

**Report
for the Year
1968**

**Volkswagenwerk
Aktiengesellschaft
Wolfsburg**





The Board of Directors and Management of
Volkswagenwerk Aktiengesellschaft present the
Report for the Year 1968 with their compliments.

Wolfsburg, April 1969

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Agenda

for the Annual Meeting of Stockholders of Volkswagenwerk Aktiengesellschaft to be held at 10:00 A. M. on Thursday, July 3, 1969, at the Stadthalle in Wolfsburg.

1. Presentation of audited financial statements and the report of Management for 1968, 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 1968.

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 a dividend of DM 150,000,000 out of net earnings for the year of DM 171,378,705. This dividend amounts to DM 10 on DM 50 par value of capital stock, or represents a 20% dividend on the capital stock. In addition, it is proposed to transfer DM 13,451,481 to reserves and to reserve the balance of DM 7,927,224 for payment of additional taxes that will be payable upon approval of the proposal made by Management and the Board of Directors with respect to the distribution of 1968 net earnings.

3. Resolution with respect to discharge of responsibility of Management for the year 1968.

4. Resolution with respect to discharge of responsibility of the Board of Directors for the year 1968.

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

5. Election to fill a vacancy on the Board of Directors.

The Board of Directors nominates Mr. Ludwig Poullain, President of the German Banking Association (Deutscher Sparkassen- und Giroverband), Münster, to replace Dr. h. c. Fritz Butschkau for the remainder of the present term of the Board of Directors. Dr. Butschkau will resign as member of the Board of Directors subsequent to the 1969 annual meeting of stockholders.

In accordance with section 101 of Stock Corporation Law (AktG), section 76 of Works Councils Act (BetrVerfG), the Board of Directors consists of 12 representatives of the stockholders and 6 members representing the employees of the company. Stockholders attending the annual meeting are not bound by the nominations submitted by the Board of Directors.

6. Appointment of auditors for the year 1969.

The Board of Directors proposes to appoint the Deutsche Revisions- und Treuhand-Aktiengesellschaft, Treuarbeit, Hanover, as auditors for the year 1969.

Board of Directors (Aufsichtsrat)

Dr. jur. Josef Rust, Kassel, Chairman
Otto Brenner, Frankfurt, Deputy Chairman
Dr. rer. pol. Wolfram Langer, Wiesbaden, Deputy Chairman
Karl Möller, Hanover, Deputy Chairman
Hugo Bork, Wolfsburg
Dr. rer. pol. h. c. Fritz Butschkau, Düsseldorf
Siegfried Ehlers, Wolfsburg
Mrs. Elgin Gärtner-Amrhein, Stuttgart
Walter Haefner, Zürich
Heinz Hilbich, Hanover
Prof. Dr. phil. Eduard Justi, Brunswick
Alfred Kubel, Hanover
Dr. jur. Horst Rheinfels, Cologne
Dr. rer. pol. Hermann Richter, Düsseldorf
Erich Schilling, Ingolstadt
Dr. oec. Johann Baptist Schöllhorn, Bonn
Peter Stroh, Kassel
Dr. jur. Wilhelm Vallenthin, Frankfurt

Management (Vorstand)

Prof. Dr.-Ing. E.h., Dipl.-Ing. Heinrich Nordhoff, Chairman, deceased April 12, 1968
Dr. rer. pol. h. c. Kurt Lotz, Chairman, since May 1, 1968
Horst Backsmann, since January 1, 1969
Dr. rer. pol. Kurt Haaf, to December 31, 1968
Dr. rer. pol. Carl H. Hahn
Hans Hiemenz, to December 31, 1968
Otto Höhne
Prof. Dr.-Ing. Werner Holste, since October 1, 1968
Horst Münzner, since January 1, 1969
Frank Novotny
Dipl.-Ing. Helmut Orlich
Julius Paulsen, to December 31, 1968
Dr. jur. Gerhard Prinz, since January 1, 1969
Dr. rer. pol. Friedrich Thomée

Selected Data of Volkswagenwerk AG and its Subsidiaries and Affiliates

		1968	1967	1966
Sales (DM)				
Volkswagenwerk AG and its Subsidiaries and Affiliates				
	in million DM	11,700*	9,335	9,998
	domestic sales - %	24	27	33
	export sales - %	76	73	67
	per employee DM	83,993	73,136	78,565
Volkswagenwerk AG				
	in million DM	8,388*	6,464	7,799
	domestic sales - %	30	34	37
	export sales - %	70	66	63
	per employee DM	84,114	71,537	82,438
Sales (units)				
Volkswagenwerk AG and its Subsidiaries and Affiliates				
	number of vehicles	1,775,512	1,398,540	1,605,267
Volkswagenwerk AG				
	number of vehicles	1,544,842	1,183,472	1,459,426
Production				
Volkswagenwerk AG and its Subsidiaries and Affiliates				
	number of vehicles	1,777,320	1,339,823	1,650,487
Volkswagenwerk AG				
	number of vehicles	1,548,933	1,162,258	1,476,509
Labor Force				
Volkswagenwerk AG and its Subsidiaries and Affiliates				
	at year-end	145,401	129,111	124,581
Volkswagenwerk AG				
	at year-end	104,975	91,869	91,645
Investments				
in Property, Plant, Equipment and Investments				
Volkswagenwerk AG and its Subsidiaries and Affiliates				
	in million DM	708	787	872
Volkswagenwerk AG				
	in million DM	508	615	703
Depreciation				
of Property, Plant and Equipment and Write-down of Investments				
Volkswagenwerk AG and its Subsidiaries and Affiliates				
	in million DM	619	496	651**
Volkswagenwerk AG				
	in million DM	530	386	567**
Net Earnings				
Volkswagenwerk AG				
	in million DM	339	319***	197**
dividends (proposed or paid)				
	in million DM	150	150	120
	in DM on DM 50 par value of capital stock	10	10	10
	% based on capital stock entitled to dividends	20	20	20

* Excludes German sales tax.

** Not exactly comparable with other years because of reclassifications made in accordance with the valuation requirements of the new stock corporation law.

*** Includes DM 40 million from other reserves.

Report of Management

World-wide Economic Developments in 1968

During 1968, the world economy was characterized, in general, by an accelerated upward trend, the main impetus for which came from the Western industrial countries and Japan. International trade increased sharply as a result of the stimulated world economy, the reduction of international trade restrictions within the framework of the Kennedy Round and the elimination, within EEC countries, of the tax on industrial products previously paid by the exporter.

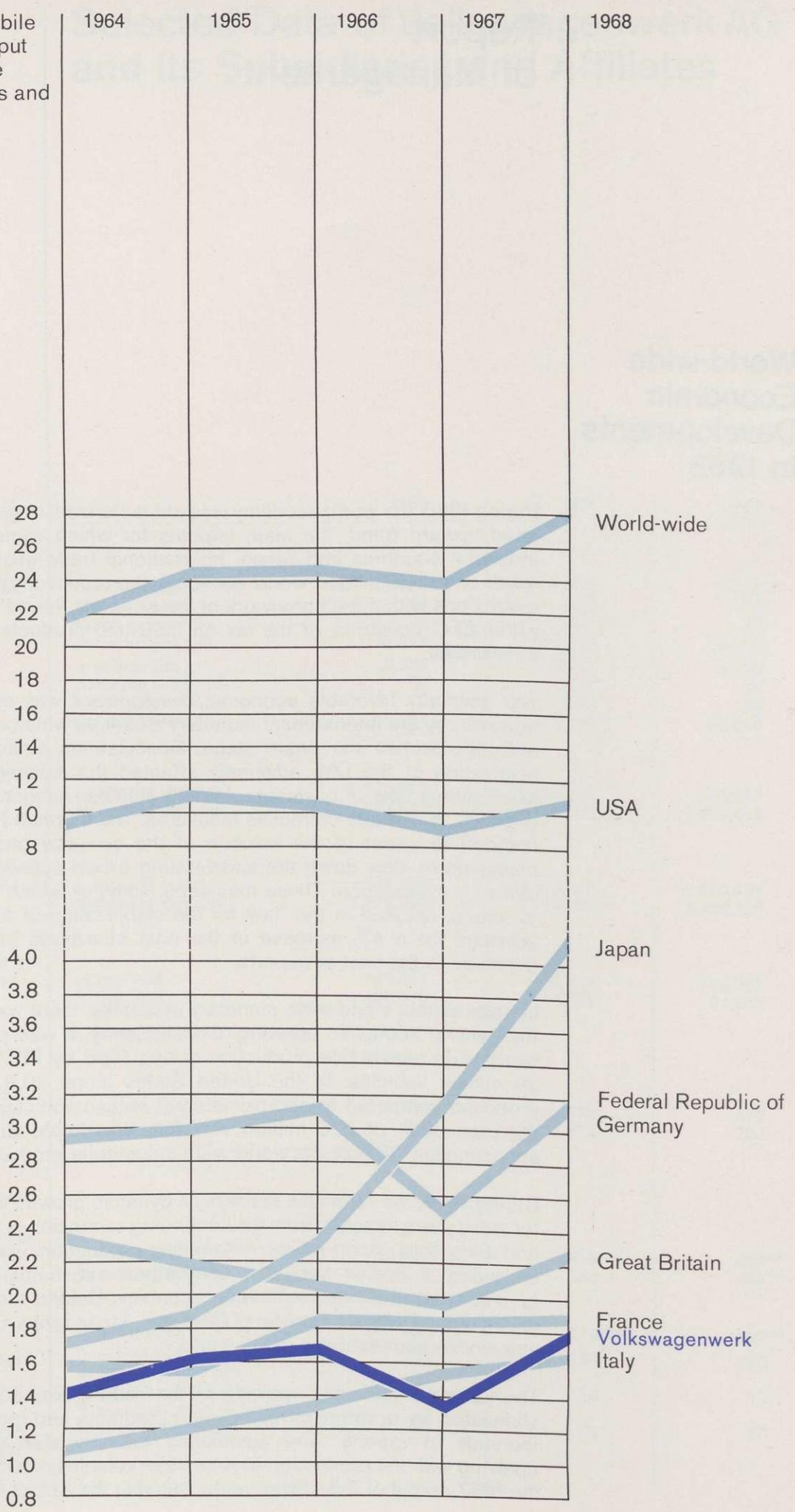
The generally favorable economic development was seriously threatened, however, by the international monetary situation, which, as the year progressed, approached the crisis stage. Speculations, anticipating an upward revaluation of the DM, adversely affected the existing imbalance in the international flow of payments, forcing member nations of the "Club of the Big Ten" to institute corrective measures. The German Federal Government decided to assist in the solution of the currency problem by instituting measures to slow down the accelerating export activity and to discourage currency speculation. These measures, some of which were administrative in nature, resulted in the "law for the stabilization of foreign trade", which provided for a 4% increase in the cost of exports and a corresponding decrease in the cost of imports.

In spite of this world-wide monetary instability, there was no interruption in the general economic upswing. Consequently, it was possible to increase world-wide automobile production during 1968 by 18% to a new record of 28 million vehicles. In the United States alone, 10.8 million units were produced compared to approximately 9 million vehicles during 1967. With the production of 10.8 million vehicles, the United States accounted for approximately 39% of the world-wide automobile production.

During 1968, the Japanese economy's dynamic growth, which has continued for many years, resulted from the continuing expansion of the domestic market and a vigorous export policy. Automobile production, which for the first time exceeded 4 million vehicles, contributed substantially to the generally favorable trend of the world-wide economy. Behind the United States, but ahead of the Federal Republic of Germany, Japan ranks as the second largest automobile manufacturer in the world.

The renewed economic upswing in the Federal Republic was significantly stimulated by government investment programs and by the unusually large increase in exports. The automobile industry also participated in this upswing with the production of 3.1 million vehicles, which not only exceeded the 1967 output of 2.5 million units, but also the output for 1966.

World-wide Automobile Production and Output of Major Automobile Producing Countries and of Volkswagenwerk in millions of units



**Business
Trends and
Developments
of
Volkswagen-
werk AG
and its
Subsidiaries
and Affiliates**

In contrast to the general economic expansion, the domestic demand for automobiles, similar to the demand for durable consumer goods in general, did not increase until the second half of the year. Consequently, new vehicle registrations in the Federal Republic increased by only 5.5% to 1,548,000 units in 1968 and thus remained by 85,000, or 5.2%, below the 1,633,000 registrations in 1966.

The relatively weak demand on the domestic market was more than offset by the large increase in export sales. This increase was facilitated by the competitive advantage of German industry resulting from its relative price stability. The automobile market in the United States absorbed a large percentage of the exports. For EEC countries, the elimination of the tax on goods to be exported also had a favorable effect on trade. On the other hand, the competitive position of the German automobile industry was hampered in EFTA countries, particularly in Great Britain after the devaluation of the pound sterling in November 1967.

Volkswagenwerk AG and its domestic and foreign subsidiaries and affiliates experienced a successful business year. We not only recovered from the decline during the recession year of 1967, but also exceeded the results of 1966, the most successful year in our history.

Consolidated sales rose from DM 9,300 million in 1967 to DM 11,700 million in 1968, of which DM 8,900 million represents sales in 140 foreign markets. Certain of the countries that import VW products have indicated a desire to provide additional employment for their citizens. To an increasing extent, Volkswagenwerk has been able to satisfy the wishes of those foreign governments by the construction of additional production facilities in those countries. This trend is also reflected in the increase in the contribution from the trading activities of our foreign manufacturing and sales companies from DM 2,400 million to DM 2,800 million.

In the United States of America, its largest export market, Volkswagenwerk was very successful with sales of 569,292 vehicles. As a result, Volkswagen of America increased its share of new passenger car registrations to 5.5% and accounted for 55% of the total sales of passenger car imports. Our subsidiary maintained its position as the leading automobile importer in the United States of America.

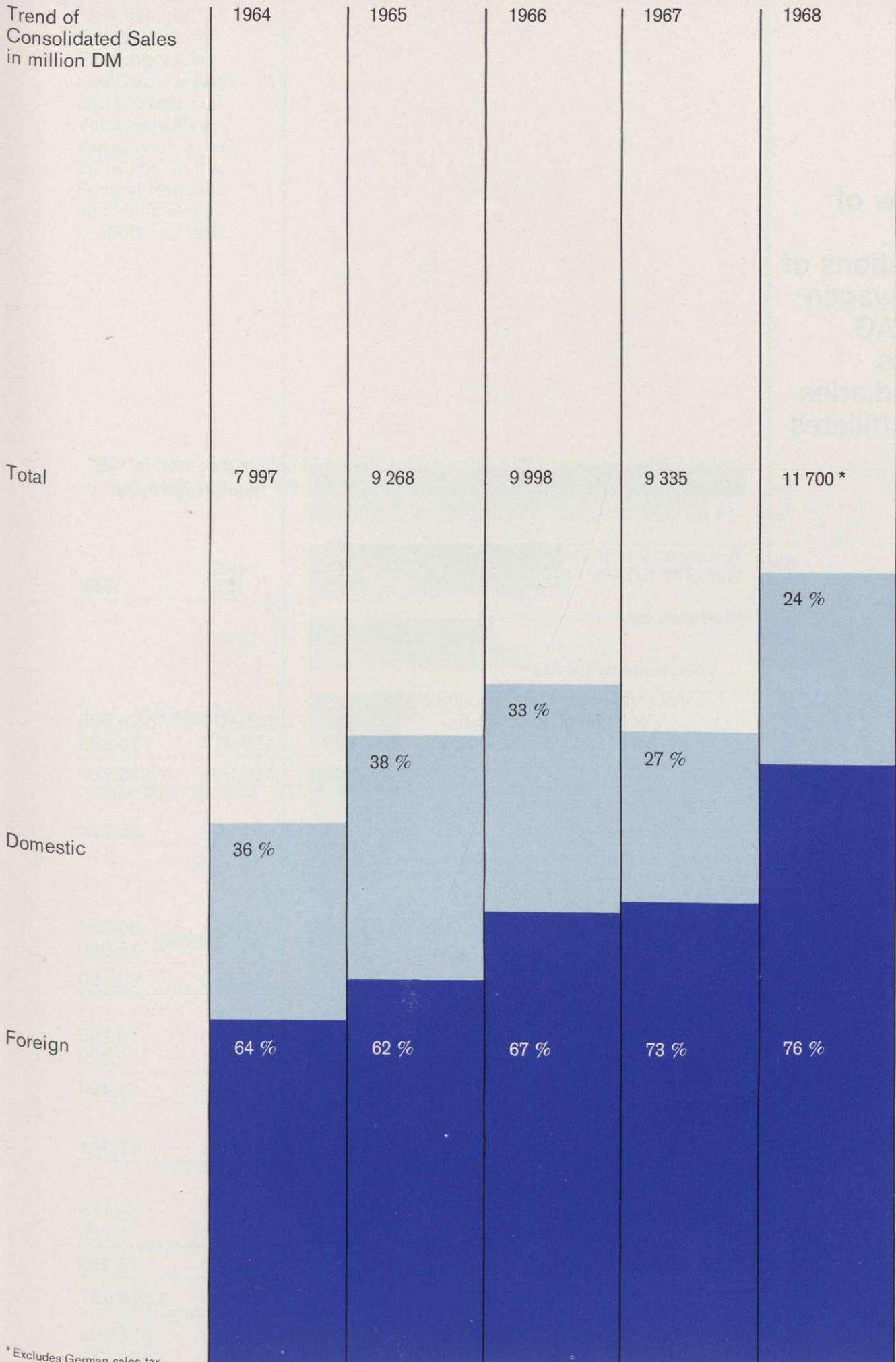
In contrast to the excellent demand in foreign markets, automobile sales in the Federal Republic were less satisfactory during 1968, primarily as a result of the new sales tax legislation introduced in the beginning of 1968. This new law, although desirable from an administrative viewpoint, also imposes a sales tax on used cars. This tax caused a decline in used vehicle sales, which, in turn, had an adverse effect on new vehicle sales.

The success achieved during 1968 was mainly a result of our established product line. As demand was recognized, new models were added to our line. Thus, in the fall of 1968, Volkswagenwerk AG introduced the VW 411. In the beginning of 1968 Auto Union introduced the Audi 60 and toward year-end the Audi 100. At the automobile show at São Paulo, Volkswagen do Brasil, exhibited a 4-door Volkswagen 1600.

Based on 1968 net earnings, we propose to the shareholders of Volkswagenwerk AG to distribute a dividend of DM 10 for each DM 50 par value of capital stock. The total distribution again represents a 20% dividend on the capital stock. Net earnings in excess of the DM 150 million dividend distribution are to be transferred to reserves. Management and the Board of Directors are of the opinion that vigorous strengthening of stockholders' equity is required through retention of earnings, since a well-planned, long range business policy can only be supported by adequate reserves.

The excellent operating result of 1968 was due to the outstanding efforts, not only of the many employees in the VW organization, but also of our suppliers. We are fully aware of and express our appreciation for the continued willingness of all our employees to assist in the expansion of our world-wide organization. We also wish to acknowledge the continued cooperation of the Work Councils at our plants.

Trend of Consolidated Sales in million DM



* Excludes German sales tax.

Review of 1968 Operations of Volkswagen- werk AG and its Subsidiaries and Affiliates

Sales

Consolidated sales of 1,775,512 vehicles were not only higher than in 1967, but also exceeded by 10.6% sales made in 1966, the best previous year in our history.

A comparison of unit sales for 1968, 1967 and 1966 follows:

	1968	1967	1966
Produced by:			
Volkswagenwerk AG			
VW Passenger Cars, including			
VW Squareback Sedans	1,269,427	1,022,904	1,224,898
VW Trucks and Station Wagons	216,100	137,414	170,888
	<u>1,485,527</u>	<u>1,160,318</u>	<u>1,395,786</u>
Auto Union G. m. b. H.			
AU Passenger Cars	70,038	51,307	55,744
Volkswagen do Brasil S. A., including VEMAG S. A.*			
VW and DKW Passenger Cars	128,149	106,411	80,034
VW Trucks and Station Wagons	26,867	21,147	15,086
	<u>155,016</u>	<u>127,558</u>	<u>95,120</u>
Volkswagen of South Africa Ltd.			
VW and AU Passenger Cars	20,650	18,249	18,765
VW Trucks and Station Wagons	6,782	3,011	2,729
	<u>27,432</u>	<u>21,260</u>	<u>21,494</u>
Volkswagen de Mexico, S.A. de C.V.			
VW Passenger Cars	22,220	19,093	17,241
Motor Producers Ltd.**			
VW Passenger Cars	12,714	16,786	18,113
VW Trucks and Station Wagons	2,565	2,218	1,769
	<u>15,279</u>	<u>19,004</u>	<u>19,882</u>
Total Sales	<u><u>1,775,512</u></u>	<u><u>1,398,540</u></u>	<u><u>1,605,267</u></u>
Sold on the domestic market	486,057	403,139	536,394
export market	1,289,455	995,401	1,068,873

* Acquired toward the end of 1966; its business activity was assumed by Volkswagen do Brasil in 1968.

** As of September 1968; formerly Volkswagen Australasia Ltd.

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 1968 and 1967

VW/Auto Union	1968	464 394
	1967	426 710
Opel	1968	272 462
	1967	276 271
Ford	1968	195 701
	1967	233 283
Daimler-Benz	1968	113 545
	1967	93 209
Fiat/Auto Bianchi	1968	111 100
	1967	92 933
Renault	1968	84 928
	1967	74 084
BMW/Glas	1968	68 924
	1967	64 765
NSU	1968	45 554
	1967	39 000
Simca	1968	40 197
	1967	31 665
Peugeot	1968	21 211
	1967	20 697
Citroën	1968	15 118
	1967	13 587
Others	1968	43 459
	1967	30 249

The "beetle" models were primarily responsible for our sales success. 1,185,400 units of these models were sold in 1968, which represents a 24.1% increase over 1967. Sales of the VW 1600 series increased by 13.1% to 245,331 vehicles in 1968. As a result of product line revisions, truck and station wagon sales rose by 54.0% over 1967 to 252,314 units, thereby considerably exceeding sales of previous years and continuing to dominate the truck and station wagon market. Of the VW 411 model (introduced in October), 21,088 vehicles were sold in 1968. As a result of the expanded Audi product line, sales of Auto Union vehicles produced by Auto Union and Volkswagen of South Africa amounted to 71,294 cars, an increase of 39.0% over 1967.

With the new registration of 464,000 Volkswagen and Audi vehicles, our products accounted for 31.4% of the new registrations in the Federal Republic of passenger cars and dual-purpose and commercial vehicles with a capacity of up to 2,750 lbs. This represents an increase over 1967 in our share of the market. Our foreign competitors achieved a new high with new registrations of 293,000 vehicles, representing approximately 20% of the market.

Foreign sales, including sales of our foreign manufacturing subsidiaries, amounted to 1,289,455 vehicles. With this success, Volkswagenwerk AG and its subsidiaries and affiliates, the leading automobile exporter in the world, not only sold more cars in foreign countries than in 1967, but even exceeded by 220,582 units, or 20.6%, foreign sales in 1966, our previous record year.

As mentioned previously, the success of the VW in foreign markets was not limited to the United States, as the demand in most European export markets showed a favorable upward trend. The increase in sales to major European customer countries ranged between 9% and 30%. The only exception to the favorable trend was the British market. Our most important European markets were the Netherlands, Austria, Belgium, Switzerland, Sweden and Great Britain.

In line with the favorable sales trend, the world-wide sales and service organization was expanded to approximately 8,800 dealers and service centers. A remarkable technological development occurred with the introduction of the VW diagnostic and service system, which not only facilitates a fast and accurate operating check of the vehicle, but also provides the Volkswagen driver with the extent of repairs required on the car. At year-end, the existing 2,411 domestic service centers already were operating with this new system which also is being introduced in other European countries and overseas.

Production

During 1968, Volkswagenwerk AG and its subsidiaries and affiliates produced 1,777,320 vehicles, which was achieved by expanding our productive capacity and working additional shifts. The existing demand for vehicles could be satisfied only by fully utilizing the domestic and foreign production facilities.

A comparison of production for 1968, 1967 and 1966 follows:

	1968	1967	1966
Volkswagenwerk AG			
VW Passenger Cars, including			
VW Squareback Sedans	1,320,643	1,020,689	1,300,234
VW Trucks and Station Wagons	228,290	141,569	176,275
	<u>1,548,933</u>	<u>1,162,258</u>	<u>1,476,509</u>
Auto Union G. m. b. H.			
AU Passenger Cars	69,881	39,062	67,248
Production in Domestic Plants	<u>1,618,814</u>	<u>1,201,320</u>	<u>1,543,757</u>
Less: Production of "knocked-down" vehicles for assembly by foreign subsidiaries and affiliates	60,878	46,832	45,395
	<u>1,557,936</u>	<u>1,154,488</u>	<u>1,498,362</u>
Volkswagen do Brasil S. A., including VEMAG S. A. *			
VW and DKW Passenger Cars	128,089	105,263	80,024
VW Trucks and Station Wagons	26,883	21,172	15,098
	<u>154,972</u>	<u>126,435</u>	<u>95,122</u>
Volkswagen of South Africa Ltd.			
VW and AU Passenger Cars	20,302	18,614	19,126
VW Trucks and Station Wagons	6,717	3,124	2,737
	<u>27,019</u>	<u>21,738</u>	<u>21,863</u>
Volkswagen de Mexico S. A. de C. V.			
VW Passenger Cars	<u>23,709</u>	<u>17,630</u>	<u>18,519</u>
Motor Producers Ltd. **			
VW Passenger Cars	11,431	17,127	15,053
VW Trucks and Station Wagons	2,253	2,405	1,568
	<u>13,684</u>	<u>19,532</u>	<u>16,621</u>
Production in Foreign Plants	<u>219,384</u>	<u>185,335</u>	<u>152,125</u>
Production of Volkswagenwerk AG and its Subsidiaries and Affiliates	<u>1,777,320</u>	<u>1,339,823</u>	<u>1,650,487</u>

* Acquired toward the end of 1966; its business activity was assumed by Volkswagen do Brasil in 1968.

** As of September 1968; formerly Volkswagen Australasia Ltd.

The increase of our domestic production by 34.8% over 1967 was relatively higher than the average production increase of the German automobile industry, resulting in an increase in our portion of total automobile production to 52.1%. Corresponding figures for 1967 and 1966 were 48.4% and 50.6%, respectively.

During 1968, our foreign manufacturing companies accounted for 12.3% of our total production compared to 13.8% in 1967. The decrease resulted from the exceptional increase in our domestic production.

Raw Material Purchases

In line with the increase in production, consolidated purchases amounted to approximately DM 6,800 million, of which DM 5,500 million is represented by purchases made by Volkswagenwerk AG from more than 5,000 domestic and foreign suppliers.

In spite of the considerable increase in production in 1968, our material requirements were satisfied without difficulty. As in previous years, we received excellent cooperation from our suppliers. Also, the special problems caused by the change in the method of sales taxation in the beginning of the year, which resulted in adjustments to the entire price structure, were resolved amicably with our suppliers.

Labor Force

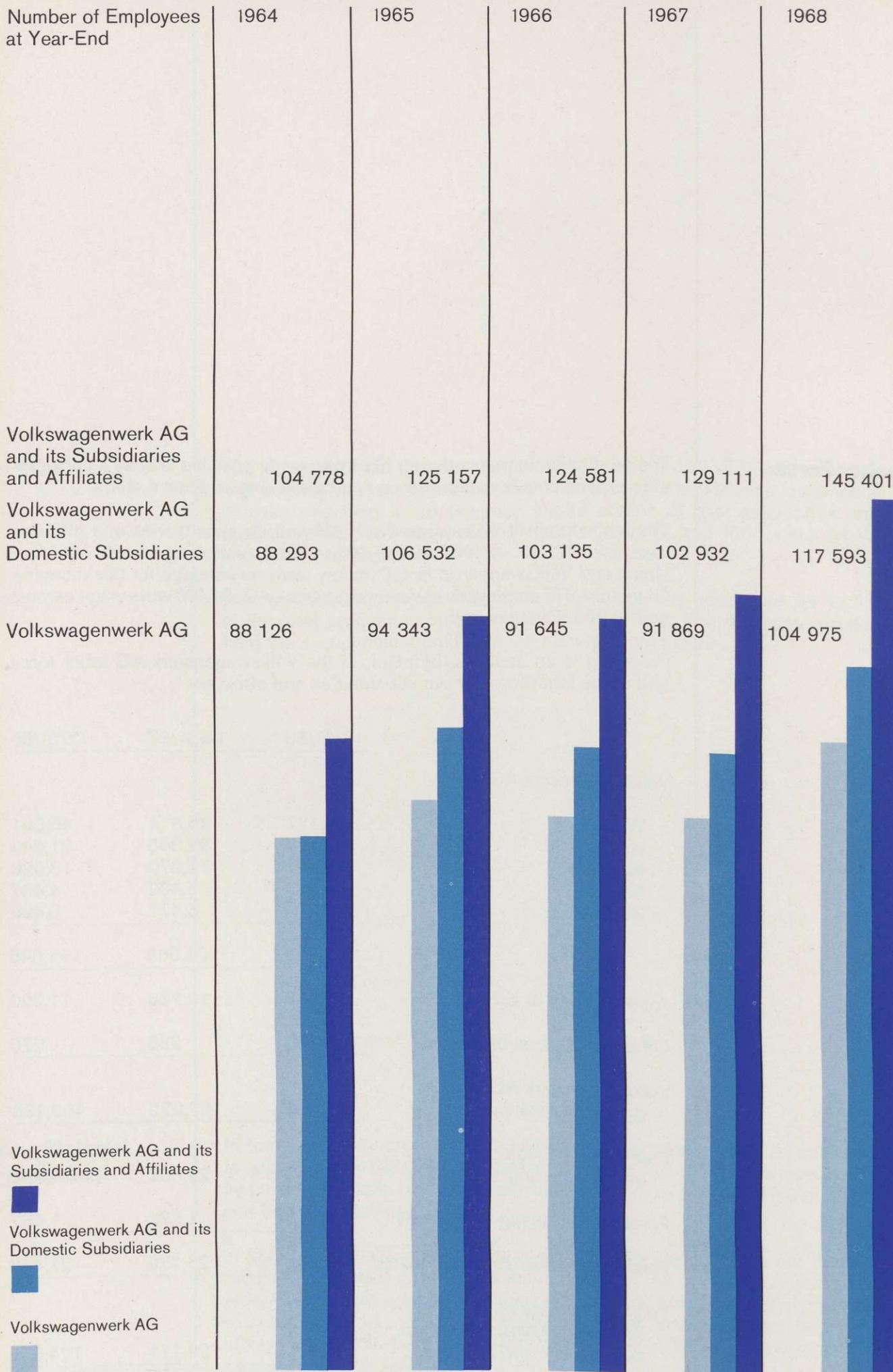
The production increase during 1968 was made possible only by a considerable expansion of our labor force and by working additional shifts.

The labor force of Volkswagenwerk AG and its subsidiaries and affiliates rose from 129,111 in 1967 to 145,401 in 1968. Volkswagenwerk AG, Auto Union and Volkswagen do Brasil mainly were responsible for this increase. Of the 104,975 employees at Volkswagenwerk AG, 94,010 were wage earners and 10,965 were salaried.

Following is an analysis, by plant, of the Volkswagenwerk AG labor force and of the labor force of our subsidiaries and affiliates:

	12/31/68	12/31/67	12/31/66
Volkswagenwerk AG			
Wolfsburg	52,127	45,614	46,691
Hanover	25,147	22,306	21,649
Kassel	14,931	13,070	13,328
Emden	6,557	5,402	4,487
Brunswick	6,213	5,477	5,490
	<u>104,975</u>	<u>91,869</u>	<u>91,645</u>
Auto Union G. m. b. H.	12,328	10,778	11,220
Other domestic subsidiaries	290	285	270
Volkswagenwerk AG and its domestic subsidiaries	<u>117,593</u>	<u>102,932</u>	<u>103,135</u>
Foreign production and assembling companies	26,162	24,608	19,964
Foreign distributing companies	1,646	1,571	1,482
Foreign subsidiaries and affiliates	<u>27,808</u>	<u>26,179</u>	<u>21,446</u>
Total labor force of Volkswagenwerk AG and its subsidiaries and affiliates	<u>145,401</u>	<u>129,111</u>	<u>124,581</u>

Number of Employees
at Year-End



Volkswagenwerk AG and its
Subsidiaries and Affiliates



Volkswagenwerk AG and its
Domestic Subsidiaries



Volkswagenwerk AG



The employment of a large number of workers from foreign countries, especially at our main plant at Wolfsburg, is characteristic of the labor market. Of the 7,934 foreign workers employed, 5,054 were from Italy. The remainder were mainly of Greek, Spanish and Turkish nationality. During 1968, the ratio of foreign workers to the total labor force of Volkswagenwerk AG rose from 5.5% to 7.6%.

The average age of Volkswagenwerk AG employees of 36.3 years remained virtually unchanged from the previous year. As a result of the employment of new personnel, the average seniority decreased from 8.3 years in 1967 to 7.9 years in 1968.

The percentage of female employees to total employees at Volkswagenwerk AG amounted to 11.3%.

The construction of housing in the areas surrounding our plants has always been of special significance to the Company. This pertains particularly to those areas where the construction of new plants created a large number of new jobs without a corresponding increase in available housing facilities. Consequently, Volkswagenwerk AG has had to make a substantial financial contribution since 1948 toward the construction of 25,588 apartments, some in private homes, for the continuously increasing labor force.

Wages and salaries paid by the parent company for 1968 increased by DM 329 million to DM 1,567 million. The increase resulted from full employment after the curtailed working schedule during 1967, from the expansion of the labor force and from the average 4.2% increase in wages and salaries effective April 1, 1968. An additional 3.75% increase, previously agreed upon, went into effect in the beginning of 1969. Also, the additional shifts worked during 1968 contributed to the higher labor costs.

During 1968, as in the rest of the metal industry, an agreement was reached between Volkswagenwerk AG and the unions to protect workers against unemployment resulting from automation of production processes.

Following is an analysis of 1968 expenditures for compulsory and voluntary social contributions and benefits:

	1968	1967	1966
	in million DM		
Compulsory social charges – employer's share, contributions to group insurance plan	170.3	128.5	129.6
Compulsory social benefits – vacations, holidays, sickness benefits, etc.	156.1	118.7	123.1
Other social benefits (as specified in union contracts and other agreements)	174.4	147.6	139.0
Voluntary social contributions – Primarily represents amounts paid as incentive bonuses; also includes amounts for upkeep of our cafeterias, stores and bachelor accommodations, etc.	138.9	97.9	99.7
Total social expenditures	<u>639.7</u>	<u>492.7</u>	<u>491.4</u>

Within our training program, we continue to emphasize diversification and supplementation of traditional vocational and educational programs. We increased the number of job-related technical and semitechnical lectures, seminars and courses offered to our employees engaged in various fields and functions.

Presently, at our plants in Wolfsburg, Hanover, Kassel and Brunswick, approximately 1,800 apprentices can participate in our training programs at any one time.

Our on-the-job trainee program is increasingly being appreciated and utilized by graduates as a desirable method of obtaining practical experience in their chosen professions. This program provides young engineers, graduate engineers and economists, subsequent to completion of their professional or university studies, with the opportunity of becoming familiar with the responsibilities and practices of our major departments.

Research and Development

Our research and development activity, which was considerably expanded during 1968, centered, on the one hand, around the well-planned development of new designs, based on the most current engineering principles, and the related comprehensive testing both in the laboratory and in the vehicle. The range of these studies encompassed not only the entire vehicle but also the important assemblies and parts. On the other hand, considerable effort was devoted not only to the testing of current models but also to their further improvement based on experience. These development efforts were greatly facilitated by the expansion and improvement of existing testing facilities as well as by the construction of new facilities such as modern testing stands and larger test tracks.

Particularly intensive studies were made in the fields of motor vehicle safety and exhaust emission control in response to the growing significance of these problems in the Federal Republic and in foreign countries. Modern measuring instruments and new testing equipment make it possible to record promptly the voluminous test data and to analyze quickly and accurately the test results. For example, it is now possible, with the aid of a telemetric system to feed the data recorded in ramp tests directly to the analytical center. In addition, electronic data processing is available for subsequent recording, evaluation and storage of all significant research and development data.

Because of the growing traffic congestion on our highways, it became increasingly difficult to use them for our endurance tests. This problem has been considerably alleviated by the construction of a new testing area with significantly expanded test tracks, which include a high speed track and various other tracks simulating actual road conditions on public highways. Many operational and endurance road tests now can be performed on our own grounds and, undisturbed by external influences, can be analyzed more quickly, accurately and reliably.

In the field of body development, new approaches have been taken and, here again, electronic data processing has been used successfully. For this reason, the expansion of a computerized body data bank, based on the newest technological developments, is being continued.

The research and development projects, which have been started or which, in part, have been completed, are laying a sound foundation for the more rapid and successful realization of future development plans.

Capital Investments

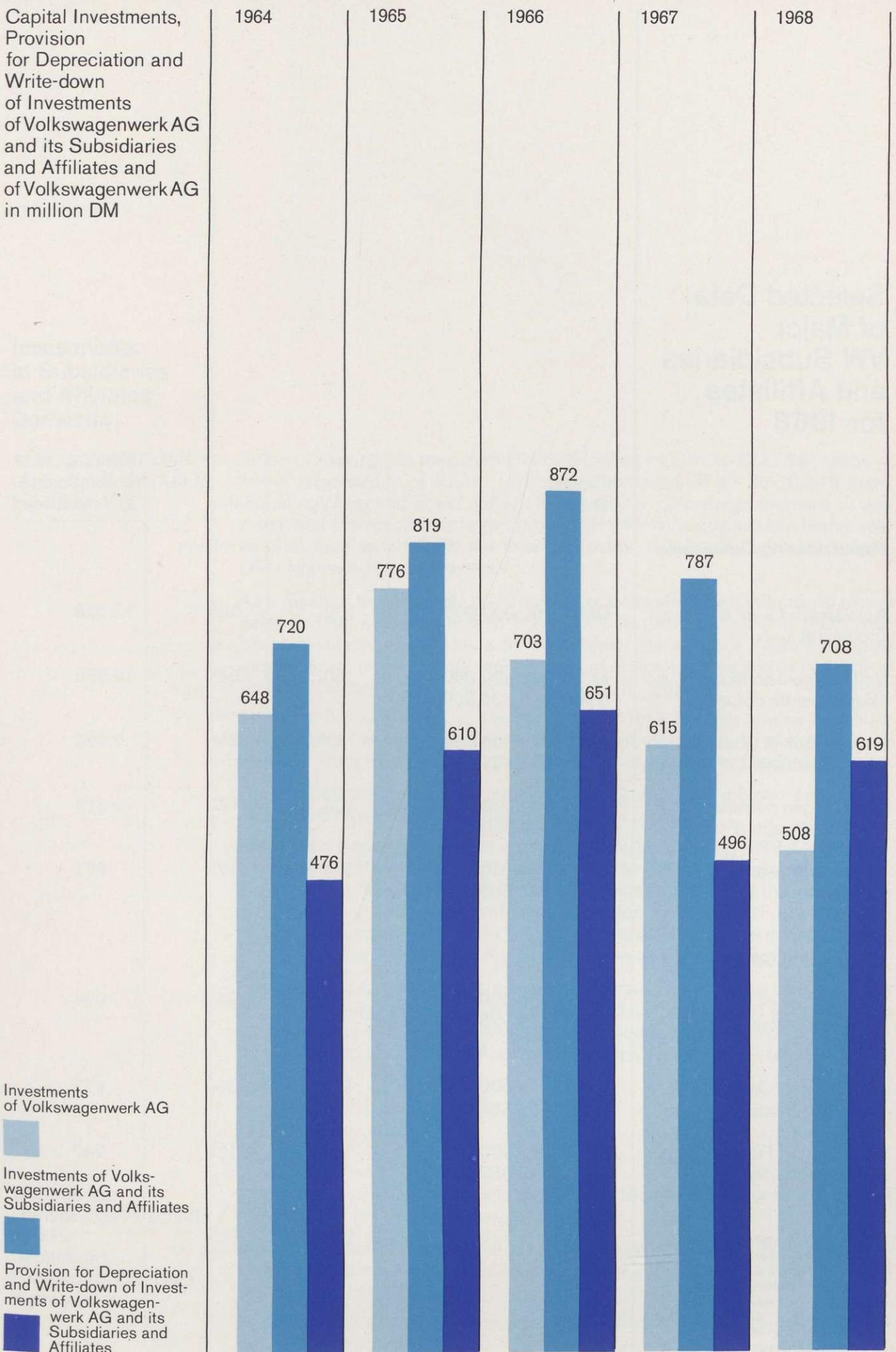
During 1968, capital investments of Volkswagenwerk AG and its subsidiaries and affiliates amounted to DM 708 million, of which DM 654 million and DM 54 million were expended for property, plant and equipment, and financial investments, respectively. Total foreign capital investments of DM 191 million accounted for approximately one-fourth of total capital investments. The major portion of our foreign investments was made once again in Volkswagen do Brasil because of the expansion of the company's production facilities and the introduction of a new model.

Investments of Volkswagen AG amounted to DM 508 million, of which DM 425 million was expended for property, plant and equipment. The major portion of the investment in physical plant was expended for expansion of productive facilities and acquisition of plant and equipment required for product improvement and introduction of new models. DM 58 million was expended in connection with the further expansion of our research and development center and the new test track.

Auto Union invested DM 58 million, primarily in needed production facilities for the Audi 100. Furthermore, an investment program of approximately DM 230 million was approved during 1968 to allow for further expansion of its productive capacity.

Of the DM 708 million investment of Volkswagenwerk AG and its subsidiaries and affiliates, 87%, or DM 619 million, was financed from depreciation. The balance was financed from reserves previously set aside so that outside financing was not required.

Capital Investments,
Provision
for Depreciation and
Write-down
of Investments
of Volkswagenwerk AG
and its Subsidiaries
and Affiliates and
of Volkswagenwerk AG
in million DM



Investments
of Volkswagenwerk AG

Investments of Volks-
wagenwerk AG and its
Subsidiaries and Affiliates

Provision for Depreciation
and Write-down of Invest-
ments of Volkswagen-
werk AG and its
Subsidiaries and
Affiliates

Selected Data of Major VW Subsidiaries and Affiliates for 1968

	Capital Stock *	Stock Owned by VW	Sales	Number of Employees at Year-End
Manufacturing Companies		in %	in million	
Auto Union G. m. b. H., Ingolstadt	DM 160,000,000	100	588 **	12,328
Volkswagen do Brasil S. A., São Bernardo do Campo ***	NCr\$ 291,650,860 (DM 305,534,000)	80	1,641	19,953
Volkswagen of South Africa Ltd., Uitenhage, C.P. ****	R 800,000 (DM 4,451,000)	64.9	258	2,925
Volkswagen de Mexico, S.A. de C. V., Puebla/Pue.	mex\$ 300,000,000 (DM 96,058,000)	100	183	2,313
Motor Producers Ltd., **** Melbourne	\$A 10,000,000 (DM 44,505,000)	100	127	971
Distributing Companies				
Volkswagen of America, Inc., Englewood Cliffs, N. J. ***	US\$ 5,000,000 (DM 19,998,000)	100	3,947	924
Volkswagen Canada Ltd., Toronto, Ontario	can\$ 500,000 (DM 1,864,000)	100	338	475
Volkswagen France S. A., Villers-Cotterêts ***	FF 7,000,000 (DM 5,657,000)	100	118	247

* December 31, 1968 rates of exchange used for conversion to DM.

** Excludes sales tax.

*** Sales and number of employees at year-end consolidated with its subsidiaries.

**** As of September 1968; formerly Volkswagen Australasia Ltd.

**Investments
in Subsidiaries
and Affiliates:
Domestic**

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

Sales of Auto Union rose from DM 533 million in 1967 to DM 588 million in 1968, an increase of 10.3%. Unit sales increased 36.8% to 70,943 units, including "knocked-down" vehicles. The higher percentage increase in unit sales was the result of a larger proportion of low-priced models being sold in 1968 than in 1967. Of the total unit sales, 3,242 vehicles were sold to other Volkswagen companies.

As a result of the favorable development of domestic sales, the ratio of export sales to total sales decreased from 37.1% in 1967 to 33.8% in 1968. Auto Union's vehicle registrations in the Federal Republic of 44,777 vehicles increased its share of new registrations of motor vehicles with a capacity of up to 2,750 lbs. from 2.3% in 1967 to 3.0% in 1968.

The Audi 60 introduced in the beginning of 1968 and the similar Audi 60L introduced in the early autumn of 1968 contributed primarily to the increase in sales. Both models accounted for 53.3% of total Auto Union sales.

During 1968, the company produced 69,881 Auto Union vehicles and assembled 92,166 Volkswagen models.

Auto Union's operating results continued to improve during 1968. The remaining earnings, after transfers to reserves, of DM 3.8 million do not fully reflect this favorable development since full advantage was taken of the permissible tax write-offs in connection with starting production of the Audi 100. The 1968 earnings will be transferred to Volkswagenwerk AG in accordance with the Profit and Loss Assumption Agreement between the two companies.

In 1969, Auto Union expects a further expansion of its sales in view of the fact that the Audi 100 models, which appeared on the market at year-end, were very well received by the public. Orders received at the beginning of 1969 for this model and also for other Audi models indicate a very favorable sales trend.

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

The purpose of this company is to handle sea and air transportation and all transactions connected therewith.

Volkswagenwerk's substantial increase in export shipments to overseas importers during 1968 considerably increased the freight forwarding costs of our subsidiary.

In 1968, 845,000 Volkswagens were transported by sea compared to 616,000 vehicles in the previous year.

**Volkswagen-
Finanzierungs-
gesellschaft m. b. H.
(VW Finance Co., Ltd.),
Wolfsburg**

At year-end, 64 ships were under charter with a total capacity of 91,000 vehicles.

Earnings of this company continued to be satisfactory. The U. S. dock strike, which started near the end of 1968, had little effect on the sales and earnings of the company.

To support our sales efforts, this company is engaged in the domestic consumer and dealer financing business.

As a consequence of the increase in domestic sales of Volkswagenwerk AG over 1967, the business volume with respect to financing of dealer purchases increased; whereas the consumer financing business declined as a result of the continuing keen competition in the consumer financing field.

Earnings for 1968 were satisfactory.

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

This company, which has been in the business of leasing Volkswagens and Auto Union vehicles for the past several years, also entered into the leasing of VW diagnostic and service installations in mid-1968. Sales volumes of both activities were satisfactory.

Volkswagenwerk AG, in accordance with the Profit and Loss Assumption Agreement existing between the two companies, absorbed the insignificant loss of this company.

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

The company, jointly organized by Daimler-Benz AG and Volkswagenwerk AG, continues to test new developments in automotive design and equipment. At year-end, the company, in order to intensify its testing activity, set up its own laboratory and employed the personnel required for its operation.

During 1968, the Deutsche Automobilgesellschaft m. b. H. entered into a Profit and Loss Assumption Agreement with Daimler-Benz AG and Volkswagenwerk AG in which these two companies will share equally in the profits or losses.

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

The company, which builds apartments mainly for employees of Volkswagenwerk AG, resumed its construction activities in 1968. In 1967, the company had confined its activities to the supervision of apartment building construction for VW-Siedlungsgesellschaft and the administration of its own apartments.

Of the building projects started in 1968, which totaled 90 apartments, 15 apartments were completed during the year. VW-Wohnungsbau owned and administered a total of 6,748 apartments at the end of 1968.

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

The VW-Siedlungsgesellschaft is also engaged in the construction of apartments for VW employees in the areas surrounding the various plants. With the completion of 137 apartments during the year, the company owned a total of 3,183 apartments at the end of 1968. At year-end, 228 apartments were under construction and an additional 735 were in the planning stage.

In 1968, the company, whose apartment building construction had been supervised by VW-Wohnungsbau in accordance with a contractual agreement, assumed responsibility for supervising its own construction activity.

The loss for the year was absorbed by Volkswagenwerk AG in accordance with the Profit and Loss Assumption Agreement existing between the two companies.

At December 31, 1968, our two housing companies owned a total of 9,931 apartments, an analysis of which follows by plant location:

	VW-Siedlungs- gesellschaft m. b. H.	VW-Wohnungsbau Gemeinnützige Gesellschaft m. b. H.	Total
Wolfsburg/Brunswick	3,037	6,281	9,318
Hanover	142	60	202
Kassel	4	407	411
	<u>3,183</u>	<u>6,748</u>	<u>9,931</u>

**Investments
in Subsidiaries
and Affiliates:
Foreign**

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

Sales of Volkswagen do Brasil increased by 31.7% from DM 1,246 million in 1967 to DM 1,641 million in 1968 as a result of an increase in vehicle sales to 155,016 units. Thus, the sales volume of this company more than doubled in three years. This favorable trend is also reflected in the company's share of the market, which amounted to 79.7% and 43.1% for passenger cars and trucks and station wagons, respectively, compared to 68.8% and 43.6% in 1967.

The brisk demand for vehicles resulted in a further increase in production to 154,972 units produced in 1968. The increase in the sales and production volumes also contributed to the expansion of Brazil's economy by creating additional employment opportunities not only at Volkswagen do Brasil, but also in the sales organization and in the company's suppliers.

With the increasing volume of the automobile market, an intensification of competition can also be expected in Brazil. This development has been taken into account by Volkswagen do Brasil with the introduction of a new 4-door Volkswagen especially developed for the Brazilian market with a 60 SAE bhp single carburetor engine which, in accordance with the VW principle, has been designed for a long life. On the basis of its technical design, this VW 1600 is as well suited for the traffic conditions of the country as is the "beetle".

Although Volkswagen do Brasil had to absorb the start-up costs incurred in connection with the production of the new Volkswagen 1600, earnings of the company once again were satisfactory.

During 1968, the capital stock of Volkswagen do Brasil was increased by NCr\$ 86,759,710 to NCr\$ 291,650,860. Of the increase, NCr\$ 43,734,710 resulted from contributions of productive equipment and NCr\$ 43,025,000 from the revaluation of property, plant, equipment and investments as required by Brazilian law. Total capital stock of NCr\$ 291,650,860 is represented by NCr\$ 140,766,140 and NCr\$ 150,884,720 of preferred stock and common stock, respectively. Volkswagenwerk AG continues to own 80% of both the outstanding preferred and common shares.

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

Economic development in South Africa was significantly influenced by external factors, especially by the speculative gold transactions. This resulted in an unexpectedly large inflow of foreign currency and, therefore, counteracted the effect of previously instituted credit restrictions. The resultant stimulation of the economy also led to a considerable increase in the demand for automobiles.

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

Our subsidiary's sales increase by 28.0% from DM 201 million in 1967 to DM 258 million in 1968 was caused by an equal percentage increase in unit sales (including sales of imported built-up vehicles) from 21,412 units in 1967 to 27,484 units in 1968. Thus unit sales increased by 28.4%. Its share of all new vehicle registrations in South Africa rose to 14.3%, whereas its share of truck and station wagon registrations increased to 16.6%.

The South African Government, once again, requires the automobile producers to gradually increase the local content. Volkswagen of South Africa satisfied the 1968 requirement with the 24.3% increase in production to 27,019 units. For the first time, the Audi model, added to the product line in the beginning of 1968, was produced in South Africa with a production of 1,263 Audi vehicles during the year.

Once again, earnings of the subsidiary were satisfactory.

Volkswagen de Mexico was again able to increase its sales, which rose by 22.4% from DM 150 million in 1967 to DM 183 million in the year under review.

The sale of Volkswagen vehicles in Mexico continues to be limited as a result of government quotas. Consequently, it is not possible to take advantage of the sales potential on the domestic market. As a result, the company was able to increase its unit sales by only 16.4%, from 19,093 units in 1967 to 22,220 vehicles in 1968. Its share of the small car market and the passenger car market amounted to 59.4% and 21.8%, respectively.

During 1968, the company produced 23,709 vehicles, an increase of 34.5% over 1967.

Effective April 1968, the company produced only the Volkswagen 1500. On July 15, 1968, the 100,000th Volkswagen was produced in Mexico.

During 1968, the departments which had remained in Xalostoc were relocated to our new plant at Puebla. Thus, the producing and administrative functions of the company are now both located at Puebla. The company was able to eliminate certain duplications of cost which resulted from the temporary operation of two manufacturing plants.

Earnings of the company continue to be adversely affected by price controls as well as by relatively high costs of materials and insufficient utilization

**Motor Producers Ltd.,
Melbourne
(formerly Volkswagen
Australasia Ltd.)**

of production facilities. It can be expected that the measures taken, such as the incorporation of Volkswagen de Mexico into the parts supply system of the international VW distribution organization, will contribute to improve the earnings of the company.

During 1968, the capital stock of the company was increased to mex\$ 300,000,000. Volkswagenwerk AG contributed mex\$ 32,760,000 in cash and mex\$ 10,168,363 in the form of productive equipment, of which mex\$ 29,312,398 was paid in to satisfy an obligation existing from the previous capital increase. At year-end, the unpaid subscription in respect of the increase in capital during 1968 amounted to mex\$ 19,084,035.

The highly competitive automobile market in Australia had an adverse effect on Volkswagen sales. Major American and important European and Japanese automobile manufacturers are represented on this sparsely populated continent. The Japanese distributors are in an especially favorable market position as a result of lower shipping costs and extensive bilateral trade agreements existing between Japan and Australia.

Consequently, Motor Producers discontinued its limited and, therefore, costly production and concentrated solely on the assembly of imported "knocked-down" vehicles. As a result, the company is able to reduce the overhead costs per vehicle and to offer, with a minimum capital investment, every VW model, including all technological improvements, to the Australian public.

As a result of the above changes, production facilities became available which were partially utilized by assembling other make vehicles. Most of the equipment, which was no longer required or could not be used by other Volkswagen companies, has been sold.

Sales volume of Motor Producers decreased by 25.9% from DM 171 million in 1967 to DM 127 million in 1968. Unit sales, including sales of built-up vehicles imported, declined by 12.5% to 16,907 vehicles. Correspondingly, production decreased by 29.9% to 13,684 units.

As a result of the unusual conditions mentioned above, earnings of the company were not yet satisfactory.

**Industrias del Motor,
S.A. (IMOSA),
Vitoria**

The Spanish company increased its capital stock by Ptas 162,000,000 to Ptas 486,000,000 during 1968 through issuance of additional shares which were offered at 150% of par value. Auto Union, which held a 25% interest in

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

the company at year-end, subscribed to its share of the increase, whereas the other stockholders sold their rights to Volkswagenwerk AG. As a result, the Volkswagen organization now owns 50% of the capital stock outstanding of Industrias del Motor. Of the 1968 capital stock increase, subscriptions amounting to Ptas 80,607,000 remained outstanding, of which Ptas 60,357,000 is owed by Volkswagenwerk AG.

The decline in the demand for commercial vehicles caused a decrease in sales from 9,691 vehicles in 1967 to 7,882 vehicles in the year under review. Production had to be reduced to forestall accumulation of excessive inventories. A reduction in costs required to adjust to the changed conditions was not possible, mainly because of union contracts and compulsory social contributions. Consequently, the company incurred a loss for the year.

Following the decline in automobile registrations and production during the previous two years, the demand for automobiles in the United States once again increased. New registrations of passenger cars and dual-purpose and commercial vehicles increased by 12.4% to 9.4 million units.

Registrations of imported passenger cars and dual-purpose and commercial vehicles rose even more significantly, with a 25.7% increase to approximately 940,000 units, thereby accounting for 10.0% of the market for such vehicles. In spite of severe competition, Volkswagen of America was again able to expand its share of the market.

Sales of Volkswagen of America and its subsidiaries increased by more than 50% over the previous year, which represents the highest growth rate among the Volkswagen companies. Sales amounted to nearly DM 4,000 million, a new all-time high. Volkswagen's share of the passenger car, dual-purpose and commercial vehicle market rose from 5.0% in 1967 to 5.5% in 1968, a level never before achieved by our subsidiary. Unit sales of passenger cars and trucks and station wagons increased by 28.3% to 569,292 vehicles. Our truck and station wagon product line, which was redesigned in 1967, was favorably received by the public, resulting in a sales increase of 48.2%.

During 1968, Volkswagen of America was twice forced to increase prices. The first increase in September 1968 resulted from higher costs due to technological improvements, the second increase in December was caused

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

by the new "law for the stabilization of foreign trade" which increased the cost of export goods.

The 1968 earnings of the company were satisfactory.

The generally favorable economic trend in Canada had the effect of stimulating automobile sales, which, in turn, resulted in increased vehicle imports.

Sales of Volkswagen Canada increased by 30.5% to DM 338 million.

In line with this increase, unit sales rose by 25.3% to 41,011 vehicles in 1968, resulting in an increase in the company's share of the passenger car market from 4.5% in 1967 to 4.9% in 1968.

The company again showed a profit for the year.

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

In spite of the uncertain economic conditions in France, Volkswagen France had a successful year with an increase in sales from DM 93 million in 1967 to DM 118 million in 1968 and an increase in unit sales from 17,337 to 23,035 vehicles for the year, including 2,282 Audis.

The company earned a profit for the year.

**HOLAD Holding &
Administration AG,
Basel**

This company was formed to invest in domestic and foreign companies and to hold, administer and exploit patents and other assets.

The holding company continues to own 10% of the capital stock of Wolfsburger Transportgesellschaft. As in previous years amounts received by this company were reinvested within our organization.

Outlook for Volkswagen- werk AG and its Subsidiaries and Affiliates

The expansion of the West European economy can be expected to continue during 1969. In the United States of America, however, there is concern that the restrictive measures instituted by the Government could have an adverse effect on those factors which favorably influence economic growth. In spite of these divergent prospects, it can be expected that international trade will continue to increase in 1969 and that a high level of business activity will be maintained. These expectations will only be realized, however, if the measures taken thus far to free international trade of restrictions are not offset by introduction of other restrictions.

It appears that the recent upswing in consumer spending in the Federal Republic of Germany will continue. Therefore, it can be expected that new vehicle registrations in West Germany will exceed those in 1968. Nevertheless, the German automobile industry will have to make special efforts to increase domestic and foreign sales to counteract the adverse effects resulting from the "law for the stabilization of foreign trade".

In 1969, competition in the domestic and foreign automobile markets will be keener than ever. The Japanese automobile manufacturers, in particular, will attempt to increase their share of the world market. The American automobile producers, with the introduction of new models which are competitive with VW, are also making every effort to prevent a further market penetration by imported vehicles.

In spite of increased competition and delivery problems resulting from the dock strike in the United States, which lasted for more than two months, we expect a further strengthening of our position on the domestic and export markets. This expansion will be facilitated by our existing world-wide dealer organization which is being continuously expanded.

Additionally, Volkswagenwerk AG and its subsidiaries and affiliates are determined to expand their product line to keep pace with consumer demands. In line with this objective, the VW-Porsche Vertriebsgesellschaft m.b.H. was organized by Volkswagen and Porsche to market sports cars developed and manufactured by the two companies.

The increasing demand for the various types of Volkswagen vehicles in the domestic and export markets makes a further expansion of our productive facilities necessary. Another objective to be realized is the elimination of additional shifts and overtime work which, for a long period of time, have been necessary to meet production goals. Furthermore, since the VW assembly operation in Ingolstadt must be gradually removed during the next

few months to free those facilities for the production of the Audi 100, the Board of Directors and Management have decided to construct a new plant in the area surrounding Salzgitter at a cost of DM 450 million.

The generally positive outlook for the world economy and the favorable conditions in the world-wide automobile market support the expectation that VW sales will continue to increase in 1969 and that earnings will again be satisfactory.

In the beginning of March, the Boards of Directors of Auto Union G. m. b. H., Ingolstadt, NSU Motorenwerke AG, Neckarsulm, and Volkswagenwerk AG, Wolfsburg, decided to merge Auto Union G. m. b. H. and NSU Motorenwerke AG, subject to approval by the stockholders of NSU and formal approval by Volkswagenwerk AG as the owners of Auto Union. As part of this merger, NSU will assume the assets and the related rights and obligations of Auto Union. In return, Volkswagenwerk AG, as the sole owner of Auto Union, will receive stock of NSU totaling DM 128 million registered in the name of Volkswagenwerk AG. The stock to be issued by NSU will result from a capital stock increase from DM 87 million to DM 215 million. Subsequent to the completion of these transactions, Volkswagenwerk AG will own 59.5% of the new company which will be known as AUDI NSU AUTO UNION AG.

Comments on the 1968 Financial Statements of Volkswagen- werk AG

Financial Position

In line with the previously discussed expansion of our business activity, which resulted in an increase of nearly DM 500 million in the balance sheet totals, current assets and short-term liabilities increased significantly. As in previous years, stockholders' equity exceeds liabilities. At year-end, the total of stockholders' equity and long-term liabilities exceeded property, plant, equipment and investments by DM 340 million compared to DM 40 million at the end of 1967.

Changes in our financial position were as follows:

	12/31/68		12/31/67	
	in million DM			
Assets				
Property, Plant, Equipment and Investments	2,277	57%	2,343	67%
Current Assets	1,718*	43%	1,163	33%
	<u>3,995*</u>	<u>100%</u>	<u>3,506</u>	<u>100%</u>
Liabilities				
Stockholders' Equity (Capital Stock and Reserves)	2,191	55%	2,021	58%
Liabilities payable within:				
more than 4 years	426	11%	362	10%
1 to 4 years	208	5%	144	4%
1 year or less	1,170	29%	979	28%
	<u>3,995*</u>	<u>100%</u>	<u>3,506</u>	<u>100%</u>

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

The liquidity of the company is reflected in the increase in liquid funds by DM 377 million to a total of DM 806 million. The sources and uses of funds in 1968 and 1967 are shown in the following statement:

	1968	1967
	in million DM	
Sources of Funds		
Portion of earnings added to reserves	168	158
Portion of earnings added to reserves for special purposes	2	26
Provision for depreciation of physical plant	434	369
Write-down of investments in subsidiaries and affiliates	81	12
Book value of physical plant disposed of	9	11
Write-off of investments in subsidiaries and affiliates	31	—
Decrease in long-term loans receivable, net of amortization of premiums and discounts	17	7
Decrease in investment securities	2	2
Increase in:		
Long-term loans payable	64	—
Medium-term loans payable	64	—
Short-term loans payable	191	—
Decrease in inventories	—	74
Decrease in medium- and short-term receivables	—	71
	<u>1,063</u>	<u>730</u>
Uses of Funds		
Investments in:		
Physical plant	425	518
Subsidiaries and affiliates	55	84
Increase in long-term loans receivable	28	13
Decrease in:		
Long- and medium-term loans payable	—	8
Short-term loans payable	—	132
Increase in inventories	65	—
Increase in medium- and short-term receivables	113	—
	<u>686</u>	<u>755</u>
Increase (Decrease) in Liquid Funds	<u>377</u>	<u>(25)</u>

Balance Sheet

Assets

During 1968, the additions to *Property, Plant and Equipment* of DM 425 million were lower compared to the previous year. The additions to land, buildings, machinery and equipment, including transfers from construction in progress and advance payments to vendors and contractors, amounted to DM 363 million and consisted of the following:

DM 78 million land and buildings,
- compared to DM 187 million in 1967 -
and
DM 285 million machinery and equipment,
- compared to DM 390 million in 1967.

At year-end, the book value of DM 1,977 million, shown on the balance sheet for property, plant and equipment, represents 39% of the original purchase or production cost of DM 5,087 million. These amounts exclude special tools acquired prior to 1967 and miscellaneous low value items as such items were written off in the years of acquisition.

The original cost of property, plant and equipment is the purchase or the production cost. For the additions made during 1968, these costs also include the use tax in accordance with section 30 of UStG (investment tax). Otherwise, the same basis as in 1967 was used in determining the cost of 1968 additions. Advance payments to vendors and contractors are the actual amounts disbursed.

Regular depreciation was determined using the same methods as in the previous year. The use tax, imposed for the first time, will be depreciated separately over the life of the asset using the declining-balance method.

Based on original cost, depreciation was provided for on 70% of the buildings and 39% of the machinery and equipment using the straight-line method (including the modified straight-line method for buildings). In respect of the balances of these assets, depreciation was provided for using the declining-balance method. Regular depreciation was based primarily on the estimated useful lives used in the previous year, except that the useful lives of streets and parking areas and additions to buildings were decreased to 10 years and 30 years, respectively.

During 1968, for the most part, additional depreciation was provided for to the extent required to take full advantage of existing tax benefits. This included primarily increased depreciation on plant and equipment used in research and development and additional depreciation allowable under the tax laws enacted to stimulate the economy.

Additional depreciation was also provided, to a lesser extent, for special plant and equipment to give consideration to the technical obsolescence of those assets.

The following summary shows additional details of the 1968 depreciation provision:

	On Owned Land and on Land with Land Rights						
	Office and Factory Buildings and Other Structures	Apartments	Land without Buildings	Buildings on Leased Land	Machinery and Fixtures	Plant and Office Equipment	Grand Total
	- in thousand DM -						
regular depreciation:							
straight-line	47,095	651	—	1,503	175,151	74,122	298,522
declining-balance	30,930	—	—	673	32,845	3,144	67,592
modified straight-line*	6,583	—	—	4	—	—	6,587
direct write-off	—	—	—	—	—	9,523	9,523
additional depreciation	31,315	91	119	29	12,698	7,549	51,801
Total	115,923	742	119	2,209	220,694	94,338	434,025
including depreciation of							
on the following additions**	26,530	1	119	185	31,041	43,039	100,915
during 1968	73,397	72	348	1,407	164,635	120,173	360,032

* 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.

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

Under the caption *Investments*, the book value of *Investments in Subsidiaries and Affiliates* decreased by DM 57 million. During 1968, additions amounted to DM 55 million as opposed to a deduction of DM 31 million and write-offs of DM 81 million. The additions consisted mainly of the following:

DM 37 million contribution to the increased capital stock of
Volkswagen do Brasil,

DM 13 million contribution to the increased capital stock of
Volkswagen de Mexico and

DM 5 million purchase of stock of Industrias del Motor (IMOSA).

The deduction resulted from the sale of the VEMAG stock to Volkswagen do Brasil. The restoration of write-downs of this investment made in previous years resulted in a book profit of DM 22 million.

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. In addition to the write-downs permitted for tax purposes, we wrote off our investment in Volkswagen de Mexico and our current year's investment in Volkswagen do Brasil in view of the economic risks inherent in long-term investments in these overseas countries.

Other Investment Securities consist of 5% West German Government Bonds for the Promotion of Developing Countries. The second repayment on the bonds, amounting to DM 2.5 million, was received in the beginning of 1968. The value shown on the balance sheet for these securities is below market value.

Long-term Loans with an Initial Term of Four Years or Longer of DM 28 million were granted, as in previous years, primarily for housing construction. The loans have been valued on the same basis as in 1967.

Of the total loans shown on the balance sheet as loans in accordance with section 89 of AktG, DM 11,370,736 represent loans to an unaffiliated non-profit housing construction company, located in Wolfsburg, in which Volkswagenwerk AG holds a minority interest.

Write-downs pertaining to current year's additions to investments amounted to DM 65 million.

As a result of our expanded business activity, the book value of *Inventories* increased by DM 64 million to DM 640 million at December 31, 1968. Inventories were valued based on the same principles used at the end of 1967.

Trade Accounts Receivable represent DM 52 million due from customers in foreign countries and DM 10 million due from customers located in the Federal Republic of Germany.

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

Receivables from Subsidiaries and Affiliates increased by DM 74 million to a total of DM 129 million at December 31, 1968. The increase was due primarily to increased receivables from domestic subsidiaries and affiliates resulting from advance payments, short-term loans and management services provided by the parent company. In addition, the receivables from Volkswagen Canada rose as a result of additional vehicle deliveries toward the end of 1968. A loan, granted to Motor Producers in the previous year, was partially paid off. Where appropriate, lower valuations were placed on receivables in view of the inherent risks relating to the rate of exchange, currency transfers and other potential losses.

Miscellaneous Other Current Assets of DM 83 million consist, in addition to numerous miscellaneous items, of cash surrender value of old-age insurance and estimated claims for refund of taxes and interest receivables, the exact amounts of which could not be determined at the balance sheet date. Doubtful accounts were minor in amount and were provided for on an individual basis.

Liabilities

During 1968, *Capital Stock* and *Legal Reserve* remained unchanged.

The *Reserve for the Share-the-Burden Property Levy* represents the discounted amount of this liability as of December 31, 1968.

In accordance with section 58 of AktG, *Other Reserves* were increased by DM 169,661,705 as a result of a transfer from 1968 earnings.

The increase in *Reserves for Special Purposes* of DM 6 million primarily pertains to the current year's investment in developing countries. By selling VEMAG stock funds had become available.

During the year under review, we established for the first time an *Allowance for Doubtful Trade Acceptances and Accounts* to provide for the general credit risk inherent in trade receivables and trade acceptances.

Changes in *Undetermined Liabilities* were as follows:

Balance January 1, 1968	DM 618 million
Amount used	DM 184 million
Elimination of reserves	DM 27 million
	<hr/>
	DM 407 million
Additions	DM 490 million
	<hr/>
Balance December 31, 1968	DM 897 million

During 1968, as reflected above, undetermined liabilities increased by DM 279 million, of which nearly one-half represented pension plan costs and taxes. Pension plan costs were determined based on actuarial computations in accordance with existing tax regulations.

At December 31, 1968, other undetermined liabilities consisted mainly of distribution costs, employee benefits and taxes.

For the first time, we established undetermined liabilities for maintenance not performed during the current year because of the numerous additional shifts worked. This maintenance work will have to be performed during 1969.

Of the undetermined liabilities shown on the balance sheet, approximately

DM 323 million can be considered relating to long-term liabilities, DM 144 million as medium-term liabilities and DM 430 million are of a short-term nature.

Liabilities with an Initial Term of Four Years or Longer decreased mainly as a result of the payment of an additional installment on the plant improvement loan. At December 31, 1968, long-term loans of DM 148 million consisted of:

DM 94 million 5 3/4% 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 middle of 1980 at an interest rate equal to the prevailing German Federal Bank discount rate.

DM 4 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 1/2% per annum.

The increase in *Trade Accounts Payable* of DM 58 million resulted from our expanded business activity.

The pound-sterling loan, which was executed in 1967 at the then current exchange rate and shown as *Due to Banks* at December 31, 1967, was repaid during 1968.

Prepayments by Customers of DM 9 million represent, primarily, advance payments made by foreign importers.

Accounts Payable to Subsidiaries and Affiliates decreased by DM 24 million to DM 13 million at December 31, 1968. The balance consists of amounts due to our domestic subsidiaries resulting from transactions in the ordinary course of business and advance payments received from foreign subsidiaries.

Miscellaneous Other Liabilities increased by DM 16 million to DM 98 million mainly as a result of higher payroll obligations. Of the miscellaneous other liabilities, 75% consist of payroll obligations incurred in December but unpaid at December 31, 1968. The remainder represents numerous miscellaneous small items.

We were contingently liable for DM 16,750,000 in additional assessments in connection with the purchase of shares of domestic companies with limited liability. This amount is in addition to the *Contingent Liability with respect to Discounted Trade Acceptances* shown on the balance sheet and the outstanding stock subscriptions in foreign subsidiaries previously mentioned in the "VW Subsidiaries and Affiliates" section of this report.

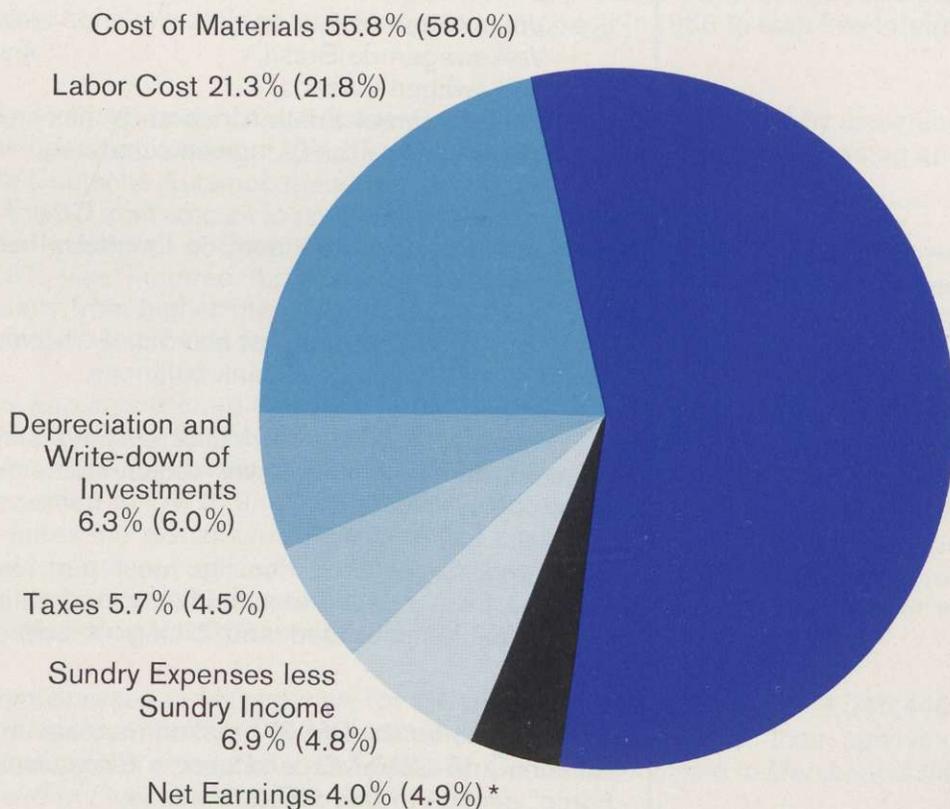
Statement of Earnings

The favorable development of our business activities also resulted in higher earnings for 1968.

The Gross Output of the parent company, consisting of sales, adjustments for increases (decreases) in inventories and material, wages and overhead capitalized as additions to plant and equipment, increased by 30.3% from DM 6,490 million in 1967 to DM 8,458 million in 1968.

Due to the change in the method of accounting for sales taxes, several classifications on the statement of earnings cannot exactly be compared to corresponding amounts of the previous years. This pertains especially to sales, expenditures for raw materials, supplies and outside services and other taxes. Consequently, the ratio of expenditures to gross output also has been affected.

The ratios of selected cost, expense and earnings data to gross output were as follows (1967 ratios in parentheses):



* 1967 includes DM 40 million representing restored prior years' write-downs.

Sales increased in 1968 by DM 1,924 million to DM 8,388 million. The ratio of vehicle sales to total sales increased from 83% in 1967 to 85% in 1968, whereas the corresponding ratio for parts decreased from 12% to 11%. The ratio of export sales to total sales continued to increase, from 66% in 1967 to 70% in 1968.

Expenditures for Raw Materials, Supplies and Outside Services exceeded those of the prior year by DM 957 million or 25.4%. This increase was relatively lower than the increase in gross output because of a change in the method of accounting for taxes which resulted in a change in the method of determining purchase prices. Purchases of raw materials increased by 27.2%.

Income from Profit Assumption Agreements resulted from assuming the 1968 operating profit of Auto Union G. m. b. H.

Income from Investments in Subsidiaries and Affiliates was received in 1968 in the form of distribution of dividends for the year 1967 primarily from:

Volkswagen of America,
Volkswagen do Brasil,
Volkswagen Canada,
Volkswagen of South Africa and
Wolfsburger Transportgesellschaft.

At year-end, DM 3 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 22 million over 1967 was due mainly to higher bank balances.

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

Other Income resulted, for the most part, from revenues from auxiliary services, taxes rebilled to subsidiaries and affiliates with whom tax assumption agreements existed and billing of advertising and sales promotion material.

The reasons for the DM 371 million increase in expenditures for *Wages and Salaries* and *Social Expenditures - Compulsory* were stated in the "Labor Force" section of this report.

As in the prior year, the major single item of *Pension Expenditures and Voluntary Payments* consists of charges for future and present pension payments.

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

As in prior years, *Interest Expense and Similar Charges* resulted, for the most part, from long-term loans.

The increase in *Taxes on Income, Earnings and Property* by DM 269 million to DM 462 million was caused mainly by higher net earnings and lower depreciation and write-downs for tax purposes than for book purposes.

With the elimination of sales taxes from this classification in 1968, *Other Taxes* consist mainly of taxes on exports imposed in 1968 to stabilize foreign trade.

Expenditures under Loss Assumption Agreements were incurred by assuming the operating losses of VW-Siedlungsgesellschaft, Volkswagen Leasing and the Deutsche Automobilgesellschaft.

Nearly one-half of *Other Expenses*, which increased by DM 278 million over 1967, was incurred for shipping costs. In addition, the increase resulted mainly from higher plant maintenance costs and additions to undetermined liabilities to provide for general risks.

Net Earnings (before transfers from and additions to reserves) increased by DM 60 million to DM 339 million at December 31, 1968. After deduction of restored write-downs provided for in prior years, net earnings for 1967 amounted to DM 279 million. 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. The amount to be disclosed for 1968 totaled DM 124,633,780.

Compensation to Management for the year 1968 amounted to DM 4,545,440. Pension payments to retired members of management or their surviving beneficiaries amounted to DM 445,481. *Compensation paid to Members of the Board of Directors* was DM 280,618.

Comments on the Consolidated Financial Statements of Volkswagen- werk AG and its Domestic Subsidiaries

As in the previous year, the consolidated financial statements include, in addition to Volkswagenwerk AG, Wolfsburg, the following domestic subsidiaries:

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 the consolidation because their assets and liabilities are immaterial in comparison to the consolidated balances. Foreign subsidiaries were also excluded from consolidation.

The balances shown in the consolidated financial statements for assets and liabilities were determined in accordance with the regulations governing the year-end closing of a stock corporation.

Although not required by law, the consolidated statements show, as in the previous year, the changes which took place in property, plant, equipment and investments.

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

Consolidated Balance Sheet

The consolidated financial position was significantly affected by the balance sheet of Volkswagenwerk AG.

A comparison of the condensed consolidated balance sheet for 1968 and 1967 follows:

	12/31/68		12/31/67	
	in million DM			
Assets				
Property, Plant, Equipment and Investments	2,558	54%	2,593	62%
Current Assets	2,176*	46%	1,554	38%
	<u>4,734*</u>	<u>100%</u>	<u>4,147</u>	<u>100%</u>
Liabilities				
Stockholders' Equity	2,389	50%	2,177	53%
Liabilities payable within:				
more than 4 years	627	13%	583	14%
1 to 4 years	238	5%	169	4%
1 year or less	1,480	32%	1,218	29%
	<u>4,734*</u>	<u>100%</u>	<u>4,147</u>	<u>100%</u>

At December 31, 1968, stockholders' equity and liabilities not payable within four years exceeded property, plant, equipment and investments by DM 458 million compared to DM 167 million at the end of 1967.

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

During 1968, liquid funds increased by DM 484 million to a total of DM 1,007 million, of which DM 806 million is held by Volkswagenwerk AG.

The sources and uses of funds are shown in the following statement:

	1968	1967
	in million DM	
Sources of Funds		
Portion of earnings added to reserves	212	156
Provision for depreciation of physical plant	484	409
Write-down of investments in subsidiaries and affiliates	81	13
Book value of physical plant disposed of	12	10
Book value of investments in subsidiaries and affiliates sold	31	-
Decrease in long-term loans receivable, net of amortization of premiums or discounts	4	4
Decrease in investment securities	2	2
Increase in:		
Long-term loans payable	44	3
Medium-term loans payable	69	-
Short-term loans payable	262	-
Decrease in inventories	-	168
Decrease in medium- and short-term receivables	-	218
	<u>1,201</u>	<u>983</u>
Uses of Funds		
Investments in:		
Physical plant	510	553
Subsidiaries and affiliates	57	83
Increase in long-term loans receivable	12	10
Increase in inventories	68	-
Increase in medium- and short-term loans receivable	70	-
Decrease in:		
Medium-term loans payable	-	5
Short-term loans payable	-	277
	<u>717</u>	<u>928</u>
Increase in Liquid Funds	<u>484</u>	<u>55</u>

Comments on significant differences between 1968 and 1967 follow:

Compared to 1967, the book value of *Property, Plant and Equipment* increased by DM 14 million, which consisted of DM 510 million of additional expenditures less DM 496 million of provision for depreciation and disposals. At year-end, the book value of property, plant and equipment represented 42% of original cost of DM 5,843 million.

Investments increased by DM 69 million, of which DM 57 million consisted of investments in subsidiaries and affiliates. Of the latter amount, DM 55 million represented contributions made by Volkswagenwerk AG toward the capital stock increases of Volkswagen do Brasil and Volkswagen de Mexico and the acquisition of stock of Industrias del Motor (IMOSA). The remaining balance represented a contribution made by Auto Union toward the capital stock increase of IMOSA. This investment was in proportion to Auto Union's 25% interest in IMOSA. The deduction from investments in subsidiaries and affiliates consists of the sale of Volkswagenwerk AG's interest in VEMAG (Brazil) to Volkswagen do Brasil.

Higher inventory levels in connection with the expansion of business activity caused a DM 68 million increase in *Inventories* to DM 717 million at December 31, 1968, of which DM 306 million represents raw materials and supplies, DM 201 million work in process and DM 210 million finished products.

Receivables increased mainly because of higher receivables from foreign importers and foreign subsidiaries and affiliates and from claims for sales tax rebates.

Reserves of Consolidated Subsidiaries increased by DM 5 million to DM 24 million and, as in the previous year, consisted of reserves provided by Auto Union and Volkswagen-Finanzierungsgesellschaft.

Reserves for Special Purposes increased to DM 67 million, of which DM 28 million is in the nature of equity capital.

Undetermined Liabilities increased by DM 273 million over 1967. Pension plan costs were based on actuarial computations in accordance with existing tax laws. "Other Undetermined Liabilities" consist mainly of liabilities with respect to distribution and personnel costs, pending taxes and pending lawsuits.

The expanded business activity of Volkswagenwerk AG and Auto Union is reflected in the DM 81 million increase in *Trade Accounts Payable*.

Consolidated Net Earnings after Reserve Transfers of DM 345 million includes net earnings brought forward from previous year of DM 136 million which represents, for the most part, the elimination in consolidation of previously written down, interest-free construction loans granted by Volkswagenwerk AG to domestic subsidiaries.

In addition to the contingent liabilities shown on the balance sheet and the additional capital contributions to be made to foreign subsidiaries and affiliates, previously mentioned in the "VW Subsidiaries and Affiliates" section of this report, other *Contingent Liabilities* amounted to DM 7,125,000 in connection with the purchase of shares of domestic companies with limited liability.

Consolidated Statement of Earnings

The increase in consolidated net earnings was attributable to higher earnings of Volkswagenwerk AG. Consequently, the comments on the statement of earnings of Volkswagenwerk AG also are pertinent, for the most part, to the consolidated statement of earnings of Volkswagenwerk AG and its domestic subsidiaries.

The ratios of selected cost, expense and earnings data to gross output, which amounted to DM 8,980 million in 1968, were as follows (1967 ratios in parentheses):

	in million DM			
Cost of materials	5,199	57.9%	(4,104	59.4%)
Labor cost	1,970	21.9%	(1,551	22.5%)
Depreciation and write-down of investments	566	6.3%	(424	6.1%)
Taxes	501	5.6%	(310	4.5%)
Sundry expenses less sundry income	356	4.0%	(220	3.2%)
Net earnings	388	4.3%	(295*	4.3%)

Consolidated net earnings of DM 388 million were DM 49 million higher than net earnings of Volkswagenwerk AG. The difference resulted primarily because the dividends, eliminated in consolidation and received by Volkswagenwerk AG from those subsidiaries during the year under review were less than the 1968 earnings of consolidated subsidiaries.

It is expected that approximately DM 45 million will be distributed to the parent company during 1969 in the form of dividends from 1968 earnings of consolidated subsidiaries. The dividend distribution will be subject to an additional tax of 37% to be paid from this inflow of earnings.

* Including DM 40 million representing restored prior years' write-downs.

Proposed Distribution of Net Earnings for 1968

Management proposes to dispose of the net earnings as follows:

Distribution to stockholders - this represents a 20% dividend on the capital stock, or DM 10 on DM 50 par value of capital stock -	DM 150,000,000
Addition to reserves	DM 13,451,481
Balance of to provide for additional taxes to be paid if Manage- ment's proposal with respect to the disposition of net earnings is approved by the stockholders	<u>DM 7,927,224</u>
Net earnings after reserve transfers	<u>DM 171,378,705</u>

Wolfsburg, April 1969

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.

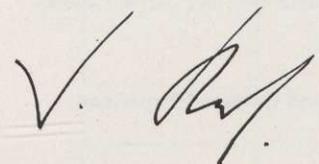
The Board of Directors has approved the yearly report prepared by Management, which is hereby confirmed. The Board of Directors has examined and concurs with the proposal of Management concerning the distribution of net earnings available for distribution.

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

Dr. h. c. Fritz Butschkau, who has been a member of the Board of Directors since 1961, is retiring and will resign as a member of the Board of Directors subsequent to the 1969 annual meeting of stockholders. The Board of Directors wishes to express its appreciation for his meritorious service and valued advice.

The Board of Directors appointed, effective May 1, 1968, Dr. rer. pol. h. c. Kurt Lotz as Chairman of the Board of Management to succeed Professor Dr.-Ing. E. h., Dipl.-Ing. Heinrich Nordhoff, who died on April 12, 1968. Effective October 1, 1968, Professor Dr.-Ing. Werner Holste was appointed as a member of the Board of Management.

After reaching retirement age, Dr. rer. pol. Kurt Haaf, Mr. Hans Hiemenz and Mr. Julius Paulsen retired from the Board of Management effective December 31, 1968. Their continuous efforts over many years contributed greatly to the success of the Company. Effective January 1, 1969, Messrs. Horst Backsmann and Horst Münzner and Dr. jur. Gerhard Prinz were appointed to the Board of Management.



Wolfsburg, April 1969

Chairman of the Board of Directors

Volkswagenwerk Aktiengesellschaft

Balance Sheet December 31, 1968

Assets

	Jan. 1, 1968	Additions	Deductions	Transfers	Accumulation of Discount	Provision for Depreciation	Dec. 31, 1968	Dec. 31, 1967
	DM	DM	DM	DM	DM	DM	DM	Thousand DM
Property, Plant, Equipment and Investments								
A. Property, plant and equipment								
Real estate and land rights								
with office, factory and other buildings	1,108,070,442	66,569,277	1,976,484	10,072,913	—	115,923,066	1,066,813,080	1,108,071
with residential buildings	13,235,065	258,802	15,991	26,959	—	741,900	12,762,926	13,235
without buildings	32,430,863	745,474	442,491	768,507	—	118,930	31,846,408	32,431
Buildings on leased real estate	21,880,978	1,343,008	—	63,615	—	2,208,730	21,078,871	21,881
Machinery and equipment	609,638,009	141,930,297	4,018,832	22,135,770	—	220,694,200	548,991,039	609,638
Plant and office equipment	107,544,417	77,162,738	1,450,868	43,531,583	—	94,338,250	132,449,614	107,544
Construction in progress	78,411,323	106,362,951	1,264,066	54,114,652	—	—	129,395,556	78,411
Advance payments to vendors and contractors	25,038,840	30,230,390	169,495	20,947,681	—	—	34,152,054	25,039
	1,996,249,937	424,602,937	9,338,227	—	—	434,025,090	1,977,489,548	1,996,250
B. Investments								
Investments in subsidiaries and affiliates	273,096,013	55,486,850	31,110,001	—	—	80,865,580	216,607,274	273,096
Other investment securities	19,856,251	—	2,206,250	—	—	—	17,650,001	19,856
Long-term loans receivable with an initial term of four years or longer	53,901,119	27,636,383	4,657,842	—	2,959,905	14,670,240	65,169,323	53,901
Face value at 12/31/68								
DM 218,117,622 including secured by mortgages								
DM 204,603,641 subsidiaries and affiliates								
DM 145,388,465 loans in accordance with section 89 AktG								
DM 11,609,067								
	346,853,383	83,123,233	37,974,093	—	2,959,905	95,535,820	299,426,598	346,853
	2,343,103,320	507,726,170	47,312,320	—	2,959,905	529,560,910	2,276,916,146	2,343,103
Current Assets						DM		
A. Inventories								
Raw materials and supplies						282,674,460	264,914	264,914
Work in progress						182,337,930	177,411	177,411
Finished products						175,360,650	133,560	133,560
							640,373,057	575,885
B. Other current assets								
Advance payments to suppliers							1,076,416	307
Trade accounts receivable							61,704,783	47,329
including amounts due in more than one year	DM 2,923,280							
Trade acceptances							7,917,966	11,051
including acceptances discountable at German Federal Bank	DM 4,918,307							
Cash on hand, including post office checking account balances							491,771	209
Cash in banks							788,720,193	408,086
Securities							8,768,837	8,769
Receivables from subsidiaries and affiliates							129,288,371	54,964
including amounts for goods and services rendered	DM 68,743,460							
Miscellaneous other current assets							82,821,912	56,307
							1,721,163,306	1,162,907
							127,854	65
							3,998,207,306	3,506,075

Liabilities

	Dec. 31, 1968	Dec. 31, 1967
	DM	Thousand DM
Capital Stock	750,000,000	750,000
Reserves		
Legal reserve	233,799,000	233,799
Reserve for the Share-the-Burden Property Levy		
Jan. 1, 1968	24,455,000	
Transfer to earnings	1,717,000	24,455
Other reserves		
Jan. 1, 1968	986,891,459	
Transfer from 1968 earnings	169,661,705	986,892
	1,413,090,164	1,245,146
Reserves for Special Purposes		
Reserve for investments in developing countries in accordance with section 34 d EStG and section 1 of the tax law	62,629,931	
Reserve for price increases in accordance with section 74 EStDV	3,936,403	60,289
Allowance for Doubtful Trade Acceptances and Accounts	3,481,000	—
Undetermined Liabilities		
Old-age pensions	328,193,479	276,858
Other undetermined liabilities		
Maintenance not performed during current year	11,000,000	—
Warranties without legal obligation	1,932,000	3,290
Other	555,456,553	338,017
	896,582,032	618,165
Liabilities with an Initial Term of Four Years or Longer		
Due to banks	37,000,000	44,400
Other liabilities	111,144,038	123,251
	148,144,038	167,651
including amounts due within four years	DM 77,413,683	
Other Liabilities		
Trade accounts payable	428,414,385	370,812
Due to banks	269,762	9,572
Prepayments by customers	9,196,032	15,587
Accounts payable to subsidiaries and affiliates	12,767,222	36,485
including trade accounts payable	DM 1,597,605	
advance payments received	DM 6,131,041	
Miscellaneous other liabilities	97,943,723	82,225
	548,591,124	514,681
	373,909	143
Deferred Income		
Share-the-Burden Property Levy		
Present discounted amount	DM 22,737,015	
Quarterly installment	DM 689,021	
Contingent liabilities with respect to trade acceptances	DM 32,230,377	
	171,378,705	150,000
	3,998,207,306	3,506,075

Statement of Earnings of Volkswagenwerk Aktiengesellschaft

Year ended December 31, 1968

	1968		1967
	DM	DM	Thousand DM
Sales	8,388,477,898 *		6,463,995
Increase (decrease) in inventories	23,440,922		(84,036)
Material, wages and overhead capitalized as additions to plant and equipment		8,411,918,820 46,087,986	6,379,959 110,445
Gross Output		8,458,006,806	6,490,404
Expenditures for raw materials, supplies and outside services		4,720,031,829	3,762,930
Excess of Gross Output over Expenditures for Raw Materials, etc.		3,737,974,977	2,727,474
Income from profit assumption agreements	3,814,624		18,483
Income from investments in subsidiaries and affiliates	73,442,702		90,120
Income from other financial investments	4,564,032		7,378
Other interest and similar income	48,770,237		26,324
Gain on disposal of property, plant, equipment and investments	31,556,677		3,501
Elimination of reserves for undetermined liabilities no longer required	26,637,610		48,429
Elimination of reserves for special purposes no longer required	332,369		—
Other income	97,357,867		112,320
including extraordinary income of DM 13,162,674		286,476,118	306,555
		4,024,451,095	3,034,029
Wages and salaries	1,567,394,345		1,238,191
Social expenditures – compulsory	170,344,630		128,516
Pension expenditures and voluntary payments	63,600,316		50,930
Provision for depreciation of physical plant	434,025,099		368,969
Write-down of financial investments	95,535,830		17,505
Write-down of current assets and provision for doubtful trade acceptances and accounts	14,476,255		18,924
Loss on disposal of property, plant, equipment and investments	3,968,516		2,432
Interest expense and similar charges	19,015,676		17,232
Taxes			
a) on income, earnings and property DM 461,686,465			193,182
b) other DM 17,483,341			93,337
Share-the-Burden Property Levy	479,169,806		2,756
Expenditures under loss assumption agreements	2,756,085		3,850
Additions to reserves for special purposes	4,741,767		33,600
Other expenses	6,609,491		545,258
	823,489,869		2,714,682
		3,685,127,685	2,714,682
Net Earnings		339,323,410	319,347
Balance carried forward		339,323,410	319,347

* After deduction of sales tax of DM 264,347,989.

	1968		1967
	DM	DM	Thousand DM
Net earnings brought forward from previous year	339,323,410	—	319,347 421
Transfer from the reserve for the Share-the-Burden Property Levy	339,323,410	1,717,000	319,768 1,645
Additions to other reserves from net earnings	341,040,410	169,661,705	321,413 171,413
Net Earnings after Reserve Transfers (Available for Distribution)	171,378,705		150,000

During 1968, pension payments amounted to DM 3,957,208; payments during the next five years will approximate 132, 152, 177, 208 and 239% of this amount.

Wolfsburg, April 1969

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 2, 1969

Deutsche Revisions- und Treuhand-Aktiengesellschaft

Treuarbeit

Wirtschaftsprüfungsgesellschaft

Steuerberatungsgesellschaft

Dr. Forster
Wirtschaftsprüfer

Dr. Apelt
Wirtschaftsprüfer

Consolidated Balance Sheet of Volkswagenwerk Aktiengesellschaft and its Domestic Subsidiaries December 31, 1968

Assets

	Jan. 1, 1968	Additions	Deductions	Transfers	Accumulation of Discount	Provision for Depreciation	Dec. 31, 1968	Dec. 31, 1967
	DM	DM	DM	DM	DM	DM	DM	Thousand DM
Property, Plant, Equipment and Investments								
A. Property, plant, equipment and trademarks								
Real estate and land rights								
with office, factory and other buildings	1,204,173,570	70,003,026	2,386,464	10,925,333	—	121,379,776	1,161,335,689	1,204,173
with residential buildings	296,467,909	6,469,642	56,480	4,963,856	—	8,669,589	299,175,338	296,468
without buildings	46,490,897	2,136,189	635,000	485,470	—	143,731	47,362,885	46,491
Buildings on leased real estate	24,776,452	1,732,709	4,224	80,545	—	2,536,746	24,048,736	24,776
Machinery and fixtures	639,416,763	152,238,234	4,192,385	23,653,276	—	236,316,579	574,799,309	639,417
Plant and office equipment	118,581,033	116,709,089	2,667,543	50,401,161	—	114,452,926	168,570,814	118,581
Construction in progress	91,506,196	129,280,798	1,565,405	65,245,193	—	—	153,976,396	91,506
Advance payments to vendors and contractors	29,121,731	31,689,358	508,572	24,293,508	—	—	36,009,009	29,122
Trademarks	1	—	—	—	—	—	1	—
	2,450,534,552	510,259,045	12,016,073	—	—	483,499,347	2,465,278,177	2,450,534
B. Investments								
Investments in subsidiaries and affiliates	90,166,229	57,304,064	31,110,001	—	—	81,126,920	35,233,372	90,166
Other investment securities	19,856,251	—	2,206,250	—	—	—	17,650,001	19,856
Long-term loans receivable with an initial term of four years or longer	31,826,401	11,694,383	3,434,012	—	1,536,413	1,602,148	40,021,037	31,827
Face value at 12/31/68								
DM 75,828,329 including								
secured by mortgages								
DM 61,590,274								
loans in accordance with section 89 AktG								
DM 11,609,067								
loans in accordance with section 115 AktG								
DM 9,000								
	141,848,881	68,998,447	36,750,263	—	1,536,413	82,729,068	92,904,410	141,849
	2,592,383,433	579,257,492	48,766,336	—	1,536,413	566,228,415	2,558,182,587	2,592,383
Current Assets						DM		
A. Inventories							716,984,246	649,045
B. Other current assets							1,568,291	363
Advance payments to suppliers							71,924,520	59,579
Trade accounts receivable							8,176,650	12,356
including amounts due in more than one year	DM 2,925,280						649,796	354
Trade acceptances							989,438,700	501,183
including acceptances discountable at German Federal Bank	DM 5,059,023						8,768,837	8,769
Cash on hand, including German Federal Bank and post office checking account balances							69,792,195	54,478
Cash in banks							309,130,274	265,303
Securities							2,176,433,509	1,551,430
Receivables from subsidiaries and affiliates								1,608
including amounts for goods and services rendered	DM 66,353,408							1,324
Miscellaneous other current assets							3,598,188	2,932
Prepaid and Deferred Expenses						DM		
Discount on loans payable						1,679,331		
Other						1,918,857		
							4,738,214,284	4,146,745

Liabilities

	Dec. 31, 1968	Dec. 31, 1967
	DM	Thousand DM
Capital Stock	750,000,000	750,000
Reserves		
Legal reserve	233,799,000	233,799
Reserve for the Share-the-Burden Property Levy	22,738,000	24,455
Other reserves	1,156,553,164	986,891
Reserves of consolidated subsidiaries	23,824,497	19,225
	1,436,914,661	1,264,370
Minority Interest in Consolidated Subsidiaries	6,149,291	3,370
including minority interest in consolidated net earnings	DM 6,099,291	
Reserves for Special Purposes		
Reserve for investments in developing countries in accordance with section 34 d EStG and section 1 of the tax law	63,369,931	
Reserve for price increases in accordance with section 74 EStDV	3,936,403	60,289
	67,306,334	60,289
Allowance for Doubtful Trade Acceptances and Accounts	3,967,420	—
Undetermined Liabilities		
Old-age pensions	337,721,519	285,026
Other undetermined liabilities		
Maintenance not performed during current year	11,460,000	—
Warranties without legal obligation	2,733,000	3,490
Other	598,522,232	389,210
	950,436,751	677,726
Liabilities with an Initial Term of Four Years or Longer		
Due to banks	164,109,211	173,253
including secured by mortgages	DM 127,067,559	
Other liabilities	212,592,432	226,955
including secured by mortgages	DM 98,155,399	
including amounts due within four years	DM 111,392,145	
	376,701,643	400,208
Other Liabilities		
Trade accounts payable	487,021,889	406,050
Due to banks	174,832,323	176,289
Prepayments by customers	13,219,296	17,845
Accounts payable to subsidiaries and affiliates	7,823,529	2,655
including advance payments received	DM 5,935,438	
trade accounts payable	DM 1,754,070	
Miscellaneous other liabilities	111,256,550	93,489
	794,153,587	696,328
Deferred Income	7,439,021	8,372
Net Earnings after Reserve Transfers	345,145,576	286,082
Contingent liabilities with respect to trade acceptances	DM 34,943,318	
Contingent liabilities with respect to guarantees	DM 5,273	
	4,738,214,284	4,146,745

Consolidated Statement of Earnings of Volkswagenwerk Aktiengesellschaft and its Domestic Subsidiaries

Year ended December 31, 1968

	1968		1967
	DM	DM	Thousand DM
Sales	8,888,091,679*		6,935,384
Increase (decrease) in inventories	23,518,873		(157,942)
Material, wages and overhead capitalized as additions to plant and equipment		8,911,610,552 68,334,767	6,777,442 126,666
Gross Output		8,979,945,319	6,904,108
Expenditures for raw materials, supplies and outside services		5,199,382,598	4,103,555
Excess of Gross Output over Expenditures for Raw Materials, etc.		3,780,562,721	2,800,553
Income from investments in unconsolidated subsidiaries and affiliates	43,022,453		35,512
Income from other financial investments	3,148,988		2,695
Other interest and similar income	71,487,426		45,459
Gain on disposal of property, plant, equipment and investments	31,908,919		3,231
Elimination of reserves for undetermined liabilities no longer required	38,591,382		52,657
Elimination of reserves for special purposes no longer required	332,369		222
Other income	104,182,430		110,887
including extraordinary income	DM 17,867,780	292,673,967	250,663
		4,073,236,688	3,051,216
Wages and salaries	1,716,071,032		1,357,184
Social expenditures – compulsory	187,801,005		141,752
Pension expenditures and voluntary payments	66,311,340		52,604
Provision for depreciation of physical plant	483,499,347		408,948
Write-down of financial investments	82,729,068		15,020
Write-down of current assets and provision for doubtful trade acceptances and accounts	20,730,325		22,052
Loss on disposal of property, plant, equipment and investments	5,080,807		2,560
Interest expense and similar charges	37,236,239		38,585
Taxes			
a) on income, earnings and property	DM 479,608,585		213,364
b) other	DM 18,289,999		94,180
	497,898,584		
Share-the-Burden Property Levy	2,756,086		2,756
Expenditures under loss assumption agreements	42,787		–
Additions to reserves for special purposes	7,349,491		33,600
Other expenses	578,022,890		373,641
		3,685,529,001	2,756,246
Net Earnings		387,707,687	294,970
Balance carried forward		387,707,687	294,970

* After deduction of sales tax of DM 303,365,938

	1968	1967
	DM	Thousand DM
Balance brought forward	387,707,687	294,970
Net earnings brought forward from previous year	136,081,885	164,800
Transfer from the reserve for the Share-the-Burden Property Levy	523,789,572 1,717,000	459,770 1,645
Additions to other reserves	525,506,572	461,415
reserves of consolidated subsidiaries	DM 169,661,705 DM 4,600,000	171,413 600
Minority interest in consolidated net earnings	174,261,705 6,099,291	3,320
Net Earnings after Reserve Transfers	345,145,576	286,082

Wolfsburg, April 1969

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 2, 1969

**Deutsche Revisions- und Treuhand-Aktiengesellschaft
Treuarbeit
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft**

Dr. Forster
Wirtschaftsprüfer

Dr. Apelt
Wirtschaftsprüfer

Comparative Summary of Selected Financial Data of Volkswagenwerk Aktiengesellschaft and its Subsidiaries and Affiliates 1964-1968*

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 four 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 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

Consolidated Total

1964 1965** 1966 1967 1968

2,299 2,740 2,981 3,237 3,289
720 819 872 787 708
476 610 651 496 619
1,729 1,973 2,758 2,381 3,130****
822 1,168 1,512 1,229 1,352

2,003 2,169 2,640 2,844 3,209
1,337 1,456 1,805 1,992 2,346
66 113 85 102 113

2,025 2,544 3,099 2,774 3,210
527 606 657 631 644

4,028 4,713 5,739 5,618 6,419****

57 58 52 58 51

133 139 108 136 105

137 113 125 123 136

50 46 46 51 50

99 85 85 103 100

87 79 89 88 98

110 101 111 107 117

Volkswagenwerk AG

1964 1965 1966 1967 1968

1,759 1,998 2,129 2,343 2,277
648 776 703 615 508
458 532 567 386 530
1,172 998 1,333 1,163 1,718****
506 638 650 576 640

1,400 1,437 1,837 2,021 2,191
800 837 1,087 1,271 1,441

1,531 1,559 1,625 1,485 1,804
331 366 366 362 426

2,931 2,996 3,462 3,506 3,995****

60 67 62 67 57

150 200 160 201 133

122 94 120 119 147

48 48 53 58 55

91 92 113 136 122

80 72 86 86 96

98 90 103 102 115

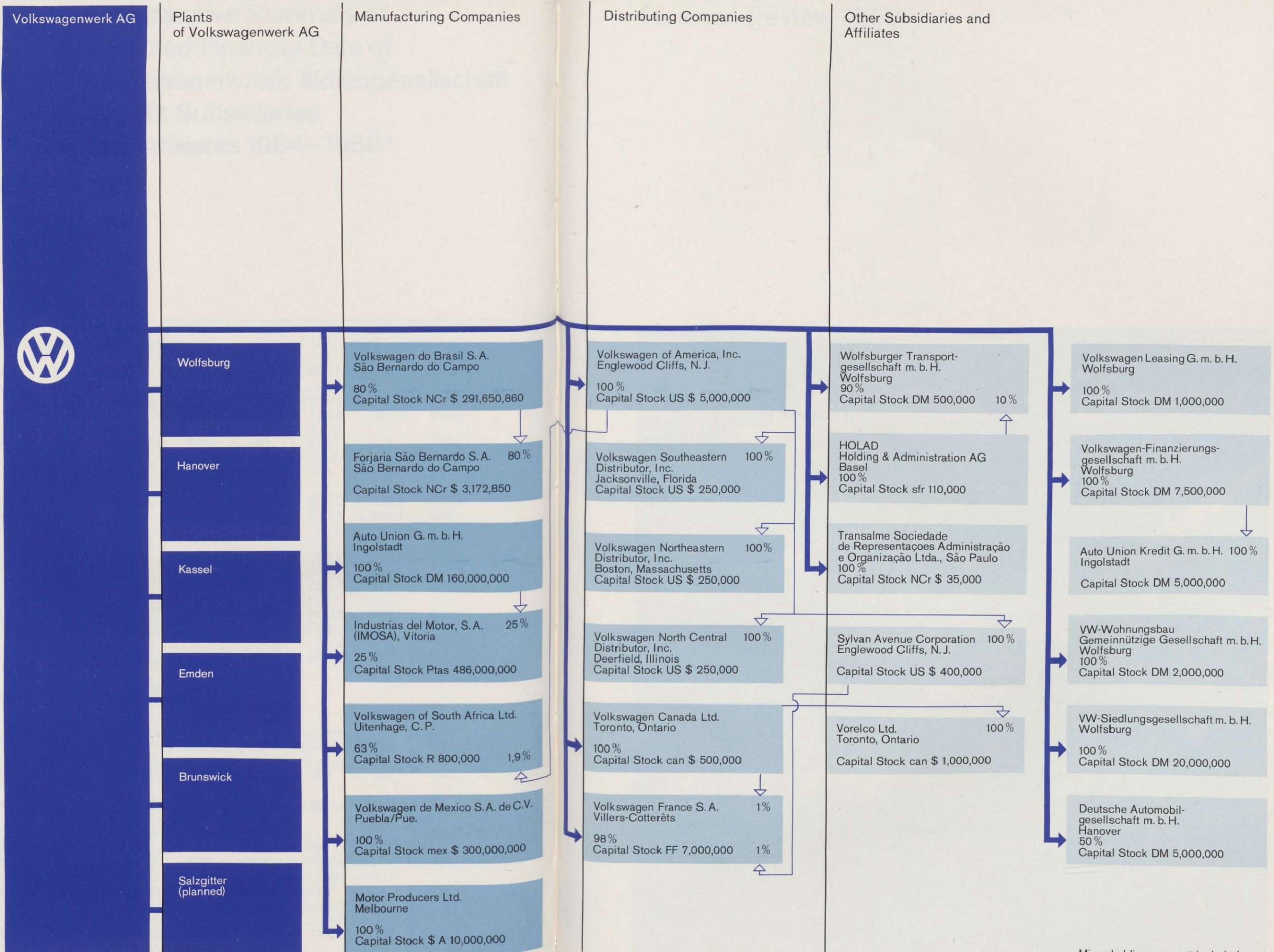
* Amounts for the years 1964-1966 were adjusted to conform to AktG 1965.

** 1965 and subsequent years include Auto Union G. m. b. H.

*** Amounts for the years 1964-1966 are not exactly comparable with other years because of reclassifications made beginning in 1967 in accordance with the valuation requirements of the new stock corporation law.

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

**VW Holdings
in Domestic
and Foreign
Subsidiaries
and Affiliates**



Minor holdings are not included.

Pictorial Review 1968

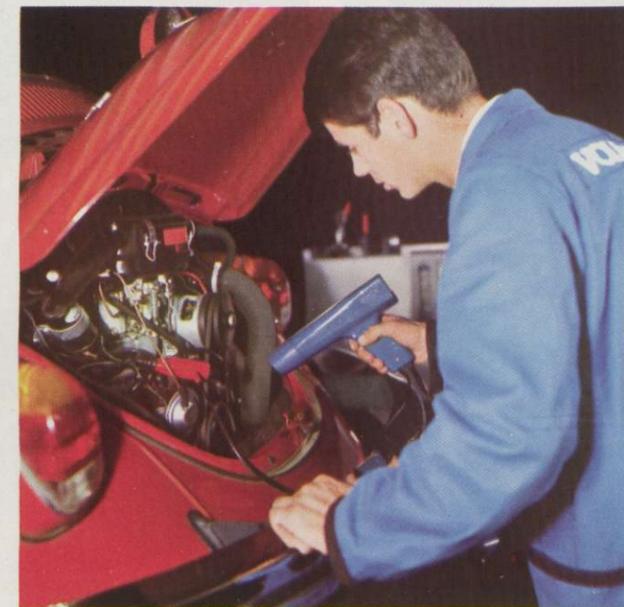




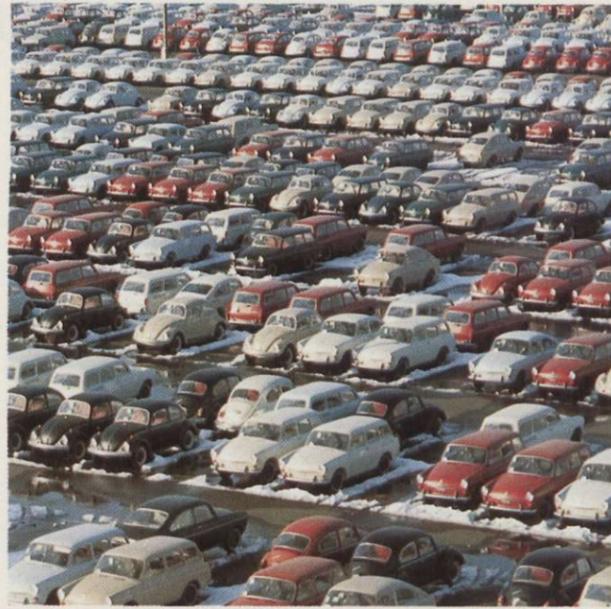
VW Diagnostic and Service Center System



Under the VW emblem, a new era in automobile service began: the individual diagnostic and service center system (1). At the diagnostic station, the vehicle is electronically tested for road and operating safety (2). A VW test mechanic at work. His vehicle inspection report provides the customer with exact information with respect to the repairs necessary and the cost thereof (3).



VW around the World



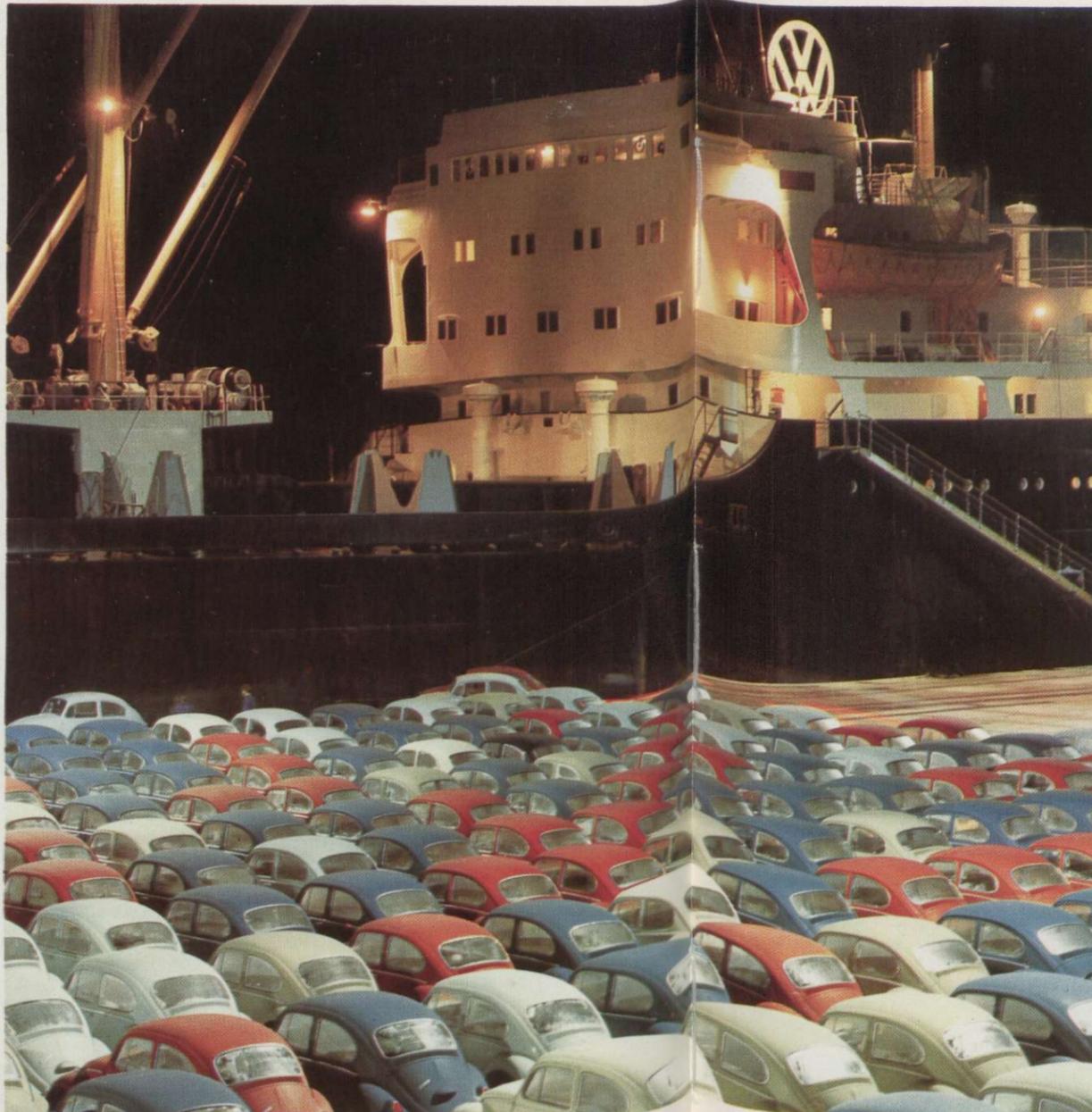
1



4



2



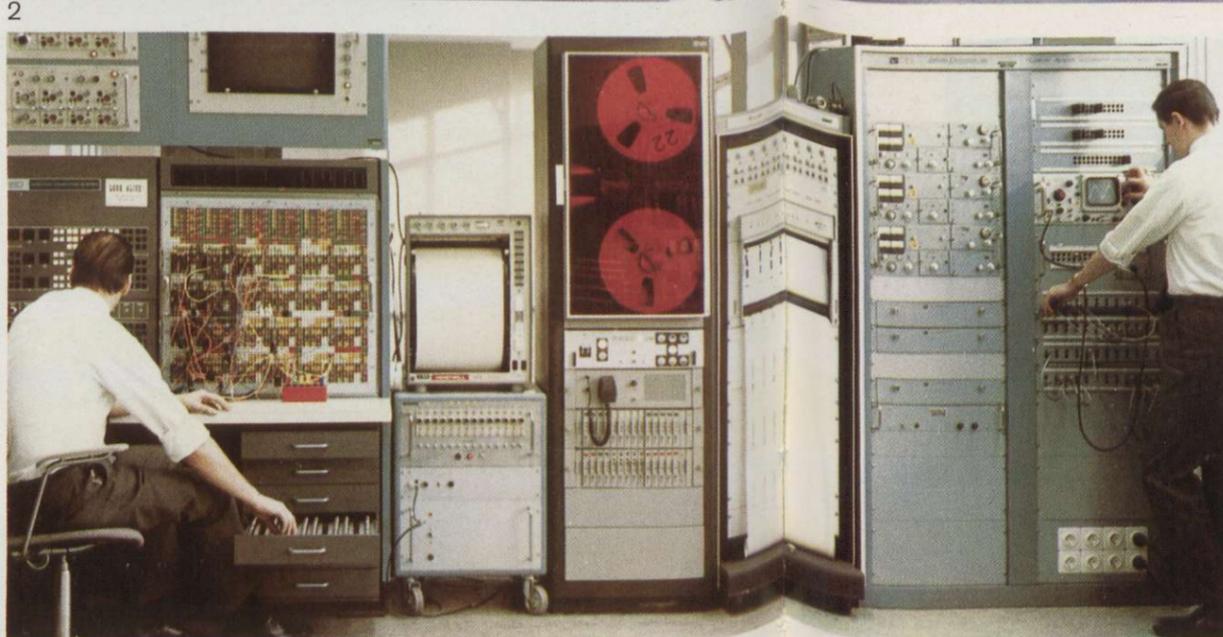
3

From the loading areas (1), the vehicles are transported by train (2) and by ship (3) to 140 countries. Nearly 70 specifically equipped ships are continuously transporting VW vehicles. Whether in Windsor on the British Isles (4) or in distant Bangkok (5), the Volkswagen is part of the street scene.



5

Research and Development



The Volkswagen in the testing area: regardless of the weather, operating and endurance tests are continuously being performed (1). Impact tests provide important information for improvement of internal and external vehicle safety (2) and (3). Test data is telemetered to the development center, where it is recorded and automatically evaluated (4). Electronic drawing machines quickly and accurately convert data stored for auto body construction into drawings (5).





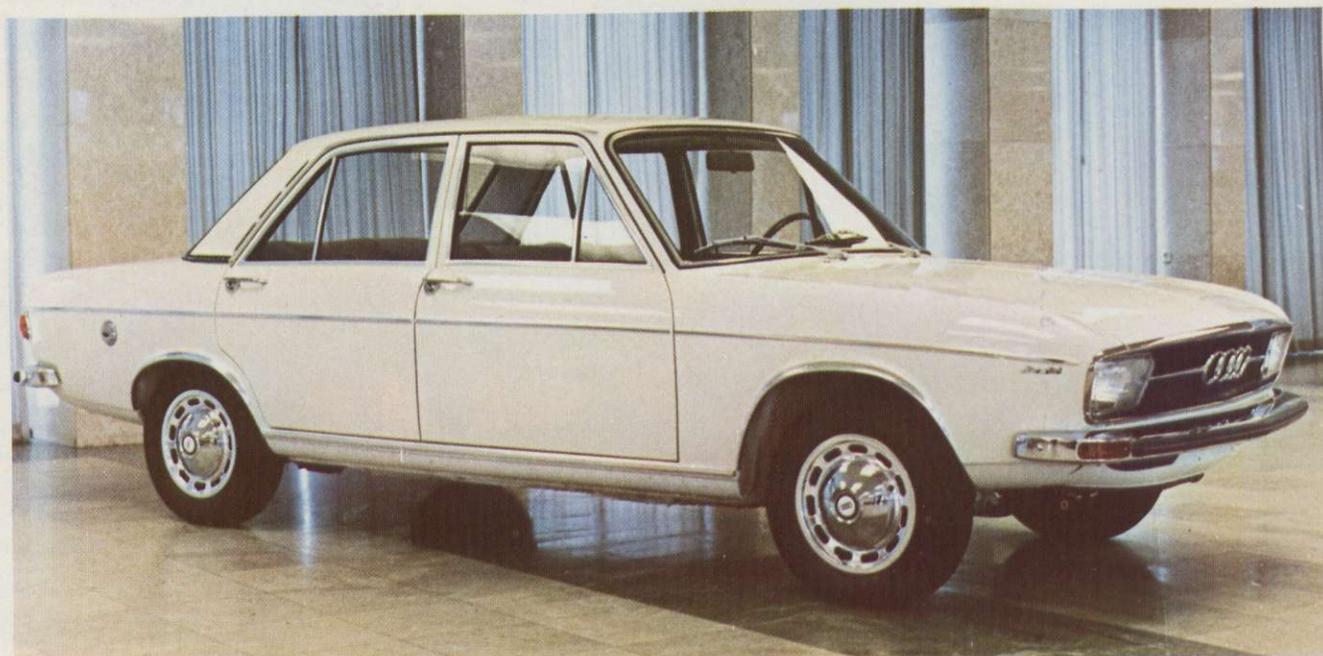
New in the 1968/1969 Model Year



VW 411: Air-cooled, four cylinder, horizontally opposed, rear engine; engine displacement 102.5 cu. in.; 76 SAE bhp engine at 5,000 rpm; independent wheel suspension; Mc Pherson suspension in front; trailing A-arms and double-jointed axle in rear; maximum speed 90 mph; unit body construction; two or four doors. Luxury "L" model available on request. Can also be delivered with automatic transmission.

VW 1600 (Brazil): Air-cooled, four cylinder, horizontally opposed, rear engine; engine displacement 96.6 cu. in.; 60 SAE bhp engine at 4,600 rpm; independent wheel suspension; torsion bar springs; maximum speed 84 mph; four doors. This rugged vehicle was specifically developed for the Brazilian automobile market and is being produced by Volkswagen do Brasil S. A.

Audi 100: Water-cooled, four cylinder, in-line engine; front wheel drive; engine displacement 107.4 cu. in.; depending on model, the engine has 90, 102 or 115 SAE bhp at 5,000 or 5,500 rpm; independent front wheel suspension; coil springs; trailing arms with torsion tube axle and torsion bar springs in rear, stabilizers on both axles; maximum speed 106 mph; two or four doors.



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