VOLKSWAGEN AG
Annual Report 1994

		Volkswagen Group			Volkswagen AG		
		1994	1993	%	1994	1993	%
Sales	DM million	80,041	76,586	+ 4.5	41,886	42,949	– 2.5
Vehicle Sales	Units	3,107,797	2,962,159	+ 4.9	1,399,348	1,402,953	– 0.3
Production	Units	3,042,383	3,018,650	+ 0.8	1,246,392	1,240,124	+ 0.5
Workforce	Average over year	243,638	259,696	– 6.2	108,963	116,154	– 6.2
of which apprentices		6,137	6,588	– 6.8	4,035	4,253	– 5.1
Capital Investments	DM million	5,651	4,840	+ 16.7	5,282	1,793	x
Additions to Leasing and Rental Assets	DM million	5,781	5,438	+ 6.3	–	–	–
Cash Flow							
excl. Leasing/Rental Assets	DM million	7,668	3,636	x	4,373	4,349	+ 0.6
incl. Leasing/Rental Assets	DM million	12,582	9,073	+ 38.7	–	–	–
Depreciation and Write-Down	DM million	7,104	4,917	+ 44.5	4,372	4,507	– 3.0
Depreciation on Leasing and Rental Assets	DM million	2,978	3,012	– 1.1	–	–	–
Net Earnings/Loss	DM million	150	– 1,940	x	165	71	x
Dividend of Volkswagen AG	DM million				107	67	+ 60.2
of which on Ordinary Shares	DM million				81	54	+ 50.0
Preferred Shares	DM million				26	13	x

Production figures

Volkswagen	1994	1993
Golf	767,609	725,191
Passat	228,352	216,097
Polo**	151,993	0
Vento	79,619	133,309
Caravelle, Kombi	70,554	74,681
Jetta	4,776	3,912
Corrado	3,787	8,623
LT-Kombi	1,120	1,232
Transporter	64,590	55,098
LT	12,909	13,077
Taro, Hilux	7,249	8,904
	1,392,558	1,240,124

124,000 (112,000) vehicles – incl. 13,000 (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.

**The Polo models produced by Volkswagen Navarra, S.A. were included in the 1993 production figures for the Seat marque.

Audi	1994	1993
Audi A4/80	221,195	214,194
Audi A6/100*	117,104	110,239
Audi Convertible	7,415	9,603
Audi A8/V8	5,016	1,439
Audi Coupé	3,880	5,481
	354,610	340,956

Seat	1994	1993
Ibiza	140,974	142,987
Cordoba	84,128	19,289
Toledo	47,965	90,533
Marbella	27,102	33,216
City-Golf/Derby	7,004	0
Polo**	0	176,327
Terra	6,517	10,626
	313,690	472,978

Škoda	1994	1993
Favorit	74,776	127,101
Forman	66,951	72,295
Felicia	10,602	0
Pick-up	21,257	20,216
	173,586	219,612

North America	1994	1993
Jetta (Vento)	98,918	79,517
Beetle	78,276	98,321
Golf	66,182	49,351
Caravelle, Kombi	4,598	828
Derby	13	0
Transporter	8,330	11,060
	256,317	239,077

South America/Africa	1994	1993
Gol	247,891	207,478
Voyage, Gacel, Parati	69,385	80,860
Logus, Pointer, Apollo	51,472	44,068
Caravelle, Kombi	41,377	29,686
Passat	25,824	38,905
Jetta (Vento)	22,327	21,563
Golf	19,204	20,518
Beetle	17,324	6,389
Audi 100	1,290	1,838
Voyage Saveiro	36,242	33,760
VW trucks	8,820	6,353
Transporter	8,181	10,959
Omnibus	1,244	1,313
Gol Furgao	956	2,947
Golf Pick-up	945	856
	552,482	507,493

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, D-38436 Wolfsburg, Germany.

Annual Report 1994

Volkswagen
Seat
Škoda
Audi

The estate version of the Passat enjoys an especially high degree of popularity

Table of Contents

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 1994. 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.

At the Annual Meeting of Stockholders held on June 1, 1994, C&L TREUARBEIT DEUTSCHE REVISION Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hanover, were appointed auditors for the fiscal year 1994.

The financial statements for Volkswagen AG and the Group as at December 31, 1994, along with the 1994 Management Report for Volkswagen AG, the Group Management Report for the fiscal year 1994 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 auditors were present at the relevant meeting of the Balance Sheet and Personnel Committee. 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.

After six years as a member, Dr. rer. pol. Ulrich Weiss retired from the Supervisory Board on June 1, 1994. The Supervisory Board would like to thank him for his valuable service and dedication to the Company's interests.

An election to fill vacancies on the Supervisory Board was held at the Annual Meeting of Stockholders on June 1, 1994. On the basis of the proposal made by the management, Dr. rer. pol. Carl H. Hahn and Dr. rer. pol. Bernd W. Voss, who had initially been appointed by the Wolfsburg District Court in accordance with § 104 of the Corporation Act, were elected to the Supervisory Board by the Annual Meeting of Stockholders for the remainder of their predecessors' term of office pursuant to § 102 of the Corporation Act in conjunction with § 11 of the Articles of Association of Volkswagen AG. Dr. rer. pol. Jürgen Krumnow was likewise elected to serve on the Supervisory Board for the remainder of the term of office of Dr. Weiss, who retired from the Board at the end of the Annual Meeting of Stockholders.

Dr. rer. pol. Werner P. Schmidt, who had been a member of the Board of Management of Volkswagen AG for over nineteen years, retired from his post on December 31, 1994. The Supervisory Board would like to express its thanks to Dr. Schmidt for all that he achieved in his many years of outstanding service to the Company.

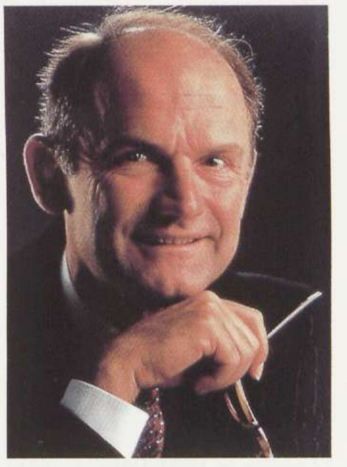
At its meeting on October 21, 1994, the Supervisory Board assigned responsibility for the restructured and redesignated field of Controlling and Accounting at Volkswagen AG to Mr. Bruno Adelt, who succeeded Dr. Schmidt on the Board of Management with effect from January 1, 1995.

The area of responsibility covered on the Board of Management by Dr. jur. Jens Neumann was expanded with effect from January 1, 1995 to include Group Treasury and now bears the designation "Group Strategy, Treasury, Legal Matters and Organization".

At its meeting on March 17, 1995 the Supervisory Board appointed Dr. Robert Büchelhofer with effect from April 1, 1995 member of the Board of Management of Volkswagen AG for the newly-created division of "Sales and Marketing".

Wolfsburg, March 17, 1995

Dr. Klaus Liesen
Chairman of the Supervisory Board



Dr. Ferdinand Piëch

Dear Stockholder,

Although 1994 witnessed a marked global economic recovery, the recession and above all the structural crisis affecting the automobile industry on key markets have not yet been entirely overcome. The existence of excess capacities worldwide means that international competition will become even fiercer in future.

The improved situation on a number of European markets and in particular the upward trend in the North America, South America/Africa and Asia Pacific Regions enabled the Volkswagen Group to record an increase in the number of vehicles delivered to customers worldwide in 1994.

It is the customer who forms the focus of all our efforts. This means that we offer top-quality, competitively priced products backed up by comprehensive service fulfilling every conceivable wish. This calls for a high level of productivity, cost-consciousness, immense creativity and personal commitment.

If we are to enhance productivity and quality on the scale necessary for guaranteeing the Company's future success, it is vital that the continuous improvement process (CIP²) should remain an integral part of our operations. Rapid implementation and systematic monitoring of the improvement measures play an essential role in ensuring that the CIP² workshops yield concrete results. A total of 6,533 workshops were held in 1994, with the concept extended for the first time throughout the entire added-value chain from suppliers to dealers. In conjunction with the low level of unit sales resulting from the general economic situation, the improvements in productivity achieved by way of the CIP² process led to a reduction in labour requirements, to which we adjusted by means of socially responsible measures. This was accomplished by cutting the working week to 28.8 hours – an arrangement which will remain in effect in 1995 – as well as with the aid of flexible working-hours systems, the early-retirement scheme and voluntary redundancies.

The success of the four-day week, which was introduced in 1994 under a collective agreement and readily accepted by our employees as a trendsetting concept for safeguarding jobs, has consistently demonstrated that we have adopted the right course in pursuing this innovative personnel policy.

Among the vital elements of our cost-cutting strategy are measures to reduce the number of platforms and ensure that as many common components as possible are used within the Group. Steps of this nature enable us to lower manufacturing costs still further and substantially cut development time for future models, while nevertheless still offering our customers the wide range of options which they desire.

The figures presented in this Annual Report reflect the success already achieved through such measures and endorse the policies which we must resolutely continue to pursue in order to realize the necessary changes and reorientation within the Volkswagen Group. All concerned will continue to be called upon to deliver outstanding performance in order to attain, as swiftly as possible, our objective of being the most successful vehicle manufacturer.

The positive impact of the restructuring and cost-cutting measures implemented within the Volkswagen Group has led to improved results enabling us to pay an increased dividend of DM 3 on ordinary shares and DM 4 on preferred shares. We hope that you as Volkswagen AG stockholders will continue to place your confidence in us and thereby provide us with the basis which we need to successfully continue the ongoing process of change.

Yours sincerely,

Ferdinand Piëch

Supervisory Board and Board of Management

Supervisory Board

Dr. jur. Klaus Liesen (63)
Essen
Chairman
Chairman of the Board of Management of Ruhrgas AG
July 2, 1987*

Klaus Zwickel (55)
Frankfurt
Deputy Chairman
Chairman of the Metalworkers Union
October 21, 1993

Josef Bauer (55)
Ingolstadt
Member of the Works Committee of AUDI AG
July 2, 1987

Dr. rer. pol. Carl H. Hahn (68)
Wolfsburg
Former Chairman of the Board of Management of Volkswagen AG
January 1, 1993

Wilhelm Hemer (51)
Frankfurt
Trade Union Secretary to the Executive Committee of the Metalworkers Union
May 3, 1989

Walter Hiller (62)
Hanover
Minister for Social Affairs of Lower Saxony
From April 9, 1986 to June 20, 1990 and since July 17, 1990

Jann-Peter Janssen (50)
Norden
Member of Works Council of Volkswagen AG Emden Plant
April 9, 1986

Gerhard Kakalick (48)
Kassel
Chairman of Works Council of Volkswagen AG Kassel Plant
June 3, 1993

Walther Leisler Kiep (69)
Frankfurt
General partner, Gradmann & Holler
From March 3, 1976 to July 1, 1982 and since January 26, 1983

Dr. rer. pol. Jürgen Krumnow (50)
Frankfurt
Member of the Board of Management of Deutsche Bank AG
June 1, 1994

Dr. jur. Otto Graf Lambsdorff (68)
Düsseldorf
President, Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (German stockholders' association)
July 2, 1987

Dr. jur. Manfred Pilgrim (53)
Wolfsburg
Senior Executive of Volkswagen AG
June 3, 1993

Dr.-Ing. E. h. Günther Saßmannshausen (64)
Hanover
Chairman of the Supervisory Board of Deutsche Bahn AG
July 2, 1987

Dr. rer. pol. Friedrich Schiefer (55)
Munich
Member of the Board of Management of Robert Bosch GmbH
July 4, 1991

Siegfried Schinowski (54)
Hanover
Chairman of Works Council of Volkswagen AG Hanover Plant
July 2, 1992

Gerhard Schröder (50)
Hanover
Minister President of the State of Lower Saxony
July 17, 1990

Dr. rer. pol. Albert Schunk (53)
Frankfurt
Head of the International Department on the Executive Committee of the Metalworkers Union
July 5, 1977

Bernd Sudholt (48)
Wolfsburg
Deputy Chairman of the Group and Joint Works Councils of Volkswagen AG
July 2, 1992

Klaus Volkert (52)
Wolfsburg
Chairman of the Group and Joint Works Councils of Volkswagen AG
July 2, 1990

Dr. rer. pol. Bernd W. Voss (55)
Frankfurt
Member of the Board of Management of Dresdner Bank AG
July 22, 1993

Changes on the Supervisory Board:

Dr. rer. pol. Ulrich Weiss (58)
Frankfurt
Member of the Board of Management of Deutsche Bank AG
June 30, 1988 to June 1, 1994

Board of Management of Volkswagen AG

Dr. techn. h. c. Dipl.-Ing. ETH Ferdinand Piëch (57)
Chairman
January 1, 1993
Member of the Board of Management
April 10, 1992

Bruno Adelt (55)
Controlling and Accounting
January 1, 1995

Dr. Robert Büchelhofer (52)
Sales and Marketing
April 1, 1995

Dr. rer. pol. h. c. Peter Hartz (53)
Human Resources
October 1, 1993

José Ignacio López de Arriortúa (54)
Production Optimization and Procurement
March 16, 1993

Dr. jur. Jens Neumann (49)
Group Strategy, Treasury, Legal Matters and Organization
January 1, 1993

Dr. jur. Martin Posth (51)
Asia Pacific
January 13, 1993
Human Resources
August 1, 1988 to January 13, 1993

Prof. Dr.-Ing. Ulrich Seiffert (53)
Research and Development
September 3, 1993
Research and Development (Group Purchasing Strategy and Coordination)
September 3, 1988 to March 16, 1993

Changes on the Board of Management:

Dr. rer. pol. Werner P. Schmidt (62)
Controlling and Finance
March 16, 1993 to December 31, 1994
Overseas Operations and Sales Strategy
August 1, 1975 to March 16, 1993

Marque Management Bodies

Volkswagen

Dr. techn. h. c. Dipl.-Ing. ETH Ferdinand Piëch (57)
Chairman of the Volkswagen Management Body
August 1, 1993

Dr. Robert Büchelhofer (52)
Sales
April 1, 1995

Dr. rer. pol. h. c. Peter Hartz (53)
Human Resources
October 1, 1993

Dr. jur. Jens Neumann (49)
Organization and Systems
September 3, 1993

Lothar Sander (44)
Controlling and Accounting
January 1, 1995

Herbert Schuster (53)
Technical Development
September 3, 1993

Folker Weißgerber (53)
Production and Logistics
March 16, 1993
Deputy, Production and Logistics
December 1, 1991 to March 16, 1993

Changes on the Volkswagen Management Body:

Bruno Adelt (55)
Controlling and Accounting
August 1, 1992 to December 31, 1994

Seat

Dr. Juan Llorens Carrió (60)
Chairman of the Board of Management of SEAT, S.A.
November 4, 1993

Dr. rer. pol. Utz Claassen (31)
Finance
May 12, 1994

Detlev Schmidt (50)
Sales
January 1, 1994

Dr. rer. nat. Barthel Schröder (45)
Technology and Engineering
May 12, 1994

Jochen Schumm (47)
Human Resources
May 12, 1994

Changes on the Seat Management Body:

Roland Schober (43)
Finance
September 1, 1993 to May 12, 1994

Prof. Dr.-Ing. Peter Walzer (57)
Deputy Chairman of the Board of Management of SEAT, S.A.
May 5, 1993 to May 12, 1994
Technology and Engineering
November 1, 1990 to May 4, 1993 and March 2, 1994 to May 12, 1994

Škoda

Ing. Ludvík Kalma (53)
Chairman of the Board of Management of ŠKODA, automobilová a. s.
April 16, 1991

Volkhard Köhler (51)
Deputy Chairman
Commercial Affairs
April 16, 1991

Dr. jur. Pavel Novácek (46)
Human Resources
April 16, 1991

Detlev Schmidt (50)
Sales
July 1, 1991

Dr.-Ing. Gerald Weber (45)
Technology and Engineering
June 7, 1991

Audi

Dr. techn. Herbert Demel (41)
Spokesman of the Board of Management of AUDI AG,
Marketing and Sales
February 4, 1994
Technical Development
March 1, 1993

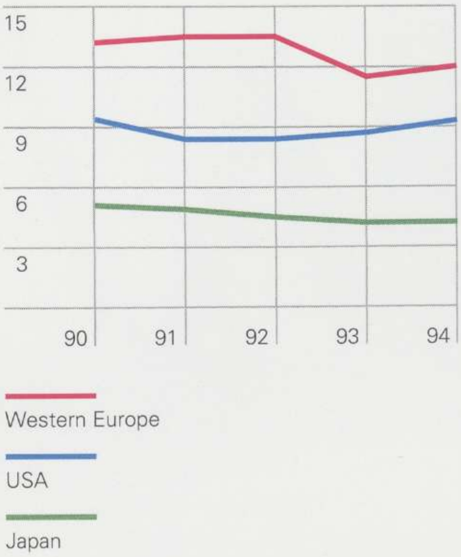
Jürgen Gebhardt (50)
Production
February 1, 1993

Andreas Schleef (51)
Human Resources
March 27, 1985

Erich Schmitt (48)
Purchasing, Finance and Organization
November 25, 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.

The major world passenger car markets
(million units)



Global economic recovery well under way

The global economy continued its recovery in 1994, with North America and the Asian Pacific region providing major impetus for the upswing. Energetic reform policies enabled Brazil and Argentina to achieve their best economic performance for a long time. The People's Republic of China once again recorded a double-digit growth rate, while Japan succeeded in overcoming its longest postwar recession. Economic recovery in Western Europe was stimulated above all by rising exports and increased capital investment. Germany's economic growth in 1994 surpassed expectations. The reforming countries of Central and Eastern Europe continued to make progress, albeit at varying speeds. The process of transforming a planned economy into a market economy is being accomplished most rapidly in the Czech Republic, Hungary and Poland, enabling these countries to achieve the highest growth rates.

Worldwide revival of demand for automobiles

Passenger car sales in Germany during 1994 rose by only 0.5 % and thus remained virtually on a par with the previous year's total of 3.2 million. Stagnating and in many cases actually falling real incomes continued to curb consumer spending and prevented any sustained revival in demand for automobiles.

By contrast, passenger car sales in Western Europe outside Germany were up by 8.0 % at 8.7 million. The above-average increases in demand recorded in France (+ 14.6 %), Spain (+ 22.0 %) and Denmark (+ 66.0 %) can be ascribed in part to the bonus payment systems introduced by the governments of these countries to encourage the scrapping of vehicles more than ten years old or – as was the case in Spain from autumn 1994 onwards – more than seven years old. The automobile market also benefited from the demand for replacement vehicles that had accumulated over the past three years when consumers lacked the propensity to spend. A 5.8 % rise in sales marked the continuation of the revival which had started to become apparent on the American passenger car market during 1993. Japan's overall automobile market exhibited slight growth of 0.2 %, with the strong yen boosting sales of imported vehicles.

Restructuring measures in the Volkswagen Group successfully continued

The extensive restructuring measures within the Volkswagen Group, relating in particular to our Spanish subsidiary Seat, continued unabated in 1994. Large-scale programmes aimed at cutting costs and enhancing both productivity and quality will remain a key part of our strategy for safeguarding the Volkswagen Group's position in the face of increasingly tough international competition. One element of this is the numerous CIP^2 workshops, 6,533 of which were held throughout the Group during 1994. The continuous improvement process gives us the opportunity to access new resources by enabling the employees – who of course are more familiar with their day-to-day work than anyone else – to contribute their own expertise and creativity. Major importance will always be attached to the development of new, technically sophisticated and attractively priced products. Existing markets are being further developed, new markets systematically opened up and our model range continuously improved. These wide-ranging and hitherto highly successful measures will help to ensure that the Volkswagen Group maintains its position as one of the world's leading automobile manufacturers.

Process orientation

One of the most important elements of the transformation process is the organizational restructuring of corporate operations. Concentration on the three core processes – namely product creation, production optimization and procurement, and marketing – permits process-oriented project work that transcends the boundaries of hierarchical set-ups and rigidly specified functions. This leads to a flattening of vertical structures and the acceleration of an efficient process flow bringing productivity improvements and cost advantages which are greater and more lasting than those achieved with the traditional approaches used in linear cost-cutting programmes.

Photo on previous pages:
Golf VR6 –
the refinement of a 6-cylinder engine

Vehicles delivered to customers	1994	1993	Change%
Western Europe	**2,048,067**	**2,001,321**	**+ 2.3**
Germany	940,089	932,187	+ 0.8
Italy	217,841	267,899	– 18.7
France	171,548	139,523	+ 23.0
Spain	170,874	164,845	+ 3.7
Great Britain	135,315	111,190	+ 21.7
Belgium	73,862	77,177	– 4.3

Deliveries to customers up on 1993

The slight upward trend on major automobile markets in 1994 meant that the number of passenger cars and commercial vehicles delivered to customers worldwide by the Volkswagen Group rose by 6.4 % to 3,294,619. While increases in sales were recorded by Volkswagen (+ 7.2 %), Audi (+ 5.2 %) and Seat (+ 11.9 %), Skoda sales were down by 8.6 %. The number of commercial vehicles delivered to customers rose by 3.5 % to 305,437.

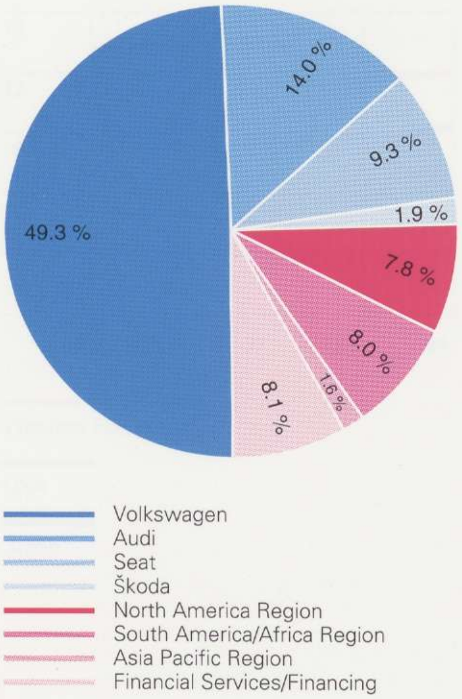
With overall vehicle sales in Western Europe increasing by 5.9 %, the Volkswagen Group was able to maintain its leading position on this market for the tenth year in succession, delivering a total of 2,048,067 vehicles to customers in the region (+ 2.3 %) and achieving a 16.0 % share of the market as against 16.5 % in 1993. Our largest European export markets were Italy, Spain, France, Great Britain and Belgium.

While the number of vehicles delivered to customers outside Germany rose by 8.8 % to 2,354,530, the absence of any marked upward trend on the domestic market meant that sales in Germany were up by only 0.8 %. The Volkswagen Group nevertheless defended its position as the leader on the German market, with its market share of 28.6 % identical to that recorded in 1993. Sales of Group models in Germany's new federal states, where the Volkswagen marque is likewise the market leader, increased once again to a total of 181,800.

We should like to express our sincere thanks to our customers all over the world for their confidence in our products and their loyalty to our Group. We shall continue to direct all our efforts towards developing vehicles which further reinforce our lead over our competitors in terms of technical sophistication and product quality.

The range of models available on today's automobile market is becoming ever more varied. Given this situation, our sales organization will thus be called upon in future to play a still more important role. The entire organization must therefore be oriented still more effectively towards meeting our customers' wishes with the aim of further enhancing customer satisfaction. One step on the way to achieving this goal is the certification of all Volkswagen and Audi dealers by Germany's regional technical inspectorates (TÜV). This involves checking compliance with a set of special requirements covering all aspects of a dealership's operations, from tidiness and cleanliness in the workshop, quality of repair work, warranty terms and response in the event of customer complaints, to parts stores and sales activities. Dealerships fulfilling these demands are certified as meeting the requisite high quality standards, a practice which serves to ensure efficiency and optimum performance. We give our dealers all possible support in achieving the standards necessary for certification.

Sales by divisions
(before consolidation)



Thanks are due to 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.

Increase in orders on hand

At the end of 1994 the number of orders on hand for Group models from customers in Western Europe – including Germany – stood at 276,000, 46.0 % up on the corresponding figure for the previous year. This rise can be attributed in part to the improvement in the general economic climate and in part to the renewal of the Group's model range along with the fact that we were able to pass on cost savings to our customers by offering them still better value for money.

Unit sales and sales revenue in Group both up

The revival in demand meant that the number of vehicles sold to the dealer organization by the Volkswagen Group increased by 4.9 % in 1994 to 3,107,797. Consolidated sales revenue was likewise up, rising by 4.5 % to DM 80.0 billion. While domestic sales fell by 4.1 % to DM 32.9 billion, the figure of DM 47.1 billion recorded for foreign sales represents an 11.5 % improvement over 1993. As a result of this development, the proportion of total sales revenue generated abroad rose from 55.2 % to 58.9 %.

At 1,399,348, the number of vehicles sold to dealers by Volkswagen AG was 0.3 % down on the previous year. Sales fell by 2.5 % to DM 41.9 billion, with export sales making up 49.4 % of this total as against 48.7 % in 1993.

Production up in response to increased demand

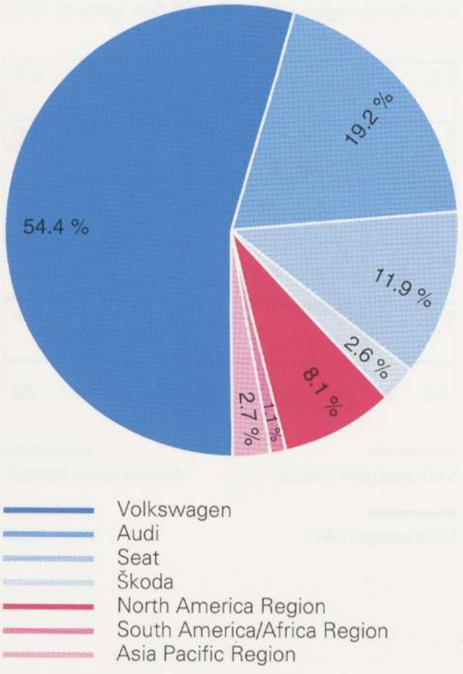
With stocks on hand having been reduced at the beginning of the year, the Volkswagen Group raised production in the course of 1994 to take account of the improved sales situation. Worldwide output consequently rose by 0.8 % to 3,042,383 vehicles; out of this total, 1,246,392 were built by Volkswagen AG (+ 0.5 %). The average number of vehicles produced per working day within the Group stood at 13,913. Vehicles manufactured abroad accounted for 53.2 % of total output as against 53.3 % in the previous year.

Vehicle sales to dealers	1994	1993	Change %
Worldwide	**3,107,797**	**2,962,159**	**+ 4.9**
Volkswagen	2,243,997	2,110,086	+ 6.3
Audi	362,707	339,261	+ 6.9
Seat	328,784	290,712	+ 13.1
Škoda	172,309	222,100	– 22.4

Production Units	1994	1993	Change %
Worldwide	**3,042,383**	**3,018,650**	**+ 0.8**
Passenger cars	2,865,143	2,843,481	+ 0.8
Commercial vehicles	177,240	175,169	+ 1.2
In Germany*	1,424,721	1,410,700	+ 1.0
Abroad	1,617,662	1,607,950	+ 0.6

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

Group volume of purchasing by divisions



Volume of purchasing on a par with the 1993 level

The Volkswagen Group's volume of purchasing – excluding sales tax – fell slightly in 1994, dropping from DM 43.8 billion to DM 42.1 billion. Purchasing by Volkswagen AG was also down and totalled DM 19.5 billion compared with DM 21.2 billion in the previous year, with DM 14.5 billion accounted for by raw materials and supplies as well as semi-finished and finished products and DM 5.0 billion spent on capital goods and services. Volkswagen once again made a major contribution to promoting economic development in Germany's new federal states, spending a total of DM 2.4 billion on goods and services from eastern Germany as against DM 2.0 billion in 1993. Over one hundred companies in the new federal states today act as suppliers to the four Volkswagen Group marques. In our purchasing activities we make use of the opportunities offered by the structure of the Volkswagen Group, with its four marques and three Regions, to call for bids from suppliers all over the world and thereby ensure greater clarity in the order-placing process.

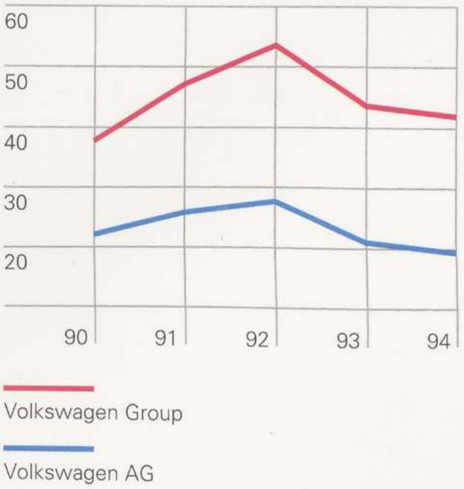
The global economic recovery and the resultant considerable rise in raw-material consumption and prices significantly influenced the situation on the purchasing markets in 1994.

Although a certain amount of success was achieved in improving cooperation between automobile manufacturers and suppliers during 1994, today's tough international competition requires the two sides to work together still more closely. The relationship between them is currently undergoing immense changes, with cost pressure necessitating ever more rapid action. As far as the Volkswagen Group is concerned, this means that even greater importance must be attached in future to the process of simultaneous engineering, which involves bringing in our suppliers to work together with our development, production, quality assurance, procurement and controlling departments. By promoting close cooperation between all four Group marques in these areas, we aim to utilize synergistic effects and thereby optimize the added-value chain.

Awards for Volkswagen suppliers

The Volkswagen Group's first-ever "Value to the Customer Awards" were presented in Hanover in 1994. In the presence of the Chairman of the Board of Management, Dr. Ferdinand Piëch, and the Board member responsible for Production Optimization and Procurement, Mr. José Ignacio López de Arriortúa, 91 suppliers from all over the world received the award in recognition of their outstanding performance with regard to quality, service and price in their capacity as suppliers to one or more Group marques or in the Regions. Dr. Piëch and Mr. López paid tribute to these outstanding achievements and emphasized that intensifying cooperation with suppliers is an important element of corporate policy. Thanks are due to all our suppliers for their constructive cooperation during 1994. By working together we shall be able to further enhance quality and productivity while at the same time laying the foundation for a successful future.

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



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

Further improvement in productivity

The average number of employees (not including apprentices) in the Volkswagen Group fell by 6.2 % in 1994 to 237,501, of whom 140,935 were with Group companies in Germany (– 5.7 %) and 96,566 with companies abroad (–6.8 %). As this reduction in the workforce – achieved without causing social hardship – and the introduction of the four-day week were accompanied by an increase in output, Group productivity rose by 7.4 %. At the end of the year the Group employed a total of 242,318 people (including apprentices), 3.7 % fewer than in 1993. The workforce at Volkswagen AG (including apprentices) totalled 105,438 on December 31, 1994 and was thus 2.8 % down on the 1993 figure.

Variable four-day week successfully introduced

Our volume and productivity planning indicated in 1993 that Volkswagen AG would shortly be faced with the problem of having around 30,000 employees more than actually required. In response to this situation, we took steps to adjust total working time accordingly by introducing the four-day week (28.8-hour week) for 1994 and 1995. Tailor-made working-hours concepts were developed to meet the particular needs of the individual plants and operational sectors, with a wide variety of arrangements geared to specific requirements designed and implemented in cooperation with employees and their representative bodies.

Working hours also cut at AUDI AG

AUDI AG found itself in a similar position to Volkswagen AG, with roughly 3,000 employees more than needed in 1994 and 1995. Following the Volkswagen concept, total working time at AUDI AG was therefore likewise adjusted to take account of this situation, with a 10 % reduction in working hours as from April 1, 1994 being accompanied by corresponding wage and salary cuts.

Efficient use of research and development funds

Expenditure on research and development remained at a high level in 1994. The Volkswagen Group devoted DM 2.8 billion (– 5.5 %) to this sector, a figure which represents 3.5 % of sales revenue. Of this expenditure, DM 1.5 billion (– 5.6 %) was accounted for by Volkswagen AG. The Group employed a total of 13,832 people in the research and development sector, 7,573 of them at Volkswagen AG alone.

Implementation of the platform strategy successfully continued

1994 saw further progress in Group-wide implementation of the platform strategy, which represents a key element of the Volkswagen Group's rationalization and cost-cutting programmes. By mid-1996 the highest-volume models in the Group's range are to be produced on the basis of just four different platforms instead of the sixteen used hitherto, a move which will reduce complexity and component diversity besides generating synergistic effects. This will permit shorter development times and thus a cut in development and production costs, while at the same time enabling us to enhance quality and offer our customers a wider range of options.

Aggressive model policy continued

The Volkswagen Group once again presented a variety of new models in 1994. Following the 1993 launch of the new Golf Convertible, the Golf Variant, the Golf Ecomatic and the new Passat, a modern subcompact car was added to the range in the shape of the new Volkswagen Polo. Unveiled in Paris in August last year, the new Polo comes in both two-door and four-door versions. Its comprehensive safety concept brings the standards of the Golf to the Polo class as well, which means that all Volkswagen models – from the Polo to the Transporter – now fulfil the most stringent safety requirements. Audi renewed almost its entire model range in 1994. Alongside the Audi A8 with its revolutionary aluminium body and the A6 in a new trendsetting design, the second half of the year saw the arrival of the Audi A4 incorporating technological advances such as five-valve engines and a four-link front axle. The launch of the new Škoda Felicia marked the first step in modernization of the marque's model range, a process which Seat had accomplished back in 1993 with the introduction of the Cordoba and the new Ibiza.

Increase in capital investments

Capital investments in the automobile sector were up on the 1993 figure, primarily on account of the substantial rise recorded by AUDI AG. The Volkswagen Group invested a total of DM 5,651 million, 16.7 % more than in the previous year; the largest share of this expenditure related to new products.

Investments in tangible assets were devoted to new products, model upgrading measures and further improvement of production technologies. The volume of investment in the leasing and rental sector rose by 6.3 % to DM 5,781 million.

Volkswagen AG's capital investments in 1994 amounted to DM 5,282 million compared with DM 1,793 million in the previous year. Investments in tangible assets, which at DM 582 million were 54.7 % down on 1993, focused primarily on new models and optimization of manufacturing structures. Financial investments increased from a 1993 total of DM 491 million to DM 4,694 million. The major proportion of this sum was taken up by capital contributions in respect of subsidiaries – including DM 1.3 billion for the acquisition of Volkswagen Navarra, S.A. and DM 1 billion for a capital increase at Seat – and the purchase of long-term securities.

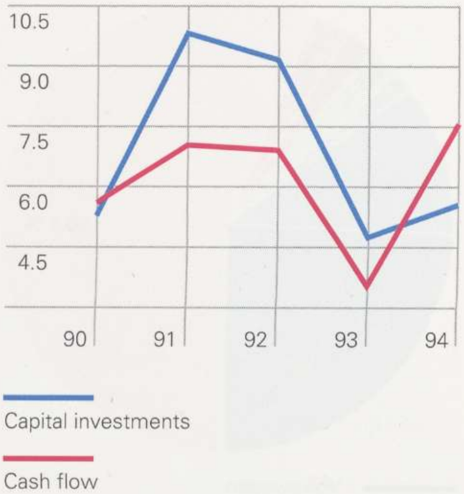
Volkswagen acquires Treuhandanstalt's holding in Sächsische Automobilbau GmbH

In mid-1994 Volkswagen AG acquired the 87.5 % interest in Sächsische Automobilbau GmbH, Mosel, held hitherto by the Berlin-based Treuhandanstalt, the agency responsible for administering and gradually privatizing what were formerly state-owned East German companies. Sächsische Automobilbau GmbH has thus now joined Volkswagen Sachsen GmbH and Volkswagen Sachsen Immobilienverwaltungs GmbH as a wholly-owned subsidiary of Volkswagen AG. At the request of the Treuhandanstalt, Volkswagen had assumed management responsibility for the company from the outset in 1990.

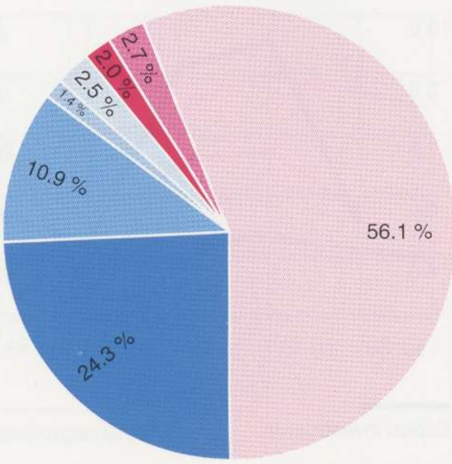
Support for Seat's research and development projects from Spanish central government and government of Catalonia

July 1994 saw the signing of an agreement in Madrid in which the Spanish central government and the government of Catalonia declared their intention of supporting future research and development projects at SEAT, S.A. Their aim is to safeguard the existence of the company in its role as the only Spanish automobile manufacturer performing all corporate functions. The two sides agree that funds are to be allocated in line with European Union regulations – in other words, in accordance with the "Community Framework for State Aid to the Motor Vehicle Industry" – and that Seat is to continue economically efficient implementation of the measures laid down in the current reorganization concept.

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



Capital investments 1995–1999
by divisions
(58 billion DM)



Volkswagen
Audi
Seat
Škoda
North America Region
South America/Africa Region
Asia Pacific Region 0.1 % (excluding capital investments to the amount of 1.3 billion DM on a pro rata basis of companies in China consolidated at equity)
Financial Services/Financing

Agreement reached with Mercedes-Benz on supply of Transporter components

Under the terms of two agreements signed in 1994, Mercedes-Benz AG and Volkswagen AG will in future supply each other with engines and other components for use in Transporter-class models. Volkswagen will receive gearboxes, axles and steering gear from the newly developed Mercedes-Benz transporter series for installation in the new VW LT model, while Mercedes-Benz will purchase Volkswagen engines and automatic gearboxes for use in a people-carrier. This long-term supply arrangement will enable Volkswagen to substantially cut the development costs for new models and thus become even more competitive in this market segment.

Forthcoming launch of the people-carrier

At the Geneva Motor Show in March 1995 Volkswagen unveiled the people-carrier known as the Sharan, which is being produced by AutoEuropa – our joint venture with Ford-Werke AG – in Palmela, Portugal. The current demand trend in this market segment indicates that sales of this model are likely to fall somewhat short of the level originally envisaged.

AUTOLATINA: Volkswagen and Ford to part company

From 1995 onwards the Ford Motor Company and Volkswagen AG will gradually cease to conduct their operations in Brazil and Argentina on a joint basis. Established in 1987 as a means of responding to the difficult economic and market conditions prevailing at the time, our South American joint venture proved highly successful once the necessary structural adjustments had been realized. The two sides are in agreement that AUTOLATINA is now faced with a new situation as the market is increasingly opened up to imported vehicles and components. In the light of their global product strategies, Ford and Volkswagen are of the opinion that discontinuation of joint operations is the best way of enabling both companies to become more competitive on the South American market.

Decline in the value of the Mexican peso

The Mexican peso suffered a severe decline in value at the end of 1994, which led to large-scale withdrawal of foreign capital and serious consequences for the Mexican economy. As far as Volkswagen de Mexico was concerned, the collapse of the peso had an adverse effect on the 1994 result following translation into DM. The company's development in 1995 will depend to a large extent on how rapidly domestic demand revives and on whether or not exports to the USA, Canada and Latin America can be stepped up.

Volkswagen Group's Financial Services Division successfully restructured

With effect from January 1, 1994, Volkswagen Finanz GmbH was transformed into a joint stock company by the name of Volkswagen Financial Services AG, which is now responsible for strategic management of all financial services operations in Europe. At the beginning of 1994 all our European Group companies in the financial services sector – in Germany, France, Italy, Spain, the Czech Republic and the Slovak Republic – were simultaneously brought together under the control of this holding company. Following the establishment of Volkswagen Financial Services (UK) Ltd. in Great Britain in April 1994, we are now also represented in another major European country.

By transforming the holding company into a joint stock company we have created an entity with greater opportunities for access to the international money and capital markets, enabling us to avail ourselves of low-interest sources of refinancing worldwide. It is also intended that the new financial services companies should be able to draw upon the know-how already gained in this sector. Volkswagen Financial Services AG sees its role as that of providing services to the other Volkswagen Group companies.

Upward trend once again in evidence

After Western Europe's worst recession since the War, in 1994 the economy began to recover. This upswing helped to boost the Volkswagen Group's sales and – together with our cost-structure optimization programmes and productivity-raising measures – contributed to improving our earnings situation.

An increasingly positive earnings trend became apparent as the year progressed. Although a loss of DM 342 million was posted for the first three months of 1994, measures including substantial reductions in fixed costs enabled us to break even in the second quarter and earnings continued to improve during the second half of the year. The Volkswagen Group closed the fiscal year with net earnings of DM 150 million compared with a 1993 loss of DM 1,940 million. Volkswagen AG achieved net earnings of DM 165 million as against DM 71 million in 1993.

The improved results returned by key subsidiaries as a result of the extensive measures taken to overcome the structural crisis had a beneficial effect on consolidated earnings. A significant reduction of labour cost within the Volkswagen Group was made possible by the scaling-down of the workforce – accomplished once again without causing social hardship – and the introduction of the four-day week at Volkswagen in 1994, along with the cut in working hours at Audi. Costs in the procurement sector were also reduced by cutting down parts proliferation and stepping up cooperation with suppliers. Furthermore, rising demand led to a higher degree of capacity utilization at most plants.

Implementation of the reorganization concept at Seat produced the anticipated improvement in the company's result. AUTOLATINA returned a profit in both Brazil and Argentina. Volkswagen de Mexico closed the year with a profit in contrast to the sizeable loss posted in 1993, while Volkswagen of America recorded a far smaller loss than in the previous year.

The improved earnings situation enables the Board of Management and the Supervisory Board, after transferring DM 55 million to free reserves, to propose to the Annual Meeting of Stockholders the payment of an increased dividend of DM 3 on each ordinary share and DM 4 on each preferred share. Taking into account the tax credit of DM 1.29, eligible holders of ordinary shares will receive a total of DM 4.29 per share. Holders of preferred shares will be entitled to DM 5.71 per share, with this figure including the tax credit of DM 1.71.

Proposal on appropriation of net earnings available for distribution	DM
Dividend distribution on subscribed	
capital of DM 1,673.6 million*	106,650,000
of which	
on ordinary shares	81,000,000
on preferred shares	25,650,000
Balance	
(carried forward)	4,073,981
Net earnings available for distribution	**110,723,981**

* DM 3.0 million deriving from the capital increase effected in November 1994 and DM 500 deriving from the excercise of option rights in 1994 carried no dividend rights for the fiscal year 1994.

Prospects

The global economic recovery and the ongoing vigorous expansion of world trade seem set to continue in 1995. While the upswing in the USA will probably become slightly less marked, increased growth is forecast for Japan and most Western European countries. The economic situation in Germany will continue to improve and the upward trend in Poland, Hungary and the Czech Republic, where the restructuring process is relatively well advanced, will be maintained. However, the situation on the labour market in Western Europe will recover only slowly. What is more, tax increases in a number of countries mean that there is little prospect of any rapid rise in consumer spending.

As demand for automobiles is likely to be stimulated by the global economic trend now in evidence, we anticipate that the Volkswagen Group's unit sales will increase slightly in 1995. The Asian Pacific region is expected to record a high growth rate, while sales in South America will probably stabilize at a high level following the major revival experienced in 1994. Increased sales are also in prospect in North America, Africa and the Middle East. The general economic upswing in Western and Central Europe should give a boost to the region's automobile market as a whole, with the German market continuing to revive as demand for replacement vehicles grows.

However, we must not lose sight of potential risks. Capacity utilization at the Volkswagen Group's German plants remains dependent to a large extent on exchange rates. As increases in the value of the DM against major currencies such as the US dollar, lira and yen mean that our products become less competitively priced, such developments have an adverse effect on our results and can place jobs in jeopardy. The consequences suffered by the Mexican economy as a result of the peso's sharp decline in value will create new challenges for our Mexican subsidiary.

Besides short working hours, Germany has one of the highest wage levels in the world. The disadvantage of high labour costs can be offset only through greater innovation, more marked process orientation and continued efforts to minimize costs by raising productivity. In tackling these areas, it is essential that we should also focus attention on the phase between completion of the product and the time when it reaches the customer.

As a consequence of the advances made in the process of transformation, and with only slight increases in production and sales figures, we expect the 1995 result to again reflect a modest improvement, both for Volkswagen AG and for the Group.

Wolfsburg, February 21, 1995

The Board of Management

From left to right: Dr. Neumann, Dr. Piëch, Mr. López de Arriortúa, Dr. Hartz, Mr. Adelt, Dr. Posth, Prof. Dr. Seiffert

The Major Companies within the Volkswagen Group
and Volkswagen AG

Volkswagen

Volkswagen AG
Wolfsburg
Subscribed capital:
DM 1,673,585,500

Plant locations:
Wolfsburg
Hanover
Kassel
Emden
Salzgitter
Brunswick

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

Sächsische Automobilbau GmbH
Mosel
DM 10,000,000
100 % Volkswagen AG

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

Volkswagen Navarra, S.A.
Arazuri, Spain
ESP 68,500,000,000
100 % Volkswagen AG

AutoEuropa Automóveis Lda.
Palmela, Portugal
ESC 60,000,000,000
50 % Volkswagen AG

Volkswagen Bratislava, spol. s r.o.
Bratislava, Slovak Republic
SKK 1,983,855,000
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

V.A.G (United Kingdom) Ltd.
Milton Keynes,
Great Britain
£ 9,610,000
100 % Volkswagen AG

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

Seat

SEAT, S.A.
Barcelona, Spain
ESP 10,000,000
100 % Volkswagen AG

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

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

Škoda

ŠKODA, automobilová a. s.
Mladá Boleslav,
Czech Republic
CZK 13,129,700,000
60.3 % Volkswagen AG

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
R $ 41,045,430
51 % Volkswagen AG*

Autolatina Brasil S.A.
São Paulo, SP, Brazil
R $ 95,771,547
42.58 % Volkswagen AG*

Autolatina Argentina S.A.
Buenos Aires, Argentina
ARS 99,651,856
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 Financial Services AG
Brunswick
DM 863,066,500
100 % Volkswagen AG

Volkswagen Bank GmbH
Brunswick
DM 622,500,000
100 % Volkswagen Financial Services AG

Volkswagen Leasing GmbH
Brunswick
DM 100,000,000
100 % Volkswagen Financial Services AG

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

VW FINANCE, S.A.
Madrid, Spain
ESP 8,207,390,000
100 % Volkswagen Financial Services AG

FINGERMA S.p.A.
Verona, Italy
ITL 10,000,000,000
100 % Volkswagen Financial Services AG

ŠkoFIN s.r.o.
Prague, Czech Republic
CZK 30,000,000
100 % Volkswagen Financial Services AG

Volkswagen Financial Services (UK) Ltd.
Milton Keynes,
Great Britain
£ 33,000,000
100 % Volkswagen Financial Services AG

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

Volkswagen Leasing, S.A. de C.V.
Puebla/Pue., Mexico
MXN 133,000
96.99 % Volkswagen de Mexico, S.A. de C.V.
3.01 % Volkswagen Comercial, S.A. de C.V.

Financing Companies

Coordination Center Volkswagen S.A.
Brussels, Belgium
BEF 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.

The new Polo – how big a small car can be

The new Polo was unveiled in Paris on August 24, 1994. Volkswagen has been represented in the subcompact-car class since 1975 with the Polo series, selling a total of 3.8 million Polos in the nineteen years following the launch of the original version. The third-generation Polo now on the market brings a new dimension to its class where practicality, comfort, safety and reliability are concerned. It has a compact, dynamic shape with a short rear end and the design features typical of the Volkswagen marque. This body shape makes for outstanding aerodynamic characteristics, giving the Polo a drag coefficient of 0.32 which puts it among the leaders in its class. The new Polo is characterized by a whole series of features hitherto generally found only in vehicles in the next class up. Foremost among these are its comfortable interior, its spaciousness, its ease of handling, its wide range of standard equipment, exceptional quality standards, a high degree of environment-friendliness and the option of a two-door or four-door model.

The tried and tested safety concept already incorporated in the Golf is now also featured in the Polo. Essential elements of this concept include the torsionally rigid passenger cell, design measures improving occupant protection in the event of a side or rear impact, new belt tensioners, ABS, a telescopic safety steering column and airbags for driver and front passenger. The new Polo thus complies with all current and planned safety regulations, while setting new standards for its class in terms of active and passive safety.

A choice of three four-cylinder spark-ignition engines is available: a 1.0 litre engine delivering 33 kW (45 bhp), a 1.3 litre unit with an output of 40 kW (55 bhp) and a 1.6 litre engine producing 55 kW (75 bhp). From 1995 onwards customers will additionally have the option of a particularly powerful high-capacity diesel engine – currently used in the Golf – which delivers 47 kW (64 bhp). All these engines already fulfil the requirements of the European Union emission standards scheduled to come into force in 1996. Soon after its launch the new Polo was awarded the "Golden Steering Wheel 1994" by the German newspaper "Bild am Sonntag" and in February 1995 the readers of the magazine "auto, motor und sport" voted it the best car in the world in its class.

The Polo class currently constitutes the second largest segment of the automotive market in Western Europe, accounting for roughly 28 % of total sales. With further growth forecast, the third-generation Polo thus provides Volkswagen with an outstanding basis for further increasing its share of this segment. Around 350,000 Polos are to be produced annually, which means that this model will in future occupy a position of considerably greater importance within the Group's manufacturing programme. While the previous version of the Polo was built only in Spain, brisk demand for the new model has made it necessary to resume production of the Polo in Wolfsburg as well.

Concept 1 to be further developed for series production

Presented in Detroit at the beginning of 1994, the Concept 1 vehicle study met with a rapturous reception both in the USA and elsewhere. This model, which incorporates many styling elements reminiscent of the classic Beetle, is now to be further developed on the basis of an existing platform with a view to eventual series production. Its technical concept will ensure that it fulfils all the demands made of a modern automobile not only today but well into the next century.

Promoting safety – Volkswagen's airbag campaign successfully continued

With the aim of further enhancing passive safety in its vehicles, Volkswagen reduced the price of its airbag system in mid-1994. All Volkswagen models not already equipped with airbags as standard can be retrofitted with the system at an exceptionally attractive price, enabling an optimum degree of passive safety to be achieved through the combination of

Photo on previous pages: The new Polo always cuts a good figure

airbags and existing safety features. Volkswagen has thereby further consolidated its position as the leader in the field of vehicle safety, with the savings achieved through improved productivity and cost-cutting measures now being passed on to the customer in the form of lower prices and product upgrades. Examples include the numerous special models offered and price reductions for vehicles with TDI engine and for the Passat.

Major progress made in the production sector

A whole series of improvements was realized in the production sector during 1994. Ongoing measures and strenuous efforts in a variety of areas helped to raise productivity and lower unit costs. Together with a substantial reduction in fixed costs, these developments enabled the Production Division to play a major part in boosting Volkswagen's earnings.

Considerable progress was also achieved in enhancing product quality, with restructuring measures and other steps making it possible to set and attain still higher quality targets.

Fifteen million VW Golfs – a new record

Volkswagen arrived at another remarkable milestone in 1994 when production of the Golf reached the fifteen million mark – all the more notable an achievement if it is borne in mind that the ten millionth Golf had been made only around six years earlier in June 1988. Apart from the legendary VW Beetle, which has so far notched up production totalling almost 22 million units, the only other models to have been built more than fifteen million times over are the Toyota Corolla and Ford's Tin Lizzie. The vehicle representing this landmark was a model in the special "Pink Floyd" series, with an engine delivering 55 kW (75 bhp), which came off the assembly line at the Wolfsburg plant on May 30, 1994. Worldwide production of the Golf per working day in 1994 averaged 3,927 vehicles, with 2,170 of these built in Wolfsburg alone. The Golf is

The RS 1, a joint development with Porsche and a study for the Sharan people-carrier also produced in Mosel, Brussels, Bratislava, Puebla (Mexico) and Uitenhage (South Africa).

Twenty years of the Golf – a best-seller celebrates its birthday

The new output record was not the only thing which made 1994 a special year for the Golf. Production of the Golf – as the successor to the Beetle – began on March 2, 1974, which means that this model has now been an established part of Volkswagen's range for twenty years. As the very first model in what has come to be known as the compact class, the Golf has impressively demonstrated its reliability, quality and continuity over the past two decades. Another of the Golf's assets is the fact that it can be tailored to personal requirements, with a wide range of equipment options allowing every Golf purchaser to "design" a vehicle in line with his or her own ideas and wishes. Following the launch of the second-generation Golf in 1983, the current third-generation version of the most popular model on the European market was presented to the public at the 1991 Frankfurt International Motor Show.

Twenty-five million engines from Volkswagen's Salzgitter plant

In August 1994 the Volkswagen Group's main engine plant in Salzgitter turned out its twenty-five millionth unit. With around 7,500 engines produced here per working day for Volkswagen, Audi, Seat and a number of customers from outside the Group, the plant plays a key role in the Group's interlinked supply and services system. Advanced manufacturing technology and optimized logistics ensure high productivity and quality.

Quality management systems certified

By the end of 1994 most of our European production plants and operational units had already received confirmation from the certification authority of Germany's technical inspectorates (TÜV CERT) or from the German Association for Certifi-

The Passat – a classic

cation of Quality Management Systems (DQS) that their production processes, quality conditions and employee expertise fulfil the requirements of the European Union directive scheduled to come into force in January 1996. The aim of this directive is to promote systematic, reproducible and verifiable achievement of quality. The Audi marque and the Hanover foundry have been certified as complying with DIN ISO 9001, as have various organizational units within the Group including the Service Division, Volkswagen Marque Logistics CKD and Group Quality Auditing. The requirements of DIN ISO 9002 are fulfilled by our domestic plants in Wolfsburg, Hanover, Brunswick, Kassel, Emden, Salzgitter and Mosel, as well as by our plants in Brussels, Pamplona, Martorell, El Prat de Llobregat, Mladá Boleslav, Vrchlabí and Kvasiny. The plant in Mexico has also been granted a certificate.

Awards for innovative technology and outstanding fuel economy

Various Volkswagen models received national and international awards from important bodies and publications during 1994 in recognition of the company's achievements in the fields of safety, environmental protection and technical advance.

Particular mention must be made here of the Golf Ecomatic, which received both the 1994 Energy and Environment Award in Munich and the Outstanding Innovation Award given by the American magazine "Discovery". It was also awarded a Special Honour by the magazine "AutoExpress" for its bold new trendsetting concept. Another model which proved to be a winner in 1994 was the Golf TDI. In cooperation with the German Automobile Club (ADAC), the Austrian Automobile, Motorcycle and Touring Club organized a comparative fuel-consumption test drive in which the Golf TDI came out on top as the most economical of all the models tested, with consumption averaging 4.02 litres per 100 kilometres. Second place was taken by the Seat Cordoba Diesel with 4.37 l/100 km and third place by the Golf Ecomatic with 4.51 l/100 km.

Commercial Vehicle Division

Sales starting to revive

The Western European market for light commercial vehicles with a gross weight of up to six tonnes has exhibited a steady decline in recent years. Having reached a record level of 1.6 million in 1989, sales had fallen to 1.2 million in 1993 on account of the recession. With most countries in Western Europe starting to experience an economic recovery, however, 1994 brought a reversal of this trend and slight market growth of around 5 %. While total sales of light commercial vehicles in Western European countries other than Germany rose by 7.2 % to 984,539, the corresponding figure for the German market was 2.2 % down on 1993 at 273,966.

With domestic sales included, the number of vehicles delivered by Volkswagen AG to customers in Europe increased by 1.5 % to 147,607, which meant that we achieved an 11.7 % share of the European market compared with 12.3 % in 1993. A more marked improvement in the sales situation in Europe was prevented by the downward trend in Germany. Although Volkswagen sales on the declining domestic market fell by 2.1 % to 86,442, our share of the market remained practically unchanged at 31.6 %. The total of 61,165 vehicles delivered to customers in other European countries represented an increase of 7.0 % over the 1993 figure, with our share of this market remaining the same as last year at 6.2 %.

At 162,867, the number of European-manufactured Volkswagen commercial vehicles delivered to customers worldwide was 1.2 % up on the previous year's total. Taking into account the vehicles produced by our subsidiaries in Mexico, South Africa and South America (AUTOLATINA), Volkswagen's overall commercial vehicle sales rose by 6.1 % to 276,129.

The global economic recovery now in evidence should lead to a revival of demand for light commercial vehicles in 1995, particularly in Europe. The improvement witnessed in the order and stock situation at the end of 1994 will also have a beneficial effect, so that we anticipate a rise in sales and a generally positive business trend in 1995. The excellent market position achieved by our commercial vehicles will be consolidated and further improved by extensive model upgrading measures, new model versions and safety-enhancing equipment options.

The top end of the existing range of Volkswagen light commercials available on the German market will be supplemented during the first half of 1995 with the launch of the L 80, a 7.5 t truck which will be exported from Brazil by AUTOLATINA in the form of a chassis with cab to which various bodies will then be added in Germany to meet specific customer wishes. Inclusion of this model in our sales range represents a step towards achieving Volkswagen's aim of playing a still more prominent role as a commercial-vehicle specialist on both the manufacturing and marketing sides.

An important element of Volkswagen's product strategy in the light-commercial sector involves replacing the existing LT 1 heavy van with the LT 2 in order to safeguard future business. To this end, Volkswagen AG and Mercedes-Benz AG reached agreement in 1994 on a cooperation arrangement.

As part of Volkswagen's "pact between the generations", employees from various production plants – particularly Emden – transferred to Hanover during 1994.
It was also decided at the end of the year to move certain elements of T4 final assembly operations to the Emden plant for a limited period. Facilities for production of the Volkswagen Taro are to be installed in Emden at the same time, so that manufacture of the Taro can start there once T4 assembly ceases. Volkswagen is thereby putting into practice its declared intention of not just bringing the people to where the work is but also taking the work to where the people are. Coupled with further outsourcing measures, this mobility within Volkswagen AG will enable around 1,000 employees aged 55 and over to take early retirement in 1995.

Volkswagen marque

Key figures		1994	1993	Change %
Sales	DM million	47,385	45,855	+ 3.3
Production	Units	1,392,558	1,240,124	+ 12.3
Vehicle sales to dealers	Units	1,559,485	1,466,605	+ 6.3
Workforce	At year end	125,237	121,918	+ 2.7
Capital investments	DM million	5,902	2,605	x

Volkswagen Sachsen companies

In 1994 Volkswagen AG acquired the interest in Sächsische Automobilbau GmbH held hitherto by the Berlin-based Treuhandanstalt. This takeover, which was effective retroactively as from January 1, 1993, has been approved by the European Commission under merger control regulations. The Volkswagen project in Saxony thus now comprises three wholly-owned subsidiaries: Sächsische Automobilbau GmbH, Volkswagen Sachsen GmbH and Volkswagen Sachsen Immobilienverwaltungs GmbH. The three companies are closely linked with one another through large-scale supply of goods and services.

Volkswagen companies in Germany's new federal states

Key figures*		1994	1993	Change %
Sales	DM million	1,987	1,479	+ 34.4
Production	Units	90,100	72,923	+ 23.6
Vehicle sales	Units	90,351	72,867	+ 24.0
Workforce	At year end	3,198	3,296	– 3.0
Capital investments	DM million	379	469	– 19.2

*The figures are presented in consolidated form; the 1993 figures have been adjusted accordingly.

The overall sales revenue of the Volkswagen Sachsen companies rose by 34.4 % in 1994 to DM 1,987 million. Vehicle output comprised 90,100 Golfs including 1,469 units of the Ecomatic, which is being built only in Mosel. Series production of the electrically-powered Golf CitySTROMer also got under way in Mosel during 1994.

In addition to turning out short engines for the Group's interlinked production system and complete engines for the vehicles assembled in Mosel, the engine plant in Chemnitz also began to supply complete drive units to the Wolfsburg and Brussels plants in 1994, with production being switched to the new 1.05, 1.4 and 1.6 litre engines. Altogether, a total of 152,151 complete engines and 131,730 short engines were built in Chemnitz during the year under report. A start was also made on setting up a new production line for four-valve cylinder heads, which is scheduled to begin series production in the first half of 1995. The cylinder-head production facility in Eisenach – likewise owned by Volkswagen Sachsen GmbH – manufactured 212,419 cylinder heads in 1994.

At the end of 1994 the Volkswagen companies in the new federal states employed a total of 3,198 people in Mosel, Chemnitz and Eisenach. Taking into account the dealer organization and the 118 suppliers, Volkswagen has created or safeguarded more than 34,000 jobs in the region over the past few years. Up to the end of 1994, capital investments in Volkswagen's project in eastern Germany, which has been in progress since 1990, had totalled DM 2.3 billion.

The proceedings initiated in 1991 by the Commission of the European Union to investigate the legality of financial assistance given to the companies in eastern Germany were brought to a partial conclusion in 1994. The Commission approved investment grants and subsidies as well as loss compensation payments for Sächsische Automobilbau GmbH and for expansion of the existing engine plant in Chemnitz. It also scrutinized and approved the payments made by the Treuhandanstalt in connection with reorganization and quality assurance measures, along with the purchase prices for the engine and cylinder-head production facilities acquired by Volkswagen Sachsen GmbH and for the Treuhandanstalt's holding in Sächsische Automobilbau GmbH.

In consequence above all of the special depreciation charged, Volkswagen Sachsen GmbH and Volkswagen Sachsen Immobilienverwaltungs GmbH closed the year with losses which were offset by Volkswagen AG under the control and profit assumption agreements with these companies. By contrast, Sächsische Automobilbau GmbH returned a profit.

Volkswagen Bratislava, spol. s r.o.

The establishment of Volkswagen Bratislava in Slovakia in 1991 provided the Volkswagen Group with another low-cost and strategically important production location in Central Europe. At the end of 1994 Volkswagen AG acquired the remaining shares in Volkswagen Bratislava, spol. s r.o. held hitherto by Bratislavské Automobilové Závody, a.s. (BAZ), which means that the company is now a wholly-owned subsidiary of Volkswagen AG. Volkswagen Bratislava expanded its manufacturing programme in 1994, turning out 5,030 Passats and – as a new addition to its production operations – 843 Golfs. It also produced a total of 47,201 gearbox components. The funds required to finance the expansion of production were provided in part by way of a capital increase in 1994. As a result of this growth, the company's workforce increased by 71.9 % to reach 808 at the end of the year. Sales totalled DM 200 million as against DM 83 million in 1993.

Volkswagen Bratislava closed 1994 with a profit.

Volkswagen Bruxelles S.A.

Key figures		1994	1993	Change %
Sales	DM million	3,226	3,109	+ 3.7
Production	Units	169,930	165,835	+ 2.5
Vehicle sales	Units	169,930	165,835	+ 2.5
Workforce	At year end	5,820	5,889	– 1.2
Capital investments	DM million	39	82	– 51.8

Although a seventeen-day strike at Volkswagen Bruxelles S.A. in September 1994 resulted in a loss of output amounting to around 20,000 vehicles, the company was nevertheless able to increase its overall production for the year to 169,930 vehicles. This figure comprised 141,800 Golfs and 28,130 Passats, with 924 vehicles being manufactured per working day as against 887 in the previous year.

As the workforce remained virtually unchanged in size at 5,820, the increase in output meant that productivity also rose. As in previous years, the company's capital investments were devoted above all to completion of the new paintshop, which will use special technologies designed to reduce the environmental impact of vehicle production still further.

The company returned a profit in 1994.

V.A.G France S.A.

Key figures		1994	1993	Change %
Sales	DM million	3,643	3,149	+ 15.7
Vehicle sales to dealers	Units	138,871	121,087	+ 14.7
Workforce	At year end	711	778	– 8.6
Capital investments	DM million	2	7	– 72.3

The measures taken by the government to stimulate the economy helped to boost overall automobile sales in France by 14.6 %, with a particularly marked increase in the lower vehicle classes. However, the Polo model change meant that V.A.G France was unable to derive full benefit from the government's introduction of bonus payments to encourage the scrapping of old vehicles.

The company delivered 124,291 Volkswagen and Audi models to customers in France during 1994, 1.8 % fewer than in 1993. Škoda distribution operations were integrated into V.A.G France with effect from April 1, 1994 and sales of this marque rose by 59.7 % to 8,557 vehicles. Seat's French importer, which sold a total of 38,026 vehicles (+ 15.5 %) in the year under report, is also to be integrated into V.A.G France's business activities in the course of 1995. The Volkswagen Group's share of the French passenger car market fell from 8.6 % in 1993 to 8.0 %, while its share of the expanding market for light commercial vehicles stood at 1.7 % compared with 1.9 % in the previous year.

Our French subsidiary achieved a profit.

AUTOGERMA S.p.A.

Key figures		1994	1993	Change %
Sales	DM million	4,182	4,123	+ 1.4
Vehicle sales to dealers	Units	197,839	200,242	– 1.2
Workforce	At year end	543	486	+ 11.7
Capital investments	DM million	98	6	x

The continuing recession in Italy led to a further decline in passenger car sales, which fell by 2.7 % to 1.6 million. With the lira remaining weak, our Italian subsidiary was inevitably affected by this development.

AUTOGERMA delivered a total of 217,841 vehicles to customers in 1994. While Volkswagen sales fell by 26.7 % to 127,938, the corresponding figure for Audi models was on a par with 1993 at 40,114 (+ 0.1 %). In 1994 the company also assumed responsibility for distribution of Seat and Škoda models, selling 49,789 vehicles of these two marques. AUTOGERMA achieved an 11.7 % share of the Italian market in 1994.

The company closed the fiscal year with a profit, although it was obliged to show a loss in its national financial statements.

Volkswagen Navarra, S.A.

The Seat plant in Pamplona was hived off from SEAT, S.A. in December 1993 under the reorganization concept to form a separate company by the name of Fábrica Navarra de Automóviles, S.A. and sold to Volkswagen-Audi-España, S.A. It was then taken over in April 1994 by Volkswagen AG and renamed Volkswagen Navarra, S.A. in December last year. Over the year as a whole the company recorded sales amounting to DM 1.9 billion and produced 145,784 Polo models. This total output includes 75,014 units of the new Polo, which has been in production in Pamplona since June 1994.

The company closed the fiscal year 1994 with a profit.

V.A.G (United Kingdom) Ltd.

Key figures		1994	1993	Change %
Sales	DM million	3,307	2,744	+ 20.5
Vehicle sales to dealers	Units	108,262	92,421	+ 17.1
Workforce	At year end	433	619	– 30.0
Capital investments	DM million	1	188	– 99.2

The British automobile market exhibited an upward trend in 1994, with overall vehicle sales rising from 1.8 million to 1.9 million units. At 109,376, the number of Volkswagen and Audi models delivered to customers in 1994 by V.A.G (United Kingdom) Ltd. was 17.9 % up on the 1993 figure. The Seat and Škoda importers, which still operated independently in the year under report, sold a total of 25,939 vehicles (+ 41.1 %). The Volkswagen Group achieved a 6.4 % share of the British passenger car market compared with 5.7 % in 1993, while its share of the commercial vehicle market stood at 4.8 % as against 4.4 % in the previous year.

At the end of 1994 all shares in V.A.G (United Kingdom) Ltd. – hitherto a wholly-owned subsidiary of Volkswagen Group Holdings (UK) Ltd., renamed Validpress Ltd. – were transferred to Volkswagen AG. In line with the same policy as has been adopted in the case of AUTOGERMA, the Seat and Škoda importers are to be integrated into V.A.G (United Kingdom) Ltd. during 1995.

V.A.G (United Kingdom) Ltd. broke even in 1994.

Europcar International S.A.

The holding company Europcar International S.A. is owned on a fifty-fifty basis by 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. Europcar is one of Europe's leading vehicle rental companies, with subsidiaries in nine countries. Cooperation agreements with National in the USA, Tilden in Canada and Nippon Rent-a-Car in Japan enable it to offer a worldwide service with 5,000 rental points in 130 countries.

Although the recession which affected most European countries in 1993 continued to make itself felt in the early part of 1994, an economic recovery started to become apparent later on and brought a revival of demand in the vehicle rental sector from which the Europcar group was able to benefit. Leisure and tourist rentals in particular exhibited an upward trend, while the field of business rentals did not show signs of improvement until the end of the year. Despite the general increase in business there was no major let-up in the price pressure to which rental charges had become increasingly subject during the recession, as competition for customers and shares of the rental market continued undiminished.

Alongside market strategies for increasing the degree of fleet capacity utilization and optimizing vehicle deployment, a particular focus of attention in 1994 was the Europe-wide introduction of the integrated computerized rental system known as GreenWay. Although this entailed considerable expenditure to begin with, the Europcar group anticipates that use and further expansion of the system will cut costs to a considerable extent in the future and thus lead to an improved earnings situation from which customers will derive benefit in the form of still more attractive rental services.

The high expenditure incurred meant that the company returned a loss in 1994. The difficulties facing the rental sector on key European markets and the current corporate situation necessitate restructuring of the Europcar group.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GIANNI

Key figures		1994	1993	Change %
Sales	DM million	13,476	12,554	+ 7.3
Production	Units	354,610	340,956	+ 4.0
Vehicle sales to dealers	Units	356,825	339,337	+ 5.2
Workforce	At year end	31,588	33,031	– 4.4
Capital investments	DM million	1,513	784	+ 92.9

The beginning of a new era at Audi

Our responsibility towards future generations requires us to think and act in environmental terms. With the introduction of new materials and still more efficient engines, Audi is leading the way in the development of environment-friendly automobiles. The quantum leap which has been achieved in this direction is impressively demonstrated by the company's new models – the Audi A8, the Audi A6 and the Audi A4. Another example of Audi's trendsetting technology is the TDI concept featured in the direct-injection turbo-diesel engines, which helps to conserve resources while at the same time ensuring that mobility needs can continue to be met in full.

A key step has been taken towards establishing innovative working concepts through the broad-based introduction of teamwork and new management structures combined with a unified remuneration system.

Audi A8 fulfils all expectations

Launched in Germany and throughout the rest of Europe in the early summer of 1994, the Audi A8 sets new standards for upper-range vehicles in terms of safety, comfort, performance and environment-friendliness. The use of aluminium has made it the first car in which it has been possible to reverse the hitherto ever-rising "weight spiral". What is more, aluminium has significant environmental advantages by virtue of its outstanding overall energy balance and recyclability. In combination with the new integrated structural design, the Audi Space Frame ensures optimum protection of the vehicle occupants.

To provide an alternative to the 4.2 litre four-valve V8 engine with quattro drive, a second option is offered for the A8 in the shape of the tried and tested 2.8 litre V6 engine delivering 128 kW (174 bhp), which is also available in a front-wheel-drive model. The wide range of equipment features provided as standard in all A8 models now includes an ultrasonic vehicle interior surveillance system, which combines with the electronic immobilizer – now standard in all Audi cars – to give comprehensive protection against theft.

Out of a field of ten contenders, the Audi A8 was chosen as the best new car of 1994 by the German magazine "Auto Zeitung". It also emerged a winner in the annual contest organized by the newspaper "Bild am Sonntag", with a jury made up of prominent people awarding it the "Golden Steering Wheel 1994" in the luxury-car class. The excellent reception given to the A8 by both the press and the vehicle-buying public is proof that Audi took the right step with its decision to break new ground in automotive engineering.

The Audi A6 – reflecting the sum of experience

As the successor to the Audi 100, the Audi A6 is another model which sets new standards and embodies the concept of "Vorsprung durch Technik" through its advanced engineering. A striking front end, softly flowing lines at the rear and an

Photo on previous pages:
The new Audi A4 is strikingly elegant and incorporates the latest in technology

elegant appearance are combined with trendsetting technology, spaciousness, outstanding comfort and a high degree of active and passive safety. Although the A6 costs virtually the same as the Audi 100, it includes as standard a still greater range of upmarket features such as central locking, adjustable steering wheel and four cushion-type head restraints. Safety is enhanced by the provision of driver and front-passenger airbags as standard, along with belt retractors incorporating child safety devices for the front-passenger seat and rear seats.

The classic elegance of the notchback saloon is ideally complemented by the dynamic appearance of the versatile Avant. Both saloon and Avant also come in an S6 version – with a choice of two engines – which differs from the basic A6 through its distinctive and powerful styling.

An exceptionally broad spectrum of nine engine power options is available, ranging from 66 kW (90 bhp) in the TDI to 213 kW (290 bhp) in the S6 4.2 with quattro drive.

Another innovative diesel engine for the A6

Audi has now developed a more powerful diesel engine delivering 103 kW (140 bhp), based on the 2.5 litre five-cylinder TDI engine. It attains its maximum torque of 290 Nm (Newton-metres) at 1900 rpm, with only a slight drop to 280 Nm at 3000 rpm. This new drive unit exhibits exceptional flexibility and permits levels of performance not normally offered hitherto by diesel engines: acceleration from 0 to 100 km/h in 9.9 seconds and a top speed of 208 km/h. What it does have in common with all TDI engines is its low fuel consumption, which – with the six-speed gearbox fitted as standard – ranges from 4.4 l/100 km at a constant speed of 90 km/h to 7.5 l/100 km in the urban cycle.

Besides being highly economical, all Audi's TDI models have a low pollutant emission level and already more than fulfil the demands of the European Union emission standards applicable to direct-injection diesel engines from 1996 onwards.

The Audi A6, safeguarding the "Vorsprung durch Technik"

The new Audi A4

Originally launched in 1972, the Audi 80 has been the most successful model in the Audi range, with over four million sold to date. In line with the new model designation system, the fifth-generation Audi 80 now on the market is known as the Audi A4.

The A4 derives its dynamic appearance from its wedge profile with low front end and its aerodynamically shaped short rear end. Among the equipment features provided as standard are driver and front-passenger airbags, ABS, central locking and electrically adjustable exterior mirrors. The new four-link front axle, already used in the A8, ensures a high degree of steering accuracy and extremely smooth running. Audi has nevertheless once again succeeded in reversing the "weight spiral", for the A4 is up to 45 kg lighter than the models of the previous generation. In combination with the new, optimized engine range, this advance has led to a significant reduction in fuel consumption and emission levels. While the exterior dimensions of the Audi A4 have remained virtually unchanged, a feeling of greater spaciousness has been created by giving the vehicle occupants increased freedom of movement. The new engines and optimized running gear are complemented by numerous carefully thought-out details designed to enhance the pleasure of both driver and passengers.

Five-valve engines exclusively for the Audi A4

The A4 is the first model to feature a new generation of four-cylinder five-valve spark-ignition engines. The technology used maximizes the flow cross-sections in the cylinder head, making for high efficiency, smoother running and better torque progression in the low engine speed range. The environment benefits from the reduced noise and emission levels, while the cut in engine weight contributes to ensuring good fuel economy. These new engines have been manufactured at AUDI HUNGARIA

Exclusiveness at its most advanced – the Audi A8 with aluminium bodywork

MOTOR Kft. in Györ since mid-1994, with operations timed so as to dovetail with the start of production of the A4 in Ingolstadt.

The Avant RS2 – an Audi and a Porsche in one

The compact estate car known as the Avant RS2 marks a new departure for Audi. Developed in cooperation with Porsche, this model combines the attributes of a high-performance sports car with the practicality of a family automobile. Audi supplies the ready-painted body, to which Porsche then adds specially developed components. While Audi performs most of the assembly work, finishing is the responsibility of Porsche. A total of 1,623 Avant RS2 models have been delivered to customers since the car's launch in April 1994.

Upward trend in 1994

The progressive economic recovery experienced by the major European markets in 1994 helped to reverse the general downward trend in vehicle sales. AUDI AG was able to benefit from this revival of demand and delivered a total of 376,141 vehicles to customers worldwide, 5.2 % more than in 1993. Although sales in Germany exhibited a slight fall of 1.8 % to 160,803, this drop can be ascribed to the model changeovers from mid-1994 onwards which saw the launch of the new A8, A6 and A4.

The decrease in domestic sales was more than offset by a significant improvement in export business. At 159,927, the number of Audi models sold on the export markets in Western Europe was 7.4 % up on the previous year's total. The general recovery in evidence on the American market enabled Audi to increase its sales in the USA by 0.4 % to 12,577, while in Japan the number of vehicles delivered to customers via the "Duo" and "Fahren" sales networks rose by 46.4 % to 6,186 and thus began to approach once more the levels recorded in earlier years. China was again the largest non-European market, with a total of 20,368 vehicles being delivered to customers in cooperation with the First Automobile Works in 1994. Sales on the other export markets increased by 55.2 % to 16,280.

Overall vehicle output in 1994 was 4.0 % up on the previous year at 354,610, a figure which includes 2,021 Avant RS2 models produced in cooperation with Porsche. As demand for automobiles rose only very slowly in the early part of the year, employees in Ingolstadt and Neckarsulm had to be put on short time for a total of 15 days in January and February 1994. Engine production rose by 6.3 % to 525,600.

In order to realize the necessary adjustments to the workforce while at the same time safeguarding jobs, the management and the employees' representative body reached agreement on a package of measures which took effect on April 1, 1994. Working hours were cut by 10 % with annual pay being reduced accordingly, although the basic structure of the existing working-hours arrangements has been retained. With measures to adjust the size of the workforce continuing to be realized without causing social hardship, the number of employees decreased by 4.4 % to 31,588.

At DM 1.5 billion, capital investment by AUDI AG in 1994 reached the highest level in the company's history. The investment programme centred primarily on expansion of the model range, with a substantial volume of funds also devoted to the engine plant in Hungary. Further capital expenditure focused on the paintshops in Neckarsulm and Ingolstadt with a view to protecting the environment and further enhancing the quality of Audi products.

The slight rise in unit sales boosted sales revenue by 7.3 % to DM 13.5 billion, while the package of job-safeguarding measures made it possible to cut costs – and in particular labour cost – on a significant scale. AUDI AG thus closed the fiscal year with net earnings of DM 30 million compared with a loss of DM 89 million in 1993.

Audi has responded to the recession by taking steps designed to ensure that the company is well equipped to successfully withstand the growing competitive pressure. Costs have been decisively reduced and more efficient working structures introduced. The global economic recovery now under way and the vehicle-buying public's highly positive reaction to the attractive new model range give Audi good reason to view the future with optimism.


WOB-LZ 917

Key figures		1994*	1993	Change %
Sales**	DM million	8,966	7,894	+ 13.6
Production**	Units	313,690	472,978	– 33.7
Vehicle sales to dealers**	Units	539,836	512,539	+ 5.3
Workforce	At year end	15,383	23,281	– 33.9
Capital investments	DM million	321	999	– 67.8

*The 1994 figures do not include the companies hived off.
**The Polo models produced by Volkswagen Navarra, S.A. are no longer included in the 1994 production figures, but continue to be sold by Seat to Volkswagen. The number of vehicles produced by Seat increased by 5.7 %.

The economic situation

Following the 1993 drop in the gross national product, the Spanish economy began to show signs of stabilization in the course of 1994. Consumer spending had started to pick up at the end of 1993, while interest rates and inflation continued to fall. However, the modest level of growth brought no improvement on the labour market, with unemployment rising from 22.7 % in 1993 to 24.2 %.

The Spanish automobile market was stimulated by legislation known as the "Plan Renove", which aims to promote the renewal of the vehicle population. To encourage the scrapping of old vehicles which pollute the environment, the government decided that every owner of a vehicle more than ten years old should receive a special payment of 100,000 pesetas upon purchasing a new model; from autumn 1994 onwards the incentive programme was extended to include a payment of 80,000 pesetas for the scrapping of vehicles over seven years old. This scheme boosted passenger car sales in Spain by 22.0 % in 1994 to a total of 908,100.

Seat and the other Volkswagen Group marques were able to benefit from this upward demand trend. Sales of Group vehicles in Spain totalled 171,548 (+ 23.0 %), comprising 101,562 Seat models (+ 24.1 %), 49,210 Volkswagens (+ 15.1 %), 16,167 Audis (+ 31.3 %) and 4,609 Škoda models (+ 78.2 %). The Group's share of the Spanish passenger car market consequently rose by 0.2 percentage points to 17.9 %.

Photo on previous pages: The nippy, compact Seat Cordoba saloon – a success not only in Spain

The launch of the Ibiza and Cordoba in 1993 rounded off Seat's modern and attractive model range. The systematic product policy energetically pursued over the past few years enabled Seat to record a significant increase in overall sales on the Western European markets in 1994 and at the same time to consolidate its result structure. Germany remained Seat's largest export market, although the number of vehicles delivered to customers fell by 5.2 % to 61,738. Sales in France rose by 15.5 % to 38,026, while the total of 13,408 vehicles sold in Great Britain was 46.7 % up on the 1993 figure. Another market recording a substantial increase in sales was Portugal, where the number of vehicles delivered to customers was up by 49.0 % at 18,336. By contrast, Seat sales on the declining Italian automobile market fell by 12.5 % to 43,975. All in all, Seat delivered a total of 339,717 vehicles to customers worldwide in 1994, 11.9 % more than in the previous year.

In the light of the general economic recovery and the improved sales situation, Seat stepped up production of its own models by 3.4 % in 1994 to 306,686. Taking into account the total of 7,004 Volkswagen City Golf and Derby models also manufactured by Seat, overall output amounted to 313,690 vehicles. Volkswagen Navarra, S.A. in Pamplona, which is owned by Volkswagen AG, turned out 145,784 Polo models; the vehicles produced at this plant were hitherto included in the Seat output figure.

Production of the Toledo transferred to Martorell

Beginning after the 1994 works holiday, production of all Seat models apart from the Marbella has been concentrated at the Martorell plant. This factory ranks among the leaders in the European automobile industry with regard to environmental protection, organizational structures, productivity and quality. With the exception of the facilities required for the Marbella, the assembly lines at the Zona Franca plant in Barcelona were shut down once production of the Toledo had been transferred to Martorell. However, the site continues to house the press shop, the body-part production facility and the component-manufacturing facility for the Toledo, which now supply the plants in Martorell and Pamplona. The administration buildings also remain in use. It is planned to sell some of the installations and buildings no longer required at the Zona Franca plant and to hand over others to suppliers wishing to establish themselves in the industrial park to be set up on this site, where a number of suppliers have already successfully commenced operations.

Extensive reorganization concept implemented

The reorganization concept agreed upon for our Spanish subsidiary was implemented as planned in 1994 with a view to realizing the desired objective as quickly as possible. Its success depends to a large extent on achieving optimum sales control and above all a reduction in product costs. This entails enhancing productivity through the introduction of product business plans, target costing and target investment, while at the same time cutting non-personnel overheads. The workforce at SEAT, S.A. was substantially reduced at the beginning of 1994 with the aid of a scheme enabling employees aged over 55 to take early retirement. Further cuts were made possible by the expiry of limited-term contracts of employment in spring 1994 and by continued use of the opportunities offered by a long-term arrangement on short-time working under which employees' contracts can be suspended for up to two years.

These measures combined with the hiving-off of the Pamplona plant and VW FINANCE, S.A. and with natural wastage to reduce the workforce by 33.9% to 15,383 at the end of the year.

Another key element of the Seat reorganization concept is redefinition of the corporate culture. It is now characterized by a less steep hierarchy, flexibility, communication and cooperation, accompanied by a significantly higher degree of orientation towards specific goals. To enable information to be disseminated more rapidly, the number of management posts was reduced by over 50 % in September 1994. The new collective agreement has also created opportunities for considerably greater flexibility, since it contains an option permitting up to 23 additional working days per employee and thus enables the company to react promptly to increased demand.

As part of the reorganization concept, the former Seat plant in Pamplona was hived off from SEAT, S.A. in December 1993 to form a separate company by the name of Fábrica Navarra de Automóviles, S.A. and sold to the Seat subsidiary Volkswagen-Audi-España, S.A. In April 1994 it was then taken over by Volkswagen AG, which has thus now assumed responsibility for Polo production in its entirety.

On January 1, 1994, SEAT, S.A. sold its 100 % holding in the company formerly known as FISEAT, S.A. – renamed VW FINANCE, S.A. in September 1994 – to Volkswagen Financial Services AG. As in other countries, the Volkswagen Group's financial services operations in Spain have thus now been placed under the control of the new joint stock company.

Seat Italia S.p.A., including its subsidiary Seat Ricambi S.p.A., were sold to AUTOGERMA S.p.A. in May 1994. Distribution of Seat models in Italy is now handled by a "Seat Division" within AUTOGERMA, a move which has produced synergistic effects and substantial cost reductions.

As the full effect of some of the measures taken to improve results will not become apparent until later years, Seat's earnings situation remained difficult in 1994. The high depreciation and financing costs in connection with the new Martorell plant had a particularly adverse influence. However, the sizeable cut in product costs and overheads, coupled with the reduction of the workforce achieved above all during the second half of the year, led to a significant improvement in the operating result and enabled Seat to close the fiscal year with a considerably smaller loss than in 1993.

Capital restructuring measures implemented

In view of the accumulated losses, the subscribed capital of SEAT, S.A. was reduced to zero in April 1994. New capital was then created through the conversion of receivables due to Volkswagen AG in the amount of DM 1 billion into equity capital at a value of 82.3 billion pesetas, followed by a capital increase in the amount of 10 million pesetas by Volkswagen AG. As the minority stockholders did not participate in this capital increase, Volkswagen AG's holding in SEAT, S.A. thereby rose from 99.99 % to 100 %.

New Seat models launched

Numerous improvements to the interior and a more powerful engine option have helped to make the Toledo still more attractive. It is now additionally available with a 2.0 litre 16-valve engine which delivers 110 kW (150 bhp) and enables the vehicle to accelerate from 0 to 100 km/h in 9.5 seconds. The equipment features offered as standard include two airbags, air conditioning system and ABS.

The Seat Ibiza now comes in both three-door and five-door versions with a choice of eight different engines and four equipment versions. A further two engines were added in 1994: the economical 1.4 litre unit producing 44 kW (60 bhp), hitherto used only in the Cordoba, and the 1.8 litre 16-valve engine with electronically controlled injection and an output of 95 kW (130 bhp), which was presented for the first time at the Geneva Motor Show and is intended for the top-of-range Ibiza GTI 16V.

These new engine options round off the upper end of the Cordoba and Ibiza ranges. Both top-of-range models feature ABS, air conditioning system, driver and front-passenger airbags, electric windows and central locking.

Airbag campaign in Germany

Seat has joined in the Volkswagen Group's airbag campaign on the German market, offering this safety feature at an extremely reasonable price for all versions of the Ibiza, Cordoba and Toledo. Like other Group companies, it has opted for the tried and tested "Euro" airbag system. When fully inflated, the driver airbag has a volume of 35 litres and the front-passenger airbag a volume of 65 litres, ensuring – in combination with the seat belts – that the vehicle occupants are optimally protected.

The volume model of the Seat marque – the Ibiza


Mönchshof
Kohlmarkt
3--10
Braunschweiger Hof
Mönchshof
Braunschweiger Hof
1-4
UHR
·ANNO DOMINI·M·DCC·XXVI·
ŠKODA
ŠKODA

Key figures		1994	1993	Change %
Sales	DM million	1,781	1,982	– 10.1
Production	Units	173,586	219,612	– 21.0
Vehicle sales to dealers	Units	179,442	229,446	– 21.8
Workforce	At year end	15,985	17,048	– 6.2
Capital investments	DM million	329	252	+ 30.3

Promising economic development in the Czech Republic

The fifth year of the restructuring process saw the Czech economy continuing to exhibit an upward trend, with the gross domestic product rising by more than 2 % following the end of the recession which had inevitably accompanied the early stages of economic reform. One notable success was the reduction of the inflation rate to an average of 10.0 % over the year compared with a 1993 figure of 20.8 %, although it must be borne in mind that the introduction of value-added tax at the beginning of 1993 was a major factor behind the rise in inflation recorded in that year. With foreign exchange reserves increasing from US $ 5.2 billion to US $ 8.9 billion and the koruna maintaining its value against the convertible currencies, a good basis has been created for enabling the Czech currency to become fully convertible. At 3.2 %, unemployment in the Czech Republic was very low compared with other reforming countries of Central and Eastern Europe, although it will undoubtedly increase as industry continues to make use of the considerable opportunities for rationalization. As new markets are gradually opened up, export-oriented Czech companies will find themselves facing major challenges in the form of the higher productivity achieved in more advanced market economies and today's increasingly tough worldwide competition.

New model generation

1994 marked the beginning of a new model era at Škoda. After almost seven years in production, the Favorit was succeeded by the Felicia, which was launched in the Czech and Slovak Republics in November 1994, in Germany in December 1994 and on the other European markets in early 1995. The Felicia has a completely revised, modern design and exhibits the high quality standard typical of all Volkswagen Group models. The Forman and pick-up successors will be unveiled in the course of 1995. Characteristic features of all Škoda's new-generation models are improved engine options, robustness, reliability, well thought-out technical details and advanced engineering, along with excellent value for money. These attributes will enable Škoda to consolidate and further strengthen its overall market position. The launch of the Felicia was accompanied by the presentation of a new Škoda corporate identity. Complementing the modification of the company's trade mark, which is now in green, black and silver, new corporate identity elements have been developed to give dealerships a standardized, modern appearance.

Cooperation with suppliers

During 1994 ŠKODA, automobilová a. s. further stepped up its close cooperation with suppliers in the Czech and Slovak Republics.

Over the past few years Škoda's suppliers have succeeded in substantially improving their product quality and bringing it into line with international standards. Škoda meets around 80 % of its requirements by purchasing from suppliers in the Czech and Slovak Republics. Half of this figure is accounted for by 58 suppliers forming part of foreign companies' joint ventures or greenfield projects. The remaining 20 % or so of supply requirements are met by means of imports from Western Europe. The launch of the Felicia in 1994 represented a major challenge for both Škoda and its suppliers. As the first – and moreover highly successful – model launch following the radical change in the country's political and economic circumstances, it was of crucial significance for the entire domestic automobile industry.

*Photo on previous pages:
The Felicia from Škoda –
a fully-fledged competitor in the
compact class*

Business in 1994 influenced by the model changeover

The model change caused vehicle output at the three Czech plants in Mladá Boleslav, Vrchlabí and Kvasiny to fall by 21.0 % in 1994 to 173,586. Production was nevertheless on a par with the 1993 level until the start of the production changeover in September. Around 11,000 units of the new model had been built by the end of the year. Output per working day amounted to 724 vehicles as against 889 in 1993.

The number of vehicles delivered to customers worldwide fell by 8.6 % to 183,624, a decrease which can be ascribed in part to the model changeover. Sales in the Czech and Slovak Republics were 13.1 % down on 1993 at 72,930, whereas the total of 18,022 vehicles delivered to customers in Germany represented only a slight drop of 1.1 % compared with the previous year. While trade barriers and the general economic situation kept sales in Central and Eastern Europe 17.0 % lower than in 1993 at a total of 89,840, the number of vehicles sold in Western Europe rose by 18.3 % to 63,905. Škoda was also able to open up new markets in Central and South America, although these could not fully offset the fall in sales recorded elsewhere.

The difficult sales situation on certain automobile markets, the renewal of the model range and the extensive inputs and capital investments required in connection with new products and facilities meant that ŠKODA, automobilová a. s. returned a loss for 1994.

Negotiations with the Government of the Czech Republic on modification of the original contract to take account of changed conditions were concluded at the end of 1994 and the agreed capital-related measures implemented. Volkswagen AG thereby acquired a majority holding in Škoda by contributing DM 350 million of additional capital and acquiring shares with a value of DM 40 million. As the preferred shares were simultaneously given the same rights as the ordinary shares, Volkswagen now holds 60.3 % of the voting subscribed capital.

Also attractive – the characteristic rear view of the Felicia

Overview

Key figures		1994	1993	Change %
Sales	DM million	7,502	6,270	+ 19.6
Production	Units	256,317	239,077	+ 7.2
Vehicle sales to dealers	Units	310,926	254,439	+ 22.2
Workforce	At year end	15,652	16,213	– 3.5
Capital investments	DM million	169	231	– 27.2

The North American Free Trade Agreement (NAFTA), which came into force on January 1, 1994, had a stimulating effect on economic development in the USA, Canada and Mexico, prompting a revival on the automobile market. Towards the end of the year, however, the sharp decline in the value of the peso brought the upward trend in Mexico to a halt. The number of vehicles delivered by the Volkswagen Group to customers in the North American region rose by 20.2 % to a total of 297,791, comprising 284,334 Volkswagens (+ 21.4 %) and 13,457 Audi models (– 0.1 %). During 1994 Volkswagen and Audi further stepped up regional activities within the Group's interlinked supply system. In addition, the sales organizations in the USA and Canada were amalgamated to create a more efficient structure, although the existing corporate framework was retained. It was primarily as a result of these restructuring measures that the workforce at Volkswagen of America, Inc. and Volkswagen Canada Inc. decreased by 26.1 % in 1994 to a total of 1,595.

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

Key figures		1994	1993	Change %
Sales	DM million	4,837	4,469	+ 8.2
Production	Units	256,317	239,077	+ 7.2
Vehicle sales to dealers	Units	254,812	234,362	+ 8.7
Workforce	At year end	14,057	14,054	+ 0.0
Capital investments	DM million	80	153	– 47.5

Until the dramatic slump in the value of the peso, the Mexican economy had been experiencing an upward trend. This had a beneficial effect on the automobile market, with overall vehicle sales up by 3.9 %. The number of vehicles delivered to domestic customers by Volkswagen de Mexico – including Transporter sales – did not increase in proportion to the growth of the market as a whole, rising by only 0.1 % to 161,261. This can be ascribed to the fact that the company was additionally obliged to ensure that sufficient vehicles were available for export to the USA and Canada, and was also subject to severe pressure from competitors. It was nevertheless able to maintain its position as the clear leader on the Mexican market with a share of 35.7 %.

The model range was expanded to include the Volkswagen Derby, which is based on the technology used in the Seat Cordoba. Following the delivery of around 4,000 Seat-manufactured vehicles in 1994, Volkswagen de Mexico is scheduled to commence production of the Derby in 1995, with the national content being increased on a step-by-step basis. The export of Golf and Jetta models to the USA and Canada plays a vital part in earning foreign exchange to finance imports, and the number of vehicles delivered to these markets rose by 21.0 % in 1994 to 84,893. The company also continued to be a key supplier of components such as axles and engines for the Group's interlinked production system.

Despite the preparations for the start of production of the Volkswagen Derby, vehicle output increased by 7.2 % to 256,317. As the size of the workforce remained virtually unchanged, the company was able to boost its productivity by a further 14.4 % in 1994.

For the report year Volkswagen de Mexico, S.A. de C.V. showed a positive result based on Group valuation principles, although in accordance with local accounting legislation a loss was shown.

Volkswagen of America, Inc.

Key figures		1994	1993	Change %
Sales	DM million	3,565	2,215	+ 60.9
Vehicle sales to dealers	Units	115,232	62,904	+ 83.2
Workforce	At year end	804	1,237	– 35.0
Capital investments	DM million	79	67	+ 17.8

The American economy continued to recover in 1994. The gross domestic product was 4.0 % up on the previous year's figure, while unemployment fell by 0.7 percentage points to 6.1%. This positive overall trend combined with increased consumer confidence in the economy and relatively low interest rates to boost passenger car sales, which rose by 5.8 % to 10.2 million. Although the dollar declined in value during the year, the European manufacturers were able to increase their share of the US market from 3.2 % to 3.8 %, above all by stepping up their sales promotion activities.

The popularity of the new Golf and Jetta models – which was further enhanced by attractive leasing schemes – and the launch of the new Passat in September 1994 meant that the number of Volkswa-

The Jetta is to the Americans' taste

gens delivered to customers in the USA rose by 95.6 % to 96,911. Sales of Audi models totalled 12,577, an increase of 0.4 % over 1993. The overall total of 109,488 Group models delivered to customers by Volkswagen of America in 1994 was 76.4 % up on the previous year's figure and enabled the company once again to become the leading European importer on the US market. December 1994 saw Volkswagen sales in the USA reach the ten million mark. We anticipate that still more competitive pricing and additional marketing activities, coupled with the excellent reception given to our new models, will enable us to further strengthen our market position in 1995.

Volkswagen of America, Inc. showed a loss for 1994, in part as a result of interest rate adjustments for determination of provisions.

Volkswagen Canada Inc.

Key figures		1994	1993	Change %
Sales	DM million	848	919	– 7.8
Vehicle sales to dealers	Units	25,775	27,336	– 5.7
Workforce	At year end	791	922	– 14.2
Capital investments	DM million	9	11	– 19.3

The uncertainty on the domestic political scene was one reason why 1994 brought no sustained improvement in Canada's economic situation. Vehicle sales were nevertheless 1.5 % up on 1993, although it was primarily American manufacturers who benefited from this upward trend.

The number of vehicles delivered to customers by Volkswagen Canada rose by 9.7 % to 27,042. While the excellent reception given to the new Golf and Jetta models played a major part in boosting Volkswagen sales by 10.3 % to 26,162, Audi sales fell by 7.1 % to 880. As sales of Group models grew to a greater extent than the passenger car market as a whole, Volkswagen Canada's share of the market increased by 0.5 percentage points to 3.6%.

The company closed the fiscal year with a loss.

Overview

Key figures		1994	1993	Change %
Sales	DM million	7,686	7,315	+ 5.1
Production	Units	552,482	507,493	+ 8.9
Vehicle sales to dealers	Units	551,379	510,962	+ 7.9
Workforce	At year end	35,052	35,055	– 0.0
Capital investments	DM million	236	215	+ 9.8

AUTOLATINA group

Key figures*		1994	1993	Change %
Sales**	DM million	6,448	5,944	+ 8.5
Production***	Units	504,310	457,236	+ 10.3
Vehicle sales to dealers***	Units	505,732	460,514	+ 9.8
Workforce**	At year end	27,787	27,723	+ 0.2
Capital investments**	DM million	225	194	+ 16.0

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

The Brazilian automobile market continued to grow in 1994, with overall sales surpassing the previous year's already high level by 25.7 % to total 1,094,280. A major factor behind this marked upward trend was the continuation of the "Popular Car Programme" (Carro Popular) with its tax concessions for vehicles having a cubic capacity of up to one litre. Although measures to curb inflation and stabilize the Brazilian economy were launched at the beginning of March 1994, monthly inflation rates of almost 50 % during the first half of the year meant that the rush to invest in non-monetary assets continued undiminished.

One measure which did have a sustained impact was the introduction of the new dollar-linked currency, known as the real, on July 1, 1994. As a consequence of this step, monthly inflation rates fell to under 5 % in the second half of the year.

With vehicle manufacturers operating at virtually full capacity, the high demand for automobiles during the first six months of 1994 caused demand to exceed supply towards the middle of the year, resulting in low dealer stock levels and increased selling prices. Prompted by this situation and by the need to safeguard its economic stabilization programme, the Brazilian government took steps to liberalize trade by cutting import duties on vehicles and other goods from 35 % to 20 %, a move which led to a significant increase in the availability of imported models. In order to restrict future vehicle imports to levels acceptable to domestic manufacturers, import duty on automobiles was subsequently raised again to 32 % in February 1995.

In view of Brazil's growing importance as a market for imported vehicles, the Volkswagen division of Autolatina Brasil S.A. began to import the Golf GTI from Volkswagen de Mexico in spring 1994. This model proved extremely popular, with the result that twice as many vehicles as originally planned were imported in the course of the year. To enable Volkswagen to establish a competitive position in the upper market segment as well, the imported Passat was launched in Brazil and Argentina at the end of 1994. During 1995 the number of Golfs imported from Mexico and Germany is to be substantially increased with the aim of making Volkswagen the leading vehicle importer as well.

One of the major events of 1994 was the September launch of the new Gol developed by AUTOLATINA. Production of the previous version totalled over one million units, making it the most successful model on the Brazilian market. Offering excellent value for money, the new Gol was soon in great demand and looks all set to match the popularity of its predecessor.

During the first half of 1995, Autolatina Brasil S.A. is scheduled to start supplying Volkswagen AG with the VW 8.140, a 7.5 t truck. This model, which will be known in Germany as the L 80, attracted great attention at the International Motor Show in Hanover in September 1994 and rounds off Volkswagen's commercial-vehicle range.

With its currency tied to a fixed exchange rate against the US dollar and monthly inflation running at under 1 %, Argentina continued to consolidate its economic position in 1994 despite an increased trade deficit. The country's automobile market recorded double-digit growth. Now that restrictions on vehicle imports have been lifted, however, the Argentinian automobile industry must endeavour to become more competitive and reduce existing imbalances – particularly with respect to Brazil – by stepping up its exports.

The AUTOLATINA group's sales rose by 6.1 % in 1994 to 722,296 vehicles, a total which comprised 505,732 Volkswagens (+ 9.8 %) and 216,564 Fords (– 1.6 %).

Deliveries of passenger cars and light commercial vehicles in Brazil increased by 17.7 % to 451,384 Volkswagens and Audis. Despite tougher competition we were able to maintain our leadership on the car market, accounting for 34.6 % of total sales as against 36.8 % in 1993. With the truck market exhibiting an upward trend, sales of Volkswagen trucks up to 22 t rose by 55.5 % to 9,894.

The three-times Formula 1 world champion Ayrton Senna, whose services as importer for Brazil had been secured by Audi in 1993, died in a tragic accident in Imola on May 1, 1994. We shall always honour his memory.

The overall automobile market in Argentina grew by 27.3 % in 1994. Autolatina Argentina S.A. participated in this development, increasing its sales by 15.4 % to a total of 53,632 vehicles.

The continuing positive business trend enabled AUTOLATINA to return a satisfactory profit in both Brazil and Argentina.

From 1995 onwards the Ford Motor Company and Volkswagen AG will gradually cease to conduct their operations on a joint basis in Brazil and Argentina. Volkswagen will continue, however, to be represented in both countries.

Volkswagen of South Africa (Pty.) Ltd.

Key figures		1994	1993	Change %
Sales	DM million	1,238	1,371	– 9.7
Production	Units	48,172	50,257	– 4.1
Vehicle sales to dealers	Units	45,647	50,448	– 9.5
Workforce	At year end	7,265	7,332	– 0.9
Capital investments	DM million	11	20	– 46.2

Following South Africa's first-ever democratic election in April 1994, the new government under President Nelson Mandela announced a far-reaching restructuring and development programme aimed at promoting economic growth and social progress. Having emerged from the longest recession of the post-war era, the South African economy once again started to show an upward trend during 1994. However, collective wage negotiations were accompanied by a national strike which had an adverse effect on the country's automobile industry in 1994 and meant that demand for vehicles could not be adequately met. Overall passenger car sales in South Africa thus remained at roughly the same level as in 1993, dropping by 1.5 % to 190,718.

As a result of the strike, vehicle output at Volkswagen of South Africa fell by 4.1 % to 48,172. With the passenger car market as a whole exhibiting a slight decline, the number of vehicles delivered to customers was on a par with the 1993 figure at 41,183, enabling the company to increase its share of the market from 18.2 % to 18.6 %.

Volkswagen of South Africa closed the fiscal year with a profit.

The L 80 was presented to the international public at the Hanover Commercial Motor Show

Asian-Pacific region increasingly important

Economic development in the Asian-Pacific region continued to exhibit a vigorous upward trend in 1994. With their immense growth potential, the markets in this part of the world will become still more important in the future. The region's increasing significance has been reflected for some considerable time in the Volkswagen Group's long-term corporate strategy, which acquired a new dimension in 1994 with the decision to explore possibilities for the commencement of operations in India.

Shanghai-Volkswagen Automotive Company, Ltd.

Key figures		1994	1993	Change %
Sales	DM million	2,412	3,048	– 20.9
Production	Units	115,326	100,001	+ 15.3
Vehicle sales	Units	115,303	100,030	+ 15.3
Workforce	At year end	7,275	6,327	+ 15.0
Capital investments	DM million	242	250	– 3.2

Shanghai-Volkswagen further consolidated its position as China's leading automobile manufacturer in 1994. Having stepped up its production capacity over the past few years, the company was able to record rises in both vehicle output and unit sales despite more difficult economic conditions and a general decline in demand. Vehicle production surpassed the record figure achieved in 1993, increasing by a further 15.3 % to 115,326. With modernization of the second vehicle plant scheduled to be completed in mid-1995, the company will in future have an annual production capacity of around 230,000 automobiles. This potential output volume will be needed to enable Shanghai-Volkswagen to meet market demand for the Santana 2000, which was launched at the end of 1994 and rounds off the top end of the model range.

In view of the market growth expected in the coming years, it has been decided, in agreement with our Chinese associates, to increase the annual production capacity to roughly 300,000 vehicles and to build an additional engine plant capable of turning out 180,000 units a year. The company will finance these projects out of self-generated funds.

Shanghai-Volkswagen once again returned a profit.

FAW-Volkswagen Automotive Company, Ltd.

FAW-Volkswagen Automotive Company, Ltd. in Changchun, which was established in 1991 as our second joint venture in China, continued to make progress during 1994, particularly in setting up its new production facilities. The year under report saw the completion of the vehicle plant with press shop, bodyshell shop and assembly lines, while the paintshop is due to be finished in 1995. Construction of the new gearbox and engine production facilities is also well under way.

With economic conditions becoming more difficult, especially for manufacturers still heavily dependent on imports, output at FAW-Volkswagen was reduced by 31.5 % in 1994 to a total of 8,219 automobiles. The number of vehicles delivered to customers consequently fell by 39.0 % to 7,630.

As FAW-Volkswagen's operations are still in their initial phase, the company closed 1994 with a loss.

Other activities with the First Automobile Works (FAW)

FAW has been producing the Audi 100 under licence since 1988. This successful cooperation arrangement was continued in 1994 and by the end of the year output of the Audi 100 in China had reached a total of 67,574 vehicles. Together with FAW we are currently studying the possibilities for integrating Audi production into the FAW-Volkswagen joint venture.

Assembly of another Group model, the City Golf, was commenced in Shunde – situated in Guangdong province in Southern China – in September 1994. This project, which is being realized through an FAW subsidiary in cooperation with FAW-Volkswagen, will enable us to take advantage of the opportunities offered by the large market in Southern China.

Volkswagen Audi Nippon K.K.

Key figures		1994	1993	Change %
Sales	DM million	1,553	1,072	+ 44.9
Vehicle sales	Units	33,749	24,660	+ 36.9
Workforce	At year end	328	320	+ 2.5
Capital investments	DM million	3	42	– 91.8

The recession which Japan has been experiencing since 1991 continued to affect the country's economic development in the year under report and it was not until the end of the year that signs of a slight recovery started to become apparent. Overall vehicle production in Japan fell by 6.0 % in 1994 to 10.6 million, while passenger car output decreased to 7.8 million. As the yen remained strong, however, passenger car imports rose by 41.6 % to 276,222.

The improved import situation and the continuing expansion of the dealer network meant that sales of Volkswagen models increased by 39.4 % to 27,578 and Audi sales by 46.4 % to 6,186, with the Group's share of the market consequently rising from 0.6 % to 0.8 %. Volkswagen Audi Nippon K.K., which now supplies a total of 166 exclusive Volkswagen and Audi dealerships, thus further consolidated its position as the leading European vehicle importer in Japan.

The company returned a small loss for 1994. In its national financial statements, however, it showed a profit in contrast to the sizeable loss recorded in the previous year.

Chinchun Motor Co., Ltd.

The Taiwan plant set up as a joint venture with our associates Chin Fon Global Corp. began production of the Transporter/Caravelle series in November 1994. The initial phase of the project, in which Transporters and Caravelles were imported from Germany in order to establish these models on the Taiwanese market, has thus now been completed and the locally produced models were launched in Taiwan in November last year.

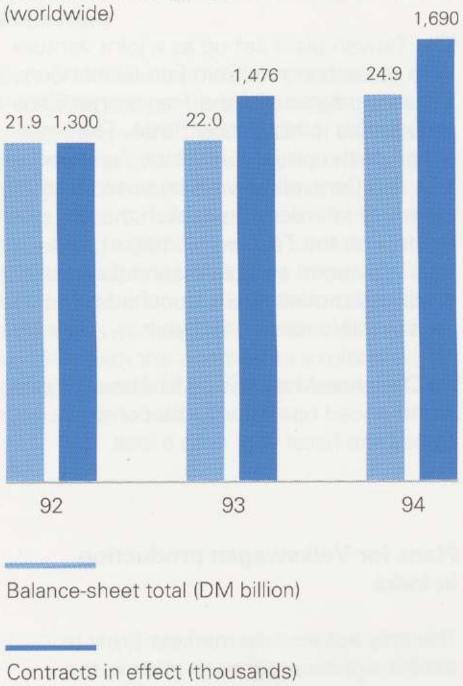
As Chinchun Motor Co., Ltd. has only just commenced operations, the company closed the fiscal year with a loss.

Plans for Volkswagen production in India

The only automobile markets likely to exhibit significant growth rates in the immediate future are those in Asia. A sales volume of over 500,000 vehicles is considered a realistic prospect for India's passenger car market in the year 2000. The Volkswagen Group wishes to share in this market expansion and a declaration of intent was therefore signed in 1994 with an Indian group of companies in New Delhi, for a feasibility study of a joint venture to produce passenger cars in India. Alongside China, Volkswagen is thereby aiming to establish a second production base in the Asian Pacific region in the coming years. This strategic step opens up new opportunities for strengthening our market position in the region as a whole.

Santana 2000 – the first model developed by Shanghai-Volkswagen

Financial Services Division (worldwide)



Financial Services Division continuing to expand worldwide

1994 was another successful year for the Financial Services Division. The balance-sheet total rose from DM 22.0 billion to DM 24.9 billion, underscoring the division's importance as one of the leading industrial operations in the financial services sector and highlighting its key role in the Volkswagen Group's sales promotion activities. The division comprises Group companies in Germany, Spain, Italy, France, Great Britain, the Czech Republic, the Slovak Republic, the USA, Canada and Mexico, together with a joint venture in Japan. Altogether, 2,711 people were employed in the financial services sector in 1994. New contracts concluded in the course of the year reached a record figure of 762,100, with the total number of contracts in effect consequently rising by 14.4 % to 1,689,600. This growth meant that vehicles covered by financing and leasing contracts accounted for 23.2 % of the Volkswagen Group's unit sales compared with 21.0 % in 1993 and thus likewise set a new record.

Volkswagen Financial Services AG gets off to a successful start

Established on January 1, 1994 as the successor to Volkswagen Finanz GmbH, Volkswagen Financial Services AG fulfilled every expectation in its first year of operation. All subsidiaries contributed to its excellent performance, particularly those in Germany. The domestic subsidiaries Volkswagen Bank GmbH and Volkswagen Leasing GmbH, which until December 1994 were known as V.A.G Bank GmbH and V.A.G Leasing GmbH, had their most successful year ever. The tailor-made financing and leasing services offered by these two companies – which together account for 63.1 % of the balance-sheet total of Volkswagen Financial Services AG – ensured a sustained high level of demand, with the result that the number of contracts in effect rose by 18.6 % to 1,100,600.

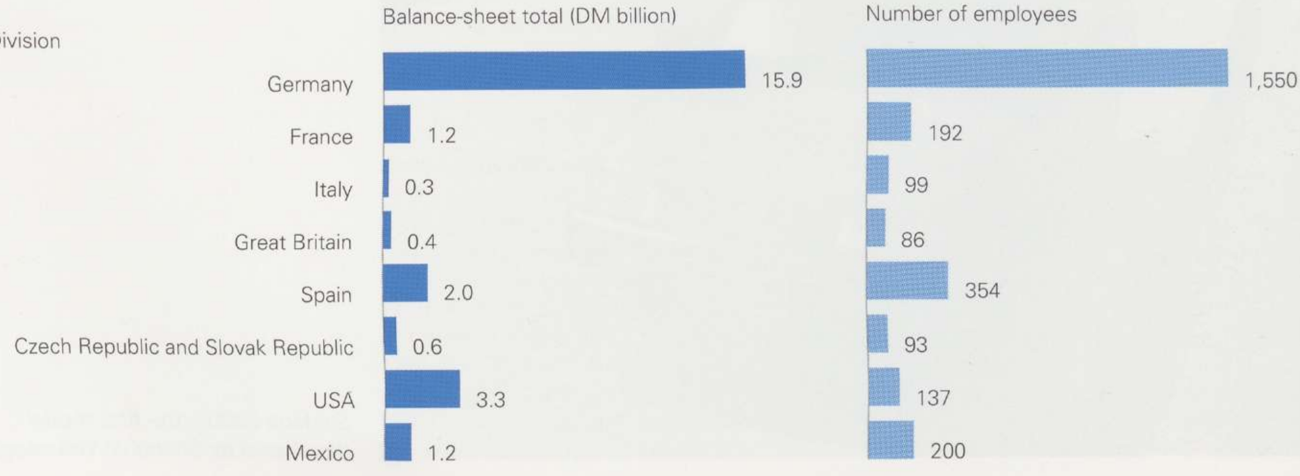
Volkswagen Leasing concluded new leasing contracts for 187,100 vehicles in 1994, an increase of 10.8 %. The total of 437,400 contracts in effect at the end of the year was 8.2 % up on the corresponding 1993 figure.

1994 was also a successful year for Volkswagen Bank GmbH, with the number of new customer financing contracts concluded rising by 22.7 % to 336,800. Contracts in effect at December 31, 1994 totalled 663,200, 26.6 % more than at the end of the previous year. Receivables in respect of dealer financing amounted to DM 2,569 million; the slight decline in unit sales meant that business in this sector failed to match the 1993 level.

Expansion of international financial services activities

April 1994 saw the reorganization of Volkswagen's financial services operations in Great Britain. Whereas all activi-

Financial Services Division 1994



ties in this sector were formerly handled by the importer, responsibility now lies with Volkswagen Financial Services (UK) Ltd. in Milton Keynes, a newly established subsidiary of Volkswagen Financial Services AG. This step will permit expansion of business in the financial services field and make it possible to open up the British market still more effectively.

ŠkoFIN s.r.o. in Prague, which had been established in 1992, also once again returned good results. The total number of contracts in effect rose from 17,800 to 50,800, thereby enabling the company to consolidate its leading position on the Czech and Slovak markets.

By extending its activities in future to regions where it is as yet unrepresented, Volkswagen Financial Services AG aims to further strengthen its role in promoting sales of Volkswagen Group vehicles. Local conditions are therefore closely monitored with a view to entering new markets, for example in Asia, or expanding existing operations.

Volkswagen Bank records growth in the direct-banking sector

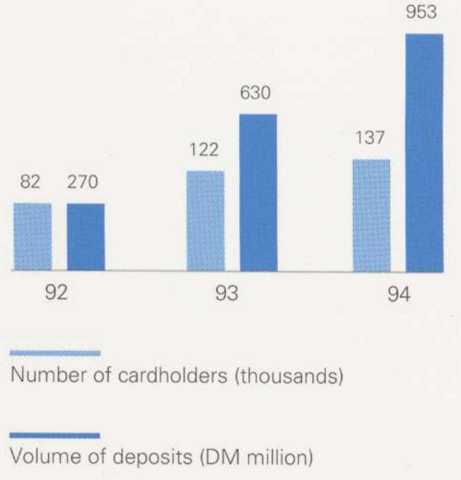
In 1990 V.A.G Bank supplemented its established dealer and customer financing business by entering the field of direct banking.

The first product to be launched was the Volkswagen/Audi card system. Its popularity and success were once again impressively demonstrated in 1994, with the number of card holders rising by 12.0 % to 136,500. Among the features incorporated in the system are the PlusMinus account with interest rates graduated according to credit balance, an attractive insurance package and additional services for motorists. Combining two leading credit cards, namely EUROCARD/MasterCard and VISA, the system gives card holders a high degree of financial flexibility by providing them with a means of payment accepted worldwide.

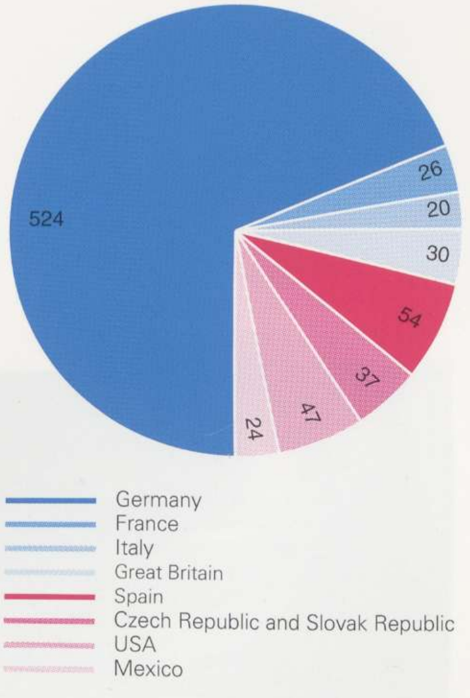
At the end of 1994 the total value of the deposits on the PlusMinus accounts stood at DM 953 million, 51.3 % up on the 1993 figure.

In order to further strengthen the ties with our customers and expand our direct-banking operations, we are currently studying the openings for new automobile-related products in the financial services sector and for additional deposit schemes. To begin with, we shall be introducing time-deposit accounts in the course of 1995.

Development of the Volkswagen/ Audi card system



New leasing and financing contracts (thousands), by countries, in 1994



*Including the subsidiary Volkswagen Financial Services AG & Co. OHG.
**Via V.A.G Holding Financière S.A.
***Including the subsidiary V.A.G Leasing GmbH & Co. Besitz OHG.

Every job has a face

Volkswagen's personnel policy can be summed up in the motto "Every job has a face". The combination of technical progress and new, well-designed organizational structures automatically boosts productivity and thus eliminates a large number of formerly essential tasks. Faced with these economic constraints, Volkswagen nevertheless wished to avoid mass redundancies, for unemployment relegates those affected to the fringes of society. Instead, we decided in autumn 1993 to develop new approaches designed to safeguard jobs. The key elements of the overall concept are the four-day week, the relay model, coaching and the "pact between the generations".

1994 saw the implementation of this new personnel concept, which was not only well received by the public but also met with acceptance on the part of our employees. In adopting this innovative policy, Volkswagen has shown how one of today's most pressing problems can be solved without causing social hardship.

Further development of personnel policy

With its "Agreement to Safeguard Plant Locations and Jobs", concluded on December 15, 1993, Volkswagen laid the foundation for reconciling the need to cut labour cost with the goal of preserving its employees' jobs.

The four-day week involves reducing the working week by 20 % from 36 hours to 28.8 hours, with wages and salaries being cut at the same time. It was introduced at the start of 1994 in the form of various working-hours and shift arrangements geared to the specific operational needs of the individual Volkswagen AG plants. As the situation varies from one plant to another, no fewer than around 150 different working-hours schemes were developed to ensure the necessary flexibility. For organizational reasons, roughly 70 % of employees work a straight four-day week. Realization of our new personnel-policy concepts, and above all introduction of the four-day week, play a vital role in helping to significantly reduce the Volkswagen Group's labour cost.

The collective agreement on the four-day week was supplemented in May 1994 by an agreement on a concept for enabling young people who have just completed their training at Volkswagen AG to enter permanent employment with the Company on a step-by-step basis. Under this scheme, young employees will begin

by working a 20-hour week which will then be gradually increased, over a period of three and a half years, to full-time employment.

Another important tool for safeguarding jobs is the "pact between the generations", concluded in November 1994, which contains arrangements for spreading work evenly among the Volkswagen AG plants and for early-retirement schemes.

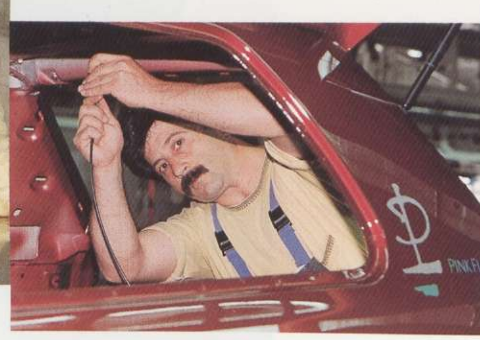
This "pact" opens up new ways of bringing people and work together. It permits the exchange of employees and production operations between individual Volkswagen AG plants and, by encouraging mobility on the part of younger employees, enables older members of the workforce to take early retirement. At the end of 1994, some 600 employees transferred from the Emden plant – which had a particularly large labour surplus – to Hanover so that production of urgently needed VW Transporters could be stepped up. Certain production operations performed to date in Hanover were simultaneously moved to Emden.

Together, the four-day week, the relay model and the "pact between the generations" have helped to safeguard around 30,000 jobs at Volkswagen AG. They represent an equitable and logical solution to an employment problem hitherto unknown on this scale.

Networked cooperation within the Group

Principles for networked cooperation were introduced throughout the Group in 1994. In response to this step, the Human Resources sector initiated reorientation measures so as to enable it to provide optimum support for corporate processes. The entire spectrum of tasks covered by this field within the Volkswagen Group has now been divided up between five "Centres of Competence", each of which performs its designated function for the individual marques and Regions. The five areas of responsibility are top management, management, central personnel matters, coaching and health care.

By bringing together people and resources to form these centres, which provide corporate processes with support transcending the boundaries of intra-Group structures, Volkswagen has succeeded in enhancing the efficiency of its organizational set-up in the personnel sector.



New directions in management staff policy

The process of optimizing the management structure, begun in 1993, was systematically continued during the year under report. The number of management positions was reduced by around 20 %, although additional project posts were created in key areas of particular relevance for the future.

The Centres of Competence for "Top Management" and "Management" were created to provide management personnel with comprehensive support geared to their individual needs.

Alongside an information and communication policy tailored to the requirements of this specific target group, opportunities for advancement and development have been optimized by way of "talent pools" for rising young managers and a new "personal development plan" scheme. These innovations have helped to further improve the quality of Volkswagen's work in the personnel field.

Centre of Competence for Coaching

Alongside traditional areas such as basic and further training or management training, the Centre of Competence for Coaching is also to be responsible for a number of new fields: coaching, process optimization consultancy, personnel research, benchmarking, and "labour-market projects and social back-up".

Coaching involves personal training designed to maximize individual performance on the principle that "There's always room for improvement". Activities in the field of labour-market projects and social back-up will focus on launching employment schemes for the purpose of safeguarding jobs and creating points of contact between company and labour market.

A new company by the name of Volkswagen Coaching Gesellschaft mbH was set up at the beginning of 1995 with the aim of developing and implementing innovative personnel and employment concepts in cooperation with interested parties from outside the Group as well as social and academic institutions.

Established as a wholly-owned subsidiary of Volkswagen AG, this company combines the new tasks with the existing personnel development and Volkswagen training departments in a single organizational unit and thus permits targeted action to enhance employee skills by way of tailor-made programmes. It will also make its services available to its external associates.

1994 collective agreement

In July 1994 Volkswagen AG and trade union representatives reached agreement on a 1 % increase in wages and salaries effective for one year as from August 1, 1994. The outcome of the negotiations on the four-day week in December 1993 had already included a 1 % bonus in anticipation of the 1994 collective bargaining. The pay increase was offset against this bonus, so that the monthly remuneration of full-time employees remained unchanged. Under the 1994 collective agreement, provision was also made for two once-only payments of DM 500 in July 1994 and DM 400 in March 1995.

Apprentice pay remained unchanged and introduction of the 35-hour week was instead brought forward by one year to October 1, 1994.

The new Polo was the centre of interest at the Wolfsburg Plant Open Day attended by some 80,000 visitors

Employee pay and benefits at Volkswagen AG

The labour cost of Volkswagen AG has developed as follows:

	1994 DM million	Share %	1993 DM million	Share %
Direct pay incl. fringe benefits in cash	5,788.0	54.7	5,901.6	54.5
Payment for hours not worked	1,613.5	15.2	1,683.7	15.5
Social insurance contributions	1,381.7	13.1	1,329.0	12.3
Early retirement	949.8	9.0	1,206.7	11.1
Pensions	851.9	8.0	712.4	6.6
Total	10,584.9	100.0	10,833.4	100.0
The total labour cost includes:				
Welfare services	64.4	0.6	73.4	0.7
Education and training	143.7	1.4	140.8	1.3

Company pensions continue to represent a major proportion of Volkswagen AG's social expenditures, accounting for DM 852 million in 1994.

Employee health care further improved

Volkswagen has always attached major importance to protecting the health of its employees, with activities in this field being further stepped up during 1994. Particular attention was focused on developing a method for ergonomic workplace design and on organizing health circles, employee surveys and discussion groups. The range of behaviour-oriented programmes and early-diagnosis measures was also expanded.

The sickness rate at Volkswagen AG has fallen significantly in recent years:

1990	1991	1992	1993	1994
8.1	8.4	7.3	4.6	4.8

As part of Volkswagen's policy for fulfilling its welfare obligations, the reasons for exceptionally long absences are discussed on a one-to-one basis by the employee concerned and his or her superior so that solutions to personal or job-related problems can be found. A key role can be played by working conditions which give rise to physical stress and which, if not recognized and changed, can lead to absences through sickness. With the aid of analyses setting out the physical and mental stress occasioned by specific workplaces and operations, it is aimed to take preventive and remedial measures which help to protect employees' health and thus make a major contribution to reducing the sickness rate.

Open day at the Wolfsburg plant

Over 80,000 people came to an open day held at the Wolfsburg plant on September 3, 1994 to coincide with the late-August presentation of the new Polo. Entertainment was provided by the Italian rock stars Ricci e Poveri, the legendary Searchers from Britain and German music groups, who all played a great part in creating just the right atmosphere.

The suppression of electromagnetic interference is investigated in extensive tests on every new development

Efficient use of research and development funds

Group expenditure on research and development in 1994 totalled DM 2.8 billion, of which Volkswagen AG accounted for DM 1.5 billion. Activities centred on developing new vehicles and components featuring pioneering safety and recycling concepts, designing new production methods – especially for use in the paintshops – and particularly low-emission, economical engines, and conducting research into future drive technologies and innovative traffic concepts. The Group employed a total of 13,832 people in the research and development sector at the end of 1994, 4.2 % more than in 1993.

New concepts for reducing fuel consumption

Volkswagen has long been engaged in developing innovative concepts for environment-friendly vehicles, with special emphasis on cutting fuel consumption. In declaring its willingness to reduce the consumption of its model range in Germany by an average of 2 % annually up to the year 2005 (based on the 1990 level), it is helping the German Federal Government to fulfil the pledge given at the 1992 Earth Summit in Rio de Janeiro, where agreement was reached on achieving a 25 % cut in carbon dioxide emissions by 2005. The Volkswagen Group has further consolidated its position as a pioneer in the development of low-consumption production cars with innovations such as the high-economy TDI diesel engines, the lightweight Audi Space Frame body design and the inertia-utilization system featured in the Golf Ecomatic. By the end of the decade we aim to be able to offer our customers a vehicle suitable for everyday use which requires only three litres of fuel per 100 kilometres. We are also working on numerous alternative vehicle concepts designed to reduce environmental impact to the technically feasible and economically acceptable minimum. Yet it is not enough simply to optimize the vehicles themselves. Our transportation research specialists are seeking to integrate the automobile into new traffic system structures which ensure mobility and at the same time help to minimize or avoid adverse effects on the environment.

Optimized engines

Volkswagen's tried and tested spark-ignition engines have been further optimized in terms of comfort, fuel economy and compliance with the European Union's emission standards (EC stage II). The range has been supplemented by a 1.6 litre engine delivering 74 kW (100 bhp) and the redesigned 2.9 litre engine with an output of 140 kW (190 bhp) for the Golf VR6 syncro and the Passat VR6 syncro. The Golf syncro models are now also available with the successful 66 kW (90 bhp) engine. Particularly environment-friendly is the Golf Ecomatic, whose fuel consumption averages only 4.9 litres of diesel fuel per 100 kilometres in the one-third mix thanks to an automatic inertia-utilization system which ensures that the engine runs only when actually needed to power the vehicle. With this model Volkswagen has once again led the way in developing a unique concept which sets new standards for the pro-environmental vehicles of the future.

Energy storage systems for electric and hybrid drives

The launch of the Golf CitySTROMer in November 1994 marked the culmination of Volkswagen's many years of work on designing electrically powered vehicles suitable for mass production. Ongoing development focuses on both electric-only drive and a hybrid system.

The Golf CitySTROMers produced in Mosel are powered by maintenance-free lead-gel batteries. Extensive fleet trials conducted over the past ten years have demonstrated that this low-cost battery system is reliable and fulfils all the requirements for series production.

The past few years have witnessed major technological advances in the field of electrochemical storage and conversion systems. Volkswagen has been participating actively in this development work and is seeking to translate the results into automobiles geared to market and customer needs.

Natural gas – a fuel of the future

Volkswagen is working in cooperation with the Ingenieurgesellschaft Auto und Verkehr (IAV) to develop another environment-friendly drive concept in the shape of a vehicle powered by natural gas. This fuel generates fewer and less toxic emissions than conventional fuels, giving it proven advantages in terms of minimizing ozone formation, smog and the greenhouse effect. Use of natural gas helps to reduce the drain on oil reserves and enhance the reliability of the primary-energy supply for transportation as a whole. Volkswagen's trendsetting concept focuses on the Transporter range with its wide variety of models – pick-up, delivery van, Kombi and Caravelle – and thus offers the customer a wealth of possibilities. Careful integration of the gas drive into the vehicle ensures that the necessary safety standards are observed. The drive unit for the gas-powered Transporter is based on the 2.5 litre five-cylinder spark-ignition engine which, by virtue of its relatively high compression ratio, appropriate engine management and proven reliability, fulfils all the prerequisites for economical, environmentally sound and trouble-free operation.

Ensuring mobility, designing traffic systems and protecting the environment

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 future, local public transport must be geared more effectively to customers' mobility needs. A systematic step towards tailoring public transport to the requirements of the individual has been taken with the introduction of the "dial-a-bus" providing a door-to-door service. This system has a number of advantages for the public. It allows a wide area to be covered, guarantees a feeder service for scheduled bus and rail services, and is environment-friendly in that it helps to reduce the use of private vehicles. The "dial-a-bus" project launched in Leer in 1992 has been excellently received and promises to develop well. It has already been decided that the scheme should be prolonged and extended to cover a wider area. With support from the Government of the State of Lower Saxony, it is planned to expand the service into a large-scale demonstration project.

Volkswagen has taken another step towards solving our growing traffic problems by joining forces with prominent associates such as Mercedes-Benz AG, Siemens AG, Robert Bosch GmbH and Intertraffic GmbH – a subsidiary of Daimler-Benz AG – to establish a company by the name of Copilot Verkehrsleit- und Verkehrsinformationsdienste GmbH & Co. KG. From 1995 onwards this company will play a leading role in efforts to minimize congestion on the roads. The aim is to provide up-to-date traffic information based for the most part on traffic data recorded and processed by the company itself. Field trials have demonstrated that the system solutions applied can improve traffic flow and reduce the risk of traffic jams. The system is scheduled to go into operation in Stuttgart at the beginning of 1995 and in Berlin mid-way through the year. There are plans to extend it in the near future to Germany's other conurbations and eventually all over the country. Once the system has successfully established itself, it is planned to implement it throughout Europe.

Environmentally acceptable paint technologies and materials are an important aspect of pro-environmental motor vehicle production

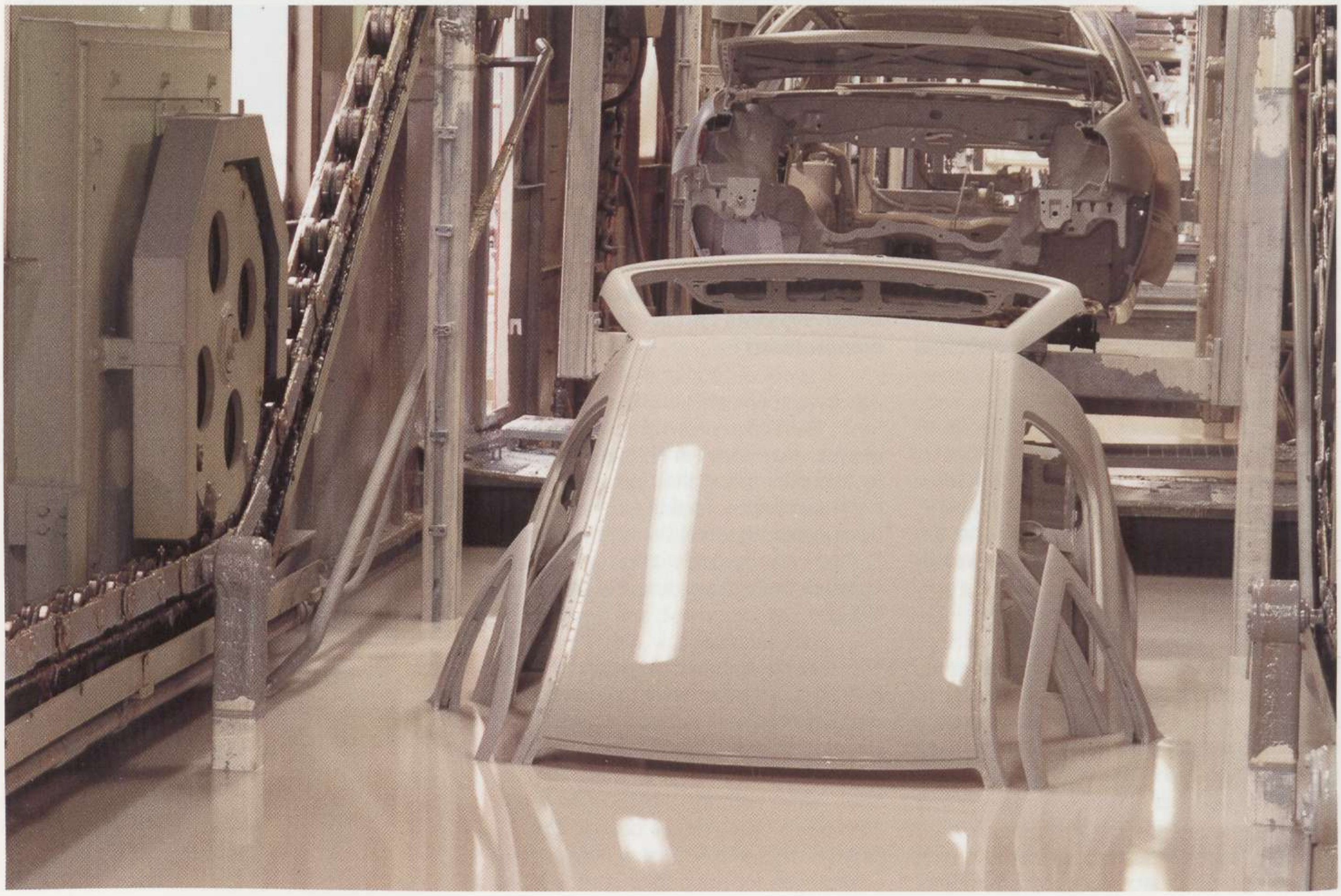
Environmental protection is the challenge of our age

The conditions determining the automobile industry's scope for action have undergone radical changes in recent years. Besides the emergence of environmental protection as one of the greatest challenges of our age, the rapid increase in the global population and the resultant growth of new markets also demand innovative responses. The crucial task in the future will be to reconcile the desire for personal mobility in both developed and developing countries with the need to ensure sustained protection of the natural resources forming the basis of our common existence.

Volkswagen views environmental protection as a key corporate task

We at Volkswagen regard environmental protection as a major corporate responsibility and are consequently doing everything in our power to help solve regional and global environmental problems. Our basic approach is derived from the principles laid down in the charter of the International Chamber of Commerce (ICC), which places emphasis on sustainable development – in other words, economic activity that meets the needs of the present age without endangering the well-being of future generations. Volkswagen is among the 2,100 companies worldwide which have put their names to this charter. Implementing an active environmental protection strategy at Volkswagen also means developing management systems which enable us to translate our technological expertise into environment-friendly products with customer appeal. Establishment of a Group-wide environmental management system forms part of our concept for making environmental protection an integral part of corporate processes from as early a stage as possible.

Environmental early-recognition systems – for which we also draw upon the expertise of scientific institutes – help us to identify long-term social and ecological



trends well before they start to become generally apparent. In the same way, elaboration of material-flow analyses right at the beginning of the development process for a new model makes it possible to obtain data on the environmental relevance of key components over the vehicle's entire life and thereby provide the designers with valuable decision-making criteria.

Environmental protection at Volkswagen is not solely the responsibility of the restructured Research, Environment and Transportation division. On the contrary, all areas of the Company contribute towards this goal throughout the entire value-creation process and seek to make full use of the opportunities which it offers for creative action. What is more, environmental protection does not stop at the factory gate. Environment-friendliness is one of the major criteria considered in deciding which suppliers are to receive Volkswagen's annual "Formula Q" quality award. Advice on environmental protection is also available to retail outlets, which can subsequently have their environmental standards reviewed and certified by an external agency.

Elements of our environmental protection strategy

Volkswagen's environmental protection strategy encompasses three main areas:

- Production-related environmental protection directed towards minimizing environmental impacts.
- Product-related environmental protection, which seeks to significantly reduce the environmental impact of the vehicles themselves above all by way of increased energy efficiency, use of new materials and establishment of recycling systems.
- Traffic-related environmental protection, which can be seen as a form of extended product responsibility and aims to make the automobile part of an integrated traffic system incorporating environmentally sound structures.

Conserving resources by means of recycling

Volkswagen continued to play a pioneering role in the field of recycling in 1994. It is our aim to ensure that the materials contained in a vehicle do not simply go to waste when the vehicle reaches the end of its useful life, and to this end Volkswagen and Audi concluded an agreement with Preussag-Recycling GmbH in February 1994 on establishment of a recycling system for scrap vehicles. Key elements of our cooperation with this expert associate are the creation of a network of recycling plants throughout Germany and further development of disassembly methods. Apart from retaining the right to market used components, Volkswagen and Audi will acquire know-how on recycling-friendly design and will continue their systematic development of material recycling techniques.

Computerized analysis of environmental risks

Volkswagen has developed a computerized system for pinpointing, analysing and assessing environmental risks which makes it possible to spot potential dangers in good time and thus initiate remedial measures. A questionnaire incorporated in the program ensures that possible risks in terms of air, water and soil pollution or waste management can be quickly identified and set out in detail, thereby enabling steps to be taken to improve the situation. The system has already been successfully piloted at the Salzgitter plant, in the plastic-parts production facility, in the service workshop, at the Wolfsburg plant's thermal power stations and at Audi in Neckarsulm. Regular use of the program will allow us to continuously enhance our standard of in-plant environmental protection and make sure that we comply with the relevant European Union legislation.

Lead eliminated from electrophoretic dip priming

In future, lead-containing materials will play no part in the electrophoretic dip-priming process at Volkswagen. This process represents the first stage in painting a vehicle and involves giving the bodyshell an anti-corrosion coating which is subsequently invisible. All Volkswagen plants had gone over to using the new technique by the end of 1994, a step preceded by years of research and development work which have enabled Volkswagen to become one of the worldwide pioneers in this field. Reducing the use of lead brings significant environmental benefits but does not lead to any changes in vehicle quality, appearance or price.

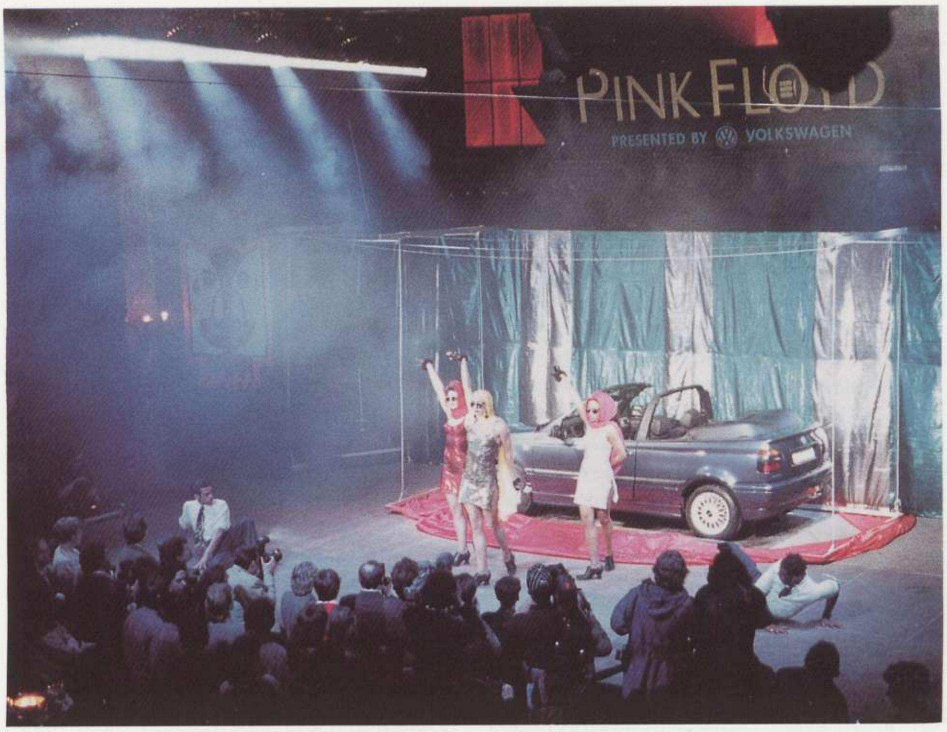
Direct recycling of filler

Before a vehicle is actually painted, what is known as a filler coat is sprayed onto the bodyshell. For physical reasons, however, only 85 % of the filler reaches the vehicle body; the remaining 15 % is "overspray" which is carried off with the waste air and subsequently has to be disposed of. We are now engaged on a recycling project aimed at reducing the quantities of paint residues occurring in the course of this process. Tests have already been conducted in cooperation with system manufacturers and paint suppliers to determine the recyclability of multi-colour fillers, and further findings are to be gained through the operation of pilot installations. Besides helping us to improve painting techniques, this project also makes a major contribution to protecting the environment.

Recycling of phosphating sludge

Phosphating sludge is a waste product which occurs during surface pretreatment of body parts prior to painting. Only a certain proportion of the metals used – nickel, zinc and manganese – is actually incorporated in the anti-corrosion coating; the remainder is precipitated as sludge. At present, phosphating sludges are disposed of at considerable expense on public and company-owned tips, which means that the potentially valuable materials contained in them cannot be recycled. In cooperation with the Technical University of Clausthal-Zellerfeld and the Federal Environmental Agency, Volkswagen has developed a patentable process enabling these materials to be recovered from the sludge and re-used in the production of phosphating solutions. It is intended that in future the manufacturers of the chemicals should themselves assume responsibility for processing the sludges, with Volkswagen making the necessary know-how available to them for this purpose. For their part, the manufacturers will work together with the Technical University of Clausthal-Zellerfeld to determine whether the process is economically feasible and lends itself to large-scale application and whether the recycled materials can be used in the phosphating process without leading to any impairment of quality.

To mark the musical event of the year, the 1994 Pink Floyd European Tour, Volkswagen presented three Golf specials, among them the "Pink Floyd" Convertible



Volkswagen Group products a focus of media attention

The Volkswagen Group once again found itself very much in the public eye during 1994, with the ongoing process of rapid development and radical change throughout the Group attracting a great deal of media attention.

Particular interest centred on Volkswagen's new working-hours concepts aimed at safeguarding jobs. The four-day week was discussed and evaluated not only in the light of its specific function at Volkswagen, but often also in terms of its general significance as a means of adapting to changed conditions. Our corporate communication activities in 1994 placed special emphasis on promoting awareness of these long-term necessities.

The principal aim of our communication strategy was to create – both within the Group itself and on the part of the general public – an understanding of the fact that the structural changes stem from the need to achieve both efficiency standards enabling the Volkswagen Group companies to compete on the international market and an adequate profit level.

In 1994 the Volkswagen Group's products attracted almost unparalleled enthusiasm on the part of the media, with the new models launched during the year given an outstanding reception by the motoring press. This was particularly true of the Volkswagen Polo, the Audi A8 and the Audi A4, while the new Seat and Škoda models won praise for the advances made since the two companies were integrated into the Volkswagen Group set-up.

The media also hailed the Volkswagen Group's achievements in reducing fuel consumption, particularly the TDI concept featured in our direct-injection turbo-diesel engines. Audi and Volkswagen were considered to be the unchallenged leaders in this field on the current market and the clear frontrunners in efforts to cut average fuel consumption from five to three litres per hundred kilometres.

Communication activities in 1994 devoted special attention to highlighting the Group's environmental policies. It was made clear that in future the demands of environmental protection are to play a still greater role in helping to shape the Group's image as well as in realizing new concepts for value creation and thus also for providing jobs.

International publicity through sponsoring

The summer of 1994 saw Volkswagen continue its policy of sponsoring outstanding international events in the world of pop music, begun so successfully two years before with the rock group Genesis. This time it was "Pink Floyd presented by Volkswagen". Over 2.3 million fans in fourteen countries flocked to the 51 concerts on the British group's Volkswagen-sponsored European tour, which was without doubt the live-music highlight of the year. Volkswagen also sold around 85,000 special "Pink Floyd" models of the Golf, Golf Convertible and Golf Estate.

In 1995 Volkswagen will once again be active in the world of pop music with "Volkswagen presents THE ROLLING STONES", sponsoring the band's tour of Europe and South America.

On the evening preceding Germany's Unification Day holiday on October 3, 1994, the Brandenburg Gate in Berlin was the venue for a concert featuring international rock stars. Elton John, Paul Young, Sydney Youngblood, the Gipsy Kings from France, the Leningrad Cowboys from Finland and the east German group Karat entertained around 100,000 music fans at the First International Volkswagen Rock Festival, staged by Volkswagen AG for the people of the German capital and Berlin's friends all over the world.

Working in close cooperation with the television entertainer Michael Schanze, Volkswagen last year continued its activities to promote road safety for children. Local Volkswagen dealers had the opportunity to demonstrate their expertise in all aspects of this field. Under the auspices of the Federal Minister of Transport, Matthias Wissmann, a tour entitled "Fun and Games with Michael Schanze" was staged for the third time, with the popular show entertaining children and parents alike in fourteen towns in Germany, Austria and Switzerland during the pre-Christmas period.

As an active TEAM OLYMPIA member, the Volkswagen Group with its four marques is the only automobile manufacturer among the eight principal sponsors of Germany's National Olympic Committee. Under this scheme we are able to lend our support to the sportsmen and sportswomen making up Germany's Olympic teams as well as to the German Sports Aid Foundation. During the 1994 Winter Olympics in the Norwegian town of Lillehammer, Volkswagen played host to numerous visitors at its international meeting point.

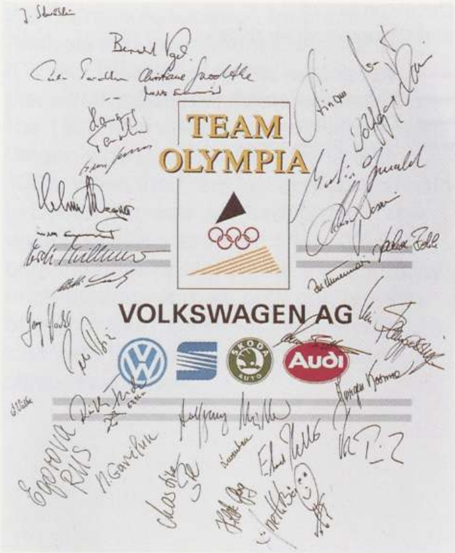
Volkswagen will be continuing to participate in the TEAM OLYMPIA scheme and will thus also be represented at the 1996 Summer Olympics in Atlanta, USA.

New ways of reaching the customer

A new tool for reaching the vehicle-buying public, christened the "Caravan", was used for the first time in the spring of 1994 as part of Volkswagen's sales promotion campaign with the aim of drawing attention to the Volkswagen model range and thus establishing contacts with potential customers. A number of presentation teams toured the whole of Germany with our passenger car range, giving a considerable boost to spring sales.

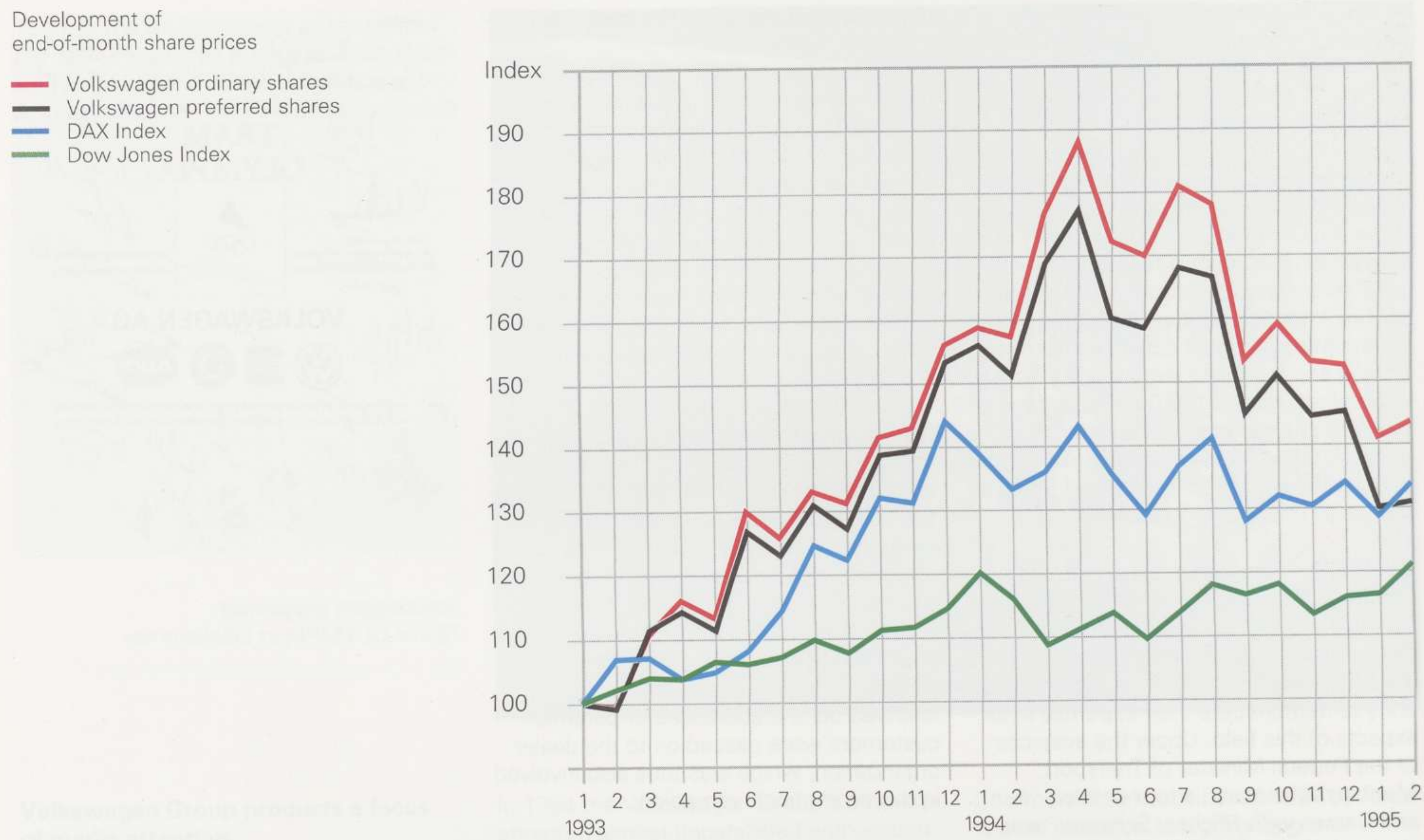
This successful new marketing tool was also employed in launching the new Polo, with the "Polo Experience Tour" taking the "Caravan" to 38 towns and cities throughout Germany. The response was extremely positive: 1.3 million people saw the new Polo, around 450,000 talked to members of the Caravan team and in-depth discussions were held with some 46,000. To enable this interest to be followed up, the addresses of potential customers were passed on to the dealer organization, which was thus also involved in this promotional campaign.

Another sales drive was staged at the end of 1994 with the "Extra Weeks" focusing on the Golf, Golf Variant, Golf Convertible and Passat, during which special models, optional extras and winter-equipment packages were on offer. Volkswagen had already made a mark earlier on in the year with measures such as the "Two are better than one" airbag campaign and the campaign highlighting the TDI's low consumption under the motto "TDI – Volkswagen's new economic miracle".



Volkswagen supported TEAM OLYMPIA in Lillehammer

Development of
end-of-month share prices



Volkswagen AG dividend raised

The dividend proposal for 1994 aims to ensure that stockholders benefit from the rise in net earnings, which have increased to DM 165 million. Including the tax credit, eligible stockholders will receive DM 4.29 per ordinary share and DM 5.71 per preferred share.

German stock market lacking in impetus

Against the background of the usual market fluctuations, the German Share Index (known as the DAX) fell by 7.1 % between January and December 1994, from 2,268 to 2,107. It reached its high of 2,271 in mid-May and its low of 1,961 at the beginning of October. Although there was no repeat of the EMS turmoil witnessed in the previous year and the German Federal Bank continued - albeit only in small steps - to relax its monetary policy, the German stock market lacked impetus in 1994. The economic recovery experienced by Germany and other leading industrialized nations had already been anticipated to a large extent in the 1993 share prices, so that stock market development in Germany during 1994 was overshadowed by the rise in international interest rates, the weakness of the US dollar and major fears of inflation in the USA.

Volkswagen share adversely affected by the general market trend

The Volkswagen share too was affected by the general downward trend on the stock market, particularly during the second half of 1994. However, the decline in its value from DM 444.00 at the start of the year to DM 425.50 at the end of December represented a drop of only 4.2 % compared with the 7.1 % fall experienced by the DAX. During the first two months of 1995 the DAX maintained a stable trend, whereas the Volkswagen share declined in value.

Employees once again offered preferred shares on attractive terms

As in earlier years, the employees of Volkswagen AG and domestic subsidiaries were given the opportunity in 1994 to acquire preferred shares on attractive terms. Every employee had the option of purchasing a maximum of two shares at a price of DM 216 each. A high degree of interest was once again shown in this scheme, with employees subscribing to a total of 59,200 shares. The proportion of the subscribed capital held by the work-force amounted to 1.6 %. In taking up this share offer, our employees demonstrated their confidence in the Company and thus in their own abilities. The issuing of the new shares increased Volkswagen AG's subscribed capital by DM 2,960,000 or 0.2 % to DM 1,674 million. Taking into account the premium of DM 316.00 per share, stockholders' equity rose by DM 21.7 million.

Continuity in investor relations activities

During 1994 we once again responded in a wide variety of ways to the growing demand for information about the Company. Our investor relations activities feature an open and comprehensive information policy which is designed to permit fair and accurate appraisal of the Volkswagen share on the basis of Company data and thus enhance the trust forming the foundation of our relationship with stockholders and potential investors.

Regular, comprehensive information on the Company's operations is provided through the Annual Meeting of Stockholders, the Annual Report and the quarterly interim reports. Company presentations were held last year in London, Edinburgh, Zurich, Geneva, New York, Boston, Paris and Madrid to keep financial analysts and institutional investors abreast of the Company's latest business developments. A new departure in 1994 was the staging of two conferences in cooperation with the German Association for Financial Analysis and Investment Consultancy (DVFA). The first of these, which took place in Wolfsburg in March, focused on the 1993 financial statements and Volkswagen's general business trend during 1993, while the Frankfurt conference held in December was devoted to the Volkswagen Group's strategic orientation and ongoing development. Like the Company presentations abroad, both conferences offered opportunities for in-depth discussions with the Board of Management and senior executives.

Key figures	1990	1991	1992	1993	1994
Number of shares in thousands					
Ordinary shares at Dec. 31	27,000	27,000	27,000	27,000	27,000
Preferred shares at Dec. 31	6,000	6,129	6,289	6,413	6,472
Dividend in DM					
Ordinary share	11.00	11.00	2.00	2.00	3.00
Preferred share	12.00	12.00	2.00	2.00	4.00
Tax credit in DM					
Ordinary share	6.19	6.19	1.13	1.13	1.29
Preferred share	6.75	6.75	1.13	1.13	1.71

Ratios (per share)		1990	1991	1992	1993	1994
Net earnings	DM	32.91	33.76	4.44	– 58.28	4.50
Earnings acc. to DVFA/SG*	DM	36.00	36.00	5.00	– 51.00	9.50
Cash flow	DM	172.76	216.15	211.42	109.24	229.47
Stockholders' equity	DM	502.64	547.71	544.90	463.30	425.41**

*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, 1995 and the new ordinary shares issued in connection with the exercise of option rights.

Development of share prices		1990	1991	1992	1993	1994
Highest prices						
Ordinary share	DM	643.50	415.60	411.50	439.20	548.00
Preferred share	DM	545.00	357.00	352.00	362.50	438.00
Lowest prices						
Ordinary share	DM	329.50	282.50	235.20	243.00	404.00
Preferred share	DM	282.00	248.00	203.00	210.00	324.00

Controlling

1994 saw the introduction of improved steering and control mechanisms relating on the one hand to subsidiaries and on the other hand to planning quality. Against a background of decentralized corporate management, steps have been taken to ensure more effective steering of the individual marques and Regions and to review the plausibility of their planning in greater detail. The new dual structure of Group controlling can be seen as a matrix comprising the following elements:

1. Multidimensional steering of marques, Regions and functions is accomplished on the basis of agreed targets, intra-Group comparisons and benchmarks. This involves setting and reviewing targets for return, liquidity and break-even.

2. Process-oriented steering of the core processes embracing all marques and Regions – namely product creation, production optimization and procurement, and marketing – is achieved using a series of indicators.

Group Controlling reviews the plausibility of the planning submitted and the consistency of the calculations used in decision-making, conducts a critical analysis of action and business plans, and holds regular steering discussions with the Region and marque managements. The structure and content of the data required under the reporting system have now been standardized.

Planning for the individual marques and Regions includes reaching agreement on assumptions, as well as assessing risk scenarios which are then integrated into the planning as appropriate. Special emphasis is placed on optimizing cost structures and lowering the break-even point in order to permit greater flexibility. The managements of the marques and Regions are required to make particularly strenuous efforts to ensure achievement of targets during the first two years of the planning period.

In addition to the financial targets, it has been possible to define indicators for planning and steering the core processes. These indicators are based in part on physical variables and help to ensure that those responsible for the individual processes are involved to a greater extent in the essential transformation process within the Group. Systematic use is also made of target costing, which entails determining desired cost levels for future products on the basis of future competitive prices and specified profit margins.

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

Net earnings	+ 150	
Depreciation and write-up of fixed assets	+ 9,838	
Increase in provisions	+ 2,485	
Other expenses and income not affecting payments	– 627	
Profit and loss on disposal of fixed assets	+ 32	
Increases and decreases in inventories, trade receivables and other assets	+ 148	
Increase in trade payables and other liabilities	+ 1,601	
Change in other items	– 181	
Inflow of funds from current operations		**+ 13,446**
Inpayments from disposal of fixed assets	+ 2,614	
Outpayments for additions to fixed assets	– 10,497	
Outflow of funds in respect of capital investments		**– 7,883**
Inpayments in respect of capital increase	+ 22	
Outpayments to stockholders (dividends)	– 120	
Inpayments and outpayments in respect of bonds and (financial) loans	– 45	
Outflow of funds in respect of financing operations		**– 143**
Change in funds		**+ 5,420**
Funds at start of period		**– 2,751**
Funds at end of period		**+ 2,669**

	Automobile sector Dec. 31, 94	Automobile sector Dec. 31, 93	Financial Services Dec. 31, 94	Financial Services Dec. 31, 93	Volkswagen Group Dec. 31, 94	Volkswagen Group Dec. 31, 93	Change
Liquid funds	12,830	10,918	487	239	13,317	11,157	+ 2,160
Securities	2,595	1,119	0	0	2,595	1,119	+ 1,476
Bonds**	959	191	–	–	959	191	+ 768
	16,384	**12,228**	**487**	**239**	**16,871**	**12,467**	**+ 4,404**
Short-term liabilities due to banks	– 8,064	– 9,701	– 6,138	– 5,517	– 14,202	– 15,218	+ 1,016
Total funds	**+ 8,320**	**+ 2,527**	**– 5,651**	**– 5,278**	**+ 2,669**	**– 2,751**	**+ 5,420**

*The development of short-term liquidity has been prepared for the first time in line with international reporting practice and the recommendations of the Schmalenbach Society.
**Includes financial-assets items.

Determination of cash flow

Net earnings	+ 150	
Depreciation and disposal of fixed assets, minus write-ups	+ 7,785	
Depreciation and disposal of bonds	– 24	
Depreciation and disposal of leasing and rental assets	+ 4,914	
Increase in provisions for pensions and similar obligations	+ 607	
Decrease in special items with an equity portion and special item for investment subsidies	– 872	
Other changes not affecting liquidity	+ 22	
Cash flow		**+ 12,582**

Key financial ratios of the Volkswagen Group

	1990	1991	1992	1993	1994
Return on sales (%)	1.6	1.5	0.2	– 2.5	0.2
Equity ratio (%)	26.5	25.9	24.1	19.5	17.6
Return on equity (%)	6.9	6.4	0.8	– 11.5	1.0
Cash flow as % of capital investments	106.1	72.0	75.7	75.1	135.7
Cash flow as % of sales	8.4	9.3	8.2	4.7	9.6

Financial ratios still sound

The overall structure of the Volkswagen Group's balance sheet remains sound. Liquidity increased significantly, while fixed assets and inventories decreased and receivables rose only slightly. Stockholders' equity was lower than in 1993, principally on account of elimination of special items with an equity portion, acquisition of the remaining shares in Sächsische Automobilbau GmbH and first-time consolidation of this company, and payment of dividends and profit shares during 1994. Liabilities, and in particular those of a medium-term nature, exhibited a rise, whereas interest-bearing liabilities decreased slightly.

The Volkswagen Group's net working capital – comprising current assets less short-term liabilities – increased in 1994, primarily as a result of the improved liquidity situation.

The ratio of stockholders' equity and long-term liabilities to fixed assets, which indicates the degree to which the latter are financed by the former, rose to 87.7 % in 1994. The degree of indebtedness, expressed by the quotient of actual indebtedness and cash flow, also improved to 2.6 and thus surpassed the target figure of 3. The liquidity range, which is the period over which day-to-day liquidity requirements can be met out of available readily convertible assets, increased to an extremely sound figure of more than 100 days.

As cash flow rose to a greater extent than capital investments, self-generated funds were sufficient to finance 135.7 % of investments.

Significant rise in the Volkswagen Group's liquidity

The Volkswagen Group's overall liquidity, comprising liquid funds, securities and bonds, increased by DM 4.4 billion to DM 16.9 billion, while short-term liabilities due to banks decreased, leading to a considerable rise in total funds. Whereas the automobile sector exhibited a high positive figure of DM 8.3 billion in respect of funds, primarily on account of improved operating results, the financial services sector recorded a negative figure of DM 5.7 billion by virtue of its growth and the different nature of its business. The major proportion of the liquid funds is concentrated in the automobile sector.

Package of targeted measures boosted Group result

The extensive measures launched over the previous two years with a view to improving the Group's result were continued in 1994. The introduction of the four-day week at Volkswagen AG has proved to be a particularly important step and will have a sustained effect on costs. It enabled us to cut labour cost without being obliged to resort to measures that would have caused social hardship, while at the same time safeguarding jobs up to the end of 1995. Appropriate provisions have been created to cover additional schemes under which employees who have reached the age of 55 can take early retirement.

The proportion of Volkswagen AG's sales revenue taken up by labour cost remained virtually unchanged at 25.3 % compared with 25.2 % in 1993, while the corresponding figure for the Group as a whole fell from 24.7 % to 22.9 %.

Other measures contributing to the improvement of cost structures included stepping-up of CIP[2] workshops combined with significant improvements in productivity and quality, implementation of the platform strategy – starting with the new Polo and the Audi A4 – and major reduction of fixed costs through savings at all stages of the added-value chain.

Added value of Volkswagen AG on a par with 1993

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 1994 Volkswagen AG's added value was virtually on a par with the previous year's figure at DM 11,226 million (– 1.2 %).

Sources DM million	1994	1993
Sales	41,886	42,949
plus other income	2,118	3,050
less expenditures	32,778	34,635
Added value	**11,226**	**11,364**

Distribution To:	DM million In the form of:	1994	%	1993	%
The Workforce	Wages, salaries, fringe costs	10,585	94.3	10,833	95.4
The State	Taxes, levies	192	1.7	126	1.1
Creditors	Interest	284	2.5	334	2.9
The Company	Transfers to reserves	59	0.5	4	0.0
Stockholders	Dividend	106	1.0	67	0.6
Added value		**11,226**	**100.0**	**11,364**	**100.0**

Structure of the Volkswagen AG balance sheet (DM million)

Assets	Dec. 31, '94	%	Dec. 31, '93	%
Fixed assets	15,883	44.1	15,121	43.7
Inventories	2,577	7.1	2,898	8.4
Receivables	10,476	29.1	10,489	30.4
Liquid funds	7,117	19.7	6,065	17.5
Total assets	**36,053**	**100.0**	**34,573**	**100.0**

Stockholders' equity and liabilities	Dec. 31, '94	%	Dec. 31, '93	%
Stockholders' equity	11,458	31.8	12,143	35.1
Long-term liabilities	7,640	21.2	6,760	19.6
Medium-term liabilities	7,560	21.0	6,862	19.8
Short-term liabilities	9,395	26.0	8,808	25.5
Total capital	**36,053**	**100.0**	**34,573**	**100.0**

Structure of the Volkswagen AG statement of earnings (DM million)
January 1 – December 31, 1994

	1994	%	1993	%
Sales	**41,886**	**100.0**	**42,949**	**100.0**
Cost of sales	38,745	92.5	40,735	94.8
Gross profit	**+ 3,141**	**7.5**	**+ 2,214**	**5.2**
Selling, distribution and administration expenses	3,685	8.8	3,558	8.3
Other operating income and expenses	+ 1,698	4.0	+ 1,597	3.7
Financial results	– 934	2.2	– 169	0.4
Results from ordinary business activities	**+ 220**	**0.5**	**+ 84**	**0.2**
Taxes	55	0.1	13	0.0
Net earnings	**165**	**0.4**	**71**	**0.2**

Risk management with the aid of derivative financial instruments

Derivative financial instruments are coming to play an increasingly important role in specifically tailored handling of risk positions. The Volkswagen Group uses such instruments solely in order to cover interest and currency risks arising within the framework of commercially necessary basic transactions. In other words, we conduct neither isolated speculative deals nor transactions serving the sole purpose of dealing in these instruments.
We work together only with leading banks of proven standing. Decisions on the instruments to be used and the transactions to be conducted are made on a centralized basis for the entire Group. Care is taken to ensure that all transactions are clearly documented and that the management is informed promptly and in detail whenever such financial instruments are employed.

At the end of the last two fiscal years, the nominal value of the derivative financial instruments used was as follows:

DM million	Dec. 31, 1994	Dec. 31, 1993
Forward foreign exchange transactions	10,981	7,728
Interest swaps and combined interest/ currency swaps	10,406	11,797
Interest/currency options	3,753	2,350
Other forward transactions	600	0
Total	**25,740**	**21,875**

Results from ordinary business activities well in the black

Having posted a loss of DM 1,940 million for the 1993 fiscal year, the Volkswagen Group was able to achieve a turn-around in 1994 with net earnings of DM 150 million. This improvement is largely due to the fact that the rise in sales was accompanied by a below-average increase in cost of sales, reflecting the success of our cost-cutting programmes. Gross profit rose accordingly by 33.9 % to DM 7.3 billion.

With other operating income and expenses taken into account, the Group recorded an operating loss of DM 150 million in 1994 compared with a substantially greater loss of DM 2.0 billion in the previous year.

Another factor contributing to the reversal of the earnings trend was the significant improvement in interest results, which can be ascribed to the reduction of interest expenses in consequence of the decrease in interest-bearing liabilities and to the use of advantageous refinancing sources. Results from ordinary business activities yielded earnings of DM 461 million as against the 1993 loss of DM 1,636 million.

Particular mention must be made of the improvements in results achieved by the Volkswagen and Audi marques and by the North America Region. The South America/Africa Region achieved a surplus which was still at a high level and the Asia-Pacific Region also posted positive results. As in previous years, the Financial Services Division played a major part in stabilizing the Group's overall result.

The Seat marque remained in the loss zone in 1994. Despite restructuring measures and a considerable rise in unit sales, the continuously low level of capacity utilization at the Martorell plant and high interest expenses meant that a poor result was unavoidable, although major operational progress in all sectors combined with drastically reduced product costs and non-personnel overheads to keep the loss well below the high 1993 figure. The Škoda marque likewise posted a loss, attributable to the model changeover.

Although North America, South America and Asia all recorded increases in unit sales, Europe remained by far the most important region in terms of sales revenue. This applies both to the sales revenue originating in the region and to that achieved there.

Sales revenue by regions	Sales revenue originating in the region				Sales revenue achieved in the region			
	1994 DM million	%	1993 DM million	%	1994 DM million	%	1993 DM million	%
Germany	53,097	66.3	53,482	69.8	32,907	41.1	34,326	44.8
Rest of Europe	13,238	16.6	11,470	15.0	26,953	33.7	24,869	32.5
North America	2,100	2.6	1,103	1.4	4,875	6.1	3,469	4.5
Latin America	10,500	13.1	9,466	12.4	9,867	12.3	9,051	11.8
Other countries	1,106	1.4	1,065	1.4	5,439	6.8	4,871	6.4
Total	**80,041**	**100.0**	**76,586**	**100.0**	**80,041**	**100.0**	**76,586**	**100.0**

Growing importance of the Financial Services Division

The expanding activities of the Financial Services Division are acquiring steadily growing strategic importance as a sales promotion instrument, with almost one in every four vehicles covered by a leasing or financing contract. In 1994 the European financial services companies were reorganized and brought together under the control of Volkswagen Financial Services AG. The growth experienced by the latter company, its subsidiaries and the financial services companies in North America meant that this sector now accounts for over a quarter of the consolidated balance-sheet total of DM 81.1 billion.

The book value of the leasing and rental assets contained in the Group's fixed assets totalled DM 8.2 billion at the end of 1994. Included under "Other current assets" are receivables with a value of DM 14.7 billion in respect of sales and purchase financing.

Out of the Group's liabilities due to banks, DM 10.0 billion relate to financial services operations. Volkswagen Bank also has liabilities to the amount of DM 953 million due to card system holders. "Other liabilities" include amounts in respect of funds procured to finance business in the financial services sector. Provisions and deferred income relating to this field have a total value of DM 2.0 billion.

At the end of 1994 the stockholders' equity of the Financial Services Division amounted to DM 1.7 billion, giving an equity ratio of 6.9 %.

The automobile sector achieved an equity ratio of 20.8 % as against 22.2 % in 1993. This fall can, above all, be attributed to the reduction in special items with an equity portion and the offsetting of goodwill against stockholders' equity.

Balance-sheet structure by sectors
(before consolidation)

	Automobile sector				Financial Services				Volkswagen Group			
	1994 DM million	%	1993 DM million	%	1994 DM million	%	1993 DM million	%	1994 DM Million	%	1993 DM million	%
Fixed assets	25,879	38.6	28,658	42.5	8,832	35.5	7,898	35.8	31,372	38.7	33,053	41.7
Current assets	41,119	61.4	38,804	57.5	16,043	64.5	14,147	64.2	49,712	61.3	46,245	58.3
Total assets	**66,998**	**100.0**	**67,462**	**100.0**	**24,875**	**100.0**	**22,045**	**100.0**	**81,084**	**100.0**	**79,298**	**100.0**
Stockholders' equity	13,916	20.8	14,982	22.2	1,717	6.9	1,825	8.3	14,239	17.6	15,480	19.5
Outside capital	53,082	79.2	52,480	77.8	23,158	93.1	20,220	91.7	66,845	82.4	63,818	80.5
Total capital	**66,998**	**100.0**	**67,462**	**100.0**	**24,875**	**100.0**	**22,045**	**100.0**	**81,084**	**100.0**	**79,298**	**100.0**

Financial Statements of the Volkswagen Group for the Fiscal Year Ended December 31, 1994

Balance Sheet of the Volkswagen Group, December 31, 1994 – DM million –

Assets	Note			Dec. 31, 1994	Dec. 31, 1993
Fixed assets	(1)				
Intangible assets				101	646
Tangible assets				20,429	23,067
Financial assets				2,608	1,823
Leasing and rental assets				8,234	7,517
				31,372	**33,053**
Current assets					
Inventories	(2)			9,246	11,026
Receivables and other assets	(3)			24,254	22,517
Securities	(4)			2,595	1,119
Cash on hand, deposits at German Federal Bank and Post Office Bank, cash in banks				13,317	11,157
				49,412	**45,819**
Prepaid and deferred charges	(5)			**300**	**426**
Balance-sheet total				**81,084**	**79,298**
Stockholders' equity and liabilities					
Stockholders' equity					
Subscribed capital of Volkswagen AG	(6)			1,674	1,671
Ordinary shares			1,350		
Non-voting preferred shares			324		
Potential capital		291			
Capital reserve	(7)			4,303	4,284
Revenue reserves	(8)			4,899	5,237
Net earnings available for distribution				111	71
Minority interest in consolidated subsidiaries				734	1,003
				11,721	**12,266**
Special items with an equity portion	(9)			**2,498**	**3,191**
Special item for investment subsidies	(10)			**20**	**23**
Provisions	(11)			**28,398**	**25,912**
Liabilities	(12)			**37,299**	**36,927**
Deferred income				**1,148**	**979**
Balance-sheet total				**81,084**	**79,298**

Statement of Earnings of the Volkswagen Group for the Fiscal Year Ended December 31, 1994 – DM million –

	Note	1994	1993
Sales	(13)	**80,041**	**76,586**
Cost of sales		72,720	71,117
Gross profit		**+ 7,321**	**+ 5,469**
Selling and distribution expenses		6,341	5,905
General administration expenses		2,445	2,373
Other operating income	(14)	5,587	4,757
Other operating expenses	(15)	4,272	3,975
Results from participations	(16)	− 27	− 149
Interest results	(17)	+ 877	+ 557
Write-down of financial assets and securities classified as current assets		239	17
Results from ordinary business activities		**+ 461**	**− 1,636**
Taxes on income		311	304
Net earnings/Loss	(18)	**+ 150**	**− 1,940**

Notes on the Financial Statements of the Volkswagen Group for the Fiscal Year Ended December 31, 1994

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 27 German Group companies and 70 foreign Group companies.

In consequence of the reorganization of the Volkswagen Group, transfers of holdings to other Group companies were undertaken on a considerable scale in 1994 and various companies were renamed.

Within the scope of these organizational measures, two hitherto fully consolidated SEAT group companies, one French subsidiary and three Mexican companies were merged with existing Group companies, and have thus formally ceased to be consolidated. In addition, the interest held in one company which had hitherto been fully consolidated is now valued at acquisition cost following cessation of the company's business operations.

The remaining shares in Sächsische Automobilbau GmbH, Mosel, have now been acquired from the Treuhandanstalt in Berlin and this company was included in the consolidated financial statements for the first time. Two companies which had hitherto not been consolidated and three newly established companies were fully consolidated.

Ten German and 24 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, which are run as joint ventures, are included in the consolidated financial statements 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 14 companies consolidated on a pro rata basis.

Europcar International S.A., Boulogne-Billancourt, which was likewise run hitherto as a joint venture, is now included in the consolidated financial statements, along with its subsidiaries, as an associated company.

New associated companies furthermore comprise three German companies and one foreign company in which additional shares have been acquired. Three affiliated 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.

38 German and 36 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

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

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.

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. Provisions have been created in the amount of the resultant income.

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.

The regular depreciation is based on the following useful lives:

Buildings 25–50 years

Buildings and site utilities 10–18 years

Technical equipment and machinery 5–8 years

Power generators 14 years

Factory and office equipment including special tools, jigs and fixtures 4–8 years

To the extent permitted under tax law, Group companies in Germany charge regular depreciation on movable 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, 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. Special tools and jigs are depreciated by the straight-line method pro rata temporis.

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

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

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

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

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. 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 475 million (1993: DM 352 million) are allocated to the individual functional areas.

(1) Fixed assets

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

The book value of the Volkswagen Group's fixed assets, totalling DM 31,372 million, comprises intangible, tangible, financial and leasing and rental assets.

Additions to fixed assets were as follows:

	1994 DM million	1993 DM million
Intangible assets	295	373
Tangible assets	4,013	4,037
Financial assets	1,343	430
Leasing and rental assets	5,781	5,438

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 and from capital contributions in respect of three fully consolidated companies.

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

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

	1994 DM million	1993 DM million
Tangible assets	1,109	49
Financial assets	261	107
	1,370	**156**

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

	Gross Book Values						Depreciation								
	Acquisition or manufacturing cost Jan. 1, 1994	Amounts brought forward[1]	Additions	Transfers	Disposals	Acquisition or manufacturing cost Dec. 31, 1994	Accumulated depreciation Jan. 1, 1994	Amounts brought forward[1]	Depreciation	Transfers	Disposals	Write-ups	Accumulated depreciation Dec. 31, 1994	Book values Dec. 31, 1994	Book values Dec. 31, 1993
Intangible Assets[2]															
Concessions, industrial and similar rights and licences in such rights	786	3	36	1	68	758	196	2	518	– 1	48	–	667	91	590
Payments on account	56		37	1	0	92			82			–	82	10	56
	842	**3**	**73**	**0**	**68**	**850**	**196**	**2**	**600**	**– 1**	**48**	**–**	**749**	**101**	**646**
Tangible Assets															
Land, land rights and buildings incl. buildings on land owned by others	15,962	134	357	416	133	16,736	7,598	22	799	11	71	–	8,359	8,377	8,364
Technical equipment and machinery	24,274	186	589	708	596	25,161	18,152	86	2,155	0	537	–	19,856	5,305	6,122
Other equipment and factory and office equipment	21,849	88	1,727	578	857	23,385	15,652	50	3,098	– 10	779	–	18,011	5,374	6,197
Payments on account and construction in progress	2,384	117	973	– 1,713	197	1,564	0		191	0	0	–	191	1,373	2,384
	64,469	**525**	**3,646**	**– 11**	**1,783**	**66,846**	**41,402**	**158**	**6,243**	**1**	**1,387**	**–**	**46,417**	**20,429**	**23,067**
Financial Assets															
Holdings in affiliated companies	158	0	52	0	126	84	1	–	0	0	0	–	1	83	157
Loans to affiliated companies	1	–	–	–	0	1	–	–					–	1	1
Holdings in associated companies	765	–	428	0	55	1,138	120	–	211	0	1	19	311	827	645
Participations	409	–	2	0	35	376	336	–	–	–	–	–	336	40	73
Loans to associated companies and companies linked through participation	32	–	–	–	14	18	0	–	–	–	–	–	0	18	32
Long-term financial investments	199	–	792	–	0	991	8	–	24	–	–	–	32	959	191
Other loans	1,228	–	69	–	154[3]	1,143	507	–	26	–	55[4]	10	468	675	721
Other financial assets	45	0	0	–	0	45	42	–	0	–	–	2	40	5	3
	2,837	**0**	**1,343**	**–**	**384**	**3,796**	**1,014**	**–**	**261**	**–**	**56**	**31**	**1,188**	**2,608**	**1,823**
	68,148	**528**	**5,062**	**– 11**	**2,235**	**71,492**	**42,612**	**160**	**7,104**	**0**	**1,491**	**31**	**48,354**	**23,138**	**25,536**
Leasing and Rental Assets	**12,094**	**2**	**5,779**	**11**	**4,917[5]**	**12,969**	**4,577**	**0**	**2,978**	**0**	**2,820[6]**	**–**	**4,735**	**8,234**	**7,517**
														31,372	**33,053**

[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 76 million
[4]Including exchange rate differences in the amount of DM – 45 million
[5]Including exchange rate differences in the amount of DM 239 million
[6]Including exchange rate differences in the amount of DM – 77 million

Notes on the Balance Sheet

(2) Inventories

	Dec. 31, 1994 DM million	Dec. 31, 1993 DM million
Raw materials and supplies	1,781	1,946
Work in progress	1,582	1,651
Finished goods and merchandise	5,867	7,412
Advance payments	16	17
	9,246	**11,026**

(3) Receivables and other assets

	Dec. 31, 1994 DM million	Dec. 31, 1993 DM million
Trade receivables	4,495	4,664
– of which amounts due in more than one year	(3)	(2)
Receivables from affiliated companies	447	494
– of which trade receivables	(145)	(94)
Receivables from companies in which participations are held	1,004	1,000
– of which trade receivables	(98)	(598)
Other current assets	18,308	16,359
– of which amounts due in more than one year	(5,878)	(5,676)
	24,254	**22,517**

Significant items under "Other current assets" are the receivables relating to the business activities of the financial services companies.

(4) Securities

	Dec. 31, 1994 DM million	Dec. 31, 1993 DM million
Treasury stock	5	5
Other securities	2,590	1,114
	2,595	**1,119**

Volkswagen AG holds treasury stock in the form of 76,514 shares, comprising 76,467 ordinary shares and 47 preferred shares with a total nominal value of DM 3,825,700; 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 59,200 shares with a value of DM 50 each – giving a total nominal value of DM 2,960,000 (= 0.2 % of the subscribed capital) – to employees in November 1994. The issue price was DM 366 per share and the selling price for 57,426 shares sold to employees was fixed at DM 216 per share, the difference being debited to the result for the year. A further 1,727 shares have been issued to employees of subsidiaries at the original issue price. Out of the 136 preferred shares held at December 31, 1993 and stemming from the capital increase effected in 1993, 13 have been issued to employees at a subscription price of DM 152.25 per share; 34 shares were repurchased in 1994 at a price of DM 304.50 per share. The profit on the sale of the 157 shares subsequently remaining has been treated as income, based on quotations slightly higher than the historical prices and averaging DM 361.30 per share. The reserve required by law for treasury stock exists in the amount of the relevant balance-sheet value.

"Other securities" relate primarily to readily cash-convertible capital-market papers held by various Group companies.

(5) Prepaid and deferred charges

This item comprises for the most part those amounts not yet dissolved and charged to interest expenses in respect of 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 112 million (1993: DM 134 million).

(6) Subscribed capital

Following the capital increases effected in 1994 – utilizing part of the existing potential capital stock and authorized capital stock – through the issue to employees of non-voting preferred shares with a total value of DM 2,960,000 and through the exercise of 10 option rights with a total value of DM 500, the subscribed capital now amounts to DM 1,674 million. The subscribed capital is composed of 27,000,000 bearer ordinary shares with nominal value of 50 DM and 6,471,710 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, 1995 and a second authorized capital stock of DM 126 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 can be utilized up to a total of DM 193 million by the holders of the 943,990 warrants attaching to the option bonds issued in 1988.

(7) Capital reserve

The capital reserve comprises exclusively premiums on capital increases and the issue of option bonds. A total of DM 19 million was transferred to the capital reserve in 1994 in connection with the increase in the subscribed capital of Volkswagen AG.

(8) Revenue reserves

	Dec. 31, 1994 DM million	Dec. 31, 1993 DM million
Legal reserve	60	60
Reserve for treasury stock	5	5
Other revenue reserves	4,834	5,172
	4,899	**5,237**

A total of DM 55 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. In the current year amounts in respect of differences from capital consolidation arising on the assets side deriving from initial consolidation and from the acquisition of additional shares in fully-consolidated companies totalling DM 504 million have been set off against "Other revenue reserves".

(9) Special items with an equity portion

	Dec. 31, 1994 DM million	Dec. 31, 1993 DM million
Reserves for tax purposes	63	85
Depreciation for tax purposes	2,435	3,106
	2,498	**3,191**

The Volkswagen Group has reserves in accordance with § 3 subsection 2a of the Border Area Promotion Act, § 1 of the Developing Countries Tax 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, § 6b of the Income Tax Act/Section 35 of the Income Tax Guidelines, § 7d of the Income Tax Act, § 82d of the Income Tax Directive, § 82a of the Income Tax Directive, § 80 of the Income Tax Directive and § 14 of the Berlin Promotion Act. For creation of special items with an equity portion in accordance with § 3 of the Border Area Promotion Act, approval of applications by the German fiscal authorities is contingent upon their scrutiny by the Commission of the European Union. The Commission has stated that it has no objections to such approval being granted. The European Union authorization required in accordance with the "Community Framework for State Aid to the Motor Vehicle Industry" for special depreciation under § 4 of the Development Area Act has not yet been granted.
Two foreign companies have created special items with an equity portion on the basis of corresponding regulations.

(10) Special item for investment subsidies

The special item for investment subsidies, amounting to DM 20 million (1993: DM 23 million), stems from the financial statements of two foreign companies.

(11) Provisions

	Dec. 31, 1994 DM million	Dec. 31, 1993 DM million
Provisions for pensions and similar obligations	10,160	9,553
Provisions in respect of taxes	1,762	1,784
Other provisions	16,476	14,575
	28,398	**25,912**

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 1994. Without these measures, pre-tax earnings would have been 68 % higher (1993: loss 25 % smaller).

(12) Liabilities

	Total Dec. 31, 1994 DM million	of which payable within up to 1 year DM million	Total Dec. 31, 1993 DM million	of which payable within up to 1 year DM million
Loans	4,422	683	4,802	928
– of which convertible	(1,240)	(–)	(1,367)	(–)
Liabilities due to banks	20,215	13,519	20,895	14,292
Advance payments received	612	612	528	528
Trade payables	5,148	5,098	4,805	4,750
Notes payable	100	98	113	109
Amounts payable to affiliated companies	108	108	175	175
Amounts payable to companies in which participations are held	522	522	304	304
Other liabilities	6,172	3,717	5,305	3,502
– of which taxes	(466)	(466)	(529)	(529)
– of which in respect of social insurance	(484)	(483)	(481)	(479)
	37,299	**24,357**	**36,927**	**24,588**

The total liabilities payable within more than five years amount to DM 4,426 million (1993: DM 4,289 million).

Of the liabilities shown in the consolidated balance sheet, a total of DM 1,751 million (1993: DM 1,742 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, 1994 DM million	Dec. 31, 1993 DM million
Contingent liabilities with respect to notes	724	363
Contingent liabilities with respect to guarantees	236	172
Contingent liabilities with respect to warranties	827	516
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 747 million (1993: DM 485 million).

Other financial obligations

	Dec. 31, 1994 DM million	Dec. 31, 1993 DM million
Obligations in respect of capital contributions	271	486
Annual obligations in respect of long-term rental and leasing contracts	920	837

Financial obligations in respect of capital contributions exist up to 1999 in connection with our joint project with Ford in Portugal and our commitments in China, Poland and Taiwan.

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 36 months; these obligations amount to DM 686 million for 1995 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

	1994 DM million	1994 Share %	1993 DM million	1993 Share %
Germany	32,907	41.1	34,326	44.8
Europe (excl. Germany)	26,953	33.7	24,869	32.5
North America	4,875	6.1	3,469	4.5
Latin America	9,867	12.3	9,051	11.8
Africa	1,346	1.7	1,315	1.7
Asia/Oceania	4,093	5.1	3,556	4.7
Total	**80,041**	**100.0**	**76,586**	**100.0**

Vehicle sales of the Volkswagen Group in 1994 accounted for 78 % of sales proceeds, and parts sales for 8 %. 14 % related to other sales. Other sales include the proceeds from the sale of used assets of leasing and rental companies.

(14) Other operating income

	1994 DM million	1993 DM million
Other operating income	5,587	4,757
– of which income from elimination of special items with an equity portion	(1,049)	(556)

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

(15) Other operating expenses

	1994 DM million	1993 DM million
Other operating expenses	4,272	3,975
– of which transfers to special items with an equity portion	(180)	(88)

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 223 million (1993: DM 67 million), solely in respect of fixed assets.

(16) Results from participations

	1994 DM Million	1993 DM million
Income from participations	193	90
– of which from affiliated companies	(6)	(1)
– of which from associated companies	(40)	(50)
– of which from valuation of holdings in associated companies	(144)	(35)
Income from profit assumption agreements	0	1
Expenses from holdings in associated companies	191	230
Expenses from loss assumptions	29	10
	– 27	**– 149**

(17) Interest results

	1994 DM million	1993 DM million
Income from other securities and long-term loans	102	89
Other interest and similar income	2,947	2,969
– of which from affiliated companies	(46)	(28)
Interest and similar expenses	2,172	2,501
– of which to affiliated companies	(8)	(10)
	877	**557**

(18) Net earnings

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

The net earnings have been influenced by expenses attributable to other fiscal years amounting to DM 603 million (1993: DM 453 million) and income not relating to the period under report totalling DM 1,128 million (1993: DM 1,255 million).

The net earnings of the Volkswagen Group have been increased as a result of tax-related measures. These mainly involve the necessary elimination of special items in accordance with § 3 subsection 2 of the Border Area Promotion Act and § 4 of the Development Area Act, which were matched by special depreciation in accordance with § 4 of the Development Area Act and § 6b of the Income Tax Act. Without these measures, the Volkswagen Group would have posted a loss for 1994.

Net earnings include minority interests in profit totalling DM 63 million (1993: DM 98 million) and minority shares in losses amounting to DM 62 million (1993: small shares in losses).

Total expenses for the period

	1994 DM million	1993 DM million
Cost of materials		
Raw materials and supplies, purchased goods and purchased services	**48,230**	**47,530**
Labour cost		
Wages and salaries	14,359	14,962
Social insurance, pension costs and benefits	4,005	3,925
– of which in respect of pensions	(1,128)	(911)
	18,364	**18,887**

Other Particulars

Average numbers of employees during the year

	1994	1993
Wage-earners	124,676	132,952
Salaried workers	55,466	58,803
Salaried staff	57,359	61,353
	237,501	**253,108**
Apprentices	6,137	6,588
	243,638	**259,696**

The AUTOLATINA group employed an average of 54,164 people (1993: 53,060). This figure has been included in the Group total 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 6 and 7 of this Annual Report.

The remuneration of the members of the Board of Management for the fiscal year 1994 in respect of the Volkswagen Group totalled DM 10,419,279.

Retired members of the Board of Management and their surviving dependants received DM 13,442,362. These payments are covered by provisions for current pensions, amounting to DM 124,370,920.

Wolfsburg, February 21, 1995

VOLKSWAGEN AKTIENGESELLSCHAFT
The Board of Management

The remuneration of the Supervisory Board amounted to DM 176,750.

Loans totalling DM 275,500 have been granted to members of the Supervisory Board (amount redeemed in 1994: DM 20,500). The loans have an interest rate of 4 % and an agreed term of 12.5 years.

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, 1995

C&L TREUARBEIT
DEUTSCHE REVISION
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Siepe
Wirtschaftsprüfer

Dr. Heine
Wirtschaftsprüfer

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Sales (DM million)	52,502	52,794	54,635	59,221	65,352	68,061	76,315	85,403	76,586	80,041
Change on previous year in %	15	1	3	8	10	4	12	12	– 10	5
Domestic	16,171	18,839	22,555	22,653	23,682	26,929	36,360	39,508	34,326	32,907
Abroad	36,331	33,955	32,080	36,568	41,670	41,132	39,955	45,895	42,260	47,134
Export of domestic Group companies	24,025	23,414	22,898	24,395	27,601	28,323	28,093	33,884	26,797	27,090
Net contribution of foreign Group companies	14,698	14,127	13,080	15,961	18,256	18,242	18,809	15,412	23,104	26,944
Vehicle Sales (thousand units)	2,398	2,758	2,774	2,854	2,941	3,030	3,237	3,433	2,962	3,108
Change on previous year in %	12	15	1	3	3	3	7	6	– 14	5
Domestic	722	838	921	848	849	945	1,264	1,211	914	901
Abroad	1,676	1,920	1,853	2,006	2,092	2,085	1,973	2,222	2,048	2,207
Production (thousand units)	2,398	2,777	2,771	2,848	2,948	3,058	3,238	3,500	3,019	3,042
Change on previous year in %	12	16	0	3	4	4	6	8	– 14	1
Domestic	1,635	1,654	1,666	1,694	1,783	1,816	1,814	1,929	1,411	1,425
Abroad	763	1,123	1,105	1,154	1,165	1,242	1,424	1,571	1,608	1,617
Cost of materials (DM million)	26,623	28,656	31,331	32,888	37,533	40,469	47,039	54,817	47,530	48,230
Change on previous year in %	12	8	9	5	14	8	16	17	– 13	2
As % of sales	51	54	57	56	57	59	62	64	62	60
Workforce (thousand employees)[1]	259	276	260	252	251	261	277	273	253	238
Change on previous year in %	9	7	– 6	– 3	– 1	4	6	– 1	– 7	– 6
Domestic	170	169	170	165	161	166	167	164	150	141
Abroad	89	107	90	87	90	95	110	109	103	97
Labour cost (DM million)	13,913	14,747	15,192	15,144	16,107	17,056	18,872	20,753	18,887	18,364
Change on previous year in %	5	6	3	0	6	6	11	10	– 9	– 3
As % of sales	26	28	28	26	25	25	25	24	25	23
Capital Investments (DM million)	3,388	6,371	4,592	4,251	5,606	5,372	9,910	9,254	4,840	5,651
Change on previous year in %	22	88	– 28	– 7	32	– 4	84	– 7	– 48	17
Domestic	2,508	3,849	4,000	3,546	4,477	3,016	6,311	4,853	2,675	3,899
Abroad	880	2,522	592	705	1,129	2,356	3,599	4,401	2,165	1,752
Additions to Leasing and Rental Assets (DM million)	3,217	2,738	3,318	3,447	4,069	4,419	4,961	6,139	5,438	5,781
Change on previous year in %	59	– 15	21	4	18	9	12	24	– 11	6
Cash Flow (DM million)	4,558	4,285	4,874	5,018	5,412	5,701	7,133	7,004	3,636	7,668
Change on previous year in %	12	– 6	14	3	8	5	25	– 2	– 48	x
Net Earnings/Loss (DM million)	596	580	598	780	1,038	1,086	1,114	147	– 1,940	150
Dividend of Volkswagen AG (DM million)	240	306	306	306	336	369	369	66	67	107
Ordinary shares (DM million)	240	240	240	240	264	297	297	54	54	81
Preferred shares (DM million)		66	66	66	72	72	72	12	13	26

[1] Workforce at year end; as of 1986 average over year

Balance-sheet Structure (DM million) December 31	1985	1986[1]	1987[1]	1988[1]	1989[1]	1990[1]	1991[1]	1992[1]	1993[1]	1994[1]	Change 1994/93 in %	Balance-sheet Structure (DM million) December 31
												Assets
Assets		2	29	76	134	261	372	631	646	101	–84.3	Intangible assets
Tangible assets	8,740	12,111	13,406	13,836	15,493	16,826	21,126	24,050	23,067	20,429	–11.4	Tangible assets
Financial assets	574	1,099	1,125	1,304	1,621	1,418	2,655	2,747	1,823	2,608	43.0	Financial assets
Leasing and rental assets	3,717	4,106	4,919	5,427	5,561	5,834	6,293	7,393	7,517	8,234	9.5	Leasing and rental assets
Fixed assets	13,031	17,318	19,479	20,643	22,809	24,339	30,446	34,821	33,053	31,372	–5.1	**Fixed assets**
Inventories and advance		6,802	6,618	6,506	7,301	8,703	9,049	9,736	11,026	9,246	–16.1	Inventories
payments to suppliers	6,348											Receivables and other
Receivables and the like	7,157	8,675	9,403	11,848	14,472	15,065	19,011	21,394	22,943	24,554	7.0	assets
Liquid funds, trade accept.	4,326	364	426	488	2,360	2,764	2,329	1,497	1,119	2,595	x	Securities
Securities, treasury stock	3,960	8,553	8,135	10,809	9,929	11,842	9,255	7,836	11,157	13,317	19.4	Liquid funds
Current Assets	21,791	24,394	24,582	29,651	34,062	38,374	39,644	40,463	46,245	49,712	7.5	**Current Assets**
Total Assets	34,822	41,712	44,061	50,294	56,871	62,713	70,090	75,284	79,298	81,084	2.3	**Total Assets**
Stockholders' Equity a. Liab.												**Stockholders' Equity and Liabilities**
Capital stock	1,200	1,500	1,500	1,500	1,500	1,650	1,656	1,664	1,671	1,674	0.2	Subscribed capital
Reserves of the Group	5,929	7,891	8,496	9,040	9,667	11,491	12,098	11,800	9,521	9,202	–3.3	Reserves of the Group
Minority inter. i. consol. subs.	266	408	405	405	439	145	164	859	905	733	–19.0	Minority interest in consolidated subsid.
Stockholders' Equity	7,395	307	308	308	339	374	373	71	71	111	55.0	Net earnings available for distribution
Undetermined liabilities in												
respect of old-age pensions	5,029	3	17	42	54	33	12	68	98	1	–98.6	Minority interest in annual result
Other undetermined liabilities	9,343	1,828	2,203	2,452	2,925	2,882	3,823	3,659	3,191	2,498	–21.7	Special items with an equity portion
		10	9	9	12	13	19	18	23	20	–13.0	Special item for investment subsidies
Undetermined Liabilities	14,372	11,947	12,938	13,756	14,936	16,588	18,145	18,139	15,480	14,239	–8.0	**Stockholders' Equity**
Liabilities payable within		5,294	5,889	6,314	6,652	7,283	8,089	9,113	9,553	10,160	6.3	Provisions for pensions
more than		992	925	1,358	2,001	1,828	2,032	1,773	1,784	1,762	–1.2	Provisions for taxes
4 years	947	8,228	8,050	9,418	10,454	10,680	10,161	11,323	14,575	16,476	13.0	Other provisions
1 to 4 years	1,291	14,514	14,864	17,090	19,107	19,791	20,282	22,209	25,912	28,398	9.6	**Provisions**
up to 1 year	10,569											
Liabilities	12,807											Liabilities payable within
Net earnings available for		1,344	1,217	1,929	1,934	1,840	3,813	4,557	4,289	4,426	3.2	more than 5 years
distribution (Volkswagen AG)	244	1,456	1,999	2,121	3,289	3,339	3,900	6,222	8,707	9,271	6.5	1 to 5 years
Minority interest in earnings		12,451	13,043	15,398	17,605	21,155	23,950	24,157	24,910	24,750	–0.6	up to 1 year
to be distributed	4	15,251	16,259	19,448	22,828	26,334	31,663	34,936	37,906	38,447	1.4	**Liabilities**
Outside Capital	27,427	29,765	31,123	36,538	41,935	46,125	51,945	57,145	63,818	66,845	4.7	**Outside Capital**
Total Capital	34,822	41,712	44,061	50,294	56,871	62,713	70,090	75,284	79,298	81,084	2.3	**Total Capital**
Statement of Earnings (Condensed) (DM million) January–December												**Statement of Earnings** (Condensed) (DM million) January–December
Gross performance	52,709	52,794	54,635	59,221	65,352	68,061	76,315	85,403	76,586	80,041	4.5	Sales
Cost of materials	26,623	46,746	48,526	51,315	56,196	61,890	69,472	79,155	71,117	72,720	2.3	Cost of sales
Labour cost	13,913											
Depreciation and write-down	3,411	5,380	5,498	6,321	7,151	7,308	7,599	7,977	8,278	8,786	6.1	Selling and general administration expenses
Depreciation on leasing and												Other operating income less
rental assets	1,259	632	931	38	209	2,615	1,302	1,612	782	1,315	68.1	other operating expenses
Taxes	2,124	295	68	513	773	914	1,239	719	391	611	56.4	Financial results
on income,												Results
earnings and		1,595	1,610	2,136	2,987	2,392	1,785	602	–1,636	461	x	from ordinary business activities
property	1,993	–473	–443	–	–	–	–	–	–	–	–	Extraordinary results
Sundry expenses less												Taxes on
sundry income	4,783	542	569	1,356	1,949	1,306	671	455	304	311	2.2	income
Net earnings/Loss	596	580	598	780	1,038	1,086	1,114	147	–1,940	150	x	Net earnings/Loss

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

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