Human Resources
April 16, 1991

Detlev Schmidt (49)
Sales
July 1, 1991

Dr. -Ing. Gerald Weber (44)
Technology and Engineering
June 7, 1991

Audi

Dr. techn. Herbert Demel (40)
Spokesman of the Board of Management of AUDI AG, Marketing and Sales
(since February 4, 1994)
Technical Development
March 1, 1993

Jürgen Gebhardt (49)
Production
February 1, 1993

Andreas Schleef (50)
Human Resources
March 27, 1985

Erich Schmitt (47)
Purchasing, Finance and Organization
November 25, 1992

Changes on the Board of Management of AUDI AG:

Franz-Josef Kortüm (43)
Chairman of the Board of Management of AUDI AG, Marketing and Sales
January 1, 1993 to February 4, 1994
Member of the Board of Management
May 1, 1992

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


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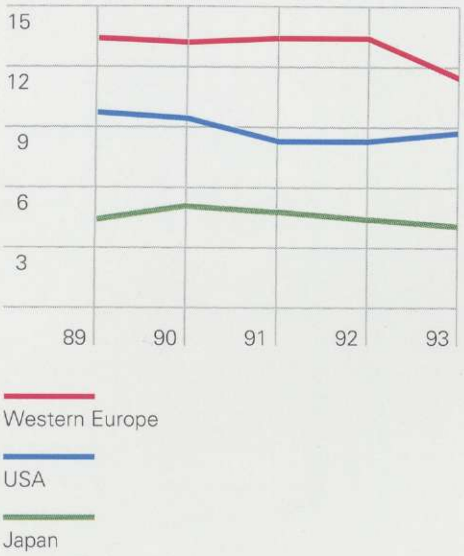
The major world passenger car markets (million units)



Global economy characterized by lack of momentum

No signs of a global economic recovery were in evidence during 1993. The upswing in the USA was less marked than had been anticipated, while the Japanese economy went into a sharp decline. As a result, these countries were unable to provide the economies of Western Europe with the hoped-for impetus. Germany meanwhile suffered its worst post-war slump, and in addition the German economy has to cope with massive structural problems that demand innovative and intelligent solutions. The continuing recession in the industrialized nations had a particularly adverse effect on the automobile industry, highlighting this vital sector's susceptibility to the influence of economic trends.

No revival in worldwide passenger car sales

At 3.2 million, the number of passenger cars sold in Germany during 1993 was 18.7 % down on the previous year's figure. This fall in demand can be ascribed principally to the general economic situation and to the end of the sales boom triggered by Germany's reunification.

The global recession significantly influenced demand on the other major markets in Western Europe, where passenger car sales were 13.6 % lower than in 1992. The only automobile market to exhibit an upward trend was that in Great Britain, which recorded an 11.6 % rise in sales. However, this increase can be attributed more to the fact that sales had hit an exceptionally low level in the previous year than to any general recovery on the part of the British economy. The slight revival in demand which had begun on the American automobile market in 1992 continued in 1993, although here again it must be remembered that sales in the previous year had been very low. Overall sales on the Japanese passenger car market fell just short of the 1992 level.

Volkswagen Group continuing to make its mark as a global player

In the face of increasingly tough competition the Volkswagen Group was able in 1993 to successfully maintain its position as the world's fourth largest passenger car manufacturer and – in terms of vehicle sales – the market leader both in Germany and in Europe as a whole. Attractive products which in many cases break new ground as regards safety, technical sophistication and environment-friendliness, coupled with extensive programmes aimed at cutting costs and boosting productivity, will ensure that we remain one of the world's leading automobile manufacturers. Particular efforts will continue to centre on opening up markets with growth potential such as those in China and Eastern Europe.

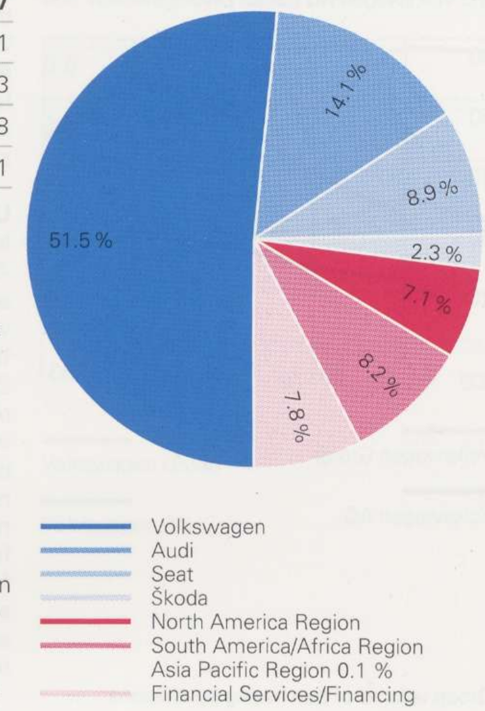
Following the creation of a separate North America Region in March 1991, further regional operations covering the Asia Pacific and South America/Africa Regions were set up in 1993. By placing the Group's activities outside Europe on a regional footing it is aimed to focus Volkswagen's interests more effectively and thereby bring us closer to our customers.

Vehicles delivered to customers	1993	1992	Change %
Western Europe	**2,011,298**	**2,556,993**	**– 21.3**
Germany	935,989	1,248,833	– 25.1
Italy	269,576	363,916	– 25.9
France	165,672	217,226	– 23.7
Spain	139,750	184,190	– 24.1
Great Britain	114,894	106,793	+ 7.6
Belgium	77,678	87,906	– 11.6

Photo on previous pages: The Golf Variant is an attractive addition to Volkswagen's Golf range

Vehicle sales to dealers	1993	1992	Change %
Worldwide	**2,962,159**	**3,432,631**	**– 13.7**
Volkswagen	2,110,086	2,428,856	– 13.1
Audi	339,261	473,495	– 28.3
Seat	290,712	337,369	– 13.8
Škoda	222.100	192,911	+ 15.1

Sales by divisions
(before consolidation)



Sharp drop in number of vehicles delivered to customers by the Volkswagen Group

The downward trend which had started to make itself felt on major automobile markets during the second half of 1992 continued in the year under report, with the result that the total of 3,114,880 passenger cars and commercial vehicles delivered to customers worldwide by the Volkswagen Group in 1993 was 11.4 % down on the previous year's figure. While falls in sales were recorded by Volkswagen (– 10.0 %), Audi (– 25.1 %) and Seat (– 15.2 %), Skoda sales were up by 9.8 %. The number of commercial vehicles delivered to customers fell by 7.0 % to 295,332.

Despite a general decline in vehicle sales in Western Europe, the Volkswagen Group was able to maintain its leading position on this market for the ninth year in succession, delivering a total of 2,011,298 vehicles to customers in Western Europe (– 21.3 %) and achieving a 16.5 % share of the market as against 17.5 % in 1992. Our largest export markets were Italy, France, Spain, Great Britain and Belgium.

The number of vehicles delivered to customers outside Germany fell by 3.9 % to 2,178,891. Domestic deliveries to customers fell by 25.1 % to 935,989. Despite a fall of 0.7 % in passenger car market share to 28.6 %, the Volkswagen Group defended its leading position in Germany. In the report year 128,680 Group models were delivered in the new federal states (– 18.3 %). In October, November and December the Volkswagen marque was the market leader in eastern Germany.

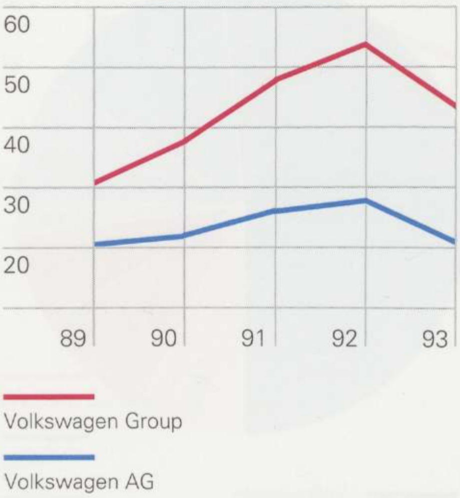
We should like to take this opportunity of once again thanking our customers all over the world for their confidence in our products and their loyalty to our Group. We shall continue to devote all our energies to producing highly competitive models unmatched in terms of quality, price and service.

Our dealers and their employees play a vital role in ensuring that we are able to forge links with our customers and fulfil their requirements. Every day they come into contact with over 300,000 customers

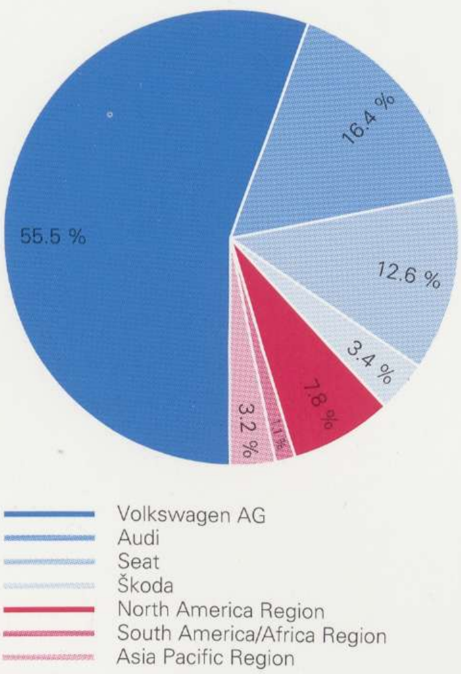
Production Units	1993	1992	Change %
Worldwide	**3,018,650**	**3,499,678**	**– 13.7**
Passenger cars	2,843,481	3,291,797	– 13.6
Commercial vehicles	175,169	207,881	– 15.7
In Germany*	1,410,700	1,928,855	– 26.9
Abroad	1,607,950	1,570,823	+ 2.4

* Excluding assembly kits for Volkswagen Bruxelles, Volkswagen of South Africa and Volkswagen Bratislava.

Development of the volume of purchasing of the Volkswagen Group and Volkswagen AG (billion DM)



Group volume of purchasing by divisions



worldwide, whose satisfaction depends to a very large extent on the service which they receive from the dealer organization. We should like to thank our dealers and their employees in Germany and abroad for their untiring efforts and for their willingness to work together with us in a spirit of mutual trust.

Unit sales and sales revenues down

As a result of the generally adverse economic situation, the number of vehicles sold to the dealer organization by the Volkswagen Group fell by 13.7 % to 2,962,159. This development was also reflected in consolidated sales revenues, which dropped by 10.3 % to DM 76.6 billion despite continuing growth in the rental and leasing sector. Decreases were recorded in both domestic sales, which fell by 13.1 % to DM 34.3 billion, and foreign sales, which were down by 7.9 % at DM 42.3 billion. Export markets accounted for 55.2 % of the total sales revenues.

At 1,402,953, the number of vehicles sold to the dealer organization by Volkswagen AG in 1993 was 25.2% down on the previous year. Sales consequently fell by 19.2% to DM 42.9 billion, with export sales making up 48.7 % of this total as against 49.7 % in 1992.

Production brought into line with market situation

The Volkswagen Group was obliged to make allowance for the decline in demand which hit the Western European markets in particular during 1993. All Group marques with the exception of Škoda were forced to put employees on short time in the course of the year, with the duration of this measure varying from one plant to another. The Volkswagen Group's worldwide output fell as a result by 13.7 % to 3,018,650 vehicles; out of this total, 1,240,124 were built by Volkswagen AG (–25.2 %). Average production per working day within the Group amounted to 14,804 vehicles, 1.8 % down on the previous year's figure. Vehicles manufactured abroad accounted for 53.3 % of total output.

Decrease in volume of purchasing

The Volkswagen Group's volume of purchasing – excluding sales tax – fell from DM 53.8 billion in 1992 to DM 43.8 billion in 1993, primarily as a result of the decline in vehicle production. By working in still closer cooperation with our suppliers we were able to pinpoint further opportunities for savings. Purchasing by Volkswagen AG was also down and totalled DM 21.2 billion as against DM 27.8 billion in 1992, with DM 15.5 billion accounted for by raw materials and supplies as well as semi-finished and finished products and DM 5.6 billion spent on capital goods and services. The Volkswagen Group once again made a major contribution to promoting economic development in Germany's new federal states, increasing its spending on goods and services from eastern Germany by 7.4 % to a total of DM 2.0 billion.

The continuing recession in the Western industrialized nations led to a slight fall in the prices of key raw materials on the world markets.

The general economic situation and increasingly tough international competition are forcing the automobile industry and its suppliers to take decisive action. We have therefore joined forces with our suppliers to develop strategies enabling them as well to make their processes more efficient and thus more cost-effective. A particularly important role is played here by "simultaneous engineering", which means involving not only our own production departments but also our suppliers in the development of new products from an early stage. Another modern concept which we have introduced in the purchasing sector is that of the system supplier, with "logistics partners" manufacturing complete elements such as sunroof systems or dashboards and supplying them in this form to the Group's interlinked production system.

The success of our efforts to bring about a strategic reorientation of the Volkswagen Group depends to a large extent on our suppliers, for only by working together can we overcome the current structural crisis. Thanks are due to all our suppliers for their excellent cooperation during 1993.

Creation of a new operational sector to optimize procurement and production

The establishment of an operational sector bearing the designation "Production Optimization and Procurement" at Group level is intended to focus responsibility for all production processes as well as all purchasing and procurement activities. This step will enable us to realize extensive process optimization measures and significant improvements in productivity throughout the Group.

Optimizing production through continuous improvement processes

Volkswagen is breaking new ground in its efforts to boost productivity and enhance competitiveness. Numerous ways of achieving greater efficiency were worked out and the necessary measures immediately put into practice by way of continuous improvement processes (CIP^2) – with the power of two intended to express the urgency of this step – incorporating around 2,000 workshops held in the course of the year. The idea is that these workshops should become an established institution not just at the individual plants but throughout the entire added-value chain from supplier to dealer. Active participation by all concerned will enable us to become still more competitive and pave the way for success in the future.

Necessary adjustments to the workforce

Further cutbacks in the workforce necessitated by low market demand and structural changes were accomplished in 1993 without causing any social hardship, primarily by means of a recruitment freeze, voluntary redundancies and early-retirement schemes.

The average number of employees in the Volkswagen Group fell by 7.4 % in 1993 to 253,108, of whom 149,524 were with Group companies in Germany (– 8.7%) and 103,584 with foreign subsidiaries (– 5.4 %). At the end of the year the Group employed a total of 251,643 people incl. trainees, 8.2 % down on the 1992 figure. The workforce at Volkswagen AG in 1993 averaged 111,901 (– 8.8 %), reaching a total of 108, 467 at the end of the year incl. trainees (– 8.5 %).

New directions in personnel policy at Volkswagen AG

The combination of ongoing productivity-boosting processes, a poor economic situation and reduced sales prospects means that in both 1994 and 1995 Volkswagen AG's German plants will have around 30,000 employees more than actually required. To overcome this problem, we are implementing a package of measures which represents a completely new departure in the personnel sector. Among the measures included are the four-day week (28.8-hour week) accompanied by wage and salary cuts, a scheme giving employees flexibility in their annual working hours in such a way that they can take several months off at a time, and a system incorporating a gradual increase in weekly working hours for young employees who have just completed their training and a step-by-step reduction in working hours for older employees who will be reaching retirement age in the foreseeable future.

These three schemes will all enable us to increase productivity and thus effectively cut unit costs.

Expenditure on research and development remained at a high level

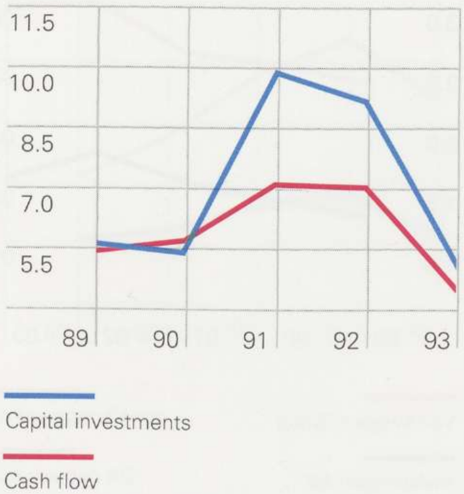
In the fiscal year ended the Volkswagen Group undertook expenditures of DM 2.9 billion (– 4.1 %) on research and development, which represents 3.8 % of Group sales revenues. Of this, DM 1.6 billion was accounted for by Volkswagen AG (– 5.6 %). Expenditures on research and development at the other Group marques amounted to: Audi DM 750 million (– 16.5 %), Seat DM 259 million (+ 1.7 %), Škoda DM 79 million (21 million).

Among the outstanding technical achievements realized by our engineers are the new TDI engine for the Golf, Vento, Passat, Audi 80 and Audi 100, the Golf Ecomatic and the aluminium Audi Space Frame (ASF) concept vehicle. These innovative developments set new technical standards and confirm yet again the Volkswagen Group's position as the automobile industry's leading trend-setter.

The Volkswagen Group employed a total of 13,278 staff in the research and development sector, 6,910 of them at Volkswagen AG alone.

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

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



Market-oriented model policy systematically continued

The 1993 International Motor Show in Frankfurt gave the Volkswagen Group the opportunity to present a number of impressive new developments. Volkswagen provided renewed proof of its market-oriented model policy in the shape of the new Golf Convertible, the Golf Variant, the Golf Ecomatic and the new Passat. Also on show was the unique Audi Space Frame (ASF) study, featuring a direct-injection turbo-diesel V8 engine. What makes this vehicle so special is its body design, in which both the main load-bearing structure known as the "space frame" and the body panels – which likewise perform a load-bearing function – are made solely of aluminium, as is the engine. The ASF concept is now ready to go into production and at the Geneva International Motor Show in March of this year Audi was able to unveil a revolutionary addition to the upper-range vehicle market in the form of the Audi A8, the first production model with ASF body. Visitors to the Frankfurt International Motor Show also had their first chance to see the new Avant RS2, a high-performance sports car developed jointly by Audi and Porsche. Seat presented two new models in Frankfurt: the new Seat Ibiza, which was on show in Germany for the first time, and the Cordoba, a notchback saloon positioned between the Ibiza and the Toledo. The Cordoba was launched in Europe in November 1993 and has been extremely well received by the market.

Both motoring experts and the general public were impressed by Volkswagen's latest development in the engine sector, a 1.9 litre four-cylinder diesel engine with direct injection, turbocharging and charge-air cooling (TDI) for the Golf, Vento and Passat ranges. This engine, which delivers 66 kW (90 bhp), is characterized by excellent pulling power and, thanks to a variety of sophisticated details, requires an average of less than five litres per 100 km over the three basic fuel consumption cycles, while at the same time complying with the stringent US emission standards. In addition, it already more than fulfils the emission standards for direct-injection diesel engines scheduled to come into force within the European Union in 1996.

New additions to the range of engine options in the 1994 model year are the 2.8 litre six-cylinder engine in the Audi 80 Avant and the five-cylinder turbocharged engine, producing 169 kW (230 bhp), in the Audi S2 sports saloon. Both the Audi 80 1.9 TDI and the Audi 80 Avant 1.9 TDI are now also available with automatic gearbox. A further innovation was presented for the first time at the Tokyo Motor Show in the shape of the study for a powerful W12 drive unit in the ASF concept vehicle. The special feature of this highly advanced twelve-cylinder engine is that major components such as crankcase and cylinder heads are made of aluminium.

Capital investments drastically reduced

The need to implement extensive measures aimed at boosting earnings, coupled with the constraints imposed by the general economic situation, meant that originally scheduled capital investments – particularly in the automobile sector – had to be drastically curtailed or extended into subsequent years. Improvements in productivity achieved by virtue of synergistic effects and optimized production processes also helped to reduce expenditure. While overall capital investment by the Volkswagen Group was 47.7 % down on the 1992 level at DM 4,840 million, product-related investments were excepted from the economy measures.

Investments in tangible assets were devoted primarily to new products, model upgrading measures, further optimization of manufacturing methods and our new production plants in eastern Germany, Spain and Portugal. The volume of investment in the leasing and rental sector was 11.4 % down on the 1992 figure, amounting to DM 5,438 million.

Volkswagen AG invested a total of DM 1,793 million in 1993, 55.9 % less than in the previous year. Investments in tangible assets, which at DM 1,286 million were 44.0 % down on 1992, focused mainly on measures in connection with the start of production of new models and on further improving manufacturing structures. Financial investments fell by 71.9 % to DM 491 million, with the major proportion of this sum relating to capital increases at subsidiaries.

Agreement reached on assembly of Volkswagen Transporters in Poland

In May 1993 Volkswagen AG and the Polish company FSR Polmo reached agreement in Warsaw on establishment of a joint venture to assemble VW Transporters in Poznań. Volkswagen has a 25.4 % holding in this new company, which goes by the name of Volkswagen Poznań. The intention is to set up an assembly facility capable of turning out 4,750 vehicles a year. The first phase of the project has already been completed and daily output currently stands at 20 Transporters. Apart from enabling Volkswagen to gain a foothold in the Polish market, this new venture also opens up opportunities for improved access to the markets of Eastern Europe.

AutoEuropa – a joint venture to produce a people-carrier

AutoEuropa, our joint venture with Ford-Werke AG to manufacture a people-carrier in the Portuguese town of Setúbal, is now well under way. With both development of the vehicle and construction of the plant proceeding on schedule, it is anticipated that production operations can commence in January 1995.

The training centre run jointly by AutoEuropa and the Portuguese Government was officially opened on February 1, 1993 and training of the employees already recruited for the new plant has now begun.

Key suppliers have entered into agreements confirming their intention to establish themselves in the industrial park on the AutoEuropa site. The necessary infrastructure measures have now been completed and construction work commenced on schedule.

Despite the general decline in passenger car sales on the European markets, demand for people-carriers has risen steadily in recent years and this trend is expected to continue.

Radical reorganization concept for Seat

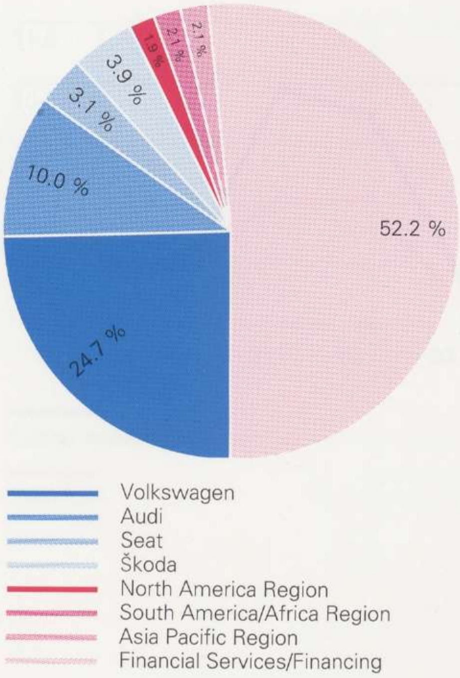
SEAT, S.A. was badly hit in 1993 by sharply declining demand both in Spain and on major export markets. The situation on the domestic market was further exacerbated by the need for increasingly competitive pricing. However, SEAT was faced not only with falling earnings but also with heavy cost burdens. The rise in the price of imported materials following the devaluation of the peseta, the high cost of financing the large-scale investments needed for the new plant in Martorell and the start-up costs incurred in connection with the new Ibiza and Cordoba all led to heavy losses for the Seat group, necessitating implementation of an extensive reorganization concept.

The key elements of this concept are the strengthening of the capital base and comprehensive restructuring measures. As an initial step at the end of 1993 Volkswagen AG began the process of converting receivables due from SEAT, S.A. into equity capital in the amount of DM 1 billion at a set value of 82.3 billion pesetas. This process will be formally completed in spring 1994 by adoption of the appropriate resolution by the Annual Meeting of Stockholders of SEAT, S.A. The restructuring concept also schedules concentration of Seat vehicle production at the Martorell plant near Barcelona. Further measures include hiving off the Pamplona plant, where the Polo is manufactured, and selling off the Spanish financing company FISEAT to Volkswagen Finanz GmbH on January 1, 1994. Adjustments to the workforce have also been agreed with the Madrid and Catalonian governments.

Work on Transporter plant in Taiwan proceeding as scheduled

Construction of the new Transporter/Caravelle plant in Taiwan, to be operated by the joint venture known as Ching Chung Motor Co., Ltd., is continuing to proceed on schedule and it is planned to commence production in mid-1994. To enable us to create an efficient dealer organization and firmly establish our position on the Taiwanese market, Transporter and Caravelle models imported from Germany have been sold in Taiwan since March 1993 in order to prepare the ground.

Capital investments 1994–1998
by divisions
(69 billion DM)



Reorganization of the Volkswagen Group's financial services sector

A reorganization of the financial services sector within the Volkswagen Group took effect at the beginning of 1994, with the companies in France, Spain and Italy becoming wholly-owned subsidiaries of the German company Volkswagen Finanz GmbH. Alongside V.A.G Bank, V.A.G Leasing and ŠkoFIN s. r. o., all our European operations in the field of financial services have thus now been brought together under the control of a single company.

Following on from this step, preparations are currently being made for transforming Volkswagen Finanz GmbH into a joint stock company to be known as Volkswagen Financial Services AG. This move will create a company which is eligible to enter the capital market and which at the same time has access to the international money markets, thereby gaining the opportunity to avail itself of the best sources of financing worldwide.

These restructuring measures represent the systematic continuation of a strategy designed to take account of the expansion and increasingly international nature of our operations in the financial services sector.

It is also planned that our financial services activities in Great Britain should in future likewise be handled by a Group company.

Unchanged dividend

During 1993 the economic slowdown which had been apparent since the second half of 1992 developed into the worst recession of the post-war era, leading to a drastic fall in vehicle sales. Further problems were created by a structural crisis which, in the case of Volkswagen and many other companies, necessitated radical measures.

For the Volkswagen Group, 1993 was a year in which the individual quarters witnessed varying trends where earnings were concerned. While the first half of the year brought a loss of DM 1,602 million – it must be pointed out that the second-quarter loss was considerably smaller than that recorded for the first three months of 1993 – in the third quarter the Group was once again able to post a profit. Although there was no relaxation of efforts to optimize cost structures through reduction of material costs, adjustments to the workforce, introduction of new working-hours schemes, curtailment of investment projects and development of lean production processes, these improvements were more than offset in the fourth quarter above all by Seat's earnings problems and the loss recorded by the North America Region. Adjustments to the workforce at our Spanish subsidiary also gave rise to substantial costs. The Volkswagen Group therefore closed the fiscal year 1993 with a loss of DM 1,940 million as against net earnings of DM 147 million in 1992. Volkswagen AG achieved net earnings of DM 71 million compared with DM 132 million in the previous year.

After transferring to free reserves DM 9 million from net earnings and the balance carried forward from 1992, the Board of Management and the Supervisory Board propose to the Annual Meeting of Stockholders the payment of a dividend of DM 2 on each ordinary and preferred share.

Proposal on appropriation of net earnings available for distribution	DM
Dividend distribution on subscribed	
capital of DM 1,670.6 million*	66,577,000
of which	
on ordinary shares	54,000,000
on preferred shares	12,577,000
Balance	
(carried forward)	151,300
Net earnings available for distribution	**66,728,300**

* DM 6.2 million deriving from the capital increase effected in November 1993 carried no dividend rights for the fiscal year 1993.

Current situation in litigation pending between Opel/GM and Volkswagen

On February 2, 1994 the Frankfurt Regional Court rejected the Opel/GM application for an order prohibiting Volkswagen from employing the seven staff members who had left to join Volkswagen AG at the same time as Mr. López. The court was of the opinion that Volkswagen had in no respect acted in a manner contrary to the requirements of fair competition when taking on former GM/Opel employees. It thereby also confirmed in the proceedings on the main issue the rulings already made in favour of Volkswagen AG by the Frankfurt Regional Court and the Frankfurt Higher Regional Court in connection with the application for a temporary injunction.

This decision has no effect on the action brought by the seven employees against Opel/GM, and currently pending before the Brunswick Labour Court, to secure Opel/GM's refrainment from interference in the contractual relationship between themselves and Volkswagen AG as their employer. Mr. López and Volkswagen AG have joined this action as third parties. The cross-action brought by Opel/GM aims among other things to secure a ban on Volkswagen's employing Mr. López, with the court also being requested to find that Opel/GM is entitled on the merits of its claim to damages for "poaching" of employees and alleged divulging of secrets.

Criminal investigations by the Public Prosecutor's Office in Darmstadt and the US Department of Justice are as yet incomplete. It is at present impossible to say how long this will take. Volkswagen has been cooperating fully throughout in the interest of ensuring that the matter is cleared up and the investigations are concluded as soon as possible. Having been requested by the Supervisory Board to establish whether any confidential GM/Opel documents or data were passed to or used by Volkswagen, KPMG Deutsche Treuhandgesellschaft conducted its own detailed investigation and found no evidence whatsoever that Volkswagen had been passed, was in possession of or had used such documents or data.

Prospects for 1994

Few countries exhibited any signs of an economic recovery at the beginning of 1994. Germany's economic development is stagnating, with unemployment continuing to rise. Italy, France and Spain have yet to emerge from recession and the same is true of Japan. The only European country currently experiencing an upswing is Great Britain, which is set to record a growth rate of around 3 % this year. Given this general trend, 1994 is unlikely to see any major reduction in unemployment, which has risen sharply during the recession. Although the USA and Canada are now once again experiencing growth in terms of their gross national product, the recovery is not sufficiently marked to bring about a significant fall in unemployment.

The worsened situation on major automobile markets has highlighted the industry's vulnerability not only to adverse economic trends but also to structural crises. One in every seven jobs in Europe alone is dependent on the automobile industry.

The current trend indicates that overall demand for automobiles in Western Europe will remain at the same low level as in 1993, while the German market is likely to exhibit a slight decrease in size.

In the light of this situation and the ever keener competition resulting from the existence of excess capacities worldwide, it will be increasingly important for us to make continued progress in improving the Volkswagen Group's cost structures. Measures in this area will this year once again enable us to make considerable savings. While we anticipate a slight rise in vehicle sales in Germany and on the major European export markets, a downward trend is likely to become apparent in the South America/Africa region. Sales in the Asia Pacific region will continue to rise in 1994 and increases are also in prospect in North America. All in all, production and unit sales will probably be on a par with the 1993 levels, while sales revenues should rise slightly. It is therefore realistic to assume that in 1994 Volkswagen AG will return a profit and the Volkswagen Group an improvement on the 1993 result.

Wolfsburg, February 22, 1994

The Board of Management

Volkswagen

Volkswagen AG
Wolfsburg
Subscribed capital:
DM 1,670,625,000

Plant locations:
Wolfsburg
Hanover
Kassel
Emden
Salzgitter
Brunswick

Volkswagen Sachsen GmbH
Mosel
DM 10,000,000
100 % Volkswagen AG

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

V.A.G France S.A.
Paris, France
FRF 50,000,000
100 % Volkswagen AG

AUTOGERMA S.p.A.
Verona, Italy
ITL 90,000,000,000
100 % Volkswagen AG

AutoEuropa Automóveis Lda.
Palmela, Portugal
ESC 21,266,189,000
50 % Volkswagen AG

V.A.G Sverige AB
Södertälje, Sweden
SEK 84,000,000
50 % Volkswagen AG

Volkswagen Bratislava, spol. s r. o.
Bratislava, Slovak Republic
SKK 1,054,800,000
80 % Volkswagen AG

V.A.G Transport GmbH & Co. OHG
Wolfsburg
DM 1,000,000
81 % Volkswagen AG
19 % AUDI AG

VOTEX GmbH
Dreieich
DM 1,000,000
100 % Volkswagen AG

Europcar International S.A.
Boulogne-Billancourt, France
FRF 553,500,000
50 % Volkswagen AG

V.A.G (United Kingdom) Ltd.
Milton Keynes, Great Britain
£ 9,600,000
100 % Volkswagen Group Holdings (UK) Ltd.

Seat

SEAT, S.A.
Barcelona, Spain
ESP 84,000,000,000
99.99 % Volkswagen AG

Seat Deutschland GmbH
Mörfelden-Walldorf
DM 10,000,000
100 % SEAT, S.A.

Seat France, S.A.
St. Ouen l'Aumone, France
FRF 50,000,000
100 % SEAT, S.A.

Seat Italia, S.p.A.
Milan, Italy
ITL 20,000,000,000
100 % SEAT, S.A.

Seat UK Ltd.
Crawley, West Sussex
Great Britain
£ 4,000,000
100 % SEAT, S.A.

Gearbox del Prat, S.A.
El Prat de Llobregat, Spain
ESP 9,800,000,000
100 % SEAT, S.A.

Škoda

ŠKODA, automobilová a. s.
Mladá Boleslav, Czech Republic
CZK 9,642,000,000
31 % Volkswagen AG

ŠKODA France Automobiles S.A.
Paris, France
FRF 15,000,000
100 % V.A.G France S.A.

ŠKODA Automobili Italia S.r.l.
Verona, Italy
ITL 1,000,000,000
100 % AUTOGERMA S.p.A.

ŠKODA Automobile Deutschland GmbH
Weiterstadt
DM 4,000,000
67 % ŠKODA, automobilová a.s.

■ Producing Companies
■ Distributing Companies
■ Other Companies

Audi

AUDI AG
Ingolstadt
DM 215,000,000
98.99 % Volkswagen AG

AUDI HUNGARIA MOTOR Kft.
Györ, Hungary
DM 2,000,000
100 % Audi AG

Regions

North America

Volkswagen de Mexico, S.A. de C.V.
Puebla/Pue., Mexico
MXN 304,343,224
100 % Volkswagen AG

Volkswagen of America, Inc.
Auburn Hills, Mi., USA
USD 242,422,222.92
100 % Volkswagen AG

Volkswagen Canada Inc.
Toronto, Ontario, Canada
CAD 500,000
100 % Volkswagen AG

South America/Africa

Autolatina Comércio, Negócios e Participações Ltda.
São Paulo, SP, Brazil
BRR 4,475,504,500
51 % Volkswagen AG*

Autolatina Brasil S.A.
São Paulo, SP, Brazil
BRR 849,414,330
42.58 % Volkswagen AG*

Autolatina Argentina S.A.
Buenos Aires, Argentina
ARS 99,651,560
51 % Volkswagen AG*

Volkswagen of South Africa (Pty.) Ltd.
Uitenhage, C.P., South Africa
ZAR 9,362,650
100 % Volkswagen AG

Asia Pacific

Shanghai-Volkswagen Automotive Company, Ltd.
Shanghai, China
CNY 1,200,000,000
50 % Volkswagen AG

FAW-Volkswagen Automotive Company, Ltd.
Changchun, China
CNY 1,680,000,000
40 % Volkswagen AG

Volkswagen Audi Nippon K.K.
Toyohashi, Japan
JPY 23,174,100,000
100 % Volkswagen AG

Financial Services

Volkswagen Finanz GmbH
Brunswick
DM 700,100,000
100 % Volkswagen AG

V.A.G Bank GmbH
Brunswick
DM 622,500,000
100 % Volkswagen Finanz GmbH

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

V.A.G Financement S.A.
Paris, France
FRF 95,000,000
99.68 % Volkswagen Finanz GmbH[1]
0.32 % Volkswagen AG

FISEAT, S.A.
Madrid, Spain
ESP 8,207,390,000
100 % Volkswagen Finanz GmbH[2]

VW Credit, Inc.
Auburn Hills, Mi., USA
USD 100,000
100 % Volkswagen of America, Inc.

FINGERMA S.p.A.
Verona, Italy
ITL 10,000,000,000
100 % Volkswagen Finanz GmbH

ŠkoFIN s. r. o.
Prague, Czech Republic
CZK 30,000,000
100 % Volkswagen Finanz GmbH

Volkswagen Financial Services, S.A. de C.V.
Puebla, Mexico
MXN 100,000
100 % Volkswagen de Mexico, S.A. de C.V.

Financing Companies

Coordination Center Volkswagen S.A.
Brussels, Belgium
BEC 14,000,000,000
60 % Volkswagen AG
40 % Volkswagen Bruxelles S.A.

Volkswagen International Finance N.V.
Amsterdam, Netherlands
NLG 226,000,000
100 % Volkswagen AG

Volkswagen Investments Ltd.
Dublin, Ireland
DM 600,000,000
100 % Volkswagen AG

* Volkswagen AG's direct and indirect holding

[1] Indirect holding via V.A.G Holding Financière S.A.
[2] As of January 1, 1994


LOUIS XIV
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The new Golf Convertible – an open-top car with an individual note for pure driving enjoyment

At the 1993 International Motor Show in Frankfurt Volkswagen unveiled the successor to a truly classic car – the new Golf Convertible. Volkswagen's tradition of producing open-top cars began with the legendary Beetle Convertible, which found a worthy successor in the first Golf Convertible. Both the exterior and interior of the new Golf Convertible embody a design concept which has been perfected right down to the smallest detail. In addition to possessing all the advantages of its predecessor, the best-selling convertible in Europe, this new model also incorporates the outstanding features of the new-generation Golf saloon, combining the classlessness of the Golf family with a highly individual note.

Like the Golf saloon successfully launched in 1991, the new Golf Convertible fulfils all current crash test requirements and, thanks to its traditional rollover bar, also meets the demands of the US rollover test. The numerous safety features provided as standard include airbags for driver and front passenger, ABS, height-adjustable seat belts, door reinforcements to protect the vehicle occupants in the event of a side impact and particularly effective crumple zones. The vehicle also exhibits outstanding body rigidity. All these features combine to form a unique safety concept which in many respects more than satisfies even the stringent American regulations and ensures that the Golf Convertible – like the Golf saloon before it – sets new standards in safety for its vehicle class.

Three engine options are available for the Golf Convertible: two 1.8 litre engines delivering 55 kW (75 bhp) and 66 kW (90 bhp) respectively, together with the top-of-range 2.0 litre engine, already used in the Golf GTI, with an output of 85 kW (115 bhp). Where fuel consumption is concerned, even the most powerful of these engines is almost 10 % more economical than its predecessor.

The Golf Variant – a compact-class estate car

A special highlight of 1993 was the launch of the Golf Variant, an attractive new addition to the Volkswagen range whose versatility makes it the ideal compact car for business travel, leisure use and trips with the family. The Golf Variant incorporates the technology and safety features that have already proved their worth in the Golf saloon. The range of engine options comprises four petrol engines, delivering between 44 kW (60 bhp) and 85 kW (115 bhp), and three particularly environment-friendly diesel engines. Especially outstanding is the exceptionally economical direct-injection turbo-diesel engine with an output of 66 kW (90 bhp).

The Golf Variant has enabled Volkswagen to establish itself in a market segment in which it was previously unrepresented, thereby making a major contribution towards safeguarding the future of the domestic plant locations. All efforts were focused on achieving high product quality and ensuring that this new model is internationally competitive from the very outset. These goals have been achieved in full and the experience gained in the course of work on the Golf Variant has now also been put to good use in production of our other models.

Photo on previous pages:
Like its predecessor,
the new VW Passat Variant
is exceptionally spacious

The new Golf Ecomatic – advanced "eco-engineering" now in series production

Just as Volkswagen led the field in Germany with the introduction of the regulated catalytic converter back in 1984, we have now become the first vehicle manufacturer to incorporate the very latest "eco-engineering" in a production model. The environment-friendly Golf Ecomatic features a diesel engine with oxidation-type catalytic converter and a computerized system which automatically switches off the engine when no propulsion is required. Apart from significantly reducing fuel consumption in city traffic to an average of only 4.6 litres per 100 kilometres, this innovative drive concept with automatic inertia-utilization system also cuts the diesel engine's already low pollutant emissions by up to 36 %.

At the beginning of November 1993 the Golf Ecomatic received the Environmental Award given by the British magazine "Autocar & Motor" in recognition of its major contribution to protecting the environment.

The new Passat – an outstanding model in the upper middle range

September 1993 saw the launch of the new Passat, which represents the fourth generation of one of Volkswagen's best-selling models. The original Passat appeared on the market twenty years ago. Total sales of more than six million underscore the exceptional popularity of the Passat, which has long established itself as the market leader in the upper middle range. In addition to a striking bodywork design, the Passat offers sophisticated technology, high quality and an extensive range of standard equipment. The principal outward differences between the new Passat and its predecessor can be seen in the radiator grille and the narrow headlamps, which extend sideways into the wings. Available once again both as saloon and estate car, the Passat sets new standards in terms of safety, with ABS and airbags for driver and front passenger provided as standard in almost every version. Engine options comprise five petrol engines and two turbo-diesel engines producing between 55 kW (75 bhp) and 128 kW (174 bhp). Particularly outstanding fuel economy is offered by the new direct-injection turbo-diesel engine, with consumption averaging only 5.3 l/100 km in the one-third mix.

The VW Golf Ecomatic combines an economical diesel engine with an automatic inertia-utilization system

Concept 1 – a Volkswagen vehicle study

At the beginning of 1994 a vehicle study by the name of Concept 1, developed by the Volkswagen design studio in California, was presented at the Detroit International Auto Show.

Based on simple geometrical shapes, this study represents not so much the design for a new vehicle as an attempt to preserve an idea. Concept 1 is unmistakably a Volkswagen, embodying the typical VW characteristics of simplicity, honesty, reliability and timelessness combined with an original note.

The trend-setting technology incorporated in such a vehicle could feature any one of three highly economical and environment-friendly drive concepts: a direct-injection turbo-diesel engine (TDI) with Ecomatic, hybrid drive or electric drive.

In this vehicle study Volkswagen has blended tradition and progress in its own unmistakable style.

Sixty-five million Volkswagens – a new record

Volkswagen set yet another new record on December 9, 1993 when the sixty-five millionth Volkswagen – a Golf Europe GL with an engine delivering 66 kW (90 bhp) – came off the production line at the Wolfsburg plant, representing the achievement of a further milestone in the Company's history. The largest proportion of this record production volume is made up of over 21.1 million Beetles, the Golf holding second place with a total of 14.6 million.

VW Golf and Caravelle – the best vehicles in their classes in 1994

Volkswagen carried off two titles in 1994 in the annual reader poll organized by the magazine "auto, motor und sport" to find the "Best Vehicles of the Year". The Golf's triumph in the "Lower Middle Range" category was matched by the VW Caravelle, which won the "Van" category introduced for the first time this year. In the readers' opinion the Golf is a trend-setter right across the board from GTI to TDI, with a classless image and a design perfected in every detail, while the Caravelle came out on top by virtue of its spaciousness, comfort and high standard of passive safety.

In a comparison crash test of compact class models carried out by the German motoring magazine "auto, motor und sport", it was shown that the lowest risk of injury is to be found in the Golf.

Optimizing the added-value chain throughout the Group

Particular attention was focused in 1993 on continued efforts to develop "lean" production structures and processes, with special emphasis on integrating production and procurement to form a single overall system within the Group. Such measures enable us to make optimum use of synergistic effects, while at the same time preserving the Group's "federal" structure by ensuring that the individual marques all retain their distinctive identity. What is more, such a set-up allows the Group marques to provide one another with mutual assistance. All efforts within this integrated added-value chain are oriented towards the customer, with our employees – who play the key role in this optimization strategy – aiming to continuously enhance standards in areas of particular interest to the customer such as quality and service.

The continuous improvement process squared – a cornerstone of success

The concept of the "Continuous Improvement Process squared" – known as CIP² – represents a cornerstone of our efforts to raise quality and productivity. The "snowball effect" generated by the team-oriented concept meant that it was possible to hold over 1,000 CIP workshops at Volkswagen during the year and thereby considerably speed up the process of putting improvements into practice. Teamwork is also an important part of our strategy designed to give employees greater responsibility for the production operations in which they are personally involved. Displaying creativity and commitment, our employees have succeeded in improving quality, productivity and other process indicators by an average of between 25 % and 30 %. The efficiency-boosting measures are not confined solely to production at our own plants, but are systematically extended to include our suppliers as well.

Learning from one another – a means of accelerating optimization processes

Our concerted efforts to enhance quality and productivity also involve determining where we stand in relation to our competitors, as well as developing and discussing improvement measures. To this end we have instituted a weekly exchange of views among the people responsible for production operations within the individual Group marques and at the various plants, enabling those concerned to discuss possible strategies, compare experiences and thereby speed up the improvement process by learning from one another.

New supplier concept for the Volkswagen Group

Our new procurement strategy aims above all to integrate suppliers as equal partners in the added-value chain represented by the automobile production process and to systematically promote the development of efficient system suppliers. The criteria of quality, service and price apply equally to components produced within the Group itself and constitute the basis for long-term cooperation. The standardization strategy being put into practice throughout the Volkswagen Group offers considerable opportunities for rationalization which, in combination with longer-term cooperations, will bring lasting benefits for Volkswagen and its suppliers.

We have thus not only succeeded in achieving numerous improvements in quality standards and productivity, as well as cost reductions, within a relatively short time, but have also paved the way for lasting improvements to our cost structures.

Commercial Vehicle Division

Market shares in Europe maintained

The commercial vehicle market in Western Europe reflected the continuing downward trend exhibited by vehicle sales as a whole in 1993, with overall sales of vehicles having a gross weight of up to six tonnes falling by 20.7 % to around 1.2 million. The number of new commercial vehicle registrations in Germany was also well down on 1992, dropping by 23.0 % to 278,650.

The decline in demand on the European market meant that Volkswagen AG too experienced a fall in its sales of vehicles with a gross weight of up to six tonnes (including commercial vehicles eligible for registration in the passenger/estate car category), which decreased by 21.7 % to 143,963. European market share for light commercials was practically unchanged in the report year at 12.3 %. The best-selling Transporter and Caravelle series contributed to this. The total of 88,295 vehicles delivered to customers in Germany was 25.7 % down on the 1992 figure and gave us a 31.7 % share of the market. We were particularly successful in the new federal states of eastern Germany, where we became market leader for light commercial vehicles with a share of 29.4 %.

At 161,069, the number of European-manufactured Volkswagen commercial vehicles delivered to customers worldwide in 1993 was 18.4 % down on the previous year's figure. Taking into account the vehicles produced by our subsidiaries in South Africa, Mexico and South America (AUTOLATINA), Volkswagen's overall commercial vehicle sales fell by 6.4 % to a total of 259,733.

We successfully rose to the challenge of growing competition in 1993 by launching further additions to the Transporter/Caravelle range, among them the Multivan Allstar, the Multivan Classic and an LT effectively upgraded through the introduction of a powerful and environment-friendly diesel engine. Volkswagen's motor homes were extremely well received by the automotive press, which singled out their wide range of equipment features and excellent crash behaviour for special praise. We anticipate that commercial vehicle production and sales in Europe will stabilize at a low level in 1994. Our joint venture in Taiwan will enable us to establish ourselves and steadily consolidate our position on the market in the Asia Pacific Region.

The cooperation agreement between Toyota and Volkswagen on production of a pick-up under licence, which was due to expire in December 1994, has been renewed. The pick-up model built at the Transporter plant in Hanover will continue to be produced and marketed as the Volkswagen Taro and Toyota Hilux.

Apart from actual vehicle production and marketing, the Commercial Vehicle Division is also engaged in developing concepts to back up public transport and ecologically sound user-oriented strategies for essential municipal traffic.

Volkswagen marque

Key figures		1993	1992	Change %
Sales	DM million	45,855	55,952	– 18.0
Production	Units	1,240,124	1,657,682	– 25.2
Vehicle sales to dealers	Units	1,466,605	1,954,012	– 24.9
Workforce	At year end	121,918	132,874	– 8.2
Capital investments	DM million	2,605	5,338	– 51.2

Volkswagen companies in Germany's new federal states

The companies making up Volkswagen's Saxony project comprise the wholly-owned subsidiaries Volkswagen Sachsen GmbH and Volkswagen Sachsen Immobilienverwaltungs GmbH together with Sächsische Automobilbau GmbH, 87.5 % of whose capital is still held by the Treuhandanstalt, the agency responsible for administering and gradually privatizing what were formerly state-owned East German companies. It is planned that Volkswagen AG should take over this holding from the Treuhandanstalt in 1994. Pending completion of the new plant for Volkswagen Sachsen GmbH, Sächsische Automobilbau GmbH will continue to carry out painting and vehicle assembly at its plant in Mosel near Zwickau.

In August 1993 production began of the Golf Ecomatic, a further version of the Golf saloon already in production in Saxony. Mosel is the only Volkswagen Group plant turning out this new environment-friendly car. During 1993 Sächsische Automobilbau GmbH produced a total of 72,923 saloons, including 2,621 Ecomatics.

At the end of 1993, the three companies together employed a total workforce of 3,296 in Mosel, Chemnitz and Eisenach. Taking into account the sales organization and the supplier industry as well, Volkswagen provides employment for more than 26,000 people in Germany's new federal states. As was the case at our plants in western Germany, the need for short-time working adversely affected production during 1993; output was also lost in Mosel as a result of the wage dispute in Saxony. Up to the end of 1993, capital investment in Volkswagen's vehicle and engine production project in the new federal states, which has been in progress since 1990, had totalled DM 2.2 billion.

Volkswagen Sachsen GmbH

Key figures		1993
Sales	DM million	546
Production	Bodyshells	73,320
Production	Engines	287,722
Unit sales	Bodyshells	73,320
Unit sales	Engines	288,324
Workforce	At year end	1,434
Capital investments	DM million	272

The bodyshell shop at the new plant in Mosel supplied bodyshells to Sächsische Automobilbau GmbH and body components to the Group's interlinked production system in 1993. The press shop is scheduled to commence operations in the first quarter 1994, while the construction work on the paintshop and assembly facilities has been virtually completed.

Further progress has been made in creating the necessary infrastructure for the new plant, with the first section of the link between the B 93 trunk road and the motorway now open.

Volkswagen engines have been built in Chemnitz since 1988 and total production has now passed the one million mark. In addition to supplying short engines to the Group's interlinked production system, the Chemnitz plant began turning out complete engines in 1993 for the vehicles assembled by Sächsische Automobilbau GmbH. A total of 287,722 engines were built in Chemnitz during the year under report, while the cylinder-head production facility in Eisenach – likewise owned by Volkswagen Sachsen GmbH – manufactured 236,558 cylinder heads.

Volkswagen Sachsen GmbH closed the year with a small profit which was transferred to Volkswagen AG under the control and profit assumption agreement.

Volkswagen Bratislava, spol. s r. o.

The establishment of Volkswagen Bratislava in mid-1991 provided the Volkswagen Group with a low-cost production facility in Central Europe. Volkswagen AG has an 80 % interest in the company, while the remaining shares are held by Bratislavské Automobilové Závody, a. s. (BAZ). In 1993 Volkswagen Bratislava produced a total of 2,955 Passats in the Slovak Republic and at the end of the year employed 470 people, roughly the same number as in 1992. Sales in 1993 totalled DM 83.4 million, 52.5 % up on the previous year.

As the company's operations are still in their start-up phase, Volkswagen Bratislava closed 1993 with a small loss.

Volkswagen Bruxelles S.A.

Key figures		1993	1992	Change %
Sales	DM million	3,109	4,050	– 23.2
Production	Units	165,835	215,994	– 23.2
Vehicle sales	Units	165,835	215,994	– 23.2
Workforce	At year end	5,889	7,144	– 17.6
Capital investments	DM million	82	350	– 76.6

Falling demand made it necessary to significantly reduce output in 1993. Total production comprised 144,445 Golfs and 21,390 Passats, with 887 vehicles being manufactured per working day.

On account of the cut in output, and in order to boost productivity, the workforce was reduced by 17.6 % to 5,889. As in the past two years, the company's capital investments were devoted primarily to construction of the new paintshop, which will help to reduce the environmental impact of vehicle production still further and is scheduled to go into full operation in the second half of 1994.

Our Belgian subsidiary returned a profit.

V.A.G France S.A.

Key figures		1993	1992*	Change %
Sales	DM million	3,149	4,101	– 23.2
Vehicle sales to dealers	Units	121,087	170,512	– 29.0
Workforce	At year end	778	803	– 3.1
Capital investments	DM million	7	21	– 67.1

*Adjusted figures

The poor economic situation in France meant that the country's automobile market too exhibited a decline in 1993.

V.A.G France's business was inevitably hit by this trend; a total of 126,576 Volkswagen and Audi models were delivered to customers in France in 1993, 26.6 % fewer than in 1992. Our share of the French passenger car market consequently fell by 1.0 percentage points to 6.8 %. Although the market for light commercial vehicles decreased in size by around a quarter compared with 1992, the Transporter was able to maintain the 1.3 % share of this market which it had held in the previous year.

As in 1992, V.A.G France achieved a profit.

AUTOGERMA S.p.A.

Key figures		1993	1992	Change %
Sales	DM million	4,123	6,598	– 37.5
Vehicle sales to dealers	Units	200,242	312,481	– 35.9
Workforce	At year end	486	481	+ 1.0
Capital investments	DM million	6	38	– 83.3

The general recession in Italy led to an above-average decline in passenger car sales, which fell by 20.5 % to 1.9 million. AUTOGERMA's share of the passenger car market decreased from 12.3 % in 1992 to 11.1 %, while on the commercial vehicle market it achieved a share of 4.8 % as against 5.7 % in the previous year.

AUTOGERMA sold a total of 214,633 vehicles in 1993, 28.5 % fewer than in 1992. The number of Volkswagens delivered to customers in Italy was down by 30.8 % at 174,540, while the corresponding figure for Audi models fell by 16.3 % to 40,093.

The company closed the fiscal year with a loss.

V.A.G (United Kingdom) Ltd.

Key figures		1993	1992*	Change %
Sales	DM million	2,744	2,512	+ 9.2
Vehicle sales to dealers	Units	92,421	96,143	– 3.9
Workforce	At year end	619	792	– 21.8
Capital investments	DM million	188	–	x

*Figures relate to Volkswagen UK.

With effect from January 1, 1993 Volkswagen AG took over its British importer from the previous owner Lonrho Plc, London. This move ties in with the strategy which the Volkswagen Group has been pursuing in the sales sector with the aim of ensuring that the Group's products are sold at the wholesale level by the Group itself in all important countries in Europe.

The British automobile market exhibited a slight upward trend in 1993, although it must be remembered that sales in the previous year had been at a low level. V.A.G (United Kingdom) Ltd. achieved a 5.7 % share of the passenger car market compared with 6.3 % in 1992, while its share of the commercial vehicle market stood at 4.4 % as against 4.0 % in the previous year. With a total of 114,894 Group models delivered to customers in 1993, our British subsidiary was able to record a slight increase in unit sales (+ 7.6 %) over 1992.

V.A.G (United Kingdom) Ltd. returned a profit in 1993.

Europcar International S.A.

Key figures*		1993	1992	Change %
Sales	DM million	1,385	1,450	– 4.5
Workforce	At year end	2,108	2,236	– 5.7
Capital investments**	DM million	966	940	+ 2.7

*Including consolidated subsidiaries; proportionate figures.
**Including additions to leasing and rental assets.

The holding company Europcar International S.A. is a fifty-fifty joint venture between Volkswagen AG and Compagnie Internationale des Wagons-Lits et du Tourisme S.A.; a majority interest in the latter is held by Accor S.A. As one of Europe's leading vehicle rental companies, Europcar has subsidiaries in Germany, Great Britain, France, the Netherlands, Belgium, Italy, Spain, Portugal and Switzerland. Cooperation agreements with Europcar licensees as well as with National in the USA, Tilden in Canada and Nippon Rent-a-Car in Japan enable it to offer a comprehensive worldwide rental service with over 4,600 rental points in 130 countries.

The recession which affected many European countries in 1993 also hit demand in the vehicle rental sector. While business rentals exhibited a sharp decline, the field of leisure and tourist rentals continued to present a satisfactory picture. The difficult situation in Germany – which is by far the company's largest market – was the principal reason for the 4.5 % fall in overall sales. Europcar has responded to these developments by taking extensive measures designed to boost earnings. In addition to streamlining its network of rental points, the company has stepped up its cooperation with various European automobile clubs and airlines as well as with travel companies overseas. Further steps were also taken to improve the quality of customer service, with particular attention focused on developing new Europe-wide EDP systems for the Europcar group.

The problems created by the low level of demand on the major European markets meant that the Europcar group closed the year with a loss.

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Key figures		1993	1992	Change %
Sales	DM million	12,554	16,736	– 25.0
Production	Units	340,956	492,085	– 30.7
Vehicle sales to dealers	Units	339,337	483,566	– 29.8
Workforce	At year end	33,031	37,166	– 11.1
Capital investments	DM million	785	947	– 17.1

Following in the footsteps of Auto Union

Over sixty years ago the Auto Union company changed the face of racing-car design with its famous Silver Arrows, which featured innovations such as independent suspension instead of rigid axles, outstanding aerodynamics, mid-engine configuration, tubular frame and aluminium body. The body itself weighed no more than 45 kg and the steel-alloy frame just 56 kg.

With aluminium having played a leading part in opening up new frontiers for the aerospace industry, the combination of this material's immense potential and a revolutionary design concept is now enabling Audi to create a totally new dimension in automotive engineering.

The Audi A8 – a quantum leap in the upper vehicle range

The Audi A8 breaks new ground in more ways than one. It is the result of over ten years of joint development work by two leading international trend-setters in the engineering sector: Audi and Alcoa (Aluminum Company of America), which is renowned worldwide for its expertise in the field of light-alloy research.

In addition to setting new standards in safety, comfort and performance, the Audi A8 is the first car in which it has been possible – through the use of aluminium – to reverse the hitherto ever-rising "weight spiral". The unique design concept incorporates an all-aluminium body, for which a totally new production method was developed. The frame structure and the body panels – which in this car also perform a load-bearing function – are capable of fulfilling the toughest safety requirements. Together, these elements create an exceptionally rigid passenger cell and thus ensure optimum protection of the vehicle occupants. The new model is initially available with a choice of either a 4.2 litre four-valve V8 engine or the tried and tested 2.8 litre V6 engine delivering 128 kW (174 bhp).

By virtue of its low weight, aluminium makes it possible to significantly reduce fuel consumption. It can also be recycled an almost unlimited number of times without any impairment of quality, which means that its use brings major environmental benefits.

The Avant RS2 – advanced technology from Audi and Porsche

The Avant RS2, developed jointly by Audi and Porsche, was unveiled at the 1993 International Motor Show in Frankfurt. Based on the Audi Avant S2 and incorporating Porsche-style body features, quattro

Photo on previous pages:
The Audi Avant S2 is aimed at the sporty end of the growing market for compact estate cars

running gear and an exceptionally wide range of interior equipment, this distinctive model highlights the trend towards sporty compact estate cars. It perfectly blends the two manufacturers' technical expertise to offer sophistication coupled with outstanding performance.

Porsche has succeeded in boosting the output of the Audi-designed 2.2 litre 20-valve five-cylinder turbocharged engine to 232 kW (315 bhp), enabling the Avant RS2 to reach a top speed of 262 km/h and accelerate from 0 to 100 km/h in 5.8 seconds.

The Audi Convertible now offers still greater comfort

The Audi Convertible, which has enabled Audi to successfully establish itself in a steadily growing market segment, now offers even greater comfort in the form of an automatic folding top. An electronically controlled hydraulic mechanism opens the top and automatically lowers it into a special compartment in around thirty seconds without the driver being obliged to get out of the vehicle.

Another new feature designed to improve comfort is the two-piece draught deflector specially developed by Audi. One section shields the rear passengers from draughts, while the other minimizes the swirling effect of the wind around the head and neck.

Safety has been further enhanced by the introduction of the integral seat with roll-over protection. In this new system the seat backrest is directly attached to the vehicle floor, so that the belt forces occurring in a crash and the stresses imposed on the vehicle if it overturns are transmitted to the rigid floor group.

The Audi A8 with its aluminium body represents a revolution in automotive engineering

Awards for the Audi 80 Avant and the Audi TDI engine concept

The attractive Audi 80 Avant 2.0 E emerged well ahead of the other main model launches in 1992/93 to take the title "Commonsense Car of 1993" in a poll conducted among the readers of the automobile magazine "mot". What is more, the same publication's "1993 Engineering Award" for outstanding technical innovation was won by the direct-injection system for diesel engines which Audi has become the first manufacturer to use in a German passenger car. "Audi's high-economy diesel engine based on the TDI principle", commented the magazine, "proves that a car with fuel consumption averaging only five litres per 100 kilometres is already within the bounds of possibility today."

"Golden Steering Wheel 1993" awarded to the Audi 100 Avant 2.8 E

In 1993 the Audi 100 Avant 2.8 E was the winner of the special category – which varies from year to year and this time covered large estate cars – in the "Golden Steering Wheel" contest organized annually by the German newspaper "Bild am Sonntag" to find the best automobiles in the various vehicle classes.

A 22-member jury assessed the contenders on the basis of nine rating criteria, with the Avant coming out on top as regards engine performance, safety, comfort and styling.

Official recognition for Audi's integrated quality management system

In October 1993 Audi became the first German vehicle manufacturer to receive the certificate awarded by Germany's technical supervisory authorities (TÜV), in line with the European Community standard DIN ISO 9001, for an integrated quality management system. This confirms that all aspects of Audi's operations fulfil what are acknowledged to be the most demanding quality requirements in the world. Audi is thus already equipped to comply with the type-approval regulations laid down in the EC directives scheduled to become binding in 1996, which means that only one type approval – valid in every member state of the European Union – is needed for each model.

New engine plant in Hungary shortly to commence production

Following the decision at the beginning of 1993 to set up an engine plant in Györ, contracts were signed in April with the Hungarian railway truck and machine manufacturer Raba for the purchase of a 100,000 m² building and a 250,000 m² site.

The Avant RS2 – a compact high-performance estate car as an alternative to the traditional sports car

The newly established company AUDI HUNGARIA MOTOR Kft. is a wholly-owned subsidiary of AUDI AG. The plant is being constructed in several phases and from mid-1994 onwards will already incorporate facilities capable of turning out around 1,000 engine components and 750 engines a day. By opting to site this new plant in Hungary, Audi has gained the opportunity to consolidate its position in Eastern Europe – which in the long term will be a market with major growth potential – and enhance its international competitiveness, thereby also safeguarding jobs in Germany.

New designations for the entire Audi range

Beginning with the Audi A8, AUDI AG is now introducing a new series of model designations to signify the adoption of a new product philosophy. Based on the principle used for the sports models S2 and S4, each designation consists of the letter A followed by a single digit.

Business hit by general slump in vehicle sales

The deep recession which affected almost all Audi's markets in 1993 was inevitably the major factor influencing business during the year. At 353,911, the number of vehicles delivered to customers worldwide was 25.1 % down on the previous year's record total, which had been achieved largely thanks to the sales boom in Germany following reunification and the impetus provided by the growing popularity of the new Audi models. The sharply worsening economic situation in Germany meant that sales on the domestic market in 1993 fell by 28.3 % to 163,752, with the result that Audi's share of this market decreased by 0.4 percentage points to 5.3 %.

The sustained lack of global economic momentum also led to a major drop in export sales, with the total of 190,159 Audis delivered to customers abroad in 1993 representing a decrease of 22.1 % compared with the previous year. Sales on export markets in Western Europe were additionally hit by the decline in the value of key currencies and fell by 21.2 % to 148,883. The situation on the American market remained difficult, with sales in the USA decreasing by 15.1 % to 12,528 vehicles. A total of 28,748 vehicles were delivered to customers in other countries, 28.9 % fewer than in the previous year. As in 1992, China – where the Audi 100 is produced under a cooperation agreement between Audi and the First Automobile Works (FAW) – was the largest individual market in this category with sales totalling 14,032 vehicles (– 7.1 %), although the imposition of government measures to curb demand meant that sales in China fell short of the targets set. The number of vehicles delivered to customers in Japan decreased by 67.4 % to 4,226 as a consequence of the general economic situation and the need to establish a new distribution network on the Japanese market.

The unsatisfactory sales situation made it necessary to reduce production on a large scale, with the result that employees had to be put on short time for a total of 54 days at the Ingolstadt plant and 56 days in Neckarsulm. Overall vehicle output in 1993 was 30.7 % down on the previous year at 340,956, while engine production fell by 28.3 % to 494,436.

Cuts in the Audi workforce became necessary last year in order to make the company still more competitive in international terms. The number of employees was therefore reduced by 11.1 % to 33,031 by way of planned measures and without causing any social hardship.

Capital investment by AUDI AG remained at a high level in 1993, amounting to DM 785 million (– 17.1 %). The investment programme centred primarily on further development and expansion of the model range, the Györ engine plant in Hungary, the new environment-friendly paintshop in Neckarsulm and measures to improve production processes.

The sharp fall in vehicle sales, increasingly tough price-based competition and the loss of sales revenues resulting from the decline in the value of major European currencies all contributed to the significant downward trend in earnings. Additional financial burdens were imposed in particular by the costs incurred in connection with the necessary measures to cut the workforce. Audi consequently closed the fiscal year with a loss of DM 89 million compared with net earnings of DM 172 million in 1992.

Although it is as yet impossible to predict the future development of the automobile market with any degree of certainty, AUDI AG is confident that it will successfully withstand the growing competitive pressure and emerge from the recession in an even stronger position than before. Grounds for such optimism are provided by the measures implemented so far to improve cost structures, the ongoing marketing and sales activities and the vehicle-buying public's positive reaction to the Audi model range.

BOULEVARD
HENRI IV
CAFE FRANCAIS
CAFE
Bitburger
EFI ELECTRONIC FUEL INJECTION

Key figures*		1993	1992	Change %
Sales	DM million	7,992	10,350	– 22.8
Production	Units	472,978	578,432	– 18.2
Vehicle sales to dealers	Units	512,539	630,140	– 18.7
Workforce	At year end	23,653	27,738	– 14.7
Capital investments	DM million	1,009	2,445	– 58.8

*Including consolidated subsidiaries

The Cordoba – another striking new model from Seat

1993 saw the systematic continuation of Seat's market-oriented product policy. Following on from the Toledo and the Ibiza, the Cordoba is the third completely new model to be developed by Seat and was unveiled at the Frankfurt International Motor Show in September 1993. Only six months after the launch of the new Ibiza, this notchback saloon provided yet another impressive demonstration of Seat's innovative capabilities. The Cordoba's slightly rounded lines give it a striking appearance with a sporty note. A choice of seven engines is available, delivering between 44 kW (60 bhp) and 95 kW (130 bhp). Depending on equipment version, the four model versions include as standard or as optional extras features such as power-assisted steering, ABS, air conditioner, airbags for driver and front passenger, electric windows, central locking and split-folding rear seats. The Cordoba marks Seat's arrival in the largest segment of the European automobile market. The official launch took place in Spain in November 1993. At the same time the Cordoba went on the market in Germany.

New Seat Ibiza launched on the German market

The German launch of the new Seat Ibiza took place in October 1993. The range of available engines was expanded at the same time to include a 1.9 litre turbo-diesel engine producing 55 kW (75 bhp) and, for the Ibiza GLX, a 1.8 litre engine with four-speed automatic gearbox.

Photo on previous pages: Mediterranean verve and flair – the new Seat Ibiza

Martorell sets new standards in European vehicle production

The ultra-modern Seat plant in Martorell near Barcelona was officially opened on February 22, 1993 in the presence of King Juan Carlos of Spain. This new manufacturing facility, where the Ibiza and Cordoba are being built in three-shift operation, can turn out 1,500 cars a day, with production of a complete vehicle taking less than twenty hours from start to finish. It thus ranks among the leaders in the European automobile industry, besides setting new standards as regards environmental protection, innovative organizational structures, productivity and quality. A total of 120,986 Ibizas and 19,289 Cordobas were manufactured in Martorell during 1993.

No signs of an economic recovery in Spain in 1993

The Spanish economy's continuing lack of momentum in 1993 led to a fall of around 1 % in the gross national product, declining investment and rising unemployment. Demand on the Spanish automobile market took a sharp downward turn, with overall passenger car sales falling by 24.1 % to 744,040.

At 308,642, the number of vehicles delivered by Seat to customers worldwide in 1993 was 15.2 % down on the previous year's figure.

Sales of Group vehicles in Spain totalled 139,750 (– 24.1 %), comprising 82,227 Seat models (– 21.0 %), 42,772 Volkswagens (– 29.0 %), 12,317 Audis (– 29.3 %) and 2,434 Škoda models (– 1.3 %). The passenger car market share nonetheless rose by 0.1 percentage points to 17.7 %.

The number of vehicles delivered to customers in Germany – which represents Seat's largest export market – decreased by 28.5 % to 68,432. Sales in Italy declined by 18.3 % to 50,908, while the total of 33,204 Seat models sold in France was 19.0 % down on the 1992 figure. However, the slight recovery staged by the British automobile market enabled Seat to increase sales in Great Britain by 7.6 % to a total of 9,188 vehicles. A significant upward trend was recorded in Portugal, where sales rose by 46.0 % to 12,310, and in Greece, where the total of 12,861 vehicles sold represents an increase of 76.9 % over 1992.

The fall in sales and the continuing recession in Europe made it necessary to reduce both production and the size of the workforce accordingly. Overall vehicle production by Seat fell by 18.2 % to 472,978, a figure which comprised 296,651 Seat models (– 16.7 %) together with 176,327 Volkswagen Polos (– 20.7 %).

The combined effects of declining demand and the need for increasingly competitive pricing both in Spain and on major export markets, the rise in the price of imported materials following devaluation of the peseta, the high cost of financing the large-scale investments required for the Martorell plant and the start-up costs for the new Ibiza and the Cordoba meant that the Seat group closed the fiscal year with a considerable loss.

Reorganization concept adopted for the Spanish subsidiary

The number of people employed by the Seat group was reduced by 14.7 % in 1993 to a total of 23,653. Short-time working became necessary at both the Barcelona and Pamplona plants last year, with around 2,200 employees on short-time under a long-term arrangement which came into force in May 1993.

The reorganization concept also involves putting 4,616 employees on short-time during a transitional phase from 1994 to 1996. These employees will subsequently be offered jobs with Seat group suppliers in the planned Zona Franca industrial park or resume work at SEAT, S.A.

The workforce is being further reduced in 1994 through the termination of limited-term contracts of employment and a scheme under which employees aged over 55 were able to take early retirement at the beginning of the year.

Vehicle production at the Zona Franca plant in Barcelona is scheduled to cease in autumn 1994, with production of the Toledo – hitherto made in Barcelona – being transferred to Martorell. The Zona Franca plant will then be turned into an industrial park in which suppliers and service providers – with a workforce drawn from former employees of SEAT, S.A. – produce components for the Seat group among others. This package of measures will also help to boost Seat's productivity.

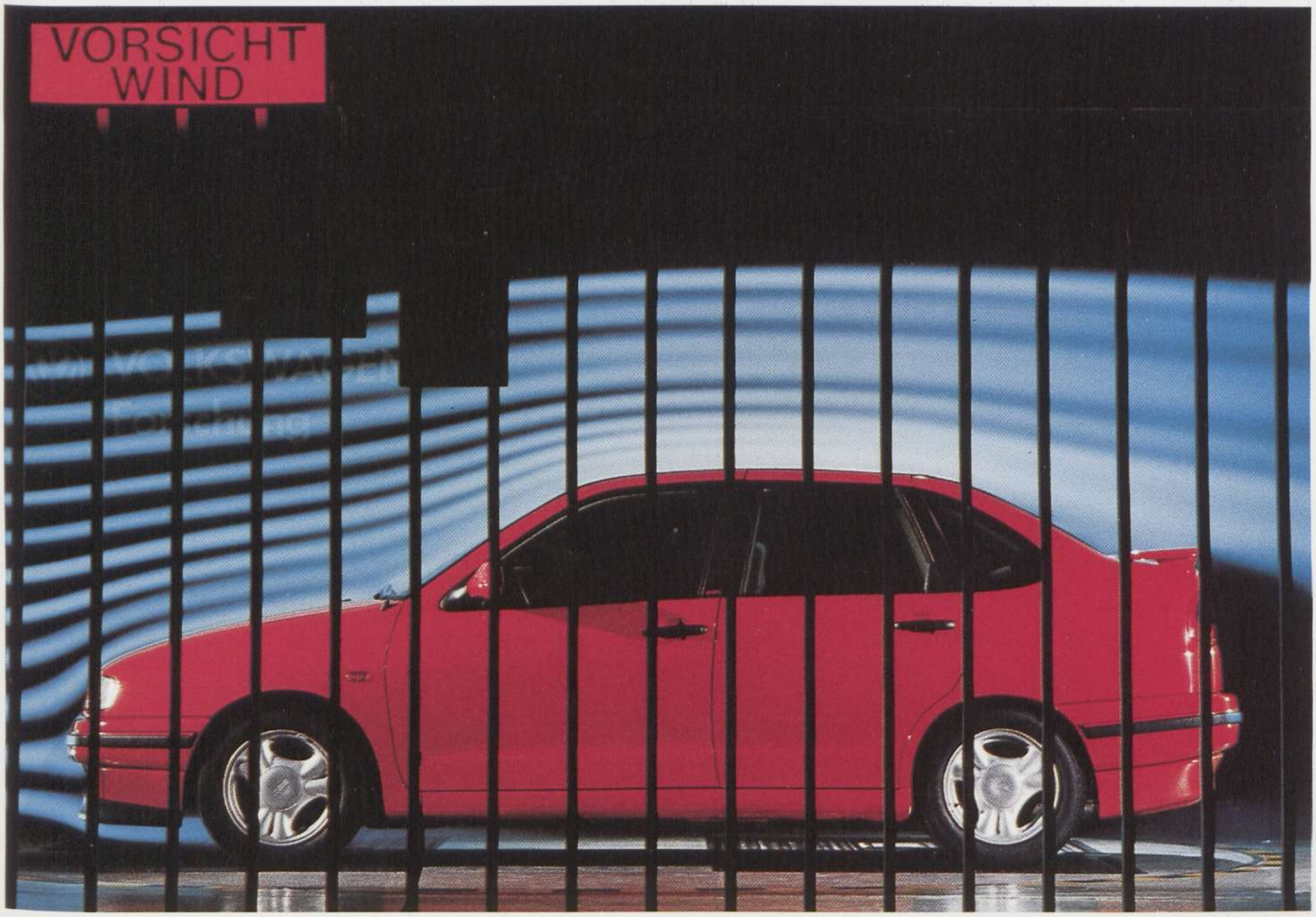
Seat's new structure permits effective division of responsibilities

With a view to creating a clear-cut division of responsibility for sales operations relating to the individual Volkswagen Group marques, SEAT, S.A. transferred importing and sale of Volkswagen and Audi models in Spain to its new wholly-owned subsidiary Volkswagen-Audi-España, S.A. on January 1, 1993. This new company also handles the sale of the Volkswagen Polos produced at the Pamplona plant.

The Pamplona plant was hived off from SEAT, S.A. on December 22, 1993 to form a separate company by the name of Fábrica Navarra de Automóviles, S.A. and sold to Volkswagen-Audi-España, S.A. on December 28, 1993. On March 16, 1994 the managing committee of the Supervisory Board of Volkswagen AG, by virtue of the authority granted to it by the Supervisory Board of Volkswagen AG on December 18, 1993, approved the proposal of SEAT, S.A. that Fábrica Navarra de Automóviles, S.A. become a wholly-owned subsidiary of Volkswagen AG.

The financing company FISEAT, S.A. and thus indirectly also its leasing subsidiary LISEAT, S.A. were sold to Volkswagen Finanz GmbH with effect from January 1, 1994.

The sporty Seat Cordoba is positioned in the market segment between the Ibiza and the Toledo




Saint-Maclou
SILVER LINE

Key figures		1993	1992	Change %
Sales	DM million	1,982	1,677	+ 18.2
Production	Units	219,612	200,059	+ 9.8
Vehicle sales to dealers	Units	229,446	198,658	+ 15.5
Workforce	At year end	17,048	17,105	– 0.3
Capital investments	DM million	252	198	+ 27.7

Stable economic situation in the Czech Republic

In the year which witnessed the division of the former Czechoslovakia into two independent states, the economy of the Czech Republic once again proved to be the most stable among the reforming countries of Central and Eastern Europe. The gross domestic product was on a par with 1992, the downward trend witnessed during the first half of the year being offset by a slight rise later on. The inflation rate averaged 20.8 % over the year, having risen sharply by 8.5 % in January 1993 following the introduction of value-added tax. With foreign exchange reserves having increased from US $ 3.6 billion to US $ 6 billion and the trade balance virtually in equilibrium, the Czech economy seems set to continue its recovery in 1994. Unemployment rose slightly in 1993, however, reaching around 3.5 %. The government's economic policy was reflected above all in the stability of the Czech koruna, whose value in relation to the specified basket of currencies remained almost unchanged. In view of the recession in the advanced market-economy countries and the progressive collapse of the Eastern European markets, however, the policy of maintaining a stable koruna is creating considerable problems for export-oriented Czech companies.

Extensive measures to upgrade the model range

The Škoda model range was upgraded at the beginning of 1993 by way of a comprehensive modernization programme and additional product-related measures. These steps have helped to enhance standards in terms of quality, reliability, economy and safety, besides increasing the vehicles' utility value and making them still more environment-friendly. Robust engineering and practical design incorporating numerous imaginative touches are the hallmarks of Škoda products today. Sales in Western Europe and on other export markets show that Škoda is more than capable of holding its own against Western competitors.

Close cooperation with domestic suppliers proving successful

A major contributing factor in Škoda's success has been the company's policy of working in close cooperation with domestic suppliers and assisting them in gearing their operations to meeting Škoda requirements. By creating an efficient national supplier industry, it is aimed to secure long-term competitive advantages for Škoda and gradually develop low-cost sources of supply for the entire Volkswagen Group.

In the current phase of economic transition, joint ventures with foreign associates play a particularly important role in guaranteeing material supplies. In 1993 these companies accounted for one-third of Škoda's purchasing in the Czech and Slovak Republics.

Restructuring of the sales organization

The process of restructuring the sales organization continued in 1993. The Škoda sales network currently comprises 2,249 dealers, including 221 in the Czech Republic, 63 in the Slovak Republic and a further 1,649 in Western Europe. The sale of Škoda models in Germany, France, Great Britain and Italy is handled by Group companies, in some cases newly established for this purpose.

In its capacity as importer, Škoda sold a total of 4,775 Volkswagens, 377 Audi models and 2,703 Seats to dealers in the Czech and Slovak Republics during 1993.

Photo on previous pages:
The spacious Škoda Forman is available in two equipment versions

A winning trio – Škoda Favorit Black Line, Silver Line and the robust Škoda pick-up

Further improvement in key figures

At 219,158, sales of Škoda vehicles in 1993 were 9.8 % up on the previous year's level. A total of 79,954 vehicles were delivered to customers in the Czech Republic and a further 15,623 to customers in the Slovak Republic, representing an increase of 0.2 % on 1992 sales in what was then Czechoslovakia. The low level of overall demand on the German market meant that sales in Germany fell by 7,959 to 18,694 vehicles. As a whole, however, the number of vehicles sold on Western markets was well up on the 1992 figure, whereas sales in Central and Eastern Europe declined on account of trade barriers, a lack of purchasing power and the continuing absence of a market in any part of the former Yugoslavia with the exception of Slovenia. However, Škoda was able to offset this fall in sales by opening up new markets in Asia.

The total of 219,612 vehicles built last year at the three plants in the Czech Republic represents a new production record beating that set in 1992. Output per working day rose from 820 to 889 vehicles.

Capital investments during 1993 were once again devoted primarily to rationalization measures and to further enhancing product quality. Construction of the new paintshop also got under way during the year. As improved productivity and greater utilization of synergistic effects within the Group mean that the overall volume of investment will now be considerably smaller than originally planned, it will not be necessary to draw upon the funding previously negotiated with the International Finance Corporation (IFC), the European Bank for Reconstruction and Development (EBRD) and an international banking syndicate.

The company returned a small profit for 1993. However, under national accounting regulations a loss was shown.

Following its ratification by Canada, the USA and Mexico in 1993, the North American Free Trade Agreement (NAFTA) came into force on January 1, 1994. This agreement, which will create a tariff-free economic area with a total population of 360 million, aims to eliminate all customs and trade barriers between the three countries within a maximum of fifteen years, thereby doing away with protectionism and distortion of competition. In promoting an international division of activities and fostering international trade it could also bring benefits for companies like Volkswagen which operate on a worldwide scale.

Overview

Key figures		1993	1992	Change %
Sales	DM million	6,270	6,200	+ 1.1
Production	Units	239,077	188,449	+ 26.9
Vehicle sales to dealers	Units	254,439	267,576	– 4.9
Workforce	At year end	16,213	18,780	– 13.7
Capital investments	DM million	231	490	– 52.7

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

Key figures*		1993	1992	Change %
Sales	DM million	4,711	3,178	+ 48.2
Production	Units	239,077	188,449	+ 26.9
Vehicle sales to dealers	Units	234,362	180,852	+ 29.6
Workforce	At year end	14,209	16,659	– 14.7
Capital investments	DM million	154	410	– 62.5

*Including consolidated subsidiaries

The upward trend exhibited by Mexico's economy in recent years came to a halt in 1993, primarily on account of the uncertainty surrounding NAFTA and the imposition of a restrictive economic policy to curb inflation. The general economic situation also had an adverse effect on the automobile market, with overall vehicle sales falling by 10.4 %.

The VW Vento is produced under the name Jetta in Mexico for the North American market.

At 161,041, the number of vehicles delivered to domestic customers by Volkswagen de Mexico – including commercial vehicles – was nevertheless 8.6 % up on the 1992 figure. The company sold a total of 148,924 passenger cars in Mexico, extending its market leadership by 5.3 percentage points to 37.3 %. This trend can be ascribed largely to the popularity of the VW Beetle and the excellent reception given to the new Golf and to the Vento, which will continue to be known as the Jetta on the North American markets.

Although production start-up delays during the first half of 1993 meant that demand for the Golf and Jetta on the North American market could not be met in full, the number of vehicles exported by Volkswagen de Mexico to the USA and Canada almost trebled to a total of 70,163. The company also turned out 211,668 engines and 272,470 axles for the Group's interlinked production system.

Despite the start-up problems, output per working day was increased by 19.4 % to 1,026 vehicles in order to take full advantage of market opportunities. Since this was accompanied by a 14.9 % reduction in the workforce, the company was able to substantially boost its productivity at the same time.

As a result of the launch of the new-generation Golf and Jetta models, Volkswagen de Mexico showed a loss for 1993.

Volkswagen of America, Inc.

Key figures*		1993	1992	Change %
Sales	DM million	2,709	2,952	– 8.2
Vehicle sales to dealers	Units	62,904	86,711	– 27.5
Workforce	At year end	1,357	1,395	– 2.7
Capital investments	DM million	79	88	– 10.1

*Including consolidated subsidiaries

The general economic situation in the USA showed signs of a slight improvement in 1993, with the gross domestic product's growth rate rising by 0.7 percentage points to 2.8 %. The combination of a relatively old vehicle population – as the inevitable consequence of a depressed market over the past few years – and extensive sales promotion measures on the part of all manufacturers meant that passenger car sales rose by 5.3 % to 9.7 million, with American manufacturers once again deriving the greatest benefit from this upward trend.

As a result of the delay in getting production of the new Golf and Jetta under way at Volkswagen de Mexico, Volkswagen of America was able to launch these models only gradually in the USA. Although in consequence the number of Volkswagens delivered to customers in the USA fell by 34.7 % to 49,544, initial feedback indicates a high degree of customer satisfaction with the new Golf and Jetta models. Sales of Audi models were also down in 1993, decreasing by 15.1 % to a total of 12,528. The excellent reception given to the new Golf and Jetta, coupled with the launch of the Audi Convertible in autumn 1993, should enable us to improve our market position in the course of 1994.

The delayed launch of the volume models Golf and Jetta and the related support programmes for other models meant that Volkswagen of America, Inc. was unable to return a profit in 1993.

Volkswagen Canada Inc.

Key figures*		1993	1992	Change %
Sales	DM million	919	995	– 7.6
Vehicle sales to dealers	Units	27,336	27,998	– 2.4
Workforce	At year end	922	969	– 4.9
Capital investments	DM million	11	30	– 61.2

*Including consolidated subsidiaries

The Canadian economy remained in recession during 1993. This situation also had an effect on the automobile market, with overall sales 7.5 % down on the previous year's level. Sales of imported vehicles fell particularly sharply, decreasing by 13.9 %.

At 24,660, the number of Group vehicles delivered to customers in 1993 by Volkswagen Canada was 16.2 % lower than the 1992 total. Volkswagen sales fell by 15.8 % to 23,713 vehicles; not until the second half of the year did larger shipments of the new Golf and Jetta (Vento) models arrive from Mexico. Audi sales decreased by 25.4 % to 947. This development caused the passenger car market share to fall by 0.4 % to 3.1 %.

Volkswagen Canada closed the fiscal year with a loss.

AUTOLATINA group

Key figures*		1993	1992	Change %
Sales**	DM million	5,944	4,034	+ 47.4
Production***	Units	457,236	341,179	+ 34.0
Vehicle sales to dealers***	Units	460,514	342,948	+ 34.3
Workforce**	At year end	27,723	26,159	+ 6.0
Capital investments**	DM million	194	192	+ 1.1

* Including consolidated subsidiaries ** Proportionate figures *** Volkswagen models only

The Brazilian automobile market continued to grow in 1993. At 870,757, overall sales were 262,430 up on the previous year's total and reached their highest level since 1979. This upward trend is due in part to two automobile-industry agreements which helped to cut prices by around 30 % within two years through tax concessions and reduced profit margins, as well as to the "Popular Car Programme" launched in spring 1993 to promote production of low cubic capacity and long-established models such as the Gol manufactured by Autolatina Brasil S.A. and the VW Beetle. However, the sustained boom experienced by the Brazilian automobile market is at the same time also the result of an inflation-triggered rush to invest in non-monetary assets. Monthly inflation rates averaged 25 % during the second half of 1992 and had risen to an average of 28.5 % by the end of 1993, a development which makes it very difficult to predict the future course of Brazilian economic policy and the related consequences for the vehicle market.

On August 23, 1993 Autolatina Brasil S.A. recommenced production of the legendary VW Beetle, with Brazil's president Itamar Franco there to see the first car come off the assembly line in São Bernardo do Campo. It is aimed to produce 100 Beetles per working day, giving an annual output of 20,000.

Audi has now taken an important step towards establishing itself on the high-potential markets of South America, securing the services of the three-times Formula 1 world champion Ayrton Senna as its importer for Brazil. Fifteen dealerships will be established in the country's major centres during 1994.

The upward economic trend in evidence in Argentina since mid-1991 continued in 1993, with automobile sales exhibiting a double-digit increase and the monthly inflation rate averaging less than 1 %. Now that importing vehicles into Argentina has been made considerably easier, however, the Argentinian automobile industry must step up its efforts to ensure that its products are capable of competing with imports. The number of vehicles imported from Brazil in particular rose steeply in 1993.

The AUTOLATINA group's overall sales increased by 34.1 % in 1993 to 680,665 vehicles, a total which comprised 460,514 Volkswagens (+ 34.3 %) and 220,151 Fords (+ 33.8 %).

Deliveries of Volkswagen passenger cars and light commercial vehicles in Brazil rose by 36.7 % to 383,416. Passenger car market leadership was maintained with a share of 36.8 %.

The truck market also underwent growth in 1993. AUTOLATINA's sales of trucks up to 22 t more than doubled, reaching 6,363. Excluding assembly kits destined for Argentina, AUTOLATINA exported a total of 50,316 Volkswagen models from Brazil in 1993.

Autolatina Argentina S.A. benefited from the growth of the overall automobile market in 1993, increasing its sales by 57.7 % to 46,495 Volkswagens.

AUTOLATINA was able to return a profit in both Brazil and Argentina.

Volkswagen of South Africa (Pty.) Ltd.

Key figures		1993	1992	Change %
Sales	DM million	1,371	1,289	+ 6.3
Production	Units	50,257	44,480	+ 13.0
Vehicle sales to dealers	Units	50,448	46,449	+ 8.6
Workforce	At year end	7,332	8,231	– 10.9
Capital investments	DM million	20	82	– 75.3

A number of key indicators provide evidence that the South African economy started to emerge from recession in 1993. Increased investment from abroad, reduced foreign debts and a lower inflation rate all reflect an improvement in the country's economic situation. Passenger car sales were slightly up on the 1992 level at 193,666.

The number of vehicles delivered to customers by Volkswagen of South Africa rose by 2.4 % to 41,180 and exports of SKD assembly kits to China were also stepped up. At 18.2 %, the company's share of the passenger car market was virtually on a par with that achieved in the previous year.

The company closed the fiscal year with a small profit.

The legendary "original" Volkswagen, the VW Beetle, is now experiencing a renaissance in Brazil

The Asia Pacific region continued to experience vigorous economic growth in 1993 and today already accounts for 25 % of the combined volume of all national products generated worldwide. In view of this region's growing importance, and in order to take full advantage of the sales opportunities now presenting themselves, Volkswagen Asia-Pacific Ltd. – based in Hong Kong – was set up in summer 1993 as a wholly-owned subsidiary of Volkswagen AG. Apart from controlling ongoing projects and the operations of the other Group companies in this region, Volkswagen Asia-Pacific will also be responsible for opening up new markets and ensuring that the Volkswagen Group's products establish themselves in a competitive position.

Shanghai-Volkswagen Automotive Company, Ltd.

Key figures		1993	1992	Change %
Sales	DM million	3,048	1,967	+ 55.0
Production	Units	100,001	65,000	+ 53.8
Vehicle sales	Units	100,030	65,944	+ 51.7
Workforce	At year end	6,327	5,883	+ 7.5
Capital investments	DM million	250	124	x

1993 was another highly successful year for Shanghai-Volkswagen. The second phase of this first Volkswagen joint venture in China, involving renovation and modernization of the former Shanghai Car Plant, continued on schedule. Vehicle production topped the 100,000 mark for the first time in 1993, rising by 53.8 % to 100,001 and thereby consolidating Shanghai-Volkswagen's position as China's largest passenger car manufacturer. The local content of production reached almost 83 % in 1993, while output per working day increased by 80 units to 360 vehicles. Up to the end of last year, the company had manufactured a total of 270,008 automobiles since its establishment in 1985. A further increase in yearly output to 115,000 vehicles – using existing production facilities – is envisaged for 1994. The capital investment programme for the second vehicle plant is proceeding according to plan, with production of a new model in the Santana series scheduled to commence at the new plant by the end of 1994. Expansion of the existing engine plant is also being speeded up and a concept for creating additional production capacities is currently being studied.

Shanghai-Volkswagen once again returned a profit.

FAW-Volkswagen Automotive Company, Ltd.

Our second joint venture in China, FAW-Volkswagen Automotive Company, Ltd. in Changchun, has continued to make good progress following its establishment in 1991. The new vehicle plant, incorporating press shop, bodyshell shop, paintshop and assembly lines, is scheduled to commence operations at the end of this year and construction of the new gearbox and engine production facilities is due to be completed by late 1995.

While this work has been going on, vehicle assembly has been carried out on a CKD basis using the production facilities already completed and the resources of our Chinese associates, the First Automobile Works (FAW). A total of 12,000 Jettas – 3,950 more than in the previous year – were built in 1993 from assembly kits supplied from Germany and by our South African subsidiary. The local content of production increased to around 19 %.

FAW has been producing the Audi 100 under licence since 1988 and this successful cooperation arrangement was continued in 1993 with the aim of integrating the Audi activities into the FAW-Volkswagen joint venture. By the end of 1993, production of the Audi 100 in China had reached some 50,000 units.

As FAW-Volkswagen's operations are still in their initial phase, the company closed the fiscal year with a loss.

Volkswagen Audi Nippon K.K.

Japan's economy experienced last year what can be considered a severe recession by Japanese standards. The gross domestic product moderated by 0.8 % and industrial production was 4.1 % lower than in 1992. Overall vehicle production in Japan fell by 10.2 % to 11.2 million, while passenger car output decreased to 8.5 million. The strength of the yen at the same time created major problems for the country's export-oriented automobile industry.

The unfavourable economic situation and the necessary restructuring of the sales organization meant that the number of Volkswagen and Audi models sold in Japan fell by 41.8 % to a total of 24,002, with Volkswagen sales down by 30.2 % and Audi sales dropping by 67.4 %.

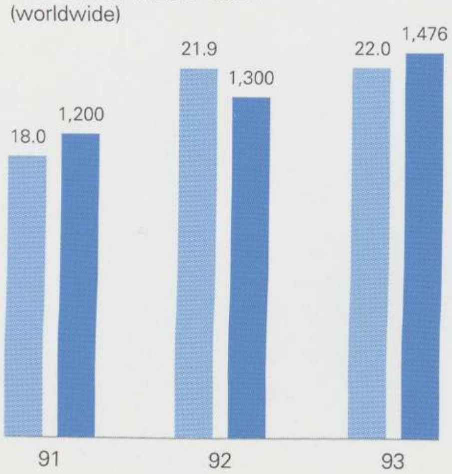
Continuing progress was made in setting up our own "Fahren" sales network; a further 27 dealerships were opened in 1993, bringing the total to 63. The dealerships in the Greater Tokyo area include 13 belonging to the JAX group, in which Volkswagen Audi Nippon had acquired a majority holding at the beginning of the year. Our cooperation with Toyota in the sales sector is also continuing to prove highly successful, with the number of dealerships in the "Duo" network increasing by 43 to a total of 77 in 1993. In order to make better use of the capacity available at the modern import and sales centre in Toyohashi, the company has concluded agreements with other importers on interim storage and pre-delivery inspection of vehicles.

On account of the restructuring measures in the sales sector, Volkswagen Audi Nippon K.K. returned a loss for 1993.

During his visit Germany's Federal Chancellor Dr. Helmut Kohl paid tribute to the Volkswagen Group for its activities in China


BNP
BNP
BNP
BNP
BNP
BANQUE NATIONALE DE PARIS
banque libre service
banque libre service
change
BNP
RÉPUBLIQUE
FORUM DES HALLES
CENTRE G.POMPIDOU
Mairie du IIème
PALAIS ROYAL
Vallées du Niger

Financial Services Division (worldwide)



A successful year for the Financial Services Division

1993 was another highly successful year for our operations in the field of financial services, which play an important role within the Volkswagen Group as a sales promotion instrument. The activities of the Group's financial services companies in Germany, Spain, Italy, France, the USA, Canada and Mexico, but excluding the Czech Republic and the Slovak Republic, led to a rise in the balance-sheet total, which increased from DM 21.9 billion in 1992 to DM 22.0 billion. The Financial Services Division employed a total of 2,326 people. Despite the fact that almost every market was hit by the general recession, the number of contracts in effect rose by 9.8 % in the course of the year to a total of 1,476,400.

ŠkoFIN s. r. o. gets off to a good start on the Czech and Slovak markets

Having been established in June 1992 for the purpose of promoting sales of the four Group marques on the Czech and Slovak markets, ŠkoFIN achieved excellent results during its first full year of operation. A total of 15,401 new contracts were concluded by the company in 1993, bringing the overall number in effect at the end of the year to 17,755. ŠkoFIN also offers dealers tailor-made programmes to finance their purchasing and is thereby playing a key part in helping to build up a sales organization. To take account of the changed political situation, ŠkoFIN Bratislava s r. o. was established in February 1993 as a wholly-owned subsidiary of ŠkoFIN s. r. o.

Volkswagen Finanz GmbH continuing to record vigorous growth

Among the companies operating under the control of Volkswagen Finanz GmbH are the German subsidiaries V.A.G Leasing GmbH and V.A.G Bank GmbH which, despite the major fall in demand for automobiles, had their most successful year ever in 1993. The sustained growth recorded in the financial services sector in Germany can be ascribed above all to increasing demand for alternative forms of vehicle ownership and to the comprehensive range of services which we are able to offer. The total of 928,100 leasing and financing contracts in effect at the end of 1993 was 14.7 % up on the correspond-

Financial Services Division 1993

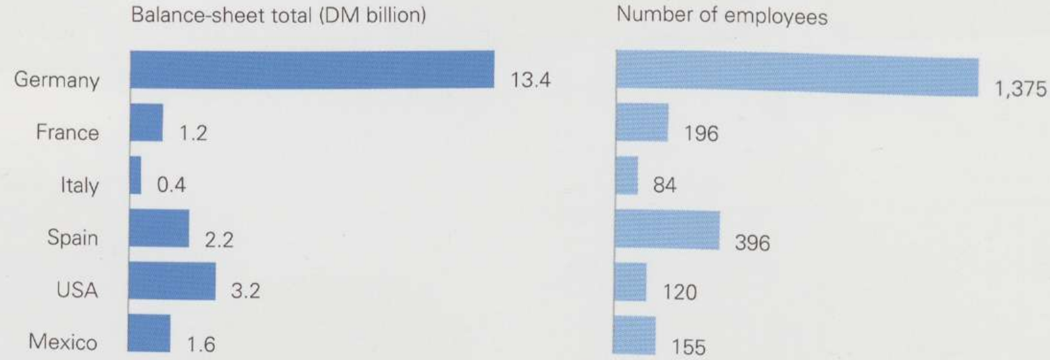


Photo on previous pages: The Caravelle, Volkswagen's people-carrier, offers exceptional comfort for up to nine passengers ing figure for the previous year, emphatically reflecting the position held by these companies as Europe's largest financial services operation in the industrial sector.

V.A.G Leasing concluded new leasing contracts for 168,900 vehicles in 1993 and was thus once again the largest single customer of Volkswagen and Audi. All in all, 404,100 vehicles were covered by leasing contracts in effect at the end of the year, 6.0 % more than in 1992. The company holds around 34 % of the overall leasing market in Germany, which currently consists of some 1.2 million vehicles.

The year was also a generally successful one for V.A.G Bank. The number of new customer financing contracts concluded rose by 10.7 % to 274,600, although the fall in vehicle sales has reduced receivables in respect of dealer financing. We also assist our dealers by helping to finance the purchase of land and equipment for their premises as well as construction and renovation measures. The introduction of the Volkswagen Euro Cash system by V.A.G Bank in July 1993 puts us fully in line with the trend towards cashless transactions. Volkswagen and Audi dealers now have the opportunity to use the electronic cash system, enabling customers to pay by means of on-line direct debit using their credit card or Eurocheque card.

Volkswagen/Audi card system enjoys widespread popularity

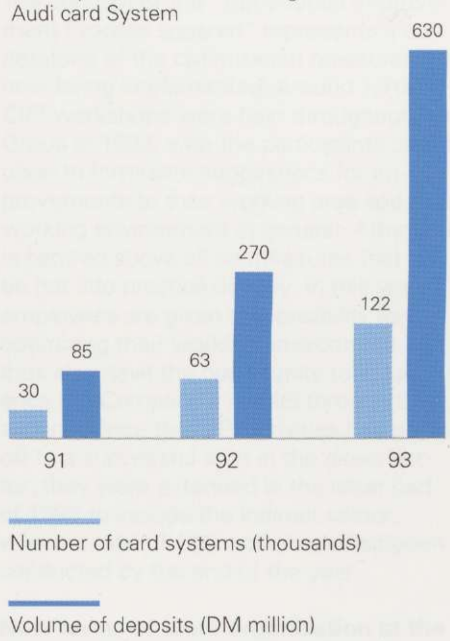
Our conventional leasing and financing services in the automobile sector are effectively complemented by the Volkswagen/Audi card system. The combination of two major credit cards – EUROCARD/MasterCard and VISA – in a single package provides card holders with a means of payment accepted worldwide, giving flexibility, and additional services for motorists. The system also incorporates a card account with interest rates graduated according to credit balance, an insurance package and free-of-charge telebanking. The substantial increase in the overall volume of deposits testifies to the attractiveness of the Volkswagen/Audi card system. The total value of the credit balances accumulated by the 121,900 cardholders more than doubled during 1993 to reach a figure of DM 630 million.

Volkswagen Finanz GmbH
(in future: Volkswagen Financial Services AG)

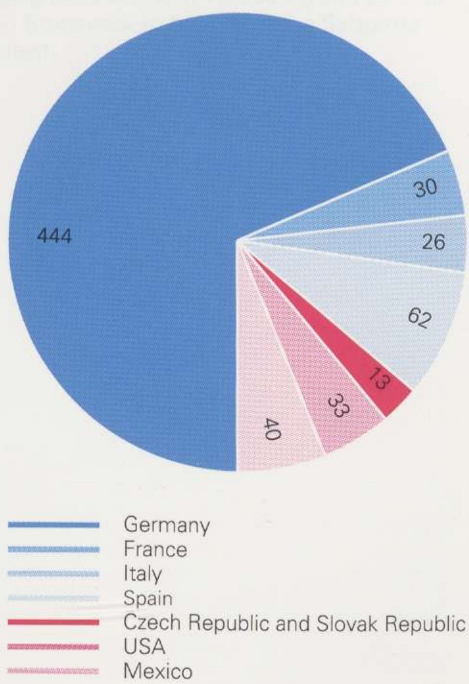
V.A.G Financement S.A.* France	VW Financial Services UK** Great Britain	V.A.G Bank GmbH Germany
FISEAT, S.A. Spain	ŠkoFIN s. r. o. Czech Republic	V.A.G Leasing GmbH*** Germany
FINGERMA, S.p.A. Italy	ŠkoFIN s r. o. Slovak Republic	

*Via V.A.G Holding Financière S.A.
**Currently being established
***Including subsidiaries (VOLIM GmbH, V.A.G Leasing GmbH & Co. Besitz OHG, Volkswagen Finanz GmbH & Co. OHG)

Development of the Volkswagen/ Audi card System



New leasing and financing contracts (thousands), by countries, in 1993



Adjustments to the workforce as part of Group optimization programmes

1993 saw the launch of productivity and optimization programmes throughout the Group with the aim of improving cost structures. One element of these programmes involved adjusting the size of the workforce at most of our locations. The overall Group workforce was down at year end by 22,460 or 8.2 %, with the number of people employed by the German Group companies alone dropping by 14,460 or 8.8 %.

Agreement was reached on a reorganization plan for SEAT, S.A., under the terms of which the Zona Franca plant is to be reduced to a few core functions. Vehicle production at the Zona Franca plant will cease, and be transferred to the new Martorell plant.

It is intended that some 1,400 employees on limited-term contracts should leave the company. Around 4,600 employees will go on short time for up to 24 months. In the last quarter of 1993 with effect from 1st January 1994 some 3,000 employees took early retirement. The employees on short time are to be found new jobs during these two years.

Cuts in the workforce at Volkswagen AG achieved without causing social hardship

The process of reducing the Volkswagen AG workforce – which was cut by 8.5 % in 1993 to 108,467 – continued to be accomplished without causing any social hardship. Employees leaving the company were not replaced, a further 3,600 took early retirement and another 7,000 took voluntary redundancy. In addition, 1,600 employees availed themselves of the opportunity to switch to part-time working or to take leave of absence with a guarantee of subsequent re-employment. Agreement was reached with a further 2,500 employees on their leaving the Company with effect from January 1, 1994. These cuts in the workforce gave rise to total costs of around DM 1.2 billion in 1993. Apart from these steps to reduce the workforce in the long term, temporary measures along the same lines were implemented at the plants in Germany by introducing a system of production shutdowns (with employees taking time off owing to them) and short-time working. These measures covered an average of 45 days at each plant; this figure represents 19.2 % of the planned number of working days in the year, compared with 2.1 % for the corresponding measures taken in 1992.

New directions in personnel policy to safeguard jobs

Sales forecasts for 1994 and 1995, together with the ongoing productivity-boosting processes, indicate that Volkswagen AG will require a workforce of only around 70,000 in the immediate future. To safeguard existing jobs, the company has therefore agreed on measures constituting a novel employment concept. By way of new, flexible working-hours arrangements and a reasonable contribution by employees towards reducing the cost burden, it is aimed to ensure that Volkswagen can continue to preserve the existence of 100,000 jobs over the next two years.

The measures taken comprise three concepts:

1. The first set of measures involves reducing the working week of all employees by 20 % from 36 to 28.8 hours, with wages and salaries being cut at the same time. The wages and salaries cuts, but not the reduction in working time, also apply to management and the Board of Management. The bonus for management staff was cut in 1993 by an average of 50 %, in some cases by up to 70 %; the 4-day week means a second significant reduction in management staff salaries.

The collective negotiations on introduction of the four-day week were brought to a successful conclusion in 1993 and the arrangement came into force at the Company's German plants on January 1, 1994; the precise structure of the new working week was geared as appropriate to the needs of the individual plants and divisions.

2. The second concept involves a system giving employees flexibility in their total working hours over the year such that they can take several months off at a time. This system, which is designed above all with young, single employees in mind, is being combined with training and support measures intended to equip employees to meet the constantly chan-

ging and ever-increasing demands facing them in their day-to-day work (job-related skills, work organization, CIP² processes).

3. The third concept comprises a step-by-step increase in weekly working hours for young employees who have just completed their training, starting at 20 hours and rising to 28.8 hours after 42 months. Parallel to this arrangement, older employees aged fifty or over will be given the opportunity to reduce their weekly working hours along similar lines if they so wish.

These measures will enable Volkswagen to safeguard jobs and maintain a highly skilled workforce while at the same time cutting its labour costs in the short term. As they will also make it possible to realize the potential improvements worked out in the course of CIP processes, they will likewise help to enhance the Company's competitiveness. When the new working-hours concepts were being designed, the emphasis was always on making sure that they would not bring unacceptable disadvantages for employees. With this personnel policy Volkswagen is upholding its long-established responsibility towards its employees as well as towards the towns and regions where its plants are located.

Employee health care further improved

Employee health care was further improved during 1993 in terms of both content and organization. Particular attention was focused on improving job-related medical care at the plants, on foresighted ergonomic workplace design and on actively involving employees in designing their working environment with a view to avoiding potential health risks. The range of courses and seminars covering aspects of preventive health care was further expanded in cooperation with the company health insurance fund. At the end of 1993 Volkswagen became the first-ever winner of the "Company Health Promotion Award", given by the Federal Association of Company Health Insurance Funds, for its policy of involving industrial-medicine experts in the planning of installations, workplaces and processes at an early stage to ensure ergonomically sound workplace design.

The Volkswagen company health insurance fund was amalgamated with that of Volkswagen Sachsen with effect from January 1, 1994. We have thereby availed ourselves of an opportunity open to us in law which will enable us to make full use of synergistic effects.

Increased involvement of employees in all corporate processes

The "Continuous Improvement Process squared" concept (CIP²), the Volkswagen quality circles and the company suggestion scheme all help to promote employee participation, which in turn plays a crucial role in raising productivity and in improving processes, working conditions and product quality. Together with the new forms of work organization currently being introduced, this also contributes to encouraging dialogue and communication between employees and their superiors.

The concept of the "Continuous Improvement Process squared" represents a cornerstone of the optimization measures now being implemented. Around 1,700 CIP² workshops were held throughout the Group in 1993, with the participants called upon to formulate suggestions for improvements to their working area and the working environment in general. Attention is centred above all on measures that can be put into practice directly. In this way employees are given responsibility for optimizing their working environment and thus also have the opportunity to influence the Company's results through their actions. Once the CIP² activities had got off to a successful start in the direct sector, they were extended in the latter part of 1993 to include the indirect sector, where a total of 160 workshops had been conducted by the end of the year.

New forms of work organization at the domestic plants

Various forms of teamwork have already been introduced at all six Volkswagen AG plants in Germany and it is aimed to extend them to all our production operations. The proportion of production activities already employing these new practices varies from one plant to another, ranging from 5.1 % in Wolfsburg and 27.7 % in Brunswick to 63.0 % at the Salzgitter plant.

Employee pay and benefits at Volkswagen AG

The labour cost of Volkswagen AG has developed as follows:

	1993 DM million	Share %	1992 DM million	Share %
Direct pay incl. fringe benefits in cash	5,901.6	54.5	7,243.8	56.9
Payment for hours not worked	1,683.7	15.5	2,083.5	16.4
Social insurance contributions	1,329.0	12.3	1,469.4	11.5
Early retirement	1,206.7	11.1	774.2	6.1
Pensions	712.4	6.6	1,164.0	9.1
Total	10,833.4	100.0	12,734.9	100.0
The total labour cost includes:				
Welfare services	73.4	0.7	76.2	0.6
Education and training	140.8	1.3	135.6	1.1

Greater efficiency through reorientation of management policy

The management structure at Volkswagen AG underwent changes in 1993. The hierarchy was made less steep through the elimination of entire managerial levels, a step which also considerably simplified reporting and decision-making procedures. These structural improvements meant that the number of management personnel decreased by 13.8 % in the course of the year.

Abolition of official titles, introduction of management groups and placing of greater emphasis on project work in non-hierarchical teams have all helped to create an improved basis for efficient management along process-oriented rather than structure-oriented lines.

These changes have enabled us to place decision-making on a decentralized footing and transfer responsibilities to those parts of the organization which perform crucial operational functions and have a direct influence on the added-value chaim.

Advancement of women at Volkswagen

In view of the economic situation, the emphasis of work in this field during 1993 lay in qualitative aspects. As women were on the whole affected to a greater extent than men by the in-company restructuring processes, attention centred on developing specific job-related prospects for women. Working on the basis of quantitative and qualitative analyses conducted with the participation of the women concerned, targeted strategies were formulated for improving the qualification-related structure of the workforce. Among the measures launched is a new recruitment and development programme for forewomen, which offers attractive prospects for young skilled workers. A total of fourteen seminars and meetings were held in 1993 for the specific purpose of informing this target group about the advancement opportunities open to them. Over 70 % of the women expressed an interest in receiving further training. The qualitative personnel development measures systematically begun in 1992 were continued, with special emphasis on integrating women into the new organizational structures. Situation and requirement analyses carried out in cooperation with the women concerned have proved highly effective as

Every job at Volkswagen has a face. People from many different countries work together within the Group's interlinked worldwide set-up

aids to efforts in this direction. Women at all six plants are today engaged in seeing that Volkswagen's Guidelines on Advancement of Women are put into practice, their activities being coordinated on a central basis. Their work is backed up by a special "Committee on the Advancement of Women", which compares the actual situation with the targets set, formulates ideas and discusses suggested strategies with the aim of ensuring equal opportunities for women at Volkswagen.

International cooperation with employees' representative bodies

The tradition of close and effective cooperation with the employees' representative bodies at both national and international level was continued in 1993. Regular talks between the management and the European Group Works Council played a valuable part in helping us to find solutions to the employment problems facing the Group's European plants. Vehicle development prospects and capital investment programmes were also discussed at length.

In April 1993 the Volkswagen Worldwide Group Committee of the International Metalworkers' Federation met in Wolfsburg. The company took this opportunity to declare its firm intention of formulating guidelines designed to ensure active cooperation with the Volkswagen employees' representative bodies on an international scale.

Agreements giving the employees' representative bodies a say in CIP² processes, sourcing decisions and planning operations were also concluded at numerous production locations in 1993.




The highly economical direct-injection turbo-diesel engine (TDI)

CIP² in research and development – combining innovation, people and value creation

"The Continuous Improvement Process squared" (CIP²) is not confined to the production and assembly departments, but also covers indirect areas such as research and development. There is, however, no standard procedure valid for every part of the company; instead, a "lean concept" must be elaborated for each individual area.

All efforts to enhance productivity and quality – as well as to cut costs – must focus on the people involved. As the most valuable assets of any R&D department are the imagination and creativity of its staff, the Continuous Improvement Process in this sector is based on a concept which seeks to blend three components – innovation, people and value creation. The approach chosen involves interviewing all R&D staff at workshops in accordance with a specified system. This makes it possible to tap potential, develop new ideas and pinpoint weak spots, with employees then joining forces with the management to realize immediate improvements in product and process development. Such an approach also enhances motivation and makes for greater employee satisfaction.

Simultaneous engineering – a new form of work organization

In addition to developing new vehicles, technologies and production methods, our research and development departments are continuously striving to optimize processes by introducing efficient new forms of organization.

In the past, all Volkswagen, Audi, Seat and Škoda models were developed in a "sequential" process; in other words, the relevant departments such as Technical Development, Production Planning and Purchasing worked their way, one after the other, through a predetermined series of steps. Results were not passed on to – or accepted by – the next department until they had been checked and finalized. The overall amount of time required for the development process was thus determined by the time taken by each department in turn to arrive at its results.

Photo on previous pages: Volkswagen has led the way where vehicle safety standards are concerned

The time needed for ongoing and future development processes is now being substantially reduced to enable us to anticipate our customers' wishes still more effectively by responding more rapidly to changing market requirements. It is also aimed to cut development costs without impairing the quality of the work.

These objectives are being achieved by way of simultaneous engineering, a process in which all departments involved in product planning, product development and market operations work together from the outset. By allowing all concerned to work in parallel as far as possible, this approach ensures that the specified project goals can be attained in a very short time. The simultaneous-engineering concept has already been employed in developing a new model series currently being created by Audi and Volkswagen on the basis of a common Group platform.

The key role in development processes continues to be played by the line departments possessing relevant expertise. Their staff form the simultaneous-engineering teams, which are assigned responsibility for specific assemblies in terms of cost, functioning, deadlines, weight and quality. As each aspect is tackled, the interests of all other sectors potentially affected are taken into consideration at the same time so that a common solution or a variety of alternative solutions can be reached at an early stage. For employees and management personnel, involvement in a project based on the simultaneous-engineering principle means abandoning their old way of working with its orientation towards hierarchical structures and departmental concerns. Special efforts have been made to promote the necessary process of rethinking by way of relevant information sessions and workshops.

Further reduction of fuel consumption as a contribution to protecting the environment

Personal mobility cannot remain an unassailable right unless private transport is made still more environment-friendly and less of a drain on natural resources in every respect. Measures to steadily reduce fuel consumption represent an important step towards achieving this goal.

Thanks to its systematic and foresighted research work, which brings together the expertise available throughout the Group, Volkswagen already has at its disposal all the elements necessary for realizing further reductions in fuel consumption:

- Ultra-efficient direct-injection turbo-diesel engines (TDI)
- An inertia-utilization system perfected for series production
- The best aerodynamic data in the individual vehicle classes
- A revolutionary new aluminium technology

It is above all the concept of all-aluminium construction, in the shape of the Audi Space Frame (ASF) body design pioneered by Audi, which – in combination with the other aforementioned technologies – provides the basis for developing low-consumption vehicles that offer still greater safety coupled with significantly lower weight and minimal environmental impact.

Lightweight materials such as aluminium, magnesium, ceramics and composite fibre materials are also being used on a growing scale in drive units and running gear. Volkswagen was able to offer visitors to the 1993 Hanover Fair an insight into its research in this field. To begin with, however, radical innovations of this type will be confined to upper-range vehicles.

We shall continue to conduct in-depth research aimed at ensuring that such technologies are put to practical use as soon as possible wherever they appear to offer the greatest economic and ecological benefits within the Volkswagen Group's broad model range.

Ensuring mobility through appropriately designed transport systems

The reunification of Germany, the opening-up of Eastern Europe and the creation of the Single European Market all mean that the volume of both commercial and private traffic will continue to increase in future.

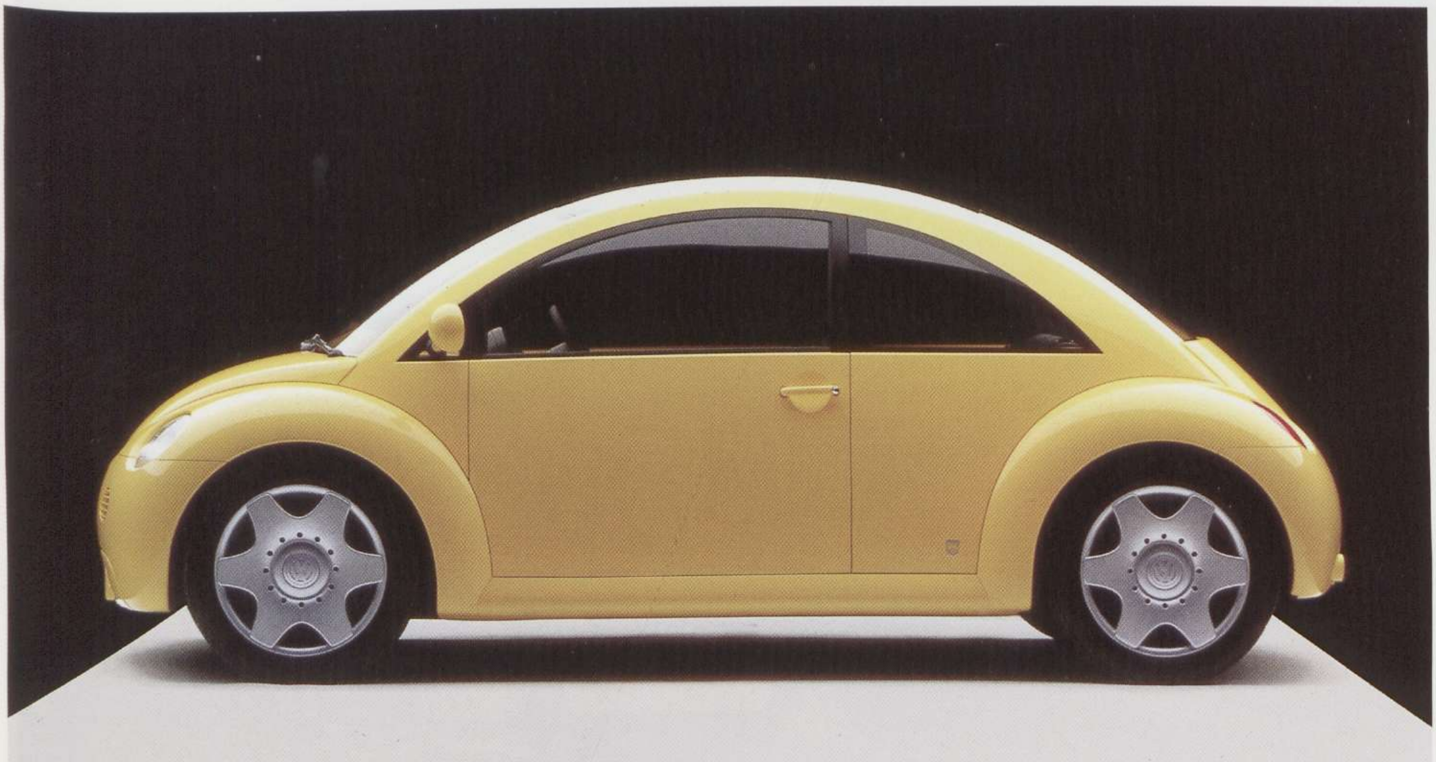
As Europe's largest automobile manufacturer, the Volkswagen Group is called upon to play a part in safeguarding mobility and minimizing the related environmental impacts. To this end, we have long been devoting particular attention to finding ways of optimizing both the vehicles themselves and the overall traffic system.

In 1993 Volkswagen's transportation research specialists continued and further developed ongoing activities at both national and European level in connection with operating and utilization concepts intended to permit better transport organization, design of interfaces between different forms of transport, incorporation of innovative vehicle engineering in traffic concepts, and information and communication systems. Our projects in this sector were brought to the attention of the general public at the 1993 Frankfurt International Motor Show.

Working in cooperation with the city of Hanover and the surrounding region, we have commissioned a study on essential municipal traffic, the findings of which should make it possible to formulate the requirements to be fulfilled by optimum traffic systems of this type.

The "on-call" bus service project launched in Leer in 1992 is proving successful and it is planned to extend it to cover the entire surrounding district. Intending passengers request the service by telephone and a journey-planning system works out optimum routes on the basis of the desired destinations.

The Concept 1 design study – a blend of nostalgia and high tech



Environmental protection as an integral component of the added-value chain

The importance which Volkswagen has long attached to environmental protection is reflected both in our research and development work, which has yielded numerous innovations designed to continuously reduce the environmental impact of the automobile, and in the trend-setting environmental standards realized by our production operations. Volkswagen is also working on concepts for making the traffic system as a whole more efficient and thus more environment-friendly. By combining the fields of research, environment and transportation in organizational terms, we have created the basis for successfully tackling the key future task of ensuring that the desire for mobility does not conflict with environmental interests.

The Volkswagen Group views environmental protection as a corporate task representing a permanent challenge at every stage of the value-creation process. It has responded by developing an integrated environmental protection concept which seeks to prevent adverse environmental impacts from the very outset wherever possible by making sure that processes are appropriately designed in both technical and organizational terms.

Conserving resources through innovative recycling of old vehicles

Volkswagen attaches high priority to recycling and thus to creating closed material cycles. The new Golf, Vento and Audi 80 are the first models produced by any vehicle manufacturer to be covered by a guarantee that they will be taken back free of charge when they reach the end of their useful life. Particular attention has been paid to ensuring that the vehicles contain as many recyclable parts as possible.

In the field of vehicle disposal and recycling Volkswagen is working in cooperation with the firm of Preussag-Recycling GmbH, which is in the process of setting up an extensive network of sophisticated disassembly plants for old vehicles throughout Germany. This company is to assume responsibility for coordinating disassembly, shredding and disposal of the waste, with special importance attached to environmentally sound plant operation.

Emphasis on environment-friendly production processes

Although industrial production will always have an impact on the natural environment through its consumption of raw materials and energy, the Volkswagen Group's plants have succeeded in setting extremely high standards where environment-friendly production operations are concerned.

The commissioning of new paintshops is enabling us to more than fulfil the requirements of all standards for ambient air quality and water purity. Significant improvements have also been achieved in the field of waste management. For two years now the Materials Management Department has been renting re-usable skeleton containers and making them available to suppliers for use in delivering materials which would otherwise involve a large amount of cardboard packaging. At the Emden plant, for example, this measure has within the space of one year reduced by almost 2 kg per vehicle the amount of waste similar to domestic refuse.

Environmental protection as a corporate goal and management responsibility

Volkswagen has perfected its environmental protection concept by applying demanding standards and making use of the very latest environmental technology. In order to avoid future environmental risks it is essential to develop and use new instruments which make it possible to identify and assess potential risks at an early stage. For this purpose Volkswagen has developed and tested a special computer program and an environmental-management system known as the "Volkswagen Environmental Audit System".

Chlorinated hydrocarbons banished from Volkswagen plants since 1993

Having already significantly reduced the use of chlorinated hydrocarbons in recent years, the Volkswagen marque succeeded in doing away with them altogether in 1993. CFCs, which play a major part in depletion of the ozone layer, have been dispensed with wherever possible. Now that the air conditioning systems in all Volkswagen models are CFC-free, the only place where CFCs are still used is in old process refrigeration installations which are also being gradually replaced.

Emulsion separators reduce volume of waste water

Emulsion separators are to be found in all production facilities where coolants are used in milling. The system at the Salzgitter plant, for example, separates the oil/water mixtures so effectively that the water can be re-used without the need for further treatment. The oil is returned to the oil industry for reprocessing or used for other purposes.

New waste-water documentation provides an overview of the environmental situation

Detailed information and reliable documentation are essential aids in planning, construction and operation of installations with potential environmental impacts. A start has therefore been made on preparing an EDP-based waste-water documentation to provide a fast and accurate overview of the environmental situation at the individual plants.

Waste management – avoidance rather than recycling rather than disposal

Alongside measures designed to avoid waste, such as switching to re-usable systems wherever possible, the recycling rate for the residual waste has now been increased to around 54 %. The overall quantity of waste for disposal has been reduced at the same time by roughly 10 %.

The ultra-modern waste-water treatment centre at the Mosel plant

New treatment centre in Mosel for industrial waste water and sanitary sewage

The new waste-water centre at the Mosel plant of Volkswagen Sachsen GmbH treats not only the waste water from the plant's production facilities but also the sanitary sewage from the town of Mosel. It can handle 5,400 cubic metres of water a day, a capacity which corresponds to that of a treatment plant serving a town with a population of around 46,000. The industrial waste water from the production facilities undergoes chemical and physical pretreatment and is then further treated together with the sanitary sewage.

Setting up a waste management system at ŠKODA

The new paintshop, press shop and bodyshell shop to be built in Mladá Boleslav form the focus of a waste disposal concept setting out the types of waste occurring, the places where they are liable to be produced, the locations and nature of the waste collection containers and the related in-plant logistics system. The next step will involve reviewing the entire waste infrastructure. The ultimate aim is to develop a waste-disposal structure incorporating appropriate handling and treatment concepts in order to achieve an optimum recycling rate.

Development of an advanced environmental protection strategy at AUTOLATINA

AUTOLATINA is being assisted in developing an environmental protection strategy based on the environmental standards applied by Volkswagen and Ford. The intention is to enable the company to establish itself as the market leader in South America where environment-friendly products and production methods are concerned. Particular emphasis is being placed on prevention of air and water pollution, waste disposal, soil conservation and avoidance of emissions at the workplace.

Much public attention focused on the Volkswagen Group in 1993

The need to implement radical restructuring measures within a relatively short time meant that the entire Volkswagen Group found itself very much in the public eye during 1993. It was above all the personnel-related requirements of this reorganization process which attracted what was at times an exceptional degree of public attention not always beneficial to Volkswagen's interests. One of the factors behind this situation was clearly the ever tougher competition on the European automobile market.

It became apparent that today's highly developed media system can be crucially influenced by forms of interaction which are extremely unpredictable and thus create problems where corporate communication activities are concerned. The management was repeatedly obliged to subordinate negative aspects of day-to-day publicity to objective long-term necessities.

Steps were taken to optimize information and communication activities with a view to promoting – both within the Volkswagen Group and on the part of the public – an understanding of the nature of the processes of change now taking place in the Group. Particular emphasis has been placed on making it clear that every step in the chain which begins with the raw materials and ends with the vehicle standing at the dealer's must be oriented towards the customer's interests. Special importance is also being attached to bypassing hierarchical structures by drawing directly upon the skills and know-how of the employees themselves to realize immediate improvements in company processes.

These efforts have among other things already helped to further consolidate the traditionally excellent public image enjoyed by the Volkswagen Group's products.

Projecting the image of the four marques in advertising and the media

Our four marques ensure that we are excellently equipped to meet increasingly varied customer demand for automobiles of differing sizes and types. Each of our marques has its own areas of emphasis in terms of regional markets, image and the market segments which it covers. In order to develop clear-cut identities and competitive roles for the individual marques, the characteristics and market-positioning goals of each marque have been set out in concepts which form the basis for each marque's desired public image and thus also for communicating this image.

"If Bonnie and Clyde had had a Golf ..."

Volkswagen is and will remain the marque which the vehicle-buying public knows it can trust. It has no status-related connotations and allows the customer to enjoy a sense of security in knowing that he or she is not taking any risks by opting for a Volkswagen. To paraphrase one of Volkswagen's German advertising slogans: You know where you are with Volkswagen.

Audi will continue to consolidate and strengthen its position on the market for upper-range automobiles. Its particular attraction for discriminating customers lies in its blend of pioneering spirit, technical expertise and striking design.

Seat is the only truly Spanish automobile marque and the image which it seeks to project is thus based on its Mediterranean nature. Embodying Latin temperament and Spanish flair, its products appeal to customers all over Europe who are looking for something special and want to emphasise their zest for life by choosing a Seat model.

Škoda is the commonsense marque. Robust design, rational engineering and an emphasis on practicality make Škoda models a popular choice in both East and West. The combination of sophisticated technology and particularly attractive prices gives the marque a position with major growth potential not only within the Volkswagen Group but also on the open market.

Innovative sponsoring campaign with Michael Schanze

Children are particularly at risk in road traffic. This is why preventive road safety education is of such importance. It does however require a specific child-centred approach.

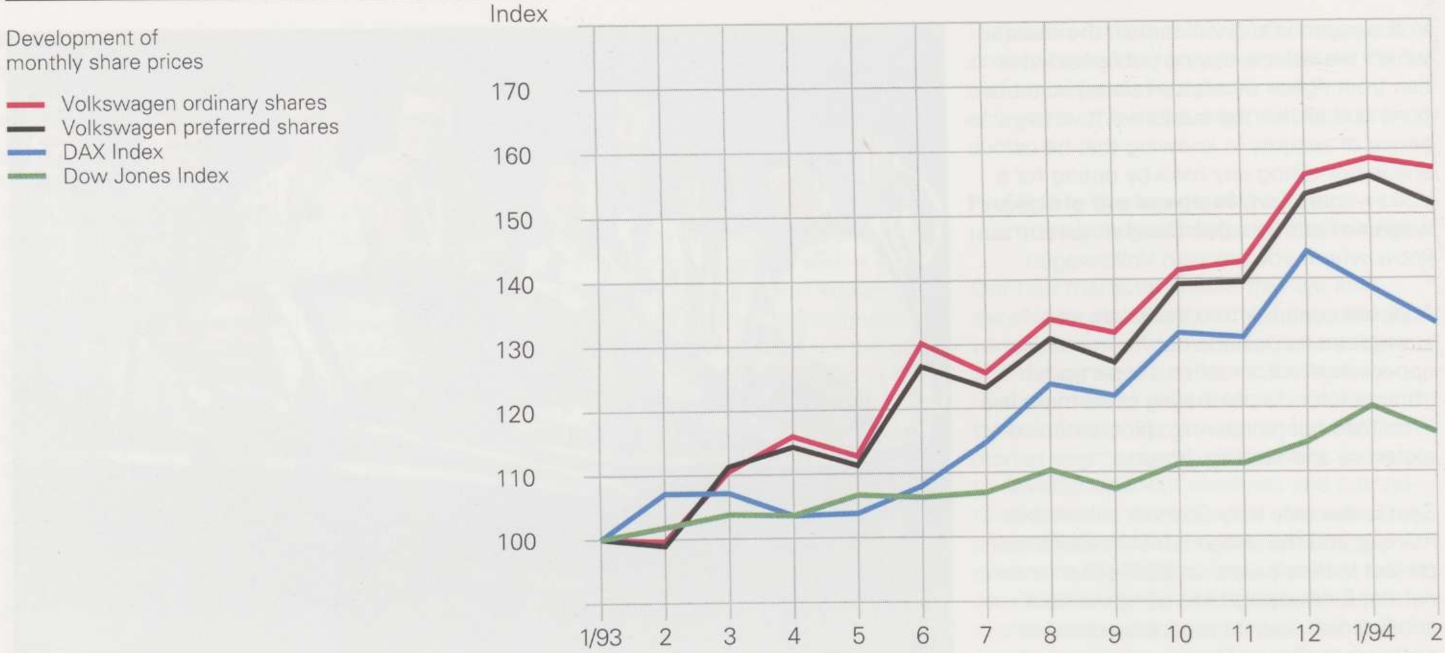
In 1993 Volkswagen again successfully took up the theme of road safety for children, in a fashion both target-group-oriented and innovative, by sponsoring a European tour of 19 towns in Germany, Switzerland and Austria with the TV personality Michael Schanze, entitled "Volkswagen presents fun and games with Michael".

Olympic competitors and young talent from the Volkswagen workforce

Activities included the TV title sponsoring of the show of the same name, and collaboration with the German Road Safety Association and local road safety experts. The campaign was supported by the Federal Transportation Minister, who also hosted the opening press conference in Bonn.

Awarded the "Golden Road Safety Prize" of the German Road Safety Association, the campaign's attractive stage show played before some 36,000 children and adults live, and another 60 million people were reached via the media.

A big contribution was made by the dealer organisation, whose members revealed themselves as competent local partners in road safety with individual campaigns.



Volkswagen AG dividend remains unchanged

Volkswagen AG's net earnings of DM 71 million enable us to pay the same dividend as in 1992. Including the tax credit, eligible stockholders will receive a total of DM 3.13 per share.

Upward trend on the German stock market

1993 witnessed a pleasing upward trend in share prices on the German stock exchanges. Having risen by around 11 % in the first six months of the year, the German Share Index (known as the DAX) maintained this course during the second half of 1993. The market stabilized at this high level in the fourth quarter, with the DAX reaching a record figure of 2,267 on the last day of the year. Among the factors behind this highly satisfactory overall trend were the German Federal Bank's relaxation of its monetary policy and the optimism of investors where profits were concerned. The fact that the Deutschmark remained stable despite the turmoil in the European exchange rates also proved to be beneficial. The German stock market suffered no adverse effects as a result of the decision taken in late summer by the European Community's Monetary Committee to increase the permitted fluctuation margins of the EMS currencies from 2.25 % to 15.0 %.

Rise in Volkswagen share prices

Volkswagen share prices exhibited an upward trend in 1993. The ordinary-share price rose from the year's low of DM 243 in January to DM 439 at the end of December, while the price of the preferred share increased over the same period from DM 210 to DM 363. This development reflects among other things the market's response to the measures initiated by the Board of Management to improve the company's cost structures and the related optimization of the entire added-value chain. In line with the general market trend, the first two months of the current year also saw the Volkswagen share price stabilize at this high level.

Share-purchase offer popular with employees

As in the previous two years, the employees of Volkswagen AG and a number of domestic subsidiaries were given the opportunity in autumn 1993 to acquire preferred shares on attractive terms. Every employee had the option of purchasing up to three shares at a price of DM 152.25 each. This scheme for enabling employees to accumulate capital once again met with a great deal of interest. Employees subscribed to a total of around 124,000 shares, with the take-up rate of 38.5 % representing a significant increase over the 1992 figure of 31.5 %. The subscribed capital of Volkswagen AG consequently rose by DM 6,200,000, while the proportion of the capital held by employees increased to 1.6 %. Taking into account the premium of DM 254.50 per share, stockholders' equity rose by DM 37.8 million. Apart from the fact that it enables employees to acquire an interest in the Company, Volkswagen sees this scheme as a means of demonstrating the Company's appreciation of the dedication displayed by its workforce. The high level of demand for shares at a time when economic conditions are difficult testifies to our employees' confidence in the Company's future.

Investor relations activities further stepped up

In view of the considerable international interest shown in our Company and the steady expansion of our financing operations, we attach special importance to consolidating relations with investors. Both institutional and private investors, as well as financial analysts, are kept abreast of Company developments by way of an open and comprehensive information policy. Company presentations were held last year in London, Paris, Zurich, Milan, New York, Boston, Chicago and Tokyo. We also cultivate personal contacts with analysts and large investors, providing them with further information to round off their picture of the Company. During the annual conference of the German Association for Financial Analysis and Investment Consultancy held in Wolfsburg in April 1993 we were able to give numerous financial analysts from Germany and abroad a detailed account of Volkswagen's current financial situation. The Annual Report, the periodic interim reports and the Annual Meeting of Stockholders all serve to keep our stockholders up to date on the Company's position. Together, these measures at home and abroad represent the systematic continuation of our strategy for placing our activities in the financial sector on a truly international footing.

Key figures	1989	1990	1991	1992	1993
Number of shares in thousands					
Ordinary shares at Dec. 31	24,000	27,000	27,000	27,000	27,000
Preferred shares at Dec. 31	6,000	6,000	6,129	6,289	6,413
Dividend in DM					
Ordinary share	11.00	11.00	11.00	2.00	2.00
Preferred share	12.00	12.00	12.00	2.00	2.00
Tax credit in DM					
Ordinary share	6.19	6.19	6.19	1.13	1.13
Preferred share	6.75	6.75	6.75	1.13	1.13

Ratios (per share)		1989	1990	1991	1992	1993
Net earnings	DM	34.60	32.91	33.76	4.44	– 58.28
Earnings acc. to DVFA/SG*	DM	61.00	36.00	36.00	5.00	– 51.00
Cash flow	DM	180.40	172.76	216.15	211.42	136.86
Stockholders' equity	DM	497.87	502.64	547.71	544.90	463.30**

* German Association for Financial Analysis and Investment Consultancy/Schmalenbach Society
** Including the shares issued to employees which do not carry dividend rights until January 1, 1994

Development of share prices		1989	1990	1991	1992	1993
Highest prices						
Ordinary share	DM	541.00	643.50	415.60	411.50	439.20
Preferred share	DM	440.00	545.00	357.00	352.00	362.50
Lowest prices						
Ordinary share	DM	309.50	329.50	282.50	235.20	243.00
Preferred share	DM	270.50	282.00	248.00	203.00	210.00

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

Additions to tangible assets and intangible assets	– 4,410	
Additions to financial assets (excluding bonds)	– 430	
Additions to leasing and rental assets	– 5,438	
Increase in inventories	– 1,290	
Increase in long and medium-term receivables	– 407	
Use of funds		**– 11,975**
Loss	– 1,940	
Depreciation of fixed assets, finan. assets and disposal of assets minus write-ups	+ 6,497	
Depreciation and disposal of bonds	– 920	
Depreciation and disposal of leasing and rental assets	+ 5,437	
Increase in provisions for pensions and similar obligations	+ 441	
Decrease in special items with an equity portion and special item for investment subs.	– 463	
Changes in reserves not affecting liquidity	+ 21	
Current operations		**+ 9,073**
Dividend payments to stockholders of Volkswagen AG in 1993	– 66	
Dividend payments to minorities	– 31	
Increase in long and medium-term liabilities	+ 3,018	
Capital increase in 1993 and transfer to reserves	+ 38	
Decrease in other items	– 103	
Financial transactions		**+ 2,856**
Change in liquidity position		**– 46**

	Automobile sector Dec. 31, 93	Financial Services Dec. 31, 93	Volkswagen Group Dec. 31, 93	Volkswagen Group Dec. 31, 92	Change
Liquid funds	10,918	239	11,157	7,836	+ 3,321
Securities	1,119	0	1,119	1,497	– 378
Bonds*	191	–	191	1,111	– 920
	12,228	**239**	**12,467**	**10,444**	**+ 2,023**
Short-term receivables and financial assets	12,527	8,699	16,716	15,552	+ 1,164
	24,755	**8,938**	**29,183**	**25,996**	**+ 3,187**
Short-term liabilities and provisions (excluding liabilities due to banks)	– 17,870	– 6,241	– 19,604	– 17,733	– 1,871
Liabilities due to banks	– 9,701	– 5,517	– 15,218	– 13,856	– 1,362
	– 27,571	**– 11,758**	**– 34,822**	**– 31,589**	**– 3,233**
Total financial funds	**– 2,816**	**– 2,820**	**– 5,639**	**– 5,593**	**– 46**
Net liquidity (liquidity minus liabilities due to banks)	**2,527**	**– 5,278**	**– 2,751**	**– 3,412**	**+ 661**

* Includes financial-assets items

Key financial ratios of the Volkswagen Group

	1989	1990	1991	1992	1993
Return on sales (%)	1.6	1.6	1.5	0.2	– 2.5
Equity ratio (%)	26.3	26.5	25.9	24.1	19.5
Return on equity (%)	7.2	6.9	6.4	0.8	– 11.5
Cash flow as % of capital investments	96.5	106.1	72.0	75.7	94.1
Cash flow as % of sales	8.3	8.4	9.3	8.2	5.9

Group financing policy made still more flexible

The worldwide sale of Volkswagen Group products is being increasingly backed up by both standardized and tailor-made financing concepts. It is above all in order to broaden the range of options for obtaining funds and further improve the profitability of this field of operations that the volumes of existing constant-issue programmes have been increased, new programmes established and the terms of existing programmes modified to take account of the current situation on the rapidly changing money and capital markets. Such steps give Volkswagen AG and various subsidiaries the flexibility needed to meet financing requirements by way of the necessary currencies and maturities.

The existing DM medium-term note programme will in the course of 1994 be transformed into a multi-currency Euro medium-term note programme and its volume has already been increased from DM 300 million to up to DM 1.5 billion, while the scope of the US dollar medium-term note programme arranged in the USA has been expanded from US $ 200 million to a maximum of US $ 500 million. To support short-term sales financing on the North American market, a US dollar commercial-paper programme with a volume of US $ 500 million has additionally been set up for Volkswagen of America, Inc. Other short-term instruments enabling us to secure funds for financing purposes are the DM commercial-paper programme established in 1991 and expanded to a volume of up to DM 2 billion in 1992 along with the US dollar Euro commercial-paper programme, which has been in existence since 1988 and was increased to a maximum of US $ 500 million in 1991.

To supplement these programmes, whose overall value is equivalent to a maximum of DM 6 billion, further strategic liquidity reserves have been systematically built up; they include syndicated credit facilities and confirmed bilateral credit lines. Mention must also be made here of the ten-year loan of DM 1 billion issued in May 1993, which was the first-ever loan of this size to be floated by a German industrial company.

This broad range of available financing instruments ensures that the Volkswagen Group retains a sound financial basis even in the face of difficult economic conditions.

Development of financial ratios

Although the continuing recession and in particular the financial problems encountered by Seat had a sustained adverse effect on the Volkswagen Group's earnings situation in 1993, the Group's financial position remains sound. The increase in the balance-sheet total of 5.3 % to DM 79.3 billion resulted primarily from the first-time consolidation of V.A.G (United Kingdom) Ltd. and the expansion of the Financial Services Division. This growth in particular, coupled with the equity-reducing Group loss, led in the fiscal year under review to a moderation of the equity ratio from 24.1 to 19.5 %. Overall liquidity – comprising liquid funds and securities – amounted to DM 12.3 billion and thus surpassed the previous year's already high total of DM 9.3 billion. If bonds are included as well, total liquidity rises to DM 12.5 billion compared with DM 10.4 billion in 1992.

Cash flow decreased by 35.0 % to DM 4,556 million. Self-generated funds were thus sufficient to finance 94.1 % of capital investments as against 75.7 % in 1992. If depreciation and disposal of leasing and rental assets are taken into account, the overall cash flow rises to DM 9,993 million; working on this basis, 97.2 % of capital investments, including additions to leasing and rental assets, were covered by cash flow. Bearing in mind that the capital investment programme has now been spread over a longer period than originally planned, these figures once again reflect the Volkswagen Group's strong internal financing capacity.

Added value of Volkswagen AG decreases as a reflection of the general business trend

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 1993 Volkswagen AG's added value fell by 16.6 % to DM 11,364 million.

Sources	DM million	1993	1992
Sales		42,949	53,182
plus other income		3,050	3,648
less expenditures		34,635	43,200
Added value		**11,364**	**13,630**

Distribution To:	DM million In the form of:	1993	%	1992	%
The Workforce	Wages, salaries, fringe costs	10,833	95.4	12,735	93.4
The State	Taxes, levies	126	1.1	279	2.0
Creditors	Interest	334	2.9	484	3.6
The Company	Transfers to reserves	4	0.0	66	0.5
Stockholders	Dividend	67	0.6	66	0.5
Added value		**11,364**	**100.0**	**13,630**	**100.0**

Structure of the Volkswagen AG balance sheet (DM million)

Assets	Dec. 31, '93	%	Dec. 31, '92	%
Fixed assets	15,121	43.7	18,176	50.6
Inventories	2,898	8.4	3,355	9.3
Receivables	10,489	30.4	9,243	25.7
Liquid funds	6,065	17.5	5,185	14.4
Total assets	**34,573**	**100.0**	**35,959**	**100.0**

Stockholders' equity and liabilities	Dec. 31, '93	%	Dec. 31, '92	%
Stockholders' equity	12,143	35.1	12,542	34.9
Long-term liabilities	6,760	19.6	6,789	18.9
Medium-term liabilities	6,862	19.8	6,196	17.2
Short-term liabilities	8,808	25.5	10,432	29.0
Total capital	**34,573**	**100.0**	**35,959**	**100.0**

Structure of the Volkswagen AG statement of earnings (DM million)
January/December 31, 1993

	1993	%	1992	%
Sales	**42,949**	**100.0**	**53,182**	**100.0**
Cost of sales	40,735	94.8	51,200	96.3
Gross profit	**+ 2,214**	**5.2**	**+ 1,982**	**3.7**
Selling, distribution and administration expenses	3,558	8.3	3,872	7.3
Other operating income and expenses	+ 1,597	3.7	+ 1,120	2.1
Financial results	– 169	0.4	+ 952	1.8
Results from ordinary business activities	**+ 84**	**0.2**	**+ 182**	**0.3**
Taxes	13	0.0	50	0.1
Net earnings	**71**	**0.2**	**132**	**0.2**

Financial Statements of the Volkswagen Group for the Fiscal Year Ended December 31, 1993

Balance Sheet of the Volkswagen Group, December 31, 1993 – DM million –

Assets			Note	Dec. 31, 1993	Dec. 31, 1992
Fixed assets			(1)		
Intangible assets				646	631
Tangible assets				23,067	24,050
Financial assets				1,823	2,747
Leasing and rental assets				7,517	7,393
				33,053	**34,821**
Current assets					
Inventories			(2)	11,026	9,736
Receivables and other assets			(3)	22,517	21,065
Securities			(4)	1,119	1,497
Cash on hand, deposits at German Federal Bank, and Post Office Bank balances, cash in banks				11,157	7,836
				45,819	**40,134**
Prepaid and deferred charges			(5)	**426**	**329**
Balance-sheet total				**79,298**	**75,284**
Stockholders' equity and liabilities					
Stockholders' equity					
Subscribed capital of Volkswagen AG			(6)	1,671	1,664
Ordinary shares		1,350			
Non-voting preferred shares		321			
Potential capital	498				
Capital reserve			(7)	4,284	4,253
Revenue reserves			(8)	5,237	7,547
Net earnings available for distribution				71	71
Minority interest in consolidated subsidiaries				1,003	927
				12,266	**14,462**
Special items with an equity portion			(9)	**3,191**	**3,659**
Special item for investment subsidies			(10)	**23**	**18**
Provisions			(11)	**25,912**	**22,209**
Liabilities			(12)	**36,927**	**34,231**
Deferred income				**979**	**705**
Balance-sheet total				**79,298**	**75,284**

Statement of Earnings of the Volkswagen Group for the Fiscal Year Ended December 31, 1993 – DM million –

	Note	1993	1992
Sales	(13)	**76,586**	**85,403**
Cost of sales		71,117	79,155
Gross profit		**+ 5,469**	**+ 6,248**
Selling and distribution expenses		5,905	5,661
General administration expenses		2,373	2,316
Other operating income	(14)	4,757	4,246
Other operating expenses	(15)	3,975	2,634
Results from participations	(16)	– 149	+ 55
Interest results	(17)	+ 557	+ 739
Write-down of financial assets and securities classified as current assets		17	75
Results from ordinary business activities		**– 1,636**	**+ 602**
Taxes on income		304	455
Loss/Net earnings	(18)	**– 1,940**	**+ 147**

Notes on the Financial Statements of the Volkswagen Group for the Fiscal Year Ended December 31, 1993

Financial statements in accordance with commercial law

The 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 individual items in the balance sheet and the statement of earnings. These items are shown separately in the notes on the financial statements. In the interest of improved international comparability, the statement of earnings has been prepared according to the cost of sales method.

Scope of consolidation

The fully consolidated Group companies comprise all companies in which Volkswagen AG has a direct or indirect interest of over 50 % or which are under management control of the parent company. Apart from Volkswagen AG, this involves 25 German Group companies and 73 foreign Group companies.

Fábrica Navarra de Automóviles, S.A. and V.A.G Holding Financière S.A., which have been set up in consequence of restructuring measures, were included in the consolidated financial statements for the first time in the year under report. A further six subsidiaries were likewise included for the first time following the acquisition of all shares in Volkswagen Group Holdings (UK) Ltd. Five companies which had hitherto not been consolidated were fully consolidated.

Six German and 25 foreign subsidiaries were not consolidated. The companies in question are subsidiaries which are omitted under the provisions of § 296 subsection 1 item 2 of the German Commercial Code or which conduct little or no business.

The AUTOLATINA companies and Europcar International S.A., Boulogne-Billancourt, which are run as joint ventures, are included in the consolidated financial statements, along with their subsidiaries, on a pro rata basis in accordance with the percentage holding of Volkswagen AG and in line with the provisions to be applied for full consolidation. Altogether, this involves 32 companies consolidated on a pro rata basis.

New associated companies comprise three foreign companies in which shares have been acquired. In addition, four German companies in respect of which our interest had hitherto been valued at acquisition cost have now been included in the consolidated financial statements on the basis of the proportionate stockholders' equity.

27 German and 13 foreign companies in which participations are held and on which Volkswagen AG or another Group company exerts a significant influence are included in the consolidated financial statements as associated companies on the basis of the proportionate stockholders' equity or – where the participation in question is not of major significance – at book value.

A list of the main fully-consolidated Group companies, joint ventures, associated companies and other participations is given on pages 20 and 21.

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.

Goodwill or badwill arising from the acquisition of shares in consolidated and associated companies is set off against the revenue reserves.

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

*The full address is given on the last page of this publication

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

Translation of currencies

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

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

Leasing and rental assets, together with the related liabilities, are translated at the middle rate for the balance-sheet date.

In countries with high inflation, the raw materials and supplies, work in progress, finished goods and merchandise shown under inventories are translated into DM at historical rates.

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

The change in currency translation differences which results from the exchange rate development in the current year is treated as having an effect on the result. A provision has been created in the amount of the resultant income from hard-currency countries.

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

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

Accounting and valuation principles

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

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

Tangible assets and **leasing and rental assets** are valued at acquisition or manufacturing cost minus depreciation. Investment subsidies are deducted or depreciated. Manufacturing cost is determined on the basis of the directly attributable cost of materials and labour cost as well as proportionate material overheads and production overheads including depreciation. Administration expenses are not taken into account. Planning services furnished within the Group in connection with the construction of complete plants for subsidiaries have been capitalized.

The regular depreciation is based on the following useful lives:

Buildings 25–50 years

Building and site utilities 10–18 years

Technical equipment and machinery 5–8 years

Power generators 14 years

Factory and office equipment 4–8 years

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

On the basis of the opportunities offered by tax law, Group companies in Germany charge regular depreciation on tangible assets pro rata temporis – in contrast to the principle applied in the financial statements of Volkswagen AG – using the declining-balance method with a scheduled changeover to the straight-line method at a later date, in each case taking account of the number of shifts run. The straight-line method is applied to assets on which special depreciation is charged. Group companies abroad use the straight-line method. Application of the different depreciation methods takes account, among other things, of the differing decreases in value resulting from technical progress.

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

Differences between the values required under commercial law and those permitted under tax law are shown under the special items with an equity portion.

Holdings in affiliated and associated companies – if not valued on the basis of the equity method – and other **participations** are shown at acquisition cost or the lower applicable value.

Long-term financial investments are shown at acquisition cost or, in the event of a probably permanent reduction in value, at the lower value.

Loans are stated at cash value.

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

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

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

Receivables and other assets are stated at the nominal amount. Provision is made for discernible individual risks and general credit risks by way of appropriate value adjustments. In contrast to the principle applied in the financial statements of Volkswagen AG, receivables in foreign currencies are valued at the middle rates applying on the balance-sheet date or the rates agreed in respect of these receivables.

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

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

Allowance is made for discernible risks and uncertain liabilities by way of adequate allocations to **provisions.**

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

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

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

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

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

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

Other taxes totalling DM 352 million (1992: DM 444 million) are allocated to the individual functional areas.

Notes on the Balance Sheet

(1) Fixed assets

A breakdown of the fixed-assets items condensed in the balance sheet and their development during the year under report can be found on pages 80 and 81.

The book value of the Volkswagen Group's fixed assets, totalling DM 33,053 million, comprises intangible, tangible, financial and leasing and rental assets.

The additions to fixed assets also include the amounts brought forward in respect of companies consolidated for the first time. Additions to intangible assets include goodwill arising from the acquisition of shares in one fully consolidated company and two associated companies.

Additions to fixed assets were as follows:

	1993 DM million	1992 DM million
Intangible assets	373	337
Tangible assets	4,037	8,027
Financial assets	430	890
Leasing and rental assets	5,438	6,139

Extraordinary depreciation was charged for the most part on tangible assets scheduled for disposal in the short term. In connection with valuation using the equity method, the devaluation of the Chinese currency was the principal factor necessitating adjustment of the value included under financial assets in respect of the relevant holdings.

	1993 DM million	1992 DM million
Tangible assets	49	17
Financial assets	107	94
	156	**111**

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

	Acquisition or manufac-turing cost Jan. 1, 1993	Amounts brought forward[1]	Additions	Transfers	Disposals	Acquisition or manufac-turing cost Dec. 31, 1993	Accumu-lated depre-ciation	Write-ups (current year)	Book-values Dec. 31, 1993	Book-values Dec. 31, 1992	Deprecia-tion (current year)
Intangible Assets[2]											
Concessions, industrial and similar rights and licences in such rights	318	1	108	398	39	786	196	–	590	197	112
Payments on account	434		42	– 392	28	56	–	–	56	434	–
	752	**1**	**150**	**6**	**67**	**842**	**196**	**–**	**646**	**631**	**112**
Tangible Assets											
Land, land rights and buildings incl. buildings on land owned by others	14,661	53	396	1,002	150	15,962	7,598	0	8,364	7,326	309
Technical equipment and machinery	22,212	–	648	1,858	444	24,274	18,152	–	6,122	5,592	1,957
Other equipment and factory and office equipment	19,530	5	1,726	1,134	546	21,849	15,652	–	6,197	5,822	2,432
Payments on account and construction in progress	5,311	–	1,209	– 4,036	100	2,384	0	–	2,384	5,310	–
	61,714	**58**	**3,979**	**– 42**	**1,240**	**64,469**	**41,402**	**0**	**23,067**	**24,050**	**4,698**
Financial Assets											
Holdings in affiliated companies	105	–	126	–	73	158	4	3	157	101	0
Loans to affiliated companies	2	–	0	–	1	1	–	–	1	2	–
Holdings in associated companies	654	1	163	– 1	52	765	120	0	645	613	81
Participations	752	–	13	1	357	409	336	–	73	82	–
Loans to associated companies and companies linked through participation	6	30	2	– 6	0	32	0	0	32	1	–
Long-term financial investments	1,280	–	0	–	1,081	199	8	–	191	1,259	–
Other loans	1,152	13	82	6	25[3]	1,228	518[4]	11	721	685	26
Other financial assets	49	–	0	–	4	45	45	3	3	4	0
	4,000	**44**	**386**	**–**	**1,593**	**2,837**	**1,031**	**17**	**1,823**	**2,747**	**107**
	66,466	**103**	**4,515**	**– 36**	**2,900**	**68,148**	**42,629**	**17**	**25,536**	**27,428**	**4,917**
Leasing and Rental Assets	**11,495**	**0**	**5,438**	**36**	**4,875[5]**	**12,094**	**4,577[6]**	**–**	**7,517**	**7,393**	**3,012**
									33,053	**34,821**	

[1] Amounts brought forward in respect of companies consolidated for the first time
[2] Acquired goodwill has been set off against the revenue reserves
[3] Including exchange rate differences in the amount of DM – 44 million
[4] Including exchange rate differences in the amount of DM 27 million
[5] Including exchange rate differences in the amount of DM – 128 million
[6] Including exchange rate differences in the amount of DM 40 million

(2) Inventories

	Dec. 31, 1993 DM million	Dec. 31, 1992 DM million
Raw materials and supplies	1,946	2,261
Work in progress	1,651	1,970
Finished goods and merchandise	7,412	5,492
Advance payments	17	13
	11,026	**9,736**

(3) Receivables and other assets

	Dec. 31, 1993 DM million	Dec. 31, 1992 DM million
Trade receivables	4,664	3,856
– of which amounts due in more than one year	(2)	(–)
Receivables from affiliated companies	494	198
– of which trade receivables	(94)	(71)
Receivables from companies in which participations are held	1,000	607
– of which trade receivables	(598)	(491)
Other current assets	16,359	16,404
– of which amounts due in more than one year	(5,676)	(5,706)
	22,517	**21,065**

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

(4) Securities

	Dec. 31, 1993 DM million	Dec. 31, 1992 DM million
Treasury stock	5	6
Other securities	1,114	1,491
	1,119	**1,497**

Volkswagen AG holds treasury stock in the form of 76,603 shares, comprising 76,467 ordinary shares and 136 preferred shares with a total nominal value of DM 3,830,150; this corresponds to 0.2 % of the subscribed capital. The ordinary shares were acquired in 1971 in connection with a conversion offer to Audi stockholders on the occasion of a capital increase. The preferred shares represent the residual shares in connection with the issue of 124,000 shares with a value of DM 50 each – giving a total nominal value of DM 6,200,000 (= 0.4 % of the subscribed capital) – to employees in November 1993. The issue price was DM 304.50 per share and the selling price to employees was fixed at DM 152.25, the difference being debited to the result for the year. In addition to the capital increase with a nominal value of DM 6,200,000, a further 2,000 preferred shares were purchased on the stock exchange at an average price of DM 356.25 for issue to employees. Out of the 196 preferred shares held at December 31, 1992 and stemming from the capital increase effected in 1992, 15 have been issued to employees at a subscription price of DM 117.50 per share and the remaining 181 sold at a price of DM 303.00 per share. The reserve required by law for treasury stock exists in the amount of the relevant balance-sheet value.

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

(5) Prepaid and deferred charges

This item comprises for the most part those amounts not yet dissolved and charged to interest expenses in respect of the contra items to the transfers to the capital reserve made in connection with the issue of warrants with low-interest bonds. The amount in question here is DM 134 million (1992: DM 155 million).

(6) Subscribed capital

Following the capital increase effected in 1993 – utilizing part of the existing authorized capital stock – through the issue to employees of non-voting preferred shares with a total value of DM 6,200,000, the subscribed capital now amounts to DM 1,671 million. The subscribed capital is composed of 27,000,000 ordinary shares with nominal value of 50 DM and 6,412,500 non-voting preferred shares with nominal value of 50 DM. In addition, there is an authorized capital stock of DM 150 million expiring on June 30, 1994, a second authorized capital stock of DM 150 million expiring on June 30, 1995 and a third authorized capital stock of DM 129 million expiring on June 30, 1996. A potential capital stock of DM 98 million can be utilized in full by the holders of the 192,000 warrants attaching to the option bonds issued in 1986. A further potential capital stock of DM 200 million can be utilized up to a total of DM 194 million by the holders of the 944,000 warrants attaching to the option bonds issued in 1988. In addition, the subscribed capital has been raised conditionally by DM 200 million through the issuing of up to 4,000,000 bearer ordinary shares and/or bearer preferred shares with nominal value of 50 DM each. The potential capital increase will be effected only to the extent that the holders of the convertible and option bonds to be issued up to July 13, 1994 in a total amount of up to DM 800 million exercise the conversion and option rights attaching to these bonds.

(7) Capital reserve

The capital reserve comprises exclusively premiums on capital increases and the issue of option bonds. A total of DM 31 million was transferred to the capital reserve in 1993 in connection with the increase in the subscribed capital of Volkswagen AG.

(8) Revenue reserves

	Dec. 31, 1993 DM million	Dec. 31, 1992 DM million
Legal reserve	60	60
Reserve for treasury stock	5	5
Other revenue reserves	5,172	7,482
	5,237	**7,547**

A total of DM 9 million was transferred from the net earnings of the parent company to "Other revenue reserves" in accordance with § 58 subsection 2 of the German Corporation Act. A total amount of DM 226 million in respect of goodwill deriving from initial consolidation of one company, goodwill deriving from initial valuation of a holding according to the equity method and goodwill deriving from acquisition of additional shares in an associated company has been set off against "Other revenue reserves".

(9) Special items with an equity portion

	Dec. 31, 1993 DM million	Dec. 31, 1992 DM million
Reserves for tax purposes	85	193
Depreciation for tax purposes	3,106	3,466
	3,191	**3,659**

The Volkswagen Group has reserves in accordance with § 3 subsection 2a of the Border Area Promotion Act, § 1 of the Developing Countries Tax Act, § 52 subsection 8 of the Income Tax Act, § 2 of the East German Investments Act and § 6b of the Income Tax Act/Section 35 of the Income Tax Guidelines. Depreciation for tax purposes comprises value adjustments in accordance with § 3 subsection 2 of the Border Area Promotion Act, § 4 of the Development Area Act, § 7d of the Income Tax Act, § 6b of the Income Tax Act/Section 35 of the Income Tax Guidelines, § 14 of the Berlin Promotion Act, § 82d of the Income Tax Directive, § 82a of the Income Tax Directive and § 80 of the Income Tax Directive. The approval of the European Union is required for the creation of special items with an equity portion in accordance with § 3 of the Border Area Promotion Act. The necessary applications have been submitted to the German fiscal authorities but no decision has yet been reached. The accounting treatment of these items observes the principle that the treatment applied for tax purposes must correspond to that applied in the published balance sheet.

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

(10) Special item for investment subsidies

The special item for investment subsidies, amounting to DM 23 million (1992: DM 18 million), stems from the financial statements of two foreign companies.

(11) Provisions

	Dec. 31, 1993 DM million	Dec. 31, 1992 DM million
Provisions for pensions and similar obligations	9,553	9,113
Provisions in respect of taxes	1,784	1,773
Other provisions	14,575	11,323
	25,912	**22,209**

In accordance with § 249 subsection 2 of the Commercial Code, provisions for expenses – which are non-deductible for tax purposes – have once again been created in the consolidated financial statements in respect of various Group companies to make allowance for specific financial burdens which have already been occasioned, among other things in connection with ongoing restructuring measures and model changes. These provisions led to increased expenses in 1993. Without these measures, the pre-tax result would have been 25 % better (1992: 16 % lower).

(12) Liabilities	Total Dec. 31, 1993 DM million	of which payable within up to 1 year DM million	Total Dec. 31, 1992 DM million	of which payable within up to 1 year DM million
Loans	4,802	928	3,518	46
– of which convertible	(1,367)	(–)	(1,290)	(–)
Liabilities due to banks	20,895	14,292	19,119	13,809
Advance payments received	528	528	123	123
Trade payables	4,805	4,750	5,440	5,372
Notes payable	113	109	139	131
Amounts payable to affiliated companies	175	175	50	50
Amounts payable to companies in which participations are held	304	304	165	165
Other liabilities	5,305	3,502	5,678	4,175
– of which taxes	(529)	(529)	(751)	(751)
– of which in respect of social insurance	(481)	(479)	(487)	(485)
	36,927	**24,588**	**34,231**	**23,871**

The total liabilities payable within more than five years amount to DM 4,289 million (1992: DM 4,557 million).

Of the liabilities shown in the consolidated balance sheet, a total of DM 1,742 million (1992: DM 1,679 million) is secured, for the most part, through charges on real estate. There are also securities in the form of transfer of ownership and, in the case of supply of goods, the usual retention of title.

Contingencies and commitments

	Dec. 31, 1993 DM million	Dec. 31, 1992 DM million
Contingent liabilities with respect to notes	363	299
Contingent liabilities with respect to guarantees	172	140
Contingent liabilities with respect to warranties	516	200
Pledges on company assets to secure another party's liabilities	14	14

The trust assets and liabilities not included in the consolidated balance sheet in respect of the savings associations and trust companies belonging to the AUTOLATINA group amount to DM 485 million (1992: DM 399 million). The Commission of the European Union has opened proceedings to investigate the legality of the investment subsidies granted to two subsidiaries in the new federal states of Germany.

Other financial obligations

	Dec. 31, 1993 DM million	Dec. 31, 1992 DM million
Obligations in respect of capital contributions	486	815
Annual obligations in respect of long-term rental and leasing contracts	837	605

Financial obligations in respect of capital contributions exist up to 1998 in connection with our joint project with Ford in Portugal and our commitments in China, Taiwan and Poland.

The other financial obligations in respect of rental and leasing contracts include payment obligations towards two associated leasing companies in the form of future leasing instalments on the basis of average terms of 35 months; these obligations amount to DM 582 million for 1994 and are matched by corresponding claims on customers.

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

Notes on the Statement of Earnings

(13) Sales

	1993 DM million	1993 Share %	1992 DM million	1992 Share %
Germany	34,326	44.8	39,508	46.3
Europe (excl. Germany)	24,869	32.5	31,540	36.9
North America	3,469	4.5	3,774	4.4
Latin America	9,051	11.8	6,345	7.4
Africa	1,315	1.7	1,312	1.6
Asia/Oceania	3,556	4.7	2,924	3.4
Total	**76,586**	**100.0**	**85,403**	**100.0**

Vehicle sales of the Volkswagen Group in 1993 accounted for 74 % of sales proceeds, and parts sales for 8 %. 18 % related to other sales. Other sales include the proceeds from the sale of used assets of leasing and rental companies.

(14) Other operating income

	1993 DM million	1992 DM million
Other operating income	4,757	4,246
– of which income from elimination of special items with an equity portion	(556)	(571)

Apart from income from elimination of special items with an equity portion, other operating income resulted primarily from elimination of provisions, differences from the translation of the items in the statements of earnings of consolidated foreign companies and handling of foreign exchange transactions.

(15) Other operating expenses

	1993 DM million	1992 DM million
Other operating expenses	3,975	2,634
– of which transfers to special items with an equity portion	(88)	(406)

In addition to transfers to the special items with an equity portion, other operating expenses include in particular depreciation of current assets, expenses incurred in connection with handling of foreign exchange transactions and expenses for various risks. Depreciation for tax purposes was charged in the amount of DM 67 million (1992: DM 388 million), solely in respect of fixed assets.

(16) Results from participations

	1993 DM million	1992 DM million
Income from participations	90	222
– of which from affiliated companies	(1)	(20)
– of which from associated companies	(50)	(175)
– of which from valuation of holdings in associated companies	(35)	(0)
Income from profit assumption agreements	1	0
Expenses from holdings in associated companies	230	99
Expenses from loss assumptions	10	68
	– 149	**55**

(17) Interest results

	1993 DM million	1992 DM million
Income from other securities and long-term loans	89	84
Other interest and similar income	2,969	3,165
– of which from affiliated companies	(28)	(5)
Interest and similar expenses	2,501	2,510
– of which to affiliated companies	(10)	(3)
	557	**739**

(18) Loss

The difference between the loss 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 loss has been influenced by expenses attributable to other fiscal years amounting to DM 453 million (1992: DM 581 million) and income not relating to the period under report totalling DM 1,255 million (1992: DM 854 million).

The loss of the Volkswagen Group has been reduced as a result of tax-related measures. These mainly involve the necessary elimination of special items in accordance with § 3 subsections 2 and 2a of the Border Area Promotion Act, which were matched by special depreciation in accordance with § 4 of the Act concerning Special Depreciation and Deductions in Development Areas (Development Area Act). As a consequence of these measures, the loss shown for the Volkswagen Group is 19 % smaller (1992: net earnings 84 % higher) than the figure which would otherwise have been shown.

The loss includes minority interests in profit totalling DM 98 million (1992: DM 70 million) and, as in 1992, small minority shares in losses.

Total expenses for the period

	1993 DM million	1992 DM million
Cost of materials		
Raw materials and supplies, purchased goods	43,939	49,128
Purchased services	3,591	5,689
	47,530	**54,817**
Labour cost		
Wages and salaries	14,962	16,390
Social insurance and pension costs	3,925	4,363
– of which in respect of pensions	(911)	(1,430)
	18,887	**20,753**

Average numbers of employees during the year

	1993	1992
Wage-earners	132,952	145,620
Salaried workers	58,803	64,965
Salaried staff	61,353	62,724
	253,108	**273,309**
Apprentices	6,588	6,828
	259,696	**280,137**

The AUTOLATINA group employed an average of 53,060 people (1992: 50,865). The average number of persons employed by the Europcar group was 4,286 (1992: 4,508). The numbers of people employed by these companies have been included in the Group figure pro rata on the basis of Volkswagen AG's percentage holding.

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

The remuneration of the members of the Board of Management for the fiscal year 1993 in respect of the Volkswagen Group totalled DM 12,866,845.

Retired members of the Board of Management and their surviving dependants received DM 16,017,729. These payments are covered by provisions for current pensions, amounting to DM 107,544,027.

The remuneration of the Supervisory Board amounted to DM 191,125.

Loans totalling DM 78,000 have been granted to members of the Supervisory Board (amount redeemed in 1993: DM 12,000). The loans have an interest rate of 4 % and an agreed term of 12.5 years.

Wolfsburg, February 22, 1994

VOLKSWAGEN AKTIENGESELLSCHAFT
The Board of Management

Independent auditors' report

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

Hanover, February 23, 1994

C & L TREUARBEIT
DEUTSCHE REVISION
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Siepe
Wirtschaftsprüfer

Dr. Heine
Wirtschaftsprüfer

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Sales (DM million)	45,671	52,502	52,794	54,635	59,221	65,352	68,061	76,315	85,403	76,586
Change on previous year in %	14	15	1	3	8	10	4	12	12	– 10
Domestic	14,638	16,171	18,839	22,555	22,653	23,682	26,929	36,360	39,508	34,326
Abroad	31,033	36,331	33,955	32,080	36,568	41,670	41,132	39,955	45,895	42,260
Export of domestic Group companies	20,108	24,025	23,414	22,898	24,395	27,601	28,323	28,093	33,884	26,797
Net contribution of foreign Group companies	12,864	14,698	14,127	13,080	15,961	18,256	18,242	18,809	15,412	17,057
Vehicle Sales (thousand units)	2,145	2,398	2,758	2,774	2,854	2,941	3,030	3,237	3,433	2,962
Change on previous year in %	1	12	15	1	3	3	3	7	6	– 14
Domestic	708	722	838	921	848	849	945	1,264	1,211	914
Abroad	1,437	1,676	1,920	1,853	2,006	2,092	2,085	1,973	2,222	2,048
Production (thousand units)	2,148	2,398	2,777	2,771	2,848	2,948	3,058	3,238	3,500	3,019
Change on previous year in %	2	12	16	0	3	4	4	6	8	– 14
Domestic	1,474	1,635	1,654	1,666	1,694	1,783	1,816	1,814	1,929	1,411
Abroad	674	763	1,123	1,105	1,154	1,165	1,242	1,424	1,571	1,608
Cost of materials (DM million)	23,824	26,623	28,656	31,331	32,888	37,533	40,469	47,039	54,817	47,530
Change on previous year in %	14	12	8	9	5	14	8	16	17	– 13
As % of sales	52	51	54	57	56	57	59	62	64	62
Workforce (thousand employees)[1]	238	259	276	260	252	251	261	277	273	253
Change on previous year in %	3	9	7	– 6	– 3	– 1	4	6	– 1	– 7
Domestic	160	170	169	170	165	161	166	167	164	150
Abroad	78	89	107	90	87	90	95	110	109	103
Labour cost (DM million)	13,227	13,913	14,747	15,192	15,144	16,107	17,056	18,872	20,753	18,887
Change on previous year in %	7	5	6	3	0	6	6	11	10	– 9
As % of sales	29	26	28	28	26	25	25	25	24	25
Capital Investments (DM million)[2]	2,782	3,388	6,371	4,592	4,251	5,606	5,372	9,910	9,254	4,840
Change on previous year in %	x	22	88	– 28	– 7	32	– 4	84	– 7	– 48
Domestic	1,889	2,508	3,849	4,000	3,546	4,477	3,016	6,311	4,853	2,675
Abroad	893	880	2,522	592	705	1,129	2,356	3,599	4,401	2,165
Additions to Leasing and Rental Assets (DM million)	2,021	3,217	2,738	3,318	3,447	4,069	4,419	4,961	6,139	5,438
Change on previous year in %		59	– 15	21	4	18	9	12	24	– 11
Cash Flow (DM million)[3]	4,081	4,558	4,285	4,874	5,018	5,412	5,701	7,133	7,004	4,556
Change on previous year in %	x	12	– 6	14	3	8	5	25	– 2	– 35
Net Earnings/Loss (DM million)	228	596	580	598	780	1,038	1,086	1,114	147	– 1,940
Dividend of Volkswagen AG (DM million)	120	240	306	306	306	336	369	369	66	67
Ordinary shares (DM million)	120	240	240	240	240	264	297	297	54	54
Preferred shares (DM million)			66	66	66	72	72	72	12	13

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

Balance-sheet Structure (DM million) December 31	1984	1985	1986[1]	1987[1]	1988[1]	1989[1]
			2	29	76	134
Assets						
Tangible assets	9,082	8,740	12,111	13,406	13,836	15,493
Financial assets	544	574	1,099	1,125	1,304	1,621
Leasing and rental assets	2,433	3,717	4,106	4,919	5,427	5,561
Fixed assets	12,059	13,031	17,318	19,479	20,643	22,809
Inventories and advance			6,802	6,618	6,506	7,301
payments to suppliers	6,654	6,348				
Receivables and the like	7,388	7,157	8,675	9,403	11,848	14,472
Liquid funds, trade accept.	5,253	4,326	364	426	488	2,360
Securities, treasury stock	1,588	3,960	8,553	8,135	10,809	9,929
Current Assets	20,883	21,791	24,394	24,582	29,651	34,062
Total Assets	32,942	34,822	41,712	44,061	50,294	56,871
Stockholders' Equity a. Liab.						
Capital stock	1,200	1,200	1,500	1,500	1,500	1,500
Reserves of the Group	5,165	5,929	7,891	8,496	9,040	9,667
Minority inter. i. consol. subs.	320	266	408	405	405	439
Stockholders' Equity	6,685	7,395	307	308	308	339
Undetermined liabilities in						
respect of old-age pensions	4,739	5,029	3	17	42	54
Other undetermined liabilities	7,417	9,343	1,828	2,203	2,452	2,925
			10	9	9	12
Undetermined Liabilities	12,156	14,372	11,947	12,938	13,756	14,936
Liabilities payable within			5,294	5,889	6,314	6,652
more than			992	925	1,358	2,001
4 years	992	947	8,228	8,050	9,418	10,454
1 to 4 years	1,411	1,291	14,514	14,864	17,090	19,107
up to 1 year	11,570	10,569				
Liabilities	13,973	12,807				
Net earnings available for			1,344	1,217	1,929	1,934
distribution (Volkswagen AG)	124	244	1,456	1,999	2,121	3,289
Minority interest in earnings			12,451	13,043	15,398	17,605
to be distributed	4	4	15,251	16,259	19,448	22,828
Outside Capital	26,257	27,427	29,765	31,123	36,538	41,935
Total Capital	32,942	34,822	41,712	44,061	50,294	56,871
Statement of Earnings (Condensed) (DM million) January–December						
Gross performance	46,772	52,709	52,794	54,635	59,221	65,352
Cost of materials	23,824	26,623	46,746	48,526	51,315	56,196
Labour cost	13,227	13,913				
Depreciation and write-down	2,961	3,411	5,380	5,498	6,321	7,151
Depreciation on leasing and						
rental assets	1,060	1,259	632	931	38	209
Taxes	1,368	2,124	295	68	513	773
on income,						
earnings and			1,595	1,610	2,136	2,987
property	1,266	1,993	– 473	– 443	–	–
Sundry expenses less						
sundry income	4,104	4,783	542	569	1,356	1,949
Net earnings/Loss	228	596	580	598	780	1,038

1990[1]	1991[1]	1992[1]	1993[1]	Change 1993/92 in %	Balance-sheet Structure (DM million) December 31
					Assets
261	372	631	646	2.3	Intangible assets
16,826	21,126	24,050	23,067	– 4.1	Tangible assets
1,418	2,655	2,747	1,823	– 33.6	Financial assets
5,834	6,293	7,393	7,517	1.7	Leasing and rental assets
24,339	30,446	34,821	33,053	– 5.1	**Fixed assets**
8,703	9,049	9,736	11,026	13.3	Inventories
15,065	19,011	21,394	22,943	– 7.2	Receivables and other assets
2,764	2,329	1,497	1,119	– 25.3	Securities
11,842	9,255	7,836	11,157	42.4	Liquid funds
38,374	39,644	40,463	46,245	14.3	**Current Assets**
62,713	70,090	75,284	79,298	5.3	**Total Assets**
					Stockholders' Equity and Liabilities
1,650	1,656	1,664	1,671	0.4	Subscribed capital
11,491	12,098	11,800	9,521	– 19.3	Reserves of the Group
145	164	859	905	5.4	Minority interest in consolidated subsid.
374	373	71	71	0.6	Net earnings available for distribution
33	12	68	98	43.5	Minority interest in net earnings to be distributed
2,882	3,823	3,659	3,191	– 12.8	Special items with an equity portion
13	19	18	23	28.7	Special item for investment subsidies
16,588	18,145	18,139	15,480	– 14.7	**Stockholders' Equity**
7,283	8,089	9,113	9,553	4.8	Undetermined liabilities (pensions)
1,828	2,032	1,773	1,784	0.6	Undetermined liabilities (taxes)
10,680	10,161	11,323	14,575	28.7	Other undetermined liabilities
19,791	20,282	22,209	25,912	16.7	**Undetermined Liabilities**
					Liabilities payable within
1,840	3,813	4,557	4,289	– 5.9	more than 5 years
3,339	3,900	6,222	8,707	39.9	1 to 5 years
21,155	23,950	24,157	24,910	3.1	up to 1 year
26,334	31,663	34,936	37,906	8.5	**Liabilities**
46,125	51,945	57,145	63,818	11.7	**Outside Capital**
62,713	70,090	75,284	79,298	5.3	**Total Capital**
					Statement of Earnings (Condensed) (DM million) January–December
68,061	76,315	85,403	76,586	– 10.3	Sales
61,890	69,472	79,155	71,117	– 10.2	Cost of sales
7,308	7,599	7,977	8,278	3.8	Selling and administration expenses
2,615	1,302	1,612	782	– 51.5	Other operating income less other operating expenses
914	1,239	719	391	– 45.6	Financial results
2,392	1,785	602	– 1,636	x	Results from ordinary business activities
–	–	–	–	–	Extraordinary results
1,306	671	455	304	– 33.2	Taxes on income
1,086	1,114	147	–1,940	x	Net earnings/Loss

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

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