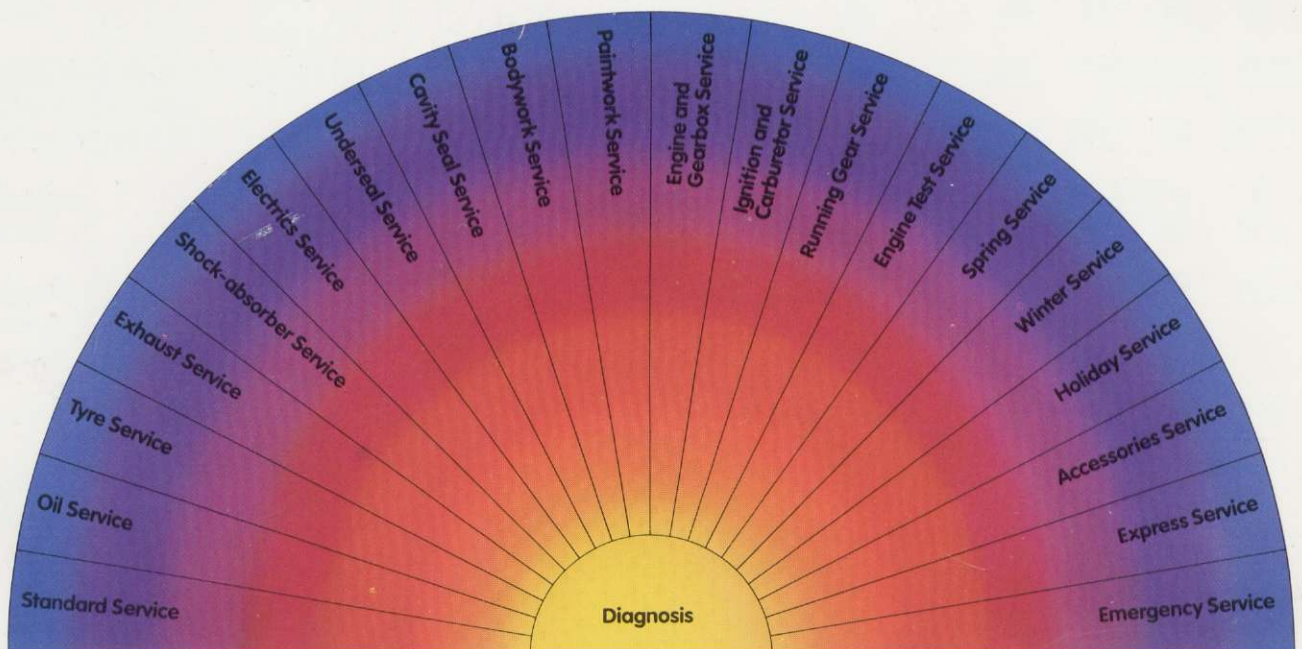




**Report
for the Year 1978
Volkswagenwerk
Aktiengesellschaft
Wolfsburg**

**Released
for Publication
on April 26, 1979**



The Supervisory Board
and the Board of Management of
Volkswagenwerk Aktiengesellschaft
present the Report for the Year 1978
with their compliments.

Wolfsburg, April 1979

Volkswagen Group		1978	1977	Increase (Decrease)	% ¹⁾
Sales including German and foreign sales tax	in million DM	29,336	26,373	2,963	11.2
Sales excluding sales tax	in million DM	26,724	24,152	2,572	10.6
Unit Sales	number of vehicles	2,393,170	2,239,631	153,539	6.9
Production	number of vehicles	2,384,563	2,218,880	165,683	7.5
Labour Force	at year end	206,948	191,891	15,057	7.8
Capital Investments (Additions)	in million DM	1,990	1,697	293	17.2
Depreciation and Write-down	in million DM	1,456	1,600	(144)	(9.0)
Cost of Materials	in million DM	14,099	12,746	1,353	10.6
Labour Cost	in million DM	7,656	6,810	846	12.4
Net Earnings	in million DM	574	419	155	36.9
Dividend of the Volkswagenwerk AG	in million DM	189	144 ²⁾	45	31.3

¹⁾ Based on precise figures

²⁾ Incl. bonus

The Volkswagen Group in Figures 1971 — 1978¹⁾

	1978	1977	1976	1975	1974	1973	1972	1971
Sales (Million DM)	26,724	24,152	21,423	18,857	16,966	16,982	15,996	16,473
Increase (Decrease) on previous year in %	11	13	14	11	0	6	(3)	9
Domestic	11,229	9,714	8,068	6,552	5,161	5,364	5,035	5,135
Abroad	15,495	14,438	13,355	12,305	11,805	11,618	10,961	11,338
Export of domestic Group companies	10,932	9,914	8,744	7,142	8,547	8,965	7,718	8,210
Net contribution of foreign Group companies	5,970	5,634	5,570	5,798	3,826	3,063	3,539	3,430
Unit Sales (Thousand vehicles)	2,393	2,240	2,142	2,038	2,052	2,281	2,197	2,317
Increase (Decrease) on previous year in %	7	5	5	(1)	(10)	4	(5)	5
Domestic	895	811	726	626	548	619	628	694
Abroad	1,498	1,429	1,416	1,412	1,504	1,662	1,569	1,623
Production (Thousand vehicles)	2,385	2,219	2,166	1,949	2,068	2,335	2,193	2,354
Increase (Decrease) on previous year in %	7	2	11	(6)	(11)	7	(7)	6
Domestic	1,569	1,561	1,436	1,229	1,359	1,720	1,673	1,867
Abroad	816	658	730	720	709	615	520	487
Labour Force at year end (Thousand employees)	207	192	183	177	204	215	192	202
Increase (Decrease) on previous year in %	8	5	4	(13)	(5)	12	(5)	6
Domestic	139	133	124	118	142	161	149	160
Abroad	68	59	59	59	62	54	43	42
Capital Investments (Million DM)	1,990	1,697	1,141	941	1,902	1,556	1,573	1,947
Increase (Decrease) on previous year in %	17	49	21	(51)	22	(1)	(19)	18
Domestic	1,559	969	657	594	1,313	928	1,183	1,545
Abroad	431	728	484	347	589	628	390	402
Cash Flow (Million DM)	2,609	2,488	3,055	1,320	618	1,671	1,545	1,359
Increase (Decrease) on previous year in %	5	(19)	131	114	(63)	8	14	(9)
Net Earnings (Million DM)	574	419	1,004 ²⁾	(157)	(807)	330	206	147
Dividend of the Volkswagenwerk AG (Million DM)	189	144 ³⁾	90	—	—	81	81	81

¹⁾ In the case of alterations to the items shown we have adjusted the figures for the previous year

²⁾ Not comparable with other years because of loss brought forward

³⁾ Incl. bonus

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Balance Sheet of
Volkswagenwerk AG

Statement of Earnings of
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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 Wednesday, July 4, 1979
in the Internationales
Congress Centrum, Berlin

in Memory of
Those
Who Have
Left Our World

1. Presentation of audited financial statements, the annual report for 1978, together with the report of the Supervisory Board, the recommendations with respect to disposition of the current year's net earnings after reserve transfers shown in the financial statements, the consolidated financial statements of the Volkswagen Group and related comments for the year 1978

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

The Supervisory Board and the Board of Management propose to distribute from the net earnings after reserve transfers of 189,157,737 DM a dividend of 9.- DM per share of nominal value 50.- DM on the capital stock of 900,000,000 DM fully entitled to dividend, that is, 162,000,000 DM, and a dividend of 4.50 DM per share of nominal value 50.- DM on the new shares from the capital increase of 1978 of 300,000,000 DM half entitled to dividend for the business year of 1978, that is, 27,000,000 DM.

The balance and also the sum which should have been distributed in respect of own stock 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.

3. Resolution with respect to discharge of responsibility of the Board of Management for the year 1978

4. Resolution with respect to discharge of responsibility of the Supervisory Board for the year 1978

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

5. Resolution with respect to the creation of an authorized capital

The Supervisory Board and the Board of Management propose

a) to empower the Board of Management to increase the capital stock of the Company by June 30, 1984 with the agreement of the Supervisory Board from currently 1,200 million DM to up to 1,500 million DM (authorized capital) by an issue of new bearer shares,

b) to extend section 4 of the charter by the following para. 3:

The Board of Management is empowered to increase the capital stock of the Company by June 30, 1984 with the agreement of the Supervisory Board by issuing new bearer shares up to a value of 300 million DM.

6. Resolution concerning the alteration of section 2 of the charter

The Supervisory Board and the Board of Management propose to alter section 2, para. 1 of the charter of the Volkswagenwerk AG as follows:

(1) The object of the Company is the manufacture and sale of vehicles and engines of all kinds, their accessories as well as facilities and equipments and all machines, tools and other technical products.

7. Appointment of auditors for the year 1979

The Supervisory Board proposes to appoint the TREUARBEIT Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft – Steuerberatungsgesellschaft, Hanover, as auditors for the year 1979.

Supervisory Board (Aufsichtsrat)

Hans Birnbaum (67), Salzgitter
Chairman
Chairman of the Board of
Management of
Salzgitter AG

Eugen Loderer (58), Frankfurt
Deputy Chairman
Chairman of the
Metalworkers' Union

Rudolf Blank (45), Wolfsburg
Deputy Chairman of the
Group Works Council
of the Volkswagenwerk AG

Birgit Breuel (41), Hanover
as of October 26, 1978
Minister for Economic
Affairs and Transport of
Lower Saxony

Dr. Jur. F. Wilhelm Christians (56)
Düsseldorf
Member of the Board of
Management of Deutsche
Bank AG

Siegfried Ehlers (54), Wolfsburg
Chairman of the Group Works
Council of the
Volkswagenwerk AG

Albert Hoffmeister (50), Wolfsburg
Senior Executive of the
Volkswagenwerk AG

Hans-Günter Hoppe (56), Berlin
Former Member of
the Berlin Senate

Walther Leisler Kiep (53), Hanover
Minister for Finance of
Lower Saxony

Gerd Kühl (56), Frankfurt
Trade Union Secretary to the
Executive Committee of the
Metalworkers' Union

Manfred Lahnstein (41), Bonn
Undersecretary in the Federal
Ministry of Finance

Walter Martius (59)
Velbert-Langenberg
Business Consultant

Hans L. Merkle (66)
Gerlingen-Schillerhöhe
Chairman of the Management
of Robert Bosch GmbH

Karl Heinrich Mihr (43), Kassel
Chairman of the Volkswagen-
werk AG's Works Council
representing the Kassel Plant

Gerhard Mogwitz (45), Hanover
Chairman of the Volkswagen-
werk AG's Works Council
representing the Hanover Plant

Walter Neuert (53), Ingolstadt
Chairman of the Joint
Factory Council of
AUDI NSU AUTO UNION AG

Karl Gustaf Ratjen (59), Frankfurt
Chairman of the Board of
Management of
Metallgesellschaft AG

Dr. rer. pol. Otto Schlecht (53)
Bonn-Duisdorf
Undersecretary in the
Federal Ministry of Economics

Kurt Ernst Schmiedl (54), Emden
Chairman of the Volkswagen-
werk AG's Works Council
representing the Emden Plant

Dr. rer. pol. Albert Schunk (37)
Frankfurt
Trade Union Secretary to
the Executive Committee of the
Metalworkers' Union

Resigned from the Supervisory Board:

Erich Küpker (46), Hanover
Former State Minister
(October 25, 1978)

Board of Management (Vorstand)

Toni Schmücker (57)

Chairman of the Board of
Management

Karl-Heinz Briam (56)

since October 1, 1978

Personnel and Social Matters
(Labour Director)

Prof. Dr. techn. Ernst Fiala (50)

Research and Development

Dr. jur. Peter Frerk (48)

Legal Matters, Auditing
and National Economy

Dr. jur. Wolfgang R. Habbel (55)

since January 1, 1979

AUDI NSU AUTO UNION AG

Günter Hartwich (43)

Production

Horst Münzner (54)

Purchasing and Material
Administration

Dr. rer. pol. Werner P. Schmidt (46)

Sales

Prof. Dr. rer. pol. Friedrich Thomée (58)

Finance and Business
Administration

Resigned from the Board of Management:

Gottlieb M. Strobl (62)

AUDI NSU AUTO UNION AG

on December 31, 1978

Report of the Supervisory Board

During the year under review the Board of Management has kept the Supervisory Board 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 in accordance with the law or the Company's charter were discussed in detail at the meetings of the Supervisory Board and its committees before a resolution was passed. A continuous control was exercised by the Supervisory Board 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, 1978 as well as the Annual Report have been placed before the Supervisory Board. 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.

The Supervisory Board states that its own review of the financial statements of Volkswagenwerk AG and the Annual Report gave no cause for objections.

The Supervisory Board concurs with the results of the audit and the auditors' report and has approved the financial statements which are hereby confirmed. The proposal of the Board of Management concerning the disposition of the net earnings after reserve transfers has been approved by the Supervisory Board.

In accordance with section 12 of the charter of the Volkswagenwerk AG, with effect from October 26, 1978, Frau Birgit Breuel, Minister for Economic Affairs and Transport for Lower Saxony, replaced Herr Erich Küpker, former State Minister, on the Supervisory Board as the representative of the State of Lower Saxony.

The Supervisory Board thanks Herr Erich Küpker for his responsible service on this board.

Herr Karl-Heinz Briam joined the Company on October 1, 1978 as Labour Director and is Member of the Board of Management responsible for Personnel and Social Matters. At the same time Dr. Peter Frerk took over responsibility for Legal Matters, Auditing and National Economy.

Herr Gottlieb M. Strobl retired on December 31, 1978. The Supervisory Board expresses its thanks to him for his many years of valuable service in the Group. With effect from January 1, 1979 Dr. Wolfgang R. Habbel has succeeded Herr Gottlieb M. Strobl as Member of the Board of Management of the Volkswagenwerk AG and Chairman of the Board of Management of AUDI NSU AUTO UNION AG.

Wolfsburg, March 30, 1979



Chairman of the
Supervisory Board

Report of the Board of Management

The economic weak period during the Winter of 1977/78 was in most West European industrial countries overcome in the Summer of 1978 thanks to the increased application of fiscal measures. The conditions for economic recovery were also improved through the more favourable development of world trade. In 1978 a real growth rate of an average of 3 % was achieved within the European Community.

In the USA the economy which had been lively for three years continued to be so at first in 1978. This led to an increase in employment, but also to a higher rate of inflation. On account of the devaluation which in the middle of the year was running at 8 % the government took restrictive anti-inflationary measures which by the end of the year made the first weakening economic tendencies noticeable. Over the year the average real growth rate was almost 4 %. In the year under review the pressure on the US dollar continued unabated. At the end of October 1978 the exchange rate of the American currency as against the DM reached its lowest point yet. With the currency and credit policy measures of Autumn 1978 the first successes in efforts to stabilize the dollar rate were achieved.

In spite of the difficult situation in the currency sector and the uncertainties in foreign trade, in the Federal Republic of Germany after a relatively subdued start the phase of economic recovery continued in 1978.

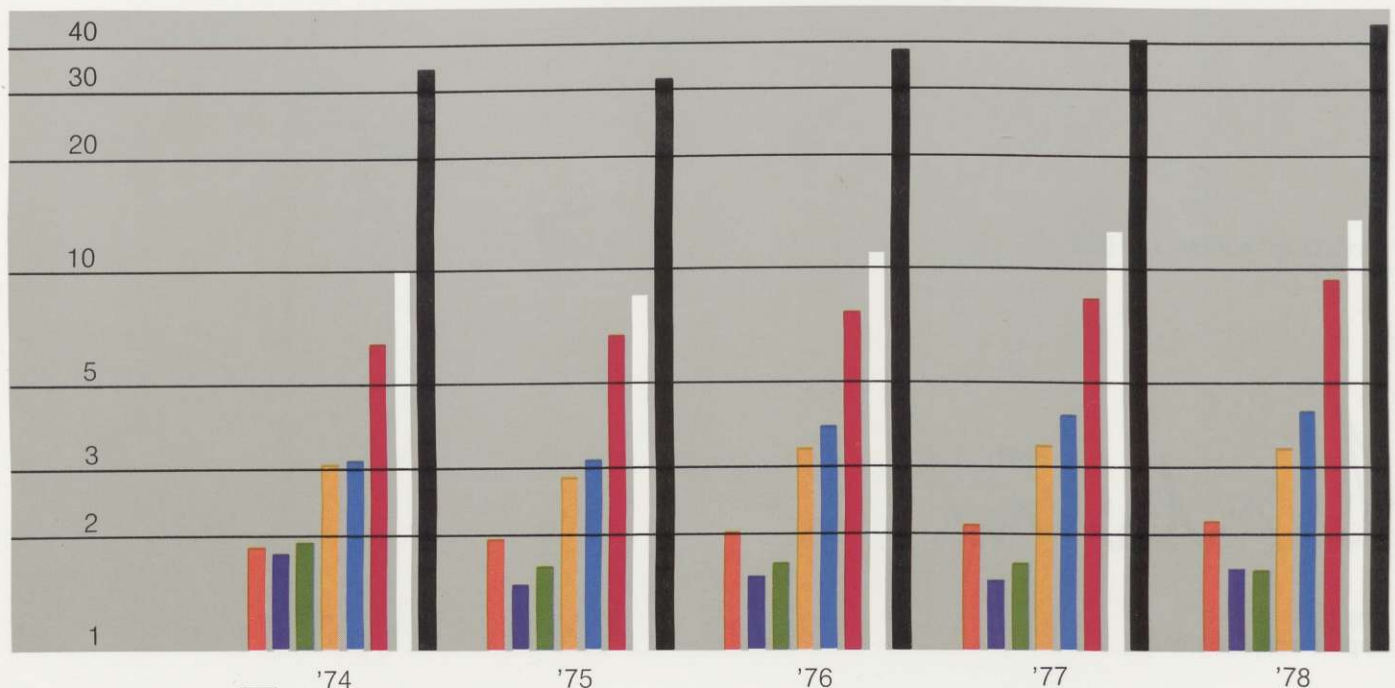
Whereas at the beginning of the year the main support of the economy was private demand for consumer goods, by the end the first indications of a stimulation of the demand for investment goods were also visible. With the help of government measures for support of the economy it has been possible to achieve a real economic growth rate of 3.4 % with an average increase in the cost of living of only 2.6 %.

As in previous years the automobile industry proved in 1978 to be one of the most important pillars of the economy. Despite the fact that wage disputes in several firms in the Spring in some cases resulted in production stoppages, production and sales were further increased.

Vehicle production in the Federal Republic of Germany at approx. 4.2 million passenger and commercial vehicles exceeded that of the previous year. Whilst, primarily as a result of the price increases on German-produced vehicles

*Production trend
within the automobile industry
in million vehicles
(logarithmic scale)*

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



brought about by revaluation, exports were little different from last year, domestic sales continued to increase. Compared with the high level of the previous year, new passenger car registrations increased by approx. 4 % and at more than 2.6 million cars achieved a new record.

For the Volkswagen Group trading in 1978 was again successful. At home the record sales of the previous year were once again improved on. On our export markets, above all as a result of currency difficulties, the development was uneven. Whereas in Great Britain, Italy and Belgium considerable increases in sales were achieved, in Scandinavia distinct sales losses were suffered on account of revaluation-related price disadvantages and a general decline in demand. At the same time vehicle sales in Austria were heavily impaired as a consequence of the increase in value added tax at the beginning of 1978.

In the USA the imported car trade was affected by the continued fall in the value of the dollar. Deliveries of Volkswagen Group vehicles to customers in the United

States decreased, in a further slightly increasing overall passenger car market, particularly as a result of supply problems which were consciously accepted in the framework of employment policy considerations. Production of the Rabbit, the American version of the Golf, which began in April 1978 at the Westmoreland factory will in 1979 result in improved delivery conditions. At the same time our dependence on the development of the dollar rate will be reduced. Last year 40,195 cars were produced at our American plant. In July 1978 Volkswagen Manufacturing Corporation of America merged with Volkswagen of America, Inc. At the same time the main administrative seat of the new Volkswagen of America, Inc. was relocated at Warren, Michigan.

Our manufacturing subsidiaries in Brazil, Mexico and South Africa in the year under review made good the drop in sales caused by the recession of the previous year. An important factor in this, apart from the improved overall demand in these countries, was above all the positive acceptance of the Golf.

As a result of the continued healthy motor vehicle market the number of Volkswagen Group employees was further increased in 1978.

Foreign subsidiaries took on relatively more employees than the domestic Group companies as a result of start of production in the USA and the switchover to two-shift working at Volkswagen de Mexico.

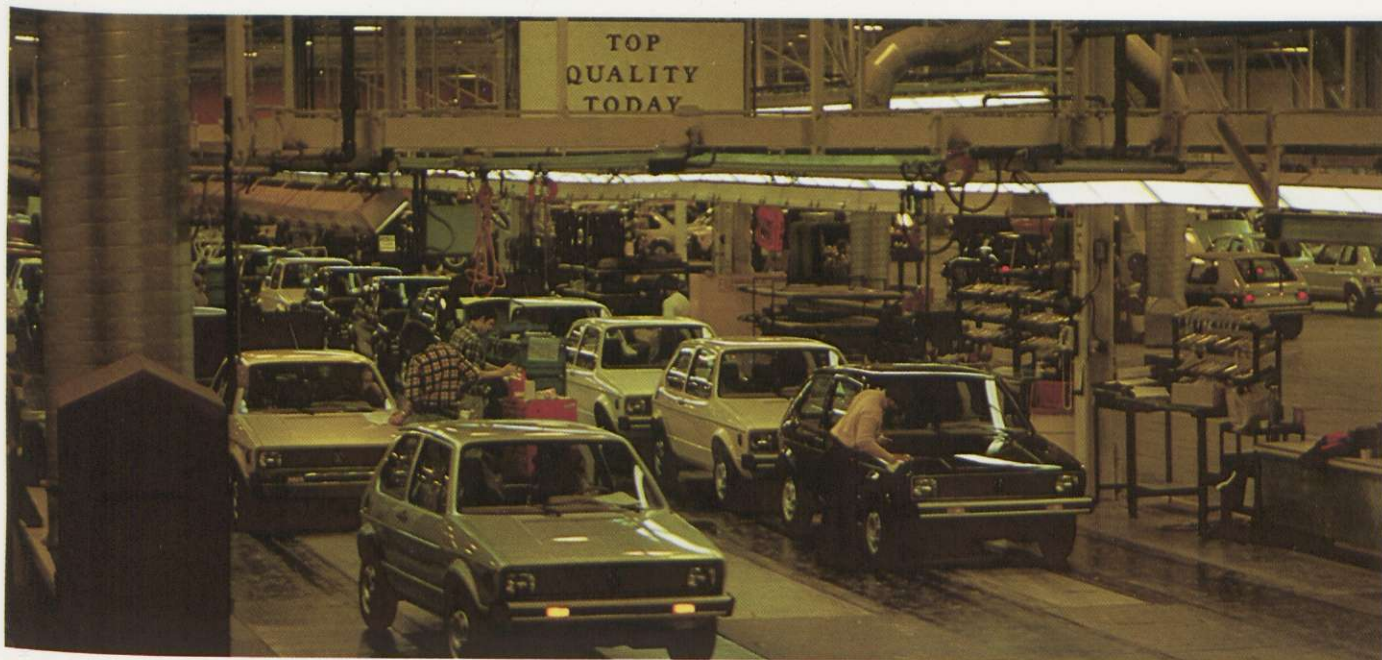
The Board of Management takes this opportunity of thanking all employees and bodies set up in the framework of the company constitution for their high degree of personal involvement in their work. The intensive and successful cooperation between Management and Works Councils made possible the smooth running of the Group's activities.

For the financing of our international activities our subsidiary Volkswagen International Finance N.V., Amsterdam, in 1978 issued bonds of 35 million US dollars in the form of a private placement. The Volkswagenwerk AG is guaranteeing this.

The increase of capital stock by 300 million DM to 1,200 million DM adopted by a resolution of the Annual Meeting of Stockholders on July 4, 1978 and the implementation of this were entered in the Wolfsburg Trade Register on August 7, 1978.

Most stockholders took advantage of their subscription right, thus demonstrating their confidence in the future of our Company.

Over 40,000 Rabbits were produced in our American production plant at Westmoreland in 1978.



In this way the capital stock increase, carried out under the direction of the Dresdner Bank AG, the largest transaction of this kind made in the Federal Republic of Germany, was carried out to the satisfaction of all concerned.

On November 20, 1978, the Volkswagen shares were introduced on the Vienna Stock Exchange. This is the first time that a foreign motor manufacturing company has been represented on the Vienna Stock Exchange. In this way our Company will receive greater publicity and an extension of the market for the shares. In addition in 1978 we extended our quarterly reports to stockholders and the interested public with the balance sheet and the profit and loss account of the Group — in other words the statement of results. In this way more up-to-date and above all more detailed information is made available on the financial position of the Group.

The sales achieved on the basis of the attractive model range and the overall favourable situation in the motor industry enabled the Group to

achieve net earnings of 574 million DM. In this the foreign subsidiaries made a greater contribution than last year. The Volkswagenwerk AG achieved a surplus of 368 million DM. The good result permits payment of a dividend of 9.— DM per 50.— DM share of the increased capital stock, whereby the new shares from the capital increase of 1978 will attract half the dividend. The reserves were increased by 184 million DM in order to strengthen our stockholders' equity base.

Up to 1974 our Company had reduced the amount of liquid funds to an extent which was hardly justifiable when related to further development. In the framework of the normalization of our trading activities we have succeeded in recent years in building up a healthy liquidity again which corresponds to business necessities. In this it is our contention that we should have liquid funds available in the amount of up to two months' sales, which in the Volkswagen Group is an amount of approx. 4.5 thousand million DM, in order to afford a large measure of protection to our Company even in times of economic difficulty.

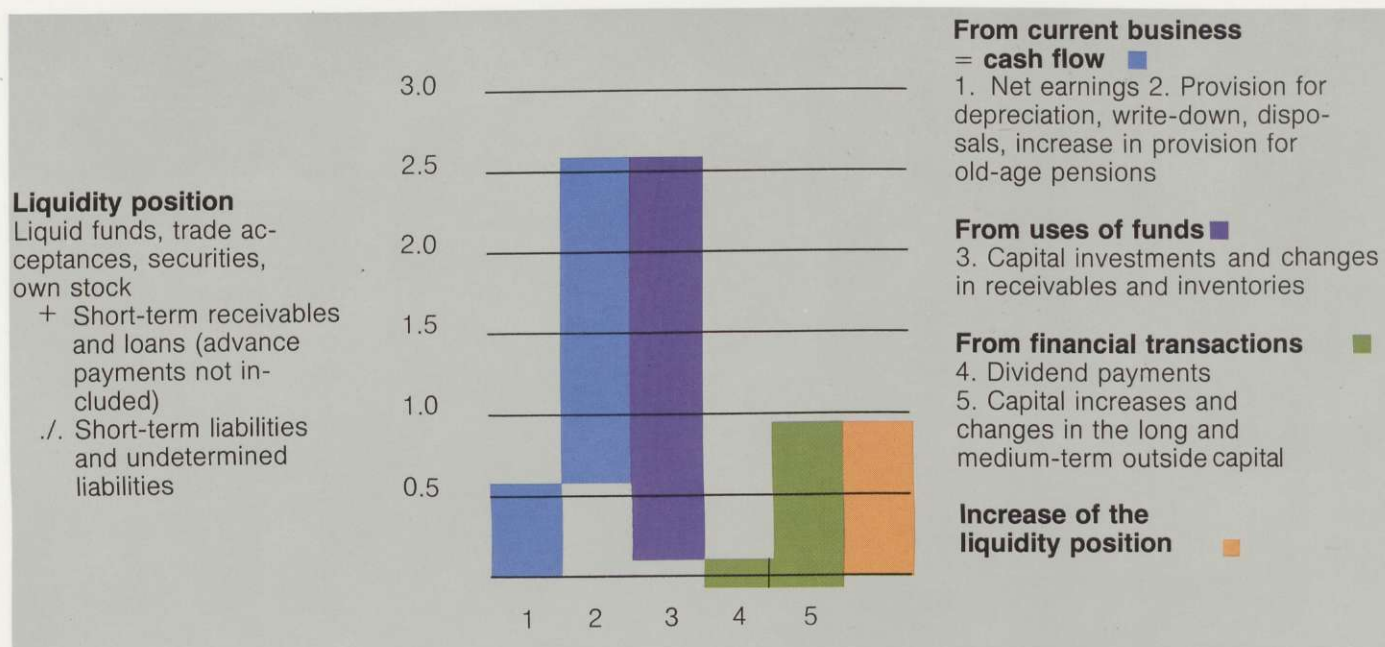
When assessing this development which resulted in the recovery of liquidity it must be clearly underlined that the majority of these

liquid funds in recent years does not stem from credits but from the Company itself, but that the proportion therein of retained earnings is still very small. We are thus striving for a further improvement in this relation in order to be in a position to meet the financial demands towards the Company — in particular the future investment requirements for the maintenance of competitiveness and thus of jobs.

In the year under review the difference between the depreciation on acquisition values and on replacement values has again been calculated. The imaginary profit emerging in the amount of this difference could be compensated at the Volkswagenwerk AG through permissible extraordinary depreciations: Thus no imaginary profit components are contained in the net earnings. The transfer to reserves therefore permitted the covering of capital losses which in previous years could not be covered at the Volkswagenwerk AG as a result of the unsatisfactory profit situation.

The domestic companies are included in the parent company's deliberations on maintenance of capital, in so far as for reasons of existing profit and loss assumption agreements they cannot take their own precautionary measures for the maintenance of capital.

*Increase of the
liquidity position of the
Volkswagen Group
in 1978 (thousand million DM)*



The transfer to available reserves undertaken at Volkswagenwerk AG must also therefore take account of the covering of imaginary profits in these companies, in so far as they have not been covered through permissible extraordinary depreciations. This increases the necessity for allocation of reserves for the covering of capital losses – in particular those which have occurred in recent years.

In order in future to guarantee the equity capital necessary for the long-term security of the Company, the Board of Management proposes the creation of an authorized capital in the amount of 300 million DM.

Proposed distribution of net earnings after reserve transfers

The Board of Management proposes to distribute the net earnings after reserve transfers of the Volkswagenwerk AG as follows:

Distribution on capital stock with full dividend rights – 900 million DM –	162,000,000 DM
Distribution on capital stock with half dividend rights – 300 million DM –	27,000,000 DM
Balance (to be carried forward)	157,737 DM
Net earnings after reserve transfers	<u>189,157,737 DM</u>

Business Developments during 1978

Vehicle Sales

In 1978 the Volkswagen Group sold 2,393,170 vehicles to the dealer organization, which was 6.9 % up on the previous year. The successful pattern of trading was the result of increased sales both at home and abroad. The previous record of 2,317,385 vehicles – achieved in 1971 – was beaten by 3.3 %.

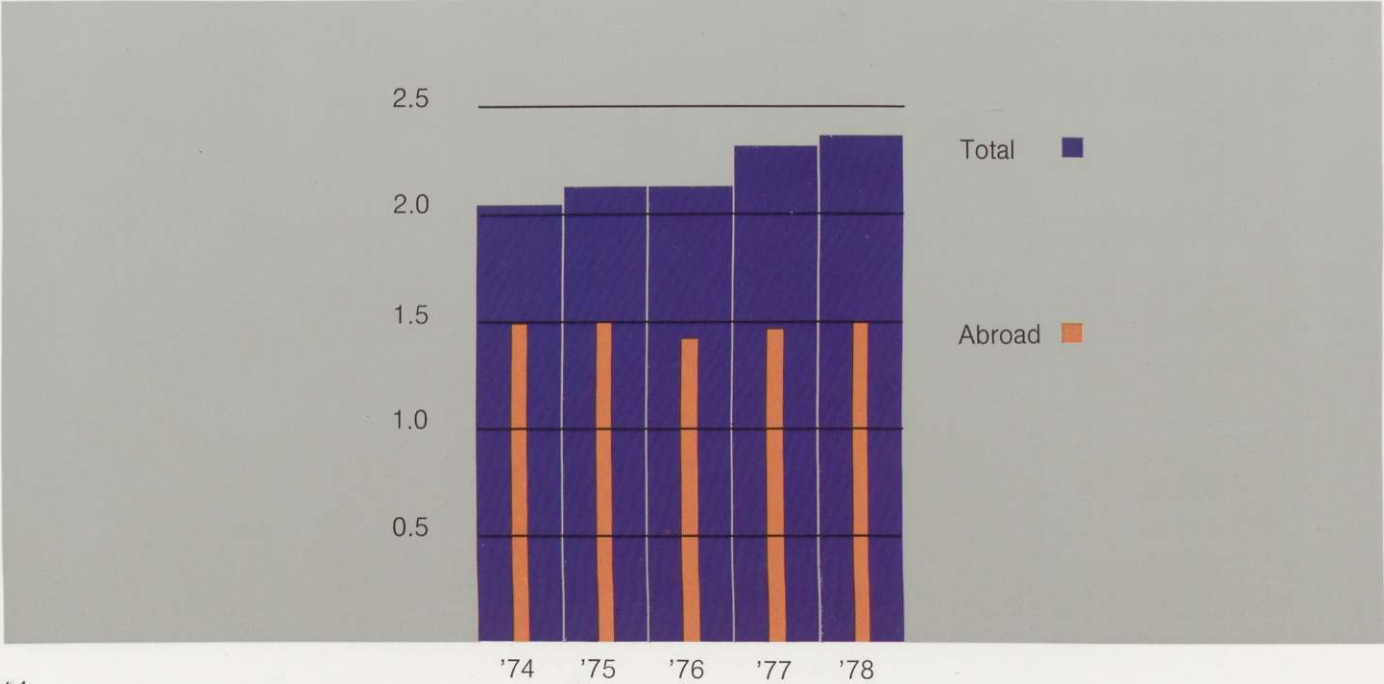
World-wide deliveries to customers by the Volkswagen Group totalled 2,340,034 units. The high level of the previous year was exceeded by 1.9 %. This result must be viewed in the light of our trading policy, which is to refrain from exploiting all the market possibilities in order to maintain stability of employment. Above all the Golf, and in particular the diesel version, was in many markets not available in sufficient quantity. The tight delivery situation will be normalized in 1979 through the full exploitation of our American production capacity. The new Audi 80, too, which was presented in the second half of 1978 and which had an excellent reception, was not available in sufficient numbers.

remained the best-seller with 243,280 units sold. The passenger car market share of the Volkswagen Group in Germany was 29.7 % as against 30.2 % in the previous year.

In Europe Volkswagen Group vehicle deliveries fell by 5.2 % on the previous year to 442,155 units. The sales losses resulted from the fall in demand in Scandinavia and Austria and more particularly from the increase in the price of our products due to revaluation. Sales increases in some markets were unable completely to balance out losses in other markets.

Deliveries of Volkswagen Group vehicles to customers (million vehicles)

In the Federal Republic of Germany deliveries of Volkswagen and Audi vehicles increased slightly by 1.6 % to 858,699 units. On the domestic market the Golf



In Austria, which in the previous year had been our biggest European market, Volkswagen Group deliveries decreased by 46.1 % to 40,805 vehicles as a result of the drastic increase in value added tax at the beginning of 1978 and the concomitant spate of buying in the last quarter of 1977. Nonetheless our passenger car market share in Austria improved slightly. In France Group deliveries were 4.1 % lower than in the previous year due to necessary price increases as a result of the weakening of the franc, and supply shortages in the case of some models. A slight decrease was also registered in the Netherlands.

Our biggest European market in 1978 was Great Britain; Volkswagen Group sales increased by 33.7 % to 74,095 vehicles. In Italy and Belgium too there was a distinct improvement in sales.

In the USA, after the foreign car boom of 1977, the declining dollar rate made the conditions of competition more difficult for foreign manufacturers in the year under review. At the same time the US manu-

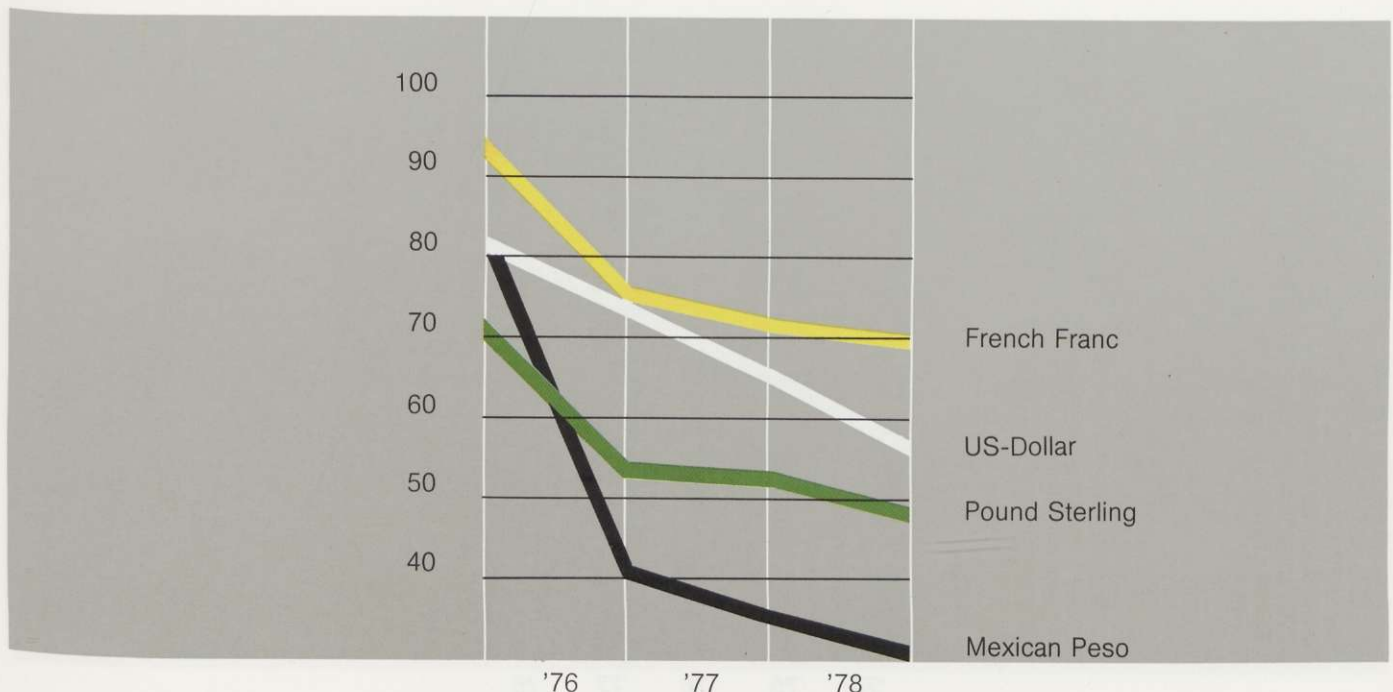
facturers intensified their activity in the small car sector, previously the domain of importers, as a result of statutory measures for the conservation of energy. Whilst sales of imported cars fell by 2.3 % and the passenger car trade increased slightly overall, deliveries of our models fell by 5.0 % to 256,860 vehicles. Over half the Group sales were of the Rabbit. In addition 23,322 commercials and minibuses were sold.

In the wake of a generally more favourable economic development the weakness of demand on the Brazilian market which characterized the previous year was overcome. Sales of Volkswagen do Brasil in Brazil increased by 7.5 % to 452,073 vehicles. On account of fully-exploited capacities – also in conjunction with larger export orders – Volkswagen do Brasil did not take a full part in the rejuvenation of the domestic market, with the result that the market share was slightly down.

With the stabilization of the economic situation in Mexico sales of passenger cars in 1978, after two years of decline, livened up distinctly. The introduction of the Golf (Caribe) in the previous year made a considerable contribution to the improved total sales, which rose by 11.2 % to 70,916 units. Vehicle exports also developed favourably.

Since the end of 1977 there has been a limited economic improvement in South Africa which also gave a stimulus to demand for passenger cars. Deliveries of our models increased by 33.5 % to 42,714 vehicles; the main burden of the increase was borne by the successful introduction of the Golf.

*Development of exchange rates of various currencies against the German Mark
(index: 1972 = 100)*



Sales

The sales proceeds of the Volkswagen Group in the year under review totalled 26.7 thousand million DM; the figure for the previous year was exceeded by 10.6 %. The relatively stronger unit sales in the Federal Republic of Germany resulted in an increase in sales proceeds in Germany of 15.6 % to 11.2 thousand million DM; abroad an increase in sales proceeds of 7.3 % to 15.5 thousand million DM was achieved. The proportion of Group turnover represented by foreign business fell further to 58.0 (59.8) %.

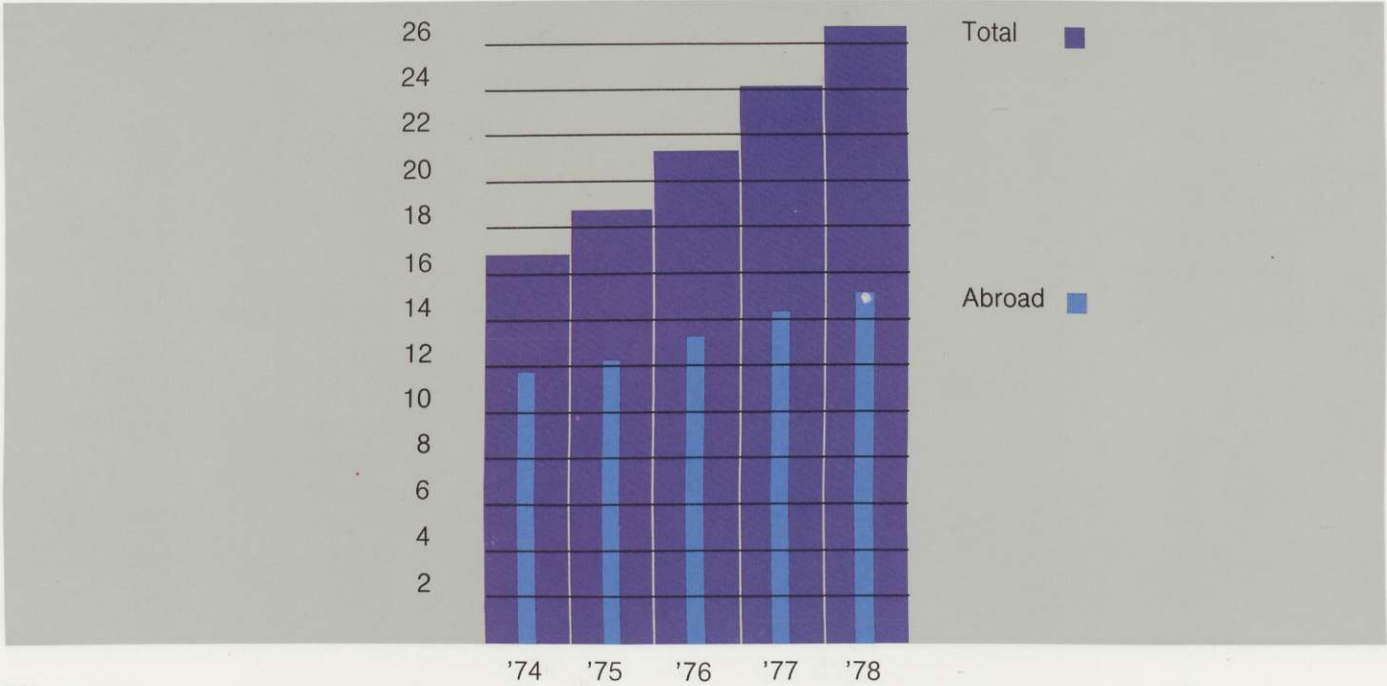
Purchasing and
Material Administration

The purchasing volume of the Volkswagen Group rose in 1978 on account of the increased output of vehicles. The Volkswagenwerk AG and the other Group companies world-wide purchased 4.3 million tonnes of materials and parts.

The increased purchasing requirements and the technical changes, which were in part considerable, connected with the introduction of new models again imposed increased demands on our suppliers which could only be met through their high degree of flexibility. The fact that it was, and at the high quality level required by the Volkswagen Group, is to be especially commended.

Supply firms were able to utilize the favourable situation in the automobile industry to improve the exploitation of their production capacities.

Sales of the
Volkswagen Group
(thousand million DM)



Production

World-wide output of vehicles from the Volkswagen Group in the year under review totalled 2,384,563 units, which was an increase of 7.5 % on the previous year. Of these 2,146,484 were passenger cars and 238,079 commercial vehicles. The increase in production is essentially due to the increased production abroad which with 816,228 units achieved a growth of 24.0 %. Domestic production was only increased by 0.5 % on the previous year. It must be borne in mind in this connection that wage disputes led to production stoppages in the Spring of 1978.

The increase in production was achieved by means of an increased exploitation of capacities—primarily through the taking on of more employees—and rationalization measures.

The Group's model range was extended by the Volkswagen Ittis, a four-wheel drive cross-country vehicle. In the Autumn in the framework of our commercial vehicle programme production of the LT 40/45 with a permissible gross weight of 4.0/4.5 tonnes was started. In addition our offer range of diesel-engined vehicles was extended by the Passat Diesel and the Audi 100 Diesel in the last quarter of 1978. In addition,

production of the Golf Convertible started at the end of the report year. Introduction on the market is scheduled for the first half of 1979.

At Volkswagen of America production of the Rabbit began on schedule in April of last year. Construction of the assembly plant in Westmoreland and the takeover of the press shop in South Charleston have been successfully completed. In order to achieve full exploitation of capacity two shifts have been worked at Westmoreland since the beginning of 1979.

To increase the competitiveness of our models we have improved the quality, safety and manufacturing technology in consistent fashion. Particular emphasis was laid upon rationalization and increase of production flexibility. These activities required increased investment, which will also be necessary in the coming years for the realization of our modernization plans.

For the dissemination of new production technologies the assistance given to Group companies by the parent company was further extended. In the framework of world-wide integrated production there exist between the Group companies close supply and service relations which have their effect

above all on the supply of finished products and investment goods.

For example Volkswagen do Brasil supplied daily almost 600 engines and 400 gearboxes to the Volkswagenwerk AG. Volkswagen de Mexico produced 15,958 Beetles for the European market in the business year ended.

The Volkswagen Group in the year under review produced world-wide 10,189 vehicles per working day, an increase of 9.3 % on the previous year.

The table below shows the volume of individual models produced:

	1978	1977	Increase (Decrease) %
Golf	714,947	553,989	29.1
Passat	340,884	274,992	24.0
Beetle	271,673	258,634	5.0
Audi 100	208,508	202,734	2.8
Audi 80	143,681	193,430	(25.7)
Brasilia	166,992	160,106	4.3
Polo/Audi 50/			
Derby	195,134	241,141	(19.1)
Scirocco	88,964	86,068	3.4
Other			
passenger cars	15,701	6,123	x
Commercial			
vehicles	238,079	241,663	(1.5)

The average daily production of individual Group companies was:

	Vehicles/ day
Volkswagenwerk AG ¹⁾	5,458
AUDI NSU	
AUTO UNION AG ¹⁾	1,323
Volkswagen do Brasil ¹⁾	2,112
Volkswagen de Mexico	415
Volkswagen	
of South Africa	186
Volkswagen Bruxelles	534
Volkswagen of America	161

¹⁾ Excluding knocked-down vehicles delivered within the Group, AUDI NSU AUTO UNION AG excluding Porsche 924

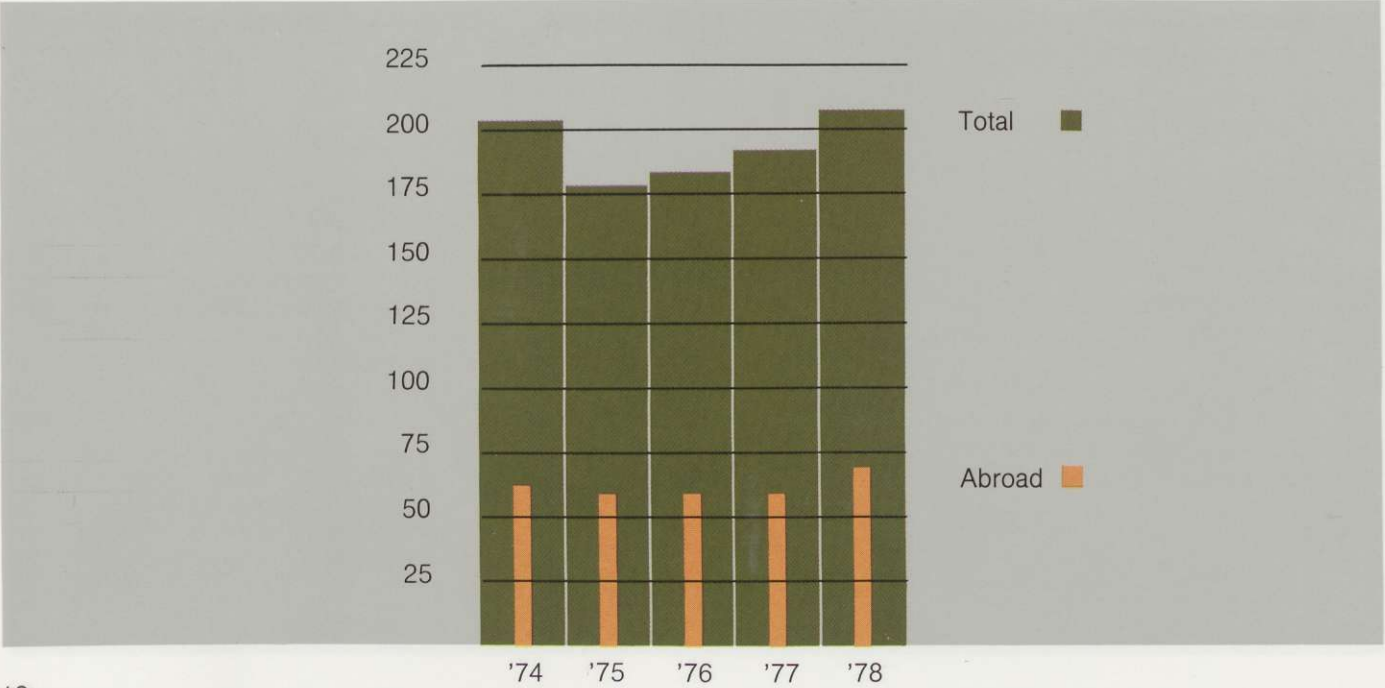
Labour Force

At the end of 1978 the Volkswagen Group employed 206,948 people. The increase in the labour force of 15,057, or 7.8 %, was necessary, in the continued healthy automobile market, above all for reducing the delivery periods of our models.

In the period under review the domestic Group companies increased their labour force by 5,439 or 4.1 % to 138,692 employees. Our foreign companies in 1978 had a labour force of 68,256 employees, the highest figure to date. The heavy increase in the labour force abroad of 16.4 % was, apart from the achievement of a higher production volume of all companies, mainly due to the start of production of the Rabbit at Volkswagen of America and the change to two-shift working at Volkswagen de Mexico.

Labour cost of the Volkswagen Group in the year under review amounted to 7,656 million DM and was thus 12.4 % higher than in the previous year. The rise results from the increase in the labour force and wage increases at home and abroad.

Labour force of the Volkswagen Group at year end (thousand employees)



Capital Investments

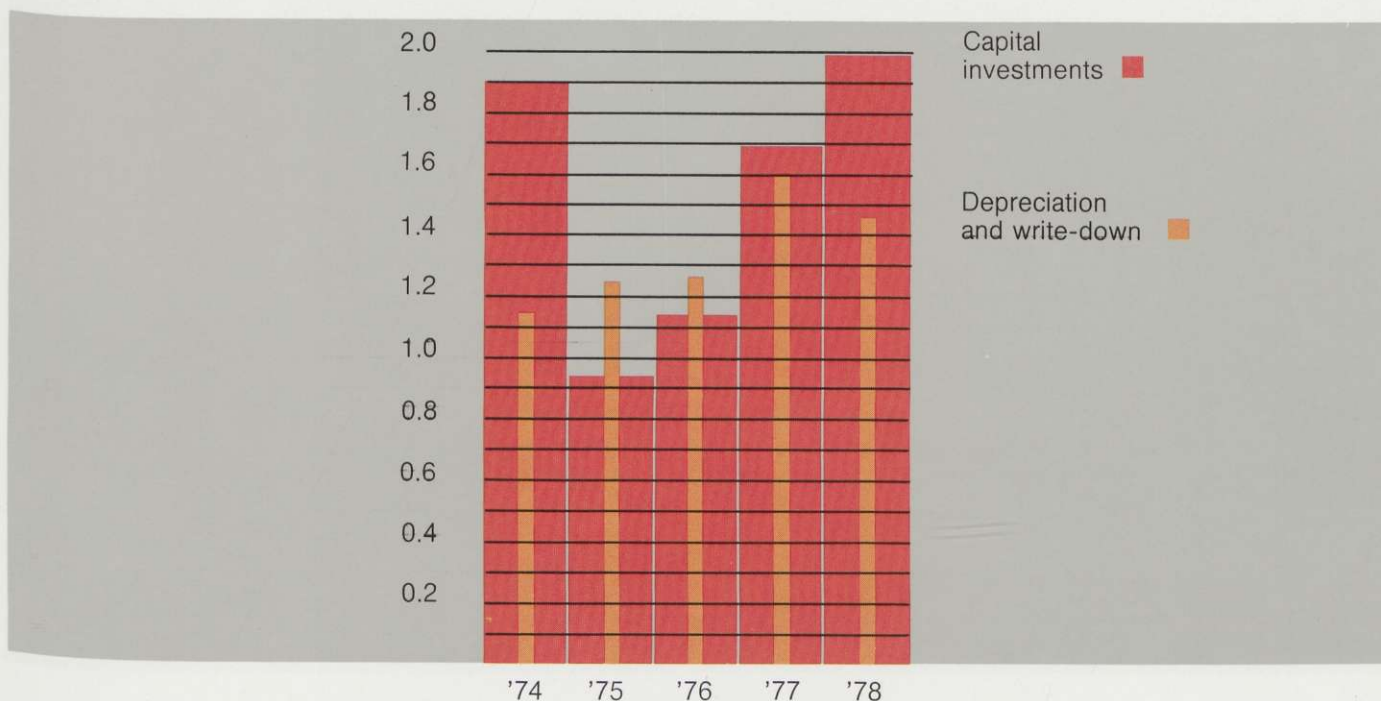
Capital investments of the Volkswagen Group in 1978 increased by 17.2 % on the previous year to 1,990 million DM. Of this 97.8 % was devoted to property, plant and equipment. Emphasis here was placed on the further development of the product programme, modernization and extension of production plant and measures for the constant improvement of working conditions.

Group investments were financed entirely from the cash flow.

In Germany the capital expenditures of the Group companies rose by 60.8 % to 1,559 million DM; this brought the domestic share of the Group's investments to 78.4 (57.1) %.

Abroad the Group's investments in property, plant and equipment totalled 404 million DM, with the highest volume of investment – 227 million DM – being made for the extension of our production plants at Volkswagen of America.

Capital investments and provision for depreciation and write-down of investments of the Volkswagen Group (thousand million DM)



*The Golf Convertible –
a technologically advanced and
original vehicle*





The V.A.G Sales and Service Organization

**A Key
to Success**





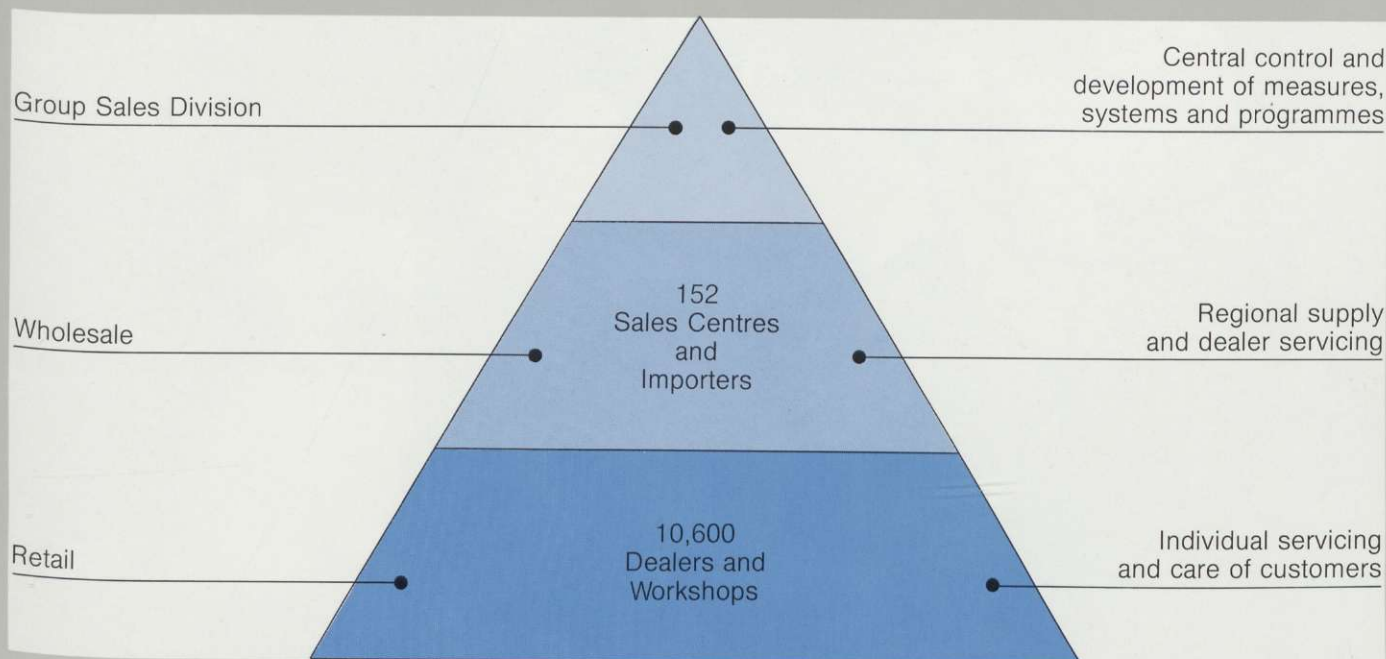
Even the most vigorous efforts to develop and produce the right cars at the right time at the right price only meet with sales success on the hotly contested international market if an efficient and capable sales and service organization stands ready to support them. The Volkswagen Group has such an organization at its disposal for marketing Volkswagen and Audi vehicles. It is based on the franchise system. This means that independent businesses bound to the Volkswagen Group through partnership arrangements put personal involvement into performing the two marketing functions

Since 1978 the Sales and Service Organization has appeared under a new aspect with the unified name of V.A.G. It is under this easy-to-remember trade mark that the V.A.G Dealers offer motorists a broad-ranging model line and all the services that go with it.

- **Selling**
- **Servicing**

in accordance with the standard guidelines of the Volkswagenwerk AG.

Function levels of the V.A.G Sales and Service Organization







For the V.A.G Sales and Service Organization, the sale of vehicles is only the first link in a chain of further services. Among these are V.A.G maintenance and repair, the supplying of genuine parts and accessories, and other indispensable customer aids such as financing, insurance, and vehicle leasing. For example in the Federal Republic of Germany the V.A.G Kredit Bank GmbH and V.A.G Leasing GmbH perform their various functions with success. Similar service offers are also to be found in many other markets. This is also the case with the V.A.G insurance service (VVD) and its Europe Service.

A few figures will suffice to underline the size and significance of the world-wide V.A.G Sales and Service Organization:

At the end of 1978 over 211,000 women and men were working in the 10,600 V.A.G outlets. In comparison: the entire Volkswagen Group employed at this time approximately 207,000.

In 1978, the service operations alone of the world-wide V.A.G Sales and Service Organization achieved a turnover of 8,400 million DM. To make the magnitude clear: total sales of the Volkswagen Group for this period amounted to 27,000 million DM.

At the end of 1978 there were 21.4 million Volkswagens and 2.8 million Audis – that is to say 24.2 million registered Group vehicles in all – on the world's roads.

The lion's share of the 46 million orders dealt with in 1978 by the Service Organization's 158,000 employees came from the owners of these cars. This means that there were on average 200,000 customer contacts per working day in the workshops alone.



In addition to this there are the V.A.G Sales and Service Organization's contacts in new and used car transactions, in the sale of parts and accessories, and in providing all its other services. All in all, data indicates that the V.A.G Organization deals daily with an average of almost a quarter of a million customers.

In his V.A.G contract, the retail dealer assumes responsibility for persevering pursuance of the goals which, upon consultation



with the larger marketing sector partners (Sales Centre, Importer), seem feasible in his district.

One precondition of such an operation is having sufficient vehicles and parts in stock. This ensures delivery capacity on the one hand and helps compensate for fluctuations in production and demand on the other.

This explains why an average of 350,000 Volkswagens and Audis are kept in stock in the Sales and Service Organization at any one time. These vehicles have been transported by train, ship, car carrier, or even under their own power from their places of production in Germany and in other countries via wholesalers to the individual V.A.G Dealers.

Parts warehousing comes on top of this. A V.A.G Dealer who sells, for example, 100 new cars a year, always has 3,500 – 4,000 different genuine parts in stock.

Moreover, the dealer can obtain a part he does not stock at very short notice by ordering it from the parts warehouse of his Sales Centre or Importer, where 25,000 to 35,000 different parts are to be found. These parts warehouses are in turn supplied by the Volkswagenwerk Aktiengesellschaft's central parts warehouse, which provides for the world-wide availability of all 83,000 genuine Volkswagen and Audi parts.

This is very important for Volkswagen and Audi owners all over the world. It assures quick availability on

the one hand and quality on the other, for only genuine Volkswagen and Audi parts have quality identical to the original parts and only they come with the factory guarantee. The customer is thus protected against possible inconvenient or even dangerous experiences with less carefully produced parts.

The magnitude of the parts business is clear from the 1978 results: A total of 82,000 parts orders for 5.8 million separate items with roughly 400 million individual parts were processed for the Sales Centres and Importers.





The Volkswagenwerk AG supports and directs wholesale and retail operations in the V.A.G Sales and Service Organization by centrally developing and implementing measures of advertising, sales and service promotion, information and training, as well as control systems and EDP programmes.

However, the Volkswagenwerk's marketing work first begins with the product development phase. Information must be made available to engineers and technicians in order to enable them to design products appropriate to the market. Here it is important to see to it that the cars can be maintained and repaired with minimal expenditure of money and effort.

The producer's marketing department makes extensive preparations before a new vehicle type is handed over to the sales organization. Among these are the planning and production of product catalogues, instruction manuals, workshop manuals and parts lists in as many as 18 different languages, and

also the testing and production of the necessary special tools for the V.A.G workshops.

The most important centrally developed customer-oriented programme introduced in 1978 was the V.A.G Service System, which puts the Sales and Service Organization in a position to adjust its presentation strategy and manner of operation to more demanding customer expectations and stiffening competition.

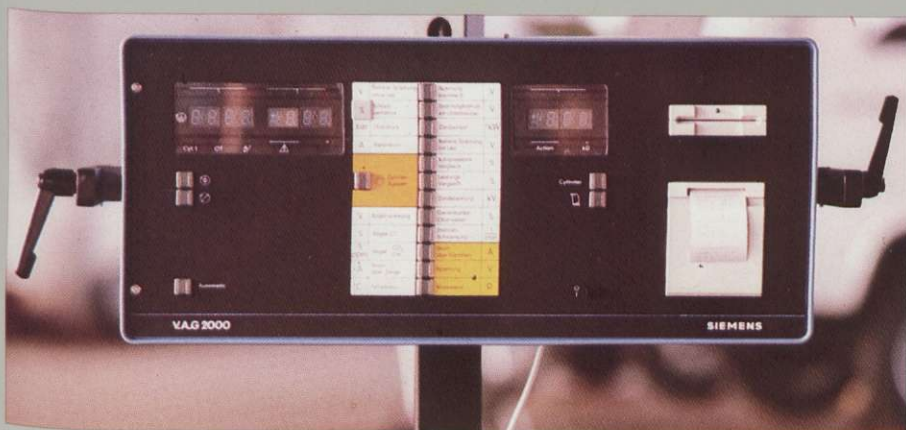
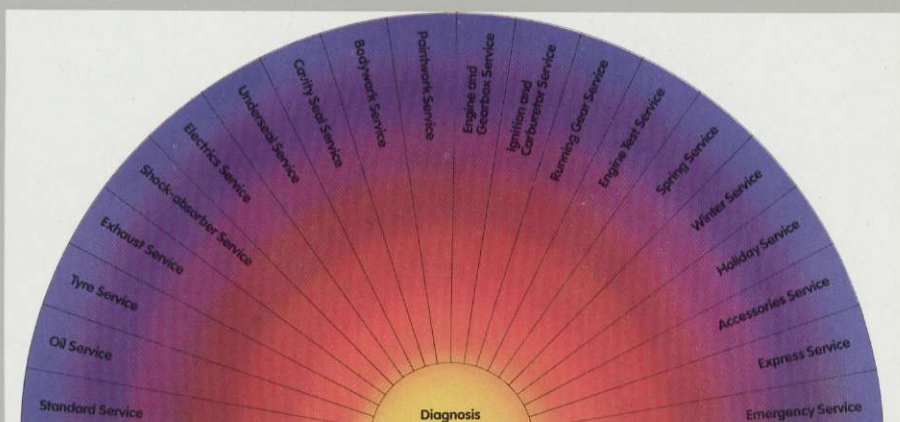
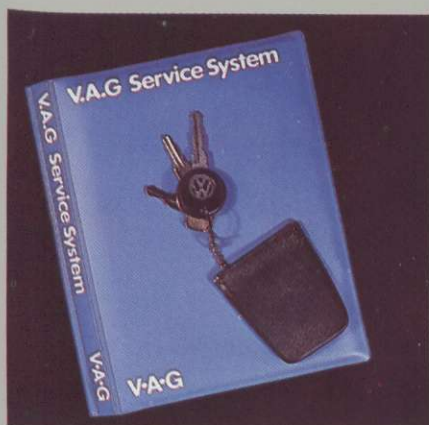
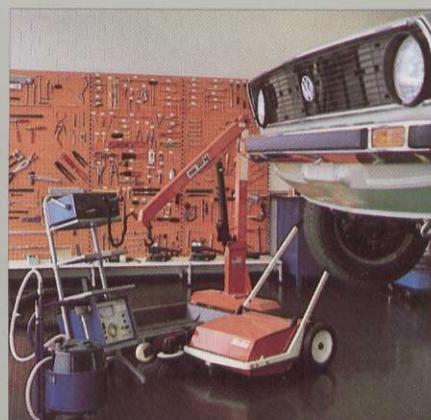
The key features of the new V.A.G Service System are the broad range of services, clear repair offer after diagnosis, unequivocal price, personal customer service and prompt completion of work.

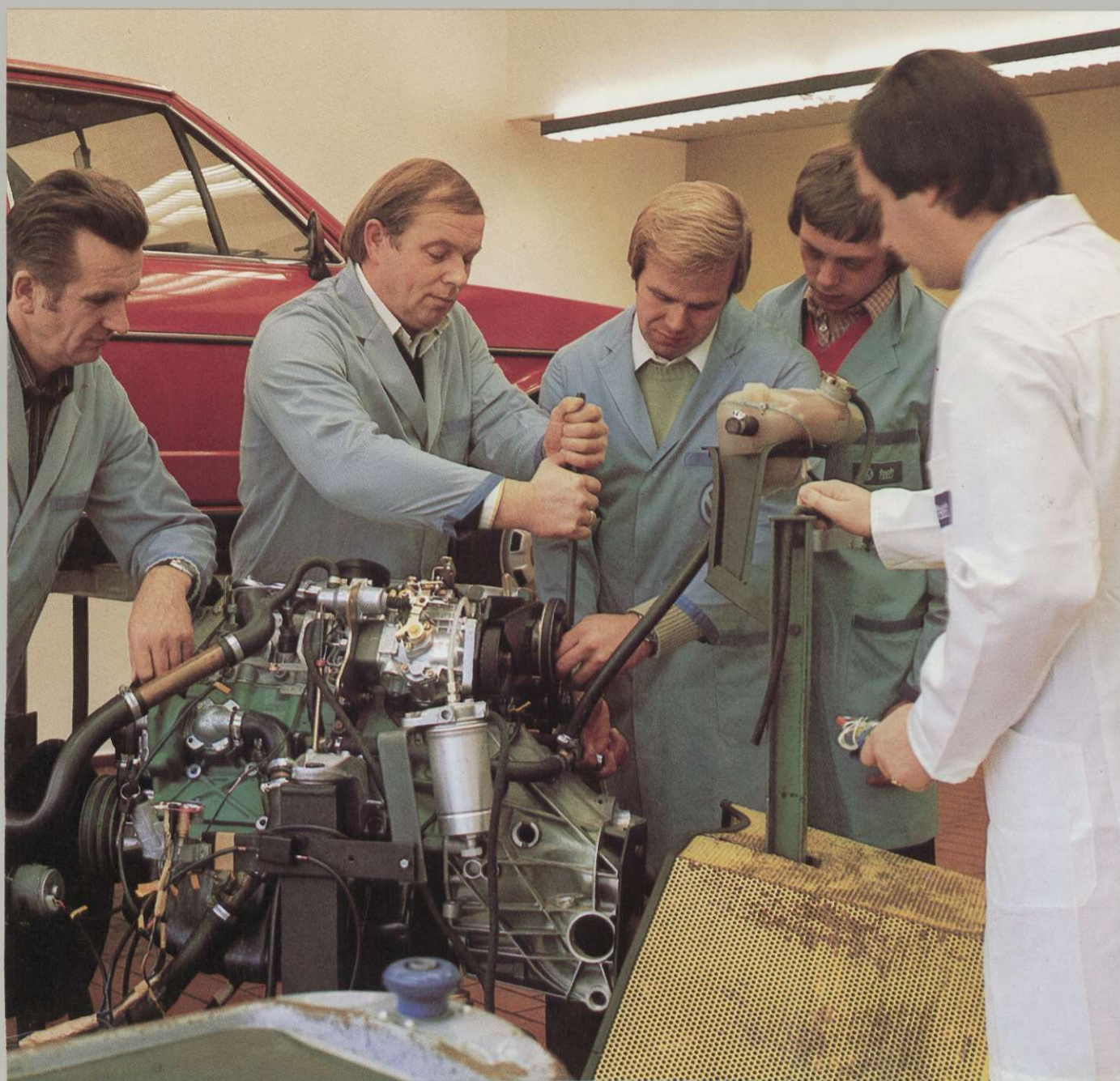
Expressed differently: this system provides Volkswagen and Audi drivers with made-to-measure service both for precautionary, value-preserving maintenance and for specific repairs.

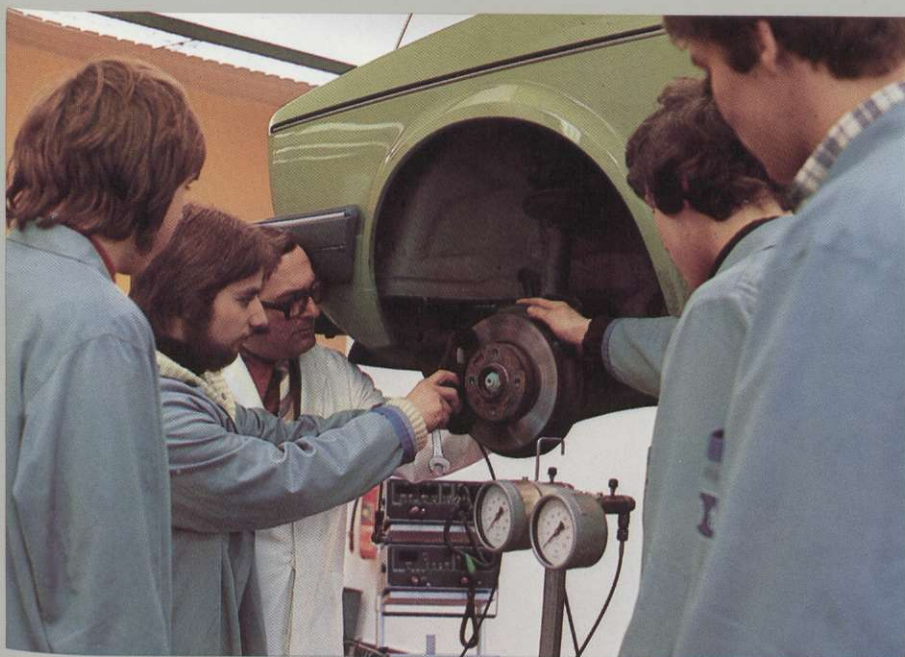
The diagnosis, which is an integral part of all V.A.G Servicing, necessi-

tated the development of a new generation of easy-to-operate testing devices that can be used in all workshop bays.

Since September 1978 the vehicle wallets of Volkswagen and Audi cars have contained, in addition to operating instructions, complete information on the V.A.G Service System. This coherently summarizes what before was included with every new vehicle in numerous separate brochures.







The 211,000 – plus employees of the V.A.G Sales and Service Organization are continually being informed, trained, and further schooled. Many of them receive their basic training with this organization before becoming regular employees. In Germany alone V.A.G Dealers provide 23,000 places for trainees in numerous technical and business professions. In those countries still concerned with stronger industrial development the educational role of the V.A.G Organization takes on a special significance.

Recognized techniques of teaching and learning are used on all levels of the V.A.G Sales and Service Organization to convey information and skills and to enlarge general knowledge. The V.A.G Service Department alone runs over 89 schools with 183 teachers. In 1978 over 65,000 service specialists received a total of 150,000 days of instruction in these schools.



An example from the sales sector: in Europe in 1978 25,800 people – from those retraining in a second field all the way to company directors – took part in courses of the most varied sort, seeking to deepen their product knowledge or improve their abilities in management, new and used car sales, or the parts trade.



A high degree of marque loyalty is important for producer and dealer alike. This can be achieved with careful servicing of vehicles once they are sold and expert customer counselling. As the saying goes, "the service department sells the second car".

This means: not only does the quality of V.A.G. Service decisively colour the image of the Volkswagen and Audi marques. It also makes essential contributions towards turning first-time Volkswagen or Audi buyers into regular customers.

This role of the Sales and Service Organization as a key to Volkswagen Group success will become steadily more important and decisive for the Group's competitiveness.

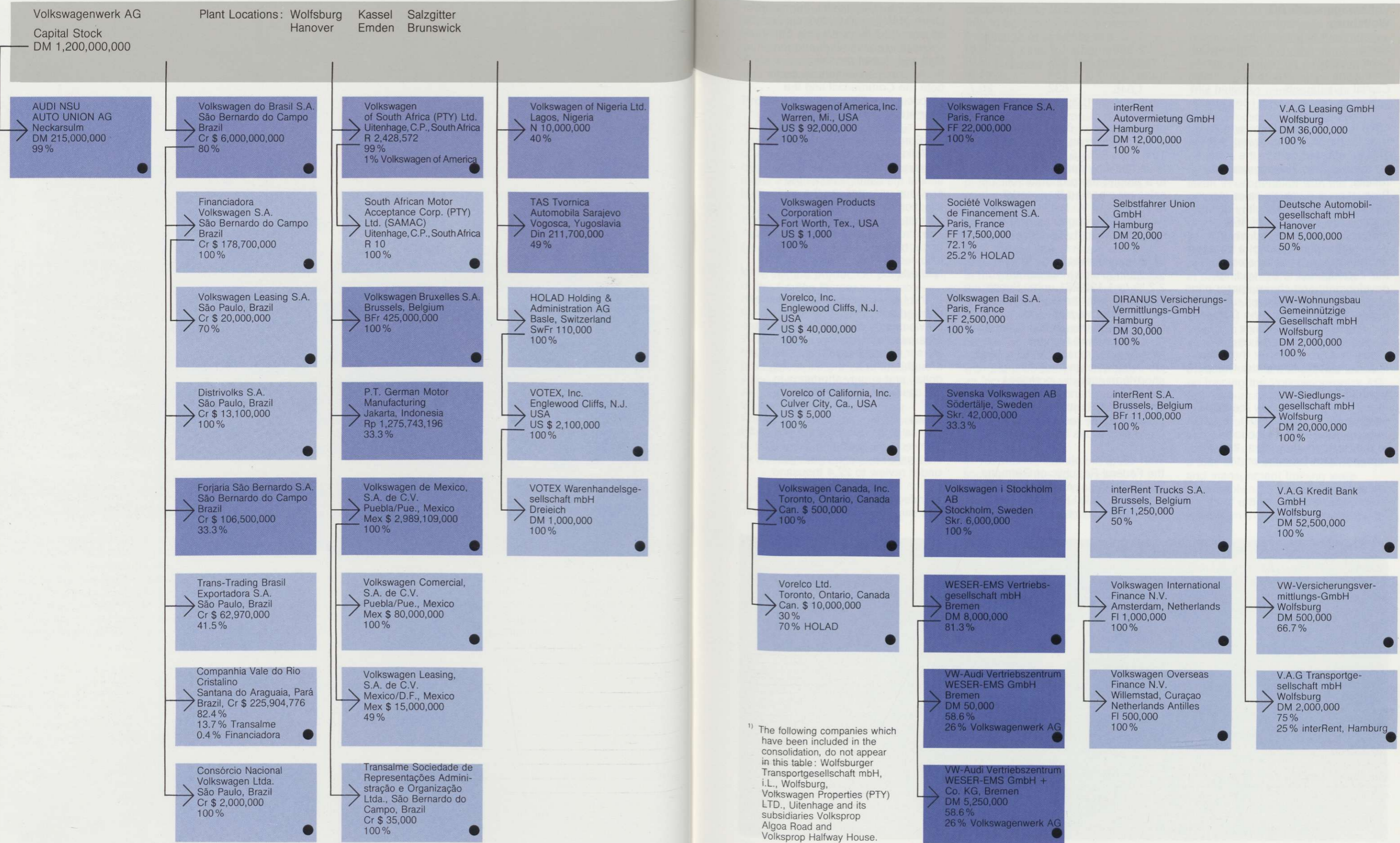
For: as statutory norms and standards progressively narrow the room for manoeuvre in the development of new automobiles, the sales and service organization's efficiency in servicing and individuality of counselling will assume ever greater importance. The V.A.G. Dealers are equipped to meet these growing requirements.

The Major Companies
within
the Volkswagen Group

December 31, 1978

Producing Companies
Distributing Companies
Other Companies

● Companies included in consolidated
financial statements of the Volkswagen Group¹⁾



¹⁾ The following companies which
have been included in the
consolidation, do not appear
in this table: Wolfsburg
Transportgesellschaft mbH,
i.L., Wolfsburg,
Volkswagen Properties (PTY)
LTD., Uitenhage and its
subsidiaries Volksprop
Algoa Road and
Volksprop Halfway House.

Producing Companies

Volkswagenwerk AG Wolfsburg		1978	1977	Increase %
Sales	million DM	22,383	19,837	12.8
Vehicle sales	units	1,752,272	1,687,053	3.9
Production	units	1,439,048	1,371,453	4.9
Capital investments	million DM	1,046	832	25.7
Labour force	on Dec.31	108,376	103,301	4.9

1978 was a successful business year for the Volkswagenwerk AG. This is reflected both in the increased turnover and in the improved results. Production and vehicle sales increased as a result of the healthy domestic motor trade. A surplus of 368 million DM was achieved which permits the distribution of a dividend on the increased capital stock that corresponds to the trading development and shows appreciation of stockholders' readiness to provide new capital for the Company. In addition the net earnings were sufficient to permit an allocation to reserves for the further financial stabilization of the Company.

Vehicle Sales

In the year under review the Volkswagenwerk AG delivered 1,752,272 Volkswagen and Audi models to the dealer organization; this represents an increase on the

previous year of 65,219 vehicles or 3.9 %. With an increase of 10.5 % to 895,151 units the continued healthy domestic trade led to a drop in the proportion of sales represented by exports to 48.9 (52.0) %. World-wide sales of Volkswagen models increased by 9.7 % to 1,409,198 vehicles.

Vehicle deliveries to customers (excluding Audis) increased by 2.2 % to 1,492,271 units. Supply shortages with the Golf – above all the diesel version – had a negative effect on this. These occurred on the one hand because we refrained, for reasons of long-term job security, from undertaking short-term capacity increases. On the other hand there were also capacity bottlenecks at suppliers, with the result that demand could not always be fully satisfied.

With 639,619 vehicles sold in the Federal Republic of Germany, Volkswagen deliveries increased by 6.5 %. Whilst the total of new registrations increased by approx.

4 % to 2.6 million units, the market share of Volkswagen models increased from 20.7 % to 21.4 %. This success is above all due to the Golf and Passat models. In the commercial vehicle sector both the Commercial and the LT occupy leading positions in their areas of competition.

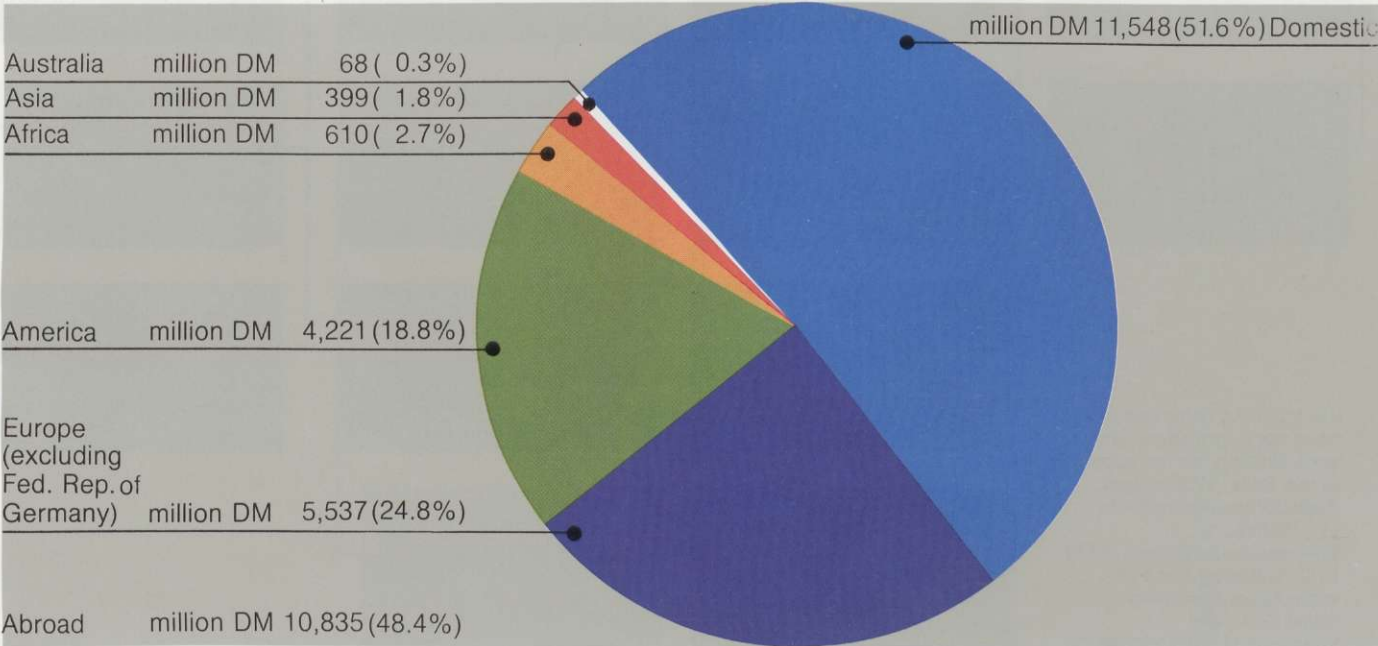
On European markets deliveries of Volkswagens to customers achieved, with 368,117 units, almost the same level as the previous year despite the sales situation which was made more difficult by currency rate problems. The strongest market in the period under review was Great Britain, followed by Italy, France and the Netherlands.

In the US vehicle market deliveries showed a drop of 8.2 % on the previous year at 239,300 vehicles. This was due to the distinctly worsened conditions of competition brought about by the fall of the dollar, and supply shortages in the case of some models.

Sales

The sales proceeds of the Volkswagenwerk AG, including sales of Audi vehicles, rose in the year under review to 22.4 thousand million DM. This increase was founded above all on improved unit sales and a shifting of demand

Volkswagenwerk AG sales
by regions in 1978



towards better-equipped vehicles, whereby the Golf, Passat, and Audi 100 made considerable contributions to the growth in turnover. Price increases related to costs also had a boosting effect.

Production

The Volkswagenwerk AG produced 1,439,048 vehicles in the year under review, which was an increase of 4.9 % on the previous year, despite the fact that wage disputes in the metal-working industry in the Spring of 1978 had led to production stoppages. This figure includes a total of 50,888 Audi models from Wolfsburg (Audi 50) and Emden (Audi 80).

Whereas the production programme of the Emden factory was supplemented by the Passat Diesel in the last quarter of 1978, in August production of the Audi 50 at the Wolfsburg factory ceased. In addition the new Audi 80 has been in production at the Emden factory since the middle of the year. In August 1978 the commercial vehicle production in Hanover was extended by the model series LT 40 and LT 45. On account of the continued strong demand for the Golf the engine production

capacity of the Salzgitter factory had to be considerably increased. Production of assemblies and individual parts for other motor manufacturers was also extended in 1978.

Great efforts were also made in the direction of constant improvement of the quality of our established models. Innovations in technology and styling were made on the Golf and with the start of 1979 production were also introduced on the Polo and Derby models.

Labour Force

The increase in production resulting from the continued heavy demand for our vehicles made it necessary in the year under review to increase the labour force correspondingly. On December 31, 1978 the Volkswagenwerk AG employed 108,376 persons. This means that an additional 5,075 employees were taken on in our Company. In comparison with the previous year this was an increase at year end of 4.9 %.

In addition, to relieve capacity bottlenecks, overtime was worked where necessary.

In 1978 in the framework of its social policy the Volkswagenwerk AG again increased the number of training places for young people. A total of 1,018 trainees were

taken on. On December 31, 1978 2,683 young employees were receiving job training at the Volkswagenwerk AG. Thus the numbers of trainees taken on have risen by a total of 45.6 % since 1975. This increase necessitates an extension of the training capacities. At the Wolfsburg, Hanover and Emden factories building has already begun.

Special measures have been taken in cooperation with the employment authorities for the reduction of youth unemployment. In the Wolfsburg and Kassel factories in 1978 a total of 119 young people took part in courses in the fields of "metalwork" and "gastronomy" in order to prepare themselves for a subsequent career in these fields. In addition the 66 jobs especially created for unemployed youths in the production shifts were again filled in the report year.

Through constant in-service follow-up training the Volkswagenwerk AG endeavours to match the qualification of employees to developments among others in the fields of "economics" and "technologies". For this purpose in 1978 a total of 321 courses in function and management training were held involving 5,328 participants. Points of emphasis here were, apart from the proven courses

Development of the labour force of the Volkswagenwerk AG

	Dec. 31, 1978	Dec. 31, 1977	Increase in figures	%
Volkswagenwerk AG	108,376	103,301	5,075	4.9
Plant locations:				
Wolfsburg	54,420	52,620	1,800	3.4
Hanover	18,820	17,397	1,423	8.2
Brunswick	6,091	5,509	582	10.6
Kassel	14,908	14,321	587	4.1
Emden	7,457	7,357	100	1.4
Salzgitter	6,680	6,097	583	9.6
Wage-earners	93,179	88,874	4,305	4.8
Salaried personnel	15,197	14,427	770	5.3
Female employees	12,484	11,718	766	6.5
Foreign employees	8,726	7,767	959	12.3
Trainees ¹⁾	2,739	2,410	329	13.7

¹⁾ Including
in-service training
and re-training

for management and junior management personnel, the training of supervisors and foremen, the carrying out of seminars on work processes and methods, the follow-up training of specialists and specifically-directed foreign language training.

Increased use was made of the possibility, in accordance with the study leave legislation of Lower Saxony and Hesse applicable to the Volkswagenwerk AG, for employees to take part in state-recognized study courses while remaining on full pay. In 1978 12,258 employees attended such courses.

In the year under review the Volkswagenwerk AG continued in its endeavours to ensure an improvement of working conditions. Above all with the erection of new production facilities, but also in the case of existing systems the work processes were designed, in the framework of what is economically justifiable, on the basis of proven work analysis findings. Further improvements were achieved through the establishment of social and rest rooms.

Medical care of the labour force was provided by the health department.

*Structure of labour cost at
the Volkswagenwerk AG in 1978*

ment in the framework of the Safety at Work Act, the accident prevention regulation "Company Doctors" and other acts and regulations applying to this area.

The accident rate rose marginally in almost all Volkswagenwerk AG factories in 1978. The new employees were disproportionately involved in the accident rate development. Motivating safety measures will therefore continue to be a major preoccupation. In the field of safety at work the Volkswagenwerk AG occupies a leading position despite the slight increase in accident frequency. This is reflected in the refunds of contributions from the professional associations for 1977.

Our employees' involvement in the suggestion scheme, i.e. the activation of the available ideas potential in all areas, for example for

- product quality improvement,
- improved economy,
- improved safety at work and working conditions

continued to increase in 1978. Of 22,132 improvement suggestions made, 4,571 or 20.7 % were put into effect and rewarded with approx. 6.5 million DM. It is particularly pleasing in this connection that the relationship of award-winners to the number of sugges-

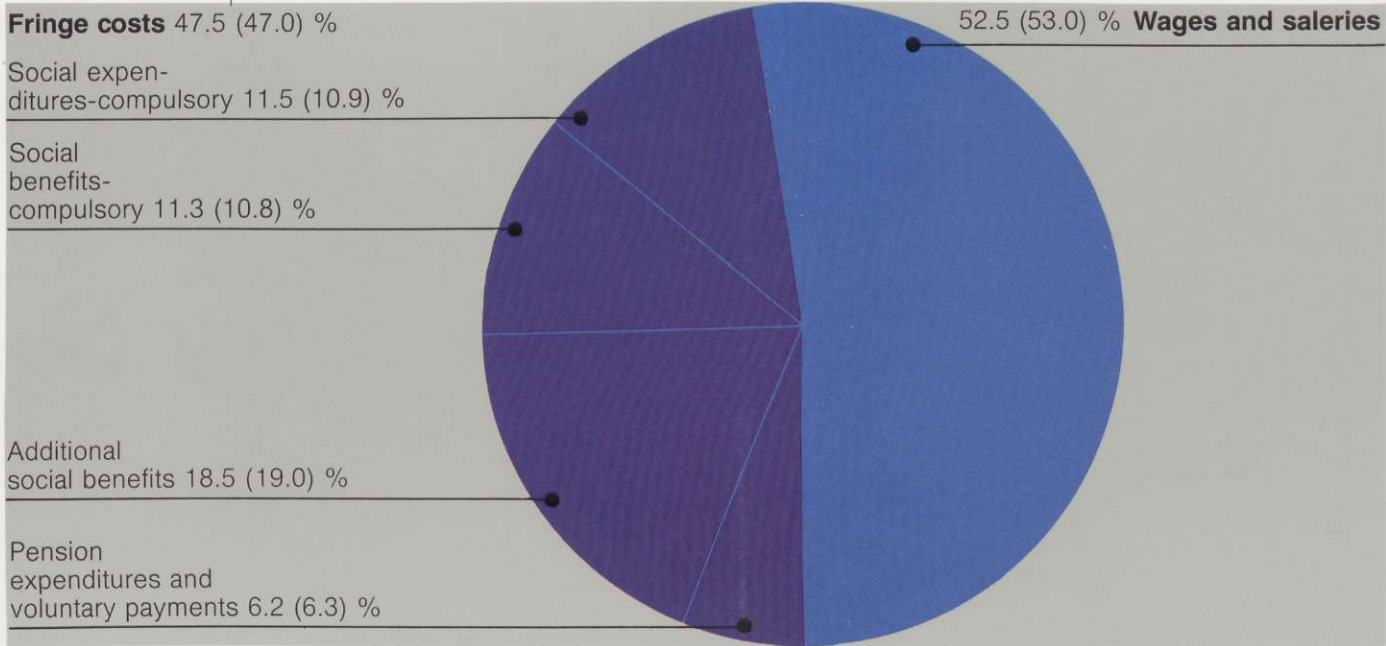
tions made has continually improved in recent years. The average award was 1,428 DM.

On account of the tight situation in the accommodation market, in the year under review the aid programme for the construction of owner-occupier homes and the acquisition of houses and flats has been extended. With increased development sums the scope of the properties to be developed was also increased. A total of 13 million DM was paid out in home loans.

The number of pensioners or their surviving dependants receiving pensions from the Volkswagenwerk AG's old-age pension fund rose to 15,139 by December 31, 1978.

As a result of a decision of the Federal Labour Court of September 15, 1977, concerning company old-age pension schemes, the Company pensions of the Volkswagenwerk AG were revised, with the result that as of January 1, 1978 approx. 9,300 pensions were increased.

The wages and salaries agreements which came into force on February 1, 1978 involved an average rise in wages and salaries of 5.9 %. Trainees' allowances on all levels were increased by 40 DM per month. This agreement was preceded by



walkouts and a strike ballot in which 89% of votes cast were in favour of a strike to back up the demands.

Negotiations for the new skeleton agreement were concluded in November. As a result regulations were agreed upon, as for example wage and salary equalization for employees incapable of full output, a wage and salary guarantee for older employees, the granting of leave and cash payments in connection with employment anniversaries and the calculation of the Christmas gratuities. In addition a large number of other provisions were altered and supplemented.

Furthermore the guarantee periods for wage and salary equalization in the case of redundancy for commercial reasons laid down in the wage and salary agreements were extended.

The labour cost of the Volkswagenwerk AG rose in the year under review by 12.7 % to 5,037 million DM. The increase is mainly due to the rise in the number of employees and the negotiated increases in wages and salaries.

*Average labour force
and labour cost
(excluding pension expenditures)
of the Volkswagenwerk AG
(index: 1972 = 100)*

The considerable increase in labour cost per employee in recent years is the result of negotiated rises in wages and salaries, the fulfilment of statutory provisions and additional commitments of the Volkswagenwerk AG towards the employees.

Capital Investments

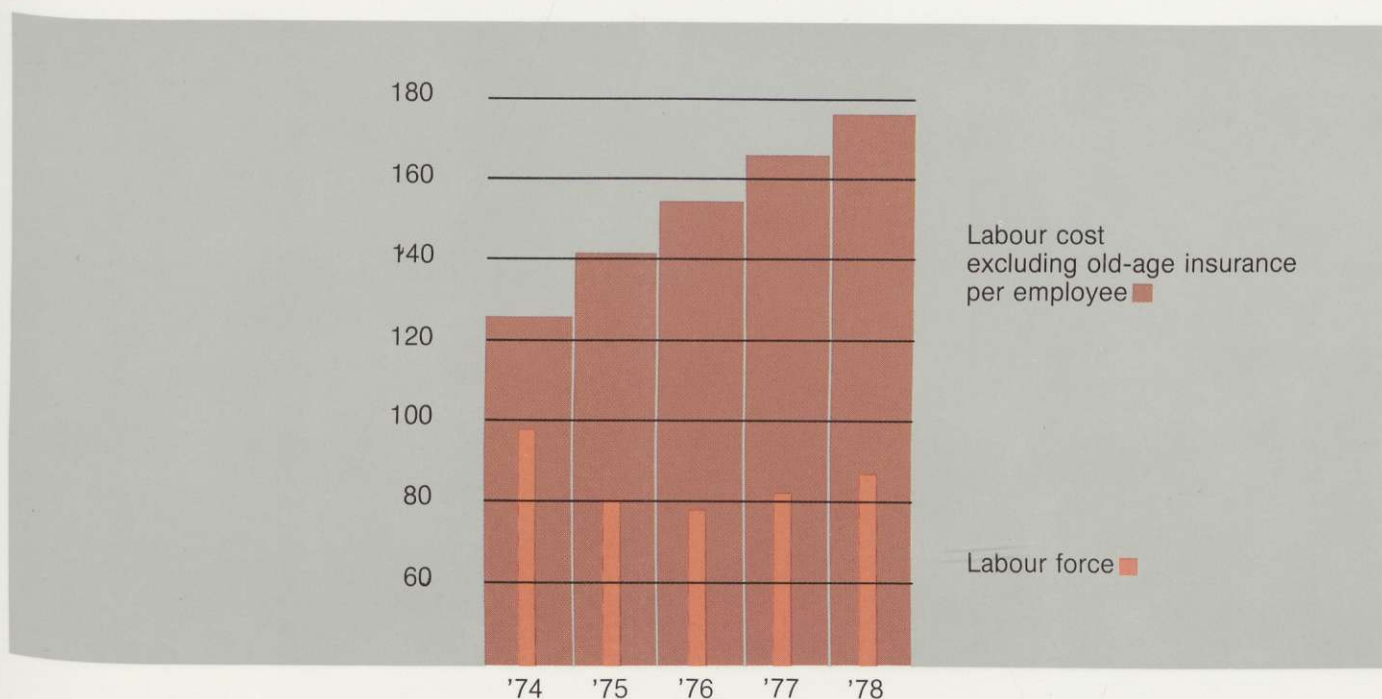
Capital investments in 1978 were 25.7 % in excess of those of the previous year at 1,046 million DM. Of this 844 million DM related to property, plant and equipment and 202 million DM to investments in subsidiaries and affiliates.

The major part of the investments in property, plant and equipment was devoted to the adaptation and preparation of our production facilities for the further-developed vehicle range. At the same time, in order to increase the competitiveness of our models, we improved product quality, vehicle safety and production techniques. Investments were also devoted to the upkeep of plant and the restructuring and modernization of work processes with reference to all possibilities for improvement in working conditions.

Investments in subsidiaries and affiliates essentially related to the scheduled capital increase carried out in several stages at

the Volkswagen Manufacturing Corporation of America, which in the report year merged with Volkswagen of America, Inc.

In comparison with recent years our investments in property, plant and equipment in the coming years will continue to rise. A priority here is the further development of the high technology of our products and production plants, whereby our activities are directed towards rationalization and increased flexibility in production. In addition measures for the further improvement of the social services and the humanization of working conditions will continue to be undertaken.



AUDI NSU AUTO UNION AG
Neckarsulm

		1978	1977	Increase (Decrease) %
Sales	million DM	4,509	4,230	6.6
Production/Vehicle sales	units	317,154	339,883	(6.7)
Capital investments	million DM	276	156	76.8
Labour force	on Dec. 31	28,492	28,349	0.5

In the foreground of the company's activities in business year 1978 was the model change on the Audi 80 and the extension of the Audi 100 series by various engine and equipment variants.

The encouraging sales development of the Audi 100 is the result of the extension of this series by two new 5-cylinder engine versions (2.0 l diesel engine and 2.2 l carburetor engine) together with an equipment version for the demanding customer (Audi 100 CD). In contrast to this the sales figures of the Audi 80 were lower than those of the previous year on account of the deletion-and-introduction situation brought about by the model change. The domestic market share of Audi vehicles was 8.3 (9.5) %.

Total turnover of 4.5 thousand million DM exceeded that of the previous year, despite a drop in unit sales, due among other things to the wage disputes, by 279 million DM. The reason for this was

above all the larger share of vehicles of the Audi 100 type with more expensive engine and equipment variants, and the increased supplies in the framework of the Group's integrated production. 98.6 % of the turnover was accounted for by sales to the Volkswagenwerk AG.

In 1978 the company produced 317,154 vehicles. Of these 22,154 units were Porsche 924 models. After production of the newly-developed Volkswagen Ittis started at Ingolstadt in October, the first of these vehicles were delivered to the Bundeswehr before the end of the year.

Capital investments emphasis was on the change in the model programme, and replacement and supplementary measures. The investment volume was 276 million DM, an increase on the previous year of 76.8 %.

At year end the AUDI NSU AUTO UNION AG employed a labour force of 28,492 – 143 more than the year before.

Considerable efforts have again been made in the field of training. 1,016 young people were undergoing training, 121 more than in 1977. Special attention was paid to the experiment, supported with Federal aid, known as "Training of girls in industrial and technical professions".

85,805 rotary piston engines were sold worldwide by all manufacturers. Nevertheless the expectations connected with the Wankel principle of a potential universal application have not been realized.

Taking into account a transfer of 0.5 (0.5) million DM from the reserve for the share-the-burden levy, of the company's profits of 57.0 (87.0) million DM 1.6 (1.8) million were allocated to payments to participating certificate holders. Under the provisions of the profit and loss assumption agreement 25.0 million DM were allocated to reserves and 30.9 (85.7) million DM transferred to the Volkswagenwerk AG.

The Audi 100 series has been extended by various engine and equipment variants.



Volkswagen do Brasil S.A.
São Bernardo do Campo

		1978	1977	Increase %
Sales	million DM	3,461	3,231	7.1
Vehicle sales	units	516,443	474,467	8.8
Production	units	518,603	472,192	9.8
Capital investments	million DM	143	89	59.8
Labour force	on Dec. 31	41,398	38,241	8.3

After the fall in sales on the Brazilian vehicle market in 1977 – among other things as a result of government measures for the conservation of fuel and less favourable conditions for hire purchase – demand recovered again in 1978.

Whilst exports increased, Volkswagen do Brasil was not able however, for reasons of limited production capacity, to participate in the overall market development to the same extent as competitors. The passenger car market share of domestic vehicle sales declined for this reason from 55.9 % to 50.9 % with 407,394 vehicles sold. In the commercial sector there was a drop in the market share from 57.6 % to 54.3 % with 44,679 vehicles sold.

In 1978 the company was again able to fulfill its export undertaking with the Brazilian authorities. The number of vehicles exported rose by 19.8 % to 64,370 (53,742). A considerable proportion of these consisted of Passat deliveries to Algeria begun in August 1977.

Unit sales of Volkswagen do Brasil in the year under review totalled 516,443 vehicles and were thus 8.8 % higher than the previous year. As a result of the good vehicle sales, sales proceeds also increased by 7.1% on the 1977 figure.

Overall in 1978 the company produced 518,603 vehicles, 9.8 % more than in the previous year. The average production per working day rose from 1,992 to 2,126 vehicles.

On December 31, 1978 the company employed 41,398 persons. This was 8.3 % more than on the same date in 1977.

Investment volume at 143 million DM was distinctly above that of the year before (89 million DM), reasons for which were above all new model plans and increased investment in rationalization and replacement of capital assets.

The satisfactory result of the business year ended permits distribution of a higher dividend than the previous year.

Our cattle farm in Brazil, the Companhia Vale do Rio Cristalino



Volkswagen of America, Inc.
Warren, Mi., USA

		1978	1977	Increase (Decrease) %
Sales	million DM	4,319	4,081	5.8
Vehicle sales	units	298,459	281,654	6.0
Production	units	40,195	—	x
Capital investments	million DM	232	369	(37.0)
Labour force	on Dec. 31	6,360	3,385	87.9

After completion of the technical construction phase the Volkswagen Manufacturing Corporation of America was merged on July 31, 1978 with Volkswagen of America, Inc., hitherto our sales company located at Englewood Cliffs, New Jersey. At the same time the main administrative seat of Volkswagen of America was moved to Warren, Michigan. Its production plants are the assembly plant at Westmoreland, Pennsylvania, and the press shop at South Charleston, West Virginia. After merger the capital stock of the company is 92 million US dollars.

Construction of the two plants went according to schedule, so that assembly of the Rabbit, the American version of the Golf, was started as planned at the beginning of April after a construction phase of 18 months. In the year under review 40,195 Rabbits were produced.

Within the framework of the Group's integrated production the assembly

plant is supplied with engines, gearboxes and various easily-trans-ported small parts from the Federal Republic of Germany, and with rear axles, radiators and other select-ed parts from Volkswagen de Mexico.

In line with the increased production the labour force was increased to 6,360 employees.

Since the beginning of 1979 produc-tion has been on a two-shift basis in order to be able during the course of the year to cover the US demand for the Rabbit largely from domestic production.

The demand for passenger cars in the USA increased slightly on the previous year (+ 1.2 %). For reasons of price disadvantages resulting from exchange rate shifts the market share for imported vehicles as a whole was down on the previous year.

Volkswagen Group deliveries to customers fell as a result of

structural delivery bottlenecks. In consequence the passenger car market share dropped from 2.6 % to 2.4 %.

Volkswagen of America ended the business year with a loss.

Sums in the amount of the losses made by the Volkswagen Manufac-turing Corporation of America up to the time of the merger were transferred as scheduled from the reserves. These sums represent-ed capital transfers from the parent company.

We have held our own in the face of keen competition on the US market.



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

		1978	1977	Increase (Decrease) %
Sales	million DM	871	676	28.9
Vehicle sales	units	91,136	71,790	26.9
Production	units	94,609	52,292	80.9
Capital investments	million DM	20	21	(4.7)
Labour force	on Dec. 31	10,186	7,558	34.8

After the recent weak years the situation of the Mexican motor industry improved considerably in 1978 in the wake of a general economic recovery.

Volkswagen de Mexico improved on the previous year's level by 26.9 % with 91,136 vehicles sold. The best-selling models on the domestic market were the Beetle with a share of 45.6 % and the Caribe (Golf) with 37.8 %. Exports were made up almost exclusively of the Beetle and the Safari models.

Volkswagen's share of the passenger car market was slightly higher than in the previous year at 28.4 (28.0) %.

Mainly as a result of increased vehicle sales both at home and abroad, the sales proceeds for 1978 were up by 28.9% on the previous year. As a consequence of the increased Beetle exports to Europe in 1978 the foreign share of sales proceeds went

up; in this way the Mexican government's requirement for a considerable setting-off of imports through corresponding exports was fulfilled.

Production was adjusted to the sales potential. With 94,609 vehicles the company produced 80.9 % more than in the previous year. In contrast to 1977, when excessive stocks had to be cleared, the 1978 sales volume was supplied from current production.

The labour force increased up to December 31, 1978 by 34.8 % or 2,628 employees to 10,186. This had become necessary on account of the increased production, through the progressive integration of home-produced parts and for reasons of increased supplies to Volkswagen of America.

As a consequence of the favourable sales situation and the concomitant improved exploitation of capacities, Volkswagen de Mexico was able to achieve a positive result.

The stabilization of the economic situation in Mexico has had a positive effect on the sales of our subsidiary there.



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

		1978	1977	Increase (Decrease) %
Sales	million DM	495	390	26.9
Vehicle sales	units	43,519	32,778	32.8
Production	units	43,328	33,809	28.2
Capital investments	million DM	10	43	(75.7)
Labour force	on Dec. 31	5,369	4,660	15.2

The recession which had dominated the South African economy since 1975 was relieved at the end of 1977 by a moderate upswing. This trend continued throughout the whole of the year under review. The development was triggered off by a real increase in the demand for consumer goods both in the private and in the public sector.

Negative factors such as the continued balance of payments problems and the high inflation rate did however impair the economic recovery.

Since the Spring of 1978 the demand for passenger cars has increased significantly. With 36,721 new registrations of passenger cars Volkswagen of South Africa had a more than proportional participation in the upswing, increasing its market share from 15.0 % to 17.9 %. This put the company, after a break of one year, back in first position in the registration statistics. The active model policy

exemplified by the introduction of the new Audi 100 in the Autumn of 1977 and of the Golf in May 1978, together with the attractive offer of diesel passenger cars (Passat/Golf) are the essential reasons for this success.

On the other hand the company suffered losses on the light commercial vehicle market which led to a drop in the market share to 7.3 (9.1) %. The reason for this lies largely in a reduced demand for small buses.

In line with the stimulation of demand 43,328 vehicles were produced, which is 28.2 % more than in the previous year. The labour force was increased by 709 employees, or 15.2 %, to 5,369.

The company ended the business year with a surplus.

The introduction of the Golf on the South African market made a considerable contribution to the increased sales of our subsidiary there.



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

		1978	1977	Increase (Decrease) %
Sales	million DM	1,130	908	24.4
Vehicle sales	units	122,880	104,430	17.7
Production	units	122,901	104,435	17.7
Capital investments	million DM	7	12	(37.8)
Labour force	on Dec. 31	3,996	3,781	5.7

Our Belgian subsidiary Volkswagen Bruxelles assembled 122,901 Passats (saloons and variants) in the year under review. This represents an increase of 17.7 % reflecting the continued high demand for cars in 1978.

Volkswagen Bruxelles achieved a positive result.

**Volkswagen of Nigeria Ltd.
Lagos**

In 1978 Volkswagen of Nigeria assembled a total of 23,840 passenger cars. This represents an increase of 3.3 % on the previous year.

New registrations of Volkswagen and Audi passenger car models rose by 4.7 % to 25,457 vehicles, whilst those of Volkswagen commercials declined by 8.1 % to 11,284 units. On the market as a whole a distinct reduction was noted, both in the passenger car and in the commercial vehicle sectors, as a result of restrictive government measures. Volkswagen of Nigeria

was able to increase its passenger car market share to 38.0 (26.6) %; at 13.4% the commercial vehicle market share remained almost unchanged.

The company ended the business year 1977/78 (May 1 – April 30) with a loss, above all on account of delayed and insufficient price approvals on the part of the Nigerian Price Control Commission and of considerable changes in currency rates.

**TAS Tvoronica Automobila
Sarajevo, Vagosca, Yugoslavia**

The company founded jointly with the previous Volkswagen Importer UNIS in 1972 delivered 10,260 cars assembled in Yugoslavia and 767 imported vehicles in the year under review. This result – affected by insufficient currency stocks for the purchase of parts sets – was 3.7 % down on 1977.

The cars assembled in Yugoslavia are almost exclusively Golfs.

Imports from the Federal Republic of Germany comprise, in addition to the Volkswagen types, the models Audi 80 and Audi 100.

The company achieved a positive result in the year under review.

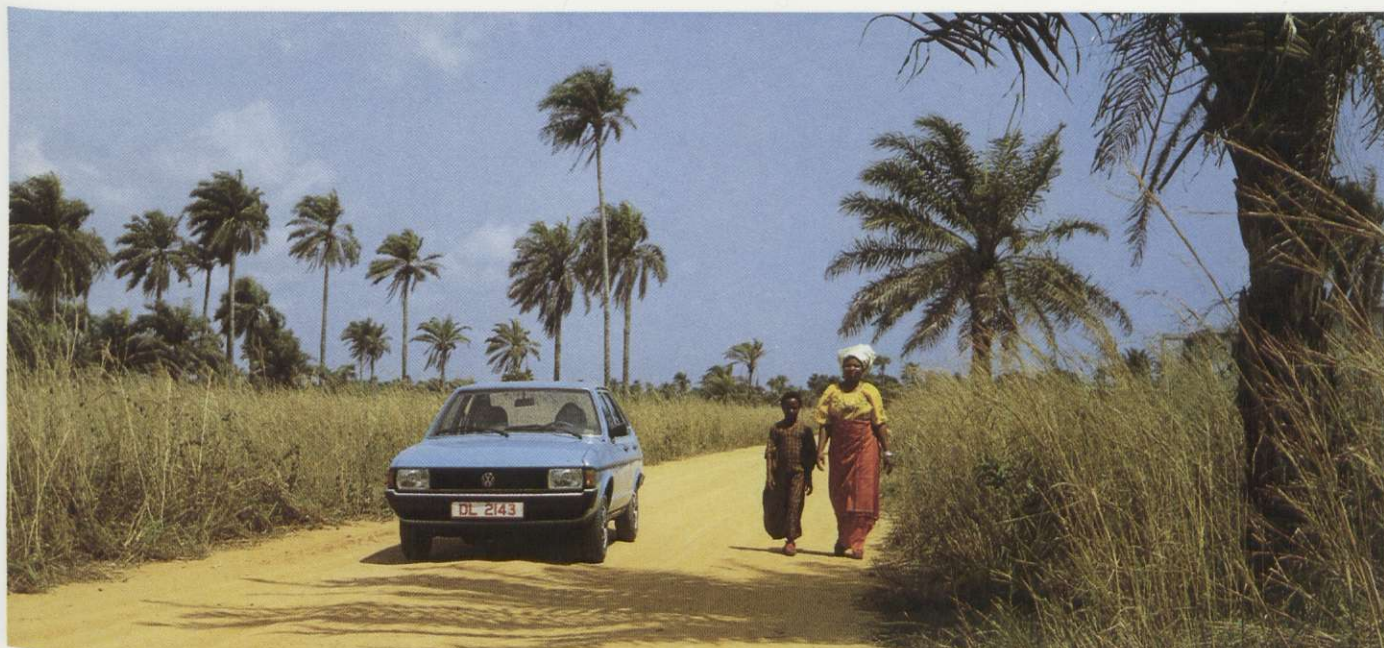
**P.T. German Motor Manufacturing
Jakarta, Indonesia**

The trading development of the company, founded in 1971 jointly by the Volkswagenwerk AG, Daimler-Benz AG and an Indonesian partner, was generally satisfactory in the year under review.

Sales of Volkswagens on the Indonesian market declined. After the previous year's 1,162 units, in 1978 only 1,042 vehicles were produced.

The company ended the business year with a profit.

Volkswagen of Nigeria has increased its passenger car market share to 38 %.



Distributing Companies

Volkswagen France S.A. Paris

		1978	1977	Increase (Decrease) %
Sales	million DM	814	768	5.9
Vehicle sales	units	64,359	65,185	(1.3)
Labour force	on Dec.31	586	550	6.5

The French passenger car market showed only a slight upward movement overall in 1978. Price increases resulting from the weakening of the franc, and delivery bottle-necks in the case of some models, caused the sales of Volkswagen France to drop below the previous year's level. Sales of 53,493 Volks-

wagen and 10,866 Audi vehicles were down 1.3 %. The best-selling Group model was again the Golf, followed by the Polo. The passenger car market share was 2.9 (3.2) %.

The company achieved a positive result in the year under review.

Volkswagen Canada, Inc. Toronto

		1978	1977	Increase %
Sales	million DM	387	343	12.8
Vehicle sales	units	31,030	26,185	18.5
Labour force	on Dec.31	318	312	1.9

New registrations of passenger cars in Canada in 1978 were slightly down on the previous year's high level while the market share of passenger cars produced in Canada increased. In contrast to the general decline in sales of imported cars, deliveries of Volkswagen and Audi vehicles increased by 6.5 %. Volkswagen Canada's passenger car market share rose in 1978 to 2.9 (2.7) %.

The company's sales to the dealer organization rose by 18.5 % in the year under review, mainly on account of increased Rabbit sales. Sales of the Audi 5000 (Audi 100) and Fox (Audi 80) also developed positively.

Volkswagen Canada ended the business year with a surplus.

The Volkswagen Group sells its vehicles in over 150 countries. At the present time there are more than 24 million Volkswagens and Audis throughout the world.



Svenska Volkswagen AB Södertälje, Sweden

The recession in Sweden which has continued since 1977 could not be overcome in the report year. As a result of declining overall demand the sales of Svenska Volkswagen also fell below the level of the previous year. Sales to the dealer organization fell by 20.7 % to 25,088 vehicles. Of these 21,558 were Volkswagen and 3,530 Audi models. The share of Volkswagen and Audi vehicles in the Swedish passenger car market was 10.4 (12.2) %.

In spite of the unsatisfactory sales situation the company achieved a positive result in the year under review.

WESER-EMS Vertriebsgesellschaft mbH, Bremen

The company acts as a holding and participating concern. Its main income derives from its holding in the VW-Audi Vertriebszentrum WESER-EMS GmbH & Co. KG, Bremen, which altered its name to V.A.G Vertriebszentrum WESER-EMS GmbH & Co. KG on January 11, 1979, and the letting of property.

In 1978 the company achieved a surplus. The profit accruing to the Volkswagenwerk AG was transferred in the framework of the profit and loss assumption agreement.

V.A.G Sales Centres in the Federal Republic of Germany

After the merger in 1978 of the Sales Centres Munich/Ingolstadt and Cologne/Euskirchen the whole-sale function of the Volkswagen Group in the Federal Republic of Germany at the end of 1978 was performed by 20 Sales Centres. The Volkswagenwerk AG has a direct 26 % holding in each of them. In the framework of the new identity of the Volkswagen Group's sales organization, all Sales Centres will progressively adopt the additional designation V.A.G. This also applies to our sales-oriented subsidiaries. Whereas the domestic companies already bear the new name, preparations are in hand for the conversion of firms abroad.

The continued heavy demand for Group products at home led in 1978 to distinct improvements in results.

As of 1978 the sales and service organization has a new look with the independent name V.A.G.



Other Companies

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

In 1978 VOTEX, Inc., jointly with its subsidiary companies VOTEX de Mexico and VOTEX GmbH, Federal Republic of Germany, achieved sales proceeds of 128 million DM.

The accessories and parts business of VOTEX GmbH was satisfactory. On the other hand the company suffered losses from trading outside the automotive sector.

Since no lasting positive development can be predicted for the trading operations, in the second half of the year business activities ceased at VOTEX, Inc., and liquidation of VOTEX de Mexico was put in hand.

At the end of 1978 there were over 210,000 employees in the outlets of the V.A.G Sales and Service Organization.

V.A.G Leasing GmbH Wolfsburg

In the wake of the constant expansion of motor vehicle leasing the V.A.G Leasing GmbH (previously Volkswagen Leasing GmbH) also achieved high growth rates in 1978. The circle of customers and the number of vehicles leased rose considerably.

Sales proceeds from vehicle leasing and from the renting of service equipment to the domestic V.A.G Sales and Service Organization rose by 51 million DM to 252 million DM.

The capital stock was increased out of company funds by 26 million DM to 36 million DM.

In 1978 the company achieved a satisfactory result which was transferred to other reserves.

interRent Autovermietung GmbH Hamburg

The company hires out passenger cars and commercial vehicles on a short-term basis. Business is conducted in the Federal Republic of Germany through 330 outlets. In addition there exist in Belgium two subsidiaries, of which interRent S.A., Brussels, is responsible for the passenger car business, whilst interRent Trucks S.A., Brussels, rents commercial vehicles.

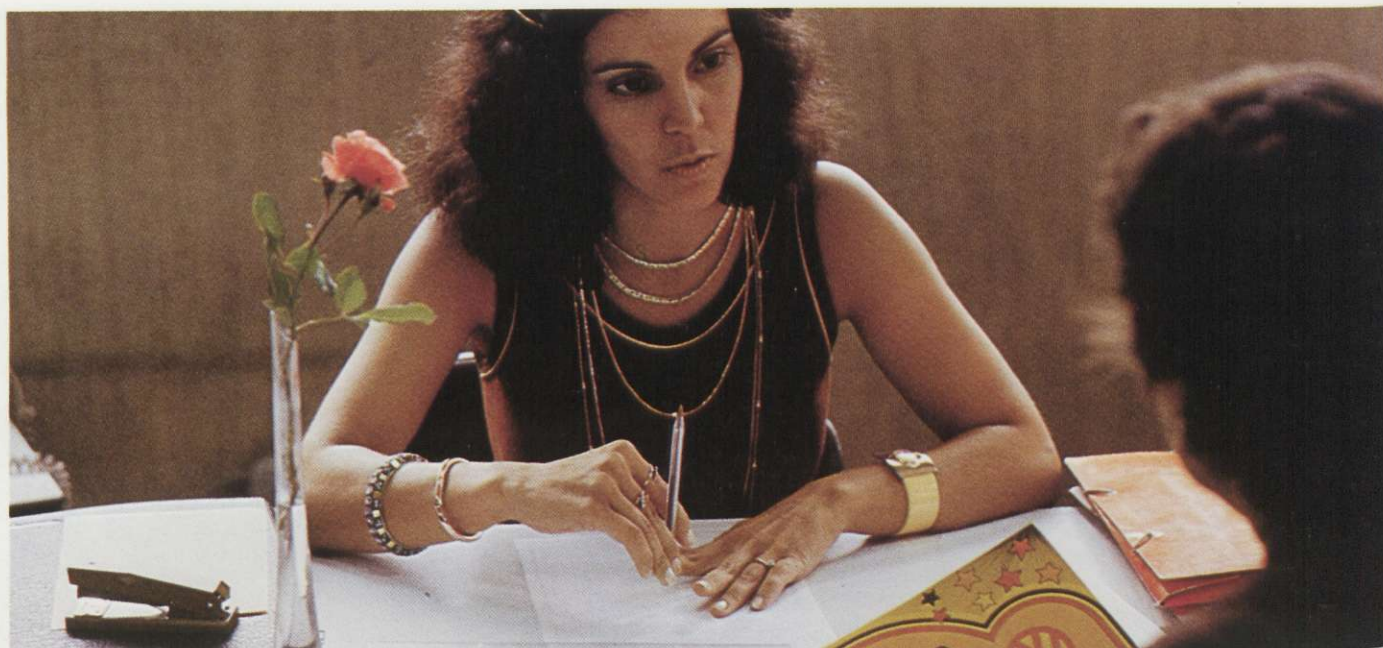
Elsewhere in Europe and in numerous other countries interRent has built up an independent system of licensees.

With effect from January 1, 1979 the interRent Autovermietung GmbH has concluded a co-operative agreement with the Dollar Rent-A-Car System, Inc., Los Angeles. In addition to joint advertising the agreement comprises reciprocal reservation of vehicles in the interests of increased business both in the Federal Republic of Germany and in the international interRent system.

The good trading development of the last two years continued in the year under review. Through the extension of the outlet network the company's leading position on the German market was further consolidated. Sales proceeds increased to 178 million DM compared to 150 million DM in the previous year.

Capital stock was increased from company funds by 10.1 million DM to 12.0 million DM.

In the past year the company again achieved a good result. The profit was transferred to reserves as a means of further strengthening the stockholders' equity.



Wolfsburger Transportgesellschaft mbH, i.L., Wolfsburg

Because of the change of emphases in the framework of the world-wide supply system for the Volkswagen Group, which was brought about among other things by the starting up of assembly in the USA, it seemed reasonable to begin liquidation of the company.

After completion of business begun before the start of liquidation the company expects a positive liquidation result.

V. A. G Transportgesellschaft mbH, Wolfsburg

The company started trading on May 1, 1978. Its activities comprise the purchase and selling of services in national and international sea, land and air traffic in the transport, transshipment and stowage businesses, and the advising of others in these branches.

The company ended the year with a profit, which was transferred to reserves as a means of strengthening stockholders' equity.

Volkswagen de Mexico has been exporting Beetles to Europe since 1977.

V. A. G Kredit Bank GmbH, Wolfsburg

The V.A.G Kredit Bank GmbH (previously VW KREDIT BANK GmbH) provides credit facilities as a means of promoting Volkswagen and Audi product sales to the domestic V.A.G Sales and Service Organization and for the financing of sales to final consumers.

In spite of keen competition from other credit institutions in 1978 the volume of business increased for both types of business.

The company ended the business year of 1978 with a surplus which was transferred to reserves.

VW-Wohnungsbau Gemeinnützige Gesellschaft mbH, Wolfsburg

The company concentrated its efforts on the modernization and maintenance of older accommodation and the administration of existing accommodation.

In 1978 the sale of apartments slightly reduced the number owned by the company by 23 units. At the end of the year the company had 7,126 apartments and 132 units of accommodation in hostels. The VW-Wohnungsbau showed a loss; this was offset by transfers from reserves.

VW-Siedlungsgesellschaft mbH Wolfsburg

The company concentrated on the upkeep and administration of existing dwellings which at the end of 1978 comprised 5,383 apartments and 480 accommodation units in hostels.

The loss brought about by the exploitation of all depreciation possibilities for tax purposes was transferred to the Volkswagenwerk AG under the profit and loss assumption agreement.

HOLAD Holding & Administration AG, Basle, Switzerland

The company, founded in August 1965, is a 100 %-owned subsidiary of the Volkswagenwerk AG. The function of HOLAD is participation in domestic and foreign companies and property administration.

HOLAD in particular holds capital stock in the French financing company Société Volkswagen de Financement S.A., Paris, in Vorelco Ltd., Toronto, which rents property and buildings to the Canadian Volkswagen organization, and VOTEX, Inc., Englewood Cliffs.

For reasons of exceptional financial burdens — because of value adjustments in subsidiaries due to, among other factors, exchange rate fluctuations — the company ended 1978 with a loss.



**Volkswagen International Finance
N.V., Amsterdam, Netherlands**

The business activities of the company, founded in 1977, whose capital is held by the Volkswagenwerk AG, comprise the financing of and participation in other companies.

Thus the Volkswagen Overseas Finance N.V., Willemstad, Curaçao, Netherlands Antilles, is a wholly-owned subsidiary of Volkswagen International Finance N.V.

In the Spring of 1978 the Volkswagen International Finance N.V. issued bonds guaranteed by the Volkswagenwerk AG in the amount of 35 million US dollars in the form of a private placement. The income from this is to be used for the financing of Volkswagen Group activities abroad.

Volkswagen International Finance ended 1978 with a profit.

**Deutsche Automobilgesellschaft
mbH, Hanover**

The Daimler-Benz AG and the Volkswagenwerk AG each hold half of the capital stock. The company pursued its scheduled research and development into electrically powered automobile construction in accordance with task laid down by the two controlling companies.

The profit made in the year under review 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 Volkswagen Group and others. The volume of premiums transmitted in the business year 1978 continued to develop in positive fashion and led to a correspondingly good result.

The profit achieved was transferred to the partners in accordance with the profit and loss assumption agreement.



Introduced in the second half of 1978, the new Audi 80 had an excellent reception in the market. It is now available in numerous engine and equipment variants.

In its world-wide activities, the Volkswagen Group is strongly influenced by the economic situation obtaining on its various markets and by the general political and economic conditions of world trade. At the same time the risks inherent in the currency system and in generally increasing protectionism are considerable.

In spite of these uncertainties, when each region is considered from all points of view the overall picture is a positive one. The economic recovery in Germany, which began in the Spring of 1978, continues. The buying power and expenditures of private consumers are likely to increase still further. Furthermore the investment climate seems to be improving. The overall economic situation is likely to continue to provide a favourable basis for a satisfactory pattern of trading in the German automobile industry in 1979. Although after nearly four years of constant upswing the probability of a limited decline in sales is greater, our sales expectations for the German market are roughly equal to the high level of the year under review.

In most other West European countries sales of cars will possibly go on increasing, especially since the demand inhibited by the recession

now overcome has not yet everywhere been satisfied. On the other hand, whether the German automobile industry and thus the Volkswagen Group will be in a position to exploit the potential offered by expanding foreign markets essentially depends on the development of costs and the conditions in the currency sector. In this we take as our premise that with the coming into force of the European Monetary System the situation in the European currency sector will stabilize.

With the start of Rabbit production in the USA the Volkswagen Group has become less dependent on the fluctuations of the dollar rate. It must however be borne in mind in this connection that vehicles exported by the parent company to the USA, and parts supplies for the Rabbit, continue to be subject to the burdens resulting from the fall of the dollar. Full exploitation of the production capacities of our American subsidiary will improve the delivery capability of the Volkswagen Group. We thus have the prerequisite for a stronger position in this important market as well.

With regard to the development of sales of Group vehicles in the Latin-American countries we are confident that the positive trend of last year will continue.

For the Volkswagen Group world-wide a sales volume can thus be expected which will at least be on a par with the already high level of 1978, provided that unforeseen factors do not emerge to impair development.

For the further improvement of our competitiveness on the world market, capital investments are planned whose volume will exceed even the high level of the past business year. These activities are closely connected with the realization of a product concept corresponding to the demands of the eighties. This includes for example, in addition to the constant improvement of our products in technology and styling, the further development of conventional drive systems and the new development of alternatives, together with further efforts towards reducing fuel consumption while maintaining engine output.

The positive development of the Volkswagen Group in recent years strengthens us in the conviction that the automobile sector continues to have an assured future. The majority holding of 66 $\frac{2}{3}$ % in the capital stock of Chrysler Motors do Brasil, which was acquired at the beginning of 1979, is also to be seen in this light. With this participation the Volkswagen Group

will expand its activities in the Brazilian commercial vehicle market. Both at production level and in the dealership networks the division of organization between Volkswagen do Brasil and Chrysler Motors do Brasil will remain.

At present the vehicle programme of the new company comprises two passenger car models and a commercial vehicle series with a permissible gross weight of 6 – 13 tonnes. The cooperation agreement between the Volkswagenwerk AG and M.A.N. will not be affected by the broadening of the Volkswagenwerk AG's basis in Brazil.

A further long-term aim of company policy is the assurance of continued profitability through involvement in growth areas whose business cycle is anticyclical to that of the automobile industry. The conception of balancing out economic fluctuations through diversification is to be viewed in the perspective of long-term strategy.

The acquisition of a majority holding of approx. 52% by the Volkswagenwerk AG in the Triumph-Adler group of companies in the current business year of 1979 corresponds to these aims. Arrangements have been made which permit a further augmentation of the holdings of the Volkswagenwerk AG in the Triumph Werke Nürnberg AG,

after increasing the latter's capital from 46 million DM to 80.5 million DM. With the German group Diehl GmbH & Co., which also has an interest in the Triumph Werke Nürnberg AG, an agreement for partner-like collaboration has been concluded.

The majority holding in the Triumph Werke Nürnberg AG permits the Volkswagen Group to engage in activities in the business machine and computer industry.

In the technological field we anticipate much fruitful cooperation from which all the companies involved will benefit.

On condition that economic expectations in individual markets are confirmed, and that there emerge no currently unenvisaged problems in the costs and currency sectors, we anticipate both for the Volkswagenwerk AG and for the Volkswagen Group a satisfactory result in 1979.

Wolfsburg, March 19, 1979

The Board of Management

Heinrich

Brian

W. Fiala

Fresh

W. Fiala

Heinrich

Heinrich

W. Fiala

Heinrich

Since the end of 1978 the model range of the Volkswagen Group has included a four-wheel drive multi-purpose vehicle – the Volkswagen Iltis.



Financial Statements and Comments

Comments on the Consolidated Financial Statements of the Volkswagen Group

Consolidation Principles

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 15 domestic and 30 foreign subsidiaries and affiliates were consolidated. These companies are shown in the survey on pages 36 and 37.

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

V.A.G Transportgesellschaft mbH, Wolfsburg,
Volkswagen Bail S. A., Paris.

The V.A.G Transportgesellschaft is engaged in sea, land and air transportation and all activities connected therewith. It began trading on May 1, 1978. Volkswagen Bail S. A., founded on March 1, 1978, is engaged in rentals.

Three companies no longer appear in the consolidated financial statements for 1978:

AUDI NSU A/S, Odense,
Volkswagen Leasing, S. A. de C. V., Mexico,
VOTEX de Mexico, S. A. de C. V., i. L., Mexico.

AUDI NSU A/S and VOTEX de Mexico, S. A. de C. V., i. L., ceased trading in the year under review. Whereas AUDI NSU A/S has already been liquidated, VOTEX de Mexico, S. A. de C. V., is in liquidation. On account of its small significance it has left the scope of consolidation. We have also ceased to consolidate Volkswagen Leasing, S. A. de C. V., since it is no longer a Group company.

The Volkswagen Manufacturing Corporation of America, Forest Hills, was merged with Volkswagen of America, Inc. in the year under review. The new location of Volkswagen of America, Inc. is Warren, Michigan.

Two domestic Group companies were omitted from consolidation and 13 foreign companies, of which 4 are dealer outlets in the USA and Canada. The view of the assets and earnings situation of the Volkswagen Group is not impaired by the omission of these companies since in part they are not engaged in trading and are insignificant for the total volume.

The following companies are mainly concerned:
Auto Union GmbH, Munich,
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.

Form of Presentation and Valuation

The consolidated financial statements have been classified in accordance with the requirements of German Corporation Law. In addition to the Corporation Law's minimum regulations we have shown in the balance sheet the development of property, plant, equipment and investments, and prepared the consolidated statement of earnings in fully consolidated detailed form. Changes in the method of presentation which proved necessary from the Group's point of view were effected. The amounts scheduled for distribution to the holders of participating certificates in the AUDI NSU AUTO UNION AG are now shown under liabilities. On account of legal restrictions placed on the capital of non-profit companies the reserves and the non-distributed part of the balance sheet profit of one Group company were allocated to undetermined liabilities.

The financial statements of consolidated Group companies have in principle been prepared in accordance with the requirements of the countries concerned, and certified. Where these financial

statements were presented in a manner not in keeping with the German Corporation Law, the appropriate adjustments were made prior to consolidation.

We have checked the values with respect to observance of German accounting principles. Necessary adjustments have been made.

For foreign source taxes which fall due on the Group-internal distribution of profits in the following year a provision was set up in the Group statement.

Finished products and goods of Group-internal provenance have been evaluated with the highest permissible acquisition or manufacturing costs in accordance with the Corporation Law at the supplying companies.

Translation into DM

The values for property, plant, equipment and investments of foreign Group companies were translated at the average rates of exchange for the respective year of acquisition or production of the various items (historical rates) and for the capital stock and the free reserves the rates of exchange valid at the date of transfer were used. The conversion rates used for all other balance

sheet items were an average of rates of exchange valid on the balance sheet date.

With the exception of the provisions for depreciation on property, plant, equipment and investments, which were also converted at the average rates of exchange for the year of acquisition, ascertainment of income and expenditures is based on the average rates for 1978.

Differences incurred by converting balance sheet items have been entered direct in the reserve from capital stock surplus. They have not affected the net earnings for the report year. Differences incurred by converting the items shown in the statement of earnings were eliminated so that the net earnings were not influenced by them.

Capital Consolidation

We have effected the capital consolidation by differentiation of adjustment items arising from the initial and consecutive consolidation. In this way the acquisition costs of the interests in consolidated companies were set off against the capital stock at the time of acquisition of the interest. The adjustment items arising from initial consolidation were shown as special items on the assets side 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 shown as reserve of the Group arising from earnings.

As in the previous year, the reserve of the Group arising from earnings also includes the following:

Unappropriated earnings of Volkswagenwerk AG,
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 balance sheet results of the subsidiaries and affiliates, which were not set aside for distribution to outside stockholders or holders of participating certificates, were included under reserve of the Group arising from earnings. From this item sums have been transferred in the amount of the earnings of the parent company from subsidiaries and affiliates. As a result, the net earnings after reserve

transfers 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 foreign companies, the individual financial statements were brought into line according to the generally accepted accounting principles in Germany and converted into DM. The differences resulting from conversion and incurred in the course of consolidation were percentually assigned to minorities.

Financial Position

The financial position of the Volkswagen Group continued to improve in 1978.

Capital investments increased compared with the previous year by 293 million DM or 17.2 % to 1,990 million DM. The cash flow ¹⁾ of the Volkswagen Group amounted to 2,609 million DM. Thus the cash flow exceeded capital investments by 619 million DM or 31.1 %. Depreciations covered 73.2 % of capital investments.

The capital increase at the Volkswagenwerk AG effected in the middle of 1978, together with transfers to reserves, led to an increase in stockholders' equity of 1,269 million DM (29.8 %) to 5,529 million DM and an improvement in the proportion of stockholders' equity in the balance sheet total. Stockholders' equity covered 88.7 % of fixed assets and investments as against 71.5 % in the previous year. The increase of outside capital of 1,294 million DM (11.5 %) to 12,558 million DM pertained principally to the short-term items.

Consolidated balance sheet structure as compared with the previous year:

Million DM	Dec. 31, 1978		Dec. 31, 1977	
Assets				
Property, Plant, Equipment and Investments	6,231	34 %	5,955	38 %
Current Assets	11,856 ²⁾	66 %	9,569 ²⁾	62 %
	18,087 ²⁾	100 %	15,524 ²⁾	100 %
Liabilities				
Stockholders' Equity	5,529	31 %	4,260	27 %
Liabilities payable within more than 4 years	3,655	20 %	3,418	22 %
1 to 4 years	2,377	13 %	2,137	14 %
1 year	6,526	36 %	5,709	37 %
	18,087 ²⁾	100 %	15,524 ²⁾	100 %

The balance sheet total of the Volkswagen Group rose in 1978 by 2,563 million DM (16.5 %) to 18,087 million DM. Whereas stockholders' equity and outside capital rose distinctly on the liabilities side, on the assets side current assets increased considerably more strongly than fixed assets and investments.

On account of increased property, plant and equipment the fixed assets and investments – for the first time since 1974 – exceeded the previous year; the increase was 276 million DM or 4.6 %. Current assets rose by 2,287 million DM (23.9 %) to 11,856 million DM. The increase here was essentially in liquid assets and receivables.

¹⁾ 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 + Disposals in property, plant equipment and investments + Increase in provision for old-age pensions +/– Increase/Decrease of stockholders' equity in reserves for special purposes.

²⁾ Current assets and balance sheet totals were decreased by the amount shown under liabilities as allowance for doubtful trade acceptances and accounts.

**General Situation Regarding
Short-term Liquidity**

Million DM	Dec. 31, 1978	Dec. 31, 1977	Increase (Decrease)
Liquid funds, trade acceptances ¹⁾	4,500	3,837	663
Securities, own stock	1,031	560	471
Short-term receivables and loans (advance payments not included) ¹⁾	2,291	1,653	638
Short-term liabilities and undetermined liabilities (including liabilities in reserves for special purposes) ²⁾	6,315	5,530	(785)
			<u>987</u>

In 1978 the increase in the
liquidity position resulted from the fol-
lowing (million DM):

from current business

Net earnings	574	
Provision for depreciation of physical plant and write- down of investments (net of accumulated discount and write-ups) and disposals	1,714	
Increase in provision for old- age pensions	293	
Increase in stockholders' equity in reserves for special purposes	<u>28</u>	2,609

from financial transactions

Dividend payments to the stock- holders of Volkswagenwerk AG and to minorities in 1978	(149)	
Additional expenses for tax relating to resolution for appropriation of net earnings after reserve transfers of the Volkswagenwerk AG in 1977	(9)	
Capital increase of the Volkswagenwerk AG	909	
Increase in long- and medium- term liabilities	184	
Decrease in other items shown on the liabilities side	<u>(52)</u>	883

from uses of funds

Additions to physical plant	(1,945)	
Additions to investments	(45)	
Increase in inventories and advance payments ¹⁾	(296)	
Increase in long- and medium-term receivables ¹⁾	<u>(219)</u>	<u>(2,505)</u>

**Increase in the
liquidity position**
987

¹⁾ Decreased by the amounts
shown under liabilities as allow-
ance for doubtful trade acceptan-
ces and accounts

²⁾ Not including the amounts
available for distribution

Group's Assets in Germany and Abroad

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

Breakdown of the Consolidated Balance Sheet of the Group According to Regions¹⁾

Million DM	Europe	North America	Latin America	Africa	Consolidated Balance Sheet of the Group
Property, Plant, Equipment and Investments					
Property, plant and equipment	3,859	834	955	97	5,745
Investments (including adjustment items arising from initial consolidation)	323	61	100	2	486
	<u>4,182</u>	<u>895</u>	<u>1,055</u>	<u>99</u>	<u>6,231</u>
Current Assets					
Inventories (including advance payments to suppliers)	2,085	586	671	134	3,476
Trade accounts receivable	2,150	183	476	40	2,849
Liquid funds	4,782	182	567	0	5,531
	<u>9,017</u>	<u>951</u>	<u>1,714</u>	<u>174</u>	<u>11,856</u>
Liabilities	10,234	769	1,475	80	12,558
Net Worth	2,965	1,077	1,294	193	5,529

¹⁾ 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 net book value of **Property, Plant, Equipment and Intangible Assets** rose by 320 million DM to 5,745 million DM. Evaluation of property, plant and equipment was carried out on the basis of acquisition or manufacturing cost less scheduled depreciation. Particularly in Germany additional depreciation was provided for to the extent permissible by tax law. Beyond this there were only minor extraordinary depreciations due to economic conditions with regard to Group companies.

Additions to property, plant and equipment of 1,945 million DM were 312 million DM in excess of the previous year. 42.7 % pertained to the Volkswagenwerk AG, 15.2 % to V.A.G Leasing, 14.0 % to AUDI NSU AUTO UNION AG and 8.3 % to Volkswagen of America. Capital investments mainly affected the item plant and office equipment. Above all they served the further development of the product programme and renewal and extension of the leasing and rental fleets of V.A.G Leasing and interRent Autovermietung.

Disposals resulted primarily from sales of used rental and leasing vehicles.

Investments amounted to 281 million DM. Additions to **Investments in Subsidiaries and Affiliates** mainly referred to Volkswagenwerk AG's investments in TAS Tvrnica Automobila Sarajevo. In addition the item investments in subsidiaries and affiliates includes above all the holdings of the Volkswagenwerk AG in the V.A.G Sales Centres and in Svenska Volkswagen AB.

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 the Volkswagenwerk AG and Vorelco, Inc. Interest-free and low interest-bearing loans have been shown at their 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 show the existing values in excess of the nominal value at the time of acquisition. They mainly result from the consolidation of AUDI NSU AUTO UNION AG and of interRent Auto-

vermietung. Write-downs by the Volkswagenwerk AG of the investment book values of the AUDI NSU AUTO UNION AG and Volkswagen Bruxelles reduced the adjustment item to take account of reductions in value.

Inventories increased on 1977 by 310 million DM (9.8%) to 3,469 million DM. The increases were mainly at Volkswagenwerk AG, Volkswagen de Mexico and AUDI NSU AUTO UNION AG.

Of the **Trade Accounts Receivable** pertain 65.7 % to domestic subsidiaries and affiliates and 34.3 % to foreign subsidiaries and affiliates.

Trade Acceptances were particularly shown by Volkswagen Comercial in Mexico whose financing contracts are secured by trade acceptances.

Cash in Banks rose by 617 million DM (16.9%) to 4,262 million DM. Whereas on the one hand Volkswagenwerk AG and AUDI NSU AUTO UNION AG showed a clear increase, on the other Volkswagen of America showed a drop.

The portfolio of **Securities** which was maintained above all by the Volkswagenwerk AG and Volkswagen do Brasil for the profitable investment of liquid funds increased by 471 million DM to 1,010 million DM.

Own Stock was shown unchanged.

The major part of **Miscellaneous Other Current Assets** consisted mainly of receivables resulting from financing of sales (customer financing) and purchase financing (dealer financing), claims resulting from loans, tax refunds and prepayments and interest receivable.

Prepaid and Deferred Expenses pertain to a large extent to deferred commissions of V.A.G. Leasing.

Liabilities

The **Capital Stock of Volkswagenwerk AG** was increased through the issue of new shares by 300 million DM to 1,200 million DM.

The **Consolidated Reserves** comprised the reserve from capital stock surplus, the reserve for the Share-the-Burden Property Levy, the reserve of the Group arising from earnings and the adjustment items arising from initial consolidation.

In the **Reserve from Capital Stock Surplus** we have shown the premiums of the legal reserve of the Volkswagenwerk AG. The increase in reserve from capital stock surplus of 604 million DM came almost exclusively from the transfer of the premium from the capital stock increase of the Volkswagenwerk AG. The item was decreased by the adjustment item from currency translation.

The rise in **Reserve of the Group Arising from Earnings** by 346 million DM (11.6%) to 3,323 million DM resulted in particular from allocations to the Volkswagenwerk AG's and domestic companies' reserves, and the reduction of the balance sheet loss of Volkswagen de Mexico. In addition this item comprises mainly the Group's share in the reserves of the other companies included in the consolida-

tion, the value adjustments of the Volkswagenwerk AG on subsidiaries and affiliates to be liquidated in the wake of consolidation, the amounts gained on intercompany supplies of property, plant and equipment and inventories which have to be eliminated, differences arising during the consolidation from the write-up of interest-free loans granted to housing construction companies by the Volkswagenwerk AG and earnings distributed to parent companies. Of the reserves of the companies included in consolidation 430 million DM were converted into capital stock.

The **Adjustment Items Arising from Initial Consolidation** represent the surplus of the net worth of Volkswagen of South Africa over the acquisition costs at the time of effecting this investment.

Minority Interest in Consolidated Subsidiaries mainly represented minority interests in Volkswagen do Brasil, AUDI NSU AUTO UNION AG and WESER-EMS Vertriebsgesellschaft. Minority interest in net earnings or loss resulted mainly from our Brazilian subsidiaries.

The **Reserves for Special Purposes** originated from the statements of the Volkswagenwerk AG and to a small extent from those of Volkswagen France and AUDI NSU AUTO UNION AG.

The Allowance for Doubtful Trade Acceptances and Accounts served as security for covering the general credit risk.

Of the total Undetermined Liabilities 42% were long-term liabilities, 30% medium-term liabilities and 28% short-term liabilities.

Undetermined Liabilities in respect of Old-age Pensions arose from the domestic sector within the Group. They were based on actuarial computations, and the "Teilwert"-method was used.

Undetermined Liabilities for Maintenance not Performed during Current Year pertained mainly to Volkswagenwerk AG and AUDI NSU AUTO UNION AG.

Undetermined Liabilities for Warranties without Legal Obligations were mainly taken over from the statements of Volkswagenwerk AG and Volkswagen do Brasil.

Other Undetermined Liabilities primarily consisted of provisions for distribution costs, taxes, labour costs and legal risks.

Of the Liabilities with an Initial Term of Four Years or Longer, in particular liabilities Due to Banks decreased distinctly through repayments by the Volkswagenwerk AG.

65.5% of Trade Accounts Payable pertained to domestic, 34.5% to foreign Group companies.

Liabilities Resulting from the Acceptance of Bills Drawn and the Issuing of Promissory Notes were shown above all in the statements of Volkswagen do Brasil and Volkswagen of South Africa.

Other Liabilities Due to Banks increased by 134 million DM on the previous year. This was due to increases at the V.A.G Kredit Bank and the Volkswagenwerk AG, although in the foreign sector there was an overall minor reduction.

Advance Payments from Customers have almost exclusively been taken over from the statements of foreign production companies and the Volkswagenwerk AG.

Miscellaneous Other Liabilities pertain mainly to payroll accruals, taxes and customs duties. An alteration in statements in the case of Group companies has been taken over in the Group statement and the comparable figures of the previous year have been adjusted.

In addition to the Contingent Liabilities shown on the balance sheet, other liabilities which have to be shown comprised deposit

obligations for shares in one domestic subsidiary in the amount of 3.8 million DM.

Of the total securities shown under current assets 2 million DM par value were pledged by the Volkswagenwerk AG. It is also liable for retained deposits in limited partnerships (Kommanditgesellschaften) in the amount of 484,380 DM. Other liabilities existed in one cooperative and one limited liability company in the amount of 181,200 DM; in addition in the case of the limited liability company there existed a co-liability in accordance with section 24 GmbH-Gesetz (Limited Liability Companies Act). Abroad guarantees totalling 5.8 million DM were provided.

Statement of Earnings

Sales of the Volkswagen Group at 26,724 million DM were 2,572 million DM (10.6%) in excess of the previous year. The ratio of sales abroad to total sales decreased further to 58.0 (59.8)%.

The Increase in Inventories of 179 million DM was a reflection of the increase in the volume of trading and resulted mainly from Volkswagen do Brasil, Volkswagen de Mexico, Volkswagenwerk AG and AUDI NSU AUTO UNION AG.

Material, Wages and Overhead Capitalized as Additions to Plant and Equipment amounted to 382 million DM.

The Gross Performance increased by 2,782 million DM (11.4%) to 27,285 million DM.

Due mainly to the increase in production volume, Expenditures for Raw Materials, Supplies and Other Materials rose by 1,353 million DM (10.6 %) to 14,099 million DM.

Income from Investments in Unconsolidated Subsidiaries and Affiliates pertained for the most part to the Volkswagenwerk AG's share of the profits of domestic Sales Centres.

Income from Other Financial Investments in the main represented income from the capitalization of longer-term loans and loan interest contributed by Vorelco, Inc., Volkswagenwerk AG and Volkswagen do Brasil.

The rise in Other Interest and Similar Income resulted from the increase in liquid assets at the Volkswagenwerk AG and Volkswagen do Brasil.

Gain on Disposal of Property, Plant, Equipment, Investments and Write-ups came for the most part from the sale of used vehicles by the rental companies.

Income from the Elimination of Reserves for Undetermined Liabilities no Longer Required was shown particularly by the Volkswagenwerk AG, Volkswagen de Mexico and AUDI NSU AUTO UNION AG.

Other Income resulted for the most part from currency gains, income from the rebilling of advertising material and sales promotion costs, revenues from rents and leasing and from the sale of kitchen and catering goods.

The rise in the average labour force together with wage tariff rises led to an increase in expendi-

ture for Wages and Salaries of 710 million DM (12.7%) to 6,322 million DM.

Social Expenditures rose by 120 million DM to 942 million DM.

Pension Expenditures and Voluntary Payments did not increase as strongly as other labour costs, since in the previous year the AUDI NSU AUTO UNION AG had, for purposes of increase to the full "Teilwert", increased transfers to the pension provisions.

Loss on Disposal of Property, Plant, Equipment and Investments was minor in amount and was shown primarily by the domestic Group companies.

Interest Expense and Similar Charges remained more or less unchanged. Whereas the Volkswagenwerk AG showed a decrease, Volkswagen do Brasil had increased expenditures.

The higher Taxes on Income, Earnings and Property reflected the relatively favourable earnings situation of the business year ended.

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.

Expenditures under Loss Assumption Agreements were incurred by the Volkswagenwerk AG for one domestic company.

The item **Other Expenses** comprised primarily currency losses, costs of repair and maintenance of property, plant and equipment, advertising and sales promotion, shipping of products and rent and leasing.

The **Net Earnings** were 574 million DM. This result, which is a distinct improvement on 1977, was due above all to the improved results situation in most of the foreign Group companies.

Comments on the Financial Statements of Volkswagenwerk AG

Balance Sheet

Assets

Capital investments in **Property, Plant and Equipment** amounted to 844 million DM, which is 408 million DM higher than the previous year.

About one half of the capital investments in the year under review served the further development of the product programme. Further major areas of investment were the maintenance of plant and equipment, together with measures for the re-structuring and modernization of work processes with reference to the improvement of working conditions.

In the case of finished property, plant and equipment the additions, including transfers from construction in progress and the advance payments to vendors and contractors, totalled 691 (359) million DM. Of this 409 (163) million DM were for plant and office equipment, 239 (163) million DM for machinery and fixtures and 43 (33) million DM for real estate and buildings.

Capital investments were distributed over the individual factories as follows:

Factories		of which movable property
Wolfsburg	402 million DM	366 million DM
Hanover	203 million DM	193 million DM
Kassel	101 million DM	94 million DM
Salzgitter	60 million DM	58 million DM
Emden	38 million DM	26 million DM
Brunswick	40 million DM	39 million DM
	<u>844 million DM</u>	<u>776 million DM</u>

The gross book value of property, plant and equipment in the report year amounted for the first time to more than ten thousand million DM. It was distributed as follows:

Real estate and buildings	3,334 million DM
Machinery and equipment	6,670 million DM
Construction in progress and advance payments to vendors and contractors	248 million DM
Total	<u>10,252 million DM</u>

After deduction of value adjustments on these sums, the net book value of property, plant and equipment was 2,068 million DM.

Evaluation of property, plant and equipment was carried out on the basis of acquisition or manufacturing costs. Calculation of manufacturing cost and the evaluation of advance payments to vendors and contractors were made on the basis of the principles set out in the 1977 Annual Report. Grants made from public funds for investments in previous years reduced the acquisition or manufacturing costs. They have been shown in the balance sheet as disposals. Regular depreciation on the acquisition and manufacturing costs of

property, plant and equipment was calculated in accordance with the depreciation methods and useful life as set out in the Annual Report for 1977. In previous years investment grants received were taken account of within three years through reduction of depreciation. For the allocation of investment grants received in 1978 the useful life of the benefiting asset was taken as a basis.

Extraordinary depreciation was provided for on the additions from 1978 in accordance with section 3 of the Border Area Promotion Law. In addition we carried out a small amount of extraordinary depreciation in accordance with the regulations of section 6b EStG (Income Tax Act), for special tools for models no longer in production and for assets no longer used.

Of the additions to **Investments** shown under **Investments in Subsidiaries and Affiliates** the greater part consisted of contributions made up to July 31, 1978 for the adjustment of the capital situation at Volkswagen Manufacturing Corporation of America. Further investments in subsidiaries and affiliates were effected through contributions to TAS Tvrnica Automobila Sarajevo, Volkswagen do Brasil, the newly founded V. A. G. Transportgesellschaft mbH, the VW-Versicherungsvermittlungs-GmbH and the newly founded companies Brasilinvest S. A. — Banco de Investimento, Volkswagen Bail S. A. and the limited company for the handling of the sales participation of the Volkswagenwerk Aktiengesellschaft and the Maschinenfabrik Augsburg-Nürnberg Aktiengesellschaft in companies of foreign commercial vehicle importers.

The disposals resulted in particular from the sale of our holding in the Neuland, Gemeinnützige Wohnungs- und Siedlungsgesellschaft mbH.

Regular and extraordinary depreciation provisions are distributed over the additions of 1978 as follows:

thousand DM	Real estate and land rights			Buildings on leased real estate	Machinery and fixtures	Plant and office equipment	Construction in progress	Advance payments to vendors and contractors
	with office, factory and other buildings	with residential buildings	without buildings					
Additions during 1978 ¹⁾	41,274	336	1,379	212	238,547	287,544	91,125	19,600
Depreciation on additions during 1978	10,324	9	1,379	68	113,675	146,204	44,300	9,800
¹⁾ Additions including transfers from construction in progress and advance payments to vendors and contractors (not including special tools not yet used in operations and not yet depreciated, but including additions in real estate on which extraordinary depreciation was made in accordance with section 6b EStG)								

Write-downs on investments in subsidiaries and affiliates were made on the investment in the Volkswagen Manufacturing Corporation of America for reasons of losses in connection with the start of production, and in a domestic company in order to take account of a reduction in value at the balance sheet date. In addition the existing values shown for investments in six other smaller domestic and foreign companies were fully adjusted on account of the risks inherent in these investments. Write-downs pertained with 5 million DM to additions during the current year.

As in previous years **Long-term Loans Receivable with an Initial Term of Four Years or Longer** were almost exclusively granted to housing construction companies and Volkswagen employees. All loans made up to December 31, 1954, in accordance with section 7c EStG were fully adjusted. Loans made as of 1955 under section 7c EStG were discounted with 5.5% and all other loans with 7%. All discounted sums are shown under depreciation. The disposal of 13 million DM resulted from repayments due or made ahead of time. Write-downs on additions during the current year amounted to 3.3 million DM.

The book value of **Inventories** increased by 148 million DM on the previous year. The main reasons for this were the growth of production and sales volumes and the associated larger stocks, precautionary measures in connection with the strike in the steel industry and price increases by our suppliers. Valuation of the inventories was carried out in accordance with the principles set out in the 1977 report.

Trade Accounts Receivable represent 379 million DM due from foreign customers and 103 million DM from domestic customers. The increase on the previous year was due in particular to the growth of foreign accounts receivable. With a few insignificant exceptions all amounts were paid when due.

Cash in Banks pertains mainly to time deposits. The higher cash volume was mainly connected with the capital increase.

The portfolio of **Securities** increased by 264 million DM through the purchase of bonds, debentures and shares in order to obtain interest from investment of liquid

funds. 2 million DM par value of these bonds were pledged in favour of the Customs Authorities in Hanover as security for the continuous processing of imported goods.

The balance sheet value of **Own Stock** was maintained. The nominal value remained unchanged at 15,060,300 DM.

The rise in **Receivables from Subsidiaries and Affiliates** results in particular from the increase in receivables due from AUDI NSU AUTO UNION AG, Volkswagen France, Volkswagen of South Africa and Volkswagen de Mexico. Of the total sum of receivables 851 million DM are from foreign subsidiaries and 636 million DM from domestic companies. Where appropriate, value adjustments were made on receivables in view of the inherent risks relating to the rate of exchange and currency transfers.

The main items of **Miscellaneous Other Current Assets** were claims from loans against borrowers' notes, interest receivable, the participation in profit of sales centres, sales tax refunds, the cash surrender value of old-age insurance and claims in relation to sales premiums from suppliers. The increase on the previous year was due above all to the acquisition of claims in respect of bonds.

Liabilities

In the year under review the **Capital Stock** was increased by 300 million DM to 1,200 million DM through the issue of new bearer shares with the nominal value of 50 DM, entitled to dividends as of July 1, 1978.

A total of 811 million DM was transferred to the **Reserves**. The premium of 600 million DM from the capital stock increase was put into the **Legal Reserve**. In addition under this item are particularly shown the additional proceeds from the sale of the new shares from own stock.

The **Reserve for the Share-the-Burden Property Levy** was shown at present value.

In accordance with the resolution of the Annual Meeting of Stockholders on July 4, 1978 we made an additional transfer of 20 million DM to the **Other Reserves** from the net earnings after reserve transfers of the business year of 1977. From the net earnings of the year under review we transferred 184 million DM to the other reserves.

In setting up the **Reserves for Special Purposes** we took advantage of the possibilities given by law. The reserves for special purposes increased particularly through

the setting up of reserves in accordance with section 3 of the Auslands-investitions-gesetz (Foreign Investment Act) for a part of the losses incurred by the former Volkswagen Manufacturing Corporation of America up to the merger with Volkswagen of America, Inc., and for the losses incurred by Volkswagen of Nigeria, and through transfers to reserves in accordance with section 1 of the Foreign Investment Act in respect of the Volkswagen Manufacturing Corporation of America.

The reserve in accordance with section 1 of the Entwicklungsländer-Steuer-gesetz (Developing Countries Tax Act) decreased as required by law. In the case of the reserve for price increases in accordance with section 74 EStDV (Income Tax Application Regulations) and the reserve in accordance with section 6b EStG, liquidations also exceeded the additions to reserves.

Through the increased trade receivables and trade acceptances the **Allowance for Doubtful Trade Acceptances and Accounts** rose. It was determined in accordance with the principles used and described in previous years.

Undetermined Liabilities in respect of Old-age Pensions were based

on actuarial computations in accordance with section 6a EStG (Teilwertverfahren) as in the previous year.

Significant items of **Other Undetermined Liabilities** were provisions for taxes and for liabilities in respect of distribution costs whose allocation was determined to a slight extent by modified methods and matched to the necessities on the balance sheet date.

Liabilities with an Initial Term of Four Years or Longer decreased by 646 million DM to 907 million DM, since in 1978 the first instalment for the 300 million DM **Loan** issued in 1972 was due and in addition the long-term **Liabilities Due to Banks** were reduced considerably through repayments.

The increase in **Trade Accounts Payable** resulted in particular from the rise in purchases and production and from precautionary measures on account of the strike in the steel industry.

Other Liabilities Due to Banks increased through short-term credits.

Under **Advance Payments from Customers** are shown mainly payments from abroad.

The decrease in **Accounts Payable to Subsidiaries and Affiliates** resulted

mainly from the payment made in the report year in respect of a deposit obligation of December 31, 1977 towards a foreign subsidiary.

Miscellaneous Other Liabilities consist mainly of obligations from taxes and accrued wages and salaries, and obligations with respect to the labour force. Under this item we have also shown this year for the first time the special payment to the labour force as agreed in the wages and salaries agreement, and taxes outstanding. For purposes of comparison appropriate adjustments have been made to last year's figures.

Statement of Earnings

The following calculation of the added value in 1978 shows up in the value increase in the Company and its distribution.

Sources of Added Value (Million DM)			Use of Added Value (Million DM)		
	1977	1978	1977	1978	
Gross performance as shown in the statement of earnings which is drawn up in accordance with Stock Corporation Law	20,037	22,587	6,253	6,955	Added value
plus other income	1,119	1,033	144	189	for stockholders
Total performance	21,156	23,620	181	179	for the Company ¹⁾
			158	104	for creditors
			1,301	1,446	for the State ¹⁾
			4,469	5,037	for Company employees
less expenditures (for raw materials, supplies and other materials)	13,664 (12,340)	15,833 (13,922)	2.3 %	2.7 %	for stockholders
			2.9 %	2.6 %	for the Company ¹⁾
			2.5 %	1.5 %	for creditors
			20.8 %	20.8 %	for the State ¹⁾
less depreciation and loss on disposal of property, plant, equipment and investments	1,239	832	71.5 %	72.4 %	for Company employees
= Added value	6,253	6,955			
	1977	1978	1977	1978	

¹⁾ 1977 adjusted by the transfer to reserves and additional taxes to be paid in accordance with proposal for distribution of net earnings after reserve transfers

Sales increased on the previous year by 2,546 million DM to 22,383 million DM. The main reasons for this were the increase in vehicle sales, the larger proportion of more expensive model and equipment variants, and price increases. At home sales proceeds rose by 14.8 %, abroad by 10.8 %. Of the total sales proceeds 77.8 % came from the vehicle trade, 7.7 % from parts sales.

Expenditures for Raw Materials, Supplies and Other Materials consisted for the greater part of the consumption of production materials and the cost of vehicles purchased from the subsidiaries AUDI NSU AUTO UNION AG, Volkswagen Bruxelles and Volkswagen de Mexico. The rise of 1,582 million DM to 13,922 million DM resulted mainly from the increase of production and purchasing volumes and from price increases.

Income from Profit Assumption Agreements was received from the domestic subsidiaries AUDI NSU AUTO UNION AG, Wolfsburger Transportgesellschaft mbH, i. L. (from the period before start of liquidation), VW-Versicherungsvermittlungs-GmbH and WESER-EMS Vertriebsgesellschaft mbH.

Under Income from Investments in Subsidiaries and Affiliates is primarily shown the distribution of dividends by the domestic Sales Centres for 1978 and by Volkswagen do Brasil for 1977.

Income from Other Financial Investments resulted almost exclusively from capitalizations on long-term loans and interest on loans granted.

Other Interest and Similar Income consisted primarily of income from cash in banks, credits granted to subsidiaries and affiliates, and securities.

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

Income from the Elimination of Reserves for Undetermined Liabilities no Longer Required came above all from provisions for labour cost and distribution expenditures no longer required.

Income from the Elimination of Reserves for Special Purposes no Longer Required resulted from eliminations carried out in accordance with statutory requirements.

Other Income consisted for the most part of taxes rebilled to subsidiaries and affiliates, foreign exchange

gains, revenues from the sale of kitchen and catering goods and from rebilling of services and warranty costs.

Expenditures for the labour force rose in the year under review by 568 million DM or 12.7 % to over 5 thousand million DM (cf. "Labour Force", page 41). This increase in expenditures for **Wages and Salaries, Social Expenditures, Pension Expenditures and Voluntary Payments** on the previous year was mainly due to the raising of the wage tariffs and the increase in the average labour force.

Provision for Depreciation of Physical Plant and the Write-down of Financial Investments have already been explained in the corresponding balance sheet items.

The **Write-down of Other Current Assets and Provision for Doubtful Trade Acceptances and Accounts** rose primarily through necessary value adjustments to receivables and securities, and transfers to the allowance for doubtful trade acceptances and accounts.

Interest Expense and Similar Charges resulted for the most part from long-term loans received and the 300 million DM loan of 1972. On account of repayment

of long-term loans the interest expenses decreased on the previous year.

The increase in **Taxes on Income, Earnings and Property** was almost exclusively related to taxes on earnings in the current year.

Expenditures under Loss Assumption Agreements stemmed primarily from the profit and loss assumption agreement with the VW-Siedlungsgesellschaft mbH.

Additions to Reserves for Special Purposes consisted mainly of transfers to the reserves in accordance with sections 3 and 1 of the Foreign Investment Act.

The main items of **Other Expenses** were foreign exchange losses, distribution costs for our products, outside services and materials for the maintenance of our plants, advertising and sales promotion costs, and expenditures in connection with loan repayments.

Additional Details

In addition to the **Contingent Liabilities** shown on the balance sheet we were contingently liable for 15,250,000 DM in connection with the deposit obligations in domestic companies with limited liability. In addition we were liable for received back capital invested in limited partnerships in the amount of 484,380 DM.

In the year under review the difference in accordance with section 160, para. 2, sentence 5 of the Corporation Law, which reduced the net earnings, amounted to 110,367,133 DM. This sum resulted mainly from the depreciations provided for in accordance with section 3 of the Border Area Promotion Act and to a minor extent from changes of method in the provision for distribution costs and a change of the discount rate in the case of long-term loans.

Remuneration of the Board of Management in 1978 amounted to 6,164,625 DM. Retired members of the Board of Management or their beneficiaries received 3,692,501 DM.

Remuneration of the Supervisory Board amounted to 308,889 DM.

Explanations of Selected Terms from the Annual Report

Since our Annual Report is intended to be read by as wide a circle as possible, and some of the technical terms used in it may not be generally known, we should like to explain them. We make no attempt to be comprehensive, nor do we claim scientific exactitude. Rather we wish to indicate the interpretations current within the Company.

Added value: The increase in value achieved by a company in a period (added value) is calculated at the Volkswagenwerk AG as follows: Gross performance as shown in the statement of earnings + other income – expenditures (predominantly materials expenditure) – depreciation and losses from disposals.

Additions: Every actual quantitative addition of items in the fixed assets and investments (physical alteration of the fixed assets and investments) is designated as an addition. Additions can only ever be shown as such in the accounting period in which the quantitative addition in the fixed assets and investments actually occurred.

Adjustment items arising from initial consolidation: The difference resulting when the acquisition costs of a holding in a Group company are higher than the obligatory consolidation capital available at the time of acquisition (capital stock, reserves, profit or loss). The resulting sum is shown in the balance sheet under "Adjustment items arising from initial consolidation". Thus for example an adjustment item on the assets side can contain valuation reserves in acquired Group companies or future profits already contained in the acquisition price.

Advance payments: These are prepayments on agreed supply and service contracts in connection with which a delivery or service has not yet been completed.

Allowance for doubtful trade acceptances and accounts: In order to cover the general credit risk attaching to the receivables, a flat value adjustment can for reasons of business circumspection be made. Account must on the other hand be taken of special bad debts through value adjustments made on the assets side in the case of the relevant receivables.

Cash flow: This is the sum of money available to a company for financing purposes in any business year from the sales

proceeds after deduction of expenses such as material, personnel and other costs. In practice it is ascertained in different ways. At the Volkswagenwerk AG it is ascertained thus: Net earnings + provision for depreciation of physical plant and write-down of investments – write-ups and accumulation of discount + disposals of property, plant, equipment and investments +/- increase/decrease in provision for old-age pensions +/- increase/decrease of stockholders' equity in reserves for special purposes. The cash flow is a figure for the internal financing capacity of a company.

Consolidation: This is the integration of the individual financial statements (balance sheets and profit and loss accounts) of the Group companies being consolidated into a Group financial statement, setting off intra-Group transactions to avoid double counts. The following items have to be set off: equity capital of the subsidiary against the corresponding item "Investments in subsidiaries and affiliates" of the parent company (capital consolidation), receivables against liabilities (debt consolidation) and expenses of the one company against the corresponding income of the other Group company, where necessary eliminating inter-company profits (expenses and income consolidation).

Contingent liabilities: These are liabilities whose reason and extent are known but where it is uncertain whether the company will have to meet them. For example guarantees are shown in these sums. Because this kind of liability has as yet no fixed character, it is shown outside the actual balance sheet structure.

Current assets: All assets which do not serve the longer-term trading operation and are not advance payments for expenses of the following year (Prepaid and deferred expenses) are referred to as current assets. In principle this includes all objects which are to be used up, processed or disposed of. Current assets

are subdivided into the groups "Inventories" and "Other current assets". The assets under these headings are characterized by the fact that they have a relatively fast turnover.

Deferred income/Prepaid and deferred expenses: Revenues or expenses of the company which do not result in income or expenditures until after the balance sheet date (e.g. rent paid in advance).

Depreciation (Value adjustments): By means of depreciation the acquisition or manufacturing costs of items making up the fixed assets are distributed over the accounting periods (business years) in accordance with their planned useful life. In addition to these regular depreciations there are extraordinary depreciations for covering unforeseen situations. Such depreciation can for example take account of the obsolescence of machinery as a result of technical progress.

Disposals: The statement of reductions in fixed assets and investments presupposes the (physical) disposal of assets in particular through sale, demolition or scrapping. Higher or lower proceeds compared with the book values can thus be achieved; the difference between proceeds and book value is shown in the statement of earnings under gain or loss on disposal of property, plant, equipment and investments.

Fixed assets and investments: These include all items which on the day of accounting are intended to serve the operation of the company over the longer term. These also include intangible fixed assets (e.g. licences, patents, rights).

Gross performance: This is the performance which has been achieved by a company during a given period and consists mainly of the sales proceeds. Along with this the gross performance includes changes of inventories of the products and the other capitalized self-produced assets.

Intangible fixed assets: Rights acquired against payment, e.g. concessions, licences and patents.

Inventories: These comprise raw materials and supplies, work in progress, finished products and goods. Raw materials are all materials which go direct into the product as essential components. "Goods" are all objects which have been purchased from outside and disposed of without processing or re-working.

Investments in subsidiaries and affiliates: These are capital holdings in other companies which were acquired with the intention of a longer-term participation.

Liquid funds: These are the financial assets of a company which are available at all times. They include trade acceptances, cheques, cash on hand, Federal Bank and postal cheque deposits, cash in banks, securities and own stock.

Liquidity: The company's ability to meet its obligations to make payments whenever they are due. In order to guarantee constant ability to pay it is necessary to match incoming payments and obligations to pay in such a way that the inflow and outflow balance as far as possible. Since in practice this target can only be approached, every company is forced for reasons of security to hold a liquidity reserve the amount of which is determined by the type of business, the structure of the company, the production programme, the economy and the state of business.

Loans receivable in accordance with sections 89 and 115 of AktG (Corporation Law): This includes loans to members of the Board of Management, senior executives and persons on a level with this group, and loans and advances to members of the Supervisory Board. This obligatory statement also includes loans to companies in whose statutory bodies a member of the Board of Management or Supervisory Board of the loan-providing company is represented.

Maintenance of capital: This is the maintenance of equity-financed assets taking account of price increases. The aim of capital maintenance is to show as profit

only the sum which is not required for the reacquisition of plant and equipment necessary for production even with rising prices.

Material, wages and overhead capitalized as additions to plant and equipment: These are for example self-produced plant and tools. They are shown in the statement of earnings under the income item "Material, wages and overhead capitalized as additions to plant and equipment", since the expenses arising from the production of the company-constructed assets (labour, materials etc.) are contained in the corresponding items in the statement of earnings.

Minority interest in consolidated subsidiaries: If outside (non-Group) parties have an interest in the companies included in the Group balance sheet, then a "Minority interest in consolidated subsidiaries" has to be shown separately in the Group balance sheet for their share in the capital, declared reserves and profit/loss. This adjustment item is necessary, since all assets and liabilities of the Group companies are included in the balance sheet in full although they only belong partially to the Group companies. For example under this item the Volkswagen Group balance sheet has to show the 20 % minority interest that exists in Volkswagen do Brasil.

Net earnings: The sum is arrived at mathematically from the difference between all income and expenses and represents the result of the year under review before transfers to or from reserves.

Net earnings after reserve transfers: This is the "distributable" profit of a company which is left after transfer to or liquidation of reserves from the annual surplus (net earnings) and taking account of net earnings (loss) brought forward.

Net earnings brought forward: This is what remains of the net earnings after reserve transfers in accordance with the resolution of the Annual Meeting of Stockholders and is carried forward to the new year.

Old-age pensions: These are set up on the basis of actuarial computations. Precondition for the setting up of a provision for pensions is a written promise of pension on the basis of which the company employee has a legal claim to continued or once-only pension payments when he retires from work.

Own stock: This represents that part of the share capital of a company which the company has acquired itself and is shown in the current assets with the procurement costs or the possibly lower exchange value. The Corporation Law makes the acquisition of own stock dependent on the existence of certain preconditions and limits it to 10 % of the capital stock. Thus the own stock of the Volkswagenwerk AG for example was acquired in 1971 in conjunction with the conversion offer to the shareholders of the AUDI NSU AUTO UNION AG.

Receivables from subsidiaries and affiliates: All receivables from subsidiaries and affiliates are shown separately in the balance sheet. These companies are legally independent companies which stand in a relationship of mutual economic dependence (e.g. Group membership).

Reserves: These are a part of the stockholders' equity shown on the liabilities side of the balance sheet and are subdivided into legal and free reserves. Transfers to reserves are made either by payments by stockholders (e.g. the premium payable on the issue of new shares for the capital increase of the Volkswagenwerk AG) or by transfers out of the net earnings. Whilst allocations to the legal reserve are regulated by the Stock Corporation Law, the company managing bodies or the stockholders decide on the formation of free reserves.

Reserves for special purposes: In certain circumstances tax law provides the possibility of setting up a tax-free reserve which in later years can be liquidated in such a way as to affect results and increase earnings. When

such reserves are adopted in the financial statements then they must be shown separately after the free reserves in the "Reserves for special purposes". It must be indicated under which statutory provisions these reserves were set up (e.g. reserve for investment in developing countries in accordance with § 1 of the Developing Countries Tax Act).

Sales: In the case of the Group this refers to the sales proceeds adjusted for internal transactions – i.e. transactions between the individual consolidated Group companies.

Sales to the dealer organization; deliveries of vehicles to customers: In the Annual Report of the Volkswagenwerk AG figures are given both for deliveries of cars to customers and for sales to the dealer organization. Sales to the dealer organization means Volkswagen Group vehicles sold to the independent Volkswagen and Audi outlets. Deliveries to customers means vehicles sold by the dealerships to final consumers.

Subsidiaries and affiliates: See "Receivables from subsidiaries and affiliates".

Transfers: As a rule these are transfers from one item within the fixed assets and investments to another. They do not represent any alteration in value or quantity, but are alterations of statement with purely formal significance.

Undetermined liabilities: These are formed for obligations whose nature is known but whose amount and due date are unknown. They are set up for example to cover concrete litigation risks which can lead to a subsequent claim being made on the company.

Write-ups: Serve to reverse earlier extraordinary depreciation.

Consolidated Balance Sheet of the Volkswagen Group December 31, 1978

Thousand DM

Assets	Jan. 1, 1978	Additions	Disposals	Transfers	Write-ups and Accumulation of Discount	Provision for Depreciation	Dec. 31, 1978	Dec. 31, 1977
Property, Plant, Equipment and Investments								
A. Property, plant, equipment and intangible assets								
Real estate and land rights								
with office, factory and								
other buildings	2,372,776	120,847	5,960	217,173	—	157,549	2,547,287	2,372,776
with residential buildings	450,065	4,559	4,620	22	—	30,612	419,414	450,065
without buildings	145,953	15,053	11,863	(18,482)	—	1,555	129,106	145,953
Buildings on leased real estate	28,746	1,338	152	(7,051)	—	2,300	20,581	28,746
Machinery and fixtures	799,832	320,173	3,095	178,798	—	482,622	813,086	799,832
Plant and office equipment	1,057,326	1,078,356	183,468	146,363	—	672,965	1,425,612	1,057,326
Construction in progress and advance								
payments to vendors and contractors	570,116	404,586	13,371	(516,823)	—	54,895	389,613	570,116
Trademarks and similar rights	81	—	—	—	—	81	—	81
	5,424,895	1,944,912	222,529	—	—	1,402,579	5,744,699	5,424,895
B. Investments								
Investments in subsidiaries and affiliates	75,882	7,336	17,692	—	—	4,838	60,688	75,882
Other investment securities	67,554	—	3,453	2,846	7,951	3,660	71,238	67,554
Long-term loans receivable with								
an initial term of four years or longer	145,363	21,453	17,452	—	2,910	9,479	142,795	145,363
Face value at Dec. 31, 1978								
206,852								
including secured by mortgages								
134,592								
loans in accordance with section 89 AktG								
738								
loans in accordance with section 115 AktG								
9								
Other investments	14,970	15,922	8,400	(2,846)	14	13,035	6,625	14,970
	303,769	44,711	46,997	—	10,875	31,012	281,346	303,769
	5,728,664	1,989,623	269,526	—	10,875	1,433,591	6,026,045	5,728,664
C. Adjustment items arising from initial consolidation							204,578	226,574
							6,230,623	5,955,238
Current Assets								
A. Inventories							3,469,363	3,159,555
B. Other current assets								
Advance payments to suppliers							8,475	20,576
Trade accounts receivable							799,510	566,865
including amounts due in more than one year	139,139							
							221,713	166,371
Trade acceptances							29,570	27,419
including acceptances discountable at German Federal Bank	17,254							
							2,784	2,433
Checks on hand								
Cash on hand, including German Federal Bank							4,261,598	3,644,988
and post office checking account balances							1,009,888	538,514
Cash in banks							21,235	21,235
Securities							3,205	4,918
Own stock (par value at Dec. 31, 1978 : 15,060)								
Receivables from subsidiaries and affiliates							—	2
including amounts for goods and services rendered	924							
							2,023,538	1,392,642
Loans receivable in accordance with section 89 AktG								
Miscellaneous other current assets							11,850,879	9,545,518
Prepaid and Deferred Expenses								
Discount on loans							115	488
Other items							79,507	64,601
							79,622	65,089
							18,161,124	15,565,845

		Dec. 31, 1978	Dec. 31, 1977 ¹⁾
		Liabilities	
Capital Stock of Volkswagenwerk AG		1,200,000	900,000
Consolidated Reserves			
Reserve from capital stock surplus ²⁾		693,470	89,559
Reserve for the Share-the-Burden Property Levy		826	4,036
Reserve of the Group arising from earnings ²⁾		3,323,109	2,977,131
Adjustment items arising from initial consolidation		14,037	14,031
		4,031,442	3,084,767
Minority Interest in Consolidated Subsidiaries		215,370	204,644
in net earnings	22,041		
in loss	469		
Reserves for Special Purposes			
Reserve for investment in developing countries in accordance with section 1 of the developing countries tax act		104,688	117,289
Reserve for price increases in accordance with section 74 of EStDV		36,979	36,815
Reserve in accordance with section 1 of law on investments abroad		7,844	627
Reserve in accordance with section 3 of law on investments abroad		66,800	—
Reserve in accordance with section 6b EStG		1,143	1,982
Reserve in accordance with subsection V of the regulation on collective adjustments of value by credit institutions		—	345
Reserves in accordance with French legislation		9,947	7,708
		227,401	164,766
Allowance for Doubtful Trade Acceptances and Accounts		74,561	42,219
Undetermined Liabilities			
Old-age pensions		2,341,005	2,048,441
Other undetermined liabilities			
Maintenance not performed during current year		18,256	9,878
Warranties without legal obligations		9,940	9,711
Other		3,080,569	2,091,341
		5,449,770	4,159,371
Liabilities with an Initial Term of Four Years or Longer			
Loans		544,200	615,750
including secured by mortgages	270,000		
Due to banks		1,166,806	1,611,798
including secured by mortgages	576,126		
Other liabilities		269,792	309,108
including secured by mortgages	83,598		
		1,980,798	2,536,656
Including amounts due within four years	749,406		
Other Liabilities			
Trade accounts payable		1,693,687	1,391,600
Liabilities resulting from the acceptance of bills drawn and the issuing of promissory notes		327,579	437,970
Due to banks		1,483,775	1,350,249
Advance payments from customers		52,821	72,963
Accounts payable to subsidiaries and affiliates		178	153
including trade accounts payable	57		
Miscellaneous other liabilities		1,206,353	1,025,820
		4,764,393	4,278,755
Deferred Income		28,231	21,571
Net Earnings after Reserve Transfers		189,158	173,096
Contingent liabilities with respect to trade acceptances	19,897		
Contingent liabilities with respect to guarantees	27,362		
Other contingent liabilities	63,067		
Contingent liabilities with respect to warranty contracts	24,424		
		18,161,124	15,565,845

¹⁾ In the case of alterations to the items shown we have adjusted the figures for the previous year.

²⁾ These items include the legal reserve of the Volkswagenwerk AG in the amount of 843,387,000 DM.

Consolidated Statement of Earnings of the Volkswagen Group

Year ended December 31, 1978

Thousand DM

	1978	1977
Sales	26,723,979	24,151,910
Increase in inventories	179,195	72,071
Material, wages and overhead capitalized as additions to plant and equipment	26,903,174	24,223,981
	381,869	279,583
Gross Performance	27,285,043	24,503,564
Expenditures for raw materials, supplies and other materials	14,098,931	12,746,220
Excess of Gross Performance over Expenditures for Raw Materials, etc.	13,186,112	11,757,344
Income from profit assumption agreements	—	213
Income from investments in unconsolidated subsidiaries and affiliates	49,217	44,377
Income from other financial investments	11,596	11,908
Other interest and similar income	636,312	448,656
Gain on disposal of property, plant, equipment and investments and write-ups	62,378	61,955
Elimination of reserves for undetermined liabilities no longer required	94,619	74,529
Elimination of reserves for special purposes no longer required	14,007	18,085
Other income	723,923	513,985
including extraordinary income	78,460	
	1,592,052	1,173,708
	14,778,164	12,931,052
Wages and salaries	6,322,139	5,611,843
Social expenditures — compulsory	942,091	822,445
Pension expenditures and voluntary payments	391,332	375,738
Provision for depreciation of physical plant and fixed intangible assets	1,402,579	1,521,799
Write-down of financial investments including investments in consolidated companies	53,012	77,843
Write-down of other current assets and provision for doubtful trade acceptances and accounts	88,375	26,158
Loss on disposal of property, plant, equipment and investments	9,990	14,401
Interest expense and similar charges	412,699	407,242
Taxes		
a) on income, earnings and property	1,623,867	1,453,832
b) other	65,116	45,715
	1,688,983	1,499,547
Share-the-Burden Property Levy	3,324	3,324
Expenditures under loss assumption agreements	41	—
Additions to reserves for special purposes	76,927	8,337
Other expenses	2,812,521	2,142,898
	14,204,013	12,511,575
Net Earnings	574,151	419,477
Volkswagenwerk AG's net earnings brought forward	2,413	4,490
	576,564	423,967
Change in consolidated reserves		
Transferred from reserves	38,031	73,020
Transferred to reserves	403,865	321,478
	365,834	248,458
Minority interest in net earnings of consolidated subsidiaries	22,041	5,560
Minority interest in losses of consolidated subsidiaries	469	3,147
Net Earnings after Reserve Transfers and Minority Interests	189,158	173,096

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

Hanover, March 20, 1979

TREUARBEIT Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft — Steuerberatungsgesellschaft

Prof. Dr. Forster
Wirtschaftsprüfer

Dr. Tubbesing
Wirtschaftsprüfer

Wolfsburg, March 19, 1979

Volkswagenwerk Aktiengesellschaft

The Board of Management

Volkswagenwerk AG
Balance Sheet December 31, 1978

Assets									
	Jan. 1, 1978	Additions	Disposals	Transfers	Accumulation of Discount	Provision for Depreciation	Dec. 31, 1978	Dec. 31, 1977	
	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	1,215,024,301	35,966,741	554,699	5,481,145	—	88,871,086	1,167,046,402	1,215,024	
with residential buildings	8,526,351	281,774	190,150	54,570	—	380,416	8,292,129	8,526	
without buildings	35,819,296	1,404,755	452,637	(227,080)	—	1,378,528	35,165,806	35,819	
Buildings on leased real estate	11,285,795	183,517	61,218	29,042	—	1,383,275	10,053,861	11,286	
Machinery and fixtures	397,684,123	209,947,135	1,920,517	28,590,196	—	311,645,196	322,655,741	397,684	
Plant and office equipment	167,527,901	358,483,332	3,063,435	51,061,221	—	243,574,579	330,434,440	167,528	
Construction in progress	87,001,568	195,246,526	4,480,441	(77,241,186)	—	44,300,000	156,226,467	87,002	
Advance payments to vendors and contractors	13,797,711	41,841,472	398,832	(7,747,908)	—	9,800,000	37,692,443	13,798	
	1,936,667,046	843,355,252	11,121,929	—	—	701,333,080	2,067,567,289	1,936,667	
B. Investments									
Investments in subsidiaries and affiliates	1,116,324,661	187,986,980	4,981,910	—	—	86,876,615	1,212,453,116	1,116,325	
Other investment securities	1	—	—	—	—	—	1	—	
Long-term loans receivable with an initial term of four years or longer	94,761,679	14,358,000	13,436,668	—	4,128,668	12,530,088	87,281,591	94,762	
Face value at Dec. 31, 1978									
DM 209,669,932									
including secured by mortgages									
DM 186,884,778									
subsidiaries and affiliates									
DM 124,187,880									
loans in accordance with section 89 AktG									
DM 650,745									
	1,211,086,341	202,344,980	18,418,578	—	4,128,668	99,406,703	1,299,734,708	1,211,087	
	3,147,753,387	1,045,700,232	29,540,507	—	4,128,668	800,739,783	3,367,301,997	3,147,754	
Current Assets									
A. Inventories									
Raw materials and supplies							521,062,161	447,973	
Work in progress							613,323,580	560,118	
Finished products							496,474,209	474,469	
							1,630,859,950	1,482,560	
B. Other current assets									
Advance payments to suppliers							3,300,155	6,308	
Trade accounts receivable							482,340,621	323,194	
including amounts due in more than one year	DM 101,718,542								
Trade acceptances							13,713,977	4,466	
including acceptances discountable at									
German Federal Bank	DM —								
Cash on hand, including post office checking									
account balances							1,263,923	1,039	
Cash in banks							3,223,665,139	2,604,484	
Securities							598,861,910	334,932	
Own stock (par value at Dec. 31, 1978: DM 15,060,300)							21,234,776	21,235	
Receivables from subsidiaries and affiliates							1,486,802,199	1,234,406	
including amounts for goods and services rendered	DM 440,833,742								
Miscellaneous other current assets							439,222,457	148,085	
							6,270,405,157	4,678,149	
							7,901,265,107	6,160,709	
Prepaid and Deferred Expenses							878,762	—	
							11,269,445,866	9,308,463	

			Liabilities	
			Dec. 31, 1978	Dec. 31, 1977
			DM	Thousand ¹⁾ DM
Capital Stock			1,200,000,000	900,000
Reserves				
Legal reserve				
Brought forward Jan. 1, 1978			233,799,000	
Transfer of the premium from the capital increase			609,588,000	
			843,387,000	233,799
Reserve for the Share-the-Burden				
Property Levy				
Jan. 1, 1978			3,352,089	
Transfer to statement of earnings			2,666,513	
			685,576	3,352
Other reserves				
Jan. 1, 1978			1,350,179,345	
Transfer of a part of the Net Earnings after Reserve Transfers				
in accordance with the resolution of the Annual Meeting				
of Stockholders 1978			20,000,000	
Transfer from 1978 net earnings			184,000,000	
			1,554,179,345	1,350,180
			2,398,251,921	1,587,331
Reserves for Special Purposes				
Reserve for investments in developing countries in accord-				
ance with section 1 of the developing countries tax act			104,687,693	117,289
Reserve for price increases in accordance with section 74 EStDV			32,849,180	33,071
Reserve in accordance with sections 1 and 3 of the				
law on investments abroad			74,644,600	627
Reserve in accordance with section 6 b EStG			1,142,786	1,982
			213,324,259	152,969
Allowance for Doubtful Trade Acceptances and Accounts			25,982,000	16,698
Undetermined Liabilities				
Old-age pensions			1,994,583,776	1,738,051
Other undetermined liabilities				
Maintenance not performed during current year			8,000,000	6,000
Warranties without legal obligation			4,980,000	4,830
Other			2,383,821,136	1,671,635
			4,391,384,912	3,420,516
Liabilities with an Initial Term of Four Years or Longer				
Loans			270,000,000	300,000
secured by mortgages				
Due to banks			585,000,000	1,200,000
including secured by mortgages	DM 342,500,000			
Other liabilities			52,010,251	52,480
			907,010,251	1,552,480
including amounts due within four years	DM 559,881,944			
Other Liabilities				
Trade accounts payable			851,082,951	709,950
Due to banks			171,929,770	18,924
Advance payments from customers			40,139,970	11,319
Accounts payable to subsidiaries and affiliates			26,947,698	101,232
including trade accounts payable	DM 21,465,813			
Miscellaneous other liabilities			853,919,494	663,620
			1,944,019,883	1,505,045
Deferred Income			314,903	328
Net Earnings after Reserve Transfers			189,157,737	173,096
Share-the-Burden Property Levy				
Present discounted amount	DM 685,576			
Quarterly installment	DM 689,021			
Contingent liabilities with respect to				
trade acceptances	DM 548,698,704			
Contingent liabilities with respect to guaranty obligations	DM 925,799,112			
Contingent liabilities with respect				
to warranty contracts	DM 62,316,354			
			11,269,445,866	9,308,463

¹⁾ In the case of alterations to the items shown we have adjusted the figures for the previous year.

Statement of Earnings
of Volkswagenwerk AG

Year ended December 31, 1978

	DM	1978 DM	1977 Thousand DM
Sales (excluding sales tax)		22,382,829,011	19,837,150
Increase in inventories		15,655,363	73,842
		22,398,484,374	19,910,992
Material, wages and overhead capitalized as additions to plant and equipment		188,328,441	125,677
Gross Performance		22,586,812,815	20,036,669
Expenditures for raw materials, supplies and other materials		13,922,349,615	12,340,104
Excess of Gross Performance over Expenditures for Raw Materials, etc.		8,664,463,200	7,696,565
Income from profit assumption agreements		39,318,144	109,069
Income from investments in subsidiaries and affiliates		68,940,457	97,839
Income from other financial investments		5,235,314	5,215
Other interest and similar income		227,916,945	207,521
Gain on disposal of property, plant, equipment and investments		10,894,041	12,061
Reduction of allowance for doubtful trade acceptances and accounts		—	1,232
Elimination of reserves for undetermined liabilities no longer required		20,849,191	14,788
Elimination of reserves for special purposes no longer required		13,662,275	17,740
Other income		646,807,225	653,478
including extraordinary income	24,274,348		
		1,033,623,592	1,118,943
		9,698,086,792	8,815,508
Wages and salaries		4,133,641,205	3,692,718
Social expenditures — compulsory		584,932,709	493,884
Pension expenditures and voluntary payments		318,141,833	282,001
Provision for depreciation of physical plant		701,333,080	849,475
Write-down of financial investments		99,406,703	380,600
Write-down of other current assets and provision for doubtful trade acceptances and accounts		30,383,875	4,579
Loss on disposal of property, plant, equipment and investments		1,269,544	4,201
Interest expense and similar charges		103,957,084	157,672
Taxes			
a) on income, earnings and property	1,431,475,141		1,290,233
b) other	11,481,604		1,140
		1,442,956,745	1,291,373
Share-the-Burden Property Levy		2,756,085	2,756
Expenditures under loss assumption agreements		5,492,209	13,097
Additions to reserves for special purposes		74,017,400	243
Other expenses		1,831,720,264	1,310,801
		9,330,008,736	8,483,400
Net Earnings		368,078,056	332,108
Net earnings brought forward from previous year		2,413,168	4,490
		370,491,224	336,598
Transfer from the reserve for the Share-the-Burden Property Levy		2,666,513	2,552
		373,157,737	339,150
Transfer to other reserves from net earnings		184,000,000	166,054
Net Earnings after Reserve Transfers		189,157,737	173,096

During 1978 pension payments amounted to DM 38,386,050; payments during the next five years will approximate 116, 119, 125, 138, 156 % of this amount.

Wolfsburg, March 19, 1979

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, 1979

TREUARBEIT Aktiengesellschaft

Wirtschaftsprüfungsgesellschaft — Steuerberatungsgesellschaft

Prof. Dr. Forster
Wirtschaftsprüfer

Dr. Tubbesing
Wirtschaftsprüfer

The Volkswagen Group in Figures 1971 – 1978¹⁾

In(De)crease
1977 – 1978

¹⁾ In the case of alterations to the items shown we have adjusted the figures for the previous year

²⁾ Decreased by the amounts shown under liabilities as allowance for doubtful trade acceptances and accounts

³⁾ Including stockholders' equity in reserves for special purposes; as of 1976 incl. the portion of net earnings after reserve transfers not distributed and in 1974 and 1975 incl. the loss of Volkswagenwerk AG; we have adjusted the figures for the previous years

⁴⁾ Excluding share in net earnings to be distributed

⁵⁾ Including outside capital in reserves for special purposes

⁶⁾ In 1977 for disposition by Annual Meeting of Stockholders, of which 144 million DM distributed as dividend (incl. bonus)

⁷⁾ Not comparable with other years because of loss brought forward

1971	1972	1973	1974	1975	1976	1977	1978	in %	Balance Sheet (Structure) (Million DM) December 31
									Assets
4,905	5,261	5,697	6,263	5,810	5,474	5,425	5,745	5.9	Property, plant and equipment
584	585	554	636	524	560	530	486	(8.4)	Investments
5,489	5,846	6,251	6,899	6,334	6,034	5,955	6,231	4.6	Property, Plant, Equipment and Investments
									Inventories and advance payments to suppliers ²⁾
2,514	2,338	3,489	4,117	2,949	3,267	3,180	3,476	9.3	
1,394	1,584	1,691	1,954	2,019	2,098	1,992	2,849	43.0	Receivables and the like ²⁾
445	1,038	1,151	472	1,619	2,888	3,837	4,500	17.3	Liquid funds, trade acceptances ²⁾
313	354	414	54	48	173	560	1,031	84.2	Securities, own stock
4,666	5,314	6,745	6,597	6,635	8,426	9,569	11,856	23.9	Current Assets
10,155	11,160	12,996	13,496	12,969	14,460	15,524	18,087	16.5	Total Assets
									Liabilities
900	900	900	900	900	900	900	1,200	33.3	Capital stock
2,627	2,677	2,878	2,170	2,032	2,903	3,161	4,136	30.8	Reserves of the Group ³⁾
189	209	230	188	186	198	199	193	(2.9)	Minority interest in consolidated subsidiaries ⁴⁾
3,716	3,786	4,008	3,258	3,118	4,001	4,260	5,529	29.8	Stockholders' Equity
									Undetermined liabilities in respect of old-age pensions
630	730	878	1,035	1,143	1,754	2,048	2,341	14.3	
1,596	1,604	1,623	1,507	1,740	2,109	2,200	3,233	46.9	Other undetermined liabilities ⁵⁾
2,226	2,334	2,501	2,542	2,883	3,863	4,248	5,574	31.2	Undetermined Liabilities
									Liabilities payable within more than 4 years
413	884	852	1,452	1,595	1,322	1,450	1,284	(11.5)	
268	366	448	581	666	952	1,032	708	(31.3)	1 to 4 years
3,442	3,694	5,089	5,654	4,705	4,220	4,355	4,781	9.8	1 year
4,123	4,944	6,389	7,687	6,966	6,494	6,837	6,773	(0.9)	Liabilities
									Proportion of outside capital on net earnings after reserve transfers (Volkswagenwerk AG)
81	81	81	—	—	90	173 ⁶⁾	189	9.3	
9	15	17	9	2	12	6	22	x	Minority interest in earnings to be distributed
6,439	7,374	8,988	10,238	9,851	10,459	11,264	12,558	11.5	Outside Capital
10,155	11,160	12,996	13,496	12,969	14,460	15,524	18,087	16.5	Total Capital
									Statement of Earnings (Condensed) (Million DM) January – December
17,089	16,250	18,155	17,711	18,351	22,029	24,503	27,285	11.4	Gross performance
9,891	9,098	9,850	10,068	10,066	11,598	12,746	14,099	10.6	Cost of materials
4,416	4,463	5,309	5,718	5,550	6,413	6,810	7,656	12.4	Labour cost
912	992	1,056	1,148	1,246	1,263	1,600	1,456	(9.0)	Depreciation and write-down
452	600	483	305	404	486	1,503	1,692	12.6	Taxes
418	562	432	241	347	438	1,454	1,624	11.7	on income, earnings and property
1,271	891	1,127	1,279	1,242	1,265	1,425	1,808	26.9	Sundry expenses less sundry income
147	206	330	(807)	(157)	1,004 ⁷⁾	419	574	36.9	Net earnings (net loss)
54	110	235	(262)	(14)	211	248	366	47.2	Increase (Decrease) in reserves

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