

Report  
for the Year 1965



Volkswagenwerk  
Aktiengesellschaft  
Wolfsburg

The Board of Directors and Management  
of Volkswagenwerk Aktiengesellschaft  
present the Report for the Year 1965  
with their compliments

Wolfsburg, May 1966

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# Agenda

for the Annual Meeting of Stockholders of Volkswagenwerk AG to be held at 10:00 A. M. on Wednesday, June 29, 1966, at the Stadthalle in Wolfsburg.

1. Presentation of audited financial statements for the year ended December 31, 1965, together with the reports of Management and the Board of Directors and their recommendation with respect to disposition of the net earnings for the year 1965.

2. Resolution with respect to disposition of the net earnings for the year 1965.

Management and the Board of Directors propose to distribute a dividend on the capital stock of 20% out of net earnings shown in the Balance Sheet.

3. Resolution with respect to discharge of responsibility of Management for the year 1965.

4. Resolution with respect to discharge of responsibility of the Board of Directors for the year 1965.

In respect of items 3 and 4, it is proposed to discharge Management and the Board of Directors of responsibility.

5. Appointment of auditors for the year 1966.

The Board of Directors proposes to appoint the Deutsche Revisions- und Treuhand-Aktiengesellschaft, Treuarbeit, Hanover, as auditors for the year 1966.

6. Resolution with respect to increase in capital stock.

Management and the Board of Directors propose:

a) To increase the capital stock of the Company by DM 150 million to DM 750 million through the issue of new bearer shares with a par value of DM 50,— each and with dividend participation from January, 1, 1967. The Federal Republic of Germany and the State of Lower Saxony are each being offered shares at a par value of DM 30 million at the issue rate of 225%. The remaining shares representing DM 90 million will be offered through a syndicate of banks to the other stockholders at a ratio of 1 new share per 4 shares held at the issue rate of 225%. The Board of Management will be authorized to determine further details of the capital increase.

b) To amend section 4, paragraph 1, and section 24, paragraph 1, first sentence of the charter as follows:

Section 4, paragraph 1

"The capital stock of the Company shall consist of DM 750 million (in words: seven hundred and fifty million Deutsche Marks) and shall be divided into six million shares of a par value of one hundred Deutsche Marks each and in three million shares of a par value of fifty Deutsche Marks each."

Section 24, paragraph 1, first sentence

"At stockholders' meetings, one vote shall be permitted for each fifty Deutsche Marks of par value of capital stock held."

7. Resolutions with respect to amendments of the charter.

Management and the Board of Directors propose to amend the charter as follows:

a) Section 11, paragraph 1, shall read as follows:

"The Board of Directors shall consist of eighteen members."

b) Section 13, paragraph 2, second sentence, shall be eliminated.

c) Section 16, paragraph 3, shall read as follows:

"The Board of Directors may adopt resolutions through voting by correspondence, telegram or telephone if the Chairman so directs and if no member of the Board of Directors objects to such procedures."

d) Section 18 shall read as follows:

"In addition to the reimbursement of expenses the members of the Board of Directors receive a fixed remuneration of DM 12,000.— per member following the close of the financial year or in the case of the chairman DM 24,000.— or deputies DM 18,000.—"

This provision shall be first applied with respect to the calendar year 1966.

e) Section 19 shall read as follows:

"The annual meeting of the stockholders shall be held at a date during the first eight months of each calendar year."

f) Section 21 shall read as follows:

"The invitation to the stockholders' meeting must contain the agenda; no resolution may be adopted with respect to any item not listed on the agenda contained in the invitation to the meeting. This shall not apply to matters duly added to the agenda at the request of a minority of the stockholders, after mailing the invitation to the meeting, in accordance with section 122, paragraphs 2 and 3, of the Aktiengesetz. Irrespective of the number of votes required for adoption, resolutions with respect to such matters may be adopted only if notice thereof was given within 10 days after the invitation to the meeting."

g) Section 22, paragraphs 1, 3 and 4, shall read as follows:

"(1) Only those stockholders shall be entitled to attend the stockholders' meeting and to vote thereat who shall have deposited their shares or a securities clearing house receipt for their shares with a notary, a securities clearing house, a credit institution mentioned in the invitation to the meeting, or any other institution mentioned in the invitation to the meeting. Such shares or receipts for shares shall be deposited not later than the close of business on the sixth business day prior to the day of the meeting and shall be left there until after the meeting. A Saturday shall not be deemed a business day for purposes of this provision."

"(3) If shares are deposited with a notary, the certificate evidencing such deposit must be filed with the Company not later than on the third day before the meeting."

"(4) As long as stock certificates are not issued, the conditions under which the stockholders may be admitted to a stockholders' meeting shall be specified in the invitation to the meeting."

h) Section 25 is changed as follows:

The third sentence of paragraph 1, second phrase, and paragraph 2 are eliminated.

Paragraph 3 is renumbered as paragraph 2 and shall read as follows:

"Any person engaged in the representation of stockholders by virtue of his business or profession may exercise the right to vote pursuant to a proxy only if, simultaneously with the execution of the proxy, the stockholder has given him written instructions with respect to the various items on the agenda. In accordance with section 128 of the Aktiengesetz, solicitation of proxies and instructions may not commence prior to mailing of the invitations to the meeting."

Paragraph 4 is renumbered as paragraph 3 and shall read as follows:

"The proxy must contain the name, the address, the number of shares and the number of votes of the stockholder to be represented. The holder of the proxies must submit them to the Company in alphabetical order of the names of the stockholders represented by him. Prior to the first vote at the stockholders' meeting, the proxies shall be made available for inspection by all those in attendance.

Only the name of the holder of the proxies shall be recorded on the attendance list (section 129 of the Aktiengesetz); the number and class of the shares which are not owned by him and the number of the votes to be exercised by him pursuant to proxy shall be stated separately for recording on the attendance list.

The Company must keep all proxies for a period of three years from the date of the meeting; if, at the expiration of this period, there is pending an action to challenge a resolution adopted at the meeting, the said period shall be extended until there is a final judicial determination of the action or until the matter is terminated in any other manner. Each stockholder is entitled to inspect these documents upon request."

Paragraph 5 shall be renumbered as paragraph 4.

i) Section 27, second paragraph, shall read as follows:

"During the first three months of the calendar

year Management must prepare the financial statements and an annual report for the previous calendar year and submit the same to the auditors. Immediately upon receipt of the audit report from the auditors, Management must submit the financial statements, the annual report and the audit report to the Board of Directors together with a proposal for the disposition of the net earnings."

#### 8. Election of the Board of Directors.

The Board of Directors consists of 12 members elected by the stockholders and 6 members elected by the employees (section 101 AktG. 65; section 76 BetrVerfG.).

The stockholders present at the annual meeting also may nominate candidates in addition to those proposed by the Board of Directors. In accordance with section 12 of the charter, the Federal Republic of Germany and the State of Lower Saxony have the right, as long as they own shares in the Company, to nominate two members each to the Board of Directors. Therefore, the other stockholders present at the annual meeting will elect eight members to the Board of Directors.

The Board of Directors nominates the following candidates for election to the Board of Directors:

Dr. h. c. Fritz Butschkau, Düsseldorf,  
President of the German Savings Banks Association  
Mrs. Elgin Gärtner-Amrhein, Stuttgart,  
Attorney

Walter Haefner, Zürich,  
Merchant

Dr. Eduard Justi, Brunswick,  
Professor at Brunswick Technical Institute

Dr. Horst Rheinfels, Cologne,  
Attorney

Dr. Hermann Richter, Düsseldorf,  
Industrial Consultant

Dr. Josef Rust, Kassel,  
Chairman of the Board of Management  
of Wintershall AG

Dr. Wilhelm Vallenthin, Hamburg,  
Member of the Board of Management  
of Deutsche Bank AG

# Board of Directors (Aufsichtsrat)

# Management

Dr. Dr. h. c. Hans Busch, Düsseldorf, Chairman  
Otto Brenner, Frankfurt, Deputy Chairman  
Dipl.-Ing. Carlo Graaff, Hanover, Deputy Chairman  
(to July 1, 1965)  
Karl Möller, Quakenbrück, Deputy Chairman  
(since July 1, 1965)  
Dr. Josef Rust, Kassel, Deputy Chairman  
Hermann Ahrens, Salzgitter-Bad (to July 1, 1965)  
Hugo Bork, Wolfsburg  
Dr. h. c. Fritz Butschkau, Düsseldorf  
Siegfried Ehlers, Wolfsburg  
Mrs. Elgin Gärtner-Amrhein, Stuttgart  
Hans Grimm, Wolfsburg  
Walter Haefner, Zürich  
Prof. Dr. Karl M. Hettlage, Bad Godesberg  
Heinz Hilbich, Hanover  
Prof. Dr. Eduard Justi, Brunswick  
Alfred Kubel, Braunlage (since July 1, 1965)  
Dr. Horst Rheinfels, Cologne  
Dr. Hermann Richter, Düsseldorf  
Peter Stroh, Kassel  
Dr. Wilhelm Vallenthin, Hamburg

Prof. Dr.-Ing. E. h., Dipl.-Ing. Heinrich Nordhoff,  
Chairman  
Fritz Frank (to July 31, 1965)  
Dr. Kurt Haaf  
Dr. Carl H. Hahn  
Hans Hiemenz  
Otto Höhne  
Frank Novotny  
Dipl.-Ing. Helmut Orlich  
Julius Paulsen  
Dr. Wolfgang Siebert (to July 31, 1965)  
Dr. Friedrich Thomée (since October 1, 1965)

# Selected Data of Volkswagenwerk AG

		1965	1964
<b>Production</b>			
Volkswagenwerk AG			
total	number of vehicles	1,447,660	1,317,295
average per working day	number of vehicles	6,108	5,421
Volkswagenwerk AG and its Subsidiaries and Affiliates			
total	number of vehicles	1,594,861	1,410,715
average per working day	number of vehicles	6,729	5,819
<b>Sales</b>			
Volkswagenwerk AG			
total	in million DM	7,458.0	6,788.3
domestic sales	% of total sales	42.9	42.7
export sales	% of total sales	57.1	57.3
per employee	DM	80,592.-	79,549.-
Volkswagenwerk AG and its Subsidiaries and Affiliates			
total	in million DM	9,267.5	7,997.1
per employee	DM	75,504.-	79,382.-
<b>Investments</b>			
Volkswagenwerk AG			
physical plant	in million DM	484.6	627.3
financial investments	in million DM	273.2	12.3
total investments	in million DM	757.8	639.6
Volkswagenwerk AG and its Subsidiaries and Affiliates			
physical plant	in million DM	702.1	700.6
<b>Average Labor Force</b>			
Volkswagenwerk AG	total labor force	92,541	85,334
Volkswagenwerk AG and its Subsidiaries and Affiliates	total labor force	122,742	100,742
<b>Gross Output and Expenditures of Volkswagenwerk AG</b>			
Total Gross Output (sales plus inventory changes plus material, wages and overhead capitalized as additions to plant and equipment)	in million DM	7,601.3	6,927.3
Cost of Materials	% of total gross output	61.3	58.6
Labor Cost	% of total gross output	17.6	16.6
Provision for Depreciation of Physical Plant and Write-down of Financial Investments	% of total gross output	6.8	6.5
Total Taxes	% of total gross output	7.1	9.4
Net Earnings before additions to and transfers from reserves	% of total gross output	2.1	3.8
<b>Dividends</b>			
(proposed or paid)	% of capital stock	20.0	20.0

# Report of Management

## Business Trends in the Automotive Industry in 1965

In 1965, world-wide automobile production achieved a new all-time high with the production of 24 million vehicles of which nearly 90% was distributed among six countries.

In the United States of America, market conditions favorable to the automotive industry continued undiminished for the fifth consecutive year. Production of 11.14 million vehicles accounted for nearly one-half of the world-wide automobile production of 1965.

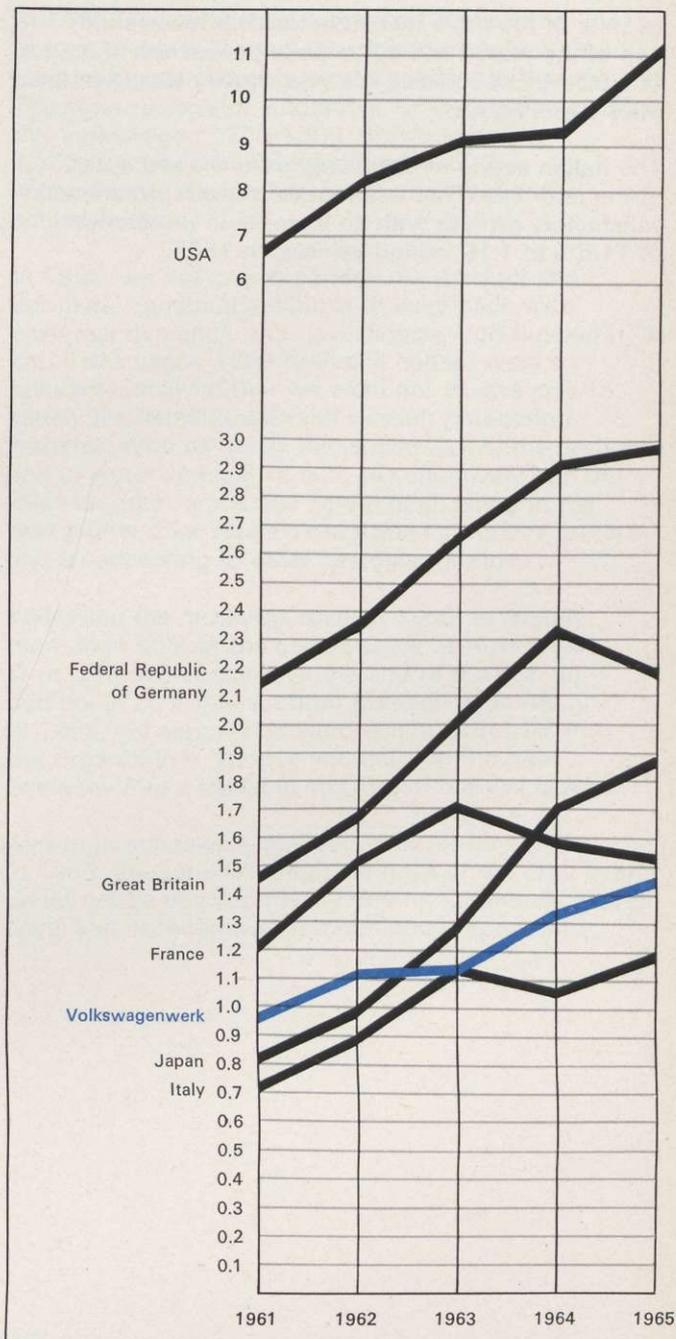
In 1965, the Federal Republic of Germany maintained its position as the second largest automobile manufacturer in the world by producing 2.98 million vehicles. The three million mark was not quite attained because an increasing quantity of West German-make automobiles is being manufactured in foreign countries, using certain parts produced in West Germany. Even though parts produced in West Germany are used, these automobiles are not included in West Germany's production totals. Domestic as well as export sales continued their favorable trend, and the West German automotive industry remained the leading automobile exporter in the world.

The favorable market conditions throughout the world had only a slight influence on the market in Great Britain due to internal economic and monetary difficulties. In addition, strikes in several industries interrupted auto production causing a decrease of 6.7% from the previous year to a total production of 2.18 million vehicles in 1965.

During 1965, automobile production in Japan amounted to 1.88 million units, representing an increase of 10.2% over 1964. Although less than in prior years, the rate of growth was relatively high when compared with that of other countries.

Measures instituted to stabilize the French economy led, at first, to stagnation early in 1965. Although the economy did show improvement during the latter half of the year, some industries have not yet been affected by the upswing. However, the automotive industry, which generally is considered to be the business indicator, recovered more quickly than other industries.

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

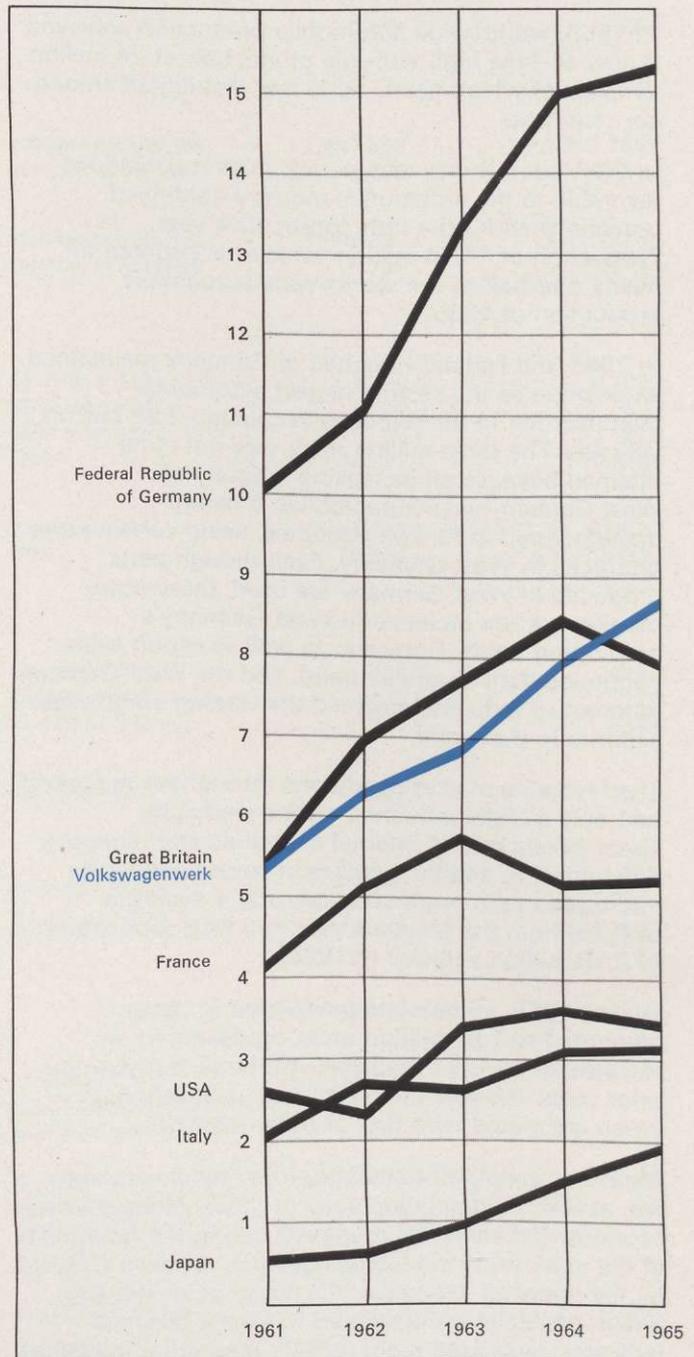


\* 1965 includes Auto Union G.m.b.H.

Automobile Exports of the Major Producing Countries  
and of Volkswagenwerk AG\* in Units of 100,000

In spite of the more favorable trend in the second half of the year, 1965 automobile production of 1.52 million vehicles still was slightly less than the prior year's figure.

The Italian economy recovered from the setbacks of the prior year. The automotive industry experienced satisfactory growth with an increase in production of 11.5% to 1.19 million vehicles in 1965.



\* 1965 includes Auto Union G.m.b.H.

# Review of 1965 Operations of Volkswagenwerk AG

In 1965, Volkswagenwerk reached a milestone, unique to the European automobile manufacturing community, by producing the ten millionth Volkswagen. The most successful automobile of the post-war period, the Volkswagen 1200/1300, of which nearly 1,100,000 vehicles were produced in 1965, was primarily responsible for this extraordinary achievement.

In 1965, we not only expanded our product line but made certain adaptations to keep pace with customer demands. Our new models, Volkswagen 1300 and Volkswagen 1600 Fastback Sedan, were so favorably received that we were not always able to satisfy the demand with the existing production facilities. With its newly developed AUDI, the product line of Auto Union G.m.b.H. fits effectively into our sales program, since this new model, being in the next higher price range, complements the VW product line by appealing to other customer groups.

Following the purchase, early in 1965, of slightly more than 50% of the capital stock of Auto Union G.m.b.H., we acquired at the end of the year an additional 25% interest from Daimler-Benz AG. In 1965, we assimilated Auto Union G.m.b.H. into our organization, and we will develop the new company into a valuable member of the VW family.

Although our sales achieved a new all-time high in 1965, the unusually high earnings of the prior year could not be equaled mainly due to continually rising costs and expenditures of a nonrecurring nature.

# Production

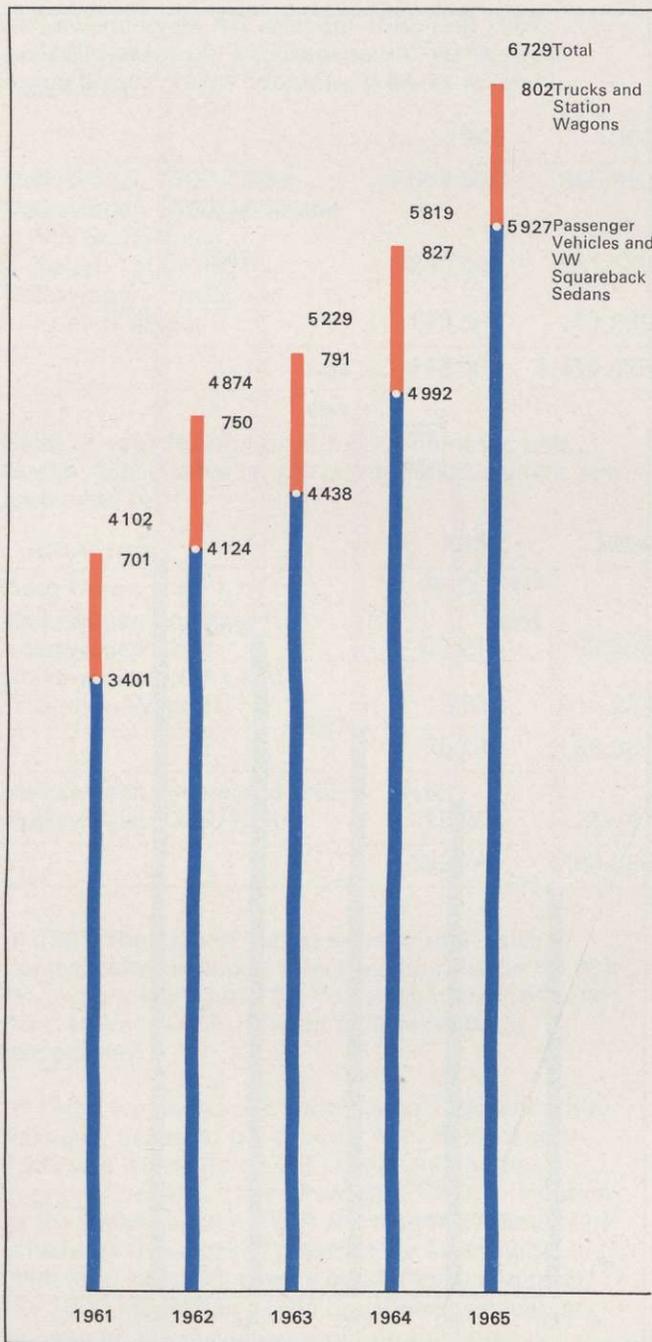
The continued expansion of our productive facilities once again made it possible to increase our output during 1965. Volkswagenwerk AG and its subsidiaries and affiliates produced a total of 1,594,861 automobiles during the year which represented an increase of 184,146 vehicles, or 13.1% over 1964.

Our domestic plants produced a total of 1,499,867 vehicles, thereby increasing our portion of the total automobile production in the Federal Republic of Germany to 50.4% in 1965. Volkswagenwerk AG, alone, produced 1,447,660 vehicles which increased its portion of the total production from 45.3% in 1964 to 48.6% in 1965.

During 1965, production varied among our foreign manufacturing companies. Whereas unfavorable economic conditions caused a decrease in production in Australia, our Brazilian subsidiary, which is the leading automobile producer in Latin America, increased production considerably. A comparison of production for the years 1965 and 1964 follows:

	1965	1964
Volkswagenwerk AG		
Volkswagen 1200/1300	1,008,983	867,328
Volkswagen 1500/1600 and Squareback Sedan 1500/1600	261,915	262,020
Volkswagen Trucks and Station Wagons	176,762	187,947
Production of Volkswagenwerk AG - total	1,447,660	1,317,295
Auto Union G. m. b. H.	52,207	.
Production in Domestic Plants - total	1,499,867	1,317,295
Volkswagen do Brasil S. A.		
Volkswagen 1200	61,917	54,040
Volkswagen Trucks and Station Wagons	13,114	12,378
	75,031	66,418
Volkswagen Australasia Ltd.		
Volkswagen 1200/1300	19,963	27,002
Production in Foreign Plants - total	94,994	93,420
Production of Volkswagenwerk AG and its Subsidiaries and Affiliates	1,594,861	1,410,715

Average Daily Production of Volkswagenwerk AG and its Subsidiaries and Affiliates



In 1965, the number of our vehicles assembled in foreign countries increased once more. Shipments of "knocked-down" automobiles for assembly in twelve countries amounted to 133,599 units.

The rise in the combined world-wide output of Volkswagen vehicles is evidenced by an increase of 910 units in the average daily production to a total of 6,729 vehicles.

## Raw Material Purchases

Volkswagenwerk's economic significance as the largest corporate consumer in the Federal Republic also is evident in its international trading activities, not only in the exporting of automobiles, but also in the importing of raw materials and machinery and equipment. Our annual purchases of approximately DM 5,000 million are distributed among many countries. In addition to the purchases made from our over 4,000 West German suppliers, from whom we again received excellent service, we also were able to place important orders with foreign suppliers.

We also gave consideration to the special problems in West Berlin by again increasing our purchases from business enterprises in that city during 1965.

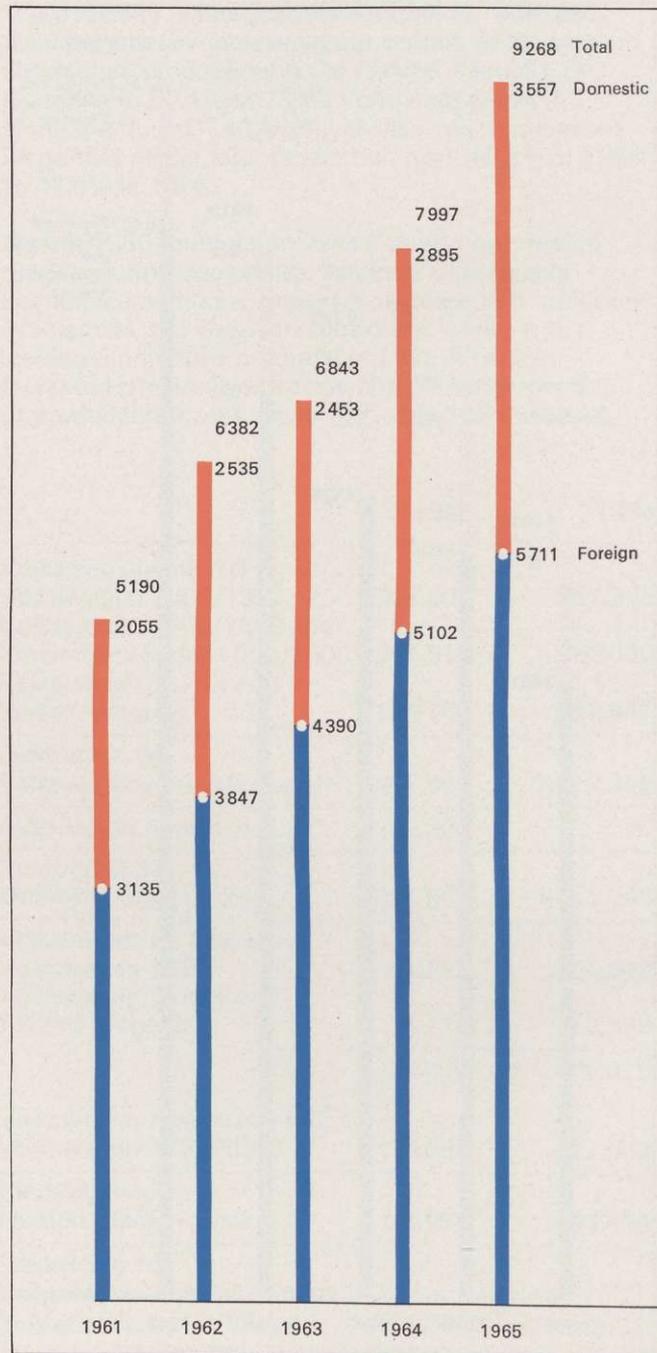
Higher raw material prices and increasing costs incurred by our suppliers led to price increases in general.

# Sales

With an increase in sales of some DM 1,300 million over the prior year, we experienced the greatest annual growth in our history. Consolidated sales amounted to DM 9,300 million in 1965. As in prior years, Volkswagenwerk's 1965 sales were by a wide margin the highest of any industrial enterprise in West Germany.

Volkswagenwerk AG sales steadily increased to a total of DM 7,500 million in 1965 representing an increase of DM 670 million over 1964.

Trend of Consolidated Sales in million DM



Volkswagenwerk AG sales for 1965 and 1964, including sales of "knocked-down" vehicles for assembly in foreign countries, were as follows:

	1965	1964
Volkswagen 1200/1300	1,007,978	865,992
Volkswagen 1500/1600 and VW Squareback		
Sedan 1500/1600	260,041	261,843
Volkswagen Trucks and Station Wagons	175,580	187,589
	1,443,599	1,315,424

Sales of vehicles produced by our domestic and foreign subsidiaries for the current and previous year amounted to:

	1965	1964
Auto Union G. m. b. H.	58,061	.
Volkswagen do Brasil S. A.		
Volkswagen 1200	62,210	53,685
Volkswagen Trucks and Station Wagons	13,230	12,254
	75,440	65,939
Volkswagen Australasia Ltd.		
Volkswagen 1200/1300	19,264	24,747
	152,765	90,686

In 1965, the ratio of export sales to total sales of domestically produced vehicles amounted to 57.9%. Corresponding figures for Volkswagenwerk AG and Auto Union G. m. b. H. were 59% and 30.8%, respectively.

In 1965, we added the Volkswagen 1300 and 1600 Fastback Sedan to our product line. Since August 1965, we have offered our customers another economy vehicle, the Volkswagen 1300, in addition to the Volkswagen 1200 A the technical features of which are those of the previous De Luxe model. With a 50 bhp SAE engine and its built-in quality, the 1300 model has all the prerequisites necessary to become the mainstay of our production.

With the Volkswagen 1600 Fastback Sedan, we expect to appeal to a wider range of customers and, thereby, to capture a larger portion of the medium priced automobile market.

The versatile VW Squareback Sedans 1500 and 1600 were marketed with great success.

Our Karmann Ghia models were further perfected by improving their safety features, driving comfort and quality of performance.

Except for minor price adjustments, the selling price of our automobiles remained unchanged in 1965. However, our intent to maintain these prices in the future was thwarted by the continuously sizable increases in costs during the past few years. Consequently, we were forced to increase the domestic prices of all Volkswagen models by approximately 3% in March, 1966, our export prices already having been increased in August 1965. Notwithstanding these price changes, the DM 5,150 sales price of our best seller, the Volkswagen 1300, still does not exceed the price of our comparable best seller in 1953 despite considerable technical improvements.

The sale of Auto Union automobiles through their own dealers expanded our product line in 1965. Their AUDI model, equipped with a turbo induction engine which operates on a new engineering principle, was especially well received by the automobile experts as well as the general public. This sedan with a 1.7 liter, 77 bhp SAE, four-stroke engine is being produced and sold in increasing numbers; it sells for DM 7,690.

The increase in sales of exchange engines and parts was proportionate to the increase in total sales. The ratio of exchange engine and parts sales to total sales of Volkswagenwerk AG amounted to 9.5% in 1965.

As in prior years, we expanded the VW service organization to provide the facilities necessary to service the increased number of Volkswagen vehicles. By the end of 1965, there were 2,073 service centers in West Germany compared to 1,932 in 1964 and 5,803 such centers in foreign countries compared to 5,508 in the prior year.

# Domestic Sales

New vehicle registration in West Germany for 1965 amounted to nearly 1,649,000, an increase of 11.9% or twice the increase experienced in the prior year. The ratio of imported to total new vehicles registered increased to approximately 17%.

By the end of 1965, density of automobiles in West Germany on a per capita basis had increased to 1 automobile to each 5.5 persons compared to late 1964 figures of 1 to 5.2 in Great Britain, 1 to 4.5 in France, 1 to 4.2 in Sweden and 1 to 2.2 in the United States of America. In West Germany, the automobile density has undoubtedly not yet reached its maximum.

In 1965, Volkswagenwerk was especially successful in the domestic market with the Volkswagen model 1200/1300. There were 89,043 more of these vehicles sold in 1965 than in the prior year, representing an increase of 31.6%.

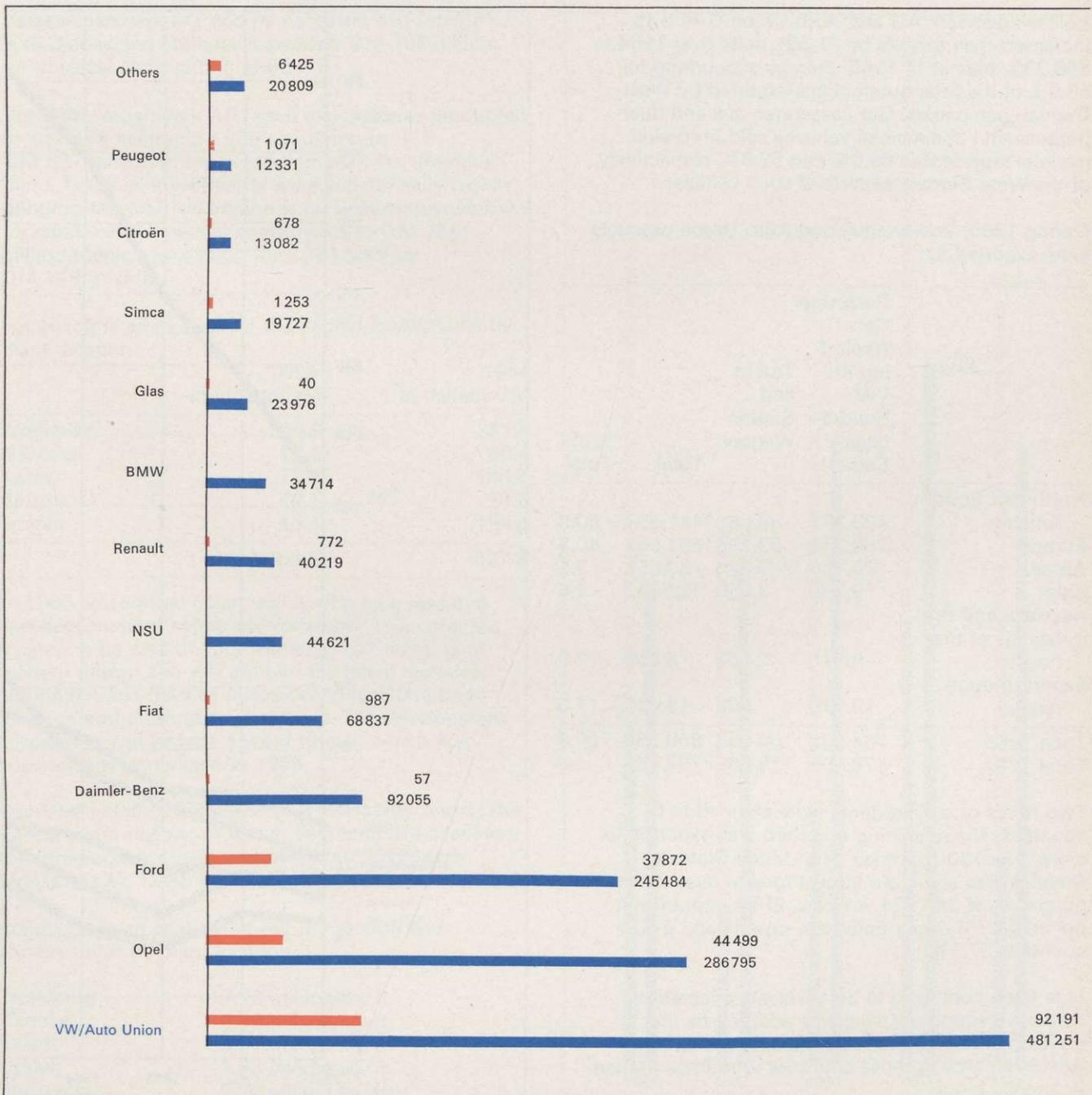
Domestic sales of Volkswagenwerk AG, including Auto Union G. m. b. H., amounted to:

	1965	1964
Volkswagenwerk AG		
Volkswagen 1200/1300	370,840	281,797
Volkswagen 1500/1600 and VW Squareback Sedan 1500/1600	150,119	167,635
Volkswagen Trucks and Station Wagons	71,526	68,524
Volkswagenwerk AG – total	592,485	517,956
Auto Union G. m. b. H.	40,186	.
Domestic Sales – total	632,671	517,956

Of the 1965 new registrations of passenger cars and dual-purpose and commercial vehicles with a capacity up to 2,750 lbs., our products (including Auto Union G. m. b. H.) accounted for 36.5%. Volkswagenwerk's share, alone, increased from 32.7% in 1964 to 34.0% in 1965.

New Vehicle Registrations of Passenger Cars and Dual-Purpose and Commercial Vehicles in the Federal Republic and West Berlin in 1965

█ Dual-Purpose and Commercial Vehicles with a capacity of up to 2,750 lbs.  
█ Passenger Cars including Station Wagons and Ambulances



# Export Sales

Volkswagenwerk AG and Auto Union G.m.b.H. increased their exports by 71,521 units over 1964 to 868,989 vehicles in 1965, thereby accounting for 56.9% of the total automobiles exported by West German companies. Our passenger cars and dual-purpose and commercial vehicles sold in foreign markets represented 59.6% and 52.8%, respectively, of the West German exports of such vehicles.

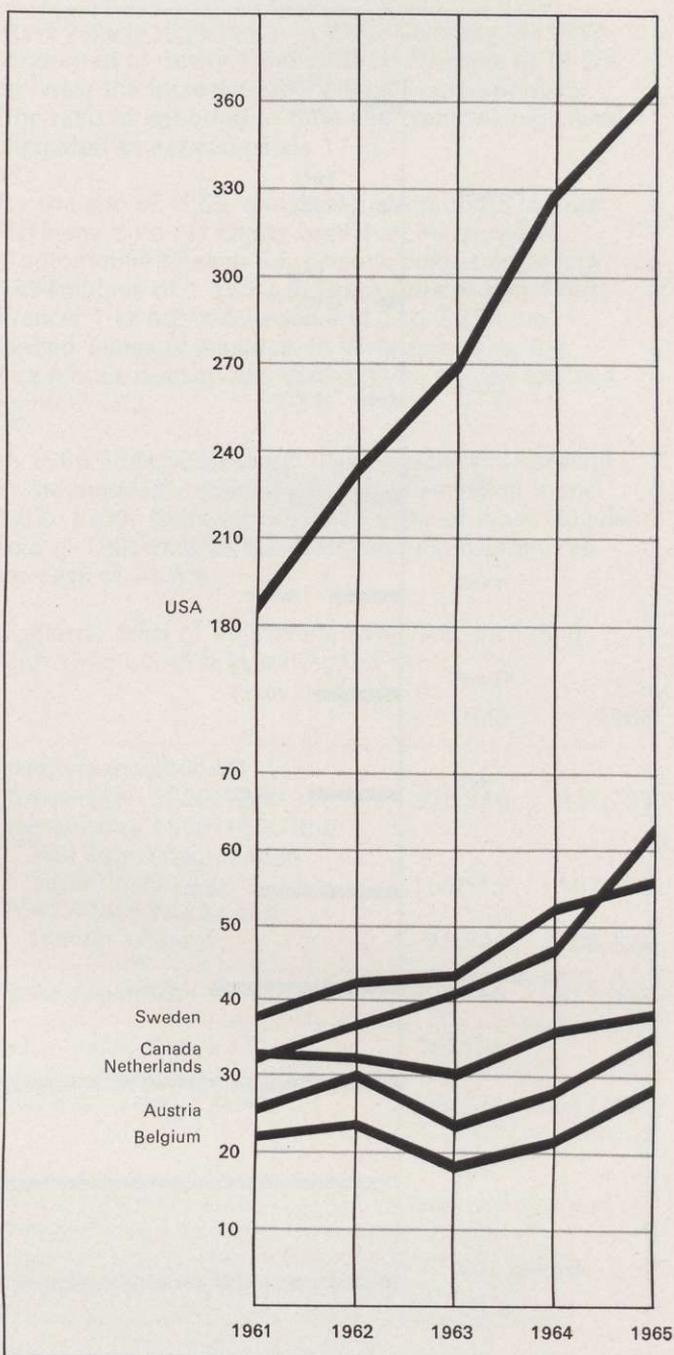
During 1965, Volkswagen and Auto Union products were exported to:

	Passenger Cars (including the VW Square-back Sedan)	Trucks and Station Wagons	Total	% of Total
North and South America	403,271	38,583	441,854	50.9
Europe	298,256	53,295	351,551	40.5
Africa	25,188	5,470	30,658	3.5
Asia	19,289	3,656	22,945	2.6
Australia and the Islands of the Pacific	6,516	2,052	8,568	1.0
Export through tourists	12,415	998	13,413	1.5
<b>Total 1965</b>	<b>764,935</b>	<b>104,054</b>	<b>868,989</b>	<b>100.0</b>
<b>Total 1964</b>	<b>678,403</b>	<b>119,065</b>	<b>797,468</b>	<b>—</b>

Two thirds of our products were shipped to 6 countries; the remaining one third was exported to more than 130 countries. The United States of America was again our largest foreign customer with purchases of 365,924 vehicles. EFTA countries imported 52.7% of our European exports and EEC countries 37.3%.

Free trade continues to be adversely affected by restrictive economic measures adopted by the governments of certain countries. These barriers exist even among those countries who have formed economic blocs.

Trend of Volkswagenwerk\* Export Sales to our Largest Export Countries in 1965 in Units of 100,000



\* 1965 including Auto Union G.m.b.H.

# Capital Investments

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

Total from 1948-1965	
Physical Plant Expenditures Including Additions to Machinery and Other Plant and Office Equipment	4,534.4
Provision for Depreciation	2,810.6

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

Volkswagenwerk AG and its domestic and foreign subsidiaries and affiliates expended DM 702 million for physical plant during 1965.

For Volkswagenwerk AG, such expenditures amounted to DM 485 million in 1965 compared to DM 627 million in the preceding year. On the other hand, financial investments were substantially higher, bringing the total expenditures by Volkswagenwerk AG for capital and financial investments to DM 758 million thereby exceeding the 1964 total by DM 118 million.

Following is an analysis of the capital investments by plant location:

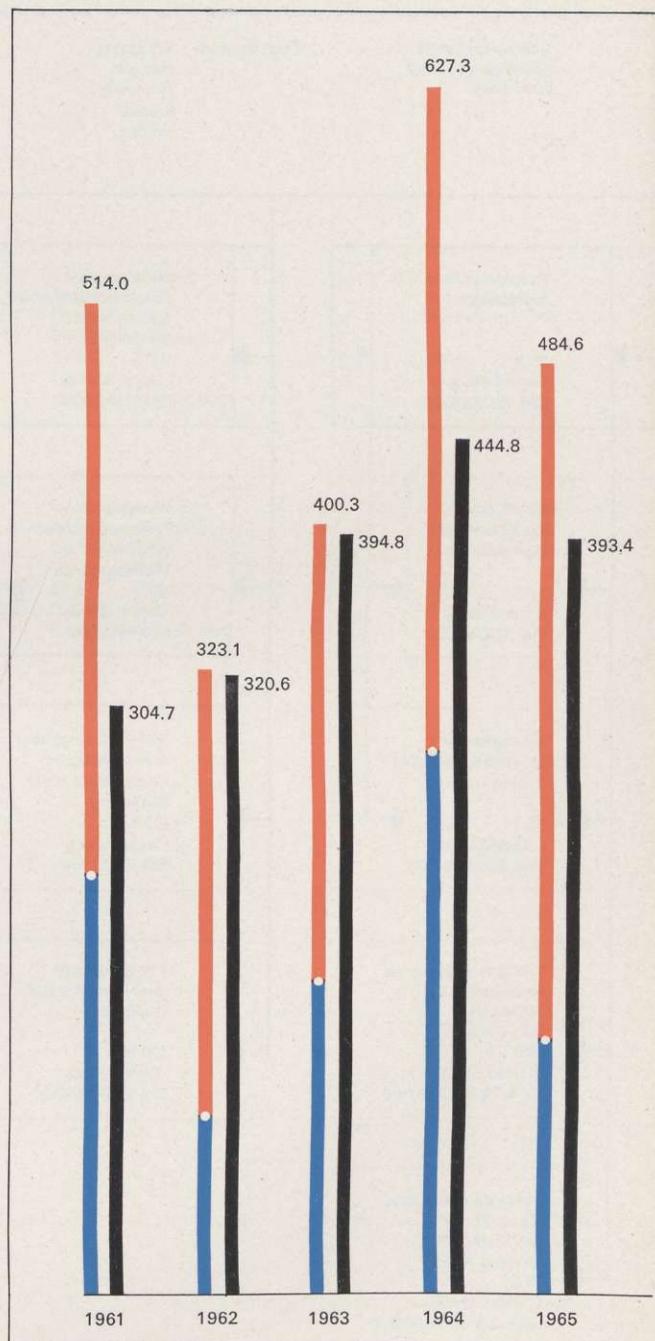
	1965 in million DM	1964 in million DM
Wolfsburg	229.9	241.6
Hanover	88.5	60.4
Kassel	78.7	146.4
Brunswick	42.1	24.5
Emden	45.4	154.4
	484.6	627.3

In 1965, we started construction of a new research and development center at Wolfsburg. This complex, located in an area of approximately 247 acres, is of modern design and will contain the latest technical equipment and devices necessary to facilitate basic research and product development. The development center also will include a wind tunnel, which was substantially completed in 1965.

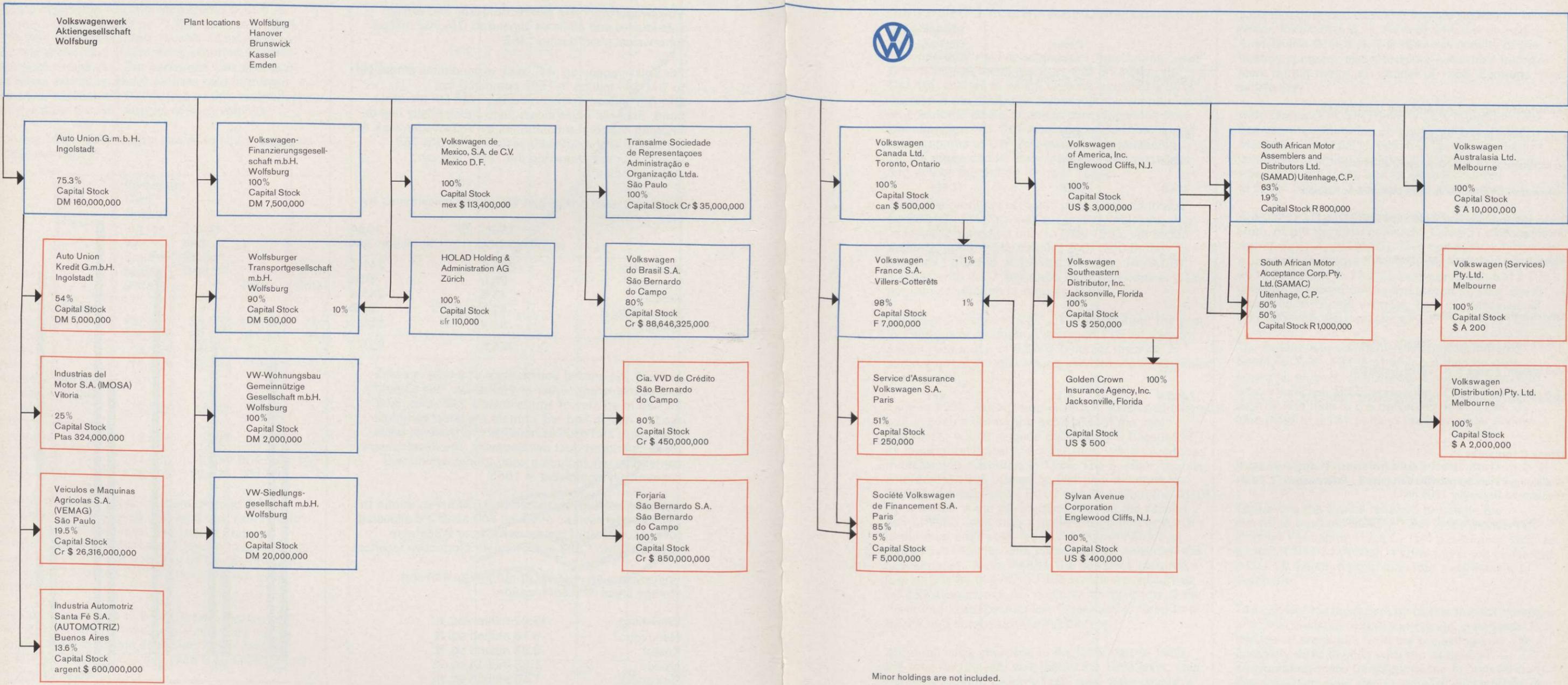
Our land holdings increased to 3,621 acres, during the period under review, of which 640 acres are allocated for construction of residences. Of our 2,981 acre industrial site, 1,398 acres contain productive facilities.

Following is an analysis of our production and storage areas by plant location:

Wolfsburg	17.22 million sq. ft.
Hanover	6.78 million sq. ft.
Kassel	6.67 million sq. ft.
Emden	1.83 million sq. ft.
Brunswick	1.40 million sq. ft.



# VW Holdings in Domestic and Foreign Subsidiaries and Affiliates



Minor holdings are not included.

# Selected Data of Major VW Subsidiaries and Affiliates for 1965

	Sales	Capital Investments	Number of Employees at Year-End
	in million DM	in million DM	
<b>Manufacturing and Assembling Companies</b>			
Auto Union G.m.b.H., Ingolstadt	541.5	47.9	12,007
Volkswagen de Mexico, S.A. de C.V., Mexico D.F.	93.5	17.7	1,761
Volkswagen do Brasil S.A., São Bernardo do Campo	714.8	42.5	11,551
South African Motor Assemblers and Distributors Ltd. (SAMAD), Uitenhage, C.P.	168.7	10.7	1,943
Volkswagen Australasia Ltd., Melbourne	219.8	33.4	2,018
<b>Distributing Companies</b>			
Volkswagen Canada Ltd., Toronto, Ontario	271.3	5.0	565
Volkswagen France S.A., Villers-Cotterêts	88.7	2.4	312
Volkswagen of America, Inc., Englewood Cliffs, N.J.	2,063.4	4.2	472
<b>Other Companies</b>			
Wolfsburger Transportgesellschaft m.b.H., Wolfsburg (October to December 1965 incl.)	84.8	—	—
VW-Siedlungsgesellschaft m.b.H., Wolfsburg	—	33.8	19

# Investments in Subsidiaries and Affiliates: Domestic

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

Early in 1965, the capital stock of Auto Union G. m. b. H. was increased from DM 80 million to DM 160 million, at which time we acquired a 50% interest in the company. Subsequently, we purchased an additional 25.3% of the outstanding stock from Daimler-Benz AG. The total cost of our holdings to date amounts to DM 230 million. The remaining 24.7% of the capital stock has been contracted for and will be purchased by us in 1966.

Since the products of Auto Union were no longer successful in the market, our primary objective was to revise the product line. In May 1965, we began assembling the Volkswagen 1200/1300 in the Ingolstadt plant to utilize idle capacity. The AUDI, a sedan with a 1.7 liter turbo induction engine, was put into production in August, 1965.

The labor force averaged 12,174 throughout the year. In 1965, daily production averaged 218 vehicles for a total production of 52,207 units for the year. In addition, 61,830 Volkswagen vehicles were assembled in this plant.

Early in 1965, Auto Union G. m. b. H. sales had faltered, but recovered during the remainder of the year. The AUDI, which became quite popular because of its unusual technical characteristics, will be produced in increasing quantities in 1966. The number of units sold during 1965 totaled 58,061 and included 21,967 of model DKW F 102 and 14,048 of the AUDI. An increase in the sales volume during the second half of 1965, including a higher proportion of AUDI's in the total units sold, led to a better utilization of productive facilities and, consequently, improved the cost situation. Nevertheless, the company incurred a loss of DM 84 million in 1965 which was absorbed by Volkswagenwerk AG pursuant to the terms of the Profit and Loss Assumption Agreement entered into by the two companies during the year.

Although sales improved in the latter part of 1965, the total for the year was below the 1964 level. This decrease in Auto Union's 1965 total sales caused a

corresponding decrease in the sales volume of *Auto Union Kredit G. m. b. H.*, 54% of which is owned by Auto Union G. m. b. H. The business activity of the finance company also showed a noticeable improvement during the fourth quarter of 1965. Earnings were satisfactory.

Auto Union G. m. b. H. holds a 25% interest in the Spanish manufacturing company, *Industrias del Motor S. A. (IMOSA)*, which is licensed to manufacture Auto Union vehicles. In 1965, its production rose to 10,381 units, and its sales amounted to 9,734 vehicles. Earnings were satisfactory.

Auto Union G. m. b. H. owns 19.5% of the capital stock of the Brazilian company, *Veiculos e Maquinas Agricolas S. A. (VEMAG)*. This company, which also is licensed to produce Auto Union vehicles, increased its 1965 output to 15,263 units compared to 12,705 vehicles produced during the preceding year. Sales increased to 14,986 vehicles. Earnings for financial year 1964/65 were satisfactory.

The Argentinian company, *Industria Automotriz Santa Fé S. A.*, 13.6% of which is held by Auto Union G. m. b. H., is licensed to manufacture Auto Union vehicles. 1965 production of 5,106 vehicles was slightly less than in the preceding year. Sales amounted to 5,151 units in the year under review.

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

To provide the capital required to handle the increased business activity, cash was invested to increase the capital stock by DM 6 million in 1965 to a total of DM 7.5 million. Furthermore, we converted a DM 15 million partner loan into a permanent investment.

The primary business activity of this finance company in 1965 consisted of financing dealer purchases. In a change of procedure from the preceding year, the company dealt directly with the dealers, in consummating these transactions for its own account. Our subsidiary was able to increase substantially its

consumer financing business, which rose 27% over the preceding year, even though this type of business remained highly competitive. The average repayment period increased from 16.2 months in 1964 to 16.4 months in 1965.

The earnings were affected by providing allowances for doubtful accounts in line with the substantially increased volume of business.

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

Wolfsburger Transportgesellschaft m. b. H. was organized in mid-1965 with a capital stock of DM 500,000. Volkswagenwerk AG holds a 90% interest in this company; the remaining 10% is held by the HOLAD Holding & Administration AG. The new company will handle sea and air transportation and other freight forwarding business. These services will be rendered primarily to Volkswagenwerk AG, which heretofore performed these activities itself. Wolfsburger Transportgesellschaft m. b. H. began its activity in early October, 1965 and, by the end of the year, had shipped approximately 168,000 Volkswagen vehicles to foreign countries on both chartered and regular cargo ships.

Earnings were very satisfactory.

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

During 1965, our subsidiary completed 74 apartments of its own and 682 apartments for VW-Siedlungsgesellschaft m. b. H. At the end of 1965, the company owned a total of 6,539 apartments. Another 194 company-owned apartments were under construction at year-end.

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

In 1964, the capital stock of the company was increased to DM 20 million. During 1965, we paid an additional DM 5 million on the unpaid subscriptions for this stock, reducing the amount of unpaid subscriptions to DM 10 million at year-end. With the completion of 682 apartments during the year, the company owned a total of 1,864 at the end of 1965. At year-end, 774 additional apartments were under construction. The financing to cover construction costs had been secured.

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

At the end of 1965, a total of 8,403 apartments had been constructed by the two companies. An analysis of this total by plant location follows:

	VW- Siedlungs- gesellschaft m. b. H.	VW- Wohnungsbau Gemein- nützige Gesellschaft m. b. H.	Total
Wolfsburg/ Brunswick	1,816	6,248	8,064
Hanover	48	60	108
Kassel	—	231	231
	1,864	6,539	8,403

# Investments in Subsidiaries and Affiliates: Foreign

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

The capital stock of this company was increased by mex \$ 89,400,000 to mex \$ 113,400,000 during the year. The increased capital is contributed by Volkswagenwerk AG in the form of productive equipment.

The company, which was organized during the preceding year, has made excellent progress. In 1965, sales of 13,315 vehicles reflect an increase of 59% over 1964, whereas total automobile sales in Mexico increased only some 3.5% over the preceding year. The Volkswagen was, by far, the leader in new vehicle registrations for the current year with a 69.1% share of the total. Because of its limited productive facilities, our subsidiary still is not able to satisfy the increasing demand for our product nor to reduce the long terms of delivery for certain models.

Consequently, our subsidiary is making every effort to expedite construction of the planned production facilities. During 1965, 568 acres of land were acquired in Puebla, and the first phase of the construction work was begun. Ultimately, there will be a new Volkswagen plant at this location with a planned production, at first, of 200 vehicles daily.

The earnings of Volkswagen de Mexico, S. A. de C. V. are not expected to be satisfactory until the sales increases projected for the next few years are realized.

## **HOLAD Holding & Administration AG, Zürich**

In 1965, we organized the wholly owned subsidiary, HOLAD Holding & Administration AG, with a capital stock of sfr 110,000. The purposes for which this company was formed are to invest in domestic and foreign companies and to hold, administer and exploit patents and other assets.

At the present time, HOLAD owns 10% of the capital stock of Wolfsburger Transportgesellschaft m. b. H.

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

During 1965, the capital of the company was increased by Cr \$ 42,732,170,000 to Cr \$ 88,646,325,000 as a result of an upward revaluation of property, plant, equipment and investments. This revaluation was required by Brazilian law because of the inflationary trend existing in that country.

The many economic measures instituted by the Government during 1965 curbed the inflationary trend. At first, these measures unfavorably influenced business activity; after a temporary reduction in excise taxes, however, sales in general increased.

Our subsidiary increased both production and sales volume despite the severe effect that Government economic measures often had on company planning. The expansion of its productive facilities enabled Volkswagen do Brasil to increase its output for the year to a total of 75,031 vehicles or an average of 319 units daily. The sales volume rose by 14.4% to a total of 75,443 units thereby increasing the subsidiary's share of the passenger car, truck and station wagon market from 45.2% in 1964 to 49.5% for the current year.

To market and service the increased number of Volkswagen vehicles in Brazil more efficiently the sales network was further expanded during 1965 by granting franchises to additional dealers and service centers.

Earnings at the end of the financial year were satisfactory in spite of the detrimental effect of price control regulations. Because of the easing of the currency transfer restrictions by the Brazilian Government, our subsidiary was able to resume transferring dividends and consulting fees to Volkswagenwerk AG.

In accordance with its plans for expansion, Volkswagen do Brasil S. A. organized *Forjaria São Bernardo S. A.* with capital stock of Cr \$ 850,000,000. This company acquired the assets of *Metalúrgica Forcheda S. A.*, which had been a supplier of forgings to Volkswagen do Brasil, S. A.,

for cash and by contribution in the form of equipment. The formation of the new company by our subsidiary assures the supply of forgings which will be required for the increased production that will result if production facilities are expanded.

The *Cia. VVD de Crédito, Financiamento e Investimentos* showed an 80% increase, as compared to the preceding year, in its vehicle financing business. The company increased its capital stock to Cr \$ 450,000,000 by transferring Cr \$ 90,000,000 from reserves.

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

As in previous years, an expansion in Canada's economy during 1965 was accompanied by a large excess of imports over exports which led to a further increase in its balance of payments deficit. It appears to be a typical problem for Canada that, even in times of favorable economic activity, the country finds it difficult to attain a favorable position in its balance of payments.

The Canadian automobile industry benefited by the general upward trend of the economy. The number of imported vehicles increased at a lesser rate than those produced domestically.

Despite the competitive disadvantages faced by importers, our subsidiary increased its total unit sales volume by 6.5% to 36,464.

Earnings of Volkswagen Canada Ltd. were satisfactory.

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

During the first six months of 1965, automobile sales were adversely affected by measures instituted by the French Government to stabilize its economy. The

situation improved markedly during the second half of the year so that total new vehicle registrations in 1965 approximated those for the preceding year.

The sales of Volkswagen France S. A. corresponded to the relatively unchanged French automobile market; our subsidiary sold a total of 16,015 units which approximated its volume for 1964. High taxes continued to make it difficult for foreign automobile manufacturers to compete in that market.

Once again, our subsidiary expanded its dealer organization and service centers to provide the facilities necessary to properly service Volkswagens in France.

Earnings of Volkswagen France S. A. were satisfactory.

An increase in insurance premiums resulted in lower volume than in the previous year for *Service d'Assurance Volkswagen S. A.* which acts as an insurance broker. The capital stock of the company was decreased to F 250,000 commensurate with the smaller volume of business.

*Société Volkswagen de Financement S. A.*, which had been organized in 1964, showed satisfactory earnings.

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

With total sales of 365,168 vehicles, an increase of 7.9% over 1964, our subsidiary captured approximately two-thirds of the imported car market and 3.8% of the total U. S. automobile market.

The strike by longshoremen in the beginning of 1965, which lasted several weeks, had no significant effect on our sales because timely measures were instituted to prevent product shortages.

Our new 1600 models were introduced on the American market in October, 1965. Based on the initial

experience, it appears that the Volkswagen 1600 Fastback Sedan and the VW Squareback Sedan 1600 will be marketed successfully in the future.

The sales of the Volkswagen 1200/1300 model, once again, were impressive in 1965. More than 2 million Volkswagens have been sold in the United States of America since their introduction in 1950. This success was made possible by an extensive dealer network which now includes more than 900 dealerships encompassing all important geographical areas.

The successful year of our subsidiary is reflected in its satisfactory earnings and in the dividends it paid.

*Volkswagen Southeastern Distributor, Inc.*, with a capital stock of US \$ 250,000, was organized in 1965 by Volkswagen of America, Inc.

This company was formed to continue the operations of the former distributorship Brundage Motors, Inc. upon the death of its owner. The newly organized company sold 20,720 vehicles during the first nine months of its existence, and its earnings were commensurate with the successful operations. Volkswagen Southeastern Distributor, Inc. is the sole owner of the *Golden Crown Insurance Agency, Inc.* which assists the dealers located in the territory of this distributorship in selling automobile insurance to their customers.

#### **South African Motor Assemblers and Distributors Ltd. (SAMAD), Uitenhage, C. P.**

During 1965, the South African Government attempted to control both the inflationary trend of the economy and the substantial outflow of gold and currency by instituting a number of restrictive measures. These measures included credit restrictions which especially affected the automobile market adversely. Our subsidiary also felt the effect of these measures as reflected in a sales decrease from 21,611 units in 1964 to 18,081 in 1965. In spite of increased competition,

our subsidiary was able to increase its share of the market within the price ranges of the Volkswagen 1200/1300 and 1500/1600 models.

Earnings for 1965 will again permit payment of a considerable dividend.

Although the credit restricting policies made sales financing more difficult, our South African finance company, *South African Motor Acceptance Corporation Pty. Ltd. (SAMAC)*, was able to increase its consumer financing business. On the other hand, the financing of dealer purchases decreased as a result of the lower automobile sales volume.

#### **Volkswagen Australasia Ltd., Melbourne**

Production and sales in the Australian automobile industry were lower than in the prior year. The drop in sales volume resulted from the unfavorable economic climate in Australia coupled with an increase in the sales tax which became effective in the second half of 1964. The declining market led to much keener competition.

Despite more intensive sales efforts, the 1965 unit sales of 26,773 were significantly lower than those of the preceding year. Vehicle exports by our Australian subsidiaries into neighboring countries have increased and constitute 8% of our subsidiaries' total sales volume.

In accordance with the long-range program of the Australian Government, the use of materials and labor from domestic sources further increased in the production of the Volkswagen 1200 in 1965. This led to increased manufacturing costs which, due to the depressed market, could not be compensated for by price increases. Therefore, the 1965 earnings of Volkswagen Australasia Ltd. and its subsidiaries, *Volkswagen (Services) Pty. Ltd.*, and *Volkswagen (Distribution) Pty. Ltd.*, were not satisfactory.

# Labor Force

The labor force of Volkswagenwerk AG and its subsidiaries and affiliates totaled 125,157 at year-end; of these, 106,532 were employed by our domestic companies and 18,625 by our foreign subsidiaries.

The labor force of Volkswagenwerk AG increased to 94,343. An analysis by plants follows:

	12/31/1965	12/31/1964
Wolfsburg	48,623	46,276
Hanover	23,376	23,834
Kassel	13,667	12,106
Brunswick	5,661	5,120
Emden	3,016	790
	94,343	88,126

In spite of the continuing tight labor market, we were able to employ an additional 6,217 people, again largely in the Wolfsburg and Kassel plants. Also, the Emden plant has become one of the major employers in East Friesland. The economy in that area benefited not only by the stimulation resulting from the construction and operation of our plant, but also by the fact that almost 30% of the newly hired employees were previously unemployed.

At year-end, 9% or 8,485 of the total labor force came from foreign countries; of this number, 5,379 are from Italy.

Of our labor force, 90% were wage earners and 10% were salaried. The percentage of female employees increased slightly to 12.5%.

The average age of our employees at the end of the year was 35 years. Personnel turnover decreased compared to the preceding year.

In 1965, the total wages and salaries increased to DM 1,175 million. The increase over the preceding year resulted from the wage and salary increases, pursuant to the 1964 contract, which were in effect for a full year for the first time in 1965; the 3% wage and salary increases effective July 1, 1965; the 30% increase in vacation pay pursuant to the 1965 contract; the increase in the total labor force.

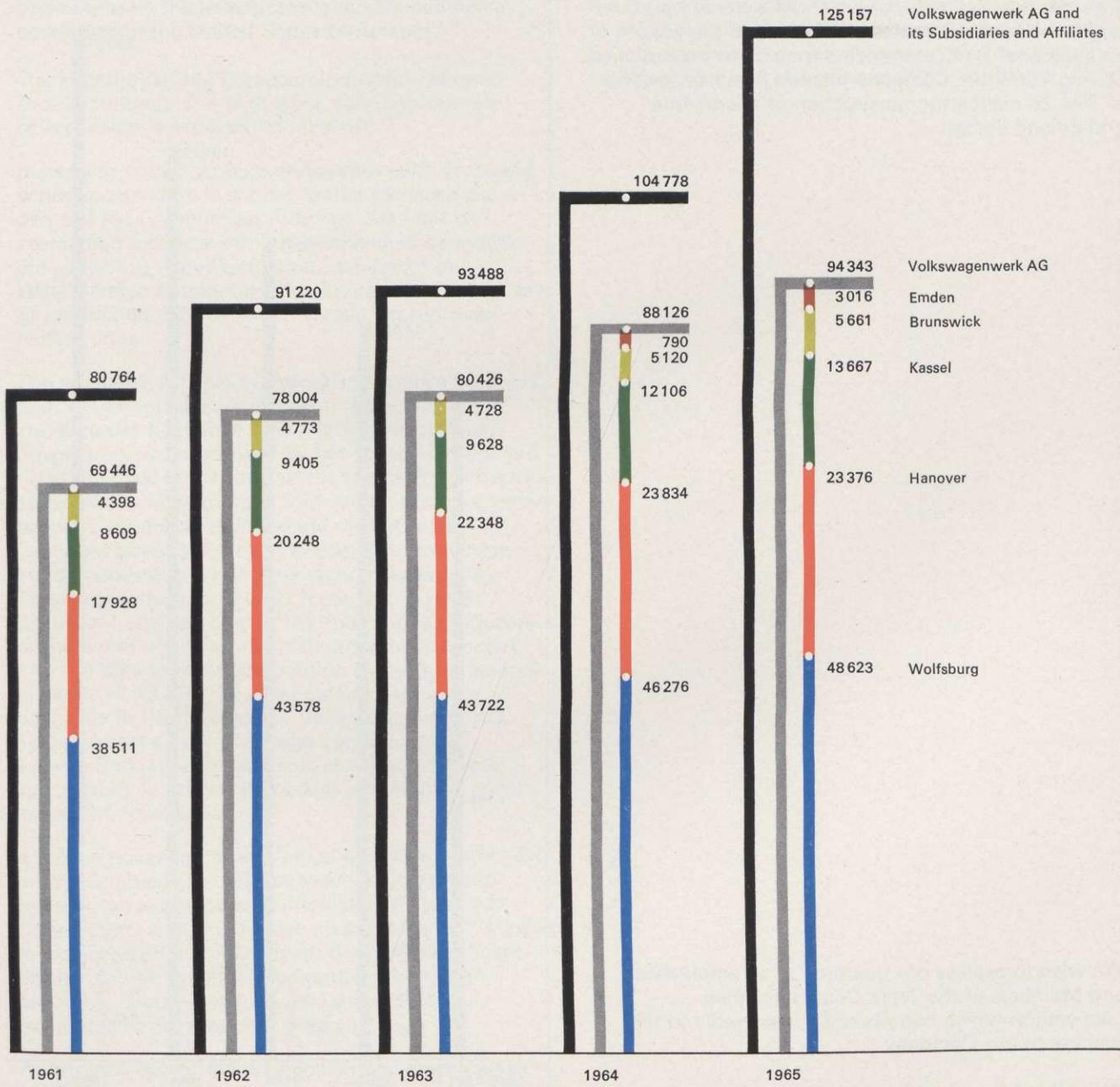
The wage and salary increases are in accordance with the general agreement concluded between the trade unions and the Metal Industry Association of the State of Lower Saxony.

During 1965, 9,668 employees were granted, in addition to their normal vacations, special two-week, expense paid vacations with pay at our recreation centers. Also, the Company sponsored three-week vacations for its apprentices on the North and Baltic Seas.

Following is an analysis of our 1965 expenditures for compulsory and voluntary social contributions and benefits:

	DM
<b>Compulsory social charges</b>	115,249,071.35
<b>Compulsory social benefits</b>	110,565,571.72
<b>Other social benefits (as specified in union contracts and other agreements)</b>	128,446,640.34
<b>Voluntary social contributions (fringe benefits)</b>	
Primarily represents amounts paid as incentive bonuses; also includes contributions to employee pension plan and amounts for upkeep of our canteens, stores and bachelor accommodations	101,607,596.57
<b>Total Social Expenditures</b>	455,868,879.98

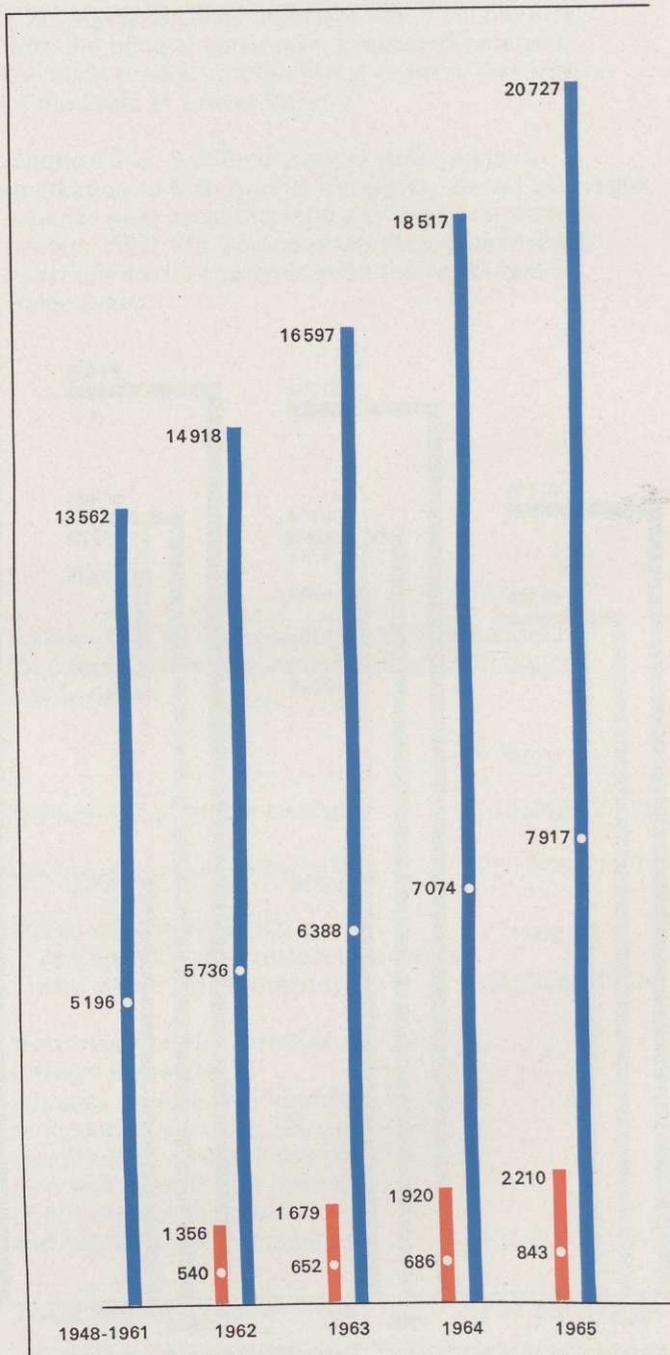
Number of Employees et Year-End



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

- Apartments completed since 1948 including  
● private homes completed since 1948
- Apartments completed each year including  
● private homes completed each year

In 1965, 2,210 additional apartments were constructed with our financial help, of which 843 were in our employees' private homes. At the end of the year, an additional 1,142 apartments were under construction. During 1965, the Company granted loans amounting to DM 26 million for construction of apartments and private homes.



We wish to express our gratitude to all employees and Members of the Work Council for their cooperation which contributed considerably to the success of our Company.

We will fondly remember our deceased co-workers.

# Outlook

In 1966, the world-wide economy will be influenced once again by the anticipated favorable economic conditions in the United States of America.

The economy of the European industrial countries should continue at a high level, although the rate of expansion is expected to level off.

Increasing consumer income together with favorable economic conditions should further stimulate the demand for automobiles. Although the rates of production increase within the individual countries are subject to wide fluctuation, we expect the West German automobile industry to attain a high level of production volume which should exceed three million units.

The prospects for sale of Volkswagenwerk's products, both in the domestic and foreign markets, are generally favorable. This bright sales outlook, however, is overshadowed by the continuing upward trend of costs. In the foreseeable future, it will become considerably more difficult to maintain our competitive position, especially in the world market, since increased costs will exceed anticipated production economies brought about by technical advances. To maintain its current labor force and to retain its present position among the automobile producers of the world, the West German automotive industry must be able to meet competition in the international markets. In view of the deteriorating balance of payments in West Germany, Volkswagenwerk AG, as the largest earner of foreign currency in the Federal Republic, considers its ability to compete successfully in the world markets as one of its most important objectives.

It will be necessary in the future, as it was in the past, for the Company to make substantial investments in order to keep pace with international standards. Only a minor portion of these investments will be used to expand production facilities; the most significant portion will be expended to improve production processes, increase automation and expand our research and development program.

As stressed during the previous annual stockholders' meeting, our extensive investment program cannot

be financed from profits alone. Consequently, the Board of Directors and Management have decided to propose to the stockholders that the capital stock be increased by DM 150 million and that the new stock be offered for sale at a price of 225% of the par value.

# Comments on the 1965 Financial Statements

## Financial Position

Total assets increased during 1965 by some DM 65 million to a total approximating DM 2,996 million at year-end. Assets and liabilities at December 31, 1965 and 1964 are summarized as follows:

	12/31/1965		12/31/1964	
	in million DM		in million DM	
<b>Assets</b>				
Property, Plant and Equipment and Investments (including Long-Term Receivables)	2,019	67%	1,780	61%
Current and Other Assets (excluding Long-Term Receivables)	977	33%	1,151	39%
	<u>2,996</u>	<u>100%</u>	<u>2,931</u>	<u>100%</u>
<b>Liabilities</b>				
Stockholders' Equity (Capital Stock and Reserves)	1,437	48%	1,400	48%
Liabilities payable within:				
more than 4 years	366	12%	331	11%
1 to 4 years	132	4%	237	8%
1 year or less	1,061	36%	963	33%
	<u>2,996</u>	<u>100%</u>	<u>2,931</u>	<u>100%</u>

In 1965, the relationship between certain assets and liabilities was not quite as favorable as in the prior year. At year-end, Stockholders' Equity and Liabilities, excluding those payable within one year, amounted to 96% of Property, Plant, Equipment and Investments (including Long-Term Receivables). This relationship was just the reverse in 1964.

In 1965, funds for three quarters of our extensive expenditures for physical plant and financial investments were obtained from depreciation provisions and reserves appropriated from earnings, whereas the remaining quarter was financed mainly from a portion of liquid assets accumulated in prior years.

The sources and uses of funds in 1965 and 1964 are shown in the following cash flow statement:

	1965	1964
	in million DM	in million DM
<b>Sources of funds</b>		
Portion of earnings appropriated to reserves	37	139
Provision for depreciation of physical plant (including disposal of plant and equipment)	398	447
Write-down of financial investments	126	8
Increase in:		
Long-term loans payable	35	11
Medium-term loans payable	—	79
Short-term loans payable	98	224
Decrease in:		
Medium- and short-term receivables	118	—
	<u>812</u>	<u>908</u>
 <b>Use of funds</b>		
Investments in:		
Physical plant	485	627
Subsidiaries and affiliates	273	12
Increase in:		
Long-term receivables	5	3
Medium- and short-term receivables	—	83
Increase in inventories	132	106
Decrease in short-term loans payable	105	—
	<u>1,000</u>	<u>831</u>
<b>Increase (decrease) in liquid funds</b>	<u>(188)</u>	<u>+ 77</u>

## Balance Sheet

### Assets

The book value of *Property, Plant, Equipment and Investments* increased during 1965 by DM 234 million to a total of DM 1,957 million at year-end.

*Additions to Physical Plant* amounted to DM 618 million in 1965 and are compared to 1964 as follows:

DM 251 million land and buildings compared to  
DM 233 million in 1964

DM 367 million machinery, special tools and other  
equipment compared to  
DM 316 million in 1964.

The decrease in Construction in Progress by some DM 131 million resulted from the completion of our Emden plant. Our major investments have been described in detail in the "Capital Investment" section of this report.

In 1965, provision for depreciation of physical plant was DM 51 million lower than in 1964. Although depreciation allowable for tax purposes increased by DM 79 million over 1964, special depreciation not allowable for tax purposes, primarily on buildings, of DM 20 million in 1965 was DM 130 million lower than in 1964. Provision for depreciation on 1965 additions amounted to DM 172 million. At year-end, the book value of physical plant (excluding fully depreciated special tools, etc.) amounted to 46% of original cost.

Depreciation on machinery, special tools and other equipment was provided for on a basis consistent with that of the prior year. To the extent permissible for tax purposes, such depreciation was computed using the declining balance method. Depreciation on buildings was provided for to the extent permissible for tax purposes and was computed using the declining balance method which became allowable under the new tax law. As in prior years, special tools were written off in the year of acquisition as is customary in the automotive industry throughout the world.

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

Additions to *Investments in Subsidiaries and Affiliates* amounted to DM 273 million and consisted primarily of the following:

- DM 230 million payment of our share of the capital increase of Auto Union G. m. b. H., Ingolstadt, and the purchase of additional shares of that company,
- DM 21 million payment to increase the capital stock of Volkswagen-Finanzierungsgesellschaft m. b. H. and converting of a long-term loan into a permanent investment,
- DM 16 million in form of productive equipment increasing the capital of Volkswagen de Mexico, S. A. de C. V.,
- DM 5 million additional payment in respect of the capital increase in 1964 of VW-Siedlungsgesellschaft m. b. H.

In addition, we made our final payment of DM 0.6 million for the capital increase of "Neuland" Gemeinnützige Wohnungs- und Siedlungsgesellschaft m. b. H. Also, DM 0.6 million was invested in our newly organized subsidiaries Wolfsburger Transportgesellschaft m. b. H., and HOLAD Holding & Administration AG. In 1965, we acquired minor holdings of the capital stock of our French companies Société Volkswagen de Financement S. A. and Service d'Assurance Volkswagen S. A.

Our investment in Auto Union G. m. b. H. was written down DM 110 million to par value of the capital stock held. As in prior years, in view of the general risks inherent in long-term foreign investments, we have written off our current year's investment in Volkswagen de Mexico, S. A. de C. V.

*Other Investment Securities* represent 5% West German Government bonds for the Promotion of Development Countries. This investment was written down to market value at December 31, 1965.

The book value of our *Inventories* increased by DM 132 million over 1964 to DM 638 million at December 31, 1965. The increase resulted mainly from the continued expansion of our production and the necessity for carrying a larger parts inventory with the start of assembly operations in Emden and Ingolstadt. Inventory valuation allowances, not deductible for tax purposes, remained at the 1963 level although inventories increased in 1965.

*Securities* of DM 32 million consist of marketable bonds and stocks which, where necessary, were written down to market value at December 31, 1965.

In 1965, we granted additional *Long-Term Loans* of DM 18.6 million, most of which were for housing construction. Payments have been received when due, and the unpaid balances of all such loans granted as of December 31, 1965 amounted to DM 171 million as compared to DM 157 million at the end of 1964. For balance sheet purposes, interest-free loans have been discounted to indicate present values.

As in prior years, the major portion of our *Trade Accounts Receivable* represents amounts due from customers abroad. Subsequent to December 31, 1965, all material amounts were collected when due.

*Receivables from Subsidiaries and Affiliates* increased by DM 5 million to a total of DM 99 million at December 31, 1965. The receivables are, for the most part, owed by our subsidiaries in Canada and Mexico due to larger vehicle deliveries to Canada towards the end of 1965, and longer payment terms granted to Volkswagen de Mexico, S. A. de C. V. Our receivables from Volkswagen do Brasil S. A. decreased considerably during 1965 with the easing of currency transfer restrictions. We expect that the

more favorable currency situation in Brazil will continue in the future; however, we have considered the possibility of further currency restrictions in the valuation of the outstanding receivables from our Brazilian company.

*Other Receivables* decreased by DM 118 million from 1964 to DM 42 million at December 31, 1965 as a result, primarily, of transferring the financing of purchases by our West German dealers to Volkswagen-Finanzierungsgesellschaft m. b. H. during 1965. The outstanding balance at year-end consists of cash surrender value of old-age insurance of DM 21 million and other miscellaneous items. Doubtful accounts were minor in amount and have been written off.

## Liabilities

There have been no changes in the *Capital Stock* and the *Legal Reserve* during the year under review.

The *Reserve for the Share-the-Burden Property Levy* represents the discounted amount of this liability as of December 31, 1965.

*Other Reserves* were increased by DM 38 million during the year. This was considerably less than the 1964 increase, when extremely satisfactory earnings allowed us to add DM 103 million to these reserves.

Changes in *Undetermined Liabilities* were as follows:

balance January 1, 1965	DM 563 million
amount used	DM 273 million
elimination of reserves	DM 32 million
	<hr/>
	DM 258 million
additions	DM 350 million
	<hr/>
balance December 31, 1965	DM 608 million
	<hr/>
The year-end balance consists of	
pension plan costs	DM 195 million
distribution costs (especially warranty obligations)	DM 129 million
taxes	DM 112 million
social benefits and other labor costs	DM 91 million
general business risks, pending lawsuits and other miscellaneous items	DM 81 million
	<hr/>
	DM 608 million
	<hr/>

Undetermined Liabilities increased mainly because of higher pension plan costs, warranty obligations and taxes. The increase in taxes is due, primarily, to the examination by the taxation authorities in 1965 for the years 1960 through 1963. The additional assessments had been provided for in amounts set aside for general business risks in those years.

The Undetermined Liabilities were established on a conservative basis in the light of our knowledge of the pertinent facts. Approximately

DM 237 million can be considered as relating to long-term risks,  
DM 62 million as medium-term risks and  
DM 309 million are of a short-term nature.

As in the prior year, *Long-Term Loans* of DM 217 million consist of the following:

DM 150 million plant improvement loan, received 1961 through 1963, repayment commencing in 1966.

DM 50 million loan granted to us by the State of Lower Saxony. The term of the loan has been extended through the first half of 1980.

DM 10 million loan granted to us by the Volkswagenwerk Foundation, repayable by the end of 1967.

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.

DM 1 million miscellaneous other long-term loans.

*Prepayments by Customers* decreased by DM 18 million when compared to the prior year and represent advance payments, in almost equal amounts, made by domestic distributors and foreign importers.

*Trade Accounts Payable* were DM 18 million higher than at December 31, 1964, mainly as a result of increased purchases for our expanded production. The portion of accounts payable representing acquisition of physical plant decreased from 17% of the total in 1964 to 11% in 1965.

*Accounts Payable to Subsidiaries and Affiliates* of DM 58 million resulted, for the most part, from transactions in the ordinary course of business with the Wolfsburger Transportgesellschaft m. b. H., which was organized in 1965, and from the assumption of the loss of Auto Union G. m. b. H. after deducting installment payments made previously. Also included in these payables is the assumption of the loss of VW-Siedlungsgesellschaft m. b. H., advance payments by subsidiaries and minor amounts incurred in the ordinary course of business.

*Other Liabilities* decreased by DM 28 million during 1965 to a total of DM 93 million at year-end. The decrease is attributable to the considerably lower tax liabilities and the repayment of short-term loans from the Volkswagenwerk Foundation. Nearly two-thirds of the Other Liabilities consist of payroll obligations incurred but unpaid at December 31, 1965.

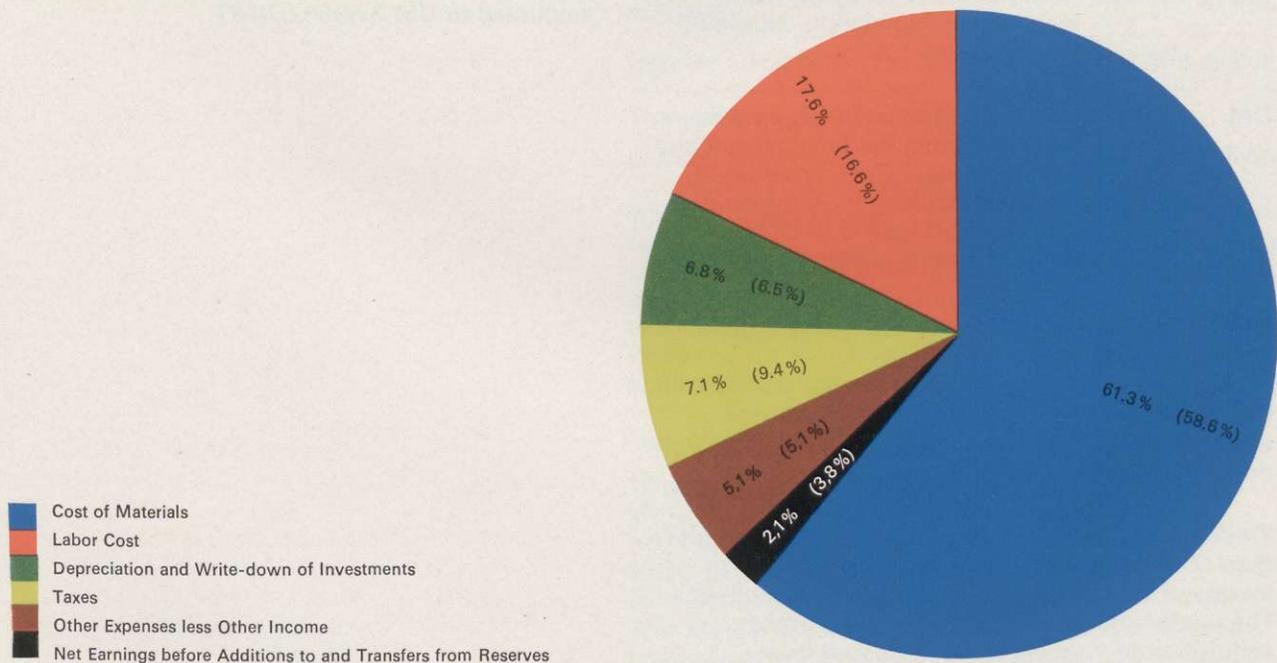
As of December 31, 1965, our *Contingent Liability with respect to Discounted Trade Acceptances* amounted to DM 37,986,878.87.

## Statement of Earnings

For the first time, our Statement of Earnings has been prepared in multiple-step form.

Although production and sales increased once again, 1965 earnings were approximately one third lower than in 1964. This decrease was caused, primarily, by considerable increases in material and labor costs and, secondarily, by expenses of a nonrecurring nature.

Gross output, consisting of sales, inventory increase and material, wages and overhead capitalized as additions to plant and equipment, amounted to DM 7,601 million, an increase of DM 674 million or 9.7% over 1964. The ratio of expenditures to gross output was as follows (1964 ratios in parentheses):



The increase in *Sales* of DM 670 million over 1964 was almost in proportion to the increase between years in the number of vehicles sold. Because of the increase in domestic sales the ratio of export sales to total sales decreased from 57.3% in 1964 to 57.1% in 1965.

*Expenditures for Raw Materials and Supplies* increased by DM 603 million or 14.9% over 1964. The increase was somewhat higher than the increase in gross output due, mainly, to the additional materials used in our expanded production in connection with design changes and higher average costs in the current year.

*Income from Investments in Subsidiaries and Affiliates* was received in the form of distribution of dividends for the year 1964, nearly DM 20 million of which was from:

Volkswagen of America, Inc.  
Volkswagen do Brasil S. A.

Dividends were also received from:

Volkswagen Australasia Ltd.,  
South African Motor Assemblers and  
Distributors Ltd.,  
Volkswagen France S. A.  
(occurring for the first time),  
Volkswagen Canada Ltd.,  
Volkswagen-Finanzierungsgesellschaft m. b. H.,  
VW-Wohnungsbau  
Gemeinnützige Gesellschaft m. b. H.

We also received a small dividend from "Neuland" Gemeinnützige Wohnungs- und Siedlungsgesellschaft m. b. H. We acquired an interest in this company in the beginning of 1964.

The decrease in *Other Interest and Similar Income* by DM 13 million compared to the prior year was due, among other things, to lower bank balances and the transfer of our dealer financing, as mentioned previously, to Volkswagen-Finanzierungsgesellschaft m. b. H.

*Elimination of Reserves for Undetermined Liabilities No Longer Required* resulted mainly from settlement of pending lawsuits.

*Other Income* increased by DM 104 million over the prior year, primarily, as a result of a transfer from Undetermined Liabilities of an amount equal to the additional assessments of taxes for prior years, which are shown separately, and currency transfers from Brazil for partial payment of receivables from subsidiaries previously written off. As in prior years, revenues from kitchen and cafeteria sales, invoicing of advertising and sales promotion material and various other miscellaneous items are included in Other Income. Of the total Other Income, 60% is of an extraordinary or nonrecurring nature.

*Expenditures for Wages and Salaries and Compulsory Social Expenditures* increased by DM 180 million or 16.3% over 1964 and rose in a higher proportion than the increase in gross output. The reasons for the increase in labor and associated costs are described in the "Labor Force" section of this report.

*Other Social Expenditures* of DM 46 million again include charges for present and future pension payments as the major single item.

The *Provision for Depreciation of Physical Plant* and the *Write-down of Financial Investments* have been discussed in a prior section of this report under the caption "Assets".

*Interest Expense and Similar Charges* increased by DM 1 million over 1964 and consisted mainly of interest on long-term loans.

The decrease from 1964 in *Taxes on Income, Earnings and Property* was due, for the most part, to lower earnings in the year under review. The tax payable on 1965 earnings decreased by 43% from that of 1964; however, additional taxes assessed for the years 1960 through 1963 resulted from an audit of those years by the taxation authorities. There was no distortion of 1965 net earnings because an amount comparable to the prior years' assessments was transferred to Other Income from Undetermined Liabilities, which contained provisions for such contingencies accumulated in prior years.

*Other Taxes*, which consisted mainly of sales tax, increased in proportion to domestic sales.

Of the total *Expenditures under Profit and Loss Assumption Agreements*, DM 84 million resulted from assuming the operating loss of Auto Union G.m.b.H. This loss was caused by costs incurred in revising the product line which had no longer been successful in the market. DM 4 million was incurred by assuming the operating loss of VW-Siedlungsgesellschaft m.b.H. The loss was due primarily to additional depreciation write-offs in accordance with section 7 b of EStG, and provision for depreciation of buildings computed using the declining balance method, as allowed for tax purposes.

The increase of DM 65 million in *Other Expenses* was due largely to higher shipping costs and plant maintenance expenses as well as increased advertising and sales promotion expenses. As a result of the transfer of the shipping responsibilities as of October 1, 1965 to the newly organized Wolfsburger Transportgesellschaft m.b.H., shipping costs included in *Other Expenses* contain amounts which were previously included in other accounts in our Statement of Earnings.

*Compensation to Management* for the year 1965, including pension payments of DM 194,830.— was DM 4,185,519.—; *Compensation to Members of the Board of Directors* amounted to DM 137,100.—.

Write-offs, not allowable for tax purposes, and additions to reserves reduced 1965 net earnings of approximately DM 300 million to an amount of DM 120,032,247.75, which, when added to undistributed earnings for 1964 of DM 281,894.70, results in a total of DM 120,314,142.45. With the consent of the Board of Directors, we propose to distribute, as in 1964, a dividend of 20%, equal to DM 120,000,000.—, and to carry forward the balance.

Wolfsburg, April 1966

The Management

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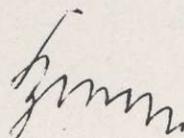
# Report of the Board of Directors

During the year under review, Management has kept the Board of Directors informed currently 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 and the annual report for 1965 were audited by the Deutsche Revisions- und Treuhand-Aktiengesellschaft, Treuarbeit, Hanover, and subsequently reviewed by the Board of Directors. There were no exceptions.

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

Wolfsburg, April 1966



Chairman of the Board of Directors



# Statement of Earnings

Year ended December 31, 1965

		1965		1964
	DM	DM	DM	Thousand DM
<b>Sales</b>		7,458,038,632.25		6,788,260
Increase in Finished Products and Work in Process Inventories		45,417,720.81		50,102
Material, Wages and Overhead Capitalized as Additions to Plant and Equipment			7,503,456,353.06 97,810,228.27	6,838,362 88,976
<b>Gross Output</b>			7,601,266,581.33	6,927,338
Expenditures for Raw Materials, Supplies and Outside Services			4,663,354,521.03	4,060,362
<b>Excess of Gross Output over Expenditures for Raw Materials, etc.</b>			2,937,912,060.30	2,866,976
Income from Investments in Subsidiaries and Affiliates		22,974,041.64		17,231
Income from Other Investment Securities		1,250,000.—		1,250
Other Interest and Similar Income		19,108,558.33		32,490
Gain on the Disposal of Physical Plant		1,842,326.74		1,184
Elimination of Reserves for Undetermined Liabilities No Longer Required		31,673,055.24		12,442
Other Income		174,292,834.88		70,290
			251,140,816.83	134,887
Wages and Salaries		1,174,748,837.98	3,189,052,877.13	3,001,863
Social Expenditures – Compulsory		115,249,071.35		1,005,184
Social Expenditures – Other		45,873,714.46		104,351
Provision for Depreciation of Physical Plant		393,355,934.79		37,823
Write-down of Financial Investments		126,444,755.60		444,827
Write-down of Current and Other Assets (excluding Inventories), including Discounts on Long-Term Loans Receivable		16,829,033.79		8,590
Loss on Disposal of Physical Plant		2,147,851.45		17,002
Interest Expense and Similar Charges		17,194,474.38		2,856
Taxes				15,841
a) on Income, Earnings and Property	406,295,888.57			534,786
b) Other	127,957,686.25			114,854
		534,253,574.82		
Share-the-Burden Property Levy		2,756,085.40		2,778
Expenditures under Profit and Loss Assumption Agreements		88,452,036.98		3,040
Other Expenses		515,228,307.38		450,494
<b>Earnings before Transfers from and Additions to Reserves</b>			3,032,533,678.38	2,742,426
			156,519,198.75	259,437
Balance Carried Forward			156,519,198.75	259,437

	1965	1964
	DM	Thousand DM
Balance Brought Forward	156,519,198.75	259,437
Earnings Brought Forward from Previous Year	281,894.70	271
Transfer from the Reserve for the Share-the-Burden Property Levy	156,801,093.45 1,500,000.—	259,708 1,800
Additions to Other Reserves	158,301,093.45 37,986,951.—	261,508 141,226
<b>Net Earnings Available for Distribution</b>	<b>120,314,142.45</b>	<b>120,282</b>

According to the final result of our obligatory audit of the books and records of the company and the explanatory and justificatory information given by the Management, the accounts, annual statements and the annual report, as far as it details the annual statements, conform to statutory provisions.

Wolfsburg, April 1966

Hanover, April, 7, 1966

**Volkswagenwerk Aktiengesellschaft**

Management

Nordhoff    Haaf    Hahn    Hiemenz    Höhne  
Novotny    Orlich    Paulsen    Thomée

**Deutsche Revisions- und Treuhand-Aktiengesellschaft**

Treuarbeit

**Wirtschaftsprüfungsgesellschaft**

**Steuerberatungsgesellschaft**

Schneider    Dr. Apelt  
Wirtschaftsprüfer    Wirtschaftsprüfer

# Comparative Summary of Selected Financial Data 1961 — 1965

		1961	1962	1963	1964	1965
<b>Assets</b>						
Property, Plant, Equipment and Investments (as at Dec. 31)	in million DM	1,529	1,533	1,539	1,723	1,957
Investments in Physical Plant and Financial Investments	in million DM	592	337	413	640	758
Depreciation of Physical Plant and Write-down of Financial Investments	in million DM	357	332	404	453	520
Current and Other Assets (as at Dec. 31)	in million DM	563	738	939	1,208	1,039
including Inventories	in million DM	397	433	400	506	638
Short-Term Receivables	in million DM	104	104	182	267	153
Liquid Funds	in million DM	—	151	297	373	185
<b>Liabilities</b>						
Stockholders' Equity	in million DM	1,022	1,123	1,261	1,400	1,437
including Reserves and Retained Earnings	in million DM	422	523	661	800	837
Liabilities payable within	in million DM	1,070	1,148	1,217	1,531	1,559
1 year or less	in million DM	693	761	739	963	1,061
1 to 4 years	in million DM	139	140	158	237	132
more than 4 years	in million DM	238	247	320	331	366
<b>Balance Sheet Total</b>	in million DM	2,092	2,271	2,478	2,931	2,996
<b>Balance Sheet Ratios</b>						
Property, Plant, Equipment and Investments as a Percentage of Total Assets	%	73	67	62	59	65
Property, Plant, Equipment and Investments as a Percentage of Current and Other Assets	%	272	208	164	143	188
Current and Other Assets (excluding Long-Term Receivables) as a Percentage of Short-Term Liabilities	%	75	91	120	119	92
Stockholders' Equity as a Percentage of Balance Sheet Total	%	49	49	51	48	48
Stockholders' Equity as a Percentage of Total Liabilities	%	96	98	104	91	92
Reserves as a Percentage of Capital Stock	%	70	87	110	133	139
Capital Stock and Reserves as a Percentage of Capital Stock	%	170	187	210	233	239
Stockholders' Equity as a Percentage of Property, Plant, Equipment and Investments and Long-Term Receivables	%	65	71	79	79	71
Stockholders' Equity and Long-Term Liabilities as a Percentage of Property, Plant, Equipment and Investments and Long-Term Receivables	%	80	87	99	97	89





Volkswagenwerk  
Aktiengesellschaft  
Wolfsburg