

**Report
for the Year
1970**

**Volkswagenwerk
Aktiengesellschaft
Wolfsburg**

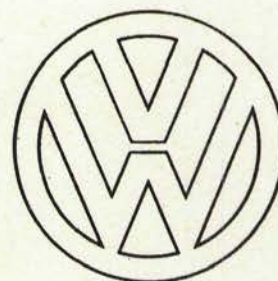


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The Board of Directors and Management of Volkswagenwerk Aktiengesellschaft present the Report for the Year 1970 with their compliments.

Wolfsburg, April 1971

Agenda

for the Annual Meeting of Stockholders
of Volkswagenwerk Aktiengesellschaft
to be held at 10:00 A. M. on Thursday, July 1, 1971
at the Stadthalle in Wolfsburg.

1. Presentation of audited financial statements and the report of Management for 1970, together with the report of the Board of Directors, the recommendations with respect to disposition of the current year's net earnings shown in the statement of earnings, the consolidated financial statements and related comments for the year 1970.

2. Resolution with respect to disposition of the net earnings for the year shown on the balance sheet.

Management and the Board of Directors propose to distribute to the stockholders a dividend of DM 166,500,000 out of net earnings for the year of DM 166,780,239. This dividend amounts to DM 9.25 on DM 50 par value of capital stock, or represents a 18.5% dividend on the capital stock.

3. Resolution with respect to discharge of responsibility of Management for the year 1970.

4. Resolution with respect to discharge of responsibility of the Board of Directors for the year 1970.

With respect to items 3. and 4., Management and the Board of Directors propose to be discharged of responsibility.

5. Election of members of the Board of Directors.

The Board of Directors consists of 21 members of which 14 are representatives of the stockholders and 7 represent the employees of the company (section 101 of Stock Corporation Law (AktG), section 76 of Works Council Act (BetrVerfG)). In accordance with section 12 of the charter of Volkswagenwerk AG the Federal Republic of Germany and the State of Lower Saxony are each entitled to delegate two members of the Board of Directors as long as they are in possession of company stock. The stockholders attending the annual meeting have to elect 10 members of the Board of Directors, but they are not bound by the nominations submitted.

The Board of Directors proposes to elect the following persons as members of the Board of Directors:

Hans Birnbaum, Chairman of the Board of Management of Salzgitter AG, Salzgitter
Dr. jur. F. Wilhelm Christians, Member of the Board of Management of Deutsche Bank AG, Düsseldorf
Büderich-Meererbusch
Walter Haefner, Business Proprietor, Erlenbach/
Switzerland
Kurt Hähnel, Member of the Board of Management of Deutsche Girozentrale – Deutsche Kommunalbank, Frankfurt

Dr. jur. Alfred Härtl, Company Adviser, Frankfurt
 Dr. h. c. Walter Hesselbach, Chairman of the Board of Management of Bank für Gemeinwirtschaft, Frankfurt
 Dr. jur. Eduard Leuze, Lawyer, Reutlingen
 Dr. h. c. Ludwig Poullain, Chairman of the Board of Management of Westdeutsche Landesbank – Girozentrale, Münster
 Dr. jur. Horst Rheinfels, Lawyer, Cologne
 Dr. jur. Josef Rust, Chairman of the Board of Management of Wintershall AG, ret., Kassel

6. Resolution with respect to an amendment of the charter.

In view of the fact that the number of members of the Board of Directors has been increased from 18 to 21 Management and the Board of Directors propose to the stockholders that section 16, paragraph 1 of the charter be amended as follows:

"A quorum of the Board of Directors shall be present if at least eleven members including the chairman of the Board of Directors or one of his deputies are present at the time when business is to be dealt with."

7. Resolution seeking the approval of the stockholders present at the annual meeting for a corporate agreement.

On April 23, 1971 Volkswagenwerk AG and AUDI NSU AUTO UNION AG concluded a controlling and profit transfer agreement. This agreement is available for perusal in the registered offices of the two companies and a copy of it is obtainable on request. The main points are as follows:

Control and transfer of profits

AUDI NSU AUTO UNION AG subordinates its management to the Volkswagenwerk AG which is accordingly entitled to issue directives to the Board of Management of AUDI NSU AUTO UNION AG subject to the legal requirements. The Board of Management of AUDI NSU AUTO UNION AG shall continue to manage and represent the company. AUDI NSU AUTO UNION AG has placed itself under an obligation to transfer its net earnings after reserve transfers to Volkswagenwerk AG where these exceed the amount which must be paid to the holders of the participating certificates that were issued following the resolution passed by the stockholders present at the annual meeting held on April 26, 1969 (sections 4 and 25 of the charter of AUDI NSU AUTO UNION AG).

Payment on participating certificates and dividend guaranties

As long as the agreement shall be in force Volkswagenwerk AG is obliged to compensate for any loss incurred by AUDI NSU AUTO UNION AG and in addition to this to enable that company to provide such an amount

as net earnings after reserve transfers as would be necessary to make full payment on the participating certificates in accordance with section 4, paragraph 2 of the charter. Volkswagenwerk AG guarantees that pursuant to section 304 AktG AUDI NSU AUTO UNION AG's independent stockholders shall receive appropriate remuneration for each business year as from 1971 and that a payment shall be made on every AUDI NSU stock as a share of the profits which would represent two fifth of the amount to be paid on a Volkswagenwerk AG share with the same par value in respect of the same business year. Should the capital stock be increased from own funds either from Volkswagenwerk AG or AUDI NSU AUTO UNION AG an appropriate amendment of this guaranty will be provided for.

Compensation

Volkswagenwerk AG is bound to the terms of this agreement to exchange the shares of an independent stockholder of AUDI NSU AUTO UNION AG for Volkswagenwerk AG's stock in the ratio of 2.5 AUDI NSU AUTO UNION AG's shares for 1 Volkswagenwerk AG's stock of same parvalue should he so request. No compensation shall be made in respect of peak quotations. The obligation to effect an exchange shall be limited to the six months' period following the entry of the corporate agreement into the Mercantile Register at Heilbronn.

Other arrangements

Volkswagenwerk AG confirms in the corporate agreement the assurances which it gave to the NSU Board of Management on the occasion of the amalgamation of Auto Union G. m. b. H. with NSU Motorenwerke AG in respect of the business policy of AUDI NSU AUTO UNION AG concerning the further utilization of NSU/Wankel patents. Accordingly, Volkswagenwerk AG will not issue to the Board of Management of AUDI NSU AUTO UNION AG any directives contrary to these assurances. The agreement will come into effect retrospectively from January 1, 1971 and will expire on December 31, 1980. It continues for one year periods unless notice has been given six months before its termination. The Managements of the contracting parties may repudiate the agreement if it has not been entered in the Mercantile Register by April 30, 1972 at the latest. All litigation arising out of this agreement will be settled by a Court of Arbitration whose decision will be final.

Management and the Board of Directors propose to approve the conclusion of the corporate agreement.

8. Appointment of auditors for the year 1971.

The Board of Directors proposes to appoint the Deutsche Revisions- und Treuhand-Aktiengesellschaft, Treuarbeit, Hanover, as auditors for the year 1971.

Board of Directors (Aufsichtsrat)

Dr. jur. Josef Rust, Kassel, Chairman
Otto Brenner, Frankfurt, Deputy Chairman
Helmut Greulich, Hanover since July 9, 1970,
Deputy Chairman from August 3, 1970
Dr. rer. pol. Wolfram Langer, Wiesbaden,
Deputy Chairman, to February 23, 1970
Karl Möller, Hanover, Deputy Chairman, to July 9, 1970
Dr. jur. Gerhard Reischl, Bonn, since February 23, 1970,
Deputy Chairman from April 16, 1970
Hugo Bork, Wolfsburg
Siegfried Ehlers, Wolfsburg
Mrs. Elgin Gärtner-Amrhein, Stuttgart
Walter Haefner, Zürich
Heinrich Heerdt, Kassel
Prof. Dr. jur. Siegfried Heinke, Hanover, since July 9, 1970
Heinz Hilbich, Hanover
Prof. Dr. phil. Eduard Justi, Brunswick
Alfred Kubel, Hanover, to July 9, 1970
Dr. rer. pol. h. c. Ludwig Poullain, Münster
Dr. jur. Horst Rheinfels, Cologne
Dr. rer. pol. Hermann Richter, Düsseldorf
Erich Schilling, Ingolstadt
Dr. oec. publ. Johann Baptist Schöllhorn, Bonn
Dr. jur. Wilhelm Vallenthin, Frankfurt

Management (Vorstand)

Prof. Dr. rer. pol. h. c. Kurt Lotz, Chairman
Horst Backsmann
Dr. rer. pol. Carl H. Hahn
Otto Höhne
Prof. Dr.-Ing. Werner Holste
Horst Münzner
Frank Novotny, to December 31, 1970
Dr. jur. Gerhard Prinz
Dr. rer. pol. Friedrich Thomée

Selected Data of Volkswagenwerk AG and its Subsidiaries and Affiliates

		1970	1969	Increase (Decrease)	%
Sales (DM)					
Volkswagenwerk AG and its Subsidiaries and Affiliates	in million DM	15,791	13,934	1,857	13
	domestic sales — %	31	29		
	export sales — %	69	71		
	per employee DM	87,467	84,826	2,641	3
Volkswagenwerk AG	in million DM	9,913	9,238	675	7
	domestic sales — %	38	34		
	export sales — %	62	66		
	per employee DM	83,336	84,763	— 1,427	— 2
Sales (units)					
Volkswagenwerk AG and its Subsidiaries and Affiliates	number of vehicles	2,206,921	2,087,109	119,812	6
Volkswagenwerk AG	number of vehicles	1,625,885	1,633,625	— 7,740	.
Production					
Volkswagenwerk AG and its Subsidiaries and Affiliates	number of vehicles	2,214,937	2,094,438	120,499	6
Volkswagenwerk AG	number of vehicles	1,621,197	1,639,630	— 18,433	— 1
Labor Force					
Volkswagenwerk AG and its Subsidiaries and Affiliates	at year-end	190,306	168,469	21,837	13
Volkswagenwerk AG	at year-end	124,792	112,454	12,338	11
Investments					
Volkswagenwerk AG and its Subsidiaries and Affiliates	in million DM	1,536	1,076	460	43
Volkswagenwerk AG	in million DM	1,131	740	391	53
Depreciation					
Volkswagenwerk AG and its Subsidiaries and Affiliates	in million DM	836	691	145	21
Volkswagenwerk AG	in million DM	579	536	43	8
Net Earnings					
Volkswagenwerk AG	in million DM	190	330	— 140	— 42
Dividends Proposed					
	in million DM	166.5	166.5	—	—

Report of Management

World-Wide Economic Developments in 1970

Economic developments in western industrial countries were in 1970 once again characterized by widely-differing trends. In the USA and in Great Britain signs of stagnation were already clearly recognizable, while in the countries on the mainland of Europe and in Japan the rising demand was only slightly affected by monetary restrictions. It is noticeable that the tendencies towards price increases became more pronounced in almost all the western countries. This makes it difficult for the governments of many states to realize their economic aims, namely to ensure full employment, to re-establish price stability, to avoid endangering the growth of the economy and to maintain the balance of payments. Thus, already at the end of 1970, despite steadily rising prices, the USA adopted a policy of expansion in order to prevent a more serious recession. In doing so the Americans started an international trend towards the lowering of interest rates.

Above all, the economic trend in the USA meant that, after a pronounced increase in world automobile production in recent years, the figure of 28.9 million vehicles for 1970 was not as high as in the previous year.

The shares of individual countries in world automobile production have developed since 1966 as follows:

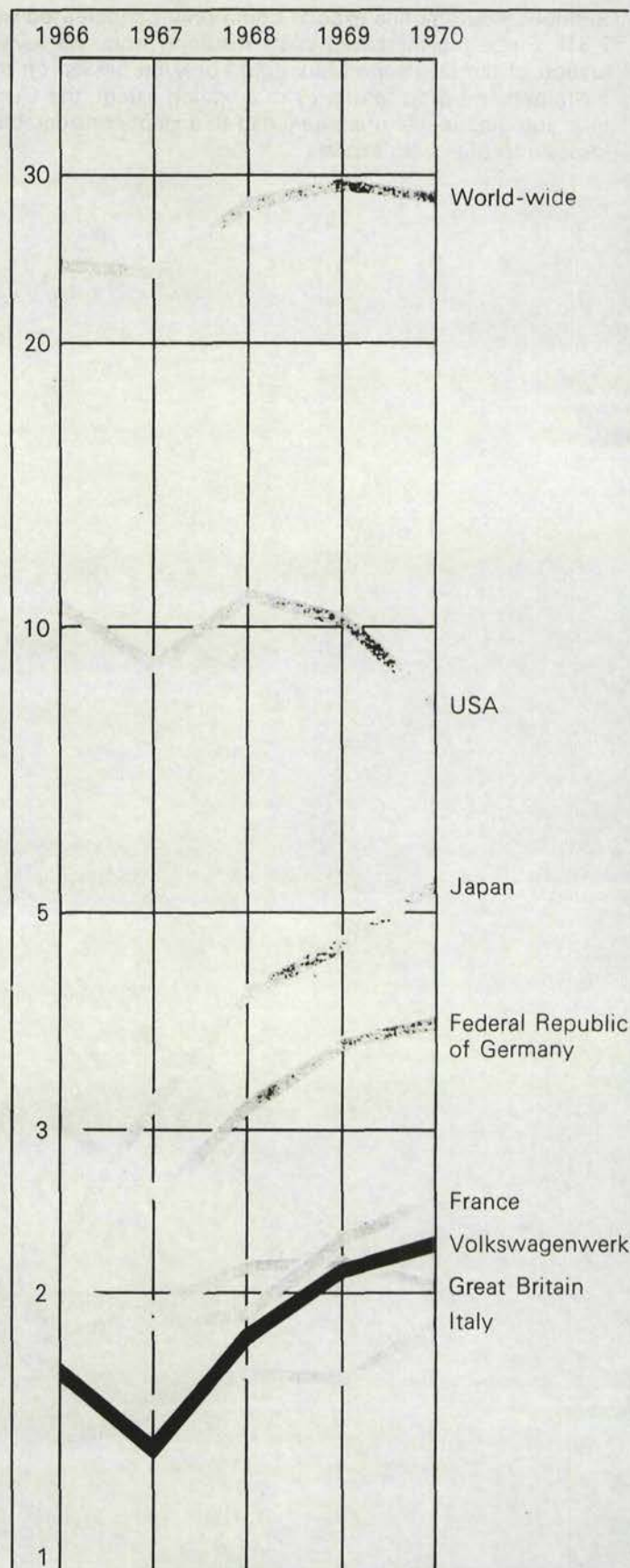
in %	1966	1967	1968	1969	1970
USA	42	38	39	35	29
Japan	9	13	15	16	18
Federal Republic	12	10	11	12	13
France	7	8	7	8	9
Great Britain	8	8	8	7	7
Italy	5	6	6	5	6

On the whole the development of the world motor vehicle market can be regarded as satisfactory if one considers that the US automobile industry was able, with its available capacity, to make up for a halt in production in a very short time. In the next few years the automobile industry will have to make considerable efforts to comply with stricter regulations concerning motor vehicle safety in many countries. The technical modifications involved will cause considerable increases in costs.

In 1970, the economic development in the Federal Republic was determined primarily by the further increase in private demand. Sales of consumer durables, and thus also of automobiles, profited especially from this development. With 2.3 million new car registrations, the previous year's figure of 2.0 million vehicles was exceeded by 16.4%.

On foreign markets the revaluation of the Deutsche Mark in October 1969 produced its full effect in 1970 and made the competitive position of the German automobile industry on the world market more difficult. Because of this the Federal

World-wide Automobile Production and Output of Major Automobile Producing Countries and of Volkswagenwerk AG and its Subsidiaries and Affiliates in millions of units (logarithmic scale)



Business Trends and Developments of Volkswagenwerk AG and its Subsidiaries and Affiliates during 1970

Republic's automobile exports could only be increased by 2.3%. Since the increased costs resulting from the revaluation of the Deutsche Mark could only be passed on to customers in export territories to a limited extent, the German automobile manufacturers had to accept considerable losses in profits from exports.

The 1970 business year for the Volkswagenwerk AG and its subsidiaries and affiliates was characterized by continuing growth and receding profits. With an increasing demand it was not possible, despite extra production shifts, to produce enough vehicles to enable all market possibilities to be exploited. Even the completion of the sixth VW plant at Salzgitter did not enable the bottleneck in production to be overcome on a short-term basis. If the Company and its subsidiaries and affiliates were able to increase its sales in 1970 by 13.3% to DM 15,800 million, this can be attributed primarily to the sales success of the producing subsidiaries, apart from additional profits due to price increases and the increased proportion of models giving bigger profit margins. In addition the good development of sales was favorably influenced by the continued lively demand for vehicles on the domestic market. Thus domestic sales increased by 21.2% to DM 4,900 million while the sales achieved by foreign subsidiaries increased by 23.6% to DM 3,900 million. On the other hand the export sales of the domestic companies only rose by 3.7% to DM 7,000 million.

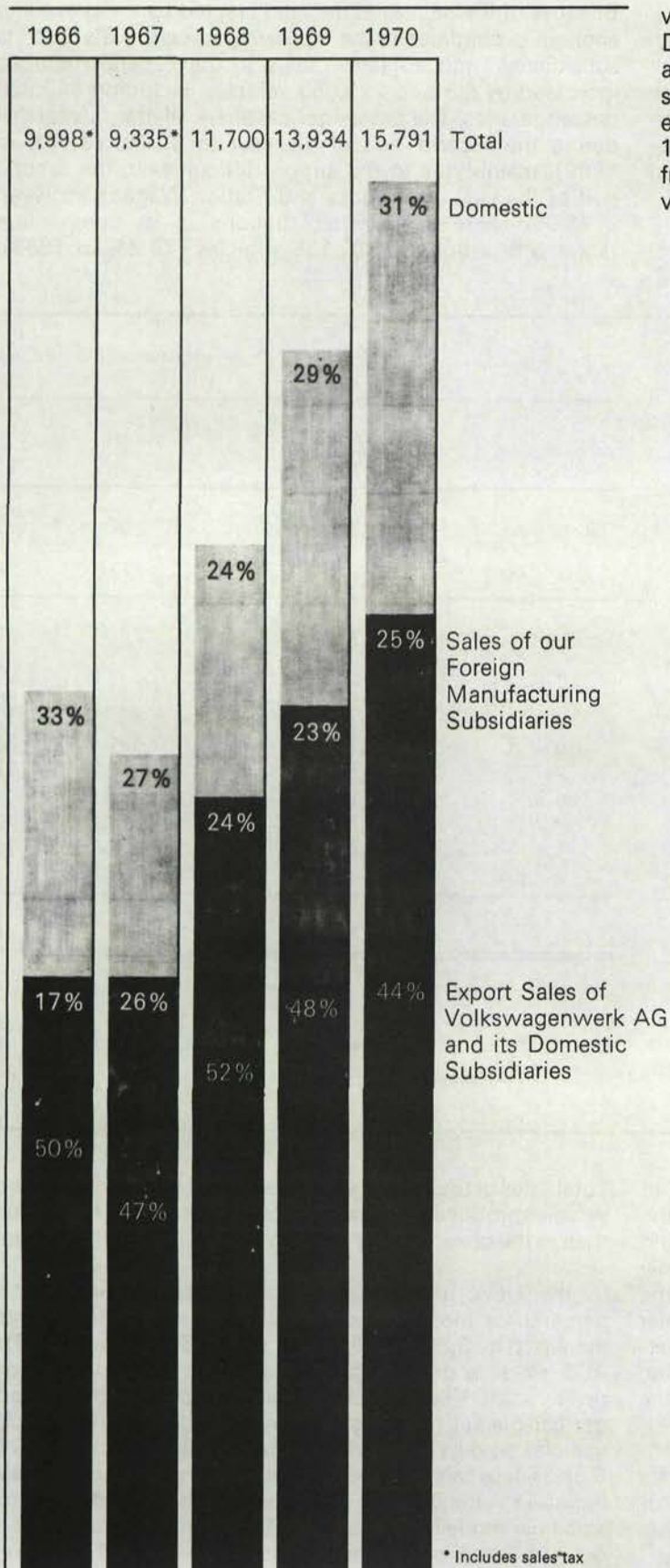
Altogether 2.2 million vehicles were sold by Volkswagenwerk AG and its subsidiaries and affiliates in 1970, around 6% more than in the previous year. In the Federal Republic the volume of sales rose by 8.3% to 725,055 vehicles, and in countries where the Volkswagenwerk has its own production plants it rose by 30.6% to 327,216 vehicles. On the other hand, the Volkswagenwerk's and its domestic subsidiaries' export sales were down slightly – by 1.6%. This drop in exports can mainly be ascribed to the inability of the domestic producing companies to cope with the demand and to losses of sales in some countries following the revaluation of the Deutsche Mark.

The sales range was once again expanded in 1970. In the second half of the year the new VW 1302 and VW K 70 models were introduced and were well received by the market. At AUDI NSU work started on production of the Audi 100 Coupé, while Volkswagen do Brasil commenced production of the VW 1600 TL (Fastback), the VW 1500 "Beetle" and the Karmann Ghia TC.

In the year under review the Volkswagenwerk AG acquired the Selbstfahrer Union group of Hamburg, the largest car hire company in the Federal Republic. The Volkswagenwerk AG also owns 50% of the stock of the Weser-Ems-Vertriebsgesellschaft m. b. H. of Bremen, founded in 1970.

The considerable rise in material and labor costs made price increases on the part of the Volkswagenwerk AG and AUDI NSU inevitable during the year under review. These price increases had to be carefully calculated so that they corresponded to market conditions and did not endanger the full use of production capacity, and thus the jobs of workers. The additional proceeds resulting from the price increases and from cost savings due to rationalization measures, were not, however, sufficient in 1970 to prevent a considerable drop in profits. In 1970 the net earnings of the Volkswagen-

Trend of Consolidated Sales in million DM



werkAG dropped to DM 190 million (1969 DM 330 million). Despite this considerable drop in profits, the Management and the Board of Directors propose to distribute to the stockholders DM 166.5 million out of the 1970 net earnings. This dividend is equivalent to a distribution of 18.5% on the capital stock increased in the previous year from the Company's own funds or DM 9.25 on DM 50 par value of capital stock.

Review of 1970 Operations of Volkswagenwerk AG and its Subsidiaries and Affiliates

Sales

Consolidated sales of 2,206,921 vehicles exceeded sales of the previous year by 5.7%. This expansion is chiefly due to the increasing sales success of AUDI NSU, Volkswagen do Brasil and Volkswagen de Mexico, while the Volkswagenwerk AG's sales were down slightly, despite increased demand.

A comparison of unit sales for 1970 and 1969 follows:

Because of the increased demand created by the prevailing economic conditions, the Volkswagenwerk AG's and its subsidiaries' and affiliates' sales in the Federal Republic increased by 8.3% to 725,055 vehicles, including 642,920 passenger cars. The passenger car share of the market fell during the second half of the year to 30.7% (31.7% in 1969), mainly due to the supply difficulties in the second half of the year. VW Trucks and Station Wagons achieved a 73.0% share of new registrations in its competition range with a figure of 82,135 vehicles (75.2% in 1969).

	1970	1969	Increase (Decrease)	
			Units	%
Volkswagenwerk AG	1,625,885	1,633,625	- 7,740	.
AUDI NSU AUTO UNION	309,560	264,714	44,846	17
	1,935,445	1,898,339	37,106	2
less sales to subsidiaries and affiliates	695,542	685,626	9,916	1
	1,239,903	1,212,713	27,190	2
Volkswagen do Brasil	234,837	176,266	58,571	33
Volkswagen of South Africa	39,571	33,724	5,847	17
Volkswagen de Mexico	35,488	25,798	9,690	38
Motor Producers	17,320	14,678	2,642	18
Volkswagen of America*)	565,838	558,880	6,958	1
Volkswagen Canada	38,255	39,116	- 861	- 2
Volkswagen France	31,223	25,484	5,739	23
Other subsidiaries or affiliates	4,486	450	4,036	.
Total Sales	2,206,921	2,087,109	119,812	6
Sales of Passenger Cars including Squareback Sedans	1,919,748	1,816,487	103,261	6
Sales of Trucks and Station Wagons	287,173	270,622	16,551	6

*) together with its subsidiaries








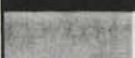














The drop in the Volkswagenwerk AG's sales was due to bottlenecks in production, following the introduction of the new models in the second half of the year, which could not even be overcome by means of extra shifts. Certainly deliveries to customers were increased compared with the previous year through depletion of stocks within the dealer organisation, but it was still not possible to meet the increased demand for VW products in practically every market. This led to large backlogs of orders towards the end of the year under review.

AUDI NSU were also unable to fully satisfy the demand for Audi models, despite a considerable increase in their production capacity. In the year under review nearly 35% more Audi models were sold than in the previous year.

Total sales of the VW organisation abroad – including sales of vehicles produced by foreign subsidiaries – were 4.5% better than in the previous year with a figure of 1,481,866 vehicles.

In the USA, in the face of a general decline in the demand for motor vehicles, deliveries to customers were increased by 3.3% to a figure of 569,696 Volkswagens. The Audi-Porsche dealer organisation set up in the year under review sold 21,344 vehicles. Overall, the share of the passenger car market gained by Volkswagens, Audi and Porsche vehicles sold by Volkswagen of America rose from 5.3% to 6.3%. These sales figures were achieved despite continually increasing competition from the Japanese and from the small car models produced by American manufacturers. A definite "small car boom" is discernible on the US market.

New Vehicle Registrations of Passenger Cars (including Dual-Purpose Vehicles) in the Federal Republic of Germany and West Berlin in 1969 and 1970

Volkswagenwerk AG and its Subsidiaries and Affiliates		1970	631,765	30.7%
		1969	568,779	31.7%
Opel		1970	405,824	19.7%
		1969	349,959	19.5%
Ford		1970	301,075	14.6%
		1969	280,112	15.6%
Renault		1970	148,615	7.2%
		1969	113,377	6.3%
Daimler-Benz		1970	145,882	7.1%
		1969	127,624	7.1%
The Fiat Group		1970	141,378	6.9%
		1969	137,043	7.6%
BMW		1970	86,674	4.2%
		1969	77,348	4.3%
Simca		1970	74,019	3.6%
		1969	53,855	3.0%
Peugeot		1970	37,488	1.8%
		1969	26,836	1.5%
Citroën		1970	31,326	1.5%
		1969	21,812	1.2%
Others		1970	53,781	2.7%
		1969	40,131	2.2%

In the other overseas markets – particularly in Brazil and Mexico, where appreciable improvements in the share of the market were achieved – good sales were recorded. On the other hand, in some European countries considerable losses in the share of the market were suffered, mainly because of price increases following the revaluation of the Deutsche Mark late in 1969. Exceptions were provided by France, Italy and especially Great Britain, where our share of the market increased. However, the situation with regard to earnings remained unsatisfactory.

Among the passenger car models offered for sale by Volkswagenwerk AG and its subsidiaries and affiliates, the "Beetle" once again was the biggest seller: altogether 1,202,146 vehicles of this type were sold, while during the second half of the year the main interest focused on the newly-developed VW 1302. Nevertheless, the proportion of "Beetle" models among total sales was slightly down on the previous year's figure with 54% compared with 58% in 1969, since sales shifted rather more towards products in higher price categories. Above all, sales of the Audi 100 models improved considerably in 1970, with an increase of 51.2% to over 100,000 vehicles. The VW K 70, which was first introduced in West Germany in November, and which provides the traditional VW range with a model of a different technical conception, has already been well received by the public and will strengthen the position of the Volkswagenwerk AG in the middle class category.

These increasing sales successes were made possible because of the efficiency of Volkswagenwerk AG's and its subsidiaries and affiliates approximately 15,000 sales and service centres at home and abroad. Of these, 9,043 belong to the VW organisation. The VW Diagnosis and Maintenance system, which has now been introduced on a world-wide basis, has met with approval from customers and has further increased public confidence in the VW sales organisation.

Raw Material Purchases and Material Control

The continuing high level of economic activity and consequent higher material requirements caused problems in the purchase of materials in the year under review as in 1969. Through close cooperation with our suppliers we were, however, able to satisfy our production requirements. Thus we once more owe thanks to our suppliers.

Consolidated purchases rose by DM 1,500 million to DM 9,800 million; this was due to the increase in production, increased investments and increased material prices. For the Volkswagenwerk AG alone the volume of raw material purchases rose by DM 900 million to DM 6,700 million.

In the period under review the volume of imported materials increased by more than 42%. Most of these purchases were made from countries in Western Europe and in the Western Hemisphere.

The general rise in prices during the last quarter of the year under review – due to unusually high increases in costs – affected the operating results for 1970 only to a negligible extent, since the existing 12-month-purchase contracts were hardly affected.

Production

The Volkswagenwerk AG and its subsidiaries and affiliates produced 2,214,937 vehicles in 1970 – 5.8% more than in 1969. The breakdown shows the number of vehicles produced by each manufacturing company:

	1970	1969	Increase (Decrease)	
			Units	%
Volkswagenwerk AG	1,621,197	1,639,630	- 18,433	- 1
AUDI NSU AUTO UNION	316,539	264,414	52,125	20
Production in Domestic Plants	1,937,736	1,904,044	33,692	2
Less: Production of "knocked-down" vehicles for assembly by foreign subsidiaries and affiliates	48,396	60,840	- 12,444	- 20
	1,889,340	1,843,204	46,136	3
Volkswagen do Brasil	233,011	178,179	54,832	31
Volkswagen of South Africa	39,856	34,146	5,710	17
Volkswagen de Mexico	35,626	24,437	11,189	46
Motor Producers	17,104	14,472	2,632	18
Production in Foreign Plants	325,597	251,234	74,363	30
Total Production in Domestic and Foreign Plants	2,214,937	2,094,438	120,499	6
Passenger Cars and Square- back Sedans	1,926,926	1,821,304	105,622	6
Trucks and Station Wagons	288,011	273,134	14,877	5

In the year under review the Volkswagenwerk AG did not quite reach the volume of production achieved in the previous year. A shift of demand to the larger models requiring more work and the technical improvements to all types introduced in the second half of the year caused the labor time per vehicle to rise. This resulted in an additional requirement for labor which could not always be met at the point of need, due to the difficult situation in the labor market.

The 19.7% increase in production on the part of AUDI NSU meant that this company was working at full capacity. In addition, 20,911 Audi 100 cars were assembled by the Volkswagenwerk AG in order to cope with the increased demand for these vehicles.

In the year under review Volkswagenwerk AG and AUDI NSU together accounted for 50.4% of the total automobile production in the Federal Republic.

The share in our total production accounted for by our foreign producing subsidiaries rose to 14.7% (12.0% in 1969). This increase is chiefly due to the production increases in Brazil and Mexico.

Labor Force

The increase in Volkswagenwerk AG's and its subsidiaries' and affiliates' production was made possible only by a further expansion of the labor force and by the working of substantial overtime and extra shifts.

Volkswagenwerk AG and its subsidiaries and affiliates had a total labor force of 190,306 employees at year-end compared with 168,469 at the end of 1969. The labor force of Volkswagenwerk AG and its domestic subsidiaries and affiliates rose in 1970 by 15,075 to 154,885 employees.

The increase in Volkswagenwerk AG's labor force amounted to 12,338 employees or 11.0% in the year under review. A large proportion of this increase was accounted for by the 5,061 new workers recruited for the Salzgitter plant. At year-end, 110,968 wage-earners and 13,824 salaried staff were employed.

The following is a summary of the Volkswagenwerk AG labor force and of the labor force of its subsidiaries and affiliates according to plants:

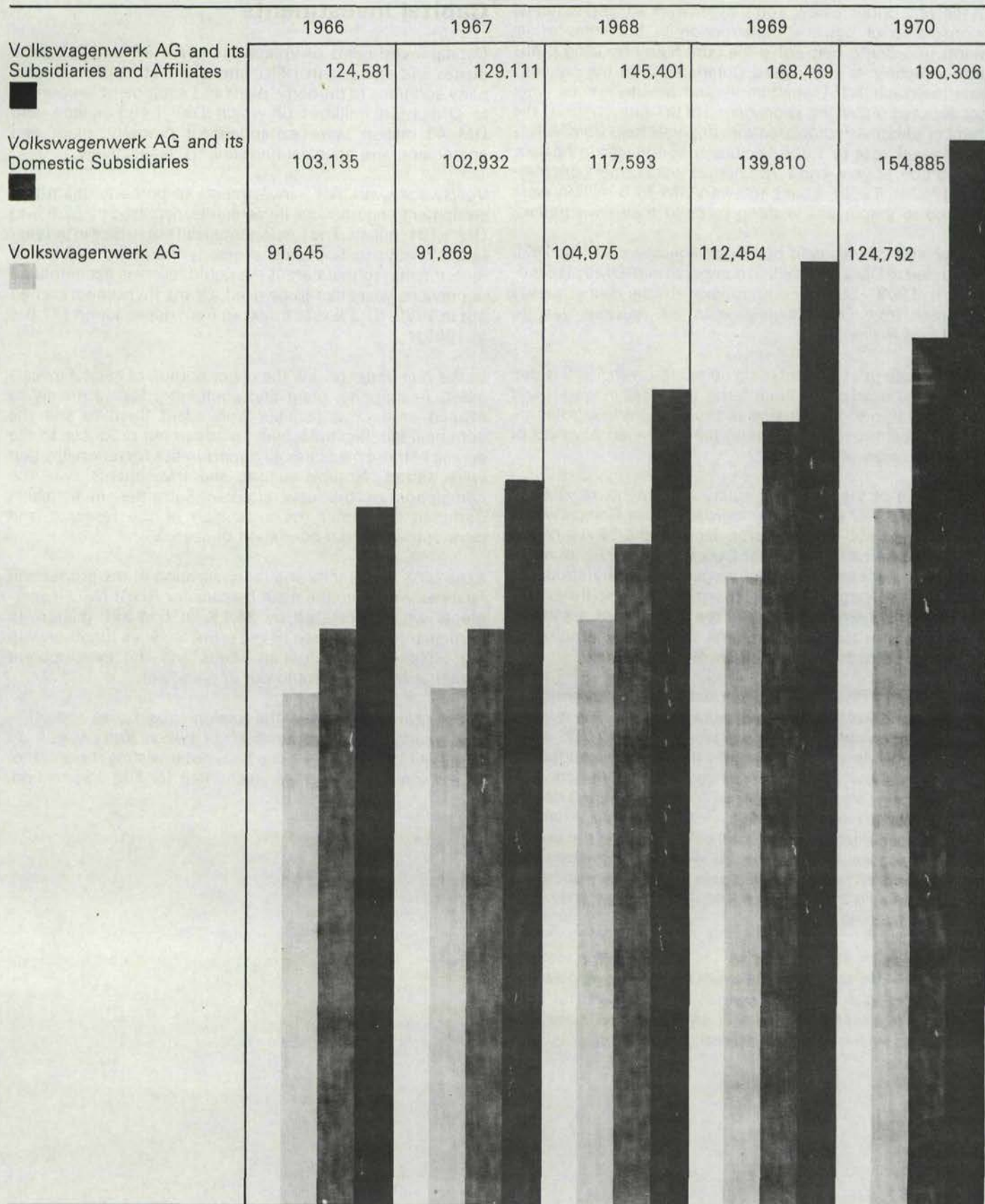
During the year under review there continued to be a shortage of labor on the domestic market, so that it was necessary to recruit an even larger number of workers from abroad. The rate of foreign workers to the total labor force rose accordingly from 8.9% to 11.5%. On December 31, 1970 8,078 of the 14,401 foreign workers were Italians, most of whom were working at the Wolfsburg plant. The remainder was mainly of Turkish, Greek, Spanish and – since 1970 – Tunisian nationality.

The average age of Volkswagenwerk AG employees remained almost the same as in the previous year at 36.0 years. The average seniority was 8.0 years (8.1 years in 1969). The rate of women rose from 11.7% to 12.2%.

The continuing high demand on the labor market caused the personnel turnover rate to rise from 7.8% in 1969 to 10.0%. Likewise, the incidence of absence due to sickness was considerably higher than in previous years at 7.2% (5.9% in 1969, 5.0% in 1968); it exceeded the long-term Volkswagenwerk AG average of 4.8% and the average incidence of absence due to sickness in the metal-working industry of 6.9%.

	12/31/1970	12/31/1969	Increase	%
Volkswagenwerk AG				
Wolfsburg	59,200	55,603	3,597	6
Hanover	27,447	26,817	630	2
Kassel	17,533	16,140	1,393	9
Emden	8,123	7,002	1,121	16
Brunswick	7,381	6,845	536	8
Salzgitter	6,108	47	5,061	.
	124,792	112,454	12,338	11
AUDI NSU AUTO UNION	30,147	26,595	2,552	10
Other domestic subsidiaries	946	761	185	24
Volkswagenwerk AG and its domestic subsidiaries	154,885	139,810	15,075	11
Foreign production and assembling companies	32,773	26,330	6,443	24
Foreign distributing companies	2,648	2,329	319	14
Foreign subsidiaries and affiliates	35,421	28,659	6,762	24
Total labor force of Volkswagenwerk AG and its subsidiaries and affiliates	190,306	168,469	21,837	13

Number of Employees at Year-End



In the year under review Volkswagenwerk AG increased its sponsorship of housing construction in the areas of its plants in order to help solve the continuing housing problems affecting its employees. Compared with the previous year in which 1,281 apartments and private homes were constructed under the sponsorship of the firm, in 1970 the number of homes completed with financial help from Volkswagenwerk rose to 1,855, including 384 places in hostels. In addition, at year-end 1,705 homes were under construction (752 in 1969). Loans totalling DM 11.8 million were granted to employees wishing to build their own homes.

Wages and salaries paid by Volkswagenwerk AG for 1970 amounted to DM 2,287 million compared with DM 1,816 million in 1969. Social contributions in the same period increased from DM 780 million in the previous year to DM 1,064 million.

The increase in personnel costs compared with 1969 is due to the expansion of the labor force, increases in wages and salaries and in social benefits and to changes in legislation, for instance, the law concerning the continued payment of wages in cases of sickness.

As a result of the wage and salary agreements reached at the end of 1970 and of new legislation, the Company will be burdened still further, particularly by the 12% increase in wages and salaries as from December 1, 1970. In addition there are changes in the wages and salary structure, demands for longer holidays, the payment of extra money for savings schemes and finally the granting of a subsidy for sickness insurance premiums for Factory employees who have voluntary insurance, as required by law.

In the year 1970, as before, we paid particular attention to the basic and further training of our employees. The number of apprenticeships in the various plants rose to 2,200 in the year under review. The systematic training of management and potential management personnel, which in the previous year had been started at a special company training center, was intensified and expanded. A considerably extended range of specialized courses gave our employees the opportunity of acquainting themselves with new developments in their field of work. Once again in 1970 a number of commercial and engineering trainees took advantage of our voluntary training scheme.

Our success in 1970 is due to the untiring efforts of our employees. We wish to thank them all and in particular the members of our Factory Councils who carried out their duties as representatives of the employees so conscientiously and in the common interest.

Capital Investments

Capital investments of Volkswagenwerk AG and its subsidiaries and affiliates in 1970, after elimination of intercompany additions to property, plant and equipment, amounted to DM 1,536 million; of which DM 1,493 million and DM 43 million were expended for property, plant and equipment, and financial investments, respectively.

Volkswagenwerk AG's investments in property, plant and equipment and financial investments increased by 52.9% to DM 1,131 million. The funds earned did not suffice in the year under review to finance the greatly increased volume of investments, so that part of the liquid reserves accumulated in previous years had to be used. Of the investment carried out in 1970, 51.2% was financed from depreciation (72.5% in 1969).

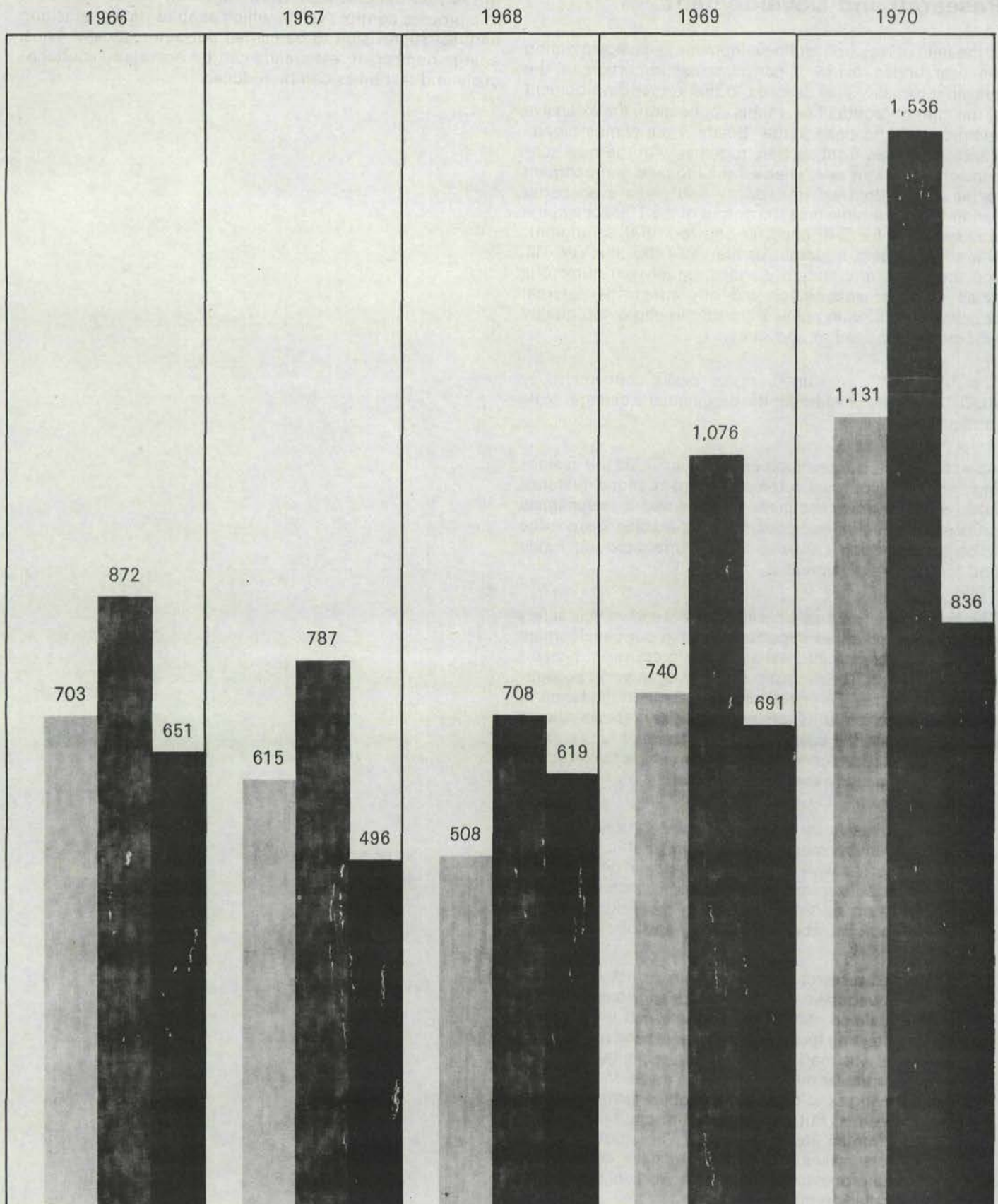
In the year under review the major portion of capital investments in property, plant and equipment served mainly to expand productive facilities and adapt them to suit the continual modifications being made to our products. In the course of these measures all opportunities for rationalization were seized. Notable among the investments was the completion of the new plant in Salzgitter. Investments designed to further the expansion of the research and development center continued unabated.

Expansion of capacity and rationalization of the production facilities were also the main reasons for AUDI NSU investments which increased by 36.1% to DM 225 million. In particular the expansion of the press facilities together with the building of production sheds and the development center at Ingolstadt stand out in particular.

In the year under review the foreign subsidiaries and affiliates invested DM 263 million, of which Volkswagen do Brasil, which again bore the heaviest investment burden of all the foreign companies, accounted for DM 156 million.

Capital Investments and Provision for Depreciation and Write-down of Investments of Volkswagenwerk AG and its Subsidiaries and Affiliates and Capital Investments of Volkswagenwerk AG in million DM

- Investments of Volkswagenwerk AG and its Subsidiaries and Affiliates
- Investments of Volkswagenwerk AG
- Provision for Depreciation and Write-down of Investments of Volkswagenwerk AG and its Subsidiaries and Affiliates



Research and Development

In the field of research and development, once again during the year under review a considerable proportion of the available capacity was devoted to the further development of the current product line. In this connection, the extensive technical modifications to the "Beetle" were of most significance. The new front section, together with the new suspension strut front axle, enabled the luggage compartment to be almost doubled in capacity and gives even better handling. At the same time the output of the 1300 cc engine was raised to 52 SAE bhp (60 bhp for 1600 cc engine). The other models, in particular the VW 1600, the VW 411 and the trucks and station wagons, underwent numerous detail improvements which did not affect the external appearance but which play a big part in improving quality and increasing comfort and safety.

The VW K 70 developed in its basic conception by AUDI NSU, was adapted for the requirements of large-scale production.

Apart from this, our development work included the designing and testing of novel automobile constructional features, both with regard to complete vehicles and to mechanical units and individual components. This enabled knowledge to be gained which is of value for our current product range and for future developments.

The problems of exhaust emission control and vehicle safety continue to occupy an important place in our development work. Our research into exhaust-free propulsion systems was stepped up. The decision of Volkswagenwerk to collaborate with other European automobile manufacturers in the development of an "Experimental Safety Vehicle" should help to indicate the possibilities and limits of future international regulations concerning motor vehicle construction in respect of primary and secondary safety.

Our research activities were concerned largely with the problems of environment pollution and traffic density in built-up areas, as well as with the related demands for alternative propulsion methods and traffic systems. In this connection the main research was in the field of vehicle propulsion and simulation technology and of electronics.

The intensified research and development activity on the part of Volkswagenwerk necessitated an increase in the number of qualified staff and also increased investments. Above all our testing facilities had to be expanded, and here increased use was made of simulation techniques. In this connection particular mention must be made of the installation of a driving simulator which enables driving test programs to be carried out and repeated at any time without endangering human life or materials. The employment of such simulators makes it necessary to have complicated electronic data processing units which work in accordance with the so-called Hybrid system.

In the year under review work began on the development of a process control system which enables data acquisition and test supervision to be carried out automatically. Thus, a large number of test stands can be operated simultaneously and test times can be reduced.

Subsidiaries and Affiliates

Selected Data of Major VW Subsidiaries and Affiliates

	Sales in million DM		Number of Employees at Year-End 1970	
	1970	Percentage change as compared to previous year	1970	Percentage change as compared to previous year
Manufacturing Companies				
AUDI NSU AUTO UNION AG, Neckarsulm	2,079	26	29,147	10
Volkswagen do Brasil S. A., São Bernardo do Campo*)	2,376	31	23,946	26
Volkswagen of South Africa Ltd., Uitenhage, C. P. *) **)	382	14	4,115	17
Volkswagen de Mexico, S. A. de C. V., Puebla/Pue. *)	297	29	3,631	30
Motor Producers Ltd., Melbourne	121	13	1,081	1
Distributing Companies				
Volkswagen of America, Inc., Englewood Cliffs, N. J. *) **)	4,323	7	1,722	10
Volkswagen Canada Ltd., Toronto, Ontario	329	-2	449	-5
Volkswagen France S. A., Villers-Cotterêts*)	151	15	391	33

*) Includes the employees of its subsidiaries.

**) Sales consolidated with its subsidiaries.

Note:

Sales converted to DM based on the yearly average rates of exchange. Sales of Volkswagen do Brasil were converted to DM based on monthly average rates of exchange.

Investments in Subsidiaries and Affiliates: Domestic

AUDI NSU AUTO UNION AG, Neckarsulm

The business year which has just ended was characterized by a favorable sales trend which enabled the productive facilities to be used to capacity and made extra working shifts necessary.

In the year under review sales increased by 25.8% to DM 2,079 million. This increase in sales exceeded the 16.9% rise in unit sales to 309,560 vehicles, since the Audi models with their bigger profit margins accounted for a larger proportion of the total sales. Mainly responsible for the increases was domestic business, which in 1970 accounted for 52.4% of total sales (51.7% in 1969). The company achieved a 7.7% share of new passenger car registrations (including Squareback models) in the Federal Republic (7.5% in 1969).

By the middle of the year the demand, particularly for Audi models, had reached such a pitch that the production was insufficient to cope with it, despite considerable extension of the productive facilities. Not until the end of the year did the situation become normalized to some extent.

In 1970, AUDI NSU produced 316,539 vehicles (including "knocked-down" vehicles for assembly in South Africa), or just 20% more than in the previous year. The assembly of 20,911 Audi vehicles by the Volkswagenwerk AG in Wolfsburg made an important contribution to this increase.

In the year under review substantial investments were made towards the expansion of the plant and rationalization, as well as for the purpose of widening the range of models produced.

The increases in wages and salaries and in social benefits in 1970, together with increased material costs and the consequences of the revaluation of the Deutsche Mark, had a pronounced negative effect on the development of profits. The price increases of December 1969 did not suffice to make up for these additional burdens, so that in the year under review, despite the heartening sales and production trend, definite dents in earnings had to be accepted. This tendency will continue in 1971.

For 1970 AUDI NSU showed net earnings after reserve transfers of DM 4.1 million which are to be distributed on participating certificates.

Selbstfahrer Union, Hamburg

Through the acquisition of the entire stock of the Selbstfahrer Union group, the biggest car hire firm in Germany, the Volkswagenwerk AG and its subsidiaries and affiliates in 1970 increased its activity in a branch of business which is becoming more and more important in view of increasing demand. Compared with the previous year the proceeds from the car hire business increased by 71.3% to DM 64 million.

The profit from this business was adversely affected by cost increases in 1970. In addition, it was also reduced by non-recurring expenses resulting from the adaptation of evaluation methods to bring them in line with the principles of Volkswagenwerk AG.

VW-Porsche Vertriebsgesellschaft m. b. H., Ludwigsburg

This company, which markets sports cars at home and abroad for Dr.-Ing. h. c. F. Porsche KG and Volkswagenwerk AG, moved its headquarters from Stuttgart to Ludwigsburg during the year under review; there a new parts depot was established and put into operation. Sales amounted to 37,022 vehicles. In the incomplete 1969 business year the company sold 6,985 vehicles.

A Profit and Loss Assumption Agreement exists between the marketing company and the two controlling companies, which each own 50% of the stock.

Weser-Ems-Vertriebsgesellschaft m. b. H., Bremen

In 1970 Volkswagenwerk AG founded the Weser-Ems-Vertriebsgesellschaft together with the VW distributor in Bremen. 25% of the original capital of DM 3 million was paid in. This company, in which both partners have an equal interest, will take over the distributorship function for the Weser-Ems district from July 1971. In the year under review a start was made on the necessary building work.

Wolfsburger Transportgesellschaft m. b. H., Wolfsburg

In the year under review this company, which handles sea and air transportation and all transactions connected therewith for the Volkswagen organisation, transported 887,000 vehicles compared with 865,000 in the previous year.

Earnings for 1970 were satisfactory, as in previous years.

Volkswagen-Finanzierungsgesellschaft m. b. H., Wolfsburg

This company supports the Volkswagenwerk's sales effort through dealer financing and through financing sales of vehicles to the consumer. In the year under review the Volkswagen-Finanzierungsgesellschaft was granted full bank rights by the Federal Supervisory Office for Credit Matters.

Although the dealer financing business did not reach the volume of the previous year, customer financing business increased considerably, despite keen competition from other credit institutes.

Although fees could not always be made to match the rising cost of refinancing, good earnings were achieved in the 1970 business year.

Volkswagen Leasing G. m. b. H., Wolfsburg

This company engages in the leasing of all models offered by the Volkswagen organisation on the domestic market and of VW Diagnosis and Maintenance stands. It was able to more than double its volume of business in 1970.

The profit, which showed an increase compared with the previous year, was taken over by Volkswagenwerk AG in accordance with the existing Profit and Loss Assumption Agreement.

Deutsche Automobilgesellschaft m. b. H., Hanover

Daimler-Benz AG and Volkswagenwerk AG hold an equal interest in this company. It is engaged in research and development in new fields of automotive technology.

The company does not carry out any business function designed to earn a profit. The expenditure on research which was entailed resulted in a loss which was borne equally by the two controlling companies in accordance with the existing Profit and Loss Assumption Agreement.

VW-Wohnungsbau Gemeinnützige Gesellschaft m. b. H., Wolfsburg

At the end of 1970 this company had 197 apartments under construction in the area of the Wolfsburg and Kassel plants; roughly half of these should be ready for occupation by the spring of 1971. On December 31, 1970 the company owned 6,842 apartments and 132 accommodation units in hostels.

VW-Siedlungsgesellschaft m. b. H., Wolfsburg

VW-Siedlungsgesellschaft is engaged in the construction of apartments for VW employees in the areas surrounding our plants. In 1970, 404 apartments were completed and occupied, of which 384 were accommodation units in hostels, so that by the end of the year the company owned 3,816 units. On December 31, 1970 a further 1,500 apartments were under construction or in the planning stage.

The loss for the year, resulting primarily from the maximum write-off of asset values allowed under existing tax laws, was absorbed by Volkswagenwerk AG in accordance with the Profit and Loss Assumption Agreement existing between the two companies.

On December 31, 1970 the two housing companies owned a total of 10,790 apartments.

Investments in Subsidiaries and Affiliates: Foreign

Volkswagen do Brasil S. A., São Bernardo do Campo

Once again in 1970 the Brazilian automobile industry enjoyed a boom. In the year under review altogether 417,000 vehicles were produced, 18% more than in the previous year. Of these, a large proportion came from Volkswagen do Brasil, which increased its production by almost 31% to 233,011 vehicles (178,179 in 1969).

Volkswagen do Brasil increased its sales in 1970 by 31.0% to DM 2,376 million. Unit sales of 234,837 vehicles exceeded those of the previous year by 33.2%.

The share of the passenger car market was increased, above all by the success of the newly-introduced VW 1600 models, to 66.2% (61.2% in 1969). The 1500 cc version of the "Beetle" introduced in August 1970, the Brazilian version of the VW 1600 TL (Fastback) and the Karmann Ghia TC were well received by the public. The company's share of the truck and station wagon market increased from 49.9% to 50.6%. On July 8, 1970 the "millionth" Volkswagen came off the company's production line.

Earnings were good in the 1970 business year.

The damage to one of the new production sheds caused by the big fire at the end of 1970 is largely covered by insurance. Its effect on the 1971 business year will be strictly limited, since the measures taken immediately enabled production to be resumed after the factory vacation in mid-January. In February 1971 the daily production amounted to 1,009 vehicles and therefore already exceeded the working day average for 1970 of 967 vehicles. The rapid recovery after this unfortunate event was largely due to the hard work of the employees and the support of the Brazilian Government.

During the year under review, the capital stock of Volkswagen do Brasil was increased by Cr.\$ 103,663,735 (DM 76.6 million) to Cr.\$ 468,157,655 (DM 346.1 million). Of the increase, Cr.\$ 8,646,940 (DM 6.4 million) resulted from a contribution of productive equipment and Cr.\$ 95,016,795 (DM 70.2 million) from the capitalization of a reserve, set up in accordance with Brazilian law, for the revaluation of property, plant, equipment and investments and for the potential loss of current asset values. Total capital stock is represented by Cr.\$ 189,624,305 (DM 140.2 million) of preferred stock and Cr.\$ 278,533,350 (DM 205.9 million) of common stock. Volkswagenwerk AG continues to own 80% of both the outstanding preferred and common shares.

Volkswagen of South Africa Ltd., Uitenhage, C. P.

Economic development in South Africa continued its favorable trend during 1970, accompanied increasingly by

rising prices and balance of payments problems. The restrictive measures introduced by the South African Government did not have much effect in the year under review.

Volkswagen of South Africa increased its sales from DM 334 million in 1969 to DM 382 million in 1970.

Unit sales rose by 17.3% to 39,571 vehicles (33,724 in 1969). In the face of toughening competition the Volkswagen and Audi share of the passenger car market rose from 14.1% to 14.6%. Production was increased by 16.7% to 39,856 vehicles.

In order to remain competitive on the South African market, Volkswagen of South Africa will in future produce three passenger car models and thereby comply with government requirements that the local content of passenger cars should be increased stage by stage until 1976. For this purpose considerable investments will be necessary over the next few years.

Earnings of the company were good during the business year.

Volkswagen de Mexico, S. A. de C. V., Puebla/Pue.

The development of the company in the year under review was characterized by increased export activity, which also made it possible to increase sales which are limited on the domestic market by government quotas.

The company's sales rose compared with the previous year by 29.5% to DM 297 million. Exports amounted to DM 30 million. This was mainly due to deliveries of parts to the USA, the Federal Republic and Columbia.

In 1970, Volkswagen de Mexico, with sales of 35,488 vehicles, increased its share of the passenger car market to 26.7% (22.5% in 1969) and its share of the small car market to 60.2% (56.7% in 1969). Since November 1970 the company has been offering the VW 181 utility vehicle on the Mexican market in addition to its previous range of models.

Production increased in 1970 by 45.8% to 35,626 vehicles.

Because of the satisfactory earnings in 1970, it was possible to reduce the deficit carried over from previous years to a great extent.

In the year under review the capital stock of Volkswagen de Mexico was increased by mex. \$ 4,831,000 (DM 1.4 million) to mex. \$ 471,952,000 (DM 137.8 million) due to investment on the part of Volkswagenwerk AG in the form of productive equipment.

With a view to promoting sales, Volkswagen de Mexico founded during the year under review the firm of Volkswagen Commercial, S. A. de C. V.

Motor Producers Ltd., Melbourne, Australia

In 1970, sales of the company amounted to DM 121 million, thus exceeding the figure for the previous year of DM 107 million by 13.1%.

Although the market as a whole was stagnant during the year under review, unit sales increased by 18.0% to 17,320 vehicles. The sales success in 1970 meant that as far as passenger cars were concerned the full sales quota allowed under the so-called Local Content Plans was used up, and the VW share of the passenger car market rose from 2.7% to 3.2%. The VW Trucks and Station Wagons continued to be leading in their field of competition.

To enable production facilities to be utilized fully, other make vehicles were assembled once again. Total production rose by 27.7% to 26,592 vehicles (including 17,104 Volkswagens) compared with 20,829 vehicles (including 14,472 Volkswagens) in the previous year.

The company closed the 1970 business year with a profit.

Industrias del Motor, S. A. (IMOSA), Vitoria, Spain

The Spanish economy was adversely affected in 1970 as a result of the Government's policy of credit restriction. Our Spanish subsidiary company had to accept a slight drop in unit sales of 509 to 8,362 vehicles because of these measures.

Although the company increased its earnings, it was not possible to close the business year with a profit. This was due both to the economic situation in Spain and to the adoption to a large extent of the VW organisation's evaluation principles.

The capital stock, amounting to Ptas 486,000,000 (DM 25.3 million) has been fully paid in. The holdings of Volkswagenwerk AG and AUDI NSU amount to Ptas 121,500,000 (DM 6.3 million).

P. T. German Motor Manufacturing, Djakarta/Indonesia

This company was founded in October 1970 by Volkswagenwerk AG in conjunction with Daimler-Benz AG and an Indonesian associate, the P. T. Indofing Finance Group. The purpose of the undertaking is to assemble Volkswagen and Mercedes vehicles.

The capital stock was fixed at Rp 567 million, equivalent to DM 5.5 million, of which DM 3.2 million had been paid in by year-end. Volkswagenwerk AG, Daimler-Benz AG and the Indonesian associate each have a 33⅓% interest in the company.

Volkswagen of America, Inc., Englewood Cliffs, N. J.

Sales of imported passenger cars rose in 1970 by 14% to 1.2 million cars; the imported car share of the total passenger car market in the United States rose to 14.6% (11.2% in 1969). This considerable rise was due to various factors. The production and sales of the American automobile industry were reduced by a strike. The tense economic situation led in 1970 to an increase in the demand for less expensive models. The small car market, on which the American manufacturers are now represented as well as most of the imported foreign makes, profited as a whole from this trend. The trend will increase still further over the next few years.

In 1970, Volkswagen of America increased its sales by 7% to DM 4,323 million. Apart from the larger share of total sales gained by the more profitable VW 1600, VW Trucks and Station Wagons, Porsche and Audi models, the price increases necessitated by the revaluation of the Deutsche Mark and the cost situation also served to increase proceeds.

In the year under review 569,696 Volkswagens were delivered to customers in the USA (551,366 in 1969). In addition 21,344 Porsche and Audi vehicles were sold in the USA via the newly-established Porsche Audi dealer organisation. Thus, this organisation achieved a good market success in the very first year of its existence.

The demand for our models continued to increase, despite tougher competition following the introduction of the American small cars. However, this demand could not be fully satisfied because of delivery problems, particularly in the second half of the year.

The result was that, although imports increased greatly, Volkswagen of America's share of imported car registrations dropped slightly to 43.3% (47.4% in 1969). However,

the total Volkswagen, Audi and Porsche share of the passenger car market as a whole rose from 5.3% to 6.3% in the year under review.

Volkswagen of America's earnings were satisfactory in 1970.

Volkswagen Canada Ltd., Toronto, Ontario

The Canadian automobile market was characterized in 1970 by a general decrease in demand. Because of this, and because of the appearance of new firms on the small car market, competition has continued to become more fierce for Volkswagen Canada.

The company's sales, at DM 329 million, were down slightly compared with those of the previous year. Sales also went down slightly by 861 to 38,255 vehicles. On the other hand, the share of the passenger car market went up slightly during the year under review from 4.7% to 5.1%.

The fierce competition was not without influence on the company's earnings. However, the company again showed a profit for the year.

Volkswagen France S. A., Villers-Cotterêts

It was not until the beginning of October 1970 that the French Government slightly relaxed the severe credit restrictions imposed during the second half of 1969. In spite of this still difficult situation, Volkswagen France succeeded in increasing its sales from DM 132 million to DM 151 million during the year under review. Unit sales increased from 25,484 to 31,223 vehicles. This figure includes 2,565 Audi vehicles (2,936 in 1969).

The company was able to break even in 1970.

Svenska Volkswagen AB, Södertälje

The restrictive measures imposed by the Government in order to dampen the spending boom in Sweden reduced this company's sales and earnings during 1970. In the year under review 23,982 Volkswagen and VW-Porsche vehicles were sold, compared with 28,002 in the previous year.

The company earned a profit for the year.

In 1970 Svenska Volkswagen AB acquired the entire capital stock of Volkswagen i Stockholm AB which is responsible for VW retail business in the Stockholm area.

**HOLAD Holding & Administration AG,
Basle, Switzerland**

This company continues to hold 10% of the capital stock of Wolfsburger Transportgesellschaft. In 1970 it also acquired 73.5% of the capital stock of the Société Volkswagen de Financement S. A., Paris, a financing company, as well as 70% of the capital stock of Vorelco Ltd., Toronto, which finances sites for the VW organisation.

Dividends from investments were reinvested by HOLAD within our organisation.

Outlook for Volkswagenwerk AG and its Subsidiaries and Affiliates

The lack of clarity in the economic situation on the world markets makes it difficult to make forecasts for the second half of 1971. In contrast with the previous year, however, the stimulus for economic growth will emanate more from the USA. On the other hand, the economic development in some Western European countries will tend to slacken off; here we can expect only a modest overall increase in the growth rate of the gross national product.

The overall world demand for automobiles will increase in 1971. It is to be expected that in view of the relaxation of the domestic demand, the automobile industry of the Federal Republic will again put more emphasis on export sales rather than on domestic business.

Volkswagenwerk is making every effort to share in the increasing automobile business in 1971 as before. To this end it is important for us to replenish the inordinately low stocks of vehicles with the domestic and foreign VW organisation, by means of increased production through extra shifts when necessary, so that the requirements of day-to-day business can be met. Side-by-side with this Volkswagenwerk will expand its product range on the various markets. A step in this direction will be the stage-by-stage introduction of the VW K 70, which has already been well received on the domestic market. In addition Volkswagen of America will begin to import the VW 411 into the USA in May 1971. Thus the sales organisation in our largest export market will have at its disposal a range of models with which it can successfully face the competition as hitherto. We therefore expect our sales in the USA to increase once again in 1971.

Despite continued expansion in the volume of business, we must expect the trend with regard to earnings to be unsatisfactory. The continually rising costs of materials and of labor cannot possibly be absorbed as the result of internal measures in 1971.

At the beginning of 1971 Volkswagenwerk AG acquired a 75% interest in Volkswagen Bruxelles S. A. of Brussels. This company is continuing to run the assembly plant established by our Belgian General Importers and will be increasing its assembly capacity to a considerable extent.

In 1971, the two companies, Volkswagen Porsche Austria Ges. m. b. H. and Volkswagen Porsche Austria Ges. m. b. H. & Co. KG, both with head offices in Salzburg were founded in order to carry out the functions of Volkswagen and Porsche importers in Austria. Volkswagenwerk AG has 25% and 24.75% holdings of the respective capital stock of S 400,000 and S 2,000,000.

Comments on the 1970 Financial Statements of Volkswagenwerk AG

Financial Position

The balance sheet of Volkswagenwerk AG as at December 31, 1970 is characterized by two factors.

The investments which increased by more than 50% compared with the previous year have resulted in an above average rise of property, plant, equipment and investments.

In consequence of the unsatisfactory earnings situation the financing from own funds has not kept pace with this development so that in the year under review a worsening of the balance sheet structure had to be accepted. This can be seen from the changes in our financial position which were as follows:

	12/31/1970		12/31/1969	
Assets	in million DM			
Property, Plant, Equipment and Investments	3,196	61 %	2,557	56 %
Current Assets	2,063 *)	39 %	2,031 *)	44 %
	5,259 *)	100 %	4,588 *)	100 %
Liabilities				
Stockholders' Equity (Capital Stock and Reserves)	2,412	46 %	2,386	52 %
Liabilities payable within:				
more than 4 years	651	12 %	455	10 %
1 to 4 years	417	8 %	391	8 %
1 year or less	1,779	34 %	1,356	30 %
	5,259 *)	100 %	4,588 *)	100 %

*) Current assets and balance sheet totals were decreased by the amount shown under liabilities as allowance for doubtful trade acceptances and accounts.

In keeping with the increase in balance sheet totals by DM 671 million the net book value of property, plant, equipment and investments went up by DM 639 million and current assets rose by DM 32 million. Liabilities increased by DM 645 million with due consideration given to the proposed dividend. Short-term liabilities rose to a greater extent than long-term and medium-term liabilities. Stockholders' equity and long-term liabilities covered property, plant, equipment and investments and also part of the inventories.

The sources and uses of funds statement shown below discloses that due to the large scale investments the liquid funds were reduced.

	1970	1969
	in million DM	
Sources of Funds		
Increase in stockholders' equity:		
Portion of earnings added to reserves	24	177
Portion of earnings added to reserves for special purposes	2	18
Provision for depreciation of physical plant, write-down of investments in subsidiaries and affiliates, and write-down of long-term loans receivable (net of accumulated discount)	575	533
Decrease in property, plant, equipment and investments	50	32*)
Decrease in short-term receivables	28	—
Increase in liabilities (including undetermined liabilities):		
Long-term liabilities	196	29
Short- and medium-term liabilities	449	369
	<u>1,324</u>	<u>1,158</u>
Uses of Funds		
Increase in property, plant, equipment and investments	1,264	845*)
Increase in inventories	249	129
Increase in medium- and short-term receivables	—	226
	<u>1,513</u>	<u>1,200</u>
Decrease in Liquid Funds	<u>189</u>	<u>42</u>

Balance Sheet

Assets

During 1970, the additions to *Property, Plant and Equipment* of DM 935 million were DM 321 million higher compared to the previous year. Our major investments have been described in the "Capital Investments" section of this report (see page 14). The additions to land, buildings, machinery and equipment, including transfers from construction in progress and advance payments to vendors and contractors, amounted to DM 918 million and consisted of the following:

DM 291 million land and buildings
— compared to DM 181 million in 1969 —
and

DM 627 million machinery and equipment
— compared to DM 307 million in 1969.

At year-end, the book value of DM 2,504 million, shown on the balance sheet for property, plant and equipment, represents 39% of the original purchase or production cost of DM 6,477 million. These amounts exclude miscellaneous low value items as such items were written off in the years of acquisition.

The original cost of property, plant and equipment is the purchase or the production cost possibly plus the use tax in accordance with section 30 of UStG (investment tax). Production costs consist of direct material, direct labor and the appropriate amount of allocated overhead, including depreciation as required by existing tax laws. Administrative expenses are not included. Additional investments which were made last year have been deducted from property, plant, equipment and investments in this year's balance sheet where subsidies have been granted or grants made from public funds since these have reduced the purchase or the production cost. Advance payments to vendors and contractors are the actual amounts disbursed.

Regular depreciation on plant and equipment was provided for using the straight-line method and, to the extent permissible for tax purposes, using the declining-balance method (which will be converted to the straight-line method in the future). Additions during the report year have been depreciated with the full, half or proportional annual rate in accordance with present tax regulations. We have not given up using the declining-balance method in our trade balance although the second tax law enacted to stimulate the economy would allow us to do so because we feel that the declining-balance depreciation is more exact. The use tax will be depreciated separately over the life of the asset using the declining-balance method. As in prior years, miscellaneous low value items were written off in the year of acquisition.

*) Decreased by DM 180 million representing receipt of AUDI NSU capital stock in exchange for our interest in AUTO UNION, now liquidated.

The rates for regular depreciation are based on the following estimated useful lives:

Buildings	mainly 30-50 years
Buildings used for research and development and land improvements	mainly 10-18 years
Production machinery and power producing machinery	mainly 7-14 years
Plant and office equipment	mainly 2- 8 years

During 1970, for the most part, additional depreciation was provided for to take full advantage of existing tax benefits. This consisted primarily of increased depreciation on plant and equipment completed, under construction or for which advance payments have been made to vendors and contractors and which are used in research and development.

The following summary shows additional details of the 1970 depreciation provision:

The balance of approximately DM 2 million represented the contribution to the increased capital stock of Volkswagen de Mexico S. A. de C. V., Puebla/Pue. and our investments in P. T. German Motor Manufacturing, Djakarta/Indonesia and Weser-Ems-Vertriebsgesellschaft m. b. H., Bremen.

When it was customary to make write-downs of investments for the period up to the end of 1966 this practice was continued in accordance with section 14, paragraph 2 of stock corporation law preliminary legislation (EG AktG). As from 1967, the current year's foreign investments were written down to take full advantage of the tax benefits available on investments made in developing countries, in addition to the write-downs permitted for tax purposes and in view of the economic risks inherent in long-term investments in overseas countries.

Other Investment Securities consist of 5% West German Government Bonds for the Promotion of Developing Countries. The fourth repayment on the bonds, amounting to

	Regular depreciation			Additional depreciation	Total	Depreciation on additions during 1970	Additions**) during 1970
	straight-line*)	declining-balance	direct write-off				
Thousand DM							
Owned land and land with land rights							
with office and factory buildings							
and other structures	59,874	42,231	—	10,803	112,908	35,095	284,218
with apartments	923	—	—	136	1,059	6	351
without buildings	—	—	—	157	157	157	499
Buildings on leased land	1,925	591	—	—	2,516	75	1,751
Machinery and fixtures	164,165	74,534	—	7,032	245,731	66,734	424,092
Plant and office equipment	118,491	5,269	27,197	687	151,644	68,417	202,531
Construction in progress	—	—	—	19,800	19,800	19,800	58,445
Advance payments to vendors and contractors	—	—	—	1,700	1,700	1,700	3,400
Total	345,378	122,625	27,197	40,315	535,515	191,984	975,287

*) Including modified straight-line depreciation in accordance with a law with respect to the method of depreciating buildings.

**) Additions and transfers from construction in progress and advance payments to vendors and contractors on machinery and equipment.

All items of property, plant and equipment are free of liens and encumbrances.

Under the caption *Investments*, the book value of *Investments in Subsidiaries and Affiliates* increased by DM 179 million. The additions of DM 196 million consisted of:

- DM 178 million purchase of stock of
AUDI NSU AUTO UNION AG,
Neckarsulm,
- DM 10 million acquisition of
Selbstfahrer Union, Hamburg,
- DM 6 million contribution to the increased capital stock of Volkswagen do Brasil S. A., São Bernardo do Campo.

DM 2.5 million was received in 1970. The value shown on the balance sheet for these securities is below market value. DM 6.5 million par value of these bonds were pledged as collateral in favor of various Customs Authorities as security for the continuous processing of imported goods.

During 1970, the total of *Long-term Loans with an Initial Term of Four Years or Longer* increased to DM 433 million. These loans were granted, as in previous years, primarily for housing construction. Interest-free and low interest-bearing loans have been discounted to reflect present values, all other loans are shown at face value.

Of the loans made in accordance with section 89 of AktG, DM 10,842,437 represent loans to an unaffiliated nonprofit housing construction company, located in Wolfsburg, in which Volkswagenwerk AG holds a minority interest.

Write-downs pertaining to current year's additions to investments amounted to DM 34 million, of which DM 26 million represents amounts discounted with respect to loans granted during 1970.

As a result of our expanded product line, the book value of *Inventories* increased.

Raw materials and supplies were valued, at current, average purchase costs or lower replacement costs deducted by write-downs permitted for tax purposes. Work in process inventories and finished products were valued using production costs which consisted of the average purchase cost of raw materials, direct labor and the production overheads which must be capitalized in accordance with existing tax regulations. In previous years, however, the fixed overheads included in the production overheads especially depreciation were not taken into consideration when the inventories were valued. Goods purchased for resale were valued on the same basis as raw materials and supplies. Slow-moving parts inventories were written down to the extent allowable for tax purposes.

Trade Accounts Receivable represent DM 76 million due from customers in foreign countries and DM 24 million due from customers located in the Federal Republic of Germany. Subsequent to December 31, 1970, all material amounts were collected when due.

The portfolio of *Securities* increased by DM 33 million to DM 42 million, particularly due to the purchase of debenture bonds in order to obtain interest from investment of liquid funds. Values have, where necessary, been calculated at the rate valid at the end of the year.

Receivables from Subsidiaries and Affiliates decreased by DM 73 million to DM 115 million. Most of these were receivables due from abroad. Where appropriate, lower valuations were placed to a minor degree on receivables in view of the inherent risks relating to the rate of exchange, currency transfers and other potential losses.

Miscellaneous Other Current Assets consist mainly of claims, the exact amounts of which could not be determined at the balance sheet date, in respect of excess payments of corporation and business profit tax, investment surcharges in accordance with the amended tax law of 1969, sales tax refunds and repayable advance tax payments. These assets also include loans which still have more than one year to run and these loans have shown a two third decrease on the previous year's figure. Doubtful accounts were minor in amount and have been written off. The advance tax payments have been discounted to reflect present values.

Liabilities

The *Capital Stock* was increased to DM 900 million by transferring DM 150 million from other reserves in accordance with the resolution of last year's annual meeting of stockholders.

During 1970, the *Legal Reserve* remained unchanged.

The *Reserve for the Share-the-Burden Property Levy* represents the discounted amount of this liability as of December 31, 1970.

After the elimination of reserves as required by law the increase in *Reserves for Special Purposes* primarily pertains to the current year's investment in developing countries and to the increase in the contingency reserve.

The increase in the *Allowance for Doubtful Trade Acceptances and Accounts*, determined in the same manner as in the prior year, is due to the raised trade receivables and trade acceptances.

Changes in *Undetermined Liabilities* were as follows:

Balance January 1, 1970	DM 1,038 million
Amount used	DM 355 million
Eliminations	DM 99 million
	DM 584 million
Additions	DM 585 million
Balance December 31, 1970	DM 1,169 million

Undetermined liabilities in respect of pension plan costs, which were based on actuarial computations in accordance with existing tax laws, obligations towards the employees and taxes increased during 1970. Undetermined liabilities in respect of distribution costs especially for warranties and diagnoses remained unchanged as compared with the previous year.

Undetermined liabilities of DM 7 million for maintenance work which could not be performed in 1970 for technical reasons were established at the end of 1970. Undetermined liabilities to the amount of DM 15 million were used for maintenance work performed during the year under review.

Of the undetermined liabilities shown on the balance sheet, approximately

DM 548 million can be considered relating to long-term liabilities
DM 189 million as medium-term liabilities, and
DM 432 million are of a short-term nature.

Liabilities with an Initial Term of Four Years or Longer further decreased as a result of the repayment of loans on an installment basis. At December 31, 1970, long-term loans consisted of:

DM 56 million 5% per annum plant improvement loan of DM 150 million, which was received in the years 1961 through 1963, to be repaid in 8 equal annual installments commencing in 1966.

DM 50 million loan granted to us by the State of Lower Saxony. The loan is to be repaid by the middle of 1980 at an interest rate equal to the prevailing German Federal Bank discount rate.

DM 5 million balance of DM 6 million loan and a DM 1.5 million loan granted to us in 1964 and 1969 respectively, by the Federal Agency for Employment to construct housing for our foreign workers. The loans are to be repaid within 10 years commencing in 1966 and 1969 respectively, and bear interest at the rate of 2½% per annum.

DM 4 million loan granted to us in 1970 by the Federal Republic of Germany for setting up sidings in the Salzgitter plant. This loan bears no interest and is to be repaid in ten equal annual installments commencing in 1973.

The increase in *Trade Accounts Payable* resulted from the increased purchases made. Of the total trade accounts payable at December 31, 1970, approximately 18% represents acquisition of property, plant and equipment.

Due to Banks resulted from executing a temporary loan at a favorable interest rate.

Prepayments by Customers of DM 9 million were received in respect of domestic transactions and DM 7 million represent advance payments received from foreign importers.

The increase in *Accounts Payable to Subsidiaries and Affiliates* resulted mainly from advance payments received from foreign subsidiaries.

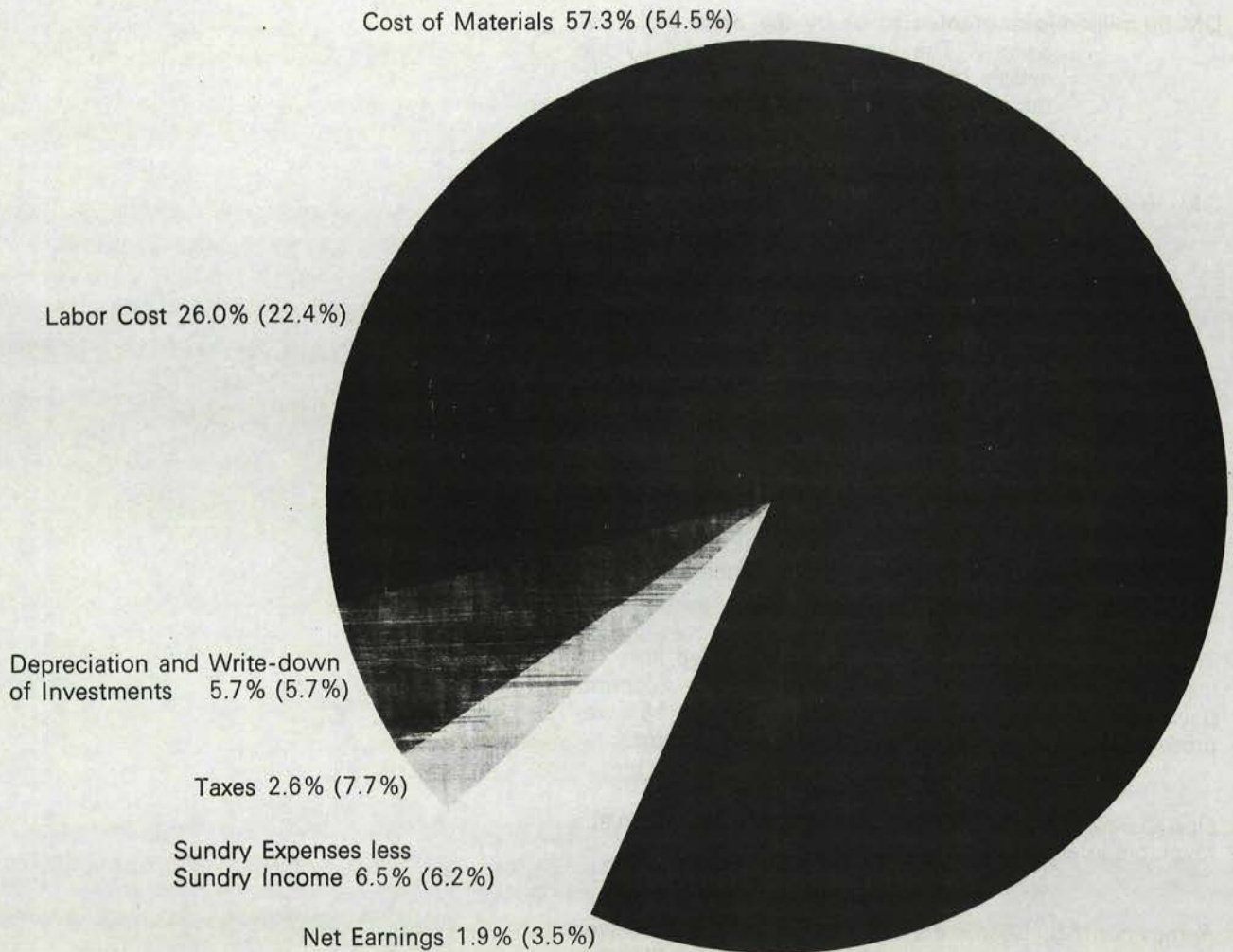
Miscellaneous Other Liabilities increased by DM 154 million mainly as a result of a loan obtained by Volkswagenwerk AG in connection with the construction of the new plant near Salzgitter and of higher payroll accruals.

We were contingently liable for DM 16,800,000 in connection with the purchase of shares of domestic companies with limited liability. This amount is in addition to the *Contingent Liability with respect to Discounted Trade Acceptances* shown on the balance sheet.

Statement of Earnings

As a result of the increased sales the *Gross Output* went up by 8% to DM 10,138 million.

The ratios of selected cost, expense and earnings data to gross output were as follows (1969 ratios in parantheses):



In 1970, *Sales* increased by DM 675 million to DM 9,913 million. This was due, despite the fact that the sales volume was roughly the same, to price increases, the extension of domestic business, the larger ratio of more profitable models and to the higher turnover of parts. Domestic sales increased by 18%, whereas export sales were 2% higher than in 1969. The ratio of vehicle sales to total sales was 81% whereas the corresponding ratio for parts amounted to 11%.

Expenditures for Raw Materials, Supplies and Other Materials exceeded those of the prior year by DM 694 million or 13.6%. Expenditures for raw materials increased by 13.8% over 1969. This rise was due to the fact that approximately the same number of vehicles was produced whereas the prices of raw materials rose and our model range was extended.

Income from Profit Assumption Agreements resulted only from the transfer of the 1970 operating profit of a domestic subsidiary.

Income from Investments in Subsidiaries and Affiliates was received in 1970 in the form of distribution of dividends for the year 1969 primarily from Wolfsburg Transportgesellschaft, AUDI NSU, Volkswagen-Finanzierungsgesellschaft and our subsidiaries in the USA, Brazil and South Africa.

At year-end, DM 14 million of *Income from Other Financial Investments* resulted from interest on loans granted whereas DM 4 million of this income represented amortization of discount on long-term loans previously discounted to reflect present values.

Other Interest and Similar Income consisted mainly of income from bank balances.

Elimination of Reserves for Undetermined Liabilities No Longer Required resulted primarily from lower requirements for warranty obligations, taxes and pending lawsuits in previous years.

Other Income resulted, for the most part, from revenues from auxiliary services, taxes rebilled to subsidiaries and affiliates with whom tax assumption agreements existed and billing of services.

The reasons for the DM 520 million increase in expenditures for *Wages and Salaries* and *Social Expenditures – compulsory* were stated in the "Labor Force" section of this report (see page 12).

As in the prior year, the major single item of *Pension Expenditures and Voluntary Payments* consists of charges for future and present pension payments.

Specific explanations have already been presented in appropriate sections of this report in connection with the *Provision for Depreciation of Physical Plant, the Write-down of Financial Investments and the Write-down of Current Assets and Provision for Doubtful Trade Acceptances and Accounts*.

As in prior years, *Interest Expense and Similar Charges* resulted, for the most part, from long-term loans.

The decrease in *Taxes on Income, Earnings and Property* by DM 289 million was caused mainly by lower net earnings and in addition by time variations between trade and tax balance sheets.

The decrease in *Other Taxes* is solely the result of taxes on exports levied only during the previous year in accordance with the law on measures to protect the economy from influences from abroad.

Expenditures under Loss Assumption Agreements were incurred by assuming the operating losses of VW-Siedlungsgesellschaft, VW-Porsche Vertriebsgesellschaft and Deutsche Automobilgesellschaft.

More than half of *Other Expenses* was incurred for the distribution of our products and consisted mainly of shipping costs and advertising and sales promotion costs.

Compensation to Management for the year 1970 amounted to DM 4,329,101. Pension payments to retired members of management or their surviving beneficiaries amounted to DM 979,075. *Compensation paid to Members of the Board of Directors* was DM 286,990.

Comments on the Consolidated Financial Statements of Volkswagenwerk AG and its Domestic Subsidiaries

The consolidated financial statements include, in addition to Volkswagenwerk AG, the following domestic subsidiaries:

AUDI NSU AUTO UNION AG, Neckarsulm,
Volkswagen-Finanzierungsgesellschaft m.b.H., Wolfsburg,
Auto Union Kredit G.m.b.H., Ingolstadt,
Wolfsburger Transportgesellschaft m.b.H., Wolfsburg,
Volkswagen Leasing G.m.b.H., Wolfsburg,
Autovermietung Selbstfahrer Union G.m.b.H., Hamburg,
Selbstfahrer Union G.m.b.H. & Co. KG, Hamburg,
Autohaus Globus G.m.b.H., Hamburg,
Selbstfahrer Vermietungs-G.m.b.H., Hamburg,
DIRANUS Versicherungs-Vermittlungs-G. m. b. H.,
Hamburg,
VW-Siedlungsgesellschaft m.b.H., Wolfsburg, and
VW-Wohnungsbau Gemeinnützige Gesellschaft m.b.H.,
Wolfsburg.

In addition, Volkswagenwerk AG holds a direct or indirect investment of more than 50% in two other domestic subsidiaries which, however, as in prior years, were excluded from the consolidated statements.

Auto Union G.m.b.H., Munich was not included because it only exists in law and has not conducted any business since being organized, and Auto Union Ersatzteile-Generaldepot E. Frankenbach G.m.b.H., Hamburg, was excluded because the company's sales are immaterial in comparison to the consolidated balances.

The NSU Vertriebsgesellschaft m.b.H., Neckarsulm which was included in the consolidated statements for the prior year was converted to AUDI NSU AUTO UNION AG in 1970.

For the first time Selbstfahrer Union G.m.b.H. & Co. KG and Autovermietung Selbstfahrer Union G.m.b.H. as well as their subsidiaries Autohaus Globus G.m.b.H., Selbstfahrer Vermietungs-G.m.b.H. and DIRANUS Versicherungs-Vermittlungs-G.m.b.H. which had been acquired during the year under review were included in the consolidated statements.

The balances shown in the consolidated financial statements for assets and liabilities were determined in accordance with the regulations governing the year-end closing of a stock corporation.

Although not required by corporation law, the consolidated statements show the changes which took place in property, plant, equipment and investments. The consolidated statement of earnings is prepared in detail and includes the subsidiaries mentioned previously.

In the consolidated financial statements, the book values of investments in consolidated companies were set off against the corresponding year-end capital stock and reserve balances of the subsidiaries and the difference resulting therefrom was transferred to adjustment items arising

from capital consolidation. In order to improve the clarity of the consolidated balance sheet we have for the first time shown the other adjustment items arising from consolidation, which previously considerably increased the net earnings brought forward from previous year in the consolidated financial statements in particular and therefore affected its clarity, as a special item on the liabilities side of the consolidated balance sheet. What is involved are mainly the differences resulting during the consolidation of the liabilities from the write-down of housing construction loans granted by Volkswagenwerk AG to VW-Wohnungsbau and VW-Siedlungsgesellschaft, net earnings which were distributed by consolidated companies to the parent company and the write-down of internally supplied inventories and equipment to production cost of Volkswagenwerk AG and its domestic subsidiaries. The relative figures for last year have been calculated and are quoted for comparison purposes. Minority interest in stockholders' equity of AUDI NSU is shown as "Minority interest in AUDI NSU AUTO UNION AG". The minority interest of our Swiss subsidiary, HOLAD, in the net assets of our domestic subsidiary, Wolfsburger Transportgesellschaft m.b.H., is included as "Minority Interest of Unconsolidated Subsidiaries in Consolidated Subsidiaries" in the consolidated balance sheet. Reserves of VW-Wohnungsbau are included in consolidated undetermined liabilities because of the legal restrictions regarding the disposition of stockholders' equity of this type of nonprofit company.

Consolidated Balance Sheet

As in prior years, the consolidated financial position was significantly affected by the balance sheet of Volkswagenwerk AG. A comparison of the condensed consolidated balance sheet for 1970 and 1969 follows:

	12/31/1970		12/31/1969	
	Million DM			
Assets				
Property, Plant, Equipment and Investments	3,747	57%	3,073	54%
Current Assets	2,830 *)	43%	2,662 *)	46%
	6,577 *)	100%	5,735 *)	100%
Liabilities				
Stockholders' Equity (including minority interests)	2,594	39%	2,748	48%
Liabilities payable within:				
more than 4 years	937	14%	718	13%
1 to 4 years	463	7%	430	7%
1 year or less	2,583	40%	1,839	32%
	6,577 *)	100%	5,735 *)	100%

*) Current assets and balance sheet totals were decreased by the amount shown under liabilities as allowance for doubtful trade acceptances and accounts.

Stockholders' equity and long-term liabilities covered property, plant, equipment and investments and also part of the inventories.

Compared to December 31, 1969, the significant changes in the current year's consolidated financial statements resulted mainly from the changes in the financial position of Volkswagenwerk AG, previously discussed. The following must be observed:

Compared to 1969, the book value of *Property, Plant and Equipment* increased by DM 574 million to DM 3,434 million, as a result of DM 1,287 million of additions less DM 732 million of provision for depreciation and disposals, plus DM 19 million representing the book value, as of January 1, 1970, of property, plant and equipment of the Selbstfahrer Union companies. Amounts pertaining to Selbstfahrer Union companies have been included in the consolidation for the first time. Of the total amount invested during 1970, 73% and 17%, respectively, pertain to

Volkswagenwerk AG and AUDI NSU. At year-end, the book value of property, plant and equipment represented 44% of original cost of DM 7,889 million.

Investments increased by DM 101 million which consisted primarily of long-term loans granted by Volkswagenwerk AG.

Higher inventory levels in connection with our expanded product line, particularly with regard to raw materials and products, caused a DM 321 million increase in *Inventories* to DM 1,307 million. Of the total inventories, DM 528 million are represented by raw materials and supplies, DM 404 million by work in process and DM 375 million by finished products and goods.

Receivables increased by DM 49 million to DM 871 million. Of this total, DM 463 million pertain to Volkswagenwerk AG, DM 263 million to our financing companies, DM 109 million to AUDI NSU and DM 36 million to the other domestic subsidiaries.

During 1970, *Liquid Funds* decreased by DM 201 million to DM 661 million, this decrease being mainly due to the large investments made during the year under review. The sources and uses of funds are shown in the following statement:

	1970	1969
	in million DM	
Sources of Funds		
Increase in stockholders' equity	—	359
Provision for depreciation of physical plant and write-down of investments (net of accumulated discount)	689	639
Decrease in property, plant, equipment and investments	69	44
Increase in liabilities (including undetermined liabilities):		
Long-term liabilities	219	91
Short- and medium-term liabilities	777	551
	<u>1,754</u>	<u>1,684</u>
Uses of Funds		
Decrease of stockholders' equity through change to adjustment items arising from capital consolidation (see below), etc.	154	—
Increase in property, plant, equipment and investments (including amounts, as of January 1, 1970, of Selbstfahrer Union companies)	1,432	1,198
Increase in inventories	321	269
Increase in medium- and short-term receivables*)	48	362
	<u>1,955</u>	<u>1,829</u>
Decrease in Liquid Funds*)	<u>201</u>	<u>145</u>

A debit balance is shown in respect of the *Adjustment Items arising from Capital Consolidation* for the year under review because the acquisition price of the AUDI NSU stock purchased and the purchase price for the Selbst-

*) with due consideration given to the allowance for doubtful trade acceptances and accounts.

fahrer Union companies were above the balance sheet rating of these companies. The adjustment item arising from capital consolidation with regard to Volkswagen-Finanzierungsgesellschaft and Volkswagen Leasing was set off against the debit balance mentioned above. For balance sheet purposes this item is in the nature of a good will.

The main items amongst *Other Adjustment Items* are the differences, amounting to DM 139 million and resulting during the consolidation from the write-down of housing construction loans granted by Volkswagenwerk to VW-Wohnungsbau and VW-Siedlungsgesellschaft and the net earnings to the amount of DM 54 million which were distributed by consolidated companies to the parent company. The adjustment items concerning the net earnings for the current year are shown under the statement of earnings item "Transfer to the adjustment items arising from consolidation — Other adjustment items".

The purchase of additional AUDI NSU stock by Volkswagenwerk AG which effected a change in its interest in this company resulted in a corresponding decrease of *Minority Interest in AUDI NSU AUTO UNION AG* by DM 57 million to DM 88 million.

Reserves for Special Purposes increased by DM 3 million to DM 115 million, of which DM 48 million is by way of equity capital.

The *Allowance for Doubtful Trade Acceptances and Accounts* includes for the first time a collective adjustment of the financing companies Volkswagen-Finanzierungsgesellschaft and Auto Union Kredit. Comparative figures have been calculated for the previous year.

Undetermined Liabilities increased by DM 195 million over 1969. *Pension Plan Costs*, of which 92% are accrued by Volkswagenwerk AG, were, as in prior years, based on actuarial computations in accordance with existing tax laws. *Other Undetermined Liabilities* consist mainly of distribution costs, personnel costs, and pending taxes.

Of the total *Trade Accounts Payable*, DM 762 million, which represented the main item, and DM 165 million, respectively, pertain to Volkswagenwerk AG and AUDI NSU.

More than half of the liabilities *Due to Banks* were taken up by refinancing credits of our financing companies.

In addition to the contingent liabilities shown on the balance sheet, other *Contingent Liabilities* amounted to DM 7,945,475 in connection with the purchase of shares of domestic companies with limited liability and the additional capital contribution to be made to two foreign subsidiaries. Of the total other investment securities, DM 6.5 million par value bonds were pledged as collateral in favor of various Customs Authorities as security for uninterrupted clearance of imported goods.

Consolidated Statement of Earnings

As in previous years, Volkswagenwerk AG's operating results significantly affected the consolidated net earnings. Consequently, the comments on the statement of earnings of Volkswagenwerk AG are pertinent, for the most part, to the consolidated statement of earnings. The expenses incurred and the income accrued by the Selbstfahrer Union companies in 1970 and which have been included in the consolidated financial statements for the first time are relatively low and do not constitute a major hindrance to a comparison with the previous year.

The ratio of selected cost, expense and earnings data to gross output, which amounted to DM 12,171 million in 1970 compared to DM 10,953 million in 1969, was as follows:

	1970		1969	
	Million DM			
Cost of materials	7,198	59.1 %	6,234	56.9 %
Labor cost	3,189	26.2 %	2,528	23.1 %
Depreciation and write-down of investments	690	5.7 %	641	5.8 %
Taxes	297	2.4 %	767	7.0 %
Sundry expenses less sundry income	594	4.9 %	444	4.1 %
Net earnings	203	1.7 %	339	3.1 %

Consolidated net earnings of the domestic subsidiaries of DM 203 million were DM 13 million higher than net earnings of Volkswagenwerk AG. This difference is primarily due to the exclusion from consolidation of the expense incurred by Volkswagenwerk AG for the discounting of housing construction loans which were granted by Volkswagenwerk AG to its domestic subsidiaries.

Insofar as consolidated subsidiaries distribute earnings to the Volkswagenwerk AG further taxes amounting to a maximum of DM 16 million are payable from the earnings received by Volkswagenwerk AG.

Proposed Distribution of Net Earnings for 1970

Management proposes to dispose of net earnings as follows:

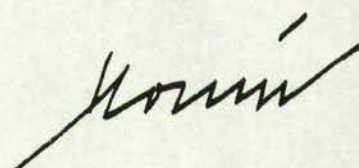

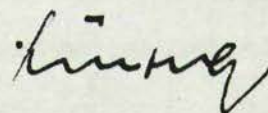
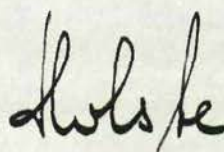
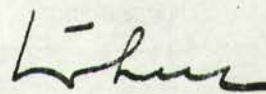
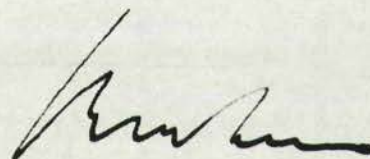
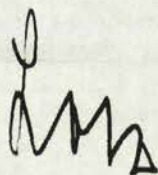
Distribution to stockholders DM 166,500,000

– this represents a 18.5 % dividend on
the capital stock, or DM 9.25
on DM 50 par value of capital stock

Carry forward the balance of	DM 280,239
Net earnings after reserve transfers	<u>DM 166,780,239</u>

Wolfsburg, April 1971

The Management



Report of the Board of Directors

During the year under review, Management has kept the Board of Directors currently informed as to the status of the company and its business activity. By these means, the Board of Directors was able to exercise continuous control over the conduct of the business.

The financial statements, the annual report, and the audit report of the Deutsche Revisions- und Treuhand-Aktiengesellschaft, Treuarbeit, Hanover, were reviewed by the Board of Directors. The auditors expressed unqualified approval of the financial statements of the Company. The Board of Directors approves the audit report and states that its own review of the financial statements and annual report disclosed no exceptions.

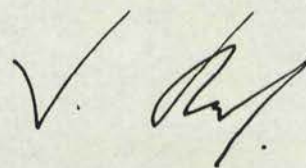
The Board of Directors has approved the yearly report prepared by Management, which is hereby confirmed. The Board of Directors has examined and concurs with the proposal of Management concerning the distribution of net earnings available for distribution.

The Board of Directors has reviewed the consolidated financial statements of Volkswagenwerk AG and its domestic subsidiaries, the comments thereon, and the auditor's report.

On July 9, 1970 the State of Lower Saxony delegated Mr. Helmut Greulich, Lower Saxony Minister of Economics and Public Works and Prof. Dr. Siegfried Heinke, Lower Saxony Minister of Finance to replace Messrs. Karl Möller and Alfred Kubel as members of the Board of Directors in accordance with section 12 of the charter. The Board of Directors expresses its thanks to Mr. Möller and Mr. Kubel for their many years of service and for their valuable counsel.

On December 31, 1970 Mr. Frank Novotny retired from the Board of Management after many years of distinguished and valuable service.

Wolfsburg, April 1971



Chairman of the Board of Directors

Volkswagenwerk Aktiengesellschaft

Balance Sheet December 31, 1970

Assets

	Jan. 1, 1970	Additions	Deductions	Transfers	Accumulation of Discount	Provision for Depreciation
	DM	DM	DM	DM	DM	DM
Property, Plant, Equipment and Investments						
A. Property, plant and equipment						
Real estate and land rights						
with office, factory and other buildings	1,131,821,128	171,900,278	6,093,470	118,393,520	—	112,907,969
with residential buildings	14,301,754	383,948	86,774	7,240	—	1,058,941
without buildings	37,493,691	2,874,200	535,949	— 3,932,972	—	157,395
Buildings on leased real estate	20,331,740	1,180,854	41,224	570,453	—	2,515,917
Machinery and fixtures	520,644,972	365,084,543	4,437,022	59,082,835	—	245,731,041
Plant and office equipment	141,088,368	153,003,584	2,476,369	49,485,505	—	151,643,295
Construction in progress	240,994,462	209,278,535	25,865,877	—188,689,143	—	19,800,000
Advance payments to vendors and contractors	40,264,546	30,803,178	2,321,973	— 34,917,438	—	1,700,000
	2,146,940,661	934,509,120	41,858,658	—	—	535,514,558
B. Investments						
Investments in subsidiaries and affiliates	240,074,786	196,239,528	—	—	—	17,248,473
Other investment securities	15,443,751	—	2,206,250	—	—	—
Long-term loans receivable with an initial term of four years or longer	154,704,129	133,386,638	5,642,220	—	3,277,495	25,824,698
Face value at 12/31/70 DM 432,852,187						
including secured by mortgages						
DM 223,966,094						
subsidiaries and affiliates						
DM 187,696,892						
loans in accordance with section 89 AktG DM 11,121,205						
	410,222,666	329,626,166	7,848,470	—	3,277,495	43,073,171
	2,557,163,327	1,264,135,286	49,707,128	—	3,277,495	578,587,729
Current Assets					DM	DM
A. Inventories						
Raw materials and supplies					416,575,834	
Work in progress					344,826,005	
Finished products					257,904,526	
						1,019,306,365
B. Other current assets						
Advance payments to suppliers					2,721,716	
Trade accounts receivable					100,356,996	
including amounts due in more than one year DM 6,281,148						
Trade acceptances					2,698,872	
Cash on hand, including post office checking account balances					675,126	
Cash in banks					529,218,364	
Securities					41,772,424	
Receivables from subsidiaries and affiliates					115,091,962	
including amounts for goods and services rendered DM 43,288,999						
Miscellaneous other current assets					256,199,397	
						1,048,734,857

Prepaid and Deferred Expenses

Liabilities

Dec. 31, 1970	Dec. 31, 1969				Dec. 31, 1970	Dec. 31, 1969
DM	Thousand DM		DM	DM	DM 900,000,000	Thousand DM 750,000
		Capital Stock				
		Reserves				
1,303,113,487	1,131,821	Legal reserve		233,799,000		233,799
13,547,227	14,302	Reserve for the Share-the-Burden Property Levy				
35,741,575	37,494	Jan. 1, 1970	20,943,000			
19,525,906	20,332	Transfer to earnings	1,875,000	19,068,000		20,943
694,644,287	520,645	Other reserves				
189,457,793	141,088	Jan. 1, 1970	1,335,125,578			
215,917,977	240,994	Transfer for increase of capital stock	150,000,000			
32,128,313	40,264	Transfer from 1970 earnings	26,000,000			
				1,211,125,578		1,335,126
2,504,076,565	2,146,940				1,463,992,578	1,589,868
		Reserves for Special Purposes				
419,065,841	240,075	Reserve for investments in developing countries in accordance with section 1 of the tax law		105,134,663		102,813
13,237,501	15,444	Reserve for price increases in accordance with section 74 of EStDV		8,896,338		7,176
259,901,344	154,704				114,031,001	109,989
		Allowance for Doubtful Trade Acceptances and Accounts			5,153,000	4,133
		Undetermined Liabilities				
		Old-age pensions		475,318,570		397,078
		Other undetermined liabilities				
		Maintenance not performed during current year		7,000,000		15,000
		Warranties without legal obligation		3,166,000		3,774
692,204,686	410,223	Other		683,809,455		621,766
					1,169,294,025	1,037,618
3,196,281,251	2,557,163	Liabilities with an Initial Term of Four Years or Longer				
		Due to banks		22,200,000		29,600
		Other liabilities		92,773,195		100,650
					114,973,195	130,250
		including amounts due within four years DM 63,509,774				
		Other Liabilities				
	336,334	Trade accounts payable		761,697,208		546,766
	236,868	Due to banks		32,877,000		—
	196,460	Prepayments by customers		15,990,025		9,345
	769,662	Accounts payable to subsidiaries and affiliates		140,744,671		22,338
	1,818	including trade accounts payable DM 10,065,298				
	72,950	advance payments received DM 114,390,012				
		Miscellaneous other liabilities		378,457,016		224,463
	8,367				1,329,765,920	802,912
	627					
	746,482				407,759	355
	8,769					
	187,813					
	238,266					
	1,265,092					
2,068,041,222	2,034,754	Net Earnings after Reserve Transfers (Available for Distribution)				
		Share-the-Burden Property Levy				
		Present discounted amount DM 19,067,288				
		Quarterly installment DM 689,021				
75,244	124	Contingent liabilities with respect to trade acceptances DM 228,319,569				
5,264,397,717	4,592,041				5,264,397,717	4,592,041

Statement of Earnings of Volkswagenwerk AG

Year ended December 31, 1970

	1970		1969
	DM	DM	Thousand DM
Sales (excluding sales tax)	9,912,843,888		9,237,876
Increase in inventories	115,670,116		74,964
Material, wages and overhead capitalized as additions to plant and equipment		10,028,514,004 109,819,716	9,312,840 76,472
Gross Output		10,138,333,720	9,389,312
Expenditures for raw materials, supplies and other materials		5,812,246,211	5,118,598
Excess of Gross Output over Expenditures for Raw Materials, etc.		4,326,087,509	4,270,714
Income from profit assumption agreements	660,372		501
Income from investments in subsidiaries and affiliates	78,819,690		87,087
Income from other financial investments	18,363,979		5,540
Other interest and similar income	99,006,290		81,081
Gain on disposal of property, plant, equipment and investments	3,756,619		2,395
Elimination of reserves for undetermined liabilities no longer required	98,853,956		43,744
Other income	106,467,104		110,878
including extraordinary income of DM 11,418,286		405,928,010	331,226
		4,732,015,519	4,601,940
Wages and salaries	2,286,907,710		1,816,145
Social expenditures — compulsory	253,384,815		204,516
Pension expenditures and voluntary payments	94,065,185		81,547
Provision for depreciation of physical plant	535,514,558		432,219
Write-down of financial investments	43,073,171		103,773
Write-down of other current assets and provision for doubtful trade acceptances and accounts	9,395,041		15,207
Loss on disposal of property, plant, equipment and investments	1,767,744		1,564
Interest expense and similar charges	41,245,027		22,270
Taxes			
a) on income, earnings and property	DM 262,192,270		551,037
b) other	DM 2,391,940		167,761
	264,584,210		
Share-the-Burden Property Levy	2,756,086		2,756
Expenditures under loss assumption agreements	7,444,303		8,160
Additions to reserves for special purposes	4,042,235		43,422
Other expenses	997,346,127		821,321
		4,541,526,212	4,271,698
Net Earnings		190,489,307	330,242
Balance carried forward		190,489,307	330,242

	1970	1969
	DM	Thousand DM
Balance brought forward	190,489,307	330,242
Net earnings brought forward from previous year	415,932	—
Transfer from the reserve for the Share-the-Burden Property Levy	1,875,000	1,795
Transfer to other reserves from net earnings	192,780,239	332,037
	26,000,000	165,121
Net Earnings after Reserve Transfers	166,780,239	166,916

During 1970, pension payments amounted to DM 7,066,724; payments during the next five years will approximate 120, 136, 156, 184, 210% of this amount.

Wolfsburg, April 1971

Volkswagenwerk Aktiengesellschaft

The Management

According to our audit, made in conformity with our professional duties, the accounting, the annual financial statements and the report of the Board of Management comply with German Law and the Company's statutes.

Hanover, April 16, 1971

Deutsche Revisions- und Treuhand-Aktiengesellschaft
Treuarbeit

Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Prof. Dr. Forster
Wirtschaftsprüfer

Dr. Apelt
Wirtschaftsprüfer

Consolidated Balance Sheet of Volkswagenwerk Aktiengesellschaft and its Domestic Subsidiaries December 31, 1970

Assets

	Jan. 1, 1970	Jan. 1, 1970 Companies included for the first time	Additions	Deductions	Transfers	Provision for Depreciation
	DM	DM	DM	DM	DM	DM
Property, Plant, Equipment and Investments						
A. Property, plant, equipment and trademarks						
Real estate and land rights						
with office, factory and other buildings	1,281,665,199	15,170	232,497,857	6,244,011	140,079,921	120,392,613
with residential buildings	312,422,447	—	31,717,780	271,154	1,889,224	10,708,363
without buildings	60,773,267	—	14,260,271	2,578,875	4,532,476	157,394
Buildings on leased real estate	22,610,550	—	2,676,901	390,035	540,235	2,858,158
Machinery and fixtures	625,147,852	—	411,455,874	4,222,744	72,919,098	285,591,600
Plant and office equipment	217,994,311	18,983,626	280,869,195	20,051,911	59,672,173	229,330,860
Construction in progress and advance payments to vendors and contractors	339,754,224	—	313,586,160	28,264,046	—270,568,175	21,500,000
Deviative assets	—	21,333	—	—	—	16,133
Trademarks	2	—	—	—	—	1
	2,860,367,852	19,020,129	1,287,064,038	62,022,776	—	670,555,122
B. Investments						
Investments in subsidiaries and affiliates	66,583,546	59,282	21,413,341	1,000	182,975	17,262,263
Other investment securities	15,443,751	—	—	2,206,250	—	—
Long-term loans receivable with an initial term of four years or longer	130,504,392	313,523	104,010,632	4,632,358	— 182,975	748,438*
Face value at 12/31/70 DM 266,005,366 including secured by mortgages DM 72,335,295 subsidiaries and affiliates DM 15,677,738 loans in accordance with section 89 of AktG DM 11,208,206 loans in accordance with section 115 of AktG DM 12,600						
	212,531,689	372,805	125,423,973	6,839,608	—	18,010,701*
	3,072,899,541	19,392,934	1,412,488,011	68,862,384	—	688,565,823*
Current Assets						DM
A. Inventories						1,307,460,310
B. Other current assets						
Advance payments to suppliers						3,862,273
Trade accounts receivable						181,318,960
including amounts due in more than one year		DM 8,035,240				
Trade acceptances						4,788,848
including acceptances discountable at German Federal Bank		DM 612,045				
acceptances due from subsidiaries and affiliates		DM 66,780				
Checks on hand						259,152
Cash on hand, including German Federal Bank and post office checking account balances						1,400,786
Cash in banks						612,701,787
Securities						41,772,424
Receivables from subsidiaries and affiliates						129,348,733
including amounts for goods and services rendered		DM 48,477,699				
Loans receivable in accordance with section 89 of AktG						33,175
Loans receivable in accordance with section 115 of AktG						13,092
Miscellaneous other current assets						545,283,903
Prepaid and Deferred Expenses						
Discount on loans payable						4,613,779
Other						6,791,232

*) Reduced by Accumulation of Discount of DM 1,834,847

Liabilities

Dec. 31, 1970	Dec. 31, 1969			Dec. 31, 1970	Dec. 31, 1969
DM	ThousandDM		DM	DM 900,000,000	ThousandDM 750,000
1,527,621,523	1,281,665	Capital Stock			
335,049,934	312,423	Reserves			
67,764,793	60,773	Legal reserve	233,799,000		233,799
22,579,493	22,611	Reserve for the Share-the-Burden Property Levy	19,068,000		20,943
819,708,480	625,148	Other reserves	1,211,125,578	1,463,992,578	1,335,126
328,136,534	217,994				1,589,868
333,008,163	339,754	Adjustment items arising from consolidation			
5,200	—	Capital consolidation	—81,378,196		52,572
1	—	Other adjustment items	190,409,709		159,256
3,433,874,121	2,860,368	Minority Interest in AUDI NSU AUTO UNION AG		109,031,513	211,828
		including minority interest in net earnings thereof DM 4,141,200		87,652,672	144,794
		Minority Interest of Unconsolidated Subsidiaries in Consolidated Subsidiaries			
		including minority interest in net earnings thereof DM 4,718,681		4,768,681	5,461
70,975,881	66,584	Reserves for Special Purposes			
13,237,501	15,444	Reserve for investments in developing countries in accordance with section 1 of the tax law	106,554,663		104,233
229,264,776	130,504	Reserve for price increases in accordance with section 74 of EStDV	8,896,338		7,176
		Reserve for replacements in accordance with paragraph 35 of EStR	—		485
		Allowance for Doubtful Trade Acceptances and Accounts		115,451,001	111,894
		Undetermined liabilities		9,640,110	8,236
313,478,158	212,532	Old-age pensions	519,279,248		432,874
		Other undetermined liabilities			
		Maintenance not performed during current year	7,000,000		17,077
3,747,352,279	3,072,900	Warranties without legal obligations	6,766,000		6,060
		Other	823,530,163	1,356,575,411	705,312
		Liabilities with an Initial Term of Four Years or Longer			1,161,323
		Due to banks	207,994,569		206,314
	985,801	including secured by mortgages DM 185,766,643			
	3,483	Other liabilities	202,845,213		202,370
	133,100	including secured by mortgages DM 108,045,345			
	12,679	including amounts due within four years DM 110,948,838		410,839,782	408,684
		Other Liabilities			
	20	Trade accounts payable	962,548,067		685,352
		Due to banks	426,812,902		198,251
	946	Prepayments by customers	20,974,853		12,203
	840,498	Accounts payable to subsidiaries and affiliates	119,850,321		8,916
	8,769	including trade accounts payable DM 8,108			
	165,569	advance payments received DM 114,244,843			
		Miscellaneous other liabilities	439,952,542		264,622
	33			1,970,138,685	1,169,344
	512,631	Deferred Income		3,026,336	4,146
2,828,243,443	2,663,529	Net Earnings after Reserve Transfers and Minority Interests			
	3,160	Contingent liabilities with respect to trade acceptances	DM 165,850,325	155,883,964	178,100
	4,089	Contingent liabilities with respect to guarantees	DM 1,438,464		
11,405,011	7,249				
6,587,000,733	5,743,678			6,587,000,733	5,743,678

Consolidated Statement of Earnings of Volkswagenwerk Aktiengesellschaft and its Domestic Subsidiaries

Year ended December 31, 1970

	1970		1969
	DM	DM	Thousand DM
Sales (excluding sales tax)	11,853,681,854		10,755,392
Increase in inventories	147,297,529		80,055
		12,000,979,383	10,835,447
Material, wages and overhead capitalized as additions to plant and equipment		169,975,005	117,547
Gross Output		12,170,954,388	10,952,994
Expenditures for raw materials, supplies and other materials		7,197,732,065	6,233,961
Excess of Gross Output over Expenditures for Raw Materials, etc.		4,973,222,323	4,719,033
Income from investments in unconsolidated subsidiaries and affiliates	24,661,273		41,859
Income from other financial investments	16,919,891		4,005
Other interest and similar income	134,847,910		109,981
Gain on disposal of property, plant, equipment and investments	8,216,194		6,147
Elimination of reserves for undetermined liabilities no longer required	101,218,547		46,592
Elimination of reserves for special purposes no longer required	485,000		—
Other income	142,168,974		143,452
including extraordinary income	DM 17,762,836		
		428,517,789	352,036
		5,401,740,112	5,071,069
Wages and salaries	2,773,184,246		2,189,061
Social expenditures — compulsory	310,415,102		249,378
Pension expenditures and voluntary payments	105,318,568		89,506
Provision for depreciation of physical plant	670,555,122		536,977
Write-down of financial investments	19,845,548		104,144
Write-down of other current assets and provision for doubtful trade acceptances and accounts	15,108,539		19,955
Loss on disposal of property, plant, equipment and investments	3,950,536		2,862
Interest expense and similar charges	80,354,962		49,594
Taxes			
a) on income, earnings and property	DM 286,849,278		583,002
b) other	DM 6,478,658		180,573
	293,327,936		
Share-the-Burden Property Levy	3,324,088		3,324
Expenditures under loss assumption agreements	3,078,609		5,090
Additions to reserves for special purposes	4,042,235		44,588
Other expenses	916,036,422		674,281
		5,198,541,913	4,732,335
Net Earnings		203,198,199	338,734
Balance carried forward		203,198,199	338,734

	1970		1969
	DM	DM	Thousand DM
Balance brought forward		203,198,199	338,734
Net earnings brought forward from the previous year		4,714,652	12,152
		207,912,851	350,886
Transfer from the reserve for the Share-the-Burden Property Levy		1,875,000	1,795
		209,787,851	352,681
Transfer to other reserves		26,000,000	165,121
		183,787,851	187,560
Transfer from adjustment items arising from consolidation			
Capital consolidation	3,125,600		—
Other adjustment items	—		3,558
		3,125,600	
		186,913,451	191,118
Transfer to adjustment items arising from consolidation			
Capital consolidation	—		1,131
Other adjustment items	22,169,606		—
		22,169,606	
		4,141,200	6,476
Minority interest in net earnings of AUDI NSU AUTO UNION AG consolidated subsidiaries		4,718,681	5,411
Net Earnings after Reserve Transfers and Minority Interests		155,883,964	178,100

Wolfsburg, April 1971

Volkswagenwerk Aktiengesellschaft

The Management

According to our audit, made in conformity with our professional duties, the consolidated financial statements and the report of the Board of Management for the Group comply with German Law.

Hanover, April 16, 1971

**Deutsche Revisions- und Treuhand-Aktiengesellschaft
Treuarbeit**

**Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft**

Prof. Dr. Forster
Wirtschaftsprüfer

Dr. Tubbesing
Wirtschaftsprüfer

Comparative Summary of Selected Financial Data of Volkswagenwerk and its Subsidiaries and Affiliates 1966-1970*)

in million DM

Assets

Property, plant, equipment and investments (as at Dec. 31)
Additions during the year
Depreciation during the year***)

Current assets (as at Dec. 31) ****)
including inventories of

Liabilities

Stockholders' equity
including reserves and retained earnings *****)
minority interest

Liabilities
payable within more than four years

Balance Sheet Total ****)

Balance Sheet Ratios

in %

Property, plant, equipment and investments as a percentage of balance sheet total
Property, plant, equipment and investments as a percentage of current assets

Current assets as a percentage of short-term liabilities

Stockholders' equity as a percentage of balance sheet total
Stockholders' equity as a percentage of liabilities
Stockholders' equity as a percentage of property, plant, equipment and investments
Stockholders' equity and long-term liabilities as a percentage of property, plant, equipment and investments

*) Amounts for 1966 were adjusted to conform to AktG 1965.

**) Comparative figures for 1966, 1967, 1968 and 1969 were adjusted to the new basis for comparison in 1970.

***) Amounts for the years 1967, 1968, 1969 and 1970 are not exactly comparable with those for 1966 because of the valuation requirements of the new stock corporation law.

****) For the years 1968, 1969 and 1970, current assets and balance sheet totals were decreased by the amount shown under liabilities as allowance for doubtful trade acceptances and accounts.

*****) Includes reserves for special purposes consisting of equity capital.

Consolidated Total**)					Volkswagenwerk AG				
1966	1967	1968	1969	1970	1966	1967	1968	1969	1970
2,981	3,237	3,289	3,869	4,521	2,129	2,343	2,277	2,557	3,196
872	787	708	1,076	1,536	703	615	508	740	1,131
651	496	619	691	836	567	386	530	536	579
2,758	2,381	3,130	3,839	4,427	1,333	1,163	1,718	2,031	2,063
1,512	1,229	1,352	1,710	2,128	650	576	640	770	1,019
2,539	2,738	3,100	3,610	3,624	1,837	2,021	2,191	2,386	2,412
1,704	1,886	2,237	2,588	2,486	1,087	1,271	1,441	1,636	1,512
85	102	113	272	238					
3,200	2,880	3,319	4,098	5,324	1,625	1,485	1,804	2,202	2,847
657	631	644	725	943	366	362	426	455	651
5,739	5,618	6,419	7,708	8,948	3,462	3,506	3,995	4,588	5,259
52	58	51	50	51	62	67	57	56	61
108	136	105	101	102	160	201	133	126	155
125	123	136	138	118	120	119	147	150	116
44	49	48	47	40	53	58	55	52	46
79	95	93	88	68	113	136	122	108	85
85	85	94	93	80	86	86	96	93	75
107	104	114	112	101	103	102	115	111	96

The Organizational Structure of Volkswagenwerk AG and its Domestic and Foreign Subsidiaries and Affiliates

Corporate Management

Chairman
of the
Board of Management

Research
and
Development

Production
and
Quality Control

Marketing

Groups

Volkswagen		Plant Locations
		Wolfsburg
		Hanover
		Kassel
		Emden
		Brunswick
		Salzgitter
Distributing Companies		
Volkswagen of America, Inc. Englewood Cliffs, N. J. Capital Stock US\$ 5,000,000 100.0%		Volkswagen France S. A. Villiers-Cotterêts Capital Stock FF 7,000,000 100.0%
Subsidiaries and Affiliates Volkswagen Southeastern Distr., Inc. US\$ 250,000 100.0% Volkswagen Northeastern Distr., Inc. US\$ 250,000 100.0% Volkswagen North Central Distr., Inc. US\$ 250,000 100.0% Volkswagen South Atlantic Distr., Inc. US\$ 250,000 100.0% Volkswagen South Central Distr., Inc. US\$ 250,000 100.0% VICO Corporation US\$ 2,159,946 48.5% Sylvan Avenue Corporation US\$ 400,000 100.0% Volkswagen Products Corporation US\$ 1,000 100.0%		Subsidiaries and Affiliates Société Volkswagen de Financement S. A. FF 7,500,000 25.5% 73.5% HOLAD Service d'Assurance Volkswagen S. A. FF 100,000 51.0%
Volkswagen Canada Ltd. Toronto, Ontario Capital Stock can\$ 500,000 100.0%		Svenska Volkswagen AB Södertälje Capital Stock skr 42,000,000 33.3%
Subsidiaries and Affiliates Voralco Ltd. can\$ 5,000,000 30.0% 70.0% HOLAD		Subsidiaries and Affiliates Volkswagen I Stockholm AB skr 6,000,000 100.0%
		Weser-Ems-Vertriebsgesellschaft m. b. H. Bremen Capital Stock DM 3,000,000 50.0%
		Volkswagen Porsche Austria Ges. m. b. H. & Co KG*) Salzburg Capital Stock S 2,000,000 24.8%

Subsidiaries and Affiliates

Producing Companies

Volkswagen do Brasil S. A. São Bernardo do Campo Capital Stock Cr\$ 468,157,655 80.0%	Volkswagen of South Africa Ltd. Uitenhage, C. P. Capital Stock R 800,000 64.9%	Volkswagen de Mexico, S. A. de C. V. Puebla, Pue. Capital Stock mex\$ 471,952,000 100.0%	Motor Producers Ltd. Melbourne, Australia Capital Stock \$A 10,000,000 100.0%
Subsidiaries and Affiliates Financiadora Volkswagen S. A. Cr\$ 8,800,000 100.0% Distrivols S. A. Cr\$ 1,336,000 100.0% Forjaria São Bernardo S. A. Cr\$ 5,575,620 33.3% VEMAG S. A. Cr\$ 61,098,866 49.6% 10.4% AUDI NSU AUTO UNION AG	Subsidiaries and Affiliates South African Motor Acceptance Corporation (PTY) Ltd. (SAMAC) R 2,000,000 50.0% 50.0% Volkswagen of America, Inc.	Subsidiaries and Affiliates Volkswagen Comercial, S. A. de C. V. mex\$ 5,000,000 100.0%	Volkswagen Bruxelles S. A. * Brussels, Belgium Capital Stock bfrs 425,000,000 75.0%
		P. T. German Motor Manufacturing Djakarta, Indonesia Capital Stock Rp 567,000,000 33.3%	

*) Formed or acquired
in 1971

Purchasing and Material Control	Personnel and Employee Welfare	Finance, General and Cost Accounting, Budgeting	Investments in Subsidiaries and Affiliates, Planning and Organization
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AUDI NSU AUTO UNION AG
Neckarsulm
Capital Stock DM 215,000,000
75.2%

AUDI NSU

Plant Locations: Ingolstadt

Neckarsulm

Heilbronn

Neuenstein

VW-Porsche Vertriebsgesellschaft m. b. H.
Ludwigsburg
Capital Stock DM 14,000,000
50.0%



Distributing Companies

Other Companies

AUDI NSU A/S
Odense, Denmark
Capital Stock dkr 40,000
100.0%

Auto Union-Ersatzteile-Generaldepot E. Frankenbach G. m. b. H.
Hamburg
Capital Stock DM 350,000
100.0%

AUDI-NSU Vertriebs AG
Schinznach-Bad, Switzerland
Capital Stock sfr 250,000
25.0%

COMOBIL S. A.
Geneva, Switzerland
Capital Stock sfr 1,000,000
50.0%

COMOTOR S. A.
Luxemburg, Lux.
Capital Stock lfrs 170,000,000
48.0%

Other Companies

Industrias del Motor, S. A. (IMOSA)
Ibiza, Spain
Capital Stock Ptas 486,000,000
5.0% Volkswagenwerk AG
5.0% AUDI NSU AUTO UNION AG
Subsidiaries and Affiliates:
Comercio e Industria Alayeses
del Automovil, S. A. (CIADASA)
Ptas 35,000,000 100.0%
Industria Auxiliares del Auto-
movil, S. A. (INAUTO)
Ptas 13,000,000 100.0%
ICCA Española, S. A.
Ptas 30,000,000 80.0%

Volkswagen-Finanzierungsgesellschaft m. b. H.
Wolfsburg
Capital Stock DM 7,500,000 100.0%

Deutsche Automobilgesellschaft m. b. H.
Hanover
Capital Stock DM 5,000,000 50.0%

Selbstfahrer Union
Hamburg
Capital Stock DM 1,860,000 100.0%

Volkswagen Leasing G. m. b. H.
Wolfsburg
Capital Stock DM 1,000,000 100.0%

Wolfsburger Transportgesellschaft m. b. H.
Wolfsburg
Capital Stock DM 500,000 90.0%
10.0% HOLAD

VW-Siedlungsgesellschaft m. b. H.
Wolfsburg
Capital Stock DM 20,000,000 100.0%

VW-Wohnungsbau Gemeinnützige Gesellschaft m. b. H.
Wolfsburg
Capital Stock DM 2,000,000 100.0%

HOLAD Holding & Administration AG
Basle, Switzerland
Capital Stock sfr 110,000 100.0%

Transalme Sociedade de Representações Administração e Organização Ltda.
São Bernardo do Campo, Brazil
Capital Stock Cr\$ 35,000 100.0%

Minor holdings
are not included