
**Report
for the Year
1972**

'72

**Volkswagenwerk
Aktiengesellschaft
Wolfsburg**

The Supervisory Board of Directors
and the Board of Management of
Volkswagenwerk Aktiengesellschaft
present the Report for the Year 1972
with their compliments.

Wolfsburg, May 1973

| VW Group | | 1972 | 1971 *) | Increase (Decrease) | %**) |
|-------------------------------------|--------------------|-----------|-----------|------------------------|------|
| Sales (DM) | | | | | |
| Inclusive Brazilian sales tax | in million DM | 16,833 | 17,316 | (483) | (3) |
| Exclusive Brazilian sales tax | in million DM | 15,996 | 16,473 | (477) | (3) |
| Sales (units) | number of vehicles | 2,196,978 | 2,317,385 | (120,407) | (5) |
| Production | number of vehicles | 2,192,524 | 2,353,829 | (161,305) | (7) |
| Labor Force | at year-end | 192,083 | 202,029 | (9,946) | (5) |
| Capital Investments | in million DM | 1,573 | 1,947 | (374) | (19) |
| Depreciation | in million DM | 992 | 912 | 80 | 9 |
| Cost of Materials | in million DM | 9,124 | 9,891 | (767) | (8) |
| Labor Cost | in million DM | 4,463 | 4,416 | 47 | 1 |
| Net Earnings | in million DM | 206 | 147 | 59 | 40 |
| Dividends Proposed | | | | | |
| Volkswagenwerk AG | in million DM | 81 | 81 | — | — |
| on DM 50 par value of capital stock | DM | 4.50 | 4.50 | — | — |

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

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Agenda

On August 5, 1972

Heinrich Heerdt,

a member of our Supervisory Board
of Directors and of the Factory Council
at our Kassel plant died at the
age of 60.

In Mr. Heerdt, the Volkswagenwerk
Aktiengesellschaft has lost a man
whose knowledge and experience was
appreciated and whose integrity was
respected by all who know him.
We shall no longer have the great
benefit of his advice and assistance.

He will not be forgotten.

Agenda

for the
Annual Meeting of Stockholders of
Volkswagenwerk Aktiengesellschaft
to be held at 10:00 A. M. on Tuesday, July 3, 1973
at the Stadthalle in Wolfsburg.

1. Presentation of audited financial statements, the report of the Board of Management for 1972, 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 the VW Group and related comments for the year 1972.

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 83,189,548 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 1972.

4. Resolution with respect to discharge of responsibility of the Supervisory Board of Directors for the year 1972.

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 1973.

The Supervisory Board of Directors proposes to appoint, as in prior years, the TREUARBEIT Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft - Steuerberatungsgesellschaft, Hanover, as auditors for the year 1973.

Supervisory Board of Directors (Aufsichtsrat)

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

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

Hans Hermsdorf, Bonn, Deputy Chairman,
Parliamentary Secretary of State in the Federal
Ministry of Finance

Eugen Loderer, Frankfurt, since July 3, 1972,
Deputy Chairman,
Chairman of the Metal Workers Trade Union

Hans Birnbaum, Salzgitter,
Chairman of the Board of Management of
Salzgitter AG

Dr. jur. F. Wilhem Christians, Düsseldorf,
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

Walter Haefner, Zürich, Switzerland,
VW Exclusive Importer

Kurt Hähnel, Hanover,
Chairman of the Board of Management
of Norddeutsche Landesbank Girozentrale

Dr. jur. Alfred Härtl, Frankfurt,
Managing Agent of Dresdner Bank AG

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

Dr. phil. h. c. Walter Hesselbach, Frankfurt,
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

Dr. jur. Eduard Leuze, Reutlingen,
Lawyer and Notary Public

Karl-Heinrich Mihr, Kassel, since November 27, 1972,
Chairman of the Volkswagenwerk AG's Factory
Council representing the Kassel Plant

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

Dr. jur. Horst Rheinfels, Cologne,
Lawyer

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

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

Dr. oec. publ. Johann Baptist Schöllhorn, Bonn,
Secretary of State, temporarily without appointment

Josef Schuster, Wolfsburg,
Member of the Volkswagenwerk AG's Factory
Council representing the Wolfsburg Plant

The following members of the Supervisory Board of Directors died in the course of the year:

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

Heinrich Heerdt, Kassel,
Member of the Volkswagenwerk AG's Factory
Council representing the Kassel Plant,
on August 5, 1972

Rudolf Leiding

Chairman of the Board of Management

Horst Backsmann

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

Prof. Dr. techn. Ernst Fiala

Research and Development,
since February 1, 1973

Dr. jur. Peter Frerk

Personnel and Social Matters

Günter Hartwich

Production, since July 1, 1972

Horst Münzner

Sales

Dr. jur. Gerhard Prinz

Subsidiary Companies

Gottlieb Strobl

Purchasing and Material Administration,
since May 1, 1973

Dr. rer. pol. Friedrich Thomée

Finance and Business Administration

The following members of the Board of Management have resigned:

Dr. rer. pol. Carl H. Hahn

Sales, with effect from December 31, 1972

Dr.-Ing. E. h. Otto Höhne

Production, with effect from June 30, 1972

Prof. Dr.-Ing. Werner Holste

Research and Development, with effect from
March 31, 1972

Report of the Supervisory Board of Directors

The Supervisory Board of Directors met regularly in order to enlarge upon the information about the status of the company, its business activity and its proposed business policy which is constantly provided by the Board of Management.

A continuous control was exercised on the conduct of the business with the written and oral reports from the Board of Management being used as a basis for this. In particular 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 of Directors and its committees.

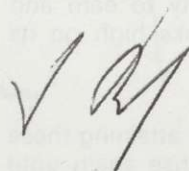
The Group's consolidated financial statements and the financial statements of Volkswagenwerk AG as at December 31, 1972 as well as the annual report have been placed before the Supervisory Board of Directors. The auditors, the TREUARBEIT Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft - Steuerberatungsgesellschaft, Hanover have received these financial statements as well as the annual report and the accounts and have expressed unqualified approval of the financial statements of the Company.

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

the distribution of a dividend of DM 4.50 on DM 50 par value of capital stock has been approved by the Supervisory Board of Directors.

The following changes have taken place in the composition of the Board of Management since the last annual report: Mr. Günter Hartwich was invited to become the Board of Management member responsible for Production in succession to Dr.-Ing. E. h. Otto Höhne who retired on June 30, 1972. Dr. rer. pol. Carl H. Hahn resigned on December 31, 1972 from the Board of Management with the approval of the Supervisory Board of Directors; the responsibility which he bore for Sales was assigned to Mr. Horst Münzner. With effect from February 1, 1973 the Supervisory Board of Directors appointed Prof. Dr. techn. Ernst Fiala as the Board of Management member responsible for Research and Development and Mr. Gottlieb Strobl as the Board of Management member responsible for Purchasing and Material Administration with effect from May 1, 1973. The Supervisory Board of Directors would like to express its thanks to the members of the Board of Management, who have retired, for their years of outstanding service.

Wolfsburg, April 1973



Chairman of the Supervisory Board of Directors

Report of the Board of Management

Production Trend within the Automobile Industry in millions of units (logarithmic scale)

1971 and 1972 made extraordinary demands of the VW Group. A new concept with regard to model policy – the foundation on which the economic future of this enterprise depends – had to be applied in an extremely short space of time. This called for considerable efforts in the technical and financial sectors. This, too, was at a time when changes in the exchange rates involved considerable burdens on the Volkswagenwerk which is very much geared to a world market.

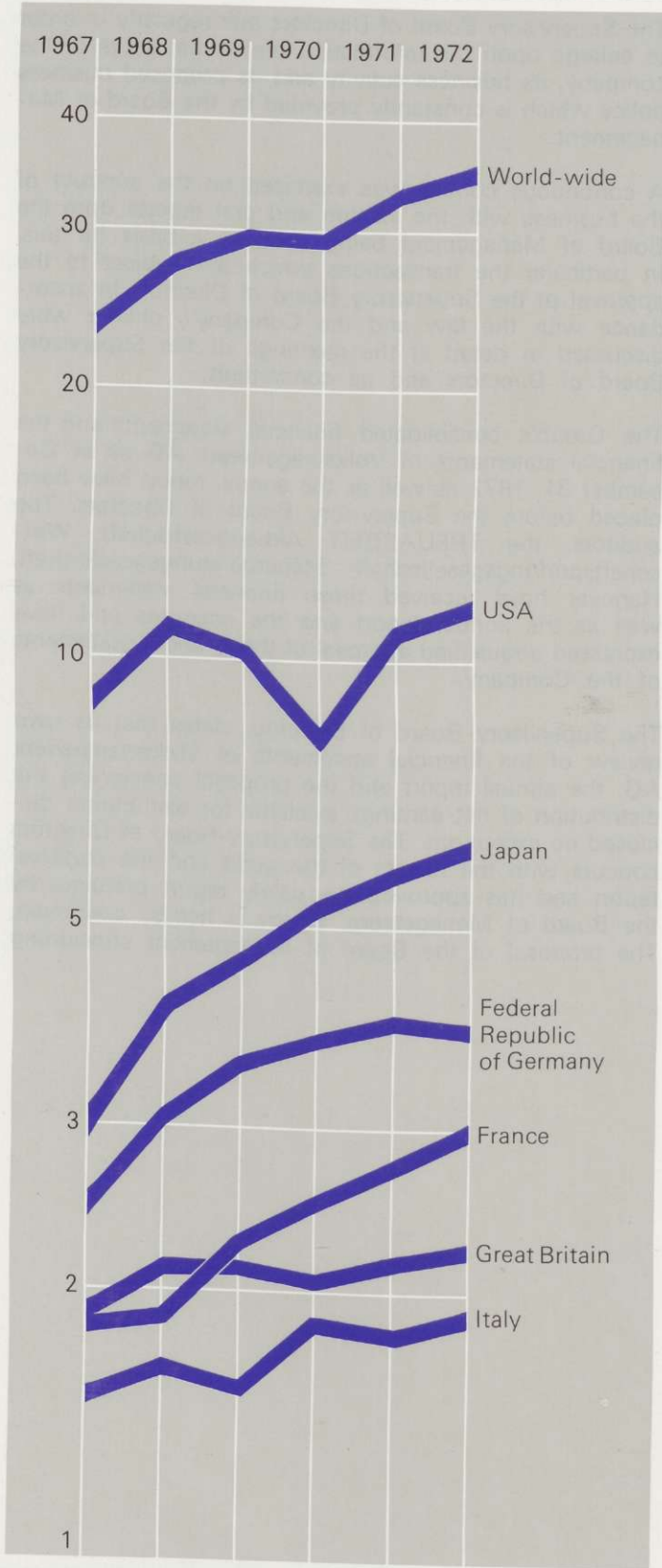
Exports account for more than two-thirds of the Volkswagenwerk AG's total sales. Of all the world's leading automobile manufacturers, VW is therefore the one most affected by variations in exchange rates. The position is made more difficult by the fact that one half of all the automobiles sold go to the USA; – for, in terms of the Dollar, the DM has gone through a particularly drastic process of revaluation, amounting to some 40 %, since 1969.

Some 3 million workers are dependent, either directly or indirectly on the automobile industry in the Federal Republic of Germany. Very many of them are employed in the Volkswagen factories, within the VW Sales Organization and by firms which supply components. Therefore, this company sees the task of retaining its position in the export markets and consequently its ability to earn and thus safeguarding jobs as one which ranks high on its list of priorities.

We were not however wholly successful in attaining these goals in 1972. The sales figures did not rise again until the last few months of the year following a baddish patch in the first six months. The recovery was not however sufficient to make any radical difference to the earnings position. By effecting economies and rationalizing procedures we were able admittedly to improve the position with regard to costs which resulted in net earnings for the VW Group of DM 205.5 million. This represents an improvement of DM 58.8 million on the previous year's results, but, all the same, this cannot be regarded as satisfactory.

The process of consolidating the company's position has been hampered considerably by the monetary crisis in early 1973 and the burdens which this brought in its wake. In spite of this the Board of Management feel confident that, providing sales conditions are normal, the introduction of new models can safeguard employment and improve the earnings position.

The Board of Management would like to thank the employees for the excellent work they have put in and also expresses its appreciation of the co-operation received from the Factory Council.



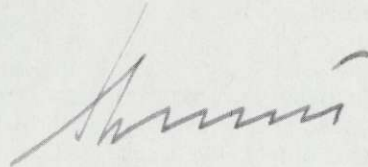
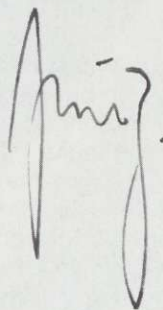
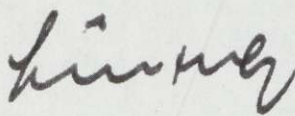
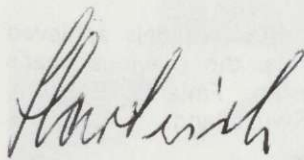
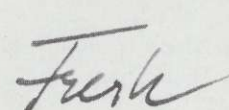
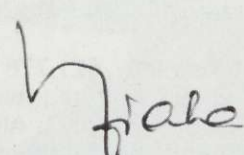
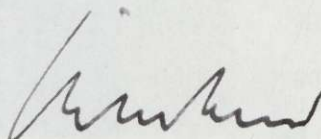
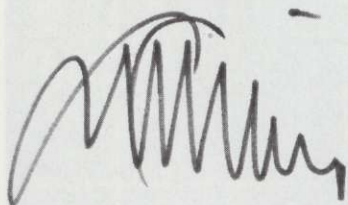
Proposed Distribution of Net Earnings for 1972

The Board of Management proposes to use the net earnings of Volkswagenwerk AG of DM 83,189,548 for the distribution of a dividend of DM 4.50 on DM 50 par value of capital stock.

The balance of DM 2,189,548 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, April 1973

The Board of Management



Business Trends and Developments
during 1972

Sales Trend

In 1972 the VW Group sold 2,196,978 vehicles to the Dealer Organization, 5.2 % less than in the previous year. This reduction was determined by the fact that the Volkswagenwerk AG's domestic sales dropped by 12 % as compared to those of 1971 and the sales of Volkswagen of America in the USA decreased by 18.3 %. The Volkswagenwerk AG's successes in the European markets and the increased sales on the part of AUDI NSU AUTO UNION AG and of our subsidiary companies in Brazil and Mexico could not compensate for these setbacks. The good sales results of Volkswagen do Brasil and Volkswagen de Mexico have brought about a slight change to the sales pattern of the VW Group. The proportion of sales achieved abroad rose by 1.4 to 71.4 % in spite of the decrease in the USA.

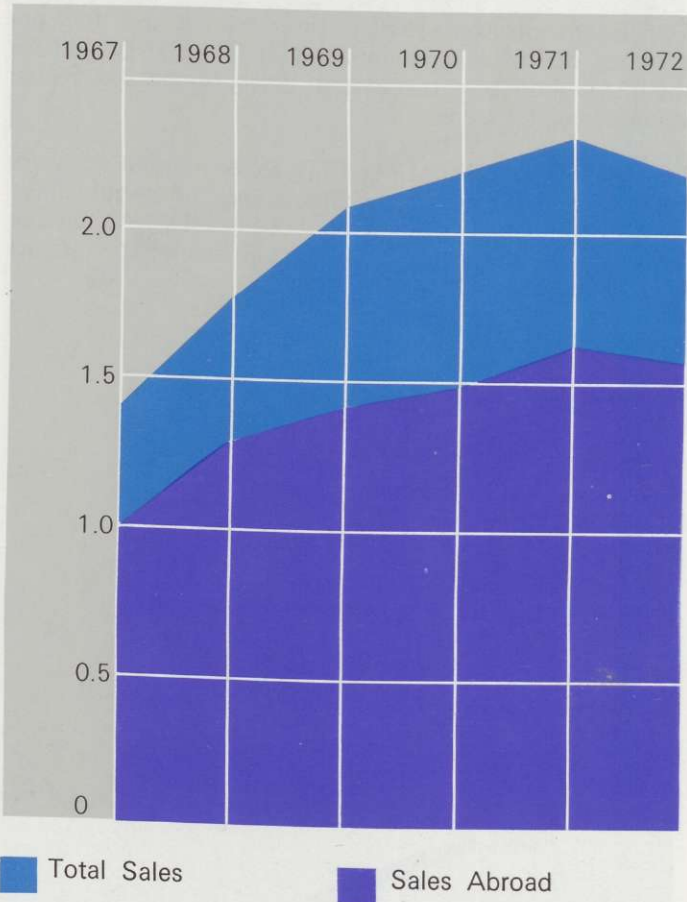
In the year under review deliveries by VW dealers to customers stood at 2,181,954 vehicles, which meant they were 1.6 % down on the 1971 figures. The VW Beetle retained its reputation as the best-selling model. It had a 56.2 % share of deliveries to customers. The VW Commercial occupied second place in the sales chart and it was followed by the VW 1600. The Audi models continued to be in lively demand on the markets of Europe and in the USA. On the other hand, sales of NSU models declined.

In the Federal Republic of Germany 521,778 passenger cars produced by the VW Group were registered for the first time, that was 11.8 % less than in 1971. Although the changes to the VW models and the introduction of the Audi 80 brought about an increase in sales but this could not make up for the setbacks experienced in the first half of the year. With a 24.9 % share of the domestic passenger car market the VW Group continued to be the market leaders, failing however to achieve the previous year's share of 28.1 %.

In 1972 our sales activities in the USA were under an unlucky star. Volkswagen prices had to be increased considerably as the result of the 1971 monetary crisis and our ability to compete suffered accordingly. For this reason VW sales inevitably dropped sharply in the early months of the year. Later on, the sales position became stable once more, particularly following the introduction of the improved models. As a result, 529,587 Volkswagen, Audi and VW-Porsche vehicles were delivered to customers in the USA in 1972, this meant a drop of 4.4 %, compared to the previous year. The market share of the VW Group went down to 4.5 % (4.9 % in 1971).

VW gained ground on the European markets in the year under review and this notwithstanding the less favorable conditions brought about by the changes in the exchange rates. Deliveries to customers rose by 7.8 % to 450,189 vehicles. The Group was particularly succesful in Great

Sales Pattern of the VW Group (vehicles in million)



Britain. There, sales of VW and Audi models achieved a new record. In addition to this, the previous year's figures were surpassed in Austria, Finland, Belgium, Sweden, Denmark, France and Switzerland.

Our producing companies in Brazil and Mexico had a share in an expanding market and consolidated their strong position on those markets.

At the end of 1972 the Dealer Organization maintained by the VW Group had 13,835 sales and service points all over the world. This means that we continued to have a basis for offering optimum standards of services to the VW Group's customers.

EDP programs for large-scale series production

Data processing equipment controls manufacturing processes in our plants, and thus contributes towards streamlining production.



**Automatic model scanner used
in body engineering**

Combined with large capacity computers and automatic drawing machines, this equipment cuts the time needed to develop car bodies drastically.

*Business Transferral Development
Survey 1972*



Turnover

As a result of the decline in the turnover of the VW Group the sales proceeds dropped to DM 16,000 million. The comparable turnover of the prior year was DM 16,500 million. The Brazilian sales tax included up to now has been omitted having regard to the global nature of the financial statements.

Domestic sales fell by 2 % to DM 5,000 million. Sales abroad also went down slightly, by 3.3 % to DM 11,000 million. This meant that the proportion of the Group's sales accounted for by foreign business remained virtually unchanged at 68.5 % (68.8 % in 1971). In the case of foreign business sales proceeds were cut because of the changes in exchange rates resulting from DM revaluation.

Production

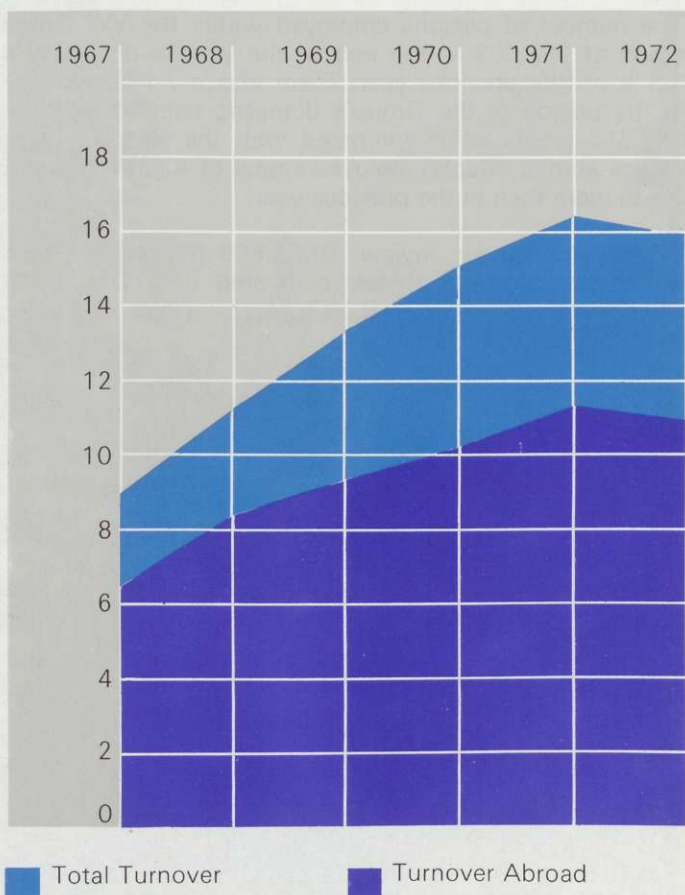
In the course of its world-wide activities the VW Group produced 2,192,524 vehicles, 6.9 % fewer than in the previous year. Because of falling demand the Volkswagenwerk AG was compelled to cut back production by 13.9 %. In contrast to this 6.1 % more cars came off the AUDI NSU AUTO UNION AG's assembly lines than in 1971. Whereas the production of Audi vehicles by this company increased by 30.3 % the production of NSU models decreased by 39.6 %. Demand for cars in Brazil and Mexico continued at the same high level as before. Because of this Volkswagen do Brasil was able to increase its production by 16.2 % and Volkswagen de Mexico by no less than 21.7 %.

In the year under review, production per working day throughout the VW Group totalled 9,475 units, as against 10,125 in 1971. In this respect the VW Beetle again continued to be the leader by far, with 5,290 vehicles being produced on average every working day. 6,428 (7,343) of the vehicles manufactured each working day were accounted for by the Volkswagenwerk AG. Volkswagen do Brasil's average daily production was 1,462 (1,253) automobiles and that of the AUDI NSU AUTO UNION AG 1,283 (1,258) units.

The Volkswagenwerk is building an assembly plant in Nigeria which is scheduled to go into production in 1974. Volkswagen of Nigeria Ltd. was established on February 7, 1973 with this object in view.

The various companies within the Group liaised closely with one another with regard to deliveries and services provided and this is reflected in supplies of finished products and of plant and equipment.

VW Group's Turnover Pattern (in thousand million DM)

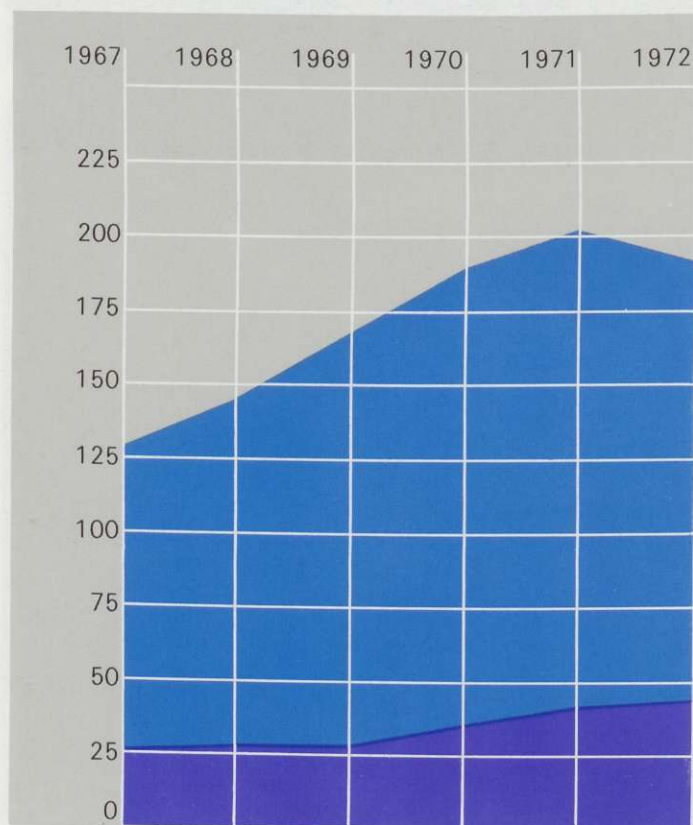


Labor Force

The number of persons employed within the VW Group stood at 192,083 at the end of the year, a decrease of 4.9 % on the previous year. There was a 7.1 % decrease in the payroll of the Group's domestic companies (with 148,712 employees), compared with the Group's companies abroad which employed a total of 43,371 persons, 3.4 % more than in the previous year.

In the year under review DM 3,859 million was paid out in wages and salaries, compared with DM 3,839 million in the previous year.

Employment Pattern
(in thousands of employees)



■ Total ■ Abroad

Capital Investments

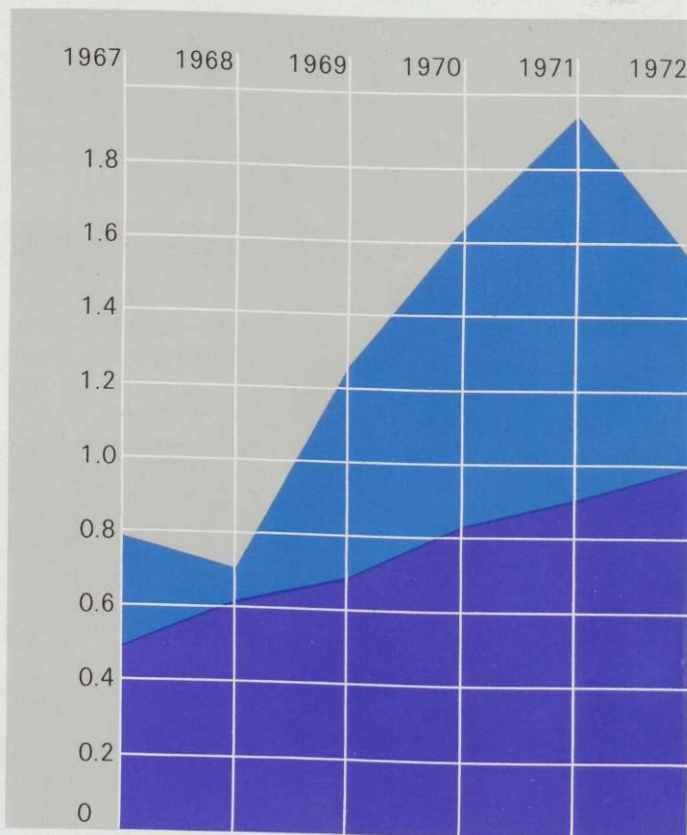
The investment program of the VW Group has been pruned due to the pressure of declining earnings. As a result, expenditure in this direction decreased by 19.2 % to DM 1,573 million in the year under review, as compared to the prior year. 97.9 % of this sum was accounted for by expenditure on property, plant and equipment.

Capital investments in Germany by the companies in the VW Group totalled DM 1,183 million making them 23.4 % less than those for 1971. Capital investments abroad went down, the specific decrease being one of 2.9 % to DM 390 million.

The VW Group's capital investments have been used primarily for the preparation and introduction of new models and for the streamlining of production.

63.1 % of the capital investments made by the VW Group were financed from depreciations and write-downs (46.9 % in 1971).

Pattern of Capital Investments and Provision for Depreciation and Write-down of Investments
(in thousand million DM)



■ Capital Investments ■ Provision for Depreciation and Write-down of Investments

**The Beetle - it continues to be
VW's best-selling model**

Quality, economy and, last but by no means least, its special capacity for being able to withstand the hazards of winter, are the reasons which help the Beetle to retain its popularity.



The VW Basic Commercial

A new Commercial which can be assembled on the spot. It is made of well-tried VW units and it can be assembled with a minimum of tools and technical know-how. It is particularly suitable for countries lacking an extensive network of made-up roads.



Outlook

The DM revaluation in 1971 and the temporary difficulties experienced with regard to getting vehicles imported on to US markets led to a decline in 1972 sales – in spite of all the efforts made. The sales position became stabilized as the business year progressed, so that the start of 1973 saw the Volkswagenwerk AG once again working extra shifts in its plants – the first time it had done so for a considerable period.

There is no means of knowing whether this upward trend will continue. The devaluation of the US-Dollar and the latest further revaluation of the Deutsche Mark placed additional burdens on VW's export business at the beginning of this year. These burdens will once again primarily affect exports to the USA. However, the devaluation of the Pound Sterling and the Italian Lira will also have its effect on major European markets and, in addition to this, give manufacturers from those countries an advantage on the German market.

In addition to the change in exchange rates the increases in wage and salary levels at the beginning of the year also have a negative effect on the earnings situation in the nature of things. This means that in addition to using the streamlining possibilities open to us, it is necessary to attempt to compensate for this through our earnings, insofar as the keen competition on our sales markets still leaves us room for this.

We are making every endeavour to consolidate our position on the market. Here our confidence still rests on the quality of our well-tried products and we expect that the extension of our range will provide an additional stimulus to future sales.

Consolidated Financial Statements of the VW Group

Basis of Consolidation

In the past few years we published selected data for the VW Group in addition to the consolidated financial statements of Volkswagenwerk AG and its domestic subsidiaries. Last year we included condensed financial statements of the VW Group and this year we are presenting detailed "financial statements on a global basis". These financial statements replace the consolidated financial statements of Volkswagenwerk AG and its domestic subsidiaries. They have been approved by our auditors.

In order to make this information more informative we have published the corresponding figures for the previous year alongside the 1972 data. The former have, of course, not been approved in this form.

The *Consolidated Financial Statements* include, in addition to Volkswagenwerk AG, all major subsidiaries in which Volkswagenwerk AG holds a direct or indirect investment of more than 50 % at year-end. These companies are shown in the illustration on page 34/35.

In addition, at year-end Volkswagenwerk AG holds a direct or indirect investment of more than 50 % in the Auto Union G.m.b.H., Munich, the Auto Union-Ersatzteile-Generaldepot E. Frankenbach G.m.b.H. i. L., Hamburg and the AWD Automobilwirtschaftsdienst G.m.b.H., Ingolstadt newly organized in 1972 and which did not commence business operations until the beginning of 1973. These companies were excluded from the consolidated financial statements because their sales and earnings are immaterial in comparison to the consolidated balances.

For the first time the Compagnie de Commerce et Commission S.A., Paris, the AUDI NSU FRANCE S.A., Paris, the AUDI NSU BELGIUM S.P.R.L., Brussels, and the InterRent, Inc., Englewood Cliffs, N.J. (USA), were consolidated in the year under review.

The Motor Producers Ltd., Melbourne, which was included in the consolidated statements for the prior year has been excluded from current year's consolidated financial statements, because this company is no longer subject to the direct control of Volkswagenwerk AG.

The financial statements of the foreign subsidiaries and affiliates have been prepared in accordance with the legal requirements and the accounting practices of the countries concerned. Where the individual financial statements were presented in a manner not in keeping with standard German practices of accounting as laid down in the German stock corporation law appropriate adjustments were made prior to consolidation. In those cases where the values shown in the individual financial statements are at variance with German accounting principles especially with regard to the cost of acquisition and which are not in keeping with the gains and losses valuation procedure, i.e. potential gains not actually realized must not be taken

into account, potential losses not actually incurred must, however, be shown, we have adjusted such items before consolidation. Where major changes have taken place in the method of presentation the previous year's figures have been adjusted accordingly.

The consolidated financial statements were prepared in accordance with the requirements of German stock corporation law. The consolidated balance sheet shows the changes which took place in property, plant, equipment and investments although this is not required by corporation law. The consolidated statement of earnings is prepared in detail and includes the subsidiaries involved in consolidation.

The *Conversion Rate* used for the balance sheets of foreign companies was always an average of the buying and selling rates of exchange valid on the balance sheet date. Conversion at daily rates in the present currency situation is better in line with a conservative evaluation. Expenditures and income were converted at a rate which constituted an average for the year. Where the currency situation resulted in exchange profits or losses this is reflected in the net earnings for the year.

In the case of our subsidiaries and affiliates in Brazil we have drawn up financial statements expressed in hard currency for the consolidation in addition to the financial statements in local currency, having due regard to the inflationary trend in the past. The values for property, plant and equipment and investments in subsidiaries and affiliates in these financial statements in hard currency continued to be shown in accordance with the DM acquisition cost. The capital stock has likewise been shown in the balance sheet at the former DM value.

In *Capital Consolidation* we have set off the book values of investments in consolidated companies against the corresponding year-end capital stock and reserve balances of the companies included in the consolidated financial statements. The difference resulting therefrom was transferred to the balance sheet items "adjustment items arising from capital consolidation" on the assets or liabilities side of the balance sheet without being set off. The adjustment items ascertained in the preliminary stages and concerning assets or liabilities, however, were offset. Where foreign subsidiaries and affiliates do not show any net earnings brought forward from the previous year or changes of reserves or profit or loss in their financial statements drawn up in accordance with their countries' legislation but merely show the development of retained earnings in a special calculation we have performed the requisite adjustment prior to consolidation. The reserves resulting from these adjustments have been included in the capital consolidation.

An exception is made in the case of a nonprofit housing construction company included in the consolidated

statements with regard to the determination of the adjustment item arising from capital consolidation. This company's capital stock is shown at investment book value only. The reserves and the non-distributed part of the net earnings have been included in consolidated undetermined liabilities in accordance with the legal restrictions placed on nonprofit companies.

The differences resulting during the consolidation of the liabilities (loans granted within the Group have no longer been discounted to reflect present values) are shown as *Other Adjustment Items*. These items also include the write-downs of the Group's acquisition or production cost which were made with regard to inventories supplied by the companies within the Group and in respect of plant and equipment supplied by subsidiaries and affiliates in addition to those supplied as a matter of routine.

In addition, the net earnings and losses of the other subsidiaries and affiliates included in consolidation – insofar as they are not set aside for distribution to an outside stockholder or holders of participating certificates in the AUDI NSU AUTO UNION AG – were included under other adjustment items since in the Group's view these sums have the character of reserves. If in consequence thereof balances were distributed to the Volkswagenwerk AG which were then reflected in the results of the parent company these have been shown in the consolidated statement of earnings as transfers from other adjustment items in order to throw light on the origin within the Group of the earnings shown to the same extent in the consolidated financial statements and the financial statements of the parent company.

When ascertaining the *Minority Interest in Consolidated Subsidiaries*, in the case of financial statements of foreign companies the individual financial statements or financial statements for Group's sections which were brought into line according to the principles dictated by normal accounting practice were taken as a basis. Exchange profits or losses were percentually assigned to the minorities.

Profits guaranteed to outside stockholders by the parent company were shown in the consolidated financial statements as expenditures and as liabilities or undetermined liabilities insofar as they were not covered by the results of the Group company concerned.

We have drawn up the *Statement of Earnings* in accordance with the principles set out last year. The analyses of consolidated earnings included in our net earnings for the year are contrasted with the corresponding inward and outward transfers in keeping with the detailed distinction between other adjustment items. Insofar as taxes have to be paid subsequently on earnings distributed within the Group by consolidated companies these will be taken into account in the year of dividend distribution.

Financial Position

The significant feature of the financial position of the VW Group was the DM 644 million increase in liquid funds. This was mainly obtained through a reduction of capital investments to DM 1,573 million and the inflow of funds from outside sources. Since the decrease in capital investments coincided with an increase in provision for depreciation and write-down of investments this resulted in a more favorable internal financing rate. The ratio of capital investments covered by depreciation and write-downs increased from 46.9 % to 63.1 % as compared to the previous year.

The consolidated balance sheet for 1972 gives the following picture with regard to volume and structure as compared with that of 1971:

| | 12/31/1972 | | 12/31/1971 | |
|---|----------------|-------|------------|-------|
| | – Million DM – | | | |
| Assets | | | | |
| Property, Plant, Equipment and Investments | 5,846 | 52 % | 5,489 | 54 % |
| Current Assets | 5,314 *) | 48 % | 4,666 *) | 46 % |
| | 11,160 *) | 100 % | 10,155 *) | 100 % |
| Liabilities | | | | |
| Stockholders' Equity (including minority interests) | 3,786 | 34 % | 3,716 | 37 % |
| Liabilities payable within: | | | | |
| more than 4 years | 1,688 | 15 % | 1,051 | 10 % |
| 1 to 4 years | 810 | 7 % | 781 | 8 % |
| 1 year | 4,876 | 44 % | 4,607 | 45 % |
| | 11,160 *) | 100 % | 10,155 *) | 100 % |

*) 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 to DM 11,160 million and thus exceeded previous year's totals by DM 1,005 million.

On the assets side of the balance sheet property, plant, equipment and investments did not increase to the same extent as current assets and as a result the property, plant, equipment and investments' share in balance sheet totals dropped to 52 %.

On the liabilities side stockholders' equity rose by DM 70 million. This increase was less than the rise of the liabilities so that the proportion of stockholders' equity in balance sheet totals was reduced to 34 %, previous year 37 %. In the DM 935 million increase of liabilities DM 637 million were taken up on a long-term basis and medium-term requirements accounted for DM 29 million. In consequence of this there was an improvement in the balance sheet ratio: at year-end property, plant, equipment and investments were financed by stockholders' equity and long-term liabilities to the extent of 107 % (101 % in 1971).

The detailed changes in the financial position may be seen from the following flow-of-funds analysis:

General situation regarding short-term liquidity

| | 12/31/1972 | 12/31/1971 | Change |
|---|----------------|------------|--------|
| | – Million DM – | | |
| Liquid funds, trade acceptances*) | 1,038 | 445 | + 593 |
| Securities, own stock | 354 | 313 | + 41 |
| Short-term receivables*) (advance payments not included) | 1,267 | 994 | + 273 |
| Short-term liabilities and undetermined liabilities (including liabilities in reserves for special purposes) | – 4,780 | – 4,517 | – 263 |
| | – 2,121 | – 2,765 | + 644 |

In 1972 the change in the liquidity position resulted from the following (Million DM):

from current business

| | | |
|--|---------|---------|
| Net earnings | + 206 | |
| Provision for depreciation of physical plant and write-down of investments and differences in the rates of exchange (net of accumulated discount) and decrease in property, plant, equipment and investments | + 1,237 | |
| Increase in provision for old-age pensions | + 100 | |
| Increase of stockholders' equity in reserves for special purposes | + 2 | + 1,545 |

from financing transactions

| | | |
|---|-------|-------|
| 1971 dividend payment to stockholders of Volkswagenwerk AG and minorities | – 89 | |
| Increase in long- and medium-term liabilities | + 566 | |
| Decrease in other items shown on the liabilities side**) | – 43 | + 434 |

from uses of funds

| | | |
|--|---------|---------|
| Increase in physical plant | – 1,540 | |
| Increase in investments | – 33 | |
| Long-term loans | – 24 | |
| Decrease in adjustment items arising from capital consolidation and shown on the assets side | + 3 | |
| Decrease in inventories and advance payments *) | + 176 | |
| Decrease in long- and medium-term receivables*) | + 83 | – 1,335 |

Change in the liquidity position

+ 644

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

**) Mainly resulting from changes in companies consolidated.

Comments on the Balance Sheet

Assets

At year-end the book value of *Property, Plant, Equipment and Intangible Assets* increased by DM 356 million to DM 5,261 million. Property, plant and equipment of the companies included for the first time in the consolidation, the Compagnie de Commerce et Commission S.A., Paris, the AUDI NSU FRANCE S.A., Paris, the AUDI NSU BELGIUM S.P.R.L., Brussels, and the interRent, Inc., Englewood Cliffs, N.J., are shown in the column "Jan. 1, 1972 - Companies included in the consolidation for the first time" of the balance sheet. In the year under review additions to property, plant and equipment which included the sum referred to above amounted to DM 1,540 million. Of these additions 48% pertain to Volkswagenwerk AG, 16% to AUDI NSU and 13% to Volkswagen do Brasil. The deductions included in addition to disposals of property, plant and equipment due to scrapping or sale of used plant and equipment the grants made from public funds for additions of previous years. The book values of Motor Producers Ltd., Melbourne, a company which is no longer included in the consolidation, were also shown under deductions. The varying exchange rates created a difference when converting the property, plant and equipment values of foreign subsidiaries and affiliates.

The original cost of property, plant and equipment is the purchase or the production cost. Expendable equipment was subject to regular depreciation. Additional depreciation was provided, particularly for plant and equipment which are used in research and development at domestic subsidiaries. In addition to this, there were only minor additional depreciations which were economically necessary.

In the year under review the book value of *Investments* increased very slightly by DM 5 million to DM 343 million. The *Investments in Subsidiaries and Affiliates* as included in the above total primarily referred to our investments in the Svenska Volkswagen AB, Södertälje, the Compañia Hispano Alemana de Productos Mercedes-Benz y Volkswagen, S.A. (MEVOSA), Madrid, the VW-Porsche Vertriebsgesellschaft m.b.H., Ludwigsburg, and in six dealer firms in the USA.

Other Investment Securities consist mainly of West German Government Bonds for the Promotion of Developing Countries which are held by Volkswagenwerk AG and of securities acquired by Volkswagenwerk do Brasil. The latter were almost completely written off.

Long-term Loans Receivable with an Initial Term of Four Years or Longer pertain almost exclusively to loans granted by domestic subsidiaries and affiliates. Interest-free and low interest-bearing loans have been discounted to reflect present values.

Other Investments primarily consist of investments in Brazil associated with tax benefits available for developing countries' investments.

Write-downs on investments concerned in the main securities acquired by Volkswagenwerk do Brasil during 1972 and also represent amounts discounted with respect to long-term loans granted by domestic subsidiaries and affiliates.

Adjustment Items arising from Capital Consolidation shown on the assets side represent the difference between the book value of investments of Volkswagenwerk AG in AUDI NSU AUTO UNION AG, SU interRent and Volkswagen Bruxelles and the corresponding lower 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 decrease as compared to the prior year was primarily the result of transfers to reserves effected by AUDI NSU.

As compared to year-end 1971, *Inventories* decreased by DM 177 million to DM 2,320 million. This decrease was caused by lower inventory stocks of finished products held by the US subsidiaries and affiliates and of raw materials and supplies held by the domestic producing companies and Volkswagenwerk do Brasil.

Trade Accounts Receivable increased by DM 61 million to DM 328 million. Of this total DM 190 million pertain to domestic subsidiaries and affiliates and DM 138 million to foreign subsidiaries and affiliates. The distributing companies in North America and the Volkswagenwerk AG mainly accounted for this increase.

Acceptances pertain, for the most part, to notes receivable in connection with repayments due on financing contracts.

More than two thirds of the amounts shown under *Cash in Banks* were in favor of the Volkswagenwerk AG. The increase as compared to the prior year is likewise due to a rise in such funds in the parent company.

Securities shown under current assets mainly consist of short-term Brazilian Government Bonds. The increase is primarily due to the balancing out of the higher portfolio of such bonds and a decrease of securities held by Volkswagenwerk AG.

Own Stock corresponded to the amount shown in the financial statements of Volkswagenwerk AG.

Receivables from subsidiaries and affiliates were in the main receivables from Motor Producers and VW-Porsche Vertriebsgesellschaft.

Miscellaneous Other Current Assets consist mainly of claims of the financing companies resulting from financing of sales and items purchased and in respect of tax refunds. Doubtful accounts were minor in amount and have been written off.

Prepaid and Deferred Expenses pertain primarily to discounted loans payable secured by mortgages of a domestic housing construction company and prepaid and deferred commissions in connection with leasing transactions.

Liabilities

Included in the *Consolidated Reserves* were, in addition to the reserves of Volkswagenwerk AG, the adjustment items arising from capital consolidation and the other adjustment items.

The *Adjustment Items arising from Capital Consolidation* resulted mainly from the inclusion of the companies in Brazil, USA, Mexico and South Africa in consolidation.

The *Other Adjustment Items* resulted from the benefits of consolidation, particularly from the differences arising during the consolidation from the write-down of housing construction loans granted by Volkswagenwerk AG to VW-Wohnungsbau and VW-Siedlungsgesellschaft. In addition we included in these items the appropriate share in the net earnings of the subsidiaries and affiliates, in particular of Volkswagen do Brasil and Wolfsburger Transportgesellschaft.

Minority Interest in Consolidated Subsidiaries represents in the main minority interest in the capital stock, reserves and results of the Brazilian companies, Volkswagen of South Africa and Volkswagen Bruxelles.

Minority interest in earnings resulted mainly from our foreign companies in Brazil, Belgium and South Africa. Two other foreign companies in which minority interest exists incurred losses.

Virtually all *Reserves for Special Purposes* originated from the financial statements of Volkswagenwerk AG.

The *Allowance for Doubtful Trade Acceptances and Accounts* involved roughly equal shares in trade receivables of domestic and foreign subsidiaries and affiliates.

The increase in *Undetermined Liabilities* by DM 105 million was primarily due to a rise in expenditures for *Old-Age Pensions* by DM 100 million which were based on actuarial computations in accordance with German tax laws and shown in the financial statements of domestic subsidiaries and affiliates.

Approximately one third of *Other Undetermined Liabilities* pertained to pending taxes and one third concerned distribution costs. The other third was mainly required for personnel costs and social expenditures. Of the total undetermined liabilities

DM 756 million can be considered relating to long-term liabilities,

DM 416 million as medium-term liabilities, and
DM 1,082 million are of a short-term nature.

Liabilities with an Initial Term of Four Years or Longer increased by DM 416 million to DM 950 million. This increase is due to the raising of the DM 300 million loan and the rise in amounts due to banks mainly from AUDI NSU and VW-Siedlungsgesellschaft.

Approximately three fourths of *Trade Accounts Payable* pertain to domestic subsidiaries and affiliates and the other fourth concerns foreign companies within the VW Group. The increase by DM 103 million resulted primarily from the higher consumption of materials by AUDI NSU due to increased production.

Liabilities resulting from the Acceptance of Bills Drawn and the Issuing of Promissory Notes were shown in the financial statements of foreign subsidiaries and affiliates only.

49 % of the liabilities *Due to Banks* was due from domestic subsidiaries and affiliates and the balance was due from foreign companies within the VW Group.

Prepayments by Customers represent, mainly, advance payments received from the Sales Organization in Germany and abroad.

Miscellaneous Other Liabilities pertain to payroll accruals, loans granted by the German Federal Agency of Employment, taxes and customs duties.

In addition to the *Contingent Liabilities* shown on the balance sheet, other contingent liabilities which must be reported amounted to DM 4,396,129 in connection with the purchase of shares of two domestic companies with limited liability and the additional capital contribution to be made to two foreign companies as well as DM 280,000 in connection with a business transaction abroad. Of the total other investment securities, DM 3.5 million par value bonds were pledged as security for uninterrupted clearance of imported goods. Intercompany items have been excluded from the above details.

Consolidated Balance Sheet of the VW Group December 31, 1972

(Thousand DM)

| Assets | | | | | | | | | | Liabilities | | | |
|---|--------------|---|-----------|------------|-----------|----------------------------|--|---------------|-----------------|--|-----------|--------------|-----------------|
| | Jan. 1, 1972 | Jan. 1, 1972 Companies included in the consolidation for the first time | Additions | Deductions | Transfers | Provision for Depreciation | Difference resulting from currency changes | Dec. 31, 1972 | Dec. 31, 1971*) | | | Dec. 31 1972 | Dec. 31, 1971*) |
| Property, Plant, Equipment and Investments | | | | | | | | | | | | | |
| A. Property, plant, equipment and intangible assets | | | | | | | | | | | | | |
| Real estate and land rights | | | | | | | | | | Capital Stock of Volkswagenwerk AG | | 900,000 | 900,000 |
| with office, factory and other buildings | 2,131,709 | — | 179,947 | 49,812 | 188,880 | 142,322 | — 6,802 | 2,301,600 | 2,131,709 | Consolidated Reserves | | | |
| with residential buildings | 412,719 | — | 53,525 | 241 | 24,574 | 20,036 | — 45 | 470,496 | 412,719 | Reserves of Volkswagenwerk AG | | | |
| without buildings | 102,982 | — | 8,653 | 1,637 | 13,952 | 927 | — 514 | 94,605 | 102,982 | Legal reserve | 233,799 | | 233,799 |
| Buildings on leased real estate | 24,155 | — | 2,494 | 131 | 2,091 | 3,158 | — 39 | 25,412 | 24,155 | Reserve for the Share-the-Burden Property Levy | 15,059 | | 17,107 |
| Machinery and fixtures | 1,130,215 | — | 493,871 | 39,306 | 218,550 | 441,673 | — 4,534 | 1,357,123 | 1,130,215 | Other reserves | 1,151,126 | | 1,144,126 |
| Plant and office equipment | 442,128 | 600 | 416,569 | 47,570 | 101,742 | 312,668 | — 2,527 | 598,274 | 442,128 | Adjustment items arising from capital consolidation | 1,004,283 | | 951,861 |
| Construction in progress and advance payments | | | | | | | | | | Other adjustment items | 212,759 | | 223,202 |
| to vendors and contractors | 657,559 | — | 384,458 | 64,308 | 522,200 | 43,876 | — 264 | 411,897 | 657,559 | | | 2,617,026 | 2,570,095 |
| Trademarks and similar rights | 3,239 | 200 | 80 | 113 | 315 | 2,370 | — 76 | 1,275 | 3,239 | Minority Interest in Consolidated Subsidiaries | | 223,522 | 198,134 |
| | 4,904,706 | 800 | 1,539,597 | 203,118 | — | 967,030 | — 14,273 | 5,260,682 | 4,904,706 | in net earnings | 14,367 | | |
| | | | | | | | | | | in loss | 10 | | |
| B. Investments | | | | | | | | | | | | | |
| Investments in subsidiaries and affiliates | 54,092 | — | 2,737 | 10,395 | — | 89 | — 21 | 46,324 | 54,092 | Reserves for Special Purposes | | | |
| Other investment securities | 15,139 | — | 286 | 2,605 | 14,298 | 12,777 | — 29 | 14,370 | 15,139 | Reserve for investments in developing countries in accordance with section 1 of the tax law | 125,532 | | 123,211 |
| Long-term loans receivable with an initial term of four years or longer | 232,227 | — | 24,320 | 13,078 | 6,886 | 8,754**) | — 186 | 241,415 | 232,227 | Reserve for price increases in accordance with section 74 of EStDV | 11,555 | | 9,733 |
| Face value at 12/31/72 | | | | | | | | | | Reserve in accordance with section 1 of law on investments abroad | 560 | | — |
| 481,766 | | | | | | | | | | Reserve for replacement in accordance with subsection 35 EStR | 45 | | — |
| including secured by mortgages | | | | | | | | | | Reserves in accordance with Austrian and French legislation | 942 | | 416 |
| 282,569 | | | | | | | | | | | | 138,634 | 133,360 |
| subsidiaries and affiliates | | | | | | | | | | | | | |
| 196 | | | | | | | | | | Allowance for Doubtful Trade Acceptances and Accounts | | 25,456 | 15,422 |
| loans in accordance with section 89 of AktG | | | | | | | | | | Undetermined Liabilities | | | |
| 10,848 | | | | | | | | | | Old-age pensions | 730,044 | | 629,785 |
| loans in accordance with section 115 of AktG | | | | | | | | | | Other undetermined liabilities | | | |
| 23 | | | | | | | | | | Maintenance not performed during current year | 8,000 | | 2,000 |
| Other investments | 36,068 | — | 30,328 | 127 | 21,184 | 1,489 | — 2,871 | 40,725 | 36,068 | Warranties without legal obligations | 8,887 | | 7,108 |
| | 337,526 | — | 57,671 | 26,205 | — | 23,109 | — 3,049 | 342,834 | 337,526 | Other | 1,506,780 | | 1,509,993 |
| | 5,242,232 | 800 | 1,597,268 | 229,323 | — | 990,139**) | — 17,322 | 5,603,516 | 5,242,232 | | | 2,253,711 | 2,148,886 |
| | | | | | | | | 242,637 | 246,494 | Liabilities with an Initial Term of Four Years or Longer | | | |
| | | | | | | | | 5,846,153 | 5,488,726 | Loans | | 306,877 | 7,980 |
| | | | | | | | | | | including secured by mortgages | 300,000 | | |
| | | | | | | | | | | Due to banks | | 446,393 | 293,396 |
| | | | | | | | | | | including secured by mortgages | 286,217 | | |
| | | | | | | | | | | Other liabilities | | 196,736 | 232,805 |
| | | | | | | | | | | including secured by mortgages | 137,408 | | |
| | | | | | | | | | | including amounts due within four years | 88,706 | | 534,181 |
| | | | | | | | | | | Other Liabilities | | | |
| | | | | | | | | | | Trade accounts payable | | 1,149,469 | 1,046,672 |
| | | | | | | | | | | Liabilities resulting from the acceptance of bills drawn and the issuing of promissory notes | 263,019 | | 196,370 |
| | | | | | | | | | | Due to banks | 1,923,086 | | 1,766,187 |
| | | | | | | | | | | Prepayments by customers | 41,219 | | 29,958 |
| | | | | | | | | | | Accounts payable to subsidiaries and affiliates | 873 | | 3,003 |
| | | | | | | | | | | including trade accounts payable | 7 | | |
| | | | | | | | | | | Miscellaneous other liabilities | 613,312 | | 537,651 |
| | | | | | | | | | | | | 3,990,978 | 3,579,841 |
| | | | | | | | | | | | | 3,231 | 8,664 |
| | | | | | | | | | | | | 83,190 | 81,323 |
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Comments on the
Statement of Earnings

In accordance with international practice consolidated sales shown in the current year's statement of earnings do not include, for the first time, the Brazilian sales tax (turnover tax and excise tax). The previous year's figures have been adjusted accordingly.

Sales of the Group amounted to DM 15,996 million and resulted from business activities abroad and in Germany to the extent of DM 10,961 million and DM 5,035 million respectively. The decrease in sales of DM 477 million or 2.9 % as compared to the previous year is primarily due to smaller VW vehicle deliveries to customers in Germany and the United States, lower sales of NSU automobiles and parts in addition to currency changes. The increased sales of Audi vehicles, the sharp rise in sales of Volkswagen do Brasil and the price increases effected were not quite sufficient to cover this decline.

The Gross Output of DM 16,250 million went down to a greater extent than the turnover because stocks decreased in the current year whilst having increased in the previous year. The ratios of selected cost, expense and earnings data to gross output were as follows (1971 ratios in parantheses):

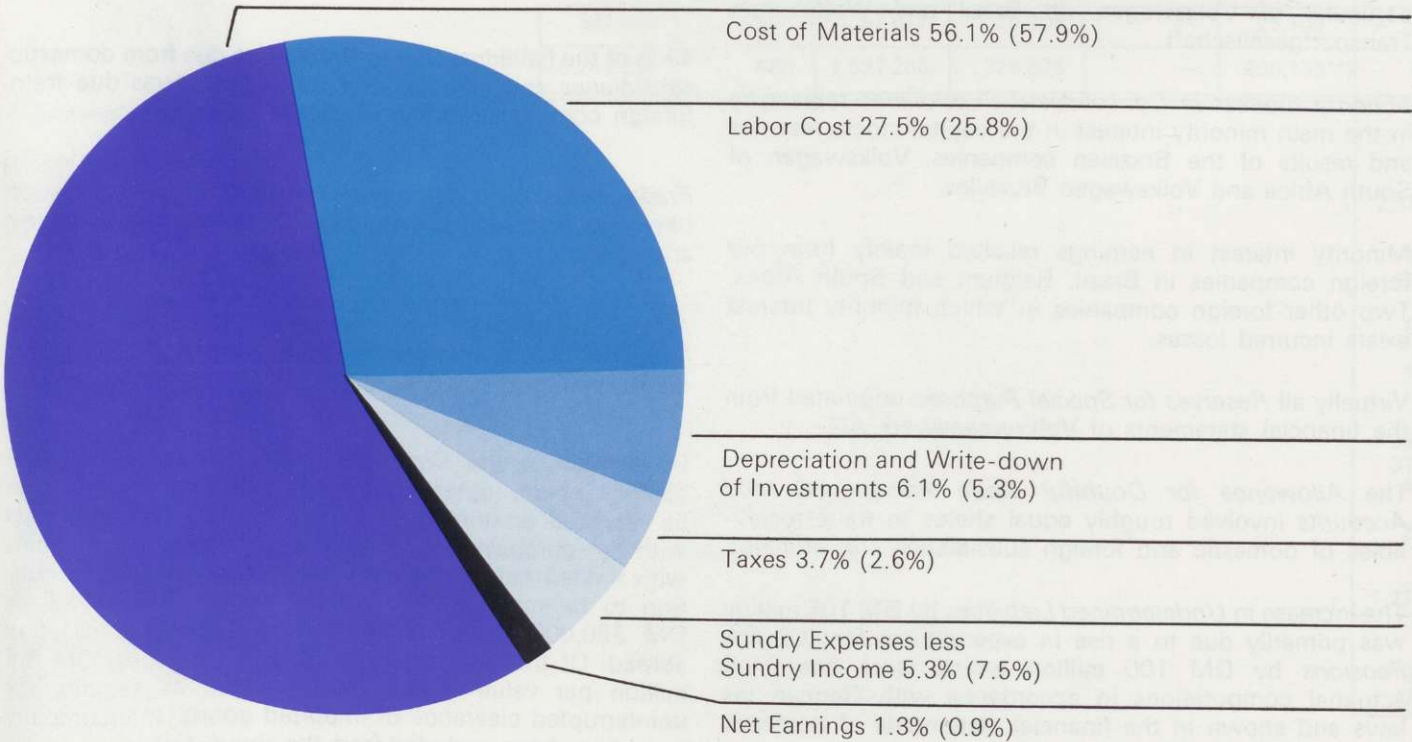
The decline of 7.8 % in *Expenditures for Raw Materials, Supplies and Other Materials* as compared to the prior year was mainly due to Volkswagenwerk AG's reduced production. The cost of materials used by the other producing companies increased on the other hand.

Income from Profit Assumption Agreements resulted from the transfer of the operating profits of VW-Porsche Vertriebsgesellschaft and Deutsche Automobilgesellschaft.

Income from Investments in Unconsolidated Subsidiaries and Affiliates was received in the form of distribution of dividends primarily from dealer firms in the USA which were not included in the consolidation.

Income from Other Financial Investments was primarily contributed by Volkswagenwerk AG.

Other Interest and Similar Income consisted mainly of income from overdrafts granted in the normal course of business, interest on deposit account balances as well as income from disagio on and discounting Brazilian securities.



Gain on Disposal of Property, Plant, Equipment and Investments resulted in the main from the sale of property, plant and equipment belonging to the domestic producing companies and of used vehicles belonging to SU interRent and Volkswagen Leasing.

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

Other Income pertains, for the most part, to revenues from auxiliary services – cafeteria sales and sale of advertising material – and income from rents paid to our housing construction companies in respect of accommodation and leases, etc. In addition this includes income as a contingency against additional tax payments (see detailed comments on the financial statements of Volkswagenwerk AG, page 54).

Despite the fact that the Volkswagenwerk AG cut its labor force *Wages and Salaries* increased because of new wage and salary agreements and an increase in personnel employed by domestic and foreign subsidiaries.

The same reasons caused the rise in *Social Expenditures – Compulsory*.

The major single item of *Pension Expenditures and Voluntary Payments* consists of charges for future and present pension payments.

Interest Expense and Similar Charges increased by DM 54 million as compared to the previous year. This increase resulted primarily from bank loans.

Of the total *Taxes on Income, Earnings and Property* DM 154 million pertain to previous year's earnings. The taxes on 1972 earnings amount to DM 288 million. *Other Taxes* consist mainly of those paid on sales and assembly by our foreign subsidiaries and affiliates.

Additions to Reserves for Special Purposes were almost entirely from Volkswagenwerk AG in respect of investments in developing countries and build-up of the reserve for price increases.

Other Expenses consisted mainly of distribution costs for our products, costs of repair and maintenance of property, plant and equipment, rent and insurance costs. The decrease in other expenses is primarily the result of extraordinary expenses being lower than in the previous year.

Taking no account of inter-company transactions *Net Earnings* show an increase of DM 59 million as compared to the previous year.

Consolidated Statement of Earnings
of the VW Group

Year ended December 31, 1972

(Thousand DM)

| | 1972 | | 1971*) |
|--|------------|-----------------------|-----------------------|
| Sales | 15,996,039 | | 16,473,347 |
| Increase/Decrease in inventories | — 40,326 | | 397,452 |
| Material, wages and overhead capitalized as additions to plant and equipment | | 15,955,713 293,959 | 16,870,799 218,269 |
| Gross Output | | 16,249,672 | 17,089,068 |
| Expenditures for raw materials, supplies and other materials | | 9,123,959 | 9,891,339 |
| Excess of Gross Output over Expenditures for Raw Materials, etc. | | 7,125,713 | 7,197,729 |
| Income from profit assumption agreements | 1,421 | | 540 |
| Income from investments in unconsolidated subsidiaries and affiliates | 2,493 | | 1,698 |
| Income from other financial investments | 20,038 | | 19,010 |
| Other interest and similar income | 202,350 | | 188,858 |
| Gain on disposal of property, plant, equipment and investments | 22,223 | | 16,744 |
| Elimination of reserves for undetermined liabilities no longer required | 122,170 | | 67,404 |
| Other income | 418,266 | | 284,948 |
| including extraordinary income 26,428 | | | |
| | | 788,961 | 579,202 |
| | | 7,914,674 | 7,776,931 |
| Wages and salaries | 3,859,175 | | 3,838,907 |
| Social expenditures — compulsory | 465,066 | | 439,608 |
| Pension expenditures and voluntary payments | 138,660 | | 137,241 |
| Provision for depreciation of physical plant and fixed intangible assets | 967,030 | | 879,106 |
| Write-down of financial investments | 25,407 | | 33,139 |
| Write-down of other current assets and provision for doubtful trade acceptances and accounts | 25,437 | | 30,402 |
| Loss on disposal of property, plant, equipment and investments | 16,461 | | 12,362 |
| Interest expense and similar charges | 165,445 | | 111,587 |
| Taxes | | | 417,974 |
| a) on income, earnings and property | 562,160 | | 30,023 |
| b) other | 34,492 | | |
| Share-the-Burden Property Levy | 596,652 | | 447,997 |
| Expenditures under loss assumption agreements | 3,324 | | 3,324 |
| Additions to reserves for special purposes | — | | 121 |
| Other expenses | 5,274 | | 17,623 |
| | 1,441,236 | | 1,678,839 |
| | | 7,709,167 | 7,630,256 |
| | | 205,507 | 146,675 |
| Net Earnings | | 205,507 | 146,675 |
| Balance carried forward | | | |

*) Previous year's figures not approved by auditors.

| | 1972 | | 1971*) |
|--|---------|---------|---------|
| Balance brought forward | | 205,507 | 146,675 |
| Volkswagenwerk AG net earnings brought forward | | 1,678 | 280 |
| Change in consolidated reserves | | 207,185 | 146,955 |
| Tranfer from Reserves of Volkswagenwerk AG | 2,048 | | 68,961 |
| Adjustment items arising from consolidation | 95,543 | | 110,735 |
| | | 97,591 | 179,696 |
| Transfer to Reserves of Volkswagenwerk AG | 7,000 | 304,776 | 326,651 |
| Adjustment items arising from consolidation | 200,229 | | — |
| | | 207,229 | 234,067 |
| | | 97,547 | 92,584 |
| Minority interest in net earnings of consolidated subsidiaries | | 14,367 | 11,284 |
| | | 83,180 | 81,300 |
| Minority interest in losses of consolidated subsidiaries | | 10 | 23 |
| Net Earnings after Reserve Transfers and Minority Interests | | 83,190 | 81,323 |

Wolfsburg, April 1973

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, April 16, 1973

TREUARBEIT
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Prof. Dr. Forster
Wirtschaftsprüfer

Dr. Tubbesing
Wirtschaftsprüfer

Comparative Summary of Selected Data of the VW Group 1968-1972*)

Year ended December 31, 1972

(Million DM)

| | 1968 | 1969 | 1970 | 1971 | 1972 |
|---|--------|--------|--------|--------|--------|
| Sales (Million DM) | 11,206 | 13,386 | 15,113 | 16,473 | 15,996 |
| Increase (Decrease) as compared to prior year in % | 25 | 19 | 13 | 9 | (3) |
| Domestic sales | 2,841 | 4,023 | 4,911 | 5,135 | 5,035 |
| Export sales | 8,365 | 9,363 | 10,202 | 11,338 | 10,961 |
| Export of domestic subsidiaries | 6,047 | 6,732 | 7,005 | 8,210 | 7,718 |
| Sales of foreign producing subsidiaries based on own production | 2,318 | 2,652 | 3,215 | 3,430 | 3,539 |
| Sales (Thousand vehicles) | 1,776 | 2,087 | 2,207 | 2,317 | 2,197 |
| Increase (Decrease) as compared to prior year in % | 27 | 18 | 6 | 5 | (5) |
| In Germany | 486 | 669 | 725 | 694 | 628 |
| Abroad | 1,290 | 1,418 | 1,482 | 1,623 | 1,569 |
| Production (Thousand vehicles) | 1,777 | 2,094 | 2,215 | 2,354 | 2,193 |
| Increase (Decrease) as compared to prior year in % | 33 | 18 | 6 | 6 | (7) |
| In Germany | 1,558 | 1,843 | 1,889 | 1,867 | 1,673 |
| Abroad | 219 | 251 | 326 | 487 | 520 |
| Labor Force at year-end (Thousand employees) | 145 | 168 | 190 | 202 | 192 |
| Increase (Decrease) as compared to prior year in % | 13 | 16 | 13 | 6 | (5) |
| In Germany | 117 | 140 | 155 | 160 | 149 |
| Abroad | 28 | 28 | 35 | 42 | 43 |
| Capital Investments (Million DM) | 708 | 1,258 | 1,647 | 1,947 | 1,573 |
| Increase (Decrease) as compared to prior year in % | (10) | 78 | 31 | 18 | (19) |
| In Germany | 517 | 967 | 1,403 | 1,545 | 1,183 |
| Abroad | 191 | 291 | 244 | 402 | 390 |

*) 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 reserves for special purposes and that portion of the net earnings after reserve transfers of VW AG not available for distribution.

Balance Sheet (Condensed)

December 31.

| | 1968 | 1969 | 1970 | 1971 | 1972 |
|--|-------|-------|-------|--------|--------|
| – Million DM – | | | | | |
| Assets | | | | | |
| Property, plant and equipment | 3,188 | 3,639 | 4,187 | 4,905 | 5,261 |
| Investments | 101 | 230 | 427 | 584 | 585 |
| <i>Property, Plant, Equipment and Investments</i> | 3,289 | 3,869 | 4,614 | 5,489 | 5,846 |
| Inventories and advance payments to suppliers **) | 1,357 | 1,716 | 2,138 | 2,514 | 2,338 |
| Receivables and the like **) | 632 | 981 | 1,255 | 1,394 | 1,584 |
| Liquid funds, trade acceptances **) | 1,112 | 1,059 | 924 | 445 | 1,038 |
| Securities, own stock | 29 | 83 | 111 | 313 | 354 |
| <i>Current Assets</i> | 3,130 | 3,839 | 4,428 | 4,666 | 5,314 |
| Total Assets | 6,419 | 7,708 | 9,042 | 10,155 | 11,160 |
| Liabilities | | | | | |
| Capital stock | 750 | 750 | 900 | 900 | 900 |
| Reserves of the VW Group ***) | 2,237 | 2,588 | 2,578 | 2,627 | 2,677 |
| Minority interest in consolidated subsidiaries ****) | 113 | 272 | 238 | 189 | 209 |
| <i>Stockholders' Equity</i> | 3,100 | 3,610 | 3,716 | 3,716 | 3,786 |
| Old-age pensions | 338 | 433 | 519 | 630 | 730 |
| Other undetermined liabilities *****) | 883 | 1,071 | 1,345 | 1,596 | 1,604 |
| <i>Undetermined Liabilities</i> | 1,221 | 1,504 | 1,864 | 2,226 | 2,334 |
| Liabilities payable within more than 4 years | 281 | 292 | 305 | 413 | 884 |
| 1 to 4 years | 102 | 217 | 281 | 268 | 366 |
| 1 year | 1,538 | 1,908 | 2,696 | 3,442 | 3,694 |
| <i>Liabilities</i> | 1,921 | 2,417 | 3,282 | 4,123 | 4,944 |
| Outside capital share in net earnings after reserve transfers of VW AG | 171 | 167 | 167 | 81 | 81 |
| Minority interest in earnings to be distributed | 6 | 10 | 13 | 9 | 15 |
| <i>Outside Capital</i> | 3,319 | 4,098 | 5,326 | 6,439 | 7,374 |
| Total Capital | 6,419 | 7,708 | 9,042 | 10,155 | 11,160 |

Statement of Earnings (Condensed)

Year ended December 31.

| | | | | | |
|------------------------------------|--------|--------|--------|--------|--------|
| Gross output | 11,344 | 13,702 | 15,538 | 17,089 | 16,250 |
| Cost of materials | 6,514 | 7,738 | 9,200 | 9,891 | 9,124 |
| Labor cost | 2,319 | 2,920 | 3,646 | 4,416 | 4,463 |
| Depreciation and write-down | 619 | 691 | 836 | 912 | 992 |
| Taxes | 740 | 1,045 | 592 | 452 | 600 |
| on income, earnings and property | 687 | 820 | 534 | 418 | 562 |
| Sundry expenses less sundry income | 612 | 828 | 857 | 1,271 | 865 |
| Net earnings | 540 | 480 | 407 | 147 | 206 |
| Dividend of VW AG | 150 | 167 | 167 | 81 | 81 |

****) Excluding share in net earnings.

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

The Major Companies within the VW Group

- Producing Companies
- Distributing Companies
- Other Companies

December 31, 1972

Companies included in consolidated financial statements of the VW Group

| | | | |
|---|---|---|---|
| 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 98.8% | Volkswagen do Brasil S.A. São Bernardo do Campo Brazil Cr \$ 956, 904, 380 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 Brazil Cr \$ 20,000,000 100.0% | Volkswagen Bruxelles S. A. Brussels, Belgium bfrs 425,000,000 75.0% | Volkswagen Southeastern Distributor, Inc. Jacksonville, Florida, USA US \$ 250,000 100.0% |
| AUDI NSU BELGIUM S.P.R.L. Brussels, Belgium bfrs 250,000 100.0% | Distrivols S. A. São Paulo, Brazil Cr \$ 1,950,000 100.0% | P. T. German Motor Manufacturing Djakarta, Indonesia Rp 1,089,774,000 33.3% | Volkswagen Northeastern Distributor, Inc. Wilmington, Mass., USA US \$ 250,000 100.0% |
| AUDI NSU AUSTRIA Ges. m. b. H. Vienna, Austria S 100,000 51.0% | Forjaria São Bernardo S.A. São Bernardo do Campo Brazil Cr \$ 10,000,002 33.3% | Compañia Hispano Alemana de Productos Mercedes- Benz y Volkswagen, S.A. (MEVOSA), Madrid, Spain Ptas 972,000,000 26.8% | 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 60.9% | Comercio e Industria Alaveses del Automovil, S. A. (CIADASA) Vitoria, Spain Ptas 95,000,000 100.0% | Volkswagen South Atlantic Distributor, Inc. Lanham, Maryland, USA US \$ 250,000 100.0% |
| Compagnie de Commerce et Commission S. A. Paris, France FF 300,000 100.0% | Volkswagen de Mexico, S. A. de C. V. Puebla/Pue., Mexico mex \$ 471,952,000 100.0% | SICCA Española, S. A. Vitoria, Spain Ptas 30,000,000 80.0% | Volkswagen South Central Distributor, Inc. San Antonio, Texas, USA US \$ 250,000 100.0% |
| AUDI NSU FRANCE S. A. Paris, France FF 1,000,000 65.0% | Volkswagen Comercial, S. A. de C. V. Puebla/Pue., Mexico mex \$ 17,200,000 100.0% | TAS Tvoronica Automobila Sarajevo Vogosca, Yugoslavia Din 85,575,000 49.0% | |
| AUDI NSU VERTRIEBS AG Schinznach-Bad, Switzerland sfr 250,000 25.0% | Volkswagen of South Africa Ltd.*) Uitenhage, C. P., South Africa R 1,280,000 64.9%**) 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 \$ 2,606,000 40.7% |
| | | | Vorelco, Inc. Englewood Cliffs, N. J. USA US \$ 10,000,000 100.0% |
| | | | Volkswagen Products Corporation Fort Worth, Texas, USA US \$ 1,000 100.0% |
| | | | interRent, Inc. Englewood Cliffs, N. J. USA US \$ 5,000 100.0% |
| | | | Volkswagen Canada Ltd. Toronto, Ontario, Canada can \$ 500,000 100.0% |
| | | | Vorelco Ltd. Toronto, Ontario, Canada can \$ 10,000,000 30.0% 70.0% HOLAD |
| | | | Volkswagen France S. A. Villers-Cotterêts France FF 7,000,000 100.0% |
| | | | Société Volkswagen de Financement S. A. Paris, France FF 7,500,000 40.2% 58.8% HOLAD |
| | | | Svenska Volkswagen AB Södertälje, Sweden skr 42,000,000 33.3% |
| | | | Volkswagen i Stockholm AB Stockholm, Sweden skr 6,000,000 100.0% |
| | | | VW-Porsche Vertriebsgesellschaft m. b. H. Ludwigsburg DM 14,000,000 50.0% |
| | | | Weser-Ems-Vertriebs- gesellschaft m. b. H. Bremen DM 8,000,000 81.3% |
| | | | SU interRent Autovermietung G.m.b.H. Hamburg DM 1,860,000 100.0% |
| | | | Selbstfahrer Union G.m.b.H. Hamburg DM 20,000 100.0% |
| | | | DIRANUS Versicherungs- Vermittlungs-G.m.b.H. Hamburg DM 30,000 100.0% |
| | | | interRent S. A. Gent, Belgium bfrs 20,000,000 99.9% |
| | | | interRent Location de Voitures S.A.R.L. Paris, France FF 5,000,000 100.0% |
| | | | Wolfsburger Transport- gesellschaft m. b. H. Wolfsburg DM 500,000 90.0% 10.0% HOLAD |
| | | | Volkswagen- Finanzierungs- gesellschaft m. b. H.***) Wolfsburg DM 11,500,000 100.0% |
| | | | AUDI NSU- Finanzierungsgesellschaft m. b. H.****) Ingolstadt DM 5,000,000 100.0% |
| | | | Volkswagen Leasing G.m.b.H. Wolfsburg DM 1,000,000 100.0% |
| | | | Deutsche Automobil- gesellschaft m. b. H. Hanover DM 5,000,000 50.0% |
| | | | VW-Wohnungsbau Gemeinnützige Gesellschaft m. b. H. Wolfsburg DM 2,000,000 100.0% |
| | | | VW-Siedlungs- gesellschaft m. b. H. Wolfsburg DM 20,000,000 100.0% |
| | | | HOLAD Holding & Administration AG Basle, Switzerland sfr 110,000 100.0% |
| | | | Transalme Sociedade de Representações Adminis- tração e Organização Ltda. São Bernardo do Campo, Brazil, Cr \$ 35,000 100.0% |

*) Plus 4 small estate companies included in the consolidation. (Volkswagen Properties (PTY) Ltd., Uitenhage and its three subsidiaries Volksprop Algoa Road, Volksprop Caledon Street, Volksprop Halfway House).

**) VW share in capital stock following conversion of the convertible loan issued on September 1, 1971.
***) In 1973 this company was renamed VW KREDIT BANK GMBH.
****) In 1973 this company was renamed AUDI NSU KREDIT BANK GMBH.

Selected Data of Companies within the VW Group

| | Sales (DM) | | |
|---------------------------------------|----------------|----------|-----------------------------|
| | 1972 | 1971 **) | Increase (Decrease) % |
| | — Million DM — | | |
| Producing Companies | | | |
| Volkswagenwerk AG | 10,399 | 11,244 | (8) |
| AUDI NSU AUTO UNION AG | 2,584 | 2,192 | 18 |
| Volkswagen do Brasil S.A. *) | | | |
| inclusive sales tax | 2,875 | 2,776 | 4 |
| exclusive sales tax | 2,038 | 1,933 | 5 |
| Volkswagen de Mexico, S.A. de C.V. *) | 441 | 384 | 15 |
| Volkswagen of South Africa Ltd. *) | 336 | 334 | 1 |
| Volkswagen Bruxelles S.A. | 324 | 329 | (1) |
| Distributing Companies | | | |
| Volkswagen of America, Inc. *) | 4,149 | 4,925 | (16) |
| Volkswagen Canada Ltd. *) | 359 | 338 | 6 |
| Volkswagen France S.A. *) | 220 | 195 | 13 |

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

Sales (units)

to the Dealer Organization

| 1972 | 1971 | Increase (Decrease) % |
|--------------|-----------|-----------------------------|
| — vehicles — | | |
| 1,471,561 | 1,705,419 | (14) |
| 296,895 | 286,623 | 4 |
| 337,662 | 291,768 | 16 |
| 58,413 | 47,710 | 22 |
| 35,148 | 34,119 | 3 |
| 81,890 | 87,428 | (6) |
| 509,167 | 622,983 | (18) |
| 35,581 | 35,259 | 1 |
| 36,811 | 36,455 | 1 |

Capital Investments

| 1972 | 1971 | Increase (Decrease) % |
|----------------|-------|-----------------------------|
| – Million DM – | | |
| 785 | 1,216 | (35) |
| 253 | 304 | (17) |
| 225 | 246 | (9) |
| 64 | 24 | 171 |
| 48 | 29 | 65 |
| 41 | 26 | 60 |
| 17 | 32 | (46) |
| 5 | 6 | (20) |
| 4 | 2 | 118 |

Labor Force

| 1972 | 1971 | Increase (Decrease) % |
|-----------------|---------|-----------------------------|
| — at year-end — | | |
| 116,352 | 130,266 | (11) |
| 31,173 | 28,624 | 9 |
| 28,264 | 27,324 | 3 |
| 5,922 | 4,601 | 29 |
| 4,081 | 3,697 | 10 |
| 2,125 | 2,113 | 1 |
| 1,693 | 1,813 | (7) |
| 414 | 419 | (1) |
| 451 | 448 | 1 |

Selected Data of Companies

Producing Companies

Volkswagenwerk AG, Wolfsburg

In 1972 there was a fall in the Volkswagenwerk AG's turnover, sales and production. Admittedly DM 86 million still does not represent a satisfactory result but net earnings are nevertheless DM 74 million up on those of the previous year.

Sales Trend

The total number of units supplied to the Dealer Organization in the year under review was 1,471,561. This represented a 13.7 % decrease on the previous year. Deliveries made to customers by dealers provide a more accurate picture of the demand for Volkswagens which only dropped by 4.2%. Stocks held by the Dealer Organization were run down accordingly.

Following the model year changeover in the autumn of 1972 demand for Volkswagens became livelier. It did not, however, prove sufficient to bring sales up to the level of the previous year. On the whole the sales pattern in Germany and abroad was uniform and as a result the company's percentage share of exports, 67.1 % (67.7 %), remained virtually the same.

The Volkswagenwerk AG's share in the new vehicle registrations of passenger cars in the Federal Republic of Germany dropped to 18.1 % from 21.1 % in 1971. The VW Commercial emphasized the dominant position it holds in its competitive range. With its 71.2 % share of the market (69.7 % in 1971) it even managed to improve its position still further.

485,645 VW automobiles were delivered to customers in the USA, 7.1 % less than in 1971. There was even a time in the first half of the year when we faced a decrease of more than 20 %. Monthly sales on this market did not show a distinct improvement until the second half of the year.

Deliveries to customers in our European markets, developed to a gratifying extent, particularly in Great Britain. In addition to this the previous year's figures have been bettered in the other markets, except for the Netherlands and Norway. 351,969 automobiles were sold — an improvement of 12.1 % on the previous year's results.

Turnover

In 1972 the Volkswagenwerk AG's turnover was 7.5 % down on that of the previous year. The setback was not as great as the fall in sales to the Dealer Organization. The reason for this is to be found in the price increases necessitated by costs. The export share of the turnover dropped to 62.7 % (64.7 %).

Production

Compared with 1971, production was cut by 13.9 % to 1,477,343 automobiles. Because of the slackening demand at the beginning of the year under review, production ceased in all the plants, except Hanover, from January 3–7, 1972.

In order to meet the considerable demand for the Audi 80 the Volkswagenwerk AG has also been assembling this vehicle on behalf of AUDI NSU since October 1972. 6,007 Audi 80s had been produced here by the end of the year.

Earnings Situation

In 1972 the earnings situation of the Volkswagenwerk AG was under considerable pressure, due specifically to increased personnel costs, higher fixed costs due to the cutback in production and losses brought about by the monetary position. In view of tougher competition on all markets it was only possible to partially compensate for this through price increases. Our main efforts were therefore directed towards effecting an improvement in the cost situation. The factors contributing towards this included a reduction effected in the labor force, with the approval of the Factory Council, with hardship being avoided, streamlining production and economies in the use of material. Net earnings for the year stood at DM 86.5 million, an increase of DM 74.4 million on the previous year. This means that, in contrast to 1971, the dividend for the 1972 Business Year can be paid in full from net earnings.

Labor Force

The Volkswagenwerk AG employed 116,352 persons at the end of 1972, 10.7 % less than the year before. It became necessary to cut back the labor force in the first half of the year. This was done by not replacing personnel who left in the normal course of events and by offering special benefits to persons leaving voluntarily. In addition, 64 year-old employees were given the opportunity of early retirement without suffering any material disadvantages. The recovery of demand in the autumn then permitted us to lift the ban imposed on recruitment.

At year-end the Volkswagenwerk AG employed 101,866 wage earners and 14,486 salaried employees. 12,683 foreign workers (16,824 in 1971) were on the payroll of the Volkswagenwerk AG. The proportion of foreign workers in total labor force fell from 12.9 % to 10.9 %. These foreign employees who include 4,487 Italians, 2,765 Turks, 1,777 Greeks, 1,563 Spaniards and 591 Tunesians, mainly carry out duties in the Wolfsburg and Hanover Plants.

**Apartment Blocks built for
foreign workers**

The VW-Siedlungsgesellschaft erected 12 eight-story apartment blocks accommodating some 3,500 foreign workers in Wolfsburg-Kästorf. Each of the blocks has 32 apartments, with one, two, three or four beds as the case may be, a well equipped kitchen and toilet facilities.



The Community Center

This recreation room in the new Community Center in Wolfsburg-Kästorf is one of the places where foreign workers get together.

Producing Companies



At the end of the year under review the average age of VW employees was 37.8 years (36.5 in 1971) and average seniority was 9.6 years (8.3 in 1971). The incidence of absence due to sickness was 6.5 % (7.1 % in 1971).

The activities of the factory's internal suggestions scheme were stepped up considerably. The number of suggestions submitted, 20,997, was more than double that of 1971 (8,069). Cash awards totalling some DM 4 million were paid for the good ideas submitted.

In the year under review 2,959 (2,695) apartments and houses sponsored by the Company were completed. 1,500 (1,331) of these were rented apartments. At year-end 1,324 (2,391) apartments were still under construction. The number of apartments in the areas adjacent to the plants increased to 34,509 units on December 31, 1972, a figure which included 15,981 private houses and apartments and 6,136 accommodation units in hostels.

Loans totalling DM 15.4 million (DM 13.5 million in 1971) were granted to employees wishing to build or purchase their own homes.

From January onwards the 7.5 % increase in wages and salaries agreed upon in December 1971 became effective. The payment of staff efficiency bonuses has been part and parcel of the Salary Agreement from January 1, 1972.

In the year under review Volkswagenwerk AG's expenditures for wages and salaries came to DM 2,701 million. In addition social expenditures – compulsory amounted to DM 319 million and pension expenditures and voluntary payments accounted for DM 117 million. This decrease was due in the main to the fact that the labor force was reduced, overtime working cut and extra shifts were not worked.

Capital Investments

In the year under review the Volkswagenwerk AG's capital investments were reduced by 35.5 % to DM 785 million. This included a DM 158 million reduction in property, plant and equipment investments, bringing them to DM 737 million and a DM 273 million reduction of investments in subsidiaries and affiliates which were in the order of DM 48 million.

Whereas, in 1971, the emphasis was still on the construction and expansion of production facilities, particularly in Salzgitter, capital investments in the year under review were employed primarily in the task of bringing the new model year to fruition.

In the main, investments in subsidiaries were accounted for by our share of Volkswagen do Brasil's increase in capital stock.

74.9 % of the Volkswagenwerk AG's capital investments were financed from depreciations and write-downs (46.3 % in 1971).

AUDI NSU AUTO UNION AG, Neckarsulm

In 1972 the AUDI NSU AUTO UNION AG's sales to the dealer organization rose by 3.6% to 296,895 units. Once again the Audi 100 accounted for the lion's share of this increase whilst sales of NSU vehicles continued to fall. This shift in emphasis to the higher priced models resulted in a DM 392 million increase in turnover to DM 2,600 million. Since July 1972 the company has a further model which is much in demand in the shape of the Audi 80.

In the year under review the AUDI NSU share in new passenger car registrations in West Germany and West Berlin went down to 6.8% (7%). This was due to the lower sales of NSU models. On the whole the company has enjoyed further success in the export field – as a result the percentage exported increased to 50.5 % (48.8%). The principal Audi customers are to be found in the USA, Great Britain and Switzerland. This make is gaining more and more popularity, particularly in the USA where sales in 1972 shot up by 28.3% to 31,978 units compared with the previous year.

In 1972 a new direct dealer organization was created in Germany. By the end of the year seven factory-owned distribution centers had been set up and they have taken over the responsibility for attending to dealer requirements in the parts and service sectors.

299,484 Audi and NSU vehicles were produced. This was a 6.1% increase on the previous year's results. Here it must be borne in mind that there were losses in AUDI NSU production in 1971 because of strike action.

Production procedures were radically reorganized. Production of the Audi 100 was stepped up in Neckarsulm where capacity had become available because of the falling demand for NSU models. The Audi 80 is produced in Ingolstadt and since October 1972 it is also being produced in Wolfsburg on account of the great demand. By the end of the year 839 units of this particular model were already coming off the line every day – 234 of them in Wolfsburg. In the year under review AUDI NSU's average production per working day was 1,283 units – 1,031 Audis and 252 NSU models.

Investments to the tune of DM 253 million were primarily applied to the changes in the product range and the expansion and renovation of the plant facilities. This meant that investments, 65.5% (47%) of which were financed from writedowns, were 17% below those of the previous year.

New firms became licensees for the Wankel engine in 1972 as well. These were the Birmingham Small Arms Co. Ltd., the Yamaha Motor Co. Ltd. and the Kawasaki

Heavy Industries Ltd. This means that there are 24 license agreements and 3 sublicense agreements in force. Further agreements are being negotiated with companies of high repute. Once again the income from license agreements in the year under review showed a most welcome trend.

The earnings situation of the AUDI NSU AUTO UNION AG changed for the better in 1972. Increased efforts to effect economies and the rise in the sales of models yielding larger profits contributed towards this. The company achieved results that made it possible to distribute DM 13.55 million on the participating certificates and in addition to transfer DM 2.28 million to the parent company in accordance with the corporate agreement, as well as building up a reserve of DM 6 million. Persons still holding AUDI NSU stock will receive a dividend amounting to two fifths of the Volkswagenwerk AG's dividend as laid down in the agreement.

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

Once again in 1972 the Brazilian automobile industry enjoyed a boom in which Volkswagen do Brasil played a major part. Compared with 1971 sales showed an increase of 15.7% and the company continued to hold its position on this market despite increased competition. With its 64.6% share of the passenger car market and a 41.5% share of the commercial market the company almost reached the levels of the previous year (66.3% and 43.1% respectively) in spite of increasing competition.

In the year under review 7,204 vehicles and packs of parts were exported, primarily to South American countries. A large proportion of it was sent to Peru. It is proposed to expand exports still further.

Volkswagen do Brasil's sales which rose by 5.4% to DM 2,038 million lagged behind production and numbers of units sold. This was due to a shift in demand from the VW 1600 to the lower priced VW Beetle and to a worsening of the exchange rate as a result of the DM revaluation. Taking Cruzeiros as a basis sales increased by 28.9%.

The company's earnings situation continued to be good.

Some 616,000 vehicles were produced in Brazil in 1972, about 19% more than in the previous year. Volkswagen do Brasil increased production by 16.2% to 343,533 vehicles. The average daily manufacturing rate for the year went up by 16.7% to 1,462 units.

The investment program drawn up by Volkswagen do Brasil, in order to satisfy likely long-term expectations on the Brazilian automobile market, continued. Investments which amounted to DM 225 million were not only directed

towards expanding the capacity but also towards rationalizing production.

In the course of the business year the company's capital stock was increased from Cr \$ 299,429,170 (DM 154.7 million) to Cr \$ 956,904,380 (DM 494.3 million) – of this sum Cr \$ 169,318,530 (DM 87.5 million) came from a capitalization of the reserves set up in accordance with Brazilian Law to compensate for inflation. Cr \$ 80,800,000 (DM 41.7 million) resulted from the payment of funds and a contribution of productive equipment and Cr \$ 49,310,640 (DM 25.5 million) from capitalization of other reserves.

Total capital stock is represented by Cr \$ 496,557,879 (DM 256.5 million) of common stock, and Cr \$ 460,346,501 (DM 237.8 million) of preferred stock. The Volkswagenwerk still owns 80% of both the outstanding preferred and common shares.

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

In 1972, Volkswagen de Mexico increased its unit sales by 22.4%. By increasing its share of the total passenger car market to 32.8% (32%) the company emphasized the significant position it occupies on the Mexican market. Its share of the small car market was 63% (64%). The VW Commercial on offer since February 1972 has been well received in Mexico.

Production increased by 21.7%. Sales improved by 14.7%. The earnings situation was also satisfactory in 1972.

The company stepped up its export activities in the year under review. Above all, more spare parts were exported to the USA and to the Federal Republic of Germany and consequently the value of these exports went up to DM 60 million (DM 48 million). As a result the company succeeded in increasing the domestic sales permitted by the Mexican Government considerably. The export of the Courier Vehicle (VW 181) also contributed towards this. Since mid-1972 Volkswagen de Mexico has been the central point for the production of this vehicle on behalf of the entire Group.

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

In 1972 the passenger car market in South Africa became somewhat livelier following the adverse effect of the measures which had been taken to dampen the economy in the previous year. Volkswagen of South Africa was able to profit from this development, increasing sales

Volkswagen do Brasil

Volkswagen do Brasil, with its 28,000-strong labor force, is the largest automobile plant in South America. It represents a great stimulus to Brazil's economic growth.



Puebla's new Training Center

VW de Mexico's new Training Center was officially opened a short time ago. At the moment 250 skilled workers are being trained there for employment within the company and in other industries in the Puebla area.



by 3% to 35,148 vehicles. The Audi 100 which was introduced in the middle of the year played a major part in this improvement.

VW and Audi vehicles just about managed to hold their share of the South African passenger car market with 14 % (14.2 %). The same can be said of the utility vehicle market which contracted in 1972 unlike the passenger car sector. The upward revaluation of the DM and the devaluation of the Rand meant that sales expressed in DM went up slightly from DM 334 million in 1971 to DM 336 million in the year under consideration. Expressed in Rand sales increased by 18.1 %.

Volkswagen of South Africa made investments to the value of DM 48 million in 1972. This sum was used primarily to expand capacity to meet Government requirements with regard to the increased local content of its vehicles and in connection with the introduction of the Audi 100.

The company made a profit in the 1972 business year.

Motor Producers Ltd., Melbourne, Australia

In 1972 the company was able to sell 10,518 (14,363) Volkswagens. Thus, its share of the passenger car market was 2.6 %. Although the utility vehicle market experienced a generally downward trend the 5,075 (5,068) units sold nevertheless represented a satisfactory sales result.

Assembly of vehicles of other makes increased to 21,692 units, which meant that full use was made of the capacity.

Compared with the previous year the company's sales fell by 6.1 % to DM 134 million. On the whole earnings in the 1972 business year must be regarded as satisfactory.

The Volkswagenwerk AG and the Nissan Motor Company Ltd. are conducting negotiations with a view to the Japanese company acquiring an interest in Motor Producers Ltd.

Volkswagen Bruxelles S. A., Brussels

In 1972 our Belgian subsidiary assembled 81,892 vehicles, 6.3 % less than in the previous year.

This fall is mainly due to the fact that this company, like the Volkswagenwerk AG, was on short time for five days in January 1972.

The company broke even in the year under review.

P. T. German Motor Manufacturing, Jakarta, Indonesia

In the year under review this company also started to assemble Volkswagens. In addition to Daimler-Benz trucks which have been manufactured since 1971, it now also assembles the VW Beetle, the Courier Vehicle and the VW Commercial.

All told, 1,539 units were manufactured in the year under consideration – 658 vehicles were Daimler-Benz vehicles and the remaining 881 Volkswagens.

The company's results were adversely affected by the cost involved in starting up assembly operations and also on account of the fact that the expanded assembly capacity was still not being used to the full.

The Daimler-Benz AG, the Indonesian P. T. Indophing Finance Group and the Volkswagenwerk AG each had an interest of one third in P. T. German Motor Manufacturing.

Compañía Hispano Alemana de Productos Mercedes-Benz y Volkswagen, S. A. (MEVOSA), Madrid, Spain

In 1972 the Spanish utility vehicle market showed evidence of strong demand. MEVOSA increased its registration figures in the 1 ton category to 8,483 (7,236) vehicles and in the 1.5 to 2.5 ton category to 2,089 (1,057) vehicles.

This company is the result of a merger initiated in 1971 between IMOSA and CISPALSA, a subsidiary company of the Daimler-Benz AG. Volkswagenwerk AG has a 26.8 % interest in this company.

The company's earnings situation remained unsatisfactory.

TAS Tvornica Automobila Sarajevo, Vogosca, Yugoslavia

This company, a joint venture with UNIS, the Yugoslav VW Exclusive Importers, was established in mid-1972. The Volkswagenwerk AG has a 49 % interest in this enterprise. TAS started to produce parts and series production components for the Volkswagenwerk AG in August 1972. The foundation stone for the plant which is scheduled to start manufacturing VW 1200, 1300 and 1303 vehicles from the autumn of 1973 was laid in September.

Distributing Companies

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

In 1972 companies offering vehicles on the US passenger car market set up a new sales record with 10.9 million units sold — an increase of 7.3 %. It was principally American manufacturers who profited from this however. Import cars — 1.6 million (1.5 million) of which were sold — did not quite succeed in holding on to their 14.4 % share of the total passenger car market.

The main reason for the comparative deterioration in the position of firms marketing import cars in the USA must be found in the effects of the monetary and trading policies in effect from August 1971. This deterioration with regard to competition hit Volkswagen of America to the same extent as it did other importers. In particular deliveries by VW dealers to customers slumped drastically at the beginning of the year under review. The situation did however become stable once more and from May onwards sales figures once again exceeded 40,000 Volkswagens per month.

In the year under review 485,645 (522,655) Volkswagens were delivered to customers, 7.1 % down on the previous year. This must be regarded as satisfactory, bearing in mind that, in the first half of 1972, the fall of deliveries to customers was even as high as 20 % or thereabouts. It was worthy of note that sales of the VW Beetle increased by 5.2 % in 1972.

In the year under review the Porsche Audi Dealer Organization sold 46.7 % more Audi 100 than in 1971. We anticipate that the Audi 80 will have good sales opportunities too. It is planned to introduce it in the USA early in 1973. Altogether 49,144 (37,399) Audi, Porsche and VW-Porsche vehicles were sold in 1972.

In the year under consideration the share of the passenger car market gained by the Volkswagen, Audi and Porsche vehicles sold by Volkswagen of America was 4.5 % compared with 4.9 % in the previous year.

The company's sales expressed in German currency diminished by 15.8 % to DM 4,149 million.

Because of the disadvantages brought about by the changes in the exchange rates Volkswagen of America and its subsidiaries, generally speaking, were only able to break even.

Volkswagen Canada Ltd., Toronto, Ontario

The sales climate on the Canadian automobile market was a favorable one in 1972. Our subsidiary, however, did not have a full share in this trend. It only increased sales

marginally by 0.9 % to 35,581 units. Its market share fell from 4.1 % to 3.6 %. The main reason for this is to be found in our unfavorable position on this fiercely contested market in regard to the price of our products because of the cost and currency situation.

Volkswagen Canada's sales proceeds showed an increase of 6.2 % on those of the previous year.

The company broke even in 1972.

Volkswagen France S. A., Villers-Cotterêts

The upward trend on the French passenger car market continued in the year under review. In the face of strong competition, above all from the products of the domestic automobile industry, Volkswagen France, with 36,811 vehicles sold, was able to improve slightly on previous year's figures. However, the company was not able to hold its share of the market which fell from 2.2 to 2 %.

Sales proceeds increased by 12.6 % due to price increases and an improvement in sales of the higher priced VW K 70. On the other hand burdens were imposed by the monetary situation. The company did not break even in 1972.

Svenska Volkswagen AB, Södertälje

In the year under review there was an increased demand for cars in Sweden after the Government had released its credit restrictions. This allowed Svenska Volkswagen to improve its sales by 8 %. On the other hand its share of the Swedish passenger car market dropped from 11.9 % to 11.3 %.

Following the removal of the general price freeze, the price increases which had become necessary were put into effect in the 1972 business year. In doing so the company was able to improve its results.

VW-Porsche Vertriebs- gesellschaft m. b. H., Ludwigsburg

This company in which the Volkswagenwerk AG and the Dr.-Ing. h. c. F. Porsche AG each has a 50 % interest markets sporty vehicles produced by the two controlling companies. Deliveries of Porsche and VW-Porsche vehicles to customers increased by a further 18.1 % to 36,560 units.

The VW-Porsche Vertriebsgesellschaft made a profit which was split up by the two controlling companies, in accordance with the existing agreement in respect of earnings.

The Weser-Ems-Vertriebsgesellschaft which carries out distributor functions in the Bremen and Oldenburg areas sold 13,493 vehicles in the first complete year of its activities and achieved a sales volume of DM 101 million. Measures taken to streamline the company resulted in an improvement of the earnings situation.

The Weser-Ems-Vertriebsgesellschaft is a joint venture of the Volkswagenwerk AG and the former Bremen VW distributor. The Volkswagenwerk AG's interest in it exceeds 80 %. Preparations to assume responsibility for the supply of AUDI NSU spare parts in Northern Germany were completed in the 1972 business year.

Other Companies

SU interRent Autovermietung G. m. b. H., Hamburg

The former Selbstfahrer Union, which was renamed SU interRent Autovermietung G.m.b.H. in 1972, hires out motor vehicles on the domestic market and in foreign countries in Europe.

Proceeds increased from DM 78 million to DM 86 million. The company broke even in 1972.

In the 1972 business year concerted efforts were made with a view to further progress in establishing the international interRent Organization.

Wolfsburger Transportgesellschaft m. b. H., Wolfsburg

Because of the decline in sales in USA the number of vehicles transported also fell. In 1972, the company shipped a total of 801,000 units as opposed to 900,000 vehicles in the previous year.

The company's earnings situation was also good in 1972.

Volkswagen-Finanzierungsgesellschaft m. b. H., Wolfsburg

This company which was renamed VW KREDIT BANK GMBH in 1973 finances vehicles and parts purchased by VW dealers in Germany and vehicles sold to consumers.

In spite of tough competition with other institutions providing credit facilities customer financing activities showed a marked expansion. In addition the volume of business handled in the dealer finance sector was also increased.

The company achieved a satisfactory result in the 1972 business year.

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

Leasing business in the Federal Republic of Germany is going through a continuing period of expansion. Volkswagen Leasing, the company which leases all models produced by the VW Group to commercial undertakings along with service equipment for the use of the Group's dealer organization, also profited from this trend. Sales proceeds increased considerably on those for 1971.

The higher profit achieved as compared to the previous year was taken over by the Volkswagenwerk AG in accordance with the existing Profit and Loss Assumption Agreement after transfer had been made to reserves.

Deutsche Automobilgesellschaft m. b. H., Hanover

This company's sector of activity covers developments in the field of electrically powered automobiles. Equal shares are held by the Daimler-Benz AG and the Volkswagenwerk AG.

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

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

In the year under review the company constructed 339 apartments, mainly for personnel employed in the Kassel plant. This figure includes 59 apartments for owner-occupation in Wolfsburg-Fallersleben, with the owners scheduled to take possession in 1973.

104 apartments were completed in the year under review. On December 31, 1972 the company owned 7,050 apartments and 132 accommodation units in hostels.

VW-Siedlungsgesellschaft m. b. H., Wolfsburg

The VW-Siedlungsgesellschaft constructs apartments for VW employees. In the year under review 692 apartments were made ready for occupation, so that by the end of the year the company owned 5,666 housing units. An additional 275 apartments were still under construction at the end of 1972.

The loss, incurred in the business year, resulted in the main from the write-off of asset values allowed under tax laws and was absorbed by the Volkswagenwerk AG in accordance with the Profit and Loss Assumption Agreement.

HOLAD Holding & Administration AG, Basle, Switzerland

This company holds 10 % of the capital stock of the Wolfsburger Transportgesellschaft, ca. 59 % of the capital stock of the Société Volkswagen de Financement S.A., Paris, a financing company and a 70 % of the capital stock of Vorelco Ltd., Toronto, which finances sites for the Canadian VW Organization. In addition to this it also holds 16.7 % of the capital stock of the South African Motor Acceptance Corporation, Uitenhage, a financing company.

Dividends from these holdings were reinvested throughout the entire Group.

Comments on the Balance Sheet

Assets

During 1972 the additions to *Property, Plant and Equipment* of DM 737 million were DM 158 million lower compared to the previous year. The additions to land, buildings, machinery and equipment, including transfers from construction in progress and advance payments to vendors and contractors, amounted to DM 845 million.

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). Grants made from public funds for additional investments have as in the past been accounted for after they became effective, as a reduction of the purchase or production cost. Since they were granted exclusively for additional investments for the prior years they have been shown as decrease in property, plant and equipment. Advance payments to vendors and contractors were listed with the amounts disbursed. In addition reference is made to the comments on the 1970 financial statements.

The change-over with regard to regular depreciation, which was made from the declining-balance method to the straight-line method in 1971 in order to obtain assistance from the State, such as, aid to zonal border areas, was discontinued in the year under review in respect of the same additions. Thus, regular depreciation on property, plant and equipment was determined using the same methods as in previous years and it was based on the same estimated useful life referred to in the reports for the years 1970 and 1971.

During 1972, for the most part, additional depreciation was provided for to take full advantage of existing tax benefits. This consisted primarily of increased depreciation on plant and equipment used in research and development. In addition to this there were minor additional depreciations which provided tax benefits under sections 6 b and 7 b of EStG and section 79 of EStDV as well as subsection 35 of EStR.

Of the total depreciation provided for in 1972 DM 418 million were accounted for as regular depreciation according to the straight-line method, DM 92 million according to the declining-balance method and DM 7 million are covered by direct write-off of plant and office equipment. The additional depreciations amounted to DM 58 million. Additions during the report year were depreciated by DM 180 million. This depreciation was based on additions to land, buildings, machinery and equipment including transfers from construction in progress and advance payments to vendors and contractors which totalled DM 915 million.

The additions to *Investments in Subsidiaries and Affiliates* consisted of:

- DM 35 million contribution to the increased capital stock of Volkswagen do Brasil S. A.,
- DM 10 million purchase of stock of Industrias del Motor, S. A. (IMOSA); this company was merged with CISPALSA and then incorporated into the newly organized Compañia Hispano Alemana de Productos Mercedes-Benz y Volkswagen, S. A. (MEVOSA),
- DM 2 million purchase of additional stock of AUDI NSU AUTO UNION AG,
- DM 1 million contribution towards our company's 49 % interest in TAS Tvrnica Automobila Sarajevo organized on June 14, 1972.

Our current year's investments in Volkswagen do Brasil and TAS Tvrnica Automobila Sarajevo were written down to take full advantage of the tax benefits available on investments made abroad and in developing countries.

Other Investment Securities consist of 5 % West German Government Bonds for the Promotion of Developing Countries. The sixth repayment on the bonds, amounting to DM 2.5 million, was received in 1972. The value shown on the balance sheet for these bonds is below market value. DM 3.5 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 1972, *Long-term Loans with an Initial Term of Four Years or Longer* increased by DM 22 million and were exclusively granted for housing construction. Interest-free loans have been discounted to reflect present values.

Of the loans made in accordance with section 89 of AktG, DM 10,328,384 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 decrease in *Inventories* resulted from smaller stocks of raw materials and supplies and smaller quantities of work in progress inventories and finished products. Inventories were valued based on the same principles used at the end of 1970.

Trade Accounts Receivable represent DM 83 million due from customers in foreign countries and DM 22 million due from customers located in the Federal Republic of Germany. Subsequent to December 31, 1972, all material amounts were collected when due.

The portfolio of *Securities* decreased by DM 60 million to DM 26 million, particularly due to the sale 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.

The book value shown on prior year's balance sheet for the unchanged number of *Own Stock* was listed again because the price quoted on December 31, 1972 exceeded the value shown in the books.

Receivables from Subsidiaries and Affiliates mainly arose from current business. The receivables due from foreign subsidiaries and affiliates decreased whereas the receivables due from domestic subsidiaries and affiliates increased. Where appropriate, lower valuations were placed to a minor degree on receivables in view of the inherent risks relating to the rate of exchange and currency transfers.

Miscellaneous Other Current Assets consist mainly of claims, which could not be balanced out at the balance sheet date, in respect of excess payments of corporation and trade profit tax as well as sales tax refunds. These assets also include the cash surrender value of old-age insurance and interest receivables. Doubtful accounts were minor in amount and have been written off.

Liabilities

The *Reserve for the Share-the-Burden Property Levy* represents the discounted amount of this liability as of December 31, 1972.

DM 7 million from 1972 earnings were transferred to *Other Reserves*.

The increase in *Reserves for Special Purposes* primarily pertains to the setting up of reserves for current year's investment in developing countries, to the increase in the contingency reserve and to the setting up of reserves for investments abroad and replacement. In addition to the elimination of reserves as required by law a certain proportion of the reserves set up in prior years for investment in developing countries which has not qualified for tax concessions was eliminated.

The increase in the *Allowance for Doubtful Trade Acceptances and Accounts* is both due to the raised trade receivables and trade acceptances and advance payments made which for the first time were also taken into account.

During 1972, *Undetermined Liabilities* increased as a result of raised pension plan costs, which were based on actuarial computations in accordance with existing tax laws, and taxes.

Undetermined liabilities of DM 8 million for maintenance work which could not be performed in 1972 were established at the end of 1972. Undetermined liabilities to the amount of DM 2 million as shown in the previous year were used for maintenance work performed during the year under review.

Of the undetermined liabilities shown on the balance sheet, approximately two thirds pertain to undetermined liabilities in respect of distribution costs and taxes and about one third to undetermined liabilities in respect of obligations towards the employees and numerous other risks.

The undetermined liabilities in respect of warranties based on legal obligations which are included in the undetermined liabilities in respect of distribution costs, were established without taking account of any claims of redress against suppliers which are likely to be of a minor nature.

Liabilities with an Initial Term of Four Years or Longer have been increased by DM 300 million on account of the raising of a DM loan. In respect of the plant improvement loan taken up in 1961/1963 the outstanding balance of DM 38 million was repaid.

Of the total *Trade Accounts Payable*, which remained at the previous year's level, 10 % 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 mainly from advance payments received from foreign subsidiaries.

The increase in *Miscellaneous Other Liabilities* was due in the main to interest due on the loan raised and higher tax obligations.

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 280,000 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.

Volkswagenwerk AG
Balance Sheet December 31, 1972

Assets

| | Jan. 1, 1972 | Additions | Deductions | Transfers | Accumulation of Discount | Provision for Depreciation | Dec. 31, 1972 | Dec. 31, 1971 |
|--|---------------|-------------|-------------|-------------|-----------------------------|-------------------------------|---------------|---------------|
| Property, Plant, Equipment and Investments | DM | DM | DM | DM | DM | DM | DM | Thousand DM |
| A. Property, plant and equipment | | | | | | | | |
| Real estate and land rights | | | | | | | | |
| with office, factory and other buildings | 1,436,598,347 | 73,873,695 | 17,639,890 | 120,323,753 | — | 95,846,016 | 1,517,309,889 | 1,436,598 |
| with residential buildings | 12,557,427 | 408,121 | 153,981 | 156,002 | — | 892,019 | 12,075,550 | 12,558 |
| without buildings | 36,855,435 | 361,236 | 880,140 | — | — | 154,276 | 36,083,497 | 36,856 |
| Buildings on leased real estate | 18,151,258 | 184,999 | — | 1,816,499 | — | 2,346,421 | 17,806,335 | 18,151 |
| Machinery and fixtures | 708,414,348 | 315,947,997 | 27,342,092 | 137,409,046 | — | 278,897,087 | 855,532,212 | 708,414 |
| Plant and office equipment | 181,361,154 | 144,899,511 | 5,896,003 | 49,381,162 | — | 161,489,948 | 208,255,876 | 181,361 |
| Construction in progress | 291,576,472 | 186,840,706 | 34,319,060 | — | — | 34,290,572 | 178,047,511 | 291,577 |
| Advance payments to vendors and contractors | 103,410,012 | 14,182,513 | 24,320,634 | — | — | 754,420 | 15,289,802 | 103,410 |
| | 2,788,924,453 | 736,698,778 | 110,551,800 | — | — | 574,670,759 | 2,840,400,672 | 2,788,925 |
| B. Investments | | | | | | | | |
| Investments in subsidiaries and affiliates | 733,354,980 | 47,948,457 | — | — | — | 5,183,285 | 776,120,152 | 733,355 |
| Other investment securities | 11,031,251 | — | 2,206,250 | — | — | — | 8,825,001 | 11,031 |
| Long-term loans receivable with an initial term of four years or longer | 255,010,982 | 22,109,700 | 8,237,551 | — | 3,940,424 | 7,845,186 | 264,978,369 | 255,011 |
| Face value at 12/31/72 | | | | | | | | |
| DM 449,378,104 | | | | | | | | |
| including secured by mortgages | | | | | | | | |
| DM 272,615,477 | | | | | | | | |
| subsidiaries and affiliates | | | | | | | | |
| DM 185,578,793 | | | | | | | | |
| loans in accordance with section 89 AktG | | | | | | | | |
| DM 10,730,944 | | | | | | | | |
| | 999,397,213 | 70,058,157 | 10,443,801 | — | 3,940,424 | 13,028,471 | 1,049,923,522 | 999,397 |
| | 3,788,321,666 | 806,756,935 | 120,995,601 | — | 3,940,424 | 587,699,230 | 3,890,324,194 | 3,788,322 |
| Current Assets | | | | | DM | DM | | |
| A. Inventories | | | | | | | | |
| Raw materials and supplies | | | | | 354,452,088 | | | 388,081 |
| Work in progress | | | | | 379,991,005 | | | 396,919 |
| Finished products | | | | | 281,491,024 | | | 308,737 |
| | | | | | | 1,015,934,117 | | 1,093,737 |
| B. Other current assets | | | | | | | | |
| Advance payments to suppliers | | | | | 1,467,795 | | | 7,616 |
| Trade accounts receivable | | | | | 105,274,145 | | | 90,303 |
| including amounts due in more than one year | DM | 19,584 | | | | | | |
| Trade acceptances | | | | | 16,527,172 | | | 13,372 |
| including acceptances discountable at German Federal Bank | DM | 10,755,442 | | | | | | |
| acceptances issued on subsidiaries and affiliates | DM | 10,755,442 | | | | | | |
| Cash on hand, including post office checking account balances | | | | | 234,292 | | | 255 |
| Cash in banks | | | | | 652,913,756 | | | 110,834 |
| Securities | | | | | 26,385,136 | | | 86,418 |
| Own stock (par value DM 15,060,300) | | | | | 40,060,776 | | | 40,061 |
| Receivables from subsidiaries and affiliates | | | | | 125,703,485 | | | 116,325 |
| including amounts for goods and services rendered | DM | 96,106,424 | | | | | | |
| Miscellaneous other current assets | | | | | 139,847,262 | | | 194,076 |
| | | | | | | 1,108,413,819 | | 659,260 |
| | | | | | | | 2,124,347,936 | 1,752,997 |
| | | | | | | | 762,188 | 754 |
| | | | | | | | 6,015,434,318 | 5,542,073 |

Prepaid and Deferred Expenses

Liabilities

| | | | Dec. 31, 1972 | Dec. 31, 1971 |
|--|---------------|---------------|---------------|---------------|
| Capital Stock | DM | DM | DM | Thousand DM |
| Reserves | | | 900,000,000 | 900,000 |
| Legal reserve | | 233,799,000 | | 233,799 |
| Reserve for the Share-the-Burden Property Levy | | | | |
| Jan. 1, 1972 | 17,107,000 | | | |
| Transfer to earnings | 2,047,750 | 15,059,250 | | 17,107 |
| Other Reserves | | | | |
| Jan. 1, 1972 | 1,144,125,578 | | | |
| Transfer from 1972 earnings | 7,000,000 | 1,151,125,578 | | 1,144,126 |
| | | | 1,399,983,828 | 1,395,032 |
| Reserves for Special Purposes | | | | |
| Reserve for investments in developing countries | | | | |
| in accordance with section 1 of the tax law | | 125,532,207 | | 121,791 |
| Reserve for price increases in accordance with section 74 EStDV | | 11,554,825 | | 9,734 |
| Reserve in accordance with section 1 of the law on | | | | |
| investments abroad | | 560,000 | | — |
| Reserve for replacement in accordance with para. 35 of EStR | | 45,000 | | — |
| | | | 137,692,032 | 131,525 |
| | | | 6,164,000 | 5,184 |
| Allowance for Doubtful Trade Acceptances and Accounts | | | | |
| Undetermined Liabilities | | | | |
| Old-age pensions | | 670,275,233 | | 578,537 |
| Other undetermined liabilities | | | | |
| Maintenance not performed during current year | | 8,000,000 | | 2,000 |
| Warranties without legal obligations | | 2,132,000 | | 2,234 |
| Other | | 947,213,237 | | 917,283 |
| | | | 1,627,620,470 | 1,500,054 |
| Liabilities with an Initial Term of Four Years or Longer | | | | |
| Loans | | 300,000,000 | | — |
| secured by mortgages | | | | |
| Due to banks | | 50,000,000 | | 64,800 |
| Other liabilities | | 57,641,502 | | 81,062 |
| | | | 407,641,502 | 145,862 |
| including amounts due | | | | |
| within four years | DM | 4,308,260 | | |
| Other Liabilities | | | | |
| Trade accounts payable | | 624,959,427 | | 620,462 |
| Due to banks | | 65,080,259 | | 221,062 |
| Prepayments by customers | | 12,964,092 | | 17,447 |
| Accounts payable to subsidiaries and | | | | |
| affiliates | | 378,503,035 | | 196,449 |
| including trade accounts payable | DM | 38,775,699 | | |
| advance payments received | DM | 319,356,624 | | |
| Miscellaneous other liabilities | | 371,392,109 | | 327,261 |
| | | | 1,452,898,922 | 1,382,681 |
| | | | 244,016 | 412 |
| Deferred Income | | | | |
| Net Earnings after Reserve Transfers (Available for Distribution) | | | | |
| Share-the-Burden Property Levy | | | | |
| Present discounted amount | DM | 15,059,250 | | |
| Quarterly installment | DM | 689,021 | | |
| Contingent liabilities with | | | | |
| respect to trade acceptances | DM | 385,899,694 | | |
| | | | 83,189,548 | 81,323 |
| | | | 6,015,434,318 | 5,542,073 |

Comments on the Statement of Earnings

In 1972, *Sales* amounted to DM 10,399 million and showed a decrease of DM 845 million compared with the previous year. This was mainly due to a decline in vehicle deliveries on the domestic market and abroad, particularly in the USA. In contrast to this the price increases which took effect in mid-1971 and 1972 and large deliveries and services to AUDI NSU AUTO UNION AG resulted in an increase in sales. Domestic sales decreased by 2 % and export sales by 10 %. The ratio of vehicle sales to total sales was 80 %, whereas the corresponding ratio for parts amounted to 11 %.

Expenditures for Raw Materials, Supplies and Other Materials were below those of the prior year to an extent of DM 716 million or 10.9 %. Expenditures for raw materials decreased by 11.8 %. This decline was mainly due to the reduced number of vehicles produced.

Income from Profit Assumption Agreements resulted from the transfer of the 1972 operating profits of Volkswagenwerk AG's domestic subsidiaries Volkswagen Leasing G. m. b. H., AUDI NSU AUTO UNION AG, VW-Porsche Vertriebsgesellschaft m. b. H. and Deutsche Automobilgesellschaft m. b. H.

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

At year-end, DM 15 million of *Income from Other Financial Investments* represented interest on loans granted whereas DM 4 million resulted from 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.

Gain on Disposal of Property, Plant, Equipment and Investments resulted in the main from the sale of machinery and special tools to subsidiaries.

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

The increase in *Other Income* is mainly due to the fact that sums were withdrawn from undetermined liabilities held to cover general tax risks in order to pay outstanding taxes which have already been accounted for in full. Other income consisted, for the most part, of revenues from auxiliary services, billing of services and taxes rebilled to subsidiaries and affiliates with which tax assumption agreements existed.

The reasons for changes in expenditures for *Wages and Salaries* and *Social Expenditures – Compulsory* were stated in the „Labor Force“ section of this report (see page 41).

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

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

Interest Expense and Similar Charges resulted, for the most part, from the 300 million DM loan, other long-term loans and advance payments received.

Of the expenditures for *Taxes on Income, Earnings and Property*, DM 259 million pertain to 1972 earnings, and DM 154 million concerned previous year's earnings. The taxes on earnings for the report year exceeded those of the previous year by DM 65 million. Taxes levied in respect of previous years, i.e. the period from 1967 to 1969 resulting from an official tax audit and the consequent liability which continued up to 1971, did not affect results since almost the same amount was taken from the undetermined liabilities for general tax risks, which had been provided for such contingencies, and shown under other income.

Expenditures under Loss Assumption Agreements were incurred by assuming the operating loss of VW-Siedlungsgesellschaft m. b. H.

Other Expenses consisted mainly of distribution costs for our products, such as shipping costs, advertising and sales promotion costs and costs of vehicle diagnoses, and of plant maintenance costs. The decrease in other expenses is primarily the result of lower extraordinary expenses.

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 of AktG and with due regard to taxation effects reduced the net earnings by DM 35,483,181.

Compensation to the Board of Management for the year 1972 amounted to DM 4,119,840. Pension payments to retired members of the Board of Management or their beneficiaries amounted to DM 2,446,469. *Compensation paid to Members of the Supervisory Board of Directors* was DM 312,216.

Statement of Earnings of Volkswagenwerk AG

Year ended December 31, 1972

| | 1972 | 1971 *) |
|--|----------------|---------------|
| | DM | DM |
| Sales excluding sales tax | 10,398,599,814 | 11,243,552 |
| Increase/Decrease in inventories | - 7,221,101 | 107,398 |
| Material, wages and overhead capitalized as additions to plant and equipment | | 11,350,956 |
| Gross Output | | 94,366 |
| Expenditures for raw materials, supplies and other materials | | 11,445,316 |
| Excess of Gross Output over Expenditures for Raw Materials, etc. | | 6,586,275 |
| Income from profit assumption agreements | 5,993,916 | 4,859,041 |
| Income from investments in subsidiaries and affiliates | 96,835,325 | 1,516 |
| Income from other financial investments | 19,604,917 | 112,030 |
| Other interest and similar income | 36,553,594 | 18,978 |
| Gain on disposal of property, plant, equipment and investments | 19,165,182 | 60,350 |
| Elimination of reserves for undetermined liabilities no longer required | 49,485,800 | 6,178 |
| Other income | 313,755,097 | 36,113 |
| including extraordinary income of DM 15,268,377 | | 148,979 |
| | | 541,393,831 |
| | | 384,144 |
| | | 5,194,328,167 |
| Wages and salaries | 2,700,816,540 | 5,243,185 |
| Social expenditures — compulsory | 318,881,758 | 2,767,357 |
| Pension expenditures and voluntary payments | 116,730,102 | 313,449 |
| Provision for depreciation of physical plant | 574,670,759 | 116,892 |
| Write-down of financial investments | 13,028,471 | 543,977 |
| Write-down of other current assets and provision for doubtful trade acceptances and accounts | 7,928,696 | 18,721 |
| Loss on disposal of property, plant, equipment and investments | 5,666,611 | 21,307 |
| Interest expense and similar charges | 52,754,533 | 3,799 |
| Taxes | | 37,012 |
| a) on income, earnings and property | DM 413,163,763 | 188,164 |
| b) other | DM 2,704,720 | 2,862 |
| | 415,868,483 | 191,026 |
| Share-the-Burden Property Levy | 2,756,085 | 2,756 |
| Expenditures under loss assumption agreements | 13,245,740 | 43,152 |
| Additions to reserves for special purposes | 6,167,241 | 17,494 |
| Other expenses | 879,349,683 | 1,154,161 |
| | | 5,107,864,702 |
| | | 86,463,465 |
| Net Earnings | | 12,082 |
| Balance carried forward | | 86,463,465 |
| | | 12,082 |

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

| | 1972 | 1971*) |
|--|-------------------------|-------------------|
| | DM | DM Thousand DM |
| Balance brought forward | | |
| Net earnings brought forward from previous year | 86,463,465 1,678,333 | 12,082,280 |
| Transfer from disclosed reserves | | |
| a) from other reserves | — | 67,000 |
| b) from the reserve for the Share-the-Burden Property Levy | 2,047,750 | 1,961 |
| | 2,047,750 | 68,961 |
| Transfer to other reserves from net earnings | 90,189,548 7,000,000 | 81,323 — |
| Net Earnings after Reserve Transfers | 83,189,548 | 81,323 |

During 1972, pension payments amounted to DM 10,736,843; payments during the next five years will approximate 128, 146, 165, 183, 207% of this amount.

Wolfsburg, April 1973

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, April 16, 1973

TREUARBEIT
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Prof. Dr. Forster
Wirtschaftsprüfer

Dr. Tubbesing
Wirtschaftsprüfer

