

VOLKSWAGENWERK
AKTIENGESELLSCHAFT
WOLFSBURG



ANNUAL REPORT FOR

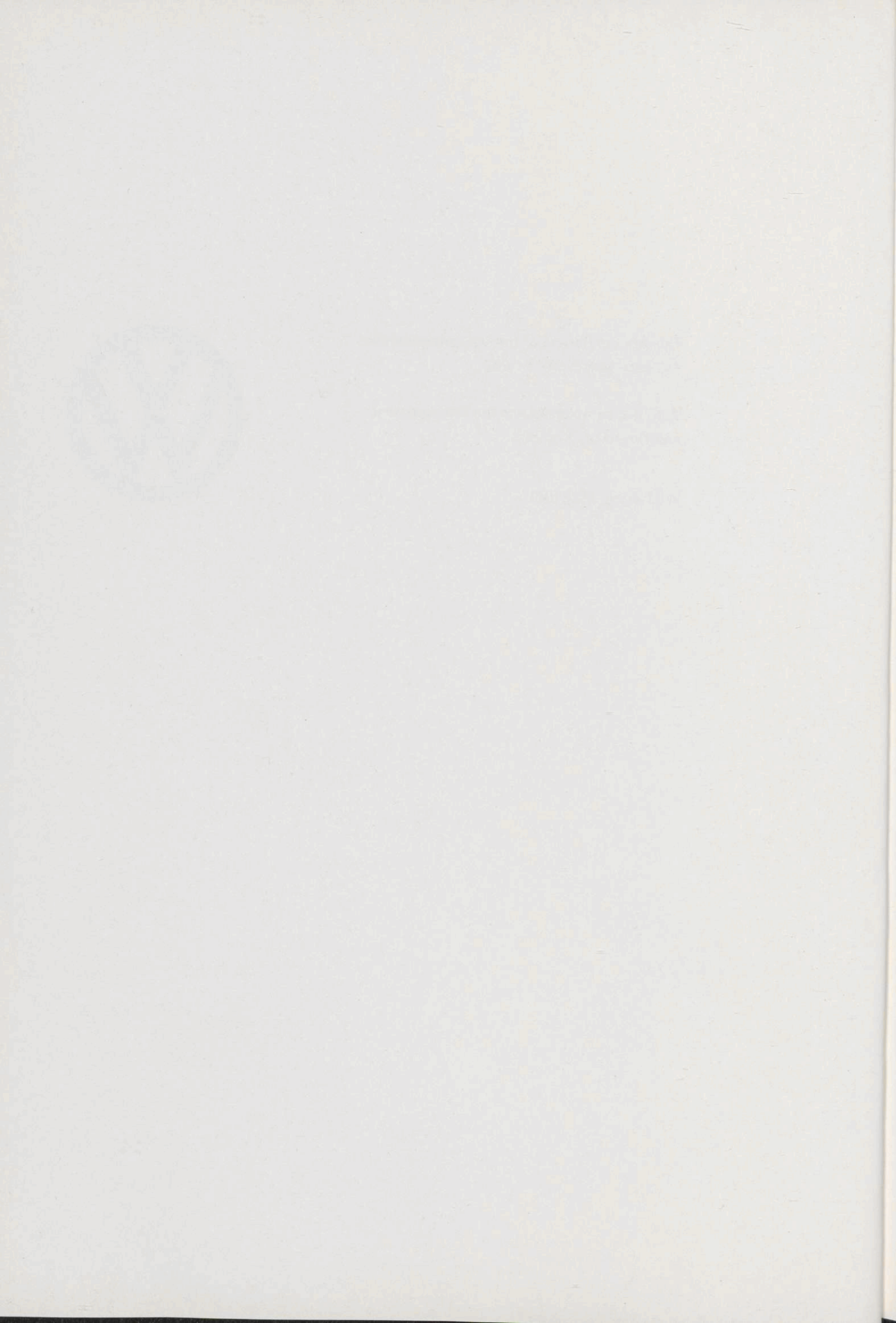
1960

The Annual Report of the Volkswagenwerk
Aktiengesellschaft for 1960

With the compliments of the Management
and Board of Directors

Wolfsburg, May 1961





AGENDA of a General Meeting of Shareholders
of Volkswagenwerk Aktiengesellschaft
to be held at Wolfsburg on Saturday, July 1, 1961 at 2:00 P.M.

1. Presentation of audited balance sheet and profit and loss statement as of December 31st, 1960 together with the annual reports of the Management and of Board of Directors for 1960.
2. Resolution with respect to disposition of net surplus earned in 1960.
3. Resolution with respect to discharge of responsibility of Management and Board of Directors for 1960.
4. Election of members of Board of Directors.
5. Election of auditor for 1961.

BOARD Dr. Hans Busch, Secretary of Ministry, Bonn, chairman
OF DIRECTORS Mr. Otto Brenner, Frankfurt, vice-chairman
(Aufsichtsrat) Dr. Paul Hüchting, Secretary of Ministry, Hanover, vice-chairman
Dr. Josef Rust, Kassel, vice-chairman
Mr. Hugo Bork, Wolfsburg
Mr. Siegfried Ehlers, Wolfsburg
Otto Fricke, LL.D., Goslar
Mr. Carlo Graaff, Minister, Hanover
Mr. Hans Grimm, Wolfsburg
Mr. Walter Haefner, Zurich
Mr. Rudolf Heinrich, Hanover
Prof. Karl-Maria Hettlage, Secretary of Ministry, Bonn
Mr. Waldemar Guido Koch, Bremen
Dr. Friedrich Krämer, Hanover
Dr. Hermann Richter, Düsseldorf

MANAGEMENT of the former Volkswagenwerk Gesellschaft mit beschränkter Haftung
until its transformation to Volkswagenwerk Aktiengesellschaft on August 22, 1960

Prof. Heinrich Nordhoff, Eng. D. h.c.

Mr. Oskar W. Jensen (until January 31, 1960)

Mr. Wilhelm Steinmeier, deputy

MANAGEMENT Prof. Heinrich Nordhoff, Eng. D. h. c., chairman

(Vorstand) Mr. Fritz Frank

Dr. Kurt Haaf

Mr. Hans Hiemenz, since February 23, 1961

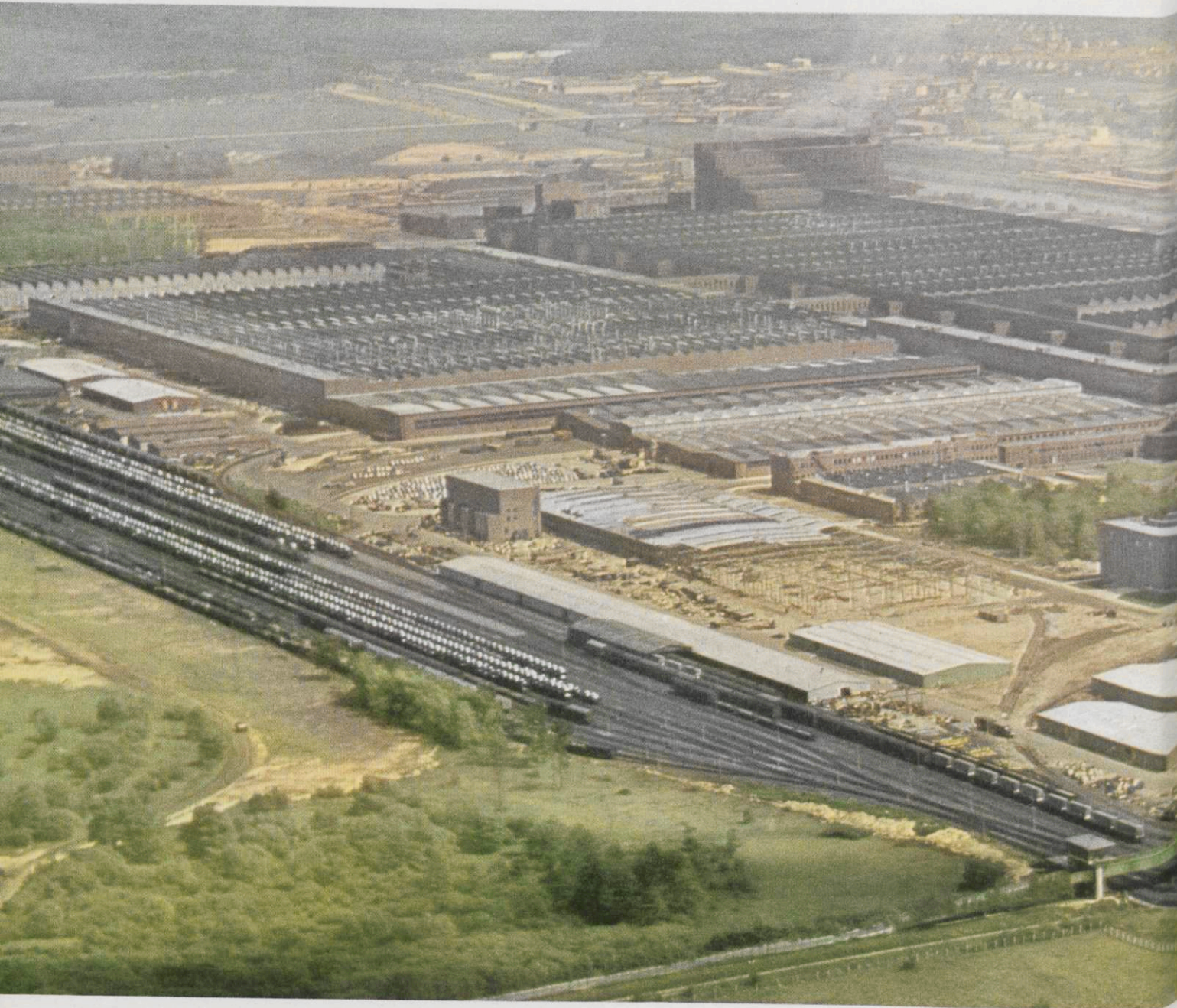
Mr. Otto Höhne

Mr. Frank Novotny, since February 23, 1961

Mr. Helmut Orlich, since February 23, 1961

Mr. Julius Paulsen

Dr. Wolfgang Siebert

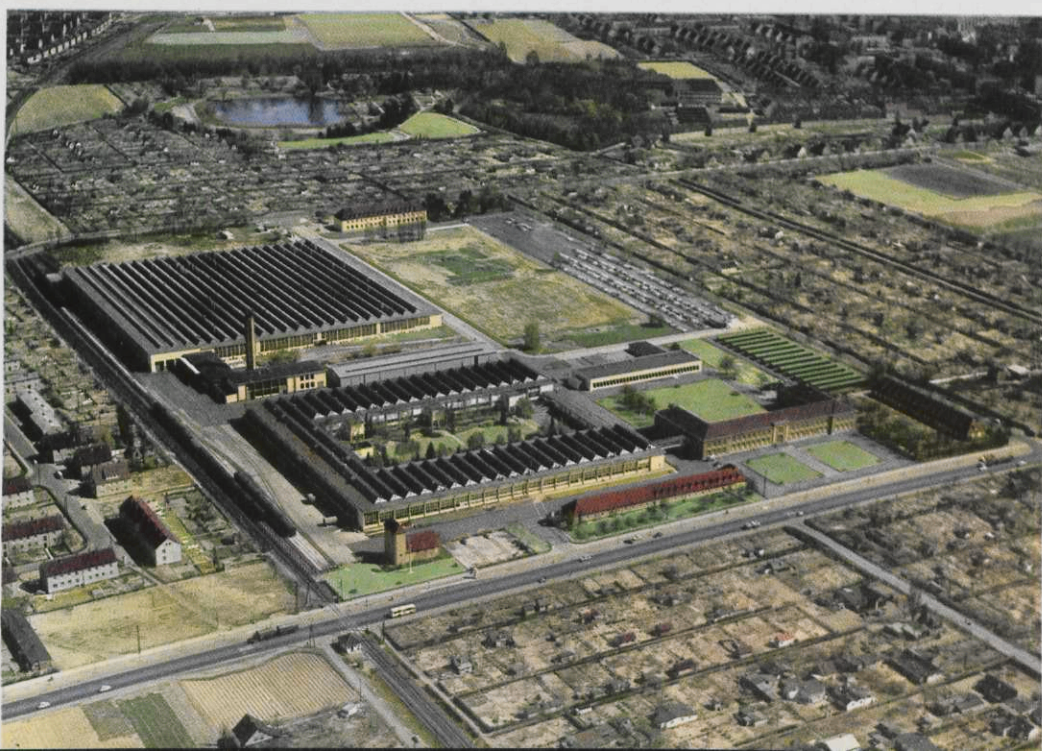




Hanover Factory
Kassel Factory



Brunswick Factory



LEGAL POSITION

The Statute Defining the Legal Position of Volkswagenwerk Gesellschaft mit beschränkter Haftung, enacted May 9, 1960, provided: »The shares of Volkswagenwerk Gesellschaft mit beschränkter Haftung, which were owned by the former Treuhandgesellschaft für Wirtschaftliche Unternehmungen Gesellschaft mit beschränkter Haftung and by the former Vermögensverwaltung der Deutschen Arbeitsfront Gesellschaft mit beschränkter Haftung, both having their principal place of business at Berlin-Wilmersdorf, are as of May 24, 1949 property of the Federal Republic of Germany.«

The control which the State of Lower Saxony exercised on behalf and pursuant to instructions of the Federal Government over the property of the company on the basis of Ordinance No. 202 of the British Military Government of September 6, 1949 ended with the enactment of this statute.

At a meeting of the shareholders of Volkswagenwerk Gesellschaft mit beschränkter Haftung held on July 6, 1960 it was resolved to increase the capital by DM 300 million to DM 600 million in accordance with the provision of the Act of December 23, 1959 Relating to Increases of Capital out of Corporate Surplus and to the Profit and Loss Statement.

By resolution of the same meeting of shareholders, Volkswagenwerk Gesellschaft mit beschränkter Haftung was transformed into a stock corporation in accordance with sections 269 *et seq.* of the Stock Corporation Law. This resolution was entered on August 22, 1960 in the Mercantile Register of the District Court Wolfsburg.

In accordance with section 270, subdivision 2, of the Stock Corporation Law, the shareholders meeting confirmed the appointment of the ten members of the Board of Directors of the stock corporation designated by the Federal Government and the State of Lower Saxony. The five employee representatives elected pursuant to sections 76 *et seq.* of the Shop Constitution Law are likewise members of the Board of Directors of the stock corporation until the election of successors.

Pursuant to the Statute Relating to the Transfer into Private Possession of the Shares of Volkswagenwerk Gesellschaft mit beschränkter Haftung, enacted July 21, 1960, the Federal Government must sell, as bearer shares with a par value of DM 100 each, shares of stock of an aggregate par value of DM 360 million (60% of the capital). Since then, these shares have been offered at a price of DM 350 per share to that part of the population which is designated by the Statute and have been subscribed by it in full.

The balance of 40% of the capital remains in equal shares with the Federal Republic of Germany and the State of Lower Saxony. Underlying this arrangement is the contract between the Federal Government and the State of Lower Saxony of November 11 and 12, 1959, which is annexed to the Statute of May 9, 1960. This contract, among other things, also provides that the proceeds from the sale of the shares of stock and the yearly dividends on the shares of stock remaining with the Federal Government and the State of Lower Saxony will be made available to »Stiftung [Foundation] Volkswagenwerk« which is to be organized by the Federal Government and the State of Lower Saxony for the purpose of furthering science and technique through research and teaching.

GENERAL BUSINESS SITUATION

The increase in business activity which was noted all over the world in 1960 has continued in Europe. In 1960 there was only a slight increase in the economic activities in the United States as against the previous year.

In the Federal Republic of Germany the gross national product was increased by a genuine 8% whilst in 1959 the increase was 7%. Almost all branches of industry and trade felt the advantages of this favourable state of affairs to some extent or other. The industrial production was raised by 11%.

In some countries the automobile industry did not develop in accordance with the general tendency. 1960 brought many export setbacks for several automobile manufacturers which mainly resulted from decreased exports to America.

The Compact Cars which had been developed under the influence of the increasing imports of European automobiles were a success and reached, at the end of 1960, a market penetration of 32% of the passenger car production which had increased by 19.7% to 6.7 million.

In Great Britain and France the vehicles from the increased production which, due to increasing difficulties in export sales, were offered to the home market could not be sold there. At the end of the year the automobile industry in these countries had to cut their production and this resulted in part-time work and dismissals.

In the Federal Republic of Germany where as in Italy the market is still expanding buyers with increased purchasing power are now looking for higher quality and better workmanship of the vehicles. With this development in the automobile business the seller's market became a buyer's market. Not all of the automobile manufacturers increased their production.

With increasing competition in the future, only those manufacturers who have mechanized their factories and made use of automation to a great extent will be able to sell their products at competitive prices and therefore various automobile manufacturers have the intention of making large investments in the near future.

PRODUCTION

In 1960, automobile production in the United States and in Western Europe increased at almost the same rate. In the United States 7.9 million vehicles were produced, that is 17.6% more than in the previous year, but 14.1% less than in the record year 1955. In Western Europe the automobile production reached a figure of 6 million and thus increased by 17%.

The production figures of the five major automobile manufacturing countries were:

	1960	1959	% Increase
USA	7,905,000	6,724,000	17.6
German Federal Republic	2,055,000	1,719,000	19.6
Great Britain	1,811,000	1,560,000	16.1
France	1,369,000	1,283,000	6.7
Italy	611,000	466,000	31.1

The rates of production increase were higher than the previous year except in France.

In the German Federal Republic, more than two million vehicles were produced in 1960 and this for the first time. The additional production of 337,000 vehicles represented the highest absolute increase so far; 94.5% of this is due to the increase in passenger car production. The four major automobile manufacturers were responsible for 85% of the total production as against 82% in 1959.

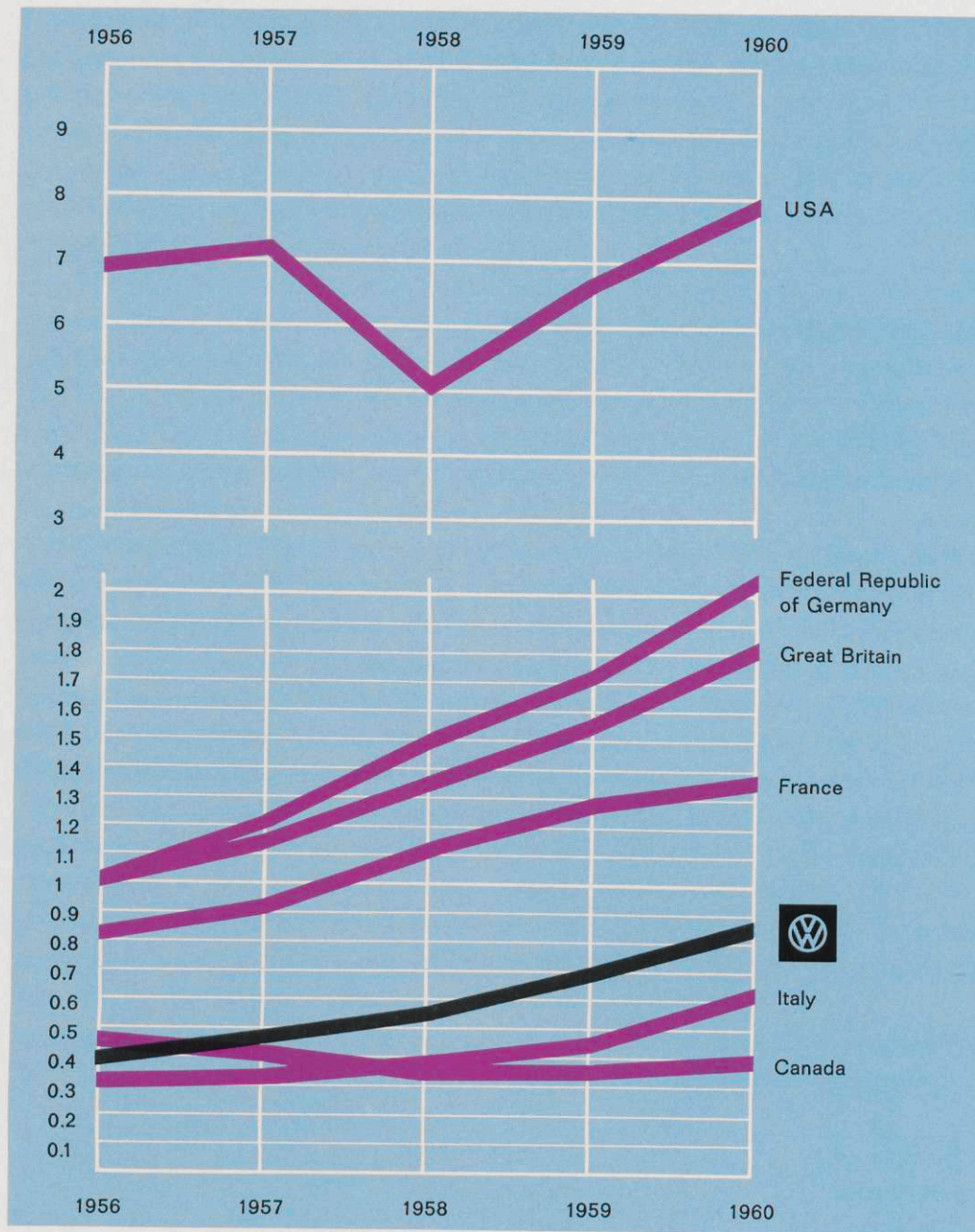
By making full use of capacity and attaining an exceptional increase in production of 168,998 vehicles or 24.3% Volkswagenwerk's share in total West German automobile production increased from 40.5% to 42.1%.

Volkswagenwerk's production figures were:

	1960	1959	% Increase
Passenger cars	725,939	575,407	26.2
Transporters	139,919	121,453	15.2
	865,858	696,860	24.3

Furthermore, Volkswagen do Brasil S.A. produced the following number of vehicles by using partly Volkswagen CKD parts:

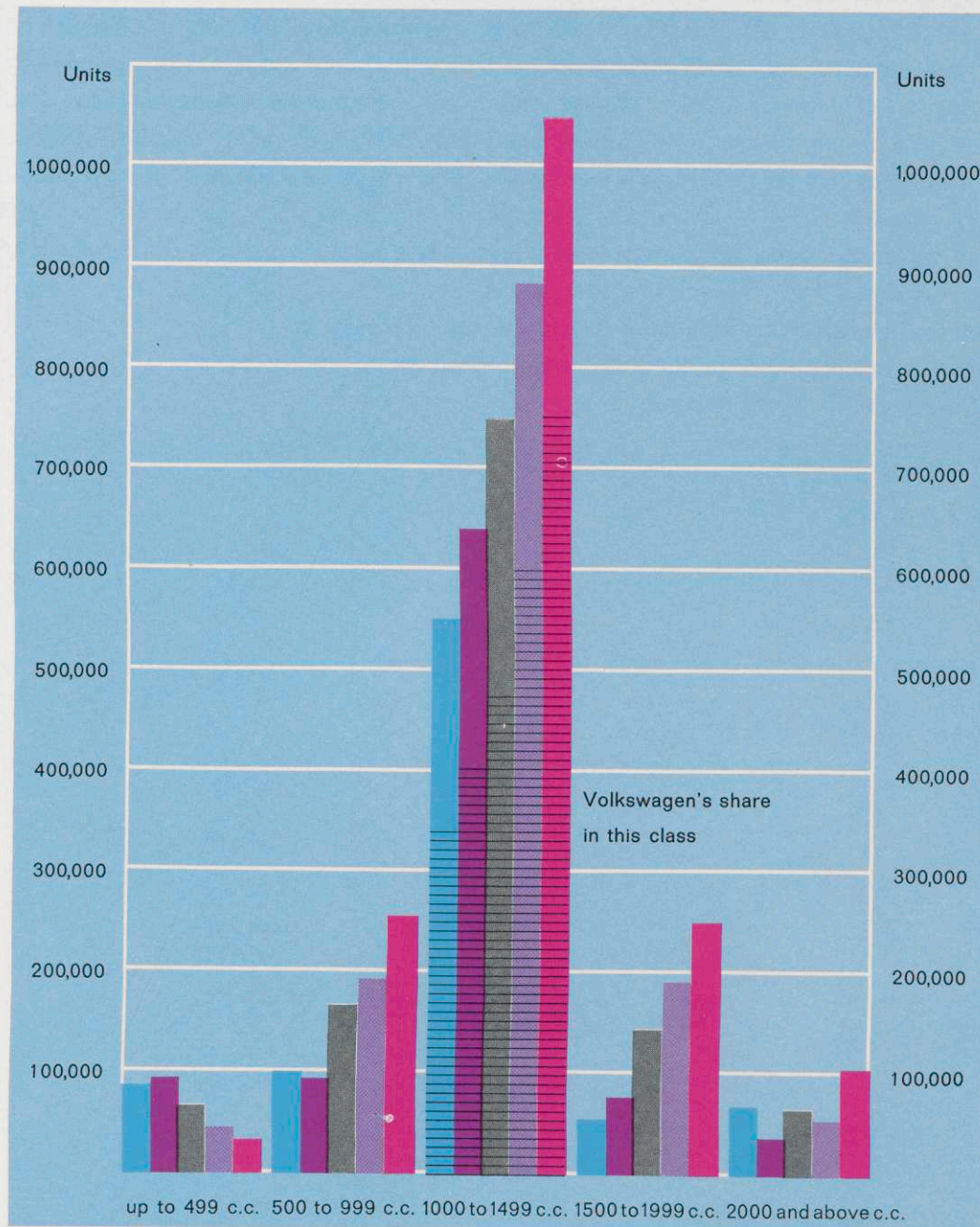
	1960	1959
Passenger cars	13,516	—
Transporters	11,299	8,383
	24,815	8,383



Automobile Output
of Major Producing Countries
and of the Volkswagenwerk
in Units of 1,000,000

Passenger Car Production
including Station Wagons
and Ambulances
in the German Federal Republic
According to Cubic Capacity

1956
 1957
 1958
 1959
 1960



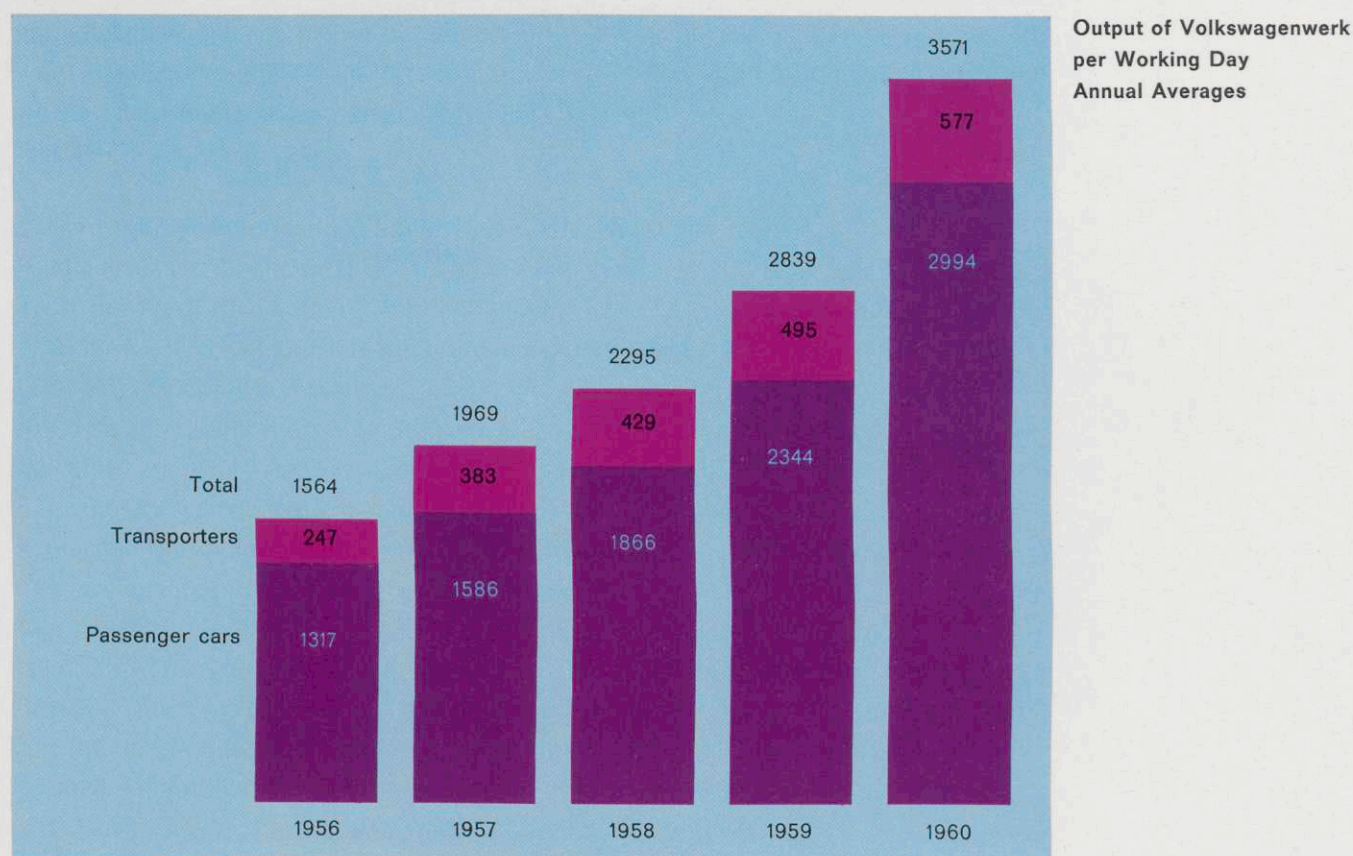
During 1960, the output of Volkswagenwerk per working day increased by 647 to 3,783 vehicles. By the end of the report year a total of 4.2 million Volkswagen vehicles had been produced.

About the middle of 1960 the following important changes were introduced for passenger cars and transporters without production delays:

- New more silently running 40 bhp (SAE) engine with longer life
- Automatic choke
- New transmission, fully synchronized four gears
- Headlamps with asymmetrical low beams
- Flashing indicators instead of old-type direction indicators

In addition, the passenger car has been provided with

- Windshield washer and larger luggage compartment



SUPPLY OF MATERIAL

In the report year our demand for material and finished parts as well as machinery and equipment increased considerably due to the increase in production and the expansion of the factory. This increased the Volkswagenwerk's importance as a customer for many branches of industry. The supply of material to our plants was adequate because of the close cooperation with our sub-contractors who were able to cope with our ever-increasing demands. Despite considerable wage increases all suppliers maintained essentially the same purchase prices.

Purchasing from suppliers abroad and in West Berlin was much greater than in the previous year.

CAPITAL INVESTMENTS

Our investment program was continued as planned. Additional working and storage space was provided by new buildings and extensions. The following large buildings were erected in 1960:

Wolfsburg factory

a plant for manufacturing wheel rims

a building incorporating laboratories and storage space

Hanover factory

an extension to the transporter manufacturing plant

Kassel factory

a plant for transmission manufacture and a power station

Volkswagenwerk's production and storage space now covers an area of well over 20 million sq.ft.

A large number of machines was purchased during the report year.

The transmission production was moved from Wolfsburg to Kassel.

At the end of the year the following buildings were under construction:

Wolfsburg factory

additional space for the paint shop and the experimental section, a second power station as well as various buildings for repairs and other necessary operations

Hanover factory

an extension for the engine manufacture

Kassel factory

a building for the manufacture and storage of spare parts

Brunswick factory

an additional building for front axle production

With these investments, the high standard of technical equipment and installations will be improved, and greater capacity will be attained.

In 1960 additions to investments in physical assets were DM 465.1 million as against DM 444.2 in 1959. This was divided as follows:

Wolfsburg factory DM 219.0 million

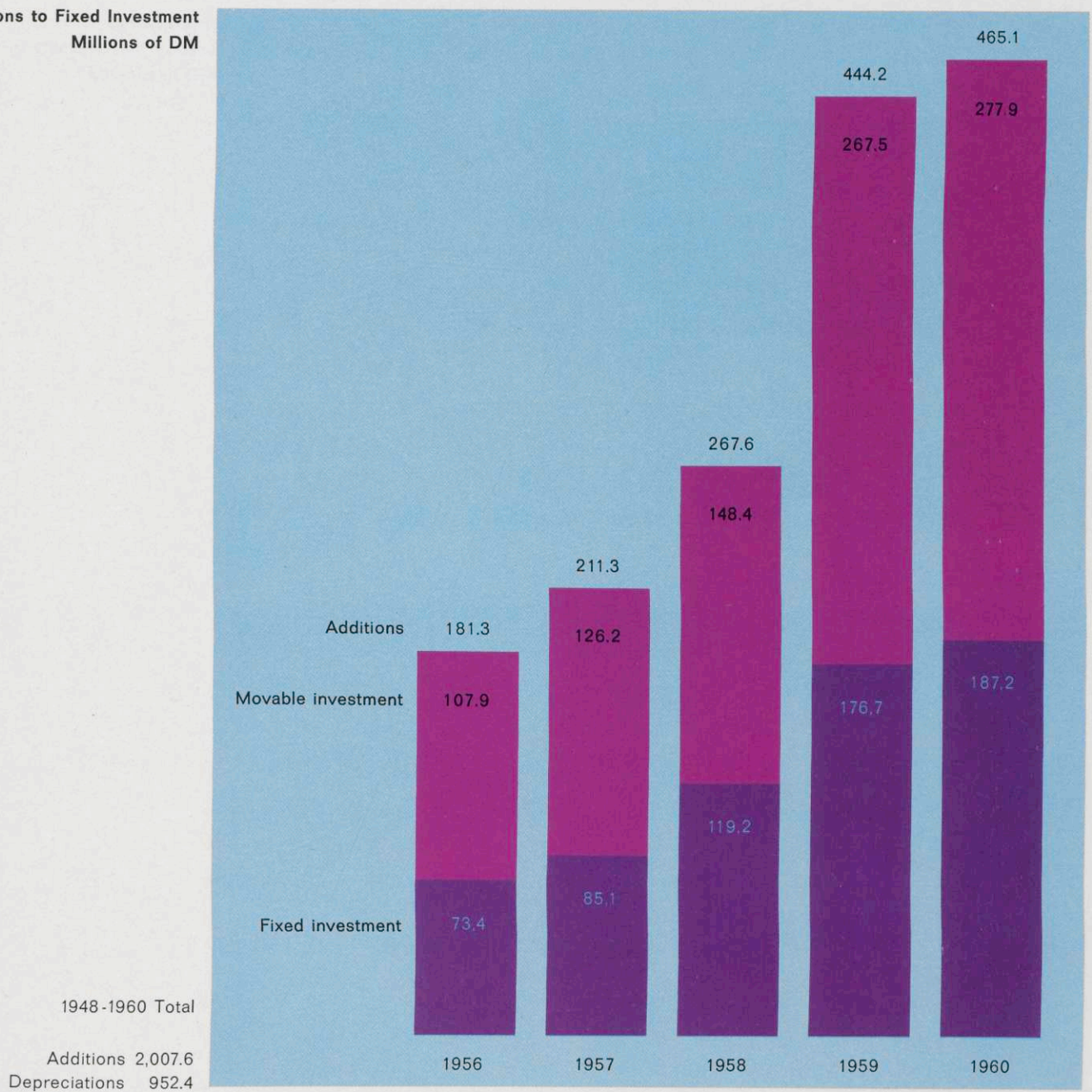
Kassel factory DM 141.2 million

Hanover factory DM 96.1 million

Brunswick factory DM 8.8 million

Thus, the total investments made since the currency reform including plants under construction and advances paid reached about DM 2.2 billion.

Additions to Fixed Investment
Millions of DM



SALES

In 1960 our company and its foreign affiliates reached a total volume of business in the automotive field of DM 4.6 billion, internal sales excluded. This corresponds to an increase of 30% with the previous year.

Our sales situation continued good during the whole year. Delivery times were normalized to a great extent by increases in productive capacity.

Retail prices remained unchanged in Germany even though considerable cost increases resulted from improvements made in passenger cars and transporters in the report year. There have been slight increases in price in some export countries.

Sales figures were:

	1960	1959	% Increase
Passenger cars	724,416	575,347	25.9
Transporters	139,334	120,985	15.2
	863,750	696,332	24.0

These figures also include the vehicles supplied as CKD packs and assembled abroad.

In addition Volkswagen do Brasil S.A. made and sold the following units:

	1960	1959
Passenger cars	13,490	—
Transporters	11,267	8,346
	24,757	8,346

The proportion of export sales to home sales, 43.4 to 56.6, showed a slight increase in favor of home sales (previous year 42.0 to 58.0)

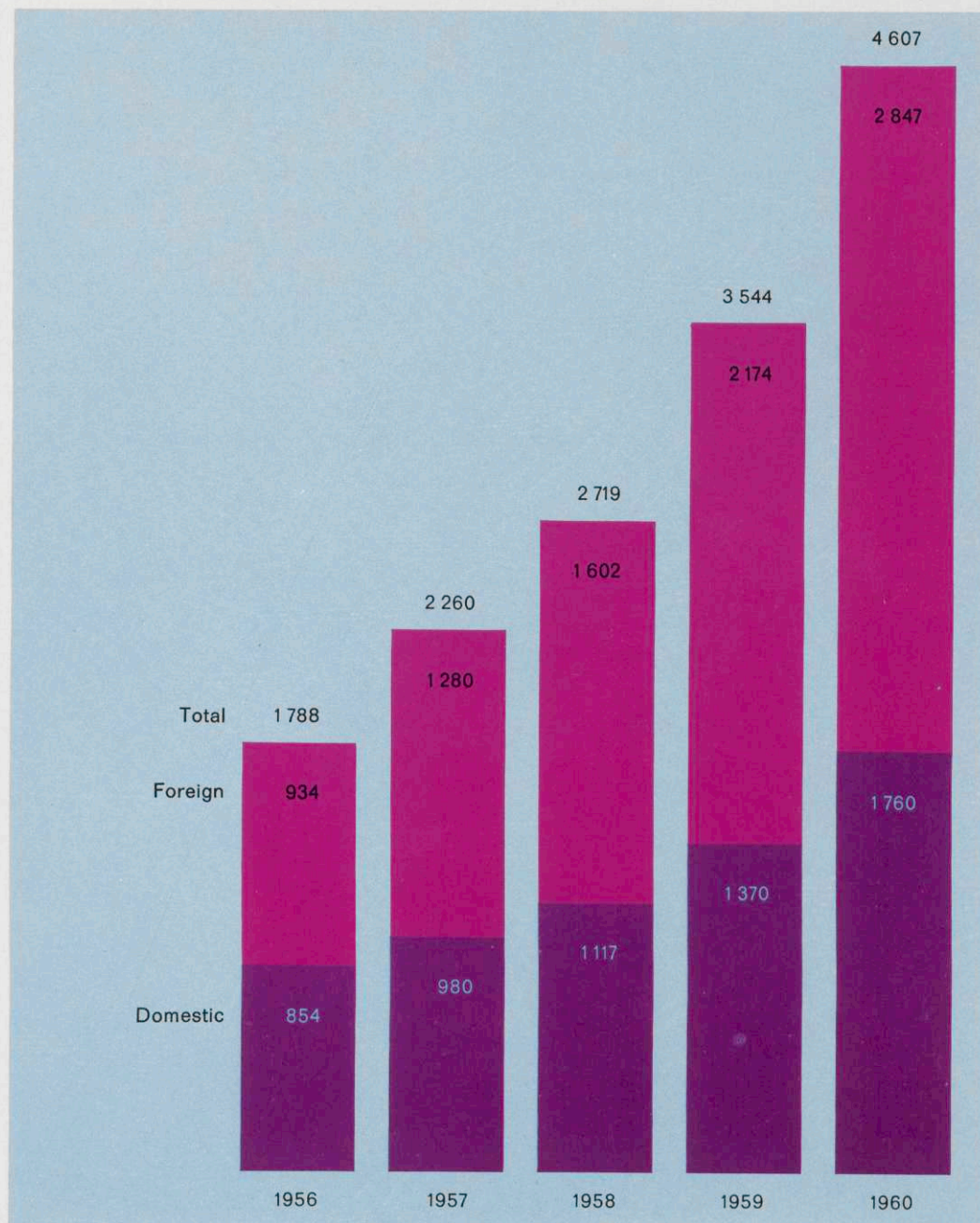
The standard model accounted for 3.4% of passenger car sales only as against 5.1% in the previous year.

Spare Parts business developed steadily. Unit exchange is constantly becoming more popular. So far more than 500,000 exchange engines have been delivered.

The sale of industrial engines which are mainly fitted to agricultural machinery and equipment increased.

The efficiency of our service organization at home and abroad was improved by the appointment of new dealers and workshops. Volkswagen owners are now served by 1,319 VW agencies in Germany and 4,088 abroad.

Development
of Consolidated Volume
Millions of DM



DOMESTIC

Due to the considerable production increase and the loss of sales of some automobile manufacturers in the US market, more vehicles were offered on the home market. During 1960 the registrations of new German automobiles increased by more than 160,000 or about 20% to 977,000 as against about 15% in the previous year. 94,000 new foreign vehicles were registered as against 99,000 in 1959.

On July 1, 1960, 4.2 million passenger cars were registered in Federal Territory and West Berlin which resulted in one passenger car license for 13 persons as against 15 in 1959. The comparable figures for Great Britain and France are 10, Sweden 7 and the United States 3.

Domestic sales were:

	1960	1959	% Increase
Passenger cars	327,370	251,164	30.3
Transporters	47,108	40,983	14.9
	374,478	292,147	28.2

Thus, Volkswagenwerk increased its share of new registrations in Federal Territory to 34.3% (31.5% previous year) for passenger cars including station wagons and ambulances and held its leading position with a share of 37.8% (33.9% previous year) for Kombi station wagons and trucks up to 2,750 lbs.

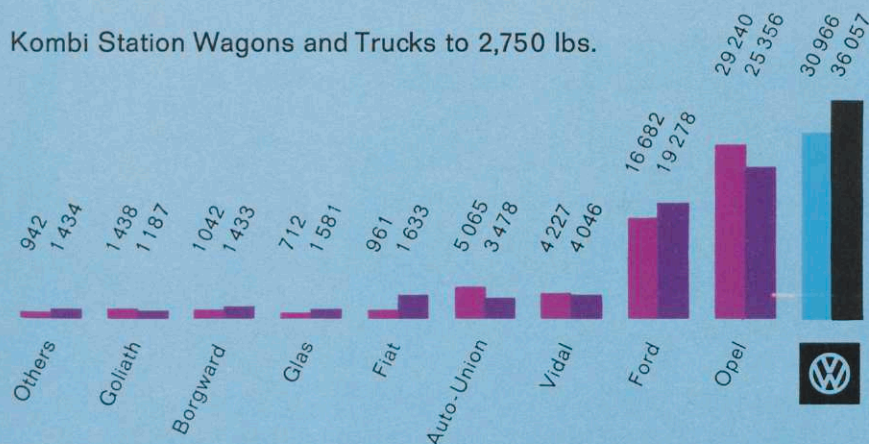
The share of passenger car buyers who are purchasing a Volkswagen from their taxed income continued to increase and reached 58%.

New Passenger Car, Transporter and Truck Registrations in Federal Territory and Westberlin

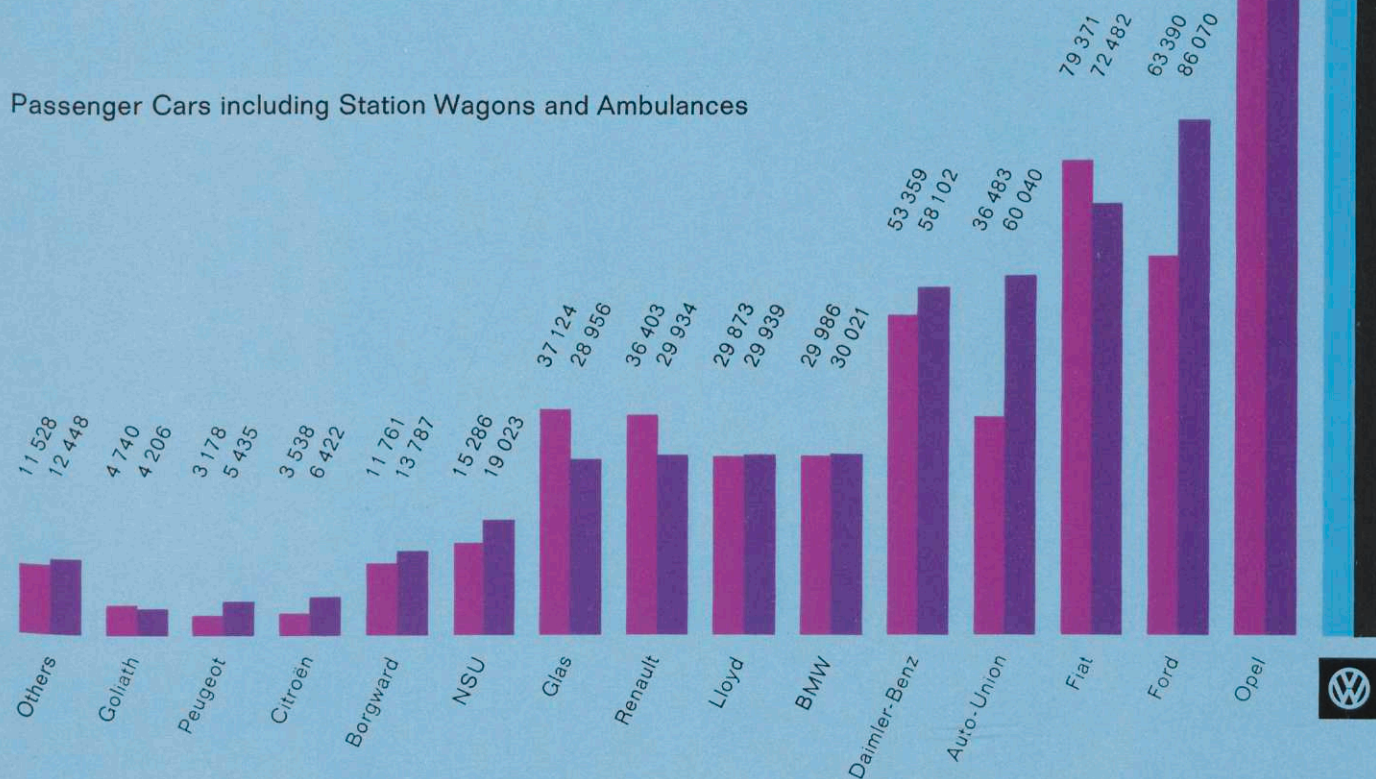
1959 1960 tentative

VW

Kombi Station Wagons and Trucks to 2,750 lbs.



Passenger Cars including Station Wagons and Ambulances



EXPORT

Competition on the export markets increased during the second half of 1960.

The Federal Republic exported 982,830 vehicles, that is a third of the automobile export of the world. Germany increased its exports by 111,873 vehicles, thus confirming its leading position among the countries exporting automobiles. With a share of 48% it exports more than any other country. In considering government measures, attention should always be drawn to the country's heavy dependence on exports and to the automobile industry's great importance for Germany – some 10% of the working population is employed in this industry.

Export sales to the European countries increased by 117,317 to 499,285 vehicles. The countries of the European Economic Community (EEC) imported 168,378 vehicles (33.7%), 306,687 vehicles (61.4%) were imported by the countries of the European Free Trade Area (EFTA).

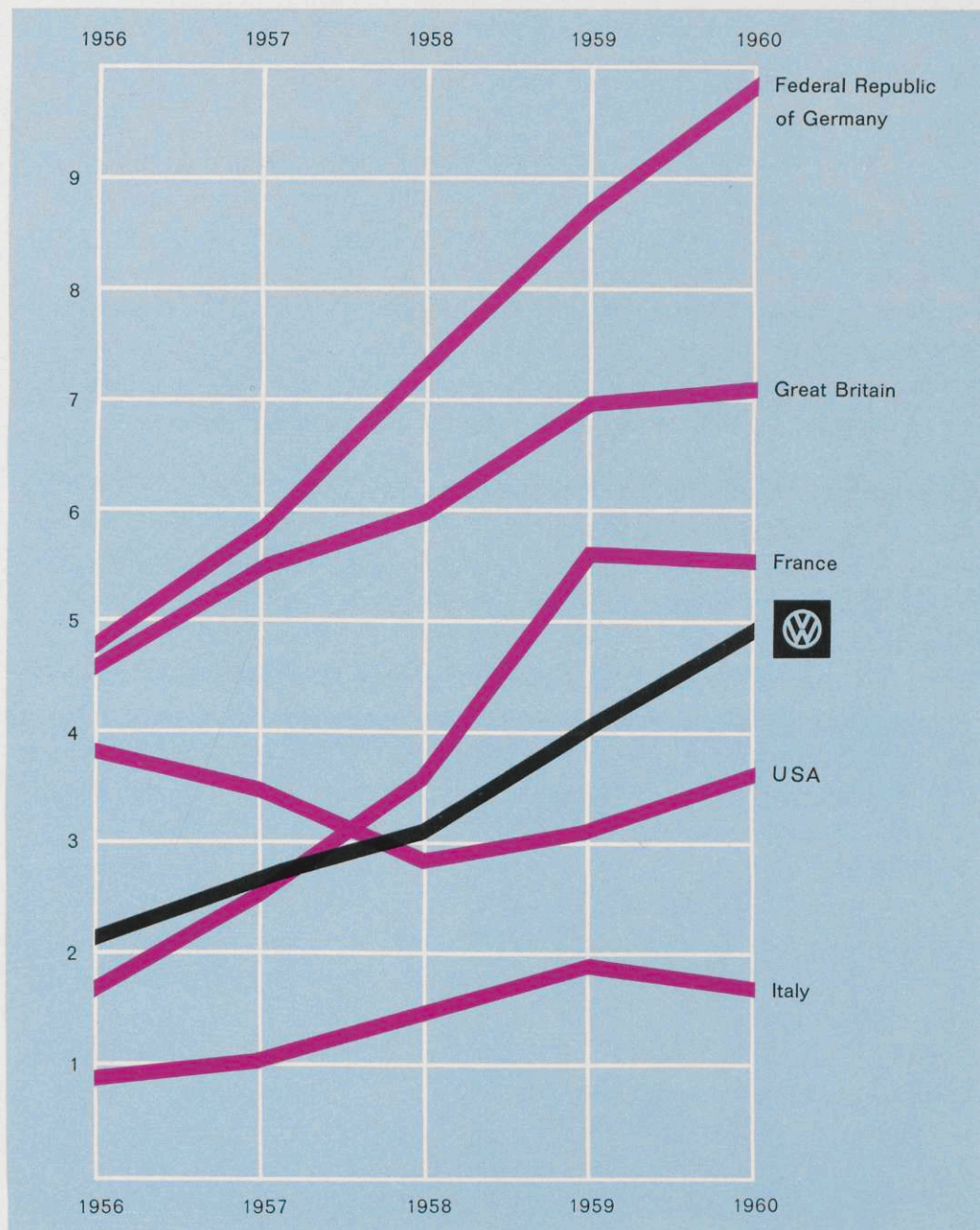
Volkswagenwerk's contribution to the export increase of the German automobile industry was 76%. In 1960 every second exported German automobile was a Volkswagen. Volkswagenwerk's share in passenger car exports (including station wagons and ambulances) increased to 53.6% (51.6% previous year) and to 43.8 % (38.7 % previous year) for Kombi station wagons and trucks.

Volkswagen exports

	Passenger Cars	Transporters	Total	%
Europe	153,831	35,242	189,073	38.6
America	175,565	42,500	218,065	44.6
Australia & Oceania	28,233	4,311	32,544	6.6
Africa	21,962	6,675	28,637	5.9
Asia	11,176	2,929	14,105	2.9
Indirect Export	6,279	569	6,848	1.4
Total 1960	397,046	92,226	489,272	100.0
Total 1959	324,183	80,002	404,185	
% Increase	22.5	15.3	21.1	

90% of all our exports was distributed to 20 countries, the remaining 10% being spread over a further 100 countries. There was a slight decline in overseas exports in favour of continental sales. We trust that our efforts to sell more vehicles to the EEC countries France and Italy will be successful. Great Britain which is an EFTA member removed the restrictions on the import of vehicles in 1960; as a result Volkswagen sales in that country increased considerably.

Automobile Exports
of Major Producing Countries
and of the Volkswagenwerk
in Units of 1,000,000



INVESTMENT IN SUBSIDIARY AND AFFILIATED COMPANIES

We offer the following comments on our investments:

Foreign

Volkswagen Canada Ltd., Toronto, Ontario, Canada

Total capital stock Can \$ 500,000.—

Held 100%

Years of rapid expansion in Volkswagen sales in Canada have been replaced by a period of quieter development. The recession in the Canadian economy has also resulted in increased competition in the automobile market. Nevertheless, the company has been able to increase its sales by 5.7% to a total of 35,041 vehicles. In the meantime the import situation has become considerably more difficult because the Canadian government has increased import duties for non-British cars. Although for this reason retail prices for Volkswagens had to be increased, we regard future sales prospects with confidence. Earnings for the year were satisfactory.

Volkswagen of America, Inc., Englewood Cliffs, N. J., U.S.A.

Total capital stock U.S. \$ 100,000.—

Held 100%

In spite of a substantial decline in U.S. automobile imports, Volkswagen of America, Inc. has increased its sales by 25.3% to a total of 162,110 vehicles and earnings were maintained on a satisfactory level.

During 1960 important changes have taken place in the American automobile market. The ever larger and more expensive American cars have been replaced to an unexpected extent by compact cars which are produced by almost all American manufacturers. In December 1960, the compact cars accounted for 32% of the production and may soon reach 50%.

Imports of European cars declined for the first time during the period under review. While 65,000 vehicles were imported during March 1960, monthly imports averaged only 20,000 beginning in August 1960. New registrations of imported passenger cars during 1960 declined by 119,000 to 495,000; however, Volkswagen's share increased from 19% to 31%.

In October 1960, the *Sylvan Avenue Corporation*, a subsidiary, commenced construction of a new administration building for Volkswagen of America, Inc.

Volkswagen do Brasil S.A., Sao Bernardo do Campo, Brazil

Total capital stock Cr. \$ 4,810,000,000.—

Held 80%

During the period under review the total capital stock was increased by Cr. \$ 1,730,000,000. Our share of the increase in capital was contributed in the form of productive equipment to meet plant capacity requirements.

Upon completion of the new productive facilities, the company's activities include both the assembly and manufacture of passenger cars. By the end of the year the production output per working day had increased to 190 vehicles. The share of Brazilian material used reached 90% and 93% for passenger cars and transporters respectively, in relation to the vehicle's total weight.

The number of employees increased by 4,206 to a total of 7,924.

During the year 1960 the company produced 13,516 passenger cars and 11,299 transporters. In addition the company assembled 3,543 passenger cars during the first part of the year.

Sales increased by 68.9% to 28,300 vehicles. The market share for both passenger cars and transporters amounted to 32.4%

Earnings for the year 1960 were good.

The *CIA. VVD de Crédito, Financiamento e Investimentos*, in which Volkswagen do Brasil S.A. holds a 50% interest, increased its sales as a result of expanded financing of vehicle sales and operations resulted in satisfactory earnings.





South African Motor Assemblers and Distributors Ltd. (SAMAD), Uitenhage, Union of South Africa

Total capital stock SA £ 400,000.—.—

Held 59.2%

By the purchase of additional stock, we again held a 59.2% interest in the company. During 1960 the Volkswagen automobile further strengthened its position in the South African market. Its market share amounted to 13.9%. Compared to 1959, sales increased by 14.7% to 16,676 vehicles.

In view of the unfavorable balance of payments, the South African government seeks to restrict imports, and regulations are being planned providing for greater utilization of parts produced locally. Consequently, certain changes in the present situation must be expected.

At year end the company employed 1,197 persons.

Earnings for the year were good.

The general business situation and the earnings of *South African Motor Acceptance Corporation (Pty.) Ltd.* continued favorable for the year 1960, although, due to increased competition from other finance companies, finance charges had to be reduced, and commissions for dealers had to be increased.

Volkswagen Insurance Services (Pty.) Ltd., which was established in 1959 with a total authorized capital stock of SA £ 10,000.—.— called for additional subscriptions during the year of SA £ 2,000.—.— (SA £ 5,000.—.— during the prior year). Again 50% each was paid in by SAMAD and another German company not affiliated with our organization. The insurance business has had a good beginning and the company has shown satisfactory earnings.



Volkswagen (Australasia) Pty. Ltd., Melbourne, Australia

Total capital stock Austr. £ 2,500,000.—

Held 75.5%

Our holdings in this company increased by 24.5% through the purchase of additional shares. The purchase price was paid early in 1961.

The expansion of the plant necessary for our own production requirements, including utilization of locally manufactured parts of up to 70%, continued as planned. During the year 1960 Volkswagen (Australasia) Pty. Ltd. together with its subsidiary, *Volkswagen Manufacturing (Australia) Pty. Ltd.*, assembled Volkswagens which were delivered in CKD packs.

The *Volkswagen Distributors Pty. Ltd.*, is primarily engaged in customer service.

The Volkswagen (Australasia) sold 29,207 Volkswagen vehicles during the year with a resulting increase in sales of 36.7%. Its share in new registrations of passenger cars and transporters amounted to 9.2%.

In order to effect savings in foreign exchange the Australian government has taken certain economic measures which include consumer credit restrictions affecting the automobile industry.

On October 14, 1960 Volkswagen (Australasia) Pty. Ltd. established another subsidiary, *Volkswagen (W.A.) Pty. Ltd.*, Perth, for the sale of its vehicles in Western Australia. During the year Austr. £ 100.— of the total authorized capital of Austr. £ 100,000.— was called for subscription.

The Australian subsidiaries had 1,457 employees as of December 31, 1960. Earnings of Volkswagen (Australasia) Pty. Ltd. were satisfactory.

Volkswagen France S.A., Paris, France

Common stock N.F. 1,000,000.—

Held 75.5%

As of January 1, 1960, France liberalized automobile imports from the countries of the European Economic Community (EEC) and this company was established to develop the French market. Apart from ourselves, two North American affiliated companies have holdings in the company. During the year the capital was fully paid in. In December 1960 it was resolved to increase the company's capital by an additional N.F. 1 million. The company commenced business in April 1960 and had sold 5,204 Volkswagen vehicles by the end of the year. The financial year of the company ended with a profit.

In connection with our holdings abroad we should like to mention that we shall contribute DM 25 million to the Development Aid Loan.

Domestic

Volkswagen-Finanzierungs-Gesellschaft m.b.H., Wolfsburg

Share capital DM 1,500,000.—

Held 100%

Reduced delivery periods for passenger cars and rising domestic sales resulted in an increase in financing operations. Financing losses did not occur and the earnings were satisfactory.

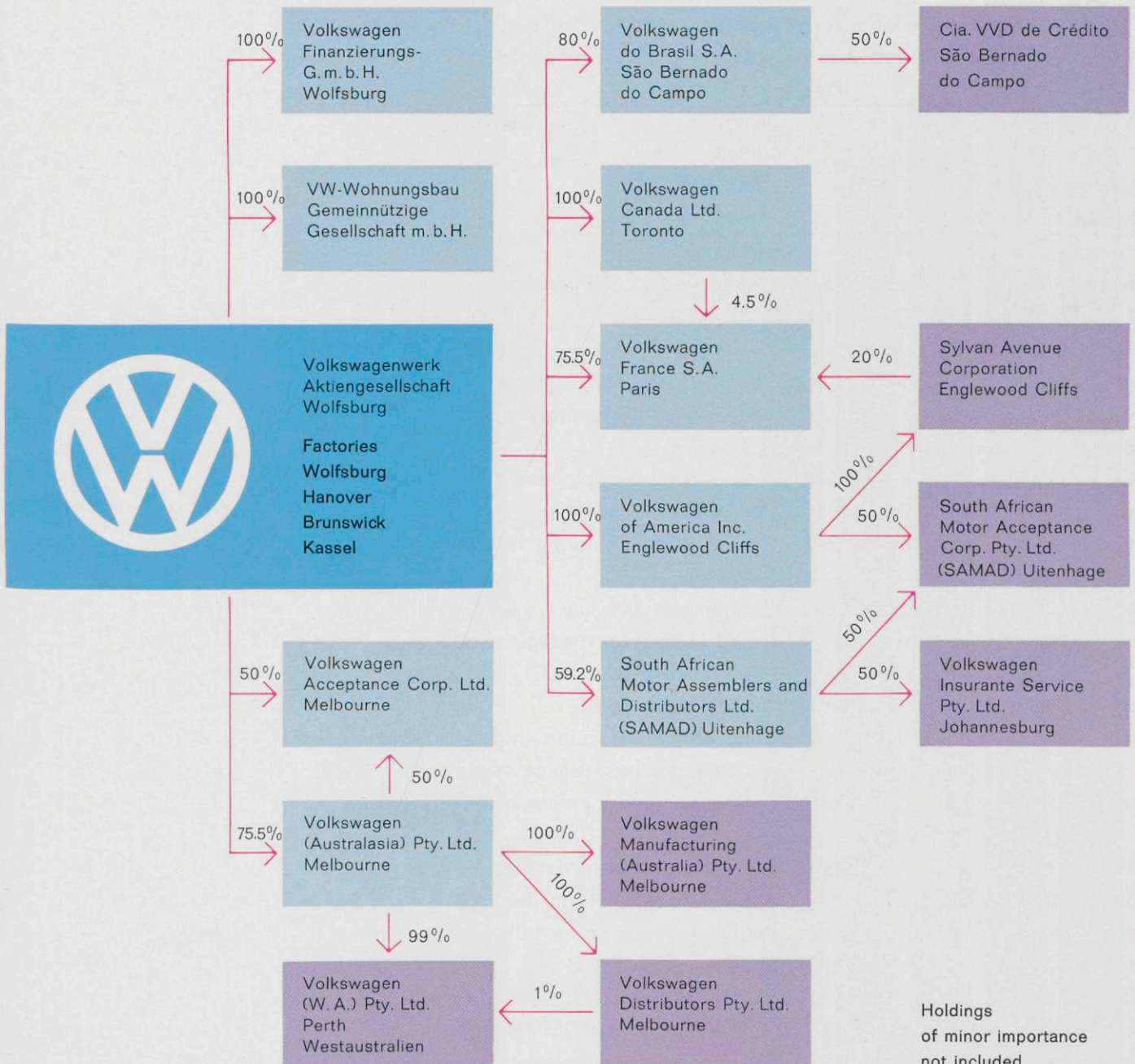
VW-Wohnungsbau – Gemeinnützige Gesellschaft m.b.H., Wolfsburg

Share capital DM 100,000.—

Held 100%

Upon completion of an additional 464 apartments during 1960, the company had a total of 4,449 apartments in use at the year end. At December 31, 1960, 535 apartments were under construction, planning had been completed for an additional 776 apartments and the necessary funds provided.

Holdings on December 31, 1960



LABOR FORCE

In 1960 the size of the labor force was increased by 10,019 or 18.5% for a total of 64,139 employees. An analysis according to plant location follows:

Plant	December 31, 1960	December 31, 1959
Wolfsburg	36,652	36,124
Hanover	17,548	13,370
Brunswick	3,833	3,502
Kassel	6,106	1,124
	64,139	54,120

In addition, our affiliated companies employed 11,389 persons as of December 31, 1960, compared to 6,357 at December 31, 1959.

Employee turnover for 1960 was 5.9% in respect of wage earners and 4.5% with regard to salaried personnel. On December 31, 1960 the proportion of salaried staff to wage earners was 1 to 10.3. At the year end female employees accounted for 11.3% of the total labor force.

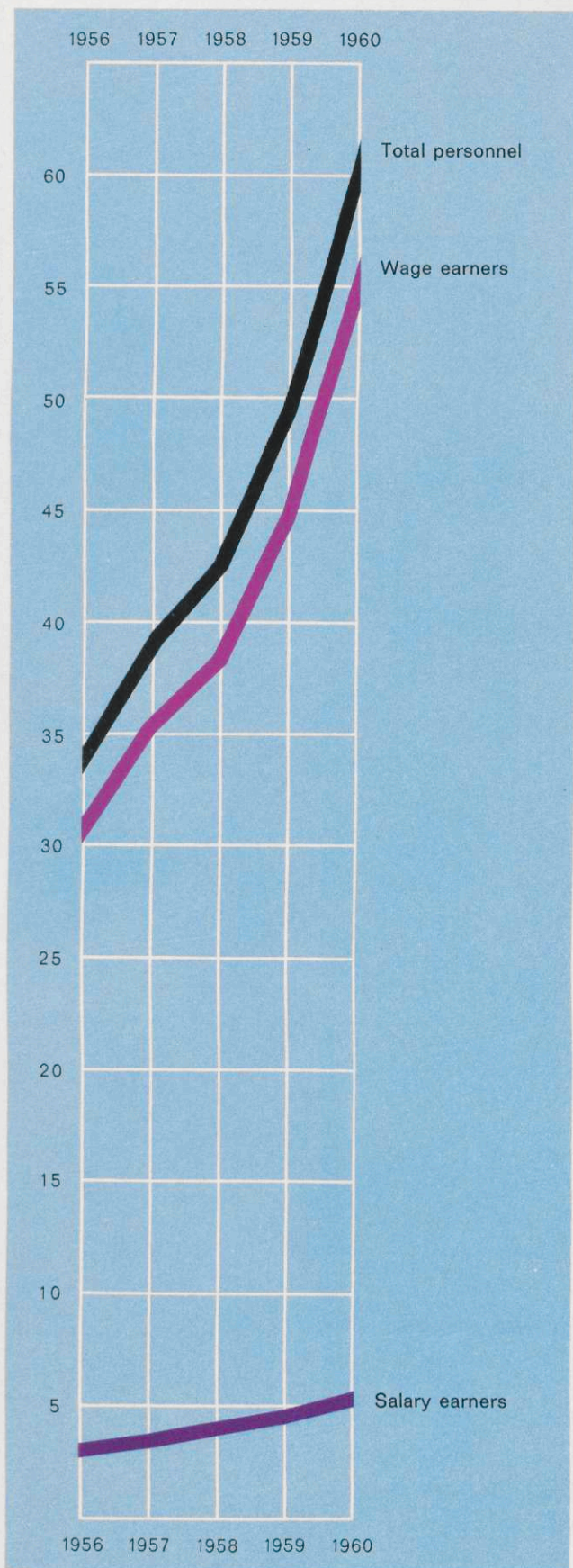
Except for a small number of specialized technical employees, it was possible to procure necessary labor through the appropriate labor offices.

Of the agreements entered into with the trade unions during 1960 the following were important:

- An 8.5% increase in salaries and wages effective July 1, 1960 in conformity with the Bad Homburg agreement for the metal industry; An additional 5% increase will take effect as of July 1, 1961;
- An increase in the basic paid vacation by three days;
- A gradual reduction of regular weekly work hours to forty hours by July 1, 1965, with a corresponding equalizing adjustment in the scale of wages and
- Improved protection of and more extensive care for employees with long service and over 50 years of age.

We are continuing to devote special attention to the promotion of the apprentices and the training of executives. Measures taken to this end during the period under review have by far exceeded the customary scope and extent. During 1960 we donated DM 1.3 million for scientific research purposes.

In 1960 an additional 1,116 dwelling units, 472 of which were private homes, were completed with funds furnished by us. During the year DM 4.3 million were expended for the construction of housing and housing construction loan applications were

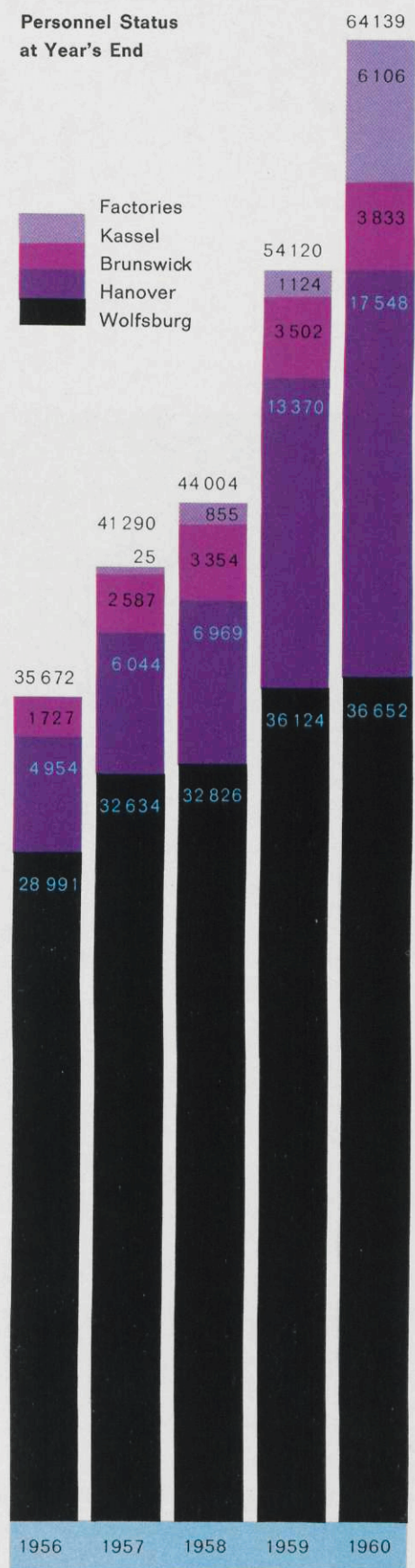


Ratio of
salary earners
to wage earners

1956	1:9.6
1957	1:9.9
1958	1:9.6
1959	1:10.0
1960	1:10.5

Personnel Status at Year's End

Factories
Kassel
Brunswick
Hanover
Wolfsburg



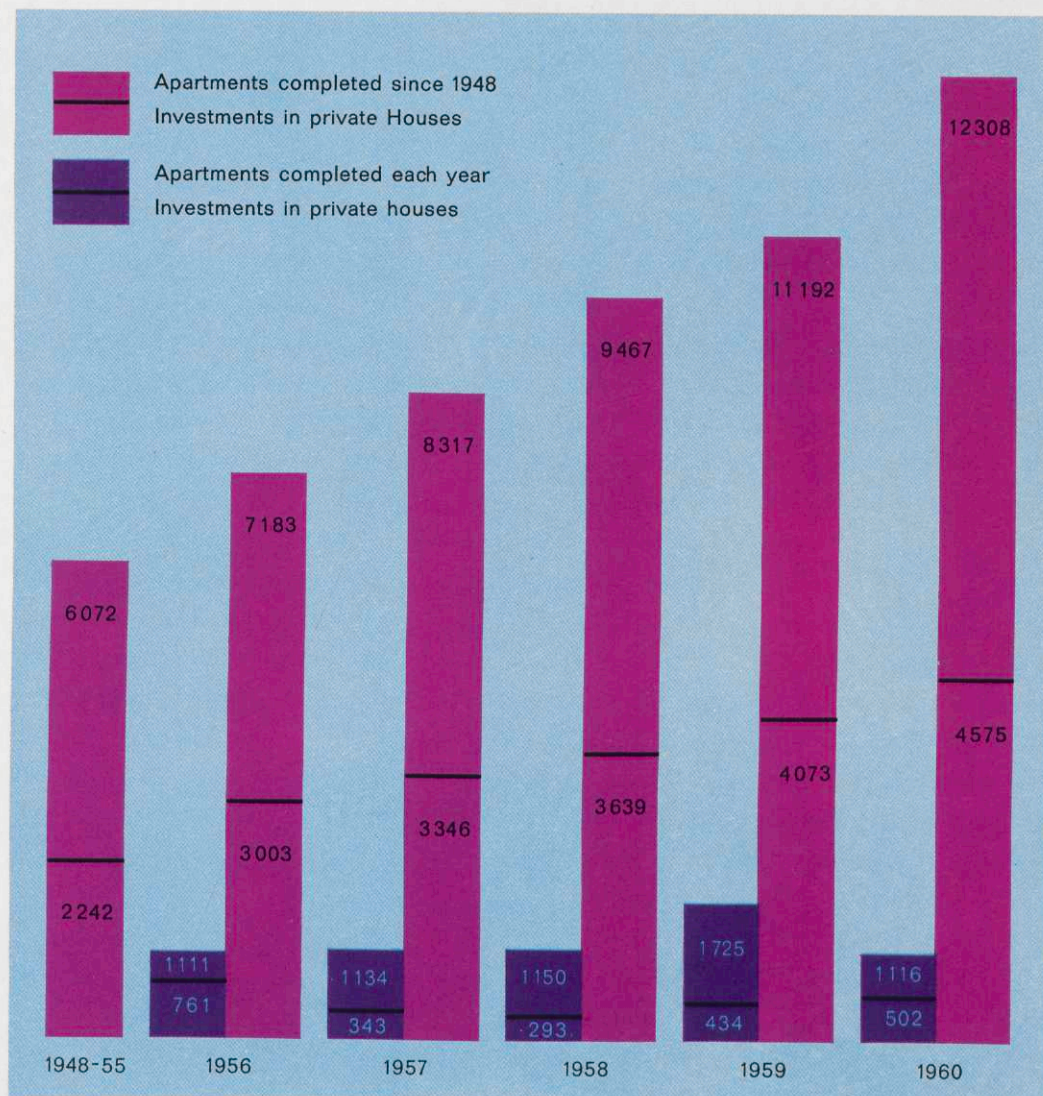
granted in excess of DM 15.4 million. At the end of 1960, 1,581 dwelling units were under construction or in the planning stage, primarily in the area of the City of Wolfsburg. Even though the most urgent need for housing will be covered upon completion of this building program, it will be necessary in the coming years to set aside a substantial amount of additional funds for this purpose.

During 1960 expenditures for social contributions, both compulsory and voluntary, were made as follows:

Compulsory Social Charges	DM	DM
Employer's share of social security contributions, trade association dues, and contributions to the family allowance fund.		56,248,517.63
Compulsory Social Benefits		
Accident insurance, legal holidays, paid annual vacation, company's sickness fund and sickness benefits.		39,007,957.26
Voluntary Social Contributions (Fringe benefits)		
<i>Directly benefiting personnel:</i>		
Expenditures for pension plan, burial aid, group accident insurance, Christmas bonuses, incentive bonuses, free stock shares and additional paid vacation days	82,571,238.86	
Subsidies for canteens and stores, recreation centers, public health matters, marriage, birth and death allowances, etc.	10,086,061.68	
<i>Indirectly benefiting personnel:</i>		
Contributions to the public heating system of the City of Wolfsburg, and donations and subsidies to kindergartens, schools, religious organizations, cultural activities, sports, etc.	1,050,683.81	93,707,984.35
Total		188,964,459.24

The above expenditures also include an amount which we have set aside to cover the cost of one VW share for each employee in accordance with our promise of December 1960.

Co-financed Housing
by Volkswagenwerk
Annual Averages
at Year's End



The excellent performance on the part of all personnel of the Volkswagen production and sales organization, both domestic and foreign, has made possible the excellent results for the year under review. We wish to express our gratitude to all personnel for their untiring efforts and good teamwork. We also wish to thank the members of our factories' work councils for their cooperation which was based on understanding and mutual confidence.

OUTLOOK

Despite increasing competition in all markets, the sales prospects for our products appear to be good for the foreseeable future. The revaluation of the DM has decreased our company's earnings and has caused serious unrest everywhere. Not until the end of the present year will it be possible to determine the full effects of this measure. A 1500 cc passenger car will be added to our production program in 1961. It is a basic new design with a larger interior and an air-cooled, 1.5 liter flat rear engine. The backbone of our business will continue to be the Volkswagen with its traditional construction.

Our investment requirements will continue to be substantial in the coming years and to meet these requirements we shall utilize our own funds as well as loan capital.



COMMENTS ON 1960 FINANCIAL STATEMENTS

Assets

The book value of the *fixed assets* increased by DM 251 million to DM 1,298.9 million during the year under review.

Addition to *fixed assets* amounted to DM 465.1 million:

	1960	1959
Land and buildings	DM 187.2 million	DM 176.7 million
Machinery and equipment and other fixed assets	DM 277.9 million	DM 267.5 million

Because of our increased investment in fixed assets, depreciation amounted to DM 239.6 million, DM 73.3 million more than in the prior year. Fixed assets, other than land and buildings, were depreciated on a declining balance method at substantially the same rates as used in the past, as far as permissible for tax purposes.

At the end of the year 2,420 acres of land were owned by the company, an increase of 198 acres during the year.

The land and plant are free from liens and encumbrances.

Additions to *investments* amount to DM 25.5 million. They include primarily, the acquisition of additional stock of Volkswagen (Australasia) Pty. Ltd., Melbourne, further investment in kind for new shares of Volkswagen do Brasil S.A., Sao Bernardo do Campo, and the shares of the newly established Volkswagen France S.A., Paris. Furthermore, we have acquired a number of shares of South African Motor Assemblers and Distributors Ltd., Uitenhage, and have made a further payment toward our holding in Kernreaktor-Finanzierungs-Gesellschaft m.b.H., Frankfurt/Main (Nuclear Reactor Financing Co. Ltd.). In accordance with paragraph 24 of the G.m.b.H. law, the company has an obligation to acquire shares in this company.

Amortization charged during the year has served to reduce the book value of our investment in foreign companies to a nominal amount. This cautious method of valuation, previously applied through 1958, is deemed appropriate, as in our opinion long-term foreign investments are connected with considerable risks. Similarly, we have written down to nominal value, our investment in Kernreaktor-Finanzierungs-Gesellschaft m.b.H. which is engaged in research work.

The book value of our *inventories* increased by DM 102.1 million to DM 395.7 million. The increase in inventories was required to supply the additional production capacity as well as the greater demand for spare parts.

During 1960 we made available *long-term loans* amounting to DM 3.2 million, primarily without interest, for housing construction. Accounts receivable totalled DM 84.1 million. The amount on the balance sheet is stated net of allowances and discounts pursuant to paragraphs 7 (c) and (d) of the German income tax law.

Trade receivables are primarily from foreign customers. Amounts due have subsequently been collected except for minor balances.

Receivables from affiliated companies are stated at DM 83.1 million as compared to DM 87.8 million at the end of 1959. More than 50% of the amount stated is due from Volkswagen do Brasil S.A. Appropriate interest is charged on long-term receivables. Adequate provision has been made for risks arising out of currency transfers and possible changes in rates of exchange. In evaluating drafts drawn on affiliated companies, we have applied the same principles.

Other receivables include DM 20.2 million for cash surrender value of pension insurance, and DM 4.3 million for loans secured by mortgages. The claim for compensation for damages which arose as a result of a fire in the Wolfsburg plant on December 7, 1959, stated under this caption as of December 31, 1959, has been for the most part settled during the year under review.

Liabilities

The share capital of the limited liability company, which increased from DM 300 million to DM 600 million during the year, has now become the *capital stock* of the Aktiengesellschaft (a public corporation) following the change of our company's legal form. The *Legal Reserve* amounting to 10% of the capital stock, was created by transferring DM 48 million from the former Special Reserve and DM 12 million from other reserves.

The *Reserve for the Share-the-Burden Property Levy* was reduced to its present value as of December 31, 1960.

The *Reserve for Replacement Purchases*, established in 1959 in connection with the fire damage in the Wolfsburg plant, partly on the basis of preliminary figures, was charged for acquisitions and adjustments amounting to DM 5.7 million during the period under review.

Other reserves were increased by DM 34.2 million. These reserves of DM 261.8 million will be used to maintain the value of our fixed assets, will serve to further develop the Volkswagen and in general provide against the risks inherent in the automobile business.

Reserves for contingencies were increased by DM 91.8 million during the period under review. The increase was primarily accounted for by further growing obligations arising out of the pension plan, an amount representing the value of VW stock promised to personnel, as well as an increased allocation to provide for general risks, various litigation, provision for guarantees and recurring bonus payments to personnel. The amounts provided for such purposes were determined conservatively and based on past experience. Of the total amount of DM 314.2 million, one-third each may be considered as short, medium and long term.

We incurred new *long-term housing loan liabilities* in connection with the acquisition of 15 development houses in Wolfsburg by assuming mortgages amounting to DM .5 million.

Customers' prepayments represent primarily advance payments made by foreign dealers, the total being DM 1.6 million less than at the end of 1959.

The expanding scope and extent of our production program is responsible for an increase in the *trade accounts payable* of DM 83.3 million to DM 301.2 million.

Payables to affiliated companies represent the balance in current settlements with VW-Wohnungsbau-Gemeinnützige Gesellschaft m.b.H.

Bank obligations include primarily medium-term loans and other loans which serve to provide temporary financing in connection with a few major export sales.

With regard to the years 1961 and 1962 we have taken precautionary measures to provide for substantially expanded credit limits so as to cover our precalculated peak demand for further investments.

Other Liabilities amounting to DM 128.6 million exceed those in the prior year by DM 6.6 million. This includes primarily dividends due to the State of Lower Saxony for the years 1950 through 1957 as well as 1959 which the State did not withdraw but left in our hands in the form of interest bearing loans, further accrued taxes, accrued salaries and wages for December, as well as the purchase price for shares of Volkswagen (Australasia) Pty. Ltd., Melbourne which was paid early in 1961.

Accrued expenses include, for the most part, interest received in advance on long-term receivables from Volkswagen do Brasil S.A.

The Contingent Liabilities for notes discounted amounted to DM 23,024,002.60 as of December 31, 1960.

Other contingent liabilities and commitments subject to disclosure did not exist.

Profit and Loss Statement

Expanded production capacity, improved vehicle equipment as well as price increases were responsible for a 34% increase in the *cost of raw materials and supplies*. *Salaries and wages* increased by 37.7% which was due to an increased labor force, rising salaries and wages as well as a provision for the acquisition of VW stock by personnel.

Social expenses again include as the main item charges for present and future pension payments.

Losses arising from the disposal of fixed assets were caused principally by the dismantling of structures and parts of structures in connection with the expansion program in the Wolfsburg and Kassel factories.

The increase in *interest expense and similar charges* was caused principally by rising discount charges, charges on bank loans, interest on dividends not withdrawn, as well as interest in connection with investments and real estate acquisitions.

Income, earnings and property taxes exceed those of the prior year by DM 13.1 million or 4.8%.

Other taxes are comprised almost entirely of turnover tax.

Increased expenses for shipping, distribution, maintenance, as well as additions to the provisions for general risks and litigation were primarily responsible for an increase in *other charges* of DM 87.9 million.

Sales exceeded those for the previous year by 28.7%. Export sales accounted for 55.2% of the total sales and thus remained unchanged.

Income from investments increased by DM 5.1 million which resulted principally from a major dividend distribution by our Brazilian subsidiary. Other income was received from our subsidiaries in South Africa, Canada and the U.S.A., as well as from Volkswagen-Finanzierungs-Gesellschaft m.b.H. and the VW-Wohnungsbau-Gemeinnützige-Gesellschaft m. b. H.

Interest income was higher by DM 3.4 million compared to 1959 due primarily to an increase in that part of the receivables from subsidiaries which are subject to interest charges.

The total shown for *other income* is less than in 1959 because income from shipping transactions has been included in sales. The remaining income items, derived principally from incidental transactions, have risen commensurate with the increase in the scope of our business.

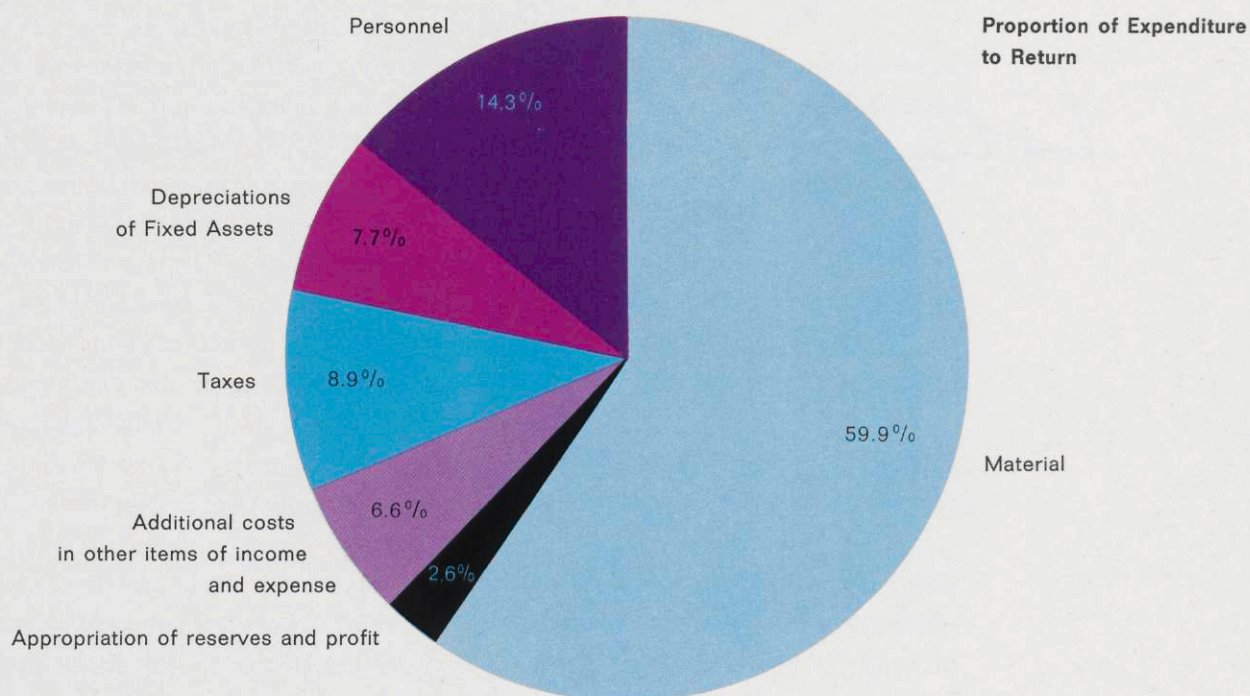
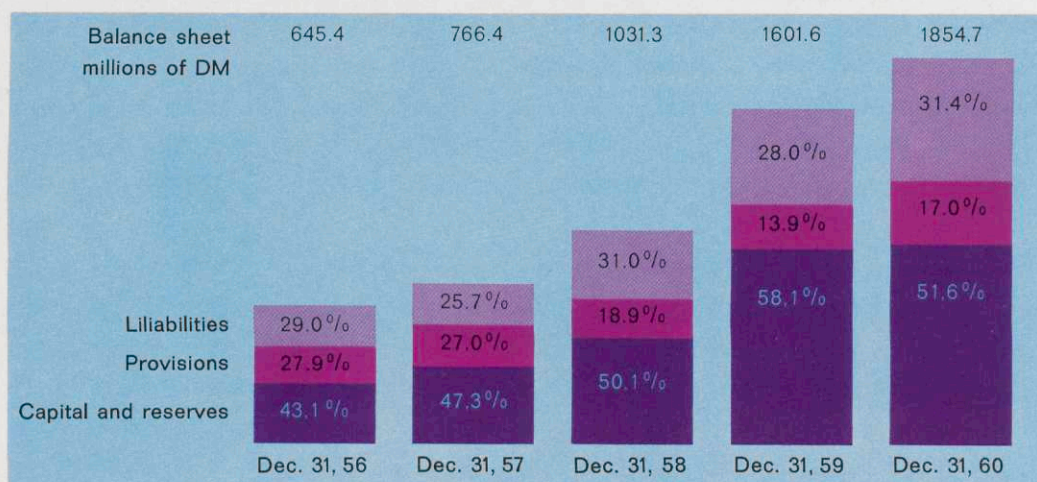
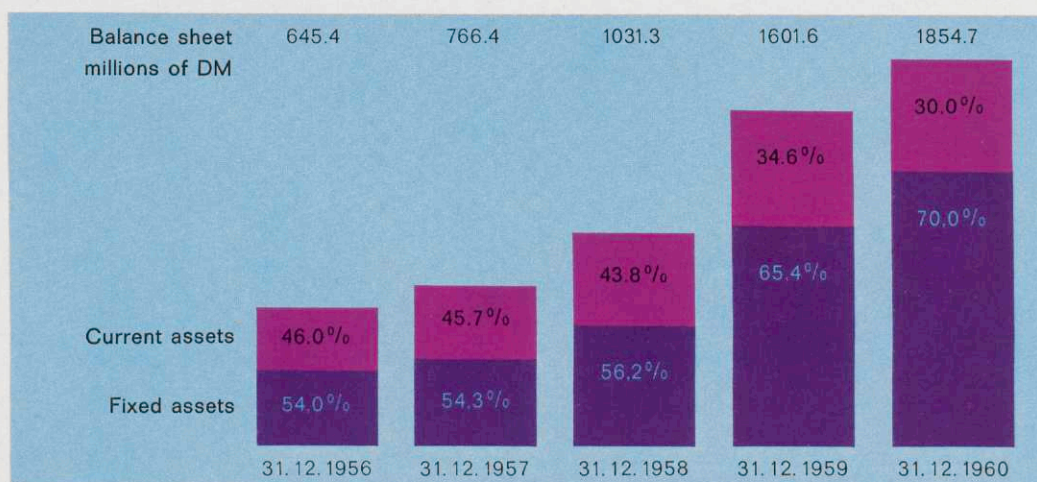
The *total compensation paid to the Managers* of the G.m.b.H. (including termination pay and pension payments) and to the *Management* of the Aktiengesellschaft (corporation) amounted to DM 1,623,354.30 for the year 1960 and emoluments paid to the Board of Directors totalled DM 112,400.

The *earnings* for 1960 amounted to DM 72,235,783.19. In conformity with the Board of Directors we would suggest to distribute a dividend of 12%, equal to DM 72 million, and to carry forward the balance.

Wolfsburg, April 1961

The Management

Karst Linn Adolf. Quenken
Lohr Karst Arndt. Hansel Stefan



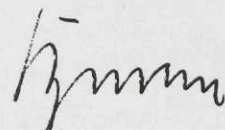
REPORT OF THE BOARD OF DIRECTORS

By periodic reports as well as during course of conferences the Board of Directors has been currently kept informed about the status of the company as well as about important questions related to the conduct of the business. Through August 22, 1960 the information was provided by the Management of the G.M.B.H., and subsequently, after changing the legal form to that of a corporation, by the Management of the corporation.

An audit of the financial statements for the year 1960 by the Deutsche Revisions- und Treuhand-Aktiengesellschaft, Hanover has revealed no exceptions.

The Board of Directors has examined the financial statements and the related report for 1960 and has declared its approval. Thus, the closing is final. The Board of Directors endorses the suggestion of the Management relative to the distribution of the earnings.

Wolfsburg, May 1961



Chairman of the Board of Directors

BALANCE SHEET AS OF DECEMBER 31, 1960

Assets

	Forward to Jan. 1, 1960	Added	Withdrawn	Transferred	Depreciation	As of Dec. 31, 1960	As of Dec. 31, 1959
	DM	DM	DM	DM	DM	DM	thousands of DM
Fixed Assets							
Improved real estate							
Grounds	5,064,720.77	74,964.07	2,616.—	79,717.18	—	5,216,786.02	5,065
Office & home buildings	73,206,103.07	19,043,938.60	321,694.93	—	2,772,005.84	89,156,340.90	73,206
Factory bldgs. & other structures	446,335,222.78	164,051,408.31	3,016,033.49	—	37,022,778.36	570,347,819.24	446,335
Unimproved real estate	4,957,636.79	4,062,986.37	11,520.76	./.	79,717.18	8,929,385.22	4,958
Machinery & kindred plant	353,022,366.46	204,329,557.16	617,031.83	3,331.69	132,738,008.69	424,000,214.79	353,022
Tools, plant & office equipment	16,415,563.87	73,557,401.28	188,143.65	./.	3,331.69	22,748,074.27	16,416
	899,001,613.74	465,120,255.79	4,157,040.66	—	—	1,120,398,620.44	899,002
Plant under construction	68,796,242.63					97,759,360.18	68,796
Advance payments on plant	34,017,333.96					79,166,446.47	34,017
Holdings	46,094,825.19	25,518,539.16	—	—	70,013,355.35	1,600,009.—	46,095
Other capital securities	1.—	—	—	—	—	1.—	—
	1,047,910,016.52					1,298,924,437.09	1,047,910
Current Assets	DM			DM	DM		
Inventories							
Raw materials, auxiliaries & supplies				204,898,012.15			157,448
Semifinished products				91,113,621.66			66,678
Finished products, merchandise				99,643,087.47			69,402
Advance expenses paid					395,654,721.28		293,528
Long-term loans				49,192,515.86	2,095,093.75		1,673
(including, before discounting:							50,968
Secured by mortgage	64,747,525.76						
To affiliated enterprises	46,603,228.88)						
adjusted per par. 7, c, d, 1953				32,919,176.18			35,467
Income Tax-Act					16,273,339.68		15,501
Trade receivables					21,515,711.27		22,367
Receivables from affiliated enterprises					83,124,999.31		87,839
(including for goods & services	64,011,833.46)						
Bills receivable					7,349,630.13		4,786
(including those drawn on affiliated							
enterprises	7,278,433.51)						118
Cash on hand incl. P. O. Checking Acct. balances					71,266.10		
Other bank accounts					259,012.03		86,545
Other receivables					29,441,478.13		41,181
(including those secured by mortgages	4,250,000.—)					555,785,251.68	553,538
Deferred Debits						24,695.78	123
						1,854,734,384.55	1,601,571

Liabilities

	As of Dec. 31, 1960	As of Dec. 31, 1959
	DM	thousands of DM
Capital Stock	DM 600,000,000.—	300,000
Reserves		
Legal reserve	60,000,000.—	48,000
Reserve under par. 47, Currency Act	78,299.17	78
Share-the-Burden Property Tax Reserve	34,940,000.—	36,160
Reserve for replacement	875,388.44	6,555
Other reserves	261,754,898.—	539,509
	357,648,585.61	630,302
Provisions		
For old-age assistance	72,300,442.—	59,537
Other uncertain obligations	241,930,012.60	162,915
	314,230,454.60	222,452
Current Liabilities		
Long-term housing constr. loans	1,767,347.68	1,582
(secured by mortgage		
DM 539,340.—)		
Customers' prepayments	27,099,533.79	28,683
Trade account payable	301,154,914.26	217,811
To affiliated enterprises	364,657.16	2
To banks	44,664,393.68	—
Other liabilities	128,578,880.34	122,007
	503,629,726.91	370,085
Deferred Credits	6,989,834.24	6,732
Net Surplus		
Forward to January 1	—	3,655
Surplus for fiscal year	72,235,783.19	68,345
	72,235,783.19	72,000
Share-the-Burden Property Tax		
Present value DM 34,933,002.—		
Quarterly instalment DM 696,195.50		
	1,854,734,384.55	1,601,571

PROFIT AND LOSS STATEMENT

— Period from January 1 to December 31, 1960 —

Expenditures

	1960	1959
DM	DM	thousands of DM
Expenditures for raw materials, auxiliaries & supplies related outside services & merchandise ordered	2,408,076,958.32	1,796,977
Wages and salaries	500,318,588.59	363,252
Social insurance	56,248,517.63	43,331
Social expenditures, not included under other items	16,085,127.18	17,214
Depreciation of physical plant	239,566,208.43	166,301
Depreciation of financial investments	70,013,355.35	75
Depreciation of receivables (incl. interest discounts) and bills	18,817,569.93	5,864
Losses from disposal of items of fixed assets	3,806,067.32	2,987
Interest expence and similar charges	7,086,302.80	2,342
Income, earnings and property taxes	285,596,047.29	272,510
Other taxes	70,962,677.47	61,107
Share-the-Burden Property Tax	2,784,782.—	2,785
Other charges	310,759,914.66	222,843
Attributions to other reserves	34,245,860.—	411,731
Net surplus		
Forward to January 1	—.—	3,655
Year's surplus	72,235,783.19	68,345
	72,235,783.19	72,000
	4,096,603,760.16	3,441,319

Wolfsburg, April 1961

Volkswagenwerk Aktiengesellschaft

Board of Management

Nordhoff Frank Haaf Hiemenz Höhne
Novotny Orlich Paulsen Siebert

Income

	1960	1959
	DM	thousands of DM
Sales	3,932,719,300.90	3,055,329
Increase of finished & semifinished products on hand	39,794,308.40	25,094
Other internal asset-producing activities	45,838,096.35	33,581
Income from investments	6,996,225.05	1,920
Interest income and like income	12,422,964.40	9,054
Income from disposal of items of fixed assets	572,682.11	784
Income from writing up of items of fixed assets	—.—	152,198
Income from cancelled adjustments of inventories	—.—	73,967
Income from disestablishment of provisions	7,934,170.66	17,749
Other income	43,426,317.39	66,798
Surplus brought forward to January 1	—.—	3,655
Withdrawals from reserves		
From Share-the-Burden Property Tax reserves	1,220,000.—	1,190
From the reserve for replacement	5,679,694.90	—
	4,096,603,760.16	3,441,319

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.

Hanover, April 29, 1961

Deutsche Revisions- und Treuhand-Aktiengesellschaft

Schneider
Auditor

Dr. Schliski
Auditor

Air-view photos on pages 6,7 and 8
have been authorized with Nos Wal/449 Wal/378 Wal/529 Wal/526



379/14015