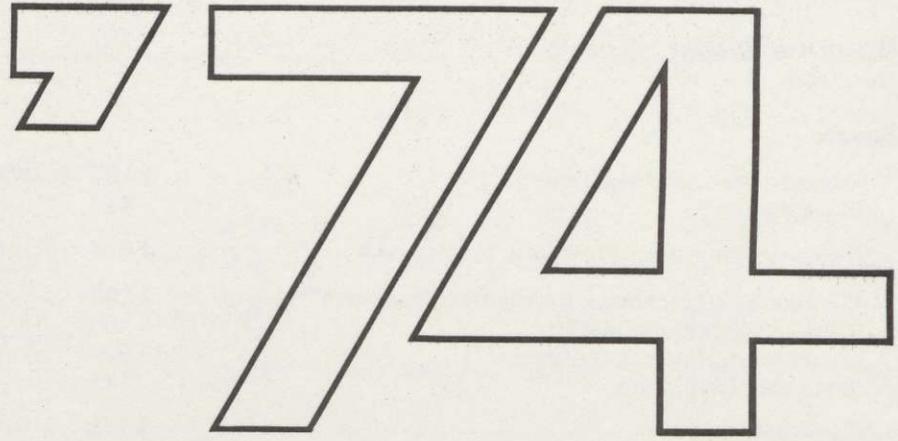
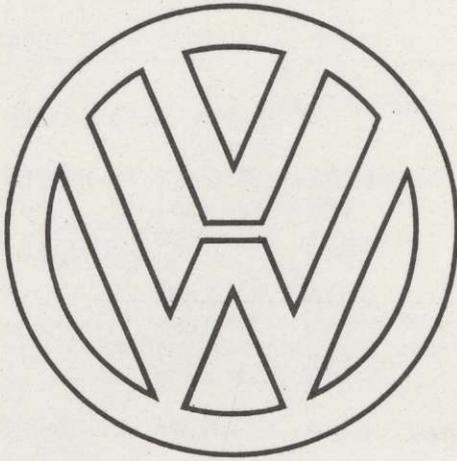

**Report
for the year 1974**

**VOLKSWAGENWERK
Aktiengesellschaft
Wolfsburg**



The Supervisory Board of Directors
and the Board of Management of
Volkswagenwerk Aktiengesellschaft
present the Report for the Year 1974
with their compliments.

Wolfsburg, May 1975

VW Group		1974	1973*)	Increase (Decrease)	%**)
Sales (DM)	in million DM	16,966	16,982	(16)	(0.1)
Sales (units)	number of vehicles	2,051,813	2,280,903	(229,090)	(10.0)
Production	number of vehicles	2,067,980	2,335,169	(267,189)	(11.4)
Labor Force	at year-end	203,730	215,058	(11,328)	(5.3)
Capital Investments	in million DM	1,883	1,556	327	21.0
Depreciation	in million DM	1,148	1,056	92	8.8
Cost of Materials	in million DM	10,068	9,850	218	2.2
Labor Cost	in million DM	5,718	5,309	409	7.7
Net Loss/Net Earnings	in million DM	(807)	330	(1,137)	X

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

***) Based on precise figures

Comparative Summary of Selected Data of the VW Group 1970-1974*)

	1970	1971	1972	1973	1974
Sales (Million DM)	15,113	16,473	15,996	16,982	16,966
Increase (Decrease) as compared to prior year in %	13	9	(3)	6	0
Domestic sales	4,911	5,135	5,035	5,364	5,161
Export sales	10,202	11,338	10,961	11,618	11,805
Export of domestic subsidiaries	7,005	8,210	7,718	8,965	8,547
Sales of foreign producing subsidiaries based on own production	3,215	3,430	3,539	3,063	3,826
Sales (Thousand vehicles)	2,207	2,317	2,197	*2,281	2,052
Increase (Decrease) as compared to prior year in %	6	5	(5)	4	(10)
In Germany	725	694	628	619	548
Abroad	1,482	1,623	1,569	1,662	1,504
Production (Thousand vehicles)	2,215	2,354	2,193	2,335	2,068
Increase (Decrease) as compared to prior year in %	6	6	(7)	7	(11)
In Germany	1,889	1,867	1,673	1,720	1,359
Abroad	326	487	520	615	709
Labor Force at year-end (Thousand employees)	190	202	192	215	204
Increase (Decrease) as compared to prior year in %	13	6	(5)	12	(5)
In Germany	155	160	149	161	142
Abroad	35	42	43	54	62
Capital Investments (Million DM)	1,647	1,947	1,573	1,556	1,883
Increase (Decrease) as compared to prior year in %	31	18	(19)	(1)	21
In Germany	1,403	1,545	1,183	928	1,296
Abroad	244	402	390	628	587

*) 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
 ***) Including stockholders' equity in reserves for special purposes and that portion of the VW AG net earnings after reserve transfers or in 1974 of the loss of VW AG

Balance Sheet (Condensed)

December 31

Assets

	1970	1971	1972	1973	1974
- Million DM -					
Property, plant and equipment	4,187	4,905	5,261	5,697	6,263
Investments	427	584	585	554	636
<i>Property, Plant, Equipment and Investments</i>	4,614	5,489	5,846	6,251	6,899
Inventories and advance payments to suppliers**)	2,138	2,514	2,338	3,489	4,117
Receivables and the like**)	1,255	1,394	1,584	1,691	1,954
Liquid funds, trade acceptances**)	924	445	1,038	1,151	472
Securities, own stock	111	313	354	414	54
<i>Current Assets</i>	4,428	4,666	5,314	6,745	6,597
Total Assets	9,042	10,155	11,160	12,996	13,496

Liabilities

Capital stock	900	900	900	900	900
Reserves of the VW Group***)	2,578	2,627	2,677	2,878	2,170
Minority interest in consolidated subsidiaries****)	238	189	209	230	188
<i>Stockholders' Equity</i>	3,716	3,716	3,786	4,008	3,258
Old-age pensions	519	630	730	878	1,035
Other undetermined liabilities*****)	1,345	1,596	1,604	1,623	1,507
<i>Undetermined Liabilities</i>	1,864	2,226	2,334	2,501	2,542
Liabilities payable within more than 4 years	305	413	884	852	1,452
1 to 4 years	281	268	366	448	581
1 year	2,696	3,442	3,694	5,089	5,654
<i>Liabilities</i>	3,282	4,123	4,944	6,389	7,687
Outside capital share in net earnings after reserve transfers of VW AG	167	81	81	81	—
Minority interest in earnings to be distributed	13	9	15	17	9
<i>Outside Capital</i>	5,326	6,439	7,374	8,988	10,238
Total Capital	9,042	10,155	11,160	12,996	13,496

Statement of Earnings (Condensed)

Year ended December 31

Gross performance	15,538	17,089	16,250	18,155	17,711
Cost of materials	9,200	9,891	9,098	9,850	10,068
Labor cost	3,646	4,416	4,463	5,309	5,718
Depreciation and write-down	836	912	992	1,056	1,148
Taxes	592	452	600	483	305
on income, earnings and property	534	418	562	432	241
Sundry expenses less sundry income	857	1,271	891	1,127	1,279
Net earnings/net loss	407	147	206	330	- 807
Dividend of VW AG	167	81	81	81	—

.....) Excluding share in net earnings
) Including outside capital in reserves for special purposes

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	Adjusted		
(Mio DM)			
	Consolidated Balance Sheet of the VW Group (year) ended		
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In Memory Of Those Who Have Left Our Midst

Volkswagenwerk Aktiengesellschaft
to be held at 10:00 A. M. on Tuesday, July 8, 1975
at the Stadthalle in Wolfsburg.

1. Presentation of audited financial statements, the report of the Board of Management for 1974, together with the report of the Supervisory Board of Directors, the consolidated financial statements of the VW Group and related comments for the year 1974.

2. Resolution with respect to discharge of responsibility of the Board of Management for the year 1974.

3. Resolution with respect to discharge of responsibility of the Supervisory Board of Directors for the year 1974.

With respect to items 2. and 3., the Board of Management and the Supervisory Board of Directors propose to be discharged of responsibility.

4. Appointment of auditors for the year 1975.

The Supervisory Board of Directors proposes to appoint, as in prior years, the TREUARBEIT Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hanover, as auditors for the year 1975.

In Memory Of Those
Who Have Left Our Midst

for the
Annual Meeting of Stockholders
of
Volkswagenwerk Aktiengesellschaft
to be held at 10:00 A. M. on Tuesday, July 8, 1975
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1. Presentation of audited financial statements, the report of the Board of Management for 1974, together with the report of the Supervisory Board of Directors, the consolidated financial statements of the VW Group and related comments for the year 1974.
2. Resolution with respect to discharge of responsibility of the Board of Management for the year 1974.
3. Resolution with respect to discharge of responsibility of the Supervisory Board of Directors for the year 1974.

With respect to items 2. and 3., the Board of Management and the Supervisory Board of Directors propose to be discharged of responsibility.

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The Supervisory Board of Directors proposes to appoint, as in prior years, the TREUARBEIT Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft-Steuerberatungsgesellschaft, Hanover, as auditors for the year 1975.

Supervisory Board of Directors (Aufsichtsrat)

Hans Birnbaum, Salzgitter, Chairman
since November 6, 1974,
Chairman of the Board of Management of Salzgitter AG

Erich K pker, Oldenburg, Deputy Chairman,
since September 23, 1974,
Minister for Economics and Transport of Lower Saxony

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

Karl Otto P hl, Bonn, Deputy Chairman;
since June 25, 1974,
Secretary of State in the Federal Ministry of Finance

Dr. jur. F. Wilhelm Christians, D sseldorf,
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, Z rich, Switzerland,
VW Exclusive Importer

Kurt H hnel, Hanover,
Chairman of the Board of Management of
Norddeutsche Landesbank Girozentrale

Dr. phil. h. c. Walter Hesselbach, Frankfurt,
Chairman of the Board of Management of
Bank f r Gemeinwirtschaft AG

Heinz Hilbich, Hanover,
Employee of the Volkswagenwerk AG

Hans-G nter Hoppe, Berlin, since July 9, 1974,
sometime member of the Berlin Senate

Helmut Kasimier, Hanover, since September 23, 1974,
Minister for Finance of Lower Saxony

Hans L. Merkle, Stuttgart, since July 9, 1974,
Chairman of the Management of Robert Bosch
G. m. b. H.

Karl Heinrich Mihr, Kassel,
Chairman of the Volkswagenwerk AG's Factory
Council representing the Kassel Plant

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

Dr. jur. Horst Rheinfels, Cologne,
Lawyer

Dr. jur. Josef Rust, Kassel, Chairman to November 6, 1974,
former Secretary of State

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,
Secretary of State in the Federal Ministry of Economics

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

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

The following members of the Supervisory Board of Directors have resigned :

Helmut Greulich, Hanover, Deputy Chairman, with effect
from September 23, 1974,
Minister for Social Affairs of Lower Saxony

Dr. jur. Alfred H rtl, Frankfurt, with effect from July 9, 1974,
President of Landeszentralbank Hessen

Prof. Dr. jur. Siegfried Heinke, Hanover, with effect from
September 23, 1974,
former Minister

Hans Hermsdorf, Hamburg, Deputy Chairman, with effect
from June 25, 1974,
President of Landeszentralbank Hamburg

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 of Directors 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, 1974 as well as the annual report have been placed before the Supervisory Board of Directors. The auditors, the TREUARBEIT Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft Sauerbrotelungsgesellschaft, Hanover have reviewed 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 and the annual report 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.

On June 25, 1974 the Federal Republic of Germany designated Mr. Karl Otto Pöhl, Secretary of State in the Federal Ministry of Finance to replace Mr. Hans Hansdorf as a member of the Supervisory Board of Directors and on September 23, 1974 the State of Lower Saxony nominated Dr. Helmut Kasmer, Minister for Finance of Lower Saxony and Mr. Erich Köpcke, Minister for Economics and Transport of Lower Saxony to take the place of Prof. Dr. jur. Siegfried Wöhe and Mr. Helmut Greulich in the Supervisory Board of Directors. This was done in accordance with section 12 of the charter.

The Supervisory Board of Directors expresses its thanks to the members who have resigned for their many years of service and for their valuable counsel.

Mr. Rudolf Leiding resigned from the Board of Management on January 10, 1975. The Supervisory Board of Directors appointed Mr. Toni Schmücker to be his successor as Chairman of the Board of Management with effect from February 10, 1975.

Toni Schmücker
Chairman of the Board of Management,
since February 10, 1975

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

Prof. Dr. techn. Ernst Fiala
Research and Development

Dr. jur. Peter Frerk,
Personnel and Social Matters

Günter Hartwich
Production

Horst Münzner
Sales

Gottlieb M. Strobl
Purchasing and Material Administration

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

Resigned from the Board of Management:

Rudolf Leiding
Chairman of the Board of Management, with effect
from January 10, 1975

Supervisory Board of Directors
(Aufsichtsrat) (Vorstand)

Hans Binsch, Göttingen, Chairman
Chairman of the Board of Management & Chairman of the Board of Directors

Erich Kupper, Göttingen, Deputy Chairman
Public Relations Director & Deputy Chairman of the Board of Directors

Prof. Dr. techn. Günther Hertz, Göttingen
Research and Development Director

Dr. jur. Peter Fark, Göttingen, Deputy Chairman
Personnel and Social Matters, 25 and 26 years of service in the Federal Ministry of Economic Affairs

Dr. jur. F. Wilhelm, Göttingen, Chairman
Production Director & Member of the Board of Management

Horst Münzer, Göttingen, Deputy Chairman

Stephan Ehlers, Wolfenbüttel
Chairman of the Board of Directors & Chairman of the Board of Management

Gottlieb Meißner, Wolfenbüttel, Chairman
Chairman of the Board of Directors & Chairman of the Board of Management

Prof. Dr. rer. pol. Friedrich Tietze, Wolfenbüttel
Finance and Business Administration Director

Karl Heinrich Meißner, Göttingen, resigned from the Board of Directors
Chairman of the Board of Management with effect from January 10, 1974

Hertz Hilbert, Hanover
Employee of the Volkswagenwerk AG

Hans Günter Hoyer, Berlin, since July 9, 1974
standing member of the Berlin Senate

Helmuth Kabisch, Hanover, since September 23, 1974
Minister for Finance of Lower Saxony

Hans L. Meißner, Braunschweig, since July 9, 1974
Chairman of the Management of Robert Bosch G. m. b. H.

Karl Heinrich Meißner, Göttingen
Chairman of the Volkswagenwerk AG's Factory Council representing the Kassel Plant

Dr. rer. pol. H. v. Ludwig Poulson, Münster
Chairman of the Board of Management of Westdeutsche Landesbank Girozentrale

Dr. jur. Horst Rheinboldt, Cologne
Lawyer

Dr. jur. Josef Rutz, Kassel, Chairman to November 8, 1974
former Secretary of State

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

Dr. rer. pol. Otto Schmitt, Bonn
Secretary of State in the Federal Ministry of Economics

Kurt Ernst Schmitt, Göttingen
Chairman of the Volkswagenwerk AG's Factory Council representing the Göttingen Plant

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

The following members of the Supervisory Board of Directors have resigned:

Helmuth Grottel, Hanover, Deputy Chairman, with effect from September 23, 1974
Minister for Social Affairs of Lower Saxony

Dr. jur. Alfred Hild, Frankfurt, with effect from July 9, 1974
President of Landeszentralbank Hessen

Prof. Dr. jur. Siegfried Heine, Hanover, with effect from September 23, 1974
former Minister

Hans Hornstedt, Hamburg, Deputy Chairman, with effect from June 25, 1974
President of Landeszentralbank Hamburg

Report of the Supervisory Board of Directors

Report of the
Board of Management

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 of Directors 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.

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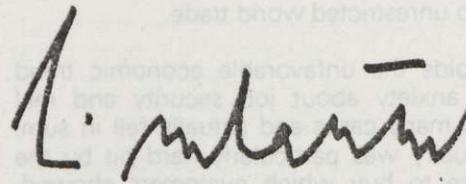
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The Supervisory Board of Directors expresses its thanks to the members who have resigned for their many years of service and for their valuable counsel.

Mr. Rudolf Leiding resigned from the Board of Management on January 10, 1975. The Supervisory Board of Directors appointed Mr. Toni Schmücker to be his successor as Chairman of the Board of Management with effect from February 10, 1975.

The Supervisory Board of Directors would like to express its particular appreciation to Mr. Leiding who rendered the Company great services by making the new model range a reality.

Wolfsburg, April 1975



Chairman of the Supervisory
Board of Directors

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

1974 was a year in which more economic problems occurred than in any other year since the war. The generally restrictive policies to counter inflation had already revealed some symptoms of economic weakness in 1973. As a consequence of the "oil crisis" which resulted in a multiple increase in the price of crude oil, evidence of the recession became more and more-obvious. Virtually all the major industrial countries had to face balance of payments deficits at hitherto unexperienced levels, in the main as a result of the drastic increase in the price of crude oil. This brought additional dangers to unrestricted world trade.

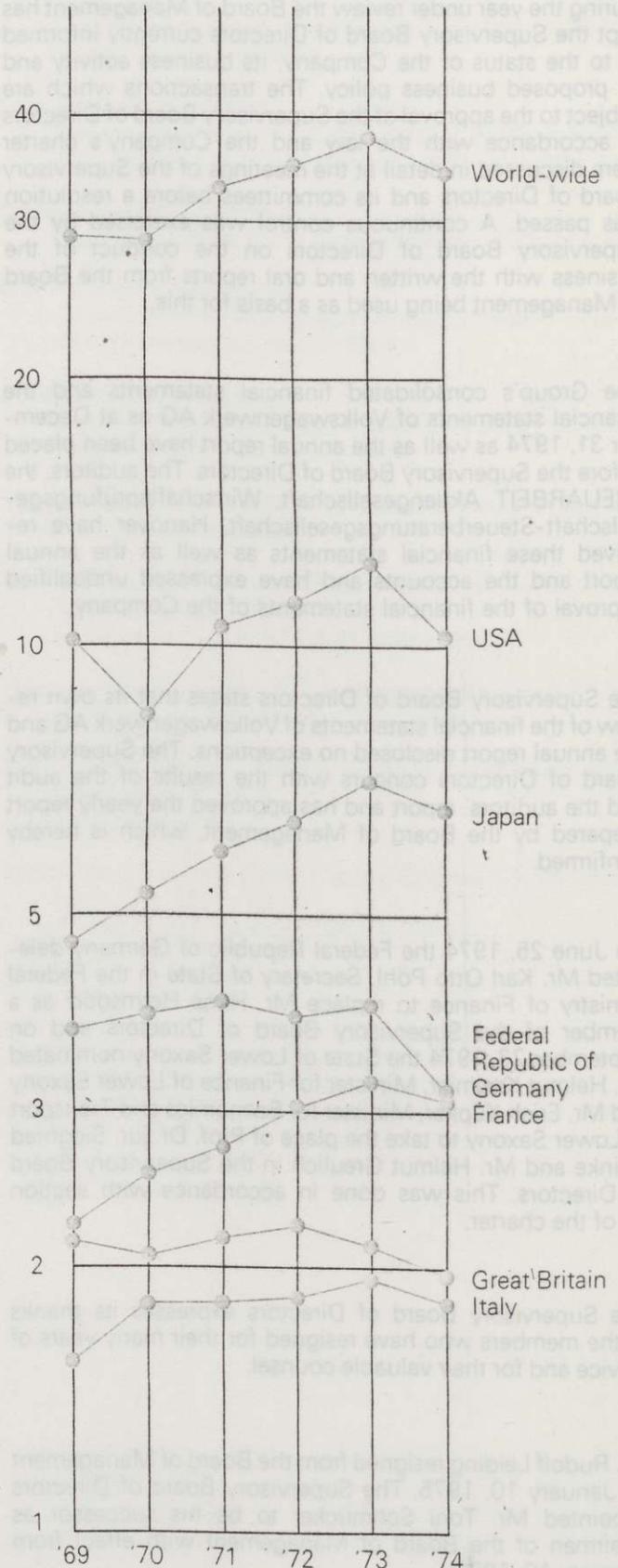
For private households the unfavorable economic trend brought increasing anxiety about job security and real income stagnated in many cases and actually fell in sum. The automobile industry was particularly hard hit by the consequent reticence to buy which customers showed. Sales were also adversely affected by the increased cost of acquiring and running a car and by the uncertain supply position in regard to fuel during the first few months of the year under review.

In the year under review companies within the automobile industry and their dealer organizations had large stocks – apart from a few exceptions. Manufacturers endeavored to reduce stocks to a reasonable level by cutting back production. Short time working had to be introduced to an extent hitherto unknown and work forces had to be cut. In addition endeavors to effect economies and to streamline were stepped up.

The VW Group was as hard hit by these problems as most of the other automobile manufacturers. For the Volkswagenwerk AG itself, the company which continues to give the lead within the Group, the situation was particularly difficult. Since the enterprise is greatly dependent on exports the continuing depreciation in value of most currencies, as compared to the D-Mark – U. S. dollar in particular – played a very great additional role in reducing sales and earnings whilst on the other hand material and personnel costs continued to rise at one and the same time.

Although these sales losses could be kept within bounds this was only possible with the aid of the new generation of VW models – a range which was tailored to the market. A cutback in production was inevitable and this was achieved by the introduction of short time working and by reducing personnel on a voluntary basis in return for payments in lieu of compensation. In this way social hardship could be avoided to a very great extent.

The Sports Coupé Scirocco which was presented in March was very well received by the public. The Golf, the compact family car introduced in May, had already worked its way to the top of the domestic registration lists by September. In the same month the Audi 50 met with unanimous enthusiasm on the part of motoring correspondents following its introduction. These new cars which met with praise, particularly from the point of view of their economy, the Passat and



Business Trends and Developments during 1974

Golf, the compact VW practical, trouble-free, sturdy

Audi 80 which had already been introduced successfully and the VW Beetle, the price leader in our range, prevented domestic sales from collapsing in the way which virtually all our other competitors had to experience. The VW Group succeeded in improving its position on the market thanks to this range of models. In the process the Volkswagenwerk AG once again achieved the leading position in respect of registrations in the Federal Republic of Germany.

In 1974 foreign business was made even more difficult by the unfavorable levels of the prices for our products. High VW prices abroad are a consequence of the way in which exchange rates have developed and of the particularly marked increases in the cost of producing in Germany over recent years. This limit on our ability to compete led in its turn to greater sales difficulties in those export markets supplied from the Federal Republic of Germany.

In the USA the VW Group experienced the greatest decline in sales on account of the unexpectedly low level of demand even for small cars and the high prices of the automobiles offered by us. The new models, the Golf (Rabbit) and the Scirocco, will only be offered on the American market from 1975 onwards.

Sales were also hampered on the European market outside Germany by the changes in the exchange rates and the generally low level of demand, particularly in the United Kingdom. In addition difficulties were experienced in regard to imports in Italy and Denmark.

In contrast to this our producing companies in Brazil, Mexico and the Republic of South Africa managed to increase sales in expanding markets.

The VW Group shows a net loss of DM 807 million on the 1974 business year. Apart from the decline in sales and the additional burdens brought by the changes in exchange rates, the main reason for this loss is to be found in the increased costs for personnel and material.

It proved impossible to reflect the full extent of these additional burdens in prices because if we had done this in the face of the difficult market situation our ability to compete and consequently job security would have been put at an even greater risk. Moreover the perfection and modernization of our range of models entailed expenditure which will only produce a return in the years ahead.

The net loss of DM 555 million, made by the Volkswagenwerk AG, does not permit us to pay a dividend in respect of the 1974 business year. After taking into account the net earnings brought forward from previous year and a transfer from the reserve for the Share-the-Burden Property Levy we have carried forward the remainder of the net loss amounting to DM 551 million.

Business Trends and Developments during 1974

Sales Trend

In 1974 the VW Group delivered two million vehicles to customers, 12% less than in the previous year. Increased sales on the part of our producing companies in Brazil, Mexico and the Republic of South Africa did not prove sufficient to compensate for the fall in sales experienced by the Volkswagenwerk AG and the AUDI NSU AUTO UNION AG.

The VW Group sold 547,529 vehicles in the Federal Republic of Germany. The 12.1% decline on the previous year was mainly accounted for by the AUDI NSU AUTO UNION AG. In contrast to this the Volkswagenwerk AG's drop in sales was confined to one of 1.9% – a total of 416,102 vehicles having been delivered to customers. This was chiefly due to good Passat and Golf sales in the face of a pronounced general decline in demand for automobiles. In the passenger car sector the Volkswagenwerk AG actually managed to increase sales slightly by 2%. As a result the VW Group's share of the passenger car market increased to 29.6% (27.5 in 1973).

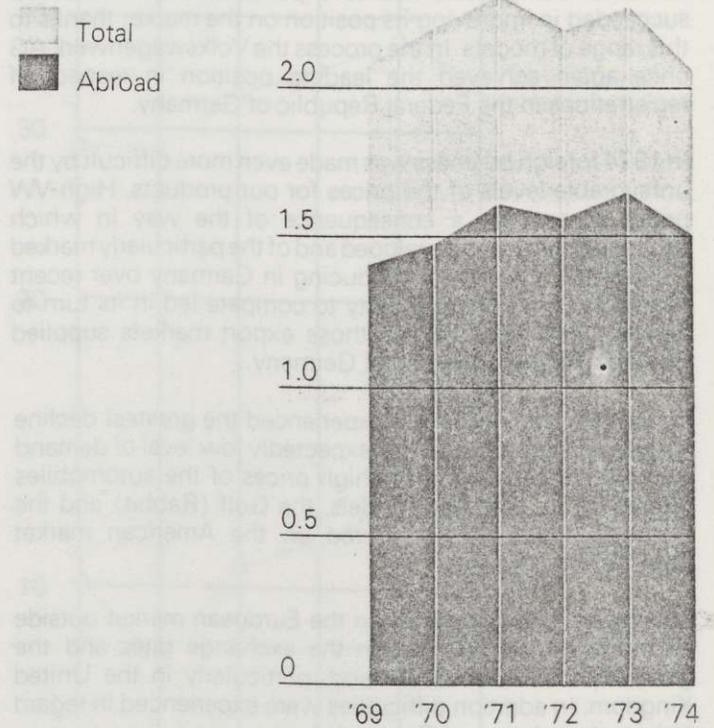
In the USA sales showed a downward trend in the year under review. The main reason for this was the high price of VW Group vehicles as a consequence of the marked increase in production costs in Germany and the increased value over recent years of the D-Mark in terms of the U.S. dollar. In addition to this the weakening of the U.S. economy which also led to a drop in demand for small cars, also had an unfavorable effect on our sales. This resulted in a 25.8% fall in deliveries to 401,101 vehicles. Whereas Volkswagen sales slumped by 29.8%, sales of Audi vehicles increased by 9.3% on account of the success of the Audi 80 which is marketed in the USA as the Audi Fox. The VW Group's market share in the USA went down to 4.3% (4.4).

In the major European export markets sales figures for the year under review were clearly below those for 1973. Only 353,630 vehicles were delivered, 20.9% fewer than in 1973. This was mainly due to the general weakness in the economy. The difficulties in regard to imports in Italy and Denmark already referred to and the symptoms of a crisis in the United Kingdom also accounted for further losses. At the end of the year the Golf was introduced on various European markets and this stimulated sales. In the year under review the VW Group's sales developed favorably in Sweden where our new model range and a temporary reduction in value added tax resulted in a 25% increase.

The VW Group continued to achieve positive sales results on overseas markets. In Brazil the increase was one of 8.1% and 3% in the Republic of South Africa. The highest rate of growth, 39.4%, was experienced in Mexico.

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

Sales Pattern of the VW Group (vehicles in million)



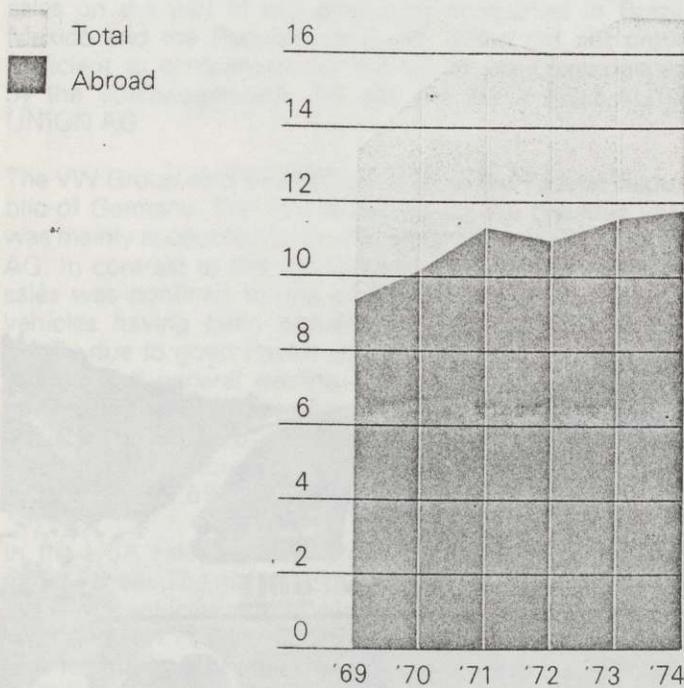
In 1974 there was a profound change to the make-up of the Volkswagenwerk AG's model range. A broader Golf, the compact VW, practical, trouble-free, sturdy.

process. Our picture shows the control center in the Wolfsburg plant's Press Shop. From here the optimum amount of control and supervision is exerted on the production process.



Business Trends and Developments during 1974

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



Turnover

The sales proceeds of the VW Group reached DM 17,000 million in the year under review which is close to the previous year's figure. This was mainly due to price increases.

Domestic sales proceeds fell by 3.8% to DM 5,200 million, this being due mainly to the pronounced decline in AUDI NSU AUTO UNION AG's sales. Sales abroad increased by 1.6% to DM 11,800 million.

Production

In 1974, world-wide production of the VW Group totalled 2,067,980 vehicles, 11.4% less than in the previous year.

The Volkswagenwerk AG had to cut production by 15.3% to 1,239,698 units.

The Volkswagenwerk AG started up production of the Scirocco, Golf and Audi 50 vehicles in an unusually short period of time compared to that which is normal within the automobile industry. This demanded special efforts on the part of all those concerned with production and the preparations leading up to it.

New production equipment had to be purchased or manufactured. One particular problem was to be found in the fact

that it was impossible to avoid producing our well-proven models and the new generation of vehicles side by side. Putting new models into production made it necessary to switch large numbers of employees to new jobs. It also became necessary to switch production from one of the Volkswagenwerk AG's plants to another. The table below shows the changes in the output of the individual plants in Germany which had become necessary in just one year as a result of the alterations to the production range.

Breakdown of production per working day according to models in the Volkswagenwerk AG's German plants

		January 1974	December 1974
Wolfsburg	Beetle	54%	—
	Passat	46%	11%
	Golf	—	69%
	Audi 50	—	20%
Hanover	Commercial	100%	75%
	Beetle	—	25%
Emden	Beetle	100%	41%
	Golf	—	59%
Salzgitter	K 70	20%	14%
	VW 412	61%	—
	Passat	19%	86%

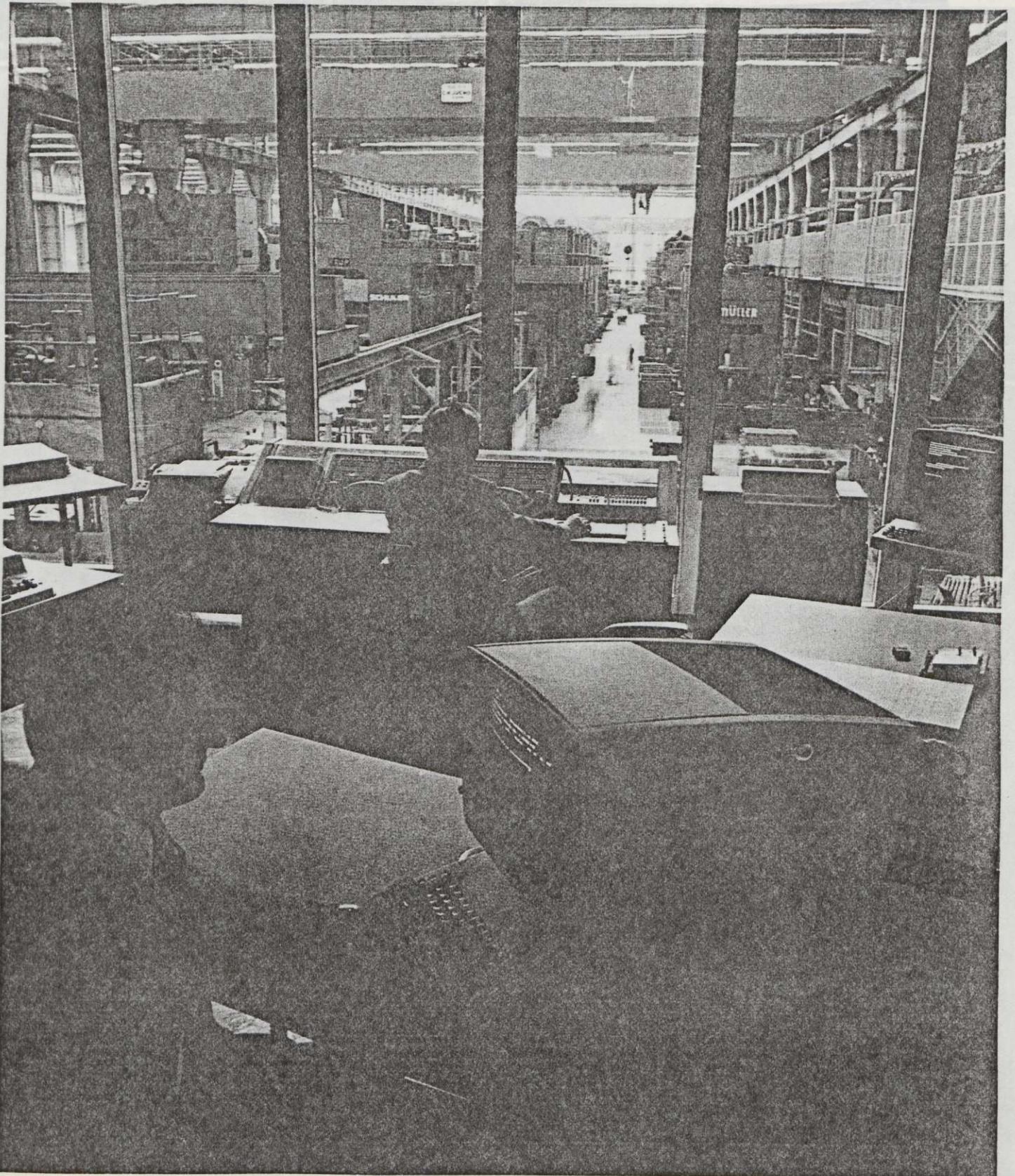
The Wolfsburg plant underwent particularly radical changes. There, production of the Beetle ceased on July 1, 1974. All in all almost 12 million vehicles of this type had been produced in Wolfsburg. After the Passat, the forerunner of the new generation of models, had been put into production here in 1973, conditions had to be created in the year under review in which the Golf and the Audi 50 could be produced, without impairing our ability to supply the models already forming part of the production program. As a consequence Beetle production had to be transferred. Since the Hanover plant was particularly badly affected by the decline in Commercial Vehicle sales, the introduction of Beetle production there meant that more favorable use could be made of capacity, thus improving the employment situation.

In 1974, the production schedule of the Emden plant which had been based exclusively on the North American market, was placed on a wider footing. This called for considerable investments. In Emden the Golf and the Beetle are now assembled for other markets in addition.

Production within our Company is characterized by a high degree of mechanization, particularly as far as the Beetle is concerned. The objective was to ensure that the new generation of models could take the advantage offered by these production techniques and at the same time to exploit further possibilities of rationalization. In view of the fact

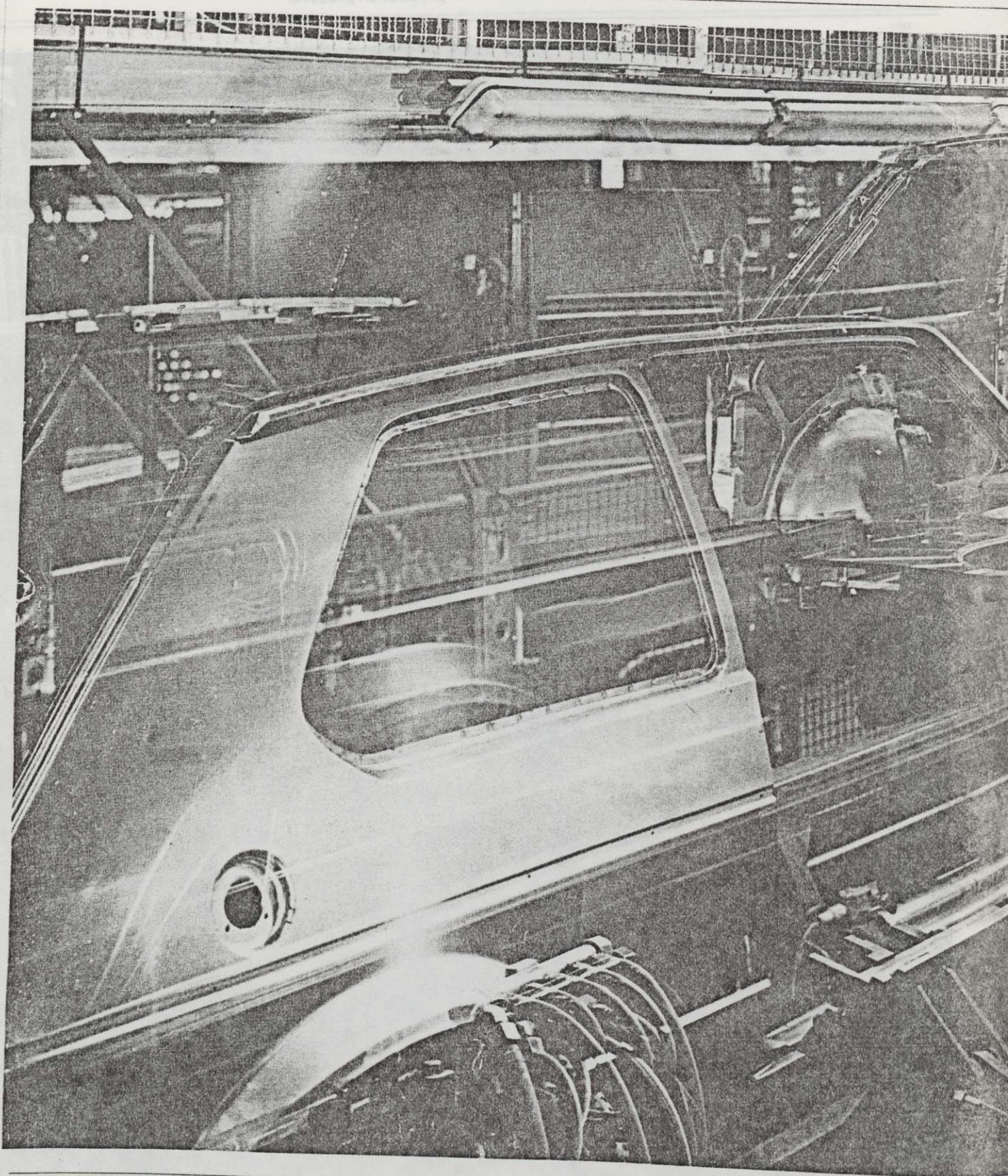
In 1974 there was a profound change to the make-up of the Volkswagenwerk AG's model range. A broader spectrum of models made it necessary to introduce new technical and organizational systems into the production

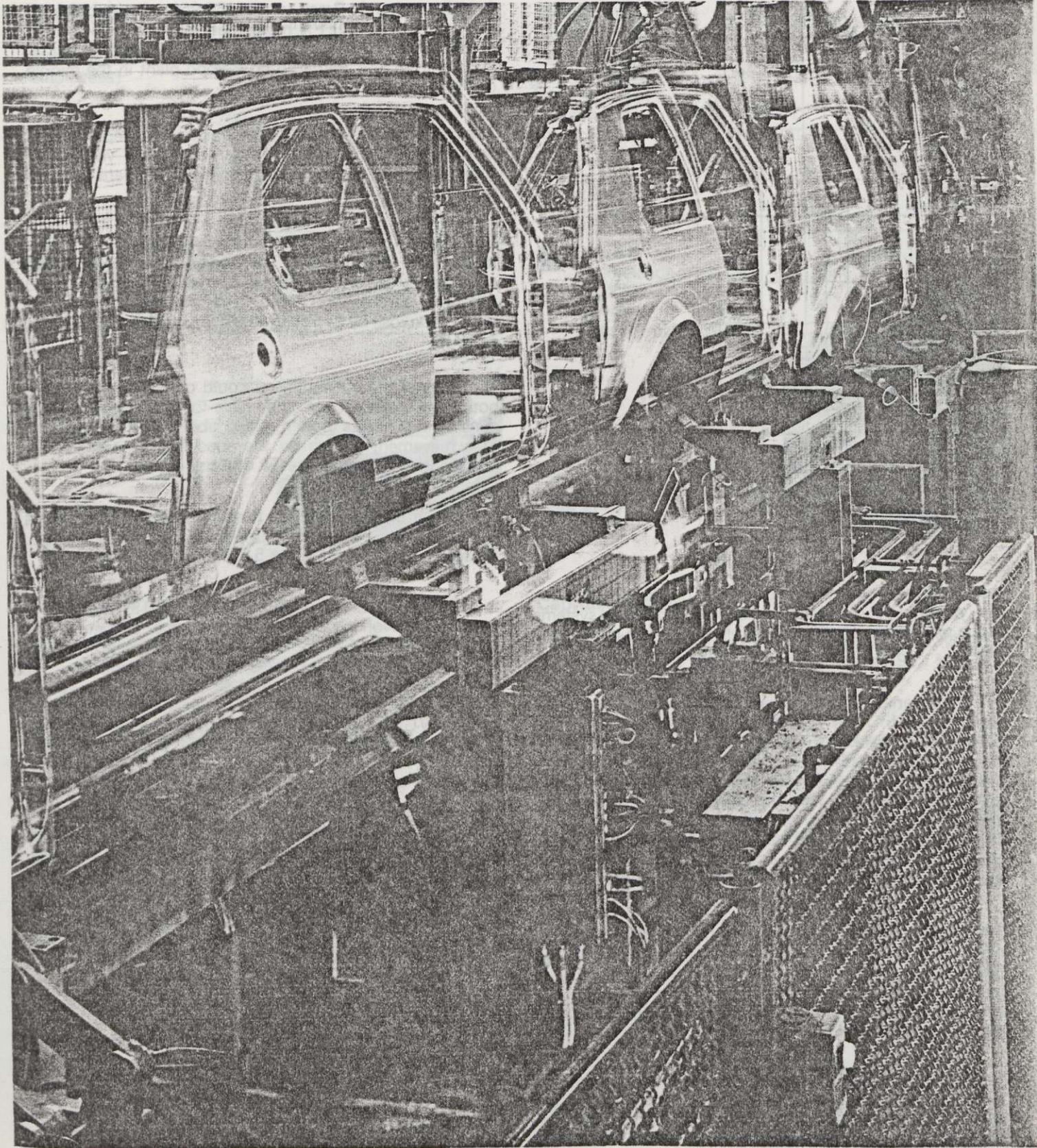
process. Our picture shows the control center in the Wolfsburg plant's Press Shop. From here the optimum amount of control and supervision is exerted on the production process.

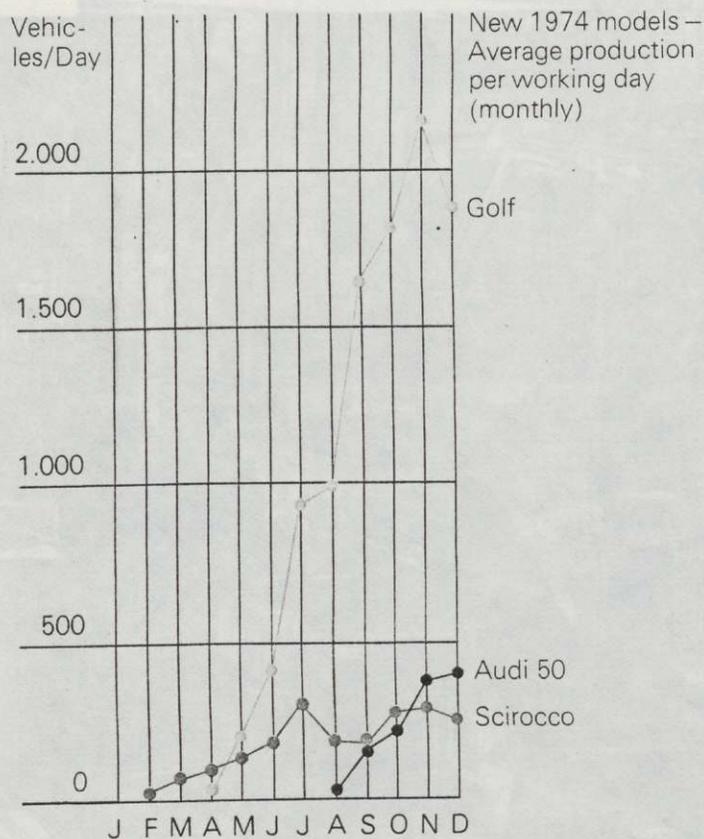


The production concept of the new models corresponds to the high degree of mechanization, attained during the production of the Beetle. Our picture shows a welding

line on which the rear-end of a Golf's body shell is being assembled.







At Volkswagen do Brasil, where 458,950 vehicles came off the assembly line, 21% more than in the previous year, production of the two- and four-door versions of the Passat began at the São Bernardo do Campo plant in the middle of 1974.

The company has almost been completely independent of deliveries from the parent company for many years now. Construction of a new Body and Assembly Plant is under way at Taubaté.

Volkswagen de Mexico introduced the "Brasilia", a new model, in February 1974. The bodies for this vehicle are supplied by Volkswagen do Brasil. Volkswagen de Mexico produces engines and axles itself. The company's total production rose by 27.7% to 114,495 vehicles as compared to 1973.

The rates of growth indicated could only be achieved by both companies because they have for years been making considerable efforts to train skilled labor. The high standard of achievement shown by the specialist departments in Brazil and Mexico is the result of those efforts.

In the year under review the Passat and the Audi 80 were added to Volkswagen of South Africa's production range. Total production went up by 5.8% to 49,397 vehicles.

that there was now a greater variety of models this was only possible by using technical and organizational systems in the production process, some of which were completely new.

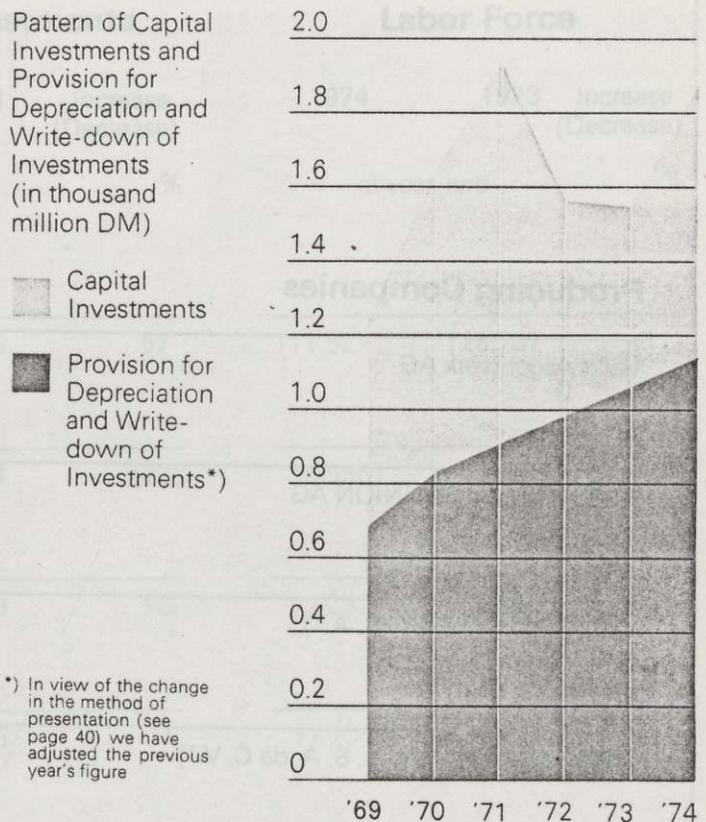
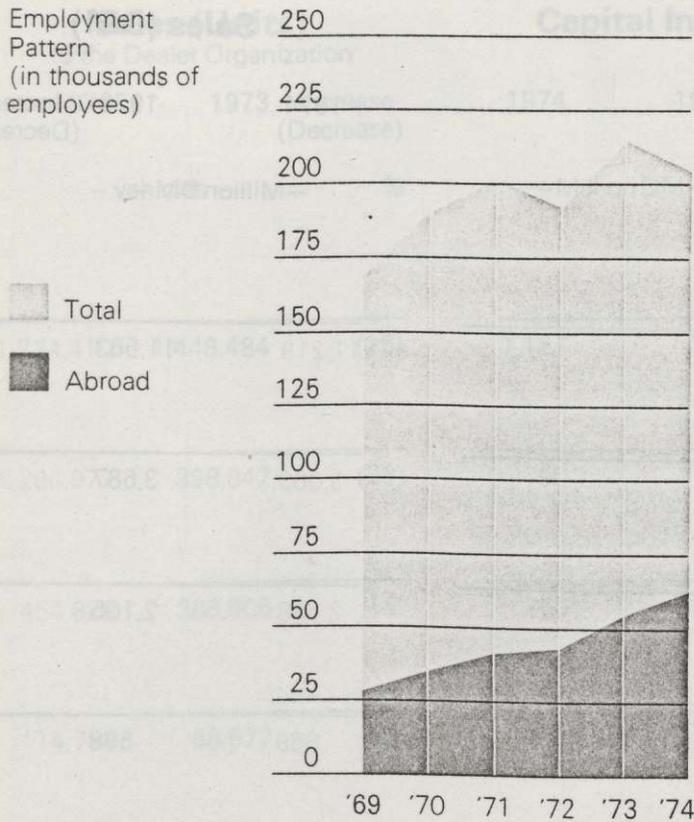
In the mechanical unit sector production of those air-cooled engines, which have proved themselves a million times over, was cut back in keeping with the restructure of the range. As a consequence production capacity for water-cooled engines was expanded and new engines of 1100 cc and 1500 cc capacity with the corresponding manual and automatic transmissions were new additions to the range. This created a further basis for turning the concept of interchangeable units into reality, a concept which will guarantee the long-term profitability of VW Group production.

The whole process of adaptation which was necessary in order to produce the new models required investments of DM 2,500 million on the part of the Volkswagenwerk AG over the last four years. This high level of expenditure was essential in order to provide the VW Group with a basis for the new generation of vehicles.

In the year under review we have also created the conditions for the production of new models in our subsidiaries overseas and also made it possible for production capacity to be brought into line with demand.

In 1974 the VW Group produced 9,893 (9,819) vehicles on average per working day. Taking the yearly average 3,682 of these were VW Beetle models with the Passat accounting for 1,618 units. By December 1974 Golf production per working day stood at an average of 1,889 units. The Volkswagenwerk AG accounted for 6,131 of the units produced by the VW Group in the course of a working day, Volkswagen do Brasil for 1,839 and AUDI NSU AUTO UNION AG for 1,514.

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



Labor Force

At the end of 1974 the VW Group employed a total of 203,730 persons, 5.3% less than in the previous year.

The Group's domestic companies were forced to reduce the labor force by 19,185 employees or 11.9% to 141,780, in keeping with the fall in demand for automobiles. On the other hand the Group's foreign companies had 61,950 persons on the payroll at the end of the year under review, an increase of 14.5% on the previous year.

Wages and salaries paid out by the VW Group increased by 7.7% compared with 1973 to DM 5,718 million and thereby accounted for 33.7% (31.3) of the sales proceeds.

In June 1974 the Group Factory Council convened in Wolfsburg for the first time. It is responsible for dealing with certain specific tasks arising in the domestic sector of the Group under the terms of the Works Constitution Act.

Capital Investments

In the 1974 business year the VW Group invested DM 1,883 million, 21% more than in the previous year. 98.1% was in respect of property, plant and equipment.

Capital investments in Germany totalled DM 1,296 million (928). They were mainly in respect of converting production facilities for the new model line, further streamlining and for the vehicles needed for car hire activities. Investments abroad decreased by 6.7% to DM 587 million. The main purpose of these was to expand the model range, increase capacity and also to effect streamlining.

The Companies within the VW Group

Selected Data of Companies within the VW Group

	Sales (DM)		
	1974	1973	Increase (Decrease)
	— Million DM —		%
Producing Companies			
Volkswagenwerk AG	11,219	11,563	(3)
AUDI NSU AUTO UNION AG	3,063	3,687	(17)
Volkswagen do Brasil S. A.*)	2,638	2,105	25
Volkswagen de Mexico, S. A. de C. V.*)	859	598	44
Volkswagen of South Africa (PTY) Ltd.*)	523	459	14
Volkswagen Bruxelles S. A.	506	422	20
Distributing Companies			
Volkswagen of America, Inc.*)	4,245	4,181	2
Volkswagen Canada Ltd.*)	317	346	(8)
Volkswagen France S. A.*)	301	287	5

*) Includes its subsidiaries

The Companies within the VW Group

	Sales (Units) to the Dealer Organization			Capital Investments			Labor Force		
	1974	1973	Increase (Decrease)	1974	1973	Increase (Decrease)	1974	1973	Increase (Decrease)
	— vehicles —		%	— Million DM —		%	— at year-end —		%
Volkswagenwerk AG	1,234,410	1,448,484	(15)	1,187	755	57	111,527	125,787	(11)
AUDI NSU AUTO UNION AG	284,977	398,842	(29)	90	134	(33)	28,936	33,880	(15)
Volkswagen do Brasil S. A.*)	454,828	386,906	18	350	319	10	39,232	31,957	23
Volkswagen de Mexico, S. A. de C. V.*)	114,794	88,577	30	123	115	7	11,204	9,927	13
Volkswagen of South Africa (PTY) Ltd.*)	48,958	46,585	5	15	35	(56)	5,258	5,420	(3)
Volkswagen Bruxelles S. A.	101,436	99,464	2	13	16	(20)	3,229	3,219	0
Volkswagen of America, Inc.*)	443,487	515,957	(14)	28	61	(55)	1,983	2,172	(9)
Volkswagen Canada Ltd.*)	25,358	36,701	(31)	5	4	32	390	406	(4)
Volkswagen France S. A.*)	36,013	42,385	(15)	39	75	(49)	471	535	(12)

Producing Companies

The Board of Management would like to thank all employees for their hard work and for their readiness to seek common solutions to the problems which our company also had to face in this difficult situation. The year under review also called for even greater collaboration between the Factory Management and the Factory Councils in all the plants. The Board of Management would like to express its appreciation of the responsible assistance rendered by the Factory Councils in regard to the operation of the plant.

Development of the Labor Force

	1974 – at year end –	1973	Increase (Decrease) in figures %	
Volkswagenwerk AG	111,527	125,787	(14,260)	(11.3)
Wolfsburg	51,155	56,549	(5,394)	(9.5)
Hanover	21,605	26,504	(4,899)	(18.5)
Kassel	16,398	18,808	(2,410)	(12.8)
Salzgitter	9,069	9,387	(318)	(3.4)
Emden	7,299	7,578	(279)	(3.7)
Brunswick	6,001	6,961	(960)	(13.8)
Wage earners	96,595	110,925	(14,330)	(12.9)
Salaried personnel	14,932	14,862	70	0.5
Female employees	13,364	15,280	(1,916)	(12.5)
Foreign employees	13,425	19,954	(6,529)	(32.7)
Trainees	1,851	1,836	15	0.8

	1974	1973
Average age of VW employees	38.7	37.5 years
Employees' average length of service	10.9	9.5 years
Absenteeism due to sickness	6.0	7.4%

Capital Investments

The Volkswagenwerk AG's capital investments stood at DM 1,187 million – 57.3% more than those of the previous year. DM 1,026 million of these were in respect of property, plant and equipment and DM 161 million were earmarked for investments in subsidiaries and affiliates.

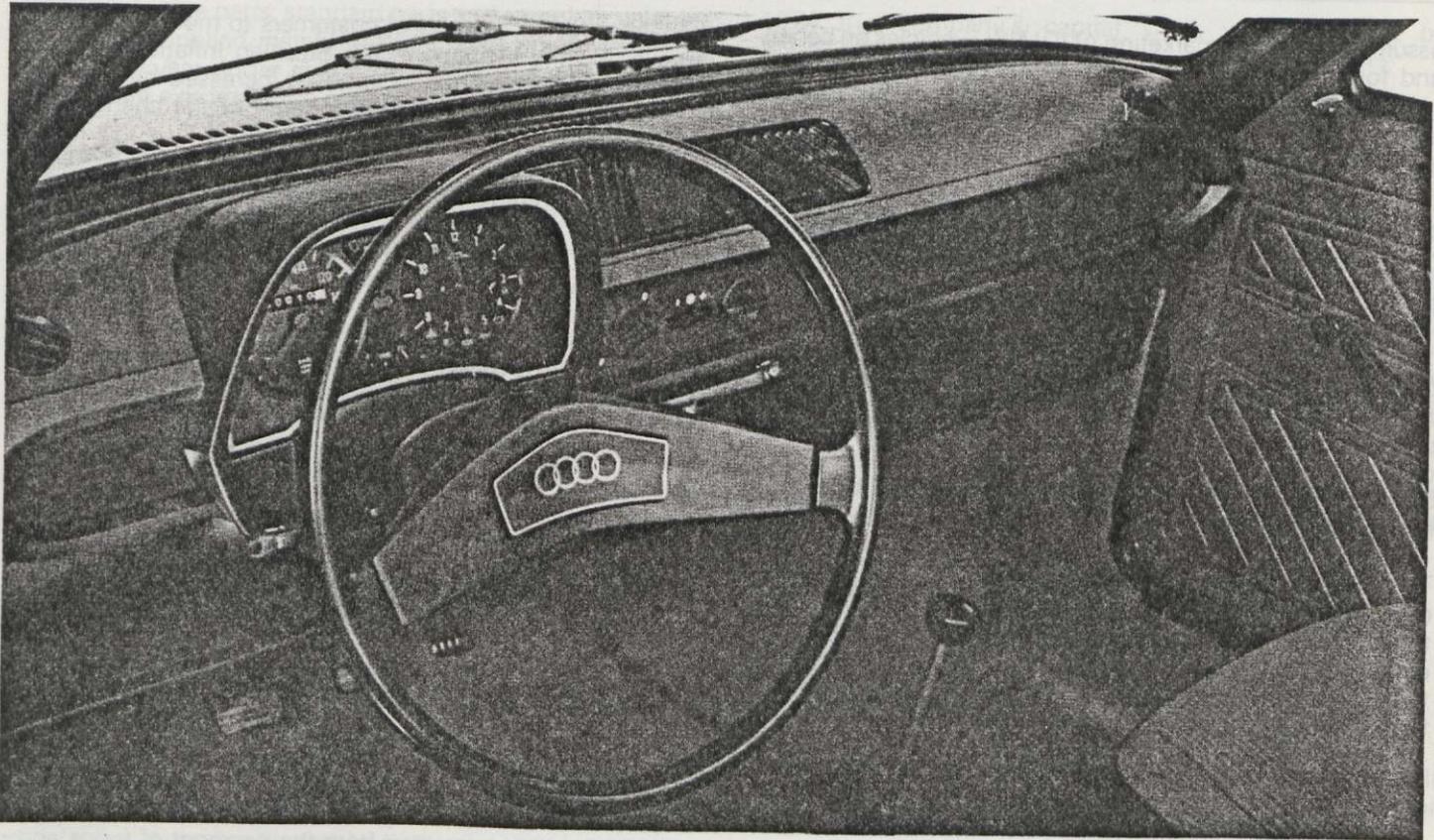
The main investments in the property, plant and equipment field were in respect of the conversion of production facilities required for the manufacture of the new models, the Golf, Scirocco and Audi 50.

61% of the investments in subsidiaries and affiliates went as a contribution towards increasing the capital stock of Volkswagen of America. Other investments in subsidiaries and affiliates included in the main the acquisition of a further share of the capital stock of Volkswagen Bruxelles, an increase in the capital stock of Volkswagen do Brasil and Volkswagen of South Africa which also included the acquisition of the minority holdings in the latter company.

Earnings Situation

The deterioration in the sales position, the greater expenditure in respect of personnel, the increases in the cost of materials, the expense involved in launching new models and the continuing unfavorable situation in regard to exchange rates resulted in a net loss of DM 555 million.

The Audi 50, sets new standards of comfort and technical maturity in its class.



AUDI NSU AUTO UNION AG, Neckarsulm

In the year under review the company sold 284,977 vehicles to the dealer organization – 113,865 units or 28.5% less than in 1973. In considering this decline it should be borne in mind that AUDI NSU AUTO UNION AG's sales in the previous year had been particularly high due to the extraordinarily great success enjoyed by the Audi 80 following its introduction. 57.6% (58.7) of the company's total sales were in respect of the Audi 80 with the Audi 100 accounting for 34.9% (37.5). As far as the recently introduced Audi 50 is concerned a total of 19,947 cars were sold in the period following its introduction in October 1974 up to the end of the year.

The company's share of new passenger car registrations in West Germany and West Berlin went down to 7.9% (9.8).

In 1974 AUDI NSU's exports suffered too. Sales in this sector fell by 21.7%. Only in the USA was it possible to increase sales and this was on account of the good reception accorded to the Audi 80. In the European export markets on the other hand sales dropped sharply. In spite of that the share of exports in total sales rose to 54.7% (49.9).

Vehicle production was brought in line with the changed market situation and it was cut back by 143,373 vehicles

or 35% to 266,420 units. Here it should be borne in mind that the statistics for the previous year included 60,540 Audi 80s which had been assembled by the Volkswagenwerk AG. On average AUDI NSU produced 1,514 (1,747) vehicles every working day – 983 in Ingolstadt and 531 in Neckarsulm.

In view of the deterioration in the sales position it was also necessary to introduce several periods of short time working in the AUDI NSU AUTO UNION AG. In addition circumstances called for a reduction in the labor force. At the end of the year the company had a labor force of 28,936, i.e. 4,944 or 14.6% fewer than at the end of 1973. The percentage of foreign workers dropped to 24.1% (29.9). Personnel costs accounted for DM 845 million (856). Since some of the Audi 80s produced in 1973 and some of the Audi 50s produced in the year under review were assembled and manufactured by the Volkswagenwerk AG it is not possible to compare personnel costs with sales proceeds.

In spite of the increases in price the company's sales proceeds declined by DM 624 million or 16.9% as compared with 1973 to DM 3,063 million. Domestic sales declined by 22.8% to DM 1,647 million and export sales fell by 8.9% to DM 1,416 million. The spare parts business had an 8.5% (8.4) share in total sales.

In the year under review cooperation between the Volkswagenwerk AG and AUDI NSU AUTO UNION AG was intensified still further. From May 1974 the parent company

assumed the task of marketing AUDI NSU vehicles on behalf and for account of that company. In addition the Volkswagenwerk AG assumed the tasks of central purchasing, storage and marketing of spare parts with effect from the beginning of 1975.

Compared to 1973 investments went down by 33.2% to DM 90 million. They were primarily devoted to the expansion and maintenance of the plant facilities and to improve the models in current production and they were financed in full from write-downs.

No new Wankel licenses were issued. Major licensees within the automobile industries have once more postponed the start of series production of rotary piston engines. On the other hand in the motor cycle field Fichtel & Sachs and Suzuki who are both licensees began series production of rotary piston engines.

The effect of the decline in sales figures and sales proceeds combined with a simultaneous increase in costs has been to bring about a considerable deterioration in the company's earnings situation. In spite of this the company was nevertheless able to set aside funds to the value of DM 3.4 million for the holders of participating certificates.

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

The Brazilian automobile industry continued to give further evidence of a rapid rate of growth in 1974. Volkswagen do Brasil increased its sales by 17.6% to 454,828 vehicles which meant that it did not take its full share of the general upward trend in the market. There were two reasons for this. On one hand competitors continued to step up their activities on the Brazilian market. On the other hand our subsidiary's production activities were hampered by difficulties in obtaining material for the Passat which had newly been added to the production range. This meant that Volkswagen do Brasil's share of the passenger car market fell to 55.5% (58.8) and that its share of the Commercial Vehicle market dropped to 39.8% (41.2).

The Passat which was introduced in July 1974 was well received on the Brazilian market.

Volkswagen do Brasil stepped up its export activities considerably in the year under review in keeping with the assurances given to the Brazilian authorities with regard to export. 53,527 vehicles were exported as compared to 15,517 units in the previous year. The countries in Central and South America remained the major customers and in addition sales to Arab and African states are gaining increasing importance.

In the year under review the turnover stood at DM 2,638 million (2,105). The rise was due to an increase in sales,

a changeover on the part of customers to more expensive models and the increase in the Brazilian inflation rate. In terms of Brazilian currency turnover increased by 38.3%, 25.3% in German currency on account of the changes in exchange rate parities.

In 1974 an average of 1,839 vehicles were produced by Volkswagen do Brasil every working day as compared to 1,574 units in the previous year. Total production stood at 458,950 vehicles – 21% more than in 1973.

Company investments at DM 350 million (319) continued to run at a high level in 1974. This is mainly due to the plans to increase capacity – setting up a new plant at Taubaté as well as to the extension of the model range. These steps are designed to consolidate the company's position in a generally expanding market.

In spite of considerably raised costs for materials and difficulties in obtaining same the earnings situation continued to be satisfactory in 1974. The ratio of personnel costs to sales was again at the previous year's level at 19%.

In the year under review the capital stock of Volkswagen do Brasil was increased by Cr\$ 439,592,050 (DM 142.9 million) to Cr\$ 1,776,121,300 (DM 577.4 million) – of this sum Cr\$ 276,900,295 (DM 90 million) came from a capitalization of the reserves set up in accordance with Brazilian Law to compensate for inflation, Cr\$ 82,500,000 (DM 26.8 million) resulted from the payment of funds and contribution of productive equipment and Cr\$ 80,191,755 (DM 26.1 million) from capitalization of reserves.

The capital stock 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 year under review Volkswagen de Mexico sold 114,794 vehicles, thereby achieving an increase of 26,217 units or 29.6%. All the models produced in Mexico had a share in this sales increase.

In 1974 the company introduced the "Brasilia", the compact Variant which had been very successfully introduced on the Brazilian market one year before and 7,694 units were already sold by the end of the year.

In the year under review the company further consolidated its market position in Mexico. Volkswagen's share of new passenger car registrations increased to 37.6% (35.1). On the small car market Volkswagen's share was as high as 69.4% (65.1). The VW Commercials which had been offered in Mexico since 1972 also gained ground – their share in the Commercial Vehicle range up to a payload of 1.5 tons went up to 20.5% (18.2).

Exports of spare parts, standard parts and complete vehicles which are supplied mainly to the United States stagnated during the year under review so that it was only possible to maintain exports at the previous year's levels.

The company increased vehicle production by 27.7%. Turnover increased by 43.7%. Expressed in terms of Mexican currency, the increase was as high as 48.5%. Personnel costs at DM 134 million represented 15.6% (13.7) of turnover.

In spite of successful sales efforts Volkswagen de Mexico finished the 1974 business year with a loss. The main reasons for this were the inflationary increase in costs in Mexico and the effects of the pattern of foreign exchange. The price increases authorized by the Mexican authorities were not sufficient to compensate for these negative factors.

At the end of 1974, 84.1% of the official capital stock of mex. \$ 1,132,952,000 (DM 218.7 million) had been provided. Volkswagen de Mexico's capital stock is wholly owned by the Volkswagenwerk AG.

Volkswagen of South Africa (PTY) Ltd., Uitenhage, C. P.

In spite of the fuel crisis there was only an insignificant fall in sales on the South African passenger car market. The VW Group even succeeded in increasing its share of the total passenger car market to 16% (15.8), thus consolidating its leading position on the market. There was a considerable improvement in VW Commercial Vehicle sales and as a result this model's share of the light utility vehicle market improved from 13.4% to 15.2%.

Over all sales of VW and Audi vehicles in the year under review went up by 5.1% to 48,958 units. Turnover increased by 13.9% to a total of DM 523 million, i.e. at a relatively higher rate than sales, mainly due to price increases and to the greater number of higher priced vehicles in relation to total sales. Personnel costs stood at DM 60 million and represented 11.5% (11.1) of sales. Investments, at DM 15 million, were 56.4% below the figure for the previous year.

In spite of these positive results, due in the main to the taking over of the financing tasks carried out by SAMAC, a finance company, VW of South Africa's earnings situation remained unsatisfactory in 1974. Although prices were increased to a greater extent than in the previous years this action proved insufficient to compensate for the effects of the rapid increase in costs within the country and the rise in prices of import commodities brought about principally by the situation in the foreign exchange sector.

A settlement offered by the Volkswagenwerk AG to the South African minority stockholders was accepted and as a result Volkswagen of South Africa has been wholly owned by the VW Group since the end of July 1974. In December

1974 the company's capital stock was increased by R 1,714,286 (DM 6 million).

Most of SAMAC's business activities were taken over by Volkswagen of South Africa at the end of 1974.

Volkswagen Bruxelles S. A., Brussels, Belgium

In 1974, Volkswagen Bruxelles assembled 101,440 vehicles – Beetles and Passats. This was an increase of 2% as compared to 1973. In view of the deterioration in the sales position the company had no option but to go on short time.

At the end of the year the Volkswagenwerk AG's holdings in Volkswagen Bruxelles increased to 87.5% following the acquisition of further shares.

The company broke even in the year under review.

Motor Producers Ltd., Melbourne, Australia

In the year under review the company was able to sell 16,695 (14,097) VW vehicles – 8,859 (7,993) passenger cars and 7,836 (6,104) utility vehicles.

The sales of Motor Producers Ltd. rose by 37% to DM 203 million. This increase was also due to the increased sales proceeds from the assembly of other makes of vehicles.

In spite of the negative effect of the devaluation of the Australian dollar in September 1974 the company made a profit in the year under review.

P. T. German Motor Manufacturing, Djakarta, Indonesia

1974 was a successful business year for this assembly plant which is jointly operated by Volkswagenwerk AG, Daimler-Benz AG and an Indonesian partner. The company increased its assembly work considerably as compared to the previous year. 4,099 Volkswagen (+ 60.1%) and 2,427 Daimler-Benz vehicles (+ 66.1%) were completed.

The company made a profit in the 1974 business year.

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

In 1974 there has been a further expansion in the market for utility vehicles in Spain. MEVOSA's registration figures

The VW Polo, room for the whole family at a reasonable price.



Other Companies

in the 1 ton category increased by 4.7% to 10,020 vehicles. Sales of vehicles in the 1.5 to 2.5 ton category were almost up to the previous year's level.

Although there was an improvement in the company's earnings situation as compared to the previous year it was still not satisfactory. This is due to the fact that the price increases approved by the Spanish authorities were not adequate to cover the increased costs.

TAS Tvoronica Automobila Sarajevo, Vagosca, Yugoslavia

This company, a joint venture with UNIS, the Yugoslav VW Exclusive Importer, which was established in mid-1972 delivered 11,773 Volkswagens to customers in the year under review.

The introduction of an additional shift in spring 1974 resulted in an increased assembly output of 40 vehicles per day. In addition parts production on behalf of Volkswagenwerk AG was stepped up within the framework of integrated production within the VW Group.

The company achieved a satisfactory result in the 1974 business year.

Volkswagen of Nigeria Ltd., Lagos

In February 1973 this company was established with an interest being held by the Nigerian Government. 40% of the capital stock which has the value of DM 11.7 million in local currency is held by the Volkswagenwerk AG, 35% by the Nigerian Government and 25% by other stockholders.

The company started assembly of vehicles in January 1975, one year having been needed for the construction of the plant. It is planned to achieve an assembly output of 60 vehicles per day in the course of this year.

Distributing Companies

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

Compared to the previous year sales of passenger cars in the United States in 1974 fell by 22.4% to 8.8 million vehicles. The other factor responsible for this development beside the energy crisis was the increasing demand reluctance of American customers to buy in view of the great decline in the economy. The inflationary trend inhibited sales still further in the second half of the year and had an adverse effect on the public's readiness to buy new cars. Sales of domestic makes were particularly hard hit by the huge increases in the prices of 1975 models which came on to the market in September 1974.

Deliveries of import cars in the USA reached 1.37 million units in 1974. Their share of the U. S. passenger car market increased slightly from 14.9% to 15.5%.

In the year under review Volkswagen of America delivered 401,101 Volkswagen, Audi and VW-Porsche vehicles to customers along with 4,868 Porsche 911s, i.e. 25.7% less than in the previous year. This meant that the VW Group's share of the U. S. passenger car market fell to 4.3% (4.4). It was, however, still possible to maintain a leading position among vehicle importers. In order to compensate for the increases in the cost prices which were necessitated by the price increases introduced by the parent company and the decline in the exchange rate for the U.S. dollar, the company had already been compelled to increase its prices in 1973. This meant that the prices of VW Group's vehicles were at a level which compared unfavorably with those of our competitors and this impaired sales.

Deliveries of Volkswagens fell by 29.8% to 334,515 units. On the other hand sales of Audi vehicles improved by 9.3% to 50,432 units. It was the good reception accorded to the Audi 80 which was mainly responsible for this. Sales of VW-Porsche and Porsche vehicles failed to reach the levels of the previous year.

Although Volkswagen of America's sales to the dealer organization were considerably lower than those of the previous year turnover increased by 1.5% to DM 4,245 million. This rise was principally due to the greater proportion of higher priced models and to the fact that the full effect of the price increases made in 1973 was felt during the year under review.

The company made a loss in the 1974 business year. At the end of 1974 Volkswagen of America increased its capital stock by US \$ 40 million. The company's capital stock now stands at US \$ 45 million as a result.

Volkswagen Canada Ltd., Toronto

The sales position on the Canadian automobile market was relatively stable during the year under review. New re-

The VW Polo, re-improving
price.

registrations of passenger cars only showed a decrease of 1.3% on 1973. On the other hand our subsidiary company's sales dropped by 30.9% to 25,358 vehicles. As in the USA the main reason for this was to be found in the unfavorable prices of our products. As a result our ability to compete deteriorated greatly and the company's market share declined from 3.4% to 2.5% in consequence.

In view of the large decrease in sales the sales proceeds dropped by 8.4% compared with those of the previous year.

In spite of the difficult situation the company managed to break even during the year under review.

Volkswagen France S. A., Villers-Cotterêts

During the second half of 1974 the French automobile market was also affected by a slackening-off of the economy and considerable price increases. Vehicle sales fell by 12.7%. Import cars were affected by this negative trend, the fall in this case being one of 24.6%. In 1974 Volkswagen France sold 36,013 units (including leased vehicles). That represents a drop of 15% as compared to the previous year. The company's share of the passenger car market fell to 2% (2.1).

Turnover had increased slightly and in terms of local currency the company broke even during the business year.

Svenska Volkswagen AB, Södertälje

A temporary 3% reduction of VAT led to a considerable increase in demand on the Swedish automobile market which was reflected by a 15.2% improvement in sales.

Svenska Volkswagen had a share in this development and sold a total of 33,040 vehicles, 28% more than in the previous year. The Passat and the Golf which was introduced in August were mainly responsible for this. The company improved its share of the market from 9.8% to 11.6%.

Svenska Volkswagen ended the business year with a profit.

Weser-Ems Vertriebs- gesellschaft m. b. H., Bremen

The Weser-Ems Vertriebsgesellschaft carries out functions of a VW main distributor for North West Germany and also supplies the dealers of the AUDI NSU AUTO UNION AG in North Germany with parts.

Sales and turnover of the company surpassed the level of the previous year. The company achieved a good result in the year under review.

Other Companies

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

This company hires out motor vehicles on the domestic market and through wholly owned companies in France and Belgium. In the other foreign countries in Western Europe this business is conducted through the International inter-Rent Organization.

In the year under review business was hampered as a consequence of the increase in the price of fuel and the increasing slackening-off of the economy. Proceeds, including those of subsidiaries fell from DM 94 million to DM 84 million.

In spite of the decline in turnover it was possible to achieve a small profit as a result of measures taken to effect streamlining and by bringing capacity in line with demand. The profit was taken over by the Volkswagenwerk AG in accordance with the Profit and Loss Assumption Agreement concluded in the report year.

Wolfsburger Transportgesellschaft m. b. H., Wolfsburg

The Wolfsburger Transportgesellschaft handles sea and air transportation and all transactions connected therewith for the VW Group.

Because of the decline in overseas sales the number of vehicles transported fell in 1974. In the year under review 694,000 vehicles were shipped by sea routes – 16% less than in the previous year.

The company's earnings situation was also good in the 1974 business year. The profit was taken over by the Volkswagenwerk AG in accordance with the Profit and Loss Assumption Agreement concluded in 1974.

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

The VW KREDIT BANK provides credit facilities for VW dealers in the Federal Republic of Germany to enable them to purchase from the factory and also finances vehicles sold to customers. It thus plays its part in promoting the sale of VW products.

In the year under review the loans provided in both sectors were at a greater level than in the previous year in spite of the decline in the economy.

Although restrictive monetary and credit policies brought about a marked increase in the cost of refinancing the company achieved a good result during 1974.

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

In spite of the fact that the general situation in the automobile business was unsatisfactory, 1974 was a further successful business year for Volkswagen Leasing. The company was able to increase its clientele considerably and leasing business involving VW Group's vehicles showed a further increase in the process. Hiring out service equipment to the VW Group's Organization in the Federal Republic of Germany also continued at a high level.

In keeping in line with the general overall pattern of business the company's results showed a marked improvement on those of the previous year. The profit was taken over by the Volkswagenwerk AG in accordance with the Profit and Loss Assumption Agreement after transfer had been made to reserves.

Deutsche Automobilgesellschaft m. b. H., Hanover

This company, in which the Daimler-Benz AG and the Volkswagenwerk AG both hold an equal interest, undertakes research with regard to technical developments, particularly in the field of electrically powered automobiles.

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

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

During the year under review the company's activities were concentrated mainly on administering the rented apartments in existence as well as the 78 owner-occupied apartments. Building activities were cut back drastically, being restricted to starting work on 6 apartments and completing 32 apartments not finished in the previous year.

On December 31, 1974 the company owned 7,203 apartments and 132 accommodation units in hostels.

VW-Siedlungsgesellschaft m. b. H., Wolfsburg

The VW-Siedlungsgesellschaft also constructs apartments for VW employees.

In the year under review the company continued work on 52 apartments under construction (24 of them in hostels) and these were completed during the early part of 1975.

On December 31, 1974 the company owned 5,332 apartments and 608 housing units in hostels.

The loss incurred in the year under review resulted 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

HOLAD has a 10% share of the capital stock of the Wolfsburger 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. It also holds 100% of the capital stock of the Volume Export & Trading Corporation (VOTEX). The company's interest in SAMAC, the South African financing company was sold to Volkswagen of South Africa.

Dividends from HOLAD's holdings were reinvested within the entire Group.

Volume Export & Trading Corporation (VOTEX), Englewood Cliffs, N. J., USA

This company, which was established in 1973, trades in commodities of all kinds, but particularly automobile parts and accessories.

Business activities have been satisfactory, turnover having totalled DM 40 million. This was mainly due to the activities of its subsidiary, the VOTEX Warenhandelsgesellschaft m. b. H., Hamburg which came into being on February 1, 1974.

The company broke even in the year under review.

LT, VW's Goods Vehicle



Promoted to a considerable extent by the Federal Ministry of Research and Technology the Volkswagenwerk AG is conducting a research program as a contribution to the reduction of the dependence of the Federal Republic

of Germany upon crude oil. This is principally centered around a large scale test series involving 45 VW vehicles operated on a methanol-gasoline mixture on the roads in various parts of Germany.

In the current general debate on traffic policy, hardly anybody disputes the fact that, in the long term, there is no genuine alternative to the automobile. Public transport cannot meet all the requirements of a modern transportation system on its own. The growing volume of traffic which the future will bring can only be coped with if the modes of individual and mass transportation can be made to co-exist sensibly. However, in regard to demand for automobiles it can be seen that to some extent the emphasis is shifted to vehicles which offer greater economy.

The world-wide economic decline in 1974 which affected the international automobile industry in particular to an extent unknown hitherto continued to determine the general economic situation in most countries of the Western world during the first part of the current year.

Although, in the long term, Germany's automobile manufacturers will have to get used to the fact that on the domestic market the high rates of growth of the past will never again be achieved – the high degree of motorization means that the emphasis in the Federal Republic of Germany will be switched much more than hitherto to satisfying customers looking for replacement, many markets abroad will not have reached saturation point for a long time to come. However, if advantage is to be taken of the market opportunities available, German producers will be compelled to give much more attention as to how difficulties put in the way of exports – import restrictions imposed by various countries, above average increases in costs in the Federal Republic of Germany and the worsening of exchange rates – can be met.

During the first few months of the year virtually all makes represented on the domestic market showed an increase in sales as compared with the previous year. These positive factors should not, however, hide the fact that particularly heavy sales losses were incurred in the first few months of 1974 and that we were far from reaching the sales level of the comparable period of 1973 during which it was possible to use capacity to the full. Nevertheless the economic measures taken by the Government of the Federal Republic of Germany lead us to expect that there will be a move upwards from the lowest point in demand on the domestic market in the course of this year. The decisive factor will, however, be the extent to which customers will abandon their primarily psychological reluctance to buy and the extent to which the need to replace will increase the automobile industry's sales. In the near future sales on our export markets will be influenced primarily by the unfavorable cost pattern in Germany and by the continuing uncertainty as to the way the international economy and the exchange rates will develop.

The particular situation which the VW Group faces today is characterized by the surplus capacity in the German production plants. These difficulties have been created in the

main by the decline in export sales, particularly in the United States. Since a decisive improvement in the export situation – the high level of costs in Germany and unfavorable exchange rates – is not to be expected, it is essential that domestic capacity should be brought into line with the sales possibilities.

In consequence of this the Board of Management with the approval of the Supervisory Board of Directors has been forced to take further steps to bring the labor force swiftly into line with the changes in the sales position. In the process of this the number of employees of the Volkswagenwerk AG, the AUDI NSU AUTO UNION AG and Volkswagen Bruxelles S.A. will show a reduction of some 25,000 by the end of 1976 as compared to the situation on January 1, 1975. The labor force will then total some 115,000. Some 4,600 persons had already left the Company by April 1, 1975. This further reduction in the labor force is to be effected by not replacing personnel leaving in the normal course of events, early retirement,

the conclusion of voluntary agreements to terminate contracts and officially notifiable dismissals.

In the course of these readjustment measures vehicle assembly will be transferred from the Salzgitter plant to Wolfsburg. In addition to this the Neckarsulm and Brussels plants will in future only operate one shift per day. A new use is to be found for the AUDI NSU's plants at Heilbronn and Neuenstein and this will go a long way towards safeguarding jobs there.

In our deliberations much thought was given to social aspects. The measures set out above will, however, represent a major burden on the VW Group's results in 1975. If this is seen in conjunction with the negative sales pattern it will be understandable that no basic improvement in the earnings situation can be expected. In the long term the measures initiated and the new model range will result in an improvement in the earnings situation and an effective safeguard for the jobs which remain.

Wolfsburg, April 1975
The Board of Management

Handwritten signatures: G. G. G. G.

Handwritten signatures: G. G. G. G.

Promoted to a considerable extent by the Federal Ministry of Research and Technology the Volkswagenwerk AG is conducting a research program as a contribution to the reduction of the dependence of the Federal Republic

of Germany upon crude oil. This is principally centered around a large scale test series involving 45 VW vehicles operated on a methanol-gasoline mixture on the roads in various parts of Germany.



of Germany upon crude oil. This is principally centered around a large scale test series involving 48 VW vehicles operated on a methanol-gasoline mixture on the roads in various parts of Germany.

Promoted to a considerable extent by the Federal Ministry of Research and Technology the Volkswagenwerk AG is conducting a research program as a contribution to the reduction of the dependence of the Federal Republic

in the United States. Since a recent increase in the export situation - the high level of exports in Germany and an unfavorable exchange rate - is not to be expected, it is intended that certain capacities should be brought into line with the sales situation.

In consequence of the Board of Management with the approval of the Supervisory Board of Directors has been forced to take further steps to bring the labor force into line with the changes in the sales position. In the process of reorganization the number of employees in the VW Group has been reduced by 5,500 in 1975 compared with 1974. The VW Group has a total of 1,000,000 employees in the VW Group. The VW Group has a total of 1,000,000 employees in the VW Group.

training of employees in order to improve the efficiency of the production process.

In the course of these readjustment measures vehicle production will be transferred from the Saugunter plant to the Neckarum and Brussels plants. In addition to the Neckarum and Brussels plants a new plant is to be built for the AUDI 100 in the Neckarum and Brussels plants.

In the course of these readjustment measures a special effort will be given to the retraining of employees. The VW Group will, however, represent a major burden on the VW Group's results in 1975. It is to be noted in connection with the negative sales situation that the VW Group will be unable to meet its obligations in the long term. The VW Group will, however, represent a major burden on the VW Group's results in 1975.



Financial Statements and Comments

The Major Companies within the VW Group

December 31, 1974

□ Producing Companies
 □ Distributing Companies
 □ Other Companies

○ Companies included in consolidated financial statements of the VW Group*)

Volkswagenwerk AG		Plant Locations: Wolfsburg		Salzgitter			
Capital Stock		Hanover		Brunswick			
DM 900,000,000		Kassel		Emden			
<p>AUDI NSU AUTO UNION AG Neckarsulm DM 215,000,000 98.9% ○</p>	<p>Volkswagen do Brasil S.A. São Bernardo do Campo Brazil Cr\$ 1,776,121,300 80% ○</p>	<p>Volkswagen of South Africa (PTY) Ltd. Uitenhage, C.P., South Africa R 1,714,286 98.56% 1.44% VW of America ○</p>	<p>Compañia Hispano Alemana de Productos Mercedes-Benz y Volkswagen S.A. (MEVOSA), Madrid, Spain Ptas 972,000,000 26.8%</p>	<p>Volkswagen of America, Inc. Englewood Cliffs, N.J. USA US\$ 45,000,000 100% ○</p>	<p>Volkswagen Canada Ltd. Toronto, Ontario, Canada can\$ 500,000 100% ○</p>	<p>interRent Autovermietung G.m.b.H. Hamburg DM 1,860,000 100% ○</p>	<p>Volkswagen Leasing G.m.b.H. Wolfsburg DM 1,000,000 100% ○</p>
<p>AWD Automobilwirtschaftsdienst G.m.b.H. Ingolstadt DM 20,000 100%</p>	<p>Financiadora Volkswagen S.A. São Bernardo do Campo Brazil Cr\$ 29,100,000 100% ○</p>	<p>South African Motor Acceptance Corp. (PTY) Ltd. (SAMAC), Uitenhage, C.P. R 10,000 100%</p>	<p>Comercio e Industria Alaveses del Automovil, S.A. (CIADASA) Vitoria, Spain Ptas 95,000,000 100%</p>	<p>VICO Corporation Delaware, USA US\$ 2,620,652 42%</p>	<p>Vorelco Ltd. Toronto, Ontario, Canada can\$ 10,000,000 30% 70% HOLAD ○</p>	<p>Selbstfahrer Union G.m.b.H. Hamburg DM 20,000 100% ○</p>	<p>Deutsche Automobilgesellschaft m.b.H. Hanover DM 5,000,000 50%</p>
<p>AUDI NSU A/S Odense, Denmark dkr 40,000 100%</p>	<p>Distrivolks S.A. São Paulo, Brazil Cr\$ 4,300,000 100%</p>	<p>Volkswagen Bruxelles S.A. Brussels, Belgium bfrs 425,000,000 87.5% ○</p>	<p>Volkswagen of Nigeria Ltd. Lagos, Nigeria N 3,000,000 40%</p>	<p>Volkswagen Products Corporation Fort Worth, Texas, USA US\$ 1,000 100%</p>	<p>Volkswagen France S.A. Villers-Cotterêts France FF 22,000,000 100% ○</p>	<p>DIRANUS Versicherungs-Vermittlungs-G.m.b.H. Hamburg DM 30,000 100% ○</p>	<p>VW-Wohnungsbau Gemeinnützige Gesellschaft m.b.H. Wolfsburg DM 2,000,000 100% ○</p>
<p>AUDI NSU AUSTRIA Ges.m.b.H. Salzburg, Austria S 100,000 51% ○</p>	<p>Forjaria São Bernardo S.A. São Bernardo do Campo Brazil Cr\$ 27,770,884 38.15% ○</p>	<p>Motor Producers Ltd. Melbourne, Australia \$ A 10,000,000 100%</p>	<p>TAS Tvoronica Automobila Sarajevo Vogosca, Yugoslavia Din 85,575,000 49%</p>	<p>Vorelco, Inc. Englewood Cliffs, N.J. USA US\$ 18,500,000 100%</p>	<p>Société Volkswagen de Financement S.A. Villers-Cotterêts, France FF 12,500,000 63.7% 35.3% HOLAD ○</p>	<p>interRent S.A. Gent, Belgium bfrs 20,000,000 99.9% ○</p>	<p>VW-Siedlungsgesellschaft m.b.H. Wolfsburg DM 20,000,000 100% ○</p>
<p>AUDI NSU AUSTRIA Ges.m.b.H. & Co. KG Salzburg, Austria S 1,000,000 50.5% ○</p>	<p>Trans-Trading Brasil Exportadora S.A. São Bernardo do Campo Brazil Cr\$ 20,000,000 100%</p>	<p>P.T. German Motor Manufacturing Djakarta, Indonesia Rp 1,043,165,466 33.3%</p>	<p>Volkswagen de Mexico, S.A. de C.V. Puebla/Pue., Mexico mex\$ 1,132,952,000 100% ○</p>	<p>Vorelco of California, Inc. Culver City, Ca., USA US\$ 5,000 100%</p>	<p>Svenska Volkswagen AB Södertälje, Sweden skr 42,000,000 33.3%</p>	<p>interRent Location de Voitures S.A.R.L. Paris, France FF 13,000,000 100% ○</p>	<p>HOLAD Holding & Administration AG Basle, Switzerland sfr 110,000 100% ○</p>
<p>Compagnie de Commerce et Commission S.A. Paris, France FF 300,000 100%</p>	<p>Transalme Sociedade de Representações Administração e Organização Ltda. São Bernardo do Campo Brazil, Cr\$ 35,000 100% ○</p>	<p>Volkswagen Comercial, S.A. de C.V. Puebla/Pue., Mexico mex\$ 80,000,000 100%</p>	<p>VW Leasing, S.A. de C.V. Mexico/D.F., Mexico mex\$ 15,000,000 51%</p>	<p>Volkswagen i Stockholm AB Stockholm, Sweden skr 6,000,000 100%</p>	<p>Wolfsburger Transportgesellschaft m.b.H. Wolfsburg DM 500,000 90% 10% HOLAD ○</p>	<p>Volume Export & Trading Corporation (VOTEX) Englewood Cliffs, N.J. USA US\$ 2,100,000 100%</p>	
<p>AUDI NSU FRANCE S.A. Paris, France FF 1,000,000 95%</p>	<p>Companhia Vale do Rio Cristalino S.A. Santana do Araguaia, Pará Brazil Cr\$ 21,605,760 71.4% 10.7% VW do Brasil ○</p>	<p>Weser-Ems Vertriebsgesellschaft m.b.H. Bremen DM 8,000,000 81.3%</p>	<p>VW KREDIT BANK G.M.B.H. Wolfsburg DM 20,000,000 100%</p>	<p>AUDI NSU KREDIT BANK G.M.B.H. Ingolstadt DM 8,000,000 100%</p>	<p>VOTEX Warenhandelsgesellschaft m.b.H. Hamburg DM 500,000 100%</p>	<p>VOTEX de Mexico, S.A. de C.V., Puebla/Pue., Mexico mex\$ 1,250,000 90% 10% VW de Mexico ○</p>	

*) The following companies, AUDI NSU BELGIUM S.P.R.L., i. L., Brussels 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

Comments on the Consolidated Financial Statements of the VW Group

Basis of Consolidation

Scope of Consolidation

As in the past, we have principally included in the consolidated financial statements all subsidiaries and affiliates in which the Volkswagenwerk AG holds a direct or indirect investment of more than 50%. In addition to Volkswagenwerk AG 13 domestic and 32 foreign subsidiaries and affiliates were consolidated. The VW subsidiaries and affiliates are shown in the illustration on page 38 and special indication has been made against those included in the consolidated financial statements.

For the first time the following companies were consolidated in the year under review:

Volume Export & Trading Corporation (VOTEX),
Englewood Cliffs, N. J.,
VOTEX Warenhandels-gesellschaft m.b.H., Hamburg,
VOTEX de Mexico, S.A. de C.V., Puebla/Pue.,
Companhia Vale do Rio Cristalino, Agropecuária
Comércio e Indústria S.A., Santana do Araguaia, Pará.

The VEMAG S.A., São Paulo, which was disposed of, and the two French companies Compagnie de Commerce et Commission S.A. (CCC), Paris and AUDI NSU FRANCE S.A., Paris no longer appear in the consolidated financial statements for the year under review. CCC has conducted no business transactions for a considerable period and AUDI NSU FRANCE ceased its activities on December 31, 1974. In view of that company's liquidation it has not yet been possible to draw up final financial statements.

The companies mentioned below in which the Volkswagenwerk AG holds a direct or indirect investment of more than 50% were not included in the consolidated financial statements because the volume of business of these companies is immaterial in comparison to the consolidated balances and in some cases there was no business at all:

Auto Union G.m.b.H., Munich,
VW Automotive Industries, Caulfield/Australia,
VW Inmobiliaria, S.A. de C.V., Puebla/Pue.,
5 dealerships in the USA,
5 smaller foreign enterprises.

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.

Motor Producers Ltd. of Melbourne did not meet with success in negotiations with the object of cooperating with another undertaking. In consequence the company is again subject to the direct control of Volkswagenwerk AG and must again be regarded as a company within the VW Group. However, Motor Producers will not be included in the consolidation until the presentation of the report for the 1975 business year since there was insufficient time to arrange for its inclusion in the consolidated financial statements for the year under review.

Compliance with Standard German Practices of Accounting

The financial statements of the subsidiaries and affiliates which are consolidated have been prepared in accordance with the legal requirements and the accounting practices of the countries concerned. Where the individual financial statements were presented in a manner not in keeping with standard German practices of accounting as laid down in the German stock corporation law appropriate adjustments were made prior to consolidation. Where the values shown were at variance with German accounting principles, we have adjusted such items before consolidation wherever this was necessary. In particular the lower of cost or market method and 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, were observed. The cost of acquisition will continue to be taken as the upper limit.

Conversion Rate

In contrast to the practice hitherto we have for the first time converted the values for property, plant, equipment and investments shown in the financial statements of all foreign subsidiaries and affiliates at the average rates of exchange for the year of acquisition or production of the various items (former rates). Up to the present time this method has already been used for the financial statements of our Brazilian subsidiaries and affiliates which we have drawn up expressed in hard currency for the consolidation in addition to the financial statements in local currency. The conversion rate used for all other balance sheet items was an average of the buying and selling rates of exchange valid on the balance sheet date. Expenditures and income were converted at a rate which constituted an average for the year. An exception was made with regard to the ascertaining of the provision for depreciation of physical plant and the write-down of financial investments which have also been shown at their former values.

The differences of rates of exchange incurred by converting the financial statements of foreign subsidiaries and affiliates are shown as adjustment items arising from consolidation. In contrast to previous years the differences of rates of exchange have not affected the result in the 1974 business year. Where changes have taken place in the method of presentation the previous year's figures have been adjusted accordingly.

Method of Presentation

The consolidated balance sheet and the consolidated statement of earnings of the VW Group were drawn up in accordance with the requirements of German stock corporation law. The consolidated balance sheet shows in detail 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 capital stock included in the consolidated financial statements and this is equivalent to the investment percentage. The differences resulting therefrom in the preliminary stages were offset. The differences ascertained in the final stage of consolidation (direct investments of Volkswagenwerk AG) were shown on the assets side of the balance sheet between property, plant, equipment and investments and current assets or on the liabilities side under the consolidated reserves without being set off.

When determining the adjustment item arising from capital consolidation in respect of a nonprofit housing construction company this company's capital stock is shown at investment book value only. Thus we have taken due account of the legal restrictions placed on reserves of nonprofit companies in the consolidated financial statements. The reserves and the non-distributed part of the net earnings of this company have been included in consolidated undetermined liabilities.

Nature of Other Adjustment Items

The differences, resulting during the consolidation of the liabilities and in the main arising from the fact that loans granted within the Group have no longer been discounted to reflect present values, are shown as other adjustment items. These items are reduced by the eliminated gains made with regard to property, plant, equipment and investments and inventories. The elimination of the Group's gains in respect of property, plant, equipment and investments only involved the disposal of used plant and equipment within the Group in addition to the usual routine sales.

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 in the AUDI NSU AUTO UNION AG, were included under other adjustment items. The losses of the consolidated companies were shown accordingly. If dividends were distributed to the parent company in the report year these have been shown in the consolidated statement of earnings as transfers from other adjustment items. In consequence the loss shown in the consolidated financial statements is identical with that published in the Volkswagenwerk AG's financial statements. The sum total of these amounts was DM 13 million and this sum appears in the balance sheet.

Minority Interest in Consolidated Subsidiaries

Interest of minorities in the companies' capital stock, their reserves, earnings and losses is shown under minority interest in consolidated subsidiaries.

When ascertaining the minority interest in consolidated subsidiaries, in the case of financial statements of foreign

companies the individual financial statements which were brought into line according to the principles dictated by normal accounting practice in Germany and converted into D-Mark were taken as a basis. Exchange profits or losses incurred in the course of consolidation were per centually assigned to the minorities.

Statement of Earnings

Intercompany expenditures and income have been eliminated. Consolidated transactions which influence the net loss in the year under review were globally offset by transfers from other adjustment items.

Taxes, which have to be paid subsequently, on earnings within the Group by consolidated companies, are taken into account in the year of distribution.

Financial Position

In the year under review the financial position of the VW Group was very adversely affected by the unfavorable earnings situation. Investments increased to DM 1,883 million whilst the cash flow*) stood at no more than DM 618 million. Furthermore the increased inventories resulted in additional funds being tied down. The financial commitments of the VW Group left us no option but to make more use of borrowed funds.

The consolidated balance sheet for 1974 gives the following picture with regard to its structure as compared with that of the previous year:

	12/31/1974		12/31/1973	
	– Million DM –			
Assets				
Property, Plant, Equipment and Investments	6,899	51 %	6,251	48 %
Current Assets	6,597**)	49 %	6,745**)	52 %
	13,496**)	100 %	12,996**)	100 %
Liabilities				
Stockholders' Equity	3,258	24 %	4,008	31 %
Liabilities payable within:				
more than 4 years	2,428	18 %	1,740	13 %
1 to 4 years	1,100	8 %	912	7 %
1 year	6,710	50 %	6,336	49 %
	13,496**)	100 %	12,996**)	100 %

In the report year balance sheet totals increased by DM 500 million. In view of the increased investments the book value of property, plant, equipment and investments rose by DM 648 million to DM 6,899 million. The decrease of the current assets resulted mainly from a fall in liquid funds although inventories increased. This led to some change in the ratio of property, plant, equipment and investments (51%; 48% in 1973) and current assets (49%; 52% in 1973). On the liabilities side the stockholders' equity decreased, this was mainly due to the loss amounting to DM 750 million. The largest part of the increase in liabilities totalling DM 1,250 million was accounted for by DM 688 million in respect of long-term liabilities with medium-term liabilities accounting for DM 188 million and short-term liabilities increasing by DM 374 million. At year-end stockholders' equity and long-term liabilities covered property, plant, equipment and investments to 98.4% only as compared to 106.5% in 1973.

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

Net earnings/net loss
+ Provision for depreciation of physical plant and write-down of investments
- Write-ups and accumulation of discount
+ Decrease in property, plant, equipment and investments
+ 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

General situation regarding short-term liquidity	12/31/1974	12/31/1973*)	Change
	– Million DM –		
Liquid funds, trade acceptances**)	472	1,151	– 679
Securities, own stock	54	414	– 360
Short-term receivables and loans (advance payments not included)**)	1,888	1,342	+ 546
Short-term liabilities and undetermined liabilities (including liabilities in reserves for special purposes)***)	6,701	6,237	– 464
			<u>– 957</u>

In 1974 the change in the liquidity position resulted from the following (Million DM):

from current business

Net loss	– 807		
Provision for depreciation of physical plant and write-down of investments (net of accumulated discount and write-ups) and decrease in property, plant, equipment and investments	+ 1,260		
Increase in provision for old-age pensions	+ 157		
Increase of stockholders' equity in reserves for special purposes	+ 8		+ 618

from financing transactions

Dividend payment to stockholders of Volkswagenwerk AG and minorities in 1974	– 97		
Increase in long- and medium-term liabilities	+ 697		
Increase of stockholders' equity by transfer of liabilities in reserves for special purposes	+ 108		
Decrease in other items shown on the liabilities side	– 51		+ 657

from uses of funds

Increase in physical plant	– 1,846		
Increase in investments	– 37		
Long- and medium-term loans	+ 156		
Increase in adjustment items arising from capital consolidation and shown on the assets side	– 5		
Increase in inventories and advance payments**)	– 628		
Decrease in long- and medium-term receivables**)	+ 128		– 2,232

Change in the liquidity position

– 957

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

**) 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 breakdown shows that the bulk of the VW Group's assets is invested in Europe. The extent of our assets invested in Latin America clearly indicates the scope of activities of our subsidiaries in Mexico and Brazil.

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

	Europe	North America	Latin America	Africa	Consolidated Balance Sheet of the VW Group
	– Million DM –				
Property, Plant, Equipment and Investments					
Property, plant and equipment	4,719	245	1,201	98	6,263
Investments (including adjustment items arising from capital consolidation)	525	36	73	2	636
	5,244	281	1,274	100	6,899
Current Assets					
Inventories (including advance payments to suppliers)	1,982	979	999	157	4,117
Trade accounts receivable	1,198	201	389	166	1,954
Liquid funds	195	70	261	0	526
	3,375	1,250	1,649	323	6,899
Liabilities	6,976	1,241	1,731	290	10,238
Net Worth	1,643	290	1,192	133	3,258

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

Balance Sheet

Assets

In the year under review the book value of *Property, Plant, Equipment and Intangible Assets* increased by DM 566 million to DM 6,263 million.

Essentially, of the total amount invested in property, plant and equipment 56% pertain to Volkswagenwerk AG, 17% to Volkswagen do Brasil, 6% to Volkswagen Leasing, 6% to Volkswagen de Mexico and 5% to AUDI NSU AUTO UNION AG. The additions were mainly required to extend the product range. The deductions in respect of property, plant and equipment resulted in the main from scrapping and sale of used plant and equipment as well as from the grants made from public funds for additions of the previous year.

The original cost of property, plant and equipment is the purchase or the production cost. Regular depreciation on expendable equipment was basically carried out in accordance with the same principles as in the previous year. The Volkswagenwerk AG did, however, change over to a system of proportionate depreciation of additions in the year under review taking the period since acquisition as a basis. In addition depreciation on special tools acquired by Volkswagen de Mexico and on new models produced by Volkswagenwerk AG was not provided for on a proportionate time basis but was related to production. There were minor additional depreciations particularly in regard to domestic companies.

In the year under review the book value of *Investments* increased by DM 76 million. The *Investments in Subsidiaries and Affiliates* referred mainly to Volkswagenwerk AG's investments in the Svenska Volkswagen, the TAS Tvoronica Automobila Sarajevo and the Volkswagen of Nigeria as well as Volkswagen of America's investments in the VICO Corporation.

Deductions in respect of *Investments in Subsidiaries and Affiliates* resulted in the main from the sale of Volkswagenwerk AG's holdings in the VW-Porsche Vertriebsgesellschaft m.b.H., the inclusion of the Cia. Vale do Rio Cristalino in the consolidated financial statements and the repayment of sums loaned to dealer firms by Volkswagen of America in lieu of holdings.

Other Investment Securities consist mainly of securities acquired by the Brazilian subsidiaries and affiliates and of West German Government Bonds for the Promotion of Developing Countries which are held by Volkswagenwerk AG.

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

Other Investments consist almost exclusively of investments associated with tax benefits available for developing countries' investments (Volkswagen do Brasil) and of a compulsory loan (Volkswagen of South Africa).

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. 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.

As compared to the previous year, *Inventories* increased by 18.4% to DM 4,103 million. Whilst Volkswagenwerk AG was able to decrease its stocks its subsidiaries and affiliates generally showed an increase in inventories. Additional causes other than the increase in inventories caused by the extension of the product range were increased costs of materials and higher wages, with some part of this also having been due to slow-moving sales. In the USA stocks of vehicles increased mainly because of the low level of VW sales. In Brazil an increase in stocks of materials was effected as a precaution against difficulties which occurred in the past in regard to procuring materials.

In the year under review *Advance Payments to Suppliers* decreased by DM 10 million to DM 16 million.

Of the total *Trade Accounts Payable* which rose by DM 171 million to DM 490 million, DM 196 million pertain to domestic subsidiaries and affiliates and DM 294 million to foreign subsidiaries and affiliates. The Volkswagen do Brasil, the Volkswagenwerk AG, the Volkswagen of South Africa and the Volkswagen of America mainly accounted for the increase shown.

The increase in *Trade Acceptances* was mainly due to the expansion in Mexico of Volkswagen Comercial's financing activities. Trade acceptances pertain, for the most part, to notes receivable in connection with repayments due on financing contracts concluded by our Mexican financing company.

In the year under review *Cash in Banks* decreased by DM 714 million or 67.8% to DM 339 million. The decrease was mainly due to a reduction in such funds in Volkswagen of America and Volkswagenwerk AG.

During 1974, the portfolio of *Securities* shown under current assets decreased. This was primarily due to the sale of short-term Brazilian Government Bonds (Volkswagen do Brasil) and of securities held by Volkswagen de Mexico and Volkswagen of America.

Own Stock corresponded to the amount shown in the balance sheet of Volkswagenwerk AG.

Receivables from Subsidiaries and Affiliates were in the main from AUDI NSU FRANCE and Motor Producers.

Miscellaneous Other Current Assets were virtually unchanged at DM 1,297 million as compared to the previous year. This item consists mainly of claims of the financing companies resulting from financing of sales and items purchased and in respect of tax refunds.

Prepaid and Deferred Expenses pertain primarily to discounted long-term loans of Volkswagenwerk AG and VW-Siedlungsgesellschaft m.b.H. and deferred commissions of the Volkswagen Leasing G.m.b.H.

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* represent the differences between capital stock of the subsidiaries and affiliates included in the consolidated financial statements and the book values of investments of the parent company in consolidated companies. These items resulted mainly from the capital consolidation of Volkswagen do Brasil, Volkswagen de Mexico, Volkswagen of America and Volkswagen of South Africa.

The decrease in *Other Adjustment Items* was primarily due to the deterioration in the earnings situation of Volkswagen of America and Volkswagen de Mexico. These items also include adjustments during the consolidation, such as the differences arising during the consolidation from the write-up or write-down of interest-free housing construction loans granted by Volkswagenwerk AG, undetermined liabilities for risks inherent within the Group and gains in respect of supplies effected within the Group. The dividends distributed in the report year to the Volkswagenwerk AG especially by Volkswagen do Brasil and Wolfsburg Transportgesellschaft m. b. H. are shown as transfers from other adjustment items.

Minority Interest in Consolidated Subsidiaries represents in the main minority interest in the capital stock, reserves and earnings or losses of Volkswagen do Brasil, Volkswagen Bruxelles and AUDI NSU AUTO UNION AG. Minority interest in earnings resulted from two foreign subsidiaries of AUDI NSU, Volkswagen do Brasil, Volkswagen Bruxelles and Weser-Ems Vertriebsgesellschaft m.b.H. 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. Reserves for collective adjustments of value which are not recognized for tax purposes were shown for the first time by the domestic credit institutions.

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

Of the total *Undetermined Liabilities*

DM 976 million can be considered relating to long-term liabilities,

DM 518 million as medium-term liabilities, and DM 1,047 million are of a short-term nature.

Expenditures for *Old-Age Pensions* were based on the same computations as in prior years. Pension plan costs increased by DM 157 million as compared to the previous year.

Undetermined Liabilities for Maintenance not Performed which were insignificant pertain to the Volkswagenwerk AG and AUDI NSU AUTO UNION AG.

Provision was made mainly by AUDI NSU AUTO UNION AG, Volkswagen do Brasil and Volkswagenwerk AG for risks under *Undetermined Liabilities for Warranties without Legal Obligation*.

Other Undetermined Liabilities consist primarily of warranty and distribution costs, personnel costs and taxes.

In the year under review *Liabilities with an Initial Term of Four Years or Longer* increased by DM 757 million to DM 1,741 million. This increase is mainly due to the raising of long-term bank loans by the Volkswagenwerk AG.

57% of *Trade Accounts Payable* pertained to domestic subsidiaries and affiliates and 43% was due from foreign companies within the VW Group.

Liabilities resulting from the Acceptance of Bills Drawn and the Issuing of Promissory Notes were shown in the main in the financial statements of Volkswagen do Brasil and Volkswagen of South Africa.

The increase in liabilities *Due to Banks* was due to the increased demand for credit principally from the Volkswagenwerk AG and Volkswagen de Mexico.

Prepayments by Customers amounting to DM 69 million represent, mainly, advance payments received from the sales organizations.

Of the total *Miscellaneous Other Liabilities* 41% pertain to payroll accruals and 19% to 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 one foreign subsidiary or affiliated company.

Other contingent liabilities amounted to DM 122,000 in connection with the additional capital contribution to be made to cooperative associations and DM 200,000 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. Intercompany items have been excluded from the above details.

Statement of Earnings

In 1974, *Sales* of the VW Group amounted to DM 16,966 million. Of this total 83% pertain to vehicle sales, 82% for VW vehicles and 18% for Audi vehicles, 12% to parts sales and 5% to other sales.

The *Increase in Inventories* was particularly marked for Volkswagen do Brasil, Volkswagen de Mexico and Volkswagen of America and this was mainly due to a rise in their stocks.

Material, Wages and Overhead Capitalized as Additions to Plant and Equipment amounted to DM 411 million.

The *Gross Performance* decreased by DM 444 million to DM 17,711 million as compared to the previous year because increases in stocks were less than in 1973.

Expenditures for Raw Materials, Supplies and Other Materials increased by DM 218 million or 2.2% to DM 10,068 million. This rise was due to increased costs of materials, the increased number of vehicles produced by the foreign producing companies and the introduction of new models into production.

Income from Profit Assumption Agreements resulted from the transfer of a proportionate share of the 1974 profit of Deutsche Automobilgesellschaft m.b.H.

Income from Investments in Unconsolidated Subsidiaries and Affiliates was received in the form of dividends primarily from our distributing company in Sweden and a smaller domestic company.

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 held by Volkswagen do Brasil.

Gain on Disposal of Property, Plant, Equipment and Investments and Write-ups resulted in the main from the sale of property, plant and equipment belonging to Volkswagen of America and Volkswagen do Brasil and also from the sale 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 amounts required to cover warranty obligations and to lower requirements for taxes, pending law suits and personnel costs.

Other Income pertains, for the most part, to profits from foreign exchange transactions in respect of trade accounts, revenues from cafeteria sales, income from rents paid, income from tax refunds for previous years and revenues from rebilling of advertising material.

Despite the fact that the labor force was cut *Wages and Salaries* increased by DM 336 million or 7.4% to DM 4,872 million because of new wage and salary agreements.

The same reasons caused the rise in *Social Expenditures – Compulsory* by DM 65 million or 11.1% to DM 644 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 previous year's trend, in which the personnel costs increased much more than the sales proceeds and expenditure on materials, continued unchanged. In consequence the ratio of total personnel costs to gross performance increased from 29.2% in 1973 to 32.3% in the report year.

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

The rise in *Interest Expense and Similar Charges* by DM 225 million to DM 466 million resulted mainly from the increase in bank loans. Interest expense pertained, for the most part, to Volkswagen of America, Volkswagenwerk AG, Volkswagen do Brasil and Volkswagen de Mexico.

On account of the deterioration in the earnings situation *Taxes on Income, Earnings and Property* decreased by DM 191 million to DM 241 million. These taxes almost entirely incurred during the year under review.

The increase in *Other Taxes* resulted in the main from taxes paid on sales and assembly by Volkswagen de Mexico.

Additions to Reserves for Special Purposes were from Volkswagenwerk AG and AUDI NSU AUTO UNION AG as well as from the two domestic credit institutions of the VW Group.

Other Expenses consisted mainly of costs of repair and maintenance of property, plant and equipment, advertising and sales promotion costs, shipping costs, rent and insurance costs. Also included are losses resulting from foreign exchange transactions in respect of trade accounts and consolidation of payments outstanding and foreign exchange differences resulting from the varying conversion rates applied to expenditures and income and the results.

The *Net Loss* amounting to DM 807 million resulted primarily from the deterioration in the earnings situation of Volkswagenwerk AG, Volkswagen of America and Volkswagen de Mexico.

Comments on the Financial Statements of Volkswagenwerk AG

Balance Sheet

Assets

In the year under review the additions to *Property, Plant and Equipment* amounted to DM 1,026 million. The DM 384 million increase in investments as compared to the previous year was called for by the introduction of new models. The additions to land, buildings, machinery and equipment, including transfers from construction in progress and advance payments to vendors and contractors, amounted to DM 1,032 million. At year-end the original cost of property, plant and equipment increased to DM 9,222 million.

The original cost of property, plant and equipment is the purchase or the production cost plus the use tax in accordance with section 30 of UStG (investment tax) new text. This tax has to be capitalized under the Stabilization Program of the Federal Government. Production costs consist of direct material, direct labor and the appropriate amount of allocated overhead, including depreciation as required by existing tax laws. Administrative expenses are not included.

Grants made from public funds for additional investments for the prior year reduced the purchase or production cost. They have been shown in the balance sheet as decrease in property, plant and equipment. Advance payments to vendors and contractors were listed with the amounts disbursed.

Regular depreciation on plant and equipment was provided for using the straight-line method and, to the extent permissible for tax purposes, using the declining-balance method (which will be converted to the straight-line method in the future). We have not given up using the declining-balance method in our trade balance although the tax law enacted to stimulate the economy would allow us to do so. The special tools and equipment for the new models included in the production program in 1974 have been depreciated with rates per unit calculated on the expected total number of vehicles produced whereas the tools and equipment for the hitherto manufactured models will continue to be depreciated with the proportional rate.

The following summary shows details of the regular and additional depreciation provision on additions during 1974:

	Real estate and land rights			Buildings on leased real estate	Machinery and fixtures	Plant and office equipment
	with office, factory and other buildings	with residential buildings	without buildings			
Additions during 1974*)	70,683	68	272	73	494,544	439,926
Depreciations on additions during 1974	3,345	—	80**)	3	34,710	70,150

*) 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)

**) Tax benefits under section 6b EStG in respect of additions to real estate purchased in lieu of sites sold

Additions during the report year have been depreciated in accordance with the straight-line and declining-balance method and only the proportional annual rate has been applied. Depreciation on the use tax was based on the estimated useful life of the asset. Grants made from public funds for additional investments up to and including 1970 were distributed over the estimated useful life of plant and equipment. The subsidies granted in respect of additions after that time will be accounted for over a period of three years as reductive expense. As in prior years, miscellaneous low value items were written off in the year of acquisition.

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

Buildings	mainly 30–50 years
Buildings used for research and development and land improvements	mainly 10–18 years
Production machinery and power producing machinery	mainly 7–14 years
Plant and office equipment	mainly 3– 8 years

There were minor additional depreciations under sections 6 b EStG, 79, 82, 82 d EStDV as well as sub-section 35 EStR and also on plant and equipment held in reserve but no longer used.

Under the caption *Investments*, the book value of *Investments in Subsidiaries and Affiliates* increased by DM 154 million. The additions of DM 161 million consisted of:

DM 98 million increase of capital stock of Volkswagen of America, Inc.;

DM 25 million increase of capital stock and purchase of additional stock of Volkswagen of South Africa (PTY) Ltd.;

DM 24 million contribution to the increased capital stock of Volkswagen do Brasil S. A.;

DM 8 million purchase of additional stock of Volkswagen Bruxelles S. A.;

DM 4 million contribution in accordance with the decision taken by Volkswagen France S. A. in 1973 to increase its capital stock.

The balance of DM 2 million represented the purchase of additional stock of AUDI NSU AUTO UNION AG as well as the contribution to the capital stock of Volkswagen de Mexico, S. A. de C. V. and TAS Tvoronica Automobila Sarajevo.

The deductions of DM 7 million resulted from the sale of our interest in VW-Porsche Vertriebsgesellschaft m.b.H., Volkswagen Porsche Austria Ges. m.b.H. & Co. KG and Volkswagen Porsche Austria Ges. m.b.H.

In order to cover risks inherent in these investments the practice of making write-downs and adjustments of value as in prior years was continued.

Other Investment Securities consist of 5% West German Government Bonds for the Promotion of Developing Countries. The eighth repayment on the bonds amounting to DM 2.5 million, was received in 1974. 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 1974, *Long-term Loans with an Initial Term of Four Years or Longer* amounted to DM 448 million. These loans were granted primarily for housing construction. Interest-free and low interest-bearing loans have been discounted to reflect present values. The discounting effected during 1974 is shown under the item "Write-downs". All other loans have been accounted for in the balance sheet at face value. Of the loan made in accordance with section 89 of AktG DM 9,860,298 represent loans to an unaffiliated non-profit housing construction company, located in Wolfsburg, in which Volkswagenwerk AG holds a minority interest.

The book value of *Inventories* decreased by DM 27 million to DM 1,428 million as compared to the previous year. This decrease was due to the reduction in the quantity of finished products conditioned by the reduction of the stocks of built-up vehicles. To a larger extent this decrease was compensated for by an increase in the quantities of raw materials and supplies and work in progress resulting from the expansion of the product range and increases in wages and cost of materials.

Raw materials and supplies were valued at current average purchase costs or lower replacement costs. Work in progress inventories and finished products were valued using production costs which consisted of the average purchase cost of raw materials, direct labor and the production overheads which must be capitalized in accordance with existing tax regulations. Goods purchased for resale were valued on the same basis as raw materials and supplies. Recognizable risks have been accounted for by write-downs. Imported goods were written down to the extent permitted for tax purposes.

Trade Accounts Receivable showed an increase particularly as far as those due from customers in foreign countries are concerned. Of the total, DM 97 million were due from customers abroad and DM 28 million were due from customers located in the Federal Republic of Germany. Subsequent December 31, 1974, nearly 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 adjusted to the price quoted on December 31, 1974 and which 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 Profit and Loss Assumption Agreement concluded with the Wolfsburger Transportgesellschaft in 1974. 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 to a large extent of the cash surrender value of old-age insurance and sales tax refunds. The decrease as compared to the previous year was mainly due to lower repayments on the part of the tax authorities. 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, 1974.

After the elimination of reserves as required by law the increase in *Reserves for Special Purposes* pertains to the increase in the reserve for price increases.

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

The increase in *Undetermined Liabilities* is mainly attributable to pension plan costs, which were based on actuarial computations in accordance with the tax laws in force up to the end of 1974, personnel costs, obligations for pending law suits and taxes.

Undetermined liabilities of DM 2 million for maintenance work which could not be performed in 1974 were established at the end of 1974. Undetermined liabilities as shown in the previous year were used for maintenance work performed during the year under review.

Other Undetermined Liabilities mainly consist of undetermined liabilities in respect of distribution costs and personnel costs.

Liabilities with an Initial Term of Four Years or Longer have been increased on account of the raising of long-term loans. A loan shown in the previous year's balance sheet was repaid prior to maturity in the report year. The discount deducted on the granting of a loan has been shown on the assets side of the balance sheet under "Prepaid and Deferred Expenses". This item will be written down in relation to the interest involved during the term of the loans.

The decrease in *Trade Accounts Payable* is mainly due to the closure of the factory at the end of the year.

The increase in the liabilities *Due to Banks* is a reflection of our need for additional credit.

Accounts Payable to Subsidiaries and Affiliates decreased because lower advance payments were received from foreign subsidiaries.

Miscellaneous Other Liabilities pertain mainly to payroll accruals and a low interest rate loan on an investment project.

Additional details:

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 200,000 in connection

with a business transaction abroad. These sums are in addition to the *Contingent Liability with respect to Discounted Trade Acceptances and Guaranty Obligations* shown on the balance sheet.

Compensation to the Board of Management for the year 1974 amounted to DM 3,713,934. Pension payments to retired members of the Board of Management or their beneficiaries amounted to DM 2,652,553.

Compensation paid to members of the Supervisory Board of Directors was DM 310,004.

Statement of Earnings

In 1974, *Sales* amounted to DM 11,219 million and showed a decrease of DM 344 million compared with the previous year. This was mainly due to the decline in sales abroad (see page 22). Whilst domestic sales were approximately on the same level as in the previous year export sales declined by 5%. 80% of total sales were in respect of vehicles and 9% represented parts sales.

Expenditures for *Raw Materials, Supplies and Other Materials* were below those of the prior year to an extent of DM 126 million or 1.9%. The decline in expenditures for raw materials which was due to the reduced number of vehicles produced did not appear to be as great as it should be because this decrease was compensated for by considerably increased costs of materials.

Income from Profit Assumption Agreements resulted from the transfer of the domestic subsidiaries Wolfsburg Transportgesellschaft m.b.H., Volkswagen Leasing G.m.b.H., Deutsche Automobilgesellschaft m.b.H. and interRent Autovermietung G.m.b.H. In 1974, Profit Assumption Agreements were concluded with Wolfsburg Transportgesellschaft m.b.H. and interRent Autovermietung G.m.b.H.

Income from Investments in Subsidiaries and Affiliates was primarily received in the form of distribution of dividends for 1973 from Volkswagen do Brasil and Wolfsburg Transportgesellschaft m.b.H.

At year-end, DM 16 million of *Income from Other Financial Investments* represented interest on loans granted whereas DM 5 million of this income resulted from amortization of discount on long-term loans previously discounted to reflect present values.

Other Interest and Similar Income consisted mainly of income from overdrafts granted.

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

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

Other Income consisted, for the most part, of revenues from billing of services and from auxiliary services, foreign exchange profits on accounts payable transactions and warranty costs rebilled to suppliers.

Expenditures for *Wages and Salaries* and *Social Expenditures - Compulsory* increased in accordance with the raising of the wage tariffs despite personnel reductions and short time working (see "Labor Force" section of this report on page 22).

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

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

The amount required for *Taxes on Income, Earnings and Property* was lower than in the previous year since no trade profit tax had to be paid and only a small amount of corporation tax was due on dividends in view of the current earnings situation. The main items making up the sum shown are in respect of payroll tax, taxes payable abroad (withholding tax), property tax and trade capital tax.

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.

In 1974 the difference resulting from the change in valuation methods and from additional depreciation and which must be reported in accordance with section 160, para. 2, sentence 5 of AktG amounted to DM 95,520,753. This sum, which reduces the net loss, was assessed without taking the effects of taxation into account because a loss must also be shown in the 1974 tax balance sheet.



Statement of Earnings of Volkswagenwerk AG

Year ended December 31, 1974

	1974		1973		1974		1973
	DM	DM	Thousand DM		DM	DM	Thousand DM
Sales (excluding sales tax)	11,218,624,055		11,563,337				
Decrease/Increase in inventories	- 78,248,088		263,918				
Material, wages and overhead capitalized as additions to plant and equipment		11,140,375,967	11,827,255				
		203,662,723	164,359				
Gross Performance		11,344,038,690	11,991,614				
Expenditures for raw materials, supplies and other materials		6,599,405,310	6,725,278				
Excess of Gross Performance over Expenditures for Raw Materials, etc.		4,744,633,380	5,266,336				
Income from profit assumption agreements	62,198,259		30,392				
Income from investments in subsidiaries and affiliates	88,363,252		73,914				
Income from other financial investments	20,835,779		20,055				
Other interest and similar income	25,737,739		110,693				
Gain on disposal of property, plant, equipment and investments	34,379,526		12,071				
Reduction of allowance for doubtful trade acceptances and accounts	—		1,379				
Elimination of reserves for undetermined liabilities no longer required	145,603,642		48,999				
Elimination of reserves for special purposes no longer required	10,223,990		45				
Other income	240,862,345		209,959				
including extraordinary income of	DM 17,772,172						
		628,204,532	507,507				
		5,372,837,912	5,773,843				
Wages and salaries	3,374,660,867		3,166,126				
Social expenditures — compulsory	407,935,813		392,702				
Pension expenditures and voluntary payments	157,481,550		140,314				
Provision for depreciation of physical plant	600,554,653		564,399				
Write-down of financial investments	3,972,493		38,689				
Write-down of other current assets and provision for doubtful trade acceptances and accounts	16,677,726		13,078				
Loss on disposal of property, plant, equipment and investments	4,511,537		2,614				
Interest expense and similar charges	90,902,429		75,808				
Taxes							
a) on income, earnings and property	DM 185,720,094		279,461				
b) other	DM 3,202,284		2,717				
		188,922,378	282,178				
Share-the-Burden Property Levy	2,756,085		2,756				
Expenditures under loss assumption agreements	7,590,392		7,841				
Additions to reserves for special purposes	16,108,604		45,677				
Other expenses	1,056,078,452		932,322				
		5,928,152,979	5,664,504				
Net Loss current year (1973 Net Earnings)		555,315,067	109,339				
Balance carried forward		555,315,067	109,339				
				Net earnings brought forward from previous year	Balance brought forward		
						555,315,067	109,339
						2,379,863	3,545
						552,935,204	112,884
				Transfer from the reserve for the Share-the-Burden Property Levy		2,235,874	2,140
						550,699,330	115,024
				Transfer to other reserves from net earnings		—	33,000
				Loss (1973 Net Earnings after Reserve Transfers)		550,699,330	82,024
				During 1974 pension payments amounted to DM 18,408,524; payments during the next five years will approximate 141, 153, 169, 183, 199 % of this amount			

Wolfsburg, April 1975

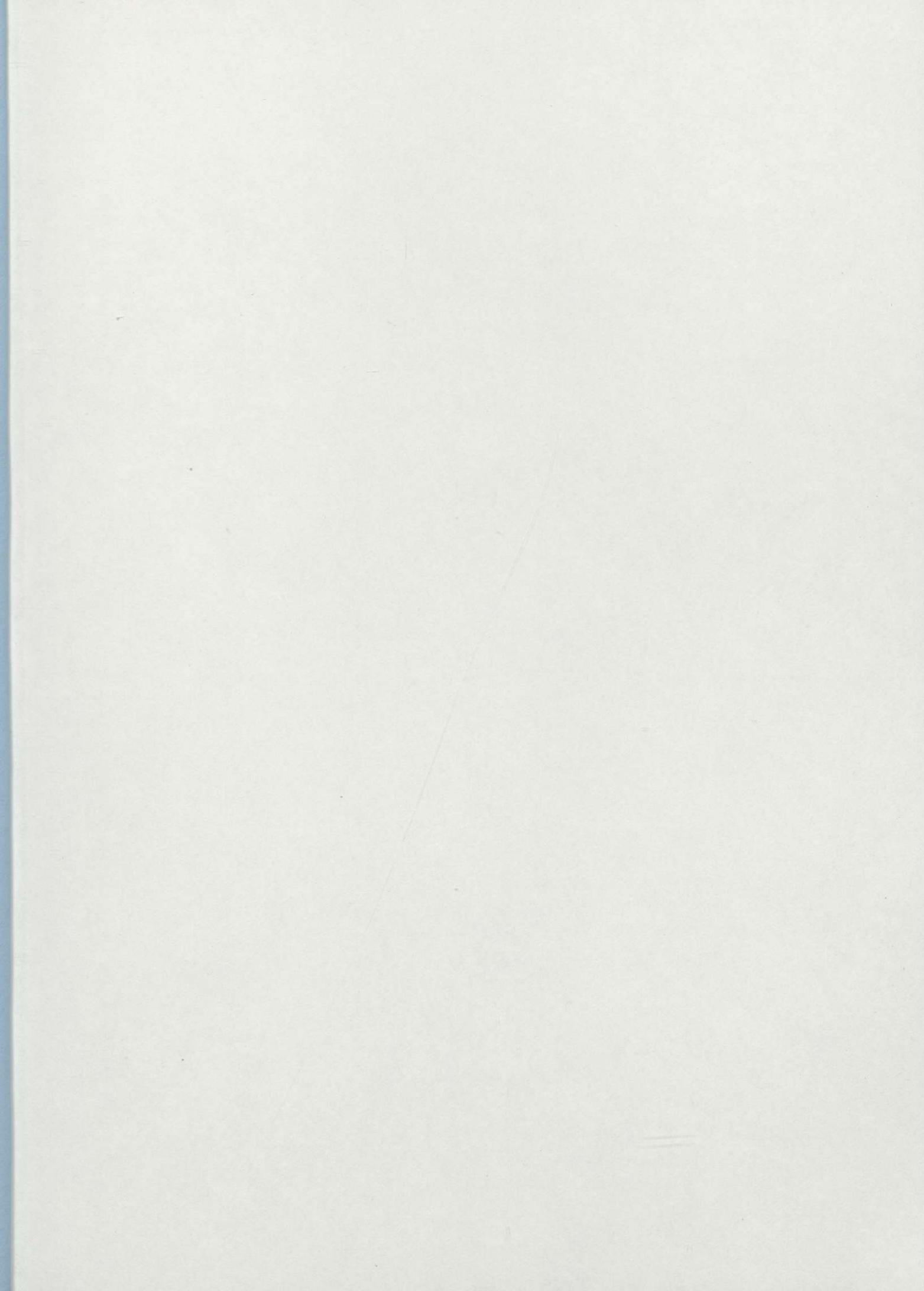
Volkswagenwerk Aktiengesellschaft

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 15, 1975

TREUARBEIT**Aktiengesellschaft****Wirtschaftsprüfungsgesellschaft****Steuerberatungsgesellschaft**Prof. Dr. Forster
WirtschaftsprüferDr. Tubbesing
Wirtschaftsprüfer



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