

VOLKSWAGEN AG

**Interim Report
January – June 2001**



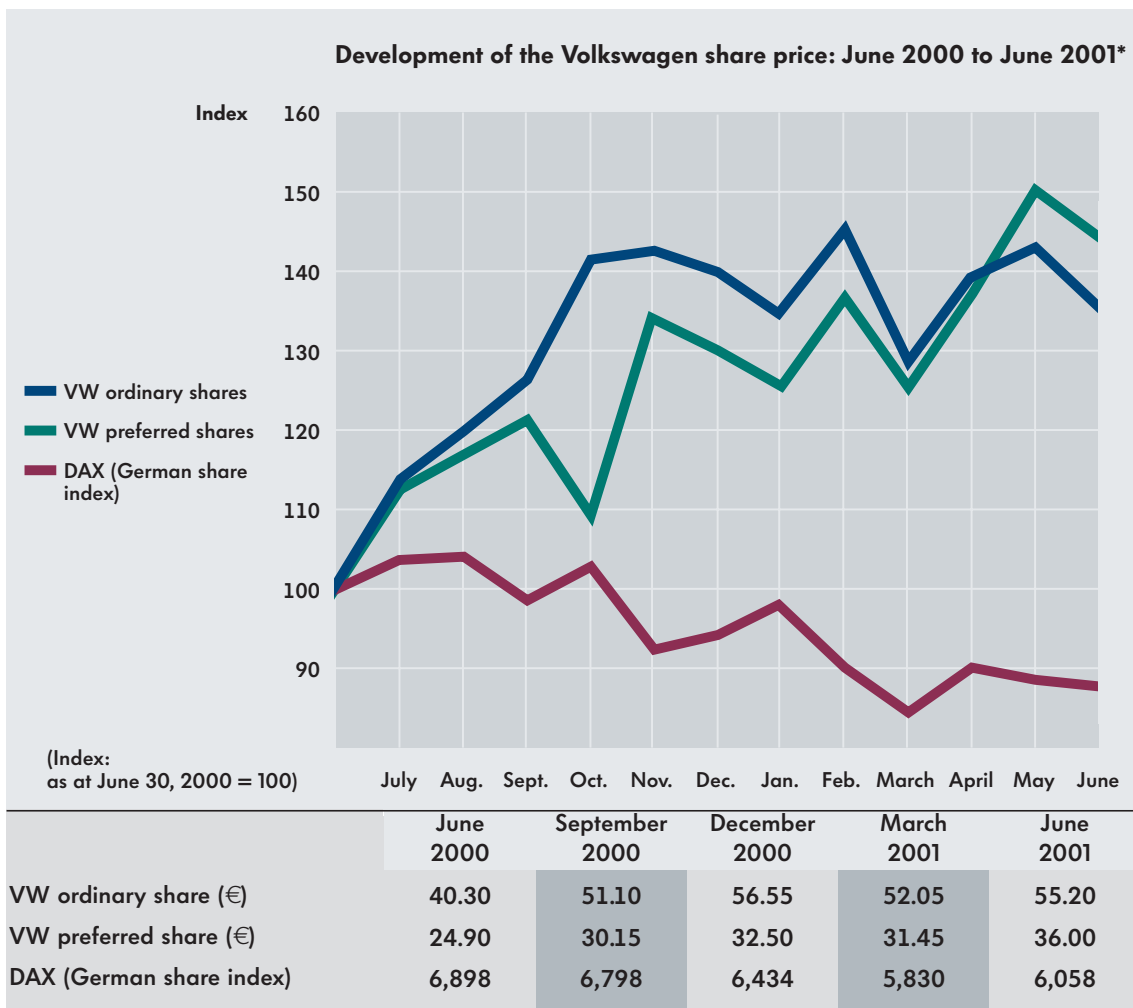
Key figures

'000 units/€ million	2nd quarter			1st half		
	2001	2000	%	2001	2000	%
Volkswagen Group						
Unit sales	1,367	1,300	+ 5.2	2,723	2,595	+ 4.9
of which: Germany	255	278	- 8.3	504	536	- 6.1
abroad	1,112	1,021	+ 8.9	2,219	2,059	+ 7.8
Production	1,359	1,333	+ 1.9	2,770	2,580	+ 7.4
of which: Germany	471	489	- 3.7	992	956	+ 3.8
abroad	888	844	+ 5.2	1,779	1,624	+ 9.5
Workforce ('000 on 30.06.01/31.12.00)				323.0	324.4	- 0.4
of which: Germany				165.0	164.1	+ 0.5
abroad				158.0	160.3	- 1.4
Automotive Division						
Investments in tangible fixed assets	1,319	1,413	- 6.5	2,601	2,559	+ 1.7
- as % of revenues	6.2	7.1		6.2	6.5	
Depreciation	1,213	1,099	+ 10.3	2,345	2,168	+ 8.1
Cash flow	2,052	2,040	+ 0.6	3,854	3,744	+ 2.9
Volkswagen Group						
HGB results:						
Revenues	23,743	21,635	+ 9.7	46,773	42,576	+ 9.9
Pre-tax profit	805	686	+ 17.4	1,513	1,302	+ 16.2
- as % of revenues	3.4	3.2		3.2	3.1	
Net earnings	444	394	+ 12.8	833	641	+ 30.0
IAS results:						
Revenues	23,006	n.a.		45,663	n.a.	
Pre-tax profit	1,115	n.a.		2,360	n.a.	
- as % of revenues	4.8	n.a.		5.2	n.a.	
Net earnings	624	n.a.		1,454	n.a.	
Earnings per share in €*						
HGB	1.18	0.95	+ 24.2	2.21	1.54	+ 43.5
IAS	1.65	n.a.		3.85	n.a.	

* The calculation is based on the following average numbers of ordinary and preferred shares:
 2nd quarter 2001 = 376.7 million shares, 1st half 2001 = 376.6 million shares,
 2nd quarter 2000 = 416.4 million shares, 1st half 2000 = 416.4 million shares.
 Dilution by future exercising of options was not taken into account.

Positive business trend continues:

- HGB pre-tax profit increased by 16.2 % to € 1,513 million
- IAS pre-tax profit € 2,360 million
- Increases in international unit sales more than compensate for market decline in Germany
- New Passat W8 model launched
- Ongoing expectation for full-year revenue and earnings growth versus previous year



* Month-end prices.

Economic trends

In the second quarter the growth of the world economy continued to slow, primarily owing to the marked cooling of the US economy and recessionary trends in Japan. The rate of expansion in the Euro zone also slowed. For Germany, the growth forecast for 2001 is now only 1.0 to 1.5 %. The reasons lie in the significant slowing of export-based growth and the flattening of domestic demand resulting from low employment growth and high inflation.

Deliveries to customers

With 2,659,827 units delivered worldwide, the Volkswagen Group increased sales by 2.6 %. Its share of the world market rose by 0.6 percentage points to 12.5 %.

In the second quarter deliveries to customers increased by more than production. This resulted

in a **reduction of stocks**. In Western Europe including Germany, the stocks held by our dealership organization remain at an appropriate level.

In a still declining **domestic market** (- 2.8 %), Volkswagen sold 513,333 units (- 5.4 %). On the basis of new passenger car registrations, the Group substantially increased its market share in Germany to 30.0 (29.6) %.

In **Western European markets**, excluding Germany, new vehicle registrations fell by 1.4 % relative to the first half of the year 2000. Bucking that trend, the Volkswagen Group's sales of 1,084,834 units were 2.1 % up on the previous year. In the Western European market as a whole, including Germany, Group deliveries to

Deliveries to customers

'000 units	2nd quarter			1st half		
	2001	2000	%	2001	2000	%
Western Europe	828	807	+ 2.6	1,598	1,605	- 0.4
- Germany	267	271	- 1.4	513	543	- 5.4
- West. Europe excl. Germany	561	537	+ 4.6	1,085	1,062	+ 2.1
Eastern Europe	94	79	+ 19.5	174	147	+ 18.6
North America	179	174	+ 2.9	325	328	- 0.7
- USA	122	119	+ 2.7	217	220	- 1.7
South America/Africa	149	129	+ 15.4	292	255	+ 14.4
- Brazil	119	98	+ 20.9	232	191	+ 21.3
- Argentina	7	12	- 43.9	15	28	- 44.5
Asia-Pacific	122	110	+ 11.6	228	196	+ 16.3
- China	99	88	+ 12.7	177	149	+ 18.6
- Japan	15	15	+ 1.4	35	33	+ 7.6
Volkswagen Group	1,393	1,334	+ 4.5	2,660	2,592	+ 2.6
Volkswagen passenger cars	847	816	+ 3.9	1,626	1,595	+ 1.9
Volkswagen commercial veh.	79	84	- 5.4	153	162	- 5.5
Audi*	199	180	+ 10.6	369	345	+ 6.9
Seat	139	142	- 2.2	264	279	- 5.2
Škoda	129	112	+ 15.2	247	210	+ 17.3
Rolls-Royce/Bentley (units)	461	468	- 1.5	975	949	+ 2.7

* Including Lamborghini.

customers of 1,598,167 units were just below the previous year's figure (- 0.4 %). Against declining overall demand, Volkswagen again strengthened its position in this market with a share of 19.0 (18.2) %.

In **Eastern Europe**, Volkswagen's sales of 173,879 units (+ 18.6 %) maintained their upward trend. The Group achieved its highest volume growth in the Czech Republic and Slovakia, where deliveries totalled 52,993 (+ 10.6 %) and 22,755 (+ 30.0 %) units respectively. In a weak Polish market (- 32.2 %) Volkswagen increased its unit sales to 40,179 units (+ 4.4 %).

Deliveries in the **North America Region** in the first half of 2001 totalled 325,423 units, 0.7 % down on the same period in the previous year. Despite a 5.9 % decline in the US passenger car market as a whole, Volkswagen sales fell by only 3.7 % to 173,027 units. Audi increased sales by 7.3 % to 43,300 units. Volkswagen Canada, too, was able to halt the declining trend of the first three months in the second quarter. Its first half sales of 25,125 units were only 2.7 % down on the previous year. In the still growing Mexican passenger car market, Volkswagen de Mexico sold 83,487 vehicles, 2.7 % up on the first half of the year 2000.

In the **South America/Africa Region** the pattern in the various passenger car markets remained highly inconsistent. While the positive development in Brazil was maintained with a 28.9 % rise, the Argentinian market declined by 43.1 %. The Volkswagen Group increased its deliveries in the region as a whole to 291,714 units (+ 14.4 %). In the Brazilian market Volkswagen do Brasil sold 232,074 units, an increase of 21.3 %. The ongoing weakness of the Argentinian economy meant that deliveries of 15,355 units were well below the previous year's level (- 44.5 %). In South Africa the positive development of the passenger car market was sustained (+ 8.4 %). Volkswagen increased its sales by 10.4 % to 27,285 units.

In the first six months of the year the **Asia-Pacific Region** recorded a strong increase in deliveries, to 228,061 units (+ 16.3 %). Sales in China rose by 18.6 % to 177,132 units, primarily based on the new Passat and Audi A6 models launched in the previous

year. The Japanese import market showed a slight upward trend relative to the low level of the previous year (+ 4.0 %). Volkswagen increased its deliveries by 7.6 % to 35,001 units.

Unit sales, Production and workforce

In the period January to June 2001 the Volkswagen Group sold 2,722,540 units (+ 4.9 %) to its dealership organization, of which 18.5 (20.7) % in Germany.

In the period under review the Group increased its worldwide production to 2,770,449 units (+ 7.4 %). The portion of production in Germany fell slightly to 35.8 (37.0) %. All product lines recorded increases in production. Total Group production figures also include 28,540 Ford Galaxy units (+ 21.1 %) not included in the figures reported for deliveries to customers.

The workforce of 322,992 people at June 30, 2001 was slightly down (- 0.4 %) on the figure at the end of the year 2000. The number of people employed in Germany increased to 164,975 (+ 0.5 %), primarily resulting from increased production demands at AUDI AG. The workforce outside Germany fell by 2,257 to 158,017 people, mainly because of adjustments in the South America/Africa Region and at Škoda.

Statement of earnings of the Volkswagen Group

€ million	1st half				Change in %
	2001	%	2000	%	
Revenues	46,773	100.0	42,576	100.0	+ 9.9
Cost of sales	41,008	87.7	37,571	88.2	+ 9.1
Gross profit	5,765	12.3	5,005	11.8	+ 15.2
Selling and distribution costs	3,584	7.7	3,273	7.7	+ 9.5
General administration costs	1,016	2.2	843	2.0	+ 20.5
Other operating result	- 4	- 0.0	- 18	- 0.0	+ 76.8
Operating result	1,161	2.4	871	2.1	+ 33.3
Financial result	352	0.8	431	1.0	- 18.2
Results from ordinary business activities	1,513	3.2	1,302	3.1	+ 16.2
Taxes on income	680	1.4	661	1.6	+ 2.9
Net earnings	833	1.8	641	1.5	+ 30.0

€ million	2nd quarter				Change in %
	2001	%	2000	%	
Revenues	23,743	100.0	21,635	100.0	+ 9.7
Cost of sales	20,793	87.6	19,042	88.0	+ 9.2
Gross profit	2,950	12.4	2,593	12.0	+ 13.7
Selling and distribution costs	1,885	7.9	1,704	7.9	+ 10.6
General administration costs	519	2.2	457	2.1	+ 13.6
Other operating result	- 52	- 0.2	46	0.2	x
Operating result	494	2.1	478	2.2	+ 3.3
Financial result	311	1.3	208	1.0	+ 50.1
Results from ordinary business activities	805	3.4	686	3.2	+ 17.4
Taxes on income	361	1.5	292	1.4	+ 23.6
Net earnings	444	1.9	394	1.8	+ 12.8

Revenues and earnings

The Volkswagen Group increased its revenues by 9.9 % to € 46,773 million in the first half of 2001, primarily based on increased sales outside Germany. Half of the increase in revenues results from higher volumes, just under 20 % from the growing financial services business and 12 % from the consolidation of Europcar. Other factors included an improvement in the model mix and the sustainable effect of price adjustments. Exchange rate fluctuations had only a minor influence on the development of revenues. 73.0 (71.1) % of total sales were generated outside Germany.

The disproportionately low increase in cost of sales meant that gross profit rose by 15.2 %. The gross margin improved to 12.3 (11.8) %.

In the first half of 2001 selling and distribution costs rose by 9.5 % to € 3,584 million, primarily as a result of increased volumes. The consolidation of the Europcar group and of Volkswagen-Versicherungsdienst GmbH again resulted in increased administration costs. Excluding those factors, the increase against the previous year would have been just 7.9 %.

The "Other operating result" figure remained at the previous year's level. The financial result – which was also negatively impacted by the valuation of treasury stock – fell to € 352 million, in particular because of reduced liquidity.

Overall, the Volkswagen Group reported results from ordinary business activities of € 1,513 million (+ 16.2 %). Net earnings were € 833 million (+ 30.0 %).

Segment results

The Volkswagen Passenger Cars and Audi brands and the North America and Asia-Pacific regions were once again the major earnings drivers of the Volkswagen Group in the first half of 2001.

The Volkswagen Passenger Cars and Audi brands recorded strong growth in unit sales and earnings against the previous year, as did the Asia-Pacific Region. Although its deliveries were slightly down, the North America Region was also able to increase the previous year's earnings. The Škoda brand recorded a small pre-tax profit in the first half-year,

though below that achieved in the previous year. The deterioration resulted primarily from unfavourable exchange rates and the associated substantial rise in material costs, as well as from upfront expenditure for new models and assemblies. The earnings of Rolls-Royce/Bentley continue to be impacted by the cost of developing a new model series. The Volkswagen Commercial Vehicles and Seat brands recorded earnings at the previous year's level. In the South America/Africa Region, the negative shift in the exchange rate of the Brazilian Real to the US Dollar in particular, as well as higher material prices, had an increasingly detrimental effect on earnings. The difficult economic situation in Argentina also impacted on that country's automotive business, and consequently also on earnings from the region.

The Financial Services and Financing divisions increased their earnings against the same period in the previous year, with Financial Services in particular recording significant growth.

Automotive Division

Investments in tangible fixed assets in the Automotive Division in the period under review increased by 1.7 % to € 2,601 million. They were financed in full from cash flow, which totalled € 3,854 million (+ 2.9 %). Investments in tangible fixed assets as a percentage of revenues decreased by 0.3 percentage points to 6.2 % relative to the same period in the previous year. Net liquidity totalled € 7.6 billion.

Financial Services

The positive business expansion in the Financial Services Division continued in the first half of 2001. At June 30, 2001, the number of finance and leasing contracts worldwide had increased against the same period in the previous year by 9.5 % to 3,507,280. Including insurance contracts, the total number of outstanding contracts at the end of the period under review was 4,650,500. Of all new vehicles delivered, 28.8 % were financed or leased by

Financial Services. The deposits of Volkswagen Bank *direct* again increased significantly against the 2000 year-end figure, by 21 % to € 4,129 million.

The expanding business required additional funding, which was financed primarily by outside capital as is common practice in the industry.

Development of short-term liquidity January 1 to June 30, 2001

€ million	Divisions			Consolid./ Other	Volkswagen Group
	Automotive	Financial Services	Financing		
Cash flow	3,854	2,279	92	- 474	5,751
Other internal financing	1,377	- 2,677	- 1,422	630	- 2,092
Cash flow from current operations	5,231	- 398	- 1,330	156	3,659
Investment activity	- 2,790	- 3,991	316	- 292	- 6,757
Net cash flow	2,441	- 4,389	- 1,014	- 136	- 3,098
Financing operations	1,017	4,462	1,008	- 2,076	4,411
Change in gross liquidity	3,458	73	- 6	- 2,212	1,313
Gross liquidity at 30.06.	7,027	817	12	- 474	7,382
Intra-Group loans	11,288	- 11,138	- 150	-	-
Gross liquidity - adjusted -	18,315	- 10,321	- 138	- 474	7,382
Total third-party borrowings	- 10,720	- 25,514	- 7,488	4,279	- 39,443
Net liquidity	7,595	- 35,835	- 7,626	3,805	- 32,061

Balance sheet at June 30, 2001 and December 31, 2000

Assets € million	Automotive		Financial	Services	Volkswagen Group	
	2001	2000	2001	2000	2001	2000
Fixed assets	28,212	27,459	15,308	13,531	37,950	35,437
Tangible assets	16,633	16,596	236	249	16,855	16,824
Financial assets	11,578	10,862	76	108	6,611	5,951
Leasing and rental assets	1	1	14,996	13,174	14,484	12,662
Current assets	36,493	31,140	27,746	24,763	52,264	46,156
Inventories	10,447	9,069	73	69	9,583	8,389
Receivables	19,512	16,456	26,856	23,949	35,450	31,544
Liquid funds	6,534	5,615	817	745	7,231	6,223
Total assets	64,705	58,599	43,054	38,294	90,214	81,593
Stockholders' equity and liabilities € million						
Stockholders' equity	15,318	14,597	1,585	1,531	11,802	11,521
Liabilities	49,387	44,002	41,469	36,763	78,412	70,072
long-term	9,365	9,226	1,865	1,462	11,412	11,148
medium-term	5,676	5,593	13,826	10,965	16,335	14,186
short-term	34,346	29,183	25,778	24,336	50,665	44,738
Total capital	64,705	58,599	43,054	38,294	90,214	81,593

Annual Meeting of Stockholders

The 41st Annual Meeting of Stockholders of VOLKSWAGEN AG was held on June 7, 2001 at the Congress Centrum Hamburg. The holders of ordinary shares consented to the proposals of the Board of Management regarding the appropriation of net earnings, the ratification of the actions of the members of the Board of Management and the Supervisory Board, the election of members of the Supervisory Board, the buy-back of own shares and the creation of a further authorized capital. With 36.99 % of the eligible voting capital represented, a resolution for payment of a dividend of € 1.20 per ordinary share and € 1.26 per preferred share was passed.

With effect from the end of the Annual Meeting of Stockholders, Dr.-Ing. E.h. Günther Saßmannshausen retired from his seat on the Supervisory Board after

14 years of valuable service. At the proposal of the Supervisory Board, the Annual Meeting of Stockholders elected Dr. jur. Michael Frenzel to serve on the Board for the remainder of the scheduled period of office of Dr. Saßmannshausen.

Earnings according to IAS

In view of the conversion of the Group's consolidated financial statements for the full fiscal year 2001 to International Accounting Standards (IAS), our Interim Reports for the year include an analysis of the Group's earnings in the form of a reconciliation of HGB to IAS standards.

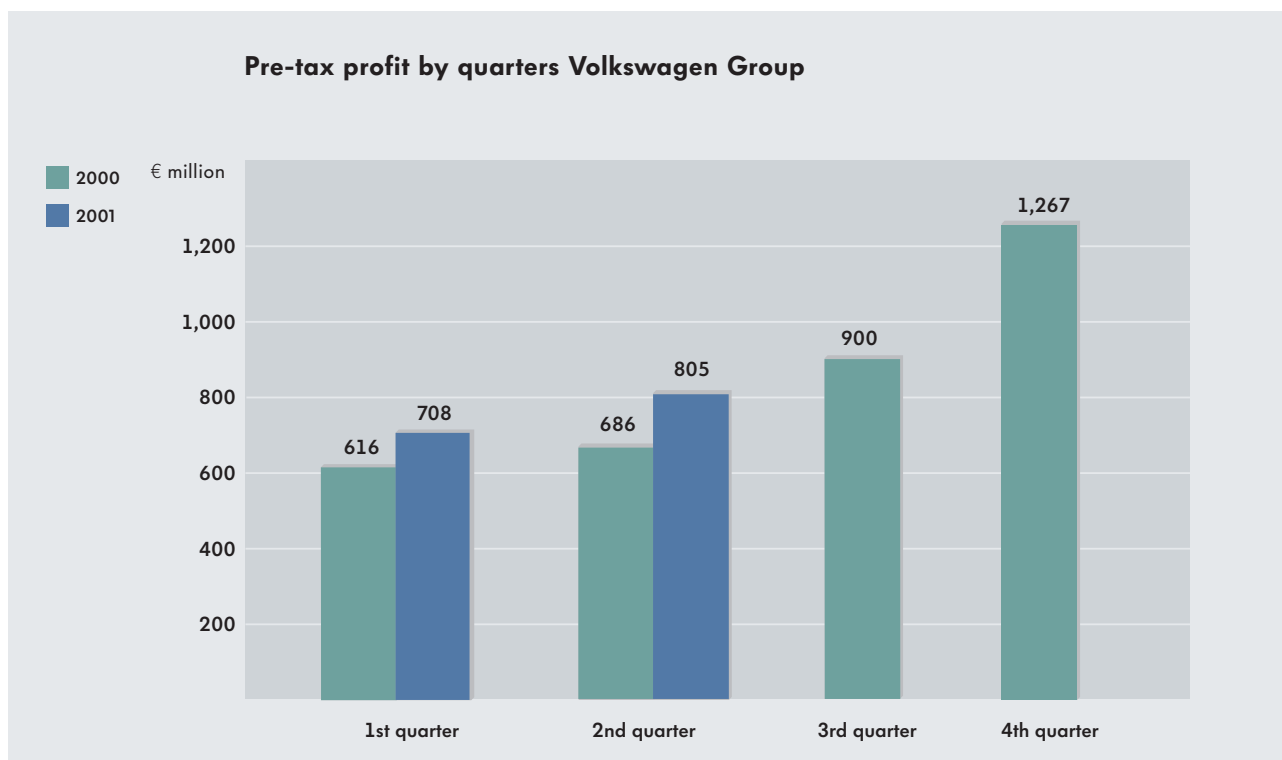
For the first half of 2001 the reconciliation produced a pre-tax profit under IAS of € 2,360 million, € 847 million above the HGB figure. The return on sales totalled 5.2 %. Net earnings according to IAS were € 1,454 million. Earnings per share were € 3.85 for the half year period.

The stockholders' equity according to IAS totalled € 23.5 billion, 99.4 % higher than the HGB figure. The equity ratio was 21.9 %, 8.8 percentage points above the comparable figure under HGB.

Transition from HGB to IAS earnings (provisional)

€ million	1st half 2001
HGB pre-tax profit	1,513
Capitalization of development cost (netted against depreciation)	302
Depreciation on tangible fixed assets	64
Valuation of leasing and rental contracts	97
Valuation of inventories	185
Valuation of pension provisions	- 59
Change in other provisions	28
Valuation of financial instruments*	112
Other changes	118
IAS pre-tax profit	2,360
Effective taxes	680
Deferred taxes as per IAS	226
IAS net earnings	1,454
- in € per share	3.85

* Receivables, financial assets and derivatives.



Outlook

Despite clear market weaknesses in some countries, the business of the Volkswagen Group will overall continue to develop favourably through the second half of 2001. We expect that the fall in unit sales in Germany resulting from the weaker than originally planned development of the automotive market will again be more than compensated by higher sales outside Germany in the second half of the year. In order to achieve our stated earnings expectations for 2001, we shall continue to implement the cost reduction measures initiated in the current year with the aim of compensating for the fall in

earnings in Germany. Based on the business trend in the first half of the year, we continue to expect revenues and earnings for the full year 2001 to increase against the previous year.

**VOLKSWAGEN
AKTIENGESELLSCHAFT**

The Board of Management
Wolfsburg, July 2001

Scheduled dates:

Interim Report January to September 2001:

October 30

Annual Meeting of Stockholders 2002:

April 16



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