

Report
for the Year 1967



Volkswagenwerk
Aktiengesellschaft
Wolfsburg

The Board of Directors and Management
of Volkswagenwerk Aktiengesellschaft present
the Report for the Year 1967 with their compliments.

Wolfsburg, May 1968



We deeply mourn the death of the Chairman of
the Board of Management
Professor Dr.-Ing. E. h., Dipl.-Ing.

Heinrich Nordhoff

January 6, 1899 — April 12, 1968

We shall continue in his tradition.

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Agenda

for the Annual Meeting of Stockholders of Volkswagenwerk AG to be held at 10:00 A. M. on Thursday, July 4, 1968, at the Stadthalle in Wolfsburg.

1. Presentation of audited financial statements and the report of Management for 1967, together with the report of the Board of Directors, the recommendation with respect to disposition of the net earnings for the year shown on the balance sheet, the consolidated financial statements and related comments for the year 1967.

2. Resolution with respect to disposition of the net earnings for the year shown on the balance sheet.
Management and the Board of Directors propose to distribute to the stockholders the net earnings for the year of DM 150,000,000 which are equal to a 20% dividend on the capital stock.

3. Resolution with respect to discharge of responsibility of Management for the year 1967.

4. Resolution with respect to discharge of responsibility of the Board of Directors for the year 1967.
With respect to items 3 and 4, Management and the Board of Directors propose to be discharged of responsibility.

5. Appointment of auditors for the year 1968.
The Board of Directors proposes to appoint the Deutsche Revisions- und Treuhand-Aktiengesellschaft, Treuarbeit, Hanover, as auditors for the year 1968.

Board of Directors (Aufsichtsrat)

Dr. Josef Rust, Kassel, Chairman
Otto Brenner, Frankfurt, Deputy Chairman
Dr. Wolfram Langer, Bad Godesberg, Deputy Chairman
since June 28, 1967
Karl Möller, Quakenbrück, Deputy Chairman
Dr. Rolf Thießen, Frankfurt, Deputy Chairman,
to June 28, 1967
Hugo Bork, Wolfsburg
Dr. h. c. Fritz Butschkau, Düsseldorf
Siegfried Ehlers, Wolfsburg
Mrs. Elgin Gärtner-Amrhein, Munich
Walter Haefner, Zürich
Heinz Hilbich, Hanover
Prof. Dr. Eduard Justi, Brunswick
Alfred Kubel, Braunlage
Dr. Horst Rheinfels, Cologne
Dr. Hermann Richter, Düsseldorf
Erich Schilling, Ingolstadt
Dr. Johann Baptist Schöllhorn, Bonn,
since June 28, 1967
Peter Stroh, Kassel
Dr. Wilhelm Vallenthin, Frankfurt

Management (Vorstand)

Prof. Dr.-Ing. E. h., Dipl.-Ing. Heinrich Nordhoff,
Chairman, deceased April 12, 1968
Dr. h. c. Kurt Lotz, Deputy Chairman,
since June 1, 1967
Dr. Kurt Haaf
Dr. Carl H. Hahn
Hans Hiemenz
Otto Höhne
Frank Novotny
Dipl.-Ing. Helmut Orlich
Julius Paulsen
Dr. Friedrich Thomée

Selected Data of Volkswagenwerk AG

		1967	1966
Sales (DM)			
Volkswagenwerk AG and its Subsidiaries and Affiliates	in million DM	9,335	9,998
	domestic sales – %	27	33
	export sales – %	73	67
	per employee DM	73,136	78,565
Volkswagenwerk AG	in million DM	6,464	7,799
	domestic sales – %	34	37
	export sales – %	66	63
	per employee DM	71,537	82,438
Sales (units)			
Volkswagenwerk AG and its Subsidiaries and Affiliates	number of vehicles	1,398,540	1,605,267
Volkswagenwerk AG	number of vehicles	1,183,472	1,459,426
Production			
Volkswagenwerk AG and its Subsidiaries and Affiliates	number of vehicles	1,339,823	1,650,487
	average per working day	6,380	6,886
Volkswagenwerk AG	number of vehicles	1,162,258	1,476,509
	average per working day	5,608	6,162
Labor Force			
Volkswagenwerk AG and its Subsidiaries and Affiliates	yearly average	127,645	127,264
Volkswagenwerk AG	yearly average	90,359	94,602
Investments			
in Property, Plant, Equipment and Investments*			
Volkswagenwerk AG and its Subsidiaries and Affiliates	in million DM	787	872
Volkswagenwerk AG	in million DM	615	703
Depreciation			
of Property, Plant and Equipment and Write-down of Investments			
Volkswagenwerk AG and its Subsidiaries and Affiliates	in million DM	496	Not comparable
Volkswagenwerk AG	in million DM	386	as a result of reclassifications made in accordance with the valuation of the new stock corporation law
Net Earnings			
Volkswagenwerk AG	in million DM	319	
retained for use in the business**	in million DM	169	
dividends (proposed or paid)	in million DM	150	120
	% based on capital stock entitled to dividends	20	20

* Includes long-term loans.

** Includes DM 40 million from other reserves.

World-wide Economic Developments in 1967

During 1967, it became especially apparent that Volkswagenwerk's operations are more and more governed by world-wide economic influences and by the general character of the important export markets. For many years, it has been our Company's policy to attempt to fully capitalize on the Volkswagen sales potential in all prospective markets of the world. This has proven its value to Volkswagenwerk AG during the leveling-off of the domestic economy inasmuch as the results of operations for 1967 reflect, to a considerable extent, the benefits of pursuing a world-wide business policy.

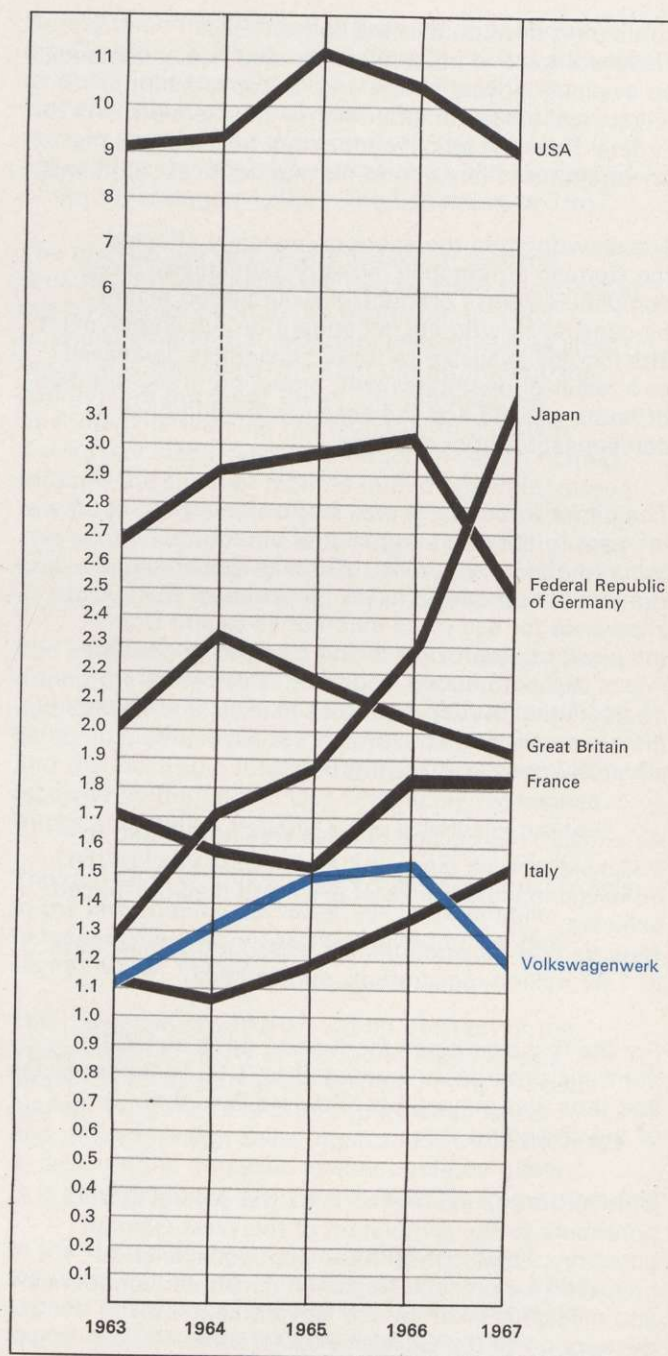
During 1967, the world economy was affected by a significant reduction in the rate of economic expansion in the major industrial countries. This slowdown was attributed to political as well as economic factors. Conflicts in the Far and Near East and the exceptional burden placed upon the U. S. economy due to the war in Vietnam and its other significant international commitments adversely affected world-wide consumer purchasing. Nevertheless, international trade continued to function on the whole.

The economies of most of the industrial countries in Western Europe also declined. In November, 1967, Great Britain decided to devalue the pound sterling; Ireland, Denmark and Spain subsequently devalued their currencies.

The leveling-off of the economies in most of the Western industrial countries resulted in a reduction in world-wide automobile production from 24.5 million vehicles in 1966 to 23.7 million units in 1967, a decrease of 3% from the preceding year. In the United States of America, the largest automobile manufacturer in the world, automobile production decreased by 13% to approximately 9 million units in 1967.

A slowdown of the economy was especially noticeable in the Federal Republic where, for the first time since the war, the 1967 gross national product was lower than that of the previous year. The economy of the Federal Republic was influenced by contractive forces beginning late in 1966 and

Output of Major Automobile Producing Countries and of Volkswagenwerk AG* in millions of units



* Including Auto Union G.m.b.H. beginning in 1965.

continuing through the first half of 1967. These contractive influences included heavy demands on available governmental and, to some extent, private resources compounded by the German Federal Bank's restrictive monetary policies and the uncertain prevailing economic and political conditions.

The slowdown in the economy severely affected the German automobile industry, particularly those companies whose products are purchased mainly by consumers who are dependent on full employment. The income available to these consumers decreased as a result of unemployment, reduction in the number of hours worked and the absence of additional compensation from overtime.

The desire to purchase was further weakened by an increase in the operating cost of an automobile, brought about by the West German Government's significant reduction, for tax purposes, of the allowance for use of an automobile to and from the place of employment. The increase in gasoline prices and automobile insurance rates placed an additional burden on the consumer. The several factors mentioned above were certain to affect adversely consumer buying habits.

As a result, the decline in sales was not limited to Volkswagenwerk alone but encompassed all of the domestic manufacturers of low- and medium-priced vehicles.

New vehicle registrations decreased more than 10% to 1.47 million registrations during 1967.

For the first time since the Korean crisis in 1951, domestic production amounted to 2.48 million vehicles and thus was almost one-fifth less than that of the preceding year.

Only in the second half of 1967 did several factors contribute to the stimulation of the West German economy. Foremost of these were considerably increased export sales, regained consumer confidence and measures taken by the Government with the support of the German Federal Bank.

After almost two decades of a continuous upswing, the German automobile industry felt the effects of an economic downturn, thus completing a recurring cycle to which the automobile industries of other countries have become adjusted.

Review of 1967 Operations of Volkswagenwerk AG and its Subsidiaries and Affiliates

During the critical phase of the economic cycle, the Company's efforts were directed toward adjusting its operations to meet the changed conditions. Not only did we intensify our efforts to sell the present product line to all markets, but we also adjusted to the domestic market with the production of the Volkswagen 1200 in the beginning of 1967.

The unexpected significant decline in demand for automobiles toward the end of 1966 forced us to cut back production in the beginning of 1967. In implementing the necessary restrictive measures, we, at the same time, directed our efforts toward maintaining our labor force. The introduction of short-time working permitted us to maintain a relatively stable level of production which carried through the summer months until demand increased toward the latter part of the year. The understanding and cooperation of our labor force concerning these unavoidable measures was a contributing factor in successfully overcoming these problems.

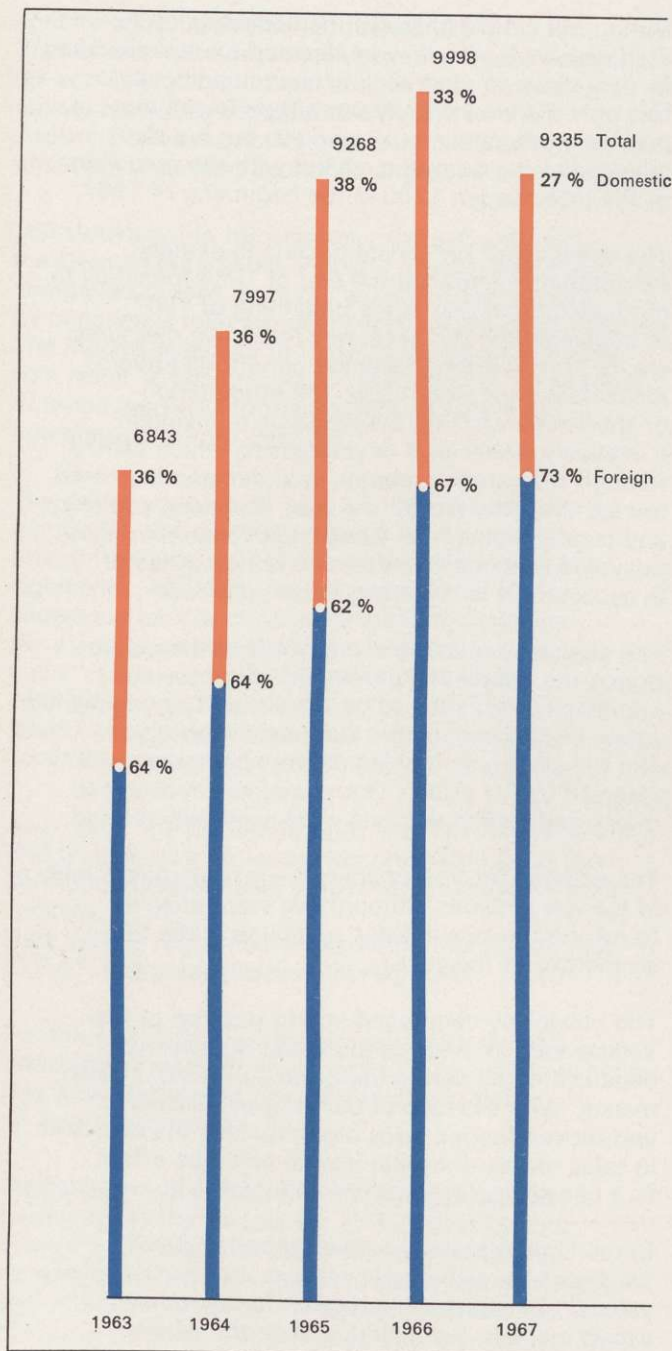
The engineering changes presented to the public during the Frankfurt Automobile Show provided additional stimulation to our business. The engineered safety improvements, the automatic transmission and the electronic fuel injection system were well received by the public. Our completely redesigned trucks and station wagons were especially praised.

The demand for Volkswagens increased considerably in the late summer, although we were unable to recoup the loss in sales sustained in the first six months of the year.

The previously mentioned strong position of the Volkswagen in many of the world markets was beneficial to us during the decline in the domestic market. With the help of our long-established and proven foreign sales organizations, the decrease in sales on the domestic market could be offset, to a considerable extent, by an increase in export sales.

In the United States of America and in Brazil, we were able to increase sales as well as to further expand our share of the market. In the remaining export markets, we maintained on the whole,

Trend of Consolidated Sales in million DM



in some cases even expanded, our share of the market. This will be discussed in the "Sales" and "Investments in Subsidiaries and Affiliates" sections of this report.

Despite the unfavorable economic conditions discussed above, customer deliveries by the Volkswagen and Auto Union sales organizations in the domestic and foreign markets were only slightly below the 1966 level. Deliveries amounted to 1.49 million units compared to 1.53 million in the preceding year. Volkswagenwerk AG and its subsidiaries and affiliates sold 1.40 million units to its sales organization, a decrease of 0.21 million vehicles from 1966. The difference between customer deliveries and sales by Volkswagenwerk AG and its subsidiaries and affiliates resulted in a reduction of inventory levels by the sales organizations.

Consolidated sales, after eliminating intercompany transactions, amounted to DM 9,300 million, a 7 % decrease from the record high of DM 10,000 million in 1966. Domestic sales amounted to DM 2,500 million and export sales to DM 6,800 million.

The utilization of our domestic production facilities varied in line with the irregular behavior of the economy. As mentioned previously, we were forced to go on short-time working during the first six months of 1967, whereas additional shifts were required during the second half of the year to meet the increased demand. Costs were considerably higher as a result of inadequate utilization of facilities and increased labor costs caused by the severe fluctuations in working hours and the number of shifts worked.

Costs during 1967 also increased as a result of wage and salary increases effective July 1, 1966 and January 1, 1967 pursuant to a union contract. Production costs increased further because of the introduction of newly developed engineering improvements required to strengthen our competitive position. Since we did not increase the price of our vehicles due to the condition of the automobile market and of the economy as a whole, the cost increases and the decrease in hours worked necessarily affected the earnings of the Company.

Nevertheless, we propose to distribute again a 20% dividend on the capital stock which, in 1966, had been increased by DM 150 million to DM 750 million. The DM 169 million earnings including DM 40 million from other reserves in excess of the DM 150 million dividend were transferred to reserves. The earnings resulted to a large extent from dividends received during 1967 from our domestic and foreign subsidiaries.

We wish to express our gratitude to our employees for their diligence and cooperation during 1967 as well as for their confidence and understanding during the uncertain economic conditions in the first half of 1967. During this time, the Work Councils' cooperation with the Company, based on mutual confidence, has once again proven its value.

Outlook

Deliveries by Volkswagen and Auto Union sales organizations to domestic and foreign customers amounted to approximately 390,000 units during the first three months of 1968. This is some 15% more than in the first quarter of 1967, at which time deliveries had been affected considerably by the adverse development of the economy.

Since vehicle inventories decreased to a relatively low level as a result of favorable sales during the last few months of 1967 and in order to meet customer demands on our sales organizations, we scheduled additional shifts during January, February and March of 1968. As a result, sales of Volkswagenwerk AG and its subsidiaries and affiliates of 431,000 units during this period represented an increase of some 35% over the corresponding period of the previous year.

Within this pattern of a general upward trend in sales, certain segments of the market have shown varying tendencies during 1968. Customer deliveries and sales to VW dealers and distributors in the United States increased more than in any other country. Compared with the already low figures of 1967, domestic customer deliveries decreased slightly. This development probably was caused by heavy buying toward the end of 1967 in anticipation of changes in the sales tax regulations. Domestic sales in the first three months of 1968 were also affected adversely by the imposition of a sales tax on used cars which, in our opinion, is not only too high but also inhibits the sale of both new and used cars.

However, sales during 1968 will be substantially higher than in 1967 provided that domestic sales continue the upward trend that began in the spring and provided that our export sales are not severely hampered by monetary and trade restrictions.

Review of 1967 Operations

Sales

During 1967, *Consolidated Unit Sales* amounted to 1,398,540 vehicles, 12.9% less than in 1966. A comparison of unit sales for 1967 and 1966 follows:

	1967	1966
Produced by:		
Volkswagenwerk AG		
Volkswagen		
1200/1300/1500	848,402	967,450
Volkswagen 1600 and		
VW Squareback Sedans	216,901	297,911
Volkswagen Trucks and		
Station Wagons	142,643	175,386
	1,207,946	1,440,747
Auto Union G.m.b.H.	51,307	55,744
Domestic Total	1,259,253	1,496,491
<i>Sold on the domestic market</i>	<i>403,139</i>	<i>536,394</i>
<i>export market</i>	<i>856,114</i>	<i>960,097</i>

Produced by:

Volkswagen do Brasil S.A. and VEMAG S.A.*		
Volkswagen 1300/1500	94,683	80,034
Volkswagen Trucks and Station Wagons	21,147	15,086
DKW (discontinued toward the end of 1967)	11,728	
	127,558	95,120
Volkswagen Australasia Ltd.		
Volkswagen 1200/1300	11,729	13,656
Foreign Total	139,287	108,776
Total Consolidated Sales	1,398,540	1,605,267

* Acquired in 1966.

These sales figures do not reflect the true market conditions because vehicle inventories throughout the world-wide dealer organization were substantially reduced during 1967. Customer deliveries by our sales organizations decreased only 2.6% from 1966 as a result of the considerable stimulation of sales during the second half of 1967.

We have mentioned in a previous section, "Review of 1967 Operations", that the VW 1200 was added to our sales program in the beginning of 1967. This vehicle is well equipped and sells for DM 4,485, thus keeping pace with the trend to economy prevailing among large segments of the population. The VW 1200 accounted for one-fourth of all VW 1200, 1300 and 1500 sales in the Federal Republic.

In addition, we further improved our products by incorporating significant engineering innovations. Major new features include the automatic stickshift for the VW 1500 and the automatic transmission for almost all 1600 models.

The automatic stickshift of the VW 1500 has a hydrodynamic torque converter permitting clutch-free operation and selection of several driving speed ranges. The fully automatic transmission of the VW 1600 models consists of a hydrodynamic torque converter and an automatic three-speed planetary gear transmission. In addition, all automatic models are equipped with a new double-jointed rear axle which further improves roadability.

Another major new feature displayed at the International Automobile Show in Frankfurt is the electronic fuel injection system, which includes a completely new solution to the problem of exhaust emission control. Thus far, this fuel-saving system has been installed only in the VW 1600 models exported to the United States.

For increased driving safety, all Volkswagen vehicles have been equipped with a safety type steering column since August, 1967. In addition,

New Vehicle Registrations of Passenger Cars and Dual-Purpose and Commercial Vehicles with a capacity of up to 2,750 lbs. in the Federal Republic and West Berlin in 1967 and 1966

1967
1966

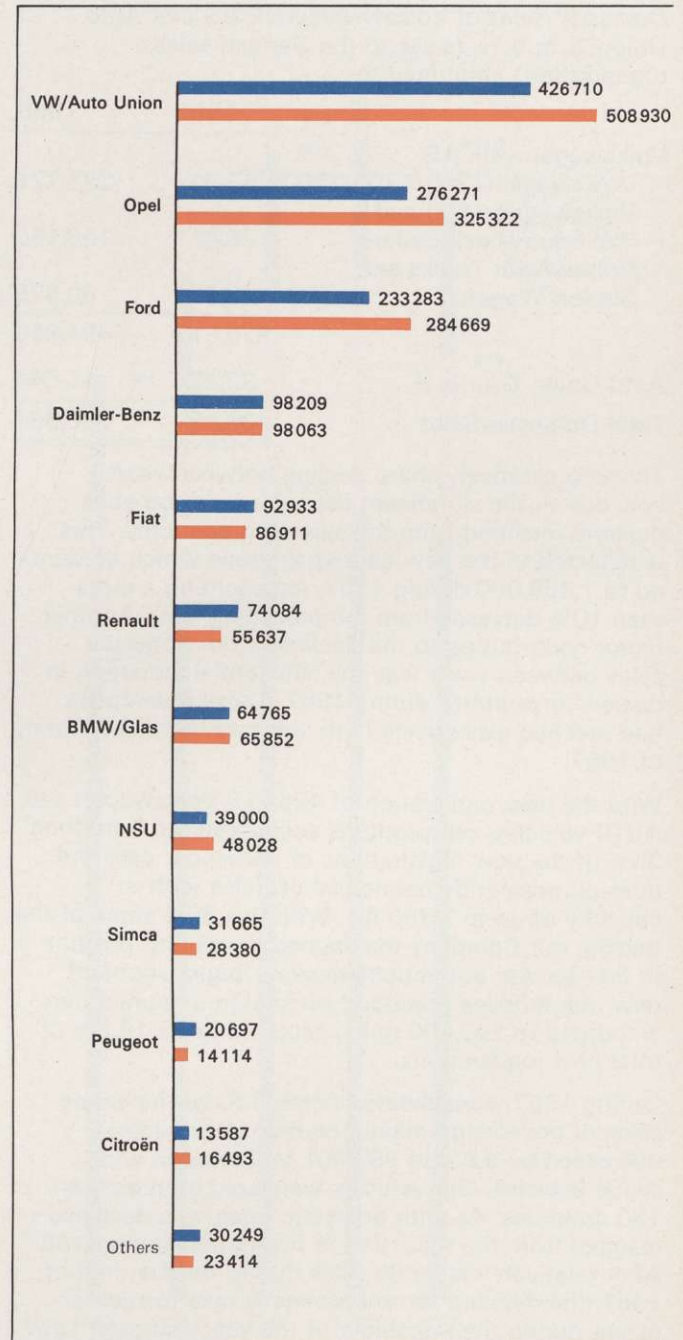
the VW 1300/1500, the VW 1600 and the VW trucks and station wagons are equipped with a dual-brake system.

Our trucks and station wagons were completely redesigned. The new design was widely acclaimed and resulted in a considerable increase in demand which, in spite of increased production, led to order backlogs. Especially in demand are the VW station wagons which seat seven to nine passengers, depending on the model design, and which satisfy the demand of those consumers requiring a vehicle whose size and utility is between passenger cars and buses.

In late summer, Auto Union G.m.b.H. supplemented its AUDI line by introducing the AUDI 80 L and the AUDI L, equipped with a 81 bhp SAE engine which uses regular gasoline. Both vehicles are as comfortably equipped as the AUDI Super 90. Since the late summer, Auto Union G.m.b.H. has added the AUDI 60, with a 66 bhp SAE engine, to its product line. The price of this model is DM 6,990.

Domestic prices of our passenger cars did not change in the year under review; however, export prices were adjusted to meet fluctuating market conditions. The devaluation of the pound forced us to reduce our prices in Great Britain and in a few other European countries to remain competitive with British industry.

By the end of 1967, our world-wide sales and service organization included more than 8,700 dealers and service centers. Of these, there are 2,373 facilities located in West Germany and 6,373 facilities in foreign countries. These facilities maintain and service the many millions of VW vehicles on the road. Our special efforts, however, are directed not only toward expanding the VW service organization but also toward providing up-to-date tools and equipment for our service centers. The total capital investment of the VW dealer network amounted to DM 5,000 million at the end of 1967, almost equaling the present capital investment of Volkswagenwerk AG.



Domestic Sales of Volkswagenwerk AG and Auto Union G.m.b.H. (sales to the German sales organization) amounted to:

	1967	1966
Volkswagenwerk AG		
Volkswagen 1200/1300/1500	248,947	293,721
Volkswagen 1600 and VW Squareback Sedans	76,111	140,150
Volkswagen Trucks and Station Wagons	45,455	60,979
	370,513	494,850
Auto Union G.m.b.H.	32,626	41,544
Total Domestic Sales	403,139	536,394

This comparatively sharp decline between years was due to the significant decrease in automobile demand resulting from the slumping economy. This is reflected in the new car registrations which amounted to 1,468,000 during 1967, representing a more than 10% decrease from the preceding year. Another factor contributing to the decline in our domestic sales between years was the substantial reduction in dealers' inventories during 1967. These inventories had reached excessively high volumes in the beginning of 1967.

With the new registration of 426,710 Volkswagen and AUDI vehicles, our products accounted for more than 30% of the new registrations of passenger cars and dual-purpose and commercial vehicles with a capacity of up to 2,750 lbs. With this 30% share of the market, our Company maintained its leading position in the German automobile market. Registrations of new automobiles produced by foreign manufacturers amounted to 243,000 units, accounting for 16.5% of total new registrations.

During 1967, consolidated *Foreign Sales*, including sales of our foreign manufacturing subsidiaries, decreased by 6.9% to 995,401 Volkswagen and AUDI vehicles. Our vehicles were sold in more than 130 countries. As with domestic sales, this decrease resulted from the reduction in inventories during 1967. After relatively moderate sales during the first half of 1967, the demand for Volkswagens rose to such an extent during the remainder of the year that total 1967

customer deliveries were slightly higher than in the preceding year.

During 1967, West German companies exported 1,463,000 vehicles, of which 832,195 units, or 56.9%, were exported by Volkswagenwerk AG and Auto Union G.m.b.H. We, thereby, remained the leading automobile exporter in the world. The ratio of our export sales to total sales rose from 64.6% in 1966 to 67.4% in 1967.

Once more, our sales organization in the United States contributed significantly to our export sales. Despite a general decline in the market, customer deliveries increased by 7.7% to 443,734 vehicles, thus achieving a new all-time high in vehicle deliveries. The United States, again, was by far our largest foreign market.

As a result of the considerable increase in sales during the second half of 1967, deliveries of Volkswagen and AUDI vehicles to European customers outside of Germany again attained the level of the preceding year. Our most important European markets were the Netherlands, Austria, Great Britain, Belgium, Switzerland and Sweden.

The other markets supplied by our domestic companies and accounting for approximately 5% of total sales suffered severely from the Near East crisis and other political disturbances.

In Brazil, sales of Volkswagen vehicles continued to increase. Volkswagen do Brasil S. A., which is the most important of our foreign manufacturing subsidiaries, sold 115,830 units, an increase of 21.8% over the preceding year. In addition, VEMAG S. A., which became a subsidiary toward the end of 1966, sold 11,728 vehicles. These two companies' combined shares of the markets amounted to 75.6% for passenger cars and 38.2% for trucks and station wagons.

All other overseas subsidiaries and affiliates, which are discussed in detail in the "Investments in Subsidiaries and Affiliates" section of this report, attained sales volumes equal to or, in some cases, greater than the preceding year.

Production

During 1967, 1,339,823 vehicles were manufactured in our domestic and foreign production facilities compared to 1,650,487 in the preceding year. The overall decrease between years was accounted for entirely by a decrease in domestic production. Production in foreign countries continued to increase and accounted for 10.3% of total production.

Volkswagenwerk's portion of total automobile production in the Federal Republic of Germany amounted to 48.4% compared to 50.6% in 1966.

In addition to the introduction of short-time working in our domestic plants, the changed market conditions forced us to reduce the average daily production which, for Volkswagenwerk AG and its subsidiaries and affiliates, amounted to 6,380 in 1967 compared to 6,886 in 1966.

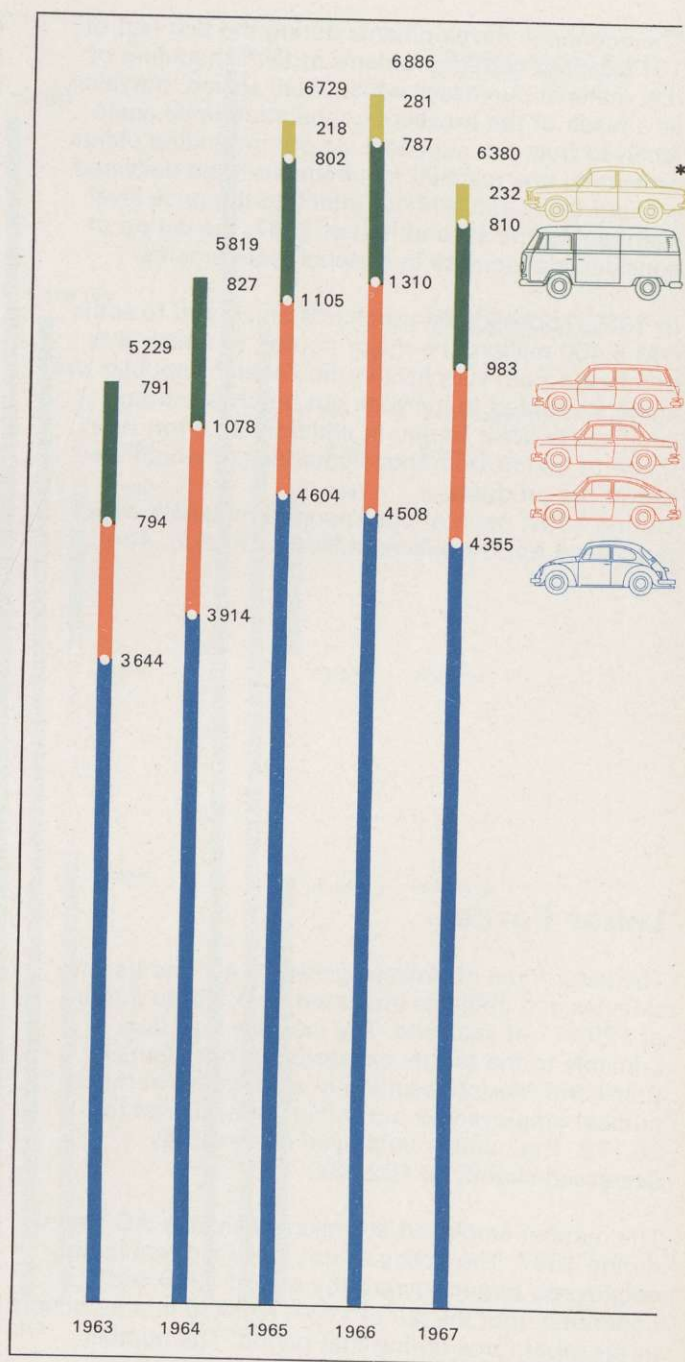
A comparison of production for the years 1967 and 1966 follows:

	1967	1966
Volkswagenwerk AG		
Volkswagen 1200/1300/1500	818,889	988,533
Volkswagen 1600 and VW Squareback Sedans	201,800	311,701
Volkswagen Trucks and Station Wagons	141,569	176,275
	<u>1,162,258</u>	<u>1,476,509</u>
Auto Union G.m.b.H.	39,062	67,248
Production in Domestic Plants*	<u>1,201,320</u>	<u>1,543,757</u>
Volkswagen do Brasil S.A. and VEMAG S.A.**		
Volkswagen 1300/1500	94,830	80,024
Volkswagen Trucks and Station Wagons	21,172	15,098
DKW (production discontinued toward the end of 1967)	10,433	
	<u>126,435</u>	<u>95,122</u>
Volkswagen Australasia Ltd.		
Volkswagen 1200/1300	12,068	11,608
Production in Foreign Plants	<u>138,503</u>	<u>106,730</u>
Production of Volkswagenwerk AG and its Subsidiaries and Affiliates	<u>1,339,823</u>	<u>1,650,487</u>

* Including production of "knocked-down" vehicles for assembly in foreign countries.

** Included since the end of 1966.

Average Daily Production of Volkswagenwerk AG and its Subsidiaries and Affiliates



* Auto Union G.m.b.H., including VEMAG S.A. in 1967.

Raw Material Purchases

The economic developments during the first half of 1967 caused certain problems in the scheduling of raw material purchases which were solved, however, as a result of the excellent cooperation once again received from our suppliers. At our producing plants, scheduled raw material requirements were delivered without delay and without affecting the price level even during the second half of 1967, the period of considerable increase in material requirements.

In 1967, consolidated purchases amounted to some DM 5,400 million, the major portion of which was purchased from suppliers in the Federal Republic. We again attempted to increase our purchases from suppliers in West Berlin. In addition, an effort was made to import from those countries to which we export our products.

During 1967, most of our imported materials were purchased from suppliers in North America.

employed at year-end was slightly higher than the previous year, however, because additional employees were hired during the fourth quarter of 1967.

Following is an analysis, by plant, of the Volkswagenwerk AG labor force:

	12/31/1967	12/31/1966
Wolfsburg	45,614	46,691
Hanover	22,306	21,649
Kassel	13,070	13,328
Brunswick	5,477	5,490
Emden	5,402	4,487
	91,869	91,645

Of the total labor force of Volkswagenwerk AG at year-end, 5,052 came from foreign countries, reflecting a decrease in such employees from 6.6% in 1966 to 5.5% in 1967.

As in the previous year, 89% of our labor force were wage earners and 11% were salaried. The percentage of female employees decreased from 12.2% in 1966 to 11.3% in 1967. The average age of our employees was 36.4 years, and the average seniority was 8.3 years.

During 1967, the number of apprentices employed increased to 1,578. In accordance with our established training program for apprentices, our Emden plant also began training apprentices during 1967 at its newly equipped training center.

Once again, our employees demonstrated their interest in their jobs by participating actively in the Company's suggestion program. During 1967, the Company awarded approximately DM 700,000 to employees for 617 suggestions for improvements.

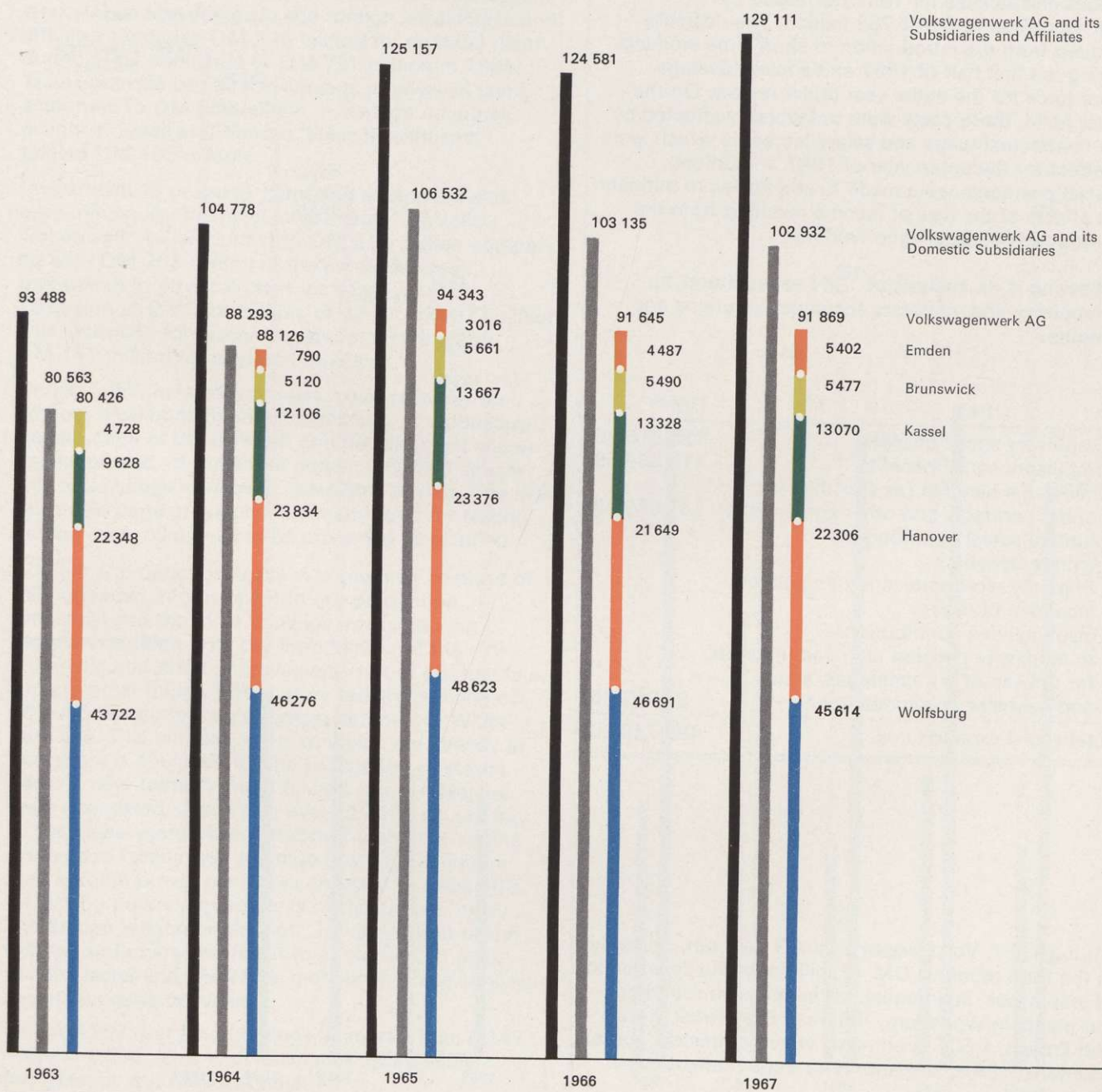
As of January 1, 1967, wages and salaries were increased an average of 2% in accordance with the agreement entered into with the unions during March of 1966. In addition, the work week was reduced to 40 hours, without reduction in pay, as of January 1, 1967 in accordance with a prior agreement.

Labor Force

The labor force of Volkswagenwerk AG and its subsidiaries and affiliates increased by 4,530 to a total of 129,111 at year-end. The increase was due primarily to the further expansion of our plants in Brazil and Mexico resulting in an increase in the number employed by our foreign subsidiaries to 26,179. The number employed domestically decreased slightly to 102,932.

The number employed at Volkswagenwerk AG varied during 1967. The policy of not replacing terminated employees, begun toward the end of 1966 and continued until the fall of 1967, resulted in a reduction in the labor force during that period. The number

Number of Employees at Year-End



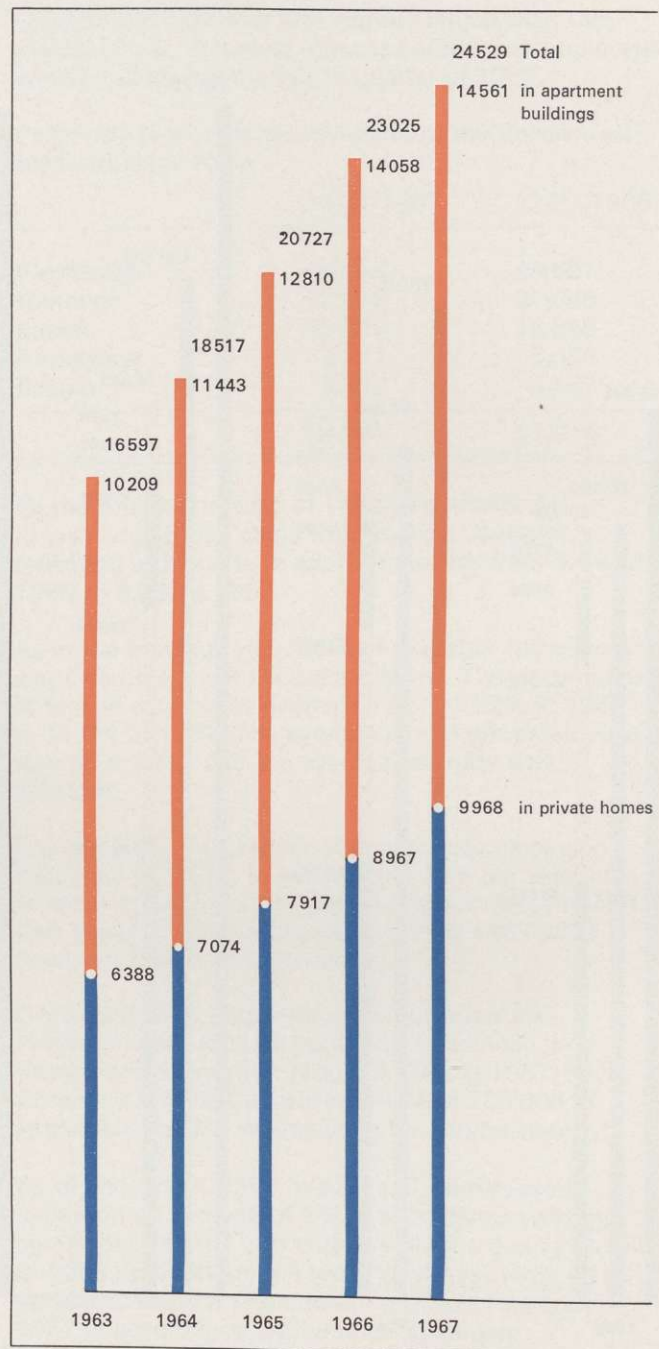
Housing Co-financed by Volkswagenwerk AG
Number of Units at Year-End

Wages and salaries for 1967 decreased by DM 44 million to DM 1,238 million. The decrease resulted from the introduction of short-time working during the first half of 1967 and a lower average labor force for the entire year under review. On the other hand, these costs were unfavorably affected by the contractual wage and salary increases which were in effect for the entire year of 1967. In addition, special payments were made to employees to mitigate the effects of the loss of income resulting from the introduction of short-time working.

Following is an analysis of 1967 expenditures for compulsory and voluntary social contributions and benefits:

	DM
Compulsory social charges	128,515,962
Compulsory social benefits	118,689,586
Other social benefits (as specified in union contracts and other agreements)	147,650,595
Voluntary social contributions (fringe benefits)	
Primarily represents amounts paid as incentive bonuses; also includes contributions to employee pension plan and amounts for upkeep of our cafeterias, stores and bachelor accommodations	97,892,957
Total social expenditures	492,749,100

During 1967, Volkswagenwerk AG paid out, primarily in the form of loans, DM 12 million for the construction of employees' apartments. In the areas surrounding our plants in Wolfsburg, Hanover, Brunswick, Kassel and Emden, 1,504 apartments were completed, and an additional 196 apartments were under construction at year-end.



Volkswagenwerk AG Expenditures for Physical Plant and Provision for Depreciation in million DM

Total from 1948 - 1967

Expenditures for Physical Plant	5553
Expenditures for Physical Plant excluding Construction in Progress etc.	5446
Provision for Depreciation	3591

■	Expenditures for Machinery and Equipment
■	Expenditures for Land and Buildings
■	Provision for Depreciation

Capital Investments

After eliminating intercompany transfers, Volkswagenwerk AG and its domestic and foreign subsidiaries and affiliates expended DM 746 million for physical plant during 1967 compared to DM 731 million in 1966. Total domestic capital investments in physical plant amounted to DM 553 million. In foreign countries, mainly in Brazil and Mexico, these investments totaled DM 193 million.

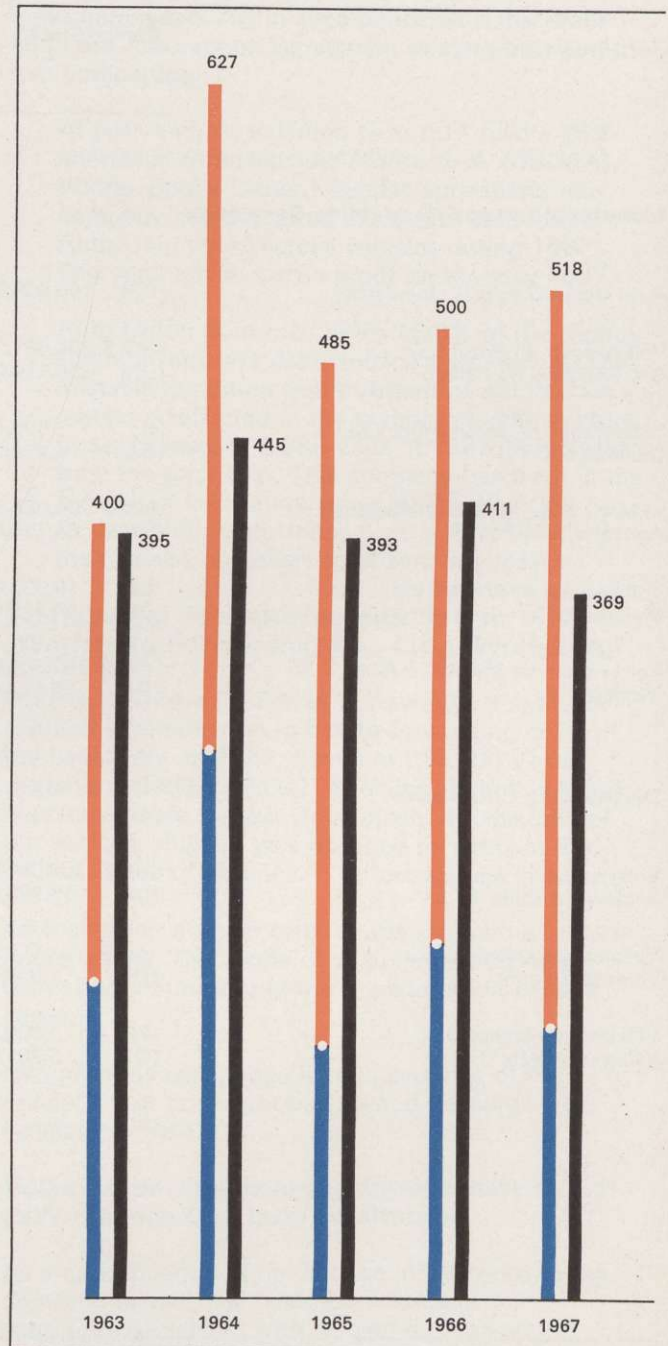
Investments in property, plant and equipment and expenditures for financial investments* of Volkswagenwerk AG amounted to DM 615 million compared with DM 703 million in the preceding year. Investment in physical plant increased by DM 18 million to DM 518 million, of which DM 377 million was expended for machinery and equipment and DM 141 million for land and buildings.

During 1967, investments were made primarily for product development and streamlining of production. Construction of the research and development center continued and, of the entire project, 580,500 square feet of buildings have been completed to date. The new test track, parts of which are already used for testing our vehicles, continues to be expanded as planned.

Additional production space was required because of the continued improvement in our production processes and the more complex manufacturing program resulting from the introduction of the VW automatic and other improvements to our product line. Among other things, a two-story factory building of 161,000 square feet was constructed on our Wolfsburg site. This building, parts of which are already in operation, is equipped for the production of plastic parts. A new foundry and attached storage facilities were completed, occupying over 215,000 square feet, at the Kassel plant. At our Hanover plant, the engine production facility was expanded by 97,000 square feet, and the power plant was enlarged to satisfy the increasing power requirements of the engine, truck and station wagon production. The expansion of the railyard and unloading facilities at our Emden plant permits faster and, therefore, more economical processing of incoming deliveries.

During 1967, our land holdings increased from 4,147 acres to 6,684 acres which includes 2,655 acres occupied by our new test track.

* Including long-term loans.



Review of 1967 Operations of VW Subsidiaries and Affiliates

Selected Data of Major VW Subsidiaries and Affiliates for 1967

	Capital Stock *	Percentage of Stock Owned by Volkswagenwerk AG and its Subsidiaries and Affiliates	Sales	Number of Employees at Year-End
			in million DM	
Manufacturing and Assembling Companies				
Auto Union G.m.b.H., Ingolstadt	DM 160,000,000	100	533	10,778
Volkswagen do Brasil S.A., São Bernardo do Campo **	NCr\$ 204,891,150 (DM 256,114,000)	80	1,246	17,607
Volkswagen of South Africa Ltd., Uitenhage, C.P. **	R 800,000 (DM 4,494,000)	64.9	201	2,527
VEMAG S.A. Veículos e Máquinas Agrícolas, São Paulo	NCr\$ 54,988,979 (DM 68,736,000)	59.9	199	153
Volkswagen Australasia Ltd., Melbourne **	\$A 10,000,000 (DM 44,939,000)	100	171	1,701
Volkswagen de Mexico, S.A. de C.V., Mexico D.F.	mex\$ 267,300,000 (DM 85,514,000)	100	150	2,619
Distributing Companies				
Volkswagen of America, Inc., Englewood Cliffs, N.J. **	US\$ 5,000,000 (DM 19,995,000)	100	2,621	883
Volkswagen Canada Ltd., Toronto, Ontario	can\$ 500,000 (DM 1,850,000)	100	259	455
Volkswagen France S.A., Villers-Cotterêts **	FF 7,000,000 (DM 5,701,000)	100	93	233

* Rates of exchange as at end of 1967.

** Consolidated with its subsidiaries.

Investments in Subsidiaries and Affiliates: Domestic

Auto Union G.m.b.H. (Auto Union Co., Ltd.), Ingolstadt

The business activity of Auto Union G.m.b.H. reflected the economic trend in the Federal Republic during 1967. The first half of the year was characterized by a reduction of inventories and introduction of short-time working; whereas, during the second half of 1967, additional work shifts by production personnel were required as a result of a noticeable stimulation of the economy.

During 1967, the company produced 39,062 Auto Union vehicles, compared to 67,248 units in 1966, and assembled 80,840 Volkswagen 1300/1500 models, compared to 83,774 of such vehicles during the previous year. The average daily production totaled 189 Auto Union vehicles and 393 Volkswagens; the labor force was 10,778 at year-end, compared to 11,220 at the end of 1966.

Auto Union's 1967 sales totaled 51,862 units, compared to 55,744 in 1966. Sales of AUDI vehicles increased from 47,713 units in 1966 to 49,584 during the year under review. This accomplishment resulted from an increase in exports from 13,278 in 1966 to 19,133 in 1967. The ratio of export sales to total sales increased from 25% to 37% between years.

The AUDI Super 90, introduced in 1966, was considered a success as it accounted for nearly half of the total 1967 AUDI sales. Further, to meet the demand of a certain customer group, the company expanded its product line in September, 1967 with the introduction of the AUDI L and AUDI 80 L, both of which have the same interior as the AUDI Super 90. Also, for additional economy of operation, the company has equipped some of the AUDI models with an engine which uses regular gasoline. The additional economy of operation is especially characteristic of the AUDI 60, which is equipped with a 66 bhp SAE engine. This model, added to our product line in the beginning of 1968, sells for DM 6,990.

The company earned a profit in 1967 as a result of its cost reduction program. This profit was transferred to

Volkswagenwerk AG in accordance with the Profit and Loss Assumption Agreement existing between the two companies.

At year-end, Auto Union G.m.b.H. held a 25% interest in *Industrias del Motor, S. A. (IMOSA)*, Vitoria, Spain. Under a license agreement, the company manufactured 9,500 and sold 9,691 Auto Union commercial vehicles during 1967. The company earned a profit for the year 1967.

Auto Union G.m.b.H. owns 13.6% of the capital stock of *Industria Automotriz Santa Fé S. A.* The unstable condition of the Argentine automobile market is reflected in the company's manufacture, under license, of 2,989 units in 1967, a decrease from the prior year. This company has been in the process of liquidation since March 29, 1968. At year-end, Auto Union G.m.b.H. established the reserves necessary to absorb any losses.

Wolfsburger Transportgesellschaft m. b. H. (Wolfsburg Forwarding Co., Ltd.), Wolfsburg

During 1967, the decline in Volkswagen shipments resulted in a reduction in freight forwarding costs of our subsidiary. In 1967, a total of 616,000 Volkswagens, including 69,000 "knocked-down" vehicles, was transported by sea. Once again, the majority of our vehicles shipped was destined for ports in the United States of America.

An increasing number of our parts shipments is made in containers. This mode of shipping is becoming increasingly prevalent in the transportation of such cargo.

Although the exceptionally high earnings of the previous year could not be attained, earnings were satisfactory for 1967.

Volkswagen-Finanzierungsgesellschaft m. b. H. (VW Finance Co., Ltd.), Wolfsburg

As a consequence of the decline in VW sales in the domestic market, the business volume of our subsidiary decreased with respect to financing of

dealer purchases and, to a lesser extent, with respect to financing of consumer purchases. The subsidiary's proportionate share of the domestic consumer financing of VW sales increased over 1966.

Although the financing field became more competitive, our subsidiary was again able to achieve satisfactory earnings in 1967.

A subsidiary of Volkswagen-Finanzierungsgesellschaft m. b. H., *Auto Union Kredit G.m.b.H.*, whose objective is to finance Auto Union dealer and consumer purchases, was unable to achieve the sales volume of the previous year; however, earnings were satisfactory for 1967.

**VW-Wohnungsbau
Gemeinnützige Gesellschaft m. b. H.
(VW Non-Profit Housing Construction Co., Ltd.),
Wolfsburg**

During 1967, the company's activities were restricted to the administration of its 6,733 apartments and the supervision of apartment building construction for VW-Siedlungsgesellschaft m. b. H.

**VW-Siedlungsgesellschaft m. b. H.
(VW Housing Development Co., Ltd.), Wolfsburg**

The company, in 1967, increased its ownership of apartments by 443 to a total of 3,043 at year-end. As in previous years, the VW-Wohnungsbau Gemeinnützige Gesellschaft m. b. H. was responsible for the company's building activity. At year-end, 124 additional apartments were under construction.

The loss for the year, resulting from the maximum write-off of asset values allowed under existing tax laws, was absorbed by Volkswagenwerk AG in accordance with the Profit and Loss Assumption Agreement existing between the two companies.

An analysis of the number of apartments owned by our two housing companies at each plant location follows:

	VW- Siedlungs- gesellschaft m. b. H.	VW- Wohnungsbau Gemein- nützige Gesellschaft m. b. H.	Total
Wolfsburg/ Brunswick	2,960	6,266	9,226
Hanover	79	60	139
Kassel	4	407	411
	3,043	6,733	9,776

**Volkswagen Leasing G. m. b. H.
(Volkswagen Leasing Co., Ltd.), Wolfsburg**

This subsidiary, organized in 1966, was still in the development and expansion stage during 1967. The leveling-off of the German economy also affected this company. Sales volume was insufficient to absorb operating costs and the resulting loss was absorbed by Volkswagenwerk AG in accordance with the Profit and Loss Assumption Agreement existing between the two companies.

**Deutsche Automobilgesellschaft m. b. H.
(German Automobile Co., Ltd.), Hanover**

The Deutsche Automobilgesellschaft m. b. H., jointly owned by Daimler-Benz AG and Volkswagenwerk AG, was formed in 1966 to promote and strengthen cooperation between these two companies in all areas of common interest. During 1967, attention was directed primarily to problems of safety and testing new developments in automotive design and equipment.

Investments in Subsidiaries and Affiliates: Foreign

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

During the year under review, the capital stock of Volkswagen do Brasil S. A. was increased by NCr\$ 106,769,000 to NCr\$ 204,891,150. In addition to the conversion to stock of a NCr\$ 9,000,000 loan, the capital stock increased by NCr\$ 26,980,000 as a result of capitalization of a reserve which was no longer required and by NCr\$ 70,789,000 resulting from the revaluation of property, plant, equipment and investments as required by Brazilian law.

Of the total capital, NCr\$ 120,000,000 is represented by preferred shares entitling the holders to a 10% dividend. Volkswagenwerk AG continues to own 80% of both the preferred and common shares.

The overall demand for automobiles increased only slightly in the less active economy. Our subsidiary, however, was once again successful with an increase of 21.8% in sales to a total of 115,830 units with an attendant production increase to 116,002 automobiles. Thus, Volkswagen do Brasil S. A. has further strengthened its position as the largest automobile manufacturer in Latin America.

The average daily production increased from 393 units in 1966 to 489 units in 1967.

To ensure a continuing successful operation, the service organization was systematically expanded.

Volkswagen do Brasil S. A. continued to show satisfactory earnings.

During the period under review, *Forjaria São Bernardo S. A.* increased its capital by NCr\$ 700,000 to NCr\$ 2,475,000, with Volkswagen do Brasil S. A. contributing its share in cash and decreasing its share of total stock issued from 87.3% in 1966 to 83.5% in 1967. *Forjaria São Bernardo S. A.* increased its production of steel forgings to more than 1,500 tons for the year, of which approximately half was produced for use by Volkswagen do Brasil S. A.

Our Brazilian subsidiary owns 80% of the capital stock of *Cia. VVD de Crédito, Financiamento e Investimentos* which increased its capital from NCr\$ 450,000 to NCr\$ 675,000 during 1967. This company increased its consumer financing business by approximately 25% and again attained satisfactory earnings.

VEMAG S.A. Veículos e Máquinas Agrícolas, São Paulo

During the first half of 1967, we increased our holdings in VEMAG S. A. considerably. The increase in capital stock of NCr\$ 28,146,659 to NCr\$ 54,988,979 resulted from several purchases of stock for cash by our Company. Thus, Volkswagenwerk AG and Auto Union G. m. b. H. together increased their holdings to 59.9% of the total capital stock and 70.1% of the voting shares.

Since the product line of VEMAG S. A. did not offer future development potential, production was discontinued toward the end of 1967, and the business activity was transferred to Volkswagen do Brasil S. A., which was able to either purchase or lease the major portion of the assets of VEMAG S. A. The leasing activities of VEMAG S. A. will generate reasonable earnings. Our financial statements reflect the losses incurred in the reorganization of VEMAG S. A. The former VEMAG dealers were incorporated into the Volkswagen service organization, which now consists of 800 dealers in Brazil.

**Volkswagen de Mexico, S.A. de C.V.,
Mexico D. F.**

The company increased its capital by mex \$ 153,900,000 to mex \$ 267,300,000 during 1967. Volkswagenwerk AG, which is the sole stockholder, contributed mex \$ 81,900,000 in cash and mex \$ 45,297,208 in the form of productive equipment, of which mex \$ 2,609,606 was paid in to satisfy an obligation existing from the previous capital increase. The unpaid subscription in respect of the increase in capital during 1967 amounts to mex \$ 29,312,398.

The new plant at Puebla commenced operations during 1967 and produced its first Volkswagen during November. As a result of the relocation of productive equipment from Xalostoc to Puebla, the total number of automobiles assembled decreased slightly when compared with the preceding year. Sales increased from 17,215 to 19,093 vehicles, and the company's share of the market rose slightly to 21.9%.

The one-time expenditures incurred for relocating the production equipment and for the start-up of the Puebla operation placed an undue burden on the 1967 earnings of the company. Other factors contributing to the unfavorable business result during the year under review were high prices of materials from domestic sources and Government requirements in respect of the use of domestic materials, which impeded the full development of the company's economic growth potential.

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

The Volkswagen continued to maintain its share of the South African automobile market in 1967. Sales of our subsidiary amounted to 21,412 vehicles which is slightly lower than the 21,888 units sold in the preceding year. Its share of new passenger car registrations was 13.3%, or virtually the same as in the preceding year. New registrations of Volkswagen trucks and station wagons decreased slightly from 10.0% to 9.4%.

In the beginning of 1968, Volkswagen of South Africa Ltd. added the AUDI to its assembly and sales program.

The company's 1967 earnings were satisfactory.

The business volume of the South African finance company, *South African Motor Acceptance Corporation (Pty.) Ltd. (SAMAC)*, decreased slightly because of a further increase in competition.

**Volkswagen Australasia Ltd.,
Melbourne**

The Australian economy, which had been stagnant in 1966, suffered a recession in 1967. In spite of this, more than 400,000 vehicles overall were sold in the highly competitive automobile market. This represented an increase over 1966.

Our subsidiary sold 19,315 units during 1967 compared to 19,586 vehicles in the preceding year.

Sales volume in 1967 dropped further and was no longer sufficient for economical production. In addition, there was a further increase in the cost of domestically produced components. The foregoing factors led to a loss for the year 1967. Accumulated reserves, however, still were sufficient to absorb the loss. Since no fundamental change in the present conditions is anticipated in the near future, we decided to decrease the proportionate share of domestically produced parts used in the manufacture of Volkswagens in Australia and to resume assembly of vehicles using mainly imported parts. By importing components as well as vehicles, our product line will be expanded and, consequently, be more competitive as a result of this change in policy. We expect that, after a period of transition, this measure will lead to a significant improvement in the company's operating results.

The organizational structures of *Volkswagen (Services) Pty. Ltd.* and *Volkswagen (Distribution) Pty. Ltd.* will be adjusted in accordance with the changes in Volkswagen Australasia Ltd.

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

Canada's economy experienced only a slight upswing during 1967. Automobile sales, overall, remained slightly below the level of the preceding year; however, our subsidiary increased its sales from 27,878 units in 1966 to 32,735 units in 1967, resulting in a small increase of Volkswagen's share of the market.

The company showed a profit for the year.

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

In 1967, our subsidiary increased its sales from 15,755 Volkswagen vehicles to 17,337 vehicles. The latter amount includes, for the first time, 1,961 AUDI vehicles, which have been marketed by Volkswagen France S. A. since the beginning of 1967. In addition to the success in the sale of AUDI vehicles, the new 1968 model Volkswagens contributed to the operating results. The Volkswagen and AUDI sales organization was further expanded.

To improve earnings, which were unsatisfactory in 1967, Volkswagen France S. A. has been reorganized. During 1968, we expect an expansion of business volume and an improvement in operating results.

During 1967, *Société Volkswagen de Financement S. A.* once again increased the number of consumer finance contracts written and, as a result, its business volume increased. Volkswagen France S. A. and Volkswagenwerk AG hold an 85% and 5% interest, respectively, in this finance company.

**HOLAD Holding & Administration AG,
Basel**

The holding company continues to own 10% of the capital stock of Wolfsburger Transportgesellschaft m.b.H. Amounts received by this company were reinvested within our organization.

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

In keeping with the increased business volume, our United States subsidiary increased the stated value of its capital stock to \$ 5,000,000 by a transfer of \$ 2,000,000 from reserves.

In 1967, the U. S. automobile market declined substantially. Sales of passenger cars and dual-purpose and commercial vehicles decreased by 7% to 8.4 million units. Volkswagen sales did not follow the general trend in the market. Volkswagen dealers were able to increase sales by 7.7%, thereby reducing the vehicle inventories which had been stockpiled toward the end of 1966. Volkswagen's share of passenger cars imported into the United States amounted to 56%, thereby increasing Volkswagen's share of total passenger car registrations from 4.3% in 1966 to 5.0% in 1967. To date, nearly 3 million Volkswagens have been sold in the United States of America.

As part of the continuous expansion of our dealer organization in the U. S. A., the one-thousandth dealership was opened in October, 1967.

The 1967 earnings of Volkswagen of America, Inc. were satisfactory even though increased costs reduced earnings somewhat compared with the preceding year.

Comments on the 1967 Financial Statements of Volkswagenwerk AG

In 1967, for the first time, the balance sheet and statement of earnings are prepared in compliance with the regulations of the stock corporation law (AktG) of 1965 which governs the form and content of financial statements. Figures for 1966 were reclassified for comparative purposes.

Also for the first time, amounts shown on our statements are rounded to the nearest DM.

Financial Position

Changes in our financial position were as follows:

	12/31/1967		12/31/1966	
	in million DM		in million DM	
Assets				
Property, Plant, Equipment and Investments	2,343	67%	2,129	62%
Current Assets	1,163	33%	1,333	38%
	3,506	100%	3,462	100%
Liabilities				
Stockholders' Equity (Capital Stock and Reserves)	2,021	58%	1,837	53%
Liabilities payable within:				
more than 4 years	362	10%	366	11%
1 to 4 years	144	4%	148	4%
1 year or less	979	28%	1,111	32%
	3,506	100%	3,462	100%

As in the previous year, the total of stockholders' equity and long-term liabilities was slightly in excess of property, plant, equipment and investments. With the increase in stockholders' equity of DM 184 million and the decrease in liabilities of DM 140 million, the ratio of stockholders' equity to liabilities showed further improvement over prior years.

The amount of liquid funds on hand remained virtually unchanged between years. The sources and uses of funds in 1967 and 1966 are shown in the following statement:

	1967	1966
Sources of Funds	in million DM	in million DM
Portion of earnings added to reserves	158	77
Portion of earnings added to reserves for special purposes	26	—
Sale of additional shares of capital stock (including premium)	—	323
Provision for depreciation of physical plant	369	411
Write-down of investments in subsidiaries and affiliates	12	139
Book value of physical plant disposed of	11	4
Decrease in long-term loans receivable, net of amortization of premiums and discounts	7	18
Decrease in investment securities	2	—
Increase in:		
Medium-term loans payable	—	16
Short-term loans payable	—	50
Decrease in inventories	74	—
Decrease in medium- and short-term receivables	71	—
	<u>730</u>	<u>1,038</u>
 Uses of Funds		
Investments in:		
Physical plant	518	500
Subsidiaries and affiliates	84	179
Increase in long-term loans receivable	13	24
Decrease in:		
Long- and medium-term loans payable	8	—
Short-term loans payable	132	—
Increase in inventories	—	11
Increase in medium- and short-term receivables	—	56
	<u>755</u>	<u>770</u>
Increase (Decrease) in Liquid Funds	<u>(25)</u>	<u>268</u>

Balance Sheet

Assets

At year-end, the original cost of *Property, Plant and Equipment* amounted to DM 4,731 million and accumulated depreciation totaled DM 2,735 million. The book value of property, plant and equipment (excluding special tools fully depreciated in previous years and miscellaneous low value items not capitalized) represented 42% of original cost at December 31, 1967. During the year under review, additions to property, plant and equipment, including transfers from construction in progress and advance payments to vendors and contractors, were as follows:

DM 187 million land and buildings, compared to DM 169 million in 1966, and
DM 390 million machinery and equipment, compared to DM 290 million in 1966.

Our major investments have been described in detail in the "Capital Investments" section of this report.

The original cost of physical plant is the purchase cost or the production cost. As in the prior year, production cost consists of direct material, direct labor and the appropriate amount of allocated overhead, including depreciation as required by existing tax laws. Administrative expenses are not included. The cost of construction in progress also was determined on the same basis. Advance payments to vendors and contractors are the actual amounts disbursed.

Regular depreciation on plant and equipment was provided for using the straight-line method and, to the extent permissible for tax purposes, using the declining-balance method (which will be converted to the straight-line method in the future). Depreciation on special tools and similar equipment, which in prior years were written off in the year of acquisition as was customary in the automotive industry, was computed using the straight-line method based on the estimated useful lives of these assets. As in prior years, miscellaneous low value items were written off in the year of acquisition.

The ratios, based on original cost, of plant and equipment being depreciated using the straight-line method as compared to the declining-balance method are approximately 2.5 to 1 for plant facilities and 1 to 2

for machinery and equipment. For this calculation, the original cost of buildings being depreciated using the modified straight-line method is included with the plant facilities being depreciated using the straight-line method.

Our depreciation rates are based on the following estimated useful lives:

Buildings	mainly 32–50 years
Buildings used for research and development and land improvements	mainly 10–18 years
Production machinery and power producing machinery	mainly 7–14 years
Plant and office equipment	mainly 2– 8 years.

During 1967, additional depreciation was provided for only to the extent required to take full advantage of existing tax benefits. In accordance with section 82d of income tax regulations (EStDV), 50% of the original cost of machinery and equipment and 30% of the original cost of buildings acquired in 1967 for use in research and development were written off. In accordance with the new tax laws instituted to stimulate the economy, additional first-year depreciation was taken on 1967 additions to plant and equipment subject to the tax benefits. This additional depreciation was provided for at the rate of 10% for machinery and equipment and 5% for plant facilities. Other additional depreciation was provided for in accordance with sections 6b and 7b of income tax law (EStG) and sections 79 and 82 of EStDV. In addition, regular depreciation was provided for on these assets to the extent permissible for tax purposes.

The following summary shows additional details of the 1967 depreciation provision:

	On Owned Land and on Land with Land Rights					
	Office and Factory Buildings and Other Structures	Apartments	Buildings on Leased Land	Machinery and Fixtures	Plant and Office Equipment	Grand Total
—in thousand DM—						
regular depreciation:						
straight-line	30,290	570	1,293	162,626	33,583	228,362
declining-balance	32,420	—	737	39,181	3,554	75,892
modified						
straight-line *	6,493	—	4	—	—	6,497
direct write-off	—	—	—	—	4,042	4,042
additional depreciation	26,239	91	8	26,208	1,630	54,176
Total	95,442	661	2,042	228,015	42,809	368,969
including						
depreciation of	29,918	8	22	56,676	30,198	116,822
on the following						
additions** during 1967	152,479	274	1,157	280,855	109,402	544,167

* In accordance with a new law with respect to the method of depreciating buildings.

** Additions and transfers from construction in progress and advance payments to vendors and contractors on machinery and equipment.

To the extent permissible for tax purposes, depreciation was provided for a full year, for a half year or on a prorated basis for 1967 additions.

Book values of buildings and equipment, which due to special provision for depreciation in previous years are lower than permitted by AktG 1965, remained unchanged in accordance with section 14, paragraph 2 of stock corporation law preliminary legislation (EG AktG 1965).

All property, plant and equipment are free of liens and encumbrances.

Additions to *Investments in Subsidiaries and Affiliates* during 1967 amounted to DM 84 million and consisted of the following:

- DM 37 million payment on the capital stock increase of VEMAG S. A. Veículos e Máquinas Agrícolas,
- DM 35 million contribution to the increased capital stock of Volkswagen de Mexico, S. A. de C. V.,
- DM 11 million contribution to the increased capital stock of Volkswagen do Brasil S. A. and
- DM 0.75 million payment for the remaining unpaid subscriptions of Volkswagen Leasing G.m.b.H.

Our current year's foreign investments were written down by 15% in accordance with the tax law permitting a write-down of investments made in developing countries. In addition, a tax-free reserve was set up to the extent of 50% of the remaining balance of these investments for the current year.

Our minor investment in Kernreaktor-Finanzierungsgesellschaft m.b.H. was of no value to the Company and was donated to Deutsche Atomforum.

At year-end, the original cost of our investments in subsidiaries and affiliates amounted to DM 702 million, of which DM 417 million and DM 285 million pertained to domestic and foreign companies, respectively. At December 31, 1967, write-offs amounted to DM 429 million. To the extent of write-offs not permitted for tax purposes, book values of these investments at December 31, 1966 remained unchanged in accordance with section 14, paragraph 2 of EG AktG 1965.

Other Investment Securities consist of 5% West German Government Bonds for the Promotion of Developing Countries. The first repayment on the bonds, amounting to DM 2.5 million, was received in the beginning of 1967. These securities are valued at cost, which remained below the market value.

Long-term Loans with an Initial Term of Four Years or Longer of DM 13 million were granted, as in previous years, primarily for housing construction. Payments have been received when due, and the unpaid balances of all long-term loans increased by DM 5 million during 1967 to DM 196 million at year-end. Interest-free loans have been discounted to reflect present values. Of the total loans shown on the balance sheet as loans in accordance with section 89 of AktG 1965, DM 11,632,920 represent loans to an unaffiliated non-profit housing construction company (section 89, paragraph 4 of AktG).

The book value of *Inventories* decreased by DM 74 million to DM 576 million at December 31, 1967. This reduction was caused mainly by lower inventories of finished products. The book value

does not fully reflect the actual reduction in inventories because of a change made in the method of valuation.

In general raw materials and supplies were valued, at current, average purchase costs. Write-downs to lower market values were required only in a few instances. Imported goods as well as excessive and obsolete materials were written down to the extent permitted for tax purposes. Work in process inventories and finished products were valued using production costs which, as in the prior year, consisted of the average purchase cost of raw materials, direct labor and the production overheads (excluding depreciation) which must be capitalized in accordance with existing tax regulations. Goods purchased for resale were valued on the same basis as raw materials and supplies. Slow-moving parts inventories were written down to the extent allowable for tax purposes.

The change in the method of valuing inventory in 1967, compared to 1966, consisted of the elimination of inventory write-downs no longer permitted by law. These write-downs, not deductible for tax purposes, were established on a lump-sum basis in prior years and amounted to DM 8 million and DM 32 million, respectively, for raw materials and supplies and finished products. The amount of the write-downs restored to inventory valuation was credited to other reserves in accordance with section 14, paragraph 4 of EG AktG 1965.

Trade Accounts Receivable represent DM 36 million due from customers in foreign countries and DM 11 million due from customers located in the Federal Republic. The latter amount represents, primarily, deliveries made to government organizations on a short-term credit basis. Subsequent to December 31, 1967, all material amounts were collected when due.

The portfolio and book value of *Securities* remained unchanged from the previous year.

Receivables from Subsidiaries and Affiliates decreased by DM 78 million to a total of DM 55 million at December 31, 1967. The decrease was mainly due to a reduction in receivables from our subsidiaries

in Canada and Mexico as a result of more frequent currency transfers, repayment of loans by VEMAG S.A. and payments made by that same company for productive equipment delivered during 1966. On the other hand, receivables from Volkswagen of America, Inc. increased as a result of additional vehicle deliveries toward the end of 1967. Our receivables from Volkswagen do Brasil S.A. increased due to unpaid consulting fees. Lower valuations were placed on receivables from our Brazilian subsidiaries in view of the inherent risks relating to the rate of exchange and currency transfers. In addition, a lower value was placed on the loan receivable from Volkswagen Australasia Ltd., the repayment of which is doubtful.

Miscellaneous Other Current Assets of DM 56 million consist of cash surrender value of old-age insurance, estimated claims for refund of taxes, the exact amount of which could not be determined at the balance sheet date and numerous miscellaneous items. Doubtful accounts were minor in amount and have been written off.

Liabilities

During the year under review, *Capital Stock* remained unchanged.

The increase in *Legal Reserve* represents the excess of net proceeds from sale of capital stock over par value thereof in connection with the capital stock increase during 1966. These shares, sold by a syndicate of banks, represent shares for which stockholders did not exercise their preemptive rights.

The *Reserve for the Share-the-Burden Property Levy* represents the discounted amount of this liability as of December 31, 1967.

Other Reserves increased by DM 171 million. As mentioned previously, DM 40 million of the increase resulted from the elimination of inventory write-downs no longer permitted by law. The write-downs were added to other reserves in accordance with

section 14, paragraph 4 of EG AktG 1965. The balance of the increase, or DM 131 million, represents the amount of undistributed earnings remaining after providing for the current year's dividend distribution.

Through additions and deductions in the statement of earnings, DM 12 million, which was included in other reserves at December 31, 1966, was transferred to *Reserves for Special Purposes* during 1967. Additions to reserves for special purposes are deductible for tax purposes; however, if such reserves are used for any purpose other than that for which they were created, the amount so used becomes taxable income to the Company. Income taxes that would be payable upon elimination of the special purpose reserves, included in undetermined liabilities at December 31, 1966, have been reclassified in the comparative figures in the balance sheet to conform with requirements of the new stock corporation law. In connection with investments made in developing countries, DM 33 million was added to reserves for special purposes during 1967.

Changes in *Underdetermined Liabilities* were as follows:

Balance January 1, 1967	DM 666 million
Amount used	DM 301 million
Elimination of reserves	DM 48 million
	DM 317 million
Additions	DM 301 million
Balance December 31, 1967	DM 618 million
The year-end balance consists of:	
Pension plan costs	DM 277 million
Distribution costs	DM 126 million
Social benefits and other labor costs	DM 96 million
Taxes	DM 64 million
Miscellaneous other undetermined liabilities and risks	DM 55 million
	DM 618 million

Undetermined liabilities for warranty obligations and for pending lawsuits and taxes decreased; on the other hand, pension plan costs, which were based on actuarial computations in accordance with existing tax laws, increased by DM 37 million over 1966.

In accordance with the regulations of the new stock corporation law, undetermined liabilities for warranties without legal obligation are shown separately on the balance sheet for the first time. The amount provided in the current year is based on experience in prior years.

Of the undetermined liabilities shown on the balance sheet, approximately

DM 272 million can be considered as relating to long-term risks,

DM 51 million as medium-term risks and DM 295 million are of a short-term nature.

Liabilities with an Initial Term of Four Years or Longer decreased as a result of the payment of an additional installment on the plant improvement loan and repayment of the DM 10 million loan granted to us by the Volkswagenwerk Foundation. At December 31, 1967, the long-term loans of DM 168 million consisted of:

DM 113 million 5% plant improvement loan of DM 150 million, which was received in the years 1961 through 1963, to be repaid in 8 equal, annual installments commencing in 1966.

DM 50 million loan granted to us by the State of Lower Saxony. The loan is to be repaid by the first half of 1980, at an interest rate equal to the prevailing German Federal Bank discount rate.

DM 5 million balance of a DM 6 million loan granted to us in 1964 by the Federal Agency for Employment and Unemployment Compensation to construct housing for our foreign workers. This loan is to be repaid within 10 years commencing in 1966 and bears interest at the rate of 2 ½% per annum.

Trade Accounts Payable were DM 36 million lower than at December 31, 1966. The portion of accounts payable representing acquisition of property, plant and equipment amounted to 10% of the total.

Due to Banks resulted from executing a pound-sterling loan at the current exchange rate, equal to the pound-sterling loan granted to Volkswagen Australasia Ltd.

Prepayments by Customers of DM 16 million represent, primarily, advance payments made by foreign importers.

Accounts Payable to Subsidiaries and Affiliates decreased by DM 66 million to DM 36 million at year-end. The reduction resulted, primarily, from the repayment of a short-term loan granted to us by Wolfsburg Transportgesellschaft m.b.H. and from lower advance payments made by Volkswagen of America, Inc. for merchandise to be delivered in 1968. The balance at December 31, 1967 consists, primarily, of amounts due to our domestic subsidiaries resulting from transactions in the ordinary course of business.

Miscellaneous Other Liabilities decreased by DM 20 million to DM 82 million mainly as a result of considerably lower tax liabilities. Nearly 75% of other liabilities consist of payroll obligations incurred but unpaid at December 31, 1967. The remainder represents numerous miscellaneous items.

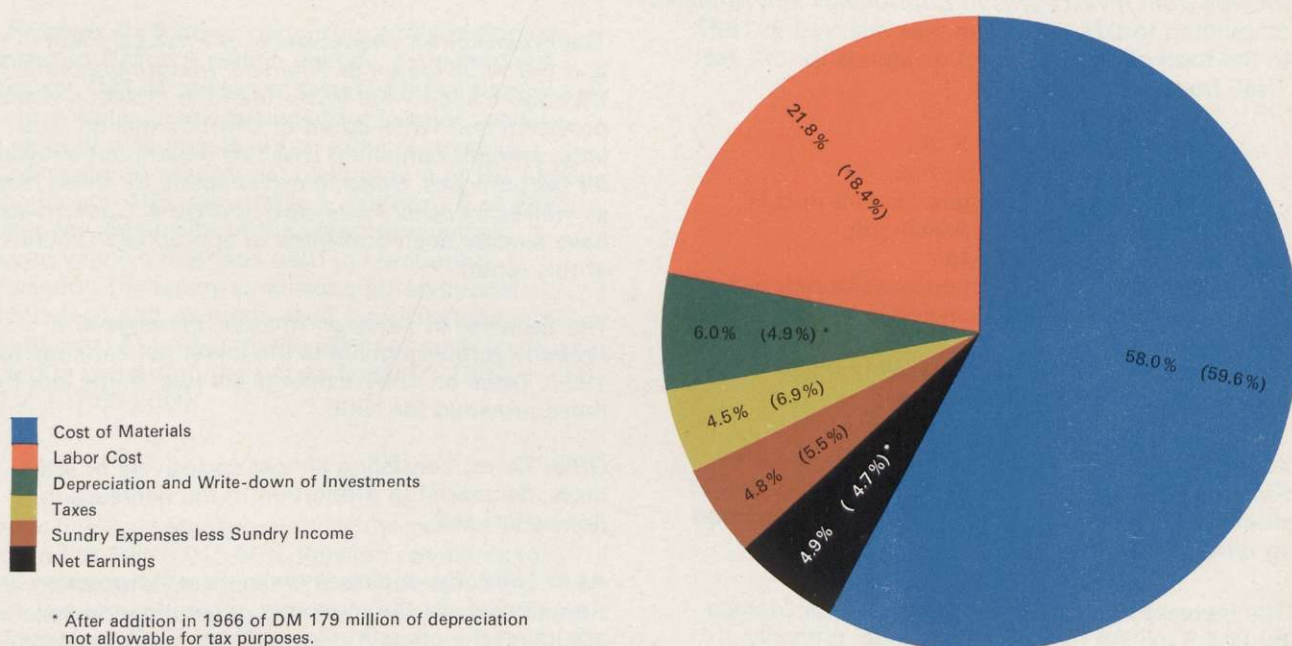
In addition to our *Contingent Liability with respect to Discounted Trade Acceptances*, we were contingently liable for DM 13,750,000 in additional assessments in connection with the purchase of shares of domestic companies with limited liability.

Statement of Earnings

Gross Output of the parent company, consisting of sales, material, wages and overhead capitalized as additions to plant and equipment and adjustments for increases (decreases) in inventories amounted to DM 6,490 million in 1967 compared to DM 7,977 million during 1966.

The ratio of expenditures to gross output was favorably affected by the change in inventories (inventory decrease of DM 84 million from 1966 to 1967 as against an inventory increase of DM 81 million from 1965 to 1966). Although proceeds from the sale of inventories produced in prior years are included in gross output, costs were not incurred in the current year to bring the inventory value up to the 1966 level.

The ratios of selected cost, expense and earnings data to gross output were as follows (1966 ratios in parentheses):



Sales decreased in 1967 by 17.1 % from 1966 to DM 6,464 million. This decrease, however, was lower than the decrease in the number of vehicles sold. The ratio of vehicle sales to total sales decreased from 85% in 1966 to 83% in 1967, whereas the corresponding ratio for parts increased from 10% to 12%. The ratio of export sales to total sales continued to increase, amounting to 63% in 1966 and 66% in 1967.

Expenditures for Raw Materials and Supplies decreased in 1967 from 1966 by DM 997 million or 20.9%. This reduction was relatively higher than the decrease in gross output primarily as a result of lower purchase prices and reduced warranty provision requirements. Purchases of raw materials alone decreased by 21.7%.

Income from Profit Assumption Agreements resulted from assuming the 1967 operating profit of Auto Union G.m.b.H., which amounted to DM 18 million in 1967 compared to DM 2 million in the previous year.

Income from Investments in Subsidiaries and Affiliates amounting to DM 90 million was received in 1967 in the form of distribution of dividends for the year 1966 from:

Volkswagen do Brasil S. A.,
Volkswagen of America, Inc.,
Wolfsburger Transportgesellschaft m.b.H.,
Volkswagen of South Africa Ltd.,
Volkswagen Canada Ltd.,
Volkswagen-Finanzierungsgesellschaft m.b.H.,
VW-Wohnungsbau Gemeinnützige Gesellschaft
m.b.H. and
"Neuland" Gemeinnützige Wohnungs-
und Siedlungsgesellschaft m.b.H.

At year-end, DM 6 million of *Income from Other Financial Investments* resulted from amortization of discount on long-term loans previously discounted to reflect present values.

The increase in *Other Interest and Similar Income* by DM 9 million over 1966 was due, primarily, to higher bank balances.

Elimination of Reserves for Undetermined Liabilities No Longer Required resulted, mainly, from lower requirements for labor costs, pending lawsuits and warranty obligations.

As in prior years, *Other Income* resulted, for the most part, from revenues from auxiliary services, taxes rebilled to companies with whom tax assumption agreements existed and billing of advertising and sales promotion material. Other income also includes a transfer from undetermined liabilities which partially offsets the additional assessments of taxes for prior years which, as required, are included in tax expense.

The reasons for the decrease of DM 44 million, or 3.4%, in expenditures for *Wages and Salaries* and of DM 1 million in expenditures for *Social Expenditures-Compulsory* were stated in the "Labor Force" section of this report.

The major single item of *Pension Expenditures and Voluntary Payments* consists of charges for future and present pension payments.

The *Provision for Depreciation of Physical Plant* and the *Write-down of Financial Investments* totaling DM 386 million were lower than the previous year's provision and write-down of DM 567 million. The latter amount contained DM 179 million not allowable for tax purposes. Specific explanations for these items, as well as for other *Write-downs of Other Current Assets*, have already been presented in appropriate sections of this report.

The decrease in *Taxes on Income, Earnings and Property* further highlights the lower net earnings for 1967. Taxes on 1967 earnings are two-thirds less than those provided for 1966.

Other Taxes, consisting almost exclusively of sales taxes, decreased in proportion to the decrease in domestic sales.

As in 1966, *Expenditures under Loss Assumption Agreements*, for the most part, were incurred by assuming the operating loss of VW-Siedlungsgesellschaft m.b.H. This loss was due to depreciation

write-offs in accordance with section 7 b of EStG and provision for depreciation of buildings which was calculated using the modified straight-line method, as allowed for tax purposes. The loss incurred by Volkswagen Leasing G.m.b.H., which was organized toward the end of 1966 and is still in its developmental stage, contributed, to a minor extent, to our expenditures under these agreements.

The decrease by DM 134 million in *Other Expenses* was due largely to lower shipping costs, lower plant maintenance and the considerably lower additions to undetermined liabilities to provide for general risks. Other items included in this account, such as advertising and sales promotion, merchandise for our stores and cafeterias, rental and lease expense and insurance contributions remained almost unchanged compared to 1966.

Net Earnings (before transfers from and additions to reserves) of DM 319 million include, as mentioned previously, DM 40 million of restored lump-sum inventory write-downs provided for in prior years. This amount was transferred to other reserves in accordance with section 14, paragraph 4 of EG AktG 1965. Section 160, paragraph 2, sentence 5 of AktG requires the disclosure of the effect of changes between years in methods used in computing depreciation (including provisions for additional depreciation) and methods used for valuations and write-downs. At year-end, the effect of such changes resulted in increasing the net earnings for 1967 by DM 127,634,000.

Compensation to Management for the year 1967 amounted to DM 5,015,801. Pension payments to retired members of management or their surviving beneficiaries amounted to DM 334,082. *Compensation paid to Members of the Board of Directors* was DM 257,175.

Comments on the Consolidated Financial Statements of Volkswagenwerk AG and its Domestic Subsidiaries

The consolidated financial statements include the following:

Volkswagenwerk AG, Wolfsburg,
Auto Union G.m.b.H., Ingolstadt,
Volkswagen-Finanzierungsgesellschaft m.b.H.,
Wolfsburg,
Auto Union Kredit G.m.b.H., Ingolstadt,
Wolfsburger Transportgesellschaft m.b.H., Wolfsburg,
Volkswagen Leasing G.m.b.H., Wolfsburg,
VW-Siedlungsgesellschaft m.b.H., Wolfsburg and
VW-Wohnungsbau Gemeinnützige Gesellschaft m.b.H.,
Wolfsburg.

The remaining domestic subsidiaries, Auto Union G.m.b.H., Munich and the Auto Union Ersatzteile-Generaldepot E. Frankenbach G.m.b.H., Hamburg, were excluded from consolidation because their assets and liabilities are immaterial in comparison to the consolidated balances. Foreign subsidiaries were also excluded from consolidation.

The minority interest of our Swiss subsidiary, HOLAD, in the net assets of our domestic subsidiary, Wolfsburger Transportgesellschaft m.b.H., is included in the consolidated balance sheet as "Minority Interest in Consolidated Subsidiaries". Other reserves of VW-Wohnungsbau Gemeinnützige Gesellschaft m.b.H. is included in consolidated undetermined liabilities because, should this company be liquidated, this reserve must be used for purposes of public welfare.

The assets and liabilities in the consolidated balance sheet are valued in accordance with the regulations governing the year-end closing of a stock corporation.

Comparative figures for 1966, reclassified in accordance with the new regulations, were taken from the previous year's consolidation which included the same companies. Consolidated figures were presented in 1966, although not required by law.

Consolidated Balance Sheet

The structure of the consolidated balance sheet as of December 31, 1967 is compared with 1966 as follows:

	12/31/1967		12/31/1966	
	in million DM		in million DM	
Assets				
Property, Plant and Equipment	2,451	59%	2,317	54%
Financial Investments	142	3%	68	2%
Inventories	649	16%	817	19%
Receivables	382	9%	600	14%
Liquid Funds	523	13%	468	11%
	4,147	100%	4,270	100%

Liabilities

Stockholders' Equity	2,177	53%	2,021	47%
Liabilities payable within:				
more than 4 years	583	14%	580	14%
1 to 4 years	169	4%	174	4%
1 year or less	1,218	29%	1,495	35%
	4,147	100%	4,270	100%

At December 31, 1967, stockholders' equity and liabilities not payable within four years exceeded property, plant, equipment and investments by DM 167 million compared to DM 216 million at the end of 1966.

During 1967, liquid funds increased by DM 55 million to a total of DM 523 million, of which DM 428 million is held by the parent company. The sources and uses of funds are shown in the following statement:

	in million DM
Sources of Funds	
Portion of earnings added to reserves	156
Provision for depreciation of physical plant	409
Write-down of investments in subsidiaries and affiliates	13
Book value of physical plant disposed of	10
Decrease in long-term loans receivable, net of amortization of premiums or discounts	4
Decrease in investment securities	2
Increase in long-term loans payable	3
Decrease in inventories	168
Decrease in medium- and short-term receivables	218
	<u>983</u>
Uses of Funds	
Investments in:	
Physical plant	553
Subsidiaries and affiliates	83
Increase in long-term loans receivable	10
Decrease in:	
Medium-term loans payable	5
Short-term loans payable	277
	<u>928</u>
Increase in Liquid Funds	<u>55</u>

Comments on significant differences between 1967 and 1966 follow:

Compared to 1966, *Property, Plant and Equipment* increased by DM 134 million, which consisted of DM 553 million of additional expenditures less DM 419 million of provision for depreciation and disposals. At year-end, the book value of property, plant and equipment represented 45% of original cost of DM 5,452 million.

Financial Investments increased by DM 74 million to a total of DM 142 million at December 31, 1967. The increase resulted primarily from contributions made by Volkswagenwerk AG toward the capital stock increases of the Brazilian subsidiaries VEMAG S. A. and Volkswagen do Brasil S. A. and of Volkswagen de Mexico, S. A. de C.V.

Compared to the previous year, *Inventories* decreased by DM 168 million, the major portion of which was the result of lower finished products inventories.

Receivables decreased by DM 218 million mainly because of a decline in financing of dealer purchases by Volkswagen-Finanzierungsgesellschaft m.b.H. and lower receivables from foreign subsidiaries of Volkswagenwerk AG.

Stockholders' Equity includes, among other items, "Reserves of Consolidated Subsidiaries" of DM 19 million, represented by reserves provided by Auto Union G.m.b.H. and Volkswagen-Finanzierungsgesellschaft m.b.H. The write-down of interest-free construction loans granted by Volkswagenwerk AG to subsidiaries had to be eliminated in consolidation and resulted in consolidated net earnings being DM 107 million in excess of the total earnings of the companies individually.

The DM 277 million decrease in *Liabilities* payable within one year was the result, primarily, of the reduction in liabilities to banks by Volkswagen-Finanzierungsgesellschaft m.b.H. and, also, from reduced undetermined liabilities and trade accounts payable of Volkswagenwerk AG.

In addition to the contingent liabilities shown on the balance sheet, other *Contingent Liabilities* requiring disclosure were as follows:

DM 4,500,000 in connection with the purchase of shares of domestic companies with limited liabilities and DM 112,796 for assumed guarantees of housing construction loans.

Machinery, costing DM 78,207 and installed permanently in a leased plant, was pledged in connection with the lease obligation.

Consolidated Statement of Earnings

During 1967, gross output amounted to DM 6,904 million compared to DM 8,581 million in 1966. The ratios of selected cost, expense and earnings data to gross output were as follows (1966 ratios in parentheses):

Cost of materials	59.4%	(61.4%)
Labor cost	22.5%	(18.8%)
Depreciation and write-down of investments	6.1%	(5.3%)*
Taxes	4.5%	(6.8%)
Sundry expenses less sundry income	3.2%	(2.9%)
Net earnings	4.3%	(4.8%)*

Consolidated net earnings (adjusted) for 1967 amounted to DM 255 million, exclusive of income arising from elimination of the DM 40 million inventory write-downs of prior years mentioned in comments to the balance sheet of Volkswagenwerk AG. This DM 255 million consolidated earnings figure was DM 24 million less than the comparable earnings figure of the parent company alone. The reason for this difference is explained in the following paragraph.

As mentioned previously, 1967 earnings of Volkswagenwerk AG alone include dividends, paid out of 1966 earnings, from its subsidiary and affiliated companies. The stock corporation law requires that, upon consolidation of earnings, dividend income received from consolidated subsidiaries be eliminated. The lower consolidated earnings resulted because 1967 earnings of consolidated subsidiaries were less than amounts distributed to the parent company during the year as dividends from the previous year's earnings.

It is expected that approximately DM 30 million will be distributed to the parent company during 1968 in the form of dividends from 1967 earnings of consolidated subsidiaries. The dividend distribution will be subject to an additional tax of 36%.

* After addition in 1966 of DM 165 million of depreciation not allowable for tax purposes.

Proposed Distribution of Net Earnings for 1967

Net earnings	DM 319,347,275
Deduction of amount not available for dividend distribution in accordance with section 14, EG AktG (restored prior years' inventory write- downs transferred to other reserves)	DM 40,300,000
Net earnings (adjusted)	DM 279,047,275
Additions to other reserves (section 58, AktG)	DM 131,113,160
Current year's net earnings available for distribution	DM 147,934,115
Net earnings brought forward from previous year and transferred from the Reserve for the Share-the-Burden Property Levy	DM 2,065,885
Net earnings available for distribution	DM 150,000,000

Management proposes to distribute the net earnings
available for distribution amounting to a 20%
dividend on the capital stock of DM 750 million.

Wolfsburg, April 1968

The Management

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Report of the Board of Directors

During the year under review, Management has kept the Board of Directors currently informed as to the status of the Company and its business activity. By these means, the Board of Directors was able to exercise continuous control over the conduct of the business.

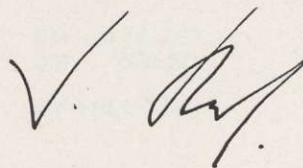
The financial statements, the annual report and the auditor's report were reviewed by the Board of Directors. The Board of Directors approves the audit report of the Deutsche Revisions- und Treuhand-Aktiengesellschaft, Treuarbeit, Hanover, and states that its own review of the financial statements and annual report disclosed no exceptions.

The Board of Directors has approved the yearly report prepared by Management, which is hereby confirmed. The Board of Directors has examined and concurs with the proposal of Management concerning the distribution of net earnings available for distribution.

The Board of Directors has reviewed the consolidated financial statements of Volkswagenwerk AG and its domestic subsidiaries, the comments thereto and the auditor's report.

The Chairman of the Board of Management, Professor Dr.-Ing. E. h., Dipl.-Ing. Heinrich Nordhoff died on April 12, 1968 in Wolfsburg. The Board of Directors at its meeting held on April 17, 1968 paid tribute to him and his achievement in bringing world-wide recognition to the Volkswagen and the Company. His recognition as one of the great figures in industrial history is assured.

Wolfsburg, April 1968

A handwritten signature in black ink, consisting of a large 'V' followed by a stylized, cursive name.

Chairman of the Board of Directors

Assets

40

41

Dec. 31, 1967	Dec. 31, 1966			Dec. 31, 1967	Dec. 31, 1966
DM	Thousand DM		DM	DM	Thousand DM
		Capital Stock		750,000,000	750,000
		Reserves			
1,108,070,442	1,015,995	Legal reserve	233,614,000		
13,235,065	15,124	Jan. 1, 1967			
32,430,863	36,173	Additional premium on capital	185,000	233,799,000	233,614
21,880,978	23,204	stock sold in 1966			
609,638,009	559,738	Reserve for the Share-the-Burden Property Levy			
107,544,417	42,666	Jan. 1, 1967	26,100,000		
78,411,323	107,468	Transfer to earnings	1,645,000	24,455,000	26,100
25,038,840	57,545				
1,996,249,937	1,857,913	Other reserves			
		Jan. 1, 1967	827,139,704		
		Transfer to reserves for special purposes	11,661,405	986,891,459	827,140
		Transfer from 1967 earnings	171,413,160		
273,096,013	202,096	Reserves for Special Purposes		1,245,145,459	1,086,854
19,856,251	22,063	Reserve for investments in developing countries in accordance			
		with section 34d EStG and section 1 of the tax law	56,274,278		
53,901,119	47,294	Reserve for price increases in accordance			
		with section 74 of EStDV	3,682,565	60,289,212	15,027
		Reserve for replacement in accordance with section 35 EStR	332,369		
346,853,383	271,453	Undetermined Liabilities		276,857,860	239,429
		Old-age pensions			
		Other undetermined liabilities		3,290,000	1,800
		Warranties without legal obligation		338,017,393	424,938
		Other			
2,343,103,320	2,129,366			618,165,253	666,167
		Liabilities with an Initial Term of Four Years or Longer			
		Due to banks		44,400,000	48,300
		Other liabilities		123,250,490	148,857
				167,650,490	197,157
	254,080	including amounts due within four years	DM 77,566,409		
	185,655	Other Liabilities		370,812,193	407,154
	209,836	Trade accounts payable		9,572,504	—
575,884,901	649,571	Due to banks		15,586,890	13,982
		Prepayments by customers		36,485,240	102,115
306,680	2,299	Accounts payable to subsidiaries and affiliates			
47,329,351	39,996	including trade accounts payable	DM 24,891,087		
		advance payments received	DM 6,319,053	82,224,793	102,635
11,051,265	14,009	Miscellaneous other liabilities			
				514,681,620	625,886
208,611	189			142,570	177
408,085,864	430,227	Deferred Income			
8,768,837	8,769			150,000,000	120,421
54,964,123	132,851	Net Earnings after Reserve Transfers			
		(Available for Distribution)			
56,306,518	54,400	Share-the-Burden Property Levy			
		Present discounted amount	DM 24,454,057		
1,162,906,150	1,332,311	Quarterly installment	DM 689,021		
65,134	12	Contingent liabilities with respect			
		to trade acceptances	DM 118,117,334		
3,506,074,604	3,461,689			3,506,074,604	3,461,689

Statement of Earnings

Year ended December 31, 1967

	1967		1966
	DM	DM	Thousand DM
Sales	6,463,995,199		7,798,845
Increase (decrease) in inventories	(84,036,210)		81,122
		6,379,958,989	7,879,967
Material, wages and overhead capitalized as additions to plant and equipment		110,445,177	96,610
Gross Output		6,490,404,166	7,976,577
Expenditures for raw materials, supplies and outside services		3,762,930,640	4,759,655
Excess of Gross Output over Expenditures for Raw Materials, etc.		2,727,473,526	3,216,922
Income from profit assumption agreements	18,482,739		2,212
Income from investments in subsidiaries and affiliates	90,120,053		52,538
Income from other financial investments	7,378,186		3,491
Other interest and similar income	26,324,376		17,351
Gain on disposal of property, plant, equipment and investments	3,501,186		27,831
Elimination of reserves for undetermined liabilities no longer required	48,428,754		63,737
Elimination of reserves for special purposes no longer required	—		95
Other income	112,320,185		102,599
		306,555,479	269,854
including extraordinary income of	DM 6,943,265		
(1966 DM 7,505,773)		3,034,029,005	3,486,776
Wages and salaries	1,238,190,709		1,282,078
Social expenditures – compulsory	128,515,962		129,625
Pension expenditures and voluntary payments	50,929,776		53,137
Provision for depreciation of physical plant	368,968,902		411,240
Write-down of financial investments	17,505,234		155,868
Write-down of current assets	18,924,239		3,606
Loss on disposal of property, plant, equipment and investments	2,431,588		2,769
Interest expense and similar charges	17,232,165		19,632
Taxes			
a) on income, earnings and property	DM 193,181,634		413,600
b) other	DM 93,336,519		130,415
	286,518,153		
Share-the-Burden Property Levy	2,756,085		2,756
Expenditures under loss assumption agreements	3,850,376		3,395
Additions to reserves for special purposes	33,600,151		2,201
Other expenses	545,258,390		679,381
		2,714,681,730	3,289,703
Net Earnings		319,347,275	197,073
Balance carried forward		319,347,275	197,073

	1967	1966
	DM	Thousand DM
Balance brought forward	319,347,275	197,073
Net earnings brought forward from previous year	420,885	314
	319,768,160	197,387
Transfers from other reserves		
from the reserve for the Share-the-Burden Property Levy	1,645,000	1,600
from other reserves no longer required		
Additions to reserves for special purposes	DM 11,661,405	
(Reclassification of prior years' amounts)	DM 11,661,405	—
	—	—
Additions to other reserves	321,413,160	198,987
including DM 40,300,000 in accordance with section 14, paragraph 4 EG AktG 1965	171,413,160	78,566
Net Earnings after Reserve Transfers		
(Available for Distribution)	150,000,000	120,421

During 1967, pension payments amounted to DM 3,139,425; payments during the next five years will approximate 139, 162, 185, 216 and 253% of this amount.

Wolfsburg, April 1968

Volkswagenwerk Aktiengesellschaft

The Management

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

Hanover, April 8, 1968

Deutsche Revisions- und Treuhand-Aktiengesellschaft
Treuarbeit
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Schneider
Wirtschaftsprüfer

Dr. Apelt
Wirtschaftsprüfer

Consolidated Balance Sheet of Volkswagenwerk Aktien-
gesellschaft and its Domestic Subsidiaries December 31, 1967

Assets

	Jan. 1, 1967	Additions	Deductions	Transfers	Accumulation of Discount	Provision for Depreciation
Property, Plant, Equipment and Investments	DM	DM	DM	DM	DM	DM
A. Property, plant, equipment and trademarks						
Real estate and land rights						
with office, factory and other buildings	1,115,599,116	119,624,052	2,623,554	72,137,674	—	100,563,718
with residential buildings	285,629,222	10,895,698	198,910	8,900,826	—	8,758,927
without buildings	44,253,310	4,149,169	357,182	./.	1,554,400	—
Buildings on leased real estate	26,213,612	658,847	3,841	272,399	—	2,364,565
Machinery and fixtures	598,874,047	208,771,950	1,588,476	77,559,822	—	244,200,580
Plant and office equipment	58,825,164	107,708,458	1,899,168	7,006,866	—	53,060,287
Construction in progress	123,019,255	76,396,908	2,913,754	./.	104,996,213	—
Advance payments to vendors and contractors	64,115,884	24,785,708	452,887	./.	59,326,974	—
Trademarks	1	—	—	—	—	—
	2,316,529,611	552,990,790	10,037,772	—	—	408,948,077
B. Investments						
Investments in subsidiaries and affiliates	20,112,279	82,646,745	1	—	—	12,592,794
Other investment securities	22,089,708	—	2,233,457	—	—	—
Long-term loans receivable with an initial term of four years or longer	26,065,472	10,026,634	3,294,119	—	1,455,128	2,426,714
Face value at 12/31/67 DM 68,336,146 including secured by mortgages DM 60,615,018						
loans in accordance with section 89 of AktG						
DM 11,878,323						
loans in accordance with section 115 of AktG						
DM 10,000						
	68,267,459	92,673,379	5,527,577	—	1,455,128	15,019,508
	2,384,797,070	645,664,169	15,565,349	—	1,455,128	423,967,585
Current Assets						DM
A. Inventories						
B. Other current assets						
Advance payments to suppliers						
Trade accounts receivable						
including amounts due in more than one year	DM	1,747,488				
Trade acceptances						
including acceptances discountable at German Federal Bank	DM	5,982,476				
acceptances due from subsidiaries and affiliates	DM	7,009				
Cash on hand, including German Federal Bank and post office checking account balances						
Cash in banks						
Securities						
Receivables from subsidiaries and affiliates						
including amounts for goods and services rendered	DM	51,152,936				
Miscellaneous other current assets						
Prepaid and Deferred Expenses						
Discount on loans payable						1,608,456
Other						1,323,685

Liabilities

	Dec. 31, 1967	Dec. 31, 1966
Capital Stock	DM	Thousand DM
	750,000,000	750,000
Reserves		
Legal reserve	233,799,000	233,614
Reserve for the Share-the-Burden Property Levy	24,455,000	26,100
Other reserves	986,891,459	827,140
Reserves of consolidated subsidiaries	19,224,497	18,846
	1,264,369,956	1,105,700
Minority Interest in Consolidated Subsidiaries	3,370,168	6,125
including minority interest in consolidated net earnings	DM 3,320,168	
Reserves for Special Purposes		
Reserve for investments in developing countries in accordance with section 34 EStG and section 1 of the tax law	56,274,278	
Reserve for price increases in accordance with section 74 of EStDV	3,682,565	
Reserve for replacement in accordance with section 35 EStR	332,369	60,289,212
		15,027
Undetermined Liabilities		
Old-age pensions		285,025,882
Other undetermined liabilities		247,249
Warranties without legal obligation		3,490,000
Other		389,209,760
		2,012
		474,132
		677,725,642
		723,393
Liabilities with an Initial Term of Four Years or Longer		
Due to banks		173,253,140
including secured by mortgages	DM 128,836,575	175,959
Other liabilities		226,955,136
including secured by mortgages	DM 100,562,789	247,499
		400,208,276
		423,458
including amounts due within four years	DM 106,607,939	
Other Liabilities		
Trade accounts payable		406,049,503
Due to banks		176,289,130
including secured by mortgages	DM 58,200	446,604
Prepayments by customers		17,844,693
Accounts payable to subsidiaries and affiliates		2,655,447
including trade accounts payable	DM 161,602	16,302
advance payments received	DM 1,710,254	32,543
Miscellaneous other liabilities		93,489,052
		696,327,825
		954,067
Deferred Income		
		8,372,074
		6,988
Net Earnings after Reserve Transfers		
Contingent liabilities with respect to trade acceptances	DM 123,669,178	286,081,885
Contingent liabilities with respect to guarantees	DM 5,851	284,800
		4,146,745,038
		4,269,558

Consolidated Statement of Earnings
of Volkswagenwerk Aktiengesellschaft
and its Domestic Subsidiaries

Year ended December 31, 1967

	1967		1966
	DM	DM	Thousand DM
Sales	6,935,384,207		8,330,071
Increase (decrease) in inventories	(157,942,359)		144,700
		6,777,441,848	8,474,771
Material, wages and overhead capitalized as additions to plant and equipment		126,665,837	106,219
Gross Output		6,904,107,685	8,580,990
Expenditures for raw materials, supplies and outside services		4,103,554,962	5,267,393
Excess of Gross Output over Expenditures for Raw Materials, etc.		2,800,552,723	3,313,597
Income from investments in unconsolidated subsidiaries and affiliates	35,511,906		33,894
Income from other financial investments	2,694,986		2,492
Other interest and similar income	45,458,880		42,614
Gain on disposal of property, plant, equipment and investments	3,231,379		28,412
Elimination of reserves for undetermined liabilities no longer required	52,657,248		68,582
Elimination of reserves for special purposes no longer required	221,755		95
Other income	110,887,084		98,606
		250,663,238	274,695
including extraordinary income of	DM 7,073,900 (1966 DM 9,109,295)	3,051,215,961	3,588,292
Wages and salaries	1,357,183,864		1,412,931
Social expenditures – compulsory	141,752,045		144,432
Pension expenditures and voluntary payments	52,603,674		54,641
Provision for depreciation of physical plant and amortization of trademarks	408,948,077		581,216
Write-down of financial investments	15,019,508		34,942
Write-down of current assets	22,051,514		6,916
Loss on disposal of property, plant, equipment and investments	2,560,391		2,979
Interest expense and similar charges	38,585,200		48,827
Taxes			445,931
a) on income, earnings and property	DM 213,364,190		133,239
b) other	DM 94,179,664		
	307,543,854		2,756
Share-the-Burden Property Levy	2,756,085		2,201
Additions to reserves for special purposes	33,600,151		466,691
Other expenses	373,641,461		
		2,756,245,824	3,337,702
Net Earnings		294,970,137	250,590
		294,970,137	250,590
Balance carried forward			

	1967	1966
	DM	Thousand DM
Balance brought forward	294,970,137	250,590
Net earnings brought forward from previous year	164,800,076	118,716
	459,770,213	369,306
Transfers from other reserves		
from the reserve for the Share-the-Burden Property Levy		1,645,000
from other reserves no longer required	DM 11,661,405	1,600
from reserves of consolidated subsidiaries	DM 221,755	
Additions to reserves for special purposes (Reclassification of prior years' amounts)	DM 11,883,160	—
		461,415,213
Additions to other reserves	DM 171,413,160	370,906
reserves of consolidated subsidiaries	DM 600,000	78,566
		172,013,160
Minority interest in consolidated net earnings		3,320,168
		6,075
Net Earnings after Reserve Transfers		286,081,885
		284,800

Wolfsburg, April 1968

Volkswagenwerk Aktiengesellschaft

The Management

According to our audit, made in conformity with our professional duties, the consolidated financial statements and the report of the Board of Management for the Group comply with German Law.

Hanover, April 8, 1968

Deutsche Revisions- und Treuhand-Aktiengesellschaft
Treuarbeit
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Schneider Dr. Apelt
Wirtschaftsprüfer Wirtschaftsprüfer

Comparative Summary of Selected Financial Data 1963—1967*

— in million DM —

Assets

Property, plant, equipment and investments (as at Dec. 31)
Additions to property, plant, equipment and investments during the year
Depreciation of physical plant and write-down of investments during the year
Current assets (as at Dec. 31) including inventories

Liabilities

Stockholders' equity including reserves and retained earnings minority interest

Liabilities payable within more than 4 years

Balance Sheet Total

Balance Sheet Ratios

— in % —

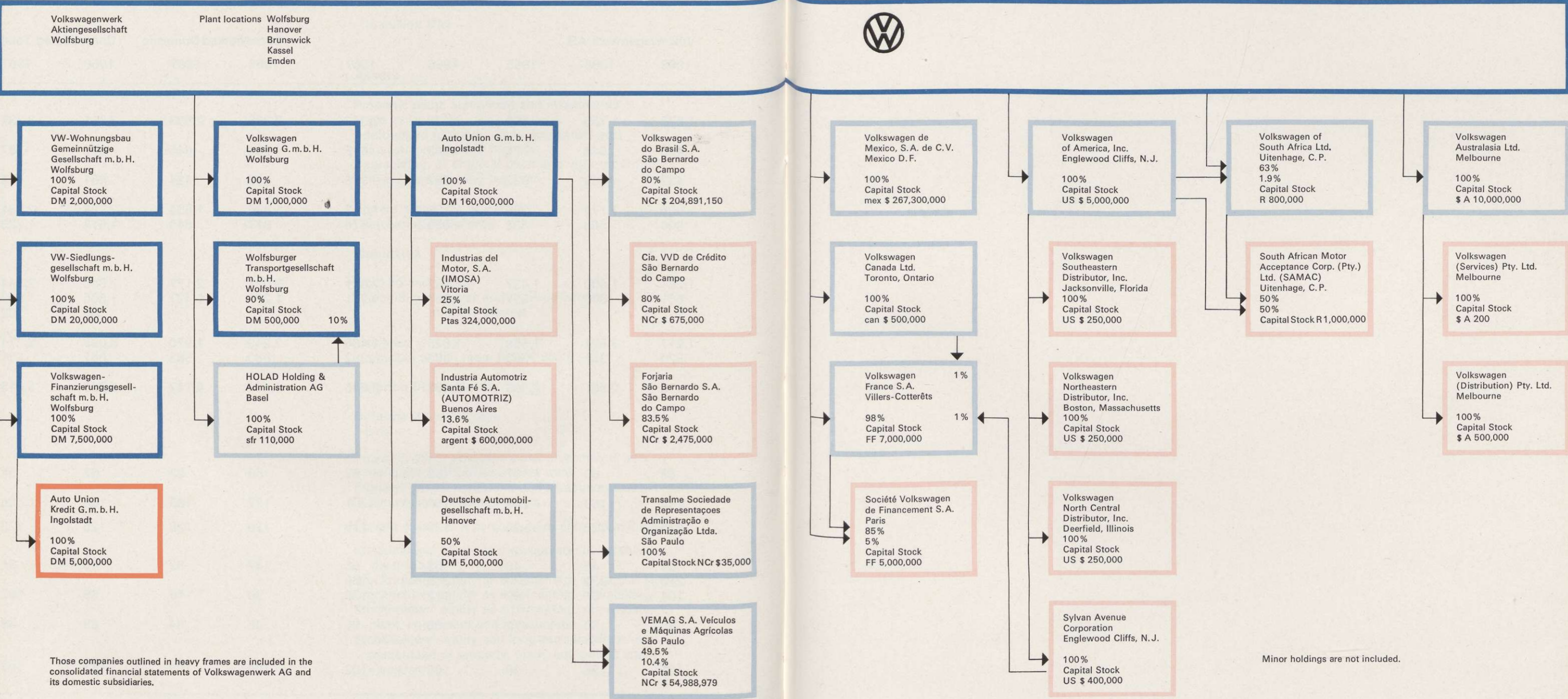
Property, plant, equipment and investments as a percentage of balance sheet total
Property, plant, equipment and investments as a percentage of current assets
Current assets as a percentage of short-term liabilities
Stockholders' equity as a percentage of balance sheet total
Stockholders' equity as a percentage of capital stock
Stockholders' equity as a percentage of liabilities
Stockholders' equity as a percentage of property, plant, equipment and investments
Stockholders' equity and long-term liabilities as a percentage of property, plant, equipment and investments

Volkswagenwerk AG

1963	1964	1965	1966	1967	Consolidated Domestic 1966	1967	Consolidated Total 1966	1967
1,572	1,759	1,998	2,129	2,343	2,385	2,593	2,981	3,237
455	648	776	703	615	694	646	872	787
437	458	532	567	386	616	424	651	496
906	1,172	998	1,333	1,163	1,885	1,554	2,758	2,381
400	506	638	650	576	817	649	1,512	1,229
1,261	1,400	1,437	1,837	2,021	2,021	2,177	2,640	2,844
661	800	837	1,087	1,271	1,271	1,427	1,805	1,992
							85	102
1,217	1,531	1,559	1,625	1,485	2,249	1,970	3,099	2,774
320	331	366	366	362	580	583	657	631
2,478	2,931	2,996	3,462	3,506	4,270	4,147	5,739	5,618
63	60	67	62	67	56	63	52	58
174	150	200	160	201	127	167	108	136
123	122	94	120	119	126	128	125	123
51	48	48	53	58	47	52	46	51
210	233	239	245	269				
104	91	92	113	136	90	110	85	103
80	80	72	86	86	85	84	89	88
101	98	90	103	102	109	106	111	107

* Amounts for the years 1963—1966 were adjusted to conform to AktG 1965.

VW Holdings in Domestic and Foreign Subsidiaries and Affiliates





Volkswagenwerk
Aktiengesellschaft
Wolfsburg