

Report
for the Year 1966



Volkswagenwerk
Aktiengesellschaft
Wolfsburg

The Board of Directors and Management
of Volkswagenwerk Aktiengesellschaft
present the Report for the Year 1966
with their compliments

Wolfsburg, May 1967

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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 28, 1967, at the Stadthalle in Wolfsburg.

1. Presentation of audited financial statements for the year ended December 31, 1966, 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 1966.

2. Resolution with respect to disposition of the net earnings for the year 1966.

Management and the Board of Directors propose to distribute, out of net earnings shown in the Balance Sheet, a 20% dividend on the capital stock of DM 600 million entitled to such distribution for 1966.

3. Resolution with respect to discharge of responsibility of Management for the year 1966.

4. Resolution with respect to discharge of responsibility of the Board of Directors for the year 1966.

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 1967.

The Board of Directors proposes to appoint the Deutsche Revisions- und Treuhand-Aktiengesellschaft, Treuarbeit, Hanover, as auditors for the year 1967.

Board of Directors (Aufsichtsrat)

Management (Vorstand)

Dr. Josef Rust, Kassel, Chairman since June 29, 1966
Dr. Dr. h. c. Hans Busch, Düsseldorf, Chairman,
to June 29, 1966
Otto Brenner, Frankfurt, Deputy Chairman
Karl Möller, Quakenbrück, Deputy Chairman
Dr. Rolf Thießen, Frankfurt, Deputy Chairman,
since June 29, 1966
Hugo Bork, Wolfsburg
Dr. h. c. Fritz Butschkau, Düsseldorf
Siegfried Ehlers, Wolfsburg
Mrs. Elgin Gärtner-Amrhein, Munich
Hans Grimm, Wolfsburg, to June 29, 1966
Walter Haefner, Zürich
Prof. Dr. Karl M. Hettlage, Bad Godesberg,
to June 29, 1966
Heinz Hilbich, Hanover
Prof. Dr. Eduard Justi, Brunswick
Alfred Kubel, Braunlage
Dr. Wolfram Langer, Bad Godesberg,
since June 29, 1966
Dr. Horst Rheinfels, Cologne
Dr. Hermann Richter, Düsseldorf
Erich Schilling, Ingolstadt, since June 29, 1966
Peter Stroh, Kassel
Dr. Wilhelm Vallenthin, Hamburg

Prof. Dr.-Ing. E. h., Dipl.-Ing. Heinrich Nordhoff,
Chairman
Dr. Kurt Haaf
Dr. Carl H. Hahn
Hanz Hiemenz
Otto Höhne
Frank Novotny
Dipl.-Ing. Helmut Orlich
Julius Paulsen
Dr. Friedrich Thomée

Selected Data of Volkswagenwerk AG

		1966	1965
Production			
Volkswagenwerk AG			
total	number of vehicles	1,476,509	1,447,660
average per working day	number of vehicles	6,162	6,108
Volkswagenwerk AG and its Subsidiaries and Affiliates			
total	number of vehicles	1,650,487	1,594,861
average per working day	number of vehicles	6,886	6,729
Sales (units)			
Volkswagenwerk AG	number of vehicles	1,459,426	1,443,599
Volkswagenwerk AG and its Subsidiaries and Affiliates	number of vehicles	1,605,267	1,580,214
Sales (DM)			
Volkswagenwerk AG			
total	in million DM	7,797	7,458
domestic sales	% of total sales	37	43
export sales	% of total sales	63	57
per employee	DM	82,422	80,592
Volkswagenwerk AG and its Subsidiaries and Affiliates			
total	in million DM	9,998	9,268
per employee	DM	78,565	75,504
Investments			
Volkswagenwerk AG			
physical plant	in million DM	500	485
financial investments	in million DM	179	273
total investments	in million DM	679	758
Volkswagenwerk AG and its Subsidiaries and Affiliates			
physical plant	in million DM	731	702
Average Labor Force			
Volkswagenwerk AG	total labor force	94,602	92,541
Volkswagenwerk AG and its Subsidiaries and Affiliates	total labor force	127,264	122,742
Net Earnings of Volkswagenwerk AG			
	in million DM	376	300
retained for use in the business	in million DM	256	180
dividends (proposed or paid)	in million DM	120	120
	% of capital stock entitled to dividends	20	20
Cash Flow of Volkswagenwerk AG			
	in million DM	807	724

Business Trends in
the Automotive Industry
in 1966

In 1966, world-wide automobile production of 24.5 million vehicles exceeded the all-time high of the preceding year by 1.4%. Of the total production, 86% was manufactured by the six major automobile producing countries. Although their total contribution to the world-wide market remained virtually unchanged compared to 1965, production trends among the six individual countries fluctuated considerably.

The United States of America, the largest automobile producer in the world, experienced a decrease in automobile production after several years of substantial growth. Production of 10.4 million vehicles, a decrease of 6.7% below 1965, accounted for 42.4% of the world-wide automobile production compared to 46.1% in 1965.

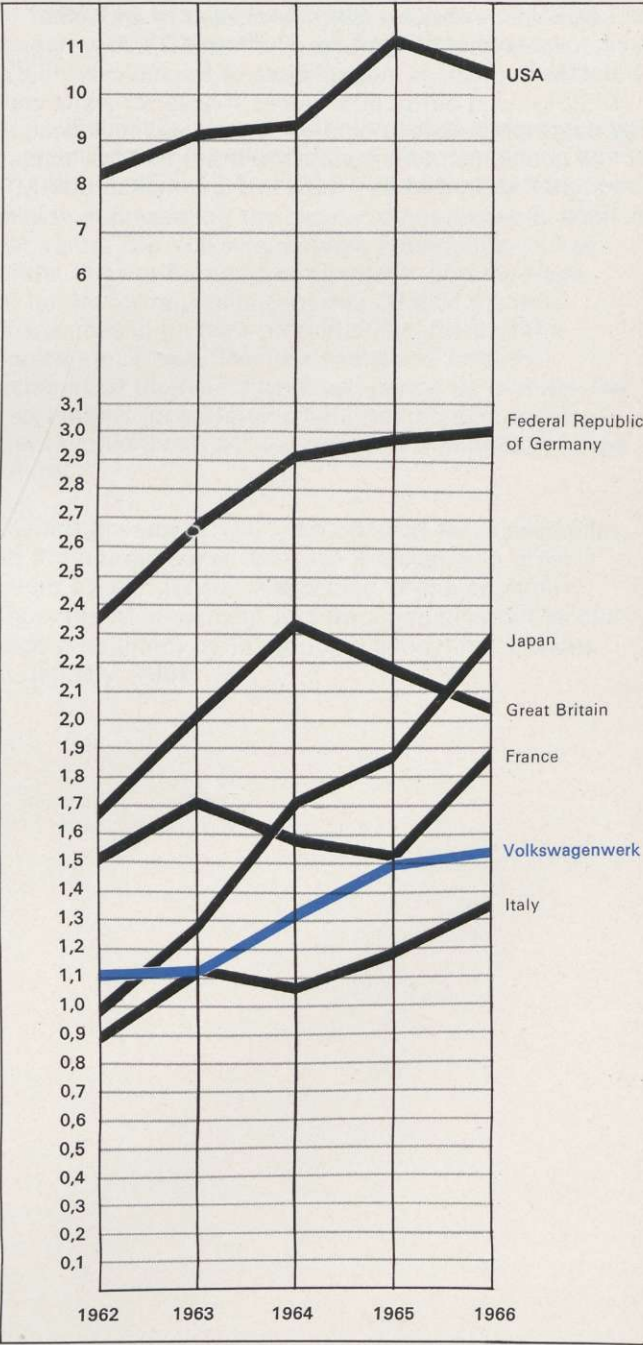
In the Federal Republic of Germany, the second largest automobile manufacturer in the world, the previous year's moderate rate of expansion in automobile production continued in 1966 and, as a result, more than 3 million vehicles were produced for the first time in German automobile history. The increase for the year of 2.5% was due primarily to a particularly good first six months of 1966. The Federal Republic remained the largest automobile exporter in the world by exporting 1.64 million vehicles or 53.7% of its total 1966 production of 3.05 million units.

With an increase in production of 21.9% to 2.29 million vehicles in 1966, Japan, for the first time, became the third largest automobile manufacturer in the world, surpassing Great Britain. Export sales rose even more than production with an increase of 31.7% over 1965 to a total of 256,000 vehicles.

The British automotive industry was affected by the severe measures instituted by the Government to combat inflation. Automobile production decreased by 6.2% to 2.04 million vehicles in 1966. Continuation of these restrictive measures will preclude a quick recovery by the automotive industry.

The French automobile industry benefited from a general economic recovery during 1966. Production

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

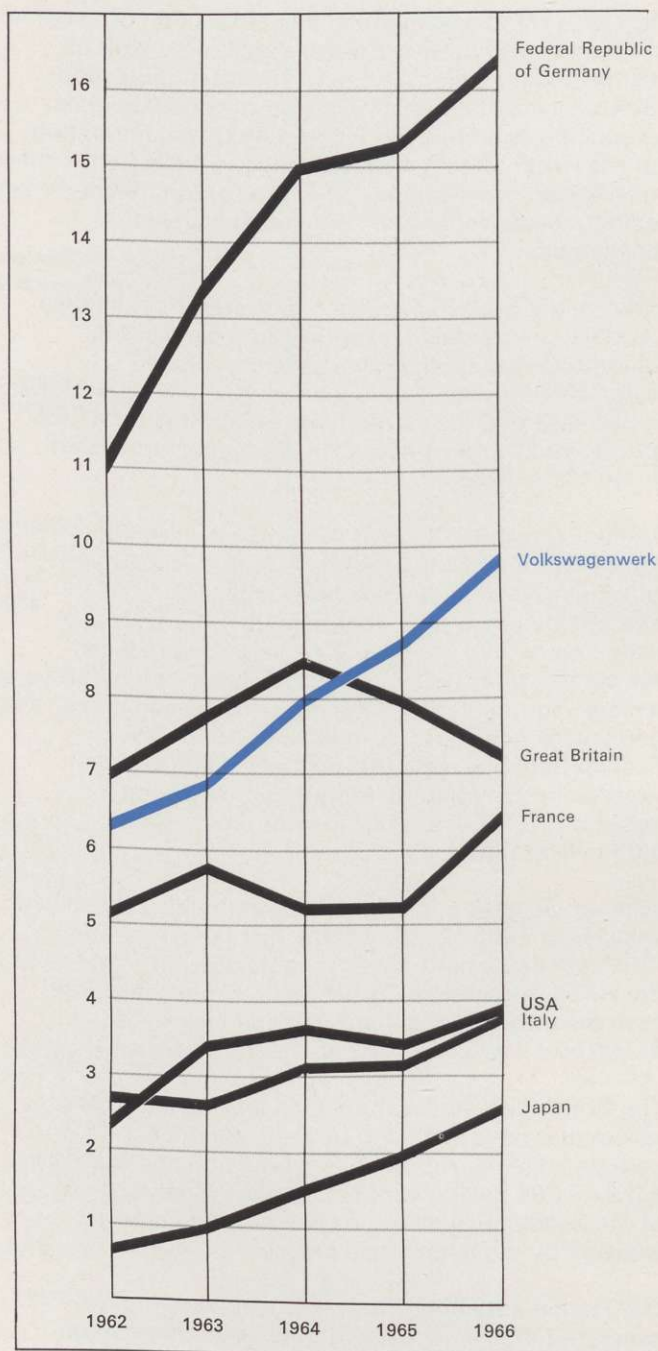


* including Auto Union G. m. b. H. beginning in 1965

of 1.88 million vehicles and export sales of 641,000 units increased over 1965 by 21.2% and 21.9%, respectively.

The automobile industry in Italy benefited similarly from a general economic stabilization in that country. Production increased by 15.8% to 1.34 million units in 1966.

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



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

Review of 1966 Operations of Volkswagenwerk AG

Volkswagenwerk can look back on a generally successful business year. Production and sales continued to increase, but at a lesser rate of growth than in prior years. Volkswagenwerk's policy of developing new and expanding existing export markets made it possible to offset the decrease in domestic sales toward the end of 1966 by increasing export sales.

Our subsidiary in the United States of America was extremely successful with the sale of approximately 480,000 Volkswagen vehicles. Our companies in Brazil and Mexico also had to satisfy an increasing demand for our products.

In November 1966, the twelve millionth Volkswagen was produced at the factory in Wolfsburg.

With consolidated sales of some DM 10,000 million, Volkswagenwerk AG and its subsidiaries and affiliates achieved a new all-time high in sales for a West German industrial enterprise. Auto Union G.m.b.H., whose remaining shares of capital stock were acquired by Volkswagenwerk AG in 1966, contributed to the increase in sales and, with its diversified AUDI product line, succeeded in earning a profit for 1966.

In 1966, Volkswagenwerk AG acquired 19.2% of the capital stock of VEMAG S.A., Veículos e Máquinas Agrícolas, the Brazilian affiliate of Auto Union G.m.b.H. Thus, at year-end, Volkswagenwerk AG and Auto Union G.m.b.H. together owned 60% of the voting stock and 40.6% of the total capital stock of that company. VEMAG S.A., a major automobile manufacturer in Brazil, is licensed to produce Auto Union vehicles.

Daimler-Benz AG and Volkswagenwerk AG jointly organized Deutsche Automobilgesellschaft m.b.H. in the year under review. The objective of this company is to develop new technology and methods for the benefit of both corporations in order to strengthen their positions in the international automobile market.

In 1966, we also established Volkswagen Leasing G.m.b.H. to enable us to develop business in the leasing field.

In 1966, one of the more significant events at Volkswagenwerk AG was the increase in capital stock, which was offered to stockholders at the ratio of 1 new share for each 4 shares held at the price of 225% of par value. The additional issue of shares increased the capital stock of the Company by DM 150 million to DM 750 million and the legal reserve by DM 173 million, representing the excess of net proceeds over par value. The Volkswagenwerk Foundation, in lieu of the Federal Republic of Germany, and the State of Lower Saxony each acquired 20% of the new shares, based on their proportionate share of the capital stock held. The funds received from the issuance of the new shares will permit us to make the investments for technological research and development required to keep our products competitive in the future.

Toward the end of 1966 the demand for automobiles on the home market was also affected to a great extent by the general weakening of the economy. Thus, the Management had no alternative but to cut back production by introducing short-time working in January, 1967.

Production

During 1966, Volkswagenwerk AG and its subsidiaries and affiliates manufactured a total of 1,650,487 vehicles which represented an increase of 55,626 units, or 3.5%, over 1965.

In our domestic plants production rose to 1,543,757 vehicles, an increase of 2.9%.

Volkswagenwerk's portion of the total automobile production in the Federal Republic of Germany amounted to 50.6% compared to 50.4% in 1965. Of the 50.6%, 48.4% was attributable to the parent company and 2.2% to Auto Union G.m.b.H.

Our foreign manufacturing companies accounted for 6.5% of the total production of Volkswagenwerk AG and its subsidiaries and affiliates. The proportionate amount of the Volkswagen automobile produced domestically in these foreign plants was expanded, and the proportionate use of materials purchased locally further increased.

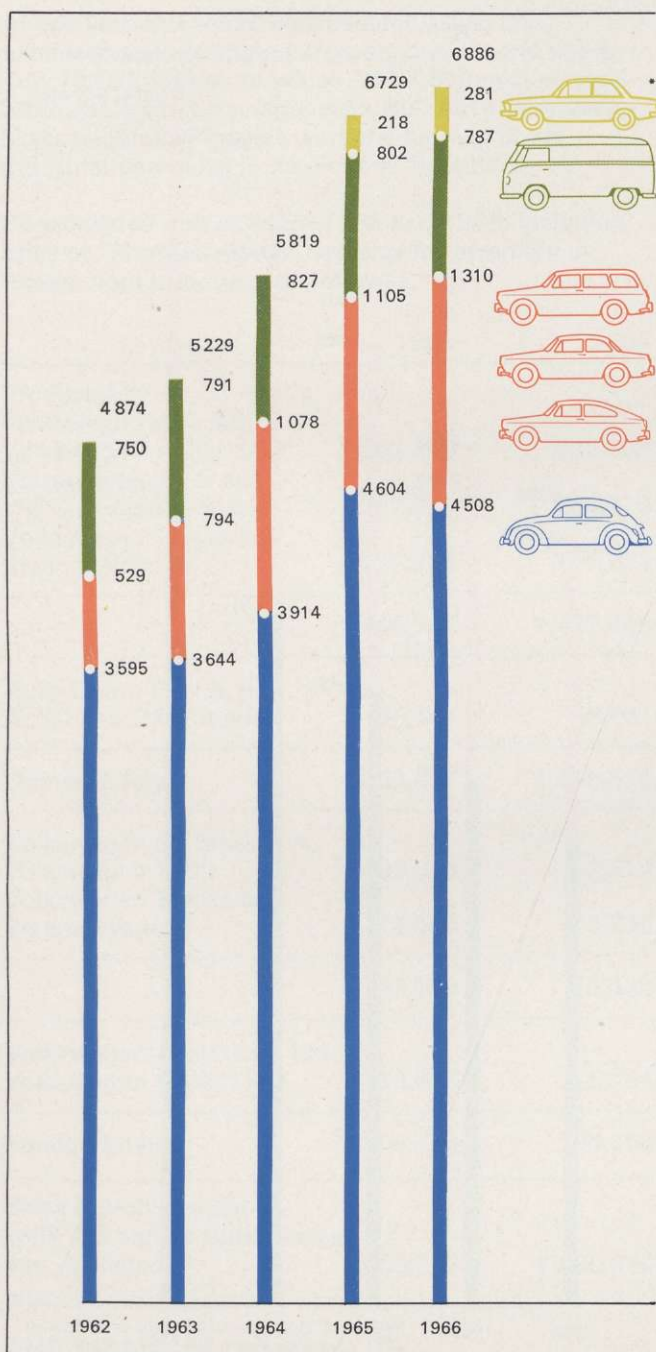
A comparison of production for the years 1966 and 1965 follows:

	1966	1965
Volkswagenwerk AG		
Volkswagen 1300/1500*	988,533	1,008,983
Volkswagen 1600 and VW Squareback Sedan**	311,701	261,915
Volkswagen Trucks and Station Wagons	176,275	176,762
	1,476,509	1,447,660
Auto Union G.m.b.H.	67,248	52,207
Production in Domestic Plants – total	1,543,757	1,499,867
Volkswagen do Brasil S.A.		
Volkswagen 1200	80,024	61,917
Volkswagen Trucks and Station Wagons	15,098	13,114
	95,122	75,031
Volkswagen Australasia Ltd.		
Volkswagen 1200/1300	11,608	19,963
Production in Foreign Plants – total	106,730	94,994
Production of Volkswagenwerk AG and its Subsidiaries and Affiliates	1,650,487	1,594,861

* including the VW 1200 A produced until July, 1966

** including the VW 1500 A produced until July, 1966

Average Daily Production of Volkswagenwerk AG and its Subsidiaries and Affiliates



The foregoing summary includes 144,219 "knocked-down" Volkswagens, which were assembled in eleven foreign countries.

Engineering improvements during 1966 again increased the quality and utility of the Volkswagen.

The average daily production of Volkswagenwerk AG and its subsidiaries and affiliates increased by 157 units to 6,886 vehicles.

Raw Material Purchases

In 1966, consolidated purchases amounted to some DM 6,000 million, of which approximately DM 5,000 million represents purchases by Volkswagenwerk AG.

Volkswagenwerk AG continued to be the largest corporate industrial consumer in the Federal Republic. As in prior years, we received excellent service from our suppliers. In addition to its impact domestically, Volkswagenwerk's economic significance also is evident in its international trading activities. As a result of our desire to import as well as to export, we purchase large volumes of raw material, machinery and equipment in foreign markets.

Wage increases and rising costs led to price increases. In the second half of the year, however, this trend of rising costs and prices changed due to a leveling-off of the economy in some areas and a decline in others.

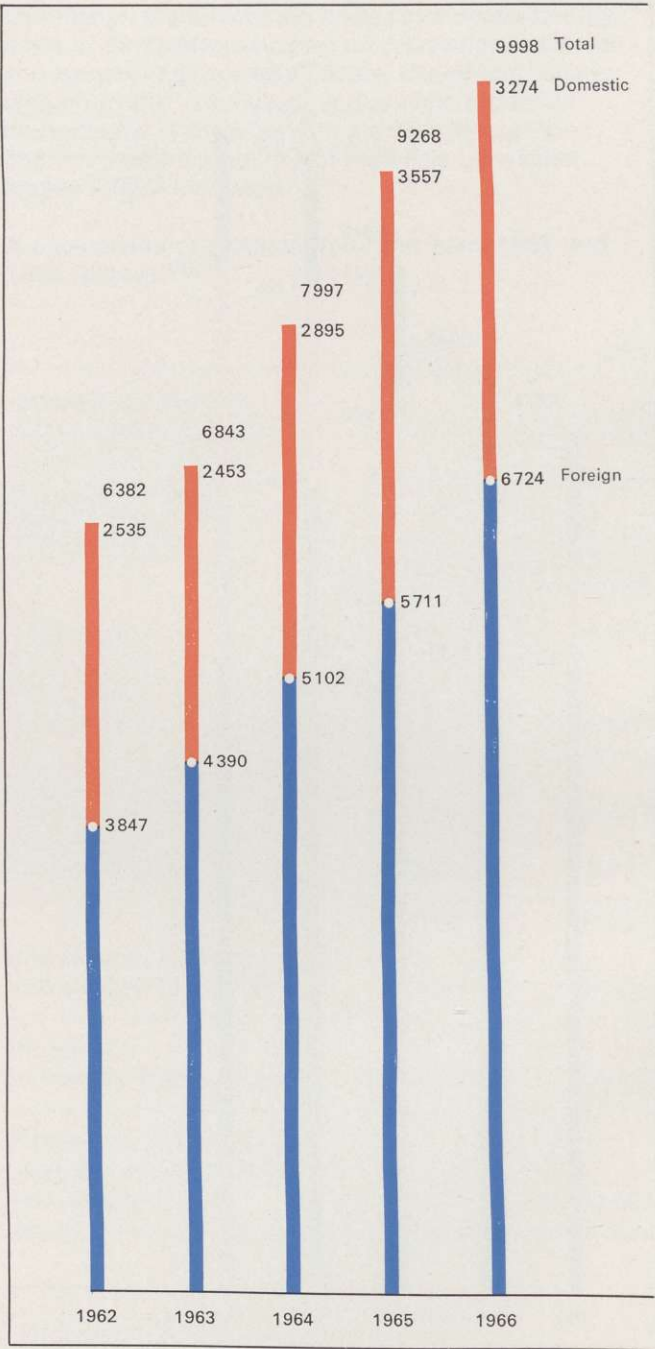
We had no difficulty in obtaining raw materials during the year.

* Auto Union

Sales

Following very satisfactory sales in the spring of 1966, automobile sales declined during the last few months of the year as a result of the continuing slow-down of the West German economy. Total sales, however, once again were higher than the previous year due to an increase in exports which more than compensated for the decrease in domestic sales.

Trend of Consolidated Sales in million DM



In line with this trend, consolidated sales, after eliminating intercompany transactions, rose to some DM 10,000 million, of which DM 7,800 million were attributable to Volkswagenwerk AG. As in prior years, Volkswagenwerk's sales were the highest of any industrial enterprise in the Federal Republic.

Consolidated unit sales for 1966 and 1965, including sales of "knocked-down" vehicles for assembly in foreign countries, were as follows:

	1966	1965
Produced by:		
Volkswagenwerk AG		
Volkswagen 1300/1500*	967,450	995,508
Volkswagen 1600 and VW Squareback Sedan**	297,911	254,370
Volkswagen Trucks and Station Wagons	175,386	177,571
	1,440,747	1,427,449
Auto Union G.m.b.H. AUDI and DKW models	55,744	58,061
Domestic total	1,496,491	1,485,510
Volkswagen do Brasil S.A.		
Volkswagen 1200	80,034	62,210
Volkswagen Trucks and Station Wagons	15,086	13,230
	95,120	75,440
Volkswagen Australasia Ltd.		
Volkswagen 1200/1300	13,656	19,264
Foreign total	108,776	94,704
Sales of Volkswagenwerk AG and its Subsidiaries and Affiliates	1,605,267	1,580,214

* including the VW 1200 A sold until July, 1966

** including the VW 1500 A sold until July, 1966

Sales of the parent company amounted to 1,459,426 units, including vehicles sold to subsidiaries but not yet delivered at year-end. The ratio of export sales to total sales for Volkswagenwerk AG rose from 59.0% in 1965 to 66.1% in the current year. The export ratio for 1966 of Auto Union G.m.b.H. was 25.5%.

The continuing pressure of higher production costs forced us to increase selling prices of Volkswagen vehicles by approximately 3% in March, 1966. However, the DM 5,150.— domestic price of our best-seller, the Volkswagen 1300, still is not higher than the price of our comparable 1953 best-seller despite numerous substantial technical improvements.

We expanded our product line during the year and, in August, 1966, we introduced our improved models. These improvements included a more powerful engine with 53 bhp SAE and a 91.1 c.i. displacement and an improved braking system for the 1300 model and, for all 1300/1500 models, a wider rear track and an equalizer spring on the rear axle to improve roadability. We also have improved the driving comfort and the quality of performance of the 1600 models.

Auto Union G.m.b.H. continued to expand its AUDI line with the introduction of the AUDI Squareback Sedan (Station Car) in the spring and the AUDI 80 in the summer of 1966 and by the AUDI Super 90 in December, 1966. At a price of DM 8,390.— this car, which is our subsidiary's top model, is comparable to any in its class.

Better utilization of facilities through increased unit production permitted Auto Union G.m.b.H. to lower by DM 300.— the price of its 1.7 liter, 77 bhp SAE engine sedan in the spring of 1966.

The ratio of parts and exchange engine sales to total sales of Volkswagenwerk AG increased to 10% in 1966.

We continued to expand our service organization during the year under review. By the end of 1966, there were 8,215 service centers in almost all countries of the world. The number of dealers and service centers in West Germany rose by 216 to 2,289 and, in foreign countries, by 123 to 5,926.

Domestic Sales

New vehicle registrations in the Federal Republic and West Berlin for 1966 amounted to 1,633,355, a decrease of .9%. The ratio of imported to total new vehicle registrations was approximately 20%.

Registered motor vehicles in the Federal Republic and West Berlin totaled 11.7 million at the end of 1966. The density of automobiles in the Federal Republic on a per capita basis was 1 automobile to every 5.1 persons. This is substantially below the density not only in the USA, where there is 1 automobile to every 2.1 persons, but also in Sweden, the most highly motorized country in Europe, where this ratio is 1 to 4. In order to reach Sweden's density, more than three million additional vehicles would have to be registered in the Federal Republic.

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

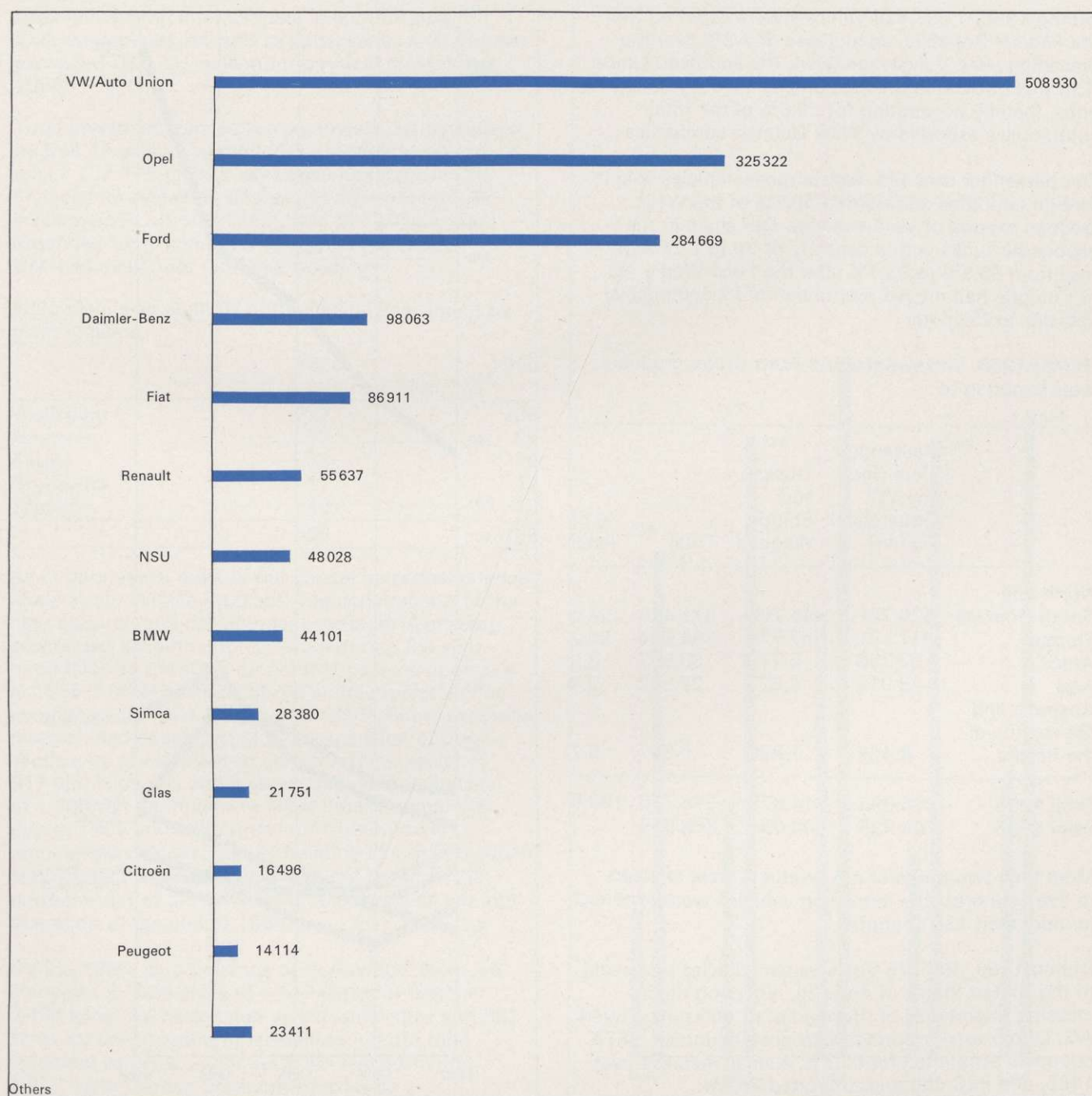
	1966	1965
<hr/>		
Volkswagenwerk AG		
Volkswagen 1300/1500*	293,721	370,840
Volkswagen 1600 and VW Squareback Sedan**	140,150	150,119
VW Trucks and Station Wagons	60,979	71,526
	494,850	592,485
Auto Union G.m.b.H.	41,544	40,186
Domestic Sales – total	536,394	632,671
<hr/>		

* including VW 1200 A sales until July, 1966

** including VW 1500 A sales until July, 1966

Of the new registrations of passenger cars and dual-purpose and commercial vehicles with a capacity of up to 2,750 lbs., our products accounted for 32.7%, of which Volkswagenwerk AG accounted for 30.3% and Auto Union G.m.b.H. for 2.4%.

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 1966



Export Sales

During 1966, 1,637,424 vehicles were exported from the Federal Republic, an increase of 7.2% over the preceding year. Volkswagenwerk AG and Auto Union G.m.b.H. increased their exports by 12.6% to 978,776 units, thereby accounting for 59.8% of the total automobiles exported by West German companies.

Our passenger cars and dual-purpose vehicles sold in foreign countries represented 58.7% of the West German exports of such vehicles. Our share in the exports of trucks with a capacity of up to 2,750 lbs. rose from 85.5% to 98.7% after the Ford-Werke AG at Cologne had moved production of its commercial vehicles to Belgium.

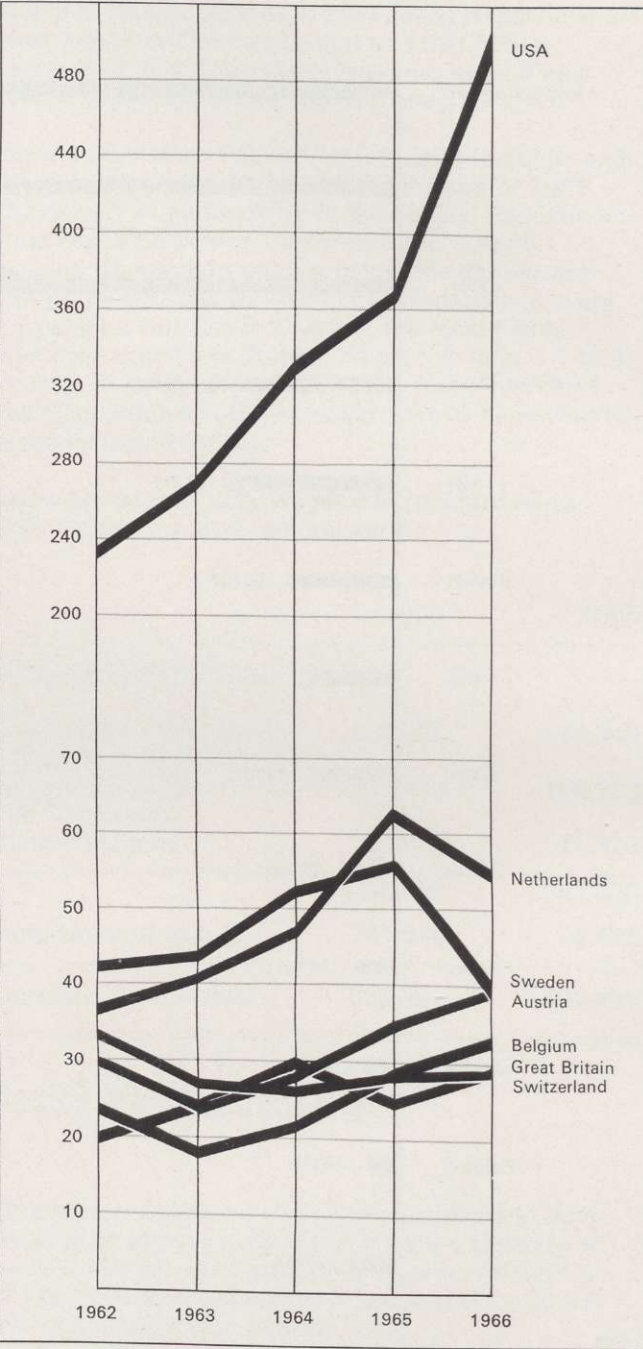
During 1966, Volkswagen and Auto Union products were exported to:

	Passenger Cars (incl. the VW Squareback Sedan)	Trucks and Station Wagons	Total	% of Total
North and South America	526,721	44,705	571,426	58.4
Europe	277,131	57,773	334,904	34.2
Africa	32,758	5,779	38,537	3.9
Asia	23,019	4,523	27,542	2.8
Australia and the Islands of the Pacific	4,469	1,898	6,367	0.7
Total 1966	864,098	114,678	978,776	100.0
Total 1965	764,935	104,054	868,989	—

More than two thirds of our products were shipped to five countries; the remaining vehicles were exported to more than 130 countries.

During 1966, 498,775 Volkswagen vehicles were sold to the United States of America, reflecting the increasing importance of this market to Volkswagenwerk AG. Of our total exports to European countries, EFTA countries accounted for 53.5%, a small increase over 1965, and EEC countries imported 36.8%.

Trend of Volkswagenwerk* Export Sales to our
Largest Export Countries in 1966 in Units of 1,000



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

Capital Investments

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

Total from 1948-1966

Expenditures for Machinery and Other Plant and Equipment	5,035
Expenditures for Land and Buildings	4,869
Provision for Depreciation	3,222

■ Expenditures for Property, Plant and Equipment including Cost of Facilities put into service
■ Expenditures for Land and Buildings
■ Provision for Depreciation

After eliminating intercompany plant transfers, Volkswagenwerk AG and its subsidiaries and affiliates expended DM 731 million for physical plant during 1966.

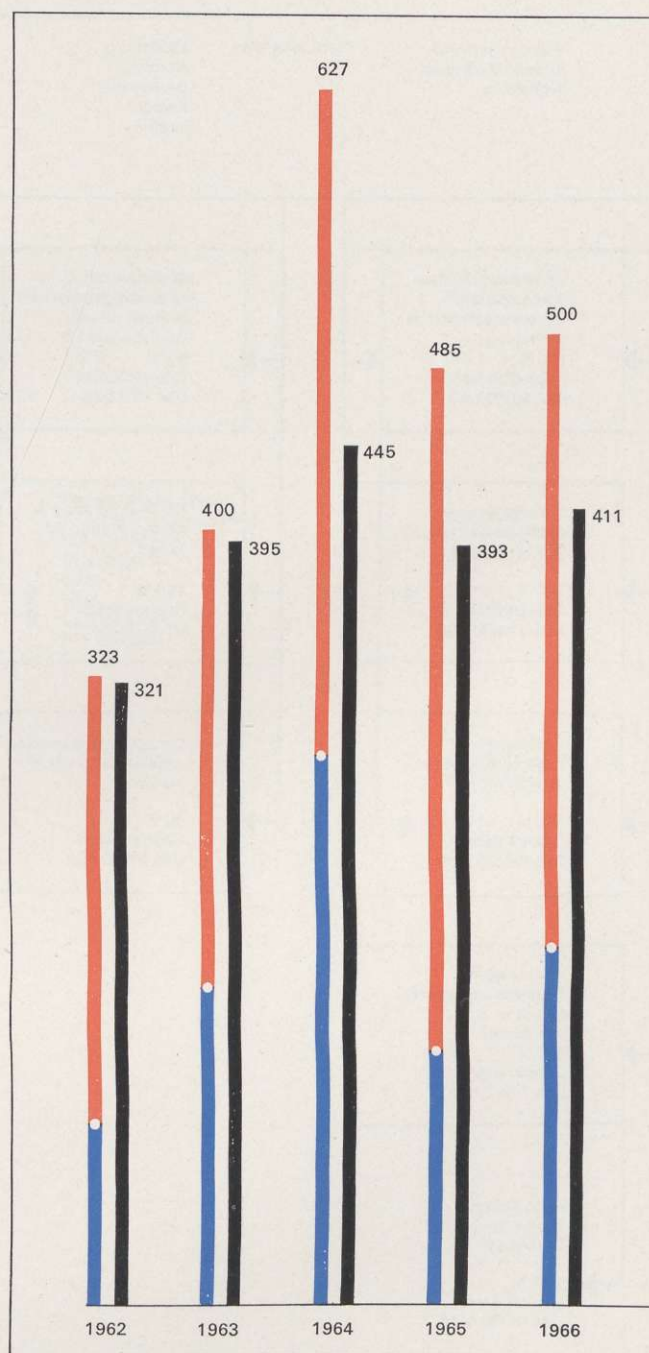
Total investments for Volkswagenwerk AG decreased by DM 79 million below 1965 to DM 679 million, of which DM 179 million represents expenditures for financial investments. Of the DM 500 million new investment in physical plant, DM 316 million was expended for machinery and equipment and DM 184 million for land and buildings.

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

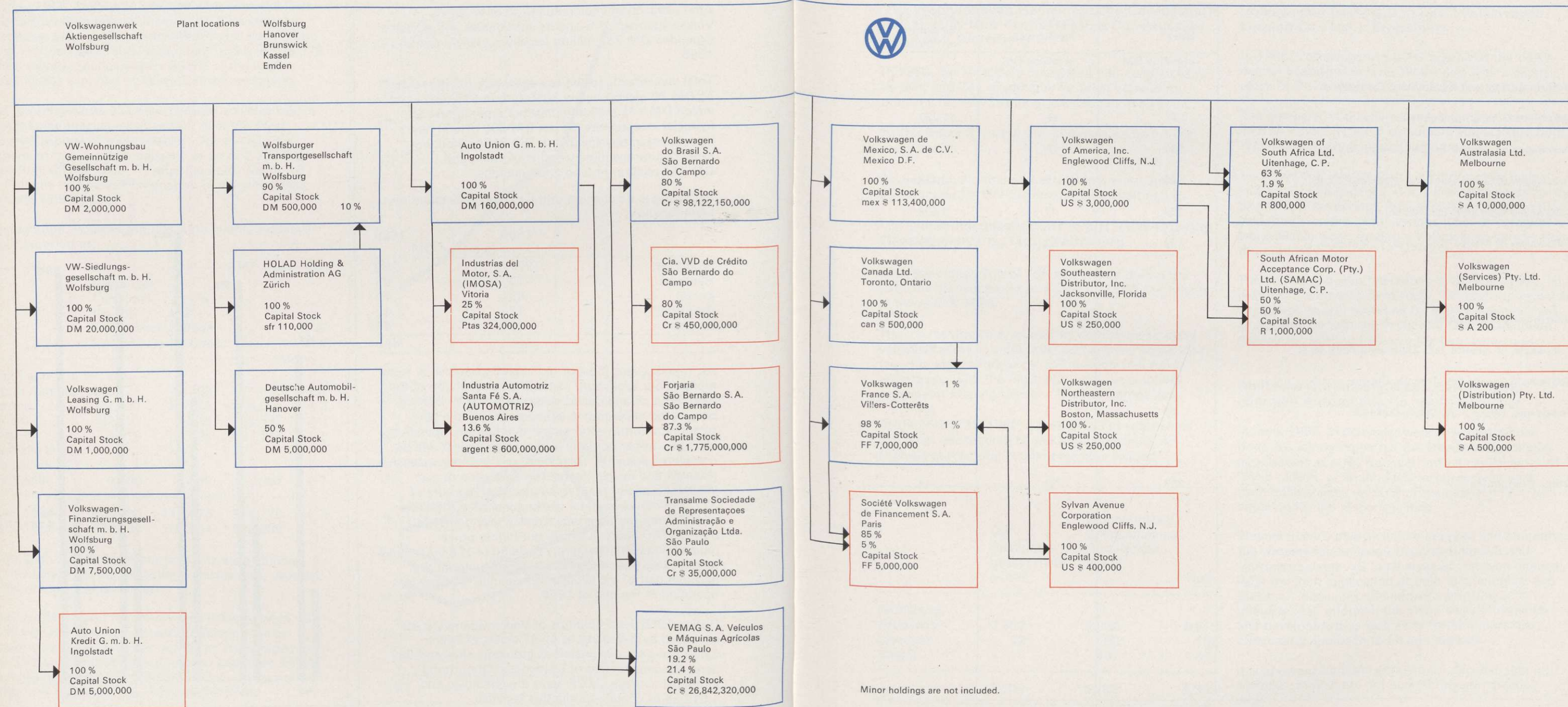
	1966	1965
	in million DM	
Wolfsburg	277	230
Hanover	73	89
Kassel	93	79
Brunswick	17	42
Emden	40	45
	500	485

As in prior years, most of our capital investments were made at our Wolfsburg plant. The construction of the new research and development center at Wolfsburg progressed according to schedule during the year. In addition to the wind tunnel that became operative in 1966, further portions of the entire project will be completed this year. This center will facilitate extensive research and development. The expansion of our Wolfsburg power plant to an electrical capacity of 317,000 kilowatts and a steam generating capacity of 1,690 ton per hour was substantially completed during 1966 and will satisfy our higher power requirements. A new factory building of 128,000 square feet, located within the new delivery center in the northern part of the Wolfsburg complex, was put into operation at the end of 1966.

During 1966, land holdings of Volkswagenwerk AG increased by 526 acres to 4,147 acres, of which 3,460 acres are designated as industrial sites and 687 acres for construction of residences. Of our total industrial acreage, 2,028 acres are fenced-in and 1,512 acres contain productive facilities.



VW Holdings in Domestic and Foreign Subsidiaries and Affiliates



Selected Data of Major VW Subsidiaries and Affiliates for 1966

	Sales	Capital Investments	Number of Employees at Year-End
	in million DM	in million DM	
Manufacturing and Assembling Companies			
Auto Union G. m. b. H., Ingolstadt	577	19	11,220
Volkswagen do Brasil S. A., São Bernardo do Campo	960	78	13,319
Volkswagen of South Africa Ltd., Uitenhage, C. P.	194	15	2,458
Volkswagen Australasia Ltd., Melbourne	184	47	1,828
Volkswagen de Mexico, S. A. de C. V., Mexico D. F.	132	52	2,359
Distributing Companies			
Volkswagen of America, Inc., Englewood Cliffs, N. J.	2,790	8	731
Volkswagen Canada Ltd., Toronto, Ontario	221	3	474
Volkswagen France S. A., Villers-Cotterêts	86	1	277
Other Companies	307	33	114

Investments in Subsidiaries and Affiliates: Domestic

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

In 1966, our subsidiary completed 194 apartments of its own and 744 apartments for other companies, primarily for VW-Siedlungsgesellschaft m.b.H.

At December 31, 1966, the company owned 6,733 apartments.

At year-end, another 492 apartments were under construction for VW-Siedlungsgesellschaft m.b.H.

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

With the completion of 736 apartments during the year, the company owned a total of 2,600 apartments at the end of 1966.

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 existing between the two companies.

At December 31, 1966, a total of 9,333 apartments had been constructed by the two companies. An analysis of this total by plant location follows:

	VW-Siedlungsgesellschaft m.b.H.	VW-Wohnungsbau Gemeinnützige Gesellschaft m.b.H.	Total
Wolfsburg/ Brunswick	2,552	6,266	8,818
Hanover	48	60	108
Kassel	—	407	407
	2,600	6,733	9,333

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

In 1966, Volkswagenwerk AG organized the Volkswagen Leasing G.m.b.H., Wolfsburg, with a capital stock of DM 1 million, of which 25% was fully paid.

The company's objective is to lease motor vehicles as well as various types of equipment and facilities both in West Germany and in foreign countries.

By organizing this company, an automobile manufacturer will be engaged in this line of business for the first time in the Federal Republic. Depending on the customer's requirements, various types of contracts are available when renting a Volkswagen vehicle from this company.

The company began operations in October, 1966, and is still in the development stage. The start-up loss was transferred to and absorbed by Volkswagenwerk AG in accordance with the Profit and Loss Assumption Agreement existing between the two companies.

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

In June 1966, Volkswagenwerk AG and Daimler-Benz AG jointly organized the Deutsche Automobilgesellschaft m. b. H., Hanover, with a capital stock of DM 5 million, of which 25% has been fully paid. Both companies own 50% of the capital stock, with equal rights and responsibilities.

The company's objective is to promote and strengthen the cooperation between Daimler-Benz AG and Volkswagenwerk AG in all areas of common interest. With the joint application of both technological and economic resources, the partners are striving to intensify their efforts in the many areas of research and development as well as to foster a more discriminating approach to foreign markets.

It is apparent from the company's objective that its activities, at first, are not geared toward making a profit.

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

During 1966, our subsidiary, which began operations in October, 1965, shipped a total of 645,000 Volkswagen vehicles by sea, of which 496,000 went to the United States of America and Canada. Most of these were shipped from Bremen and Emden.

At year-end, the Wolfsburger Transportgesellschaft m. b. H. had 61 ships under charter with a total capacity of 75,000 Volkswagens.

Earnings of this company were satisfactory.

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

The business activity of this company once again increased during 1966.

The financing of VW dealer purchases, the company's primary activity, rose 7% over 1965.

Its consumer financing business increased by more than 8%, even though this business is highly competitive. The average repayment period increased slightly from 16.4 months in 1965 to 16.6 months in 1966.

Earnings were satisfactory for 1966.

In 1966, Volkswagen-Finanzierungsgesellschaft m. b. H. acquired all shares of the *Auto Union Kredit G. m. b. H.*, 54% of which had been owned by Auto Union G. m. b. H. In 1966, the business volume of this finance company, which is located in Ingolstadt, was 21% higher than in 1965, as a result of the financing of Auto Union dealer purchases. The company earned a small profit for 1966.

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

During the year under review, we acquired from Daimler-Benz AG the remaining 24.7% of the capital stock of Auto Union G. m. b. H., which is now wholly owned by our Company.

Our subsidiary produced 67,248 Auto Union vehicles and assembled 83,774 Volkswagen 1300/1500 models. The average daily production totaled 281 Auto Union vehicles and 351 Volkswagens, and the labor force averaged 11,944 for the year.

Automobile sales flourished during the first six months of the year but decreased in the second half of 1966 with the leveling-off of the economy. Auto Union's 1966 sales amounted to 55,744, of which 47,713 units were AUDI vehicles and the balance DKW F 102 and cross-country vehicles. Our subsidiary's product line was expanded with the introduction of the AUDI Squareback Sedan (Station Car) in the spring and the AUDI 80 in the summer of 1966 and by the AUDI Super 90 in December, 1966. The latter was well received by the public due to its excellent driving characteristics and stylish interior.

After incurring a DM 84 million loss in the preceding year, Auto Union G. m. b. H. earned a profit in 1966 as a result of its expanded AUDI line coupled with a drastic cost reduction program. This profit was transferred to Volkswagenwerk AG in accordance with the Profit and Loss Assumption Agreement existing between the two companies.

The Spanish subsidiary of Auto Union G. m. b. H., *Industrias del Motor, S.A. (IMOSA)*, manufactured under license 11,372 express trucks, an increase of 991 units over the preceding year. Sales rose almost in the same proportion to 10,757 units. Earnings of the company were satisfactory.

The unstable economic climate in Argentina affected the business of *Industria Automotriz Santa Fé S.A.* The output of Auto Union vehicles manufactured under license decreased by 335 units to 4,771 units.

Investments in Subsidiaries and Affiliates: Foreign

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

During 1966, Volkswagenwerk AG acquired 19.2% of the capital stock of VEMAG S.A. Veículos e Máquinas Agrícolas, 21.4% of which is also held by Auto Union G.m.b.H. Thus, Volkswagenwerk AG and Auto Union G.m.b.H. together held 40.6% of the company's total capital stock of Cr\$ 26,842,320,000 and 60% of the voting stock. Since the end of the year, Volkswagenwerk AG has acquired additional shares pursuant to an increase in the capital stock.

During 1966, VEMAG S.A. manufactured 14,815 automobiles under license from Auto Union G. m. b. H. and sold 14,671 vehicles. Output and sales remained slightly below the level of the preceding year.

The company will not distribute any dividends for 1966.

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

The capital stock of Volkswagen do Brasil S.A., the largest automobile manufacturer in Latin America, was increased by Cr\$ 9,475,825,000 to Cr\$ 98,122,150,000 in October, 1966. The increased capital was contributed in the form of productive equipment.

As a result of the anti-inflationary measures instituted by the Brazilian Government, the purchasing power of the local currency decreased only slightly below the 1965 level. Demand for automobiles was steady.

During 1966, our subsidiary increased its production by 26.8% over the previous year to 95,122 units, all of which were sold. Average daily production rose from 319 units in 1965 to 393 units in 1966. The great importance of our subsidiary's role in the motorization of Brazil is reflected in its share of the passenger car, truck and station wagon market which rose from 49.5% to 54.9%. Accordingly, the sales and service network was further expanded in 1966.

The 1966 earnings of this subsidiary continued to be satisfactory.

In January 1966, *Forjaria São Bernardo S.A.* increased its capital to Cr\$ 1,550 million. The Cr\$ 700 million increase was contributed by Volkswagen do Brasil S.A. A further increase in capital of Cr\$ 225 million was approved in October, 1966. These shares were acquired by a German partner who now holds 12.7% of the company's stock. The company produced nearly 1,500 tons of steel forgings for Volkswagen do Brasil S.A. and other Brazilian consumers. The production facilities of the company are being expanded.

Cia. VVD de Crédito, Financiamento e Investimentos showed a slight increase in its consumer financing business.

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

In 1966, good progress was made on the construction projects by Volkswagen de Mexico, S.A. de C.V. At the Puebla Volkswagen plant under construction, some of the presses were placed into operation, and the facilities for producing body parts and for final assembly were nearly completed.

Better utilization of existing facilities at the Xalostoc assembly plant permitted the company to increase production and sales during the year under review. The number of Volkswagens sold increased approximately one third, from 13,315 to 17,215 units, thereby increasing its share of the market. The proportionate use of materials and labor from domestic sources slightly exceeded the Mexican Government's requirement.

In 1966, the company still was unable to attain satisfactory earnings.

Volkswagen Canada, Ltd., Toronto, Ontario

Canada's economy, which continued to expand in 1966, leveled off toward the end of the year; this led to a reduction in motor vehicle sales. This trend also affected our subsidiary's sales, which decreased by approximately 25% to 27,878 units.

The company showed a profit for the year.

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

In November, 1966, our subsidiary changed its name from South African Motor Assemblers and Distributors Ltd. to Volkswagen of South Africa Ltd.

In the expanding South African Market, the company increased its sales by 21.1% to 21,888 Volkswagens. Its share of new passenger car registrations increased from 12.5% to 13.4%. Volkswagen trucks and station wagons accounted for 10.0% of such vehicles newly registered.

Earnings for 1966 again will permit payment of a satisfactory dividend.

The business volume of our South African financing company, *South African Motor Acceptance Corporation (Pty.) Ltd. (SAMAC)*, increased primarily as a result of the company's expanded leasing activities.

Volkswagen Australasia Ltd., Melbourne

The economic stagnation in Australia during 1966, which affected the various industries differently, had a particularly unfavorable effect on the automobile industry. The sales volume of our subsidiary, which followed the over-all trend of motor vehicle sales, dropped by 7,187 units to 19,586 Volkswagens. Production was reduced accordingly.

The earnings of Volkswagen Australasia Ltd. and its subsidiaries, *Volkswagen (Services) Pty. Ltd.*, and *Volkswagen (Distribution) Pty. Ltd.* were unsatisfactory.

The capital stock of Volkswagen (Distribution) Pty. Ltd. was reduced by \$A 1,500,000 to \$A 500,000 as a result of the transfer of assets to Volkswagen Australasia Ltd.

Since no substantial improvement in business activity is expected in the near future, we have adjusted the financial positions of the companies accordingly.

Volkswagen France S.A., Villers-Cotterêts

High tariffs and other burdens continued to make it difficult to import motor vehicles into France during 1966.

Our subsidiary sold 15,755 Volkswagens which only approximated its volume for 1965.

The service and dealer network was further expanded in 1966.

Earnings for 1966 were lower than in the prior year.

Société Volkswagen de Financement S.A. continued to expand its business volume.

In September, 1966, *Service d'Assurance Volkswagen S.A.* transferred its business to the French insurance company, *La Concorde S.A.*, Paris, and its capital was reduced to FF 100,000.

HOLAD Holding & Administration AG, Zürich

The company continues to hold 10% of the capital stock of the *Wolfsburger Transportgesellschaft m. b. H.* The dividend from this company was used to grant an interest-bearing loan to a subsidiary of one of *Volkswagenwerk AG*'s subsidiaries.

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

Our subsidiary sold 479,210 units, surpassing the sales volume of the preceding year by almost one third. This volume exceeds by far the results of prior years. The Volkswagen 1300/1500 models and the 1600 models, introduced in October, 1965, contributed almost equally to this extraordinary success. Of the total motor vehicles imported into the United States in 1966, 62% consisted of Volkswagens. Our share of the new automobile registrations in the USA increased from 3.8% in 1965 to 4.3% in 1966. This continued growth is a result of a service network, which is organized in an exemplary manner, and the proven quality of the Volkswagen.

Earnings and dividends reflect the successful year of our subsidiary.

Volkswagen Southeastern Distributor, Inc. sold 33,966 units in 1966 as compared with 20,720 vehicles for the nine months of its existence in the

preceding year. Earnings for 1966 were satisfactory.

In July, 1966, *Volkswagen of America, Inc.*, organized *Volkswagen Northeastern Distributor, Inc.*, Boston, Massachusetts, with a capital stock of US \$ 250,000 to continue the operations of a former Volkswagen distributor. During the portion of the year the company was in operation, sales amounted to 10,025 Volkswagens and earnings were satisfactory. The company owns 100% of the capital stock of *Volkswagen Brookline, Inc.*, one of its dealerships.

Labor Force

The labor force of Volkswagenwerk AG and its subsidiaries and affiliates totaled 124,581 at year-end. Of the 103,135 employed domestically, 91,645 were employed by Volkswagenwerk AG and 11,220 by Auto Union G.m.b.H. The number employed by our foreign subsidiaries increased by 2,821 to 21,446 at December 31, 1966.

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

	12/31/66	12/31/65
Wolfsburg	46,691	48,623
Hanover	21,649	23,376
Kassel	13,328	13,667
Brunswick	5,490	5,661
Emden	4,487	3,016
	91,645	94,343

As a result of the slumping sales during the last few months of 1966, we did not replace terminated employees except in certain instances.

Of the total labor force of Volkswagenwerk AG, 6,013 came from foreign countries, reflecting a decrease from 9% in 1965 to 6.6% in 1966. Most of our foreign workers are from Italy.

Of our labor force, 11% were salaried and 89% were wage earners. The percentage of female employees at year-end was 12.2%. The average age of our employees at the end of the year was 36 years, and the average seniority 7.6 years.

At December 31, 1966, 1,534 apprentices and trainees were employed by Volkswagenwerk AG.

Technical courses and seminars are offered within a comprehensive, individually tailored training program to those of our employees interested in self-improvement and advancement in the Company.

During 1966, the Company awarded approximately DM 800,000 to employees for 723 suggestions for improvements.

In accordance with new agreements entered into with the unions during the early part of 1966, wages and

salaries increased by 6% as of January 1, 1966, and an additional 2% as of January 1, 1967. In addition, as of that date, the work week was reduced to 40 hours in accordance with a prior agreement.

Wages and salaries for 1966 increased by DM 107 million to DM 1,282 million as a result of:

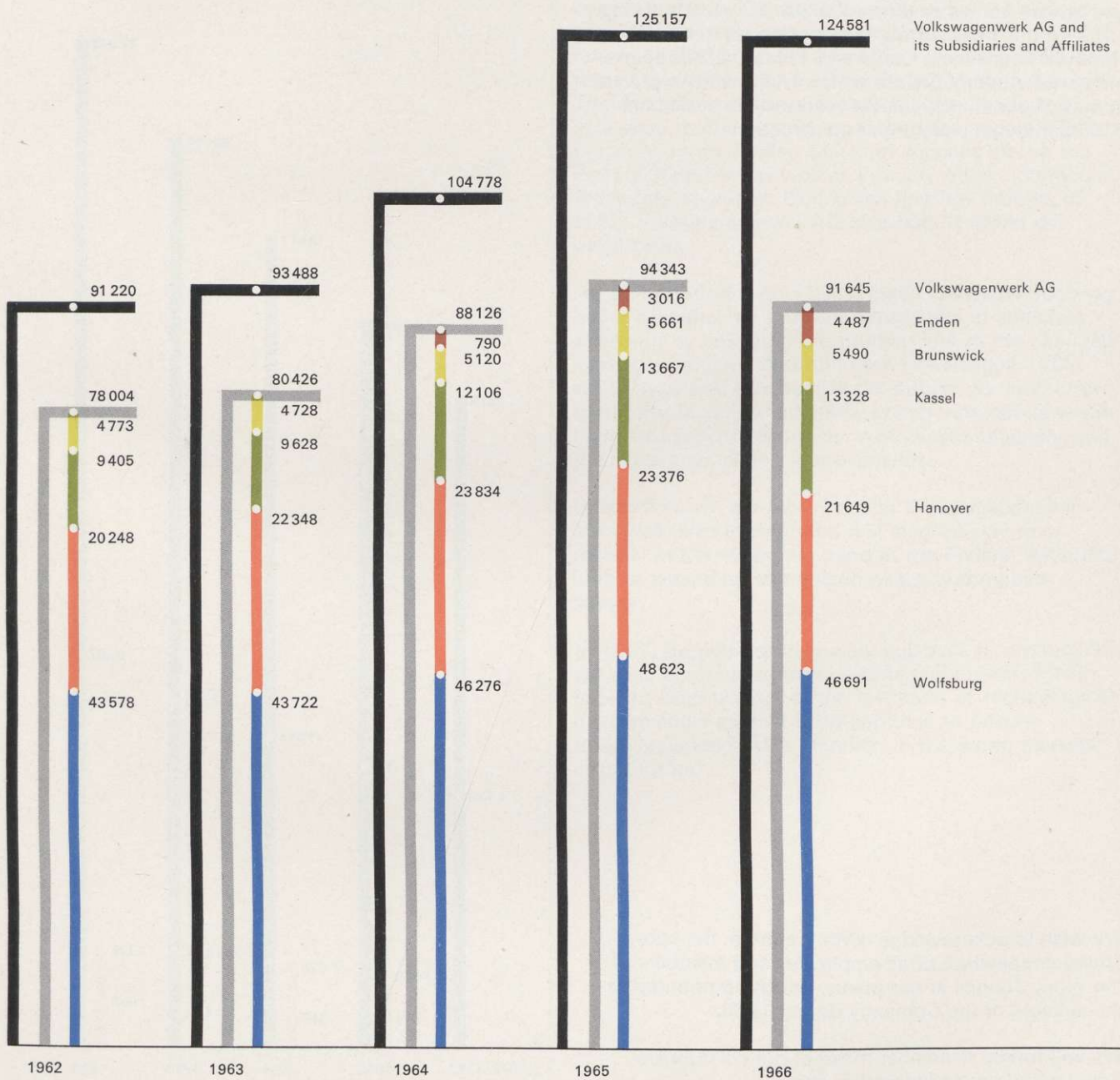
1. The 1966 wage and salary increases.
2. The wage and salary increases pursuant to the July 1965 union contract, which was in effect for a full year in 1966 as opposed to a half year in 1965.
3. The increase in the average labor force during 1966.

In 1966, in addition to their regular vacations, 9,913 employees were granted special two-week expense-paid vacations, with pay, at our recreation centers. For 288 apprentices, the Company sponsored three-week vacations at the seashore or resort areas.

Following is an analysis of 1966 expenditures for compulsory and voluntary social contributions and benefits:

	DM
Compulsory social charges	129,625,267.76
Compulsory social benefits	123,111,504.85
Other social benefits (as specified in union contracts and other agreements)	139,015,008.10
Voluntary social contributions (fringe benefits) Primarily represents amounts paid as incentive bonuses; also includes contributions to employee pension plan and amounts for upkeep of our canteens, stores and bachelor accommodations	99,677,768.85
Total social expenditures	491,429,549.56

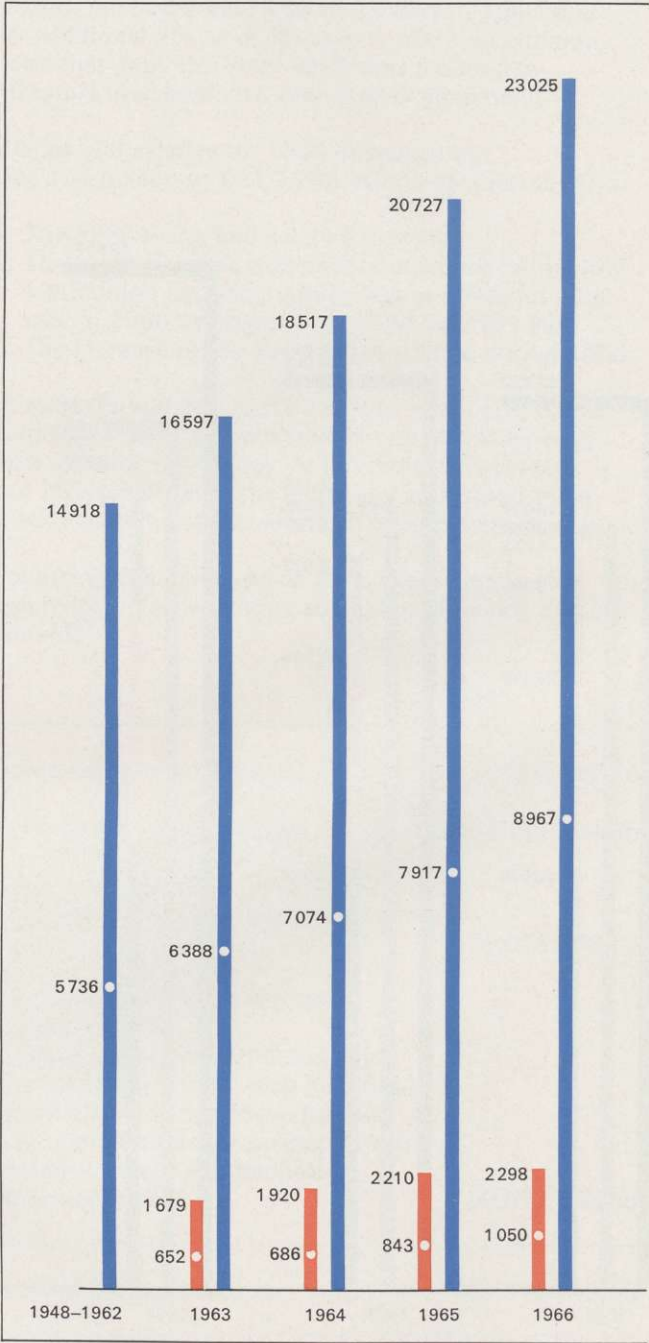
Number of Employees at Year-End



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

Company loans for the construction of apartments and private homes amounted to DM 30 million during 1966. In the areas surrounding our plants in Wolfsburg, Hanover, Brunswick, Kassel and Emden, 2,298 apartments were completed, of which 1,050 were in private homes of our employees. At year-end, an additional 546 apartments were under construction.



We wish to acknowledge, with gratitude, the continued cooperation of all employees and members of the Work Council at our plants, which contributed to the success of the Company during 1966.

We will fondly remember those of our co-workers who passed away during the year.

Outlook

The development of the world-wide economy is currently affected by factors which influence economic growth unfavorably and will result in a lower growth rate in 1967 than in the preceding years. This reduced rate of growth will also affect the automobile industry. The decreasing demand for automobiles made it necessary to cut production toward the end of 1966, primarily, in the United States of America and in the Federal Republic, as well as in many other automobile producing countries. During the first few months of 1967, Volkswagenwerk AG also had to adjust its production.

An all-out effort is now being made toward overcoming buyer hesitancy by instituting measures to stimulate sales and by adjusting our product line to the changed market conditions. With the new Volkswagen 1200, which was well received by the public, we now offer the thrifty buyer a moderately priced automobile which combines superior economy, well known reliability, and the latest engineering improvements.

In addition, we are most hopeful that the economic measures already instituted will lead quickly to a reversal in the economic trend in the Federal Republic with an attendant stimulation of the automobile market.

In 1967, despite the necessary cut-back in production, we shall continue to make substantial investments in order to keep abreast of the fast pace of technological developments as well as to continue to ensure Volkswagenwerk AG's standing in the world markets in the future.

Comments on the 1966 Financial Statements

Financial Position

Increased earnings, in addition to funds generated by the sale of newly authorized shares of capital stock, resulted in a considerable improvement in our financial position by the end of 1966. Liquid funds amounted to DM 453 million compared to DM 185 million in the prior year.

Capital investments, having been financed entirely by our own resources, had little effect on our financial situation.

Our financial position improved considerably in 1966 in comparison with 1965 as shown in the following summary:

	12/31/66		12/31/65	
	in million DM		in million DM	
Assets				
Property, Plant and Equipment and Investments (including Long-Term Receivables)	2,150	62%	2,019	67%
Current and Other Assets (excluding Long-Term Receivables)	1,312	38%	977	33%
	3,462	100%	2,996	100%
Liabilities				
Stockholders' Equity (Capital Stock and Reserves)	1,837	53%	1,437	48%
Liabilities payable within:				
more than 4 years	366	11%	366	12%
1 to 4 years	148	4%	132	4%
1 year or less	1,111	32%	1,061	36%
	3,462	100%	2,996	100%

Most of the DM 466 million increase in total assets (balance sheet sum) is reflected in stockholders' equity. At December 31, 1966, the ratio of stockholders' equity to liabilities amounted to 113%, the most favorable ratio since the Company became a publicly held corporation.

At year-end, property, plant and equipment and investments (including long-term receivables) were slightly less than the total of stockholders' equity and long-term liabilities.

The Company had a substantial increase in liquid funds during the year which resulted in a considerably improved current ratio. The sources and uses of funds in 1966 and 1965 are shown in the following statement:

	1966	1965
	in million DM	in million DM
Sources of funds		
Sale of additional shares of capital stock (including premium)	323	—
Portion of earnings appropriated to reserves	77	37
Provision for depreciation of physical plant (including book value of assets disposed of)	415	398
Write-down of investments in subsidiaries and affiliates	139	126
Increase in:		
Long-term loans payable	—	35
Medium-term loans payable	16	—
Short-term loans payable	50	98
Decrease in:		
Medium- and short-term receivables	—	118
	<u>1,020</u>	<u>812</u>
Use of funds		
Investments in:		
Physical plant	500	485
Subsidiaries and affiliates	179	273
Increase in:		
Long-term receivables	6	5
Medium- and short-term receivables	56	—
Increase in inventories	11	132
Decrease in medium-term loans payable	—	105
	<u>752</u>	<u>1,000</u>
Increase (decrease) in liquid funds	<u>+268</u>	<u>./ 188</u>

Balance Sheet

Assets

The original cost of *Property, Plant and Equipment* (including construction in progress and advance payments to contractors) amounted to DM 4,248 million and accumulated depreciation totaled DM 2,390 million at year-end. The book value of property, plant and equipment (excluding fully depreciated special tools and miscellaneous low value items not capitalized) represented 44 % of original cost at December 31, 1966. Additions to property, plant and equipment during 1966 amounted to DM 459 million and are compared to 1965 as follows:

DM 169 million land and buildings compared to
DM 251 million in 1965

DM 290 million machinery and other equipment
compared to DM 367 million in 1965.

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

In 1966, provision for depreciation of physical plant increased by DM 18 million to a total of DM 411 million. Provision for depreciation on 1966 additions amounted to DM 163 million, of which DM 37 million and DM 126 million were provided on buildings and equipment, respectively. Depreciation not allowable for tax purposes, primarily on buildings acquired in prior years, amounted to DM 30 million in 1966.

Depreciation was provided for to the extent permissible for tax purposes. On machinery and equipment, such depreciation was calculated using the declining-balance method. Depreciation on buildings 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. In addition to depreciation allowable for tax purposes and write-offs of special tools, depreciation not allowable for tax purposes has been recorded on

the books for the past 7 years. The latter amounted to approximately 13% of the total accumulated depreciation on physical plant at year-end.

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

Additions to *Investments in Subsidiaries and Affiliates* during 1966 totaled DM 179 million of which DM 149 million represented the purchase of the remaining capital stock of Auto Union G. m. b. H. As in the previous year, the investment in that company was written down to par value. The write-down for 1966 amounted to DM 109 million. Other additional investments in subsidiaries and affiliates during 1966 were as follows:

DM 17 million purchase of stock of VEMAG S.A.
Veículos e Máquinas Agrícolas,

DM 12 million in form of productive equipment increasing the capital stock of both Volkswagen do Brasil S.A. and Volkswagen de Mexico, S.A. de C.V., the latter increase having been authorized in 1965,

DM 1 million minimum payment on the capital stock of the newly organized companies, Volkswagen Leasing G. m. b. H. and Deutsche Automobilgesellschaft m. b. H.

As in prior years, in view of the general risks inherent in long-term foreign investments in overseas countries, we have written off our current year's investment in VEMAG S.A., Volkswagen do Brasil S.A. and Volkswagen de Mexico, S.A. de C.V.

At year-end, the original cost of our investments in subsidiaries and affiliates amounted to DM 618 million, of which DM 416 million and DM 202 million pertained to domestic and foreign companies, respectively. Write-offs, of which only a minor amount was permitted for tax purposes, amounted to DM 416 million at December 31, 1966.

As in the previous year, *Other Investment Securities* consist of 5% West German Government bonds for the Promotion of Developing Countries.

The book value of our *Inventories* increased by DM 11 million over 1965 to DM 650 million at December 31, 1966. Raw materials and supplies decreased mainly due to a reduction in the stock level of such materials, even though prior years' inventory valuation allowances, not deductible for tax purposes, were partially dissolved in 1966. The increase in inventories, therefore, resulted mainly from an approximate one-third increase in finished products due to larger automobile inventories. Our method for valuing work in process and finished products was changed as prescribed by the valuation regulations of Aktiengesetz 1965 which specify that, in addition to direct costs, only the proportionate indirect production costs (excluding depreciation) are considered to be inventory costs. The lower valuation in 1966 compared to 1965 was almost offset by a dissolution of prior years' inventory allowances, not deductible for tax purposes.

The reduction of *Securities* in 1966 to DM 9 million was due mainly to the sale of bonds from our portfolio. Where necessary, securities were written down to market value at December 31, 1966.

Additional *Long-Term Loans* of DM 24 million were granted by the Company for housing construction. Payments have been received when due, and the unpaid balances of all such loans granted as of December 31, 1966, amounted to DM 191 million as compared to DM 171 million at the end of 1965. For balance sheet purposes, interest-free loans have been discounted to indicate present values.

Of the total loans shown on the balance sheet as loans in accordance with section 89 of AktG 1965, DM 11,873,481.52 represent loans to a non-profit housing construction company (section 89, paragraph 4 of AktG).

As in prior years, the major portion of our *Trade Accounts Receivable* represents amounts due from customers abroad. Subsequent to December 31, 1966, all material amounts were collected when due.

Receivables from Subsidiaries and Affiliates increased by DM 34 million to a total of DM 133 million at December 31, 1966. The increase resulted mainly from the delivery of productive equipment and from loans granted to VEMAG S.A. and to Volkswagen Australasia Ltd. Receivables from our Canadian subsidiary decreased, however, due to fewer vehicle deliveries toward the end of 1966. The easing of currency transfer restrictions during 1966 made it possible once again to transfer fees and interest thereby further reducing our receivables from Volkswagen do Brasil S.A. As a precautionary measure, we have placed a lower value on the outstanding receivables.

Other Receivables of DM 54 million consist of cash surrender value of old-age insurance, estimated claims for refunds of taxes, the exact amount of which could not be determined at the balance sheet date, and numerous miscellaneous items. Doubtful accounts were minor in amount and have been written off.

Liabilities

Capital Stock increased by DM 150 million to a total of DM 750 million at year-end through the issuance of 3,000,000 new bearer shares with a par value of DM 50.— each. The resolution at the Annual Meeting of Stockholders on June 29, 1966, to increase the capital stock and the method of implementing the capital increase was entered in the commercial register at the district court in Wolfsburg on October 10, 1966.

The *Legal Reserve* increased by DM 173 million to a total of DM 234 million at year-end. The increase represents the 125% excess of net proceeds from sale of capital stock over par value thereof after deduction of stock-issue costs.

The *Reserve for the Share-the-Burden Property Levy* represents the discounted amount of this liability as of December 31, 1966.

Other Reserves were increased by DM 79 million to a total of DM 827 million at year-end.

Changes in *Undetermined Liabilities* were as follows:

balance January 1, 1966	DM 608 million
amount used	DM 258 million
elimination of reserves	DM 64 million
<hr/>	
additions	DM 286 million
	DM 395 million
<hr/>	
balance December 31, 1966	DM 681 million
<hr/>	
The year-end balance consists of	
pension plan costs	DM 239 million
distribution costs (especially warranty obligations)	DM 152 million
taxes	DM 98 million
social benefits and other labor costs	DM 98 million
general business risks, pending lawsuits and other miscellaneous items	DM 94 million
<hr/>	
	DM 681 million
<hr/>	

More than half of the DM 73 million increase over 1965 in undetermined liabilities is attributable to pension plan costs, which were based on actuarial computations in accordance with existing tax regulations. Undetermined liabilities also increased for general business risks, warranty obligations, social benefits and other labor costs, whereas those for pending lawsuits and taxes were lower than in 1965.

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

DM 256 million can be considered as relating to long-term risks,
DM 89 million as medium-term risks and
DM 336 million are of a short-term nature.

Long-Term Loans of DM 197 million consist of the following:

DM 131 million 5¼% plant improvement loan of DM 150 million, incurred 1961 through 1963, to be repaid in 8 equal, annual installments commencing in 1966.

DM 50 million loan granted to us by the State of Lower Saxony. The loan is to be repaid by the first half of 1980, and the interest rate is determined by the existing West German Federal Reserve Bank discount rate.

DM 10 million 5¼% loan granted to us by the Volkswagenwerk Foundation. This loan was repaid in the beginning of 1967 in advance of the due date.

DM 5 million loan of DM 6 million 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 2½% per year.

DM 1 million miscellaneous other long-term loans.

Prepayments by Customers of DM 14 million at year-end approximated those of the prior year and represent, primarily, advance payments made by foreign importers.

Trade Accounts Payable were DM 41 million lower than at December 31, 1965. The portion of accounts payable representing acquisition of property, plant and equipment increased from 11% of the total in 1965 to 16% in 1966.

At year-end, *Accounts Payable to Subsidiaries and Affiliates* increased by DM 44 million to DM 102 million. The principal creditors were the Wolfsburger Transportgesellschaft m. b. H., which had granted

short-term, interest-bearing loans to Volkswagenwerk AG, and Volkswagen of America, Inc., whose advance payments were higher than in the previous year.

More than one half of the *Other Liabilities* consists of payroll obligations incurred but unpaid at December 31, 1966. The remaining balance represents tax liabilities and numerous miscellaneous items.

As of December 31, 1966, our *Contingent Liability with respect to Discounted Trade Acceptances* amounted to DM 41,249,532.49.

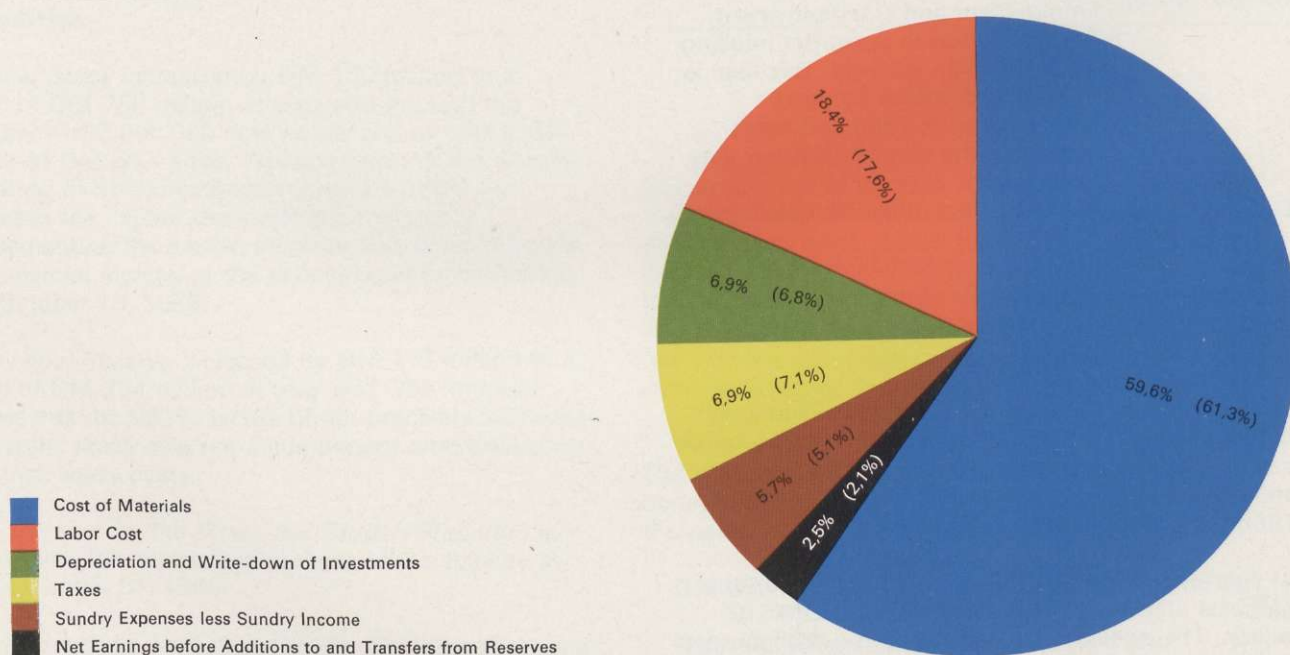
Furthermore, we were contingently liable for DM 14,500,000.— as guarantor of obligations of domestic companies.

Statement of Earnings

In 1966, net earnings before additions to reserves increased DM 76 million, or 25%, over 1965 to a total of DM 376 million at year-end. In 1965, net earnings were adversely affected by the assumption of the loss of Auto Union G. m. b. H. The DM 76 million increase was due to more favorable earnings from 1966 operations, higher income from investments in subsidiaries and affiliates, the elimination of reserves no longer required and the reinstatement of write-offs.

In 1966, net earnings amounted to 4.8% of sales compared to 4% in 1965. Sales, totaling DM 7,800 million, increased 4.5% over the prior year.

Gross Output of the parent company, consisting of sales, inventory increase and material, wages and overhead capitalized as additions to plant and equipment, amounted to DM 7,975 million, an increase of DM 374 million, or 4.9%, over 1965. The ratios of selected income and expense data to gross output were as follows (1965 ratios in parentheses):



The increase in *Sales* of DM 339 million over 1965 was higher than the corresponding increase in the number of vehicles sold, due to price changes as well as the further increase in spare parts sales. The ratio of export sales to total sales increased from 57.1 % in 1965 to 62.9 % in 1966.

Expenditures for Raw Materials and Supplies increased by DM 94 million, or 2%, over 1965. Expenditures for raw materials alone increased 3.9% between years, which approximates the increase in gross output.

Income from Profit Assumption Agreements resulted from assuming the operating profit of Auto Union G. m. b. H. for 1966.

Income from Investments in Subsidiaries and Affiliates was received in the form of distribution of dividends for the year 1965, approximately DM 50 million of which was from:

Wolfsburger Transportgesellschaft m. b. H.,
Volkswagen of America, Inc., and
Volkswagen do Brasil S.A.

Dividends were also received from:

Volkswagen of South Africa Ltd.,
Volkswagen Canada Ltd.,
Volkswagen France S.A.,
Volkswagen-Finanzierungsgesellschaft m. b. H.,
VW-Wohnungsbau Gemeinnützige Gesellschaft
m. b. H. and
"Neuland" Gemeinnützige Wohnungs- und
Siedlungsgesellschaft m. b. H.

We permitted Volkswagen Australasia Ltd. to reinvest its 1965 earnings.

The increase of DM 25 million in *Gain on the Disposal of Physical Plant* resulted from the sale of productive equipment to subsidiaries and affiliates.

The increase of DM 32 million in *Elimination of Reserves for Undetermined Liabilities No Longer*

Required resulted from lower requirements for taxes, pending lawsuits and labor costs.

Other Income resulted primarily from taxes rebilled to companies with whom tax assumption agreement existed, revenues from kitchen and cafeteria sales, invoicing of advertising and sales promotion material, various other miscellaneous items and collection of receivables previously written off. In the previous year, extraordinary items considerably increased other income; whereas, in 1966, only 8% of total other income is of an extraordinary or non-recurring nature.

Expenditures for Wages and Salaries and Compulsory Social Expenditures increased by DM 122 million, or 9.4%, which represents a higher proportionate rise 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 increased by DM 8 million to a total of DM 54 million at year-end. The increase in the minimum amount of the contractual pension payments from DM 50.— to DM 75.— contributed to the increase in these expenditures, which again include charges for future and present pension payments as the major single item.

The *Provision for Depreciation of Physical Plant* and *Write-down of Financial Investments* have already been explained under the caption "Assets".

Taxes on Income, Earnings and Property, which increased by DM 9 million over 1965, include taxes on earnings of DM 368 million. This amount is DM 81 million higher than taxes on 1965 earnings.

Other Taxes consisted almost exclusively of sales tax.

Wolfsburg, April 1967

Expenditures under Loss Assumption Agreements, for the most part, were incurred by assuming the operating loss of VW-Siedlungsgesellschaft m. b. H. The loss was due to depreciation write-offs in accordance with section 7b of EStG and provision for depreciation of buildings which was calculated using the declining-balance method, as allowed for tax purposes. The start-up loss incurred by Volkswagen Leasing G.m.b.H., which was organized toward the end of 1966, also contributed, to a minor extent, to our expenditures.

The Management

Vandenberg

The increase of DM 165 million in *Other Expenses* was due largely to higher shipping costs and additions to undetermined liabilities to provide for various risks. For the first time, Wolfsburg Transportgesellschaft m. b. H. handled all shipments to overseas countries for the entire year. In 1967, the dividend distribution for the year 1966 by Wolfsburg Transportgesellschaft m. b. H. will almost offset the increase in shipping costs. Of the total other expenses, 6% is of an extraordinary or non-recurring nature.

Wolfsburg

Wolfsburg

Compensation to Management for the year 1966, including pension payments of DM 347,056.80, was DM 5,469,266.77. *Compensation paid to Members of the Board of Directors* in accordance with provisions of the Company's charter amounted to DM 263,100.-.

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Write-offs, not allowable for tax purposes, and additions to reserves reduced 1966 net earnings of DM 376 million to an amount of DM 120,106,743.07, which, when added to undistributed earnings for 1965 of DM 314,142.45, results in a total of DM 120,420,885.52. With the consent of the Board of Directors, we propose to distribute, as in 1965, a dividend of 20%, or DM 120,000,000.-, on the capital stock (DM 600,000,000.-) entitled to dividend distribution and to carry forward the balance.

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Report of the Board of Directors

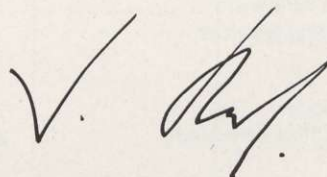
During the year under review, Management has kept the Board of Directors informed currently as to the status of the Company and its business activity. By these means, the Board of Directors was able to exercise continuous control over the conduct of the business.

The financial statements, 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 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.

The Board of Directors has reviewed the consolidated statements and the comparative summary of selected financial data shown in the annual report.

Wolfsburg, April 1967

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

Chairman of the Board of Directors

	Jan. 1, 1966	Additions	Deductions	Transfers	Provision for Depreciation
Property, Plant, Equipment and Investments	DM	DM	DM	DM	DM
Land and Buildings					
Land	16,639,058.30	1,585,890.13	4,792.14	3,686,175.94	—.—
Office and Residential Buildings	134,397,413.59	34,671,961.70	388,368.58	—.—	16,475,573.29
Factory Buildings and Other Structures	841,283,016.02	122,710,139.94	425,964.75	191,000.—	83,547,331.98
Unimproved Land	29,914,918.50	10,197,346.68	203,056.79	./ 3,686,175.94	50,208.14
Machinery and Fixtures	583,423,995.19	182,337,994.81	2,670,354.48	./ 162,202.—	203,191,385.56
Tools, Plant and Office Equipment	43,539,138.62	107,718,158.01	586,358.72	./ 28,798.—	107,975,805.23
	1,649,197,540.22	459,221,491.27	4,278,895.46	—.—	411,240,304.20
Construction in Progress	88,327,459.93				
Advance Payments to Contractors	35,541,965.35				
Investments in Subsidiaries and Affiliates	161,732,923.43	178,930,946.83	—.—	—.—	138,567,930.05
Other Investment Securities	22,062,501.—	—.—	—.—	—.—	—.—
	1,956,862,389.93				
		DM		DM	DM
Current and Other Assets					
Inventories					
Raw Materials and Supplies				254,080,398.55	
Work in Process				185,655,345.92	
Finished Products				209,835,637.93	
					649,571,382.40
Securities					8,768,837.—
Advance Payments to Suppliers					2,298,493.80
Long-Term Loans Receivable				190,728,106.81	
(including					
Secured by Mortgages		185,379,520.36			
Subsidiaries and Affiliates		132,888,026.—			
Loans in Accordance with Section 89 of AktG 1965		12,170,193.52)			
Adjustment of Value in Accordance with					
Section 7 c of EStG 1953				20,111,022.91	
Discount to Arrive at Present Cash Value				123,322,588.—	
					47,294,495.90
Trade Accounts Receivable					39,995,652.95
Receivables from Subsidiaries and Affiliates					132,851,312.47
(including Amounts for Goods and Services					
Rendered		102,832,565.81)			
Trade Acceptances Receivable					14,008,851.11
(including Subsidiaries and Affiliates		4,749,643.14)			
Cash on Hand, inclusive of Post Office Checking					
Account Credit Balances					189,391.68
Other Bank Credit Balances					430,227,286.25
Other Receivables					54,383,240.22
Prepaid and Deferred Expenses					

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Dec. 31, 1966	Dec. 31, 1965			Dec. 31, 1966	Dec. 31, 1965
DM	Thousand DM		DM	DM	Thousand DM
		Capital Stock		750,000,000.—	600,000
21,906,332.23	16,639				
152,205,433.42	134,398	Reserves			
880,210,859.23	841,283	Legal Reserve			
36,172,824.31	29,915	Jan. 1, 1966	60,000,000.—		
559,738,047.96	583,424	Excess of Net Proceeds from			
42,666,334.68	43,539	Sale of Capital Stock Over Par			
		Value Thereof	173,614,000.—		
1,692,899,831.83	1,649,198		233,614,000.—		60,000
		Reserve for the Share-the-Burden			
107,467,843.03	88,327	Property Levy	26,100,000.—		27,700
57,544,979.49	35,542	Other Reserves	827,139,704.08		748,574
202,095,940.21	161,733			1,086,853,704.08	836,274
22,062,501.—	22,062	Undetermined Liabilities			
		Old Age Pensions	239,428,370.—		194,906
2,082,071,095.56	1,956,862	Other Obligations	441,765,983.04		413,255
				681,194,353.04	608,161
		Liabilities			
		Long-Term Loans	197,156,773.66		216,663
		(including Due to Banks			
	316,041	DM 48,300,000.—)			
	168,315	Prepayments by Customers	13,982,328.19		14,666
	153,932	Trade Accounts Payable	407,154,115.69		448,241
		Accounts Payable to Subsidiaries and			
	638,288	Affiliates	102,114,583.17		58,247
		(including			
	31,810	Trade Accounts Payable			
	2,134	DM 17,992,431.13			
		Advance Payments Received of			
		DM 23,145,832.63)			
		Other Liabilities	102,635,203.96		93,263
				823,043,004.67	831,080
		Deferred Income		176,890.35	251
		Net Earnings Available for Distribution			
	41,563	Net Earnings Brought Forward from	314,142.45		282
	31,666	Previous Year	120,106,743.07		120,032
	98,914	Net Earnings for the Year		120,420,885.52	120,314
	6,959	Share-the-Burden Property Levy			
		Present Discounted Amount DM 26,097,373.—			
	221	Quarterly Installment DM 689,021.35			
	145,933				
	41,676				
1,379,588,943.78	1,039,164				
28,798.32	54				
3,461,688,837.66	2,996,080			3,461,688,837.66	2,996,080

Statement of Earnings

Year ended December 31, 1966

	1966		1965
	DM	DM	Thousand DM
Sales	7,797,256,650.03		7,458,038
Increase in Finished Products and Work in Process Inventories	81,121,619.04		45,418
		7,878,378,269.07	7,503,456
Material, Wages and Overhead Capitalized as Additions to Plant and Equipment		96,610,049.86	97,810
Gross Output		7,974,988,318.93	7,601,266
Expenditures for Raw Materials, Supplies and Outside Services		4,757,727,137.74	4,663,354
Excess of Gross Output over Expenditures for Raw Materials, etc.		3,217,261,181.19	2,937,912
Income from Profit Assumption Agreements	2,212,045.02		—
Income from Investments in Subsidiaries and Affiliates	52,537,890.50		22,974
Income from Other Investment Securities	1,250,000.—		1,250
Other Interest and Similar Income	19,753,042.40		19,109
Gain on the Disposal of Physical Plant	27,228,783.23		1,842
Elimination of Reserves for Undetermined Liabilities			
No Longer Required	63,736,889.09		31,673
Other Income	104,789,891.29		174,293
		271,508,541.53	251,141
		3,488,769,722.72	3,189,053
Wages and Salaries	1,282,078,289.33		1,174,749
Social Expenditures — Compulsory	129,625,267.76		115,249
Social Expenditures — Other	53,984,223.60		45,874
Provision for Depreciation of Physical Plant	411,240,304.20		393,356
Write-down of Financial Investments	138,567,930.05		126,445
Write-down of Current and Other Assets (excluding Inventories), including Discounts on Long-Term Loans Receivable	20,906,345.51		16,829
Loss on Disposal of Physical Plant	2,769,291.16		2,148
Interest Expense and Similar Charges	19,792,577.86		17,194
Taxes			
a) on Income, Earnings and Property	415,705,961.55		406,296
b) Other	130,414,574.70		127,958
	546,120,536.25		
Share-the-Burden Property Levy	2,756,085.40		2,756
Expenditures under Loss Assumption Agreements	3,394,974.96		88,452
Other Expenses	680,460,876.57		515,228
		3,291,696,702.65	3,032,534
Net Earnings before Transfer from and Additions to Reserves		197,073,020.07	156,519
Balance Carried Forward		197,073,020.07	156,519

	1966	1965
	DM	Thousand DM
Balance Brought Forward	197,073,020.07	156,519
Net Earnings Brought Forward from Previous Year	314,142.45	282
	197,387,162.52	156,801
Transfer from the Reserve for the Share-the-Burden Property Levy	1,600,000.—	1,500
	198,987,162.52	158,301
Additions to Other Reserves	78,566,277.—	37,987
Net Earnings Available for Distribution	120,420,885.52	120,314

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.

Wolfsburg, April 1967

Hanover, April 1967

Volkswagenwerk Aktiengesellschaft

Management

Nordhoff Haaf Hahn Hiemenz Höhne
Novotny Orlich Paulsen Thomée

Deutsche Revisions- und Treuhand-Aktiengesellschaft

Treuarbeit

Wirtschaftsprüfungsgesellschaft

Steuerberatungsgesellschaft

Schneider
Wirtschaftsprüfer

Dr. Apelt
Wirtschaftsprüfer

Condensed Consolidated Financial Statements of Volkswagenwerk AG and its Domestic Subsidiaries

December 31, 1966

Condensed Consolidated Balance Sheet

(1965 percentages in parentheses)

Assets				Liabilities			
	in million DM		%		in million DM		%
Property, Plant and Equipment	2,317	54	(60)	Stockholders' Equity	2,035	48	(43)
Investments (including Long-Term Receivables)	89	2	(3)	Liabilities payable within:			
Inventories	817	19	(20)	more than 4 years	572	13	(16)
Short- and Medium-Term Receivables	579	14	(12)	1 to 4 years	174	4	(4)
Liquid Funds	468	11	(5)	1 year or less	1,489	35	(37)
	4,270	100	(100)		4,270	100	(100)

Comments on the 1966 Condensed Consolidated Balance Sheet

In addition to Volkswagenwerk AG, the condensed consolidated balance sheet includes the following subsidiaries:

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

The condensed consolidated balance sheet was prepared in accordance with the regulations of the Aktiengesetz 1965.

The difference between the composition of assets on a consolidated basis and those of the parent company

is due primarily to the relatively large short-term loans granted by Volkswagen-Finanzierungsgesellschaft m. b. H. which are included in the consolidation in current and other assets. Due to the long-term loans payable of the subsidiary housing construction companies and the short-term liabilities of the subsidiary finance companies, the consolidated liabilities exceeded the consolidated stockholders' equity; whereas, for the parent company alone, stockholders' equity exceeded liabilities.

Comments on significant differences between 1966 and 1965 follow:

At December 31, 1966, stockholders' equity and liabilities not payable within four years exceeded property, plant, equipment and investments (including long-term receivables) by DM 201 million. This was due mainly to the increase in the capital stock of the parent company. This relationship was the reverse in 1965, although the difference was insignificant.

Compared to 1965, property, plant and equipment increased by DM 70 million, which consisted of DM 655 million of additional expenditures less DM 585 million of provision for depreciation and deductions.

Investments (including long-term receivables) decreased slightly with repayment of a loan granted by Auto Union G. m. b. H. to a foreign subsidiary and the liquidation of an investment which, on an over-all basis, was insignificant.

In 1966, current and other assets increased more than property, plant, equipment and investments. The improved current position resulted primarily from funds received toward the end of the year in connection with the parent company's capital stock increase.

Consolidated stockholders' equity includes reserves of DM 137 million.

The increase in short-term liabilities resulted from increased borrowings by Volkswagen-Finanzierungsgesellschaft m. b. H., higher tax liabilities and increased undetermined liabilities for warranty obligations and customer goodwill.

Condensed Consolidated Statement of Earnings

for the year ended December 31, 1966 (1965 percentages in parentheses)

	in million DM	%	
Sales	8,330	97.1	(98.5)
Changes in Inventories and Material, Wages and Overhead Capitalized as Additions to Plant and Equipment	251	2.9	(1.5)
Gross Output	8,581	100.0	(100.0)
Cost of Materials	5,053	58.9	(61.1)
Labor Cost	1,614	18.8	(18.4)
Depreciation of Physical Plant and Write-down of Investments	611	7.1	(7.0)
Taxes	584	6.8	(7.1)
Sundry Expenses less Sundry Income	464	5.4	(4.0)
Net Earnings	255	3.0	(2.4)

Consolidated 1966 net earnings of the domestic companies increased by DM 100 million to a total of DM 420 million before write-offs, not allowable for tax purposes, and additions to reserves. Write-offs, not allowable for tax purposes, reduced 1966 net earnings by DM 165 million to a total of DM 255 million.

Higher earnings, compared to 1965, were attributable to:

higher 1966 earnings by the parent company, improved results of Auto Union G. m. b. H., which, for the first time in several years, operated at a profit, higher dividends paid to the parent company by its foreign subsidiaries and affiliates, as well as elimination of undetermined liabilities and write-offs no longer required.

Comparative Summary of Selected Financial Data 1962–1966

in million DM	Volkswagenwerk AG					Consolidated	
						Domestic	Total
	1962	1963	1964	1965	1966	1966	1966
Assets							
Property, Plant, Equipment and Investments (as at Dec.31)	1,533	1,539	1,723	1,957	2,082	2,359	2,919
Investments in Physical Plant and Financial Investments	337	413	640	758	679	685	850
Depreciation of Physical Plant and Write-down of Financial Investments	332	404	453	520	550	611	641
Current and Other Assets (as at Dec. 31)	738	939	1,208	1,039	1,380	1,911	2,815
Liabilities							
Stockholders' Equity	1,123	1,261	1,400	1,437	1,837	2,035	2,644
including Reserves and Retained Earnings	523	661	800	837	1,087	1,285	1,894
Liabilities	1,148	1,217	1,531	1,559	1,625	2,235	3,090
payable within more than 4 years	247	320	331	366	366	572	648
Balance Sheet Total	2,271	2,478	2,931	2,996	3,462	4,270	5,734
Balance Sheet Ratios							
in %							
Property, Plant, Equipment and Investments, including Long-Term Receivables as a Percentage of Balance Sheet Total	70	64	61	67	62	56	52
Property, Plant, Equipment and Investments, including Long-Term Receivables as a Percentage of Current and Other Assets (excluding Long-Term Receivables)	228	180	155	207	164	129	110
Current and Other Assets (excluding Long-Term Receivables) as a Percentage of Short-Term Liabilities	91	120	119	92	118	125	124
Stockholders' Equity as a Percentage of Balance Sheet Total	49	51	48	48	53	48	46
Capital Stock and Reserves as a Percentage of Capital Stock	187	210	233	239	245	271	353
Stockholders' Equity as a Percentage of Liabilities	98	104	91	92	113	91	86
Stockholders' Equity as a Percentage of Property, Plant, Equipment and Investments, including Long-Term Receivables	71	79	79	71	85	85	88
Stockholders' Equity and Long-Term Liabilities as a Percentage of Property, Plant, Equipment and Investments, including Long-Term Receivables	87	99	97	89	102	108	110



Volkswagenwerk
Aktiengesellschaft
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