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Report  
for the Year 1973

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Volkswagenwerk  
Aktiengesellschaft Wolfsburg

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The Supervisory Board of Directors  
and the Board of Management of  
Volkswagenwerk Aktiengesellschaft  
present the Report for the Year 1973  
with their compliments.

Wolfsburg, May 1974



VW Group		1973	1972*)	Increase (Decrease)	%**)
<b>Sales (DM)</b>	in million DM	16,982	15,996	986	6.2
<b>Sales (units)</b>	number of vehicles	2,280,903	2,196,978	83,925	3.8
<b>Production</b>	number of vehicles	2,335,169	2,192,524	142,645	6.5
<b>Labor Force</b>	at year-end	215,058	192,083	22,975	12.0
<b>Capital Investments</b>	in million DM	1,556	1,573	(17)	(1.1)
<b>Depreciation</b>	in million DM	1,038	992	46	4.6
<b>Cost of Materials</b>	in million DM	9,850	9,098	752	8.3
<b>Labor Cost</b>	in million DM	5,309	4,463	846	19.0
<b>Net Earnings</b>	in million DM	211	206	5	2.7
<b>Dividends Proposed</b>					
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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On October 25, 1973

**Dr. jur. Eduard Leuze**

sometime Minister,

a member of our Supervisory Board of  
Directors died at the age of 67.

Dr. Leuze had been a member of our  
Supervisory Board of Directors since 1971.

In him the Volkswagenwerk has lost a man  
whose advice and objectivity were greatly  
esteemed by all who knew and worked  
with him.

He will not be forgotten.



for the  
Annual Meeting of Stockholders  
of  
Volkswagenwerk Aktiengesellschaft  
to be held at 10:00 A. M. on Tuesday, July 9, 1974  
at the Stadthalle in Wolfsburg.

1. Presentation of audited financial statements, the report of the Board of Management for 1973, 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 1973.

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 82,024,436 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 1973.

4. Resolution with respect to discharge of responsibility of the Supervisory Board of Directors for the year 1973.

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

5. Election of members of the Supervisory Board of Directors.

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

The Annual Meeting of Stockholders will have the task of electing the successors to Dr. Eduard Leuze who died on October 25, 1973 and Dr. Alfred Härtl who wishes to resign after the Annual Meeting of Stockholders. For these vacancies the Supervisory

Board of Directors nominates Mr. Hans Günter Hoppe, Berlin, formerly Senator and Mr. Hans L. Merkle, Stuttgart, Chairman of the Board of Management of Robert Bosch GmbH.

6. Appointment of auditors for the year 1974.

The Supervisory Board of Directors proposes to appoint, as in prior years, the TREUARBEIT Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft-Steuerberatungsgesellschaft, Hanover, as auditors for the year 1974.

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

Eugen Loderer, Frankfurt, Deputy Chairman,  
Chairman of the Metal Workers Trade Union

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

Dr. jur. F. Wilhelm 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,  
President of Landeszentralbank Hessen

Prof. Dr. jur. Siegfried Heinke, Hanover,  
Minister of 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,  
Member of the Volkswagenwerk AG's Factory  
Council representing the Hanover Plant

Karl-Heinrich Mihr, Kassel,  
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

Dr. rer. pol. Otto Schlecht, Bonn, since August 3, 1973,  
Secretary of State in the Federal Ministry of  
Economics

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

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

**Changes to the Supervisory Board of Directors:**

Died on October 25, 1973:  
Dr. jur. Eduard Leuze, Reutlingen,  
Lawyer and Notary Public

Resigned with effect from August 3, 1973:  
Dr. oec. publ. Johann Baptist Schöllhorn, Bonn,  
President of Landeszentralbank Schleswig-Holstein

## Board of Management (Vorstand)

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

Horst Münzner  
Sales

Gottlieb M. Strobl  
Purchasing and Material Administration,  
since May 1, 1973

Dr. rer. pol. Friedrich Thomée  
Finance and Business Administration

### **The following member of the Board of Management has resigned:**

Dr. jur. Gerhard Prinz  
Subsidiary Companies, with effect from  
December 31, 1973

Monday, April 1974

Chairman of the Supervisory  
Board of Directors



## Report of the Supervisory Board of Directors

During the year under review the Board of Management has kept the Supervisory Board of Directors currently informed as to the status of the Company, its business activity and its proposed business policy. The transactions which are subject to the approval of the Supervisory Board of Directors in accordance with the law and the Company's charter were discussed in detail at the meetings of the Supervisory Board and its committees before a resolution was passed. A continuous control was exercised by the Supervisory Board of Directors on the conduct of the business with the written and oral reports from the Board of Management being used as a basis for this.

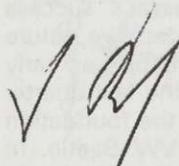
The Group's consolidated financial statements and the financial statements of Volkswagenwerk AG as at December 31, 1973 as well as the annual report have been placed before the Supervisory Board of Directors. The auditors, the TREUARBEIT Aktiengesellschaft, Hanover have received these financial statements 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.

On August 3, 1973 the Federal Republic of Germany delegated Dr. rer. pol. Otto Schlecht, Secretary of State in the Federal Ministry of Economics to replace Dr. oec. publ. Johann Baptist Schöllhorn as a member of the Supervisory Board of Directors in accordance with section 12 of the charter. The Supervisory Board of Directors expresses its thanks to Dr. Schöllhorn for his many years of service and for his valuable counsel.

Dr. jur. Gerhard Prinz whose contract terminated on December 31, 1973 has left the Board of Management at his own request.

Wolfsburg, April 1974



Chairman of the Supervisory  
Board of Directors

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

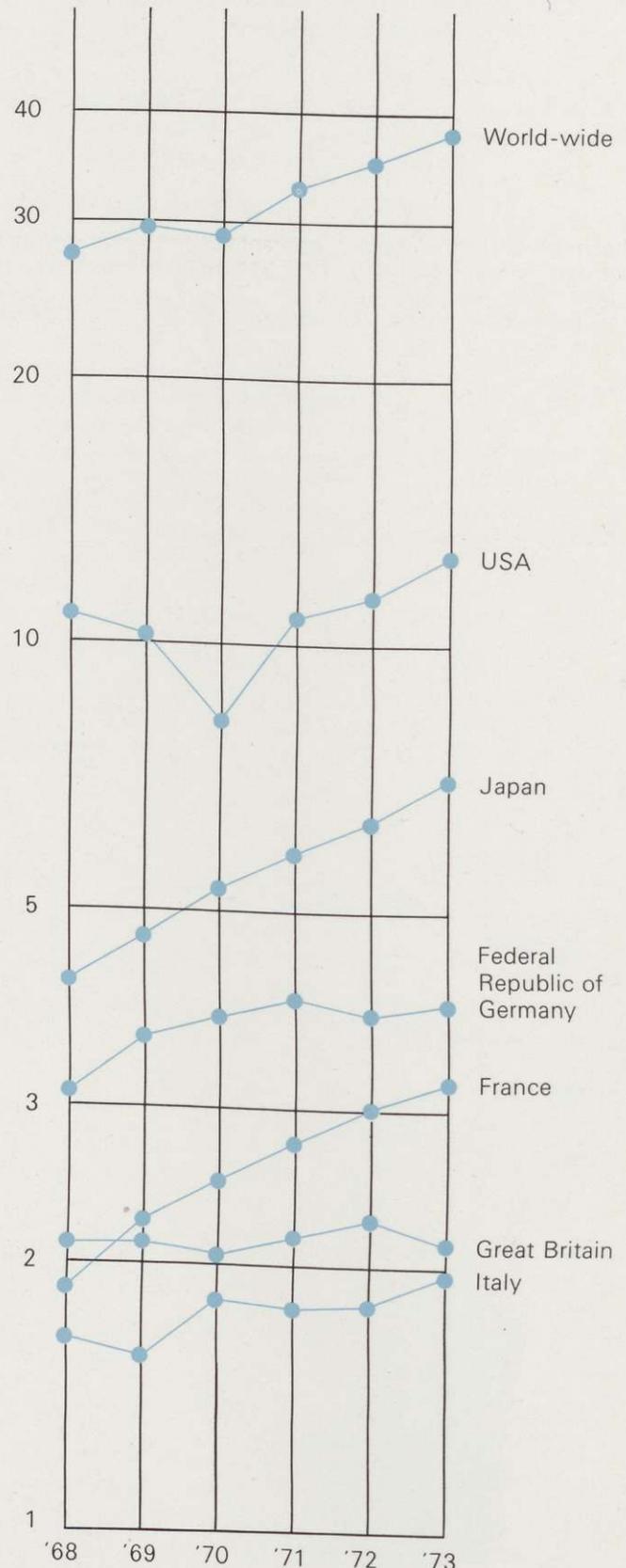
In 1973 the German automobile industry was subject to various trends. Up to the autumn the state of the economy at home and in most of the export markets was good and this led to a slight growth in production. There were at the same time a number of factors which had an increasingly adverse effect on demand for automobiles as the year progressed.

The problems with regard to the world's monetary system which were familiar ones in previous years became more acute. They reached their climax in July 1973 when the dollar exchange rate fell to DM 2.28. This resulted in German exports becoming even more expensive and the Volkswagenwerk is the firm which has the greatest stake in exports. However, currency problems were not confined to the dollar and to the American market only. In addition to this the Deutsche Mark revaluation in relation to Western European currencies in March and June also led to a worsening of the ability of German firms to compete elsewhere in Europe.

The prospects for Germany's export industries had only just brightened once again following an improvement in the dollar exchange rate when difficulties were encountered in regard to fuel supplies. The consequence of this was a falling-off of demand in all automobile markets.

On the domestic market this situation was exacerbated by the decrease in the demand for cars brought about by the restrictive measures imposed by the Federal Government and the Federal Bank from the middle of the year onwards. The increased additional costs of operating motor vehicles due to high insurance rates, more expensive repairs, an increase in the tax on fuel and driving bans and speed limits made reluctance to buy even greater from month to month. Finally by December total orders for passenger cars in the Federal Republic were 65 % down on those for December 1972. This means that the German automobile industry finds itself in a situation which will have serious consequences for its employment position, components suppliers and for the economy as a whole.

In 1973 the VW Group was able to keep the effects of the difficulties quoted within bounds, thanks to its automobiles which have always offered customers a high degree of economy. The introduction of the Passat signified the purposeful continuation of a model policy characterized by a range based on the principle of interchangeable units. It replaces the VW 1600 which went out of production in July 1973. The Passat's success closely followed that of the Audi 80. The decisive nature of our efforts to get new models into production as early as possible became particularly evident in the last quarter when the Audi 80 and Passat proved to be the foundation for our sales activities – along with the VW Beetle. In addition to this the boom in demand for small cars in the USA ensured that the fuel shortage did not lead to an even greater slump in VW Group's sales.



The difficult tasks which introducing a model entails could only be coped with through additional work and by the special efforts of all the personnel. The Board of Management would like to take this opportunity to thank the employees for this and also expresses its appreciation of the valuable cooperation received from the VW Group's factory council and the factory councils of the VW plants.

As a result of all these efforts markets could be held in the main and employment guaranteed. The VW Group's net earnings amounted to DM 211 million. That is only about the same level as in the previous year. This does reflect firstly the unfavorable trend in costs in the personnel and materials sector and above all the difficulties presented by the uncertain exchange rate situation. Changes in the exchange rates had a considerable influence on current trading because they compelled us to considerably increase the prices of our products in vital export markets. Thus our ability to compete has been seriously affected. These factors have meant that the results obtained in 1973, too, are not sufficiently good to ensure the long-term safety of this enterprise. Even if the foreign exchange losses from the consolidation of the

foreign subsidiaries and affiliates were not to be taken into consideration the earnings shown would still not be satisfactory.

Similarly although the Volkswagenwerk AG's net earnings of DM 109 million were DM 23 million above those of the previous year they cannot be regarded as satisfactory from the point of view of guaranteeing the financial stability of our enterprise.

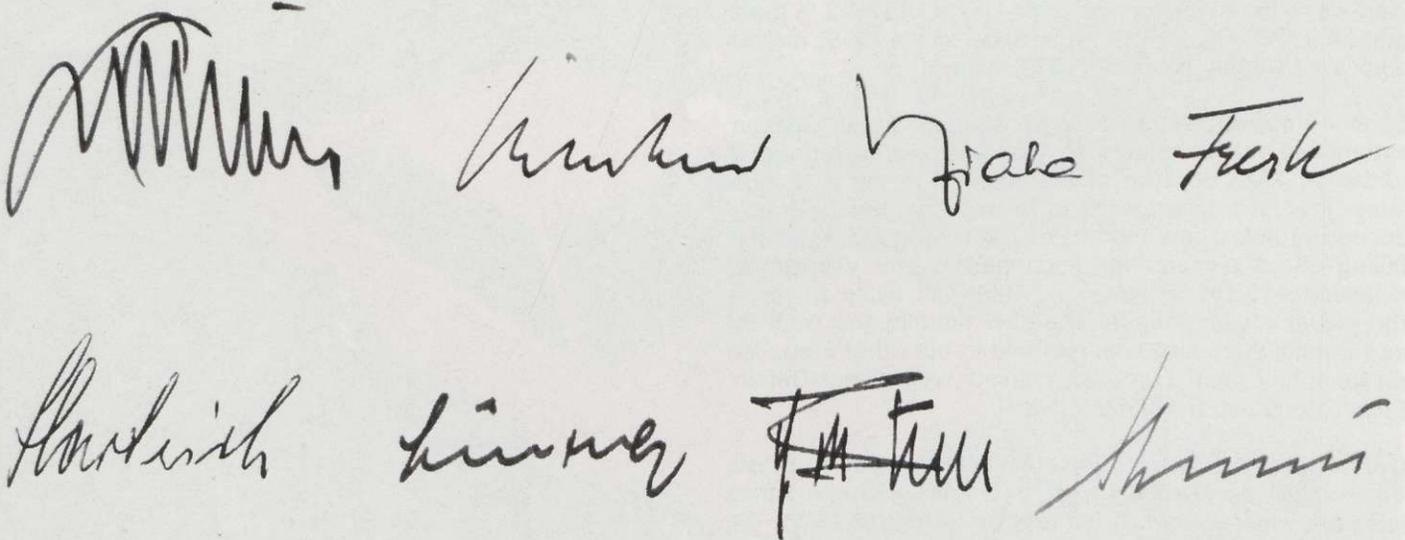
### Proposed Distribution of Net Earnings for 1973

The Board of Management proposes to use the net earnings of Volkswagenwerk AG of DM 82,024,436 for the distribution of a dividend of DM 4.50 on DM 50 par value of capital stock.

The balance of DM 1,024,436 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 1974

The Board of Management



The image shows two rows of handwritten signatures in black ink. The top row contains four signatures, and the bottom row contains four signatures. The signatures are stylized and difficult to read, but they appear to be the names of the board members.

## Business Trends and Developments during 1973

### Sales Trend

In 1973 the VW Group's dealer organization delivered some 2.3 million vehicles to customers, 5 % more than in the previous year. The individual companies within the Group contributed towards this development with varying degrees of success. AUDI NSU AUTO UNION AG and the foreign producing companies were able to increase their sales to an extent which more than compensated for the fall in Volkswagenwerk AG's sales. The VW Beetle continued to be the best selling vehicle in the VW Group followed by the VW Commercial and the Audi 80.

The VW Group delivered 622,920 units in the Federal Republic of Germany – a 2.8 % increase on the figures for 1972.

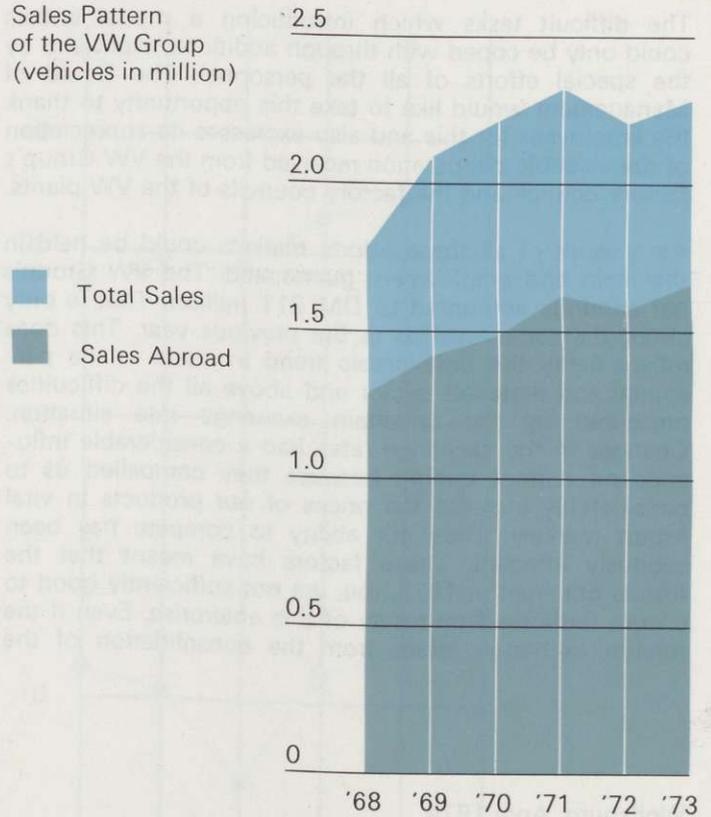
Whereas total new registrations of all the companies offering models in the Federal Republic dropped by 5 % to just under 2 million vehicles, the VW Group with an increase of 5.1 % was able to improve its market share in the passenger car sector from 24.9 % to 27.5 %. The decisive factor in this improvement to the market position was the very good reception which customers accorded to the new models, the Audi 80 and the Passat.

In 1973 our sales activities in the USA were influenced by two opposing factors. On the one hand our ability to compete was adversely affected by the price increases which we were compelled to impose because of the changes in the exchange rates and the increased costs; on the other hand even before the middle of the year it became evident that demand in the USA was changing in favor of small cars as a result of the fuel shortage. All in all, 540,364 Volkswagen, Audi and VW-Porsche vehicles were delivered to customers in the USA in 1973, 2 % more than in 1972. The VW Group's share of the U. S. market decreased slightly to 4.4 % (1972: 4.5 %).

In the European export markets the ability of German automobile manufacturers to compete also deteriorated further in 1973 because of the changes in the exchange rates. Moreover, the measures to conserve energy introduced in the last few months of the year led to a general falling-off in demand for automobiles. The VW Group delivered 446,869 vehicles and thus just failed to reach the previous year's figure. The new models, the Audi 80 and Passat, were also well received in our other European markets. Our main European markets were Great Britain, France, Italy and the Netherlands.

Our overseas producing companies, Volkswagen do Brasil, Volkswagen de Mexico and Volkswagen of South Africa increased their sales to a remarkable extent in 1973. We were not able to hold our large share of the market in Brazil because of even tougher competition. We were able to improve our position in the Mexican and South African markets.

Sales Pattern of the VW Group (vehicles in million)



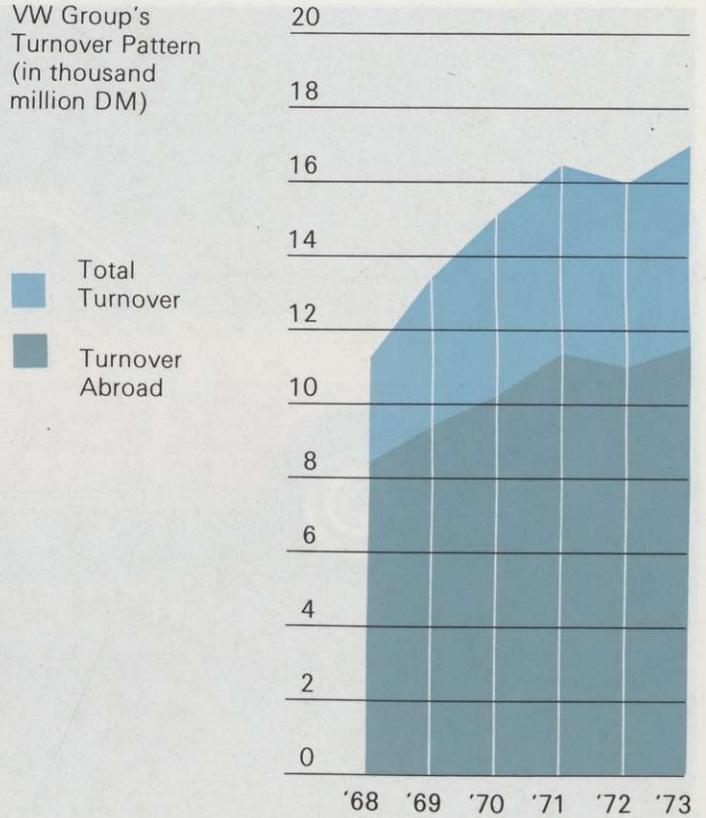
At the end of 1973 the dealer organization maintained by the VW Group had 12,446 sales and service points. This means that a basis still exists on which we can offer good service to customers the world over.

**Turnover**

In the year under review the sales proceeds of the VW Group increased by 6.2% or DM 986 million to DM 17,000 million. This increase was mainly due to increased sales on the part of AUDI NSU AUTO UNION AG and foreign subsidiaries as well as to price increases due to higher costs. The price increases abroad resulting from the changes in exchange rates were not sufficient to compensate for the burdens imposed by changes in these rates.

Domestic sales went up by 6.5% to DM 5,400 million. Foreign business sales proceeds did not increase as much due to lower exchange rates and stood at DM 11,600 million, an increase of 6%. This meant that the proportion of the Group's sales accounted for by foreign business dropped to 68.4% (68.5%).

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



*The Passat – this vehicle marks the start of a new era for VW as far as model policy is concerned.*



## Business Trends and Developments

*Various versions of the Passat are available. This is the Passat Variant, the lines of which are particularly pleasing.*



### Production

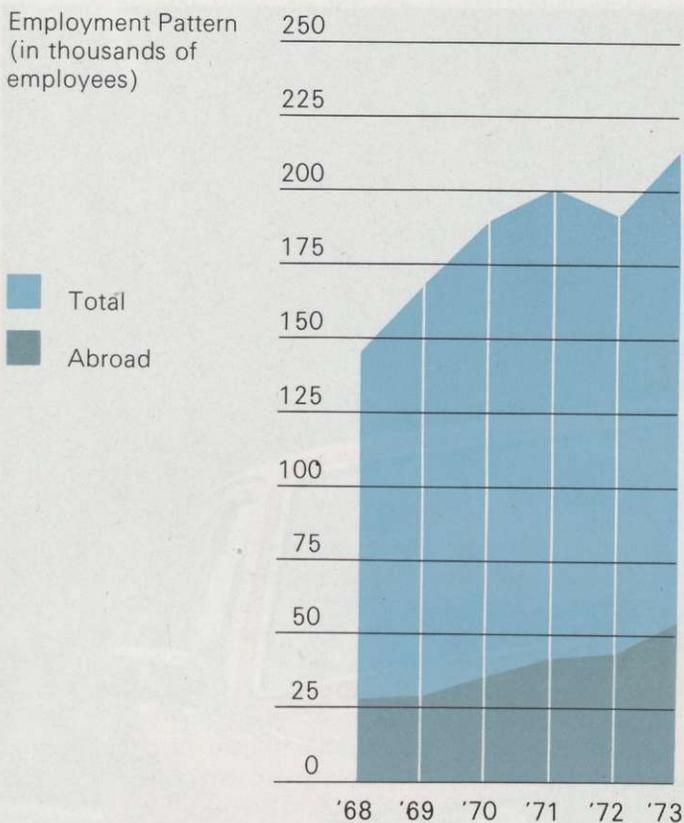
The VW Group produced 2,335,169 vehicles, 6.5 % more than in the previous year. The Volkswagenwerk AG manufactured 13,854 Volkswagens or 0.9 % less than was the case in 1972. Up to the October of the year under review, however, Volkswagenwerk AG also assembled 60,540 Audi 80 vehicles on behalf of AUDI NSU AUTO UNION AG. This company's production increased by 36.8 % or 110,309 cars, to 409,793 units; this includes the Audi 80 units produced by the parent company. Volkswagen do Brasil's production stood at 379,370 units and that of Volkswagen de Mexico at 89,625 cars. This is an improvement of 10.4% and 52.7 % respectively on the previous year's results. Volkswagen of South Africa manufactured 46,692 vehicles, 30 % more than in 1972.

On average the world-wide VW Group produced 9,819 (9,475) units per working day throughout the year. The VW Beetle continued to have a decisive share in this, with 5,045 units of this model being produced every day. On average 1,011 Audi 80 vehicles and 487 Passats were manufactured every working day in the year under review. In December an average of 1,328 Passats was produced in the course of a working day. The Volkswagenwerk AG accounted for 6,155 of the vehicles produced by the VW Group in the course of a working day, AUDI NSU AUTO UNION AG for 1,747 and Volkswagen do Brasil for 1,574.

In the year under review even greater efforts were made to press forward with an integrated production within the VW Group. There are also plans to obtain parts from Brazil and Mexico for the Passat and Audi 80 models.

The various companies within the VW 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.

Outlook

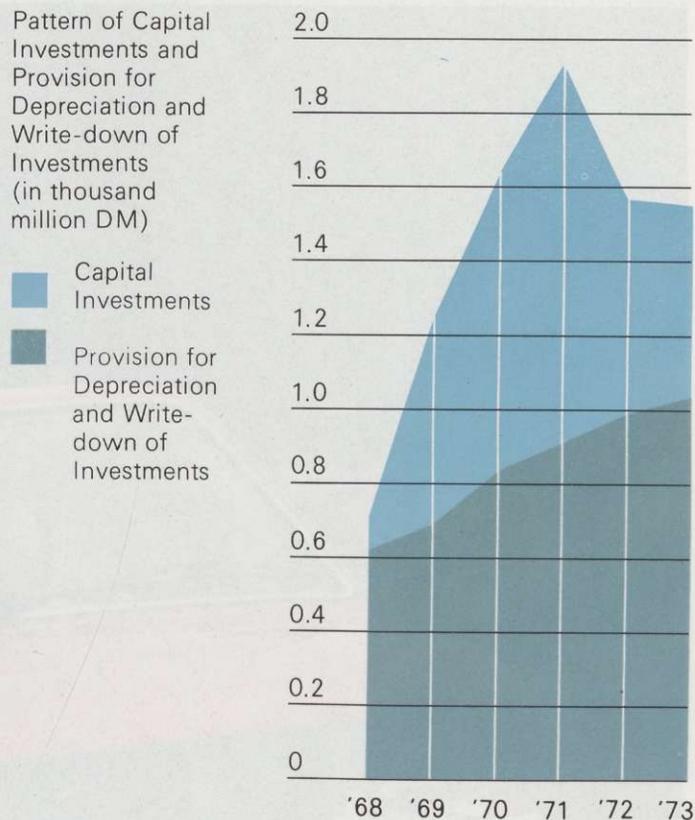


**Labor Force**

At the end of 1973 215,058 persons were employed within the VW Group. The 12 % increase in the labor force became necessary in order to bring production in line with world-wide sales demand. In addition the Volkswagenwerk AG required more employees in connection with the start of Passat production.

The Group's domestic companies increased their labor force by 12,253 or 8.2 % to 160,965 persons. An additional 10,722 persons were engaged by the Group's companies abroad, mainly in Brazil and Mexico. This means that at the end of the year 54,093 persons were employed abroad, 24.7 % more than in the previous year.

In 1973 the VW Group paid out DM 5,300 million in wages and salaries, 19 % more than in the previous year.



**Capital Investments**

In the 1973 business year the VW Group's investments fell by 1.1 % to DM 1,556 million. 66.7 % (63.1 %) of the capital investments made were financed from depreciations and write-downs. Property, plant and equipment accounted for 96.9 %.

Capital investments in Germany by the companies in the VW Group totalled DM 928 million, 21.6% less than in the previous year. These investments were designed primarily to facilitate adaptation of the production facilities in view of the new model line and for further streamlining. Abroad it was necessary to increase investments by 60.8 % to DM 628 million on account of the preparations for new models, their introduction, the expansion of production facilities and in order to pave the way for integrated production.

*With the Scirocco the Volkswagenwerk has added a sporty Coupé to its model range.*



## Outlook

VW Group sales were on the whole still satisfactory in 1973 but this cannot hide the fact that the automobile industry is in a critical situation. The shortage of crude oil and its greater cost during the closing months of 1973 and the question of future fuel supplies have posed new problems. Automobile producers now find themselves compelled to reconsider the basic concept behind their vehicles. In addition to this the economies of almost all Western industrial countries showed signs of weakening.

These factors have the effect of transferring demand to economical vehicles. However all the signs already show that this trend to small cars will in the long term increase world-wide competition in this sector of the market. We are nevertheless confident that with the aid of our model range which is tailored to the market we will be able to withstand this competition and it will be extended by further models shortly.

It cannot, however, be expected that more cars will be sold in 1974 than in the previous year. The uncertainty with regard to the state of the economy and the tendency to place more and more new restrictions on the car leads rather to pessimism. The fall in demand for VW Commercials has already compelled us to close down production of this model line at the Hanover factory for two weeks at the beginning of the current year. In addition we had to put VW Commercial and VW Beetle production on short-time for nine days in April.

Job security will also continue to be one of the tasks of the Company's management. In the final analysis, however, this is also a question of the financial stability of our enterprise. In view of the critical cost situation we were already compelled to increase the prices of VW and Audi products by more than 6% in March of this year.

The wage and salary agreements concluded in the first weeks of this year have placed an extraordinary burden on the Volkswagenwerk AG and AUDI NSU in respect of personnel costs. The same may be said for the increase in the costs of material resulting from the wage and salary negotiations and the sharp rise in the costs of raw materials. This development constitutes a serious threat to the earning capacity of our enterprise.

These burdens can no longer be compensated for through measures to streamline. In addition increases in costs of this order cannot be transferred to prices either because competition is getting progressively tougher in our markets abroad. In this situation there is only one course of action: to consolidate our position on the market with models which customers will find attractive and economical and which will offer this enterprise the cost advantages inherent in the concept of interchangeability.

The consolidation of the earnings position of this Company – the goal which has been frustrated by the developments described – can only be attained in the years to

come, however, if vigorous efforts are made to successfully prevent costs from becoming inflated.

Consolidated Financial Statements  
of the VW Group  
Basis of Consolidation

## Consolidated Financial Statements of the VW Group: Basis of Consolidation

### Scope of Consolidation

In addition to Volkswagenwerk AG we have included in the consolidated financial statements 12 domestic and 32 foreign subsidiaries and affiliates in which Volkswagen holds a direct or indirect investment of more than 50 % at year-end. These companies are shown in the illustration on page 34.

For the first time the

AWD Automobilwirtschaftsdienst G.m.b.H.,  
Ingolstadt,  
VW Leasing, S.A. de C.V., Mexico/D. F.,  
Trans-Trading Brasil Exportadora S.A., São Bernardo  
do Campo and  
Vorelco of California, Inc., Culver City, Ca.  
were consolidated in the year under review.

interRent, Inc., Englewood Cliffs, N.J. and  
Volksprosp Caledon Street Ltd., Uitenhage  
have been excluded from consolidation. The interRent  
was liquidated and the Volksprosp was disposed of.

All distributorships in USA, which were included in the  
prior year's consolidation, have been merged with Volks-  
wagen of America, Inc., Englewood Cliffs, N. J. in the  
year under review.

Although Volkswagenwerk AG holds a direct or indirect  
investment of more than 50% in the companies mentioned  
below, the scope of consolidation does not include the  
Motor Producers Ltd., Melbourne, the Auto Union  
G.m.b.H., Munich, as well as the Volume Export & Trading  
Corp., Englewood Cliffs, N. J., the VW Automotive Indus-  
tries, Caulfield/Australia, the VW Inmobiliaria, S.A. de C.V.,  
Puebla/Pue. which were established in 1973 and the  
Sociedade Civil Agropecuária Vale do Rio Cristalino Ltda.,  
Brazil, the SOCOPAR-Sociedade Colonizadora do Pará  
Ltda., Brazil and four dealerships in USA which were  
acquired in the year under review. Six smaller foreign  
enterprises which had been included in prior years con-  
solidation, three of them dealerships in the USA, were  
also not included in consolidation.

As in the previous year the Motor Producers Ltd., Mel-  
bourne is no longer subject to the direct control of Volks-  
wagenwerk AG. The volume of business of the other  
companies is immaterial in comparison to the consolidated  
balances and in some cases there was no business at  
all. In consequence the exclusion of these companies  
from the consolidated financial statements does not affect  
the Group's sales and earnings situation because of the  
minor importance of these companies for the entire  
Group.

### Compliance with Standard German Practices of Accounting

The foreign subsidiaries and affiliates have prepared their  
certified financial statements in accordance with the legal

provisions and the accounting practices of the countries  
in which these companies have their place of business.  
In order to ensure compliance with the standards as  
laid down in the German stock corporation law appropriate  
adjustments were made to these financial statements  
drawn up there prior to consolidation. Where the values  
shown were at variance with German accounting prin-  
ciples, we have adjusted such items before consolidation  
to meet the German legal requirements. This applies in  
particular to those cases where the German accounting  
principles with regard to the cost of acquisition could  
not be adhered to and where the values shown 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.

### Conversion Rate

The conversion rate used for all items shown in the  
balance sheets of foreign companies was an average of  
the buying and selling rates of exchange valid on the  
balance sheet date. Expenditures and income were con-  
verted at a rate which constituted an average for the  
year. The exchange profits or losses incurred have affected  
the net earnings shown for the year.

In the case of our Brazilian companies we have drawn  
up and certified financial statements expressed in hard  
currency for the consolidation in addition to the financial  
statements in local currency. 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 cost  
at the date of acquisition. The capital stock has likewise  
been shown in the balance sheet at the former DM  
value.

### Method of Presentation

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 stock  
corporation law. The consolidated statement of earnings  
is prepared in detail and includes the subsidiaries involved  
in consolidation.

### Capital Consolidation

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 differences ascertained in the preliminary  
stages and concerning assets or liabilities were set off.  
The differences ascertained in the final stage of con-  
solidation were shown on the assets or liabilities side of

the balance sheet without being set off. 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. Where minority interests in consolidated subsidiaries' capital stock and reserves exist, these are shown under the balance sheet item "Minority Interest in Consolidated Subsidiaries".

An exception is made in the case of a non-profit housing construction company included in the consolidated statements. 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. Thus we have taken due account of the legal restrictions placed on reserves of non-profit companies in the consolidated financial statements.

#### **Nature of Other Adjustment Items**

The balance sheet item "Other Adjustment Items" arising from consolidation includes differences resulting during the consolidation of the liabilities. In the main these arose from the fact that loans granted within the Group have no longer been discounted to reflect present values. Other adjustment items are reduced by 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 this connection the disposal of used plant and equipment was considered as a sale which does not fall within the usual routine.

In addition the net earnings of the subsidiaries and affiliates included in consolidation, which were not set aside for distribution to an outside stockholder or holders of participating certificates, were included under other adjustment items. In the Group's view these sums have the character of reserves. Amounts distributed out of the previous year's net earnings of the subsidiaries to the parent company during the report year are shown as transfers from other adjustment items. Due to these transfers the net earnings shown in the consolidated financial statements are identical with those published in the Volkswagenwerk AG's financial statements.

#### **Minority Interest in Consolidated Subsidiaries**

Minority interest in consolidated subsidiaries constitutes interest in the companies' capital stock, their reserves, profits and losses. 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.

If the parent company has guaranteed profits to outside stockholders and if they are not covered by the results of the Group company concerned, these items are shown in the consolidated balance sheet as liabilities or undetermined liabilities. In the consolidated statement of earnings of the Group these sums are shown as expenditures.

#### **Statement of Earnings**

Intercompany expenditures and income have been considered apart from the corresponding items of the statement of earnings. Consolidated transactions which influence the business results in the year under review change the net earnings of the Group.

If taxes have to be paid subsequently on earnings distributed within the Group by consolidated companies, they are taken into account in the year of distribution. Where major changes have taken place in the method of presentation we have adjusted the previous year's figures accordingly.

## Financial Position

The financial position of the VW Group was characterized by the fact that net earnings were almost unchanged in comparison with those of the previous year. An increase in inventories took place and this led to a rise in the funds tied down. Since capital investments were down the increased provision for depreciation and write-down of investments and the increase in cash flow\*) associated with this resulted in an improved internal financing rate. Only including depreciations and write-downs of 66.7 % (63.1 % in 1972) and taking due account of the cash flow this rate was 102.8 % (98.2 % in 1972). In spite of the more favorable internal financing rate, however, we were unable to prevent a reduction in liquid funds.

The consolidated balance sheet for 1973 gives the following picture with regard to its structure:

	12/31/1973		12/31/1972	
	— Million DM —			
<b>Assets</b>				
Property, Plant, Equipment and Investments	6,194	48 %	5,846	52 %
Current Assets	6,745**)	52 %	5,314**)	48 %
	<u>12,939**)</u>	<u>100 %</u>	<u>11,160**)</u>	<u>100 %</u>
<b>Liabilities</b>				
Stockholders' Equity	3,912	30 %	3,786	34 %
Liabilities payable within:				
more than 4 years	1,740	14 %	1,688	15 %
1 to 4 years	912	7 %	810	7 %
1 year	6,375	49 %	4,876	44 %
	<u>12,939**)</u>	<u>100 %</u>	<u>11,160**)</u>	<u>100 %</u>

\*) The following items as shown hereunder are included in the cash flow:

Net earnings
+ Provision for depreciation of physical plant and write-down of investments
- Write-ups and accumulation of discount
+ Decrease in property, plant, equipment and investments (including losses due to changes in the exchange rates)
+ Increase in provision for old-age pensions
+ Increase of stockholders' equity in reserves for special purposes
= Cash flow

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

The change on the assets side was mainly due to the considerable increase in inventories of DM 1,144 million. In contrast to this property, plant, equipment and investments increased only to a small extent by DM 348 million. As a result the property, plant, equipment and investment's share in balance sheet totals dropped from 52 % to 48 %. This change on the assets side affected the financing accordingly. Liabilities rose by a total of DM 1,653 million and these were mainly short-term liabilities which increased by DM 1,499 million. The long-term liabilities increased by DM 52 million and the medium-term liabilities by DM 102 million and these sums together with the stockholders' equity which rose by DM 126 million were insufficient to finance the additional funds used for long-term investments (+ DM 348 million).

## Comments on the Balance Sheet

Group's Assets  
in Germany and Abroad

Details on the sources and uses of funds may be seen from the following flow-of-funds analysis:

	12/31/1973	12/31/1972	Change
<b>General situation regarding short-term liquidity</b>			
		– Million DM –	
Liquid funds, trade acceptances*)	1,151	1,038	+ 113
Securities, own stock	414	354	+ 60
Short-term receivables (advance payments not included) *)			
Short-term liabilities and undetermined liabilities (including liabilities in reserves for special purposes) **)	1,333	1,267	+ 66
	– 6,276	– 4,780	– 1,496
			<u>– 1,257</u>
In 1973 the change in the liquidity position resulted from the following (Million DM):			
<b>from current business</b>			
Net earnings		+ 211	
Provision for depreciation of physical plant and write-down of investments and differences in the rates of exchange (net of accumulated discount and write-ups) and decrease in property, plant, equipment and investments		+ 1,221	
Increase in provision for old-age pensions		+ 148	
Increase of stockholders' equity in reserves for special purposes		+ 19	+ 1,599
<b>from financing transactions</b>			
Dividend payment to stockholders of Volkswagenwerk AG and minorities in 1973		– 95	
Increase in long- and medium-term liabilities		+ 6	
Decrease in other items shown on the liabilities side		– 6	– 95
<b>from uses of funds</b>			
Increase in physical plant		– 1,508	
Increase in investments		– 48	
Long-term loans		– 26	
Decrease in adjustment items arising from capital consolidation and shown on the assets side		+ 13	
Increase in inventories and advance payments *)		– 1,151	
Increase in long- and medium-term receivables *)		– 41	– 2,761
<b>Change in the liquidity position</b>			<u>– 1,257</u>

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

\*\*\*) Not including the amounts available for distribution.

## Group's Assets in Germany and Abroad

The bulk of the VW Group's assets continued to be invested in the countries of the European Community. The significance attached to our activities in other countries will, however, be quite clear from the size of the capital invested there:

### Breakdown of the Consolidated Balance Sheet of the VW Group according to Regions \*)

Assets	Countries of the European Community	North America	Central and South America	Other Areas	Consolidated Balance Sheet of the VW Group
	– in Million DM –				
<b>Property, Plant, Equipment and Investments</b>					
Property, plant and equipment	4,384	195	929	89	5,597
Investments (including adjustment items arising from capital consolidation)	526	8	59	4	597
	4,910	203	988	93	6,194
<b>Current Assets</b>					
Inventories (including advance payments to suppliers)	2,096	679	578	136	3,489
Trade accounts receivable	1,139	102	306	144	1,691
Liquid funds	544	526	495	0	1,565
	3,779	1,307	1,379	280	6,745
	8,689	1,510	2,367	373	12,939
<b>Liabilities</b>					
<b>Stockholders' Equity</b>	2,458	229	1,132	93	3,912
<b>Liabilities</b>	6,231	1,281	1,235	280	9,027
	8,689	1,510	2,367	373	12,939

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

## Comments on the Balance Sheet

### Assets

In the year under review the book value of *Property, Plant, Equipment and Intangible Assets* increased by DM 336 million to DM 5,597 million. In particular the book value of plant and office equipment was higher because of the additions to special tools and fixtures which were required in connection with the extension of the product range.

Of the total additions amounting to DM 1,508 million, 41 % pertain to Volkswagenwerk AG, 19 % to Volkswagen do Brasil, 9 % to AUDI NSU AUTO UNION AG, 7 % to Volkswagen Leasing G.m.b.H. and 6 % to Volkswagen de Mexico. 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 insignificant level of write-ups resulted from revaluation of property, plant and equipment by foreign producing companies. The amounts shown in the column "Difference resulting from currency changes" can be ascribed to the varying exchange rates 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 in part with the aim of making use of any tax benefits available to domestic companies.

The *Investments in Subsidiaries and Affiliates* as included under the caption *Investments* primarily referred to our investments in the Svenska Volkswagen AB, Södertälje, the Sociedade Civil Agropecuária Vale do Rio Cristalino Ltda., Brazil and the VW-Porsche Vertriebsgesellschaft m.b.H. The increase in investments in subsidiaries and affiliates during the report year was mainly due to the acquisition of interests in the Sociedade Civil Agropecuária Vale do Rio Cristalino Ltda., Brazil, the Volkswagen of Nigeria Ltd. and the TAS Tvoronica Automobila Sarajevo. The reason for the writing-up of investments in subsidiaries and affiliates is to be found in the elimination of write-downs of Volkswagen of America's interests in dealerships which were effected on previous occasions. Write-downs of investments in subsidiaries and affiliates almost exclusively pertained to an interest held by Volkswagenwerk AG and which had not to be included in consolidation.

*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 the Brazilian subsidiaries and affiliates. The majority of them was written off. The write-downs effected during the period under review also pertain exclusively to these securities.

*Long-term Loans Receivable with an Initial Term of Four Years or Longer* pertain mainly to loans granted by Volkswagenwerk AG. Interest-free and low interest-bearing loans have been discounted to reflect present values. The corresponding amounts of interest to be added or deducted are shown under write-ups and write-downs respectively.

*Other Investments* primarily consist of investments in Brazil associated with tax benefits available for developing countries investments. The write-downs were effected to cover the general risks inherent in the present economical situation.

*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, Volkswagen Bruxelles and interRent Autovermietung G.m.b.H., Hamburg 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 mainly the result of transfers to reserves effected by AUDI NSU AUTO UNION AG.

As compared to the previous year's balance sheet date, *Inventories* increased by DM 1,144 million or 49 % to DM 3,464 million. This increase resulted mainly from larger stocks of finished products due either directly or indirectly to the fuel shortage, the greater amount of materials stored because of the extended product range and rises in prices of materials and wages.

*Advance Payments to Suppliers* were primarily for goods to be delivered.

Of the total *Trade Accounts Receivable*, DM 163 million pertain to domestic subsidiaries and affiliates and DM 156 million to foreign subsidiaries and affiliates. The Volkswagenwerk AG mainly accounted for the decrease shown.

*Trade Acceptances* pertain, for the most part, to notes receivable in connection with repayments due on financing contracts concluded by our Mexican financing company.

The sum of DM 1,053 million shown under *Cash in Banks* was made up of DM 501 million in favor of Volkswagen of America and DM 325 million in favor of the Volkswagenwerk AG. The increase totalling DM 118 million was mainly due to a rise in such funds in Volkswagen of America.

*Securities* shown under current assets mainly consist of short-term Brazilian Government Bonds and the other securities are held by our Mexican subsidiaries and affiliates, Volkswagen of America and the Volkswagenwerk

AG. The increase primarily resulted from the acquisition of securities as a method of investing liquid funds of the Mexican subsidiaries and affiliates and Volkswagen of America.

*Own Stock* refers exclusively to the holdings of the Volkswagenwerk AG.

*Receivables from Subsidiaries and Affiliates* were in the main from Motor Producers Ltd. and VW-Porsche Vertriebsgesellschaft m.b.H.

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

*Prepaid and Deferred Expenses* pertain to discounted loans payable secured by mortgages which are, for the most part, written down in accordance with the declining balance method and also include under *Other Items* prepaid and deferred commissions in connection with leasing transactions and discount charges.

## Liabilities

The *Consolidated Reserves* include the reserves of Volkswagenwerk AG, the adjustment items arising from capital consolidation and the other adjustment items.

The *Adjustment Items arising from Capital Consolidation*, the differences between capital stock of the companies included in the consolidated financial statements and the lower book values of investments in consolidated companies, resulted mainly from the inclusion of the companies in Brazil, USA, Mexico and South Africa.

The *Other Adjustment Items* resulted on the one hand 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 Gemeinnützige Gesellschaft m.b.H. and VW-Siedlungsgesellschaft m.b.H. On the other hand these items include the appropriate share in the net earnings of the subsidiaries and affiliates, in particular of Volkswagen do Brasil, Volkswagen of America and Wolfsburger Transportgesellschaft m.b.H.

*Minority Interest in Consolidated Subsidiaries* represents in the main minority interest in the capital stock, reserves and results of the Brazilian and South African companies. The minority interest in net earnings included in this item resulted in the main from a subsidiary of AUDI NSU AUTO UNION AG and Volkswagen Bruxelles. Four smaller 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 57 % of the trade receivables of domestic companies and 43 % of the trade receivables of foreign companies.

Of the total *Undetermined Liabilities* of DM 2,431 million DM 820 million can be considered relating to long-term liabilities,

DM 431 million as medium-term liabilities, and DM 1,180 million are of a short-term nature.

The increase in total undetermined liabilities by DM 178 million as compared to the previous year was primarily due to a rise in expenditures for *Old-Age Pensions* by DM 148 million which were based on actuarial computations in accordance with German tax laws.

*Undetermined Liabilities for Maintenance not Performed* primarily pertain to the Volkswagenwerk AG.

Provision was made mainly by the domestic producing companies and Volkswagen do Brasil for risks under *Unde-*

Consolidated Statement  
of Earnings of the VW GroupComments on the  
Statement of Earnings

terminated *Liabilities for Warranties without Legal Obligations*.

37 % of the *Other Undetermined Liabilities* pertained to likely warranty and distribution costs, 24 % to taxes and 22 % to personnel costs and social expenditures.

The increase in *Liabilities with an Initial Term of Four Years or Longer* by DM 34 million is mainly due to the rise in sums *Due to Banks* from Volkswagen Bruxelles and VW-Siedlungsgesellschaft m.b.H.

71 % of *Trade Accounts Payable* pertained to domestic subsidiaries and affiliates and 29 % was due from foreign companies within the VW Group. The increase by DM 190 million resulted primarily from the higher consumption of materials by Volkswagenwerk AG and Volkswagen do Brasil.

*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.

35 % of the liabilities *Due to Banks* was due from domestic subsidiaries and affiliates and 65 % was due from foreign companies within the VW Group.

*Prepayments by Customers* represent, mainly, advance payments received from the sales organizations.

*Miscellaneous Other Liabilities* pertain, for the most part, 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 3.9 million in connection with the purchase of shares of one domestic and two foreign subsidiaries and affiliates.

Other contingent liabilities amounted to DM 123,000 in connection with the additional capital contribution to be made to cooperative associations and DM 240,000 in connection with a business transaction abroad. Of the total other investment securities DM 3.5 million par value bonds were pledged by Volkswagenwerk AG. Inter-company items have been excluded from the above details.





## Comments on the Statement of Earnings

In 1973, *Sales* of the Group amounted to DM 16,982 million and showed an increase of DM 986 million or 6.2 % compared with the previous year.

The ratio of vehicle sales to total sales of the Group was 83 % whereas the corresponding ratio for parts amounted to 12 % and to 5 % for other sales.

The increase in sales proceeds was mainly contributed to by AUDI NSU AUTO UNION AG and by foreign producing companies along with the fact that prices were increased. Full benefit, however, was not obtained from the increase in sales of the foreign companies since the exchange rates applied were lower than those of the previous year.

The *Gross Performance* of DM 18,155 million increased to a greater extent than the sales because stocks increased considerably in the year under review.

The ratio of selected cost, expense and earnings data to gross performance may be seen from the diagram shown below.

*Expenditures for Raw Materials, Supplies and Other Materials* increased by 8.3 %. This rise was mainly due

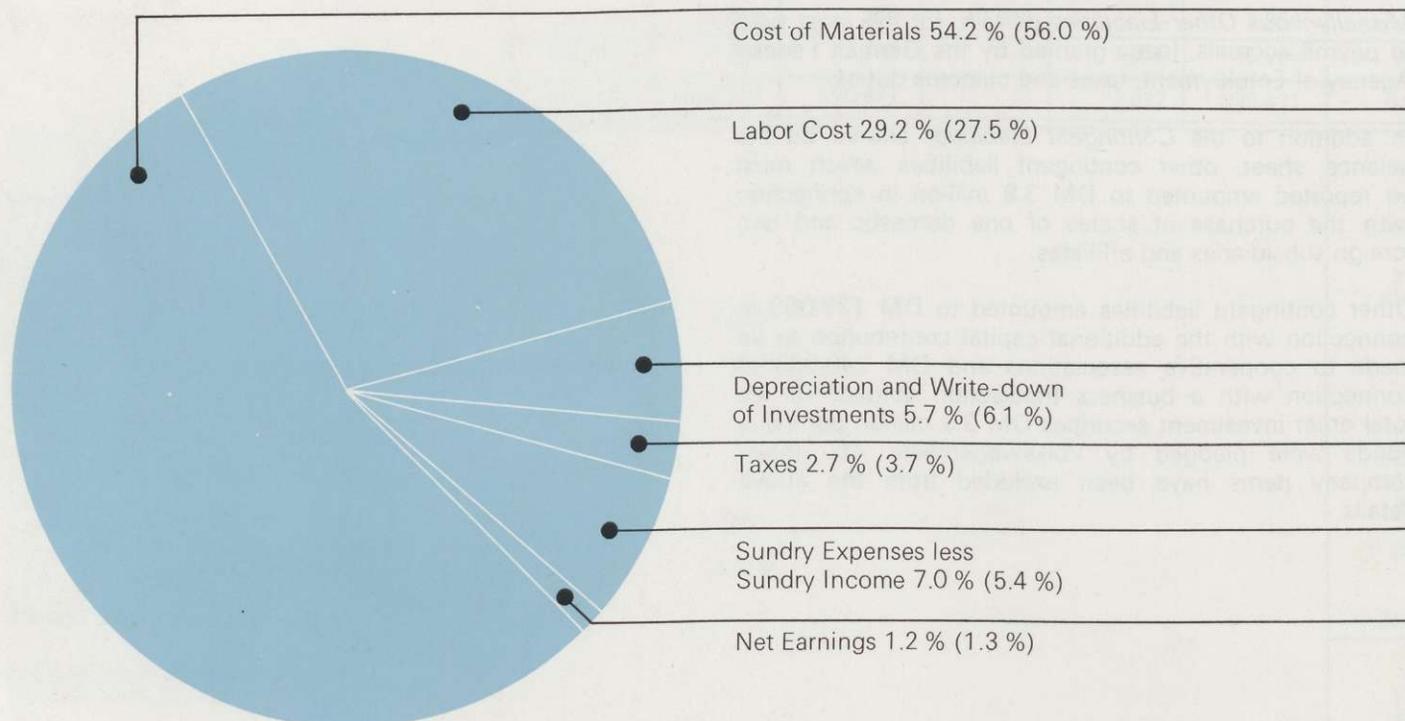
to the increased number of vehicles produced by AUDI NSU AUTO UNION AG and foreign producing companies and increased costs of materials.

*Income from Profit Assumption Agreements* resulted from the transfer of the 1973 profits of VW-Porsche Vertriebsgesellschaft m.b.H. and Deutsche Automobilgesellschaft m.b.H.

*Income from Investments in Unconsolidated Subsidiaries and Affiliates* was received in the form of distribution of dividends primarily from subsidiaries and affiliates of domestic companies which were not included in the consolidation.

*Income from Other Financial Investments* represented in the main interest on loans granted and amortization of discount on long-term loans previously discounted to reflect present values. This income was contributed by Volkswagenwerk AG and Volkswagen do Brasil in connection with investments associated with tax benefits.

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



*Gain on Disposal of Property, Plant, Equipment and Investments and Write-ups* resulted in the main in Germany from the sale of property, plant and equipment belonging to the Volkswagenwerk AG and AUDI NSU AUTO UNION AG and of used vehicles belonging to interRent Autovermietung G.m.b.H. and Volkswagen Leasing G.m.b.H.

*Elimination of Reserves for Undetermined Liabilities No Longer Required* was due to lower requirements of foreign subsidiaries and affiliates for taxes and pending lawsuits and to lower amounts required to cover warranty obligations.

*Other Income* pertains, for the most part, to revenues from cafeteria sales and sales of advertising material and to income from rents paid to the housing construction companies in respect of accommodation and leases.

In the year under review, *Wages and Salaries* increased by DM 676 million to DM 4,536 million because of new wage and salary agreements in Germany and abroad and an increase in personnel employed by the Group's producing companies.

The same reasons caused the rise in *Social Expenditures - Compulsory* by DM 115 million to DM 580 million.

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

The ratio of total personnel costs to gross performance increased from 27.5 % in 1972 to 29.2 % in the report year. In consequence of this the personnel costs increased much more than the sales proceeds and expenditure on materials.

*Loss on Disposal of Property, Plant, Equipment and Investments* resulted primarily from the disposal of property, plant and equipment belonging to Volkswagenwerk AG.

*Interest Expense and Similar Charges* increased by DM 76 million as compared to the previous year. This increase resulted mainly from bank loans.

*Taxes on Income, Earnings and Property* amounted to DM 432 million, DM 130 million less than in the previous year. The main reason for this was that the Volkswagenwerk AG in contrast to 1972 was not required to make retrospective tax payments. Of the total taxes paid, DM 424 million were in respect of the report year and DM 8 million in respect of 1972. *Other Taxes* consist mainly of those paid on sales and assembly by our foreign subsidiaries and affiliates.

*Additions to Reserves for Special Purposes* were primarily in respect of investments in developing countries and build-up of reserves in respect of price increases by Volkswagenwerk AG and AUDI NSU AUTO UNION AG.

*Other Expenses* consisted, for the most part, of distribution costs, costs of repair and maintenance of property, plant and equipment, rent, insurance costs as well as losses in foreign exchange in respect of deposit accounts and losses resulting from the conversion of the financial statements of foreign companies into Deutsche Mark.

*Net Earnings* were approximately at the same level as in the previous year. Foreign exchange losses due to conversion reduced the net earnings by DM 100 million.

## Consolidated Statement of Earnings of the VW Group

Year ended December 31, 1973  
(Thousand DM)

	1973		1972
<b>Sales</b>	16,982,010		15,996,039
Increase/Decrease in inventories	818,163		— 40,326
Material, wages and overhead capitalized as additions to plant and equipment		17,800,173 355,236	15,955,713 293,959
<b>Gross Performance</b>		18,155,409	16,249,672
Expenditures for raw materials, supplies and other materials		9,849,524	9,098,043
<b>Excess of Gross Performance over Expenditures for Raw Materials, etc.</b>		8,305,885	7,151,629
Income from profit assumption agreements	4,295		1,421
Income from investments in unconsolidated subsidiaries and affiliates	997		2,493
Income from other financial investments	21,356		20,038
Other interest and similar income	298,282		202,350
Gain on disposal of property, plant, equipment and investments and write-ups	22,536		22,223
Elimination of reserves for undetermined liabilities no longer required	143,155		122,170
Elimination of reserves for special purposes no longer required	119		—
Other income	363,225		418,266
including extraordinary income	45,716		
		853,965	788,961
		9,159,850	7,940,590
Wages and salaries	4,535,630		3,859,175
Social expenditures — compulsory	579,706		465,066
Pension expenditures and voluntary payments	193,444		138,660
Provision for depreciation of physical plant and fixed intangible assets	1,002,902		967,030
Write-down of financial investments	35,569		25,407
Write-down of other current assets and provision for doubtful trade acceptances and accounts	37,495		25,437
Loss on disposal of property, plant, equipment and investments	9,138		16,461
Interest expense and similar charges	241,726		165,445
Taxes			562,160
a) on income, earnings and property	431,972		34,492
b) other	47,779		
Share-the-Burden Property Levy	479,751		596,652
Additions to reserves for special purposes	3,324		3,324
Other expenses	46,902		5,274
	1,783,196		1,467,152
		8,948,783	7,735,083
<b>Net Earnings</b>		211,067	205,507
Balance carried forward		211,067	205,507

	1973		1972
Balance brought forward		211,067	205,507
Volkswagenwerk AG net earnings brought forward		3,545	1,678
Change in consolidated reserves		214,612	207,185
Transfer from Reserves of Volkswagenwerk AG	2,140		2,048
Adjustment items arising from consolidation	72,826		95,543
		74,966	97,591
Transfer to Reserves of Volkswagenwerk AG	33,000	289,578	304,776
Adjustment items arising from consolidation	157,741		7,000
		190,741	200,229
Minority interest in net earnings of consolidated subsidiaries		98,837	97,547
		17,178	14,367
Minority interest in losses of consolidated subsidiaries		81,659	83,180
		365	10
<b>Net Earnings after Reserve Transfers and Minority Interests</b>		82,024	83,190

Wolfsburg, April 1974

**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 18, 1974

**TREUARBEIT  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft**

Prof. Dr. Forster  
WirtschaftsprüferDr. Tubbesing  
Wirtschaftsprüfer



## Comparative Summary of Selected Data of the VW Group 1969 — 1973 \*)

	1969	1970	1971	1972	1973
Sales (Million DM)	13,386	15,113	16,473	15,996	16,982
Increase (Decrease) as compared to prior year in %	19	13	9	(3)	6
Domestic sales	4,023	4,911	5,135	5,035	5,364
Export sales	9,363	10,202	11,338	10,961	11,618
Export of domestic subsidiaries	6,732	7,005	8,210	7,718	8,965
Sales of foreign producing subsidiaries based on own production	2,652	3,215	3,430	3,539	3,063
Sales (Thousand vehicles)	2,087	2,207	2,317	2,197	2,281
Increase (Decrease) as compared to prior year in %	18	6	5	(5)	4
In Germany	669	725	694	628	619
Abroad	1,418	1,482	1,623	1,569	1,662
Production (Thousand vehicles)	2,094	2,215	2,354	2,193	2,335
Increase (Decrease) as compared to prior year in %	18	6	6	(7)	7
In Germany	1,843	1,889	1,867	1,673	1,720
Abroad	251	326	487	520	615
Labor Force at year-end (Thousand employees)	168	190	202	192	215
Increase (Decrease) as compared to prior year in %	16	13	6	(5)	12
In Germany	140	155	160	149	161
Abroad	28	35	42	43	54
Capital Investments (Million DM)	1,258	1,647	1,947	1,573	1,556
Increase (Decrease) as compared to prior year in %	78	31	18	(19)	(1)
In Germany	967	1,403	1,545	1,183	928
Abroad	291	244	402	390	628

\*) 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.

**Balance Sheet** (Condensed)

December 31

	1969	1970	1971	1972	1973
	— Million DM —				
<b>Assets</b>					
Property, plant and equipment	3,639	4,187	4,905	5,261	5,597
Investments	230	427	584	585	597
<i>Property, Plant, Equipment and Investments</i>	3,869	4,614	5,489	5,846	6,194
Inventories and advance payments to suppliers**)	1,716	2,138	2,514	2,338	3,489
Receivables and the like**)	981	1,255	1,394	1,584	1,691
Liquid funds, trade acceptances**)	1,059	924	445	1,038	1,151
Securities, own stock	83	111	313	354	414
<i>Current Assets</i>	3,839	4,428	4,666	5,314	6,745
Total Assets	7,708	9,042	10,155	11,160	12,939

**Liabilities**

Capital stock	750	900	900	900	900
Reserves of the VW Group***)	2,588	2,578	2,627	2,677	2,785
Minority interest in consolidated subsidiaries****)	272	238	189	209	227
<i>Stockholders' Equity</i>	3,610	3,716	3,716	3,786	3,912
Old-age pensions	433	519	630	730	878
Other undetermined liabilities*****)	1,071	1,345	1,596	1,604	1,662
<i>Undetermined Liabilities</i>	1,504	1,864	2,226	2,334	2,540
Liabilities payable within more than 4 years	292	305	413	884	851
1 to 4 years	217	281	268	366	448
1 year	1,908	2,696	3,442	3,694	5,090
<i>Liabilities</i>	2,417	3,282	4,123	4,944	6,389
Outside capital share in net earnings after reserve transfers of VW AG	167	167	81	81	81
Minority interest in earnings to be distributed	10	13	9	15	17
<i>Outside Capital</i>	4,098	5,326	6,439	7,374	9,027
Total Capital	7,708	9,042	10,155	11,160	12,939

**Statement of Earnings** (Condensed)

Year ended December 31

Gross performance	13,702	15,538	17,089	16,250	18,155
Cost of materials	7,738	9,200	9,891	9,098	9,850
Labor cost	2,920	3,646	4,416	4,463	5,309
Depreciation and write-down	691	836	912	992	1,038
Taxes	1,045	592	452	600	483
on income, earnings and property	820	534	418	562	432
Sundry expenses less sundry income	828	857	1,271	891	1,264
Net earnings	480	407	147	206	211
Dividend of VW AG	167	167	81	81	81

\*\*\*) 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.

\*\*\*\*) Excluding share in net earnings.

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

# The Major Companies within the VW Group

December 31, 1973

- Producing Companies
- Distributing Companies
- Other Companies
- 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							
<b>AUDI NSU AUTO UNION AG</b> Neckarsulm DM 215,000,000 98.8%	<b>Volkswagen do Brasil S.A.</b> São Bernardo do Campo Brazil Cr \$ 1,336,529,250 80%	<b>Volkswagen of South Africa Ltd.</b> Uitenhage, C.P., South Africa R 1,280,000 64.9%**)	<b>Compañía Hispano Alemana de Productos Mercedes- Benz y Volkswagen S.A.</b> (MEVOSA), Madrid, Spain Ptas 972,000,000 26.8%	<b>Volkswagen of America, Inc.</b> Englewood Cliffs, N.J. USA US \$ 5,000,000 100%	<b>Volkswagen Canada Ltd.</b> Toronto, Ontario, Canada can \$ 500,000 100%	<b>interRent****)</b> Autovermietung G.m.b.H. Hamburg DM 1,860,000 100%	<b>Volkswagen Leasing G.m.b.H.</b> Wolfsburg DM 1,000,000 100%
<b>AWD Automobilwirt- schaftsdienst G.m.b.H.</b> Ingolstadt DM 20,000 100%	<b>Financiadora Volkswagen S.A.</b> São Bernardo do Campo Brazil Cr \$ 29,100,000 100%	<b>South African Motor Acceptance Corp. (PTY) Ltd.</b> (SAMAC), Uitenhage, C.P. R 3,000,000, 50% 33.3% VW of America 16.7% HOLAD	<b>Comercio e Industria Alaveses del Automovil, S.A. (CIADASA)</b> Vitoria, Spain Ptas 95,000,000 100%	<b>VICO Corporation</b> Delaware, USA US \$ 2,606,000 40.7%	<b>Vorelco Ltd.</b> Toronto, Ontario, Canada can \$ 10,000,000 30% 70% HOLAD	<b>Selbstfahrer Union G.m.b.H.</b> Hamburg DM 20,000 100%	<b>Deutsche Automobil- gesellschaft m.b.H.</b> Hanover DM 5,000,000 50%
<b>AUDI NSU A/S</b> Odense, Denmark dkr 40,000 100%	<b>Distrivolks S.A.</b> São Paulo, Brazil Cr \$ 4,300,000 100%	<b>Volkswagen Bruxelles S.A.</b> Brussels, Belgium bfrs 425,000,000 75%	<b>SICCA Española, S.A.</b> Vitoria, Spain Ptas 30,000,000 80%	<b>Volkswagen Products Corporation</b> Fort Worth, Texas, USA US \$ 1,000 100%	<b>Volkswagen France S.A.</b> Villers-Cotterêts France FF 22,000,000 100%	<b>DIRANUS Versicherungs- Vermittlungs-G.m.b.H.</b> Hamburg DM 30,000 100%	<b>VW-Wohnungsbau Gemeinnützige Gesellschaft m.b.H.</b> Wolfsburg DM 2,000,000 100%
<b>AUDI NSU BELGIUM S.P.R.L.</b> Brussels, Belgium bfrs 250,000 100%	<b>Forjaria São Bernardo S.A.</b> São Bernardo do Campo Brazil Cr \$ 13,800,000 33.3%	<b>Motor Producers Ltd.</b> Melbourne, Australia \$ A 10,000,000 100%	<b>TAS Tvornica Automobila Sarajevo Vogosca, Yugoslavia Din 85,575,000 49%</b>	<b>Vorelco, Inc.</b> Englewood Cliffs, N.J. USA US \$ 18,500,000 100%	<b>Société Volkswagen de Financement S.A.</b> Villers-Cotterêts, France FF 12,500,000 63.7% 35.3% HOLAD	<b>interRent S.A.</b> Gent, Belgium bfrs 20,000,000 99.9%	<b>VW-Siedlungs- gesellschaft m.b.H.</b> Wolfsburg DM 20,000,000 100%
<b>AUDI NSU AUSTRIA Ges.m.b.H.</b> Vienna, Austria S 100,000 51%	<b>VEMAG S.A.</b> São Paulo, Brazil Cr \$ 70,263,696 62.4%	<b>P.T. German Motor Manufacturing</b> Djakarta, Indonesia Rp 1,043,165,466 33.3%	<b>Volkswagen of Nigeria Ltd.</b> Lagos, Nigeria N 3,000,000 40%	<b>Vorelco of California, Inc.</b> Culver City, Ca., USA US \$ 5,000 100%	<b>Svenska Volkswagen AB</b> Södertälje, Sweden skr 42,000,000 33.3%	<b>interRent Location de Voitures S.A.R.L.</b> Paris, France FF 5,000,000 100%	<b>HOLAD Holding &amp; Administration AG</b> Basle, Switzerland sfr 110,000 100%
<b>AUDI NSU AUSTRIA Ges.m.b.H. &amp; Co. KG</b> Vienna, Austria S 1,000,000 50.5%	<b>Volkswagen de Mexico, S.A. de C.V.</b> Puebla/Pue., Mexico mex \$ 1,132,952,000 100%	*) The following companies, Trans Trading Brasil Exportadora S.A., São Bernardo do Campo and Volkswagen Properties (PTY) Ltd., Uitenhage and its subsidiaries Volksprop Algoa Road and Volksprop Halfway House, which have been included in the consolidation do not appear in this table.					
<b>Compagnie de Commerce et Commission S.A.</b> Paris, France FF 300,000 100%	<b>Volkswagen Commercial, S.A. de C.V.</b> Puebla/Pue., Mexico mex \$ 80,000,000 100%	**) VW share in capital stock following conversion of the convertible loan issued on September 1, 1971.					
<b>AUDI NSU FRANCE S.A.</b> Paris, France FF 1,000,000 65%	<b>VW Leasing, S.A. de C.V.</b> Mexico/D.F., Mexico mex \$ 15,000,000 51%	***) Sold with effect from January 1, 1974.					
		****) In 1974 the former SU interRent Autovermietung G.m.b.H. was renamed interRent Autovermietung G.m.b.H.					
				<b>Volkswagen i Stockholm AB</b> Stockholm, Sweden skr 6,000,000 100%	<b>Wolfsburger Transport- gesellschaft m.b.H.</b> Wolfsburg DM 500,000 90% 10% HOLAD	<b>Transalme Sociedade de Representações Administra- ção e Organização Ltda.</b> São Bernardo do Campo Brazil, Cr \$ 35,000 100%	
				<b>VW-Porsche Vertriebs- gesellschaft m.b.H. ****)</b> Ludwigsburg DM 14,000,000 50%	<b>VWKREDITBANK G.M.B.H.</b> Wolfsburg DM 20,000,000 100%		
				<b>Weser-Ems Vertriebs- gesellschaft m.b.H.</b> Bremen DM 8,000,000 81.3%	<b>AUDI NSU KREDIT BANK G.M.B.H.</b> Ingolstadt DM 8,000,000 100%		

# Training within the VW Group

*Forging is one of the original methods of working metal. Even for a career behind a drawing board you have to put a couple of weeks in at the anvil.*



## The opportunities VW offers

The Volkswagenwerk is more than an automobile factory. It also offers training facilities and is a school and professional training institute for employees at all levels, from the person setting out on his career to the foreman or manager.

All of VW's professional and further training is controlled centrally from Wolfsburg. The teaching concepts drawn up here are followed all over the world, wherever Volkswagens are produced, sold and serviced.

VW offers those about to start out on a career apprenticeship in a total of twenty trades, e.g. toolmaker, turner, tinsmith, chemistry laboratory assistant, material tester and industrial administrator. There are some 2,000 in training in VW's German plants alone. The business trainees start their careers in the lecture room and in offices and the technical trainees in the apprentices' workshop.

Basic training lasts from five to nine months according to the type of career. After that special training begins.

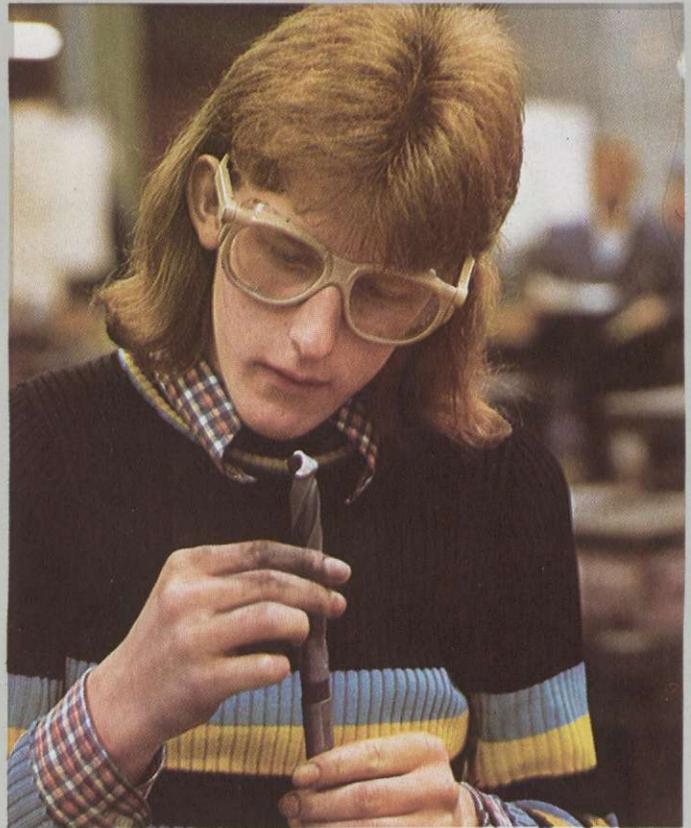
The trainee spends around two years in the training workshop. He then applies the knowledge and the skill he has acquired in the plant itself. He is constantly switched from one job to another. In this way the young person gradually familiarizes himself with the problems and conditions which are involved in the practice of his career. Specialist instruction in the plant's own training school in addition to that provided in vocational college makes sure that there is no lack of theoretical knowledge. It costs VW around DM 50,000 to train each of these skilled employees. A young man who has a skilled craftsman's or commercial assistant's certificate in his pocket has great career prospects before him.

Everything related to the further professional training of employees in the Volkswagenwerk plant has been brought together under the heading "Functional Training". Some fifty items go to make up the list of courses and seminars. Apart from foreman's and charge hand's courses the VW Group's Functional Training Section offers a wide variety of other further training activities.

One person will take a course in steel welding techniques, another will attend one for powerhouse employees and a third may be making a special study of "Hydraulics" or "Electronics". It not infrequently happens that an employee finds himself specializing and following a course of further training in a career that he had originally not considered at all.

In Wolfsburg special importance is placed on quality since accuracy in manufacturing and assembly has made a major contribution to the good reputation of the Volkswagen. In order to maintain this reputation many technicians, qualified engineers and engineering graduates are given special training.

*Learning to be accurate.*



The Volkswagenwerk's Functional Training Section also offers many opportunities in business administration and organization sectors. These range from two-day seminars on "How to write better business letters" to courses in business administration. These deal with calculation problems, balance sheet problems, statement analysis, cost accounting, program updating, network planning techniques, evaluation and statistics. It goes without saying that in this wide field electronic data processing has a most important part to play.

A Group with international connections requires that communication should take place unhindered by language difficulties. For this reason language training is a very important facet of the Training Department's activities, particularly in English, French, Italian, Spanish and Portuguese.

*A new workshop building at Wolfsburg costing a total of DM 16 million was completed in October 1973. The workshop can accommodate 550 trainees.*



*Volkswagen do Brasil also has a new Training Center of its own at São Bernardo do Campo and this was opened in May 1973, thus increasing the number of places available to trainees to 633.*

*Volkswagen de Mexico was provided with its new Center in January 1973 and already 1,900 people have received training in more than 180 courses.*



### *Haus Rhode – Seminar for Management Personnel.*

The village of Rhode lies to the South of Wolfsburg in the midst of typical Lower Saxony scenery. The Volkswagenwerk owns premises there that are used for a very special purpose: this is the Principal Training Center for management personnel and management trainees from the entire VW Group.

Training and further training for management personnel are a necessity these days. Organizational forms, production methods, economic relationships, the market and even social factors are in a permanent way of flux. For this reason management personnel have constantly to be brought up-to-date with the latest developments through courses and seminars.

In Rhode this is done by giving training under two main headings "Information" and "Training". For example, seminars providing information deal with new economic trends, with current legislation (emission control and safety regulations, for instance), with market research questions, with the effect of electronic data processing on the engineer's tasks and with completely new procedures in the parts sector.

Participants' knowledge in all these fields is extended and supplemented. Here it is also important to provide an insight into areas far removed from their own field of activity. As a result the head of the "Investments" Department can find himself confronted with problems of modern advertising, on the other hand the Advertising Manager may have to consider technical manufacturing problems. Knowledge of other fields is becoming more and more important when trying to solve the tasks of one's own particular field. For this reason members of the Board of Management also visit Rhode both to learn and to teach.

The same also applies to the other branch of instruction in Rhode, to training. Here knowledge is less important than ability to master modern techniques of company and personnel management. The VW Group employs 215,000 people and they are guided and supervised by 1,200 executives.

Nowadays the ability to manage personnel is of decisive importance. For this reason management psychology, team training and training in decision making are important features of the curriculum in Rhode. The Volkswagenwerk is regarded as a model in Germany when it comes to giving training in such general skills as these.

Graduates of universities and commercial and technical colleges who are often tomorrow's manager are mostly a little at a loss in view of the many career possibilities open to them and their great variety. The Volkswagenwerk offers them a method of embarking on the right career. Young intellectuals are able to work in the Wolfsburg plant as management trainees for a maximum of fifteen months. During this period a management trainee visits for briefing purposes all those departments which are significant for his subsequent career.



In doing so he profits in two ways: first of all he gets to know the various different technical or commercial departments in a company of this magnitude and familiarizes himself with their tasks and working methods and how they relate to one another within the organization, on the other hand he finds out more about himself, his strong points, weak points, inclinations and gifts.

Each management trainee has his own individual training plan tailored particularly to his special requirements and interests. This training is supplemented by lectures, visits and seminars and by a constant exchange of ideas and experience between the management trainees themselves. In this way the young university graduate is given some idea of the relationships existing within a vast enterprise and the opportunities for future employment which are open to him personally.

*Modern management training.*



*Advanced specialist training for members of the world-wide VW Organization.*



*Factual knowledge is the basis of good customer relations.*



Nowadays some 162,000 people in 140 countries on every latitude between Alaska and Tierra del Fuego have received training from VW. They have all gone out into the world carrying with them those concepts and standards of quality provided to them by the factory. There are four sectors of the VW dealer organization which provide permanent VW training: Service, Parts, Sales and Management.

In the Federal Republic alone the Volkswagenwerk and its distributors are responsible for twelve sales schools which have the task of providing constant training for 23,500 people. In Brazil training centers of this nature for technical instructions have been set up in Bahia, Recife, and Belo Horizonte. In Mexico on the other hand this aspect of training has been integrated in the large Puebla Training Center.

The "Parts" training program instructs future employees on central allocation, the modern VW microfiche system, the VW exchange service, storage systems and stores planning. But that is only a beginning. This is followed by basic courses, continuation courses, a stores manager seminar, a special course on "Parts Sales", an exchange unit course and a course on "Shipping and Freight".

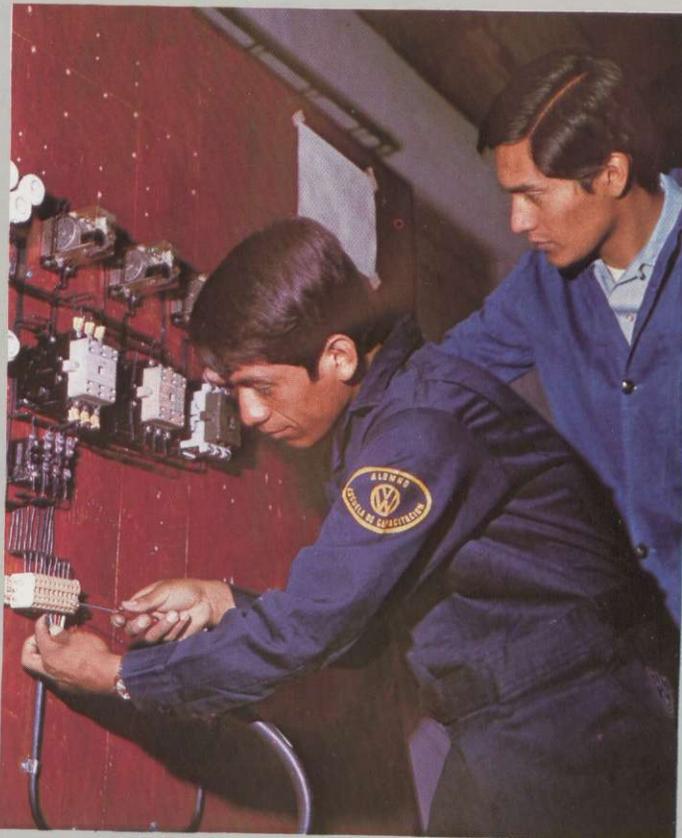
Comprehensive training is also given in the sales sector. Selling is not "palming something off on somebody". This can only happen once and then it is good-bye to that customer for ever. Selling is having great factual knowledge ready for use, bearing the wishes and the financial situation of the customer in mind when providing advice and convincing by the use of honest arguments. Consequently the VW Group uses the latest psychological and educational methods when training sales personnel.

Managerial personnel in the VW dealer organization are as much subject to a continuous process of learning as the factory's own leading executives. Indeed it seems more urgent than ever before to offer those occupying leading positions in VW franchises the opportunity for further training. A reason for this is that the fields which companies have to master are becoming more complex with every year that passes.

Calculation, profit and loss accounting, streamlining, increasing productivity, marketing, advertising, public relations, used car market analysis, and management aids, management style, self-analysis, leading discussions, extemporary speechmaking – these themes and many more are the subjects of the three – twelve-day seminars which are specifically for the principals of independent firms and their management personnel.

All the Volkswagenwerk's activities in regard to training the dealer organization are carried out on a world-wide basis. In order to achieve the maximum effect training methods and materials are developed centrally in Wolfsburg.

*Training given by VW de Mexico.*



Learning and teaching are always two-way processes. This is especially true when it comes to "learning from VW abroad". In many developing countries VW facilities, whether they be production plants, large complexes or small or perhaps miniscule service stations, are the starting points for economic and social development.

Frequently enough people who live in very modest circumstances have attained what has today become known as the quality of life because they have been VW trained. Even today it is as a rule education which furnishes the opportunity to climb up the social ladder and to achieve a better standard of living. This is also one form of development aid and certainly not the worst one.

**Selected Data of Companies within the VW Group\*)**

	Sales (DM)		
	1973	1972	Increase (Decrease)
	– Million DM –		%
<b>Producing Companies</b>			
Volkswagenwerk AG	11,563	10,399	11
AUDI NSU AUTO UNION AG	3,687	2,584	43
Volkswagen do Brasil S. A.**)	2,105	2,038	3
Volkswagen de Mexico, S. A. de C. V.**)	598	441	36
Volkswagen of South Africa Ltd.**)	459	336	36
Volkswagen Bruxelles S. A.	422	324	30
<b>Distributing Companies</b>			
Volkswagen of America, Inc.**)	4,181	4,149	1
Volkswagen Canada Ltd.**)	346	359	(4)
Volkswagen France S. A.**)	287	220	30

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

	Sales (units) to the Dealer Organization			Capital Investments			Labor Force		
	1973	1972	Increase (Decrease)	1973	1972	Increase (Decrease)	1973	1972	Increase (Decrease)
	– vehicles –		%	– Million DM –		%	– at year-end –		%
Volkswagenwerk AG	1,448,484	1,471,561	(2)	755	785	(4)	125,787	116,352	8
AUDI NSU AUTO UNION AG	398,842	296,895	34	134	250	(46)	33,880	31,173	9
Volkswagen do Brasil S. A.**)	386,906	337,662	15	319	225	42	31,957	28,264	13
Volkswagen de Mexico, S. A. de C. V.**)	88,577	58,413	52	115	64	79	9,927	5,922	68
Volkswagen of South Africa Ltd.**)	46,585	35,148	33	35	48	(25)	5,420	4,081	33
Volkswagen Bruxelles S. A.	99,464	81,890	21	16	41	(61)	3,219	2,125	51
Volkswagen of America, Inc.**)	515,957	509,167	1	61	17	×	2,172	1,693	28
Volkswagen Canada Ltd.**)	36,701	35,581	3	4	5	(19)	406	414	(2)
Volkswagen France S. A.**)	42,385	36,811	15	75	4	×	535	451	19

## Producing Companies

### Volkswagenwerk AG, Wolfsburg

The Volkswagenwerk AG's production and sales fell slightly in 1973. Sales proceeds were on the other hand greater than those of the previous year. The net earnings rose to DM 109.3 million (DM 86.5 million). Nevertheless the earnings situation must still be described as unsatisfactory.

#### Sales Trend

In the year under review the Volkswagenwerk AG sold 1,448,484 vehicles to dealers, 1.6 % less than in the previous year. Since fewer was sold on the domestic market the percentage share of exports to total sales rose to 70.8 % (67.1 %).

In the Federal Republic of Germany deliveries of vehicles to customers totalled 419,457 units, 8.9 % less than in 1972, with a very marked falling-off in total demand in the second half of the year. Towards the end of the year sales were adversely affected particularly by the fuel shortage and the accompanying consequences, such as bans on Sunday driving and speed limits.

In 1973 the Volkswagenwerk AG's share in the new registrations of passenger cars in the Federal Republic of Germany dropped from 18.1 % to 17.7 %. After a poor start to the year we improved our market share from month to month during the second half and achieved a 23.6 % share in December. This was due to the good reception accorded to the Passat and to the renewed demand for the VW Beetle which was again being more appreciated because of its economy. Demand for the economy version of the Beetle increased by leaps and bounds on account of the fuel shortage.

The Volkswagenwerk AG was particularly hard hit in the Commercial sector as a result of the economic policies adopted. The investment tax and credit restrictions introduced in May resulted in a decline in demand in this sector. 15.5 % less VW Commercials were delivered in the Federal Republic as compared to 1972.

In the United States it became clearly apparent well before the middle of the year that there was a distinct shift in demand in favor for smaller and more economical vehicles as a consequence of the fuel shortage. The Volkswagenwerk AG profited from this trend to a gratifying extent. This lessened the effects of the price increases made necessary by costs and currency problems and as a result deliveries to customers stood at 476,295 vehicles only 1.9 % less than in the previous year.

In the European export markets deliveries to customers in the year under review dropped by 7.4 % to 326,083 vehicles. The far reaching effects of the measures taken to conserve fuel and the general weakening of the economy in almost all the markets in Europe may be seen from

the fact that up to the end of the third quarter of 1973 deliveries had been 1.7 % up on the corresponding period of 1972.

#### Turnover

In 1973 the Volkswagenwerk AG's turnover showed an 11.2 % increase on that of the previous year. This improvement was mainly due to Audi 80 vehicles assembled and supplied to the AUDI NSU AUTO UNION AG, to units supplied to the latter company and to price increases. The export share of turnover went up slightly to 63.6 % (62.7 %).

#### Production

In the year under review the Volkswagenwerk AG produced 1,463,489 (1,477,343) VW vehicles and 60,540 (6,007) Audi 80s. In the first half of the year a number of extra shifts had to be worked in order to meet the demand for our products.

Passat production started in May 1973 and this can be regarded as the successor to the VW 1600. 115,672 Passats were produced by the end of the year. Assembly of the Audi 80 in Wolfsburg which had started in 1972 was terminated in October 1973 in order to release additional capacity for this model.

The well-tried models have been improved still further. It has been possible to meet demands for cars which are safer and more in keeping with the environment.

In order to achieve greater flexibility and to improve assembly conditions production in the Wolfsburg and Emden plants was converted to suspended assembly. Special efforts were made to bring a more human touch to work in the production sector.

#### Earnings situation

The streamlining activities which were continued purposefully in 1973 made it possible for the earnings situation to be improved slightly. The net earnings stood at DM 109.3 million, an increase of DM 22.9 million on those of 1972. The burdens resulting from the greater costs of personnel and materials and the changes in the exchange rates did not permit a more marked improvement in the results.

#### Labor Force

The situation in the market and the initial phase of Passat production demanded a high degree of adaptation and flexibility and rapid increases in the labor force. As a result the number of Volkswagenwerk AG's personnel increased by about 9,400 compared with the figure of the previous year. At the same time we succeeded in achieving the lowest fluctuation rate since 1968 by offer-

*Passat production organized on modern lines.*



Producing Companies

Producing Companies

Accommodation for foreign workers.



ing better guidance to personnel during the initial period of their employment.

Special attention was given to the promotion and use of female employees. In the Wolfsburg plant alone more than 300 additional jobs were provided for female employees.

The workshop building in the new training center was completed in the Wolfsburg plant. This required investments totalling DM 16 million. It has places for 550 specialist trainees, instruction facilities and special equipment and provides very good opportunities for up-to-date professional training. In addition more and more adults are being retrained.

In the year under review the company's Suggestion Scheme received renewed stimulus. 2,343 (2,093) suggestions for improvement qualified for awards and DM 6 million were paid out in bonuses as a result.

A Rehabilitation Center was set up in the Wolfsburg plant as an improvement to the health care provided. There factory employees who temporarily cannot carry out their normal task because of illness work under medical supervision until their health is restored.

In the year under review the Volkswagenwerk AG gave financial assistance with regard to the purchase and construction of 1,589 privately owned houses and apartments. The Volkswagenwerk granted employees loans to the tune of DM 17.2 million for this purpose. In addition to this 1,086 rented apartments were completed, 255 rented apartments were still under construction on December 31, 1973.

Wages and salaries were increased by an average of 8.5% with effect from February 1, 1973. In addition to this the parties to the wage and salary agreement approved a special payment for every employee amounting to DM 280 in the month of August.

In 1973 the Volkswagenwerk AG's expenditures for personnel rose by 17.9% to DM 3,700 million. This increase is mainly due to the increase in the number of employees, to extra shifts, the increases in accordance with the wage and salary agreement and the special payments to employees. The increase in personnel costs due to increases in wages and salaries and special payments alone totalled more than DM 350 million.

### Development of the Labor Force

	1973	1972	Increase	%
	- at year-end -		(Decrease)	
Volkswagenwerk AG	125,787	116,352	9,435	8.1
Wolfsburg	56,549	51,836	4,713	9.1
Hanover	26,504	26,259	245	0.9
Kassel	18,808	17,256	1,552	9.0
Salzgitter	9,387	7,145	2,242	31.4
Emden	7,578	7,321	257	3.5
Brunswick	6,961	6,535	426	6.5
Wage earners	110,925	101,866	9,059	8.9
Salaried personnel	14,862	14,486	376	2.6
Foreign employees	19,954	12,683	7,271	57.3

	1973	1972
Average age of VW employees	37.5	37.8 years
Employees' average length of service	9.5	9.6 years
Absenteeism due to sickness	7.4	6.5 %

### Capital Investments

Although the 1973 business year was characterized by intensive activity in connection with the finalization of the new model range the Volkswagenwerk AG did succeed in reducing its investments to DM 755 million, 3.8% less than in 1972. DM 642 million of these were in respect of property, plant and equipment and DM 113 million were earmarked for investments in subsidiaries and affiliates.

The main investments in the property, plant and equipment field were in respect of the finalization of the new product range which was heralded when the Passat went into production.

Almost 70% of the investments in subsidiaries and affiliates were used to increase the capital stock of Volkswagen de Mexico. In addition to this investments in subsidiaries and affiliates were made with respect to the increased capital stock of Volkswagen do Brasil, the contribution towards the capital stock of Volkswagen of Nigeria, an increase in the capital stock of Volkswagen France and the contribution to interest held in TAS Tvoronica Automobila Sarajevo and in the P.T. German Motor Manufacturing.

79.9% (74.9%) of these capital investments were financed from depreciations and write-downs.

## **AUDI NSU AUTO UNION AG, Neckarsulm**

The company sold 398,842 vehicles to dealers in 1973, which was an improvement of 101,947 units or 34.3 % on the previous year's results. This improvement clearly reflects the success of the Audi 80 of which 233,964 vehicles were sold in the year under review. The Audi 60/90 and the NSU piston-engined vehicles were deleted from the range.

The company's share of new passenger car registrations in West Germany and West Berlin increased from 6.8 % in 1972 to 9.8 % in 1973. This means that AUDI NSU occupied the fourth place in German registration statistics.

Of AUDI NSU's total sales a little under 50% was marketed abroad. The main customers were the USA, Great Britain and France. The Audi 80 was well received on the U. S. market where it is known as the Audi-Fox.

Production output was increased considerably by 36.8 % to 409,793 units following the reorganization of production procedures in the plants. In the year under consideration the average output per working day increased to 1,747 (1,283) vehicles. 901 of these units were produced in Ingolstadt where Audi 80s were manufactured almost exclusively. On average 593 units came off the lines of the Neckarsulm plant every day. The demand for the Audi 80 was so great that this model was also assembled in Wolfsburg up to October 1973. On average 253 units of this model were produced there every working day in the course of the year.

The company's sales proceeds went up by DM 1,100 million or 42.7 % as a consequence of the improved sales figures, the greater share held by higher priced models and the price increases which became necessary early in the year. The spare parts business had an 8 % share in total sales of DM 3,700 million. 42 % of the sales proceeds originated from exports.

Investments to the tune of DM 134 million were primarily devoted to the expansion and renovation of the plant facilities and to improving the models and they were financed in full from write-downs.

No new direct Wankel licenses were issued in the year under review. However, the U. S. licensees Curtiss Wright concluded a sublicense agreement with American Motors Corp. Toyota Motor Ltd. considerably improved technical and territorial points of the licensing agreement they concluded in 1971 in the course of the report year.

The earnings situation of the AUDI NSU AUTO UNION AG continued to improve in 1973. The basis for this was provided by the unbroken success of the Audi 100 and the very great demand for the Audi 80. DM 11.8 million were set aside from the net earnings for the holders of

participating certificates. Under the terms of the corporate agreement a sum of DM 11.4 million was transferred to the reserves and DM 22.8 million were paid to the parent company.

The remaining stockholders will receive a dividend on AUDI NSU stock amounting to two fifth of the dividend payable on equivalent VW stock for the 1973 business year.

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

The Brazilian automobile industry's strong upward trend continued in 1973. The report year was also a further successful one for Volkswagen do Brasil. The company's sales increased by 14.6 % to 386,906 vehicles.

In the year under review the company introduced a new vehicle, a Compact Variant, known as the "Brasilia" which has been well received by the public. In 1973 competition in the medium range sector became even tougher. As a result the company's share of the Brazilian passenger car market dropped to 58.8 % (64.6 %). VW's share of the Commercial vehicle market was 41.2 % (41.5 %).

In the year under consideration exports increased to 15,517 (7,204) units. Peru and Venezuela were the principal customers. These exports are part of an export program which Volkswagen do Brasil is mounting in accordance with the provisos laid down by the Brazilian authorities.

The company's sales proceeds increased by 3.3 % to DM 2,105 million (DM 2,038 million). As a result of the changes in exchange rates the turnover expressed in Deutsche Marks did not reflect the sales trend. In terms of Brazilian currency sales went up by 26 %.

In 1973 some 750,000 vehicles were produced in Brazil, 21 % more than in 1972. In the process of this the production of lorries and buses rose by 28 %. Volkswagen do Brasil continued to have the lion's share of total production with 379,370 units or 50.6 %. In the year under review 1,574 units came off the company's assembly lines every working day.

The earnings situation continued to be good.

In order to hold its own in the face of increasingly severe competition on the Brazilian automobile market the company increased its investments in 1973 to DM 319 million as compared with DM 225 million in the previous year. Part of this was allocated to preparations for standard production of the Passat planned to be introduced in Brazil in 1974.

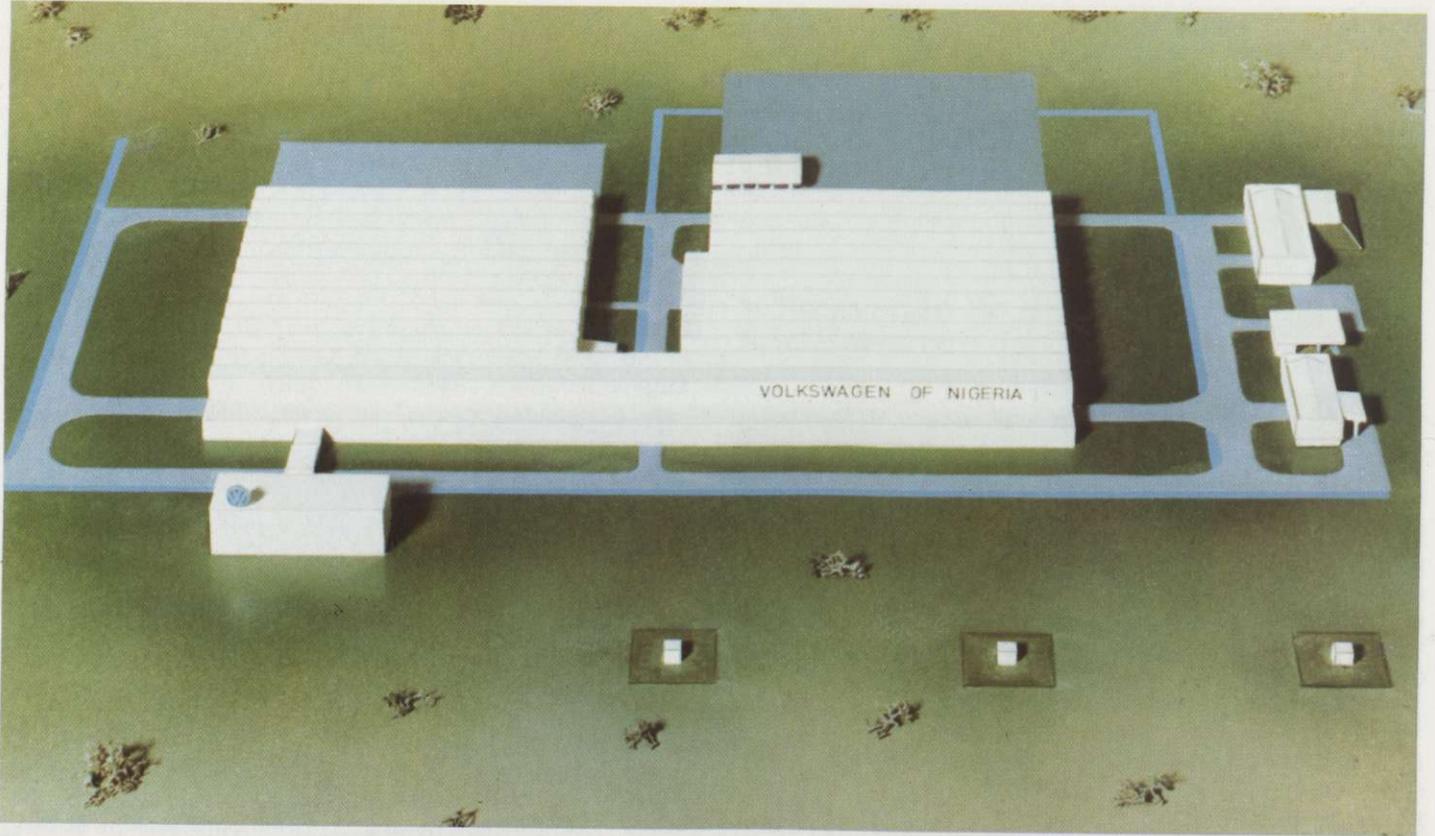
In the year under review the company's capital stock was increased by Cr \$ 379,624,870 (DM 166.5 million) to

VW do Brasil's Leisure Center.



*The plan of the future VW Plant in Nigeria.*

*Volkswagen Production in Yugoslavia.*



## Distributing Companies

Cr \$ 1,336,529,250 (DM 586.0 million) – of this sum Cr \$ 239,857,042 (DM 105.2 million) came from a capitalization of the reserves set up in accordance with Brazilian Law to compensate for inflation. Cr \$ 68,000,000 (DM 29.8 million) resulted from the payment of funds and a contribution of productive equipment and Cr \$ 71,767,828 (DM 31.5 million) from capitalization of other reserves.

The capital stock of Cr \$ 1,336,529,250 (DM 586.0 million) is represented equally by common stock and preferred stock. The Volkswagenwerk AG still owns 80 % of both the outstanding preferred and common shares.

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

In the report year Volkswagen de Mexico increased its unit sales by 51.6 %. By increasing its share of the total passenger car market to 35.1 % (32.8 %) the company emphasized the significant position it occupies on the Mexican market. Its share of the small car market reached no less than 65.1 % (63.0%). The VW Commercial on offer since 1972 has been in great demand and the market share in the Commercial range up to a payload of 1.5 tons went up to 18.2 % (9.5 %) as a consequence.

Production increased by 52.7 %. Sales improved by 35.6 %, in terms of Mexican currency by a remarkable 61.6 %. Volkswagen de Mexico made a profit in the 1973 business year. The earnings situation was not completely satisfactory this being mainly due to the negative effects of the currency situation.

In the year under review the company extended its export of spare parts and standard parts mainly to the USA and to the Federal Republic of Germany. A total of 19,043 vehicles was exported. Since spring 1973 the Courier Vehicle (VW 181) which is produced by Volkswagen de Mexico for the VW markets has also been exported to the United States. The marked increase in sales on the Mexican market was made possible by the company's increase in exports because in Mexico legislation makes the level of domestic sales in the main dependent on the volume of exports.

In order to partly finance the planned medium-term investment liquid funds and production equipment valued at mex. \$ 481,139,000 (DM 102.8 million) were provided as part of the approved increase in capital stock of mex. \$ 661 million. At the end of 1973 84.1 % of the official capital stock of mex. \$ 1,132,952,000 had been provided.

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

In 1973 the South African passenger car market experienced an expansion rate of 25.4 %. The VW and Audi vehicles offered there, to be exact these are the VW Beetle,

the VW 412 and the Audi 100, had a disproportionate 41.5 % share in the sales increase. Its share of the entire passenger car market increased to 15.8 % (14.0 %). As a result the company assumed a leading position among the many competitors on this market. On the whole the light utility vehicle market only showed a modest increase of 1.9 % and Volkswagen of South Africa maintained its share of the market which stood at 13.4 % (12.8 %).

The company increased its production by 30 % to 46,692 units and total sales went up by 32.5 % to 46,585 units. The relatively high 36.5 % (in terms of local currency 48.5 %) increase in sales to the equivalent of DM 459 million is mainly due to the greater number of higher priced Audi 100 vehicles in the sales total, to price increases and to the assembly of Volvo vehicles which Volkswagen of South Africa has been undertaking since 1973. Investments, at DM 35 million, were 25.4 % down on the previous year's high figure of DM 48 million.

In spite of the good sales results the earnings position of Volkswagen of South Africa was unsatisfactory. This was mainly due to the state of the exchange rates which had an especially negative effect on the results during the second half of the year.

### **Volkswagen Bruxelles S.A., Brussels**

In 1973 our Belgian subsidiary company increased the number of vehicles assembled by 21.5 % to 99,469 units. This increase was due in the main to an increase in the daily assembly rate for VW Beetles and to the fact that Passat assembly started during the second half of the year.

As in the previous year the company broke even.

### **Motor Producers Ltd., Melbourne, Australia**

In 1973 the company sold 7,993 (10,518) Volkswagens on the Australian market. These sales were at such a level that full advantage could be taken of the quota allowed by the Government. Thus, its share of the passenger car market was 2.1 %. With sales of 6,104 (5,075) utility vehicles the share on this sector was 6.9 % (5.7 %).

Company's sales rose by 10.4 % compared to 1972 and stood at DM 148 million. This includes the sales proceeds from the assembly of other makes which also showed an increase.

The company made a profit in the 1973 business year.

### **P.T. German Motor Manufacturing, Djakarta, Indonesia**

1973 was a successful business year for this assembly plant which is jointly operated by Volkswagenwerk AG, Daimler-Benz AG and an Indonesian partner. All told,

2,561 Volkswagens and 1,461 Daimler-Benz vehicles were assembled.

The outlay which resulted from the starting up of assembly operations was compensated by the company's trading results for the year under review.

In view of the great demand for Volkswagens and Daimler-Benz vehicles the company's capacity will be expanded in 1974.

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

In 1973 there was a lively demand for utility vehicles in Spain. MEVOSA's registration figures in the 1 ton category increased by 12.8% to 9,569 vehicles and in the 1.5 to 2.5 ton category by 30.6% to 2,728 vehicles.

The company's earnings situation remained unsatisfactory. This is due to the fact that the price increases approved by the Spanish authorities were inadequate in relation to the increased costs.

### **TAS Tvorница Automobila Sarajevo, Vogosca, Yugoslavia**

The first phase of construction of the parts production facilities was completed in 1973. The assembly operation began on November 10, 1973, one year after construction work had started. With effect from mid-1974 the assembly output which is at present 20 vehicles per shift is to be increased to 40 units a day by working an additional shift.

The company made a profit in the year under review.

### **Volkswagen of Nigeria Ltd., Lagos, Nigeria**

This company was established with an interest being held by the Nigerian Government. 40 % of the capital stock which has the value of DM 12 million in local currency is held by the Volkswagenwerk AG, 35 % by the Nigerian Government and 25 % by other stockholders.

It is planned that the company will start to assemble Volkswagen vehicles from the beginning of 1975 onwards. Construction work commenced at the end of 1973.

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## Distributing Companies

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

In the United States which is the world's largest market for automobiles, sales of passenger cars reached a new record in 1973 with 11.4 million units, an improvement of 4.4 % on the previous year. This result was achieved in spite of the fact that there was a sharp drop in the demand for passenger cars in the final month of the year as a result of the fuel crisis. Domestic small cars and import cars were not as greatly affected by this fall in sales as vehicles with a greater capacity. Foreign makes increased their share of the American passenger car market from 14.4 % to 14.9 %.

Generally it must be said that the price increases which we were compelled to make in the USA on account of the changes in exchange parities and increased costs limited our sales chances on this market. However, our sales were aided in the year under review by special factors associated with the trend towards the small car as a consequence of the greater expense of maintaining the car and the fuel shortage.

This made it possible for 1973 deliveries of VW, Audi and Porsche vehicles to customers to stand at 546,202 units, a total improvement of 2.1 % on the previous year. Volkswagen of America achieved a 4.4 % (4.5 %) share of the passenger car market, thereby maintaining their leading position among vehicle importers. In addition to the VW Beetle which continues to be most popular in the USA, Audi vehicles in particular and the VW-Porsche contributed to this by showing remarkable growth rates. Deliveries of Audi vehicles improved by 61.1 % to 46,136 units and VW-Porsche models by 16.9 % to 17,933 units.

Volkswagen of America's consolidated sales went up by 0.8 % to DM 4,181 million. The fact that sales increased in spite of changes in the DM-S exchange rate was in the main due to higher vehicle sales, a number of price increases and increased parts sales.

VW's U. S. subsidiary was reorganized on July 1, 1973. Regional distribution centers which were merged with Volkswagen of America are now responsible for sales areas.

The company ended the 1973 business year with results that were better than those of the previous year.

Since January 1974 the Passat has been offered in the USA under the name "Dasher". It fills a gap which was created when the VW 1600 went out of production in the summer of 1973. We expect that the Dasher will provide a further boost to sales on account of its economy and its outstanding technical features.

### **Volkswagen Canada Ltd., Toronto, Ontario**

The sales climate on the Canadian automobile market continued to be favorable in 1973. Our subsidiary, however, did not have a full share in this trend. Though its sales increased by 3.1 % to 36,701 vehicles the share in the passenger car market fell from 3.6 % to 3.4 %. This is mainly due to the price increases which had become necessary as a result of the change in exchange rates. Our ability to compete was greatly limited by this. As in the USA, however, this was also compensated to a certain extent by an evident trend towards small cars.

As a result of the changes in exchange rates the sales proceeds of Volkswagen Canada fell by 3.7 % in comparison with those in 1972. In terms of local currency sales increased by 16 %.

The company broke even in the 1973 business year.

### **Volkswagen France S. A., Villers-Cotterêts**

The French automobile market continued to expand throughout 1973 although there was a fall in demand at the end of the year on this market too on account of the energy shortage. Volkswagen France increased its sales in the face of strong domestic competition by 15.1 % to 42,385 vehicles (including 10,862 leased vehicles). The company was able to slightly increase its share of the market to 2.1 %.

The sales proceeds of Volkswagen France increased by 30.2 %. The company did not break even in 1973 and this was mainly due to the currency situation.

### **Svenska Volkswagen AB, Södertälje**

In the year under review sales figures showed an increase on the Swedish passenger car market compared with those of 1972 in spite of the fact that demand also fell here towards the end of the year.

Svenska Volkswagen, however, was not able to profit from this favorable trend because due to the currency situation it had to increase its prices. Sales went down by 12.6 % to 25,842 vehicles and the market share fell from 11.3 % to 9.8 %.

The company made a profit in the 1973 business year.

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

In 1973 the VW-Porsche Vertriebsgesellschaft sold 42,415 sports cars to the dealer organization, 8.8 % more than in the previous year.

## Other Companies

VW-Porsche made a profit which was split up equally by the parent companies, in accordance with the existing agreement in respect of earnings.

The Volkswagenwerk AG transferred its interest in the VW-Porsche Vertriebsgesellschaft to the Porsche AG with effect from January 1, 1974. The Vertriebsgesellschaft will continue to market VW's 914 sports car on behalf of the Volkswagenwerk AG under the terms of a service agreement.

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

In the year under review this company which carries out functions of a VW distributor achieved a sales volume of DM 102 million. The earnings situation was favorably influenced by the improvement to the AUDI NSU parts supply situation which resulted from the company's assumption of responsibility for North Germany in the year under review, and steps to streamline operations.

### **interRent Autovermietung G. m. b. H., Hamburg**

The former SU interRent Autovermietung G.m.b.H. which was renamed in interRent Autovermietung G.m.b.H. hires out motor vehicles on the domestic market and in foreign countries in Europe. In the year under review the expansion of the international interRent Organization was continued. Proceeds increased from DM 86 million to DM 94 million.

The energy shortage adversely affected the car rental business during the last two months of 1973 and in consequence the company's earnings situation was likewise affected.

### **Wolfsburger Transportgesellschaft m. b. H., Wolfsburg**

This company handles sea and air transportation and all transactions connected therewith for the VW Group. The volume of freight carried was more than in 1972 because exports of vehicles and parts overseas increased. In the year under review 836,000 vehicles were shipped by sea routes as compared to 801,000 vehicles in the previous year.

The Wolfsburger Transportgesellschaft's earnings situation was also good in 1973.

### **VW KREDIT BANK G. M. B. H., Wolfsburg**

The VW KREDIT BANK with its range of credit facilities provided financing for the purchases made by VW dealers in the Federal Republic of Germany and for financing vehicles sold to customers.

The measures taken by the Federal Bank to dampen the economy and the decline in domestic sales led to a reduction in the number of contracts concluded in respect of both types of financing arrangements in the year under review.

The company achieved a satisfactory result in the 1973 business year.

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

Leasing business in the Federal Republic of Germany continued to expand in 1973 although there was some falling-off towards the end of the year in view of the uncertain economic climate.

The company leases all vehicle models produced by the VW Group and to an increasing extent service equipment too. It achieved a market share of more than 40 % in the vehicle leasing sector in the year under review.

In view of the considerable increase in trading Volkswagen Leasing's profit was up on that for the previous year and 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**

The Daimler-Benz AG and the Volkswagenwerk AG hold equal interests in this company which undertakes research and development in the field of electrically powered automobiles.

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**

The company constructs apartments mainly for employees of the Volkswagenwerk AG. In the year under review no new construction was commenced, but a total of 203 apartments commenced in the previous year was completed. This figure includes 59 apartments available for owner-occupation the majority of which was sold at the end of 1973.

On December 31, 1973 the company owned 7,216 apartments including 24 apartments for owner-occupation which were still unsold at that time and 132 accommodation units in hostels.

### **VW-Siedlungsgesellschaft m. b. H., Wolfsburg**

The VW-Siedlungsgesellschaft is also engaged in the construction of apartments for VW employees in the areas surrounding the VW plants. During the 1973 business year a total of 275 apartments was made ready for occupation so that by the end of the year the company owned 5,333 housing units and 608 accommodation units in hostels. On December 31, 1973 52 apartments (24 of them in hostels) were in the process of construction.

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**

In 1973 HOLAD acquired the entire stock of the newly established Volume Export & Trading Corporation (VOTEX), Englewood Cliffs, USA which will be engaged in marketing commodities of every description, in particular spare parts and accessories.

This company also holds 10 % of the capital stock of the Wolfsburg Transportgesellschaft, 35.3 % of the capital stock of the French financing company Société Volkswagen de Financement S. A., Villers-Cotterêts and 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 HOLAD's holdings were reinvested throughout the entire Group.

## Financial Statements of Volkswagenwerk AG: Comments on the Balance Sheet

### Assets

At year-end the original cost of *Property, Plant and Equipment* amounted to DM 8,295 million. The additions to land, buildings, machinery and equipment, including transfers from construction in progress and advance payments to vendors and contractors, amounted to DM 661 million and consisted of DM 73 million land and buildings – compared to DM 197 million in 1972 – and DM 588 million machinery, plant and office equipment – compared to DM 648 million in 1972.

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) old and new text. The original purchase or product costs were determined in accordance with the principles set out in the Report for 1970. Grants made from public funds for additional investments for the prior year have as in the past been accounted for, after they became effective, as a reduction of the purchase or production cost. They have been shown in this year's balance sheet as decrease in property, plant and equipment.

Regular depreciation on plant and equipment was determined using the same methods and estimated useful life referred to in the annual reports for 1970 and 1971. Although we continued to use the declining-balance method for depreciation on plant and equipment in our trade balance we have given up using the declining-balance method in our tax balance as allowed by the third tax law enacted to stimulate the economy.

During the report year, 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 accordance with section 82d EStDV. In addition to this there were minor additional depreciations

The following summary shows details of the regular and additional depreciation provision on additions during 1973:

	Real estate and land rights			Buildings on leased real estate	Machinery and fixtures	Plant and office equipment	Construction in progress
	with office, factory and other buildings	with residential buildings	without buildings				
	– Thousand DM –						
Additions during 1973*)	68,418	47	2,686	92	269,828	215,283	1,311
Depreciation on additions during 1973	6,052	1	1,019	1	47,906	68,375	640

\*) Additions and transfers from construction in progress and advance payments to vendors and contractors on machinery and equipment (not including real estate and special tools not yet used in operations).

on plant and equipment held in reserve but no longer used, under sections 6b and 7b EStG and sections 79 and 82 of EStDV as well as subsection 35 of EStR.

Under the caption *Investments*, the book value of *Investments in Subsidiaries and Affiliates* increased by DM 83 million. The additions have already been explained in the section "Investments" (see page 51).

Full advantage was taken of the tax benefits available on investments made abroad and in developing countries. In addition investments in a domestic and a foreign subsidiary were written down in view of the economic risks inherent in those investments. When determining the necessary write-downs on foreign commitments due account has been taken of the adjustments of value and reserves, established in prior years, in accordance with the tax law on investments in developing countries.

*Other Investment Securities* consist of 5 % West German Government Bonds for the Promotion of Developing Countries. The seventh repayment on the bonds, amounting to DM 2.5 million was received early in 1973. The value shown on the balance sheet for these securities is below market value. DM 3.5 million par value of these bonds were pledged as collateral in favor of the Customs Authorities in Hanover as security for the continuous processing of imported goods.

During 1973, *Long-term Loans with an Initial Term of Four Years or Longer* increased by DM 25 million and were granted exclusively for housing construction. Interest-free and low interest-bearing loans have been discounted to reflect present values. Of the loan made in accordance with section 89 of AktG, DM 10,098,716 represent loans to an unaffiliated non-profit housing construction company, located in Wolfsburg, in which Volkswagenwerk AG holds a minority interest.

Write-downs pertaining to current year's additions to investments amounted to DM 24 million, of which DM 16 million represent investments in subsidiaries and affiliates and DM 8 million loans with an initial term of four years or longer.

The book value of *Inventories* increased by DM 439 million. This increase resulted mainly from rises in wages and prices of materials, the extension of the model range and larger stocks of finished products due to the pattern of the economy.

Inventories were valued based on the same principles used in previous years (see Report for the Year 1970).

*Trade Accounts Receivable* represent DM 73 million due from customers in foreign countries and DM 17 million due from customers located in the Federal Republic of Germany. Subsequent to December 31, 1973, all material amounts were collected when due.

The book value shown on prior year's balance sheet for the unchanged number of *Own Stock* of a par value of DM 15,060,300 was reduced because the price quoted on December 31, 1973 was lower than the value shown in the books.

With regard to the *Receivables from Subsidiaries and Affiliates* receivables in particular those due from foreign subsidiaries and affiliates increased in the ordinary course of business and also resulted from the supply of plant and equipment. 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 tax as well as sales tax refunds. These assets also include the cash surrender value of old-age insurance. Where collection was likely to be difficult such doubtful accounts were written off.

## Liabilities

The *Reserve for the Share-the-Burden Property Levy* represents the discounted amount of this liability as of December 31, 1973.

DM 33 million from 1973 earnings were transferred to *Other Reserves*.

The increase in *Reserves for Special Purposes* primarily pertains to the setting up of reserves for investment in developing countries and investments abroad in accordance with existing laws and to the increase in the contingency reserve.

The decrease in the *Allowance for Doubtful Trade Acceptances and Accounts* which was determined in the same manner as in the prior year is both due to the reduced trade receivables and trade acceptances.

During 1973 *Undetermined Liabilities* increased as a result of raised pension plan costs, which were based on actuarial computations in accordance with existing laws, personnel costs and distribution costs. Undetermined liabilities for taxes went down in view of the sums remitted subsequently for previous years.

Undetermined liabilities of DM 21 million for maintenance work which could not be performed in 1973 for technical reasons were established at the end of 1973. Undetermined liabilities to the amount of DM 8 million established in 1972 were used for maintenance work performed during the year under review.

Of the *Other Undetermined Liabilities* approximately one third each pertains to undetermined liabilities in respect of distribution costs, personnel costs and taxes as well as numerous other risks.

*Liabilities with an Initial Term of Four Years or Longer* decreased slightly as a result of the repayment of loans on an installment basis.

The increase in *Trade Accounts Payable* resulted from the increased purchases made. Of the total trade accounts payable at December 31, 1973, 15 % 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.

*Accounts Payable to Subsidiaries and Affiliates* represent mainly advance payments received from foreign subsidiaries.

The increase in *Miscellaneous Other Liabilities* was due in the main to higher payroll accruals.

We were contingently liable for DM 13,750,000 in connection with the purchase of shares of domestic companies with limited liability and for DM 240,000 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.





## Comments on the Statement of Earnings

In 1973, *Sales* increased by DM 1,164 million to DM 11,563 million. This was mainly due to the price increases for vehicles and parts and large deliveries and services to AUDI NSU AUTO UNION AG. The ratio of vehicle sales to total sales was 80 % whereas the corresponding ratio for parts amounted to 10 %. Domestic sales increased by 9 %, whereas export sales were 13 % higher than in 1972.

*Expenditures for Raw Materials, Supplies and Other Materials* exceeded those of the prior year by DM 855 million or 14.6 %. Expenditures for raw materials included in the above sum increased by 14.8 %. This rise was mainly due to the increased number of vehicles produced on behalf of AUDI NSU AUTO UNION AG and increased costs of materials.

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

*Income from Investments in Subsidiaries and Affiliates* was received in 1973 in the form of distribution of dividends for the year 1972 primarily from Volkswagen do Brasil, Wolfsburg Transportgesellschaft m. b. H., Volkswagen of South Africa and VW KREDIT BANK G. M. B. H. Volkswagen of America was not able to distribute any dividends for the business year 1972 because its earnings situation was unsatisfactory as a result of the changes in exchange rates.

At year-end, DM 15 million of *Income from Other Financial Investments* resulted from interest on loans granted whereas DM 4 million of this income represented amortization of discount on long-term loans previously discounted to reflect present values.

*Other Interest and Similar Income* consisted mainly of income from deposit account balances and 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.

*Other Income* consisted, for the most part, of revenues from auxiliary services, billing of services, trade and corporation tax rebilled to subsidiaries and affiliates and warranty costs rebilled to suppliers.

The reasons for the increase in expenditures for *Wages and Salaries* and *Social Expenditures – Compulsory* were stated in the "Labor Force" section of this report (see page 48).

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 advance payments received, the DM loan and other long-term loans.

The amount required for *Taxes on Income, Earnings and Property* was lower than in the previous year and this decrease is solely due to the fact that subsequent tax payments had not to be made as was the case in 1972. The taxes on earnings at DM 156 million for the report year slightly exceeded those of the previous year.

*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.

*Compensation to the Board of Management* for the year 1973 amounted to DM 4,615,784. In addition to this DM 150,000 were received from subsidiaries and affiliates as compensation for activities in the Board of Management. Pension payments to retired members of the Board of Management or their beneficiaries amounted to DM 2,832,558.

*Compensation paid to Members of the Supervisory Board of Directors* was DM 316,175.

## Statement of Earnings of Volkswagenwerk AG

Year ended December 31, 1973

	1973		1972
	DM	DM	Thousand DM
<b>Sales</b> excluding sales tax	11,563,336,559		10,398,600
Increase/Decrease in inventories	263,917,921		— 7,221
Material, wages and overhead capitalized as additions to plant and equipment		11,827,254,480 164,359,488	10,391,379 131,336
<b>Gross Performance</b>		11,991,613,968	10,522,715
Expenditures for raw materials, supplies and other materials		6,725,277,591	5,869,781
<b>Excess of Gross Performance over Expenditures for Raw Materials, etc.</b>		5,266,336,377	4,652,934
Income from profit assumption agreements		30,391,480	5,994
Income from investments in subsidiaries and affiliates		73,914,459	96,835
Income from other financial investments		20,055,463	19,605
Other interest and similar income		110,692,789	36,554
Gain on disposal of property, plant, equipment and investments		12,071,017	19,165
Reduction of allowance for doubtful trade acceptances and accounts		1,379,000	—
Elimination of reserves for undetermined liabilities no longer required		48,998,801	49,486
Elimination of reserves for special purposes no longer required		45,000	—
Other income		209,959,115	313,755
including extraordinary income of	DM 13,542,068		
		507,507,124	541,394
		5,773,843,501	5,194,328
Wages and salaries		3,166,126,265	2,700,816
Social expenditures — compulsory		392,701,640	318,882
Pension expenditures and voluntary payments		140,314,303	116,730
Provision for depreciation of physical plant		564,399,221	574,671
Write-down of financial investments		38,689,016	13,028
Write-down of other current assets and provision for doubtful trade acceptances and accounts		13,077,629	7,929
Loss on disposal of property, plant, equipment and investments		2,614,249	5,667
Interest expense and similar charges		75,808,287	52,754
Taxes			413,164
a) on income, earnings and property	DM 279,461,016		2,705
b) other	DM 2,716,584		
		282,177,600	415,869
Share-the-Burden Property Levy		2,756,085	2,756
Expenditures under loss assumption agreements		7,840,782	13,246
Additions to reserves for special purposes		45,676,891	6,167
Other expenses		932,322,172	879,350
		5,664,504,140	5,107,865
<b>Net Earnings</b>		109,339,361	86,463
Balance carried forward		109,339,361	86,463

	1973		1972
	DM	DM	Thousand DM
Net earnings brought forward from previous year		109,339,361 3,544,975	86,463 1,679
Balance brought forward		112,884,336	88,142
Transfer from the reserve for the Share-the-Burden Property Levy		2,140,100	2,048
Transfer to other reserves from net earnings		115,024,436	90,190
<b>Net Earnings after Reserve Transfers</b>		33,000,000	7,000
		82,024,436	83,190

During 1973, pension payments amounted to DM 14,339,537; payments during the next five years will approximate 119, 131, 146, 161, 179% of this amount.

Wolfsburg, April 1974

**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 18, 1974

**TREUARBEIT**  
**Aktiengesellschaft**  
**Wirtschaftsprüfungsgesellschaft**  
**Steuerberatungsgesellschaft**

Prof. Dr. Forster  
WirtschaftsprüferDr. Tubbesing  
Wirtschaftsprüfer

# Statement of Earnings of Volkswagenwerk AG

Year ended December 31, 1973

## Comments on the Statement of Earnings

The following table shows the components of the Statement of Earnings of Volkswagenwerk AG for the year ended December 31, 1973. The figures are in millions of Deutsche Marks (DM).

Component	1973	1972
Net Sales	10,249,937	9,249,937
Cost of Sales	(7,000,000)	(6,500,000)
Gross Profit	3,249,937	2,749,937
Operating Expenses	(1,500,000)	(1,400,000)
Operating Profit	1,749,937	1,349,937
Other Income	100,000	100,000
Other Expenses	(100,000)	(100,000)
Profit Before Taxes	1,749,937	1,349,937
Taxes	(500,000)	(400,000)
Profit After Taxes	1,249,937	949,937

The net sales for the year ended December 31, 1973, were 10,249,937 million DM, compared with 9,249,937 million DM for the year ended December 31, 1972. This increase is primarily due to the higher volume of sales in the passenger car segment.

The gross profit for the year ended December 31, 1973, was 3,249,937 million DM, compared with 2,749,937 million DM for the year ended December 31, 1972. This increase is primarily due to the higher volume of sales and the higher average selling price of the passenger cars.

The operating profit for the year ended December 31, 1973, was 1,749,937 million DM, compared with 1,349,937 million DM for the year ended December 31, 1972. This increase is primarily due to the higher volume of sales and the higher average selling price of the passenger cars.

The profit before taxes for the year ended December 31, 1973, was 1,749,937 million DM, compared with 1,349,937 million DM for the year ended December 31, 1972. This increase is primarily due to the higher volume of sales and the higher average selling price of the passenger cars.

The profit after taxes for the year ended December 31, 1973, was 1,249,937 million DM, compared with 949,937 million DM for the year ended December 31, 1972. This increase is primarily due to the higher volume of sales and the higher average selling price of the passenger cars.

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Gross Profit	3,249,937	2,749,937
Operating Expenses	(1,500,000)	(1,400,000)
Operating Profit	1,749,937	1,349,937
Other Income	100,000	100,000
Other Expenses	(100,000)	(100,000)
Profit Before Taxes	1,749,937	1,349,937
Taxes	(500,000)	(400,000)
Profit After Taxes	1,249,937	949,937





