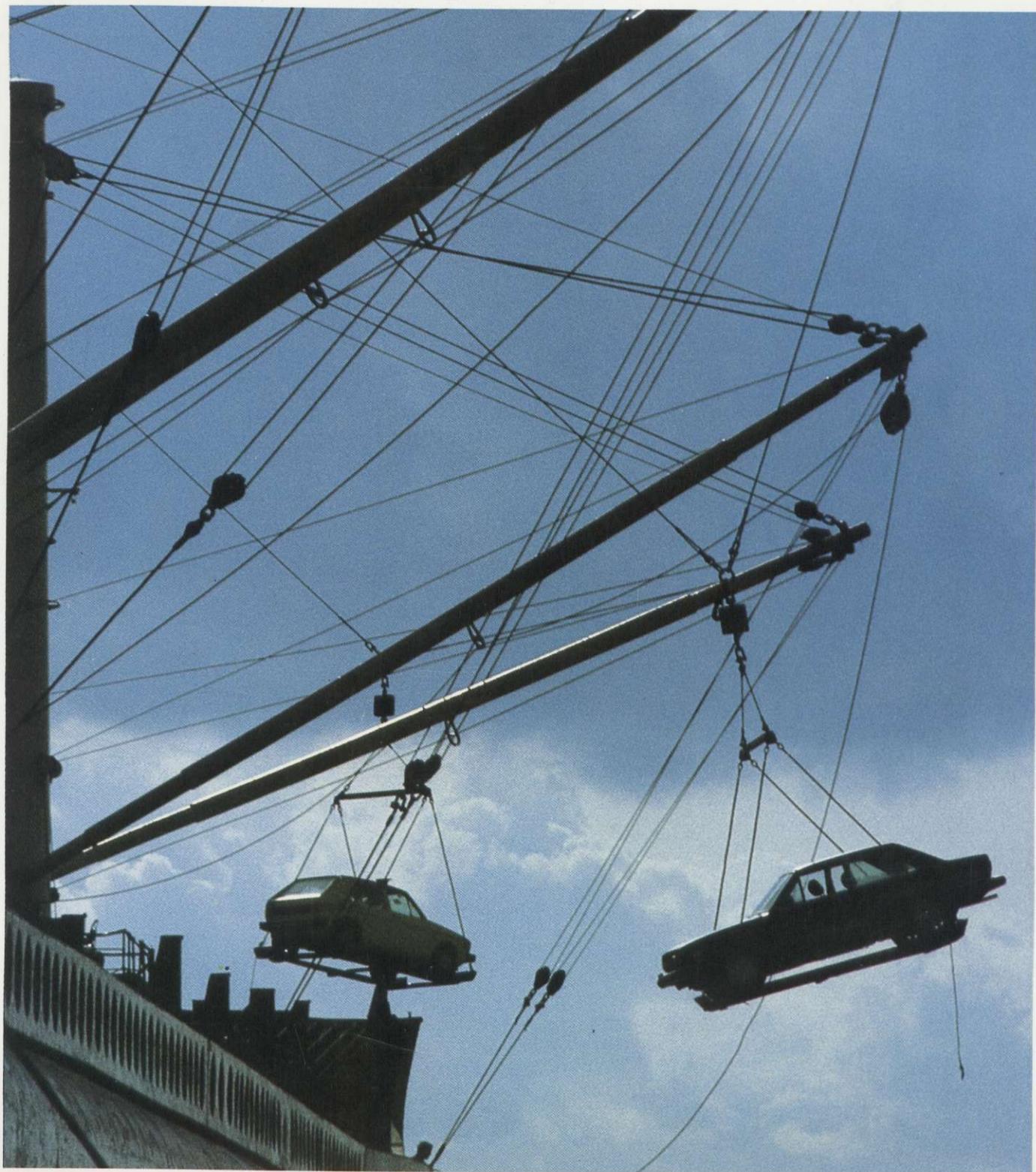




**Report
for the Year 1977
Volkswagenwerk
Aktiengesellschaft
Wolfsburg**



The Supervisory Board of Directors
and the Board of Management of
Volkswagenwerk Aktiengesellschaft
present the Report for the Year 1977
with their compliments.

Wolfsburg, April 1978

VW Group		1977	1976	Increase	%*)
Sales including German and foreign sales tax	in million DM	26,373	23,600	2,773	11.7
Sales excluding sales tax	in million DM	24,152	21,423	2,729	12.7
Sales	number of vehicles	2,239,631	2,142,087	97,544	4.6
Production	number of vehicles	2,218,880	2,165,627	53,253	2.5
Labor Force	at year-end	191,891	183,238	8,653	4.7
Capital Investments	in million DM	1,697	1,141	556	48.7
Depreciation	in million DM	1,600	1,263	337	26.7
Cost of Materials	in million DM	12,746	11,598	1,148	9.9
Labor Cost	in million DM	6,810	6,413	397	6.2
Net Earnings	in million DM	419**)	1,004		

*) Based on precise figures

**) Not comparable with previous year because of loss brought forward in 1976

Comparative Summary of Selected Data of the VW Group 1971 - 1977



	1977	1976	1975	1974	1973	1972	1971
Sales (Million DM)	24,152	21,423	18,857	16,966	16,982	15,996	16,473
Increase (Decrease) as compared to prior year in %	13	14	11	0	6	(3)	9
Domestic sales	9,714	8,068	6,552	5,161	5,364	5,035	5,135
Export sales	14,438	13,355	12,305	11,805	11,618	10,961	11,338
Export of domestic subsidiaries	9,914	8,744	7,142	8,547	8,965	7,718	8,210
Sales of foreign subsidiaries excluding deliveries of domestic Group companies	5,634	5,570	5,798	3,826	3,063	3,539	3,430
Sales (Thousand vehicles)	2,240	2,142	2,038	2,052	2,281	2,197	2,317
Increase (Decrease) as compared to prior year in %	5	5	(1)	(10)	4	(5)	5
In Germany	811	726	626	548	619	628	694
Abroad	1,429	1,416	1,412	1,504	1,662	1,569	1,623
Production (Thousand vehicles)	2,219	2,166	1,949	2,068	2,335	2,193	2,354
Increase (Decrease) as compared to prior year in %	2	11	(6)	(11)	7	(7)	6
In Germany	1,561	1,436	1,229	1,359	1,720	1,673	1,867
Abroad	658	730	720	709	615	520	487
Labor Force at year-end (Thousand employees)	192	183	177	204	215	192	202
Increase (Decrease) as compared to prior year in %	5	4	(13)	(5)	12	(5)	6
In Germany	133	124	118	142	161	149	160
Abroad	59	59	59	62	54	43	42
Capital Investments (Million DM)	1,697	1,141	941	1,902	1,556	1,573	1,947
Increase (Decrease) as compared to prior year in %	49	21	(51)	22	(1)	(19)	18
In Germany	969	657	594	1,313	928	1,183	1,545
Abroad	728	484	347	589	628	390	402

*) Decreased by the amounts shown under liabilities as allowance for doubtful trade acceptances and accounts
 **) Including stockholders' equity in reserves for special purposes; in previous years including that portion of VW Group's net earnings after reserve transfers or in 1974 and 1975 of the loss of Volkswagenwerk AG

Balance Sheet (Structure) December 31	1977	1976	1975	1974	1973	1972	1971
	- Million DM -						
Assets							
Property, plant and equipment	5,425	5,474	5,810	6,263	5,697	5,261	4,905
Investments	530	560	524	636	554	585	584
Property, Plant, Equipment and Investments	5,955	6,034	6,334	6,899	6,251	5,846	5,489
Inventories and advance payments to suppliers*)	3,180	3,267	2,949	4,117	3,489	2,338	2,514
Receivables and the like*)	1,992	2,098	2,019	1,954	1,691	1,584	1,394
Liquid funds, trade acceptances*)	3,837	2,888	1,619	472	1,151	1,038	445
Securities, own stock	560	173	48	54	414	354	313
Current Assets	9,569	8,426	6,635	6,597	6,745	5,314	4,666
Total Assets	15,524	14,460	12,969	13,496	12,996	11,160	10,155
Liabilities							
Capital stock	900	900	900	900	900	900	900
Reserves of the VW Group**)	3,161	2,903	2,032	2,170	2,878	2,677	2,627
Minority interest in consolidated subsidiaries***)	199	198	186	188	230	209	189
Stockholders' Equity	4,260	4,001	3,118	3,258	4,008	3,786	3,716
Undetermined liabilities in respect of old-age pensions	2,048	1,754	1,143	1,035	878	730	630
Other undetermined liabilities****)	2,600	2,109	1,740	1,507	1,623	1,604	1,596
Undetermined Liabilities	4,648	3,863	2,883	2,542	2,501	2,334	2,226
Liabilities payable within more than 4 years	1,450	1,322	1,595	1,452	852	884	413
1 to 4 years	1,032	952	666	581	448	366	268
1 year	3,955	4,220	4,705	5,654	5,089	3,694	3,442
Liabilities	6,437	6,494	6,966	7,687	6,389	4,944	4,123
For disposition by annual meeting of stockholders or distribution as dividend (VW AG)	173	90	—	—	81	81	81
Minority interest in earnings to be distributed	6	12	2	9	17	15	9
Outside Capital	11,264	10,459	9,851	10,238	8,988	7,374	6,439
Total Capital	15,524	14,460	12,969	13,496	12,996	11,160	10,155
Statement of Earnings (Condensed) Year ended December 31							
Gross performance	24,503	22,029	18,351	17,711	18,155	16,250	17,089
Cost of materials	12,746	11,598	10,066	10,068	9,850	9,098	9,891
Labor cost	6,810	6,413	5,550	5,718	5,309	4,463	4,416
Depreciation and write-down	1,600	1,263	1,246	1,148	1,056	992	912
Taxes	1,503	486	404	305	483	600	452
on income, earnings and property	1,454	438	347	241	432	562	418
Sundry expenses less sundry income	1,425	1,265	1,242	1,279	1,127	891	1,271
Net earnings (net loss)	419	1,004*****)	(157)	(807)	330	206	147
Increase (Decrease) in reserves	248	211	(14)	(262)	235	110	54
Dividend and bonus of Volkswagenwerk AG	144	90	—	—	81	81	81

***) Excluding share in net earnings
 ****) Including outside capital in reserves for special purposes
 *****) Not comparable with previous years and 1977 because of loss brought forward

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In Memory of Those
Who Have
Left Our Midst

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Group	2017	2016	2015
Revenue	277,3	265,0	272,1
Operating Profit	27,2	24,2	24,7
Operating Profit before taxes	44,7	39,2	39,2
Operating Profit after taxes	27,2	24,2	24,7
Operating Profit before taxes and financial income	53,5	47,2	47,2
Operating Profit after taxes and financial income	27,2	24,2	24,7
Operating Profit before taxes and financial income and other income	53,5	47,2	47,2
Operating Profit after taxes and financial income and other income	27,2	24,2	24,7
Operating Profit before taxes and financial income and other income and other income	53,5	47,2	47,2
Operating Profit after taxes and financial income and other income and other income	27,2	24,2	24,7
Operating Profit before taxes and financial income and other income and other income and other income	53,5	47,2	47,2
Operating Profit after taxes and financial income and other income and other income and other income	27,2	24,2	24,7

1. Resolution of the Board of Directors regarding the distribution of the 1977 net earnings. The balance sheet as of December 31, 1977, shows net earnings of 1,877,000 DM. The Board proposes to distribute this amount in the following manner:

2. Resolution regarding the distribution of the 1977 net earnings. The balance sheet as of December 31, 1977, shows net earnings of 1,877,000 DM. The Board proposes to distribute this amount in the following manner:

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12. Resolution regarding the distribution of the 1977 net earnings. The balance sheet as of December 31, 1977, shows net earnings of 1,877,000 DM. The Board proposes to distribute this amount in the following manner:

In Memory of Those Who Have Left Our Midst

Agenda

for the
Annual Meeting of Stockholders
of
Volkswagenwerk
Aktiengesellschaft
to be held at 10:00 A. M. on Tues-
day, July 4, 1978 at the Stadthalle
in Wolfsburg

1. Presentation of audited financial statements, the report of the Board of Management for 1977, together with the report of the Supervisory Board of Directors, the recommendations with respect to disposition of the current year's net earnings shown in the statement of earnings, the consolidated financial statements of the VW Group and related comments for the year 1977
2. Resolution with respect to disposition of the net earnings for the year shown on the balance sheet

The Board of Management and the Supervisory Board of Directors propose to distribute to the stockholders the amount of DM 144,000,000 out of net earnings for the year of DM 173,096,030. This represents a dividend of DM 7.— and a bonus of DM 1.— on DM 50.— par value of capital stock. In addition, it is proposed to transfer DM 20,000,000 to reserves and to reserve DM 9,092,510 for payment of additional taxes that will be payable upon approval of the proposal made by the Board of Management and the Supervisory Board of Directors with respect to the distribution of 1977 net earnings. The balance and also the sum, which should have been distributed in respect of those shares held by the Company on the day of the annual meeting of stockholders and which in accordance with section 71, para. 6 of AktG cannot be distributed, will be carried forward.

in memory of those
who have
left our midst

3. Resolution with respect to the increase of capital stock

The Board of Management and the Supervisory Board of Directors make the following proposals:

- a) The capital stock of the Company will be increased by DM 300 million to DM 1,200 million by issuing new bearer shares of a par value of DM 50.- each which will be entitled to dividend distribution from July 1, 1978.

The new shares will be taken over at par value by a group of banks on the undertaking that they are offered to the stockholders at a rate of 3:1 and at the issue price of DM 150.- per DM 50.- par value each. In accordance with the agreement concluded with the Company the group of banks is obliged to remit the difference between the takeover price and the issue price to the Company.

- b) Section 4, para. 1 of the charter will be amended as follows:

'The capital stock of the Company shall consist of DM 1,200 (in words: one-thousandtwohundred) million and shall be divided into six million shares of a par value of one hundred Deutsche Marks each and twelve million shares of a par value of fifty Deutsche Marks each.'

- 4. Resolution with respect to discharge of responsibility of the Board of Management for the year 1977

- 5. Resolution with respect to discharge of responsibility of the Supervisory Board of Directors for the year 1977

With respect to items 4 and 5, the Board of Management and the Supervisory Board of Directors propose to be discharged of responsibility.

- 6. Appointment of auditors for the year 1978

The Supervisory Board of Directors proposes to appoint the TREUARBEIT Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft – Steuerberatungsgesellschaft, Hanover, as auditors for the year 1978.

Supervisory Board of Directors (Aufsichtsrat)

Hans Birnbaum, 66, Salzgitter
Chairman
Chairman of the Board of
Management of Salzgitter AG

Eugen Loderer, 57, Frankfurt
Deputy Chairman
Chairman of the Metal Worker
Trade Union

Rudolf Blank, 44, Wolfsburg
since July 6, 1977, Deputy
Chairman of the VW Group's
Factory Council in Germany

Dr. jur. F. Wilhelm Christians, 55
Düsseldorf
Member of the Board of Manage-
ment of Deutsche Bank AG

Siegfried Ehlers, 53, Wolfsburg
Chairman of the VW Group's
Factory Council in Germany

Albert Hoffmeister, 49, Wolfsburg
since July 6, 1977, Senior Execu-
tive of the Volkswagenwerk AG

Hans-Günter Hoppe, 55, Berlin
Former Member of the Berlin
Senate

Walther Leisler Kiep, 52, Hanover
Minister for Finance of Lower
Saxony

Gerd Kühn, 55, Frankfurt
since July 6, 1977, Trade
Union Secretary to the Manage-
ment of the Metal Worker
Trade Union

Erich Küpker, 45, Hanover
Minister for Economics and
Transport of Lower Saxony

Manfred Lahnstein, 40, Bonn
since August 1, 1977, Secretary
in the Federal Ministry of Finance

Walter Martius, 58, Velbert-Langenberg
since July 6, 1977, Business
Consultant

Hans L. Merkle, 65, Gerlingen-
Schillerhöhe
Chairman of the Management
of Robert Bosch GmbH

Karl Heinrich Mihr, 42, Kassel
Chairman of the Volkswagenwerk
AG's Factory Council repre-
senting the Kassel Plant

Gerhard Mogwitz, 44, Hanover
since July 6, 1977, Chairman
of the Volkswagenwerk AG's
Factory Council representing
the Hanover Plant

Walter Neuert, 52, Ingolstadt
since July 6, 1977, Chairman
of the Joint Factory Council
of AUDI NSU AUTO UNION AG

Karl Gustaf Ratjen, 58, Frankfurt
Chairman of the Board of
Management of Metallgesell-
schaft AG

Dr. rer. pol. Otto Schlecht, 52
Bonn-Duisdorf
Secretary in the Federal Ministry
of Economics

Kurt Ernst Schmiedl, 53, Emden
Chairman of the Volkswagenwerk
AG's Factory Council repre-
senting the Emden Plant

Dr. rer. pol. Albert Schunk, 36
Frankfurt
since July 6, 1977, Trade
Union Secretary to the Manage-
ment of the Metal Worker
Trade Union

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

Walter Haefner, Zürich
Switzerland
with effect from July 6, 1977
Businessman

Dr. phil. h. c. Walter Hesselbach
Frankfurt
with effect from June 30, 1977
Chairman of the Board of
Management of Bank für
Gemeinwirtschaft AG

Heinz Hilbich, Wolfsburg
with effect from July 6, 1977
Employee of the Volkswagen-
werk AG

Adolf Kracht, Hanover
with effect from July 6, 1977
Chairman of the Board of
Management of Norddeutsche
Landesbank Girozentrale

Karl Otto Pöhl, Bonn
with effect from August 1, 1977
Vice President of the German
Federal Bank

Dr. rer. pol. h. c. Ludwig Poullain
Münster
with effect from July 6, 1977
Chairman of the Board of
Management of Westdeutsche
Landesbank Girozentrale

Dr. jur. Horst Rheinfels
Cologne-Ehrenfeld
with effect from July 6, 1977

Erich Schilling, Ingolstadt
with effect from July 6, 1977
Deputy Chairman of the AUDI
NSU AUTO UNION AG's
Factory Council representing
the Ingolstadt Plant

Josef Schuster, Wolfsburg
with effect from July 6, 1977
Member of the Volkswagenwerk
AG's Factory Council repre-
senting the Wolfsburg Plant

Report of the Supervisory Board of Directors

Board of Management (Vorstand)

- Toni Schmücker, 56
Chairman of the Board of
Management
- Prof. Dr. techn. Ernst Fiala, 49
Research and Development
- Dr. jur. Peter Frerk, 47
Personnel and Social Matters
(Labor Director)
- Günter Hartwich, 42
Production
- Horst Münzner, 53
Purchasing and Material Adminis-
tration
- Dr. rer. pol. Werner P. Schmidt, 45
Sales
- Gottlieb M. Strobl, 61
AUDI NSU AUTO UNION AG
- Prof. Dr. rer. pol. Friedrich Thomée, 57
Finance and Business Adminis-
tration

Due to the reorganization of the
Supervisory Board of Directors
the following members resigned:

Walter Wagner, Dr. Walter Hessel-
bach, Heinz Hillich, Adolf Knecht,
Dr. Ludwig Pustian, Dr. Horst
Hirsinger, Eberhard Schilling and
Josef Schuster

Resigned from the Board of Management:

Horst Backsmann
Public Relations, Questions
of National Economy, Legal
Matters and Auditing, with
effect from Dec. 31, 1977

On August 1, 1977 the Federal
German Government designated
Mr. Moritz Lehmann, Secretary
of the Federal Ministry of Finance
to replace Mr. Karl Otto Blot,
Vice President of the German
Federal Bank, as a member of
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 services
rendered and for their valuable
counsel.

Mr. Horst Backsmann has been
appointed President of the
Automobile Industry Association
and resigned from the Board of
Management on December 31,
1977. The Supervisory Board
of Directors would like to express
its appreciation to Mr. Backsmann
for the many years of valuable
service.

Wolfsburg, April 9, 1978



Chairman of the Supervisory
Board of Directors

Supervisory Board of Directors (Aufsichtsrat)

Board of Management (Vorstand)

Hans Beckhaus, 55, Bensheim
 Chairman
 Chairman of the Board of Management of Volkswagen AG

Eugen Lohde, 57, Frankfurt
 Deputy Chairman
 Chairman of the Works Council Wolfsburg

Rudolf Birk, 44, Wolfsburg
 since July 6, 1977 Group
 Chairman of the VW Group's Factory Council in Germany

Dr. jur. F. Wilhelm Christian, 55, Düsseldorf
 Member of the Board of Management of Deutsche Bank AG

Siegfried Ehlers, 33, Wolfsburg
 Chairman of the VW Group's Factory Council in Germany

Albert Hoffmeister, 48, Wolfsburg
 since July 1, 1977 Group Chairman of the Volkswagen AG

Dr. Gert Hoyer, 52, Wolfsburg
 Chairman of the Board of Management

Prof. Dr. Gert Hoyer, 52, Wolfsburg
 Chairman of the Board of Management

Dr. jur. Peter Paul, 47, Frankfurt
 Chairman of the Board of Management (Responsible for the Wolfsburg Plant)

Hans-Martin Müller, 54, Wolfsburg
 Chairman of the Board of Management (Responsible for the Wolfsburg Plant)

Dr. rer. jur. Hans-Martin Müller, 54, Wolfsburg
 Chairman of the Board of Management (Responsible for the Wolfsburg Plant)

Prof. Dr. Gert Hoyer, 52, Wolfsburg
 Chairman of the Board of Management (Responsible for the Wolfsburg Plant)

Karl-Heinz Mier, 42, Wolfsburg
 Chairman of the Volkswagen AG's Factory Council representing the Kassel Plant

Dr. Gert Hoyer, 52, Wolfsburg
 since July 6, 1977 Chairman of the Volkswagenwerk AG's Factory Council representing the Wolfsburg Plant

Dr. Gert Hoyer, 52, Wolfsburg
 since July 6, 1977 Chairman of the Volkswagenwerk AG's Factory Council representing the Wolfsburg Plant

Karl-Heinz Mier, 42, Wolfsburg
 Chairman of the Board of Management of Metallgesellschaft AG

Dr. rer. jur. Hans-Martin Müller, 54, Wolfsburg
 Secretary of the Federal Ministry of Economics

Karl-Heinz Mier, 42, Wolfsburg
 Chairman of the Volkswagenwerk AG's Factory Council representing the Kassel Plant

Dr. rer. jur. Hans-Martin Müller, 54, Wolfsburg
 since July 6, 1977 Deputy Chairman of the Board of Management of the Metal Worker Trade Union

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

Hans Hasler, Zürich
 Switzerland
 with effect from July 6, 1977
 Businessman

Dr. phil. h. c. Walter Hoyerbach, Frankfurt
 with effect from June 30, 1977
 Chairman of the Board of Management of Bank für Gemeinwirtschaft AG

Hans Hasler, Wolfsburg
 with effect from July 6, 1977
 Employee of the Volkswagenwerk AG

Resigned from the Board of Management

Hans Hasler, Wolfsburg
 with effect from July 6, 1977
 Employee of the Volkswagenwerk AG

Dr. rer. jur. Hans-Martin Müller, 54, Wolfsburg
 with effect from July 6, 1977
 Chairman of the Board of Management of the Deutsche Leasingbank

Dr. jur. Hans-Martin Müller, 54, Wolfsburg
 with effect from July 6, 1977

Wolfgang Ingelstedt, Ingelstedt
 with effect from July 6, 1977
 Deputy Chairman of the AUDI AG's Factory Council representing the Ingelstedt Plant

Wolfgang Ingelstedt, Ingelstedt
 with effect from July 6, 1977
 Chairman of the Volkswagenwerk AG's Factory Council representing the Ingelstedt Plant

Wolfgang Ingelstedt, Ingelstedt
 with effect from July 6, 1977
 Member of the Volkswagenwerk AG's Factory Council representing the Wolfsburg Plant

Report of the Supervisory Board of Directors

During the year under review the Board of Management has kept the Supervisory Board of Directors currently informed as to the status of the Company, its business activity and its 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 the Volkswagenwerk AG as at December 31, 1977 as well as the annual report have been placed before the Supervisory Board of Directors. The auditors, the TREUARBEIT Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft – Steuerberatungsgesellschaft, Hanover, have received these financial statements as well as the annual report and the accounts and have expressed unqualified approval of the financial statements of the Company.

The Supervisory Board of Directors states that its own review of the financial statements of Volkswagenwerk AG 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. The proposal of the Board of Management concerning the disposition of the net earnings for the year shown on the balance sheet has been approved by the Supervisory Board of Directors.

The Workers' Participation Act came into effect on July 1, 1976. In accordance with its provisions the Supervisory Board of Directors consists of 20 members as from the last annual meeting of stockholders held on July 5, 1977 and employees and stockholders are represented in equal numbers.

Due to the reorganization of the Supervisory Board of Directors the following members resigned:

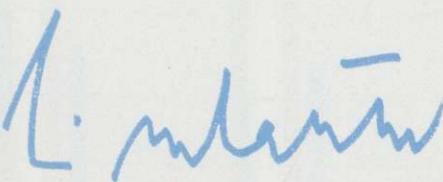
Walter Haefner, Dr. Walter Hesselbach, Heinz Hilbich, Adolf Kracht, Dr. Ludwig Poullain, Dr. Horst Rheinfels, Erich Schilling and Josef Schuster.

On August 1, 1977 the Federal German Government delegated Mr. Manfred Lahnstein, Secretary in the Federal Ministry of Finance to replace Mr. Karl Otto Pöhl, Vice President of the German Federal Bank, as a member of 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 services rendered and for their valuable counsel.

Mr. Horst Backsmann has been appointed President of the Automobile Industry Association and resigned from the Board of Management on December 31, 1977. The Supervisory Board of Directors would like to express its appreciation to Mr. Backsmann for the many years of valuable service.

Wolfsburg, April 6, 1978



Chairman of the Supervisory
Board of Directors

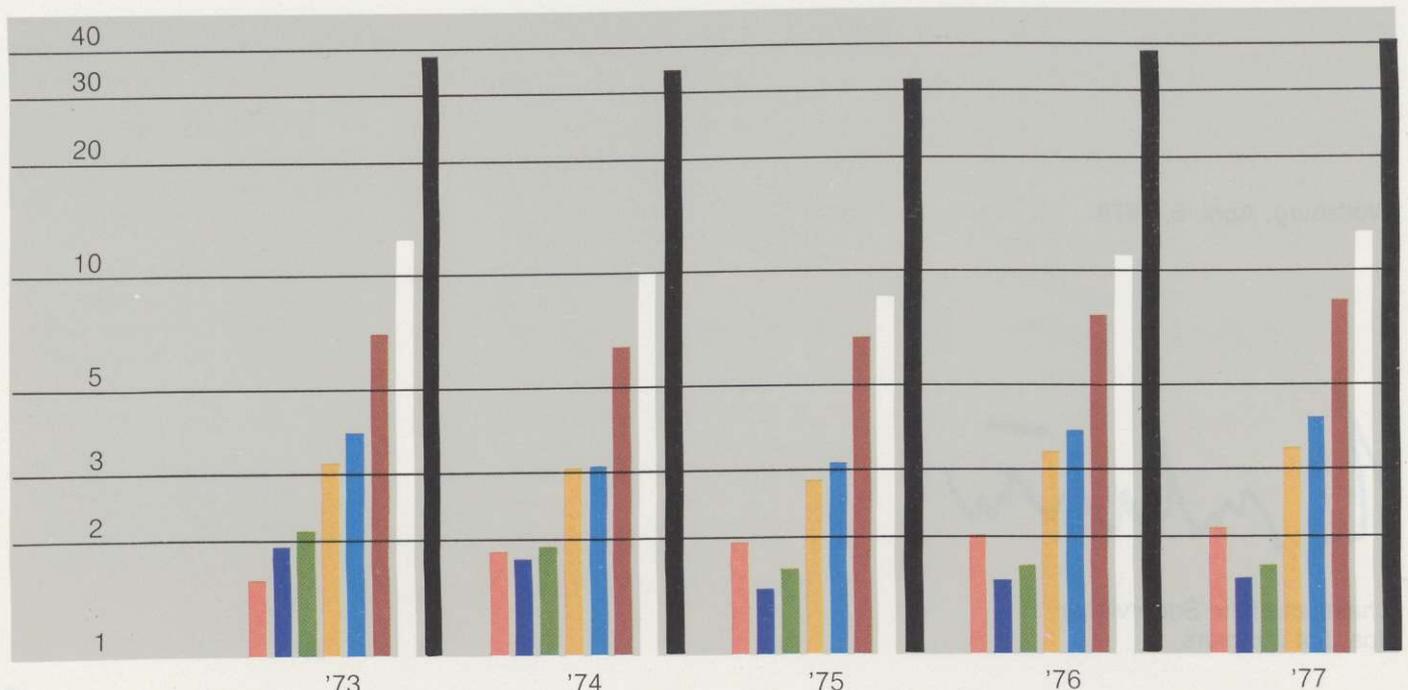
Report of the Board of Management

During 1977 the economic recovery in the major industrial countries began to slacken its pace noticeably. Typical pointers were reductions in the utilization of available capacity and further increases in the numbers unemployed in conjunction with, in part, more pronounced inflationary tendencies in various countries. Despite satisfactory liquidity and the availability of credit at favorable interest rates, most companies were hesitant to indulge in new investment.

The rates of growth still expected at the beginning of the year could not in general be achieved although many governments carried out programs for the support of the economy.

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

- World-wide
- USA
- Japan
- Federal Republic of Germany
- France
- Great Britain
- Italy
- Soviet Union



The increased costs of German exports resulting from the continued revaluation effect of the German Mark, combined with a high level of domestic labor costs makes it increasingly difficult for German industry to maintain its position alongside its competitors on international markets, in spite of a certain reduction of costs through the cheapening of imports. This is essentially due to the fact that in the year under review export demand was no longer an economically stimulating factor.

In 1977 the automobile industry proved to be one of the Federal German economy's most powerful sources of impetus. As in 1976, the main origins of vehicle sales were to be found in domestic-market demand. In most cases the automobile manufacturers reached the limits of their production capacity, so that extended delivery periods became unavoidable. The total vehicle output from all domestic manufacturers topped the four-million-unit mark for the first time.

The 1977 business year was a successful one for the VW Group, too. This can be attributed largely to good domestic business results. Total new car registrations in the Federal Republic of Germany reached a new peak at 2.52 million units, 10.8 % above the previous

year's total. VW and Audi vehicle sales increased above average.

Results from foreign markets, however, were inconsistent with regard to the VW Group.

On Western European export markets, in the USA and in Canada the VW Group was able to deliver considerably more vehicles to customers than in the previous year. However, it must be remembered that sales on the North American market in 1976 were at a low level.

Contrary to this in Brazil, Mexico and South Africa sales during the year under review did not reach the previous year's levels. These sales difficulties are explained by the general reduction in demand in the countries concerned and are largely in accord with their general economic development pattern.

The continuing deterioration of the dollar exchange rate imposed fresh burdens on Volkswagenwerk's exports. This trend demonstrates the validity of the decision to set up production facilities in the USA.

In order to limit the VW Group's foreign-exchange loss risk, an 'Euro-Dollar' issue in the sum of 150 million US dollars was raised

for the first time as a means of financing activities abroad.

The satisfactory overall business situation led to the German Group companies in particular engaging new employees.

The Board of Management takes this opportunity of thanking all employees for their willingness and personal effort. Intensive and successful cooperation between the Management and the various Factory Councils enabled the tasks facing the Group to be tackled effectively. The Board of Management wishes to express its thanks to the various bodies involved in internal company relationships for their sense of responsibility in these shared activities.

Due to the positive pattern of business during the review year, the VW Group was able to achieve net earnings of DM 419 million. Volkswagenwerk AG achieved net earnings of DM 332 million.

The warm reception afforded to our products on various markets, the shift in product-structure emphasis towards higher-value models, e.g. Audi 100, and the general level of activity on the domestic automobile market helped to utilize Volkswagenwerk AG's available capacity more fully and thus improve

the cost-earnings ratio. Although the net earnings achieved by Volkswagenwerk AG are well below that announced in 1976, this is mainly due to the fact that in the previous year the loss brought forward resulted in lower taxes, whereas in the year under review taxation on income, earnings and property totalled DM 1,290 million. The figure includes additional burdens arising from a reform of the corporation tax law which has now come into force.

The good overall results achieved by Volkswagenwerk AG enable us to propose the payment of a dividend and an additional bonus totalling DM 144 million and thus representing an increase on the previous year's dividend payment, and furthermore to strengthen the reserves in order to ensure the continued stabilization of the Company's finances.

In the year under review we have again calculated the difference between the depreciations on acquisition values and on replacement values. This difference represents an imaginary profit which is subject to normal taxation. The funds set aside as reserves are sufficient to cover the imaginary profit ascertained in 1977. Despite increased special depreciation for tax purposes in the report year it was not possible

to recoup losses of this kind which had been suffered in the previous years and which due to the earnings situation could not be covered.

The Board of Management also proposes that the capital stock of Volkswagenwerk AG be increased by DM 300 million to DM 1,200 million as a further step towards attaining a level of stockholders' equity capable of offering the necessary long-term security.

Proposed Distribution of Net Earnings for 1977

The Board of Management proposes to dispose of the net earnings as follows:

Distribution to stockholders – this represents DM 7.– dividend and DM 1.– bonus on DM 50.– par value of capital stock –	DM 144,000,000
Addition to reserves	DM 20,000,000
Balance of to provide for additional taxes to be paid on the balance not distributed and not transferred if the Board of Management's proposal with respect to the dispo- sition of net earnings is approved by the stockholders	DM 9,092,510
Balance (to be carried forward)	DM 3,520
Net earnings after reserve transfers	<u>DM 173,096,030</u>

Business Trends and Developments during 1977

Sales

During the year under review the VW Group sold 2,239,631 vehicles to the dealer organization, 4.6 % more than in the previous year. The successful pattern of trading during the year is primarily due to good domestic-market results.

World-wide VW Group vehicle deliveries to customers rose by 8.6 % compared with the previous year to 2,295,594 vehicles, and were thus even slightly higher than the previous best annual result in 1973. The VW Group none the less continues to neglect as a matter of policy certain of the potential market outlets which presented themselves, in order to keep its production facilities in line with medium- to long-term sales trends.

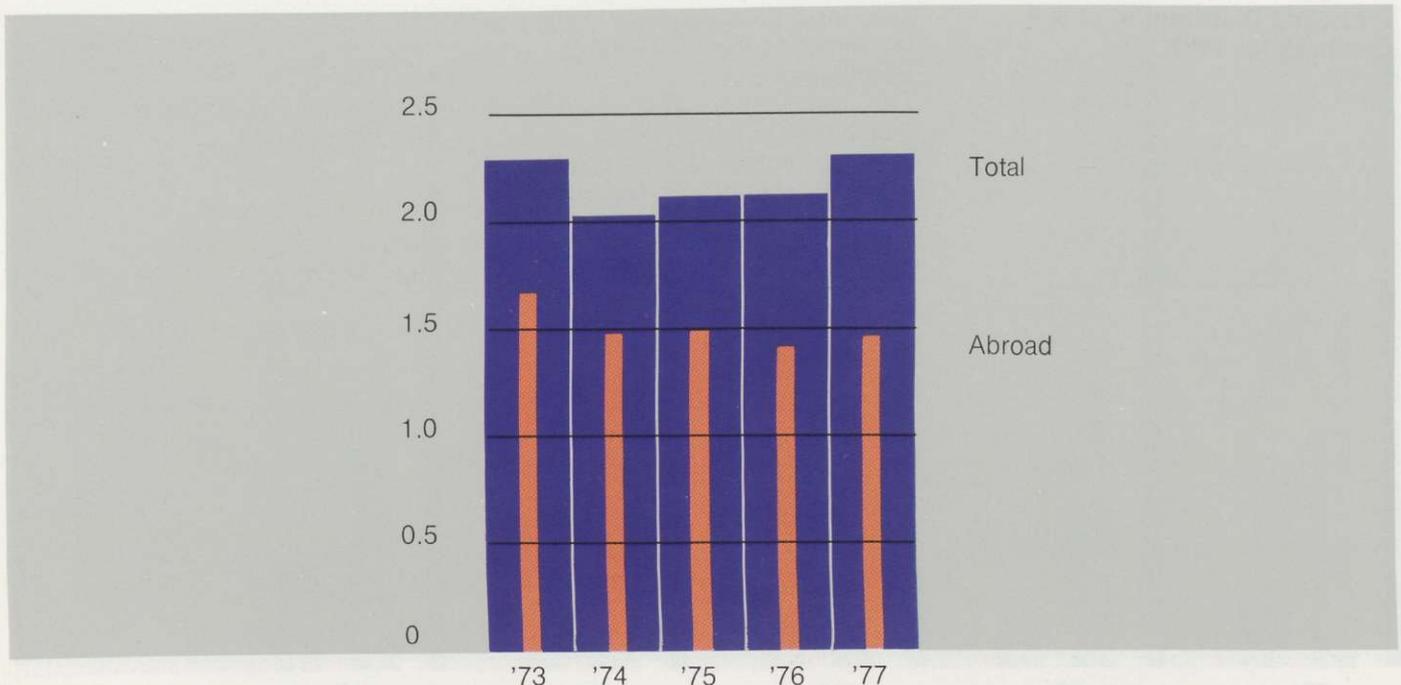
The good sales results are to a great extent attributable to the continuing positive reception of the new product range which in 1977 was extended by the Derby and the Audi 100 Avant

and strengthened by a considerably improved Passat. Due to the growing competitiveness of our models the market share of the VW Group as compared to the competition was largely maintained and in part increased.

845,063 VW and Audi vehicles were delivered within the Federal Republic of Germany, 19.7 % more than a year previously. The overall share of the German automobile market secured by the VW Group thus rose from 28.0 % in the previous year to 30.2 % in 1977.

Despite less strong demand for new automobiles caused by general economic considerations, our deliveries to Western European export markets rose by 12.9 % compared with 1976, and totalled 466,169 units. The main factor in this improvement was the keen demand for the Golf and Audi 100 models.

Pattern of Deliveries from the VW Group Factories (vehicles in million)



Our highest-volume European export market was Austria, where a 52.8 % rise in sales to 75,698 vehicles was recorded. The announcement of a rise in value added tax from 18 % to 30 % for automobiles, with effect from January 1, 1978 led to a high level of advance ordering during the last quarter of 1977. On the French market the Group's deliveries dropped back slightly on account of inability to deliver, the Golf being particularly affected. The Netherlands and Great Britain were other large-volume European markets. In Sweden, two currency devaluations in April and August 1977 and an increase in taxes and automobile dues led to a significant drop in the overall demand for new automobiles which in turn affected VW Group sales. Despite this, our share of the automobile market improved slightly, since the new car registrations total decreased even more.

1977 saw a distinct 'imports boom' in the USA, stimulated primarily by the discussion of measures

for energy conservation. Whereas the overall market for automobiles expanded by 10.6 % compared with 1976, purchases of imports rose by 38.9 %, and sales of Group models by 24.5 % to 296,551 cars. The base of this success was the Rabbit, the US version of the Golf, which accounted for more than 55 % of our sales in the USA.

Developments in Brazil were less encouraging. In January 1977, high inflation rates and a balance of payments situation which is still not satisfactory led to the government introducing a drastic program of economies, which restricted higher incomes and the granting of credit to a significant extent. The associated loss in purchasing power which immediately made itself felt interrupted a period of expanding demand for automobiles dating back over a number of years, and resulted too in an 8.9 % drop in Group sales in Brazil, to a total of 420,725 vehicles.

In Mexico, economic problems multiplied following devaluation of the Peso in September 1976. The increasing loss of purchasing power resulted in a further drop in sales on the automobile market. At 63,796 units, Group sales were 7.3 % below the already poor result attained in the previous year. The successful introduction of the Caribe (the Mexican version of the Golf) in March 1977, however, helped to stabilize our sales again.

In South Africa the economic situation remained critical and caused the sales climate for VW Group products to deteriorate. The 31,989 vehicles delivered during the year represent an 20.2 % drop from the previous year's figure.

With the Audi Avant the Audi 100 range has been extended by a fastback version.



Turnover

Sales proceeds rose in the year under review by 12.7 % compared with the previous year, to a total of DM 24,200 million. As with the sales figures, the increase arose primarily from domestic-market sales proceeds, which improved by 20.4 % to DM 9,700 million. Turnover abroad rose too, by 8.1 % to DM 14,500 million. Since this increase was much lower than that achieved from domestic sales, the proportion of Group turnover represented by foreign business fell to 59.8 % (1976: 62.3 %).

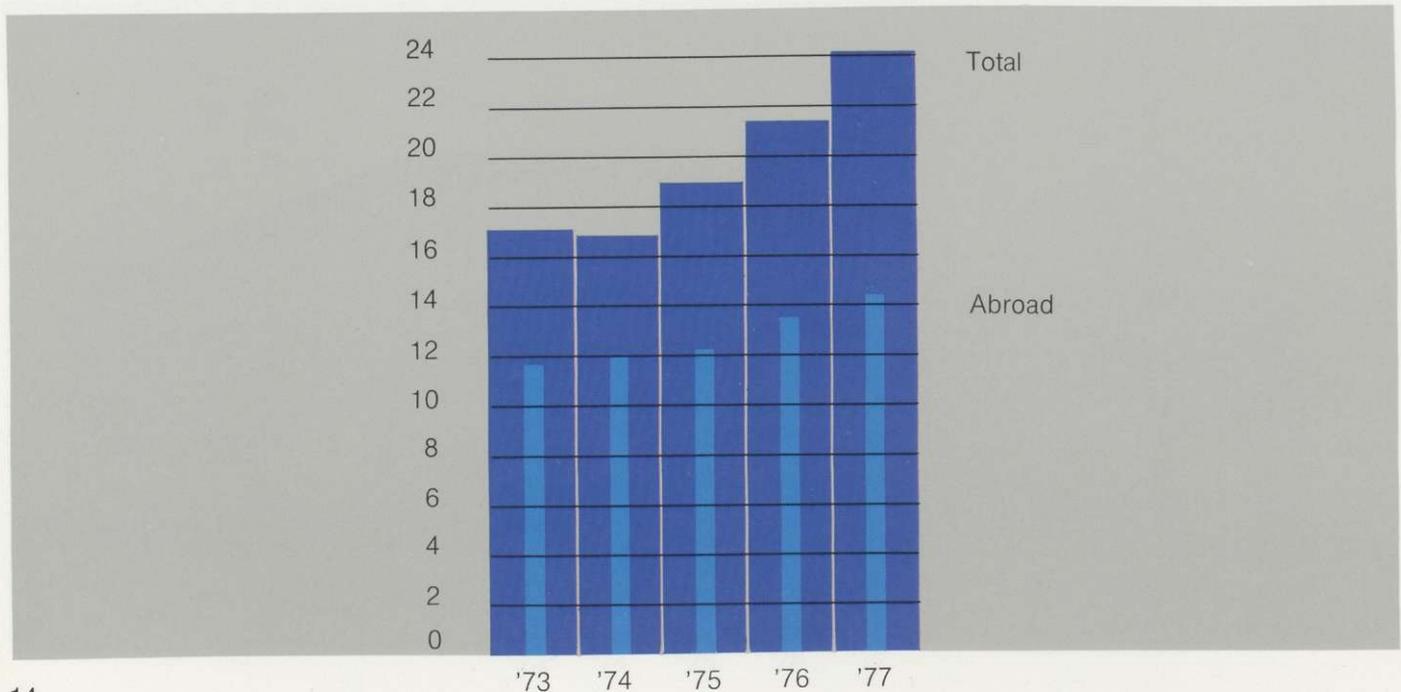
Purchasing and Material Administration

The purchasing volume of the VW Group in 1977 rose markedly on account of the increased output of vehicles, thus continuing the previous year's pattern. The additional requirement, together with the introduction of new models, imposed increased demands on material administration which could only be solved by the efficiency and adaptability of our suppliers. Despite this, absolute priority continued to be given to maintenance of the quality standards called for by the VW Group.

The various supplying industries made use of the overall rise in demand from automobile manufacturers to utilize available capacity more fully, and thus benefit to a worthwhile extent from the favorable economic situation within the automobile trade. The volume of our purchases, with more than 9,000 companies supplying the VW Group within Germany alone, adequately reflects the importance of our place within the overall economic picture.

Increases in wages and material prices affecting our suppliers and the inflationary tendencies in Brazil and Mexico led to further rises in material costs during 1977, but at a rate not exceeding that incurred in the previous year.

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



Production

World-wide output of vehicles from the VW Group during the review period totalled 2,218,880 units and was thus 2.5 % above the previous year's result. 1,977,217 automobiles and 241,663 commercial vehicles were manufactured.

Volkswagenwerk AG increased its output by 4.2 % to 1,371,453 vehicles compared with the previous year. This total includes 15,584 Audi 50 cars manufactured in Wolfsburg and 68,704 Audi 80 models produced in Emden.

Early in 1977, the VW model range was extended by the introduction of the mass-produced Derby. In addition, the annual model changes in July/August saw the launching of Passat and Scirocco models with a number of technical and styling improvements.

Output from AUDI NSU AUTO UNION AG totalled 339,883 vehicles and thus was 30.7 % above the previous year's figure. The Audi 100 Avant was introduced to the product range.

The increase in output at the Volkswagenwerk AG and at AUDI NSU was due essentially to an increased utilization of production capacities and additional shifts and employment of additional personnel.

The table below shows the volume of individual models produced:

	1977	1976
Beetle	258,634	383,277
Polo/Audi 50	128,358	198,213
Derby	112,783	62
Golf	553,989	527,084
Scirocco	86,068	77,895
Passat	274,992	288,018
Audi 80	193,430	153,062
Audi 100	202,734	94,523
Brasilia	160,106	166,562
Other automobile models	6,123	18,449
Commercial vehicles	241,663	258,482

Production at our overseas Group subsidiaries had to be eased back. On account of the difficulties already referred to, production at VW do Brasil was cut by 10.8 % compared with the previous year, to total 472,192 units. VW de Mexico was also obliged to restrict output by 38.2 % to 52,292 vehicles in the face of sales problems. Our Mexican subsidiary accommodated this reduced production pattern by the introduction of single-shift working and the release of personnel. VW of South Africa manufactured 33,809 vehicles in 1977 and thus failed to equal the previous year's total by 9.8 %.

Our Belgian subsidiary, Volkswagen Bruxelles, assembled 104,435 Passat vehicles during 1977; thus exceeding the previous year's total by 7.3 %.

At Volkswagen Manufacturing Corporation of America good progress was made on completing the plant, setting up the manufacturing lines and preparing for assembly of the Rabbit in Westmoreland and equipping the Charleston Stamping Plant during the review period.

The VW Group's average output of vehicles per working day in 1977 was 9,322 units. Compared with the previous year's average working day production figure

Figures for average working day output from the various Group companies are as follows:

	Vehicles per working day
Volkswagenwerk AG	5,198*)
Volkswagen do Brasil	1,973*)
AUDI NSU AUTO UNION AG	1,327*)
Volkswagen Bruxelles	454
Volkswagen de Mexico	219
Volkswagen of South Africa	151

of 9,070 vehicles, this is an increase of 2.8 %.

A complex interchange of deliveries and services is practised between the various companies within the Group, in particular with regard to the supply of finished products and production equipment.

Special efforts were devoted to rendering manufacturing methods more efficient and flexible and to the achievement of more 'humane' working conditions for our employees, for example by the development of industrial robots for use on certain production processes. In addition, in order to maintain and increase the competitiveness of our models we have continually improved quality, safety and production techniques.

*) Excluding knocked-down vehicles delivered within the VW Group and Porsche 924 cars produced by AUDI NSU AUTO UNION AG

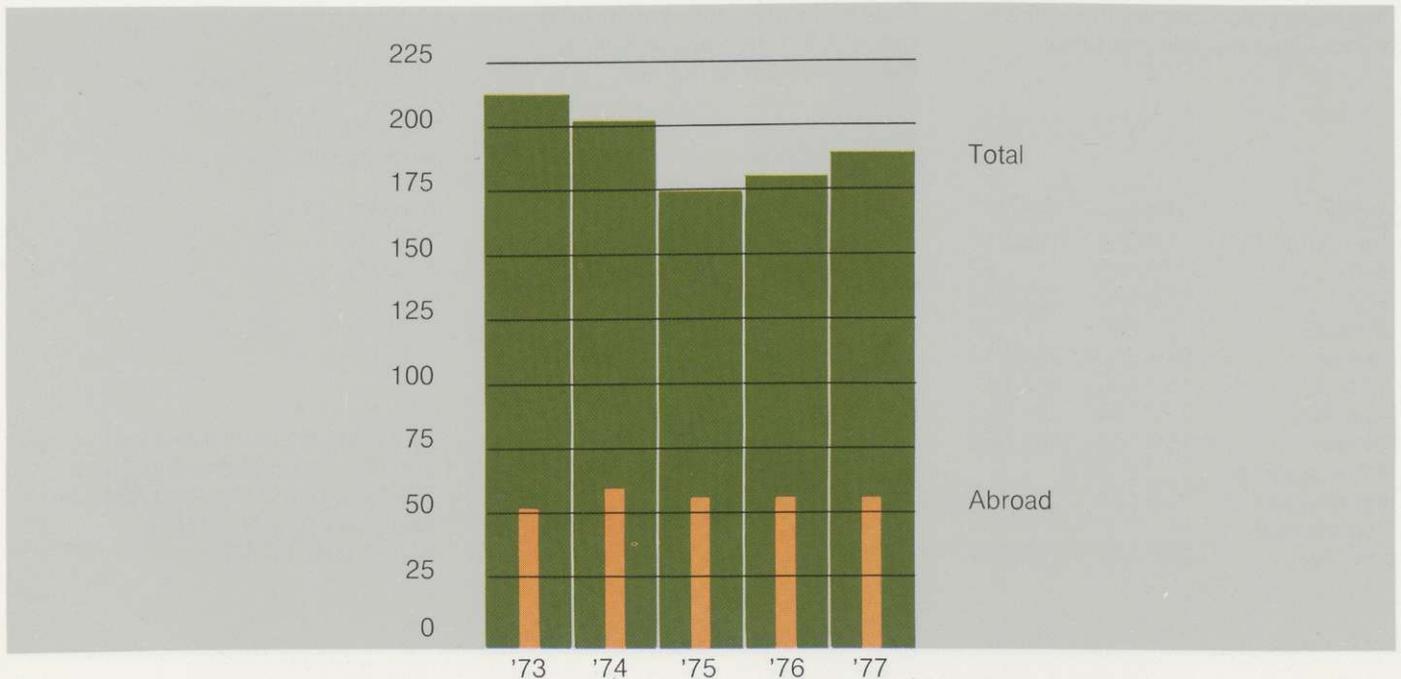
Labor Force

During the report year the number of persons employed by the VW Group rose by 4.7 %, and reached a total of 191,891 (183,238) employees on December 31, 1977.

This increase was necessary in order to keep pace with growing demand for our products. German Group companies increased their total number of employees by 7.3 % to 133,253 (124,232) persons. Foreign Group companies reduced their labor force slightly to 58,638 (59,006) persons. Whereas the number of employees at VW do Brasil and VW de Mexico dropped, VW Bruxelles and VW Manufacturing Corporation of America showed increases in the number employed.

The cost of labor within the VW Group for the 1977 business year was DM 6,810 million, 6.2 % higher than in the previous year. The higher figure is due to the rise in the number of persons employed and also to increased wage and salary agreements both within Germany and abroad.

VW Group's Employment Pattern
(in thousands of employees)



Capital Investments

Capital investments rose by 48.7 % to DM 1,697 million, 96.2 % of this being devoted to property, plant and equipment. These capital investments principally served as efficiency improvement, product development and expansion projects and for the humanization of working conditions.

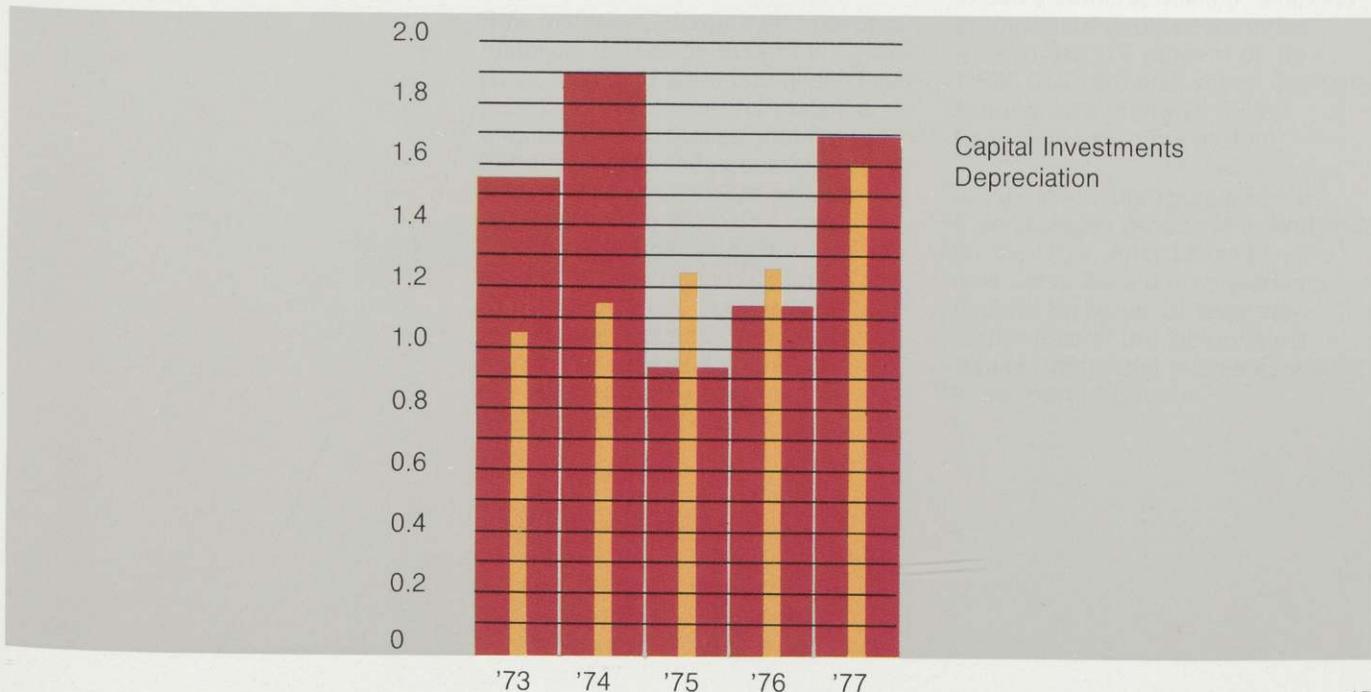
Group companies invested DM 969 million within Germany, 47.5 % more than in 1976. Investments abroad also rose, by 50.3 % to DM 728 million mainly on account of the setting-up phase of activities at the Volkswagen Manufacturing Corporation in the USA.

Group investments were financed to the extent of 94.3 % from depreciation.

For 1978 to 1980, the VW Group envisages investing some DM 5,900 million in plant and equipment. These sums will be principally devoted to further development of our products, the adaptation and restructuring of production

facilities and replacement and rationalization measures. Some 18 % of the planned investment outlay will accrue to Latin America and 10 % to North America.

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

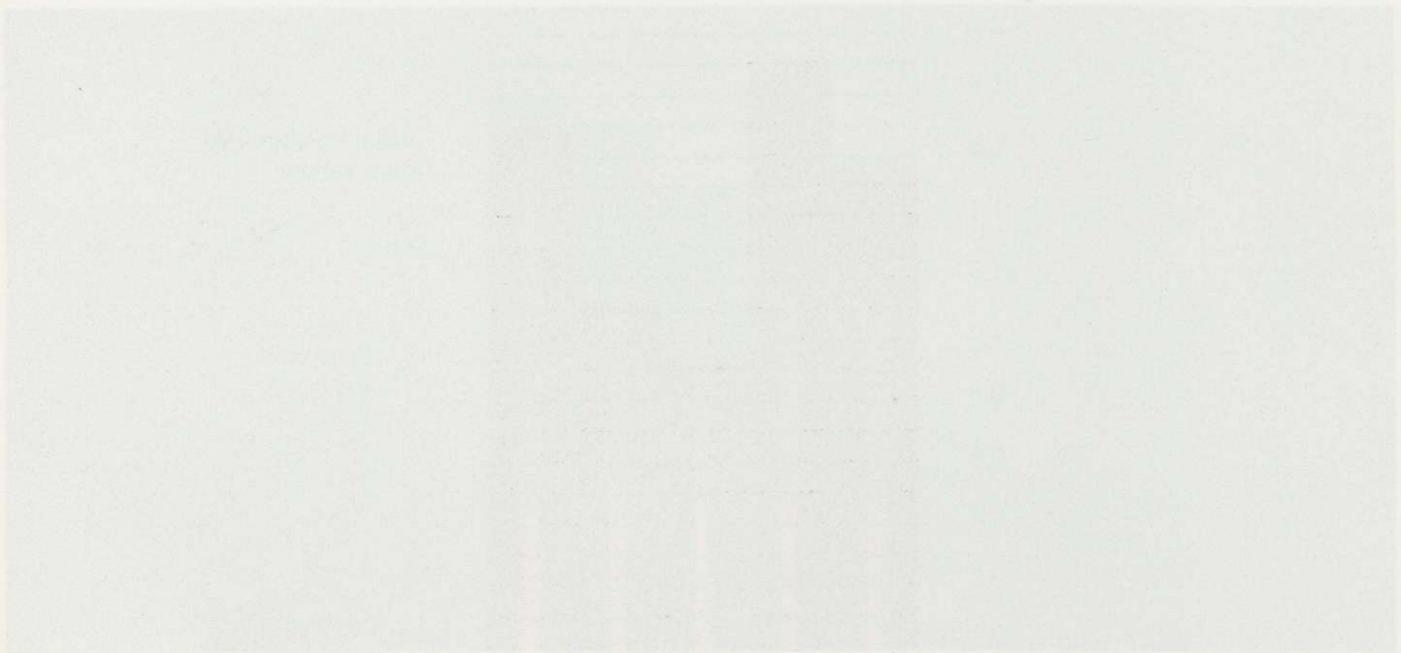


facilities and replacement and modernization reserve. Some 18% of the planned investment outlay will occur in Latin America and 10% in North America.

Capital investments of 1987-88 are expected to total 1,500 million DM, of which 1,200 million DM will be invested in the non-ferrous metal sector. This is a 10% increase over the 1,350 million DM invested in 1986-87. The increase is due to a 10% rise in investment in the non-ferrous metal sector, which is expected to reach 1,200 million DM. This is due to a 10% increase in investment in the non-ferrous metal sector, which is expected to reach 1,200 million DM. This is due to a 10% increase in investment in the non-ferrous metal sector, which is expected to reach 1,200 million DM.

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

VW Group's Investment Plans (continued in thousands of DM)



Transport and Vehicle Movement within the VW Group



There can be no production without transportation. Particularly in our situation:

- in an industrial society where division of labor is the keyword
- with the large factories we operate, and
- with our specialized plants for various sub-assemblies.



Raw materials, auxiliary and process materials as well as bought-in parts, including parts and assemblies produced elsewhere (for instance engines and transmissions) have to be moved to the assembly lines where vehicles are actually put together. In the same way, finished automobiles have to be moved to dealers and importers. Knocked-down vehicles and sets of parts are shipped to assembly plants overseas and spare parts are shipped with a minimum of delay to customers world-wide.

Materials received during 1977 by the VW Group within Germany amounted to 4,090,539 metric tons. Movements between factories totalled 970,000 metric tons. Including deliveries of completed vehicles, assemblies and parts

to customers, the total weight of material shipped within Germany was 6,800,000 metric tons.

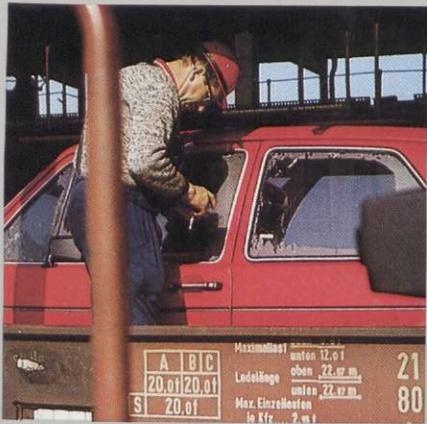
Vehicle output – the Group's average daily production figure in 1977 being 9,322 vehicles, including 5,198 VWs and 1,327 Audis manufactured within Germany – leaves the assembly lines and is given a wax preservative coating before shipping. The vehicles are first collected in a marshalling yard, then loaded on to various carrier vehicles for movement to sales centers, dealers, seaports or importers in other countries – more than 70 percent of the 1,560,616 cars built within Germany starting their journeys on the Federal German rail system.

Let us follow the route taken by a Volkswagen produced in Wolfsburg for the USA. After assembly, the new car is loaded on a German Federal Railways' bi-level car carrier train at the factory's rail loading ramp, and makes its way to the port of Emden.



In Europe, the cars are secured on the rail cars by chocks in front of and behind the rear wheels; the handbrake is applied and reverse gear engaged.

In the USA, however, cars are held down by chains hooked into position at four points. This means that VW and Audi vehicles must be designed for this method of securing if they are to be transported safely and economically and sold in the USA.



The VW factory railyard at Wolfsburg, with some 70 km of track, 159 switches and 161 loading and unloading bays, handles more than 300,000 rail cars annually, equal to a major public rail freight yard such as that in the nearby city of Hanover. The motive power is provided by nine VW-owned shunting engines.

Automobiles are a bulky product of comparatively low specific weight. The volume of our products varies from 7.3 cubic meters (appr. 258 cubic feet), specific weight 94 kg/cubic meters, for the Polo to 11.6 cubic meters (100 kg/cubic meters) for the Audi 100 GL. For this reason special means of transport have had to be developed and introduced for low-cost volume motor vehicle handling, in the form of bi-level rail cars.



On May 16, 1977 the Wolfsburg plant shipped its 100,000th train with passenger automobiles. It is interesting to reflect that each train is on average 600 meters long, so that all one hundred thousand trains together would reach one and a half times round the world. The occasion was marked by a brief ceremony: our picture shows Toni Schmücker, Chairman of the Board of Management, taking leave of German Federal Railways' President Dr. Wolfgang Vaerst in the cab of the locomotive pulling the 100,000th VW car train.

Emden is the port of shipment for all our vehicle exports to the USA and Canada. VW has leased two pier berths there for its ships.

Ships suitable for carrying motor vehicles have to be specially equipped with intermediate decks to make full use of the vast hold space they provide.

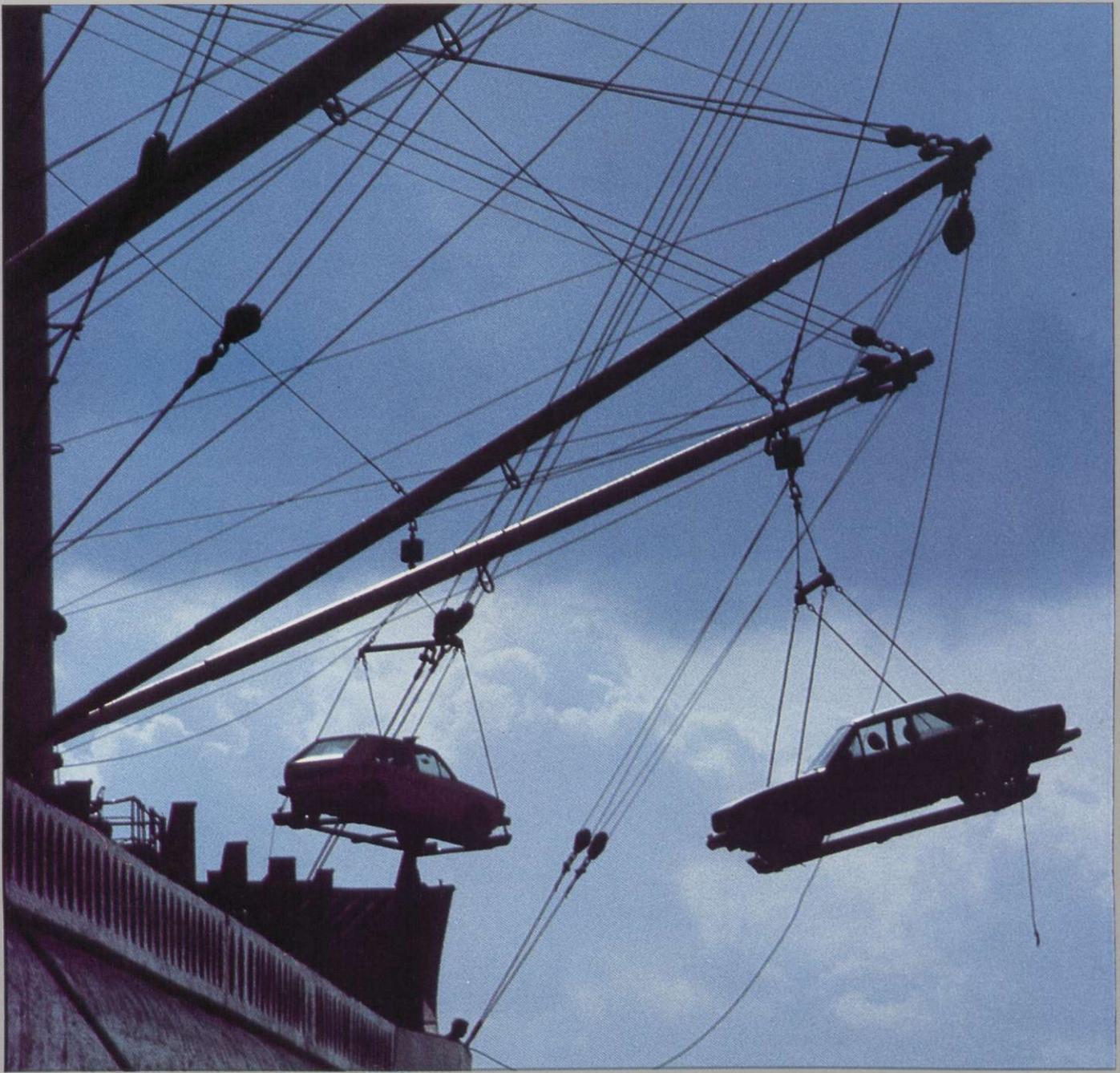
The intermediate decks are designed to be elevated out of the way when not in use. After the lowest deck has been loaded with vehicles, the opening through which the

vehicles are lowered into the hold is covered with pontoons which are carried on board. Then this deck is filled with vehicles, and so on until the vessel is fully loaded.

After the vessel has discharged its cargo of VW and Audi vehicles at the US port, the pontoons are stowed on deck, the intermediate decks raised again and secured firmly, whereupon the ship becomes

suitable for a bulk return cargo (e.g. grain). Our picture shows a 'car-bulk' ship of this kind, capable of carrying automobiles on one voyage and bulk materials on the next.





The cars – our VWs and Audis – are driven on to special loading platforms alongside the vessel, hoisted on board by its winches, swung over the hatches by the booms and set down on the deck being loaded. The cars are then tied down safely with four sisal lashings to prevent movement during the voyage.



Labels bearing codes for all the information the loading and unloading workers need to know are affixed to the windshield, so that they can be taken to the vessel and loaded as efficiently as possible. In addition to this the vehicles are parked in previously marked lots.

The ultimate in special car carrying vessels has so far been reached in the form of the 'Ro-Ro' (roll-on, roll-off) ships.

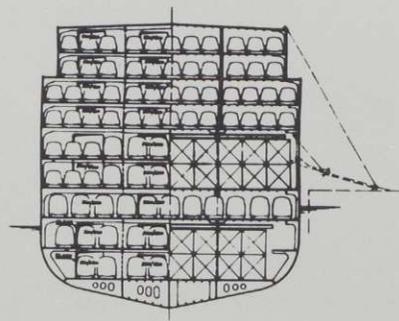
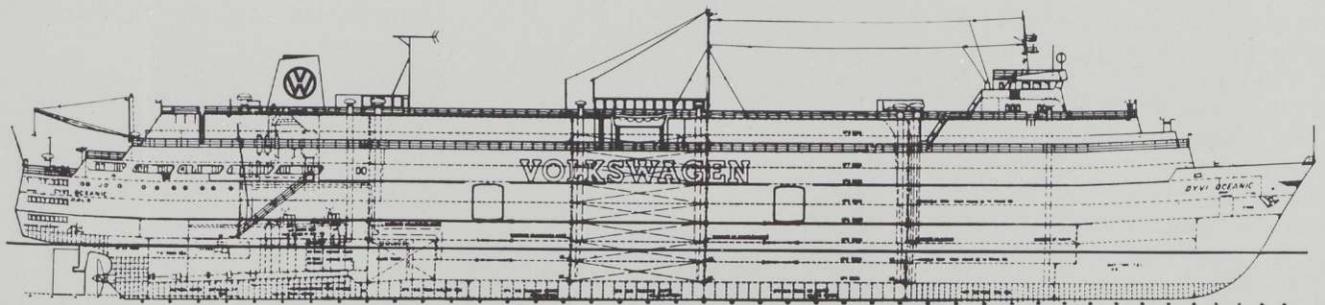


These resemble nothing more than a floating parking garage, with the vehicles entering and leaving under their own power.

Ro-Ro vessels normally make the return journey empty, so that the cars carried on the outward voyage are obliged to bear the cost of both trips. However, the cost pattern is not as simple as that: a 'car-bulk' vessel holding about 2,000 cars consumes some 300 kg of bunker oil per car on its voyage from Emden to the



American East Coast, a total of 600 metric tons. With the same quantity of bunker oil a 'Ro-Ro' ship can complete the loaded trip with the same number of cars and the return journey as well, because it is specially designed for motor vehicles only and therefore considerably lighter in weight.





Our special car carrier ships make regular runs to ten US ports. 60 per cent of the vehicles are landed on the eastern seaboard of the USA.

On June 29, 1977 we celebrated the opening of our new dockside installation at Wilmington, Del., on the Delaware River not far from Philadelphia, Pa. A special floating pier and various handling and storage facilities have been built for us there, including a 3-track rail loading ramp and a large truck loading area. In future Wilmington, Del., will be our main importation point for the USA, thanks to its central location in the main US East Coast sales territory. When production has started at the VW assembly plant at Westmoreland, Pa., the USA will still remain a major export market for the rest of the Group.

When cars are discharged from the ship, the unloading platform gear is set down on the pier at an angle so that the Rabbit (as the Golf is known in the USA) can roll from the platform by itself. A driver then gets into the Rabbit and drives it away while the platform is being winched up to collect the next car.

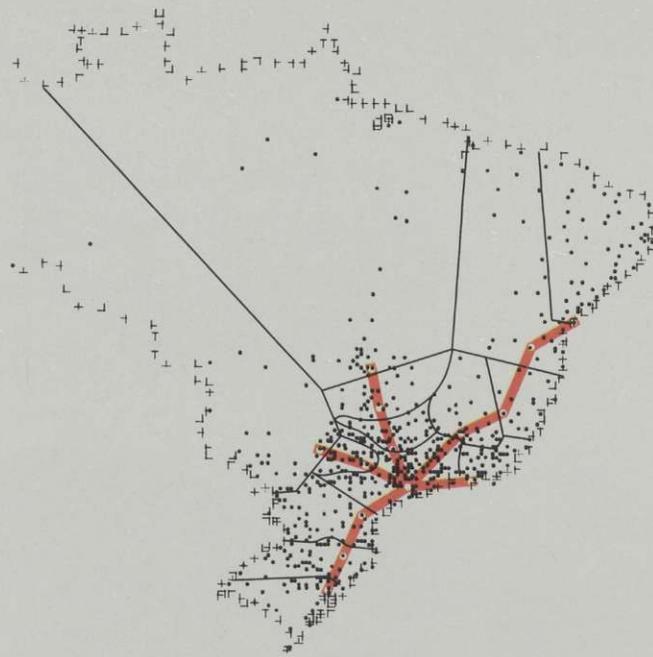


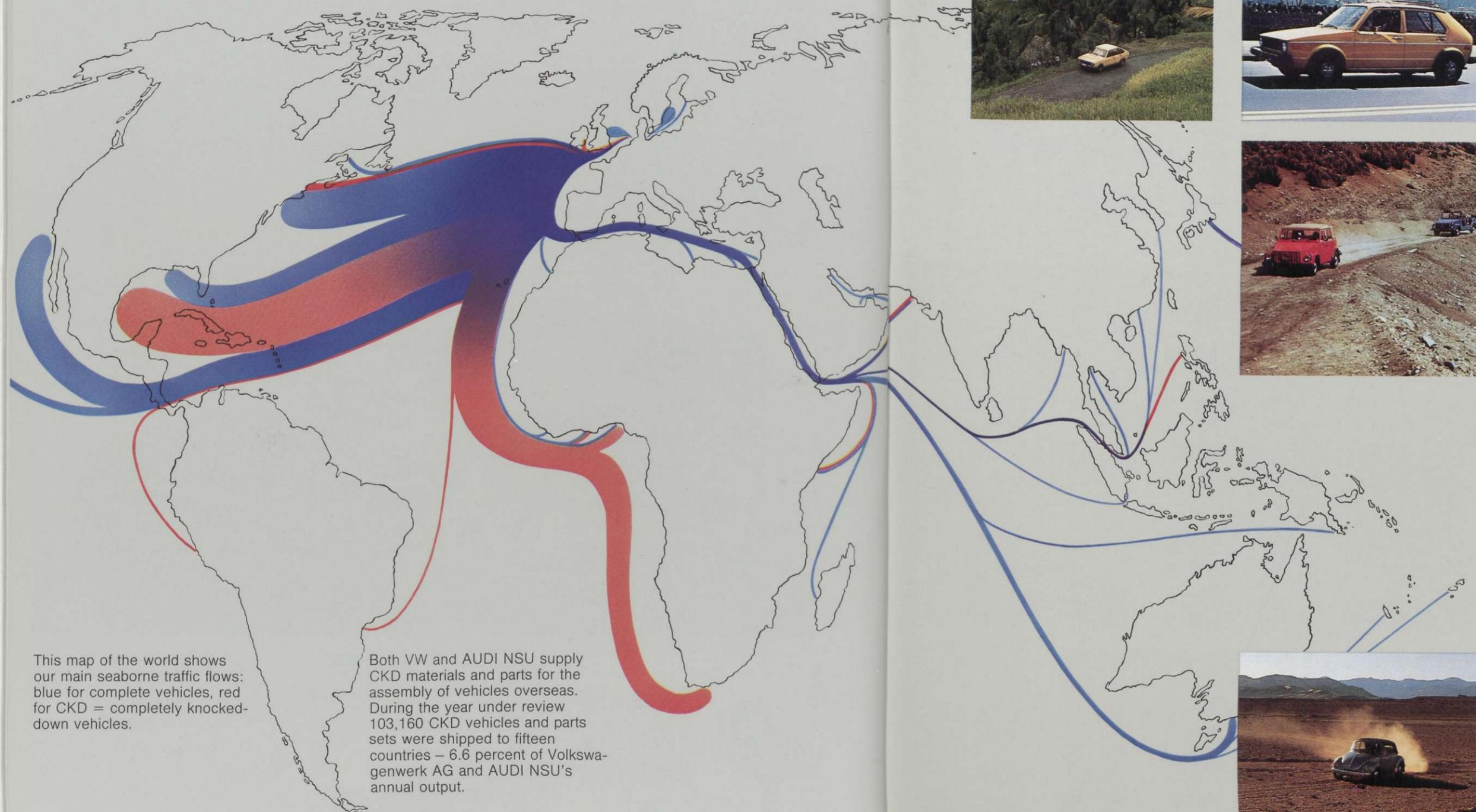
In the same way as seaborne transportation, the distribution of cars 'on dry land' by rail and truck calls for thorough planning. Transportation modes and equipment change from country to country. In the USA, for example, tri-level rail cars are used for automobile movement. Each of them holds 18 Rabbits, whereas a bi-level rail car of the type used by the German Federal Railways is limited to a maximum of 12 Rabbits, depending on the type of rail equipment.

Rail transportation tends to be more economical over medium to long distances. At the various railheads the cars are unloaded from the rail cars and final distribution takes place by truck. For short hauls the slower rail movement and the additional handling is not economical; in this case cars are hauled away from dockside by truck.

In Brazil, new cars are distributed by road vehicles over distances as great as 3,000 km, because the capacity of the rail network is still restricted. The Brazilian government, however, plans a major expansion of its rail system as part of an infrastructure modernization program designed to relieve the burden on urban areas and save precious diesel oil. VW do Brasil, the country's largest industrial corporation, has been requested by the Brazilian authorities to submit a plan for utilization of a modernized rail network for new vehicle transportation. A system of 13 destination railheads has been planned. To optimize

transportation costs a special computer program has been designed to simulate every possible route and method of transport between the factory and more than 800 dealers. The computer printout illustrated here shows the boundaries of the dealer territories served by each railhead. Each dot represents the location of one or more dealers. Thus São Paulo, although it has 136 dealers, is represented only by one dot. If this additional rail network is actually constructed about two-thirds of the haulaway trucks used to transport Volkswagens in Brazil would become idle and 71,600,000 truck kilometers per year would be saved. We also believe this would result in a reduction of the transportation costs we incur in Brazil.

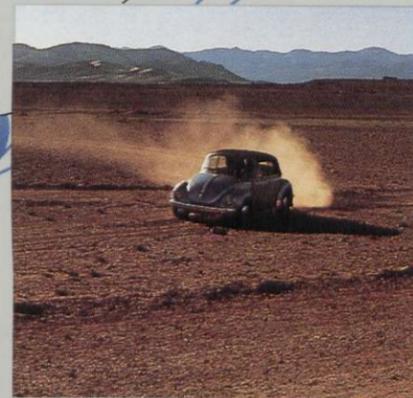
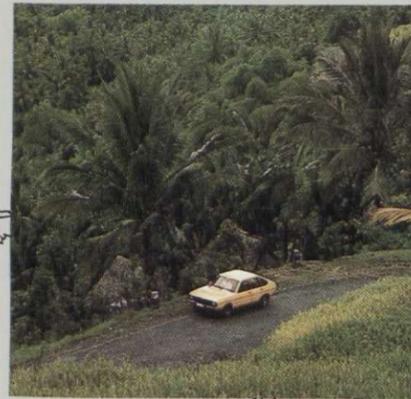




This map of the world shows our main seaborne traffic flows: blue for complete vehicles, red for CKD = completely knocked-down vehicles.

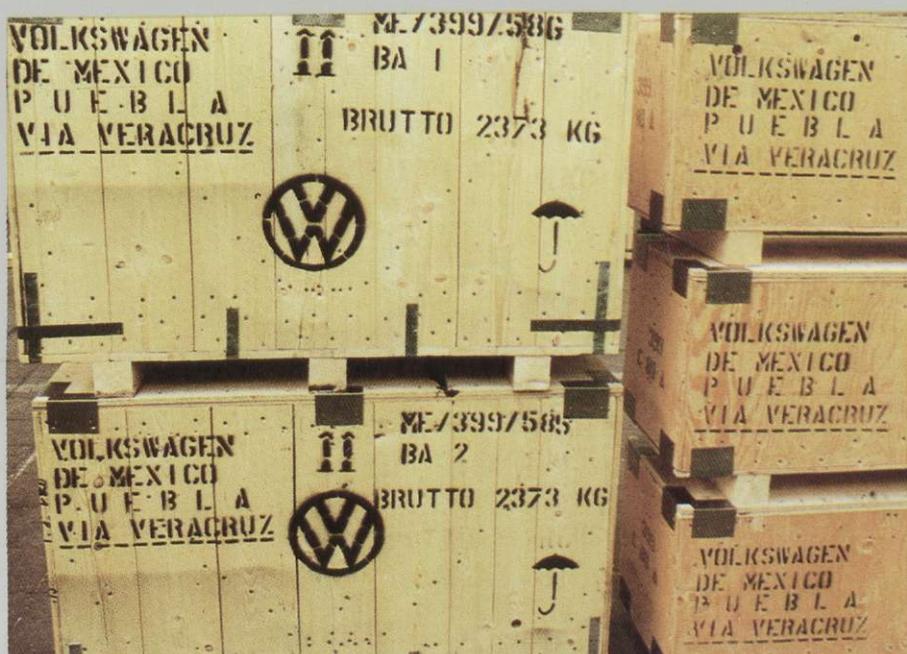
Both VW and AUDI NSU supply CKD materials and parts for the assembly of vehicles overseas. During the year under review 103,160 CKD vehicles and parts sets were shipped to fifteen countries – 6.6 percent of Volkswagenwerk AG and AUDI NSU's annual output.

Traffic generating sufficient volume is covered by chartered vessels. On other routes, we ship our vehicles and spare parts by regular liner service.





Containers are a way of mechanizing and speeding up freight handling and reducing packaging costs and the risk of loss in transit. We therefore use containers for CKD shipments wherever such service exists. The materials are placed on pallets, which are made up beforehand on roller conveyor lines and then loaded into the containers. A container of the type we use is really little more than a large crate with no outer panelling. However, we still ship exceptionally heavy items in crates. During 1977 the volume of parts packed and shipped for assembly overseas measured 299,668 cubic meters.



VW-Audi spare parts are shipped to 22 sales centers within Germany, 25 importers in European countries and 113 importers elsewhere in the world. Certain overseas markets still without container handling facilities are supplied for the moment with the traditional wooden crates. However, the majority of spare parts exported abroad are shipped in containers.

For the German home market and those markets accessible by road and rail, we ship on com-

pany-owned racks. The central parts depot at the Kassel plant operates a modern, efficient shipping and receiving department capable of loading or unloading seven trucks simultaneously, and has equipment for the handling of 40-foot containers destined for overseas shipment.



At a containerized seaport, a single dock worker can move more than forty times the amount of cargo possible with traditional loading methods. Of course, this calls for a well-equipped container terminal such as this one in Bremerhaven.

The flow of CKD material to our assembly plant in Lagos, Nigeria, initially presented considerable difficulties on account of the more or less permanent congestion of Nigerian ports due to the sheer amount of seaborne freight arriving.

We soon found a rather unconventional solution to this problem. Chartered vessels with a capacity of some 6,000 cubic meters tie up at a mooring buoy in the harbor dock basin. Their cargo of CKD crates is transferred to

lighters, which are towed up an arm of the river to a point close to the assembly plant. Here a helicopter picks up the crates one by one and lifts them to the plant, a distance of about 3 km. In view of the unusual situation at Nigerian ports, this mode of transportation is proving faster and quite probably less costly.



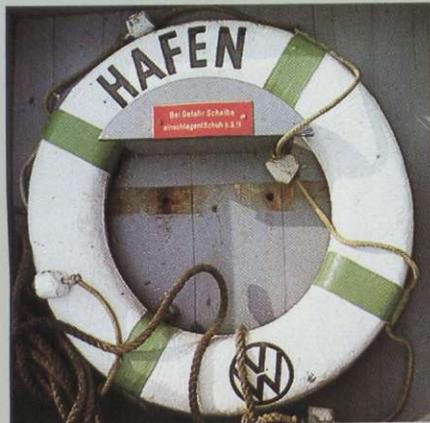
The largest volume of CKD shipments goes to Mexico: 161,837 cubic meters in 1977. Mexico does not yet possess a dockside container terminal, so that container handling is very expensive, slow and for the most part restricted to 20-foot containers. However, it is far more economical for us to ship in 40-foot containers, especially since our products are only of moderate weight. We therefore ship our 40-foot containers by liner service from Bremerhaven to Houston, Tex., where they

are transhipped to a smaller, specially converted coastal vessel. This 'feeder' ship, the MV 'Dorli', carries the containers to Tuxpan, a small Mexican river port in the Gulf of Mexico, where a simple dockside installation has been set up. The ship's own crane loads the containers on chassis which are driven on to the ship's deck. The trucks complete the containers' long journey with a 350-km run to the plant at Puebla.





Of course, we must not forget that waterborne transport can involve inland canal traffic as well as mighty ocean-going ships. The VW plant at Wolfsburg has its own dock facilities on the 'Mittel-landkanal', the most important German canal, where regular cargoes of coal and heating oil are offloaded.



The canal dock can also be very useful for the shipment of very heavy loads which are unsuitable for road or rail or would cause unacceptable difficulties and expense if moved by these methods. When the load reaches the seaport it is possible to transfer it directly from barge to seagoing vessel by a heavy-duty floating crane.



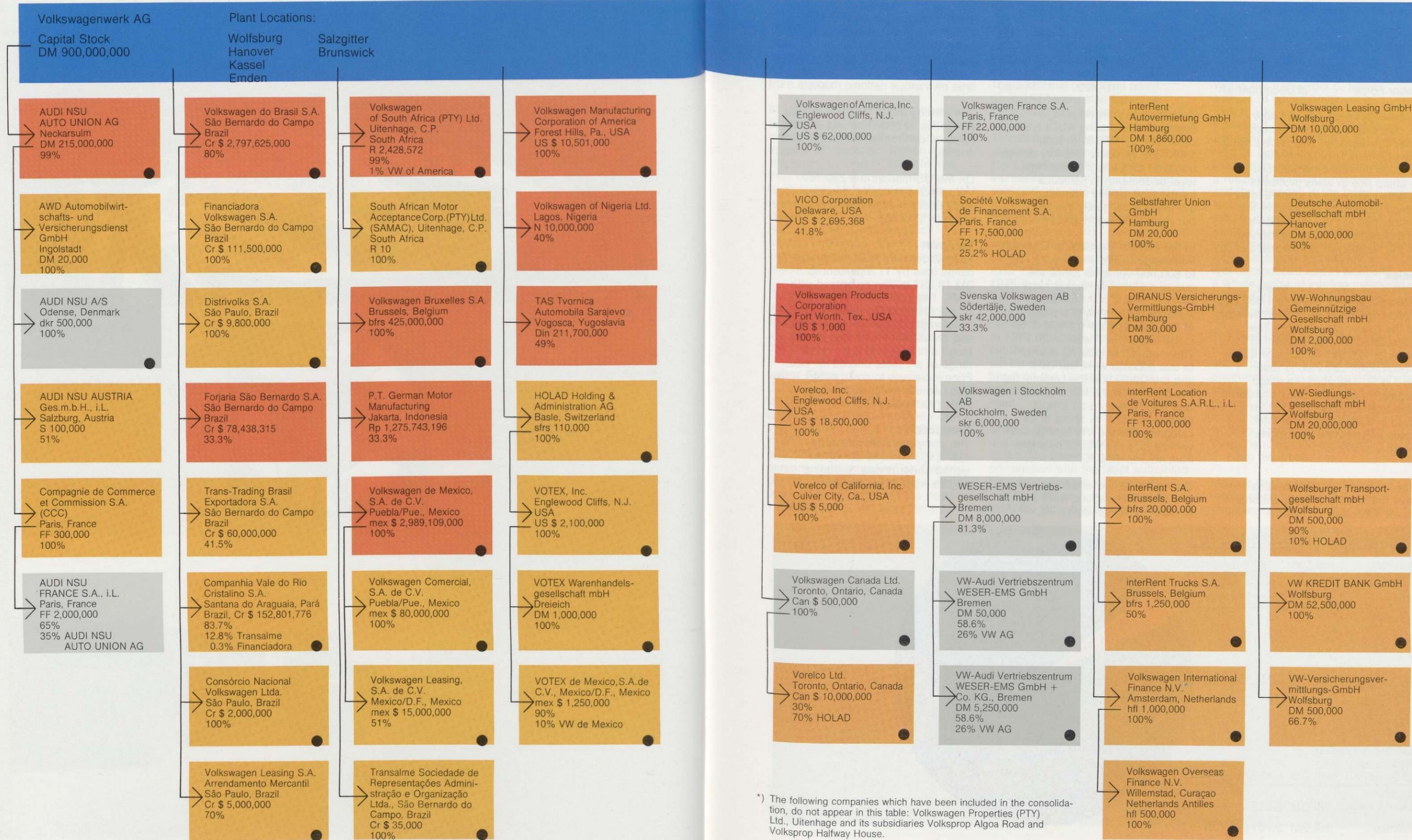
Numerous heavy loads have also had to be shipped to the United States of America for the VW assembly plant at Westmoreland, Pa. Since the plant is not accessible from the US inland waterways system, these items were moved inland on special heavy-duty trucks.

The Major Companies within the VW Group

December 31, 1977

Producing Companies
Distributing Companies
Other Companies

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



*) The following companies which have been included in the consolidation, do not appear in this table: Volkswagen Properties (PTY) Ltd., Uitenhage and its subsidiaries Volksprop Algoa Road and Volksprop Halfway House.

Producing Companies

Volkswagenwerk AG, Wolfsburg

		1977	1976	Increase
		19,837		%
Sales	million DM	1,687,053	16,914	17.3
Sales	units	1,371,453	1,561,506	8.0
Production	units	832	1,316,039	4.2
Capital Investments	million DM	103,301	332	X
Labor Force	at December 31		97,422	6.0

Volkswagenwerk AG was able to conclude the 1977 business year successfully. This encouraging development is primarily due to good domestic-market results. A sharp rise in sales proceeds enabled earnings to reach a level which permits an increase in the distribution to the stockholders and in addition the strengthening of the company's stockholders' equity.

Sales

During the year under review, Volkswagenwerk AG sold 1,687,053 Volkswagen and AUDI NSU vehicles to the dealer organization. This constituted an improvement in sales of 125,547 vehicles or 8.0%. Volkswagen sales alone rose by 1.6%. The above-average growth in domestic sales compared with total sales led to a further drop in the proportion of total sales represented by exports to 52.0 (53.7) %.

The following graph illustrates how the sales proceeds are broken down according to regions:

Dom. market	mill. DM	10,056 (50.7%)
Australia	mill. DM	82 (0.4%)
Asia	mill. DM	272 (1.4%)
Africa	mill. DM	487 (2.5%)
America	mill. DM	3,518 (17.7%)
Europe (excluding Federal Republic of Germany)	mill. DM	5,422 (27.3%)
including EG countries	mill. DM	3,413
Abroad	mill. DM	9,781 (49.3%)

Deliveries of Volkswagens to customers (excluding AUDI NSU cars) rose by 10.6% to total 1,460,388 vehicles. Delivery delays occurred as a result of the high level of demand, in particular for the Golf, where interest in the Golf Diesel easily exceeded our most optimistic expectations.

In the Federal Republic of Germany, Volkswagen sales rose by 13.7% to 600,800 vehicles. Since the overall automobile market expanded by 10.8% to 2,521,663 units, it will be seen that VW's share of this market grew from 20.2% in 1976 to a 1977 level of 20.7%. The models contributing mainly to this success were the Golf and the Derby. On the commercial vehicle market the VW Commercial was able to secure an almost unchanged 61.2% share of its category, and the VW light goods vehicle (LT) to improve its share from 46.3 to 48.8%.

During the period under review 372,451 Volkswagens were sold in other European countries,

this was 12.3% more than in 1976. This improvement in sales is mainly due to the introduction of the Derby, the ever-increasing popularity of the Golf and the availability of the LT for the first time on various national markets.

The leading outlet for sales among this group of countries was Austria, followed by France, the Netherlands and Italy.

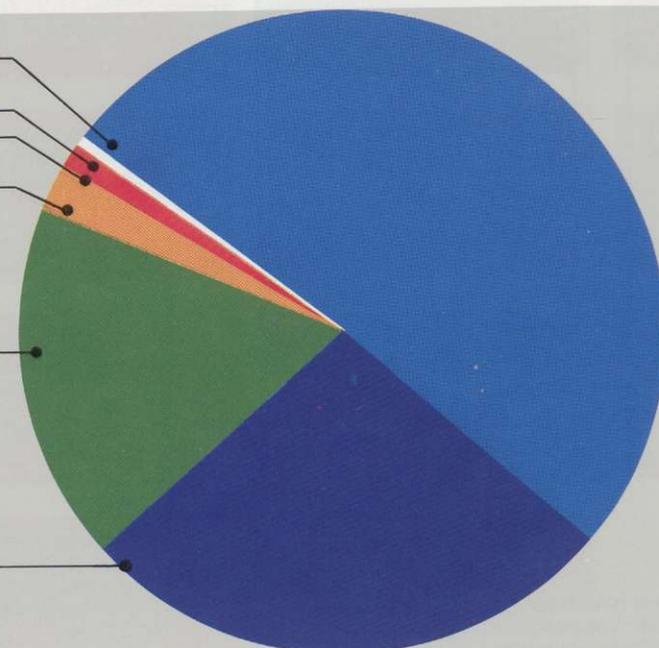
On the US market, the 260,702 VW vehicles delivered during 1977 exceeded the previous year's result by 27.3%.

Turnover

Volkswagenwerk AG's sales proceeds rose by 17.3 percent to DM 19,837 million compared with 1976. This increase was founded on generally strong demand for Volkswagen and AUDI NSU models and on adjustments to the model-range structure and the overall range of products offered for sale. Price increases to cover costs also had the effect of boosting sales proceeds.

Production

The company manufactured 1,371,453 vehicles during the period under review, including 84,288 AUDI NSU models.



Derby production commenced early in 1977, and at the end of the year domestic production of the Beetle ceased. Supplies of this model for the European market will in future be imported from Mexico.

In view of the start of Rabbit production in the USA, scheduled for the spring of 1978, the gradual transfer of Passat production from Wolfsburg to Emden was effected, thus offering security to the Emden labor force. After this production restructuring has been completed, Wolfsburg will manufacture the Polo, Audi 50, Derby and Golf models and Emden the Passat and a percentage of the Audi 80 production volume.

During the past business year the manufacture of assemblies and parts for other automobile companies was considerably expanded.

Labor Force

Consistently good sales results for our models during the year under review led to overtime working, 12 extra shifts and in addition to an increase in the labor force of 5,879 persons or 6.0 %. 103,301 persons were employed on December 31, 1977. Following the corrective measures applied in the years 1974 and 1975, the labor force

thus rose once again beyond the 100,000 mark, although this did not signify any fundamental change in our demonstrably effective personnel policy with regard to the middle-of-the-road approach. The additional personnel taken on in 1977 were also based on long-term requirements.

To assist in cutting down the acute shortage of training capacity at the plant locations Volkswagenwerk AG increased the number of trainees engaged annually over that needed to cover its own immediate requirements. The 952 new trainees engaged in the 1977 training year represent the highest level reached so far. The total number of trainees rose from 2,091 at the end of 1976 by 11.7 % to 2,335 on December 31, 1977. As part of this development we must expand our training facilities considerably. In 1978 therefore, the training center at the Wolfsburg Plant will be extended and work will begin on the construction of a training center at the Hanover Plant.

Special measures in the area of youth unemployment, such as we had been carrying out in conjunction with the labor authorities for years, were also continued in the report year. In this way we were able, among other things,

to prepare youth who have no training and no job for work in industrial production by means of metal working courses of twelve months duration.

Within the framework of further training of young employees, skilled workers and management trainees 4,187 (3,535) employees attended a total of 259 (235) events held as part of the function and leadership training program. As a result of technical progress and the changes in the tasks facing those receiving initial and follow-up training, new special-subject courses – for instance in electronics, control systems technology and supply technology – were introduced and in addition a whole range of training measures for production personnel in the field of work studies developed.

The year under review saw the continuance of Volkswagenwerk's efforts to modernize the working environment, the working procedures and the individual's place of work. Special attention was devoted to arranging suitable places of work for elderly employees and those handicapped by illness or other circumstances.

Despite the increased risk represented by new personnel engagements and a large number

Development of the Labor Force

	Dec. 31, 1977	Dec. 31, 1976	Increase in figures	Increase %
Volkswagenwerk AG	103,301	97,422	5,879	6.0
Plant Locations:				
Wolfsburg	52,620	48,899	3,721	7.6
Hanover	17,397	17,347	50	0.3
Brunswick	5,509	5,200	309	5.9
Kassel	14,321	13,884	437	3.1
Emden	7,357	6,507	850	13.1
Salzgitter	6,097	5,585	512	9.2
Wage earners	88,874	83,611	5,263	6.3
Salaried personnel	14,427	13,811	616	4.5
Female employees	11,718	10,958	760	6.9
Foreign employees	7,767	7,304	463	6.3
Trainees	2,410	2,197	213	9.7
	1977	1976		
Average age of VW employees	39.1	39.4	years	
Employees' average length of service	12.4	12.5	years	
Absenteeism due to sickness	6.7	6.4	%	

of production reorganizations, the accident rate within Volkswagenwerk AG remained almost constant. Apart from the need to comply with legal requirements and the regulations issued by the workers' compensation insurance, much informative work was undertaken in general and job-specific terms to point out the possible risks involved.

The suggestions scheme received 21,603 submissions during the year; 3,647 of these were put into effect and qualified for awards worth a total of DM 4.8 million.

Employees of the VW-Audi dealer organization were encouraged in a successful campaign to submit their own suggestions for improvements in product quality and ease of repair.

The aid program re-introduced in 1976 for the building of new houses and the purchase of houses and apartments was in considerable demand during the report year. Loans to a total value of DM 12 million were granted and thus financial assistance was given with regard to property purchase in 2,071 cases.

The number of pensioners receiving payments from the company's old-age pension fund rose from 12,676 at the end of 1976 to 14,000 on December 31, 1977.

Legislation introduced to improve company old-age pension schemes rendered it necessary to revise the payments principles operated by Volkswagenwerk AG. A new pension statute was therefore introduced with effect from December 1, 1976. Apart from changes

to comply with the new legislation it contains various structural and material improvements, for instance a reduction in the waiting period before receipt of a pension on account of inability to work and an increase in future widows' pension calculations.

An agreement concluded with the Joint Factory Council on October 10, 1977 enabled the definition of the 'salaried managerial staff' under section 5, para. 3 BetrVG to be clarified. Differing interpretations were thus settled at internal company level and a considerable number of hearings before the labor courts thus disposed of amicably.

New agreements on wages and salaries came into force on February 1, 1977 and involved an average increase in pay of 6.9 % and a rise in trainees' allowances of DM 40.- in all grades.

During the year under review, negotiations concerning the collective bargaining agreement terminated on December 31, 1973 led to improvements in the special payments made in connection with employment anniversaries and an amendment to the calculation principle applied to Christmas gratuities. In addition, the vacation period rulings of the collective

bargaining agreement were reformulated and will come into force on January 1, 1978.

Volkswagenwerk AG's cost of labor rose in 1977 by 4.1 % to DM 4,469 million, mainly on account of an increase in the total labor force but also on account of negotiated wage and salary rises.

As in other German companies, fringe costs have grown disproportionately in recent years on account of new legislation and negotiated benefits. In 1977, such costs accounted for 47.0 % of Volkswagenwerk AG's total labor costs, 1976: 50.1 %. The decrease as compared to the previous year is due to the fact that the undetermined liabilities in respect of old-age pensions were built up to the full 'Teilwert' in 1976, which resulted in an extraordinarily strong rise in pension expenditures and voluntary payments. Leaving these extraordinary events out of consideration, there is also in the report year an increase in the proportion of fringe costs within the total labor costs.

The breakdown of the cost of labor for the 1977 business year, which do not only appear in the statement of earnings' items as required by law, is shown in the diagram below:

Investments

Total investment during 1977 was more than double the previous year. Additions to property, plant, equipment and investments totalling DM 832 million related to DM 436 million for property, plant and equipment and DM 396 million for investments in subsidiaries and affiliates.

Investments in property, plant and equipment were devoted to upkeep of plant, improvements to models and production restructuring work (for example the transfer of Passat production to Emden). Investments in subsidiaries and affiliates mainly concerned an increase of the capital stock of the VW de Mexico and of the VW Manufacturing Corporation of America.

In the coming three years, we shall be investing some DM 3,000 million in property, plant and equipment. These investments are intended primarily to keep the company in a competitive position and will be concentrated on product development and refinement, the humanization of working conditions, the streamlining of production activities and the replacement of equipment.

Wages and salaries 53.0 (49.9) %
(based on performance)

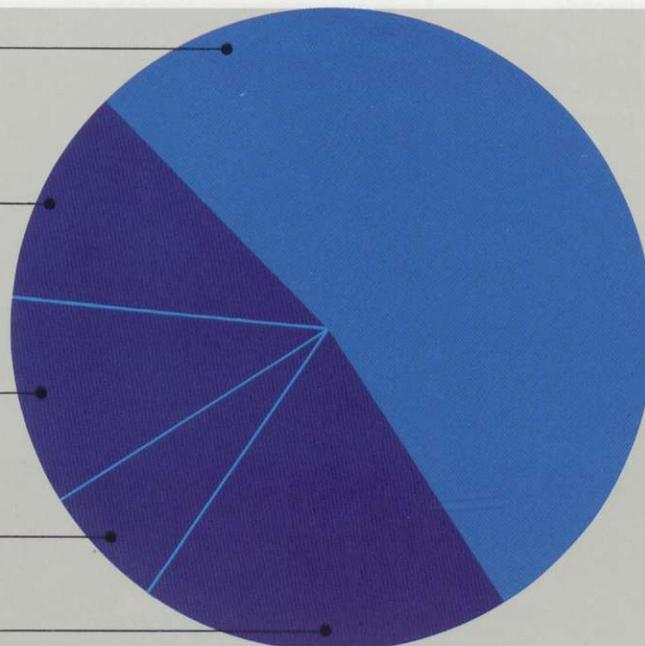
Fringe costs

Social expenditures-compulsory 10.9 (10.2) %

Social benefits-compulsory 10.8 (9.8) %

Pension expenditures and voluntary payments 6.3 (13.3) %

Additional social benefits 19.0 (16.8) %



**AUDI NSU AUTO UNION AG
Neckarsulm**

		1977	1976	Increase (Decrease) %
Sales	million DM	4,230	3,030	39.6
Sales	units*)	339,883	265,365	28.1
Production	units*)	339,883	260,017	30.7
Capital Investments	million DM	156	158	(1.4)
Labor Force	at December 31	28,349	25,363	11.8

The pattern of business enjoyed by AUDI NSU in 1977 was primarily governed by the successful performance of the new Audi 100. Introduction of this model and the general rise in levels of utilization of existing production capacity resulted in a distinct consolidation of the company's activities.

During the period under review, AUDI NSU manufactured a total of 339,883 cars, 30.7 % more than in the previous year. The figure includes 21,955 Porsche 924 cars. The Audi 100 accounted for 57.4 (34.6) % of total output, the Audi 80 for 36.0 (57.4) % and the Porsche 924 and Ro 80 together for 6.6 (8.0) %. Average output per working day including Porsche 924 models rose from 1,119 cars in 1976 to 1,418 in 1977. A part of the Audi 80 production has been transferred to the Emden factory since the end of 1976, especially station wagons and US versions have been produced there.

Presentation of the Audi 100 Avant at the International Automobile Show, held in September 1977 in Frankfurt, Federal Republic of Germany, added a 'fastback' version to the well-established Audi 100 range.

AUDI NSU's share of the domestic automobile market rose in 1977 to 9.5 (7.8) %. In other European countries too the market share was further increased.

Sales proceeds rose in turn by 39.6 % to DM 4,230 million. 98.5 % of this total derived from sales to Volkswagenwerk AG.

In order to satisfy the demand for all models, the labor force was allowed to increase. It was also necessary to work 14 extra shifts during the year. At the end of 1977, AUDI NSU AUTO UNION AG employed 28,349 persons, 11.8 % more than twelve months previously. The number of trainees rose to 895, this being more than the actual own requirements; this meant that AUDI NSU made available 35 % more places for trainees than in the previous year.

Investments in the 1977 business year totalled DM 156 (158) million. The investment emphasis at AUDI NSU was on the modernization and extension of manufacturing facilities.

World-wide sales of rotary piston engines of all manufacturers and the income from license fees both fell in 1977. A major reason

for this is to be sought in announcements by the General Motor Corporation regarding cessation of its rotary piston engine research and development work. These statements led to a reduction in certain interested companies' and licensees' enthusiasm for equivalent developments. Total sales of rotary piston engines were 50,020 units, 36.6 % fewer than in 1976.

AUDI NSU undertook a comprehensive information program directed at licensees and other interested companies to outline the current state of rotary piston engine development. The positive reaction proved that AUDI NSU, as the licensor, continues to occupy a leading position in terms of development engineering.

The company's profits in 1977 were DM 87.0 (55.2) million. The net earnings shown on the balance sheet were allocated to payments to participating certificate holders (DM 1.8 million). DM 85.7 million were transferred to the parent company under the provisions of the inter-company agreement.

*) including 21,955 (19,112) Porsche 924 cars

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

		1977	1976	(Decrease) %
Sales	million DM	3,231	3,570	(9.5)
Sales	units	474,467	527,808	(10.1)
Production	units	472,192	529,636	(10.8)
Capital Investments	million DM	89	143	(37.4)
Labor Force	at December 31	38,241	39,467	(3.1)

The restrictions imposed by the Brazilian authorities early in the year with a view to cutting national fuel consumption caused a drop in overall automobile demand for the first time in 1977. A much more severe setback was suffered on the light commercial vehicle market.

VW do Brasil was not so much affected by this general market recession as were its main competitors. Our share of the automobile market, with 379,363 cars sold on the domestic-market, fell from 57.8 % to 55.9 %. It should be noted that a new competitor in the small-car category has now appeared in Brazil in the shape of Fiat. The light commercial sector, however, saw an increase in the VW share of the market from 51.9 to 57.6 %, despite the fact that the total number of vehicles sold dropped for the reasons already stated.

Like other major Brazilian companies, VW do Brasil has concluded an export undertaking with the Brazilian

government. The number of vehicles exported to comply with this requirement (complete or knocked-down) in 1977 fell by 18.6 % from 65,994 to 53,742. The main reason for this was a reduction in deliveries to Mexico. Due to the increase in the assemblies and parts exports a slight rise in export sales proceeds was achieved however.

All in all, VW do Brasil sold 474,467 vehicles in the report year, a drop of 10.1 % compared with 1976. The fall in sales and in the currency exchange rate led to turnover also being reduced by 9.5 %, to DM 3,231 (3,570) million.

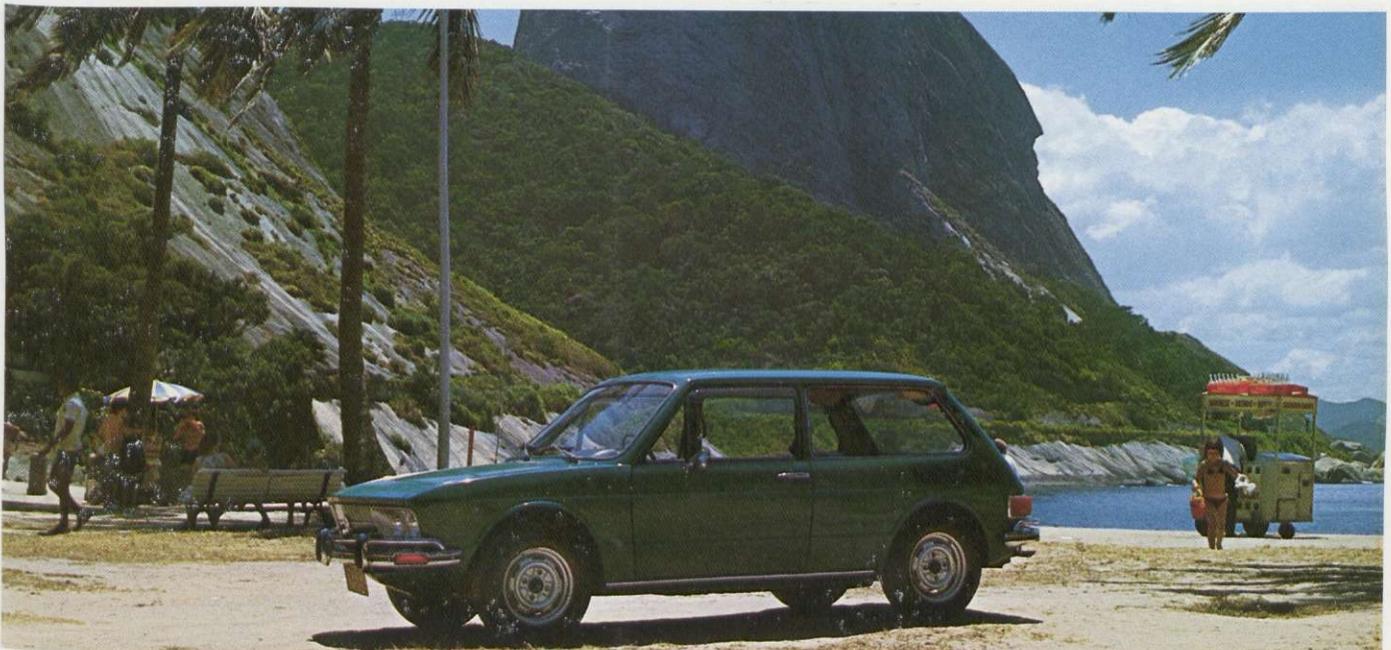
With an average working-day output of 1,992 (2,180) vehicles, production during the year fell by 10.8 % to 472,192 (529,636) units. However, in October 1977 VW do Brasil was able to celebrate the manufacture of its four-millionth Volkswagen.

Capital investments, for the most part replacement- and model-related

investments, totalled DM 89 million and were thus 37.4 % below the previous year's figure.

The profits made permit a satisfactory dividend payment to be made.

For years the 'Brasilia' has been a successful model for our Brazilian subsidiary.



Volkswagen Manufacturing Corporation of America, Forest Hills, Pa., USA

		1977	1976	Increase %
Capital Investments	million DM	331	72	×
Labor Force	at December 31	910	108	×

Work proceeded to schedule on the completion of the assembly plant at Westmoreland, Pa., and the conversion of the stamping plant at South Charleston, W. Va., throughout the year under review. Construction work at the Westmoreland plant was brought to the stage at which final equipment installation on Rabbit cars imported by the company from Germany could be commenced on the premises early in October 1977. After completion of ancillary buildings, installation of all services and all production facilities and equipment, standard production is to commence in April 1978. This will represent adherence to the original deadline of 18 months following the commencement of the finishing work, despite, among other things, difficulties in delivering production equipment punctually from the Federal Republic of Germany on account of the dock strike along the US eastern seaboard. By the end of 1978 full production capacity should be reached.

Since the company is in its initial stage, the 1977 business year ended with a loss.

The capital stock of the company was reduced during the year to compensate for losses and consolidate the stockholders' equity. At the same time, the capital stock was raised again by the issue of new stock which was taken over in full by Volkswagenwerk AG with a premium. The subscribed capital stock is 10,501,000 dollars.

Aerial view of the assembly plant, Westmoreland, Pa. Standard production of the Rabbit will start in April 1978.



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

	1977	1976	Increase (Decrease) %
Sales million DM	676	801	(15.7)
Sales units	71,790	71,741	0.1
Production units	52,292	84,562	(38.2)
Capital Investments million DM	21	30	(29.3)
Labor Force at December 31	7,558	8,683	(13.0)

In order to provide the company with the necessary financial backing, VW de Mexico undertook an increase in capital stock in September 1977 from 1,856,157,000 Pesos to 2,989,109,000 Pesos. The new shares were issued at par value and taken over in full by the Volkswagenwerk AG.

During 1977 it proved impossible for the Mexican economy to recover from the Peso devaluation announced on September 1, 1976 and the concomitant recession, unchanging high rates of inflation and associated high level of unemployment.

The reduction in sales proceeds by 15.7 % resulted from the drop of the Peso exchange rate. In Mexican currency an increase of 49.6 % as compared to 1976 was shown.

The company ended the business year with a loss, caused by foreign-exchange losses resulting from a further devaluation of the Mexican Peso.

Despite the continuing national economic difficulties, VW de Mexico was able with the assistance of Volkswagenwerk AG to stabilize its sales and financial situation. Due to the slight sales recovery in the final months of the year in particular the company was able to sell 71,790 vehicles, thus attaining the previous year's sales volume of 71,741 units. A major contribution to this consolidation of the sales position was made early in 1977 by the introduction to the Mexican market of the Caribe (Golf) and Hormiga (Basic Commercial) models. In addition, exports of Beetles to Europe commenced. The outcome of these measures was an improvement in the utilization of available production capacity at VW de Mexico.

The VW share in the passenger car market at 28.0 (29.1) % was slightly below the previous year's share.

Production had to be cut back by 38.2 % compared with the previous year to 52,292 vehicles. The excessive stocks of unsold vehicles which built up when the Peso devaluation caused demand to stagnate had been completely disposed of by the end of the review year.

After a further reduction in the labor force early in 1977 to allow for the changed sales situation, a stable labor-force picture was arrived at during the year. On December 31, 1977 the company employed 7,558 (8,683) persons, a drop of 13.0 % compared with the end of 1976.

Volkswagen de Mexico has also been producing the Beetle for the European market since the beginning of 1978.



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

		1977	1976	Increase (Decrease) %
Sales	million DM	390	437	(10.7)
Sales	units	32,778	38,631	(15.2)
Production	units	33,809	37,485	(9.8)
Capital Investments	million DM	43	27	62.3
Labor Force	at December 31	4,660	4,675	(0.3)

The recession prevailing in South Africa since the end of 1975 did not improve during 1977, so that the national economic policies were for the most part concentrated on cutting imports, restricting official spending and damping down inflation.

On account of these trends, the South African automobile market suffered a further setback in 1977. New-car registrations fell again by 9.9 % compared with 1976, and at 166,764 vehicles were at the lowest level since 1968. However, despite the stronger competition stimulated by these trading conditions, VW of South Africa proved capable of achieving a 15.0 % share and thus of more or less maintaining the market share it had secured in the previous year. A major contribution towards this satisfactory result was made by the new Audi 100, following its introduction in August 1977.

Against this, the light commercial vehicle market shrank by 19.7 %, a sign that it was more severely affected by the general economic recession than the automobile market. In the light commercial vehicle category, VW of South Africa could achieve no better than a 9.1 % share of the market, compared with 11.6 % in 1976.

To take account of the changed demand situation, vehicle production and assembly were cut back by 9.8 % to 33,809 (37,485) units. During the report year the company sold 32,778 vehicles, again a reduction of 5,853 units or 15.2 % compared with the previous twelve-month period.

The rise in capital investments is explained by the introduction of the new Audi 100 in August 1977 and the Golf early in 1978.

Due principally to inadequate utilization of existing facilities caused by the slump in sales, VW of South Africa made a loss in the 1977 business year.

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

		1977	1976	Increase %
Sales	million DM	908	773	17.5
Sales	units	104,430	97,305	7.3
Production	units	104,435	97,314	7.3
Capital Investments	million DM	12	4	x
Labor Force	at December 31	3,781	2,960	27.7

Our Belgian subsidiary, VW Bruxelles, benefited from the continuing high level of demand for new automobiles and was able to boost the number of Passat cars and wagons assembled by 7.3 % to 104,435 units. This total was 7,121 units higher than the output figure for 1976.

The company made a profit in the 1977 business year.

**Volkswagen of Nigeria Ltd.
Lagos**

During 1977 Volkswagen of Nigeria Ltd. assembled 23,085 cars, 42.1 % more than in the previous year.

New registrations of VW and Audi models rose by 41.0 % to 24,307 and of VW Commercials by 6.1 % to 12,240. Whilst the Group's share of the automobile market increased to 26.6 (23.5) %, the Group's share of the commercial vehicle market fell from 16.8 % to 13.2 % as the overall national commercial vehicle market increased more rapidly than the registrations of VW vehicles.

To accommodate the increased volume of business, the issued capital stock was raised during the year and after completion of the initial phase by 7,000,000 Naira to 10,000,000 Naira. In this case the share of Volkswagenwerk AG in the capital stock of Volkswagen of Nigeria remained unchanged.

The company was able to conclude the 1976/77 business year (May 1–April 30) with a slightly positive result.

TAS Tvoronica Automobila Sarajevo, Vogosca, Yugoslavia

This company, established jointly with the former VW importer UNIS in 1972, enjoyed a satisfactory business year in 1977. A total of 10,478 Golf cars assembled in Yugoslavia, together with 978 imported vehicles, were disposed of and represented a 14.6 % increase in sales compared with 1976.

In order to realize the projected extension of capacity it was resolved to increase the capital stock in stages to 211,700,000 New Dinar by maintaining the existing holding ratio.

The 1977 business year ended with a positive result.

**P.T. German Motor Manufacturing
Jakarta, Indonesia**

This vehicle assembly company, in which Volkswagenwerk AG, Daimler-Benz AG and an Indonesian partner have equal holdings, could not produce satisfactory results overall for 1977. On the automobile market the government's restrictive customs policy led to sales losses. The demand for commercial vehicles dropped during the first six months of the year, but sales were built up considerably during the remainder of 1977 as the Indonesian economy began to recover. Despite this, the company was unable to attain a satisfactory level of vehicle output.

During the review period 1,162 (3,317) Volkswagen and 1,590 (2,581) Daimler-Benz vehicles were assembled.

The company made a loss in the 1977 business year.

Distributing Companies

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

		1977	1976	Increase %
Sales	million DM	4,087	3,270	25.0
Sales	units	282,205	230,137	22.6
Labor Force	at December 31	2,475	2,152	15.0

Demand for automobiles in the USA rose in the 1977 business year compared with the previous twelve-month period by 1.1 million units or 10.6 % to a total of 11.1 million cars. Of these increased sales, more than half were booked by imported cars, of which a total of 2.0 million units were sold, representing a record market share of 18.3 (14.6) %. Sales of domestic models, on the other hand, rose by only 5.8 %.

During the period under review VW of America sold 282,205 vehicles to the dealer organization, 22.6 % more than in the previous year. 296,551 Volkswagen and Audi models were delivered to customers, 24.5 % more than in 1976. Volkswagen's sales increase is due above all to the Rabbit sales success, with a total of 164,706 cars of this model being disposed of. The American press and the public gave a warm reception to the newly introduced Rabbit Diesel, and since this model's introduction

during the summer of 1977 12,939 vehicles have already been sold.

Deliveries of Audi models rose by 7.6 % compared with 1976 to 35,849 cars. This was due primarily to the launching of the Audi 5000 (the American name for the new Audi 100).

During the 1977 business year, an additional 19,896 Porsche Type 911 and 924 cars were sold, a marked improvement on the previous year's total.

VW of America was able to increase its share of the total American automobile market from 2.3 to 2.6 % in 1977.

In the report year, our American subsidiary's sales proceeds rose by 25.0 % to DM 4,087 million. A number of price increases during the year and alterations to the range of models offered resulted in a greater percentage rise in sales proceeds than in unit sales to the dealer organization, despite the continuing drop in the dollar exchange rate.

In order to strengthen the financial position of VW of America, its capital stock was increased by 17,000,000 dollars to 62,000,000 dollars.

The company made a profit during the 1977 business year.

The increase in sales in the USA is due above all to the success of the Rabbit.



Volkswagen France S.A., Paris

		1977	1976	Increase (Decrease) %
Sales	million DM	768	747	2.9
Sales	units	65,185	71,195	(8.4)
Labor Force	at December 31	550	519	6.0

New car registrations in France for 1977 were at a slightly higher level than a year previously. However, VW France was unable to benefit fully from this trend, since sales were adversely affected by price increases necessitated by the weakness of the Franc on foreign-exchange markets and by delivery bottlenecks for certain models. With sales of 53,068 Volkswagens and 12,117 Audis to the dealer organization the results of the previous year were not attained (-8.4 %). Once again, the top-selling Group model was the Golf, followed by the Polo. Our share of the automobile market was 3.2 (3.5) %.

The company concluded the business year with a profit.

Volkswagen Canada Ltd., Toronto

		1977	1976	Increase (Decrease) %
Sales	million DM	343	352	(2.4)
Sales	units	26,185	23,803	10.0
Labor Force	at December 31	312	311	0.3

In contrast to the previous year, 1977 saw a rise in total passenger car sales on the Canadian automobile market of 4.9 %. The demand for imports rose considerably more than that for automobiles assembled in Canada.

During 1977 Volkswagen Canada was able to increase its vehicle sales by 10.0 %. As in 1976, good Rabbit sales made a decisive contribution. Despite this, sales proceeds after conversion to DM dropped by 2.4 % to DM 343 million.

VW, Audi and Porsche cars obtained an 2.7 % share of the Canadian automobile market in 1977, compared with the 1976 figure of 2.4 %.

VW Canada made a profit during the 1977 business year.

Svenska Volkswagen AB, Södertälje, Sweden

The Swedish economy underwent something of a recession during 1977. This prevented Svenska Volkswagen AB from equalling the sales volume of the previous year. Only 31,622 vehicles (25,334 Volkswagens and 6,288 Audis) were sold to the dealer organization, 17.0 % fewer than in 1976. Although deliveries of VW and Audi models to customers were also below the previous year's level, the company none the less secured an improvement of its share of the automobile market at 12.2 % (11.2 %), since total new-car registrations fell at a steeper rate still.

The company concluded the 1977 business year with a profit.

Other Companies

WESER-EMS Vertriebsgesellschaft mbH, Bremen

As a result of restructuring within the VW-Audi domestic marketing organization, the company has acted as a holding and participating concern since January 1, 1976. Its main income derives from its holding in the VW-Audi Vertriebszentrum WESER-EMS GmbH+Co.KG in Bremen and from the letting of property.

The profit was transferred to Volkswagenwerk AG in accordance with the Profit and Loss Assumption Agreement between the two companies.

VW-Audi Sales Centers in the Federal Republic of Germany

The 22 VW-Audi sales centers in Germany perform a distributing function for the VW Group. Volkswagenwerk AG has a direct 26 % holding in each of them.

The positive pattern of business and of earnings recorded during 1977 is in accordance with the continuing strong demand for the Group's products on the home market.

The Beetle Convertible is still one of the best-loved convertibles in the world.

VOTEX, Inc., Englewood Cliffs N.J., USA

Together with its subsidiaries, VOTEX was able to expand its sales proceeds in 1977 to a total of DM 174 million. Accessories and parts trading was slightly in excess of the previous year's level, and the remainder of the growth in turnover was derived from other trading activities.

As a result of exceptional factors influencing trading activities, the company made a loss in 1977.

Volkswagen Leasing GmbH Wolfsburg

In 1977 VW Leasing continued its expansive business course and consolidated its position as market leader in its field. The customer list was extended further and the number of leased vehicles considerably increased.

Proceeds, including those from the leasing of servicing equipment to the German Group organization, rose by DM 38 million to DM 201 million.

During the year under review, the company traded successfully. Since the Profit and Loss Assumption Agreement was terminated on the due date, the company transferred all its profit to reserves in order to build up its capital resources.

interRent Autovermietung GmbH Hamburg

This company, which celebrated its 50th anniversary in 1977, hires out short-term self-drive passenger cars and trucks within the Federal Republic of Germany. In Belgium, these activities are carried out by a subsidiary, whereas in the remaining countries of Europe and in many other countries interRent has negotiated independent licenses. At the end of 1977 the hiring out of trucks within Belgium was assigned to the newly founded interRent Trucks S.A., Brussels.

The highly satisfactory pattern of business noted in 1976 continued in the current year. A determined approach to the German market, in particular with regard to advertising, customer service and pricing, led to a rise in our share of all sectors of the market. Proceeds from our activities rose from DM 119 million in 1976 to DM 150 million.



The company ended the business year once again with good results. An amendment to the corporation tax law enabled an opportunity to be taken to terminate the Profit and Loss Assumption Agreement. interRent transferred its profit for the year to reserves as a means of strengthening its capital resources.

Wolfsburger Transportgesellschaft mbH, Wolfsburg

This company undertakes sea and air transportation and all associated transactions for the VW Group.

Freight handled in the year under review rose as a result of improved sales in the USA. A total of 633,000 (619,000) vehicles were shipped.

At the end of the year the company had 17 ships on charter, and was able to show a profit on its business activities. This profit was transferred to Volkswagenwerk AG under the terms of the Profit and Loss Assumption Agreement.

VW KREDIT BANK GmbH Wolfsburg

This company provides credit facilities as a means of promoting VW and Audi product sales on the domestic-market. It finances the purchase of vehicles and parts by the German VW-Audi sales organization and also the vehicles sold to customers.

Increased vehicle sales within Germany resulted in a satisfactory business trend in both categories of financing despite increasing delivery times.

On account of changes in corporation tax legislation, the Profit and Loss Assumption Agreement was terminated. This enabled the company to transfer the worthwhile profit achieved in 1977 to reserves in order to built up its capital resources.

VW-Wohnungsbau Gemeinnützige Gesellschaft mbH, Wolfsburg

During 1977 the company concentrated its effort on the modernization and upkeep of older accommodation.

The sale of apartments reduced the number owned by the company slightly during 1977. At the end of the year, the total was 7,149 apartments and 132 units of accommodation in hostels.

VW-Siedlungsgesellschaft mbH Wolfsburg

During the report year the company concentrated on the upkeep, servicing and administration of existing dwellings. At the end of 1977 it had 5,383 apartments and 608 accommodation units in hostels.

As in prior years, the company has exploited all fiscal depreciation

possibilities. The loss was taken over by Volkswagenwerk AG under the provisions of 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 mbH, 25.2 % of the capital stock of the French financing company Société Volkswagen de Financement S.A., Paris and 70 % of the capital stock of Vorelco Ltd., Toronto, a company which lets sites and buildings to the Canadian VW organization. HOLAD also holds 100 % of the capital stock of VOTEX, Inc., Englewood Cliffs.

Volkswagen International Finance N.V., Amsterdam, Netherlands

Volkswagen Overseas Finance N.V., Willemstad, Curaçao Netherlands Antilles

These companies were set up in April 1977. Their business activities comprise the financing of other VW Group companies and the acquisition of holdings.

In this connection, Volkswagen Overseas Finance N.V. issued bearer fractional 'Euro-Dollar'-bonds for 150,000,000 US dollars at 7 3/4 % interest during May 1977. The income from this issue is to be used for the financing of VW Group investments abroad.

Volkswagen Overseas Finance N.V. is a wholly-owned subsidiary of Volkswagen International Finance N.V., which company has a capital stock of 1,000,000 Dutch Guilders held entirely by Volkswagenwerk AG. The companies made a profit during the incomplete business year 1977.

Deutsche Automobilgesellschaft mbH, Hanover

This company is jointly owned by Daimler-Benz AG and Volkswagenwerk AG. During the 1977 business year it pursued its scheduled research and development into electrically powered automobile construction in accordance with tasks laid down by the two controlling companies.

The profit was distributed equally between the two partners in accordance with the Profit and Loss Assumption Agreement.

VW-Versicherungsvermittlungs-GmbH, Wolfsburg

The company acts as insurance broker for the VW Group and others. The premiums taken in its first full business year were greater in volume than had been anticipated.

A good result was thus obtained, and the profit distributed to the partners in accordance with the Profit and Loss Assumption Agreement.

Outlook

No significant change in the sales situation is anticipated for the German automobile industry in 1978. The motor vehicle industry will continue to stimulate overall economic development in the Federal Republic of Germany. However, following the relatively high growth rates of the past year we expect a period of relative calm to set in and the demand for automobiles to stabilize at the high level it has now reached. In the medium- to long-term the growth curve is expected to flatten out.

The VW Group has made preparations for the trend forecast above and will continue its policy of controlled expansion on the domestic-market.

On foreign markets the ability of the German automobile industry to remain competitive will depend greatly on international exchange-rate movements and the pattern of costs within the Federal Republic of Germany. By virtue of its commitment to the assembly of Golf-type cars in the USA, commencing in the spring of 1978, the VW Group has reduced its sensitivity to dollar exchange-rate fluctuations.

It will, however, be impossible to maintain our position against international competition, in some

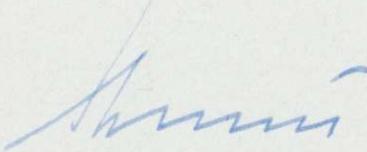
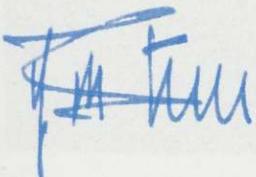
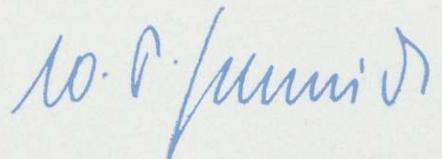
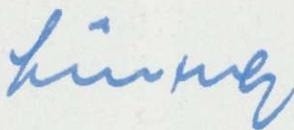
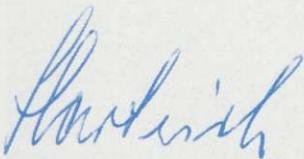
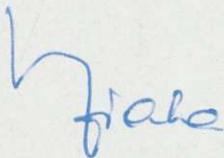
cases from manufacturers capable of producing at lower cost, unless we are able to maintain comprehensive cost and price discipline. If we succeed in this, we can afford to be optimistic as to our pattern of sales on the main foreign markets, the more so since our model range now exhibits no gaps and has been given a positive market reception, thus leading to a distinct improvement in our ability to compete.

The uncertain currency-market situation makes it difficult to forecast earnings for 1978, but we believe that this year will also conclude with satisfactory results.

The focus of our endeavors will continue to be the improvement of our profitability, particularly at the companies abroad in which we have a financial interest, in order to furnish our Group with a healthy long-term equity basis and to safeguard the jobs of our employees.

Wolfsburg, March 6, 1978

The Board of Management



The Passat has become still more comfortable and economical as a result of comprehensive model improvements.



Financial Statements and Comments

Comments on the Consolidated Financial Statements of the VW Group

Basis of Consolidation

Scope of Consolidation

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 14 domestic and 33 foreign subsidiaries and affiliates were consolidated. These companies are shown in the illustration on page 36.

For the first time one domestic company and four foreign companies were consolidated in 1977:

VW-Versicherungsvermittlungs-GmbH Wolfsburg,
Volkswagen International Finance N.V. Amsterdam,
Volkswagen Overseas Finance N.V. Willemstad, Curaçao,
Volkswagen Leasing S.A., Arrendamento Mercantil, São Paulo,
interRent Trucks S.A., Brussels.

The VW-Versicherungsvermittlungs-GmbH, which was established to negotiate insurance business for the VW Group has started its activities early in 1977. The business activities of the Volkswagen International Finance N.V. and the Volkswagen Overseas Finance N.V. comprise the financing and the acquisition of holdings in other companies.

Upon receipt of official permission the Volkswagen Leasing S.A. in Brazil will commence the leasing business. In order to expand the hiring-out activities the interRent Trucks S.A. was founded in Belgium. This company started its activities on January 1, 1978.

The following two companies no longer appear in the consolidated financial statements for 1977:

AWD Automobilwirtschafts- und Versicherungsdienst GmbH, Ingolstadt,
Trans-Trading Brasil Exportadora S.A. São Bernardo do Campo.

The AWD Automobilwirtschafts- und Versicherungsdienst GmbH, which is practically without assets ceased its business activities as at January 1, 1977, and the Trans-Trading Brasil Exportadora S.A. can no longer be included in the consolidated financial statements due to the majority of its shares having been sold.

The scope of consolidation does not include an additional domestic company and 18 foreign subsidiaries and affiliates of which 7 dealerships are in the USA and Canada. The companies not consolidated do not all carry out business activities. Their volume of business is immaterial in comparison to the consolidated

balances and consequently the exclusion of these companies from the consolidated financial statements does not affect the Group's sales and earnings situation.

The ones mainly concerned are as follows:

Auto Union GmbH, Munich,
VW Automotive Industries (Australia) PTY. Ltd. i.L., Caulfield, Australia,
VW Inmobiliaria, S.A. de C.V. Puebla/Pue.,
Compagnie de Commerce et Commission S.A. (CCC), Paris,
AUDI NSU FRANCE S.A. i.L. Paris

Compliance with Standard German Practices of Accounting

The consolidated financial statements were prepared in accordance with the requirements of German stock corporation law and the consolidated balance sheet shows the changes which took place in property, plant, equipment and investments. Changes in the method of presentation, which had proved necessary from the Group's point of view, were effected. The amounts provided for distribution to the holders of participating certificates in the AUDI NSU AUTO UNION AG are now shown under liabilities. Due account was taken of the legal restrictions placed on the capital stock of a non-profit company

in the consolidated financial statements by including the reserves and the non-distributed part of the net earnings of this company in consolidated undetermined liabilities shown in the consolidated balance sheet. We have prepared the consolidated statement of earnings in detail and it includes the subsidiaries involved in consolidation.

The individual 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 and certified. Where these 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, the appropriate adjustments were made prior to consolidation. Where the values shown were at variance with German accounting principles, we have adjusted such items making particular use of the concept of prudence and the cost of acquisition method.

Consolidated transactions have influenced the business results.

For the first time an undetermined liability was set up in the consolidated financial statements to take into account foreign withholding

taxes which have to be paid on earnings, to be distributed within the following year, within the Group by consolidated companies.

Conversion Rate

The values for property, plant, equipment and investments were converted at the average rates of exchange for the respective year of acquisition or production of the various items (former rates) and for the subscribed capital stock and the other reserves the rates of exchange valid at the date of transfer were used. 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. We have converted the expenditures and income items shown in the statement of earnings 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 was also based on the rates of exchange for the year of acquisition.

The differences of rates of exchange incurred by converting balance sheet items are shown as reserve from capital stock surplus. They have not affected the net earnings for the report year. Differences

of rates of exchange incurred by converting the items shown in the statement of earnings were eliminated before assessing the net earnings and thus they could not influence the net earnings.

Capital Consolidation

We have effected the capital consolidation by differentiation of adjustment items arising from the initial and consecutive consolidation. When using this method of capital consolidation, the acquisition costs of the interests in consolidated companies are set off against the capital stock at the time of acquisition of the interest and included in the consolidated financial statements. The adjustment items resulting from initial consolidation were shown on the assets side between property, plant, equipment and investments and current assets and on the liabilities side separately under consolidated reserves.

The adjustment items resulting from the consecutive consolidation, with the exception of the differences resulting from conversion which are included under the reserve from capital stock surplus, are consolidated with Volkswagenwerk AG's unappropriated earned surplus and shown as reserves of the Group arising from earnings.

Financial Position

The reserves of the Group arising from earnings mainly include the following:

Legal reserve of Volkswagenwerk AG without premium resulting from capital stock increase,

Capital stock increases of subsidiaries and affiliates from company earnings achieved during the time they were within the Group,

Value adjustments on investments in consolidated companies, insofar as they cannot be deducted from the adjustment items arising from initial consolidation and shown on the assets side,

Differences from offsetting arising from consolidation of liabilities,

Elimination of intercompany gains made with regard to property, plant, equipment and investments and inventories.

The proportionate net earnings of the subsidiaries and affiliates, which were not set aside for distribution to outside stockholders or holders of participating certificates, and also the losses of the consolidated companies were included under reserves of the Group arising from earnings. If dividends were distributed to the parent company these have been shown in the consolidated statement of earnings as transfers from this item. As a result, the net earnings shown in the consolidated financial statements are identical with those published in the Volkswagenwerk AG's financial statements.

When ascertaining the minority interest in consolidated subsidiaries, as in the case of financial statements of foreign companies, the individual financial statements were brought into line according to the principle dictated by normal accounting practice in Germany and converted into DM. The differences resulting from conversion and incurred in the course of consolidation were percentually assigned to minorities.

The table below shows the following changes with regard to the balance sheet structure as compared with that of the previous year:

Million DM	Dec. 31, 1977		Dec. 31, 1976	
Assets				
Property, Plant, Equipment and Investments	5,955	38 %	6,034	42 %
Current Assets	9,569**)	62 %	8,426**)	58 %
	15,524**)	100 %	14,460**)	100 %
Liabilities				
Stockholders' Equity	4,260	27 %	4,001	28 %
Liabilities payable within more than 4 years	3,418	22 %	3,036	21 %
1 to 4 years	2,137	14 %	1,761	12 %
1 year	5,709	37 %	5,662	39 %
	15,524**)	100 %	14,460**)	100 %

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

Net earnings
+ Provision for depreciation of physical plant and write-down of investments
- Write-ups and accumulation of discount
+ Decrease in property, plant, equipment and investments
+ Increase in provision for old-age pensions
+/- Increase/Decrease of stockholders' equity in reserves for special purposes
<hr/>
= cash flow

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

In the year under review the positive trend in the development of the financial position continued.

The investments totalling DM 1,697 million increased by DM 556 million or 48.7 % as compared to the previous year. Due to the good earnings situation a cash flow*) of DM 2,488 million could be achieved. As a result of earnings being again liable to full taxation the cash flow was DM 567 million or 18.5 % lower than in the prior year. Whereas the investments were financed to 94.3 % by depreciations, the cash flow exceeded the investments by DM 791 million or 46.6 %.

The increase in balance sheet totals by DM 1,064 million (7.4 %) resulted mainly from the rise of current assets on the one hand and of liabilities on the other hand. Since the depreciations and deductions exceeded the investments, property, plant, equipment and investments totalling DM 5,955 million decreased slightly by DM 79 million (1.3 %) as compared to the previous year. The rise of current assets by DM 1,143 million (13.6 %) to DM 9,569 million was mainly reflected in liquid funds. As a result of reserve transfers stockholders' equity rose by DM 259 million (6.5 %) and thus a total of DM 4,260 million was shown. The liabilities increased by DM 805 million (7.7 %) to DM 11,264 million and this is mainly apparent in the long- and medium-term range.

General situation regarding short-term liquidity

Million DM	Dec. 31, 1977	Dec. 31, 1976	Increase (Decrease)
Liquid funds, trade acceptances*)	3,837	2,888	949
Securities, own stock	560	173	387
Short-term receivables and loans (advance payments not included) *)	1,653	1,699	(46)
Short-term liabilities and undetermined liabilities (including liabilities in reserves for special purposes)**)	5,530	5,560	30
			<u>1,320</u>

In 1977 the increase (decrease) in the liquidity position resulted from the following (Million DM):

from current business

Net earnings		419	
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		1,776	
Increase in provision for old-age pensions		294	
Decrease in stockholders' equity in reserves for special purposes		(1)	2,488

from financial transactions

Dividend payments to the stockholders of Volkswagenwerk AG and to minorities in 1977		(105)	
Increase in long- and medium-term liabilities		491	
Increase in other items shown on the liabilities side		22	408

from uses of funds

Increase in physical plant	(1,633)		
Increase in investments	(64)		
Decrease in inventories and advance payments*)	87		
Decrease in long- and medium-term receivables*)	34	(1,576)	

Increase in the liquidity position

1,320

*) Decreased by the amounts shown under liabilities as allowance for doubtful trade acceptances and accounts

***) Not including the amounts available for distribution

Group's Assets in Germany and Abroad

The following breakdown of the capital invested by the VW Group shows assets and liabilities according to regions. Thus the bulk of VW Group's net assets is invested in Europe.

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

Million DM	Europe	North America	Latin America	Africa	Consolidated Balance Sheet of the VW Group
Property, Plant, Equipment and Investments					
Property, plant and equipment Investments (including adjustment items arising from initial consolidation)	3,599	728	988	110	5,425
	347	76	105	2	530
	<u>3,946</u>	<u>804</u>	<u>1,093</u>	<u>112</u>	<u>5,955</u>
Current Assets					
Inventories (including advance payments to suppliers)	1,868	620	569	123	3,180
Trade accounts receivable	1,392	113	372	115	1,992
Liquid funds	3,626	407	364	0	4,397
	<u>6,886</u>	<u>1,140</u>	<u>1,305</u>	<u>238</u>	<u>9,569</u>
Liabilities	8,797	1,003	1,246	218	11,264
Net Worth	2,035	941	1,152	132	4,260

*) Current assets were decreased by the amounts 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** decreased by DM 49 million to DM 5,425 million. The original cost of property, plant and equipment is the purchase or production cost less additional depreciation. Whilst at the Volkswagenwerk AG additional depreciation was provided for to the extent permissible by tax law, there were only minor additional depreciations due to the economic situation with regard to Group companies.

Of the total amount invested in property, plant and equipment 26.9 % pertain to Volkswagenwerk AG, 21.5 % to Volkswagen Manufacturing Corporation of America, 14.8 % to Volkswagen Leasing and 9.2 % to AUDI NSU AUTO UNION AG. The additions increased by DM 592 million or 56.8 % to DM 1,633 million as compared to the prior year. In the main the additions to plant and office equipment concern leasing and rented vehicles owned by Volkswagen Leasing, Volkswagen France and interRent Autovermietung. The deductions in respect of property, plant and equipment included the sales of used plant and equipment, mainly of vehicles used for leasing and car hiring activities, the grants made from public funds

for additions of previous years and disposals of property, plant and equipment due to scrapping.

In the report year the book value of **Investments** increased by DM 5 million to DM 304 million. The additions to **Investments in Subsidiaries and Affiliates** mainly referred to Volkswagenwerk AG's investments in the Volkswagen of Nigeria Ltd., the TAS Tvoronica Automobila Sarajevo and the Brasilinvest S.A. In addition this balance sheet item includes Volkswagenwerk AG's investments in the domestic sales centers and the Svenska Volkswagen AB and Volkswagen of America's investments in dealer firms.

Other Investment Securities consist mainly of securities held by Volkswagen do Brasil.

Long-term Loans Receivable with an Initial Term of Four Years or Longer primarily pertain to loans granted by Volkswagenwerk AG and Vorelco, Inc. 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 primarily of investments of Volkswagen

do Brasil associated with tax benefits.

Adjustment Items arising from Initial Consolidation mainly represent the values in addition to those assets of the companies shown at the time of effecting these investments. These adjustment items primarily include amounts from AUDI NSU AUTO UNION AG and interRent Autovermietung. In order to take into account value reductions, the write-downs of VW AG's investments in AUDI NSU AUTO UNION AG and Volkswagen Bruxelles by Volkswagenwerk AG were deducted from these adjustment items.

Inventories decreased by DM 101 million or 3.1 % to DM 3,160 million. Whilst Volkswagenwerk AG was able to slightly raise its stocks, the decrease was mainly due to a decline in Volkswagen de Mexico's and Volkswagen of America's inventories.

Of the total **Trade Accounts Receivable** 63.6 % pertain to domestic subsidiaries and affiliates and 36.4 % to foreign subsidiaries and affiliates.

The increase in **Trade Acceptances** was mainly due to a greater number of notes receivable in connection with repayments due on financing

contracts concluded by the Volkswagen Comercial in Mexico.

Cash in Banks increased by DM 943 million or 34.9 % to DM 3,645 million as compared to the previous year. The increase is mainly due to a rise in such funds in Volkswagenwerk AG and AUDI NSU AUTO UNION AG.

The increase in VW Group's portfolio of **Securities** by DM 387 million to DM 539 million resulted from the investment of liquid funds by Volkswagenwerk AG and Volkswagen do Brasil at favorable rates of interest.

Own Stock was shown unchanged as against the prior year.

The major part of **Miscellaneous Other Current Assets** consists of claims of the financing companies resulting from financing of sales and items purchased. Miscellaneous other current assets also include interest receivable, tax refunds and prepayments of taxes.

Prepaid and Deferred Expenses pertain to a large part to deferred commissions of the Volkswagen Leasing.

Liabilities

The **Consolidated Reserves** include the reserve from capital stock

surplus, the reserve for the Share-the-Burden Property Levy, the reserves of the Group arising from earnings and the adjustment items arising from initial consolidation.

The **Reserve from Capital Stock Surplus** comprises the premium amounts which were included in the legal reserve of Volkswagenwerk AG. The reserve from capital stock surplus was reduced by the adjustment items arising from conversion.

The **Reserve for the Share-the-Burden Property Levy** represents Volkswagenwerk AG's reserve for the Share-the-Burden Property Levy and the Group's share in such reserve of AUDI NSU AUTO UNION AG.

The **Reserves of the Group arising from Earnings** increased by DM 312 million or 11.7 % to DM 2,977 million. This rise is mainly due to allocations to Volkswagenwerk AG's reserves and to value adjustments made by Volkswagenwerk AG in respect of its investments and which have to be eliminated in the course of consolidation. In addition, the reserves of the Group arising from earnings comprise mainly the Group's share in the reserves of the other companies included in consolidation, amounts gained on intercompany

deliveries of property, plant and equipment and inventories and which have to be eliminated, differences arising during the consolidation from the write-up of interest-free loans granted to housing construction companies by Volkswagenwerk AG and earnings distributed to parent companies. Of the reserves of the companies included in consolidation DM 354 million were converted into subscribed capital stock.

The **Adjustment Items arising from Initial Consolidation** represent the difference between the net assets of the Volkswagen of South Africa and the acquisition costs of the interest at the time of effecting this investment.

Minority Interest in Consolidated Subsidiaries represents minority interest in the Volkswagen do Brasil, the AUDI NSU AUTO UNION AG, the WESER-EMS Vertriebsgesellschaft and a subsidiary of Volkswagen de Mexico. Minority interest in earnings resulted from Volkswagen do Brasil. A subsidiary of the Volkswagen de Mexico, in which minority interest exists, incurred losses.

The **Reserves for Special Purposes** originated to a large extent from the financial statements of Volkswagenwerk AG. For the first time

Volkswagen France set up a reserve for price increases in the year under review.

The **Allowance for Doubtful Trade Acceptances and Accounts** serves as security for covering the general credit risks.

Of the total **Undetermined Liabilities** 42.5 % are long-term liabilities, 23.2 % are of a medium-term nature and 34.3 % are short-term liabilities.

Undetermined Liabilities in respect of Old-Age Pensions were based on actuarial computations and the 'Teilwertverfahren' was used. Undetermined liabilities in respect of old-age pensions arise from the domestic sector within the Group.

Undetermined Liabilities for Maintenance not Performed during Current Year pertain in the main to the Volkswagenwerk AG and AUDI NSU AUTO UNION AG.

Provision was made mainly by Volkswagenwerk AG und Volkswagen do Brasil for risks under **Undetermined Liabilities for Warranties without Legal Obligation**.

The increase in **Other Undetermined Liabilities** is primarily due to allocations for taxes, warranty and distribution costs, personnel and legal costs.

The rise in **Liabilities with an Initial Term of Four Years or Longer** resulted mainly from the increase in **Loans** by the issue of 150 million US dollars, or 7³/₄ % bearer fractional bonds of Volkswagen Overseas Finance N.V.

68.1 % of **Trade Accounts Payable** pertained to domestic subsidiaries and affiliates and 31.9 % 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.

Liabilities Due to Banks decreased primarily in respect of Volkswagen of America, Volkswagen de Mexico and VW KREDIT BANK.

Prepayments by Customers represent mainly advance payments shown by Volkswagen do Brasil and Volkswagen of America and were, for the most part, received from the sales organizations.

Miscellaneous Other Liabilities pertain to a large extent to payroll accruals, taxes and customs duties and also interest.

The **Contingent Liabilities** were shown on the balance sheet. In addition, other contingent liabilities, which must be reported, amounted to DM 3.9 million in connection with the purchase of shares of one domestic subsidiary and affiliated company and one foreign subsidiary and affiliate. Of the total securities shown under current assets DM 2 million par value bonds were pledged by Volkswagenwerk AG. Other contingent liabilities amounted to approximately DM 92,000 in connection with the additional capital contribution to be made to a cooperative association and DM 8.4 million in connection with banks abroad.

Statement of Earnings

In the year under review, **Sales** of the VW Group increased by DM 2,729 million or 12.7 % to DM 24,152 million. The ratio of sales abroad to total sales decreased from 62.3 % to 59.8 %.

The **Increase in Inventories** of the Volkswagenwerk AG and Volkswagen do Brasil contrasts with the decrease in inventories of the Volkswagen de Mexico and Volkswagen of South Africa.

Material, Wages and Overhead Capitalized as Additions to Plant and Equipment amounted to DM 279 million.

The **Gross Performance** increased by DM 2,474 million or 11.2 % to DM 24,503 million.

Expenditures for Raw Materials, Supplies and Other Materials rose by DM 1,148 million or 9.9 % to DM 12,746 million, this increase being mainly due to the increased production of Volkswagenwerk AG and AUDI NSU AUTO UNION AG.

Income from Profit Assumption Agreements resulted from the transfer of a proportionate share of the 1977 profit of Deutsche Automobilgesellschaft to Volkswagenwerk AG.

Income from Investments in Unconsolidated Subsidiaries and Affiliates was received in the form of proportionate profit shares almost exclusively from the sales centers and companies in Australia, Sweden and Yugoslavia by Volkswagenwerk AG.

Income from Other Financial Investments represented in the main income contributed by the Vorelco, Inc., Volkswagenwerk AG and Volkswagen do Brasil.

Other Interest and Similar Income consisted primarily of interest on deposited liquid funds of Volkswagen do Brasil, Volkswagenwerk AG and Volkswagen of America and income from financing activities of the financing companies.

Gain on Disposal of Property, Plant, Equipment and Investments and Write-ups were shown by the Volkswagen Leasing, Volkswagen do Brasil and interRent Autovermietung.

Elimination of Reserves for Undetermined Liabilities no Longer Required was due to lower amounts being required by the Volkswagenwerk AG, Volkswagen do Brasil and AUDI NSU AUTO UNION AG.

Other Income resulted, for the most part, from the rebilling of advertising material and sales promotion costs and pertains

to income from rents paid, interest on leasehold, profits from foreign exchange transactions in respect of trade accounts and revenues from the sale of kitchen and catering goods.

In the year under review **Wages and Salaries** increased by DM 616 million to DM 5,612 million, the rise being mainly due to the raising of wage tariffs and an increase in the average personnel.

The increase in **Social Expenditures – Compulsory** was due to new wage and salary agreements and the increased labor force and also to the rise in the top limit for social insurance contributions to be made by the domestic Group companies.

A comparison with regard to **Pension Expenditures and Voluntary Payments** is not really possible because in the prior year the undetermined liabilities for old-age pensions were built up to the full 'Teilwert'.

Loss on Disposal of Property, Plant, Equipment and Investments was minor in amount and shown by the Volkswagenwerk AG and AUDI NSU AUTO UNION AG.

Interest Expense and Similar Charges decreased as compared to the previous year and they

were mainly incurred by the Volkswagenwerk AG and Volkswagen do Brasil.

Taxes on Income, Earnings and Property cannot be compared with previous year's taxes because the Volkswagenwerk AG could claim tax relief in the 1976 business year in respect of the loss brought forward. The taxes paid pertain almost exclusively to the 1977 business year.

Other Taxes consist primarily of taxes paid on sales and assembly by our foreign producing companies and on the conclusion of financing contracts in Brazil.

The larger part of **Other Expenses**, which rose by DM 195 million or 10.0 % to DM 2,143 million, pertained to costs of repair and maintenance of property, plant and equipment, advertising and sales promotion costs, losses resulting from foreign exchange transactions in respect of trade accounts, shipping costs and rent.

In the year under review the **Net Earnings** of the Group amounted to DM 419 million. Due to the fact that the German Group companies' earnings are again liable to full taxation, the net earnings shown cannot be compared with the 1976 results.

Comments on the Financial Statements of Volkswagenwerk AG

Balance Sheet

Assets

At year-end the original cost of **Property, Plant and Equipment** amounted to DM 9,685 million. After deduction of the accumulated depreciation totalling DM 7,748 million the book value shown on the balance sheet for property, plant and equipment was DM 1,937 million.

In the year under review the additions to property, plant and equipment in the sum of DM 436 million were by DM 201 million higher than in the previous year, this increase being due to investments for improvements of our models and restructuring measures taken in the production. The additions to land, buildings, machinery and equipment, including transfers from construction in progress and advance payments to vendors and contractors, amounted to DM 359 million and consisted of DM 163 (111) million plant and office equipment, DM 163 (88) million machinery and DM 33 (14) million land and buildings.

The original cost of property, plant and equipment is the purchase or the production cost plus the

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	mainly	6 – 8 years
Power producing machinery	mainly	14 years
Plant and office equipment	mainly	3 – 8 years

use tax, where applicable, in accordance with section 30 of UStG (investment tax). Production costs consist of direct material, direct labor and the appropriate amount of allocated overhead, including depreciation as required by existing tax laws. Administrative expenses are not included. 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). 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.

Grants made from public funds with regard to additions up to 1970 were distributed over the estimated useful life of plant and equipment, whereas the subsidies

granted in respect of additions as from 1971 were accounted for over a period of three years as reductive expense.

It is our depreciation policy to principally take full advantage of tax benefits in order to reduce the taxes on income and earnings. We have, therefore, used the following rates for regular depreciation:

Rates based on declining-balance method (in the report year by taking into account the tax relief and investment promotion law enacted on November 4, 1977),

a full year's rate on additions to movable property within the first six months and a half year's depreciation on additions within the second half year,

Write – off of low value items in the year of acquisition.

As from the beginning of the 1977 business year we provided regularly for additional depreciation in accordance with section 7d of EStG in respect of environmental protection measures and make full use of the optimal depreciation rate of 60 % in the year of acquisition. During the four consecutive years the depreciation rate will be 10 % for each year. In addition, as from

the 1977 business year, depreciation on subsequent acquisition or production costs was provided for at full year's rates in accordance with subsection 45 EStR 1975. We shall continue with this practice in future.

Additional depreciation was provided for on the additions from 1975 through 1977 in accordance with section 3 of the border area promotion law. This special depreciation was already determined at the time of advance payments being made and based on partial production costs. In addition the capitalized investment tax from previous years was written off in the year under review.

The additions to **Investments in Subsidiaries and Affiliates** shown under the caption **Investments** totalling DM 384 million arose from contributions to the capital stock of Volkswagen de Mexico, Volkswagen Manufacturing Corporation of America which was founded in 1976, Volkswagen of America, Inc., Volkswagen of Nigeria Ltd., Volkswagen International Finance N.V., established in 1977, TAS Tvrnica Automobila

The following summary shows details of the regular and additional depreciation provision on additions during 1977:

in thousand DM	Real estate and land rights		Buildings on leased real estate	Machinery and fix- tures	Plant and office equipment	Construc- tion in progress	Advance payments to ven- dors and contractors
	with office, factory and other buildings	with re- sidential buildings					
Additions during 1977*)	32,806	417	159	162,822	140,414	39,641	9,717
Depreciations on additions during 1977	8,195	11	38	71,749	76,205	19,500	4,500

*) Additions including transfers from construction in progress and advance payments to vendors and contractors

Sarajevo and Brasilinvest S.A. The reduction resulted from the decrease of capital stock of the American company VODECO, Inc. which had been founded in 1976 for the preparation and establishment of the Volkswagen Manufacturing Corporation of America.

Investments in a domestic company and in a company in Western Europe were written down in order to take due account of a reduction in value at the balance sheet date. The investment in the Volkswagen de Mexico was written down to the stockholders' equity share in reserves for special purposes provided for this company in accordance with section 1 of the developing countries and development aid tax law in order to cover the risks inherent in this investment. This write-down of the investment took place of the reserve provided for the same reason in the previous year. The investment in the Volkswagen Manufacturing Corporation of America was written down to the extent of the losses incurred. At the same time we eliminated the reserve for special purposes which had been provided for in the previous year in accordance with section 3 of the law on investments abroad to cover the losses of the Volkswagen Manufacturing Corporation of America. In addition

the values shown for investments in four foreign companies of minor importance were written off because of the risks inherent in these investments. Write-downs of investments in subsidiaries and affiliates pertained with DM 269 million to additions during the current year.

At year-end **Long-term Loans with an Initial Term of Four Years or Longer** amounted to DM 95 million and were granted primarily to housing construction companies and VW employees. Interest-free and low interest-bearing loans have been discounted to reflect present values. The other loans have been accounted for in the balance sheet at face value. The total discounting effected pertains to the additions of the current year. The decrease in loans by DM 14 million in the report year resulted from repayments due or made ahead of time. Of the loan made in accordance with section 89 of AktG DM 9,171,293 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** increased by DM 80 million to DM 1,483 million as compared to the previous year. This increase resulted mainly from the growth

on machinery and equipment (not including special tools not yet used in operations and not yet depreciated).

in production and sales and the associated larger stocks of raw materials and supplies, work in progress and finished products as well as from rises in prices of materials and goods purchased. Raw materials and supplies were valued at current average purchase costs or lower replacement costs. Work in progress inventories and finished products originating from our own production were valued at 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 at the individual purchase costs. Recognizable risks have been accounted for by write-downs. Imported goods were written down to the extent permitted for tax purposes.

Trade Accounts Receivable represent DM 216 million due from customers in foreign countries and DM 107 million due from customers located in the Federal Republic of Germany. Nearly all material amounts were collected when due.

Cash in Banks pertains mainly to time deposits.

The portfolio of **Securities** increased due to the acquisition of debenture

bonds in order to obtain interest from investment of liquid funds. DM 2 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.

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 listed again.

The rise in **Receivables from Subsidiaries and Affiliates** results in particular from the increase in receivables due from foreign subsidiaries within the ordinary course of business, from short-term loans granted to domestic companies and higher amounts due from Profit and Loss Assumption Agreements. Where appropriate, lower valuations were placed on receivables in view of the inherent risks relating to the rate of exchange and currency transfers.

Miscellaneous Other Current Assets consist mainly of interest receivable, the participation in profit of sales centers, sales tax refunds and the cash surrender value of old-age insurance. The increase as compared to the previous year was mainly due to higher repayments on the part

of the tax authorities and greater earnings of the sales centers.

The discount on long-term loans as shown under **Prepaid and Deferred Expenses** in the previous year was written off during the year under review.

Liabilities

The **Reserve for the Share-the-Burden Property Levy** represents the discounted amount of this liability as of December 31, 1977.

We have transferred from 1977 earnings DM 166 million to **Other Reserves**. In addition it will be proposed to the annual meeting of stockholders to transfer a further DM 20 million out of net earnings after reserve transfers to other reserves. This is the first time in 8 years that the Volkswagenwerk AG has been able to allocate a considerable sum to the reserves. Further to the balancing out of the loss brought forward from 1974 and 1975 it was of prime importance and in the interest of our stockholders in 1976 to again distribute a dividend to them, so that a transfer to reserves was deliberately omitted. Since the earning power has been regained, a continual dividend payment can be expected and we must, therefore, now look into the matter of ensuring that the real value of our company

is maintained on a long-term basis.

In a calculation made we investigated the effects of currency devaluation on the maintenance of the real value with regard to this part of the assets subject to wear and which was financed by own funds in the year under review. It was not necessary to include the inventories in this investigation as they are relatively fast moving and fully financed from outside sources.

In this graph an imaginary profit of DM 174 million is shown and this sum is equivalent to the difference between the depreciations based on replacement values and the corresponding depreciations as shown in the balance sheet and based on acquisition or production costs. The replacement values were determined by using the indices published by the Federal German Statistical Office.

In order to ensure that the stockholders' equity is maintained at its real value we have transferred DM 166 million to the other reserves. The special depreciations provided for tax relief in the report year are not by far sufficient to cover the expenditure adjustments from previous years which were determined on similar grounds.

With regard to the additions to investments in the Volkswagen of Nigeria Ltd., TAS Tvoronica Automobila Sarajevo and Brasilinvest S. A. we have set up **Reserves for Special Purposes** in accordance with section 1 of the developing countries tax law. In addition transfers to the reserve for price increases and to the reserve in accordance with section 6 b EStG were effected. Despite these increases the reserves for special purposes decreased due to the elimination of reserves as required by law and of the reserve set up in accordance with section 3 of the law on investments abroad in the previous year in respect of the Volkswagen Manufacturing Corporation of America.

The decrease in the **Allowance for Doubtful Trade Acceptances and Accounts** is due to the reduced trade receivables and trade acceptances. This allowance for doubtful trade acceptances and accounts was determined in the same manner as in the prior year and amounted to 5 percent of trade receivables, trade acceptances and advance payments to suppliers.

The increase in **Undetermined Liabilities** is mainly attributable to the necessary transfer to undetermined liabilities in respect of taxes, pension plan costs and

distribution costs. The undetermined liabilities so determined are sufficient to cover any recognizable risks.

Undetermined Liabilities in respect of Old-Age Pensions were based on actuarial computations in accordance with section 6 a EStG and the 'Teilwertverfahren' was used, as was done in the previous year.

Other Undetermined Liabilities mainly consist of undetermined liabilities in respect of distribution costs (particularly warranty obligations), taxes and personnel costs.

The increase in **Trade Accounts Payable** resulted mainly from the rise in production and purchases.

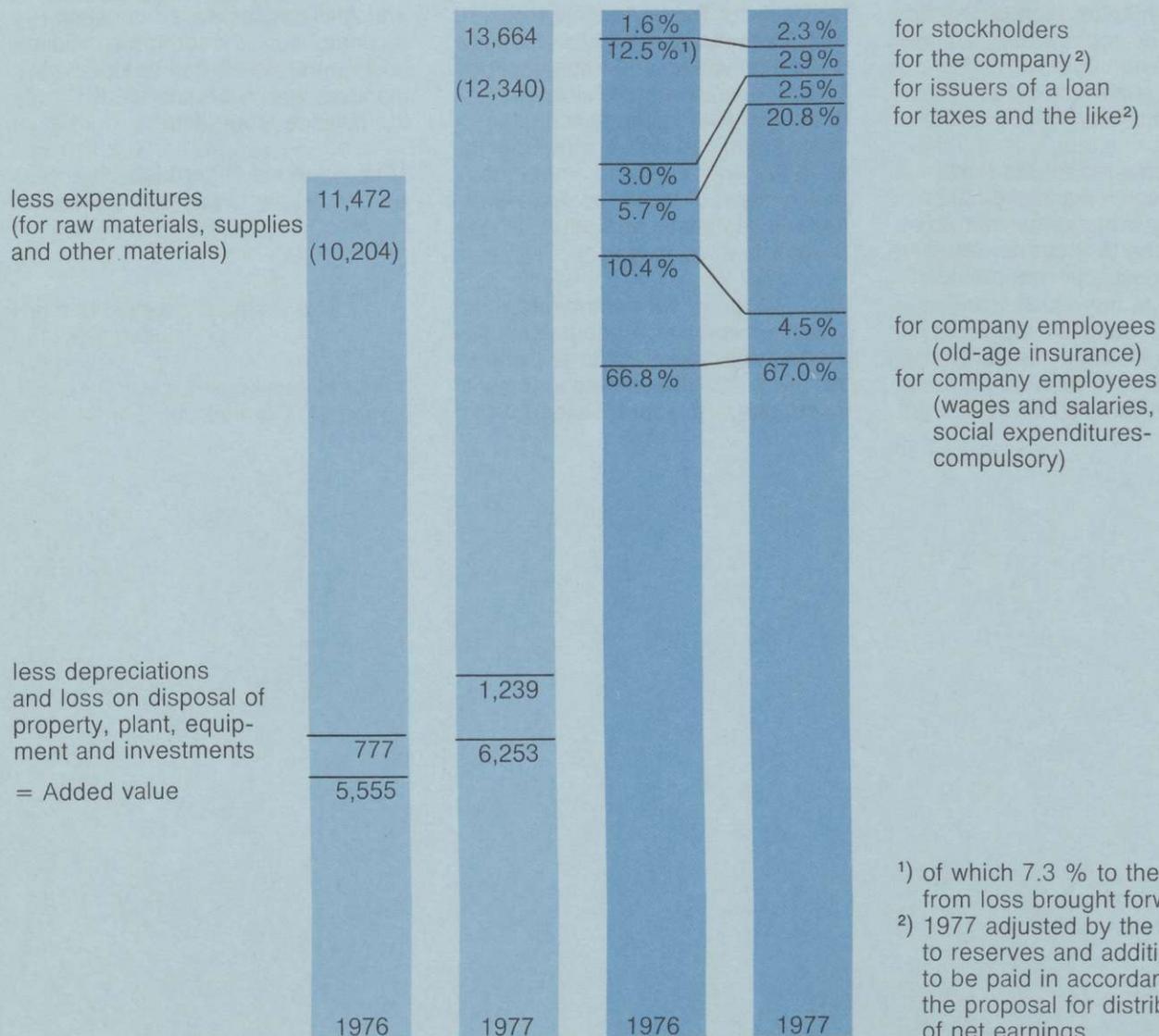
Accounts Payable to Subsidiaries and Affiliates increased because a contribution to a foreign subsidiary, payment of which had been demanded, was not made as at the balance sheet date.

Miscellaneous Other Liabilities pertain mainly to payroll accruals.

Statement of Earnings

The following calculation of the added value shows up in the value increase in the company and its distribution.

Sources of Added Value (Million DM)			Use of Added Value		
	1976	1977	1976	1977	
Gross performance as shown in the statement of earnings which is drawn up in accordance with stock corporation law	17,103	20,037	5,555	6,253	Added value (in million DM)
plus other income	701	1,119	90	144	for stockholders
Total performance	17,804	21,156	694	181	for the company
			166	158	for issuers of a loan
			314	1,301	for taxes and the like
			575	282	for company employees (old-age insurance)
					for company employees (wages and salaries, social expenditures-compulsory)



1) of which 7.3 % to the company from loss brought forward
 2) 1977 adjusted by the transfer to reserves and additional taxes to be paid in accordance with the proposal for distribution of net earnings

Sales increased by DM 2,923 million to DM 19,837 million compared with the previous year. This was mainly due to the continued favorable sales situation, the higher sales share of Audi models and price increases effected. Total sales in the Federal Republic of Germany went up by 21.3 % whilst export sales rose by 13.4 %. 80.0 % of total sales were in respect of vehicles and 8.1 % represented parts sales.

Expenditures for **Raw Materials, Supplies and Other Materials** were above those of the prior year to an extent of DM 2,136 million or 20.9 %. This rise resulted mainly from the greater volume of vehicles purchased from AUDI NSU AUTO UNION AG, the higher production and increased costs of materials.

Income from Profit Assumption Agreements resulted from the transfer of the profits of the domestic subsidiaries AUDI NSU AUTO UNION AG, Wolfsburger Transportgesellschaft mbH, VW-VersicherungsvermittlungsgmbH, WESER-EMS Vertriebsgesellschaft mbH and Deutsche Automobilgesellschaft mbH.

Income from Investments in Subsidiaries and Affiliates was primarily received in the form of distribution

of dividends for 1976 from Volkswagen do Brasil and of a proportionate share in the 1977 profits from the domestic sales centers.

Income from Other Financial Investments resulted mainly from amortization of discount on long-term loans previously discounted to reflect present values and from interest on loans granted.

Other Interest and Similar Income consisted primarily of income from bank balances and overdrafts granted to subsidiaries and affiliates.

Gain on Disposal of Property, Plant, Equipment and Investments resulted in the main from repayments of building loans made ahead of time and from the sale of machinery and special tools.

Elimination of Reserves for Undetermined Liabilities no Longer Required resulted primarily from lower requirements for distribution costs.

Other Income consisted, for the most part, of taxes rebilled to subsidiaries and affiliates, foreign exchange profits on accounts payable transactions and of revenues from the sale of kitchen and catering goods and from billing of services and warranty costs. The sums available from the write-off of

investments to cover the risks inherent in investments abroad have already been explained under investments in subsidiaries and affiliates.

Expenditures for **Wages and Salaries and Social Expenditures – Compulsory** were above those of the prior year the rise being mainly due to the raising of the wage tariffs and increases in the average personnel.

Pension Expenditures and Voluntary Payments consist of normal charges for future and present pension payments, whereas the sum shown in the previous year included the increase to the full 'Teilwert'.

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 and the Write-down of Other Current Assets**. The changes in provision for depreciation of physical plant are mainly due to providing for additional depreciation resulting from reasons of taxation.

Interest Expense and Similar Charges resulted, for the most part, from a loan issued and other long-term loans.

The increase in **Taxes on Income, Earnings and Property** was amongst other things, due to the elimination of the loss brought forward and still shown in the previous year.

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

Other Expenses consisted mainly of distribution costs for our products, plant maintenance costs and foreign exchange losses on accounts receivable transactions.

The result achieved in the year under review was again fully subjected to taxation and therefore the **Net Earnings** shown cannot be compared with the previous year's result.

Additional details:

We were contingently liable for DM 14,125,000 in connection with the purchase of shares of domestic companies with limited liability. This sum is in addition to the **Contingent Liabilities** shown on the balance sheet.

In the year under review the difference, which must be reported in accordance with section 160, para. 2, sentence 5 of AktG and which reduces the net earnings, amounted to DM 145,679,951. This sum resulted mainly from the depreciations provided for in accordance with section 3 of the border area promotion law and to a minor extent from methodical changes in the assessment of undetermined liabilities in respect of distribution costs.

Compensation to the Board of Management for the year 1977 amounted to DM 6,701,629. Pension payments to retired members of the Board of Management or their beneficiaries amounted to DM 2,928,392.

Compensation to members of the Supervisory Board of Directors amounted to DM 308,377.

Consolidated Balance Sheet of the VW Group December 31, 1977

(Thousand DM)

Assets	Jan. 1,	Additions	Deductions	Transfers	Write-ups and Accumulation of Discount	Provision for Depreciation	Dec. 31,	Dec. 31,
	1977						1977	1976
Property, Plant, Equipment and Investments								
A. Property, plant, equipment and intangible assets								
Real estate and land rights								
with office, factory and								
other buildings	2,375,894	128,476	12,779	63,353	12,764	194,932	2,372,776	2,375,894
with residential buildings	476,476	4,599	1,275	(7,475)	—	22,260	450,065	476,476
without buildings	129,896	19,091	3,196	992	—	830	145,953	129,896
Buildings on leased real estate	19,831	11,565	183	1,632	—	4,099	28,746	19,831
Machinery and fixtures	1,082,560	238,768	12,134	92,397	224	601,983	799,832	1,082,560
Plant and office equipment	1,064,075	719,017	136,046	83,793	—	673,513	1,057,326	1,064,075
Construction in progress and advance payments								
to vendors and contractors	324,950	511,544	7,543	(234,762)	—	24,073	570,116	324,950
to other contractors	190	—	—	—	—	109	81	190
Trademarks and similar rights	5,473,872	1,633,060	173,156	(70)	12,988	1,521,799	5,424,895	5,473,872
B. Investments								
Investments in subsidiaries and affiliates	93,088	19,842	3,011	—	—	34,037	75,882	93,088
Other investment securities	50,200	588	1,528	5,443	12,851	—	67,554	50,200
Long-term loans receivable with								
an initial term of four years or longer	135,786	25,716	16,956	—	3,987	3,170	145,363	135,786
Face value at Dec. 31, 1977								
159,134								
including secured by mortgages								
152,279								
loans in accordance with section 89 AktG								
10,034								
Other investments	20,408	17,738	11,703	(5,373)	169	6,269	14,970	20,408
	299,482	63,884	33,198	70	17,007	43,476	303,769	299,482
	5,773,354	1,696,944	206,354	—	29,995	1,565,275	5,728,664	5,773,354
C. Adjustment items arising from initial consolidation								
							226,574	260,940
							5,955,238	6,034,294
Current Assets								
A. Inventories								
							3,159,555	3,260,629
B. Other current assets								
Advance payments to suppliers						20,576		6,181
Trade accounts receivable						566,865		522,803
including amounts due in more than one year		44,661						
Trade acceptances						166,371		148,967
including acceptances discountable at German Federal Bank		—						
Checks on hand						27,419		37,413
Cash on hand, including German Federal Bank						2,433		2,354
and post office checking account balances						3,644,988		2,702,493
Cash in banks						538,514		152,312
Securities						21,235		21,235
Own stock (par value at Dec. 31, 1977: 15,060)						4,918		18,179
Receivables from subsidiaries and affiliates						—		—
including amounts for goods and services rendered						2		8
Loans receivable in accordance with section 89 AktG						1,392,642		1,518,295
Miscellaneous other current assets							9,545,518	8,390,869
Prepaid and Deferred Expenses								
Discount on loans						488		27,232
Other items						64,601		49,494
							65,089	76,726
							15,565,845	14,501,889

Liabilities	Dec. 31,	Dec. 31,
	1977	1976
Capital Stock of Volkswagenwerk AG	900,000	900,000
Consolidated Reserves		
Reserve from capital stock surplus*)	89,559	161,407
Reserve for the Share-the-Burden Property Levy	4,036	7,109
Reserve of the Group arising from earnings*)	2,977,135	2,665,049
Adjustment items arising from initial consolidation	14,037	14,037
	3,084,767	2,847,602
Minority Interest in Consolidated Subsidiaries		
in net earnings	5,560	
in loss	3,147	
	204,644	210,215
Reserves for Special Purposes		
Reserve for investment in developing countries		
in accordance with section 1 of the tax law	117,289	129,805
Reserve for price increases in accordance with section 74 of EStDV	36,815	36,190
Reserve in accordance with section 1		
of law on investments abroad	627	738
Reserve in accordance with section 3 of		
law on investments abroad	—	5,114
Reserve in accordance with section 6b EStG	1,982	1,836
Reserve in accordance with subsection V of the regulation		
on collective adjustments of value by credit institutions	345	690
Reserves in accordance with French legislation	7,708	550
	164,766	174,923
Allowance for Doubtful Trade Acceptances and Accounts		
	42,219	41,657
Undetermined Liabilities		
Old-age pensions	2,048,441	1,754,554
Other undetermined liabilities		
Maintenance not performed during current year	9,878	9,449
Warranties without legal obligations	9,711	11,793
Other	2,491,187	1,965,076
	4,559,217	3,740,872
Liabilities with an Initial Term of Four Years or Longer		
Loans	615,750	300,000
including secured by mortgages	300,000	
Due to banks	1,611,798	1,638,226
including secured by mortgages	903,391	
Other liabilities	309,108	228,191
including secured by mortgages	86,237	
	2,536,656	2,166,417
Including amounts due within four years	1,086,424	
Other Liabilities		
Trade accounts payable	1,391,600	1,152,172
Liabilities resulting from the acceptance		
of bills drawn and the issuing of promissory notes	437,970	436,781
Due to banks	1,350,249	2,106,928
Prepayments by customers	72,963	46,225
Accounts payable to subsidiaries and affiliates	153	210
including trade accounts payable	19	
Miscellaneous other liabilities	625,974	572,631
	3,878,909	4,314,947
Deferred Income		
	21,571	12,272
Net Earnings		
	173,096	92,984
Contingent liabilities with respect		
to trade acceptances	22,665	
Contingent liabilities with respect to guarantees	50,376	
Other contingent liabilities	34,717	
Contingent liabilities with respect to warranty contracts	18,661	
	15,565,845	14,501,889

*) These items include the legal reserve of Volkswagenwerk AG in the sum of DM 233,799,000.

Consolidated Statement of Earnings of the VW Group

Year ended December 31, 1977

(Thousand DM)

		1977	1976
Sales	24,151,910		21,422,506
Increase in inventories	72,071		344,262
Material, wages and overhead capitalized as additions to plant and equipment		24,223,981	21,766,768
		279,583	262,430
Gross Performance		24,503,564	22,029,198
Expenditures for raw materials, supplies and other materials		12,746,220	11,597,896
Excess of Gross Performance over Expenditures for Raw Materials, etc.		11,757,344	10,431,302
Income from profit assumption agreements	213		345
Income from investments in unconsolidated subsidiaries and affiliates	44,377		33,674
Income from other financial investments	11,908		10,268
Other interest and similar income	448,656		389,126
Gain on disposal of property, plant, equipment and investments and write-ups	61,955		106,070
Elimination of reserves for undetermined liabilities no longer required	74,529		95,011
Elimination of reserves for special purposes no longer required	18,085		9,247
Other income	513,985		533,186
including extraordinary income	76,242		
		1,173,708	1,176,927
		12,931,052	11,608,229
Wages and salaries	5,611,843		4,996,337
Social expenditures – compulsory	822,445		736,220
Pension expenditures and voluntary payments	375,738		680,044
Provision for depreciation of physical plant and fixed intangible assets	1,521,799		1,225,410
Write-down of financial investments including investments in consolidated companies	77,843		37,474
Write-down of other current assets and provision for doubtful trade acceptances and accounts	26,158		32,878
Loss on disposal of property, plant, equipment and investments	14,401		13,357
Interest expense and similar charges	407,242		440,091
Taxes			
a) on income, earnings and property	1,453,832		438,373
b) other	45,715		44,622
Share-the-Burden Property Levy	1,499,547		482,995
Expenditures under loss assumption agreements	3,324		3,324
Additions to reserves for special purposes	—		51
Other expenses	8,337		8,006
	2,142,898		1,947,604
		12,511,575	10,603,791
Net Earnings		419,477	1,004,438
Volkswagenwerk AG's net earnings (loss) brought forward		4,490	(693,339)
		423,967	311,099
Change in consolidated reserves			
Transferred from reserves		73,020	28,018
Transferred to reserves		321,478	238,608
Minority interest in net earnings of consolidated subsidiaries		5,560	12,221
Minority interest in losses of consolidated subsidiaries		3,147	4,696
Net Earnings after Reserve Transfers and Minority Interests		173,096	92,984

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

Hanover, March 20, 1978

TREUARBEIT Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft — Steuerberatungsgesellschaft

Prof. Dr. Forster
Wirtschaftsprüfer

Dr. Tubbesing
Wirtschaftsprüfer

Wolfsburg, March 6, 1978

Volkswagenwerk Aktiengesellschaft

The Board of Management

Volkswagenwerk AG

Balance Sheet December 31, 1977

Assets

	Jan. 1, 1977	Additions	Deductions	Transfers	Accumulation of Discount	Provision for Depreciation	Dec. 31, 1977	Dec. 31, 1976
	DM	DM	DM	DM	DM	DM	DM	Thousand DM
Property, Plant, Equipment and Investments								
A. Property, plant and equipment								
Real estate and land rights								
with office, factory and other buildings	1,299,139,019	28,449,968	1,478,100	2,879,234	—	113,965,820	1,215,024,301	1,299,139
with residential buildings	9,115,174	381,772	122,348	35,721	—	883,968	8,526,351	9,115
without buildings	35,905,657	131,995	239,714	21,358	—	—	35,819,296	35,906
Buildings on leased real estate	11,537,833	159,461	175,139	1,479,674	—	1,716,034	11,285,795	11,538
Machinery and fixtures	625,452,026	144,074,850	10,741,713	18,685,141	—	379,786,181	397,684,123	625,452
Plant and office equipment	337,690,139	139,901,689	4,078,831	23,137,640	—	329,122,736	167,527,901	337,690
Construction in progress	50,298,742	104,967,353	4,368,149	(44,396,378)	—	19,500,000	87,001,568	50,299
Advance payments to vendors and contractors	3,559,314	17,513,111	932,324	(1,842,390)	—	4,500,000	13,797,711	3,559
	2,372,697,904	435,580,199	22,136,318	—	—	849,474,739	1,936,667,046	2,372,698
B. Investments								
Investments in subsidiaries and affiliates	1,110,145,179	384,394,232	25,843	—	—	378,188,907	1,116,324,661	1,110,145
Other investment securities	1	—	—	—	—	—	1	—
Long-term loans receivable with an initial term of four years or longer	95,145,939	11,726,000	13,748,095	—	4,048,635	2,410,800	94,761,679	95,146
Face value at Dec. 31, 1977								
DM 209,937,915								
including secured by mortgages								
DM 198,387,597								
subsidiaries and affiliates								
DM 125,726,336								
loans in accordance with section 89 AktG								
DM 9,904,818								
	1,205,291,119	396,120,232	13,773,938	—	4,048,635	380,599,707	1,211,086,341	1,205,291
	3,577,989,023	831,700,431	35,910,256	—	4,048,635	1,230,074,446	3,147,753,387	3,577,989
Current Assets								
A. Inventories								
Raw materials and supplies					447,973,209			427,791
Work in progress					560,117,706			518,171
Finished products					474,469,534			457,006
						1,482,560,449		1,402,968
B. Other current assets								
Advance payments to suppliers					6,307,467			1,748
Trade accounts receivable					323,193,738			330,484
including amounts due in more than one year	DM 44,653,680							
Trade acceptances					4,465,635			5,466
including acceptances discountable at German Federal Bank	DM —							
Cash on hand, including post office checking account balances					1,039,432			719
Cash in banks					2,604,484,288			2,136,922
Securities					334,931,890			4,932
Own stock (par value at Dec. 31, 1977: DM 15,060,300)					21,234,776			21,235
Receivables from subsidiaries and affiliates					1,234,406,209			778,757
including amounts for goods and services rendered	DM 255,287,021							
Miscellaneous other current assets					148,085,321			102,990
						4,678,148,756		3,383,253
							6,160,709,205	4,786,221
Prepaid and Deferred Expenses								
Discount on loans					—			17,957
Other items					—			88
								18,045
								9,308,462,592
								8,382,255

Liabilities

	Dec. 31, 1977	Dec. 31, 1976
	DM	Thousand DM
Capital Stock		
	900,000,000	900,000
Reserves		
Legal reserve	233,799,000	233,799
Reserve for the Share-the-Burden Property Levy		
Jan. 1, 1977	5,904,224	
Transfer to statement of earnings	2,552,135	
	3,352,089	5,904
Other reserves		
Jan. 1, 1977	1,184,125,578	
Transfer from 1977 net earnings	166,053,767	
	1,350,179,345	1,184,126
	1,587,330,434	1,423,829
Reserves for Special Purposes		
Reserve for investments in developing countries in accordance with section 1 of the tax law	117,289,307	129,805
Reserve for price increases in accordance with section 74 EStDV	33,071,296	32,973
Reserve in accordance with sections 1 and 3 of the law on investments abroad	627,200	5,852
Reserve in accordance with section 6 b EStG	1,981,332	1,836
	152,969,135	170,466
Allowance for Doubtful Trade Acceptances and Accounts		
	16,698,000	17,930
Undetermined Liabilities		
Old-age pensions	1,738,051,101	1,506,470
Other undetermined liabilities		
Maintenance not performed during current year	6,000,000	8,000
Warranties without legal obligation	4,830,000	4,813
Other	2,071,481,077	1,785,913
	3,820,362,178	3,305,196
Liabilities with an Initial Term of Four Years or longer		
Loans	300,000,000	300,000
secured by mortgages		
Due to banks	1,200,000,000	1,200,000
including secured by mortgages	DM 650,000,000	
Other liabilities	52,479,895	53,333
	1,552,479,895	1,553,333
including amounts due within four years	DM 901,880,557	
Other Liabilities		
Trade accounts payable	709,950,421	549,850
Due to banks	18,923,595	59,696
Prepayments by customers	11,319,294	20,150
Accounts payable to subsidiaries and affiliates	101,231,526	31,074
including trade accounts payable	DM 21,633,785	
Miscellaneous other liabilities	263,773,914	257,450
	1,105,198,750	918,220
Deferred Income		
	328,170	297
Net Earnings after Reserve Transfers		
	173,096,030	92,984
Share-the-Burden Property Levy		
Present discounted amount	DM 3,352,089	
Quarterly installment	DM 689,021	
Contingent liabilities with respect to trade acceptances	DM 368,700,252	
Contingent liabilities with respect to guaranty obligations	DM 652,269,046	
Contingent liabilities with respect to warranty contracts	DM 189,428,920	
	9,308,462,592	8,382,255

Statement of Earnings of Volkswagenwerk AG

Year ended December 31, 1977

	DM	DM	1977 DM	1976 Thousand DM
Sales (excluding sales tax)		19,837,149,463		16,914,335
Increase in inventories		73,842,077		83,191
Material, wages and overhead capitalized as additions to plant and equipment			19,910,991,540	16,997,526
			125,677,431	106,006
Gross Performance			20,036,668,971	17,103,532
Expenditures for raw materials, supplies and other materials			12,340,104,498	10,204,460
Excess of Gross Performance over Expenditures for Raw Materials, etc.			7,696,564,473	6,899,072
Income from profit assumption agreements		109,068,795		96,021
Income from investments in subsidiaries and affiliates		97,838,727		59,248
Income from other financial investments		5,214,619		8,443
Other interest and similar income		207,521,332		116,186
Gain on disposal of property, plant, equipment and investments		12,060,917		77,639
Reduction of allowance for doubtful trade acceptances and accounts		1,232,000		—
Elimination of reserves for undetermined liabilities no longer required		14,788,238		59,344
Elimination of reserves for special purposes no longer required		17,740,430		8,902
Other income		653,478,197		275,500
including extraordinary income	217,089,215			
			1,118,943,255	701,283
			8,815,507,728	7,600,355
Wages and salaries		3,692,718,002		3,275,664
Social expenditures – compulsory		493,883,968		440,458
Pension expenditures and voluntary payments		282,000,919		574,655
Provision for depreciation of physical plant		849,474,739		708,206
Write-down of financial investments		380,599,707		47,387
Write-down of other current assets and provision for doubtful trade acceptances and accounts		4,579,004		18,225
Loss on disposal of property, plant, equipment and investments		4,200,980		3,414
Interest expense and similar charges		157,672,470		166,195
Taxes				
a) on income, earnings and property	1,290,232,796			310,478
b) other	1,139,837			1,161
Share-the-Burden Property Levy		1,291,372,633		311,639
Expenditures under loss assumption agreements		2,756,085		2,756
Additions to reserves for special purposes		13,097,331		5,900
Other expenses		243,638		6,950
		1,310,800,717		1,255,025
			8,483,400,193	6,816,474
Net Earnings			332,107,535	783,881
Net earnings (loss) brought forward from previous year			4,490,127	(693,339)
			336,597,662	90,542
Transfer from the reserve for the Share-the-Burden Property Levy			2,552,135	2,442
			339,149,797	92,984
Transfer to other reserves from net earnings			166,053,767	—
Net Earnings after Reserve Transfers			173,096,030	92,984

During 1977 pension payments amounted to DM 32,778,397; payments during the next five years will approximate 108, 114, 121, 128, 135 % of this amount.

Wolfsburg, March 6, 1978

Volkswagenwerk Aktiengesellschaft

The Board of Management

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

Hanover, March 20, 1978

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858.809.333.20 · Printed in Germany

1741902110