

The Supervisory Board
and the Board of Management of
Volkswagenwerk Aktiengesellschaft
present the Annual Report 1981
with their compliments.

Wolfsburg, May 1982

Volkswagen Group		1981	1980	Increase (Decrease)	% ¹⁾
Sales	million DM	37,878	33,288	4,590	13.8
Vehicle Sales	units	2,279,040	2,494,747	(215,707)	(8.6)
Production	units	2,245,611	2,573,871	(328,260)	(12.8)
Workforce	at year end	246,906	257,930	(11,024)	(4.3)
Capital Investments (Additions)	million DM	4,851	4,279	572	13.4
Depreciation and Write-down	million DM	2,934	2,102	832	39.6
Cost of Materials	million DM	19,752	18,238	1,514	8.3
Labour Cost	million DM	11,779	10,782	997	9.3
Net Earnings	million DM	136	321	(185)	(57.5)
Dividend of Volkswagenwerk AG	million DM	120	192	(72)	(37.5)

¹⁾ All percentages are based on non-rounded figures.

The Volkswagen Group in Figures 1972 — 1981¹⁾

	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
Sales (million DM)	37,878	33,288	30,707	26,724	24,152	21,423	18,857	16,966	16,982	15,996
Increase (Decrease) on previous year in %	14	8	15	11	13	14	11	0	6	(3)
Domestic	12,064	11,850	12,499	11,229	9,714	8,068	6,552	5,161	5,364	5,035
Abroad	25,814	21,438	18,208	15,495	14,438	13,355	12,305	11,805	11,618	10,961
Export of domestic Group companies	14,957	14,102	12,337	10,932	9,914	8,744	7,142	8,547	8,965	7,718
Net contribution of foreign Group companies	12,398	8,733	7,398	5,970	5,634	5,570	5,798	3,826	3,063	3,539
Vehicle Sales (thousand units)	2,279	2,495	2,539	2,393	2,240	2,142	2,038	2,052	2,281	2,197
Increase (Decrease) on previous year in %	(9)	(2)	6	7	5	5	(1)	(10)	4	(5)
Domestic	738	788	901	895	811	726	626	548	619	628
Abroad	1,541	1,707	1,638	1,498	1,429	1,416	1,412	1,504	1,662	1,569
Production (thousand units)	2,246	2,574	2,542	2,385	2,219	2,166	1,949	2,068	2,335	2,193
Increase (Decrease) on previous year in %	(13)	1	7	7	2	11	(6)	(11)	7	(7)
Domestic	1,410	1,499	1,558	1,569	1,561	1,436	1,229	1,359	1,720	1,673
Abroad	836	1,075	984	816	658	730	720	709	615	520
Workforce at year end (thousand employees)	247	258	240	207	192	183	177	204	215	192
Increase (Decrease) on previous year in %	(4)	8	16	8	5	4	(13)	(5)	12	(5)
Domestic	160	159	157	139	133	124	118	142	161	149
Abroad	87	99	83	68	59	59	59	62	54	43
Capital Investments (million DM)	4,851	4,279	3,100	1,990	1,697	1,141	941	1,902	1,556	1,573
Increase (Decrease) on previous year in %	13	38	56	17	49	21	(51)	22	(1)	(19)
Domestic	3,089	3,163	2,374	1,559	969	657	594	1,313	928	1,183
Abroad	1,762	1,116	726	431	728	484	347	589	628	390
Cash Flow (million DM)	3,936	3,141	2,993	2,609	2,488	3,055	1,320	618	1,671	1,545
Increase (Decrease) on previous year in %	25	5	15	5	(19)	131	114	(63)	8	14
Net Earnings (million DM)	136	321	667	574	419	1,004 ²⁾	(157)	(807)	330	206
Dividend of Volkswagenwerk AG (million DM)	120	192	240	189	144 ³⁾	90	—	—	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

The Supervisory Board
and the Board of Management of
Volkswagenwerk Aktiengesellschaft
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Wolfsburg, May 1982

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Report of the Supervisory Board

During the year under review the Board of Management kept the Supervisory Board regularly informed regarding the status, business activity and corporate policy of the Company. Steps requiring the prior approval of the Supervisory Board, either by law or under the Company's articles of association, were discussed in detail at meetings of the Supervisory Board and of its committees before a final decision was taken. A regular check was kept on the management of the Company's affairs by means of written and verbal reports produced by the Board of Management.

The financial statements for the Group and Volkswagenwerk AG to December 31, 1981, together with the Annual Report, have been submitted to the Supervisory Board. The auditors, TREUARBEIT Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hanover, have examined the above financial statements together with the Annual Report and the books, and have issued an unqualified certificate of approval.

Having studied the financial statements of Volkswagenwerk AG and the Annual Report, the Supervisory Board has no objection to raise in their regard.

The Supervisory Board accordingly concurs with the auditors' findings and approves the annual financial statements, which are hereby confirmed. It likewise concurs with the recommendations of the Board of Management on the allocation of the net earnings available for distribution.

The member of the Supervisory Board, Herr Rudolf Blank, was appointed as of July 9, 1981 to the board of management of TRIUMPH-ADLER AG für Büro- und Informationstechnik, Nuremberg. Herr Blank has accordingly resigned from the works council and Supervisory Board of Volkswagenwerk AG, since the legal requirements governing his election were no longer present. The Supervisory Board thanks Herr Blank for his collaboration.

Herr Manfred Pusch, deputy chairman of the Group works council of Volkswagenwerk AG, was at the petition of the Board of Management of the Volkswagenwerk AG nominated, with effect from October 14, 1981, by the Wolfsburg district court to replace Herr Blank as a member of the Supervisory Board of the Volkswagenwerk AG for the period up to the conclusion of the 1982 Annual Meeting of Stockholders.

Board of Management (Vorstand)

Dr. rer. pol. Carl H. Hahn (55)
w.e.f. January 1, 1982
Chairman of the
Board of Management

Horst Münzner (57)
w.e.f. January 1, 1982
Deputy Chairman of the Board
of Management
Purchasing and Material
Administration

Claus Borgward (43)
Quality Assurance

Karl-Heinz Briam (59)
Personnel and Social Matters
(Director of Labour Relations)

Prof. Dr. techn. Ernst Fiala (53)
Research and Development

Dr. jur. Peter Frerk (51)
Legal Matters, Auditing and
Economics

Dr. jur. Wolfgang R. Habbel (58)
AUDI NSU AUTO UNION AG

Günter Hartwich (46)
Production

Dr. rer. pol. Werner P. Schmidt (49)
Sales

Dr. rer. pol. Rolf Selowsky (51)
w.e.f. May 6, 1982
Finance and Business Administra-
tion

The following have retired from the Board of Management:

Toni Schmücker (60)
as of December 31, 1981
Chairman of the
Board of Management

Prof. Dr. rer. pol. Friedrich Thomée (61)
as of December 31, 1981
Finance and Business Administra-
tion

Supervisory Board (Aufsichtsrat)

Karl Gustaf Ratjen (62), Frankfurt
Chairman
Chairman of the
Board of Management
of Metallgesellschaft AG

Eugen Loderer (61), Frankfurt
Deputy Chairman
Chairman of the
Metalworkers Union

Birgit Breuel (44), Hanover
Minister for Economic Affairs
and Transport of Lower Saxony

Dr. jur. F. Wilhelm Christians (59)
Düsseldorf
Member of the Board of Manage-
ment of the Deutsche Bank AG

Siegfried Ehlers (57), Wolfsburg
Chairman of Group Works
Council of Volkswagenwerk AG

Dr. rer. pol. Hans Friderichs (50)
Frankfurt
w.e.f. March 24, 1981
Member of the Board of Manage-
ment of the Dresdner Bank AG

Albert Hoffmeister (53), Wolfsburg
Senior Executive of
Volkswagenwerk AG

Hans-Günter Hoppe (59), Berlin
Former Member of the Berlin
Senate

Walther Leisler Kiep (56), Hanover
Member of the Federal German
Parliament

Gerd Kühl (59), Frankfurt
Trade Union Secretary to the
Executive Committee of the
Metalworkers Union

Walter Martius (62)
Velbert-Langenberg
Business Consultant

Hans L. Merkle (69)
Gerlingen-Schillerhöhe
Chairman of the Management of
Robert Bosch GmbH

Karl Heinrich Mihr (46), Kassel
Chairman of Works Council of
Volkswagenwerk AG, Kassel Plant

Gerhard Mogwitz (48), Hanover
Chairman of Works Council of
Volkswagenwerk AG, Hanover
Plant

Walter Neuert (56), Ingolstadt
Chairman of Joint Works Council
of AUDI NSU AUTO UNION AG

Manfred Pusch (43), Wolfsburg
w.e.f. October 14, 1981
Deputy Chairman of Group Works
Council of Volkswagenwerk AG

Dr. rer. pol. Otto Schlecht (56)
Bonn-Duisdorf
Undersecretary of State in the
Federal Ministry for
Economic Affairs

Kurt Ernst Schmiedl (57), Emden
Member of Works Council of
Volkswagenwerk AG, Emden
Plant

Dr. rer. pol. Horst Schulmann (48)
Bonn
Undersecretary of State in the
Federal Ministry of Finance

Dr. rer. pol. Albert Schunk (40)
Frankfurt
Trade Union Secretary to the
Executive Committee of the
Metalworkers Union

Retired from the Supervisory Board:

Rudolf Blank (48), Postbauer-Heng
as of July 8, 1981
Member of the Board of Manage-
ment of TRIUMPH-ADLER AG
für Büro- und Informationstechnik

4. Resolution on ratification of the actions of the Supervisory Board for fiscal year 1981

With respect to items 3 and 4, the Supervisory Board and the Board of Management move that their actions be formally ratified.

5. Election of members of the Supervisory Board

The Supervisory Board consists of 20 members. Pursuant to § 7 subsection 1 MitbestG (Co-determination Law), §§ 96 and 101 AktG and Article 11 of the Articles of Association of Volkswagenwerk AG it is made up of 10 stockholders' and 10 employees' representatives. Under Article 12 of the Articles of Association of Volkswagenwerk AG, in conjunction with § 101 subsection 2 AktG, the Federal Republic of Germany and the State of Lower Saxony are entitled to nominate respectively two members of the Supervisory Board so long as they own shares of the Company.

The Annual Meeting is accordingly called on to elect 6 members of the Supervisory Board. It is not bound by any proposals regarding nominations.

The Annual Meeting of Stockholders of the Volkswagenwerk Aktiengesellschaft, meeting on July 5, 1977, resolved, pursuant to § 38 subsection 1 MitbestG in conjunction with § 97 subsection 2 AktG, that the Co-determination Law (amendment of the Articles of Association, conclusion of the term of office of the present Supervisory Board, commencement of the term of office of the new Supervisory Board) should apply with effect from the closure of the Annual Meeting of Stockholders of July 5, 1977. The term of office of the present Supervisory Board will therefore lapse with effect from the closure of the Annual Meeting of Stockholders being held on July 1, 1982.

The Supervisory Board recommends that the Annual Meeting of Stockholders should elect the following persons to membership of the Supervisory Board:

Dr. jur. F. Wilhelm Christians
Düsseldorf
Member of the Board of Management of the Deutsche Bank AG

Dr. rer. pol. Hans Friderichs
Frankfurt
Member of the Board of Management of the Dresdner Bank AG

Hans-Günter Hoppe
Berlin
Former Member of the Berlin Senate

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

Karl Gustaf Ratjen
Frankfurt
Chairman of the Board of Management of Metallgesellschaft AG

Toni Schmücker
Essen-Stadtwald
Former Chairman of the Board of Management of Volkswagenwerk AG

6. Appointment of auditors for the fiscal year 1982

The Supervisory Board proposes that the TREUARBEIT Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hanover, should be appointed as auditors for the fiscal year 1982.

Agenda

for the
Annual Meeting of Stockholders
of
Volkswagenwerk
Aktiengesellschaft
to be held at 10.00 a.m.
on Thursday, July 1, 1982
at the Stadthalle in Wolfsburg

1. Presentation of confirmed financial statements, the Annual Report for 1981 together with the report of the Supervisory Board, the recommendations regarding allocation of the net earnings available for distribution, the consolidated financial statements and the Annual Report of the Volkswagen Group for 1981

2. Resolution regarding allocation of the net earnings available for distribution
The Supervisory Board and the Board of Management recommend to distribute out of the net earnings available for distribution of 123,770,107 DM a dividend of 5.— DM on each share of the nominal value of 50.— DM comprising the capital stock of 1,200,000,000 DM, making a total of 120,000,000 DM.

The balance and the amount theoretically distributable in respect of shares owned by the Company at the date when the Annual Meeting is held, distribution of which is debarred under § 71b AktG (German Corporation Law), will be carried forward.

3. Resolution on ratification of the actions of the Board of Management for fiscal year 1981

We honour the memory
of all those employees
who have passed away

**We honour the memory
of all those employees
who have passed away**

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4	Chapter 3: The Early Republic
5	Chapter 4: The Industrial Revolution
6	Chapter 5: The Civil War
7	Chapter 6: Reconstruction
8	Chapter 7: The Gilded Age
9	Chapter 8: The Progressive Era
10	Chapter 9: World War I
11	Chapter 10: The Roaring Twenties
12	Chapter 11: The Great Depression
13	Chapter 12: World War II
14	Chapter 13: The Cold War
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65	Chapter 64: The Beginning of the World
66	Chapter 65: The Middle of the World
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68	Chapter 67: The Beginning of the World
69	Chapter 68: The Middle of the World
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Appendix:

Consolidated Balance Sheet
of the Volkswagen Group

Consolidated Statement of Earnings
of the Volkswagen Group

Balance Sheet of
Volkswagenwerk AG

Statement of Earnings of
Volkswagenwerk AG

The Volkswagen Group in
Figures 1972 – 1981
(front and back covers)

The previous Chairman of the Board of Management, Herr Toni Schmücker, retired from the Board as of December 31, 1981 on grounds of health. Herr Schmücker assumed the chairmanship of the Board of Management of Volkswagenwerk AG in 1975, at a very difficult time for the Company. Through his tireless efforts and entrepreneurial skills, and with a great sense of social responsibility, he succeeded in re consolidating the position of the Volkswagen Group and steering it into a highly profitable and stable phase of its existence. The Supervisory Board wishes to express its thanks to Herr Schmücker for his selfless activity and outstanding services to the Company.

The Supervisory Board has elected Dr. Carl H. Hahn to succeed Herr Schmücker. Dr. Hahn has been appointed with effect from January 1, 1982 as Chairman of the Board of Management of Volkswagenwerk AG. At the same time Herr Horst Münzner was appointed as Deputy Chairman.

Professor Dr. Friedrich Thomée retired from the Board of Management as of December 31, 1981, after 16 years of highly responsible work as head of finance for the Company. The Supervisory Board thanks him for his meritorious service.

The Supervisory Board has appointed Dr. Rolf Selowsky to succeed Professor Thomée as a member of the Board of Management of Volkswagenwerk AG with effect from May 6, 1982; he will be dealing with finance and business administration.

We regret to have to report the death on February 13, 1982, shortly after his 85th birthday, of the former member of the Board of Management of Volkswagenwerk AG, and previous chairman of the supervisory board of the Auto Union GmbH, Fritz Frank. We have lost in him a business personality of the first rank.

Wolfsburg, April 7, 1982



The Chairman of the Supervisory Board

Report of the Board of Management

The world economic situation in 1981 was characterized by a general weakness, in continuation of the cycle that began to reveal itself in spring 1980. The slight revival of demand in the winter of 1980/81 proved to be only temporary.

In nearly all countries, capacity utilization and employment registered a further decline, thus enhancing the problems of the labour market. The price stabilization policies followed by the major industrial countries of the West had, in particular owing to the high interest rates, a damping effect on demand.

Through the effect of the necessarily restrictive economic and financial policy pursued by the Government, 1981 saw a worsening of the economic situation in West Germany also. A visible outcome of this was a 0.3% decrease in the real gross national product. Many enterprises invested less as a consequence of diminished opportunities for growth. Although the trend of domestic demand was downwards, the price rise spiral accelerated still further. The weak state of the economy had a substantial effect on the labour market. At the end of 1981 the official unemployment figure in West Germany was 1.7 million.

The overall level of production was barely sustained, the only stimulus

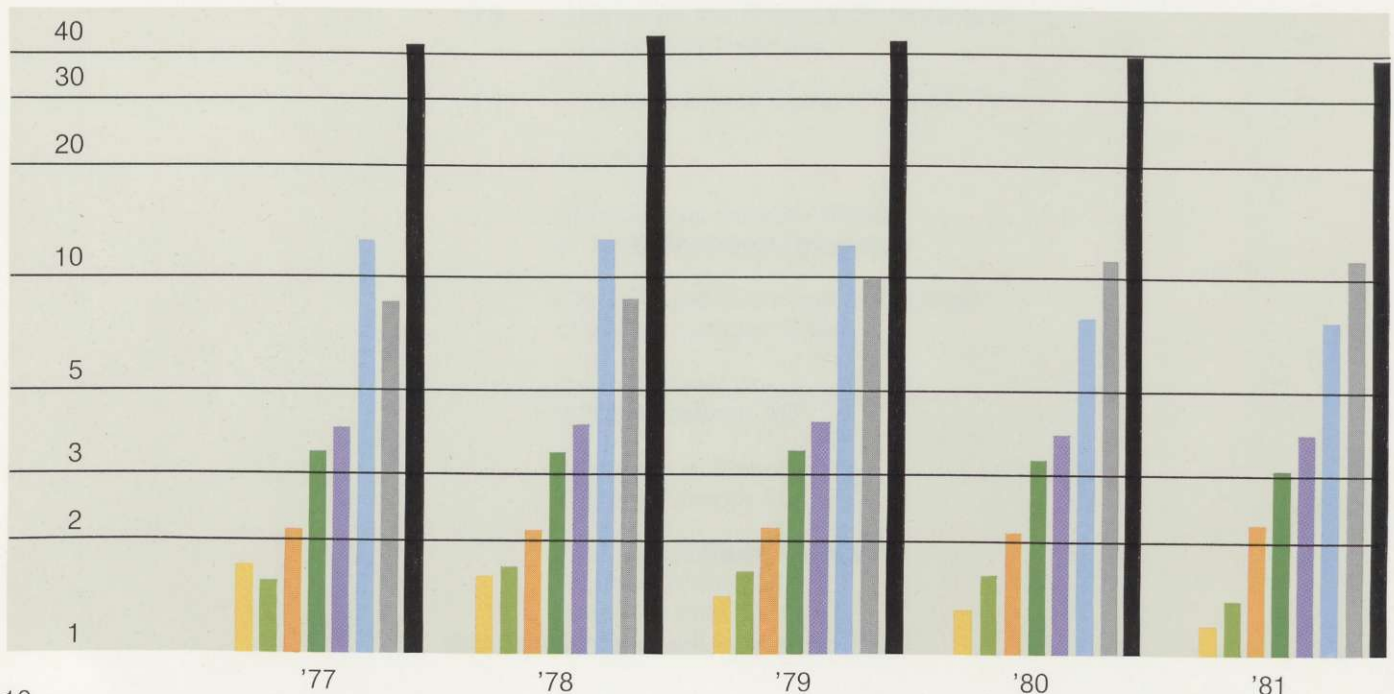
coming from demand from abroad, which was fostered in particular by the weakness of the DM against the US dollar. In the countries belonging to the European Monetary System the competitive advantage of the German industry, which because of the lower rate of inflation led to an improvement in the, for the most part, unsatisfactory level of earnings from exports, was partially eroded owing to the revaluation of the DM within this system. It was largely due to the surplus trade balance that the heavily increased deficit of the balance of current transactions was less than it was in 1980.

The downward trend in the economies of the majority of western industrial countries, mainly under the effects of lower purchasing power and higher energy costs, could not fail to influence the automotive industry in 1981. World production of motor vehicles in 1981 was 3% down on the 1980 level. West German production showed a slight increase of 0.5%.

In 1981 the Japanese automotive industry improved its position still further. The competitiveness of the Japanese manufacturers continues unabated even if temporary setbacks occur in some sectors of the market. Also a partial shift of the competitive emphasis took place from passenger cars to commercials.

Development of production in the automotive industry in million vehicles (logarithmic scale)

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



1981 saw marked differences in the pattern of trading within the Volkswagen Group. Whereas the Volkswagenwerk AG succeeded in selling more Volkswagen and Audi models to customers than in the previous year, despite the very difficult situation prevailing in the majority of world motor vehicle markets, in Brazil, in particular, there was a sharp fall in demand, so much that the Volkswagen Group was unable to attain the 1980 level of sales.

The Volkswagen Group continued to direct its activities in 1981 towards maintaining its presence, and improving it, in the traditional motor vehicle markets and in those with good growth prospects. In March 1981 Volkswagen Caminhões sold the first models of the new Volkswagen truck series (11 and 13 tonnes) on the Brazilian market. At the end of 1981 Volkswagen Argentina started production of Commercials from Brazilian parts sets.

With a view to expanding its activities in South America in the passenger car sector Volkswagenwerk AG took up 20% of the capital stock of Motor Peru S.A. and Motor Import S.A., both in Lima, Peru. Motor Peru S.A. assembles Volkswagen models and markets all assembled and imported Volkswagen and Audi vehicles. Motor Import S.A., as the importer for Peru, imports Volkswagen and Audi vehicles

and spares. The company markets the spares itself, but vehicles are distributed through Motor Peru S.A.

In May 1981 the V.A.G. España, S.A. was formed, with registered office in Madrid, as a 100% owned subsidiary of Volkswagenwerk AG. The distributing company commenced its importing activities on July 1, 1981.

Volkswagen Canada is to set up a production unit for the manufacture of automotive parts in Canada. In this way it will be implementing the project agreed with the Canadian Government and the provincial government of Ontario for the promotion of industrial development in Canada. Volkswagen Canada has not only been granted in this connection investment facilities but, more importantly, authorization to import vehicles free of duty within the framework of the added value achieved. Hitherto customs charges have been a serious obstacle to competitiveness.

The Volkswagen marque will in future have an enhanced presence in Japan, with an expansion of the model range. This is due to an agreement on technical collaboration concluded between the Nissan Motor Co., Ltd., Tokyo, and the Volkswagenwerk AG. Under this cooperation agreement Nissan will build the new medium range Volkswagen model "Santana"

in Japan and Volkswagenwerk AG will supply, above all, engines, gear-boxes and chassis components from Germany. Production start is scheduled for end 1983.

Volkswagenwerk AG's contribution under the cooperation agreement extends to consultancy services in addition to the new Santana model. Nissan is providing the manufacturing plant and sales organization in Japan. Volkswagenwerk AG will market the vehicles in selected countries in the Far East and the Pacific area.

Under the cooperation agreement supplies will need to be delivered by Volkswagenwerk AG to Japan, which will have favourable repercussions on the employment situation at home.

Investments effected by the Volkswagen Group in 1981 were considerably higher than for the previous year. They rose by 13.4%, or 0.6 billion DM, to 4.9 billion DM. The greater part was in connection with further development of the vehicle range. This investment activity is evidence of the confidence felt by our Company regarding the prospects for the motor industry over the longer term.

The Santana, an elegant family saloon with high comfort and low consumption, was introduced in 1981 to extend the Volkswagen range.



Restructuring measures designed to improve work flow in the production process, together with ergonomic workstation design and more flexible utilization of capacities, were unremittingly pursued.

Important factors affecting the 1981 result of the Volkswagen Group were the varying trends in individual motor vehicle markets and the universal hardening of international competition. Apart from the still satisfactory results recorded by the German Group companies and the net earnings made by the subsidiaries in Mexico, South Africa and France, the consolidated result reflects in particular the continuing poor state of the motor vehicle markets in South America and the difficult position of the TRIUMPH-ADLER group. It also suffered from the large depreciation amounts in respect of the sizeable capital investments made in 1981 and previous years. The net earnings of 136 million DM show, however, that the Volkswagen Group is able to rise above it even when faced by an accumulation of extremely difficult circumstances.

Volkswagenwerk AG earned a profit of 120 million DM. The substantial decrease in net earnings in comparison with the previous year was mainly due to the write-downs necessary in connection with our trade investments. In the interest of the

Company and its stockholders, advantage was once more taken of the system of depreciation allowances for tax purposes. This helped to strengthen the liquidity position. The net earnings permit us to propose a dividend – much lower than last year's, unfortunately – for 1981 in the amount of 5.– DM per 50.– DM share.

On the basis of the tax credit in the amount of 2.81 DM, this represents for stockholders entitled to an allowance total earnings per share of 7.81 DM.

The Volkswagen Group supports the efforts of the Organization for Economic Cooperation and Development (OECD) to promote the development of international economic cooperation through the creation of an appropriate trading structure. Its corporate policy is accordingly based on the guidelines formulated by the OECD.

The Board of Management takes this opportunity of thanking all employees of the Volkswagen Group for the great personal efforts they have put into their work. The close and effective collaboration between the management and works councils ensured the due and proper accomplishment of corporate tasks. The Board of Management expresses its thanks to the employees' representative committees for their sense of responsibility and cooperation.

Recommendations on allocation of net earnings available for distribution

The Board of Management recommends that the net earnings available for distribution of Volkswagenwerk AG be allocated as follows:

Dividend distribution on capital stock	
– 1,200 million DM –	120,000,000 DM
Balance (carried forward)	3,770,107 DM
Net earnings available for distribution	<u>123,770,107 DM</u>



The new Polo, a compact, highly versatile vehicle with economical engines

Vehicle Sales

World-wide sales to the dealer organization effected by the Volkswagen Group in 1981 totalled 2,279,040 vehicles. This fell short of the previous year's total by 8.6%.

Deliveries to customers over the past fiscal year came to a total of 2,331,650 vehicles. Mainly because of the sharp decline in sales on the Brazilian market, which seriously affected the entire sector, the volume of sales dropped by 4.6% below that for the previous year. In nearly all other markets, however, despite the worsening of market conditions brought about by reduced purchasing power as a result of government retrenchment programmes, growing world-wide unemployment and exceptionally high interest rates, the sales figures for the previous year were either equalled or, in some cases, exceeded.

In West Germany, deliveries of cars in the upper middle range again declined. Audi models did not escape the effects of this, although sales of Volkswagen models were

improved. Overall, almost as many vehicles of the Group were delivered to customers – 762,262 – as in 1980. Owing to the steeper decline in the overall number of new car registrations in West Germany, the Volkswagen Group managed to achieve a slight increase in its share of the domestic car market which rose to 29.7%. The best-selling car model in the domestic market was still the Golf, which has continued to top the list of new registrations ever since 1975. Demand for commercial vehicles was seriously affected by the general recessionary trend and the cooling of the climate for investment. The Volkswagen Group's share in the commercial vehicle market sector up to 6 tonnes decreased to 48.5% from 49.2% in the previous year.

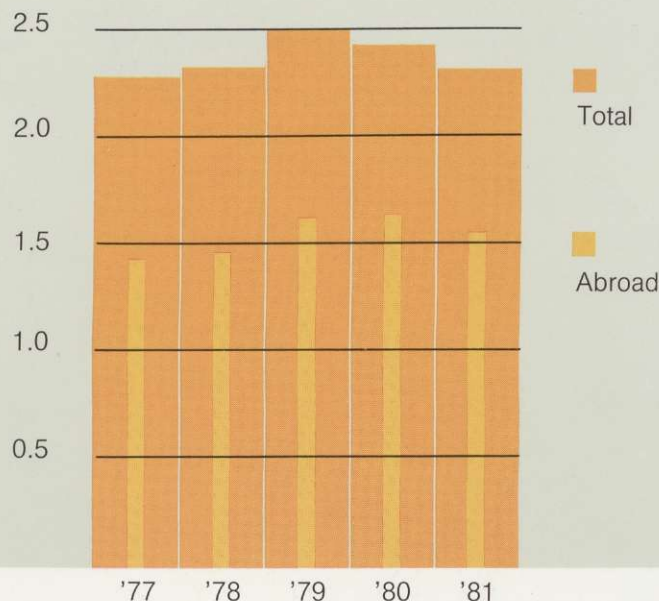
Although demand in the European large volume markets underwent a further noticeable decline as a consequence of the higher price of oil and restrictive economic policies, for the first time sales of Volkswagen and Audi models topped the 600,000 mark. With sales of 615,611 vehicles the previous year's figure was bettered by 85,442 vehicles or 16.1%. The biggest markets, with over 130,000 sales of Volkswagen and Audi models in each, were Italy and France, followed by Great Britain, with sales of over 90,000 units. Austria was the only market

in which the previous year's sales volume failed to be reached.

In the USA, the economic recession with its perceptible effect on real incomes, coupled with the exceptionally high cost of borrowing, caused a further fall in the demand for cars, which dropped to the lowest level for years. Sales of market-oriented, low-consumption imported cars were also affected, so that their share of the market went up only slightly in comparison with the previous year, to 28.8%. With 329,330 vehicles sold, including 174,524 Rabbits and 33,879 Rabbit pick-ups, Volkswagen Group sales on the US market were just below the previous year's level. The passenger car market share of Volkswagen and Audi vehicles remained unchanged at 3.3%.

The introduction of necessary economic measures caused a fall in sales on the Brazilian motor vehicle market on a scale not hitherto experienced. Only a little more than half the number of vehicles were sold as in the previous year. With domestic sales of 229,970 units, Volkswagen do Brasil failed to achieve the 1980 figure by 44.7% or 185,940 vehicles. Volkswagen's market share in the car sector was 45.9%, against the 48.6% of the previous year. Volkswagen Caminhões, on the other hand, managed to sell 8,442 com-

Deliveries to customers of Volkswagen Group vehicles (million vehicles)



mercial vehicles during the year, against 7,009 in the previous year. In addition 1,883 passenger cars were sold whose production ceased at mid-1981.

Owing to continued brisk demand for vehicles in Mexico deliveries of Volkswagen models to customers could be increased as against 1980 by 19.6% to 127,608 units. As a consequence of production bottlenecks demand could not be fully satisfied; this prevented an expansion of the market share.

In South Africa the sales volume achieved, 60,618 units – which was affected by capacity considerations – was a little below the previous year's level. For this reason, and because of the phasing out of the Audi 80 and conversion to the new Passat model, Volkswagen of South Africa's market share in the car sector declined from 19.9% in 1980 to 17.1%.

Development of sales of the Volkswagen Group (billion DM)

Sales

The sales of the Volkswagen Group increased in the year under report by 13.8 % over the 1980 figure to 37.9 billion DM.

Domestic sales, at 12.1 billion DM, represented a 1.8 % growth. Export sales, at 25.8 billion DM, were 20.4 % higher than in the previous year. The foreign share in Group sales thereby registered a further increase to 68.2 (64.4) %.

Of the total sales, 2.0 billion DM were contributed by the business machines and information technology sector. This represents an increase of 0.3 billion DM or 18.7 % over 1980.

The main reasons for the increase in sales were the higher prices introduced because of rising costs and the effect of exchange rates on the translation of the financial statements of the subsidiaries which were drawn up in national currencies. The weakness of the DM against the US dollar and currencies dependent on the US dollar brought about higher translation values in DM throughout 1981.

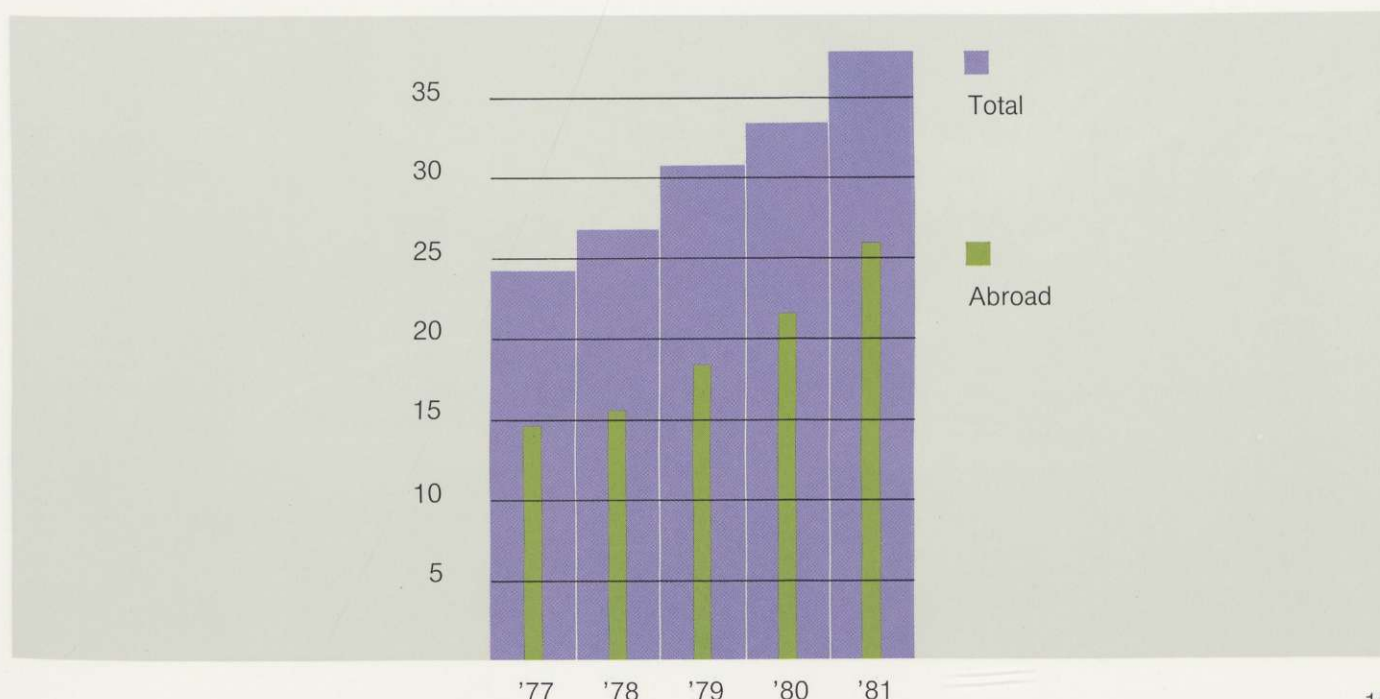
Purchasing and Material Administration

The introduction of several new models and the equipment changes carried out halfway through the year placed considerable technical and qualitative demands on suppliers. The efficiency and adaptability displayed by our suppliers at home and abroad played an important part in the successful accomplishment of this exacting programme.

The large quantities of supplies purchased by the German companies and by our foreign subsidiaries during the year made a significant contribution, as in past years, to the safeguarding of jobs in the supply industry in Germany and with our numerous business partners throughout the world. In 1981 the Volkswagen Group had dealings with 30,000 suppliers, 90% of them small and medium-sized firms.

Research and Development

1981 was characterized by an extensive update of the product range. In the spring, at the Geneva Salon, the new Scirocco was first presented to the public; this model differs from its successful predecessor in that it uses less fuel, has a more elegant appearance and provides more room for passengers and luggage. In the autumn three other cars were given their first showing, at the International Motor Show (IAA) in Frankfurt:



the new Polo, the new Derby and the Santana. The versatile, straight-tail Polo and the compact Derby are, among other things, both distinctive in their class for the above-average room provided.

The engines in both vehicles already meet, in performance and fuel consumption, the requirements of the future. A specially notable feature is the new 1.05 litre propulsion unit with 29 kW/40 HP, which thanks to the modern, forward-looking high compression technology employed permits running on ordinary fuel, at a compression ratio of $\epsilon = 9.5$.

The Santana, an elegant limousine with high quality equipment and low fuel consumption, rounds off the Volkswagen offer in the upper middle range. It is an example, like all other models, of the universally recognized high standard achieved by the Volkswagen Group in the area of research and development in automotive engineering and vehicle safety.

Our new equipment policy, centred round the "complete car", exemplifies the special efforts made by the Group to adapt the durability and quality of the whole product range

The Scirocco, the exclusive sports coupé with aerodynamically efficient styling

to the changing market demands. Under this policy, along with technical innovations, standard versions are fitted with even better equipment.

In the commercial vehicles sector, the range of the Volkswagen Commercial was expanded by an economical diesel version and an upgraded bus version to meet demands for greater comfort.

Another presentation first made at the International Motor Show was the "Auto 2000" project sponsored by the Federal Ministry for Research and Technology. This represents a balanced compromise between the different technological options available and the requirements likely to be made of the car of the future.

One of the essential requirements for a future-oriented vehicle is a further reduction in fuel consumption, which has already been reduced to a favourable level in the volume production vehicles of today, a requirement that is met by the "Auto 2000", especially in the diesel version (33 kW/45 HP) with a 3-cylinder direct injection system and exhaust-driven turbo supercharger. Average fuel consumption, both with town driving and at the two constant speeds of 90 kph and 120 kph, is only 4.1 litres per 100 km. A series of alternative materials have also been used in this vehicle's manufac-

ture. Microelectronics also play a big part, both in the controls and in the provision of information to the driver.

1981, as a result of requirements imposed by the Federal Minister of the Interior for a further reduction of exhaust and noise emission, saw an intensification of the dialogue between the automotive industry and the legislative authorities, the outcome of which will have its effect on future development and cost structure. All the demands to be made with respect to the car, such as lower fuel consumption, improved road safety, less noise and reduced exhaust emission, will need to be taken into account together with the costs to the customer so that in the end a balanced product can be achieved.

We note with concern, not least for the jobs of our employees, tendencies towards making the running of a car more expensive through unilateral national impositions and additional tax burdens which would have a negative effect particularly on the sales of our products which are intended for broad consumer groups.

Expenditure by the Volkswagen Group on research and development in the year under report accounted for 3.6% of consolidated sales.



Production

In 1981 the Volkswagen Group turned out a total of 2,245,611 vehicles, 328,260 units or 12.8% less than in the previous year. 1,982,924 passenger cars and 262,687 Commercials and other commercial vehicles were manufactured. Since the drop in production was greater than that in sales, stocks could be run down.

Production abroad dropped by 238,337 vehicles or 22.2% to 836,305 units, domestic production by 89,923 vehicles or 6.0%. The share of production abroad fell correspondingly from 41.8% in the previous year to 37.2%.

In the early part of the year employees leaving the German factories were not all replaced, in view of the decline in demand. Short-time working was also introduced in some of the Volkswagenwerk AG plants and at AUDI NSU AUTO UNION AG. Starting in August, advantage was taken of the opportunities for switching production between Emden and Ingolstadt, and the production of the Audi 80 at Emden was transferred to Ingolstadt in order to release capacity for work on the new Passat to meet the growing demand. At the same time production went over to complete fitting out of cars. A series of options, such as laminated glass windshields, halogen lamps, rear window wipers, servo-

assisted brakes and other items were incorporated in volume production models.

The decisive factor in the lower production abroad was the very poor market situation for motor vehicles in Brazil and Argentina. Output by Volkswagen do Brasil dropped by 42.6% as compared with 1980. With Volkswagen Caminhões and Volkswagen Argentina the fall off in production was respectively 32.1% and 41.4%.

Owing to the generally depressed state of the economy in the USA the output achieved by Volkswagen of America fell short of the previous year's figure by 9.3%. Completion of the second assembly plant at Sterling Heights is proceeding according to plan, but the final starting date for production scheduled for the end of 1982 was, due to the general market trend in the USA, postponed.

In Mexico, demand continued to hold up well, and output grew by 8.6% over the previous year. Engine production, which started up in the course of the year, included engines for other Group companies under the integrated production scheme.

Volkswagen of South Africa increased production by 4.2% as compared with 1980.

Following the modernization carried out in the previous year, assembly output at Volkswagen Bruxelles rose by 6.4%.

Although there has been a reduction in output in the case of some Group companies, in the longer term expansion of production abroad has to be continued through expansion of existing plants and the setting up of additional production plants – also in order to extend the model range. Only in this way shall we maintain our position in markets with a high growth rate and a high local content in the motor vehicle manufacture, and be able to reduce exchange rate difficulties.

Daily production world-wide for the year under report amounted to 10,281 vehicles, down 9.7% on the figure for the previous year.

Production broken down by model:

	1981	1980
Passenger cars		
Golf	759,190	803,178
Jetta	198,622	176,063
Polo/Derby	117,099	160,813
Passat	261,835	265,627
Santana	3,913	—
Scirocco	46,945	62,827
Audi 80	180,109	225,914
Audi Coupé/Quattro	36,206	3,440
Audi 100	100,259	102,525
Audi 200	16,133	24,904
Beetle	157,505	236,177
Gol	31,976	61,698
Voyage	23,775	—
Brasília	28,659	107,740
Other passenger cars	20,698	48,190

	1981	1980
Commercial vehicles		
Golf pick-up	40,097	28,349
Commercial	187,327	217,876
Heavy van (LT)	22,911	34,383
Volkswagen trucks (11/13 tonnes)	1,488	—
Volkswagen-M.A.N. trucks	1,885	3,012
Other commercial vehicles	8,979	11,155

Average daily production broken down by Group company:

	Vehicles/day
Volkswagenwerk AG ¹⁾	4,963
AUDI NSU	
AUTO UNION AG ¹⁾	1,415
Volkswagen do Brasil ¹⁾	1,287
Volkswagen of America	972
Volkswagen de Mexico	637
Volkswagen Bruxelles	586
Volkswagen of South Africa	265
Volkswagen Argentina	108
Volkswagen Caminhões	48

¹⁾ Excluding knocked-down vehicles delivered within the Group; AUDI NSU AUTO UNION AG excluding Porsche 924/944

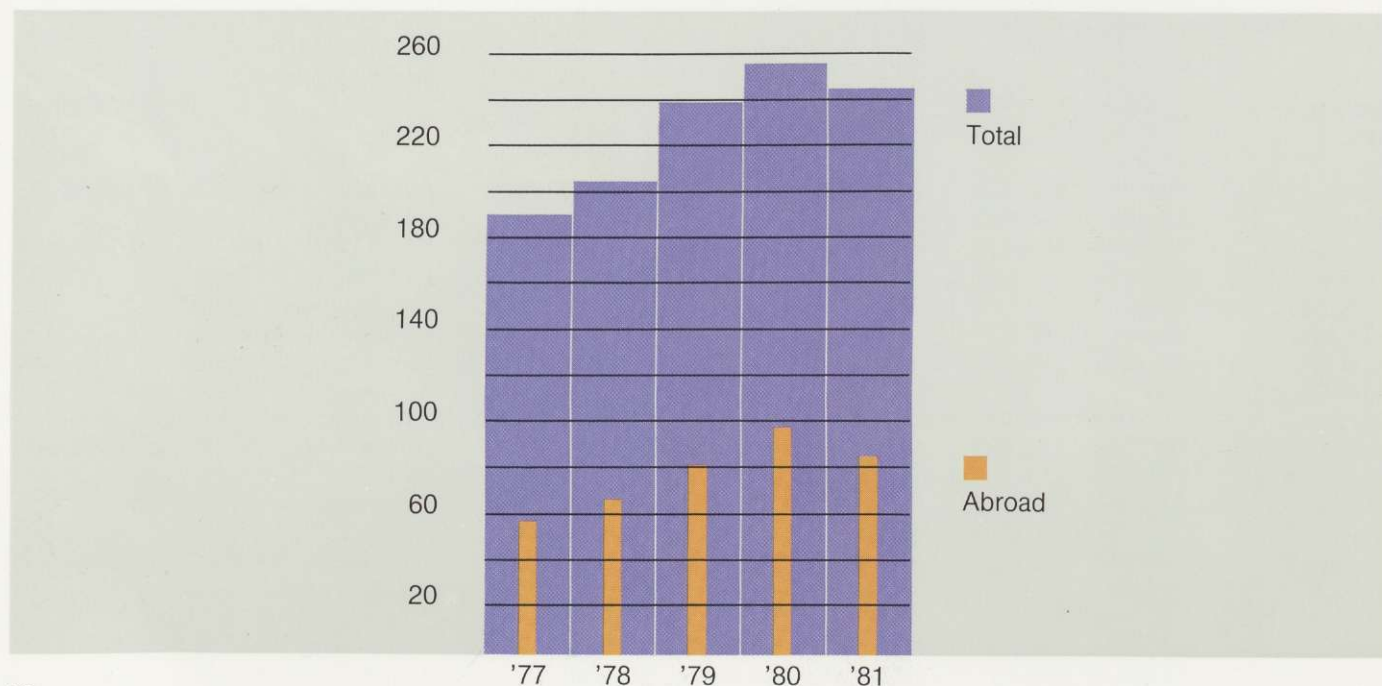
Workforce

As of December 31, 1981, 246,906 people were employed in the Volkswagen Group, 11,024 (4.3%) fewer than in the previous year.

Although the TRIUMPH-ADLER group made staff reductions in Germany also, the German Group companies, with a total workforce of 160,286, were employing 1,416 more people (0.9%) than at end 1980. The total number employed by the companies abroad, on the other hand, went down to 86,620, representing a decrease of 12,440 (12.6%). This is mainly attributable to the cutback in the production of the South American companies.

Labour cost amounted to 11,779 million DM, an increase of 9.3%. This cost increase is the result of wage-scale rises in Germany and abroad and of the effects of foreign exchange rates.

Workforce of the
Volkswagen Group
at year's end
(thousand employees)



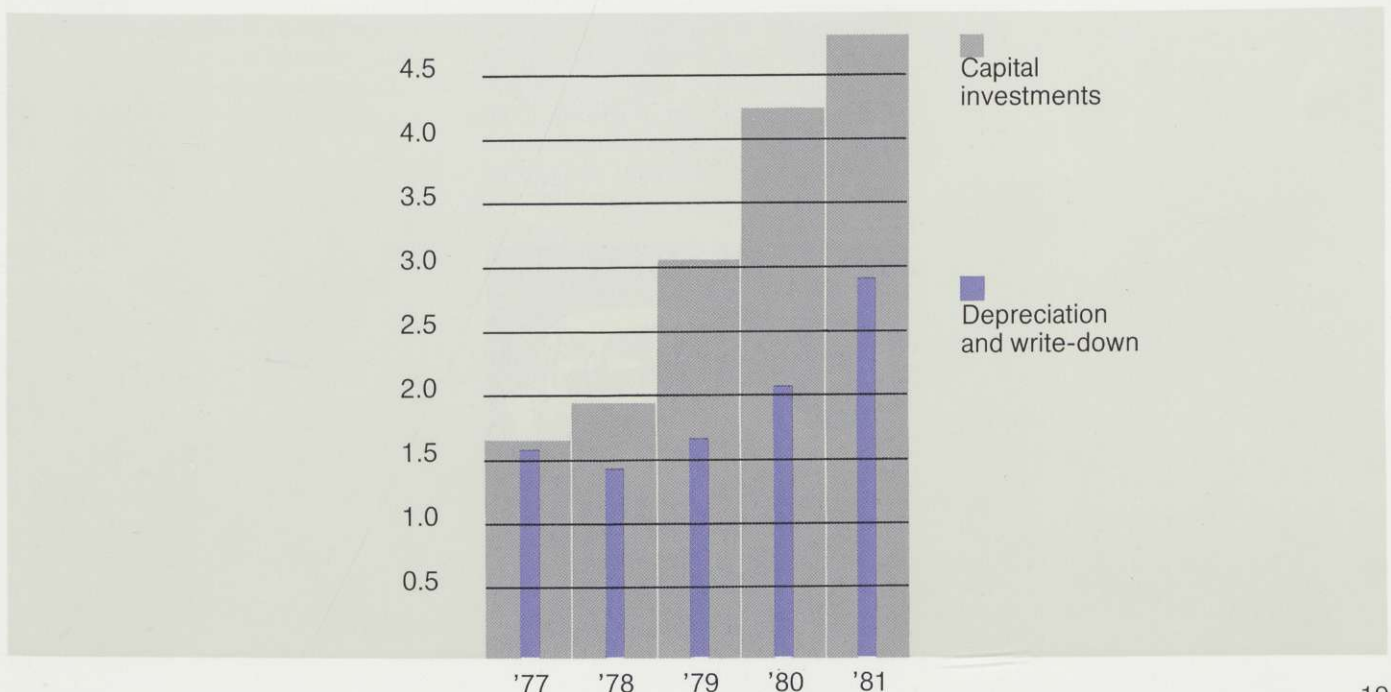
Capital Investments

In 1981 we invested 4,851 million DM, an increase of 572 million DM or 13.4 % on the already substantial 1980 figure. The bulk of these investments were made, as in the past, in Germany – 3,089 million DM – but the increase was accounted for by the higher investments effected by the foreign companies. The share of the foreign companies in the total rose to 36.3 % or 1,762 (1,116) million DM.

The main purpose of investment continued to be the updating, improvement and further development of the product range. Volkswagen expanded the product range through the introduction of the Santana on the domestic market and the Voyage made by Volkswagen do Brasil, along with the successor models of the Polo and the Derby in the lower segment of the market. Volkswagenwerk AG and Volkswagen do Brasil also extended the range of the Commercial with the introduction of a diesel version. Volkswagen Argentina began assembly of the Commercial from components supplied by Volkswagen do Brasil. Volkswagen de Mexico started to manufacture engines for North and Central America.

Another main area of investment was the restructuring undertaken by all the manufacturing companies for improvement of production flow and more flexible utilization of capacities. We also expanded our car leasing and car hire business.

Development of capital investments and depreciation and write-down of the Volkswagen Group (billion DM)



Another main area of investment was the restructuring of the Volkswagen Group. By the mid-1980s, the group was facing a serious crisis. The restructuring was a major challenge for the group, but it was necessary to ensure the long-term survival of the company.

Capital investment in the Volkswagen Group was a major focus of the restructuring. The group invested heavily in research and development, particularly in the areas of engine technology and transmission. This investment was crucial for the group's long-term success. The restructuring also involved the consolidation of the group's operations. This was done to reduce costs and improve efficiency. The group also invested in new manufacturing facilities. This was done to ensure that the group was able to meet the growing demand for its products. The restructuring was a major success for the Volkswagen Group. It allowed the group to emerge from its crisis and to become a more competitive and profitable company. The group's investment in research and development was particularly noteworthy. It was this investment that allowed the group to develop the new technologies that have made it a leader in the automotive industry.

The Volkswagen Group's investment in research and development was a major factor in its success. The group's investment in new manufacturing facilities was also a key factor. The group's restructuring was a major success. It allowed the group to emerge from its crisis and to become a more competitive and profitable company. The group's investment in research and development was particularly noteworthy. It was this investment that allowed the group to develop the new technologies that have made it a leader in the automotive industry.

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Values that Inspire Confidence

Quality assurance in the Volkswagen Group

Quality here and now

A motorist expects to be able to have confidence in his vehicle – in its safety, its reliability, its driveability even in difficult and unfavourable conditions. And he expects it to maintain its value over the years. In short, he expects quality.

Confidence in quality – every day for thousands of people the world over this is a reason for their decision to buy a model from the Volkswagen Group range. This confidence did not spring up overnight. The name "Volkswagen" stands for an accumulation of experience to which millions of vehicles and billions of miles of driving have contributed, starting with the Beetle and its proverbial reliability and durability. The history of NSU and Auto Union goes back even further with its marques Audi, DKW, Horch and Wanderer. Their names are inseparable from the concept of solid German craftsmanship and progressive technology.

It is not however only a question of upholding traditions. They impose an obligation: every product must prove itself "here and now", it must justify the customer's confidence day after day. For this reason quality must also be constantly reviewed. Good intentions and generalised measures will not suffice.

Quality is a many-sided concept. High quality materials, practicality, durability – these are essential criteria. But quality is more than this. It makes its specific demands in every individual case. A stainless steel steering wheel for example would be of high quality in material but it would be inappropriate for daily use, and unhandy. And it would be too expensive in relation to the task it has to perform.

One can only speak of quality therefore when a car or a part of it fulfils requirements in all respects. The Beetle is not a heavy and expensive car – and yet it became one of the best cars of its age. Because it was so designed and produced as to meet the requirements of an automobile at the same time functional and inexpensive. This is also the reason why the Beetle continues to hold its own to this day.

These requirements change with time. Today we make greater demands than ever in regard to safety, energy saving, environmental protection. Not only is the number of component parts per car increasing but also the number of criteria on which the quality of each individual part is evaluated. For example in many cases, in addition to sturdiness and durability aspects such as weight saving and recycling potential are of importance.

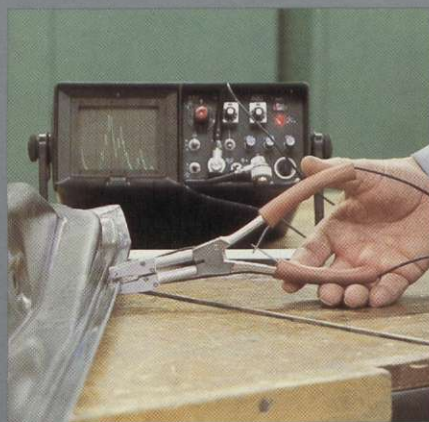
The obligation in regard to quality is inseparably linked with the Mar-que. People expect more from the Volkswagen Group than that its products "just about" or "more or less" meet requirements. This also involves considerable capital investment for guaranteeing the durability of the vehicles. An image that rests on reliability and value maintenance, on daily visible and perceivable quality, demands high self-imposed standards. Offering vehicles of lesser quality in order to lower prices or improve profitability could at best lead to short-term successes – at the expense of our reputation. And so quality remains the most important factor in competition: the satisfied customer is the basis of a stable sales success.



Quality assurance: the key to quality

How to create the prerequisites for high quality in a particular case — with the complexity of the product "automobile" there exists no one single recipe. The possibilities and methods are as numerous as the materials and the tools, the design methods and the construction procedures. There is practically no job, no production process and no function in a motor manufacturing plant that does not in some way or another have an influence on quality.

Right from the conception stage of a new vehicle the foundations are laid for its quality. This continues through the design stage of the vehicle and the assembly lines, the purchasing of materials and bought-in parts, to the broad field



of production and from there to the sales organisation and service.

In order to maintain and increase the level of quality, Volkswagen early on introduced an inspection system in production which beyond individual work processes and departments served the quality control of the entire product. VW Inspection with its unerring accuracy made a decisive contribution to the global success of the Beetle. With increasing expansion of production and of the model range the scope and the responsibilities of Inspection grew commensurately. In addition there was the task of taking precautionary measures, from the development stage right through to the observation of vehicles in customer ownership, for the assurance of quality, the recognition and swift elimination of defects.

Quality assurance thus became recognised as a field in its own right which is of an all-embracing nature. This realisation led to the creation, on the basis of Inspection, of an organisation for quality assurance

covering all divisions of the Company. It is now an independent Board of Management Division — an unmistakable indication of the importance ascribed to quality for the success of the Group.

Quality assurance is deployed in a large part of the overall activity of the Group, from the planning of new models to the observation of customers' vehicles. This accounts for its personnel of some 7,600 employees from a large number of specialist fields. Most of them work in Inspection — that is, checking in the production process.

Quality assurance on the one hand demands a high level of personnel and financial outlay; on the other it is designed to produce quality in a cost-efficient way. Implementa-



tion of a control is a costly business — but dispensing with it can come even dearer. It is a question of the best quality at a justifiable cost.

*Electronic instruments are used to check if the fold of a tailgate has been properly executed.
(above)*



Opening the fold of a tailgate for inspection of the adhesive

Quality decisions before start of series production

When a new model goes into series production all fundamental decisions have been made. Quality assurance means first of all conceiving and designing a motor car in such a way that it can be produced at a high quality and that it keeps its quality features in constant use.

Quality features – these are on the one hand those features which the customer expects: good finishing work on the body for example, good

and ageing of plastics, rigidity and anti-corrosion protection of body panels – in all aspects potential risks must be detected and eliminated long before start of production.

This work begins in the definition phase in which not only the essential features of the new car – interior, luggage space, engine and running gear design, weight – but also quality targets such as service life or anti-corrosion factor are laid down.

In the ensuing predevelopment phase all parts are examined to see whether they meet the requirements. The work goes into still further detail in the prototype phase in which complete assemblies or vehicles are tested on the track.

While this work is going on the planning and procurement phase begins in which a large number of decisions are taken as to production processes, tooling and materials. In the experimental production series which starts at the same time the production process is given a trial run-through, with questions of quality constantly to the fore: how can a particular work procedure best be carried out, how much time is required, what are possible sources of error, what subsequent checks are necessary?

Then in the concluding pilot series, on the basis of the experience thus gained, the final production systems are already installed with which – at first with time reserves and stops for inspection – the first series vehicles will be produced. If faults and defects come to light – either on the vehicles or in the production systems – then the causes are ascertained and eliminated. In pre-series discussions questions still open are settled. Only when all sources of error have been pinpointed and eliminated is the green light given for series production to start.

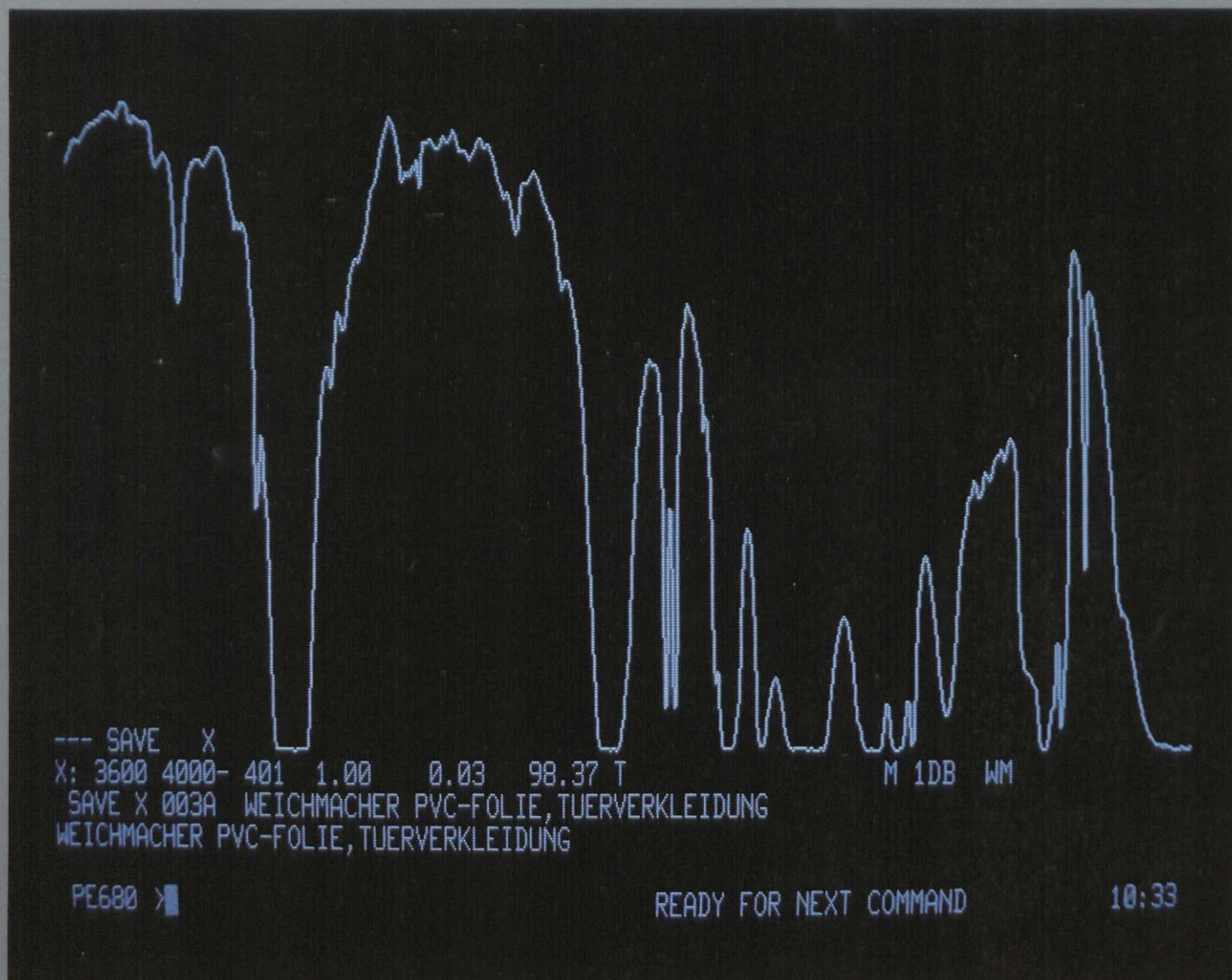
Structure of a metal under the microscope in a laboratory test



paintwork, a good overall impression of the car, long service life, reliability, few repairs.

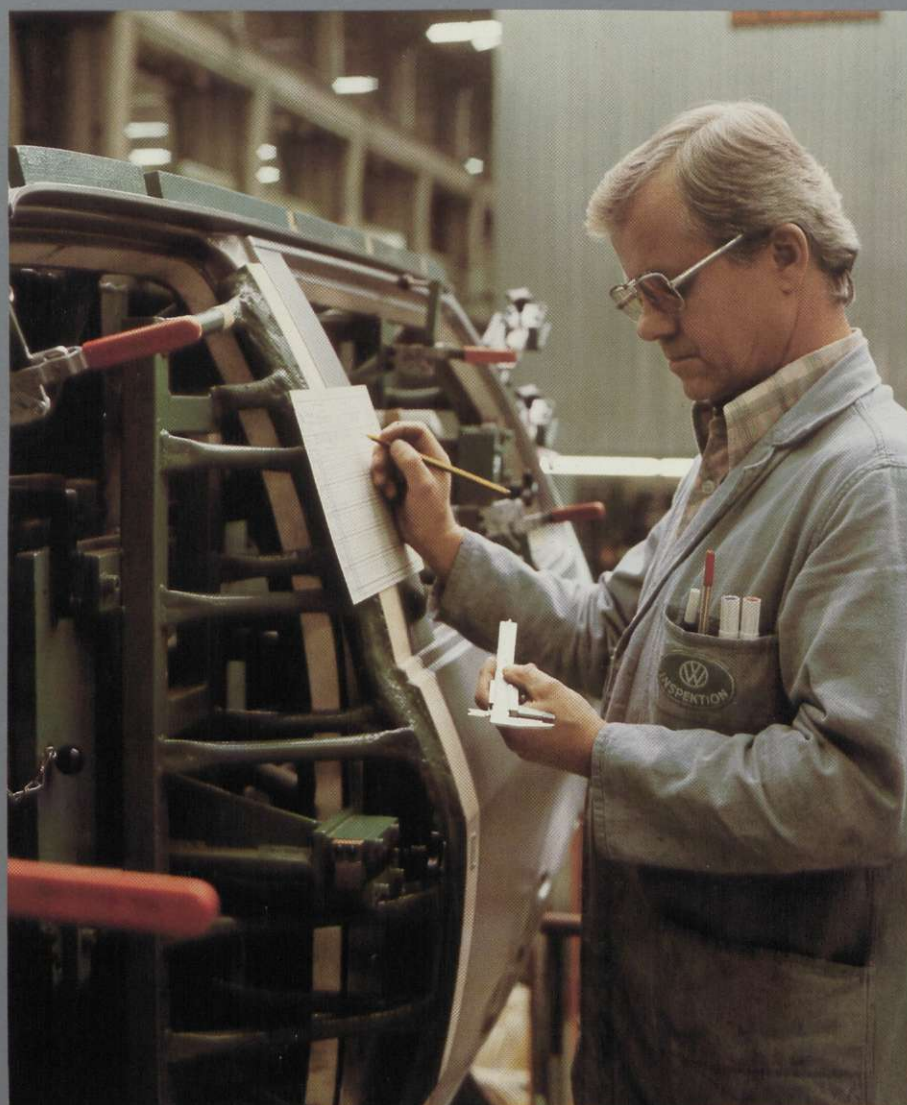
However, quality is also expressed in other things which are less obvious: driving comfort, noise damping, ease of operation, the utilisation of new technological possibilities. These features add up to the design quality which distinguishes a motor car built with an advanced and high technical level from an average motor car. It is only this design quality that can establish a technological lead. The practice of changing as little as possible and restricting new models to modifications in styling in order to avoid taking risks – this practice is certainly a more comfortable one, but it leads to technological stagnation. It does not fulfil the expectations that the customer has of Volkswagen and Audi.

Technological progress however also demands constantly new solutions for quality assurance. The definition and predevelopment of a new model, construction of prototypes, planning of production and materials acquisition, production and testing of the pilot series – all these require a large number of quality decisions. Even small modifications and innovations have their effect on production quality. The exact machining of pistons and cylinders, of shafts and gearwheels, the durability in shape



Inspection of incoming PVC sheets
using infra-red spectroscopy

*Checking accuracy of body parts
with the aid of gauges*



Producing Companies

Volkswagenwerk AG Wolfsburg

		1981	1980	Increase (Decrease) %
Sales	million DM	26,402	25,180	4.9
Vehicle sales	units	1,564,900	1,632,456	(4.1)
Production	units	1,232,818	1,346,755	(8.5)
Capital investments	million DM	2,182	2,251	(3.1)
Workforce	on Dec. 31	120,071	118,766	1.1

Against the background of the economic facts and figures for the past year, Volkswagenwerk AG performed well. The more sluggish domestic demand was partly made up for by a substantial upswing in demand in particular for Volkswagen models in the principal motor vehicle markets in the rest of Europe.

Volkswagenwerk AG's net earnings totalled 120 million DM. The sizeable decrease on the previous year's result is to be attributed in the main to necessary write-downs in connection with trade investments and to the policy of again taking advantage of the system of depreciation allowances for tax purposes. The result makes it possible to distribute a dividend – though in a lesser amount than in the previous year – of 5.– DM per 50.– DM share.

Vehicle Sales

Despite the world-wide deterioration in the automotive sector, sales to dealers of Volkswagen and Audi models, at 1,564,900 units, were only slightly down on previous year's sales – by 67,556 vehicles or 4.1%. Deliveries to customers, on the other hand, as the result of enhanced efforts, were increased by 87,051 units or 4.5% to 2,037,282 vehicles, so that dealers' unsold stocks were greatly diminished.

Owing to the unsatisfactory economic situation, domestic sales, at 738,262 vehicles, fell by 49,516 units or 6.3%. Nevertheless, because of the sharper decline in the market as a whole, the share in the passenger car market rose by 0.2% to 29.7%.

Thanks to much better sales in the main European markets, especially in Italy and France, the volume of exports, at 826,638 vehicles, was 18,040 vehicles short of the previous year's. The export share went up

accordingly from 51.7% in the previous year to 52.8%.

The worsening of the investment climate caused a drop in sales of commercial vehicles; sales of the Commercial and the heavy van (LT) totalled 164,868 units, a fall of 21%.

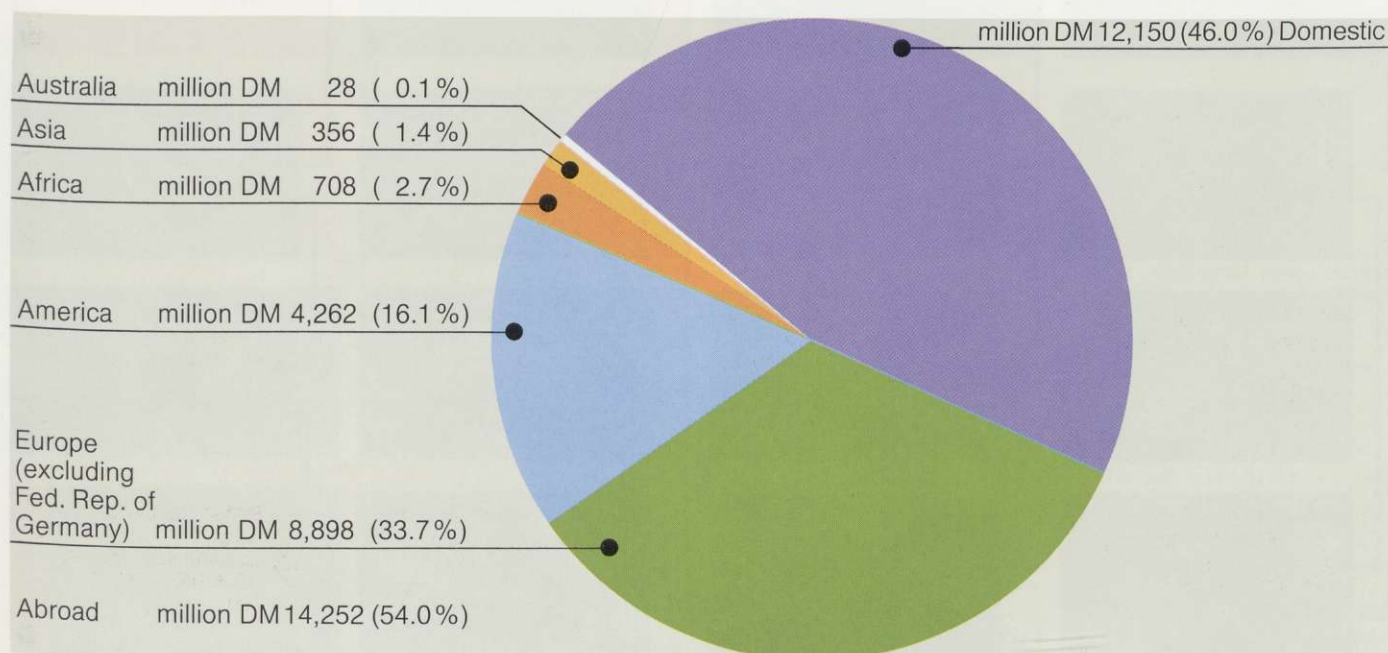
Audi was mainly affected by the weaker demand for cars in the upper middle bracket. With Volkswagen, the new Passat, introduced in November 1980 registered a marked increase in sales. Heightened demand for the diesel version of the Golf also caused sales to rise. The newly introduced successor models of the Scirocco and the Polo were, as had been expected, well received by the market.

Sales

Volkswagenwerk AG's sales were 4.9% higher, at 26.4 billion DM, than in 1980. The increase is attributable – apart from higher pricing induced by rising costs – to a switchover in demand to up-market models with more complete equipment.

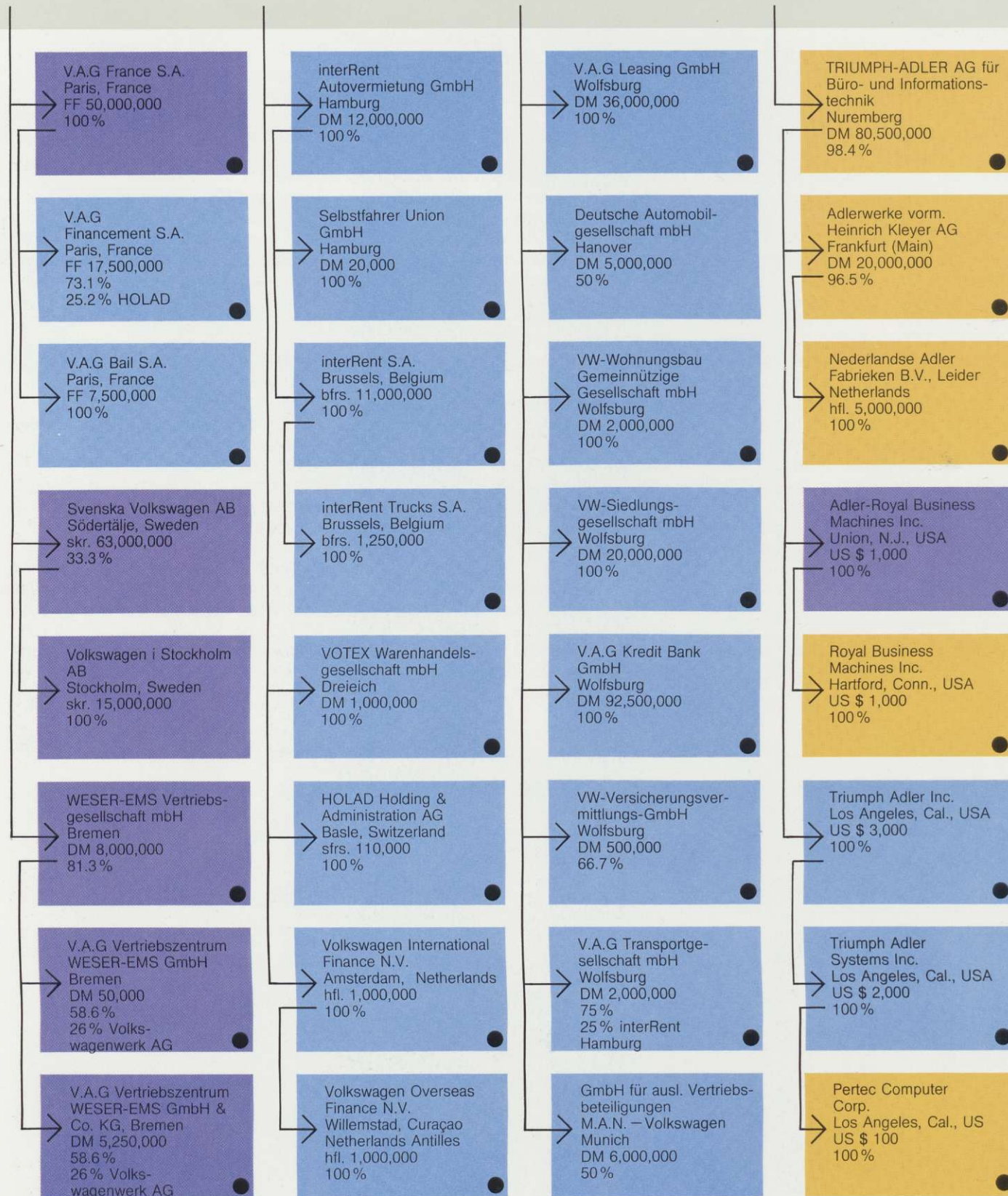
Domestic sales topped the previous year's figures by 3.8%, at 12.1 billion DM, while export sales rose by 5.8% to 14.3 billion DM. This caused the export share in total sales to go up to 54.0 (53.5)%.

Regional breakdown of the sales of Volkswagenwerk AG for 1981

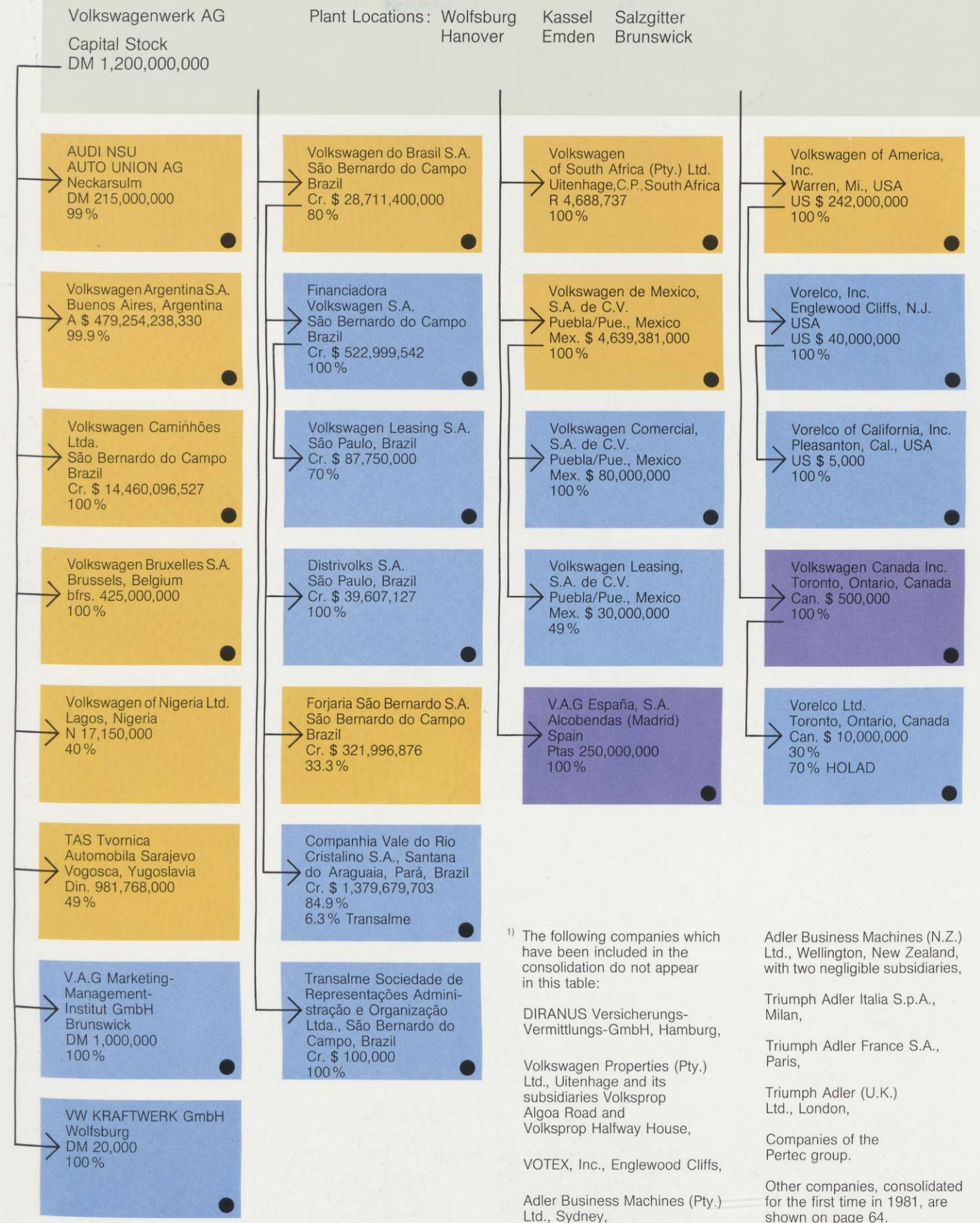


Producing Companies
Distributing Companies
Other Companies

Companies included in consolidated financial statements¹⁾



The Major Companies within the Volkswagen Group



Fleet of Polos on trial in the Harz Mountains



Man creates quality

Quality is created by people. Inspection procedures only reveal whether the quality comes up to requirements. Long-term planning as much as the daily work are dependent on people's personal motivation and their involvement. In the Volkswagen Group the involvement of people in the changing world of work is regarded as one of the most important tasks. It is shown again and again that concepts such as quality of life, quality of work and quality of the product are not far removed from each other.

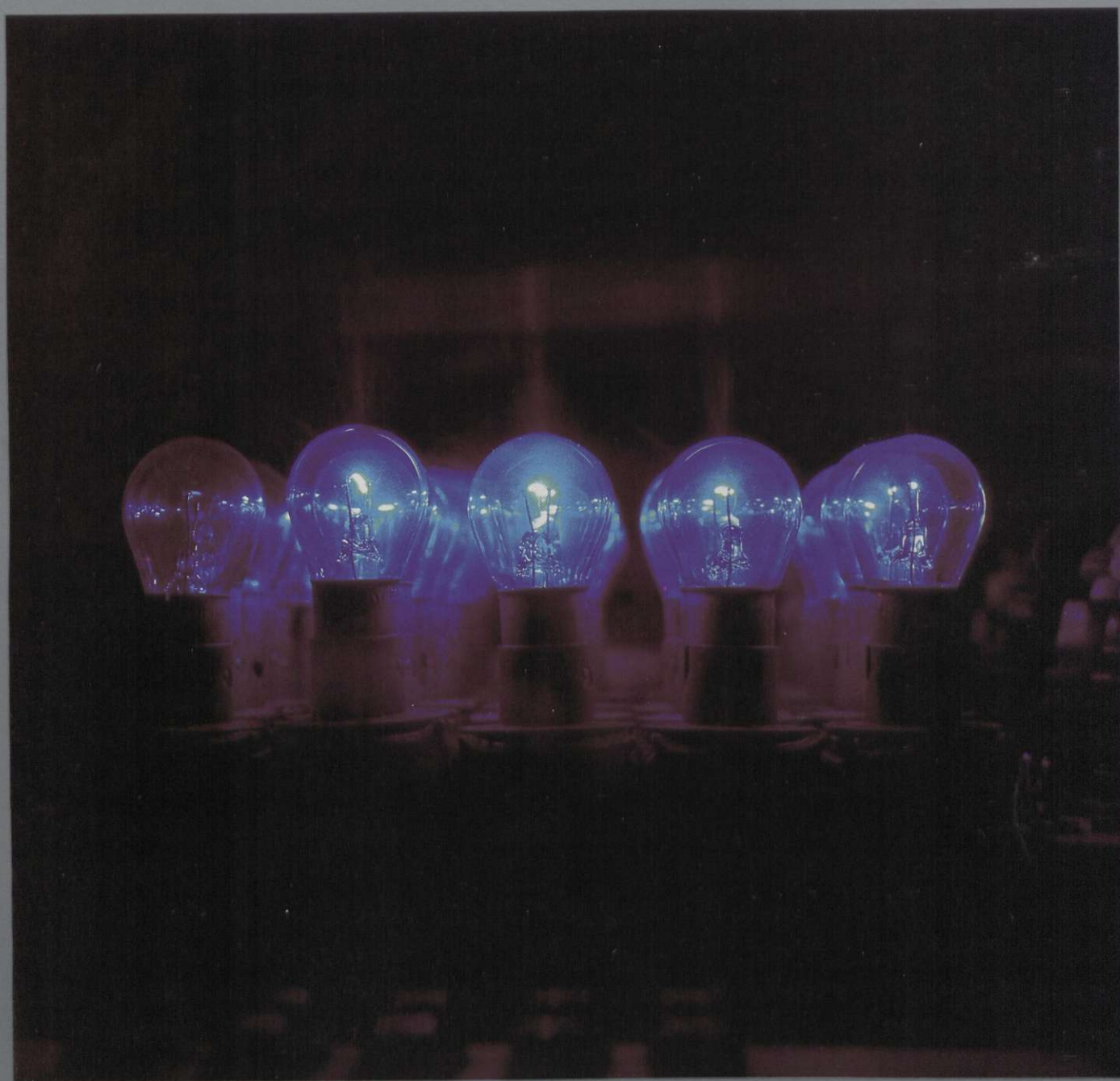
People themselves check the results of their work – this thought formed the basis for example of a restructuring of the work process practised in Wolfsburg under the title "Information workshop press shop". Information on sources of defects, involvement in the evaluation of quality – for example the condition of surfaces of body parts –, self-responsible working in small groups: with such forms of improved job quality an even better quality standard than before can be achieved without the hitherto necessary additional inspection stage. Production and inspection

here are combined; work experts call this job enrichment.

At many other production points outside control is replaced by self-responsibility – a modern form of traditional craftsmanship with the people and the technology of today. And with the same aim: quality.

*A faulty dashboard part stopped
by the goods-in inspection (left)*

*Light bulbs on the test bench in
the laboratory (below)*





Checking during series production cannot be a 100% check in the case of most parts: bolts or plastic pressings come through in such large numbers that a comprehensive check can be replaced by random checks on a mathematical basis. Statistical random checks give practically the same result without increasing the risk. With batteries for example a random check must be faultless in its essential criteria for 20 out of 1,000. In the case of some parts and raw materials it must be expected that individual production batches (charges, melts) show differing characteristics – examination is therefore adapted to this. In the case of particularly important parts 100% checks can be introduced.

Quality in the long term

Once a new car has come off the line, complete with documentation and OK marks, its quality must prove itself in the hands of the customer. It is no longer an object of constant checking, but it remains an object of observation.

The work of quality assurance is thus not ended with the final check. For many cars, field observation starts at the factory: with random checks on finished cars. In the AUDIT system of the Volkswagen Group independent teams investigate delivery quality and thus also the quality of inspection. AUDIT functions in all factories with identical procedures and standards – an AUDIT result from Wolfsburg or Ingolstadt is directly comparable with values ascertained in Mexico or Brazil.

AUDIT is the start of a long-term quality observation. After the hand-over inspection by the dealer the driver and vehicle are left to their own devices. But they are not abandoned: via the service organisation with which Quality Assurance works closely, even minor defects and complaints are immediately relayed back. This involves the use of modern communication media and systems around the world and around the clock. These facilitate swift forwarding of information to Quality Assurance and swift reaction. Not only are Service and Production involved but also Technical Development. Even when the cause seems clear every defect type is investigated without prejudice. Where necessary further information is got from questioning customers and dealers. In the field the complaints

are eliminated, in the factory their causes.

Recall campaigns are also a long-term contribution to quality assurance. Even after expiry of the warranty period reworking is carried out or parts are replaced in the interests of safety. If in long-term operation a part proves not to meet the quality standards of the Volkswagen Group – which with the most careful examination and choice of materials can never be fully ruled out – then effective measures are taken via the service organisation, where necessary and useful also through a precautionary exchange of parts.

Co-responsibility in the longer term on the part of the manufacturer, above all during the warranty period: this attitude is a part of the quality philosophy of the Volkswagen Group. It has its secure basis in the care taken with every part and the combination of all the parts right from the first draft. And it has its continuation in the quality promise of the V.A.G. dealers with which they document the high demands they make of themselves which in turn find daily and hourly expression in the quality of the service to their customers.



Rev counter on the vibrator test stand

Indivisible quality, double responsibility

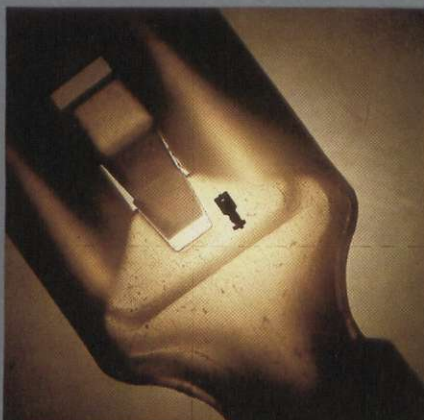
Quality as expected by the customer and as understood at Volkswagen and Audi is indivisible. It applies to the whole vehicle – which means also those parts which are not produced in our own factories, all raw materials and semi-finished products. And it applies to all genuine replacement parts sold by the V.A.G. organisation.

The large central laboratory, an institute for material inspection with the most up-to-date equipment, and laboratories in every factory investigate new materials as well as those already in use. Almost all fields of chemistry and physics are represented; the methods of investigation range from chemical analysis to examinations of physical structure

and mechanical tensile tests. Metals, plastics, paints, glass and ceramics, natural and synthetic textiles are tested for the large number of demands made on them in the automobile. Here too inspection standards are defined for the inspection departments checking incoming materials in the individual factories.

A field to itself is the quality assurance of purchased parts, i.e. those parts which are produced by the supplier ready for fitting. They account for approximately one half of parts overall – among them many small parts such as bolts and clips, cables and plugs, but also generators and starters, injection pumps, radiators, filters, instruments, radios, tyres.

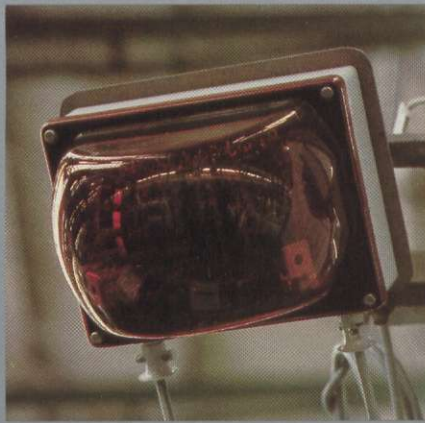
Responsibility for such parts lies jointly with the supplier and the Company. For example the supplier undertakes to adhere to the agreed specifications. In relation to the customer the vehicle manufacturer accepts a large degree of co-responsibility. For this reason in the Volkswagen Group all purchased parts are constantly checked for their quality. An important role is played here by the first sample check: samples produced under series conditions are subjected to a checking plan and evaluated. Examination of hand and pre-samples may be undertaken beforehand, but it is always the first series sample which is decisive for passing.



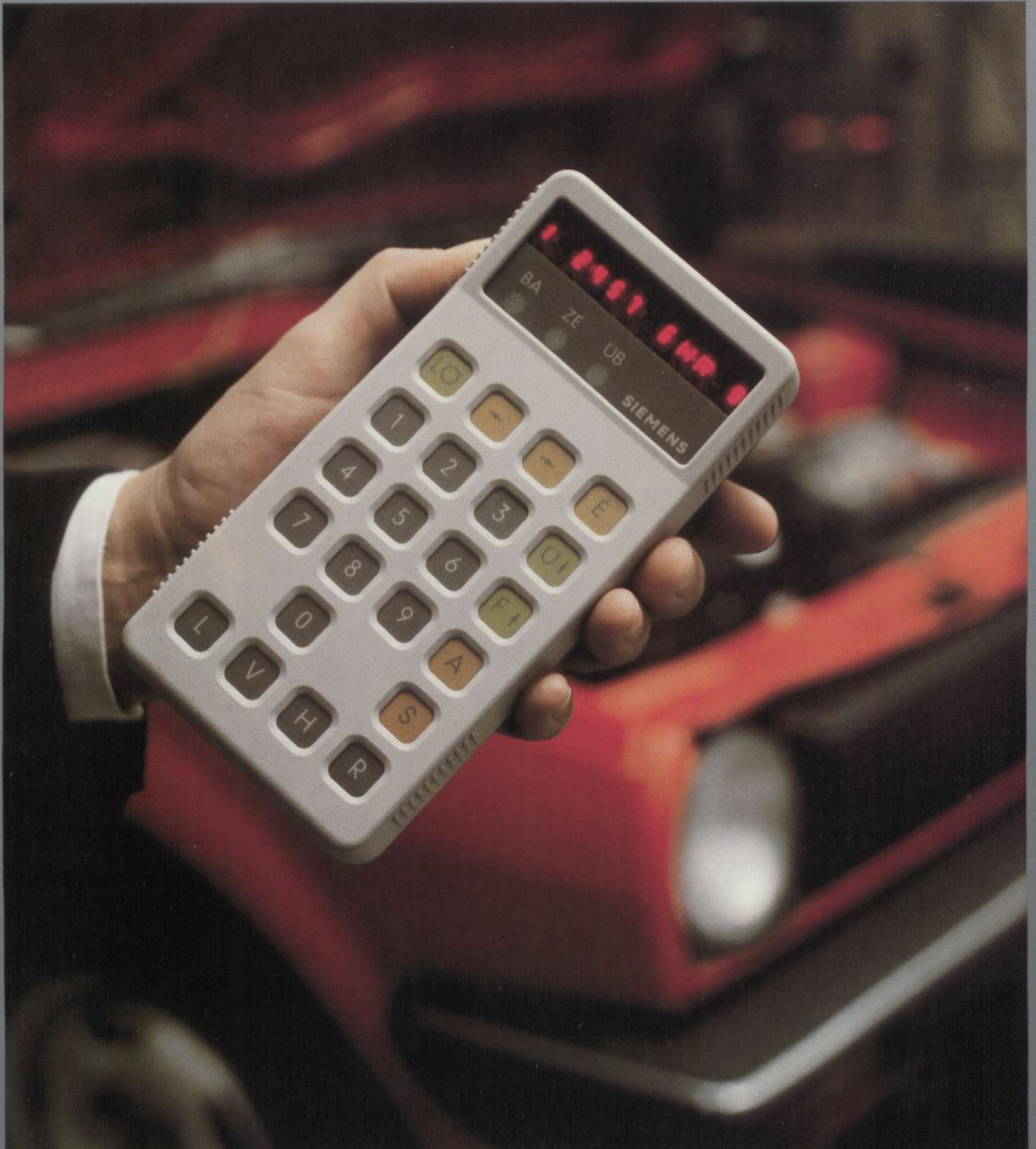
The outlines of a cable plug enlarged many times over by a profile projector



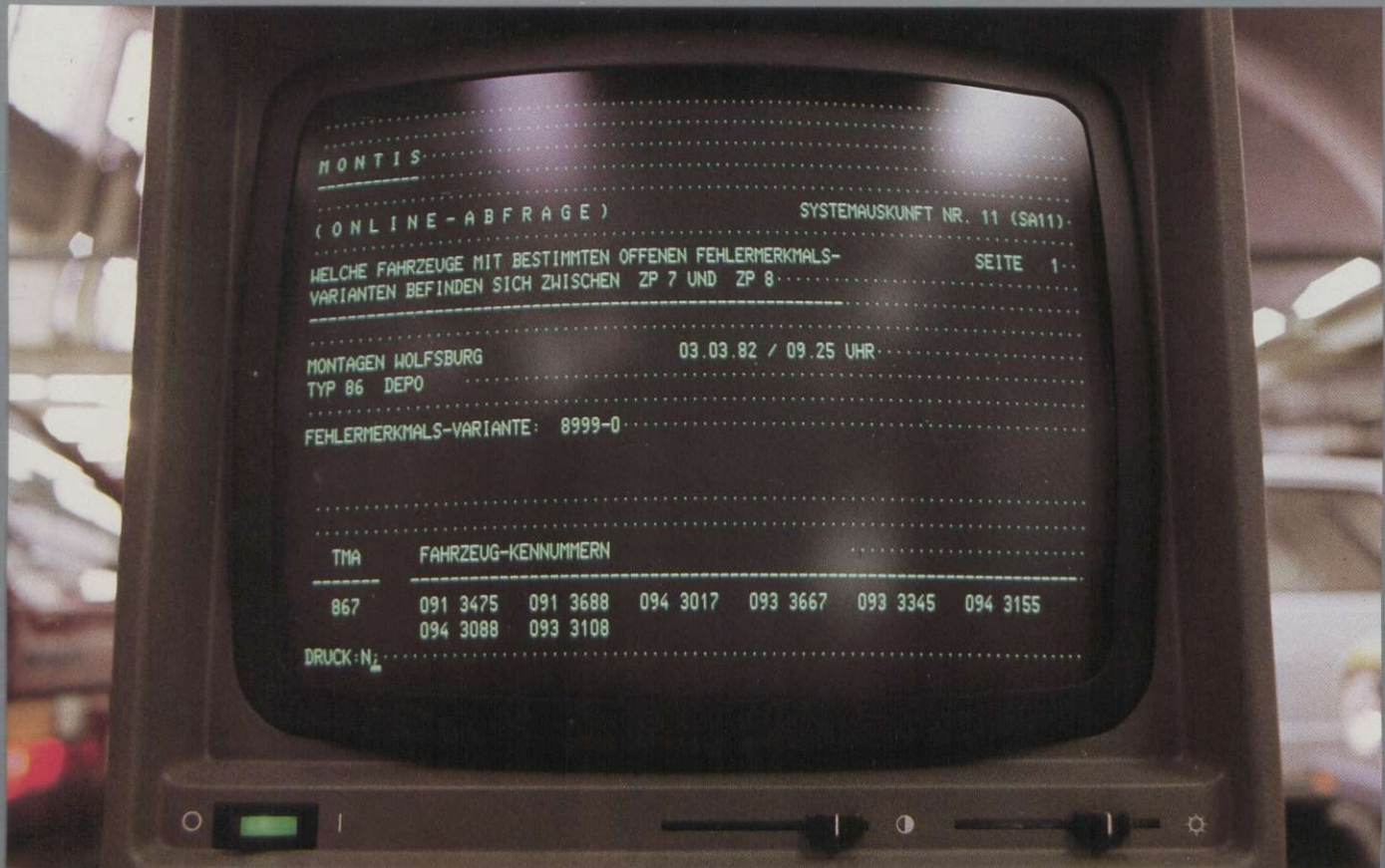
MONTIS screen from which the operators can read off the quality situation (left)



In the MONTIS system the inspectors pass on their defect reports via a hand terminal (transmitter) to an infra-red receiver.



Electronics completes still more comprehensive tasks in the quality control system MONTIS (assembly information and control). This EDP system comprises the entire process between painting and final check including the body refinishing line. At several points, equipped with screen display and printer, inspection data of every vehicle that passes are registered. The inspectors give the points coded defect information via a manual keyboard which appears on the display and is printed in the record.



Elimination of the defects is confirmed. In addition warning and trend information is given in every section and feedback to previous departments. Inspection capacity is also utilised to the full on the basis of the trend and weak point information. Information is passed without delay.

The application of information technology to production control in the factories of the Volkswagen Group means that not only is maximum clarity of overview achieved – the burden on the individual employee is reduced, promoting a personal interest in producing quality through good work.

*ECOS (Electric-Check-Out-System):
The vehicle is fed into the checking
computer. The checking process
is in the form of a dialogue between
inspector and computer.*

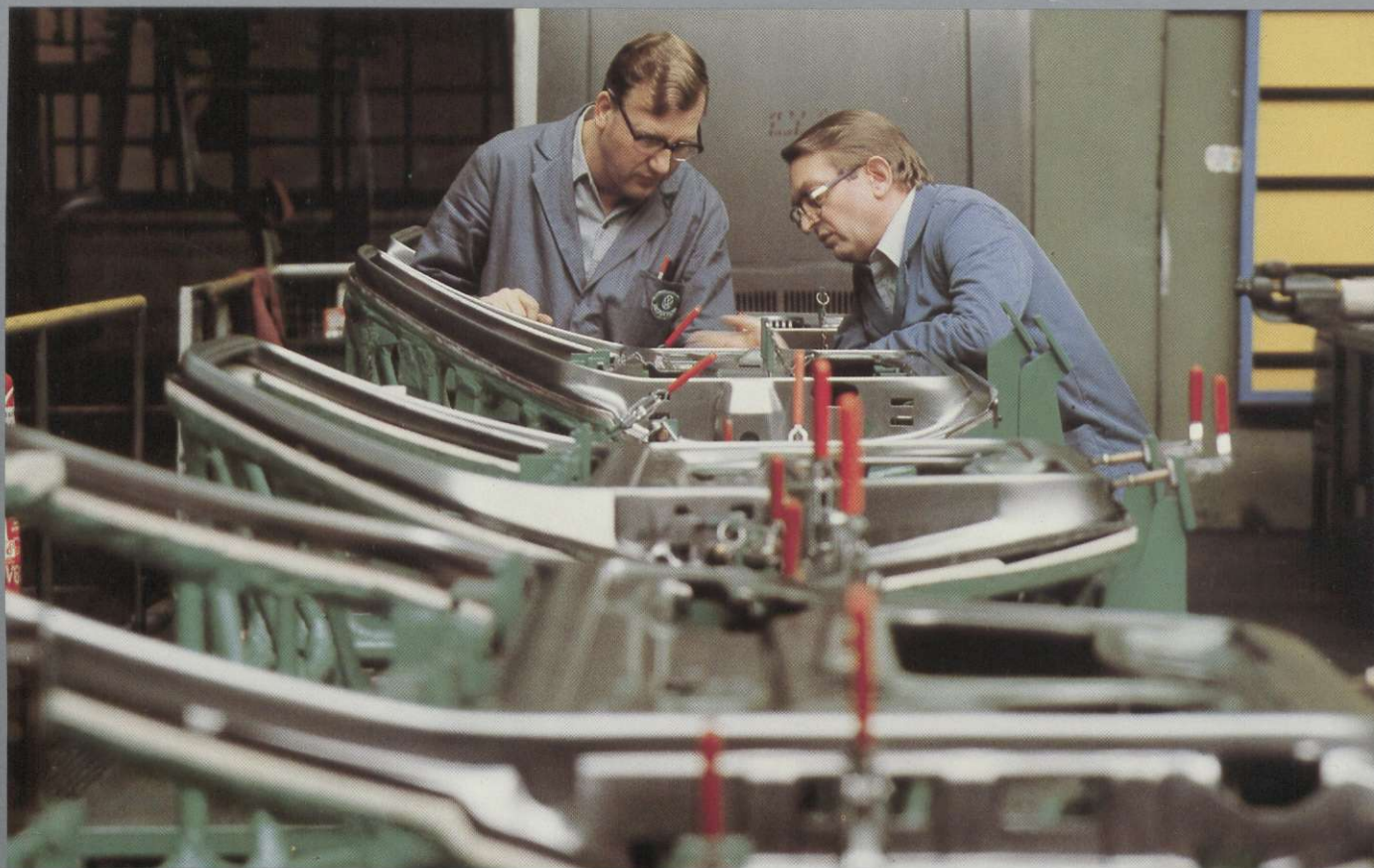


Whereas with ARGUS the eye is spared, the electric check-out system ECOS prevents defects which would otherwise arise from the fall-off of concentration in the checking of the electrical units and vehicle electronics. As with ARGUS, this is a 100% check: every vehicle at the end of the assembly line is investigated for the faultless functioning of all electrical consumers.

Previously it was sufficient to take a checklist and switch on the consumers one after another to check their functioning. With the increasing number of electrical and electronic equipment items – additional lights, heated rear window, electric sunroof, electric windows, central locking, headlamp washers, shift and consumption indicator – this work became more and more difficult and time-consuming.

With ECOS all consumers are still switched on and off manually in order to also check the functioning of the switches. Checking of the consumers however is done electronically; each vehicle has a punched card in which are stored the various electrical and electronic equipment items installed. A display screen shows the inspector what consumer to switch on next. Checking of function, wiring and circuitry is carried out automatically through measurement, calculation and tolerance comparison of currents, voltages, output, resistances and frequencies. The inspector can only continue when the data have been gathered and stored.





The focal point: production quality

In the pilot series phase when production first starts on the series production systems the tasks of quality assurance are particularly comprehensive since here it is again a matter of isolating and correcting every possible deviation from specifications. Accuracy to gauge, condition of surfaces, correct functioning and many other characteristics are checked out in accordance with previously established criteria.

Here Inspection itself must pass its own exam. Are the measuring and checking systems functioning properly? Does their precision remain constant in use? Gauges, templates and feelers can show signs of wear, and they are subject to temperature and climatic influences. New metering electronics can have errors in soldered joints and wiring that must be eliminated. When series production begins Inspection has to be ready for it.

It is not possible here to list all of the checking instruments and checking points, the inspection methods and production supervision systems. To an increasing degree newly-developed appliances are used, substituting automatics and electronics for the human eye and mental alertness. Too often are human beings overtaxed, not by the checking activity itself but by its repetitiveness and

the amount of time it takes. The potential for achieving better solutions through new technology can be illustrated with three examples.

"VW-ARGUS" is an optical checking system whereby television cameras, laser scanners and X-ray tubes take over the tasks from human eyes. Before this system was introduced the checking personnel had to be relieved every two hours — otherwise not only would the physical burden be too great but also the precision of the test result would no longer be assured.

ARGUS however checks with unchanging accuracy and high speed for defects which previously could only be ascertained by eye. The information provided by the appliances is measured against the correct values stored in a computer. Where deviations occur the offending part is automatically weeded out.

Television camera and microcomputer checking a body part for completeness.



Production

In 1981 Volkswagenwerk AG produced 1,232,818 vehicles, including 12,002 Audi 80 cars manufactured at the Emden plant, 113,937 fewer units than the total for 1980.

The capacity utilization ratio at the car-producing plants was relatively satisfactory in 1981. This was largely due to the high degree of flexibility of production. In the commercial vehicle sector, by contrast, short-time working could not be avoided.

A further important step was taken in the direction of flexibility of production with the start-up of production of the Polo, Derby and Santana models. In body shell construction in particular the model-related mechanization process was converted onto robots, to enable any variations in the production programme to be dealt with more quickly.

Volkswagenwerk AG has been developing and fabricating industrial robots since 1972, primarily for in-works use. A licence agreement was concluded in February 1982 with the General Electric Company, Bridgeport, Connecticut, USA, so that activities in this area will now be concentrated on the North American

market. Volkswagenwerk AG is confident that one of the benefits stemming from this agreement will be a feedback of technological expertise that can be put to use in the years to come in the Company's own production of robots.

The modernization programme for production was pursued as planned, with particular emphasis on the reorganization of the press shop at Wolfsburg, due to be completed by 1985, and the modernization of our paint shops to ensure even better rust protection. A start was made at Emden and Wolfsburg on construction of the assembly halls in which work is due to begin in the course of 1982, with the use of modern production technology coupled with measures for the humanization of work and improved ergonomic workstation design.

Workforce

As of December 31, 1981 the total workforce employed by Volkswagenwerk AG in its six domestic plants numbered 120,071, 1,305 or 1.1% more than at the same date in the previous year.

Because of continuing low sales very few of those leaving the Company in the first part of 1981 were replaced. For the same reason short-time working had to be introduced – 37 days at the Hanover plant, 13

at Kassel, 12 at Brunswick and 5 at Emden.

The improvement in car sales in the second half of the year led to more employees being taken on at the Wolfsburg and Emden plants than the number leaving; at the others, the employees who left were merely replaced. Stagnant sales meant that there were 23 more days of short-time working at the Hanover plant.

Conscious of its social responsibilities, Volkswagenwerk AG again increased the number of training places in 1981. In the year under report 1,299 were taken on for training or retraining, and at the end of the year 3,653 young persons were in vocational training, 5.7% more than in the previous year.

The work of expansion and modernization necessitated by the continual increase in training places was completed in the course of the year in all the Company's plants. On June 9, 1981 the new Volkswagenwerk AG training centre at Wolfsburg was handed over ready for use.

To reduce youth unemployment, Volkswagenwerk AG in collaboration with the labour authorities continued to organize courses of one year's duration in metalworking and catering at the Wolfsburg and Kassel plants,

Workforce development at Volkswagenwerk AG

	Dec. 31, 1981	Dec. 31, 1980	Increase (Decrease) absolute	%
Volkswagenwerk AG	120,071	118,766	1,305	1.1
of which in the plants at				
Wolfsburg	58,876	57,927	949	1.6
Hanover	21,383	22,110	(727)	(3.3)
Brunswick	6,373	6,458	(85)	(1.3)
Kassel	16,665	16,681	(16)	(0.1)
Emden	9,341	8,338	1,003	12.0
Salzgitter	7,433	7,252	181	2.5
Wage-earners	99,832	98,622	1,210	1.2
Salaried staff	20,239	20,144	95	0.5
Female employees	14,369	14,029	340	2.4
Foreign employees	11,323	11,643	(320)	(2.7)
Trainees	3,653	3,457	196	5.7

as well as measures designed to achieve vocational and social integration.

In the area of advanced vocational training, 7,158 employees attended 392 courses, seminars and classes. The main emphasis, apart from organizing training for foremen and supervisors, was on electrotechnology and electronics, hydraulics and pneumatics, improved communication techniques, foreign languages and on preparation for postings abroad.

The predominant feature of general advanced training in the year under report was the series of seminars on "Improvement of the quality of our own work". The Rhode training centre was the scene of 36 such seminars, attended by 1,800 managers and potential managers, at which a comprehensive list of measures for the improvement of essential activities and activities for ensuring future development were worked out.

Industrial health measures for the protection of the workforce in 1981

Structure of labour cost of Volkswagenwerk AG in 1981

were predominantly in the area of preventive medicine and hygiene, in conjunction with ergonomic design of workstations and working procedures.

Absence through illness was less frequent in 1980. In 1981 it continued to fall, averaging 8.7 (9.6)% for the year. Against this absenteeism increased in the report year from 22.8% to 25.4%, partly as a result of short-time working at the Hanover, Brunswick, Kassel and Emden plants.

The downward trend in the accident rate since 1979 was sustained. Indeed, the number of accidents was the lowest yet recorded. This achievement is due to the fact that additional measures to motivate the workforce were taken to reinforce the proven safety concept. The Company was thus able to reinforce its leading position in West German industry in the field of safety at work.

The response of the workforce to the suggestions scheme is an indicative measure of their cooperation and of their sense of identification and responsibility. No less than 7,678 suggestions for improvements were adopted, and rewarded, which beat the record figure for 1980 by 33.1%. Altogether 6.1 million DM was paid out in rewards. This considerable increase is due to the high

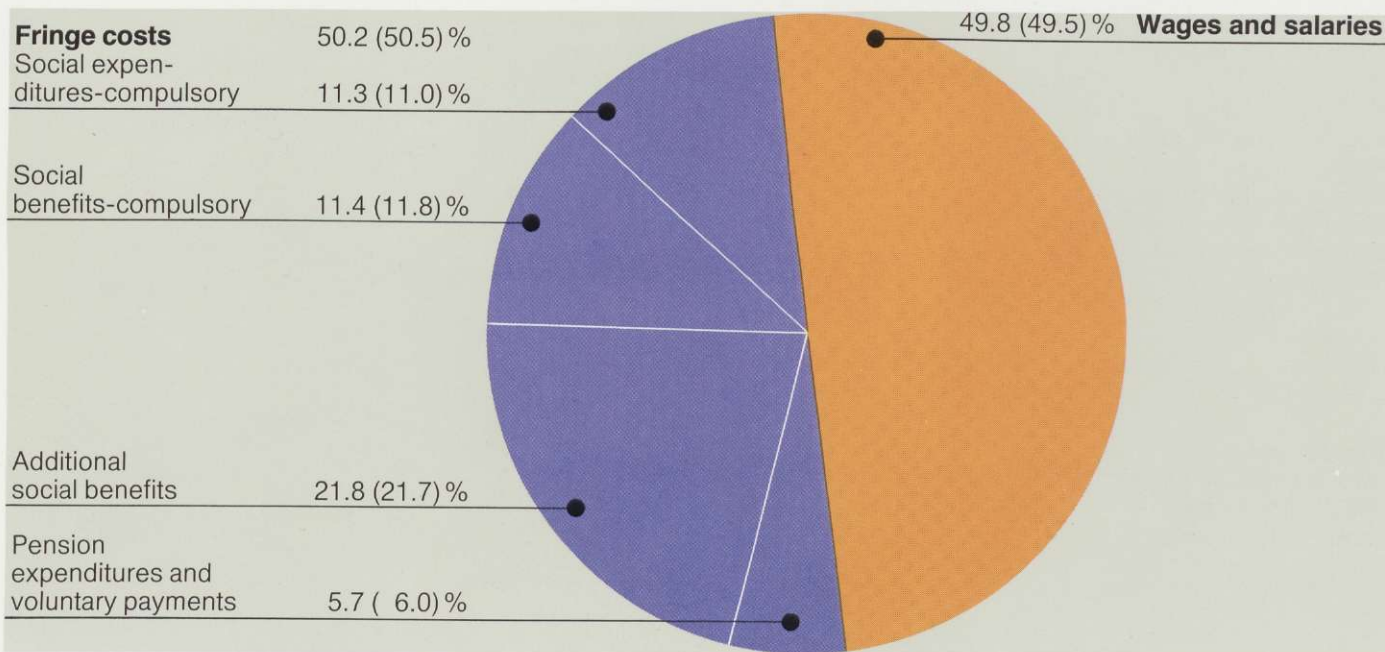
quality of the suggestions received. The acceptance rate, which rose from 23.7% in 1980 to 26.9%, is a clear proof of this. The wealth of ideas among the workforce can also be seen from the great success of a special suggestions campaign that was mounted. A further 5,416 suggestions were submitted on the themes:

- The quality of work at my workstation and
- A more rational system of administration.

The above-average demand for building loans that was a feature of 1980 continued into 1981. The Company provided assistance in respect of 1,683 dwellings at an outlay of 37.5 million DM, so making an appreciable contribution towards property ownership on the part of the workforce and relieving the housing shortage.

New pay agreements with a validity of 12 months that came into force on February 1, 1981 led to an average increase of wages and salaries of 4.9%.

On September 1, 1981 the increase in rest time for workers on piece rates from 3 to 5 minutes in the hour, as agreed in the agreement on the basic principles of remuneration of February 1, 1979, came into operation.



As of December 31, 1981 the number in receipt of benefit under the Company's old-age pension, disability and surviving dependants insurance schemes had risen to 18,283. On January 1, 1981 9,541 pensioners became eligible for higher benefits under the statutory regulations for the adjustment of pensions to the cost of living.

Works council elections in the Volkswagenwerk AG's German plants were held in March 1981 according to the regulations of the Labour-Management-Relations Act. A total of 237 works council members were elected.

In order to place all employees on the same social footing, with effect from May 1, 1981 wage-earners were no longer required, by way of a trial arrangement, to produce a medical certificate if they fell sick until after 3 calendar days. This experiment is due to run, under an in-house agreement, till April 30, 1982.

Volkswagenwerk AG's labour cost in 1981 rose by 12 million DM to 6,545 million DM. The comparatively small increase of 0.2% on the previous year is to be explained by the fact that the increase in wages and salaries under the pay agreements was very nearly made up by, in particular, greatly reduced

overtime working, the absence of extra shifts and the short-time working at the Hanover, Kassel, Brunswick and Emden plants. The lower average for the number of employees as against 1980 also had some effect.

Of the total labour cost 50.2% related to fringe costs. This is a proportion which, as in previous years, continues to be a source of great concern for us.

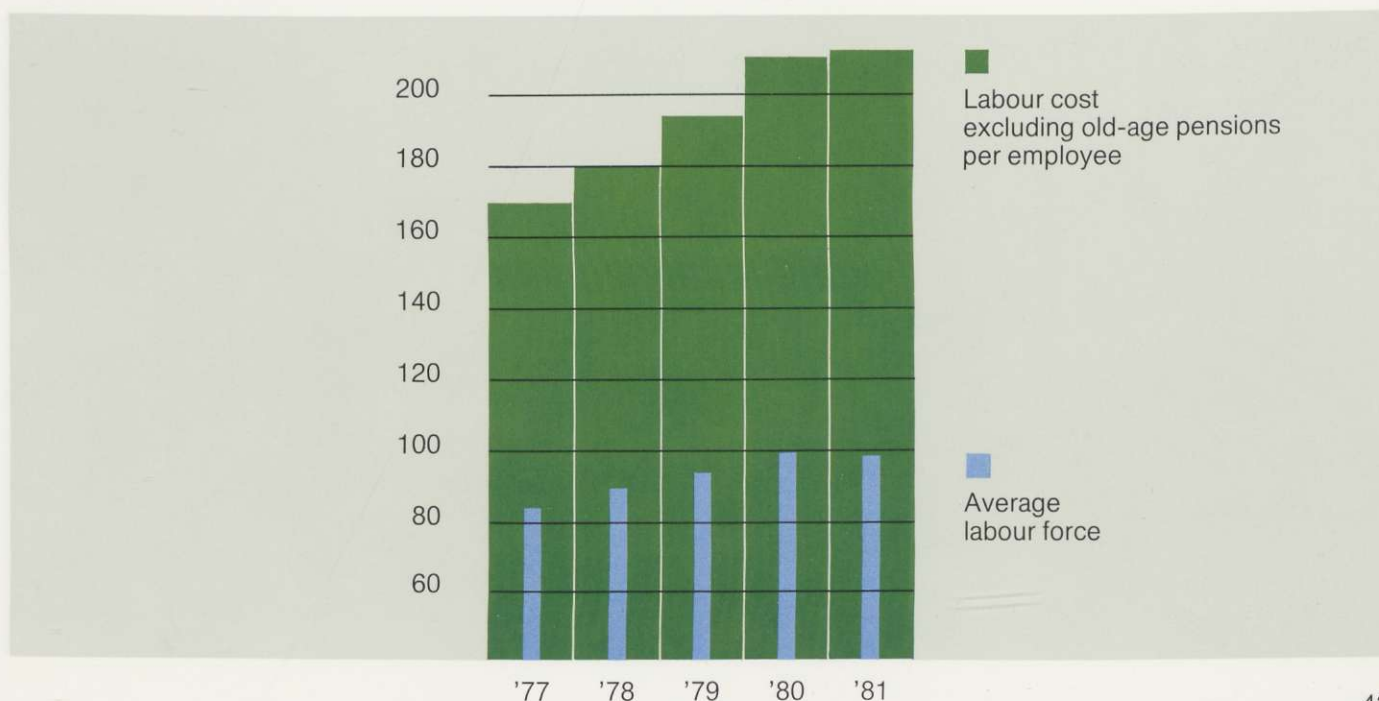
Capital Investments

Volkswagenwerk AG invested 2,182 million DM in 1981, 1,337 million DM in fixed assets and 845 million DM in financial assets. This was only 69 million DM or 3.1% below the exceptionally high investment volume for the previous year.

As before, by far the greater part of investments in fixed assets was for product-related measures. Other amounts were spent on restructuring of the manufacturing process in order to improve work flow and working conditions, modifications in the manufacturing process for engines and gearboxes, and rationalization and replacement measures.

Financial investments mainly concerned capital increases for our subsidiaries in the USA, Brazil, Argentina and Mexico.

Workforce and labour cost of Volkswagenwerk AG (1972 = 100)



**AUDI NSU AUTO UNION AG
Neckarsulm**

		1981	1980	Increase %
Sales	million DM	5,774	4,903	17.8
Production/Vehicle sales	units	329,246	299,987	9.8
Capital investments	million DM	802	336	x
Workforce	on Dec. 31	30,256	29,065	4.1

Sales were greatly affected by the poor performance in the domestic market. This downward trend could be parried, however, by the more favourable state of demand abroad, especially in the second half of the year. In the early part of the year, in order to adapt to the poor state of the market, 9 days of short-time working had to be imposed, but after the annual holidays it was possible to introduce a limited amount of overtime. The fact that the company was able to end the year with a profit was not only due to exploitation of the flexibility inherent in the production system but also, more importantly, under the policy of apportioning production within the Group, the gradual transfer of Audi 80 production, completed in August 1981, from Volkswagenwerk AG's Emden plant to Ingolstadt.

The Audi 80 CD, the top model in the Audi 80 series

Sales at 5,774 million DM, were 17.8% up on the previous year. The reasons for this, apart from the growth in Audi 80 sales, were the far bigger sales of the coupé versions, that produce more revenue than the Audi 80, and the higher proportion of sales of up-market model versions with more complete equipment. This more than made up for the loss of sales revenue from falling sales of the Audi 200.

Although daily output dropped slightly, from 1,517 to 1,495 units, total annual production showed an increase owing to the greater number of days worked – mainly because there were only 9 days of short-time working instead of the 28 days found necessary in 1980.

The rise in output by 29,259 cars to 329,246 units was largely accounted for, apart from the increase in Audi 80 production by 4.9% to 167,359 units, by the marked increase in output of the coupé versions, which rose to 36,206 units (3,440). Production of the Audi 100

and Audi 200 was cut back in view of the market situation.

1,956 (3,368) Volkswagen-Iltis vehicles were turned out on behalf of Volkswagenwerk AG, and 17,575 (14,935) Porsche 924/944 cars were manufactured for Dr. Ing. h. c. F. Porsche AG, Stuttgart. Volume production of the Volkswagen-Iltis was discontinued towards the end of the year.

The comprehensive research and development programme was mainly directed towards further product development and intensified measures for the new generation of Audi cars. The watchwords for the 1982 Audi models are "Better Value" and "Economy". All types of car are now manufactured with a wider range of equipment as standard fittings. The new Audi 80 CD was developed as an up-market addition to the Audi 80 range. In this model, compact exterior dimensions are coupled with the smooth running and comfortable fittings associated with bigger cars. The Audi 100 range was also added to with the introduction of an elegant sporty version, the Audi 100 CS. The already extensive engine range was increased by two new versions, a 1.3 litre engine for the Audi 80 and a 1.8 litre engine that can be fitted as an option to the new Coupé.



The company was able to show that volume production of the "Audi research car", whose development has been sponsored by the Federal Ministry for Research and Technology was a feasible proposition. The research car has been very well received both by the trade press and the general public.

A further indication of the scale of the company's development activities is to be seen in the part played in motor sports events. The success of the Audi Quattro in a series of world championship rally events demonstrated the superiority of the four-wheel drive concept, and was a further proof of the truth of Audi's claim of being "in the lead with engineering".

Capital investments, at 802 million DM, were more than double the 1980 figure. The measures for product improvement and plant reorganization introduced in the previous year were vigorously pursued. Over half of the investment total was spent on the large-scale "paintshop" and "body shell shop" projects being undertaken in both plants and on construction of a new assembly hall at the Ingolstadt plant. Product-related investments were aimed at the technical updating of our models.

The numbers employed grew to 30,256 (29,065) over the year under

report. The increase was mainly due to the higher volume of production and the growing demand for cars with more complete equipment.

It was also found possible to provide more training places in 1981. As of December 31, 1981 there were 1,333 (1,255) young people under training, equivalent to 4.4 (4.3)% of the total workforce, 78 more than at the end of 1980.

Net earnings amounted to 150.3 (70.4) million DM; about half of this refers to valuation adjustments in accordance with uniform group principles. Owing to the continued need for large sums for future investment the company allocated 150 (70) million DM to reserves. In accordance with the profit and loss assumption agreement, no profit after tax contribution charged by the parent company was transferred to Volkswagenwerk AG this year. The payments to holders of participation certificates are made from the net earnings available for distribution in the amount of 0.3 (0.4) million DM.

The Audi Research Vehicle, very positively received by public and motoring press, with practical solutions for pioneering conceptions in the upper middle range



Volkswagen do Brasil S.A.
São Bernardo do Campo
 and consolidated subsidiaries

		1981	1980	Increase (Decrease) %
Sales	million DM	3,251	2,816	15.4
Vehicle sales	units	313,266	488,155	(35.8)
Production	units	295,303	514,237	(42.6)
Capital investments	million DM	546	333	64.2
Workforce	on Dec. 31	33,573	46,671	(28.1)

The trend of the Brazilian economy in the year under report reflected the measures brought in by the Government at the end of 1980 to counter inflation and to deal with the balance of payments deficit. Decontrol of interest rates led to rates of over 120%. Price controls were also partly lifted (including those on motor vehicles). Tight restrictions were placed on the money supply and the volume of credit, and the cruzeiro was devalued against the US dollar in accordance with an inflation rate approaching 95%. These measures brought about a substantial decline in the gross national product. The downturn in the economy and the change in the purchasing habits of wide sectors of the population caused considerable difficulties for many branches of industry. Many firms – in some cases with the introduction of drastic measures – were compelled to cut back on production and jobs in an attempt to come to terms with the changed position of the market.

The Brazilian motor industry was particularly hard hit by this situation. Although there was a gratifying rise in exports, it was forced to reduce production, because of the decline in the domestic market, to a drastic extent.

Total sales of Volkswagen do Brasil in 1981 amounted to 313,266 vehicles, and were down 35.8% on the previous year's volume. The company's share of the domestic passenger car market fell back from 48.6% to 45.9%, at 205,203 units, but its share in the commercial vehicle market, at 24,767 units, rose from 31.4% to 35.5%.

In the middle of the year the Voyage, a notchback water-cooled saloon, was introduced on the Brazilian market, where, because of its up-to-date design concept, it was very well received.

Exports performed well, with sales of 83,296 vehicles. This brought to over 500,000 the number of vehicles exported under the 10-year

The Voyage was introduced on the Brazilian market in 1981.



export programme agreed with the Brazilian Government in 1973, mainly to countries in South America, Africa and Asia. The value of exports in 1981 amounted to 370 million US dollars. This represented an increase of 70 million US dollars on the 1980 results. As in previous years, engines and gearboxes were delivered from Brazil to other companies in the Group under the interlinked production scheme.

Volkswagen do Brasil's total output, at 295,303 vehicles, was 42.6% lower than in the previous year. Daily output sank accordingly from 2,318 to 1,330 vehicles.

Because of the greatly reduced volume of production, the company had to apply measures affecting the workforce. Thanks to a temporary social plan, which in some respects represented a new departure for Brazil, social hardships as a consequence of job reductions were avoided. At end 1981 Volkswagen do Brasil had 33,573 (46,671) employees. This corresponds with a 28.1% reduction in jobs as compared with the previous year.

The increase in capital investments is to be accounted for principally by investments in connection with new models, quality improvement and modernization of present production plant.

To enable Volkswagen do Brasil to regain a satisfactory earnings and liquidity situation, the company's capital stock was increased by 17,547,731,000 cruzeiros to 28,711,400,000 cruzeiros. Of this increase, 11,918,400,000 cruzeiros (to which Volkswagenwerk AG contributed 9,534,720,000 cruzeiros, or 179 million DM) were accounted for by stockholders' subscriptions for strengthening the capital stock and the financing of investments and 5,629,331,000 cruzeiros by way of capitalization of reserves set up – in accordance with Brazilian law – as an equalization measure against inflation. This capital contribution is to be taken as an emphatic sign of confidence in Brazil's future development. Volkswagenwerk AG's holding in Volkswagen do Brasil remains unchanged at 80%.

As a consequence of the drastic downturn in sales, and the high cost of financing large-scale borrowings, mainly to provide finance for investments and inventories, the company ended the year with a sizeable loss.

Volkswagen Caminhões Ltda.
São Bernardo do Campo, Brazil

		1981	1980	Increase (Decrease) %
Sales	million DM	287	194	47.8
Vehicle sales	units	10,325	14,309	(27.8)
of which				
commercial vehicles	units	8,442	7,009	20.4
Production	units	9,656	14,223	(32.1)
Capital investments	million DM	24	32	(23.1)
Workforce	on Dec. 31	2,618	3,417	(23.4)

For Volkswagen Caminhões – renamed in February 1981 from Chrysler Motors do Brasil Ltda. – 1981 was a year of intensified effort in connection with its conversion to a manufacturer of commercial vehicles only.

After two years of development work, the first models of the new Volkswagen truck range, the 11 and 13 tonne trucks, were introduced on the Brazilian market, in March 1981. In the face of hardening competition, these new vehicles, which are conceived in accordance with modern engineering principles, met with a favourable response, and succeeded in increasing the company's share in a sharply declining market; in the 6 to 13 tonne range the market share rose from the previous year's 4.5% to 7.8%.

In addition to the new Volkswagen models, Dodge cars (until June 30, 1981) and Dodge trucks were also turned out. Altogether, Volkswagen Caminhões sold 10,325 vehicles.

Of the 8,442 (7,009) trucks sold – including 1,381 in the Volkswagen range – 3,202 were disposed of on the domestic market and 5,240 exported to markets in South America.

The company was prevented from achieving a better sales performance in view of the sharp drop in the commercial vehicle market because of the unfavourable state of the Brazilian economy and the considerable decline in sales in major export markets in the second half of 1981. This trend meant that Volkswagen Caminhões, like all the other vehicle manufacturers, had to take suitable steps to adapt to the new situation. Daily output was cut, and for a time production was shut down completely, and it was also necessary to make a considerable reduction in the workforce. This was effected on the basis of a temporary social plan involving voluntary redundancies. At end 1981 the company was employing 2,618 people, 23.4% less than at the same

date in the previous year. The fact that sales revenue rose to 287 million DM despite the decline in overall sales is attributable to the changes in the model range, a sharp rise in exports and to the effects of exchange rates.

The investments of 24 million DM were mainly spent on the development of the new generation of trucks.

To prevent the expansion so far accomplished with the entry of Volkswagen in the South American market for trucks from being jeopardized, the company's capital stock was increased from 5,882,727,000 cruzeiros to 14,460,096,527 cruzeiros. The increase was made up of 282,278,000 cruzeiros on capitalization of a reserve and a capital increase in the amount of 8,295,091,527 cruzeiros (156 million DM) made by Volkswagenwerk AG in order to strengthen the equity base.

As a result of the heavy decline in sales, the high cost incurred in financing the necessary loans, and start-up costs for the new Volkswagen truck range, the company ended the fiscal year with a loss.

*The new 11 and 13 tonne trucks
made at Volkswagen Caminhões*



**Volkswagen Argentina S.A.
Buenos Aires**

		1981	1980	Increase (Decrease) %
Sales	million DM	488	920	(47.0)
Vehicle sales	units	23,800	35,280	(32.5)
of which				
commercial vehicles	units	4,957	4,827	2.7
Production	units	18,528	31,630	(41.4)
Capital investments	million DM	44	6	x
Workforce	on Dec. 31	4,133	4,255	(2.9)

For the first quarter of 1981 Volkswagen Argentina continued to have satisfactory sales, but in the second quarter demand began to fall off due to a general economic recession accompanied by a rise in the cost of living of nearly 130%, which had still not been overcome by the end of the year.

Car sales effected by Volkswagen Argentina in 1981, at 18,843 units, were 38.1% down on the previous year. Sales of commercial vehicles, on the other hand, at 4,957 units slightly exceeded the previous year's figure because of the ready acceptance by the market of the Commercials imported from Volkswagen do Brasil. Production of Commercials with the use of Brazilian components was not started up until towards the end of the year under report.

Volkswagen Argentina's market share amounted to 10.4 (10.5)%.

The capital investments made over the past year were mainly in connection with the gradual conversion of the product range to Volkswagen models.

As of December 31, 1981 the company was employing 4,133 altogether, 2.9% fewer than at end 1980.

In the year under report the company's capital stock was increased by 446,903,267,196 pesos to 479,254,238,330 pesos. This total was made up of 25,557,267,196 pesos from capitalization of reserves and 421,346,000,000 pesos (100 million DM) by way of a capital increase in December 1981 to strengthen the equity structure. Volkswagenwerk AG's holding in Volkswagen Argentina was increased from 98.8% to 99.9%.

This action is intended to safeguard the intention of the Volkswagen Group to intensify its operations

in South America. It will at the same time enable Volkswagen do Brasil, as the supplier of components, to make more effective use of its capacity and provide it with new opportunities of meeting its commitments in regard to exports from Brazil.

The market recession, the steep rise in interest rates to over 10% a month in the middle of the year and the currency losses incurred as a result of the 430% devaluation of the Argentine peso against the US dollar in the course of 1981 meant that Volkswagen Argentina ended the fiscal year with a loss.

Volkswagen of America, Inc.
Warren, Mi., USA
and consolidated subsidiaries

		1981	1980	Increase (Decrease) %
Sales	million DM	7,475	5,792	29.0
Vehicle sales	units	336,669	368,065	(8.5)
Production	units	204,990	225,943	(9.3)
Capital investments	million DM	446	191	x
Workforce	on Dec. 31	9,891	10,048	(1.6)

The American motor vehicle market has been in a state of deep depression for nearly two years. Although it is the larger types of car that are affected most, recently also sales of market-oriented, low-consumption cars suffered owing to the very high cost of borrowing. Volkswagen of America has reacted to this situation by curtailing production and reducing the workforce accordingly.

In the fiscal year the company supplied 336,669 Volkswagen and Audi vehicles to dealers, representing a shortfall as against the previous year's sales of 31,396 units or a drop of 8.5%.

The diesel versions of the Rabbit models manufactured at Westmoreland, which are like the Golf, continued to meet with success. In addition there was greater demand for the Jetta and Audi models imported from Germany.

The market share attained by Volkswagen and Audi cars remained unchanged at 3.3%.

Output at the Westmoreland plant dropped to 204,990 cars, through decreased daily production and repeated short-time working. In view of the general economic situation, start-up of production at the second assembly plant at Sterling Heights, originally planned for end 1982, has been deferred.

Two new institutions were formed in April 1981, the Volkswagen Financial Corporation and VW Credit, Inc., in order to provide for financing assistance for our dealer network in the USA.

In order to provide finance for the investment programme the capital stock of Volkswagen of America was increased in the fiscal year by 100 million US dollars (224 million DM) to 242 million US dollars.

The adjustment measures that were put into effect at Volkswagen of America prevented an erosion of earnings. The company ended the year with a profit.

*The assembly plant of Volkswagen
of America at Westmoreland*



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

		1981	1980	Increase %
Sales	million DM	2,461	1,515	62.5
Vehicle sales	units	139,237	121,663	14.4
Production	units	138,303	127,374	8.6
Capital investments	million DM	300	200	49.9
Workforce	on Dec. 31	15,409	13,465	14.4

The upward trend in the Mexican economy once more had a stimulating effect on the sales of Volkswagen de Mexico. The volume of sales amounted to 139,237 vehicles, 14.4% up on the previous year, with the Caribe (Golf) and Beetle accounting for the bulk of the successful domestic sales. The company's share of the passenger car market remained unchanged at 33.2%. As before, export sales were mainly in the form of intra-Group deliveries to Volkswagen of America and deliveries of the Beetle to Europe.

Production, because of the favourable sales situation, totalled 138,303 units, 8.6% up on the previous year. Daily output rose in the year under report by 17.1% to 637 vehicles. In May 1981 the Volkswagen Group's 20-millionth Beetle was completed in Mexico.

Sales revenue was appreciably higher than in the previous year, the main reasons being, apart from the

increase in vehicle sales already mentioned, a changeover to more up-market models and price rises on the Mexican market.

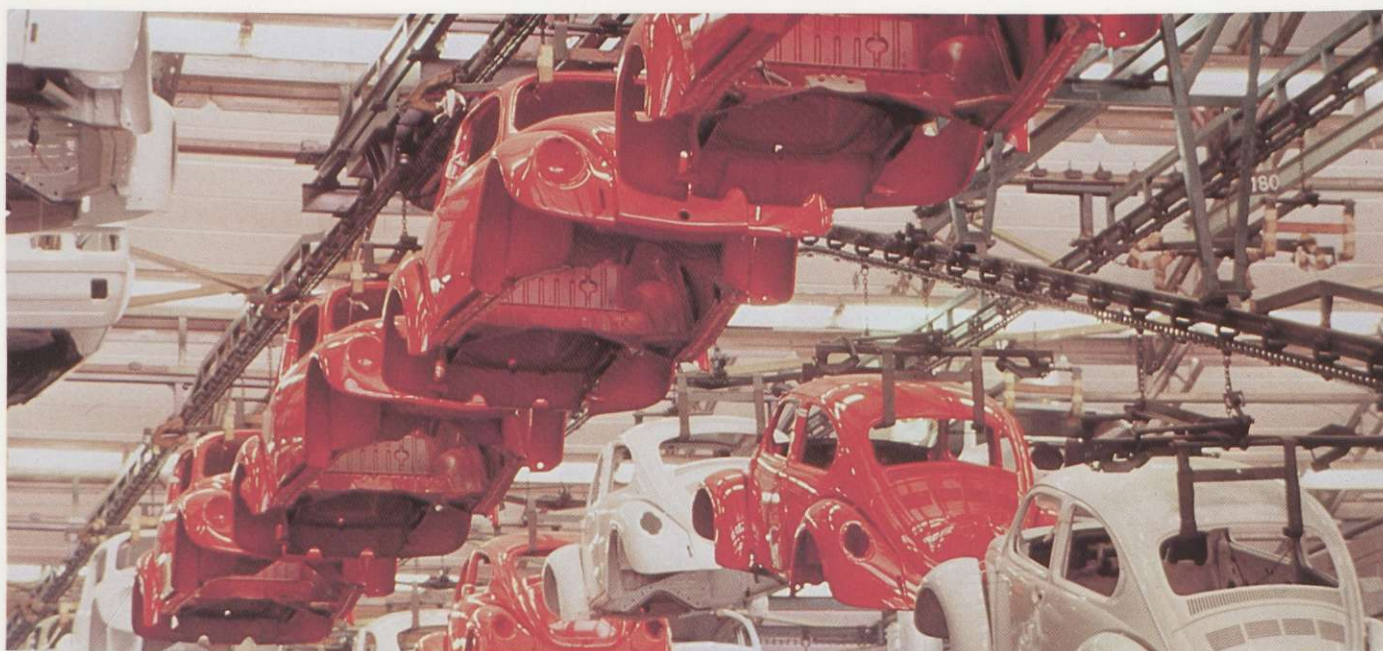
By December 31, 1981 we had increased the workforce by 1,944 to 15,409. This increase in the workforce was made necessary by the higher production and the greater amount of self-manufactured components.

Capital investments in the year under report amounted to 300 million DM.

In order to finance the investment programme Volkswagen de Mexico, in June 1981, increased the capital stock by 1,049,073,000 Mexican pesos (100 million DM) to 4,639,381,000 Mexican pesos. The new shares were issued at par and taken up by Volkswagenwerk AG.

The company registered a profit.

The 20-millionth Beetle of the Volkswagen Group came off the line in Mexico in May 1981



Volkswagen of South Africa (Pty.) Ltd., Uitenhage, C.P.
and consolidated subsidiaries

		1981	1980	Increase (Decrease) %
Sales	million DM	1,113	867	28.4
Vehicle sales	units	61,886	62,242	(0.6)
Production	units	62,968	60,437	4.2
Capital investments	million DM	142	75	89.6
Workforce	on Dec. 31	8,610	7,322	17.6

In the year under report the South African economy entered a phase of normalization. The weakening trend did not as yet, however, affect the demand for vehicles; the market as a whole for cars and light commercial vehicles expanded still further.

For reasons of capacity, the number of units sold by Volkswagen of South Africa was slightly less than the previous year's figure. The share of the passenger car market fell by 2.8% to 17.1%, but the company's position in the market will improve again following start-up of production of the new Passat in November 1981 and the capacity expansion that is already in hand.

The company's competitive position in the light commercial vehicle sector was strengthened with the introduction of the Golf pick-up in June, which has been a success. Volkswagen of South Africa's share in this market segment rose by 1.9% to 7.4%. The increase in sales revenue

was principally due to price increases and a changed model mix. The higher parity of the South African rand against the DM also boosted revenue.

Production went up in the year under report by 4.2% to 62,968 vehicles.

Capital investments, for conversion of the assembly lines to handle production of the new Passat, creation of the company's own engine-manufacturing capability and the expansion of production capacity, were far higher than in the previous year.

By year's end, due to the expansion of capacity and the introduction of two-shift working, the workforce – especially as regards wage-earners – had grown by 17.6%.

The company achieved a positive result.

Since November 1981 the new Passat is also in production at Volkswagen of South Africa.



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

		1981	1980	Increase (Decrease) %
Sales	million DM	1,336	1,155	15.7
Vehicle sales	units	117,251	110,156	6.4
Production	units	117,261	110,206	6.4
Capital investments	million DM	36	72	(50.2)
Workforce	on Dec. 31	4,649	4,539	2.4

Volkswagen Bruxelles increased the number of assembled vehicles to 117,261, 6.4% up on the previous year. Hence the increase in the workforce of 2.4%, to a total of 4,649.

The capital investments of 36 million DM were largely in connection with quality improvement measures and increasing flexibility of manufacture.

The company registered a profit.

**Volkswagen of Nigeria Ltd.
Lagos**

Volkswagen of Nigeria sold 29,348 vehicles, 7.9% up on 1980, but demand weakened during the second half of the year. Passenger car sales increased by 25.4% to 25,727 units; sales of Volkswagen Commercials, on the other hand, fell back by 45.8% to 3,621 units.

In spite of the higher sales volume Volkswagen of Nigeria's share in the passenger car market decreased to 23.2 (27.7)%, its share in the light van sector sank to 3.3 (8.9)%. The disappointing results for Volkswagen Commercials were largely

caused by restrictions imposed on the issue of import licences for Volkswagen commercial vehicles.

The devaluation of the naira against the US dollar caused the company considerable currency losses. With effect from 1982 the company's fiscal year has been changed to the calendar year.

Volkswagen of Nigeria ended the abbreviated fiscal year 1981 (May 1 to December 31) with a loss.

**TAS Tvoronica Automobila
Sarajevo, Vogosca, Yugoslavia**

The company sold 20,167 vehicles assembled in Yugoslavia, and 654 imported vehicles. This represented an increase in sales of 47.4% on the previous year, despite the continuing weakness of the motor vehicle market.

Economic conditions in Yugoslavia were again difficult, which was not without effect on the company's result.

Nevertheless, the company succeeded in ending the year in profit.

The LT series, commercial vehicles with plenty of space and economical engines



Distributing Companies

V.A.G France S.A. Paris

and consolidated subsidiaries

		1981	1980	Increase %
Sales	million DM	2,041	1,482	37.7
Vehicle sales	units	135,144	104,066	29.9
Workforce	on Dec. 31	799	714	11.9

New registrations in France of passenger cars were 2.0% down on the previous year. But Volkswagen France S.A. — renamed V.A.G France S.A. on April 30, 1981 — succeeded in achieving a notable improvement in its share of the passenger car market, which stood at 6.7 (5.0)%.

Sales of Volkswagen and Audi cars, at 135,144, to dealers exceeded

the 1980 volume by 29.9%. As in the past, the Golf was the best-selling Group model. The Jetta, an addition to the 1981 model range, was well received by the market, and achieved second place in the new registrations of Volkswagen and Audi models in France.

The company ended the year with a profit.

Volkswagen Canada Inc. Toronto

and consolidated subsidiaries

		1981	1980	Increase %
Sales	million DM	622	430	44.8
Vehicle sales	units	25,704	25,442	1.0
Workforce	on Dec. 31	384	376	2.1

New car registrations in Canada were 3.5% down on the previous year's level. This decline was however to the detriment of domestic motor manufacturers, whose sales dropped by 14.2%, whereas car importers registered an increase of 34.7%.

Volkswagen Canada also succeeded in raising the vehicle sales, especially of Audi cars. The company's market share went up to 2.8 (2.5)%.

The company achieved a profit.

The Passat Variant, a successful version of the new model



**V.A.G España, S.A.
Madrid**

1981

Sales	million DM	30
Vehicle sales	units	978
Workforce	on Dec. 31	45

V.A.G España, S.A. was formed in May 1981 as a 100%-owned subsidiary of Volkswagenwerk AG, with a paid up capital of 250 million pesetas (6,308,221 DM). It commenced trading as the importing company on July 1, 1981.

The company succeeded in selling 978 vehicles before the end of the year, and has already shown a profit.

**Svenska Volkswagen AB
Södertälje, Sweden**

The Swedish economy was also in a state of mild recession in 1981. Industrial production and private consumption were both down.

The automotive industry was also affected by this trend. New car registrations were 2.1% down on the 1980 figure. With deliveries to dealers of 25,872 Volkswagen and Audi vehicles, however, the company – renamed V.A.G Sverige AB with effect from January 1, 1982 – exceeded the previous year's sales total by 7.7%. In a generally declining market, the share of Volkswagen

and Audi cars in the passenger car market rose to 12.8 (11.8)%.

The company earned a profit.

**WESER-EMS Vertriebsgesellschaft
mbH, Bremen**

and consolidated subsidiaries

The company, a property and holding company, earns the bulk of its income from its holding in V.A.G Vertriebszentrum WESER-EMS GmbH & Co. KG, Bremen, and from leasing out property.

As in previous years, the profit of the WESER-EMS Vertriebsgesell-

schaft was to a large extent dependent on the earnings situation of V.A.G Vertriebszentrum WESER-EMS GmbH & Co. KG.

The share of the profit accruing to Volkswagenwerk AG was transferred under the terms of the profit and loss assumption agreement.

**V.A.G Sales Centres in
West Germany**

At the end of 1981 the wholesaling side of the Volkswagen Group's activities in West Germany was handled by 16 sales centres, in each of which Volkswagenwerk AG has a 26% interest. Apart from sales to special customer groups the whole of the Volkswagen Group's domestic sales are transacted via these sales centres.

The earnings situation was determined by the state of the domestic market, and results were slightly below the previous year's level.

As of January 1, 1982 the V.A.G sales centres at Hanover, Brunswick and Kassel, and the sales centres at Hamburg and Kiel, were merged into two sales centres located at Bissendorf near Hanover, and Norderstedt near Hamburg.

The new Golf Turbo Diesel, lively and yet economical



**TRIUMPH-ADLER Aktiengesellschaft
für Büro- und Informationstechnik
Nuremberg**

and consolidated subsidiaries

		1981	1980	Increase (Decrease) %
Sales	million DM	1,954	1,648	18.5
Capital investments	million DM	146	116	25.7
Workforce	on Dec. 31	14,143	17,115	(17.4)

The TRIUMPH-ADLER group is engaged in the development, production and marketing of business machines and computers. The product range comprises typewriters, calculators, copying machines, word processors and computer systems, as well as office supplies and software.

The TRIUMPH-ADLER group was expanded in 1981 through the takeover of the remaining shares of Omnidata, Westlake Village, USA. Omnidata develops and manufactures word processing systems.

Sales of the TRIUMPH-ADLER group amounted to 1,954 million DM. The foreign share accounted for 82.8%. The chief contributions to sales were made by office machines (35.7%), computer systems (14.1%) and word processors/copiers (14.9%). Copying machines achieved good sales.

At the end of 1981 a staff of 14,143 was employed, 17.4% fewer than in 1980. This situation came about because of the urgent necessity of reducing the domestic workforce by 1,232 employees owing to the switchover to electronic products, and cessation of work on assembly of mechanical components. The workforce abroad was reduced by 1,740 both as a result of closures and of the sale of whole company sections, especially on the part of the Pertec Computer Corp., USA, and also in the Netherlands.

Investments totalled 146 million DM, and were mainly allocated to innovations and further developments in the product range and the expansion of leasing business in the USA.

In order to strengthen the financial status of TRIUMPH-ADLER AG, Volkswagenwerk AG waived repayment of a part of the sums advanced to assist the company's liquidity. Interest was waived on the amounts outstanding. Nevertheless, TRIUMPH-ADLER AG ended the

year under report with a loss of 197.0 (79.1) million DM.

The chief reasons for the unsatisfactory result were the late switchover to electronic products in the group's traditional business machine sector, and the under-capacity working that ensued. The result was also affected by the tight economic situation in the TRIUMPH-ADLER group's principal markets, especially in the USA, and by stiff competition. Heavy additional expenditure was also incurred under the redundancy payments programme in connection with staff dismissals.

A considerable effort will need to be made over the next few years to restore the TRIUMPH-ADLER group to health. The necessary investment and managerial measures are in hand.

More than 70,000 TA computer systems are already in use in industry, trade and the service sectors.



VOTEX GmbH, Dreieich

The company is chiefly engaged, within the V.A.G Organization, in marketing and developing automotive accessories. It also acts as an agent for Volkswagenwerk AG in the purchase of supplies from Eastern Europe.

The volume of business was satisfactory and a profit was shown.

V.A.G Leasing GmbH, Wolfsburg

Leasing business continued to expand, and the number of vehicles on lease to businesses and private customers showed an increase.

Sales, including income from leasing out goods and chattels other than vehicles, went up from 403 million DM in 1980 to 509 million DM.

The earnings situation, despite far heavier expenditure on the provision of funds for financing purposes, remained good.

interRent Autovermietung GmbH Hamburg

The company hires out cars and trucks on a short-term basis. In West Germany business is transacted through an extensive network of over 300 vehicle hire agencies. The subsidiary companies interRent S.A., Brussels, and interRent Trucks S.A., Brussels, operate in the Belgian market, in car and truck hire respectively. Elsewhere in Europe, and in many other countries, interRent is represented by independent car-hire firms operating under licence agreements. In North America the company has a cooperation agreement with the Dollar Rent-A-Car System, Inc., Los Angeles.

Business expanded once again during the past year, although performance in the separate branches varied.

The company's sales amounted to 232 million DM, 7.1% up on the previous year.

Net earnings were transferred to reserves in order to strengthen the company's equity base.

V.A.G Transportgesellschaft mbH Wolfsburg

The company organizes land, sea and air transport and the forwarding, transshipment and stowage of goods, as well as advising on transport matters, on behalf of the Volkswagen Group and others.

356,000 (396,000) complete vehicles and 865,000 (789,000) cubic metres of vehicle components were dispatched by sea. Most of these shipments were handled on the basis of time and single journey charters, but the company also made extensive use of scheduled shipping lines and air freight.

The earnings situation was good, in spite of substantial cost increases and periodic currency disparities. The net earnings were carried forward.

V.A.G Kredit Bank GmbH Wolfsburg

The company promotes sales of Volkswagen and Audi products by providing finance for the purchase of vehicles and parts by the V.A.G Dealer Organization and by customers.

Business in the provision of loan finance for purchases by the V.A.G Dealer Organization declined somewhat due to the reduced stock of new vehicles. The volume of loan finance for sales, on the other hand, expanded, despite stronger competition on the part of other credit institutions.

The V.A.G Kredit Bank ended the year with a profit, which was transferred to reserves in order to strengthen the equity base.

VW-Wohnungsbau Gemeinnützige Gesellschaft mbH, Wolfsburg

The VW-Wohnungsbau company was mainly concerned in 1981 with the administration, modernization and maintenance of the existing housing stock.

Over the past year 81 apartments were sold, 68 of them to owner-occupiers and 13 to the VW-Siedlungsgesellschaft mbH.

The housing stock was increased by 4 to 7,109 dwelling units through the construction of 85 apartments for lower income groups. In addition there are 132 units of accommodation in hostels.

The company earned a profit in the year under report.

VW-Siedlungsgesellschaft mbH Wolfsburg

The company was mainly concerned with administration of the existing housing stock and looking after the properties of Volkswagenwerk AG, as well as with the construction of 46 separately owned apartments and extensive modernization and maintenance work. As of end 1981 the housing stock amounted to 5,397 dwelling units, with an additional 256 units in hostels.

In the year under report the company registered a loss, owing to increased expenditure on maintenance, interest payments and depreciation, which was assumed by Volkswagenwerk AG on the basis of the existing profit and loss assumption agreement.

HOLAD Holding & Administration AG, Basle, Switzerland

The purpose of this 100%-owned subsidiary of Volkswagenwerk AG is investment in undertakings at home and abroad and the conduct of trust business.

HOLAD owns part of the capital stock of the French finance company V.A.G Financement S.A., Paris, Vorelco Ltd., Toronto, and VOTEX, Inc., Englewood Cliffs.

The company ended the fiscal year 1981 with a profit.

Volkswagen International Finance N.V., Amsterdam, Netherlands and consolidated subsidiary

The financing company was formed in 1977 as a 100%-owned subsidiary of Volkswagenwerk AG.

It owns all the shares of the Volkswagen Overseas Finance N.V., Willemstad, Curaçao, Netherlands Antilles.

The company achieved a substantially better profit than in the previous year.

*The Volkswagen Caravelle,
a luxury bus*



Deutsche Automobilgesellschaft mbH, Hanover

Daimler-Benz AG and Volkswagenwerk AG each own half the capital of this company. It continued its research on electrical storage systems in accordance with the tasks set by the two parent companies.

Expansion of the DAUG-HOPPECKE Gesellschaft für Batteriesysteme mbH, the company formed in 1980 in conjunction with the Accumulatorenwerke Hoppecke Carl Zoellner & Sohn GmbH & Co. KG, Brilon, continued according to plan. The purpose of this company is to put to commercial use the results of research work already obtained.

The net earnings were transferred to the parent companies in accordance with the existing profit and loss assumption agreement.

GmbH für ausländische Vertriebsbeteiligungen M.A.N. – Volkswagen, Munich

The company, which was formed jointly with the Maschinenfabrik Augsburg-Nürnberg AG in 1978, looks after the interests of both manufacturing companies vis-à-vis importers of M.A.N. and Volkswagen commercial vehicles in European volume markets. Trade investments have meanwhile been made in Great Britain, Denmark, Norway, Belgium and the Netherlands. As of end

1981, the capital stock amounted to 6 million DM.

The unfavourable economic trend in some countries in Europe affected the earnings of importing companies, so that expenditure exceeded the return on investments. The company's loss was shared between the two shareholders in the framework of the profit and loss assumption agreement.

V.A.G Marketing-Management-Institut GmbH, Brunswick

The company was operating in rented premises in 1981. Classes are due to start in 1982 in the newly erected institute building in Brunswick. This will mean that far more courses can be held.

The company was still at the start-up stage last year. Its loss, which mainly resulted from depreciation in accordance with the Border Area Promotion Act, was made up by Volkswagenwerk AG under the existing profit and loss assumption agreement.

VW KRAFTWERK GmbH Wolfsburg

The company was formed in 1980. It is in the process of erecting a coal-burning power station at Wolfsburg for the provision of energy to Volkswagenwerk AG and others. The planned completion date is 1985.

The losses incurred during the start-up phase, mainly from depreciation in accordance with the Border Area Promotion Act, were made up by Volkswagenwerk AG under a profit and loss assumption agreement.

VW-Versicherungsvermittlungs-GmbH, Wolfsburg

The company is engaged in insurance broking for the Volkswagen Group and others. It is chiefly concerned with industrial risks. It also coordinates the insurance interests of the companies of the Volkswagen Group all over the world, and formulates a uniform insurance plan.

The volume of premiums was further increased in the course of 1981. Services provided in particular for Group companies were also intensified in the year under report.

Net earnings were allocated to shareholders.

The new Derby, a compact saloon with plenty of space, good performance and high economy



Prospects

The difficult phase which the world economy went through in the past year has continued into 1982. So far there are no reliable indications in sight that the downturn in the economy is likely to be overcome in the near future. But even if the economic situation were to improve, the recovery is unlikely to be great enough to do away with the current large-scale unemployment or to rectify existing imbalances in the world economic structure.

In West Germany, where the real national product has been virtually stagnant for the last two years, there is still no appreciable improvement in the economic climate in sight. The starting base for the economy for 1982 is accordingly still unfavourable. It is only through better prospects for earnings based on a reduction of interest rates across the board, that greater propensity to invest, which is all-important, can come about. And it is hard to see any reduction in unemployment, against the background of structural upheavals and greater investment risks, unless there is a sustained improvement of the earnings situation for industry.

In the light of the uncertainties of the economic situation, the automotive industry will continue to find itself in a difficult position.

In the domestic market, the demand for passenger cars can only pick up very gradually in view of the relatively steep drop in purchasing power as a result of higher energy costs, inflation and the increased burden of taxation. Demand in the commercial vehicle sector will continue to be slack, owing to the weakness of the economy, particularly in the building and construction sector.

As regards the United States, the trend in the automotive industry cannot be expected to improve during 1982 unless the value of money is stabilized, with a relaxation of the present monetary policy and a reduction of the high interest rates.

In the European volume markets the demand backlog in some countries is likely to end the general reluctance to buy. But restrictive monetary policies and the stagnant real incomes will only permit, at the most, a modest increase in the number of new registrations.

The continuation of the difficult economic situation in Brazil, which in 1981 led to an erosion in overall demand for motor vehicles, leaves little hope of any perceptible change in purchasing habits.

Although the Mexican market has hitherto been a most satisfactory one, nonetheless the drastic devaluation of the Mexican peso in the middle of February 1982 has introduced a development which can have a short-term braking effect on us. This does not, however, affect our optimism as regards the long-term situation of the company.

In view of the economic situation there, our market position in South Africa is unlikely to change much.

The world automotive industry is still in a process of structural change, and there is growing competitive pressure in all markets. In future, the competitiveness of undertakings will depend decisively on how far they succeed in realizing new technological developments and, in particular, in producing fuel-saving vehicles at reasonable cost. Development of a forward-looking and market-oriented technology is of necessity central to their activities, together with increasing automation and rationalization in all areas.

The corporate policy of the Volkswagen Group is directed towards fulfilment of these requirements in technology and production. In order to maintain our position and, where possible, expand it we shall have to continue to make a special effort in four directions: further develop-

ment of our market-oriented model range, improvement of our technological know-how, establishing our presence in worthwhile volume markets or markets with a future growth potential, and improving productivity in terms of capital and labour.

In view of a continued weak domestic demand and the existing problems on important foreign markets it will be difficult to increase Group sales over the previous year.


Maintenance of the earnings capacity of our Company continues to be the main target of our endeavours. 1981 was characterized by fall-offs in earnings in the Group which forced us to adopt costly consolidation measures in the subsidiaries and affiliates sector. A high priority is given to a solid financial structure of all Group companies, if only to compensate for the often unpredictable uncertainties in individual countries – e.g. in North and South America – and the results of a swift rate of innovation in the business machines sector.

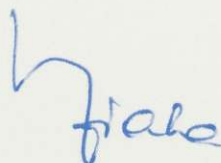
Without the existing regional spread of our activities however, and without the quality standard of our products which is bound up with high levels of investment in research and development, the Volkswagen Group would not have had the strength to carry out this consolida-

tion. These measures are ultimately a necessary precondition for the long-term improvement of the earnings situation of the Group and thus for the maintenance of our employees' jobs.

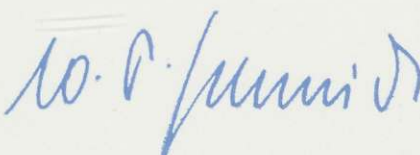
Wolfsburg, March 23, 1982

The Board of Management







The Audi Quattro: permanent four-wheel drive, with an impressive rally record

Financial Statements and Notes

Notes on the Financial Statements of the Volkswagen Group

Consolidation Principles

Scope of Consolidation

In principle all those Group companies have been included in the scope of consolidation in which Volkswagenwerk AG has a direct or indirect interest of over 50 %.

In addition to Volkswagenwerk AG, 20 German and 59 foreign companies are included in the consolidated financial statements. These companies are identified in the chart on pages 38 and 39.

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

Triumph-Adler Büromatic Büromaschinen Vertriebs GmbH, Munich,
Triumph-Adler Büromatic Büromaschinen Vertriebs GmbH & Co. Handels KG, Munich,
Volkswagen Financial Corporation, Troy, Mi.,
VW Credit Inc., Troy, Mi.,
V.A.G España, S.A., Alcobendas (Madrid),
Triumph-Adler Disc, Los Angeles, Cal.,
Omnidata, Westlake Village, Cal.,
Omnidata International, Westlake Village, Cal.,
Omnidata Research Corp., Palm Desert, Cal.,
Omnidata Ltd., Kingston-upon-Thames, Surrey.

The Triumph-Adler Büromatic Büromaschinen Vertriebs GmbH, Munich, is a personally liable partner of the Triumph-Adler Büromatic Büromaschinen Vertriebs GmbH & Co. Handels KG, Munich, which is concerned with marketing and services. TRIUMPH-ADLER AG had a direct interest of 50% in the enterprise at year end and acts as a parent company with respect to Triumph-Adler Büromatic. It is planned to take over the majority of the capital stock. The Omnidata companies in the TRIUMPH-ADLER group were acquired in the year under report. These companies develop and manufacture word processing equipment.

Two new companies were formed by Volkswagen of America, Inc. to provide finance for dealers and customers and the leasing business, namely the Volkswagen Financial Corporation and VW Credit, Inc. V.A.G España, S.A., Alcobendas (Madrid), which was formed in May 1981, is a distributing company.

The South African Motor Acceptance Corp. (Pty.) Ltd. (SAMAC), Uitenhage, was dissolved in 1981, since the company had been inactive for several years. The provision of finance for dealers has now been taken on by Volkswagen of South Africa (Pty.) Ltd.

Not included in the consolidation were 2 domestic and 19 foreign Group companies, one of which is a dealer firm in the USA. The main companies concerned are:

Auto Union GmbH, Munich,
Triumph Werke Wohnungsbaugesellschaft mbH, Nuremberg,
VW Camions et Bus S.A., Paris,
Consórcio Nacional Volkswagen Ltda., São Paulo.

The overall picture provided of the assets and earnings position of the Volkswagen Group is not affected by the fact that these companies are not included, since some of them are inactive and are insignificant in their volume.

Form of Presentation and Valuation

In preparing the consolidated financial statements we have principally taken account of the recommendations of the global financial statements study group of the Schmalenbach-Gesellschaft/Deutsche Gesellschaft für Betriebswirtschaft. The form of presentation observes the requirements of the German Corporation Law. We have also shown the development of fixed assets and investments in the balance sheet, and have prepared the statement of earnings in fully consolidated detailed form. Reclassifications which proved necessary from the Group's

point of view were effected. The amounts scheduled for distribution to holders of participating certificates in 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 net earnings available for distribution of one Group company have been allocated to undetermined liabilities.

The financial statements of the consolidated foreign companies have been drawn up and audited on the basis of unified accounting and valuation principles in line with the provisions of the Corporation Law.

Translation of Currencies

Additions to fixed assets were translated at the average rates of the months of acquisition (historical rates), depreciations and disposals at middle rates weighted in line with the monthly additions. For translation of additions up to the end of 1978 the average foreign exchange rate of the respective year was used.

For translation of loans with a term of four years or longer we used the average rates in force on the balance sheet date, whereas the remaining items of financial investments were translated at the foreign exchange rates in force on the date of acquisition and carried forward historically.

The remaining assets items and debts were translated at the average rates in force on the balance sheet date.

In the statement of earnings we translated the depreciations and the gains and losses from disposals of fixed assets and investments at the historic rates of the fixed assets and investments. The remaining income and expenses were translated at the average monthly rates of the report year in each case. Net earnings for the year have been translated at the rates in force on the balance sheet date in each case.

Differential amounts arising from currency translation of balance sheet items have been allocated straight to the reserve from capital stock surplus; they do not affect the net earnings position. Differential amounts arising from currency translation of items in the statement of earnings were balanced out before calculation of net earnings, so that they have had no effect either on the net earnings position as shown.

Capital Consolidation

We have effected the capital consolidation by separation of the adjustment items arising from the initial and from subsequent consolidation. In this way the acquisition costs of the interests in Group companies were set off against the capital to

be consolidated available at the time of acquisition of interest. The resulting adjustment items arising from initial consolidation were shown as a special item in addition to property, plant, equipment and investments and on the stockholders' equity and liabilities side separately under consolidated reserves.

The adjustment items resulting from subsequent consolidation, with the exception of the differences resulting from translation of currencies which are included under the reserve from capital stock surplus, are shown as reserve of the Group arising from earnings.

The reserve of the Group arising from earnings also includes the following:

Unappropriated earnings of Volkswagenwerk AG,
Value adjustments in consolidated companies, insofar as they cannot be deducted from the adjustment items arising from initial consolidation and shown on the assets side,
Intra-Group profits made with regard to property, plant, equipment and investments and inventories.

In addition the net earnings available for distribution of the subsidiaries and affiliates which were not set aside for distribution to outside stockholders or holders of participa-

ting certificates were included under reserve of the Group arising from earnings. The alterations to the net earnings brought about by consolidation were set off against the reserve of the Group arising from earnings via the item change in the consolidated reserves. We have again subtracted sums from the reserve of the Group arising from earnings in the amount of the income from investments of the parent company. Thus the consolidated net earnings available for distribution correspond to the net earnings available for distribution shown for Volkswagenwerk AG.

Ascertainment of the minority interest in consolidated foreign subsidiaries was based on the financial statements translated into DM and adapted on unified valuation principles or on the generally accepted accounting principles; the differences resulting from translation and incurred in the course of consolidation were perceptually assigned to minorities.

Financial Situation

The financial situation of the Volkswagen Group was characterized by a heavy tying up of funds in the sector of fixed assets as a result of the high volume of investment. At the same time the earnings situation was unsatisfactory.

Capital investments, which include the amounts brought forward of companies consolidated for the first time and additions to the adjustment items arising from initial consolidation, increased on the previous year by 572 million DM or 13.4% to 4,851 million DM. As a result of the continued high level of investment activity of the Volkswagen Group depreciation rose to 2,934 million DM. For this reason, despite a reduced contribution from the result the cash flow¹⁾ improved on 1980 by 25.3% to 3,936 million DM. The proportion of investments covered by the cash flow thus increased to 81.1% (previous year 73.4%). For covering the additional requirement of funds it was necessary to have recourse to a portion of liquid funds. Depreciation equivalents financed 60.5% of capital investments.

The balance sheet total of the Volkswagen Group rose only slightly on the previous year by 2.2% to 25,337 million DM.

Whereas on the assets side there was a structural shift in favour of fixed assets and investments, the proportion of stockholders' equity and outside capital in the balance sheet sum changed only insignificantly.

Fixed assets and investments, in which we have also included the adjustment items arising from initial consolidation, increased by 1,454 million DM to 10,619 million DM. A considerable proportion of this increase related to the higher level of investment activity in the fixed assets sector. Current assets showed a drop of 914 million DM to 14,718 million DM, due primarily to the utilization of liquid funds. Inventories were slightly below the previous year's level. Receivables on the other hand were up by 334 million DM at 4,771 million DM.

The improvement in stockholders' equity resulted primarily from the effects of translation of currencies and the transfer of equity from minorities. At the end of 1981 property, plant, equipment and investments were 60.2% covered by stockholders' equity (previous year 67.2%). The increase in outside capital of 314 million DM related to medium and long-term items.

Consolidated balance sheet structure compared with the previous year:

Million DM	Dec. 31 1981		Dec. 31 1980	
Assets				
Property, Plant, Equipment and Investments	10,619	42%	9,165 ²⁾	37%
Current Assets	14,718 ²⁾	58%	15,632 ²⁾	63%
	25,337 ²⁾	100%	24,797 ²⁾	100%
Stockholders' Equity and Liabilities				
Stockholders' Equity	6.388	25%	6,162	25%
Liabilities payable within more than 4 years	4,459	18%	4,214	17%
1 to 4 years	2,781	11%	2,433	10%
up to 1 year	11,709	46%	11,988	48%
	25,337 ²⁾	100%	24,797 ²⁾	100%

¹⁾ The following items as shown hereunder are included in the cash flow: Net earnings + Depreciation of fixed assets and write-down of investments – Write-ups + Disposals of property, plant, equipment and investments + Increase in provision for old-age

pensions +/– Increase/Decrease of stockholders' equity in reserves for special purposes.

²⁾ Decreased by the amounts shown on the stockholders' equity and liabilities side as allowance for doubtful trade acceptances and accounts

**Development
of Short-term Liquidity**

Million DM	Dec. 31 1981	Dec. 31 1980	Increase (Decrease)
Liquid funds, trade acceptances	2,822	3,971 ¹⁾	(1,149)
Securities, own stock	1,129	1,151 ¹⁾	(22)
Short-term receivables and investments (advance payments not included) ¹⁾	4,367	3,955	412
Short-term liabilities and undetermined liabilities (including liabilities in reserves for special purposes) ²⁾	11,583	11,792	<u>209</u> <u>(550)</u>

In 1981 the decrease in the liquidity position resulted from the following (million DM):

from current business

Net earnings	136	
Depreciation of fixed assets and write-down of investments and disposals balanced with write-ups	3,416	
Increase in provision for old-age pensions	368	
Increase in stockholders' equity in reserves for special purposes	<u>16</u>	3,936

from financial transactions

Dividend payments to the stock- holders of Volkswagenwerk AG and to minorities in 1981	(193)	
Increase in long and medium- term liabilities	237	
Increase in other items	<u>177</u>	221

from uses of funds

Additions to fixed assets	(4,777)	
Additions to investments incl. increase in the adjustment items arising from initial consolidation on the assets side	(74)	
Decrease in inventories and advance payments ¹⁾	77	
Decrease in long and medium-term receivables ¹⁾	<u>67</u>	<u>(4,707)</u>

**Decrease in the liquidity
position**(550)

¹⁾ Decreased by the amounts shown under stockholders' equity and liabilities as allowance for doubtful trade acceptances and accounts

²⁾ Not including the amounts intended for distribution

Balance Sheet

Assets

The net book value of **Property, Plant, Equipment and Intangible Assets** rose on the previous year's figure by 1,879 million DM to 10,205 million DM. Evaluation of property, plant and equipment was carried out on the basis of acquisition or manufacturing cost less regular depreciation. Particularly in Germany extraordinary depreciation permissible by tax law was provided for. Beyond this there were only minor extraordinary depreciations due to economic conditions with regard to Group companies.

Investments in property, plant and equipment at 4,777 million DM were 765 million DM (19.1 %) above the preceding year's level. These figures include the amount brought forward from the Omnidata group belonging to TRIUMPH-ADLER and the Triumph-Adler Büromatic companies included for the first time. The additions pertained 27.9 % to Volkswagenwerk AG, 16.6 % to AUDI NSU AUTO UNION AG, 13.5 % to V.A.G Leasing and 11.1 % to Volkswagen do Brasil. They mainly related to the items plant and office equipment, construction in progress, advance payments on fixed assets and machinery and fixtures. The emphases of investment activity were production facilities for our extended product

range, measures for strengthening the Group interlinked production, and renewal and extension of the leasing and rental fleets especially at V.A.G Leasing. Disposals resulted significantly from sales of used leasing and rental vehicles.

Investments were up on the preceding year by 11 million DM at 296 million DM. The item **Investments in Subsidiaries and Affiliates** mainly consists of the Volkswagenwerk AG's holdings in the V.A.G Sales Centres, Svenska Volkswagen AB and Volkswagen of Nigeria.

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

Long-term Loans Receivable with an Initial Term of Four Years or Longer primarily pertain to loans granted by Volkswagenwerk AG and Volkswagen of America. Interest-free and low interest bearing loans have been discounted to their cash values. Amounts of interest to be deducted or added are shown under write-downs and write-ups respectively. The domestic companies continued the loans at the lower value of the previous year.

Other Investments pertained mainly to tax-privileged investments by Volkswagen do Brasil.

Adjustment Items Arising from Initial Consolidation show the existing values in excess of the nominal value at the time of acquisition. They mainly comprise the differential sums arising from the consolidation of AUDI NSU AUTO UNION AG and interRent Autovermietung. Write-downs of the book values of the holdings in AUDI NSU AUTO UNION AG and Volkswagen Bruxelles made by Volkswagenwerk AG in former years to take account of reductions in value were deducted from the adjustment items. In the year under review the adjustment item resulting from the consolidation of the TRIUMPH-ADLER group was fully written down.

Inventories decreased on the previous year by 83 million DM (1.4 %) to 5,971 million DM. This occurred particularly at Volkswagenwerk AG and Volkswagen do Brasil, whereas Volkswagen de Mexico showed an increase in stocks.

Of the **Trade Accounts Receivable** 38.2 % pertained to domestic and 61.8 % to foreign subsidiaries and affiliates.

Trade Acceptances were primarily shown by V.A.G France and Volkswagen of America.

Cash in Banks decreased by 1,154 million DM (30.5 %) on the preceding

year to 2,631 million DM. Reductions occurred in particular at Volkswagenwerk AG and AUDI NSU AUTO UNION AG.

The portfolio of **Securities** in the amount of 1,107 million DM was held almost entirely by Volkswagenwerk AG and AUDI NSU AUTO UNION AG.

Own Stock remained unchanged in the year under report.

Miscellaneous Other Current Assets consisted mainly of receivables resulting from financing of purchase (dealer financing) and sales (customer financing), tax repayments and interest receivable, and registered securities.

Under **Prepaid and Deferred Expenses** the commission above all of V.A.G Leasing was entered separately. In addition the item contains essentially the expenses from the financing business at Volkswagen do Brasil.

Stockholders' Equity and Liabilities

The **Consolidated Reserves** comprised the reserve from capital stock surplus, 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 Volkswagenwerk AG. This item was reduced by the adjustment items arising from currency translation.

The **Reserve of the Group Arising from Earnings** increased by 179 million DM (4.4%) to 4,216 million DM. This item comprised mainly the Group's share in the reserves including the amounts converted to corporate capital, the eliminated adjustments on subsidiaries and affiliates, the amounts of intra-Group supplies of property, plant and equipment and inventories which have to be eliminated and discounts from interest-free loans granted to housing construction companies by Volkswagenwerk AG neutralized during the consolidation. In addition the balance sheet profits or losses of the other consolidated companies are included.

Adjustment Items Arising from Initial Consolidation represent the excess of net worth over the cost at the time of acquisition. They comprised the differences from the consolidation of Volkswagen Caminhões, Volkswagen of South Africa and Volkswagen Argentina.

Minority Interest in Consolidated Subsidiaries mainly represented minority interests in Volkswagen

do Brasil and AUDI NSU AUTO UNION AG.

Reserves for Special Purposes were shown for Volkswagenwerk AG and to a small extent for V.A.G France, AUDI NSU AUTO UNION AG and VW-Siedlungsgesellschaft.

The **Allowance for Doubtful Trade Acceptances and Accounts** served as security for covering the general credit risk. On account of the reduced adjustment percentage and alteration of the basis of calculation, in the year under review the sums no longer required were transferred to earnings.

Of the total **Undetermined Liabilities** 44.1% were long-term, 26.4% medium-term and 29.5% short-term liabilities.

Undetermined Liabilities in respect of **Old-age Pensions** were based on actuarial computations and in principle the going value method was used. They arose from the financial statements of the domestic Group companies.

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 Obligation were mainly taken over from the financial statements of Volkswagenwerk AG, Volkswagen of South Africa and Volkswagen do Brasil.

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

Liabilities with an Initial Term of Four Years or Longer increased by 114 million DM to 1,783 million DM. Increases were shown by among others Volkswagen de Mexico and Volkswagen Argentina. On the other hand repayments were made in particular by Volkswagenwerk AG.

63.7 % of **Trade Accounts Payable** pertained to domestic, 36.3 % to foreign Group companies.

Liabilities Resulting from the Acceptance of Bills Drawn and the Issuing of Promissory Notes were shown primarily in the financial statements of Volkswagen do Brasil, Volkswagen of South Africa and Volkswagen of America.

Other liabilities **Due to Banks** were reduced by repayments on the part of Volkswagen of America and Volkswagenwerk AG by 505 million DM to 4,287 million DM. On the

other hand increases were shown by Volkswagen do Brasil and Volkswagen de Mexico.

Advance Payments from Customers were taken over mainly from the financial statements of Volkswagen de Mexico and Volkswagenwerk AG.

Miscellaneous Other Liabilities pertain mainly to payroll accruals, taxes and customs duties.

In addition to the **Contingent Liabilities** shown on the balance sheet, other liabilities which have to be mentioned were as follows:

Of the total securities shown under current assets 2 million DM par value were pledged by Volkswagenwerk AG. We are also liable for refunded deposits in limited partnerships (Kommanditgesellschaften) in the amount of 3,294,580 DM. Other liabilities existed towards a cooperative and a private limited liability company in the amount of 120,600 DM; in addition in the case of the private limited liability company there existed a co-liability in accordance with § 24 GmbH-Gesetz (Limited Liability Companies Act).

Statement of Earnings

The figures contained in the 1981 consolidated statement of earnings have been influenced by the exchange rate development in particular of the US dollar and its dependent currencies. This makes comparison with the preceding year difficult.

Sales of the Volkswagen Group rose in the year under review by 4,590 million DM (13.8%) to 37,878 million DM. The foreign share of sales rose to 68.2 (64.4)%.

The **Decrease in Inventories** of 263 million DM was primarily due to the reduction of finished and unfinished products at Volkswagenwerk AG and Volkswagen do Brasil.

The **Gross Performance** increased by 9.2% or 3,208 million DM to 38,197 million DM.

The increase in **Expenditures for Raw Materials, Supplies and Other Materials** of 1,514 million DM (8.3%) to 19,752 million DM resulted from the exchange rate influence but mainly from the rise in purchasing prices.

Income from Profit and Loss Assumption Agreements resulted from the partial assumption of the profit of the Deutsche Automobilgesellschaft by Volkswagenwerk AG.

Income from Investments in Subsidiaries and Affiliates almost exclusively pertained to Volkswagenwerk AG's portion of the profits of the Sales Centres in Germany.

Income from Other Financial Investments in the main resulted from loans at Volkswagen of America and investment securities at Volkswagen do Brasil.

Other Interest and Similar Income comprised mostly interest income of Volkswagenwerk AG and AUDI NSU AUTO UNION AG and income of financing companies.

Gains from Disposal of Fixed Assets and Investments and Write-ups came for the most part from the sale of used vehicles by the rental companies and disposals of the TRIUMPH-ADLER group and Volkswagenwerk AG.

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

Other Income resulted for the most part from foreign exchange gains, from the rebilling of advertising material and sales promotion costs, from rents and leasing and from the rebilling of warranty costs.

Expenditures for Wages and Salaries increased, despite a slight fall in the average number of employees (see under "Workforce", p. 18), by 834 million DM (9.3%) on the previous year to 9,795 million DM. This was due to wage tariff increases and currency developments.

Social Expenditures rose by 139 million DM to 1,429 million DM.

The rise in **Pension Expenditures and Voluntary Payments** of 24 million DM to 555 million DM resulted mainly from increased allocations to provisions for old-age pensions at domestic Group companies.

Losses on Disposal of Fixed Assets and Investments were shown primarily by the domestic Group companies.

The increase in **Interest and Similar Charges** of 844 million DM to 1,403 million DM was due to the additional credit volume of our South American companies, the requirement for outside capital in the Volkswagen Group remaining more or less constant. The financing costs in these countries were especially high as a result of inflation.

Taxes on Income, Earnings and Property were down on the previous year due to the declining development of earnings.

Other Taxes were shown preponderantly by foreign Group companies. Their main items were taxes paid on the conclusion of financing contracts by Volkswagen do Brasil and sales taxes at Volkswagen Argentina.

Expenses under Profit and Loss Assumption Agreements were incurred by Volkswagenwerk AG for one domestic company.

Of **Other Expenses** the major part related to currency losses, costs of repair and maintenance, advertising and sales promotion, dispatch of products and rent and leasing.

The **Net Earnings** totalled 136 million DM, on account of the unsatisfactory earnings situation of our South American companies and the TRIUMPH-ADLER group 185 million DM (57.5%) less than in the previous year.

Notes on the Financial Statements of Volkswagenwerk AG

Balance Sheet

Assets

Additions to Property, Plant and Equipment in the year under report totalled 1,337 (1,573) million DM. The bulk of the capital expenditure concerned, as before, projects for the further development and updating of the product range. Additional large sums were spent on restructuring measures for improving work flow and working conditions, enhancing flexibility in engine and gearbox production, and rationalization and replacement projects.

Additions to finished buildings and plant, including transfers from buildings and plant under construction and advance payments on fixed assets, came to 1,223 (1,400) million DM. Of this total, 605 (632) million DM was expended on plant and office equipment, 439 (543) million DM on machinery and fixtures, and 179 (225) million DM on real estate and buildings.

The gross book value of property, plant and equipment at the end of the year under report was 13,189 (12,255) million DM. After deduction of value adjustments on this amount of 10,179 (9,361) million DM the net book value for showing in the balance sheet amounted to 3,010 (2,894) million DM.

Capital expenditure was broken down by plant as follows:

Property, plant and equipment have been valued at acquisition or manufacturing cost less depreciation. Calculation of manufacturing cost includes direct cost of materials and wages and that portion of operating expenses to be accounted for under tax regulations, inclusive of pro rata depreciation. Administrative cost items are left out of account.

Investment grants and subsidies from public funds have been deducted from acquisition or manufacturing cost. Those relating to the previous year have been shown in the balance sheet under disposals.

Advance payments on fixed assets are accounted for at their nominal value.

Regular depreciation on the acquisition or manufacturing cost of finished tangible fixed assets has been effected either on the straight-line or reducing-balance system, with a later switch to the straight-line method. Depreciation on special tools and jigs is calculated on the basis of unit rates according to the total projected quantity of manufactured units.

Our policy regarding depreciation is to take full advantage, on principle, of the permissible allowances for purposes of income tax and profit

Plant		of which movable assets
Wolfsburg	768 million DM	569 million DM
Hanover	141 million DM	114 million DM
Kassel	148 million DM	134 million DM
Salzgitter	95 million DM	90 million DM
Emden	115 million DM	46 million DM
Brunswick	70 million DM	55 million DM
	<u>1,337 million DM</u>	<u>1,008 million DM</u>

tax; regular depreciation has therefore been carried out as follows:

- at reducing-balance rates (in the year under report in observance of the Second Budgetary Structure Reinforcement Act of December 22, 1981)
- at full annual rates of depreciation on additional acquisition or manufacturing cost and on additions to movable assets in the first six months of the year and at half rates on additions in the second six months
- full write-off of assets of minor value in the year of acquisition
- accelerated depreciation of installations for environmental protection ready for operation pursuant to § 7d EStG (Income Tax Act), at 60% for the year of addition and at 10% over the remaining four years.

Extraordinary depreciation has been effected on concessionary additions in 1981 under the terms of § 3 of the Border Area Promotion Act. Extraordinary depreciation was also applied to advance payments and

Regular depreciation is based on the following system of estimated years of useful life:

Buildings	in most cases	30 – 50 years
Technical buildings and land improvements	in most cases	10 – 18 years
Production machinery	in most cases	6 – 8 years
Power generating plant	in most cases	14 years
Plant and office equipment	in most cases	3 – 8 years

part manufacturing cost. It was also applied to a lesser extent, under the provisions of § 6b EStG, to special tools for phased-out models and to installations no longer in operational use.

Intangible fixed assets are not carried as assets.

The additions to **Investments in Subsidiaries and Affiliates** shown under **Investments** in the amount of 804 million DM mainly concern the foreign Group companies, and reflect in particular investments in Volkswagen of America, Inc., Volkswagen do Brasil S.A., Volkswagen Caminhões Ltda., the renamed Chrysler Motors do Brasil Ltda., Volkswagen Argentina S.A. and Volkswagen de Mexico S.A. de C.V. We made additional capital contributions to V.A.G France S.A., the new company formed in 1981 V.A.G España, S.A., and TAS Tvrnica Automobila Sarajevo. At home, we provided the VW KRAFTWERK GmbH with the necessary capital for its current investment programme.

Disposals were accounted for – as in the previous year – mainly by the continued process of amalgamating the domestic sales centres.

Trade investments were valued at acquisition cost, and where appropriate reduced by value adjustments

effected in previous years or in the current fiscal year. Write-downs had to be applied in the year under report to the holdings in TRIUMPH-ADLER Aktiengesellschaft für Büro- und Informationstechnik, Volkswagen Argentina S.A., Volkswagen Caminhões Ltda. and Volkswagen do Brasil S.A. owing to the substantial losses incurred, or because of the risks inherent in these holdings. Additionally, two holdings of minor importance, one in a domestic and one in a foreign company, were written down. Of the total amount of write-downs, 330 million DM was in respect of additions for the current year.

Loans Receivable with an Initial Term of Four Years or Longer for the greater part comprised funds advanced to housebuilding associations or company employees.

These were discounted in the year of their addition at an interest rate of 7%. The values shown have been retained, with account being taken of the amounts relating to redemption payments. As of December 31, 1981 we have shown loans effected since 1955 under the provisions of § 7c EStG discounted at 7% (the previous rate was 5.5%). Loans granted up to end 1954 in accordance with § 7c EStG were fully written down.

The balance sheet value of **Inventories**, at 2,013 million DM, is 246 million DM less than in the previous year.

Raw materials and supplies are valued at average acquisition cost carried forward or at replacement cost, whichever is the lower. We made use of the provision for abatement on imported goods under § 80 EStDV (Income Tax Regulation). The values shown for finished and unfinished products include direct materials valued at the average acquisition cost, direct labour cost, and also material overhead and manufacturing overhead to be carried under assets in accordance with tax regulations; general administrative costs are not taken into account. Bought-in goods were shown at their acquisition cost. Foreseeable warehousing and inventories risks have been provided for through reasonable value adjustments.

Regular and extraordinary depreciation on additions for 1981 is distributed 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 on fixed assets
	with office, factory and other buildings	with residential buildings	without buildings					
1981 additions ¹⁾	151,346	3,870	1,367	18,355	438,778	551,624	178,100	17,700
Depreciation on 1981 additions	35,507	81	533	2,248	214,418	178,246	78,750	8,850

¹⁾ Additions inclusive of transfers from construction in progress and advance payments on assets (not including special tools not yet in operational use and not yet depreciated but including

Of the 415 million DM in **Trade Accounts Receivable** 330 million DM relate to foreign business and 85 million DM to domestic business. Due and payable accounts, with a few unimportant exceptions, have in the meantime been settled.

Cash in Banks is mostly in the form of fixed deposits.

The decrease in the value of **Securities** is mainly due to redemptions of bonds and notes falling due in the amount of 260 million DM. Additions in fiscal year 1981 have been valued at acquisition cost or market value, whichever was the lower; securities held at end 1980 were, with one unimportant exception, brought forward at the balance sheet values of the previous year. The sum of 2 million DM was pledged as security in favour of the customs authorities in Hanover against current import clearances.

The balance sheet value of **Own Stock** remained unchanged. This was acquired in the third quarter of 1971 in conjunction with the increase in the holding in AUDI NSU AUTO UNION AG, in implementation of the conversion offer made to the AUDI NSU stockholders. A total of 301,206 shares were acquired at a nominal value of 15,060,300.—DM at an average price of 190.04 DM per share. The nominal value

of the own stock corresponds to 1.3% of the capital stock. A reserve has been created, as required by law, for own stock in the amount of the value shown in the accounts.

Receivables from Subsidiaries and Affiliates chiefly comprised sums due from V.A.G Leasing GmbH, V.A.G France S.A., AUDI NSU AUTO UNION AG, TRIUMPH-ADLER AG für Büro- und Informationstechnik and interRent Autovermietung GmbH. Of the total sum of receivables 1,407 million DM relates to domestic companies and 778 million DM to foreign companies. Value adjustments have been made for risks of non-payment and amounts granted free of interest.

Miscellaneous Other Current Assets mainly consist of claims arising from non-negotiable securities or interest receivable and claims for refund of sales tax. Appropriate adjustments have been made for claims that are at risk.

Stockholders' Equity and Liabilities

Capital Stock, Legal Reserve, Reserve for Own Stock and Other Reserves remained unchanged for the year under report. There is also still an additional amount of 300 million DM by way of capital authorized but not yet issued; the authorization stands until June 30, 1984.

Reserves for Special Purposes were increased through the setting up, mainly, of reserves in accordance with § 1 of the Developing Countries Tax Act in conjunction with the capital contributions made to Volkswagen de Mexico S.A. de C.V. and to V.A.G. España, S.A. Other allocations were made to the reserve for price increases in accordance with § 74 EStDV (Income Tax Regulation), to the reserve set up pursuant to § 6b EStG and to the reserve for replacement procurement in accordance with section 35 EStR (Income Tax Guidelines).

A part of these reserves was written back in accordance with the legal provisions.

Allowance for Doubtful Trade Acceptances and Accounts, to cover the general credit risk, was fixed for 1981 at only 1% (1980: 8%), with respect to trade accounts receivable and advance payments to suppliers.

Loans with an initial term of four years or longer, trade acceptances, securities and miscellaneous other current assets were excluded.

Undetermined Liabilities in respect of **Old-age Pensions** were calculated on the going value principle in accordance with § 6a EStG on the basis of actuarial methods.

Other Undetermined Liabilities are mainly provisions for marketing expenses, in this case in particular for warranties, tax provisions and provisions for labour costs. The decrease for the year under report is to be accounted for chiefly in relation to tax provisions.

Under Liabilities with an Initial Term of Four Years or Longer, Loans decreased as a result of the fourth instalment falling due on the 1972 loan in the amount of 300 million DM and of repayments under **Due to Banks**.

Trade Accounts Payable are more or less the same as in the previous year.

The decrease in **Accounts Payable to Subsidiaries and Affiliates** is mainly due to working off of the advance payments received in the previous year from Volkswagen of America, Inc.

Miscellaneous Other Liabilities primarily consist of current wages and salary obligations and other obligations towards the workforce, and of tax payments due.

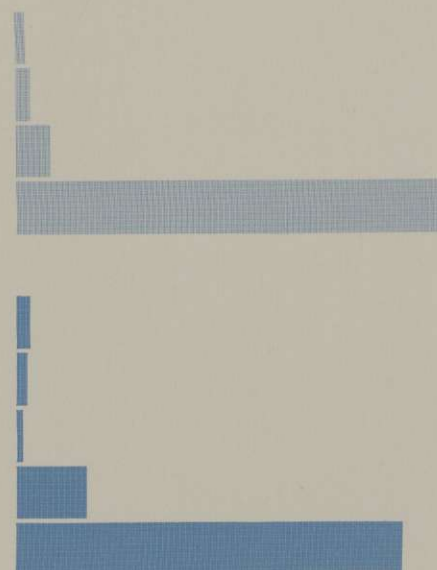
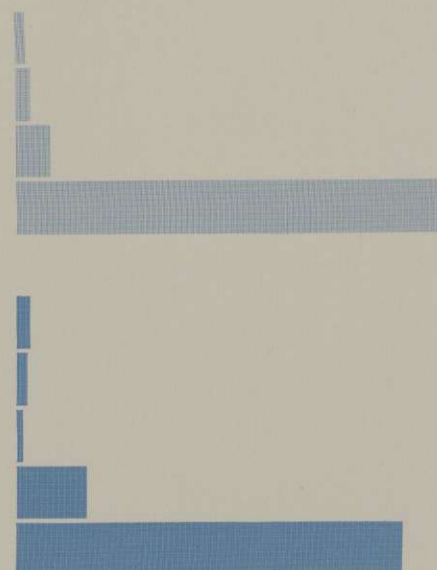
Statement of Earnings

The following calculation of the **Added Value** in 1981 shows up in the value increase in the Company and its distribution.

Sources of added value (million DM)

	1981	1980
Gross performance as shown in the statement of earnings which is drawn up in accordance with AktG	26,416	25,623
plus other income	2,131	1,495
= Total performance	28,547	27,118
less expenditures (of which material costs)	19,136 (16,610)	17,917 (15,809)
less depreciation and losses on disposal	2,042	1,151
= Added value	<u>7,369</u>	<u>8,050</u>

Distribution of added value (million DM)

1981	120		1.6% for stockholders and for the Company
	227		3.1% for creditors
	477		6.5% for the State
	6,545		88.8% for Company employees
1980	192		2.4% for stockholders
	119		1.5% for the Company
	68		0.8% for creditors
	1,137		14.1% for the State
	6,534		81.2% for Company employees

Sales increased by 1,222 million DM to 26,402 million DM. This increase, despite a decrease in sales volume, was largely due to the sale of models that were more up-market in that they represented improved standard versions, and to price increases. Domestic sales were 3.8% and foreign sales 5.8% higher than the previous year's level. Of total sales, 73.9% was accounted for by the vehicle business, 8.1% by parts sales and 18.0% by miscellaneous other sales.

The increase of **Expenditures for Raw Materials, Supplies and Other Materials** by 800 million DM, or 5.1% was due in the main to higher acquisition cost of vehicles procured from subsidiaries and affiliates. Other contributory factors for this increase were structural changes in vehicle production and higher purchase prices for materials and supplies. Expenditure was no higher chiefly because of the reduced volume of production.

Income from Profit and Loss Assumption Agreements is derived from the domestic subsidiaries WESER-EMS Vertriebsgesellschaft mbH and the Deutsche Automobilgesellschaft mbH.

Income from Investments in Subsidiaries and Affiliates is derived mainly from the proportionate share

in the earnings of the domestic sales centres for 1981 and from dividends from holdings in foreign companies for 1980. We also received an interim dividend from a foreign subsidiary as the result of a resolution on the allocation of net earnings.

Income from Other Financial Investments consisted almost exclusively of interest received on lending.

Other Interest and Similar Income derived in particular from fixed deposits, securities and overdrafts granted to subsidiaries and affiliates.

Gains from Disposal of Fixed Assets and Investments are mostly in relation to the sale of machinery and special tools and to redemption of housing loans.

Income from Elimination of Reserves for Undetermined Liabilities resulted mainly from the release of provisions for taxes and marketing expenses.

Other Income accrued primarily in connection with settlements for deliveries to foreign subsidiaries and affiliates in foreign currency, rebilling of tax payments to subsidiaries in a joint taxation relationship, sales of catering goods, and rebilling of services and warranty expenses.

Labour cost rose in the year under report by 12 million DM or 0.2%

to 6,545 million DM (see under "Workforce", p. 41 ff). This very small increase is attributable to the fact that short-time working was introduced during the year and that less overtime was worked than in 1980. This virtually made up for the effects of the higher wage rates that came into force in spring 1981 and of changes in the legislation on social contributions.

Depreciation of Fixed Assets and Write-down of Financial Investments and Write-down of Other Current Assets have already been explained under the relevant heads in the notes on the balance sheet.

Interest and Similar Charges resulted in the main from liabilities to subsidiaries and affiliates, in respect of long-term loans and from the 300 million DM loan of 1972.

Taxes on Income, Earnings and Property essentially related to taxes on earnings for the current year.

Expenses under Profit and Loss Assumption Agreements were chiefly incurred through the waiving of receivables from the TRIUMPH-ADLER Aktiengesellschaft für Büro- und Informationstechnik. Additional expenditure was incurred from assumption of losses under profit and loss assumption agreements with VW KRAFTWERK GmbH, V.A.G Marke-

ting-Management-Institut GmbH and VW-Siedlungsgesellschaft mbH, as well as from partial assumption of the loss of another domestic company.

The main items under **Other Expenses** were freight costs incurred in the marketing of products, cost of materials and outside services incurred in the servicing and maintenance of plant, and costs of sales promotion and advertising; currency losses have also been shown under this head.

Additional Details

Apart from the **Contingent Liabilities** shown in the balance sheet, we were liable in the amount of 61,125,000 DM in respect of subscription obligations concerning domestic private limited liability companies. We had additional liabilities in the amount of 3,294,580 DM concerning returned capital contributions from limited partnerships.

Pursuant to § 160 subsection 2.5 AktG, the difference which reduced the net earnings for the year under report was 57,066,980 DM. This arose mainly from the depreciation applied under the provisions of § 3 of the Border Area Promotion Act and allowance for trade investment risks, as well as from the change in the allocation to the allowance for doubtful trade acceptances and accounts.

Remuneration of members of the Board of Management in 1981 amounted to 8,087,134 DM. Retired members of the Board of Management or their surviving dependants received 4,053,435 DM.

Remuneration of the Supervisory Board amounted to 336,825 DM.

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Explanations of Certain Financial Terms

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 are subject to varying definitions, 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 Volkswagenwerk AG as follows: Gross performance as shown in the statement of earnings + other income – expenditures (predominantly material costs) – depreciation and losses from disposals. The calculation of the added value also shows, to what extent the employees, the creditors, the State, and the stockholders participate in the total performance of the Company.

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 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 do not correspond to the capital to be consolidated 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 individual bad debts through value adjustments made on the assets side in the case of the receivables concerned.

Authorized capital: Authorized capital is one of the four forms of capital increase provided for in the Corporation Law and comprises the authorization of the Board of Management by the Annual Meeting of Stockholders to increase the capital stock of the company within a maximum of five years by up to an agreed nominal value through the issue of new shares.

The conditions and the exact date of the share issue are decided by the Board of Management after approval by the Supervisory Board. Since a further resolution of the Annual Meeting of Stockholders directly prior to the increase of capital stock is not necessary, the authorized capital represents a flexible instrument for capital raising as far as the time of the increase is concerned which makes it possible to adapt the time and conditions swiftly to the situation on the capital market at any given point. At the Annual Meeting of Stockholders of 1979 the Board of Management was authorized to increase the capital stock of Volkswagenwerk AG from the present 1,200 million DM to up to 1,500 million DM through the issue of new bearer shares up to June 30, 1984. The stockholders are to have subscription rights.

Capital investments: These are additions of property, plant and equipment for long-term use – e.g. real estate, machines and plant and office equipment. They also include additions of intangible fixed assets such as patents and licences, and also financial investments such as the acquisition of shares, limited liability company holdings and bonds. The consolidated financial statements also include under additions for example the fixed assets and investments of companies included in the consolidation scope for the first time and an increase of the adjustment items arising from initial consolidation.

Cash flow: This is the sum of money available to a company for financing purposes in any fiscal year from the sales proceeds after deduction of expen-

ses such as material, labour and other costs. In practice it is ascertained in different ways. At Volkswagenwerk AG it is ascertained thus: Net earnings + provision for depreciation of fixed assets and write-down of investments – write-ups + 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 rating of 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 legally independent group companies being consolidated into group financial statements, 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 business operation and are not advance payments for expenses of the following year (item "Prepaid and Deferred Expenses") are referred to as current assets. In principle these include 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 expenditures of the company which do not result in income or expenses until after the balance sheet date (e.g. rent paid in advance).

Depreciation: By means of depreciation the acquisition or manufacturing costs of items making up the fixed assets are distributed over the accounting periods (fiscal years) in accordance with their planned useful life. In addition to this regular depreciation there is extraordinary depreciation for covering unforeseen value-reducing factors and for tax purposes. 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 gains or losses on disposal of fixed assets and investments. At Volkswagenwerk AG the investment allowances granted from government funds on the previous year's capital investments, whereby the acquisition or manufacturing costs are reduced, are also shown as disposals.

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. Fixed assets and investments are subdivided into tangible and intangible assets (e.g. licences, patents, rights) and financial investments.

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 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; auxiliary materials are only minor components of the product; supplies (e.g. lubricants) are not a part of a product but are necessary for its manufacture. "Goods" are all objects which have been purchased from outside and disposed of without processing or reworking. At Volkswagenwerk AG for example these include the vehicles assembled by Volkswagen Bruxelles.

Investments in subsidiaries and affiliates: These are holdings in other companies (stock companies or unincorporated 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 cheques, cash on hand, deposits at the Federal Bank and in postal checking accounts, and cash in banks.

Liquidity: The company's ability to meet its financial obligations whenever they are due. In order to secure 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.

Loans receivable in accordance with §§ 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 necessary for production even with rising prices and to avoid showing so-called "fictitious profits".

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 (wages, 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 consolidated financial statements, then a "Minority interest in consolidated subsidiaries" has to be shown separately in the consolidated balance sheet for their share in the capital, 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 minority interests that exist in Volkswagen do Brasil and VW-Versicherungsvermittlungs-GmbH.

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 available for distribution: This is the distributable profit of a company which is left after transfer to or from reserves from the net earnings and taking account of net earnings (loss) brought forward. It forms the basis for the Annual Meeting of Stockholders' resolution as to the dividend to be distributed.

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

Net earnings per share: This figure is calculated as a quotient on the basis of net earnings and the number of shares and serves as a yardstick for the evaluation of the earning capacity of a company.

In addition on the basis of the DVFA result (result according to the German Association for Financial Analysis and Investment Consultancy) a modified "net earnings per share" figure is ascertained. This result is calculated on the basis of a scheme prescribed by the DVFA. The aim is to arrive at a figure adjusted to take account of various influences which permits of both a period and an inter-company comparison and represents an aid for investment consultancy. It is not however to be understood as a profit figure because certain amounts of outside capital which cannot be distributed, especially the increase in provision for old-age pensions, are also included in the calculation. For this reason the DVFA result cannot be a yardstick for the amount of the dividend.

In many cases the price-earnings ratio is determined on the basis of the net earnings per share. This figure is the ratio of the stock exchange value of a share to the net earnings per share and indicates at what multiple of the result a share is traded on the stock exchange. The price-

earnings ratio thus gives an idea of the fairness of price of a share, although this yardstick is only of value in period or inter-company comparisons. The DVFA result is also often used as a basis for this ratio instead of the net earnings.

Own stock: This represents that part of the capital stock of a company which the company has acquired itself and is shown in the current assets with the acquisition costs or the possibly lower stock 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 Volkswagenwerk AG for example was acquired in 1971 in conjunction with the conversion offer to the shareholders of the AUDI NSU AUTO UNION AG.

Provision for 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 promise of pension on the basis of which the company employees have a legal claim to continued or once-only pension payments when they retire from work.

Receivables from subsidiaries and affiliates: These companies are legally independent companies which are defined in detail in the Corporation Law. All receivables from subsidiaries and affiliates have to be shown separately in the balance sheet. One example of this in Volkswagenwerk AG's financial statements are the receivables from AUDI NSU AUTO UNION AG.

Reserves: These are a part of the stockholders' equity shown on the liabilities side of the balance sheet and are subdivided into legal and other 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 Volkswagenwerk AG) or by transfers from the net earnings. Whilst allocations to the legal reserve are regulated by the Corporation Law, the company managing

bodies or the stockholders decide on the formation of other reserves. Allocations to reserves from net earnings permit whole or partial maintenance of self-financed assets (maintenance of capital) and thus in the long term lead to a higher intrinsic value of the company.

Reserve for own stock: In accordance with § 150a of the Corporation Law Volkswagenwerk AG set up in 1979 a reserve for own stock. This reserve, which had to be set up in the amount of the book value shown on the assets side of the balance sheet for own stock in accordance with § 155 AktG serves in the sense of protection of creditors the safeguarding of stockholders' equity.

This is achieved by the withholding from possible distribution of profit a sum corresponding to the value of own stock by showing it as a legal reserve with the concomitant statutory restriction of disposal. This prevents the assets of the company being reduced by the sum of these shares and thus an indirect repayment of liable equity capital to the stockholders.

Reserves for special purposes:

In certain circumstances tax law provides the possibility of setting up a tax-free reserve which in later years has to 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 investments in developing countries in accordance with § 1 of the Developing Countries Tax Act).

Sales: In the case of a group this refers to the sales proceeds adjusted for internal transactions – i.e. transactions between the individual consolidated group companies. Transactions conducted for example between Volkswagenwerk AG and AUDI NSU AUTO UNION AG have within the Group the

character of supplies between legally dependent plants.

Sales to the dealer organization; deliveries of vehicles to customers:

In the Annual Report of 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 Volkswagen and Audi outlets not belonging to the Group. 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 a part of outside capital and are formed for obligations whose nature is known but whose amount and due date are unknown. Undetermined liabilities are not reserves and are thus not profits withheld. 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: These serve to reverse earlier extraordinary depreciation. Furthermore sums relating to the accumulation of interest are shown in the write-ups column which are corrections of value adjustments (i.e. earlier discounts) in the case of interest-free and low-interest loans.

Consolidated Balance Sheet of the Volkswagen Group
December 31, 1981

Thousand DM

Assets

	Jan. 1, 1981	Amounts brought forward ³⁾	Additions	Disposals	Transfers	Write-ups	Depreciation	Dec. 31, 1981	Dec. 31, 1980
Fixed Assets and Investments									
A. Property, Plant, Equipment and Intangible Assets									
Real estate and land rights									
with office, factory and									
other buildings	2,939,009	—	295,972	18,697	189,222	—	213,632	3,191,874	2,939,009
with residential buildings	387,598	—	17,018	8,131	5,304	—	16,058	385,731	387,598
without buildings	153,577	—	11,202	5,813	1,568	—	535	159,999	153,577
Buildings on leased real estate	51,991	—	19,111	277	7,607	—	7,595	70,837	51,991
Machinery and fixtures	1,234,864	—	882,650	22,323	209,115	—	703,188	1,601,118	1,234,864
Plant and office equipment	2,401,440	1,412	1,845,978	355,520	463,175	—	1,390,600	2,965,885	2,401,440
Construction in progress and advance									
payments on fixed assets	1,151,045	—	1,701,379	43,551	(875,985)	—	107,205	1,825,683	1,151,045
Trademarks and the like	6,586	8	2,146	1,188	(6)	—	3,596	3,950	6,586
	8,326,110	1,420	4,775,456	455,500	—	—	2,442,409	10,205,077	8,326,110
B. Investments									
Investments in subsidiaries and affiliates	94,018	14	3,804	3,320	400	—	8,321	86,595	94,018
Other investment securities	14,060	—	398	881	5	—	89	13,493	14,060
Loans receivable with									
an initial term of four years or longer	172,119	—	44,276	15,070 ²⁾	(1,191)	683	9,776	191,041	172,119
Par value at Dec. 31, 1981									
256,910									
of which secured by mortgages									
103,390									
loans in accordance with § 89 AktG									
1,131									
loans in accordance with § 115 AktG									
124									
Other investments	4,193	—	11,509	584	786	—	11,499	4,405	4,193
	284,390	14	59,987	19,855	—	683	29,685	295,534	284,390
	8,610,500	1,434	4,835,443	475,355	—	683	2,472,094	10,500,611	8,610,500
C. Adjustment Items Arising from Initial Consolidation									
								119,169	566,548
								10,619,780	9,177,048
Current Assets									
A. Inventories									
								5,970,845	6,053,349
B. Other Current Assets									
Advance payments to suppliers								25,143	23,693
Trade accounts receivable								1,533,090	1,277,706
of which amounts due in more than one year	2,601								
Trade acceptances								138,907	129,615
of which acceptances discountable at German Federal Bank	36,878								
Cheques on hand								45,005	52,758
Cash on hand, deposits at the German Federal Bank									
and in postal checking accounts								7,096	10,407
Cash in banks								2,630,910	3,784,888
Securities								1,107,477	1,141,021
Own stock (par value at Dec. 31, 1981 : 15,060)								21,235	21,235
Receivables from subsidiaries and affiliates								18,469	26,135
of which amounts for goods and services rendered	18,059								
Loans receivable in accordance with § 89 AktG								755	981
Miscellaneous other current assets								2,967,063	3,060,808
								8,495,150	9,529,247
								14,465,995	15,582,596
Prepaid and Deferred Expenses									
Discount on loans								135	8
Other items								286,701	196,661
of which commission	98,822								
								286,836	196,669
								25,372,611	24,956,313

Stockholders' Equity and Liabilities

	Dec. 31, 1981	Dec. 31, 1980
Capital Stock of Volkswagenwerk AG		
	1,200,000	1,200,000
Consolidated Reserves		
Reserve from capital stock surplus ¹⁾	589,407	550,707
Reserve of the Group arising from earnings ¹⁾	4,216,443	4,037,941
Adjustment items arising from initial consolidation	37,272	37,115
	4,843,122	4,625,763
Minority Interest in Consolidated Subsidiaries		
in net earnings	2,675	
in loss	90,312	
Reserves for Special Purposes		
Reserve for investment in developing countries in		
accordance with § 1 of the Developing Countries Tax Act	151,118	122,015
Reserve for price increases in accordance with § 74		
of the Income Tax Regulation	39,884	33,736
Reserve in accordance with § 1 of the		
Foreign Investment Act	7,273	7,420
Reserve in accordance with § 3 of the		
Foreign Investment Act	97,462	101,685
Reserve in accordance with § 6b of the Income Tax Act	3,016	5,107
Reserves in accordance with French legislation	24,587	16,712
Reserve for replacement in accordance with		
section 35 of the Income Tax Guidelines	65	—
	323,405	286,675
Allowance for Doubtful Trade Acceptances		
and Accounts	35,397	159,061
Undetermined Liabilities		
Old-age pensions	3,475,496	3,106,752
Other undetermined liabilities		
Maintenance not performed during current year	30,862	46,586
Warranties without legal obligation	17,674	12,893
Other	4,006,440	4,111,682
	7,530,472	7,277,913
Liabilities with an Initial Term of Four Years or Longer		
Loans		
of which secured by mortgages	180,000	513,606
Due to banks		
of which secured by mortgages	255,324	1,037,526
Other liabilities		
of which secured by mortgages	67,687	227,749
	1,783,495	1,669,054
Of which amounts due within four years	734,298	
Other Liabilities		
Trade accounts payable	2,510,630	2,266,269
Liabilities resulting from the acceptance		
of bills drawn and the issuing of promissory notes	629,483	553,708
Due to banks	4,286,520	4,791,492
Advance payments from customers	77,903	63,417
Accounts payable to subsidiaries and affiliates	78	458
of which trade accounts payable	—	
Miscellaneous other liabilities	1,757,531	1,599,330
	9,262,145	9,274,674
Deferred Income		
	70,088	61,457
Net Earnings Available for Distribution		
	123,770	193,002
Contingent liabilities with respect to trade acceptances	25,710	
Contingent liabilities with respect to guaranty obligations	43,941	
Contingent liabilities with respect to warranties	6,187	
Other contingent liabilities	35,286	
	25,372,611	24,956,313

¹⁾ These items include the legal reserve of the Volkswagenwerk AG in the amount of 843,387 thousand DM.

²⁾ Offset with foreign exchange adjustments in the amount of 7,194 thousand DM

³⁾ Amounts brought forward of companies consolidated for the first time

Consolidated Statement of Earnings of the Volkswagen Group

Year ended December 31, 1981

Thousand DM

	1981	1980
Sales	37,878,488	33,288,039
Decrease/Increase in inventories	(263,253)	1,262,484
	37,615,235	34,550,523
Material, wages and overhead capitalized as additions to plant and equipment	581,525	438,196
Gross Performance	38,196,760	34,988,719
Expenditures for raw materials, supplies and other materials	19,751,938	18,238,367
Excess of Gross Performance over Expenditures for Raw Materials, etc.	18,444,822	16,750,352
Income from profit and loss assumption agreements	100	130
Income from investments in subsidiaries and affiliates	43,444	43,402
Income from other financial investments	12,694	9,748
Other interest and similar income	1,153,060	919,776
Gains from disposal of fixed assets and investments and write-ups	148,442	97,855
Income from reduction of allowance for doubtful trade acceptances and accounts	123,664	3,686
Income from elimination of reserves for undetermined liabilities no longer required	194,346	288,275
Income from elimination of reserves for special purposes no longer required	9,455	22,529
Other income	1,693,906	1,010,767
of which extraordinary income	138,118	
	3,379,111	2,396,168
	21,823,933	19,146,520
Wages and salaries	9,795,476	8,961,483
Social expenditures — compulsory	1,429,364	1,290,529
Pension expenditures and voluntary payments	554,658	530,112
Depreciation of fixed assets and intangibles	2,442,409	2,063,014
Write-down of financial investments (in 1981 including investments in consolidated companies)	491,306	38,661
Write-down of other current assets	101,905	69,884
Losses on disposal of fixed assets and investments	47,329	24,523
Interest and similar charges	1,402,686	558,651
Taxes		
a) on income, earnings and property	771,507	1,329,261
b) other	76,735	70,414
	848,242	1,399,675
Expenses under profit and loss assumption agreements	913	367
Additions to reserves for special purposes	47,951	57,509
Other expenses	4,525,397	3,831,053
	21,687,636	18,825,461
Net Earnings	136,297	321,059
Volkswagenwerk AG's net earnings brought forward	3,411	3,207
	139,708	324,266
Change in consolidated reserves		
Transferred from reserves	20,021	59,624
Transferred to reserves	123,596	180,153
	103,575	120,529
Minority interest in net earnings of consolidated subsidiaries	2,675	14,401
Minority interest in losses of consolidated subsidiaries	90,312	3,666
Net Earnings Available for Distribution	123,770	193,002

According to our legally required audit, the consolidated financial statements and the annual report comply with statutory provisions.

Hanover, March 23, 1982

TREUARBEIT Aktiengesellschaft

Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Prof. Dr. Forster

Wirtschaftsprüfer

Dr. Tubbesing

Wirtschaftsprüfer

(independent auditors)

Wolfsburg, March 23, 1982

Volkswagenwerk Aktiengesellschaft

The Board of Management

Volkswagenwerk AG
Balance Sheet December 31, 1981

Assets

	Jan. 1, 1981	Additions	Disposals	Transfers	Depreciation	Dec. 31, 1981	Dec. 31, 1980
	DM	DM	DM	DM	DM	DM	Thousand DM
Fixed Assets and Investments							
A. Property, Plant and Equipment							
Real estate and land rights							
with office, factory and other buildings	1,237,791,197	110,883,351	6,203,457	41,092,473	123,585,455	1,259,978,109	1,237,791
with residential buildings	7,918,409	1,320,729	3,962	2,549,250	430,586	11,353,840	7,918
without buildings	35,924,743	2,741,051	5,809	2,274,105	532,843	40,401,247	35,925
Buildings on leased real estate	18,128,113	14,533,283	—	3,821,111	4,670,878	31,811,629	18,128
Machinery and fixtures	433,847,336	389,273,923	13,524,167	49,486,604	418,950,432	440,133,264	433,847
Plant and office equipment	758,616,043	395,981,378	8,048,906	209,130,334	522,185,077	833,493,772	758,616
Construction in progress	256,585,152	360,675,026	17,543,107	(183,268,911)	78,750,000	337,698,160	256,585
Advance payments on fixed assets	145,482,531	61,487,937	18,203,825	(125,084,966)	8,850,000	54,831,677	145,483
	2,894,293,524	1,336,896,678	63,533,233	—	1,157,955,271	3,009,701,698	2,894,293
B. Investments							
Investments in subsidiaries and affiliates	2,207,497,776	803,837,196	506,600	—	823,394,877	2,187,433,495	2,207,498
Other investment securities	1	—	—	—	—	1	—
Loans receivable with an initial term of four years or longer	118,807,000	41,435,050	18,608,593	—	10,014,966	131,618,491	118,807
Par value at Dec. 31, 1981							
DM 248,958,185							
of which secured by mortgages							
DM 122,231,517							
subsidiaries and affiliates							
DM 85,815,046							
loans in accordance with § 89 AktG							
DM 974,470							
loans in accordance with § 115 AktG							
DM 97,875							
	2,326,304,777	845,272,246	19,115,193	—	833,409,843	2,319,051,987	2,326,305
	5,220,598,301	2,182,168,924	82,648,426	—	1,991,365,114	5,328,753,685	5,220,598

Current Assets

A. Inventories

Raw materials and supplies						521,078,457	537,330
Work in progress						747,062,683	879,022
Finished products						745,318,654	842,703
						2,013,459,794	2,259,055

B. Other Current Assets

Advance payments to suppliers						7,435,633	24,730
Trade accounts receivable						415,380,613	397,160
of which amounts due in more than one year	DM	—					
Trade acceptances						10,602,796	2,196
of which from subsidiaries and affiliates	DM	566,339					
of which acceptances discountable at German Federal Bank	DM	—					
Cash on hand and deposits in postal checking accounts						2,333,074	5,180
Cash in banks						1,519,854,405	2,454,205
Securities						868,996,221	1,128,865
Own stock (par value at Dec. 31, 1981: DM 15,060,300)						21,234,776	21,235
Receivables from subsidiaries and affiliates						2,184,711,179	2,018,346
Miscellaneous other current assets						367,861,895	607,555
						5,398,410,592	6,659,472
						7,411,870,386	8,918,527

Prepaid and Deferred Expenses

						236,266	78
						12,740,860,337	14,139,203

Stockholders' Equity and Liabilities

	Dec. 31, 1981	Dec. 31, 1980
	DM	Thousand DM
Capital Stock	1,200,000,000	1,200,000
Reserves		
Legal reserve	843,387,000	843,387
Reserve for own stock	21,234,776	21,235
Other reserves	1,855,179,345	1,855,179
	2,719,801,121	2,719,801

Reserves for Special Purposes

Reserve for investments in developing countries in accordance with § 1 of the Developing Countries Tax Act	151,118,056	122,015
Reserve in accordance with §§ 1 and 3 of the Foreign Investment Act	104,734,882	109,105
Reserve for price increases in accordance with § 74 of the Income Tax Regulation	35,208,199	29,759
Reserve in accordance with § 6b of the Income Tax Act	633,395	—
Reserve for replacement in accordance with section 35 of the Income Tax Guidelines	64,999	—
	291,759,531	260,879

Allowance for Doubtful Trade

Acceptances and Accounts	4,130,000	72,468
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Undetermined Liabilities

Old-age pensions	2,836,300,000	2,532,728
Other undetermined liabilities		
Maintenance not performed during current year	16,800,000	30,900
Warranties without legal obligation	7,300,000	7,050
Other	2,817,869,782	3,152,581
	5,678,269,782	5,723,259

Liabilities with an Initial Term

of Four Years or Longer		
Loans	180,000,000	210,000
of which secured by mortgages		
Due to banks	105,000,000	185,000
of which secured by mortgages	DM 20,000,000	
Other liabilities	599,338	1,070
	285,599,338	396,070
Of which amounts due within four years	DM 225,493,544	

Other Liabilities

Trade accounts payable	1,081,850,413	1,087,463
Due to banks	293,536,293	431,898
Advance payments from customers	24,100,032	18,111
Accounts payable to subsidiaries and affiliates	93,140,792	1,083,367
Miscellaneous other liabilities	944,487,198	952,516
	2,437,114,728	3,573,355

Deferred Income

	415,730	369
Net Earnings Available for Distribution	123,770,107	193,002

Contingent liabilities with respect to trade acceptances	DM 687,556,385	
Contingent liabilities with respect to guaranty obligations	DM 2,251,288,850	
Contingent liabilities with respect to warranties	DM 410,006,298	

	12,740,860,337	14,139,203
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Statement of Earnings
of Volkswagenwerk AG

Year ended December 31, 1981

	DM	1981 DM	1980 Thousand DM
Sales		26,401,706,467	25,180,067
Decrease/Increase in inventories		(176,854,027)	245,012
Material, wages and overhead capitalized as additions to plant and equipment		26,224,852,440	25,425,079
		190,894,929	197,937
Gross Performance		26,415,747,369	25,623,016
Expenditures for raw materials, supplies and other materials		16,609,541,708	15,809,408
Excess of Gross Performance over Expenditures for Raw Materials, etc.		9,806,205,661	9,813,608
Income from profit and loss assumption agreements		3,643,041	10,957
Income from investments in subsidiaries and affiliates		79,904,905	107,563
Income from other financial investments		2,540,829	1,858
Other interest and similar income		582,845,204	473,307
Gains from disposal of fixed assets and investments		41,977,607	20,624
Income from reduction of allowance for doubtful trade acceptances and accounts		68,338,000	5,157
Income from elimination of reserves for undetermined liabilities no longer required		109,617,448	75,935
Income from elimination of reserves for special purposes no longer required		4,369,995	22,130
Other income		1,237,789,781	776,862
of which extraordinary income	65,229,194		
		2,131,026,810	1,494,393
		11,937,232,471	11,308,001
Wages and salaries		5,413,495,428	5,406,638
Social expenditures — compulsory		754,980,560	728,115
Pension expenditures and voluntary payments		376,766,960	398,740
Depreciation of fixed assets		1,157,955,271	999,317
Write-down of financial investments		833,409,843	121,660
Write-down of other current assets		42,881,570	28,777
Losses on disposal of fixed assets and investments		7,830,652	662
Interest and similar charges		226,705,293	68,360
Taxes			
a) on income, earnings and property	474,014,590		1,133,653
b) other	2,649,356		3,322
		476,663,946	1,136,975
Expenses under profit and loss assumption agreements		275,027,894	1,052
Additions to reserves for special purposes		35,250,007	50,200
Other expenses		2,215,906,308	2,056,710
		11,816,873,732	10,997,206
Net Earnings		120,358,739	310,795
Net earnings brought forward from previous year		3,411,368	3,207
		123,770,107	314,002
Transfer from net earnings			
to other reserves	—		121,000
		—	121,000
Net Earnings Available for Distribution		123,770,107	193,002

During 1981 pension payments amounted to DM 69,760,274 ; payments during the next five years will be approximately 113, 124, 127, 132, 141 % of this amount.

According to our legally required audit, the accounting, the financial statements and the annual report comply with statutory provisions and the Company's articles of association.

Wolfsburg, March 23, 1982

Volkswagenwerk Aktiengesellschaft

The Board of Management

Hanover, March 23, 1982

TREUARBEIT Aktiengesellschaft

Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Prof. Dr. Forster

Wirtschaftsprüfer

(independent auditors)

Dr. Tubbesing

Wirtschaftsprüfer

The Volkswagen Group in Figures 1972 – 1981¹⁾

In (Decrease
1981/80

1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	in %	Balance Sheet (Structure) (million DM) December 31
											Assets
5,261	5,697	6,263	5,810	5,474	5,425	5,903	6,648	8,326	10,205	22.6	Property, plant and equipment
585	554	636	524	560	530	410	726	839	414	(50.6)	Investments
5,846	6,251	6,899	6,334	6,034	5,955	6,313	7,374	9,165	10,619	15.9	Fixed Assets and Investments
2,338	3,489	4,117	2,949	3,267	3,180	3,491	4,400	6,073	5,996	(1.3)	Inventories and advance payments to suppliers ²⁾
1,584	1,691	1,954	2,019	2,098	1,992	2,996	4,000	4,437	4,771	7.5	Receivables and the like ²⁾
1,038	1,151	472	1,619	2,888	3,837	4,364	4,781	3,971	2,822	(28.9)	Liquid funds, trade acceptances
354	414	54	48	173	560	1,016	1,123	1,151	1,129	(1.9)	Securities, own stock
5,314	6,745	6,597	6,635	8,426	9,569	11,867	14,304	15,632	14,718	(5.9)	Current Assets
11,160	12,996	13,496	12,969	14,460	15,524	18,180	21,678	24,797	25,337	2.2	Total Assets
											Stockholders' Equity and Liabilities
900	900	900	900	900	900	1,200	1,200	1,200	1,200	—	Capital stock
2,677	2,878	2,170	2,032	2,903	3,161	4,224	4,625	4,757	4,990	4.9	Reserves of the Group ³⁾
209	230	188	186	198	199	192	373	205	198	(3.3)	Minority interest in consolidated subsidiaries ⁴⁾
3,786	4,008	3,258	3,118	4,001	4,260	5,616	6,198	6,162	6,388	3.7	Stockholders' Equity
730	878	1,035	1,143	1,754	2,048	2,341	2,749	3,107	3,475	11.9	Undetermined liabilities in respect of old-age pensions
1,604	1,623	1,507	1,740	2,109	2,200	3,244	4,152	4,326	4,232	(2.2)	Other undetermined liabilities ⁵⁾
2,334	2,501	2,542	2,883	3,863	4,248	5,585	6,901	7,433	7,707	3.7	Undetermined Liabilities
884	852	1,452	1,595	1,322	1,450	1,284	1,273	1,161	1,053	(9.3)	Liabilities payable within more than 4 years
366	448	581	666	952	1,032	708	457	466	712	52.7	1 to 4 years
3,694	5,089	5,654	4,705	4,220	4,355	4,776	6,592	9,378	9,351	(0.3)	up to 1 year
4,944	6,389	7,687	6,966	6,494	6,837	6,768	8,322	11,005	11,116	1.0	Liabilities
81	81	—	—	90	173 ⁶⁾	189	240	193	124	(35.9)	Net earnings available for distribution (Volkswagenwerk AG) ⁷⁾
15	17	9	2	12	6	22	17	4	2	(30.6)	Minority interest in earnings to be distributed
7,374	8,988	10,238	9,851	10,459	11,264	12,564	15,480	18,635	18,949	1.7	Outside Capital
11,160	12,996	13,496	12,969	14,460	15,524	18,180	21,678	24,797	25,337	2.2	Total Capital
											Statement of Earnings (Condensed) (million DM) January – December
16,250	18,155	17,711	18,351	22,029	24,503	27,285	31,638	34,989	38,197	9.2	Gross performance
9,098	9,850	10,068	10,066	11,598	12,746	14,099	15,835	18,238	19,752	8.3	Cost of materials
4,463	5,309	5,718	5,550	6,413	6,810	7,656	9,113	10,782	11,779	9.3	Labour cost
992	1,056	1,148	1,246	1,263	1,600	1,456	1,696	2,102	2,934	39.6	Depreciation and write-down
600	483	305	404	486	1,503	1,692	2,081	1,400	848	(39.4)	Taxes
562	432	241	347	438	1,454	1,624	2,004	1,329	772	(42.0)	on income, earnings and property
891	1,127	1,279	1,242	1,265	1,425	1,808	2,246	2,146	2,748	28.0	Sundry expenses less sundry income
206	330	(807)	(157)	1,004 ⁸⁾	419	574	667	321	136	(57.5)	Net earnings (Loss)
110	235	(262)	(14)	211	248	366	443	121	104	(14.1)	Increase (Decrease) in reserves

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 (In previous years additional items on the assets side were affected.)

³⁾ Including stockholders' equity in reserves for special purposes

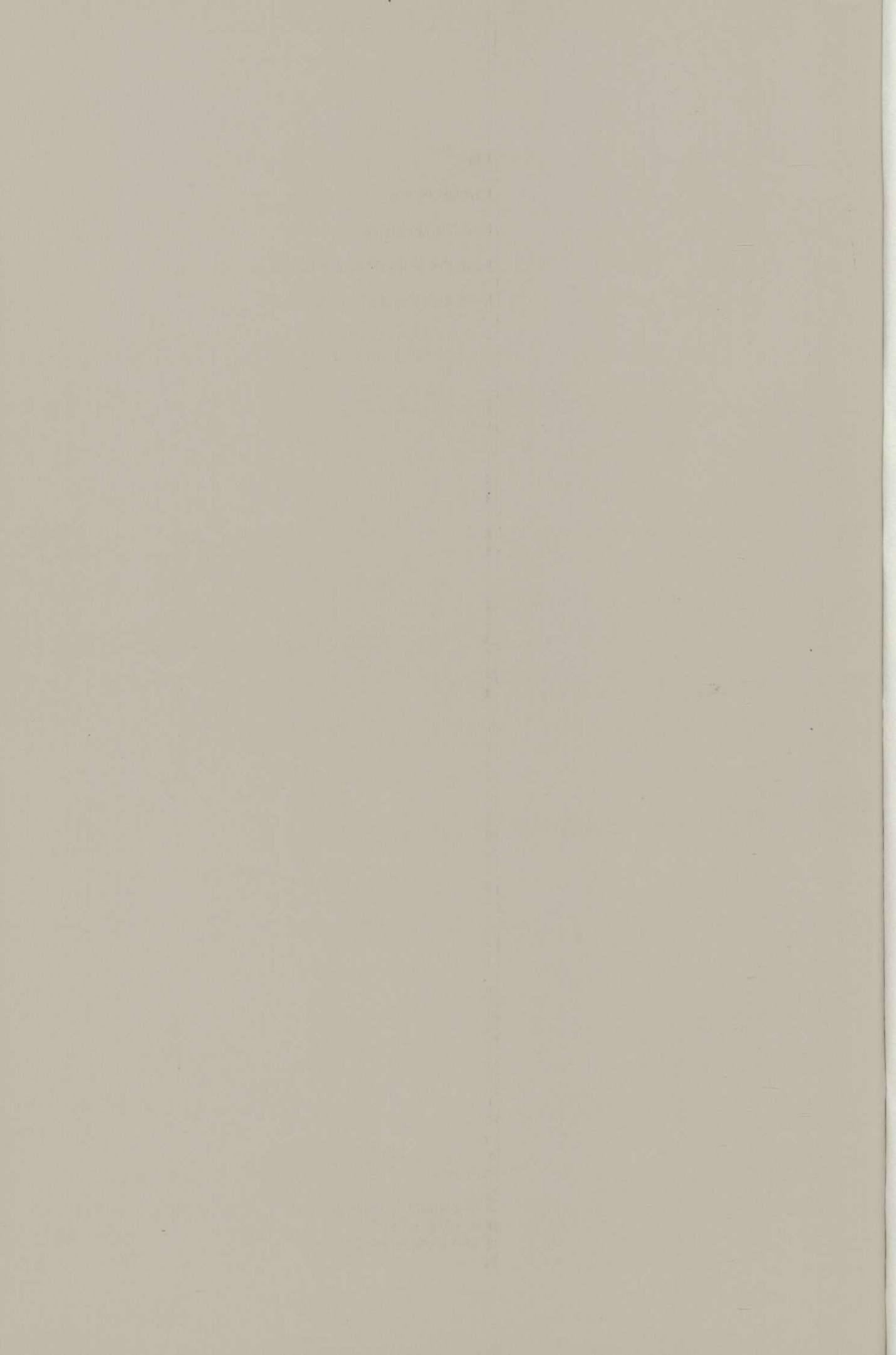
⁴⁾ Excluding shares in net earnings to be distributed

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⁾ Up to 1976 only amounts intended for distribution

⁸⁾ Not comparable with other years because of loss brought forward



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