
**Report
for the Year
1971**



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**Volkswagenwerk
Aktiengesellschaft
Wolfsburg**

The Supervisory Board of Directors
and the Board of Management of
Volkswagenwerk Aktiengesellschaft
present the Report for the Year 1971
with their compliments.

Wolfsburg, May 1972



It is with great regret that we have to
record the death of

Otto Brenner

He had been a member of our
Supervisory Board of Directors and its
Deputy Chairman since 1951.
He played a decisive part in establishing
the Volkswagenwerk and ensuring
its success.

A sense of purpose, frankness and
unsparing effort made him a partner
whose advice was listened to and whose
word could be relied upon. He was the
embodiment of personal modesty and
integrity.

We shall long remember him.

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Agenda

for the
Annual Meeting of Stockholders of
Volkswagenwerk Aktiengesellschaft
to be held at 10:00 A. M. on Friday, July 7, 1972
at the Stadthalle Wolfsburg.

1. Presentation of audited financial statements, the report of the Board of Management for 1971, together with the report of the Supervisory 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 of Volkswagenwerk AG and its domestic subsidiaries and related comments for the year 1971.

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

The Board of Management and the Supervisory Board of Directors propose to distribute to the stockholders a dividend of DM 4.50 on DM 50 par value of capital stock out of net earnings for the year of DM 81,322,906 and to carry forward the balance. This balance includes the sum which should have been distributed in respect of those shares held by the Company on the day of the annual meeting of stockholders and which in accordance with section 71, para. 6 of AktG cannot be distributed.

3. Resolution with respect to discharge of responsibility of the Board of Management for the year 1971.

4. Resolution with respect to discharge of responsibility of the Supervisory Board of Directors for the year 1971.

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

5. Appointment of auditors for the year 1972.

The Supervisory Board of Directors proposes to appoint the Deutsche Revisions- und Treuhand-Aktiengesellschaft, Treuarbeit, Hanover, as auditors for the year 1972.

Supervisory Board of Directors (Aufsichtsrat)

Dr. jur. Josef Rust, Kassel, Chairman,
former Secretary of State

Otto Brenner, Frankfurt, Deputy Chairman,
Chairman of the Metal Workers Trade Union,
deceased April 15, 1972

Helmut Greulich, Hanover, Deputy Chairman,
Minister for Economics and Public Works
of Lower Saxony

Hans Hermsdorf, Bonn, since June 15, 1971,
Deputy Chairman from July 2, 1971,
Parliamentary Secretary of State
in the Federal Ministry of Economics and Finance

Dr. jur. Gerhard Reischl, Bonn,
Deputy Chairman, to June 15, 1971,
Parliamentary Secretary of State
in the Federal Ministry of Finance

Hans Birnbaum, Salzgitter, since July 2, 1971,
Chairman of the Board of Management
of Salzgitter AG

Hugo Bork, Wolfsburg, to July 2, 1971,
Member of the Volkswagenwerk AG's Factory Council
representing the Wolfsburg Plant

Dr. jur. F. Wilhelm Christians, Buderich-Meerbusch,
since July 2, 1971,
Member of the Board of Management
of Deutsche Bank AG

Siegfried Ehlers, Wolfsburg,
Chairman of the Volkswagenwerk AG's Factory Council
representing the Wolfsburg Plant

Mrs. Elgin Gärtner-Amrhein, Stuttgart, to July 2, 1971,
Lawyer

Walter Haefner, Zürich, Switzerland,
VW Exclusive Importer

Kurt Hähnel, Hanover, since July 2, 1971,
Chairman of the Board of Management
of Norddeutsche Landesbank Girozentrale

Dr. jur. Alfred Härtl, Frankfurt, since July 2, 1971,
Managing Agent of Dresdner Bank AG

Heinrich Heerdt, Kassel,
Member of the Volkswagenwerk AG's Factory Council
representing the Kassel Plant

Prof. Dr. jur. Siegfried Heinke, Hanover,
Minister for Finance of Lower Saxony

Dr. phil. h. c. Walter Hesselbach, Frankfurt,
since July 2, 1971,
Chairman of the Board of Management
of Bank für Gemeinwirtschaft AG

Heinz Hilbich, Hanover,
Chairman of the Volkswagenwerk AG's Factory Council
representing the Hanover Plant

Prof. Dr. phil. Eduard Justi, Brunswick,
to July 2, 1971,
Professor at the Brunswick Technical University

Dr. jur. Eduard Leuze, Reutlingen, since July 2, 1971,
Lawyer and Notary Public

Dr. rer. pol. h. c. Ludwig Poullain, Münster,
Chairman of the Board of Management
of Westdeutsche Landesbank Girozentrale

Dr. jur. Horst Rheinfels, Cologne,
Lawyer

Dr. rer. pol. Hermann Richter, Düsseldorf, to July 2, 1971,
Industrial Consultant

Erich Schilling, Ingolstadt,
Deputy Chairman of the
AUDI NSU AUTO UNION AG's Factory Council
representing the Ingolstadt Plant

Kurt-Ernst Schmiedl, Emden, since July 2, 1971,
Chairman of the Volkswagenwerk AG's Factory Council
representing the Emden Plant

Dr. oec. publ. Johann Baptist Schöllhorn, Bonn,
Secretary of State
in the Federal Ministry for Economics and Finance

Josef Schuster, Wolfsburg, since July 2, 1971,
Member of the Volkswagenwerk AG's Factory Council
representing the Wolfsburg Plant

Dr. jur. Wilhelm Vallenthin, Frankfurt, to July 2, 1971,
Member of the Board of Management
of Deutsche Bank AG

Board of Management (Vorstand)

Rudolf Leiding

Chairman of the Board of Management
since October 1, 1971

Prof. Dr. rer. pol. h. c. Kurt Lotz

Chairman of the Board of Management,
to September 24, 1971

Horst Backsmann

Public Relations, Questions of National Economy,
Legal Matters and Auditing

Dr. jur. Peter Frerk

Personnel and Social Matters,
since December 7, 1971

Dr. rer. pol. Carl H. Hahn

Sales

Otto Höhne

Production

Prof. Dr.-Ing. Werner Holste

Research and Development,
to March 31, 1972

Horst Münzner

Purchasing and Material Administration

Dr. jur. Gerhard Prinz

Subsidiary Companies

Dr. rer. pol. Friedrich Thomée

Finance and Business Administration

Selected Data of Volkswagenwerk AG and its Subsidiaries and Affiliates*)

		1971	1970	Increase (Decrease)	% **)
Sales (DM)					
Volkswagenwerk AG	in million DM	17,310	15,837	1,473	9
and its Subsidiaries and Affiliates	in million DM	11,237	9,933	1,304	13
Sales (units)					
Volkswagenwerk AG	number of vehicles	2,317,385	2,206,921	110,464	5
and its Subsidiaries and Affiliates	number of vehicles	1,705,419	1,625,885	79,534	5
Production					
Volkswagenwerk AG	number of vehicles	2,353,829	2,214,937	138,892	6
and its Subsidiaries and Affiliates	number of vehicles	1,715,905	1,621,197	94,708	6
Labor Force					
Volkswagenwerk AG	at year-end	202,029	190,306	11,723	6
and its Subsidiaries and Affiliates	at year-end	130,266	124,792	5,474	4
Investments					
Volkswagenwerk AG	in million DM	1,925	1,628	297	18
and its Subsidiaries and Affiliates	in million DM	1,216	1,131	85	8
Depreciation					
Volkswagenwerk AG	in million DM	912	836	76	9
and its Subsidiaries and Affiliates	in million DM	563	579	(16)	(3)
Cost of Materials					
Volkswagenwerk AG	in million DM	10,072	9,356	716	8
and its Subsidiaries and Affiliates	in million DM	6,586	5,846	740	13
Labor Cost					
Volkswagenwerk AG	in million DM	4,416	3,646	770	21
and its Subsidiaries and Affiliates	in million DM	3,198	2,634	564	21
Net Earnings					
Volkswagenwerk AG	in million DM	147	407	(260)	(64)
and its Subsidiaries and Affiliates	in million DM	12	190	(178)	(94)
Dividends Proposed					
Volkswagenwerk AG	in million DM	81	166.5	(85.5)	(51)

*) Where changes have taken place in the method of presentation the previous year's figures have been adjusted accordingly.

**) Based on precise figures.

Report of the Board of Management

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

World-Wide Economic Developments in 1971

Already by the end of 1970 a shifting of the main centers of economic growth in the world economy was noticeable. Whereas in 1970 the main activity took place in West European countries and in Japan, in the year under review the USA tended once again to be the main center of growth. In most of the other Western industrial countries signs of a falling off became evident, particularly in the second half of the year. This development was strongly influenced by the international currency crisis and overshadowed for a time by the threat of a world-wide trade war.

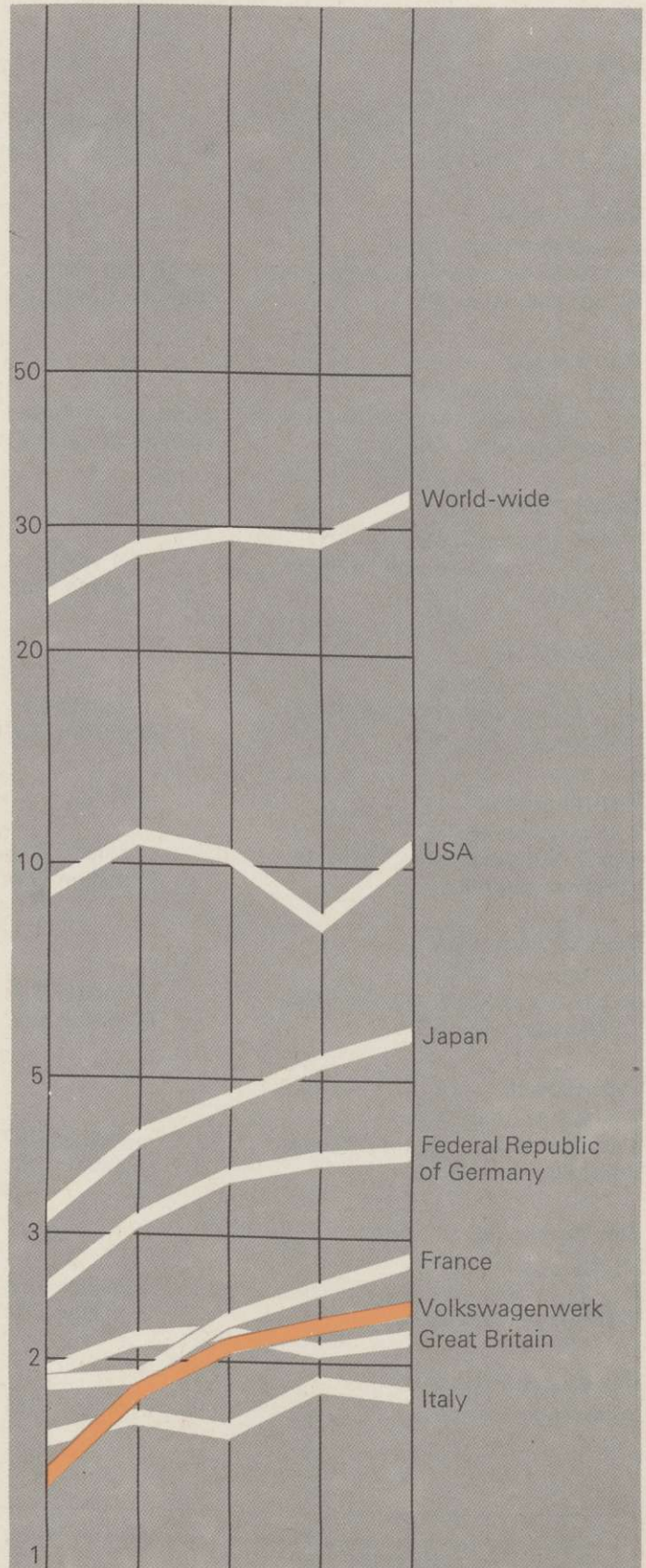
At the beginning of May the Federal Government allowed the exchange rate of the Deutsche Mark to be floated as a protection against the influx of speculators' money and in order to ensure that domestic economic measures would not be too much affected by events abroad. This meant that the Deutsche Mark was in effect revalued.

Then on August 15, 1971 the American Government announced its new program to solve the economic problems in the USA. The most important measures affecting foreign trade under this program were the lifting of Dollar convertibility and the introduction of a new import surcharge. In addition the excise tax on automobiles was removed to stimulate the domestic economy and a general freezing of prices and wages was decreed in order to combat inflation.

The reaction of the other Western industrialized nations to the action taken by the US Government to protect the American industry was very much lacking in uniformity and was largely determined by national interests. Not until the exchange rates were fixed by international agreement in December 1971 was the risk of increased restrictions on the flow of goods and capital and thus the uncertainty in international trade relations reduced.

The currency crisis came at a time when signs of a slackening of the economy were also discernible in some industrial countries. Thus it was not possible for industry in the Federal Republic to make up for the fall in domestic orders by means of increased efforts abroad as in 1967. Only in the USA were there signs that an economic revival was beginning, if only slowly at first.

In 1971 world automobile production, with 33 million units, increased by 14% compared with the previous year which was marked by the severe decline in the USA and in Great Britain. The big upward leap in 1971 was unmistakably due to the recovery in the USA. The action taken by the US Government to stimulate the domestic economy soon began a sales boom which, after the big losses due to strikes in 1970, caused production of automobiles to rise by nearly 29% compared with the previous year, 10.7 million vehicles being produced. In Japan, West Germany and France the production increase of the previous year was maintained but with reduced impetus.



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

in %	1966	1967	1968	1969	1970	1971
USA	42	38	39	35	29	32
Japan	9	13	15	16	18	18
Federal Republic	12	10	11	12	13	12
France	7	8	7	8	9	8
Great Britain	8	8	8	7	7	6
Italy	5	6	6	5	6	5

Developments since 1966 are clearly marked by the progress made by the Japanese manufacturers at the expense of the Americans, while the European block has maintained its position.

In the Federal Republic a clear tendency towards economic weakening was noticeable in many sectors. The greatly reduced profit margins of the firms led above all to a lessening of their readiness to invest. After the changeover to floating exchange rates, which meant that the competitive ability of German industry on the world market was weakened, it was not only the demand abroad which slackened noticeably; at the same time there was a sharpening of the competitive situation between foreign and domestic manufacturers in West Germany, particularly on the automobile market.

In view of the slackening economy, combined with increased competition at home and abroad, it might have been expected that the firms would be very cautious with regard to price increases so that they would not risk being unable to use their full available capacity. However, greatly reduced profit margins and the continued pressure of costs forced the firms to increase prices even at the price of losses in sales, since they would otherwise have suffered even greater losses in earnings. Nevertheless the price increases did not by any means make up for increases in costs and losses in earnings.

As a result of economic developments the total demand for automobiles fell off sharply in the last quarter, after having been favorable up to September 1971. New registrations, which in the period January–September were still considerably up on the previous year's figures, fell by 14.1% in the last quarter of 1971 compared with the same period in 1970. However, for the year as a whole new registrations were 1.9% higher than in the prior year.

The effective revaluation of the Deutsche Mark from May onwards and the US import surcharge did not produce their full effect on German automobile exports until the last quarter of 1971, so that the total exports of 2.3 million units still exceeded those for the previous year by 9%. Thus the Federal Republic remained the leading exporter of automobiles.

The wage dispute in the metal industry at the end of the year and the interruptions of output caused thereby meant that the German automobile industry lost around 150,000 cars which would otherwise have been produced. Despite this, the total production of 4 million vehicles exceeded the figure for the previous year by 3.7%.

Business Trends and Developments during 1971

The international currency crisis and the economic developments in the Federal Republic decisively influenced the business trends and developments of the Volkswagenwerk AG and its subsidiaries and affiliates in 1971 and meant that there were big differences between the two halves of the year. In the first six months extra shifts and overtime were still necessary in order to meet the high demand and also in order to replenish seriously depleted stocks within the VW dealer organisation, but in the second half of the year the position changed drastically.

The effective revaluation of the Deutsche Mark from May 1971 adversely affected the sales of the Volkswagenwerk in export markets. In our biggest export market, the USA, our sales in the last quarter, together with the sales of other importers, were hampered additionally as a result of the US Government's economic measures. On the home market sales of the VW domestic subsidiaries also fell sharply in the last months of the year because of the general slackening in the demand for automobiles and the stiffening competition from foreign manufacturers as a result of the changes in the exchange rates. At year-end there was an additional burden in consequence of the wage dispute in North Württemberg / North Baden.

In spite of these difficulties the sales of the Volkswagenwerk AG and its subsidiaries and affiliates for the year as a whole rose from DM 15,800 million to DM 17,300 million. This 9.3% increase can be ascribed to the shift in emphasis to models giving bigger proceeds and to higher prices as well as to increased sales. Domestic sales increased by 4.4% to DM 5,100 million. Sales abroad increased by as much as 11.5% to DM 12,200 million. Sales by the foreign subsidiaries of their own products which are gaining steadily in importance amounted before subtraction of DM 301 million earned through intercompany transactions with domestic subsidiaries to DM 4,300 million (DM 3,900 million in 1970). There was a slight shift in the sales structure in favor of the proportion of sales achieved abroad, which rose from 69% to 70.4%. The domestic subsidiaries achieved export sales amounting to DM 8,200 million, 17.2% more than in the previous year.

Unit sales of Volkswagenwerk AG and its subsidiaries and affiliates rose by 5% to 2,317,385 automobiles in the year under review. On the domestic market the sales volume went down by 4.2% to 694,341 vehicles as a result of the declining demand for automobiles in the last months of 1971. The rise in the export volume achieved by the domestic subsidiaries and the increased sales achieved by the most important foreign subsidiaries led to an increase of sales abroad by 9.5% to 1,623,044 vehicles. This more than made up for the decline in domestic business.

As opposed to the positive sales and turnover figures, earnings declined in 1971. The causes for this lay chiefly in the continuing increases in costs and the negative effect on our export business of changes in exchange rates, which also affected domestic business. The price

increases effected did not by a long way make up for the additional burdens, so that the net earnings for the year of Volkswagenwerk AG and its subsidiaries and affiliates at DM 147 million and the net earnings for the year of Volkswagenwerk AG at DM 12 million were considerably below the earnings for 1970 of DM 407 million and DM 190 million respectively.

In addition to the action already implemented to reduce costs and streamline procedures in all sectors the management can only counter the unfavorable earnings situation by exploiting in its model policy every possibility of achieving a further tightening up in the field of technical development while at the same time offering a wide range of products. From this it expects, over and above the high level of automation achieved at present, further rationalization in engineering and production and in the sales organisation's parts distribution system.

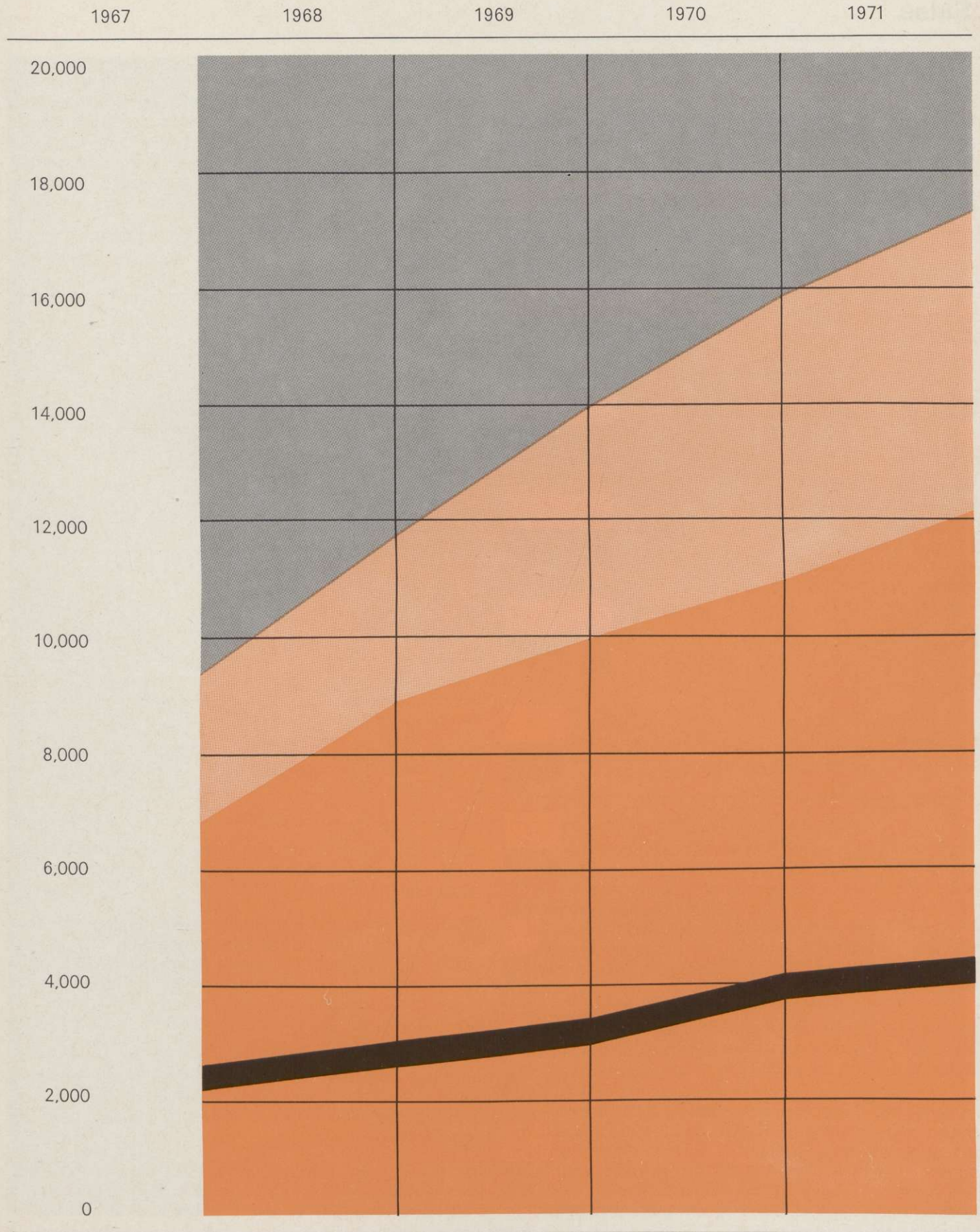
The increased interest in AUDI NSU should also be seen in this light. For this purpose Volkswagenwerk AG made an offer to the independent AUDI NSU stockholders in addition to the exchange offer made at the 1971 annual meeting. In consequence of this Volkswagenwerk AG declared itself ready to take over the shares of independent stockholders at a price of DM 226 per DM 50 share. This offer was accepted by most of the stockholders. At year-end Volkswagenwerk controlled 98.6% of the capital stock of AUDI NSU. The corporate agreement approved by the annual meetings of both companies was entered into the Mercantile Register in November 1971 and thereby became effective in law.

As far as the effects of cost increases and changes in exchange rates on the VW earnings are concerned, developments are to a large extent out of our control. The improvement of the earnings situation through developments within the Company, which can and must be achieved, will, however, only become effective if they are not brought to nothing by new and extraordinary political-economic influences.

The Board of Management and the Supervisory Board of Directors agree that the dividend should be in accordance with the change in the earnings situation. They therefore propose to distribute for the 1971 business year a dividend of DM 4.50 on DM 50 par value of capital stock out of net earnings for the year of DM 81,322,906.

Trend of Sales of Volkswagenwerk AG
and its Subsidiaries and Affiliates
in million DM.

- Domestic Sales
- Foreign Sales
- Sales by our Foreign
Manufacturing Subsidiaries
based on own production



Sales

In the year under review sales of Volkswagenwerk AG and its subsidiaries and affiliates as a whole rose by 5% to 2,317,385 automobiles. This rise was due mainly to an increase in the sales of the Volkswagenwerk AG and to the continuing success of Volkswagen do Brasil and Volkswagen de Mexico.

A comparison of unit sales for 1971 and 1970 follows:

VW sales organisation in the USA recorded a drop in its deliveries to customers of 8.3% to 522,655 Volkswagens. In addition 37,399 vehicles were delivered to customers by the second sales organisation in the USA, the Audi-Porsche dealer organisation, which made further progress in its expansion. The market share obtained by the Volkswagen, Audi and Porsche vehicles sold by Volkswagen of America went down from 6.3% to 4.9% (5.3% in 1969), though it

	1971	1970	Increase (Decrease) Units	%
Volkswagenwerk AG	1,705,419	1,625,885	79,534	5
AUDI NSU	286,623	309,560	(22,937)	(7)
	1,992,042	1,935,445	56,597	3
less sales to subsidiaries and affiliates	865,044	695,542	169,502	24
	1,126,998	1,239,903	(112,905)	(9)
Volkswagen do Brasil	291,768	234,837	56,931	24
Volkswagen of South Africa	34,119	39,571	(5,452)	(14)
Volkswagen de Mexico	47,710	35,488	12,222	34
Motor Producers	19,431	17,320	2,111	12
Volkswagen Bruxelles	87,428	—	87,428	—
Volkswagen of America *)	622,983	565,838	57,145	10
Volkswagen Canada	35,259	38,255	(2,996)	(8)
Volkswagen France	36,455	31,223	5,232	17
Other subsidiaries or affiliates	15,234	4,486	10,748	—
Total Sales	2,317,385	2,206,921	110,464	5
Sales of Passenger Cars including Squareback Sedans	2,044,020	1,919,748	124,272	6
Sales of Trucks and Station Wagons	273,365	287,173	(13,808)	(5)

*) Together with its subsidiaries.

The increase in Volkswagenwerk AG's sales was mainly due to the big demand for Volkswagens in the first half of 1971 and to the necessary replenishment of depleted stock in the world-wide VW dealer organisation. Moreover in view of the threat of a dock strike in the USA during the first half of the year considerable efforts were necessary in order to bring stocks up to what at least could be considered a normal level.

In contrast to the development of our sales, deliveries effected by the VW sales organisation to customers went down by 4.3% in the report year.

In the United States the price increases made necessary by the floating of the Deutsche Mark and the import surcharge led to a definite worsening of our competitive position compared with that of our US rivals. Volkswagen new registrations in the USA went down sharply in the last quarter, as did those of other importers. Because of this the

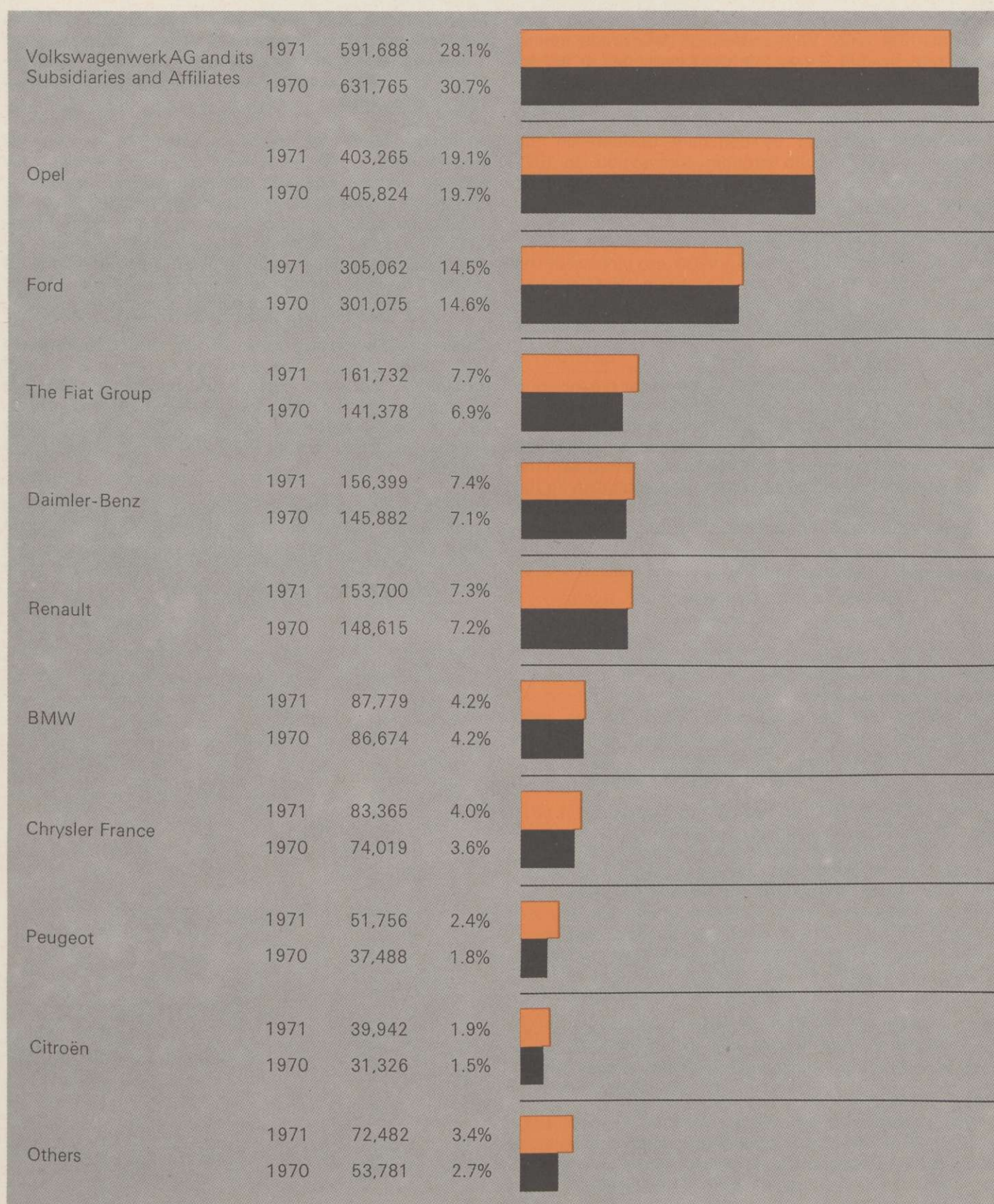
should be borne in mind that the comparison with the previous year was falsified by a strike in the American automobile industry in 1970.

On the West German automobile market foreign manufacturers won further ground. The penetration of imported cars in the passenger car market increased from 23.5% to 26.5% in 1971. The passenger car market share achieved in the Federal Republic by Volkswagenwerk and its subsidiaries and affiliates amounted to 28.1% in 1971 (30.7% in 1970).

In Brazil and Mexico — our important markets in Latin America — our local subsidiaries achieved record sales and improved their already strong market position, despite tough competition.

In the European countries in general the same VW sales level was achieved as in the previous year, in spite of the difficulties caused by the currency crisis.

New Vehicle Registrations of Passenger Cars (including Dual-Purpose Vehicles) in the Federal Republic of Germany and West Berlin in 1970 and 1971



Purchasing and Material Administration

Of the models offered for sale the VW Beetle was once again the best-seller. With an average daily production of 5,535 cars, in 1971 it was produced every day in greater numbers than any other car in the world. Altogether 1,265,145 cars of this type were sold in 1971; its share of total sales amounted to 55% (54% in 1970). The VW Commercial maintained its dominant position on the domestic market, despite stronger competition. In 1971 70,326 vehicles of this type were sold; its share of new registrations in its class amounted to 69.7% (73% in 1970).

The VW 411, which was introduced into the USA in May, was well received. Sales of the Audi 100 also increased. The VW K 70, which at first was only available in West Germany, has now been introduced to the other European markets and will help to strengthen the VW position in the middle class category.

At the end of the year under review the dealer organisation of Volkswagenwerk AG and its subsidiaries and affiliates had more than 13,000 sales and service points at home and abroad. The decrease of 2,000 in the number of dealerships and workshops compared with 1970 is connected with the tightening up of the dealership network, particularly in the case of AUDI NSU. The VW dealer organisation's sales network alone had 8,993 outlets.

The supply situation with regard to production materials and machinery and equipment normalized to a large extent in the year under review because of economic developments. However, supplies were disrupted as a result of industrial disputes.

While the dispute over wages and salaries in the chemical industry made it difficult to keep our plants continuously supplied without however production being interrupted, the trouble in the North Württemberg/North Baden metal industry caused a stoppage of work in all the Volkswagenwerk AG's plants. AUDI NSU was also directly affected by this strike. The support of its suppliers during the period of shortage made it possible for the Volkswagenwerk AG to limit the stoppage of production to seven working days.

Consolidated purchases rose in 1971 by DM 1,500 million to DM 11,300 million. This was due to the rise in total production, the trend towards the production of models requiring more materials and increased material prices. For the Volkswagenwerk AG alone the volume of raw material purchases rose by DM 1,200 million to DM 7,900 million.

In the case of imports a fall in the prices of raw materials on the world market and the revaluation of the Deutsche Mark enabled savings to be made, but these were not sufficient to reduce to any considerable extent the price level of our materials purchased abroad.

Production

The Volkswagenwerk AG and its subsidiaries and affiliates produced 2,353,829 vehicles in 1971 – 6.3% more than in 1970. The breakdown shows the number of vehicles produced by each manufacturing company:

	1971	1970	Increase (Decrease) Units	%
Volkswagenwerk AG	1,715,905	1,621,197	94,708	6
AUDI NSU	282,200	316,539	(34,339)	(11)
Production in Domestic Plants	1,998,105	1,937,736	60,369	3
Less: Production of "knocked-down" vehicles for assembly by foreign subsidiaries and affiliates	130,912	48,396	82,516	—
	1,867,193	1,889,340	(22,147)	(1)
Volkswagen do Brasil	295,725	233,011	62,714	27
Volkswagen of South Africa	35,811	39,856	(4,045)	(10)
Volkswagen de Mexico	48,219	35,626	12,593	35
Motor Producers	19,450	17,104	2,346	14
Volkswagen Bruxelles	87,431	—	87,431	—
Production in Foreign Plants	486,636	325,597	161,039	49
Total Production in Domestic and Foreign Plants	2,353,829	2,214,937	138,892	6
Passenger Cars and Squareback Sedans	2,076,326	1,926,926	149,400	8
Trucks and Station Wagons	277,503	288,011	(10,508)	(4)

In the year under review the Volkswagenwerk AG increased its production by almost 100,000 vehicles, despite the fact that around 47,000 vehicles could not be produced because of the industrial dispute in North Württemberg/North Baden. This increase was mainly due to production of VW Beetles, VW 411 and VW K 70 models.

The fall in output on the part of AUDI NSU was caused by the loss of 16,000 vehicles as a result of the strikes in South-West Germany and by the reduction in the number of NSU models produced. The extension of the Audi production facilities at the Neckarsulm plant meant that by the end of the year 300 Audis were being produced here each working day. Assembly of Audi 100 vehicles at Wolfsburg was stopped at the end of February 1971. In the first two months of the year the Volkswagenwerk AG assembled a total of 3,734 cars.

Volkswagenwerk AG and its domestic subsidiaries together accounted for 50.2% of the total automobile production in the Federal Republic, thus achieving the same share as in the previous year.

The share in our total production accounted for by our foreign producing subsidiaries rose from 14.7% to 20.7% in the year under review. This development was mainly due to considerable production increases in Brazil and Mexico and to the assembly of Volkswagens in Belgium.

Labor Force

The total number of employees of Volkswagenwerk AG and its subsidiaries and affiliates rose in the year under review by 11,723 to 202,029. The increase in the Volkswagenwerk AG's labor force amounted to 5,474 employees or 4.4%. To a large extent this rise in the figures was due to the recruitment of 2,829 new workers for the Salzgitter plant – as a result of the further expansion.

The following is a summary of the Volkswagenwerk AG labor force and of the labor force of its domestic and foreign subsidiaries and affiliates:

	12/31/1971	12/31/1970	Increase (Decrease)	%
Volkswagenwerk AG				
Wolfsburg	58,923	59,200	(277)	0
Hanover	28,728	27,447	1,281	5
Kassel	18,906	17,533	1,373	8
Emden	8,305	8,123	182	2
Salzgitter	7,937	5,108	2,829	55
Brunswick	7,467	7,381	86	1
	130,266	124,792	5,474	4
AUDI NSU	28,624	29,147	(523)	(2)
Other domestic subsidiaries	1,204	946	258	27
Volkswagenwerk AG and its domestic subsidiaries	160,094	154,885	5,209	3
Foreign production and assembling companies	39,032	32,773	6,259	19
Foreign distributing companies	2,903	2,648	255	10
Foreign subsidiaries and affiliates	41,935	35,421	6,514	18
Total labor force of Volkswagenwerk AG and its subsidiaries and affiliates	202,029	190,306	11,723	6

The rise in the production of Volkswagenwerk AG made necessary the expansion of the labor force plus the working of much overtime and of extra production shifts in the first seven months of 1971. On the other hand, in the second half of the year falling sales figures made it necessary to start reducing the number of employees, mainly by the nonreplacement of people leaving the Company. In addition, contracts with foreign workers which expired on December 31, 1971 were not renewed. These measures enabled the number of personnel employed by the Volkswagenwerk AG to be reduced by approximately 4,000 at year-end.

The employees of the Volkswagenwerk AG were made up of 114,866 wage-earners and 15,400 salaried employees. 12.6% of the employees were women.

Of the 16,824 foreign workers of Volkswagenwerk AG 7,372 were Italians, most of whom were working at the

Wolfsburg plant. The others were mainly of Turkish, Greek, Spanish and Tunesian nationality. The proportion of foreign workers in the labor force rose from 11.5% to 12.9%.

At year-end the average age of VW employees was 36.5 years.

The thriving domestic economy in the first half of the year caused the personnel turnover rate to rise from 10% in 1970 to 11.4%. The average seniority was 8.3 years (8 years in 1970), slightly above the previous year's level.

The incidence of absence due to sickness was 7.1% in 1971, slightly below the previous year's level of 7.2%; it therefore exceeded the long-term Volkswagenwerk AG average (4.9%) by quite a considerable extent.

In the year under review the Volkswagenwerk AG continued to sponsor housing construction in the area of its plants. Altogether 2,695 apartments and private homes were constructed under the sponsorship of the firm – including 224 accommodation units in hostels – compared with 1,855 in 1970; at year-end 2,391 homes were under construction (1,705 in 1970). Loans totalling DM 13.5 million, compared with DM 11.8 million in the previous year, were granted to employees wishing to build or purchase their own homes.

Wages and salaries paid by the Volkswagenwerk AG for 1971 amounted to DM 2,767 million compared with

1967

Volkswagenwerk AG	91,869
Volkswagenwerk AG and its Domestic Subsidiaries	102,932
Volkswagenwerk AG and its Subsidiaries and Affiliates	129,111

1968

Volkswagenwerk AG	104,975
Volkswagenwerk AG and its Domestic Subsidiaries	117,593
Volkswagenwerk AG and its Subsidiaries and Affiliates	145,401

1969

Volkswagenwerk AG	112,454
Volkswagenwerk AG and its Domestic Subsidiaries	139,810
Volkswagenwerk AG and its Subsidiaries and Affiliates	168,469

1970

Volkswagenwerk AG	124,792
Volkswagenwerk AG and its Domestic Subsidiaries	154,885
Volkswagenwerk AG and its Subsidiaries and Affiliates	190,306

1971

Volkswagenwerk AG	130,266
Volkswagenwerk AG and its Domestic Subsidiaries	160,094
Volkswagenwerk AG and its Subsidiaries and Affiliates	202,029

Capital Investments

DM 2,287 million in 1970. Social contributions increased from DM 1,064 million to DM 1,255 million.

The increase in personnel costs is due to the expansion of the labor force, agreed increases in wages, salaries and social benefits and to changes in legislation.

The existing agreements on wages and salaries became void on October 31, 1971. After the dispute over wages and salaries in North Württemberg/North Baden had been settled, new agreements on wages and salaries, valid until January 31, 1973, were reached by Volkswagenwerk AG in December 1971. These provided for a 7.5% increase in wages and salaries as from January 1, 1972. In addition a net sum of DM 150 was paid to each wage and salary earner to cover the months of November and December.

We thank our employees for their work and achievements in 1971. We also wish to thank the members of our Factory Councils for their cooperation and for their efforts as conscientious representatives of the employees.

In 1971 Volkswagenwerk AG and its subsidiaries and affiliates increased its capital investments compared with the previous year by DM 297 million to DM 1,925 million; this represents an increase of 18.3%. Of these investments, in which intercompany additions to property, plant and equipment are not included, DM 1,737 million were solely expended on property, plant and equipment.

The Volkswagenwerk AG's investments in the year under review increased by 7.6% to DM 1,216 million. The DM 895 million investments in property, plant and equipment included herein were DM 39 million or 4.2% below the previous year's figures. This was due to the pruning of the investment program carried out in the last few months of the year. The major portion of capital investments in property, plant and equipment served to expand productive facilities, in particular at the new Salzgitter plant. Apart from this expenditure on behalf of the current model program, considerable funds were once again invested in research and development; this was mainly necessary because of new and future safety regulations.

The increase in the Volkswagenwerk AG's investments in subsidiaries and affiliates to DM 321 million was largely due to the DM 228 million used for the purchase of further AUDI NSU stock.

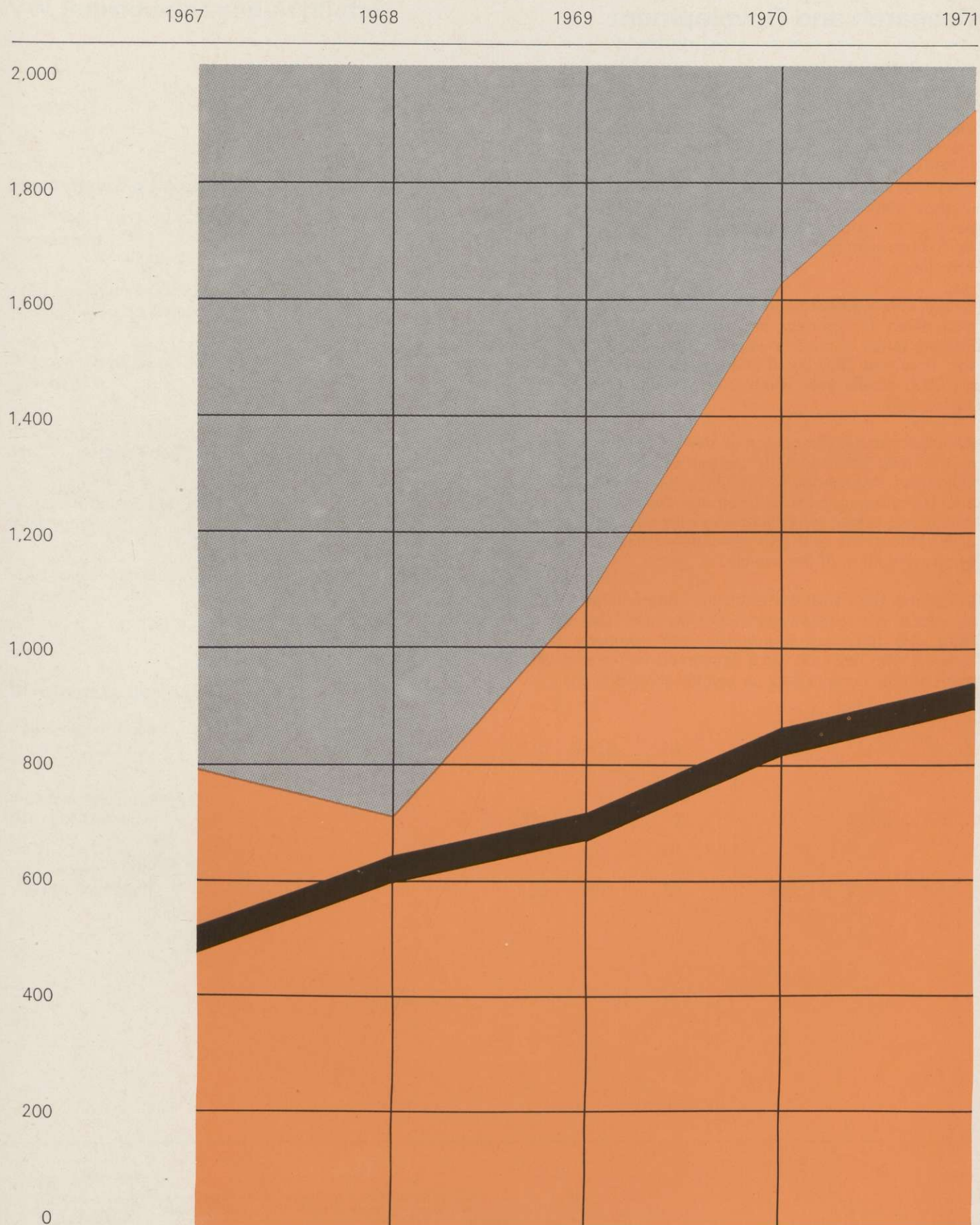
Of the Volkswagenwerk AG's total investments in 1971 46.3% were financed from depreciation (51.2% in 1970).

In 1971 AUDI NSU also carried out an extensive investment program involving the expenditure of DM 304 million (DM 225 million in 1970). This represented an increase of DM 79 million or 35.3% compared with the previous year. Here the main investment was in plant modifications to enable AUDI 100 cars to be produced in Neckarsulm as well as in Ingolstadt.

Of the DM 382 million invested by our foreign subsidiaries Volkswagen do Brasil was once again responsible for the main share. This company invested DM 246 million, principally in the expansion of productive capacity and the rationalization of production – 57.9% more than in the previous year.

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

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



Research and Development

In the year under review research and development work continued to be concerned largely with the improvement of vehicle safety and the cleaning of vehicle exhaust emissions. In August 1971 the Volkswagenwerk AG presented the prototype of an Experimental Safety Vehicle. In this vehicle a number of safety features which legislation in various countries will force manufacturers to incorporate in their vehicles, have been included. The safety components are subjected to continuous testing with regard to the possibility of their incorporation in production vehicles.

Safety improvements and exhaust emission control were also given top priority as far as modifications to our existing range of models were concerned. A good third of the more than 300 detail changes to the Volkswagen for the 1972 model year was concerned with improvements in this field.

An important new feature on all VW models now produced is the test circuitry with central socket for Computer Diagnosis. Workshops in the VW service organisation are also being equipped with Computer Diagnosis equipment which will permit rapid checking of a vehicle's operating and traffic safety and give absolutely reliable information on the condition of the vehicle.

In collaboration with the Deutsche Automobilgesellschaft, in which the Volkswagenwerk AG and the Daimler-Benz AG have equal interests, the company pushed forward with research work concerned with the development of new components for electric drive systems.

Subsidiaries and Affiliates

Selected Data of Major VW Subsidiaries and Affiliates

	Sales in million DM			Number of Employees (at year-end)		
	1971	1970	Increase (Decrease) %	1971	1970	Increase (Decrease) %
Manufacturing Companies						
AUDI NSU AUTO UNION AG, Neckarsulm	2,192	2,108	4	28,624	29,147	(2)
Volkswagen do Brasil S.A., São Bernardo do Campo *)	2,776	2,376	17	27,324	23,946	14
Volkswagen of South Africa Ltd., Uitenhage, C.P. *)	334	382	(12)	3,697	4,115	(10)
Volkswagen de Mexico, S.A. de C.V., Puebla/Pue. *)	384	297	29	4,601	3,631	27
Motor Producers Ltd., Melbourne	143	121	18	1,297	1,081	20
Volkswagen Bruxelles S.A., Brussels	329	—	—	2,113	—	—
Distributing Companies						
Volkswagen of America, Inc., Englewood Cliffs, N.J. *)	4,925	4,323	14	1,813	1,722	5
Volkswagen Canada Ltd., Toronto, Ontario	338	329	3	419	449	(7)
Volkswagen France S.A., Villers-Cotterêts *)	195	151	30	448	391	15

*) Includes 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

In the year under review this company sold 286,623 vehicles, 22,937 fewer than in the year before. This decrease can be attributed to the dispute in the North Württemberg / North Baden metal industry as well as to the slackening in demand. Work came to a standstill for 17 working days in Neckarsulm and Heilbronn and for 10 working days in Ingolstadt – because of the non-delivery of parts. The company had a 7% share of the new car registrations in the Federal Republic (including Squareback models) compared with 7.7% in 1970. Despite the lower volume of unit sales, the turnover rose by 4% to DM 2,192 million. The increase was due to the shift in emphasis to the higher-priced Audi and also to the price increases. There was a particularly welcome increase in sales of Audi models on the US market where they were not introduced until as late as 1970: 24,925 were sold there compared with 12,382 in the previous year. The export share of sales rose in 1971 from 37.2% to 39.8%.

As a result of the strike, the cessation of the assembly of Audi 100 vehicles in Wolfsburg and the increasing proportion of larger Audi models at the expense of the NSU cars, the total production of 282,200 vehicles was 10.8% lower than in the previous year. The considerably increased investments of DM 304 million served towards the further expansion of production capacity and the partial diversion of Audi 100 production to Neckarsulm.

In the 1971 business year Wankel license agreements were concluded with Toyota and Ford. Through these agreements and the increased production of series models on the part of the other licensees, the income from license agreements showed a most welcome trend.

Despite the price increases due to the unabating rise in labor, material and investment costs in conjunction with the revaluation effect, produced by the floating of the exchange rates, earnings continued to be unsatisfactory in 1971. An additional burden was imposed by the strike already mentioned. However, rationalization measures and the shift in emphasis to models in the range yielding bigger profit margins enabled a still more serious worsening of the earnings situation to be prevented.

Under the terms of the existing corporate agreement DM 34.9 million were paid by the Volkswagenwerk AG to AUDI NSU for the 1971 business year in order to show the net earnings after reserve transfer of DM 10.9 million required for distribution on the participating certificates in accordance with the agreement and for payment to those entitled to a dividend. In addition the Volkswagenwerk AG is paying a dividend amounting to two fifths of the Volkswagenwerk AG's dividend to the remaining AUDI NSU stockholders.

Selbstfahrer Union, Hamburg

The activity of this car hire company consisted in 1971 mainly in the expansion of its network of pick-up points in

West Germany and of the interRent organisation in Europe as a whole. Compared with the previous year proceeds from the car hire business increased from DM 64 million to DM 78 million.

Earnings for the 1971 business year were satisfactory.

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

The company, in which we and Dr.-Ing. h. c. F. Porsche KG hold equal 50% interests, markets sports cars for both companies. In all 30,964 vehicles were delivered to customers; this represents an increase of 5.1% compared with the previous year.

The net income was split up by the two controlling companies in accordance with the existing agreement.

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

After completion of the necessary construction work, this company, which was founded in 1970 by the Volkswagenwerk AG together with the VW distributor in Bremen, took over the distributorship function for the Bremen and Oldenburg regions as of July 1, 1971. In the second half of the year 5,934 vehicles were sold and a sales volume of DM 44 million was achieved.

In the year under review the company increased its capital stock from DM 3 million to DM 8 million. The extra capital was provided solely by the Volkswagenwerk AG, which thus gained an interest in the company of more than 80%.

Wolfsburger Transportgesellschaft m. b. H., Wolfsburg

In 1971 this company, which handles sea and air transportation and all transactions connected therewith for Volkswagenwerk AG and its subsidiaries and affiliates, transported 900,000 vehicles – 13,000 more than in the previous year.

Earnings for 1971 were once again good, although general increases in costs affected the results.

Volkswagen-Finanzierungsgesellschaft m. b. H., Wolfsburg

This company supports the Volkswagenwerk AG's sales effort through domestic dealer financing and through financing sales of vehicles to the consumer. In November 1971 the company began with the financing of VW parts purchasing.

In 1971 the volume of business was expanded in the dealer financing sector as well as in the customer financing sector. However, the number of purchase financing deals went

Investments in Subsidiaries and Affiliates: Foreign

down because of the decrease in vehicle sales on the domestic market.

The big increase in business over the past few years made it necessary to increase the capital stock from DM 7.5 million to DM 11.5 million in the year under review. This was achieved by means of a partial conversion of the undisclosed reserves.

In the 1971 business year the company achieved a good result.

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

This company engages in the leasing of vehicles produced by Volkswagenwerk AG and its subsidiaries and affiliates and of VW Diagnosis and Service equipment. Business was considerably expanded in 1971.

In relation to the increased scope of business activity a bigger profit was made than in 1970, and this was taken over by the Volkswagenwerk AG in accordance with the existing Profit and Loss Assumption Agreement.

Deutsche Automobilgesellschaft m.b.H., Hanover

The Daimler-Benz AG and the Volkswagenwerk AG hold equal interests in this company which undertakes research and development in new fields of automotive technology.

Net income was taken over equally by the two controlling companies in accordance with the existing Profit and Loss Assumption Agreement.

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

In the year under review this company constructed apartments for employees of the Volkswagenwerk AG, mainly in Kassel. Altogether 105 apartments were completed. On December 31, 1971 the company owned 6,947 apartments and 132 accommodation units in hostels. 104 apartments were still under construction at year-end.

VW-Siedlungsgesellschaft m.b.H., Wolfsburg

This company is engaged in the construction of apartments for VW employees. During the 1971 business year 1,158 apartments including 224 accommodation units in hostels were completed and occupied, so that by the end of the year the company owned 4,974 units. On December 31, 1971 a further 847 apartments were under construction.

The loss of the year, resulting 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.

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

In 1971 the business trend on the Brazilian automobile market continued to be favorable. In the year under review Volkswagen do Brasil increased its sales by 16.8% to DM 2,776 million. In the case of these figures the revaluation of the Deutsche Mark distorts the picture, since, measured in Cruzeiros, the increase in turnover was greater than the increase in unit sales, which at 291,768 vehicles exceeded the previous year's figure by 24.2%.

Despite tough competition the company retained its share of the passenger car market (66.3% compared with 66.2% in 1970), mainly due to the sales successes of the VW Beetle with 1500 cc engine and the Brazilian version of the VW 1600 TL (Fastback). On the commercial market the share of 43.1% meant that the figure of 50.6% for the previous year was not achieved.

In all 516,000 automobiles were produced in Brazil, about 24% more than in the previous year. With a production increase of 26.9% to 295,725 vehicles (233,011 in 1970) our Brazilian subsidiary again played an important part in this development.

It was only the speedy recovery after the big fire in December 1970 which made it possible for the production targets to be achieved. The daily production average for the year rose from 967 units in the previous year to 1,253 units in the year under review.

In order to enable the market opportunities in Brazil to be exploited, Volkswagen do Brasil considerably increased the volume of its investments. At DM 246 million investments were 57.9% above the previous year's level.

Earnings were good in 1971.

In the year under review the capital stock of the company was increased by a total of Cr\$ 189,317,555 (DM 110.1 million) to Cr\$ 657,475,210 (DM 382.4 million). Of the increase, Cr\$ 87,500,000 (DM 50.9 million) resulted from a contribution of productive equipment while Cr\$ 101,817,555 (DM 59.2 million) came from a capitalization of the reserves, 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\$ 228,635,190 (DM 133 million) of preferred stock and Cr\$ 428,840,020 (DM 249.4 million) of common stock. The Volkswagenwerk AG continues to own 80% of both the outstanding preferred and common shares.

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

The restrictive measures introduced by the Government at the end of 1970, and which were made still more stringent in September 1971, brought about a reduction in total new passenger car registrations particularly in the small and

middle class' car ranges. This resulted in a considerable decline in sales for almost all competitors.

Volkswagen of South Africa recorded a drop in sales of 13.8% to 34,119 vehicles (39,571 in 1970). On the other hand, the Volkswagen and Audi vehicles were almost able to keep their share of the passenger car market (14.2% compared with 14.6% in 1970). To suit the altered market conditions, production was reduced by 10.1% to 35,811 automobiles as compared to 39,856 cars in 1970.

Sales went down from DM 382 million in 1970 to DM 334 million in the year under review.

In spite of the unfavorable development in sales, in 1971 Volkswagen of South Africa decided to invest DM 28 million (DM 11 million in 1970) towards increasing the local content of its vehicles in accordance with Government requirements. This means that tax concessions can be obtained. The main objects of investment were the new paint shop building and the expansion of the press shop and the assembly hall. In order to finance the investments, a convertible loan of 4.8 million Rands (DM 23 million) was raised on September 1, 1971; nearly all the stockholders subscribed to this. Since Volkswagenwerk AG and Volkswagen of America already converted their shares into stock on September 30, 1971 in contrast to the majority of the South African stockholders they held a total of 74.8% of the nominal capital stock of Volkswagen of South Africa on December 31, 1971. When conversion has been completed the share held by Volkswagenwerk AG and its subsidiaries and affiliates will once more be reduced to 64.9%.

The company closed the 1971 business year with a reduced profit compared with the previous year.

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

In 1971 Volkswagen de Mexico considerably improved its position on the Mexican automobile market, the growth rate of which declined slightly. Increased export activity made it possible to increase sales which are limited on the domestic market by Government quotas. Thus the company managed to increase its sales compared with the previous year by 29.3% to DM 384 million.

The volume of exports amounted to DM 48 million. Exports consisted mainly of parts deliveries to the USA and West Germany and deliveries of Courier Vehicles (VW 181) to Central and South America.

In 1971 our subsidiary increased its position on the total passenger car market to 32% (26.7% in 1970) with 47,710 vehicles sold and improved its penetration of the small car market to 64% (60.2% in 1970).

Compared with the previous year production increased by 35.3% to 48,219 vehicles. In addition to the previous range the company has produced VW Commercials in small quantities, which are gradually to be increased, as of November 1971.

As a result of the satisfactory development in earnings it was possible to wipe out the tax deficit carried over from previous years.

Motor Producers Ltd., Melbourne, Australia

In the year under review this company increased its sales by 17.6% to DM 143 million and thus exceeded its figure for the previous year by DM 22 million.

With the total market only slightly larger than in the previous year, Motor Producers increased their unit sales by 12.2% to 19,431 vehicles. Thus the VW share of the passenger car market rose from 3.2% to 3.5%. In the case of the VW Commercial the company was also able to improve its market penetration despite strong Japanese competition and to achieve a share of 44.1% in this sector.

So that the available capacity can be exploited still better, the assembly of vehicles of other makes has been expanded. The total number of vehicles assembled rose by 13.8% to 30,263 vehicles (including 19,450 Volkswagens) compared with 26,592 automobiles (including 17,104 Volkswagens) the year before.

On the whole earnings for 1971 were satisfactory.

Volkswagen Bruxelles S.A., Brussels

At the beginning of 1971 the Volkswagenwerk AG acquired 75% of the stock of this company which continues to run the assembly plant founded by our Belgian Exclusive Importers.

In the 1971 business year 87,431 vehicles were assembled, of which 87,428 were sold.

At the moment the capacity of the Belgian assembly plant is approximately 400 vehicles per working day.

The company broke even in 1971.

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

In the face of a stagnating commercial vehicle market in Spain, the sales of this company went down by 612 to 7,750 vehicles. The earnings situation continues to be unsatisfactory.

In December 1971 the annual meeting of IMOSA agreed to a merger with the CISPALSA, the Spanish subsidiary of the Daimler-Benz AG. This union should lead to a better exploitation of the available production capacity and to a strengthening of the joint market position.

The Volkswagenwerk AG and the Daimler-Benz AG will have equal interests in the future company, amounting to rather over 25% for each company.

P.T. German Motor Manufacturing, Djakarta, Indonesia

This company, founded by the Volkswagenwerk AG in conjunction with the Daimler-Benz and the Indonesian P. T. Indophing Finance Group, produced only Daimler-Benz trucks in the year under review. In the spring of 1972 assembly of VW Courier Vehicles will begin. It is envisaged that the company will also assemble VW Beetles and Commercials.

The expansion of assembly capacity necessitated an increase in capital of Rp 567 million (roughly DM 4.4 million) to Rp 1,090 million (roughly DM 8.5 million) which was provided by the three associates in equal portions.

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

With an expanding total American passenger car market, which in 1971 exceeded the 10 million mark for the first time, sales of imported passenger cars also increased considerably and reached their highest all-time level with a total of around 1.5 million vehicles. The share of the US passenger car market gained by imported vehicles was 14.6% in 1971. This was chiefly due to sales developments in the first eight months of the year. The economic measures introduced by the US Government in August 1971 resulted in a marked drop in the sales of imported vehicles during the last months of the year. In the last quarter the passenger car share in the total passenger car market went down to 11.4%. And even after the establishment of the new currency system the disadvantages now faced by importers will not be reduced to any significant extent.

Volkswagen of America was hit by these developments just like the other importers on the American market. The VW organisation's deliveries to customers in the USA during 1971 totalled 522,655 Volkswagens (569,696 in 1970). The drop in sales is mainly due to the increased prices of our models. However, now that the import surcharge has been lifted one model in the VW range can once again be bought for less than \$ 2,000.

The Porsche-Audi dealer organisation was able to increase its sales once again in the second year of its existence, and the Audi 100 in particular achieved notable sales successes during the period after its introduction. Altogether 37,399 Porsche and Audi vehicles were sold in 1971 (21,344 in 1970).

The share of the passenger car market gained by the Volkswagen, Audi and Porsche vehicles sold by Volkswagen of America amounted in 1971 to 4.9% (6.3% in 1970). The previous year's figure is, however, not comparable because of the strikes in the American automobile industry in 1970.

In 1971 the company increased its sales by 13.9% to DM 4,925 million. The fall in the number of deliveries to customers in the last quarter did not affect this figure, since

VW dealers continued to buy Volkswagens to replenish their stocks. The rise in sales resulted on the one hand from additional sales of 57,145 cars to the dealer organisation and on the other hand from price increases which were necessary in order to balance out rises in costs.

The developments described above reduced Volkswagen of America's earnings for the year.

Volkswagen Canada Ltd., Toronto, Ontario

The position on the Canadian automobile market improved once again in the year under review after a decline in sales during 1970. In the first three quarters of 1971 our Canadian subsidiary also benefited from this favorable trend. On the other hand, in the last three months of the year the price increases resulting from revaluation of the Deutsche Mark and toughening competition arising therefrom, particularly from Japanese automobile manufacturers, had a negative effect on Volkswagen Canada's sales figures. Thus vehicle sales went down by 7.8% to 35,259 automobiles. The share of the passenger car market went down from 5.1% to 4.1%.

On the other hand, the proceeds from sales rose by 2.9% to DM 338 million. This was mainly due to price increases and to the expansion of the parts business.

Despite the tense competitive situation, a profit was made once again in 1971.

Volkswagen France S.A., Villers-Cotterêts

The relaxation of French credit restrictions at the end of 1970 brought about a general increase in activity on the automobile market. As a result of this development and of special sales efforts our subsidiary managed to increase its sales proceeds by 29.6% to DM 195 million and its unit sales from 31,223 to 36,455 vehicles. The VW K70 introduced in April 1971 contributed to this increase in sales, 3,348 cars of this type being sold. Only 191 Audi vehicles are listed in the sales figures, since at the beginning of 1971 Audi business was taken away from Volkswagen France and entrusted to AUDI NSU FRANCE S.A.

Earnings were reduced above all by the floating of the Deutsche Mark, which caused a further increase in the value of Deutsche Mark in relation to the Franc. The company broke even.

Svenska Volkswagen AB, Södertälje

The economic situation on the Swedish market was marked by a decline in demand during 1971. Despite a consequent fall in the number of new car registrations, Svenska Volkswagen increased its unit sales by 14.4% to 27,424 vehicles. Its share of the passenger car market increased in 1971 from 10.1% to 11.9%.

The restrictive measures which the Swedish Government continued to impose meant that earnings could not be increased. However, the company finished once again with a profit for the year.

HOLAD Holding & Administration AG, Basle, Switzerland

This company holds 10% of the capital stock of the Wolfsburger Transportgesellschaft, 73.5% of the capital stock of the Société Volkswagen de Financement S.A., Paris, a financing company, and 70% of Vorelco Ltd., Toronto, which finances sites for the Canadian VW organisation.

In 1971 the company also acquired 16.7% of the capital stock of the South African Motor Acceptance Corporation, Uitenhage, which is active as a financing company.

Dividends from investments were reinvested within the organisation.

Volkswagen Porsche Austria Ges. m.b.H. and Volkswagen Porsche Austria Ges. m.b.H. & Co. KG, Salzburg

These two companies were founded in 1971 in order to take over the importership function for Volkswagen and Porsche in Austria. The Volkswagenwerk AG holds 25% and 24.75% of the capital stock of the companies respectively.

Satisfactory returns of interest were recorded.

Close ties exist to our domestic and foreign subsidiaries and affiliates in respect of materials supplied and services provided. This is reflected principally by the mutual supply of finished products, machinery and equipment.

Outlook

The agreement reached in December 1971 on the fixing of new exchange rates was significant for the further development of the world economy. As a result, in 1972 the general economic climate should be influenced favorably, although trade relations between the western countries will probably continue to be made uncertain by the flow of speculator's capital.

As in the year under review, in 1972 the United States will to a large extent determine the growth of the world economy. In the Federal Republic of Germany the cooling off in business which began in 1971 will continue into 1972. In contrast to the recession of 1967, no balancing out can be expected from export business. For example, on the most important foreign market, the USA, the German export industry is burdened with a handicap of around 15% compared with its American competitors because of the devaluation of the Dollar and the revaluation of the Deutsche Mark.

In its export markets Volkswagenwerk AG will leave no stone unturned in order to limit to a minimum any fall in sales which may occur as a result of the revaluation of the Deutsche Mark and the consequent price increases for all models. Domestic sales will continue to be determined by developments on the automobile market as a whole.

The Beetle will continue to be the mainstay of Volkswagenwerk AG's automobile business. On February 17, 1972 the 15,007,034th car of this type came off the finishing line. This makes the Beetle the most-produced vehicle in the history of the automobile. This record has been achieved at a time when the Beetle, with a production figure of around 5,600 per working day in January 1972, is ahead of all models currently produced.

Because of the general decline in the demand for motor vehicles, Volkswagenwerk AG had to go on short time for five days in January 1972; production of Commercials was not affected. Production of the Volkswagenwerk AG and its affiliates and subsidiaries is not expected to reach the previous year's level in 1972.

The new exchange rates and rising costs will continue to have an adverse effect on the earnings of Volkswagenwerk AG in 1972. The price increases at the beginning of the year can only partly make up for these extra burdens. For this reason the trend in earnings will still not be satisfactory in 1972.

In March 1972 Volkswagenwerk AG raised a loan of DM 300 million for the partial financing of its substantial investment program. It will be subject to 7% annual interest, is for a period of 15 years and was issued at a rate of 98½%.

At the beginning of 1972 Volkswagenwerk AG concluded with the Yugoslavian VW importers UNIS of Sarajevo an agreement which provides for the construction of an assembly plant in Yugoslavia. The Volkswagenwerk AG will have a 49% interest in the new company and UNIS a 51% interest.

Volkswagenwerk AG and its Subsidiaries and Affiliates

Basis of Consolidation and Financial Statements

Because of the growing, world-wide activities involving Volkswagenwerk AG and its subsidiaries and affiliates we have felt prompted to submit a financial statement for Volkswagenwerk AG and its subsidiaries and affiliates as a whole in addition to the selected data already published up to now in respect of this. In this way we wish to convey a better picture of the financial position and earnings situation of Volkswagenwerk AG and its subsidiaries and affiliates. All individual financial statements of our domestic and foreign subsidiaries and affiliates have been approved by the auditors. Approval has not been sought this year for the financial statements of Volkswagenwerk AG and its subsidiaries and affiliates.

The consolidated financial statements were prepared in accordance with the requirements of German stock corporation law, both in regard to their presentation and analysis. Where the legal requirements and the accounting practices abroad did not allow for the individual financial statements to be presented in a manner in keeping with standard German practices of accounting appropriate adjustments were made prior to consolidation.

13 of the total number of *Companies included in the Consolidated Statements* have their place of business in the Federal Republic of Germany and the other 30 abroad. We have included all VW subsidiaries and affiliates in which Volkswagenwerk AG holds a direct or indirect interest of more than 50% (See illustration on page 54/55). Companies which are only temporarily members of the VW Group were excluded from the consolidated statements. In addition, companies were not included because their sales are immaterial in comparison to the consolidated balances or they only exist in law.

The *Conversion Rate* used for the balance sheets of foreign companies was an average of the buying and selling rates of exchange valid on the balance sheet date. Expenditures and income were converted by a rate which constituted an average for the year. Where allowing the Deutsche Mark to float or the creation of new exchange rates resulted in exchange losses through conversion this is reflected in the results for the year. In the case of companies based in countries where the trend is inflationary we have drawn up financial statements expressed in hard currency for the consolidation in addition to the financial statements in local currency. The most important material effect of this is that the DM exchange rates (former DM rates) valid at the time of acquisition are reflected in the value of property, plant, equipment and investments.

The net book values of investments in consolidated companies shown in the balance sheet of the parent company were set off against the corresponding year-end capital stock of the subsidiaries which is subject to consolidation and the difference resulting therefrom was shown as *Adjustment Items arising from Capital Consolidation*. This does not apply to the difference resulting from the capital consolidation of a nonprofit housing construction

company included in the consolidated statements. This amount was transferred to undetermined liabilities.

The differences resulting during the consolidation of the liabilities and also the write-down of production cost of Volkswagenwerk and its subsidiaries and affiliates are shown as *Other Adjustment Items*. These write-downs were made in respect of plant and equipment supplied by subsidiaries and affiliates in addition to those supplied as a matter of routine and with regard to inventories supplied by subsidiaries and affiliates. Income from investments in subsidiaries and affiliates which must be considered apart from the individual financial statements was also included under other adjustment items.

The adjustment item arising from capital consolidation and which is shown on the assets side is of a goodwill nature. The other adjustment items arising from consolidation always involve stockholders' equity. Insofar as taxes are payable subsequently in Germany or abroad for profits to be distributed they have not been taken into account in the financial statements.

Minority Interest in Consolidated Subsidiaries constitutes interest in the companies' capital stock, their reserves, profits and losses. In particular the minority interests in Volkswagen do Brasil and Volkswagen of South Africa are shown hereunder.

Intercompany Expenditures and Income have been considered apart from the corresponding items of the statement of earnings. Consolidated transactions which influence the business results have changed the net earnings of Volkswagenwerk AG and its subsidiaries and affiliates. Where these consolidated transactions which affect business results concern the report year there are changes in the other adjustment items to the same extent.

Balance Sheet of Volkswagenwerk AG and its Subsidiaries and Affiliates

Year ended December 31, 1971
(Condensed)

Assets

	12/31/1971	12/31/1970
	Million DM	
Property, Plant, Equipment and Investments		
Property, plant, equipment and intangible assets	4,905	4,187
Investments	338	334
Adjustment items arising from capital consolidation	246	93
Current Assets		
Inventories	2,496	2,128
Trade accounts receivable	267	272
Liquid funds	674	1,035
Own stock	40	—
Miscellaneous other current assets	1,167	974
Prepaid and Deferred Expenses	37	31
	10,170	9,054

Liabilities

	12/31/1971	12/31/1970
	Million DM	
Capital Stock	900	900
Reserves	1,395	1,464
Adjustment Items arising from Consolidation		
Capital consolidation	952	835
Other adjustment items	197	140
Minority Interest in Consolidated Subsidiaries	198	251
Reserves for Special Purposes	133	116
Allowance for Doubtful Trade Acceptances and Accounts	15	12
Undetermined Liabilities		
Old-age pensions	630	519
Other undetermined liabilities	1,519	1,277
Liabilities with an Initial Term of Four Years or Longer	534	435
Other Liabilities		
Trade accounts payable	1,047	1,164
Due to banks	1,766	808
Miscellaneous other liabilities	767	865
Deferred Income	9	10
Net Earnings after Reserve Transfers and Minority Interests	108	258
	10,170	9,054

Statement of Earnings of Volkswagenwerk AG and its Subsidiaries and Affiliates

For the period from January 1 to December 31, 1971
(Condensed)

Sales

Change in inventories
Material, wages and overhead capitalized as additions to plant and equipment

Gross Output

Cost of materials
Labor cost
Depreciation and write-down of investments
Taxes on income, earnings and property
Other taxes
Sundry expenses less sundry income

Net Earnings

Net earnings brought forward from the previous year
Change in reserves
Transfer to adjustment items arising from consolidation
Capital consolidation
Other adjustment items
Minority interest in net earnings

Net Earnings after Reserve Transfers and Minority Interest

	1971	1970
	Million DM	
	17,310	15,837
	397	215
	218	211
	17,925	16,263
	10,072	9,356
	4,416	3,646
	912	836
	421	538
	692	623
	1,265	857
	147	407
	-4	7
	69	-24
	92	101
	1	10
	11	21
	108	258

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

The consolidated financial statements include in addition to Volkswagenwerk AG all VW subsidiaries having their place of business in the Federal Republic of Germany and in which Volkswagenwerk AG holds a direct or indirect investment of more than 50% at year-end:

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,
Selbstfahrer Vermietungs-G.m.b.H., Hamburg,
DIRANUS Versicherungs-Vermittlungs-G.m.b.H.,
Hamburg,
Weser-Ems-Vertriebsgesellschaft m.b.H., Bremen,
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 Autohaus Globus G.m.b.H., Hamburg which was included in the consolidated statements for the prior year was converted to Autovermietung Selbstfahrer Union G.m.b.H. in 1971.

For the first time the Weser-Ems-Vertriebsgesellschaft m.b.H., Bremen which started activities in the year under review was 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 balance sheet shows 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 differences resulting therefrom were transferred to "Adjustment Items arising from Capital Consolidation" which are accordingly on the assets or liabilities side. Minority interest in stockholders' equity of AUDI NSU and Weser-Ems-Vertriebsgesellschaft is shown as "Minority Interest in Consolidated

Companies". The minority interest of our Swiss subsidiary, HOLAD, in stockholders' equity of our domestic subsidiary, Wolfsburger Transportgesellschaft, is included as "Minority Interest of Unconsolidated Subsidiaries in Consolidated Subsidiaries" in the consolidated balance sheet. Reserves and the non-distributed part of the net earnings 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.

As in prior years, the balance sheet item "Other Adjustment Items arising from Consolidation" covers in particular the net earnings which were distributed by consolidated companies to the parent company, the write-down of internally supplied inventories to production cost of Volkswagenwerk AG and its domestic subsidiaries as well as the differences resulting during the consolidation of the liabilities especially from the discounting of interest-free housing construction loans granted by Volkswagenwerk AG to VW-Wohnungsbau and VW-Siedlungsgesellschaft to present values.

Consolidated Balance Sheet of Volkswagenwerk AG and its Domestic Subsidiaries

As in prior years, the consolidated financial position of Volkswagenwerk AG and its domestic subsidiaries was significantly affected by the balance sheet of Volkswagenwerk AG. A comparison of the condensed consolidated balance sheet for 1971 and 1970 follows:

	12/31/1971		12/31/1970	
	Million DM			
Assets				
Property, Plant, Equipment and Investments	4,615	63%	3,840	58%
Current Assets	2,696 *)	37%	2,830 *)	42%
	7,311 *)	100%	6,670 *)	100%
Liabilities				
Stockholders' Equity (including minority interests)	2,548	35%	2,687	40%
Liabilities payable within:				
more than 4 years	1,045	14%	937	14%
1 to 4 years	612	8%	463	7%
1 year or less	3,106	43%	2,583	39%
	7,311 *)	100%	6,670 *)	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 to approximately 91%.

Changes in the financial position may be seen from the following consolidated statement:

General situation regarding short-term liquidity

	12/31/1971	12/31/1970	Change
	Million DM		
Liquid funds, trade acceptances *)	207	619	-412
Securities, own stock	126	41	85
Short-term receivables *)	727	674	53
Short-term liabilities and undetermined liabilities	-3,106	-2,583	-523
Change in the liquidity position	-2,046	-1,249	-797

In 1971 the change in the liquidity position resulted from the following (Million DM):

from current business

Net earnings
 Provision for depreciation of physical plant and write-down of investments (net of accumulated discount) and decrease in property, plant, equipment and investments
 Increase in provision for old-age pensions
 Increase of stockholders' equity in reserves for special purposes and change in adjustment items arising from consolidation and shown on the liabilities side

11	
875	
111	
8	1,005

from financing transactions

Provided for dividend payment to VW stockholders
 Increase in long- and medium-term liabilities
 Change in minority interest in consolidated subsidiaries and in minority interest of unconsolidated subsidiaries in consolidated subsidiaries (excluding share in net earnings)

- 81	
146	
- 77	- 12

from uses of funds

Increase in physical plant
 Increase in investments
 Long-term loans
 Change in adjustment items arising from capital consolidation and shown on the assets side
 Increase in inventories and advance payments
 Increase in long- and medium-term receivables *)

-1,393	
- 90	
- 18	
- 149	
- 119	
- 21	-1,790

Change in the liquidity position

- 797

*) Reduced by the allowance for doubtful trade acceptances and accounts shown on the liabilities side.

Compared to December 31, 1970, the significant changes in the current year's consolidated financial statements resulted from the changes in the financial position of Volkswagenwerk AG, discussed in detail. The following must be observed:

Compared to 1970, the book value of *Property, Plant and Equipment* increased by DM 560 million to DM 3,994 million, as a result of DM 1,387 million of additions less DM 833 million of provision for depreciation and disposals plus DM 6 million representing the book value, as of January 1, 1971, of property, plant and equipment of the Weser-Ems-Vertriebsgesellschaft. Amounts pertaining to Weser-Ems-Vertriebsgesellschaft have been included in the consolidation for the first time. Of the total amount invested during 1971 64% and 22%, respectively, pertain to Volkswagenwerk AG and AUDI NSU. At year-end, the book value of property, plant and equipment of Volkswagenwerk AG and its domestic subsidiaries represented 44% of original cost of DM 9,179 million.

Investments increased by DM 66 million to DM 379 million. This increase was mainly due to contributions made by Volkswagenwerk AG toward the capital stock increases of VW subsidiaries in Brazil and South Africa and to the purchase of stock of Volkswagen Bruxelles. The deductions from investment in subsidiaries and affiliates mainly consist of Volkswagenwerk AG's interest in the Weser-Ems-Vertriebsgesellschaft, which, for the first time, was included in consolidation in 1971, this interest being included in the balance carried forward.

For the first time *Adjustment Items arising from Capital Consolidation* were shown on the assets side without offsetting. These items represent the difference between the book value of investment of Volkswagenwerk AG in AUDI NSU and in Selbstfahrer Union and the capital stock of these companies which is subject to consolidation. In the consolidated balance sheet values in addition to those assets of the companies already shown therein are reflected. The increase as compared to the prior year has resulted from the fact that the purchase price of the AUDI NSU stock acquired was above the balance sheet rating.

As compared to year-end 1970, *Inventories* increased by DM 114 million to DM 1,422 million. Higher inventory levels with regard to work in process and finished products caused this increase.

Receivables increased by DM 82 million to DM 953 million. Of this total, DM 398 million pertain to Volkswagenwerk AG, DM 96 million to AUDI NSU, DM 402 million to our financing companies and DM 57 million to the other domestic subsidiaries.

The *Adjustment Items arising from Capital Consolidation* which are shown on the liabilities side represent the difference between the values determined for investment of Volkswagenwerk AG in Volkswagen-Finanzierungsgesell-

schaft, Volkswagen Leasing and Auto Union Kredit and the higher sum of capital stock of these companies which is subject to consolidation. These items are in the nature of reserves. Since values are shown in this year's balance sheet without offsetting comparative figures have been calculated in respect of the debit and credit balances for these items quoted for the prior year in this year's balance sheet.

The main items amongst *Other Adjustment Items*, which in the same way as last year are of an equity capital nature, are again the differences, amounting to DM 146 million and resulting during the consolidation from the write-down of housing construction loans granted by Volkswagenwerk AG to VW-Wohnungsbau and VW-Siedlungsgesellschaft and the net earnings to the amount of DM 43 million which were distributed by consolidated domestic 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".

Minority Interest in Consolidated Subsidiaries represents minority interest in Weser-Ems-Vertriebsgesellschaft and AUDI NSU. The change in Volkswagenwerk AG's interest in AUDI NSU resulted in a corresponding decrease of minority interest in that company. The losses incurred by these companies were absorbed by Volkswagenwerk AG in accordance with the existing agreements.

Reserves for Special Purposes increased to DM 133 million, of which DM 56 million is by way of equity capital.

Undetermined Liabilities increased by DM 364 million over 1970. *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 undetermined liabilities approximately

DM 583 million can be considered relating to long-term liabilities,

DM 358 million as medium-term liabilities, and
DM 780 million are of a short-term nature.

Of the total *Trade Accounts Payable*, DM 620 million, which represented the main item, and DM 133 million, respectively, pertain to Volkswagenwerk AG and AUDI NSU.

More than one third of the liabilities *Due to Banks*, which increased by DM 593 million to DM 1,020 million, were taken up by refinancing credits of our financing companies. The remainder was accounted for by short-term loans executed by AUDI NSU and Volkswagenwerk AG.

In addition to the contingent liabilities shown on the balance sheet, other *Contingent Liabilities* which must be reported amounted to DM 4,393,655 in connection with the purchase of shares of domestic companies with limited liability and the additional capital contribution to be made

Consolidated Statement of Earnings of Volkswagenwerk AG and its Domestic Subsidiaries

to two foreign companies as well as DM 320,000 in connection with the assignment of receivables resulting from business transactions abroad. Of the total other investment securities, DM 2.5 million par value bonds were pledged as collateral in favor of various Customs Authorities as security for uninterrupted clearance of imported goods. In accordance with current practice with regard to consolidated financial statements intercompany items have been excluded from the above details.

Just as its balance sheet significantly affected the consolidated balance sheet, Volkswagenwerk AG's operating results also 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. Where there have been changes in the presentation of the individual financial statements we have adjusted the previous year's figures in the consolidated statement of earnings accordingly.

The ratio of selected cost, expense and earnings data to gross output, which amounted to DM 13,629 million in 1971 compared to DM 12,233 million in 1970, was as follows:

	1971		1970	
	Million DM			
Cost of materials	8,037	59.0%	7,262	59.4%
Labor cost	3,822	28.0%	3,189	26.1%
Depreciation and write-down of investments	747	5.5%	690	5.6%
Taxes	223	1.6%	297	2.4%
Sundry expenses less sundry income	789	5.8%	592	4.8%
Net earnings	11	0.1%	203	1.7%

Consolidated net earnings of the domestic subsidiaries of DM 11 million were slightly below the net earnings of Volkswagenwerk AG. This is due to the fact that 1971 earnings of consolidated domestic subsidiaries were slightly lower than the sums distributed by domestic subsidiaries to Volkswagenwerk AG during the year as dividends from the previous year's earnings (dividends were eliminated in consolidation) plus the other adjustment items arising from consolidation.

It is expected that approximately DM 32 million will be distributed to the parent company during 1972 from 1971 earnings of consolidated domestic subsidiaries. The dividend distribution will be subject to further taxes amounting to a maximum of 37% (including supplementary tax) which will be paid by Volkswagenwerk AG upon receipt of the distribution.

Comments on the Financial Statements of Volkswagenwerk AG

Financial Position

Deterioration in the earnings situation and the increased investment volume have influenced the financial position. This has resulted in a reduction in internal financing and of the liquid funds. Changes in the balance sheet structure were as follows:

	12/31/1971		12/31/1970	
	Million DM			
Assets				
Property, Plant, Equipment and Investments	3,788	68%	3,196	61%
Current Assets	1,749 *)	32%	2,063 *)	39%
	<u>5,537 *)</u>	<u>100%</u>	<u>5,259 *)</u>	<u>100%</u>
Liabilities				
Stockholders' Equity (Capital Stock and Reserves)	2,350	42%	2,412	46%
Liabilities payable within:				
more than 4 years	684	13%	651	12%
1 to 4 years	558	10%	417	8%
1 year or less	1,945	35%	1,779	34%
	<u>5,537 *)</u>	<u>100%</u>	<u>5,259 *)</u>	<u>100%</u>

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

Balance sheet totals increased by DM 278 million. The net book value of property, plant, equipment and investments rose by DM 592 million whilst current assets decreased by DM 314 million. On the liabilities side an increase in liabilities by a total of DM 340 million was opposed by a reduction in stockholders' equity by DM 62 million which was due to the transfer from other reserves for dividend distribution for the year 1971. Short-term liabilities went up by DM 166 million.

Stockholders' equity and long-term liabilities covered property, plant, equipment and investments to approximately 95%.

Changes in the financial position may be seen from the following statement:

General situation regarding short-term liquidity

	12/31/1971	12/31/1970	Change
	Million DM		
Liquid funds, trade acceptances *)	124	532	-408
Securities, own stock	127	42	85
Short-term receivables *)	352	411	- 59
Short-term liabilities and undetermined liabilities	-1,945	-1,779	-166
Change in the liquidity position	-1,342	- 794	-548

In 1971 the change in the liquidity position resulted from the following (Million DM):

from current business

Net earnings
 Provision for depreciation of physical plant and write-down
 of investments (net of accumulated discount) and
 decrease in property, plant, equipment and investments
 Increase in provision for old-age pensions
 Change of stockholders' equity in reserves
 for special purposes

12	
650	
103	
7	772

from financing transactions

Provided for dividend payment
 from net earnings -12
 transfer from reserves -69
 Increase in long- and medium-term liabilities

-81	
71	- 10

from uses of funds

Increase in physical plant
 Increase in investments
 Long-term loans
 Increase in inventories and advance payments
 Decrease in long- and medium-term receivables *)

-895	
-321	
- 26	
- 79	
11	-1,310

Change in the liquidity position

	- 548
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*) Reduced by the allowance for doubtful trade acceptances and accounts shown on the liabilities side.

Balance Sheet

Assets

At year-end the original cost of *Property, Plant and Equipment* amounted to DM 7,222 million and accumulated depreciation totalled DM 4,433 million. Consequently, the book value shown on the balance sheet for property, plant and equipment represents 39% of the original purchase or production cost. These amounts exclude miscellaneous low-value items as such items consistently were written off in the years of acquisition. The additions to land, buildings, machinery and equipment, including transfers from construction in progress and advance payments to vendors and contractors, amounted to DM 706 million and consisted of the following:

- DM 260 million land and buildings
 - compared to DM 291 million in 1970 – and
- DM 446 million machinery and equipment
 - compared to DM 627 million in 1970.

The original cost of property, plant and equipment is the purchase or the production cost plus the use tax in accordance with section 30 of UStG (investment tax). Government preferences given for investments were taken into account as in prior years at the date they became effective and not at the date of application. Where they were granted for the current year's additional investments they were deducted direct from the purchase or the production cost whereas the reduction of the purchase or the production cost for additions to property, plant, equipment and investments for the prior years had been shown as decrease in property, plant, equipment and investments. In doing so the reduction in depreciation with regard to additions up to 1970 will be distributed over the

estimated useful life of plant and equipment. The subsidies granted in respect of additions for the current year will be accounted for over a period of three years as reductive expense in order to offset the increased costs incurred during the initial period. In addition reference is made to the comments on the 1970 financial statements.

Advance payments to vendors and contractors are listed as in prior years with the actual amounts disbursed.

Regular depreciation was determined using the same methods as in previous years and it was based on the same estimated useful life referred to in the prior year. Only in such cases where a certain method of depreciation was required in order to obtain assistance from the State, such as, aid to zonal border areas, depreciation was provided for by going over from the declining-balance method to the straight-line method. The use tax (investment tax) levied for additions up to 1970 was shown as a separate item under property, plant, equipment and investments and was depreciated over the length of the tax liability using the declining-balance method. Depreciation on the use tax for additions during the report year was based on the estimated useful life of the asset for which this tax was levied. In the case of plant and equipment where recent experience has shown that originally the useful life was estimated for too long a period we have shortened this useful life accordingly.

During the report year, for the most part, additional depreciation was again provided for on plant and equipment used in research and development. In addition to this there were minor additional depreciations which were economically necessary and which provided tax benefits under sections 6b and 7b of EStG and section 79 of EStDV.

The following summary shows additional details of the 1971 depreciation provision:

	Regular depreciation			Additional depreciation	Total	Depreciation on additions during 1971	Additions **) during 1971
	straight-line *)	declining-balance	direct write-off				
Thousand DM							
Owned land with land rights							
with office and factory buildings and other structures	56,844	33,325	—	12,299	102,468	17,078	255,744
with apartments	939	—	—	105	1,044	37	329
without buildings	—	—	—	14	14	14	437
Buildings on leased land	2,291	249	—	—	2,540	14	1,165
Machinery and fixtures	192,193	55,634	—	11,318	259,145	45,516	286,784
Plant and office equipment	132,480	3,364	19,178	6,241	161,263	58,690	159,108
Construction in progress	—	—	—	13,157	13,157	13,157	29,046
Advance payments to vendors and contractors	—	—	—	4,346	4,346	4,346	8,691
Total	384,747	92,572	19,178	47,480	543,977	138,852	741,304

*) 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.

Once again in the report year all items of property, plant and equipment are free of liens and encumbrances.

The book value of *Investments in Subsidiaries and Affiliates* as shown under the caption *Investments* increased by DM 314 million. The additions of DM 321 million consisted of:

DM 228 million	purchase of additional stock of AUDI NSU AUTO UNION AG,
DM 44 million	contribution to the increased capital stock of Volkswagen do Brasil S.A.,
DM 28 million	purchase of a 75% interest in Volkswagen Bruxelles S.A., organised on December 31, 1970,
DM 14 million	contribution to the increased capital stock of Volkswagen of South Africa Ltd.,
DM 6 million	payment of the remaining unpaid stock subscriptions of Weser-Ems-Vertriebsgesellschaft m.b.H. and contribution of the total capital increase of this company in order to increase the VW interest to 81.25%.

The balance of approximately DM 1 million represented our investments in P.T. German Motor Manufacturing (Indonesia) and Neuland Gemeinnützige Wohnungs- und Siedlungsgesellschaft m.b.H. as well as the purchase of an interest in Volkswagen Porsche Austria Ges. m.b.H. and Volkswagen Porsche Austria Ges. m.b.H. & Co. KG.

Our current year's investments in Volkswagen do Brasil and P.T. German Motor Manufacturing were written down to take full advantage of the tax benefits available on investments made in developing countries.

Other Investment Securities consist of 5% West German Government Bonds for the Promotion of Developing Countries. The fifth repayment on the bonds, amounting to DM 2.5 million was received early in 1971. The value shown on the balance sheet for these securities is below market value. DM 2.5 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 1971, *Long-term Loans with an Initial Term of Four Years or Longer* increased by DM 26 million and were granted exclusively for housing construction. Interest-free and low interest-bearing loans have been discounted to reflect present values.

Of the loans made in accordance with section 89 of AktG, DM 10,578,288 represent loans to an unaffiliated non-profit housing construction company, located in Wolfsburg, in which Volkswagenwerk AG holds a minority interest.

Write-downs on investments only concerned current year's additions.

The increase in *Inventories* resulted from larger stocks of work in process and larger quantities of finished products. Inventories were valued based on the same principles used at the end of 1970.

Trade Accounts Receivable represent DM 70 million due from customers in foreign countries and DM 20 million due from customers located in the Federal Republic of Germany. Subsequent to December 31, 1971, all material amounts were collected when due.

The portfolio of *Securities* increased by DM 45 million to DM 86 million, particularly due to the purchase of debenture bonds. The existing method of valuation remained unchanged since the rates valid at the end of the year did not make an additional devaluation necessary.

Own Stock acquired in the report year was valued at the price quoted on December 31, 1971. This stock was procured in the third quarter of 1971 in order to comply with the exchange offer made to the AUDI NSU stockholders. A total of 301,206 shares at a par value of DM 15,060,300 were purchased at an average cost of DM 190.04 per share.

With regard to the *Receivables from Subsidiaries and Affiliates* receivables from Volkswagen France and Volkswagen do Brasil increased in the ordinary course of business whereas the receivables from the Mexican subsidiaries and affiliates decreased particularly in consequence of the granting of loans. Slightly lower valuations were necessary to provide for potential risks.

Miscellaneous Other Current Assets consist mainly of excess payments of corporation and trade profit tax, sales tax refunds as well as repayable compensation for short-time work and advance tax payments. These assets also include the cash surrender value of old-age insurance and short-term loans. Doubtful accounts were minor in amount and have been written off. The advance tax payments have been discounted to reflect present values.

Liabilities

During the report year, *Capital Stock* and *Legal Reserve* remained unchanged.

The *Reserve for the Share-the-Burden Property Levy* represents the discounted amount of this liability as of December 31, 1971.

DM 67 million were transferred from *Other Reserves* for dividend distribution.

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 *Allowance for Doubtful Trade Acceptances and Accounts* was determined in the same manner as in the prior year.

Changes in *Undetermined Liabilities* were as follows:

Balance January 1, 1971	DM 1,169 million
Amount used	DM 348 million
Eliminations	DM 36 million
	DM 785 million
Additions	DM 715 million
Balance December 31, 1971	DM 1,500 million

During 1971, undetermined liabilities increased by DM 331 million, which is mainly attributable to pension plan costs and distribution costs especially for warranties. Pension plan costs were determined based on actuarial computations in accordance with existing tax regulations.

Old-age Pensions include all pension claims resulting from wage and salary agreements and special contracts. Other Undetermined Liabilities consisted primarily of distribution costs (especially for warranties and diagnoses) and taxes. At December 31, 1970 undetermined liabilities of DM 7 million were established for maintenance work not performed during 1970. This work was performed during the current year. At the end of 1971, we established undetermined liabilities in the amount of DM 2 million for maintenance work not performed during 1971.

Of the undetermined liabilities shown on the balance sheet, approximately

DM 527 million	can be considered relating to long-term liabilities.
DM 350 million	as medium-term liabilities, and
DM 623 million	are of a short-term nature.

Liabilities with an Initial Term of Four Years or Longer have increased despite scheduled repayment of loans because of a new bank loan.

The decrease in *Trade Accounts Payable* resulted from the lower consumption of materials due to the temporary suspension of production in December 1971. Of the total trade accounts payable at December 31, 1971, 33% represents acquisition of property, plant and equipment.

Due to Banks resulted from executing temporary loans.

Prepayments by Customers represent, mainly, advance payments received from foreign importers.

The increase in *Accounts Payable to Subsidiaries and Affiliates* resulted from large advance payments received from foreign subsidiaries and from the absorption of losses incurred by some of our domestic subsidiaries.

Miscellaneous Other Liabilities decreased mainly as a result of lower payroll accruals.

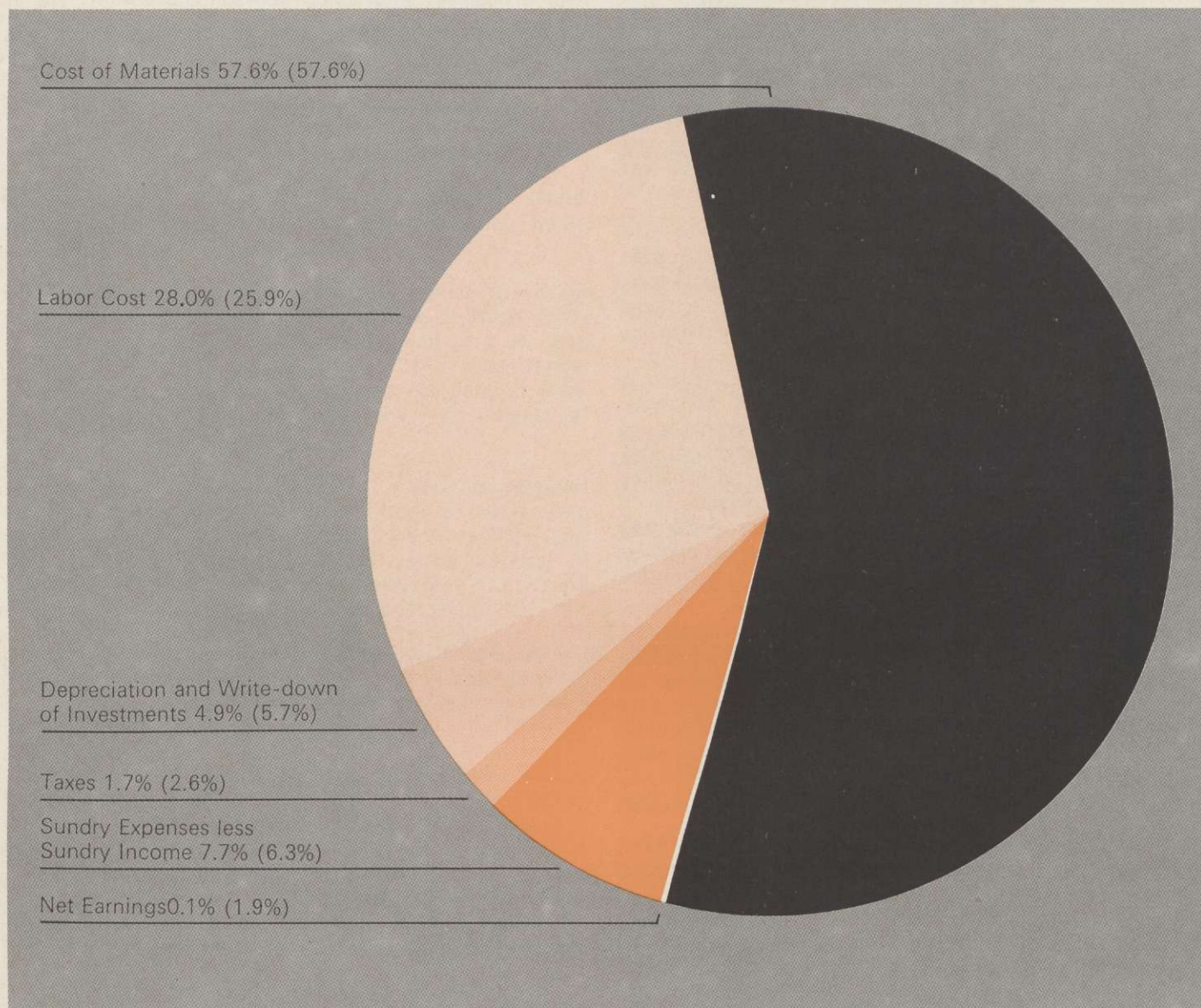
We were contingently liable for DM 13,750,000 in connection with the purchase of shares of domestic companies with limited liability and for DM 320,000 in connection with a business transaction abroad. These sums are in addition to the *Contingent Liability with respect to Discounted Trade Acceptances* shown on the balance sheet.

Statement of Earnings

The *Gross Output* solely went up because of increased sales by 12.6% to DM 11,439 million.

The ratios of selected cost, expense and earnings data to gross output were as follows (1970 ratios in parentheses):

Expenditures for Raw Materials, Supplies and Other Materials exceeded those of the prior year by DM 740 million or 12.7%. Expenditures for raw materials increased by 11.2% over 1970. This rise was mainly due to the increased number of vehicles produced, the technical improvements at the model year change and the higher raw material prices.



Where changes in presentation have been made appropriate adjustments have been carried out to last year's figures.

In 1971, *Sales* increased by DM 1,304 million to DM 11,237 million. This was mainly due to larger vehicle deliveries to foreign countries, the extension of the sales program to include the model VW K 70 and the price increases for vehicles and parts. Domestic sales increased by 5%, whereas export sales were 18% higher than in 1970. The ratio of vehicle sales to total sales was 82%, whereas the corresponding ratio for parts amounted to 10%.

Income from Profit Assumption Agreements resulted from the transfer of the 1971 operating profits of domestic subsidiaries.

Income from Investments in Subsidiaries and Affiliates was received in 1971 in the form of distribution of dividends for the year 1970 primarily from Volkswagen of America, Volkswagen do Brasil, Volkswagen of South Africa and Wolfsburg Transportgesellschaft.

At year-end, DM 15 million of *Income from Other Financial*

Proposed Distribution of Net Earnings for 1971

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 and from overdrafts granted.

Elimination of Reserves for Undetermined Liabilities No Longer Required resulted primarily from lower requirements for labor costs and taxes.

Other Income resulted, for the most part, from revenues from auxiliary services, billing of services, taxes rebilled to subsidiaries and affiliates with which tax assumption agreements existed and refunds of excess tax payments of prior years.

The reasons for the DM 541 million increase in expenditures for *Wages and Salaries* and *Social Expenditures-Compulsory* were stated in the "Labor Force" section of this report (see page 16 pp).

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

Interest Expense and Similar Charges resulted, for the most part, from long-term loans and temporary bank loans.

Taxes on Income, Earnings and Property solely pertain to 1971 earnings. The taxes on earnings at DM 87 million of which more than half concerned taxes payable abroad were DM 105 million lower than in the prior year.

Expenditures under Loss Assumption Agreements were incurred by assuming the operating losses of AUDI NSU AUTO UNION AG, VW-Siedlungsgesellschaft m.b.H., and VW-Porsche Vertriebsgesellschaft m.b.H.

Transfer to Reserves for Special Purposes resulted, for the most part, from investments made in developing countries: Brazil and Indonesia.

Other Expenses consisted mainly of distribution costs for our products, such as, shipping costs, advertising and sales promotion costs and costs of vehicle diagnoses.

The *Difference* resulting from the change in valuation methods and from additional depreciation and which must be reported in accordance with section 160, para. 2, sentence 5 AktG and with due regard to taxation effects decreased the net earnings by DM 15,719,439.

Compensation to the Board of Management for the year 1971 amounted to DM 4,715,769. In view of the reassessment of the value of fringe benefits the sums mentioned here also include amounts in respect of previous years. Pension payments to retired members of the Board of Management or their surviving beneficiaries amounted to DM 1,618,841. *Compensation paid to Members of the Supervisory Board of Directors* was DM 310,384.

The Board of Management proposes to use the net earnings of DM 81,322,906 for the distribution of a dividend of DM 4.50 on DM 50 par value of capital stock.

The balance of DM 322,906 is to be carried forward. To this must be added the amount which should have been distributed in respect of those shares held by the Company on the day of the annual meeting of stockholders.

Wolfsburg, March 1972

The Board of Management

Report of the Supervisory Board of Directors

During the year under review the Board of Management has kept the Supervisory Board of Directors currently informed as to the status of the company, its business activity and its proposed business policy. The transactions which are subject to the approval of the Supervisory Board of Directors in accordance with the law and the Company's charter were discussed in detail at the meetings of the Supervisory Board and its committees before a resolution was passed. By these means, the Supervisory Board of Directors was able to exercise continuous control over the conduct of the business.

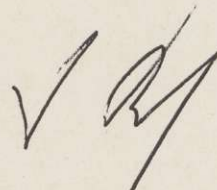
The financial statements as at December, 31, 1971 as well as the annual report and the accounts were reviewed by the Deutsche Revisions- und Treuhand-Aktiengesellschaft, Treuarbeit, Hanover, the Company's auditors appointed by the annual meeting of stockholders.

The auditors expressed unqualified approval of the financial statements of the Company. The Supervisory Board of Directors has approved the audit report and states that its own review of the financial statements, the annual report and the proposal concerning the distribution of net earnings available for distribution disclosed no exceptions. The Supervisory Board of Directors has approved the yearly report prepared by the Board of Management, which is hereby confirmed, and concurs with the proposal of the Board of Management concerning the distribution of net earnings available for distribution.

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

The Supervisory Board of Directors appointed Mr. Rudolf Leiding to be the Chairman of the Board of Management with effect from October 1, 1971 in succession to Professor Dr. rer. pol. h. c. Kurt Lotz who resigned from the Board of Management with the approval of the Supervisory Board of Directors on September 24, 1971. Dr. jur. Peter Frerk was invited to join the Board of Management with effect from December 7, 1971; Professor Dr.-Ing. Werner Holste left the Board of Management on March 31, 1972.

Wolfsburg, April 1972



Chairman of the Supervisory Board of Directors

Consolidated Balance Sheet of Volkswagenwerk Aktiengesellschaft and its Domestic Subsidiaries

Assets

	Jan. 1, 1971	Jan. 1, 1971 Companies included for the first time	Additions	Deductions	Transfers	Provision for Depreciation
Property, Plant, Equipment and Investments	DM	DM	DM	DM	DM	DM
A. Property, plant, equipment and intangible assets						
Real estate and land rights						
with office, factory and other buildings	1,527,621,523	15,750	220,553,852	24,817,048	111,296,742	123,258,329
with residential buildings	335,049,934	—	52,569,932	187,584	35,337,930	13,465,331
without buildings	67,764,793	—	3,246,570	1,152,688	2,250,131	14,411
Buildings on leased real estate	22,579,493	—	1,774,324	48,108	185,136	2,921,025
Machinery and fixtures	819,708,480	—	349,559,515	14,215,441	70,707,416	309,968,810
Plant and office equipment	328,136,534	—	285,198,660	41,250,707	64,962,998	259,611,511
Construction in progress and advance payments to vendors and contractors	333,008,163	6,342,986	474,095,799	24,935,542	—280,240,091	17,502,906
Deviative assets	5,200	—	—	—	—	5,200
Trademarks	1	—	—	—	—	—
	3,433,874,121	6,358,736	1,386,998,652	106,607,118	—	726,747,523
B. Investments						
Investments in subsidiaries and affiliates	70,975,881	—	89,499,217	389,599	—	15,007,835
Other investment securities	13,237,501	—	—	2,206,250	—	—
Long-term loans receivable with an initial term of four years or longer	229,264,776	—	17,743,180	20,885,036	—	3,058,325 *)
Face value at 12/31/71 DM 262,430,305 including secured by mortgages DM 83,751,065						
loans in accordance with section 89 of AktG DM 11,120,550						
loans in accordance with section 115 AktG DM 11,200						
	313,478,158	—	107,242,397	23,480,885	—	18,066,160 *)
	3,747,352,279	6,358,736	1,494,241,049	130,088,003	—	744,813,683 *)
C. Adjustment items arising from capital consolidation						
Current Assets						DM
A. Inventories						1,421,625,200
B. Other current assets						
Advance payments to suppliers						8,749,958
Trade accounts receivable						165,041,983
including amounts due in more than one year	DM 10,871,362					
Trade acceptances						13,919,359
including acceptances discountable at German Federal Bank	DM 398,027					
Checks on hand						835,066
Cash on hand, including German Federal Bank and post office checking account balances						1,472,867
Cash in banks						191,133,430
Securities						86,417,730
Own stock						40,060,776
par value as at 12/31/1971 DM 15,060,300						
Receivables from subsidiaries and affiliates						140,691,415
including amounts for goods and services rendered	DM 106,497,897					
Loans receivable in accordance with section 89 of AktG						—
Loans receivable in accordance with section 115 of AktG						—
Miscellaneous other current assets						616,245,176
Prepaid and Deferred Expenses						
Discount on loans payable						7,161,163
Other						14,928,155

*) Reduced by Accumulation of Discount of DM 1,976,146.

Liabilities

	Dec. 31, 1971	Dec. 31, 1970
Capital Stock	DM 900,000,000	Thousand DM 900,000
Reserves		
Legal reserve	233,799,000	233,799
Reserve for the Share-the-Burden Property Levy	17,107,000	19,068
Other reserves	1,144,125,578	1,211,126
	1,395,031,578	1,463,993
Adjustment Items arising from Consolidation		
Capital consolidation	13,250,532	11,061
Other adjustment items	188,848,700	190,409
	202,099,232	201,470
Minority Interest in Consolidated Subsidiaries	6,208,701	87,653
Minority Interest of Unconsolidated Subsidiaries in Consolidated Subsidiaries	3,530,136	4,769
including minority interest in net earnings thereof	DM 3,480,136	
Reserves for Special Purposes		
Reserve for investments in developing countries in accordance with section 1 of the tax law	123,211,372	106,555
Reserve for price increases in accordance with section 74 of EStDV	9,733,419	8,896
	132,944,791	115,451
Allowance for Doubtful Trade Acceptances and Accounts Undetermined Liabilities	12,101,977	9,640
Old-age pensions	629,785,269	519,279
Other undetermined liabilities		
Maintenance not performed during current year	2,000,000	7,000
Warranties without legal obligations	6,781,000	6,766
Other	1,082,061,477	823,530
	1,720,627,746	1,356,575
Liabilities with an Initial Term of Four Years or Longer		
Due to banks	293,344,101	207,995
including secured by mortgages	DM 228,523,039	
Other liabilities	212,726,401	202,845
including secured by mortgages	DM 130,085,297	
	506,070,502	410,840
including amounts due within four years	DM 98,170,091	
Other Liabilities		
Trade accounts payable	790,080,509	962,548
Due to banks	1,020,234,047	426,813
Prepayments by customers	20,005,362	20,975
Accounts payable to subsidiaries and affiliates	147,008,293	119,850
including trade accounts payable	DM 12,799,246	
advance payments received	DM 128,158,876	
Miscellaneous other liabilities	394,379,745	439,953
	2,371,707,956	1,970,139
Deferred Income	3,030,009	3,026
Net Earnings after Reserve Transfers and Minority Interests	69,525,859	155,884
Contingent liabilities with respect to trade acceptances	DM 131,475,642	
Contingent liabilities with respect to guarantees	DM 733,781	
	7,322,878,487	6,679,440

Consolidated Statement of Earnings of Volkswagenwerk Aktiengesellschaft and its Domestic Subsidiaries

Year ended December 31, 1971

	1971		1970
	DM	DM	Thousand DM
Sales (excluding sales tax)	13,338,730,010		11,915,933
Increase in inventories	129,039,141		147,297
		13,467,769,151	12,063,230
Material, wages and overhead capitalized as additions to plant and equipment		161,513,601	169,975
		13,629,282,752	12,233,205
Gross Output			
Expenditures for raw materials, supplies and other materials		8,037,325,015	7,261,515
		5,591,957,737	4,971,690
Excess of Gross Output over Expenditures for Raw Materials, etc.			
Income from profit assumption agreements	539,956		—
Income from investments in unconsolidated subsidiaries and affiliates	69,127,537		24,661
Income from other financial investments	17,552,613		16,920
Other interest and similar income	100,034,912		134,848
Gain on disposal of property, plant, equipment and investments	15,960,769		8,216
Elimination of reserves for undetermined liabilities no longer required	50,047,822		101,219
Elimination of reserves for special purposes no longer required	—		485
Other income	185,050,013		143,701
including extraordinary income	DM 25,195,907		
		438,313,622	430,050
		6,030,271,359	5,401,740
Wages and salaries	3,316,578,442		2,773,184
Social expenditures — compulsory	378,695,709		310,415
Pension expenditures and voluntary payments	127,319,541		105,319
Provision for depreciation of physical plant and fixed intangible assets	726,747,523		670,555
Write-down of financial investments	20,042,306		19,846
Write-down of other current assets and provision for doubtful trade acceptances and accounts	28,232,718		15,109
Loss on disposal of property, plant, equipment and investments	6,061,743		3,950
Interest expense and similar charges	88,164,722		80,355
Taxes			
a) on income, earnings and property	DM 212,922,949		286,849
b) other	DM 6,432,875		6,479
		219,355,824	
Share-the-Burden Property Levy	3,324,089		3,324
Expenditures under loss assumption agreements	120,821		3,079
Additions to reserves for special purposes	17,493,790		4,042
Other expenses	1,087,320,706		916,036
		6,019,457,934	5,198,542
		10,813,425	203,198
Net Earnings			
Balance carried forward		10,813,425	203,198

	1971		1970
	DM	DM	Thousand DM
Balance brought forward		10,813,425	203,198
Net earnings brought forward from the previous year		— 598,993	4,715
		10,214,432	207,913
Transfer from disclosed reserves from the reserve for the Share-the-Burden Property Levy from other reserves	1,961,000 67,000,000		1,875 —
		68,961,000	
Transfer to other reserves		79,175,432 —	209,788 26,000
Transfer from adjustment items arising from capital consolidation		79,175,432 —	183,788 3,126
Transfer to adjustment items arising from consolidation		79,175,432	186,914
Capital consolidation	1,821,745		—
Other adjustment items	4,347,692		22,170
Minority interest in net earnings of AUDI NSU AUTO UNION AG consolidated subsidiaries		6,169,437 —	4,141 4,719
Net Earnings after Reserve Transfers and Minority Interests		69,525,859	155,884

Wolfsburg, March 1972

Volkswagenwerk Aktiengesellschaft

The Board of 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, March 24, 1972

Deutsche Revisions- und Treuhand-Aktiengesellschaft
Treuarbeit
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Prof. Dr. Forster
Wirtschaftsprüfer

Dr. Tubbesing
Wirtschaftsprüfer

Volkswagenwerk Aktiengesellschaft
Balance Sheet December 31, 1971

Assets

	Jan. 1, 1971	Additions	Deductions	Transfers	Accumulation of Discount	Provision for Depreciation	Dec. 31, 1971	Dec. 31, 1970
	DM	DM	DM	DM	DM	DM	DM	Thousand DM
Property, Plant, Equipment and Investments								
A. Property, plant and equipment								
Real estate and land rights								
with office, factory and other buildings	1,303,113,487	170,553,452	21,736,538	87,136,172	—	102,468,226	1,436,598,347	1,303,113
with residential buildings	13,547,227	275,079	28,976	—	191,995	1,043,908	12,557,427	13,547
without buildings	35,741,575	1,194,987	565,253	—	498,537	14,411	36,855,435	35,742
Buildings on leased real estate	19,525,906	1,015,521	—	—	149,449	2,539,618	18,151,258	19,526
Machinery and fixtures	694,644,287	224,641,778	13,897,489	62,170,914	—	259,145,142	708,414,348	694,644
Plant and office equipment	189,457,793	112,242,216	5,826,022	46,749,888	—	161,262,721	181,361,154	189,458
Construction in progress	215,917,977	281,162,031	18,815,188	—	173,531,106	13,157,242	291,576,472	215,918
Advance payments to vendors and contractors	32,128,313	104,151,136	5,541,914	—	22,981,859	4,345,664	103,410,012	32,128
	2,504,076,565	895,236,200	66,411,380	—	—	543,976,932	2,788,924,453	2,504,076
B. Investments								
Investments in subsidiaries and affiliates	419,065,841	320,962,473	—	—	—	6,673,334	733,354,980	419,066
Other investment securities	13,237,501	—	2,206,250	—	—	—	11,031,251	13,238
Long-term loans receivable with an initial term of four years or longer	259,901,344	25,922,000	22,181,778	—	3,416,856	12,047,440	255,010,982	259,901
Face value at 12/31/71 DM 436,042,971 including secured by mortgages DM 255,891,387 subsidiaries and affiliates DM 180,892,179 loans in accordance with section 89 AktG DM 11,039,765								
	692,204,686	346,884,473	24,388,028	—	3,416,856	18,720,774	999,397,213	692,205
	3,196,281,251	1,242,120,673	90,799,408	—	3,416,856	562,697,706	3,788,321,666	3,196,281
Current Assets					DM	DM		
A. Inventories								
Raw materials and supplies					388,080,892			416,576
Work in progress					396,919,136			344,826
Finished products					308,737,446			257,904
						1,093,737,474		1,019,306
B. Other current assets								
Advance payments to suppliers					7,615,919			2,722
Trade accounts receivable					90,303,080			100,357
including amounts due in more than one year	DM 10,344,765							
Trade acceptances					13,371,989			2,699
including acceptances discountable at German Federal Bank	DM —							
Cash on hand, including post office checking account balances					255,451			675
Cash in banks					110,834,431			529,219
Securities					86,417,730			41,773
Own stock (par value DM 15,060,300)					40,060,776			—
Receivables from subsidiaries and affiliates					116,324,583			115,092
including amounts for goods and services rendered	DM 92,861,897							
Miscellaneous other current assets					194,075,711			256,199
						659,259,670		1,048,736
							1,752,997,144	2,068,042
							754,312	75
							5,542,073,122	5,264,398
Prepaid and Deferred Expenses								

Liabilities

	Dec. 31, 1971	Dec. 31, 1970
	DM 900,000,000	Thousand DM 900,000
Capital Stock		
Reserves		
Legal reserve		233,799,000
Reserve for the Share-the-Burden Property Levy		
Jan. 1, 1971	19,068,000	
Transfer to earnings	1,961,000	17,107,000
Other reserves		
Jan. 1, 1971	1,211,125,578	
Transfer to earnings	67,000,000	1,144,125,578
	1,395,031,578	1,211,126
Reserves for Special Purposes		
Reserve for investments in developing countries in accordance with section 1 of the tax law		121,791,372
Reserve for price increases in accordance with section 74 of EStDV		9,733,419
	131,524,791	105,135
	5,184,000	8,896
Allowance for Doubtful Trade Acceptances and Accounts		
Undetermined Liabilities		
Old-age pensions		578,537,021
Other undetermined liabilities		
Maintenance not performed during current year	2,000,000	7,000
Warranties without legal obligations	2,234,000	3,166
Other	917,283,250	683,809
	1,500,054,271	1,169,294
Liabilities with an Initial Term of four Years or Longer		
Due to banks	64,800,000	22,200
Other liabilities	81,062,364	92,773
	145,862,364	114,973
including amounts due within four years DM 41,807,782		
Other Liabilities		
Trade accounts payable		620,461,909
Due to banks		221,062,262
Prepayments by customers		17,446,433
Accounts payable to subsidiaries and affiliates		196,449,275
including trade accounts payable DM 15,130,467		
advance payments received DM 128,196,405		
Miscellaneous other liabilities		327,261,126
	1,382,681,005	1,329,766
	412,207	408
Deferred Income		
Net Earnings after Reserve Transfers (Available for Distribution)		
Share-the-Burden Property Levy		
Present discounted amount DM 17,107,022		
Quarterly installment DM 689,021		
Contingent liabilities with respect to trade acceptances DM 267,773,546		
	81,322,906	166,780
	5,542,073,122	5,264,398

Statement of Earnings
of Volkswagenwerk AG

Year ended December 31, 1971

	1971		1970
	DM	DM	ThousandDM
Sales (excluding sales tax)	11,237,124,353		9,933,370
Increase in inventories	107,397,932		115,670
		11,344,522,285	10,049,040
Material, wages and overhead capitalized as additions to plant and equipment		94,366,238	109,820
		11,438,888,523	10,158,860
Gross Output		6,586,275,120	5,846,154
Expenditures for raw materials, supplies and other materials		4,852,613,403	4,312,706
Excess of Gross Output over Expenditures for Raw Materials, etc.			
Income from profit assumption agreements	1,515,702		660
Income from investments in subsidiaries and affiliates	112,029,691		78,820
Income from other financial investments	18,978,573		18,364
Other interest and similar income	60,350,242		99,006
Gain on disposal of property, plant, equipment and investments	6,177,584		3,756
Elimination of reserves for undetermined liabilities no longer required	36,112,756		98,854
Other income	155,407,107		119,849
including extraordinary income of	DM 18,399,419		
		390,571,655	419,309
		5,243,185,058	4,732,015
Wages and salaries	2,767,356,909		2,286,908
Social expenditures – compulsory	313,449,176		253,385
Pension expenditures and voluntary payments	116,891,696		94,065
Provision for depreciation of physical plant	543,976,932		535,515
Write-down of financial investments	18,720,774		43,073
Write-down of other current assets and provision for doubtful trade acceptances and accounts	21,307,609		9,395
Loss on disposal of property, plant, equipment and investments	3,799,647		1,768
Interest expense and similar charges	37,011,644		41,245
Taxes			262,192
a) on income, earnings and property	DM 188,163,641		2,392
b) other	DM 2,862,261		
		191,025,902	2,756
		2,756,085	7,444
Share-the-Burden Property Levy	43,151,761		4,042
Expenditures under loss assumption agreements	17,493,790		997,346
Additions to reserves for special purposes	1,154,161,466		
Other expenses			
		5,231,103,391	4,541,526
		12,081,667	190,489
Net Earnings		12,081,667	190,489
	Balance carried forward		
		12,081,667	190,489

	1971		1970
	DM	DM	ThousandDM
Balance brought forward		12,081,667	190,489
Net earnings brought forward from previous year		280,239	416
		12,361,906	190,905
Transfer from disclosed reserves			
a) from other reserves	67,000,000		—
b) from the reserve for the Share-the-Burden Property Levy	1,961,000		1,875
		68,961,000	1,875
		81,322,906	192,780
Transfer to other reserves from net earnings		—	26,000
Net Earnings after Reserve Transfers		81,322,906	166,780

During 1971, pension payments amounted to DM 8,705,911; payments during the next five years will approximate 125, 147, 173, 199, 224% of this amount.

Wolfsburg, March 1972

Volkswagenwerk Aktiengesellschaft

The Board of 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, March 24, 1972

Deutsche Revisions- und Treuhand-Aktiengesellschaft
Treuarbeit
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Prof. Dr. Forster
Wirtschaftsprüfer

Dr. Apelt
Wirtschaftsprüfer

Comparative Summary of Selected Data of Volkswagenwerk AG and its Subsidiaries and Affiliates 1967–1971*)

	1967	1968	1969	1970	1971
Sales (Million DM)	9,335	11,700	13,934	15,837	17,310
Increase (Decrease) as compared to prior year in %	(7)	25	19	14	9
Domestic sales	2,514	2,841	4,023	4,911	5,129
Export sales	6,821	8,859	9,911	10,926	12,181
Export of domestic subsidiaries	4,421	6,047	6,732	7,005	8,210
Sales of foreign manufacturing subsidiaries based on own production	2,400	2,812	3,200	3,940	4,272
Sales (Thousand vehicles)	1,399	1,776	2,087	2,207	2,317
Increase (Decrease) as compared to prior year in %	(13)	27	18	6	5
In Germany	403	486	669	725	694
Abroad	996	1,290	1,418	1,482	1,623
Production (Thousand vehicles)	1,340	1,777	2,094	2,215	2,354
Increase (Decrease) as compared to prior year in %	(19)	33	18	6	6
In Germany	1,155	1,558	1,843	1,889	1,867
Abroad	185	219	251	326	487
Labor Force at Year-end (Thousand employees)	129	145	168	190	202
Increase (Decrease) as compared to prior year in %	4	13	16	13	6
In Germany	103	117	140	155	160
Abroad	26	28	28	35	42
Investments (Million DM)	787	708	1,076	1,628	1,925
Increase (Decrease) as compared to prior year in %	(10)	(10)	52	51	18
In Germany	563	517	808	1,384	1,538
Abroad	224	191	268	244	387

*) Where changes have taken place in the method of presentation we have adjusted the previous year's figures accordingly.

**) Reduced by the allowance for doubtful trade acceptances and accounts shown on the liabilities side.

***) Including adjustment items arising from consolidation and shown on the liabilities side, stockholders' equity in reserve for special purposes and net earnings brought forward.

Balance Sheet (Condensed)
December 31, 1971

	1967	1968	1969	1970	1971
Million DM					
Assets					
Property, plant and equipment	3,137	3,188	3,639	4,187	4,905
Investments	100	101	230	427	584
<i>Property, Plant, Equipment and Investments</i>	3,237	3,289	3,869	4,614	5,489
Inventories	1,229	1,352	1,710	2,128	2,496
Receivables and the like **)	529	637	987	1,265	1,457
Liquid funds **)	623	1,141	1,142	1,035	673
Own stock	—	—	—	—	40
<i>Current Assets</i>	2,381	3,130	3,839	4,428	4,666
Total Assets	5,618	6,419	7,708	9,042	10,155
Liabilities					
Capital stock	750	750	750	900	900
Reserves of Volkswagenwerk AG and its subsidiaries and affiliates ***)	1,891	2,237	2,588	2,578	2,627
Minority interest in consolidated subsidiaries ****)	97	113	272	238	189
<i>Stockholders' Equity</i>	2,738	3,100	3,610	3,716	3,716
Old-age pensions	285	338	433	519	630
Other undetermined liabilities *****)	649	883	1,071	1,345	1,596
<i>Undetermined Liabilities</i>	934	1,221	1,504	1,864	2,226
Liabilities payable within more than 4 years	311	281	292	305	413
1 to 4 years	141	102	217	281	268
1 year	1,339	1,538	1,908	2,696	3,442
<i>Liabilities</i>	1,791	1,921	2,417	3,282	4,123
Net earnings after reserve transfers of VW AG	150	171	167	167	81
Minority interest in earnings to be distributed	5	6	10	13	9
<i>Outside Capital</i>	2,880	3,319	4,098	5,326	6,439
Total Capital	5,618	6,419	7,708	9,042	10,155

Statement of Earnings (Condensed)
Year ended December 31, 1971

Gross output	9,289	11,837	14,250	16,263	17,925
Cost of materials	5,347	6,619	7,855	9,356	10,072
Labor cost	1,898	2,319	2,920	3,646	4,416
Depreciation and write-down	496	619	691	836	912
Taxes	734	1,128	1,476	1,161	1,113
on income, earnings and property	305	687	820	538	421
Sundry expenses less sundry income	491	612	828	857	1,265
Net earnings	323	540	480	407	147
Dividend of VW AG	150	150	167	167	81

****) Excluding share in net earnings.

*****) Including outside capital in reserve for special purposes.

Volkswagenwerk AG
and its Principal Subsidiaries
and Affiliates

December 31, 1971

- Producing Companies
- Distributing Companies
- Other Companies

Companies included in consolidated
financial statements of
Volkswagenwerk AG and its
subsidiaries and affiliates

Volkswagenwerk AG		Plant Locations: Wolfsburg Hanover Kassel Emden Salzgitter Brunswick	
Capital Stock DM 900,000,000			
AUDI NSU AUTO UNION AG Neckarsulm DM 215,000,000 98.6%	Volkswagen do Brasil S.A. São Bernardo do Campo Brazil Cr\$ 657,475,210 80.0%	Motor Producers Ltd. Melbourne, Australia \$A 10,000,000 100.0%	Volkswagen of America, Inc. Englewood Cliffs, N.J., USA US\$ 5,000,000 100.0%
AUDI NSU A/S Odense, Denmark dkr 40,000 100.0%	Financiadora Volkswagen S.A. São Bernardo do Campo Cr\$ 10,000,000 100.0%	Volkswagen Bruxelles, S.A. Brussels, Belgium bfrs 425,000,000 75.0%	Volkswagen Southeastern Distributor, Inc. Jacksonville, Florida, USA US\$ 250,000 100.0%
Auto Union-Ersatzteile- Generaldepot E. Frankenbach G.m.b.H. Hamburg DM 350,000 100.0%	Distrivols S.A. São Paulo, Brazil Cr\$ 1,950,000 100.0%	Industrias del Motor, S.A.**) (IMOSA), Vitoria, Spain Ptas 486,000,000 25.0% Volkswagenwerk AG 25.0% AUDI NSU AUTO UNION AG	Volkswagen Northeastern Distributor, Inc. Wilmington, Mass., USA US\$ 250,000 100.0%
AUDI NSU BELGIUM S.P.R.L. *) Brussels, Belgium bfrs 250,000 100.0%	Forjaria São Bernardo S.A. São Bernardo do Campo Brazil Cr\$ 7,544,640 33.3%	Comercio e Industria Alaveses del Automovil, S.A. (CIADASA) Vitoria, Spain Ptas 95,000,000 100.0%	Volkswagen North Central Distributor, Inc. Deerfield, Illinois, USA US\$ 250,000 100.0%
AUDI NSU AUSTRIA Ges. m.b.H. & Co. KG Vienna, Austria S 1,000,000 50.5%	VEMAG S.A. São Paulo, Brazil Cr\$ 61,098,866 10.4% AUDI NSU AUTO UNION AG	SICCA Española, S.A. Vitoria, Spain Ptas 30,000,000 80.0%	Volkswagen South Atlantic Distributor, Inc. Lanham, Maryland, USA US\$ 250,000 100.0%
AUDI NSU FRANCE S.A. Paris, France FF 1,000,000 65.0%	Volkswagen of South Africa Ltd. Uitenhage, C. P., South Africa R 1,280,000 64.9%	P.T. German Motor Manufacturing Djakarta, Indonesia Rp 1,089,774,000 33.3%	Volkswagen South Central Distributor, Inc. San Antonio, Texas, USA US\$ 250,000 100.0%
AUDI NSU VERTRIEBS AG Schinznach-Bad, Switzerland sfr 250,000 25.0%	South African Motor Acceptance Corp. (PTY) Ltd. (SAMAC), Uitenhage, C. P. R 3,000,000 50.0% 33.3% VW of America 16.7% HOLAD	VICO Corporation Delaware, USA US\$ 2,159,946 48.5%	Volkswagen i Stockholm AB Stockholm, Sweden skr 6,000,000 100.0%
COMOTOR S.A. Luxemburg, Lux. lfrs. 220,000,000 48.0%	Volkswagen de Mexico, S.A. de C.V. Puebla/Pue., Mexico mex\$ 471,952,000 100.0%	Vorelco, Inc. Englewood Cliffs, N.J., USA US\$ 400,000 100.0%	Weser-Ems-Vertriebs- gesellschaft m.b.H. Bremen DM 8,000,000 81.3%
COMOBIL S.A. Geneva, Switzerland sfr. 1,000,000 50.0%	Volkswagen Comercial, S.A. de C.V. Puebla/Pue., Mexico mex\$ 10,000,000 100.0%	Volkswagen Products Corporation Fort Worth, Texas, USA US\$ 1,000 100.0%	Volkswagen Porsche Austria Ges. m.b.H. & Co. KG Salzburg, Austria S 2,000,000 24.8%
			Volkswagen France S.A. Villers-Cotterêts, France FF 7,000,000 100.0%
			VW-Porsche Vertriebsgesellschaft m.b.H. Ludwigsburg DM 14,000,000 50.0%
			Volkswagen-Finanzierungs- gesellschaft m.b.H. Wolfsburg DM 11,500,000 100.0%
			VW-Siedlungs- gesellschaft m.b.H. Wolfsburg DM 20,000,000 100.0%
			Auto Union Kredit G.m.b.H. Ingolstadt DM 5,000,000 100.0%
			VW-Wohnungsbau Gemeinnützige Gesellschaft m.b.H. Wolfsburg DM 2,000,000 100.0%
			Deutsche Automobil- gesellschaft m.b.H. Hanover DM 5,000,000 50.0%
			HOLAD Holding & Administration AG Basle, Switzerland sfr 110,000 100.0%
			Selbstfahrer Union Hamburg DM 1,860,000 100.0%
			Transalme Sociedade de Representações Adminis- tração e Organização Ltda. São Bernardo do Campo, Brazil Cr\$ 35,000 100.0%
			Selbstfahrer Vermietungs- G.m.b.H. Hamburg DM 20,000 100.0%
			DIRANUS Versicherungs- Vermittlungs-G.m.b.H. Hamburg DM 30,000 75.0% 25.0% Selbstfahrer Vermietungs-G.m.b.H.
			Volkswagen Leasing G.m.b.H. Wolfsburg DM 1,000,000 100.0%
			Wolfsburger Transport- gesellschaft m.b.H. Wolfsburg DM 500,000 90.0% 10.0% HOLAD

*) Formed in 1972.
**) A special meeting of stockholders of the IMOSA was held on December 22, 1971 when a merger between IMOSA and CISPALSA (subsidiary of Daimler-Benz-AG) was agreed to.

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