

REPORT FOR THE YEAR

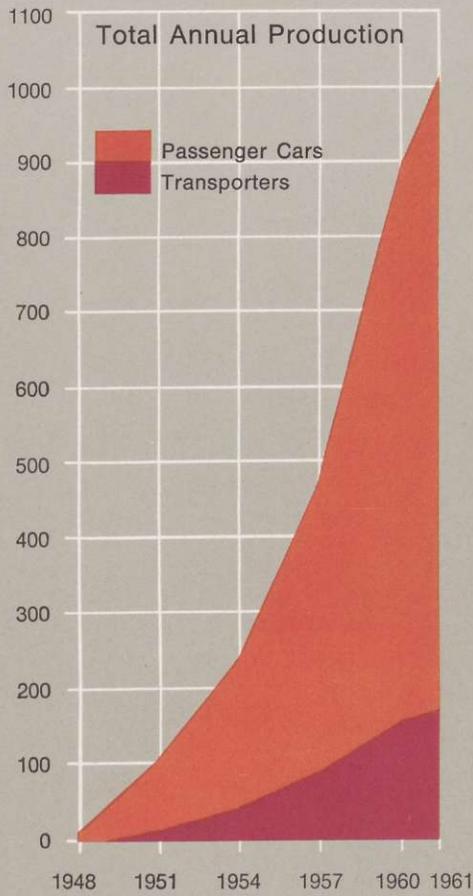
1961



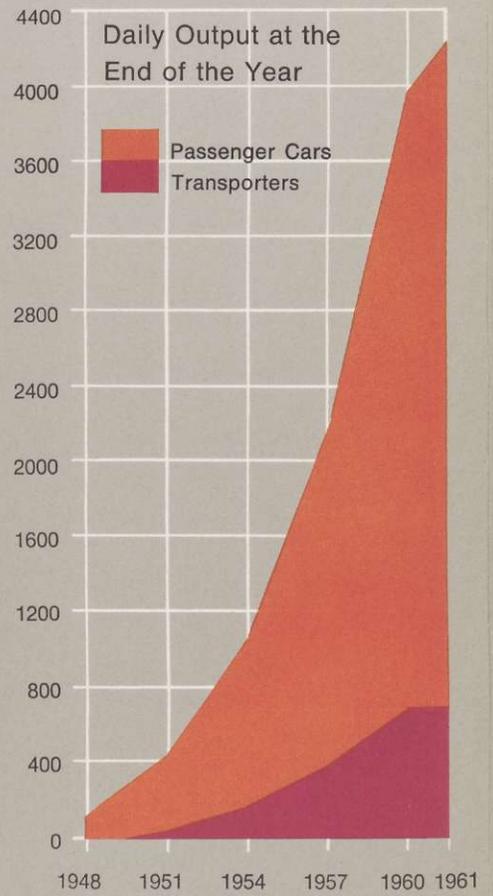
Volkswagenwerk
Aktiengesellschaft
Wolfsburg

CONSOLIDATED PRODUCTION

Thousands of Vehicles

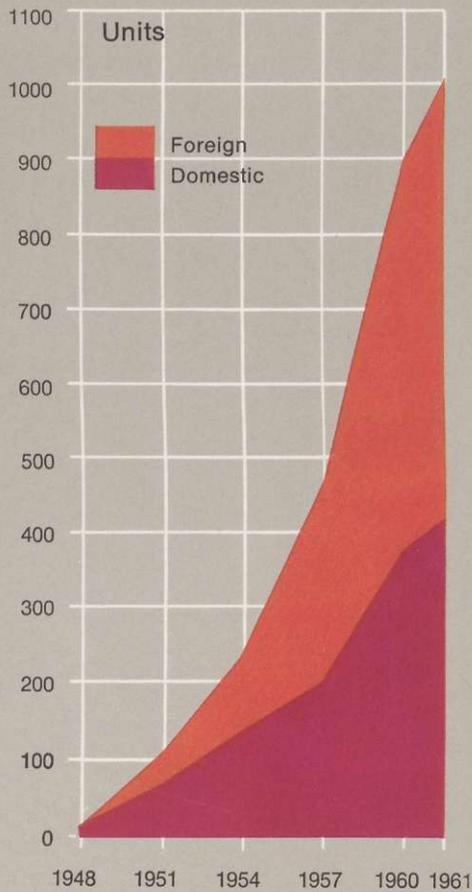


Vehicles

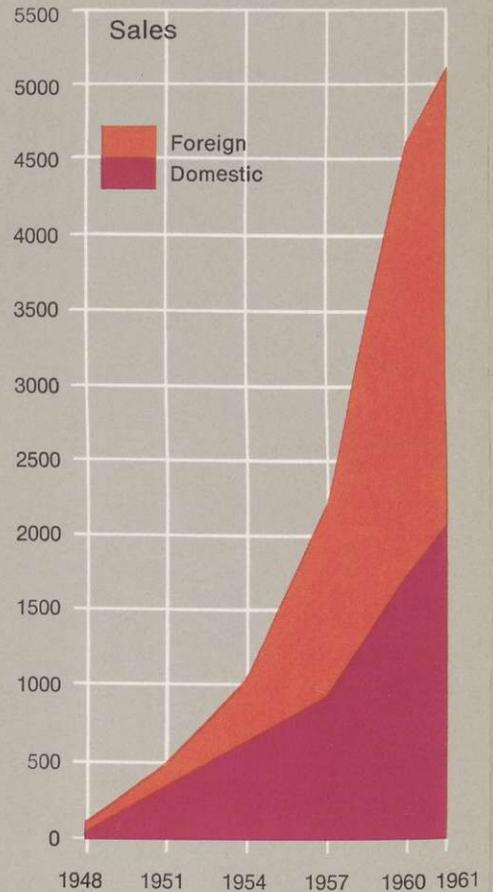


CONSOLIDATED SALES

Thousands of Vehicles

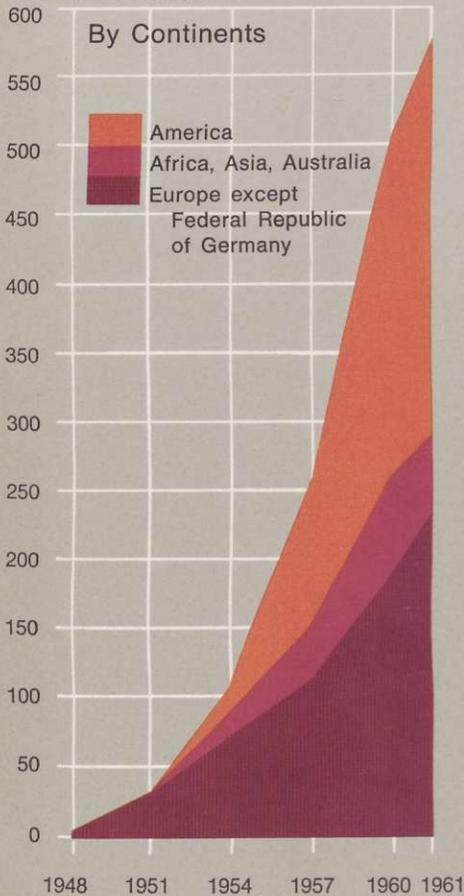


Million DM

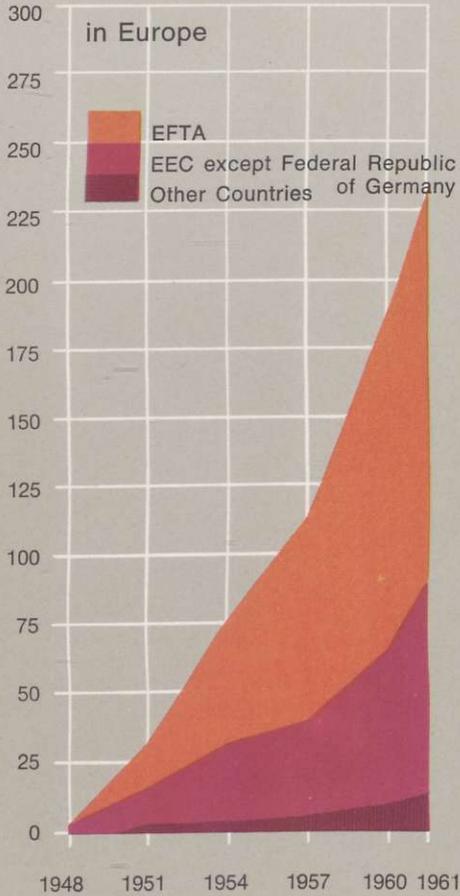


VEHICLES SALES OF FOREIGN SUBSIDIARY AND AFFILIATED COMPANIES

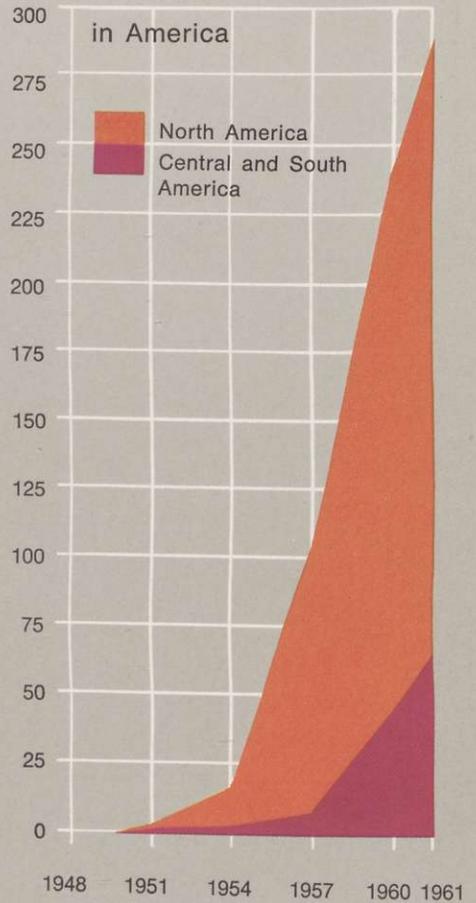
Thousands of Vehicles



Thousands of Vehicles

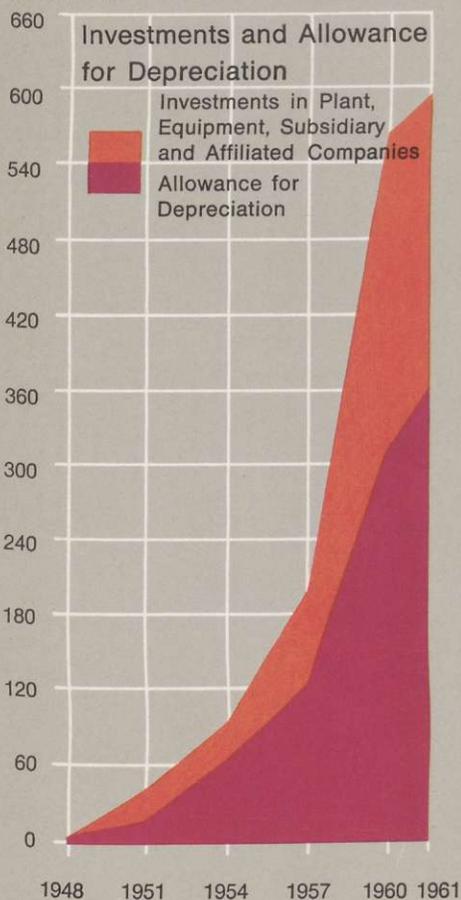


Thousands of Vehicles

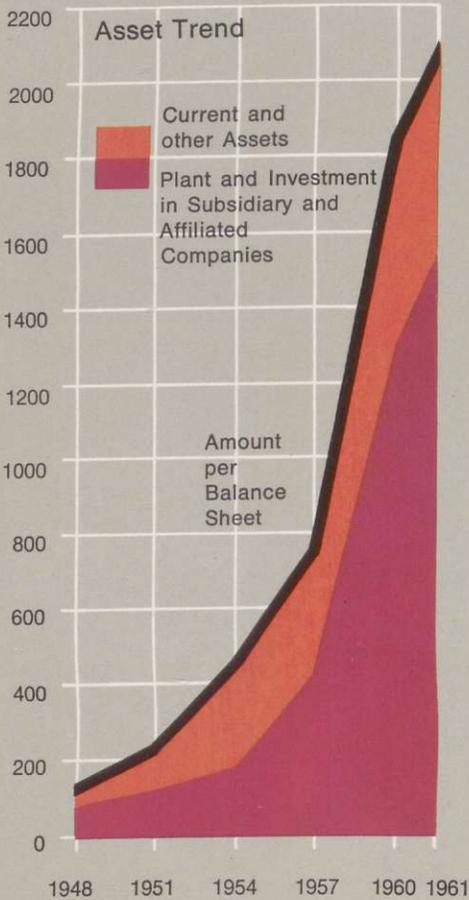


VOLKSWAGENWERK AG

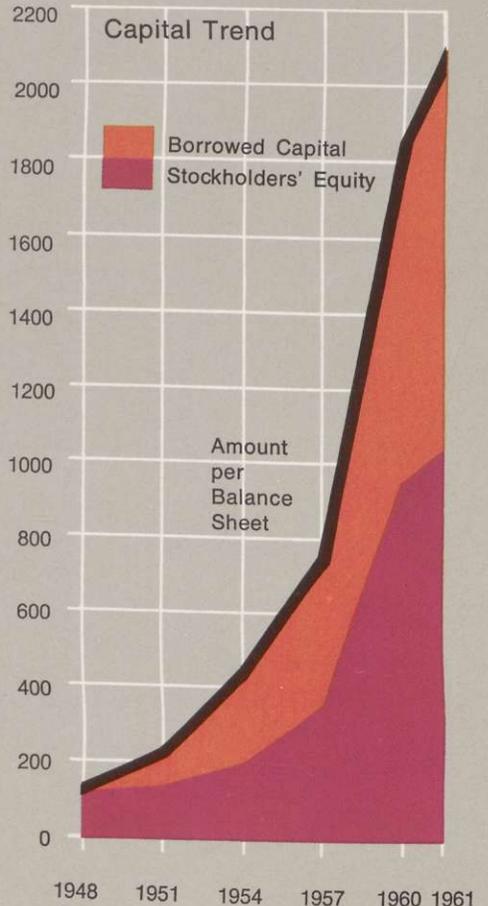
Million DM



Million DM



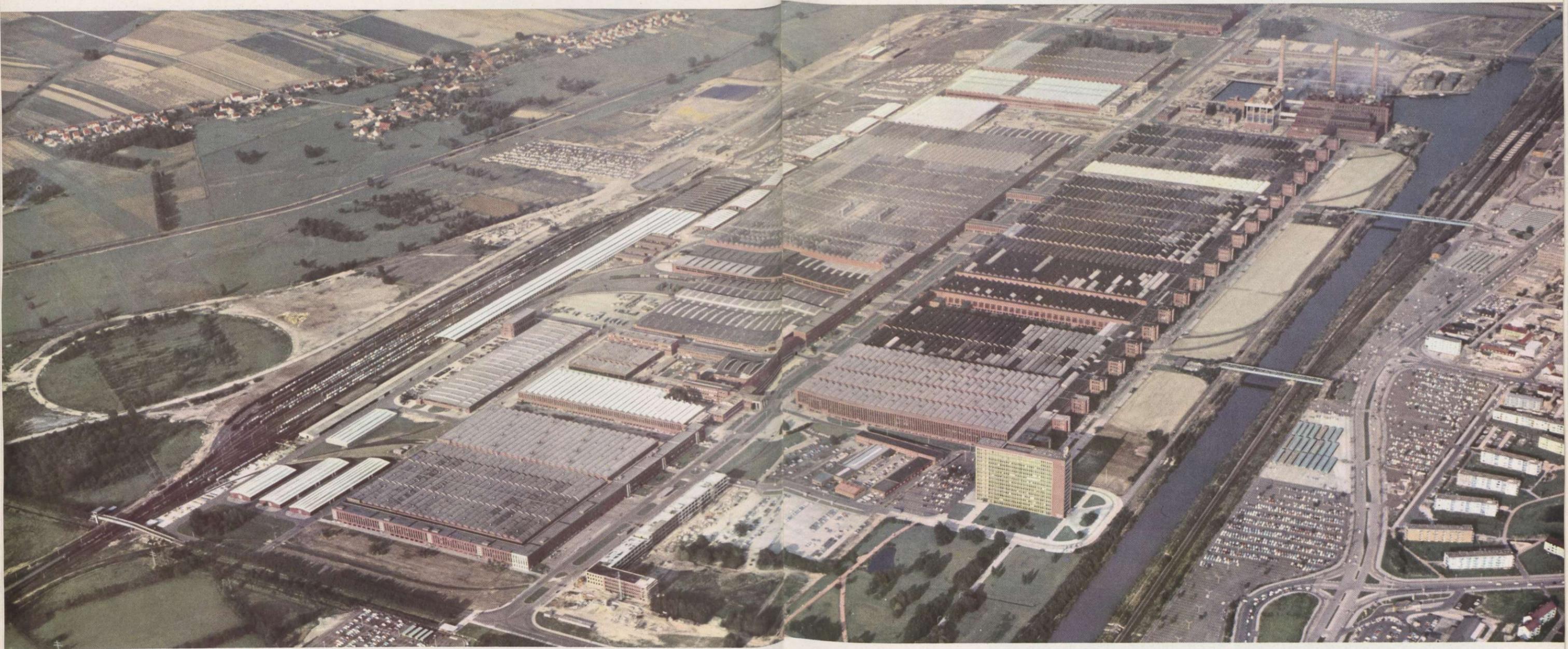
Million DM

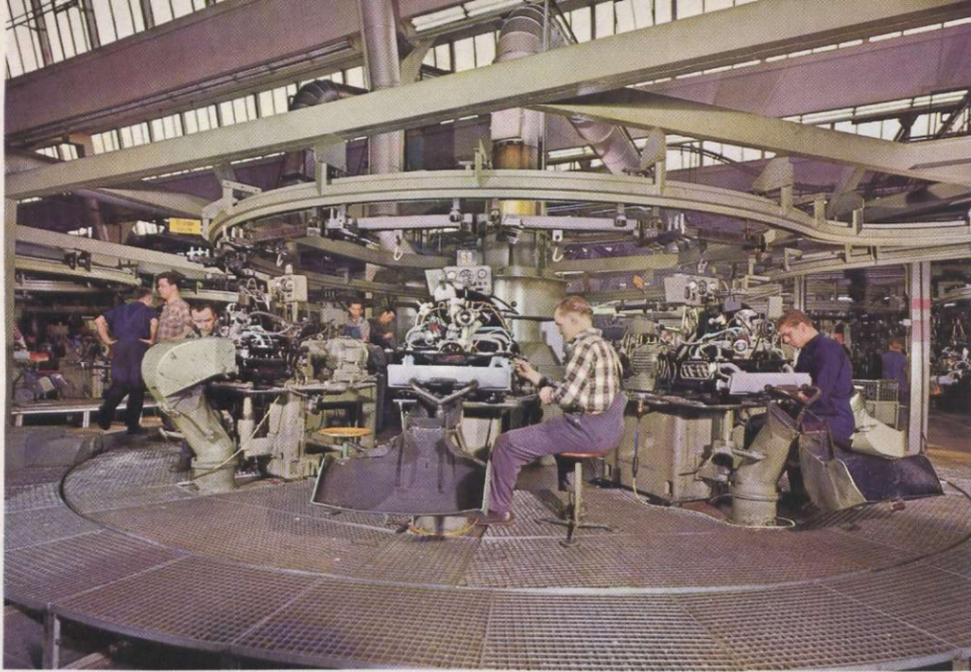


SIGNIFICANT FIGURES FOR 1961

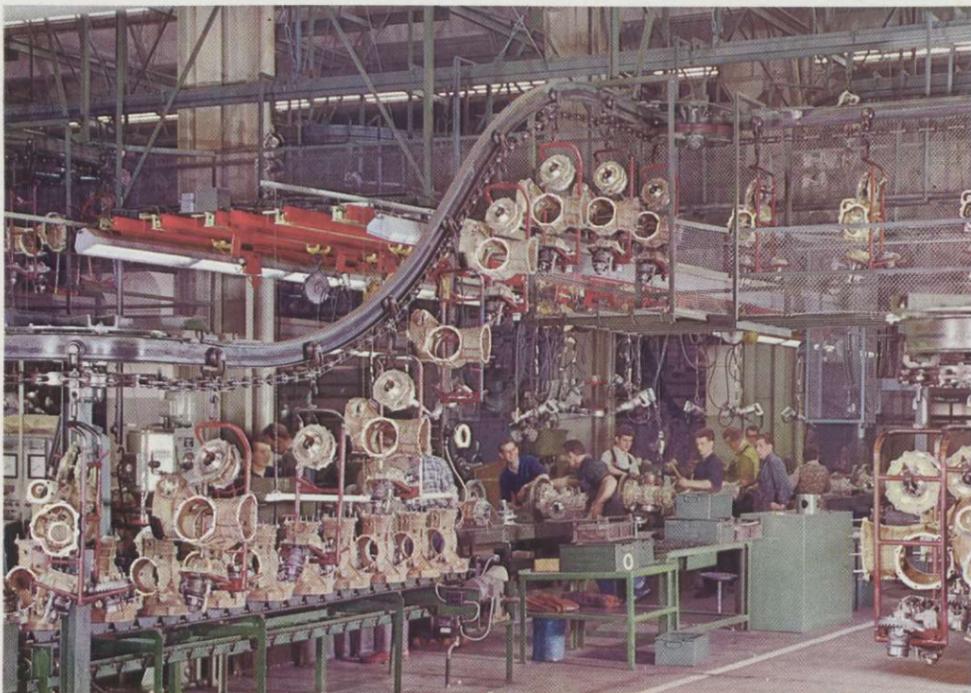
- 5 BILLION: With total sales in excess of DM 5 billion, Volkswagenwerk, in 1961, continued to maintain its position as the leading German industrial enterprise.
- 3 BILLION: Export sales, for the first time, have exceeded DM 3 billion. Of the German vehicle exports, approximately one-half were again Volkswagens.
With additional investments in property, plant and equipment, and subsidiary and affiliated companies of DM 600 million, Volkswagenwerk has invested a total of nearly DM 3 billion in these assets since the currency reform in 1948.
- 1 BILLION: Volkswagen's net worth was in excess of DM 1 billion by the end of 1961.
- 5 MILLION: With the production of the 5 millionth Volkswagen, this automobile model represents an unparalleled achievement in the history of European automobile manufacture.
- 1 MILLION: With an annual production exceeding 1 million Volkswagens, the factory has become the world's third largest automobile manufacturer.

Wolfsburg Factory





Hanover Factory
Engine Manufacture



Kassel Factory
Transmission Plant



Brunswick Factory
Front Axle Assembly

GENERAL BUSINESS TRENDS

During the year 1961, economic development among the countries of the Western Hemisphere was not uniform.

The recessive trend in the United States of America, which became apparent during the second half of 1960, continued into the early part of 1961 and the subsequent upswing in business activity was temporarily slowed by labor disputes. With the exception of Great Britain, the industrial countries of Western Europe experienced an increase in production during 1961, which was, in some instances, at a lesser rate than that of the preceding year. The economic development of Great Britain was restricted by measures introduced in the middle of 1961 for the purpose of stabilizing the currency.

Industrial production in the Federal Republic of Germany reflected an approximate 5% increase during 1961 compared with an 11% increase during 1960.

The automobile industry, in most countries, followed the same trend as that of their particular general business activity.

In the United States of America, automobile manufacture fell considerably behind production planned for 1961 as well as production in the previous year; however, compact cars were produced at an increased rate.

As a result of its rapidly expanding automobile industry, Japan has moved up to fifth place among the automobile producing countries.

At the same time, Great Britain's automobile industry lost a considerable portion of its share in the U. S. market. Full utilization of productive capacity in Great Britain during 1961 was hindered by labor disputes, export difficulties and a decreased domestic demand caused by restrictive economic measures introduced by the British Government.

The French automobile industry also experienced a decline resulting from a considerable decrease in automobiles exported which it was unable to compensate for in the domestic market.

Italy, however, was able to increase domestic auto sales in an amount greater than export losses with respect to sales in the United States, the Federal Republic of Germany, and Switzerland. Further development of their automotive market in Italy by a majority of the foreign automobile manufacturers was prevented by the Italian quota restriction on imported cars in addition to high tax levies.

During 1961, in the Federal Republic of Germany, automobile production as well as domestic and export sales again showed increases to which the Volkswagen contributed a significant portion. The full utilization of productive capacity by the larger German automobile manufacturers in addition to an increasing demand for labor indicate a continuing healthy market situation in respect of German automotive products. The West European countries, during 1961, advanced further toward the realization of an expanded Common Market with the application by Great Britain and other EFTA countries for membership in or association with that Market.

With a larger membership in the Common Market and with import duties on vehicles which are the lowest of all EEC and EFTA countries, German automotive manufacturers must adapt to an expected increase in competition to a greater extent than their foreign competitors.

REVIEW OF 1961 OPERATIONS

With the sale of 60 % of its capital stock to the public, Volkswagenwerk, with more than 1.5 million stockholders, became the world's second largest publicly held corporation. The first annual meeting of the new stockholders took place in Wolfsburg on July 1, 1961.

In September 1961 the Volkswagen 1500 was introduced to the public at the International Automobile Show at Frankfurt. This medium sized auto was added to our line in order to expand existing markets for our vehicles.

The lawsuit, instituted on behalf of those persons who paid into special Volkswagen savings accounts prior to 1945, was settled in October 1961 after twelve years of litigation. In accordance with the terms of the settlement, the savings accounts, converted to DM, were transferred to our Company and the delivery of vehicles through VW Dealers will extend over a period of several years.

In order to consolidate the borrowings necessary for the consistently high expenditures for the expansion of plant and equipment, a loan of DM 150 million was arranged for in October 1961 to be made available to us in three annual installments beginning in 1961. In addition, those dividends declared in prior years and not distributed to the State of Lower Saxony have been converted to a long-term loan payable in January 1966.

The revaluation of the DM in March 1961 has imposed difficulties in the conducting of our export business and has also resulted in lowering the profits of our subsidiaries. This revenue loss was by no means compensated for by price reductions on imported goods as a result of the revaluation.

The year 1961 was successful from a business standpoint; however, the increase in sales resulted in a less than proportionate increase in earnings. The most significant effects on earnings were increased costs relating to technical improvements in the Volkswagen 1200, high initial production costs on the new Volkswagen 1500 and increased wage and salary costs. The sales prices of some auto models were increased in July 1961, however, the additional revenues were not sufficient in amount to absorb the additional costs.

PRODUCTION

Production in the major automobile countries during 1961 and 1960 approximated:

	Number of Vehicles		%
	1961	1960	Increase (Decrease)
USA	6,653,000	7,905,000	(15.8)
Federal Republic of Germany	2,148,000	2,055,000	4.5
Great Britain	1,464,000	1,811,000	(19.2)
France	1,204,000	1,349,000	(10.7)
Japan	814,000	482,000	68.9
Italy	718,000	611,000	17.5

1961 production in the Federal Republic of Germany exceeded that of 1960 by 92,676, 83.7 % of which is applicable to passenger vehicles. These statistics do not include the increasing number of sub-assemblies shipped to foreign countries for final assembly.

During 1961, Volkswagenwerk A.G. produced 959,773 vehicles which was 93,915 in excess of that in 1960. Its share of auto production in the Federal Republic increased from 42.1 % in 1960 to 44.7 % in 1961.

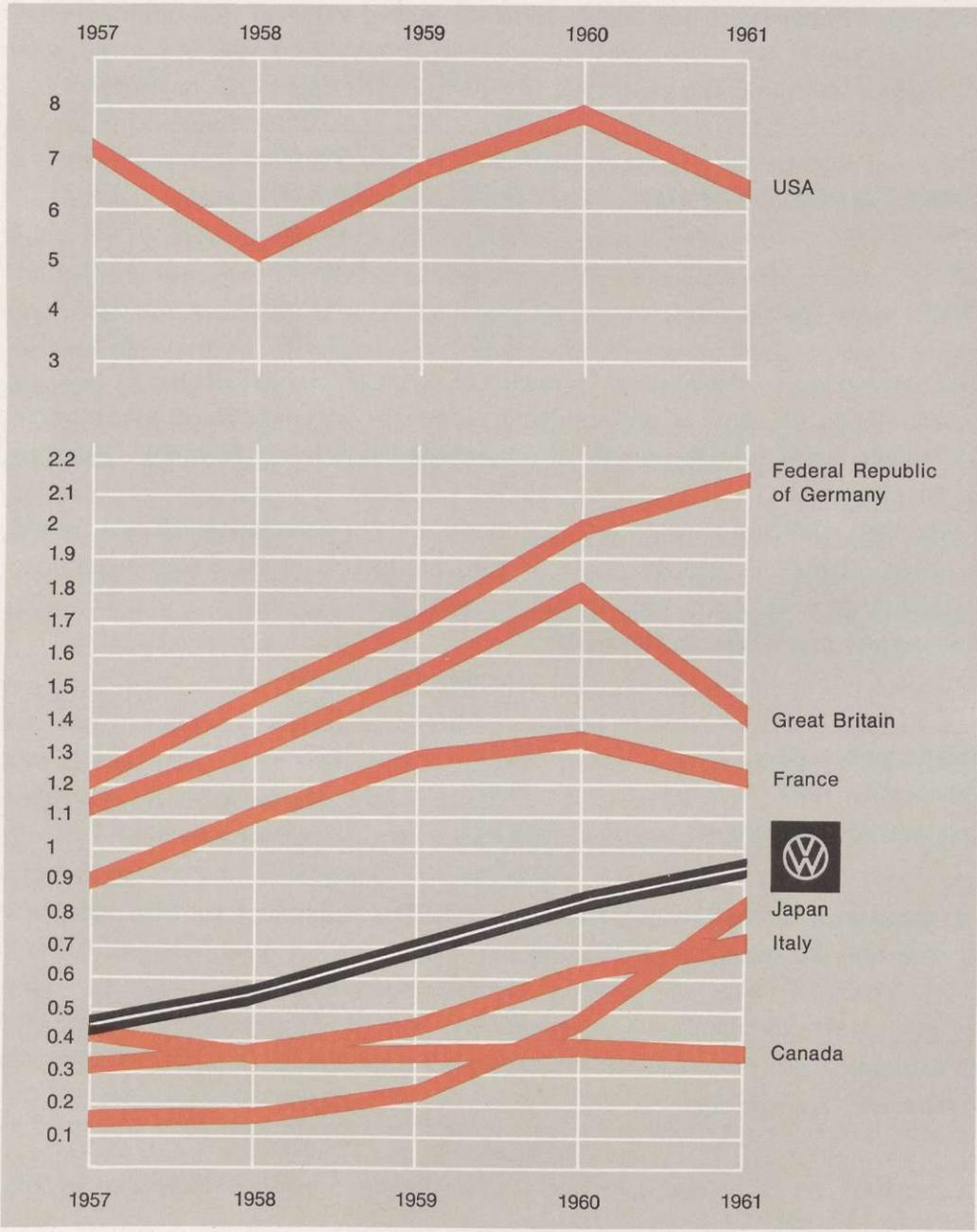
Volkswagen production in Germany:

	Number of Vehicles		%
	1961	1960	Increase
Volkswagen 1200	796,825	725,939	9.8
Volkswagen 1500	10,663	—	—
Volkswagen-Transporter	152,285	139,919	8.8
	959,773	865,858	10.8

Volkswagen do Brasil S.A. produced the following number of vehicles using, to some extent, Volkswagen sub-assemblies:

	Number of Vehicles		%
	1961	1960	Increase
Volkswagen 1200	31,025	13,516	129.5
Volkswagen-Transporter	16,315	11,299	44.4
	47,340	24,815	90.8

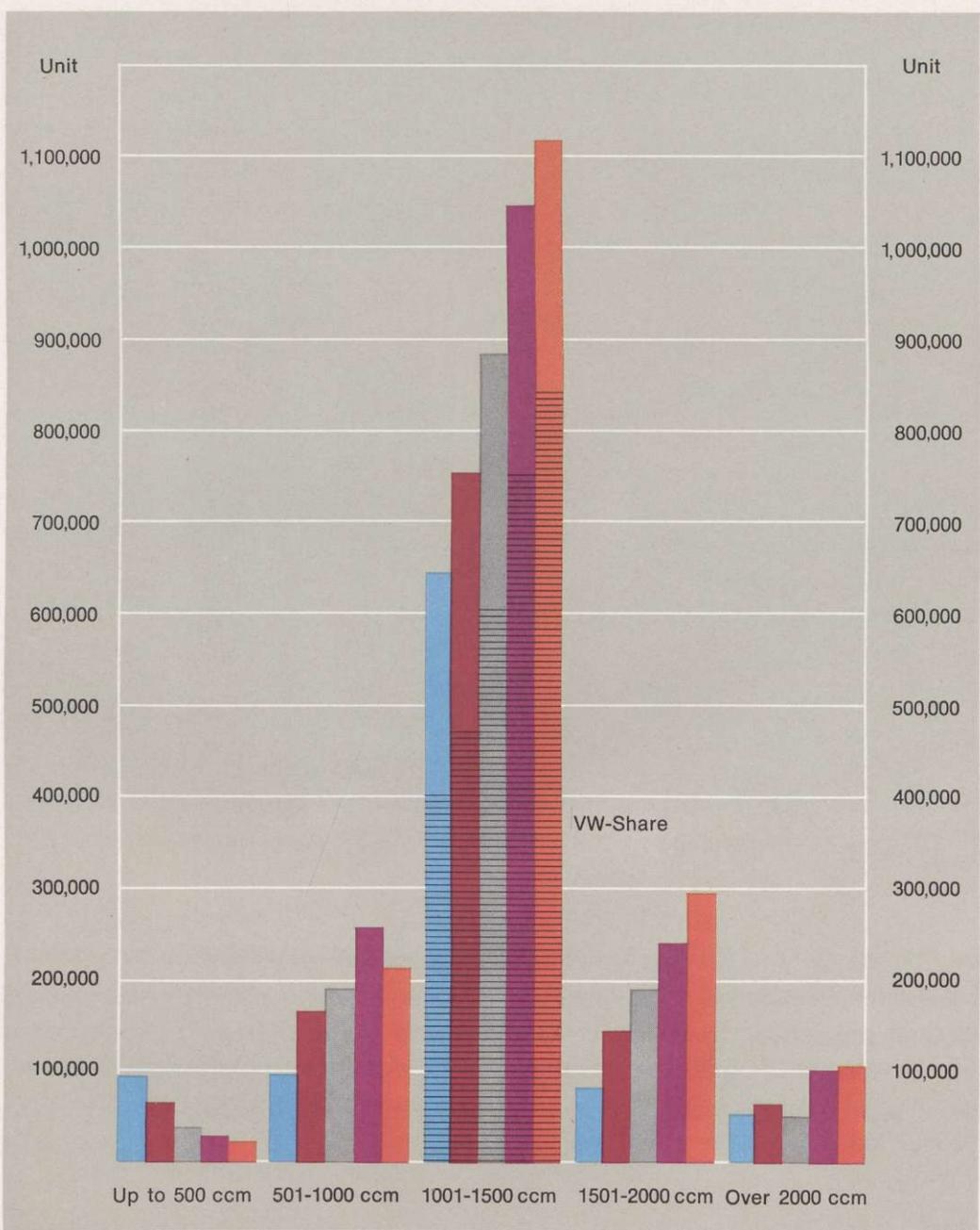
During 1961, the combined daily output of Volkswagen vehicles increased by 270 to a total of 4,233.

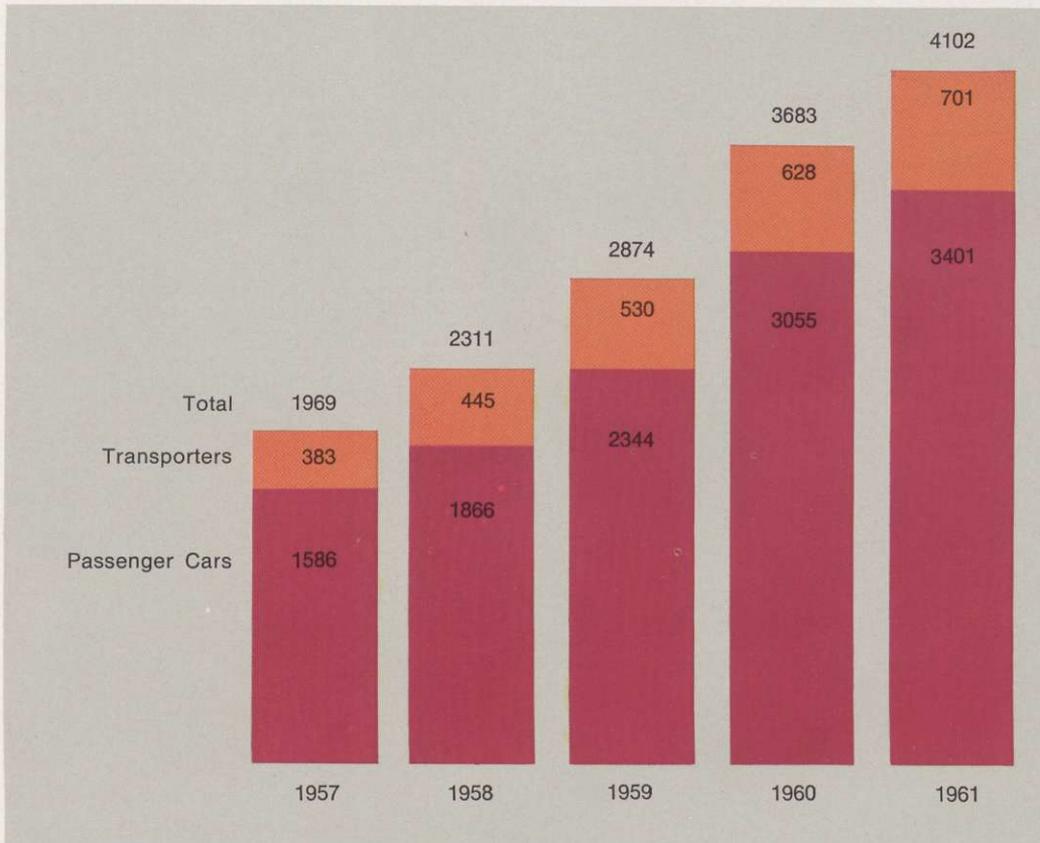


Output of major automobile producing countries and of Volkswagenwerk. In units of 1 million

Passenger Car Production including Station Wagons and Ambulances in the Federal Republic of Germany according to Engine Cubic Capacity

- 1957
- 1958
- 1959
- 1960
- 1961





Output of Volkswagenwerk
per Working Day
Annual Averages

By the end of July 1961, the Volkswagen 1200 was perfected further by technical improvements, some of which were incorporated in the Volkswagen Transporter line.

As of September 1, 1961, the Volkswagen 1500 became part of our line of production and, at present, only the sedan and the Karmann Ghia Coupe are produced. Production is in excess of 400 vehicles daily.

CAPITAL INVESTMENTS

During 1961, our investment in additions to property, plant and equipment amounted to approximately DM 600 million. These assets were acquired for the purpose of improving operations in addition to providing facilities for the production of the Volkswagen 1500. An amount approximating one-half of the expenditures was invested in the plant at Wolfsburg, which remains our major production center. Following is a breakdown of the fixed asset additions, by plant:

	1961 Millions of DM	1960 Millions of DM
Wolfsburg	285.8	219.0
Kassel	154.2	141.2
Hanover	110.1	96.1
Braunschweig	45.4	8.8
	595.5	465.1

Investments in property, plant and equipment since the currency reform in 1948, including buildings under construction and advance payments to contractors, amounted to approximately DM 2.7 billion at December 31, 1961.

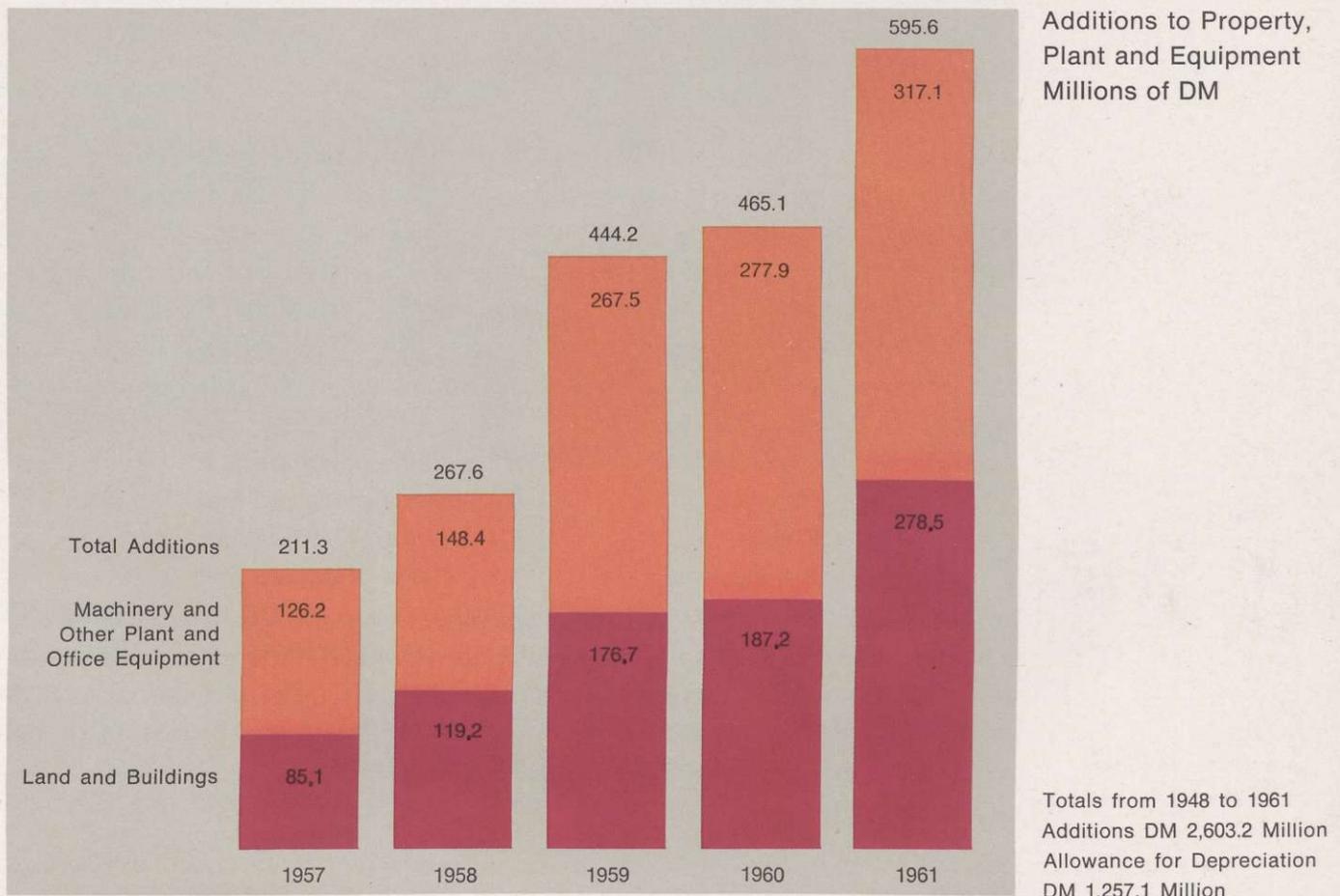
During 1961, additional production and storage space was provided, approximating 3 million square feet, through the construction of new and the expansion of existing buildings. As a result of this building program, Volkswagenwerk has a total of more than 23.7 million square feet of production and storage space available in the following locations:

Wolfsburg	10.8 millions of square feet
Hanover	6.4 millions of square feet
Kassel	5.4 millions of square feet
Braunschweig	1.1 millions of square feet

In 1961, construction of the second power plant in Wolfsburg was completed and a high pressure boiler and turbine generator were put into operation. Utilization of the 96,000 kilowatt capacity of the new plant will make available a total of 259,000 kilowatts to the factory and the City of Wolfsburg. Expansion of the power plant at Kassel, with its installed capacity of 30,000 kilowatts, was completed during 1961.

By the end of 1961, Volkswagenwerk owned more than 21,000 pieces of machinery, 50 % of which are located at Wolfsburg and another 25 % at Hanover. Volkswagenwerk's land holdings during 1961 increased by some 363 acres to approximately 2,782 acres. The distribution of land by factory follows:

Wolfsburg	1,947 acres
Kassel	526 acres
Hanover	264 acres
Braunschweig	45 acres



After elimination of intercompany transactions, consolidated sales aggregated DM 5.2 billion, an increase of DM .6 billion over that of the previous year.

Sales of Volkswagenwerk AG for 1961 and 1960 were DM 4.4 billion and DM 3.9 billion, respectively.

The Company experienced difficulties in the export of their vehicles to those countries in which restrictive economic policies existed.

Production was sold completely despite a considerable increase in vehicles produced during 1961. Since the demand for all Volkswagen models also increased, waiting lists for deliveries extending several months into the future could not be avoided.

The Volkswagen 1500 and the Volkswagen 1500 Karmann Ghia Coupe, which were introduced in the fall of 1961 were received favorably by the public. List prices for delivery at the factory in Germany are DM 6,400 and DM 8,750, respectively. As of July 31, 1961, list prices in Germany for the export model of the Volkswagen 1200 were increased by DM 140 and those for the Volkswagen 1200 Karmann Ghia Coupe and the Volkswagen 1200 Karmann Ghia Convertible were decreased by the respective amounts of DM 565 and DM 615.

Export prices had to be adjusted in order to offset, to the degree possible, the effect in the various countries of the DM revaluation.

Volkswagen sales, including sales of vehicles assembled in foreign countries with the exception of Volkswagen do Brasil S.A.:

	1961	1960	% increase
Passenger cars	808,233	724,416	11.6
Transporters	152,638	139,334	9.5
	960,871	863,750	11.2
Sales of vehicles produced by Volkswagen do Brasil S.A.:			
	1961	1960	% increase
Passenger cars	31,014	13,490	129.9
Transporters	16,306	11,267	44.7
	47,320	24,757	91.1

The percentages of Volkswagenwerk sales applicable to the domestic and export markets in 1961 and 1960 were as follows:

	1961	1960
Domestic	44.5 %	43.4 %
Export	55.5 %	56.6 %
	100.0 %	100.0 %

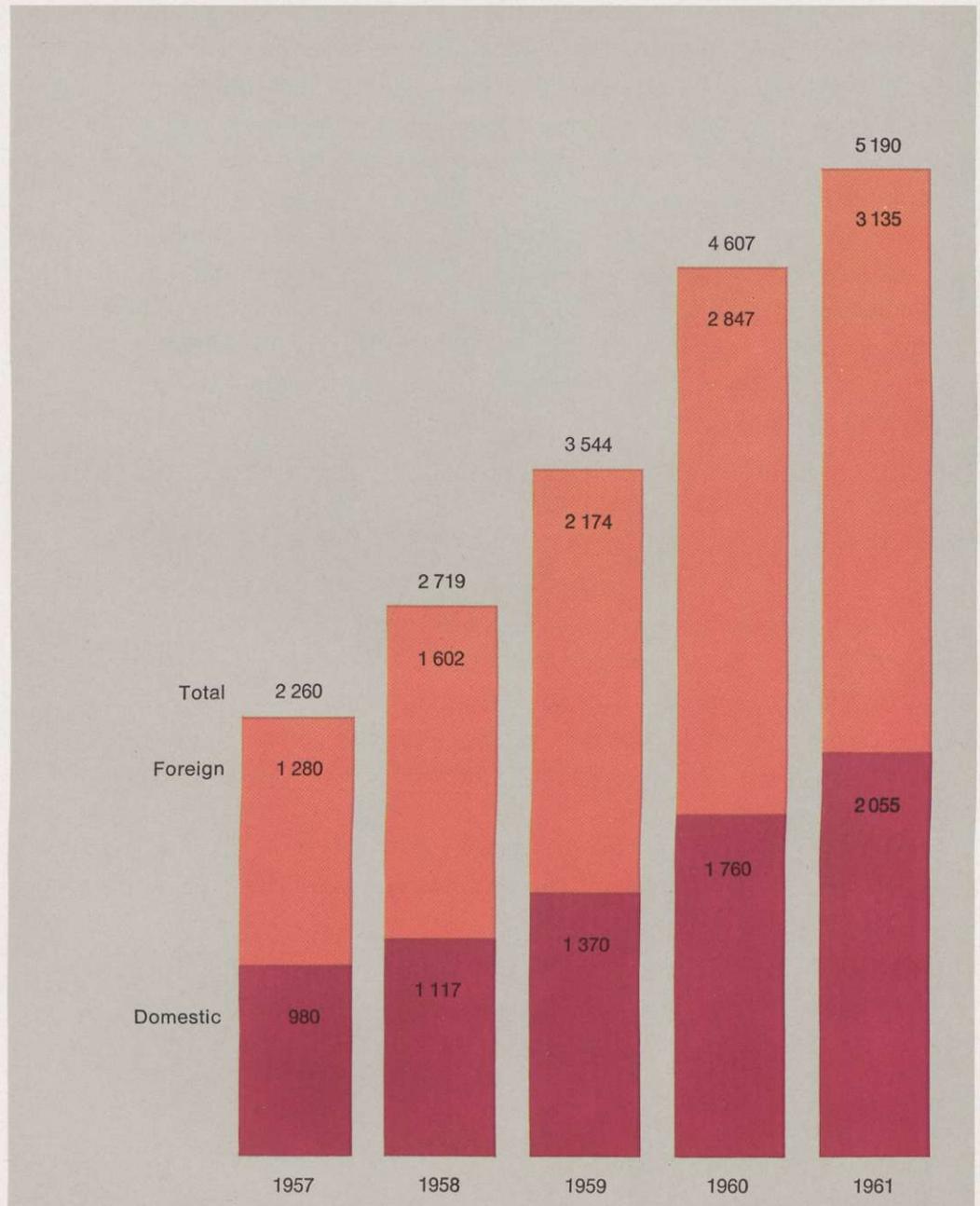
Of total passenger car sales, those represented by the standard model decreased from 3.4 % to 2.8 % in 1961 when compared with 1960.

The sales of parts, when compared with those of 1960, increased in a greater proportion than the vehicle sales did. During 1961, our customers used the exchange program for rebuilt engines, transmissions, and axles to a greater extent than in the prior year.

The sales line of stationary engines was increased with the production of the 1500 industrial engine.

1961 saw a further expansion in our sales and services organization. By the end of the year, there were 1,483 dealers in Germany and more than 4,480 in foreign countries.

Consolidated Sales Trend
in Millions of DM



DOMESTIC MARKET

In 1961, 1,117,000 new domestically produced vehicles were registered in the Federal Republic of Germany which was the first time that such registrations exceeded 1,000,000. This represented an increase of 140,000 new autos registered over the number in 1960; 1960 new registrations exceeded those of 1959 by 160,000. Of the total of all new vehicles registered, that portion representing imported vehicles declined from 8.8 % in 1960 to 7.7 % in 1961.

The total number of passenger cars registered in the Federal Republic of Germany, exclusive of West Berlin, was 5.6 million at the end of 1961.

At the beginning of that year, the Republic had 1 passenger car to each 12 persons compared with 1 to 9.1 in Great Britain, 1 to 8.2 in France, 1 to 6.3 in Sweden and 1 to 2.9 in the United States as of the same date.

Volkswagen domestic sales in 1961 and 1960 were:

	1961	1960	% increase
Passenger cars	369,746	327,370	12.9
Transporters	57,705	47,108	22.5
	427,451	374,478	14.1

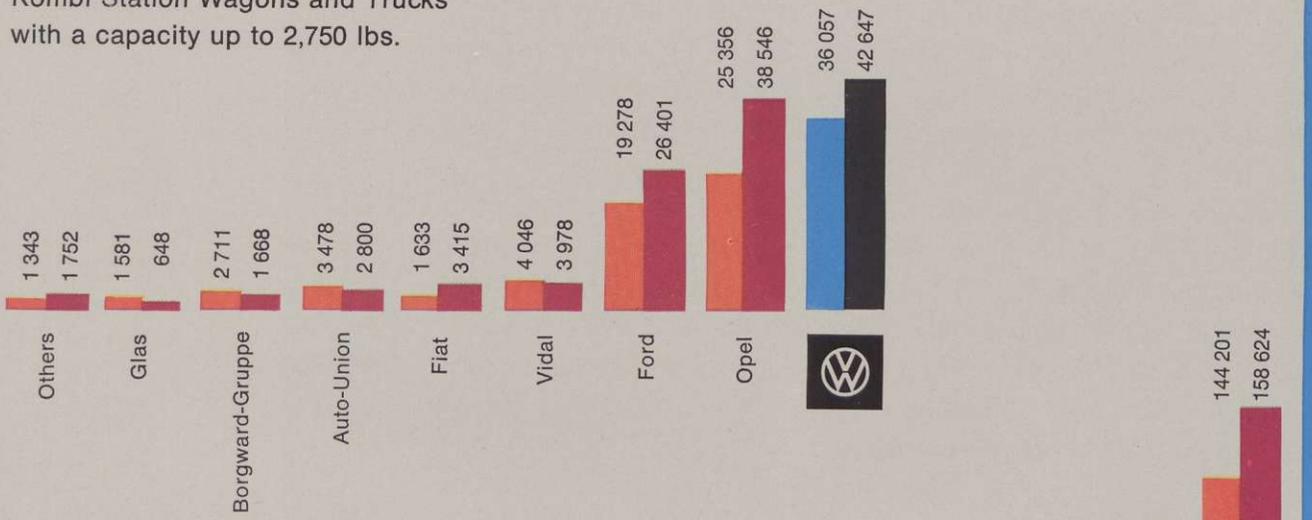
In 1961, Volkswagenwerk's share of new passenger car registrations, which include station wagons and ambulances, was 36.1 % of the total compared with 34.3 % in the prior year. The Company also maintained its lead for Kombi station wagons and trucks with a capacity up to 2,750 lbs., though the percentage of the total of such registrations decreased somewhat from 37.8 % in 1960 to 35.0 % in 1961.

Of our total domestic passenger car sales, 58 % and 50 % for the years 1961 and 1960, respectively, represent sales to hourly workers and government and salaried employees.

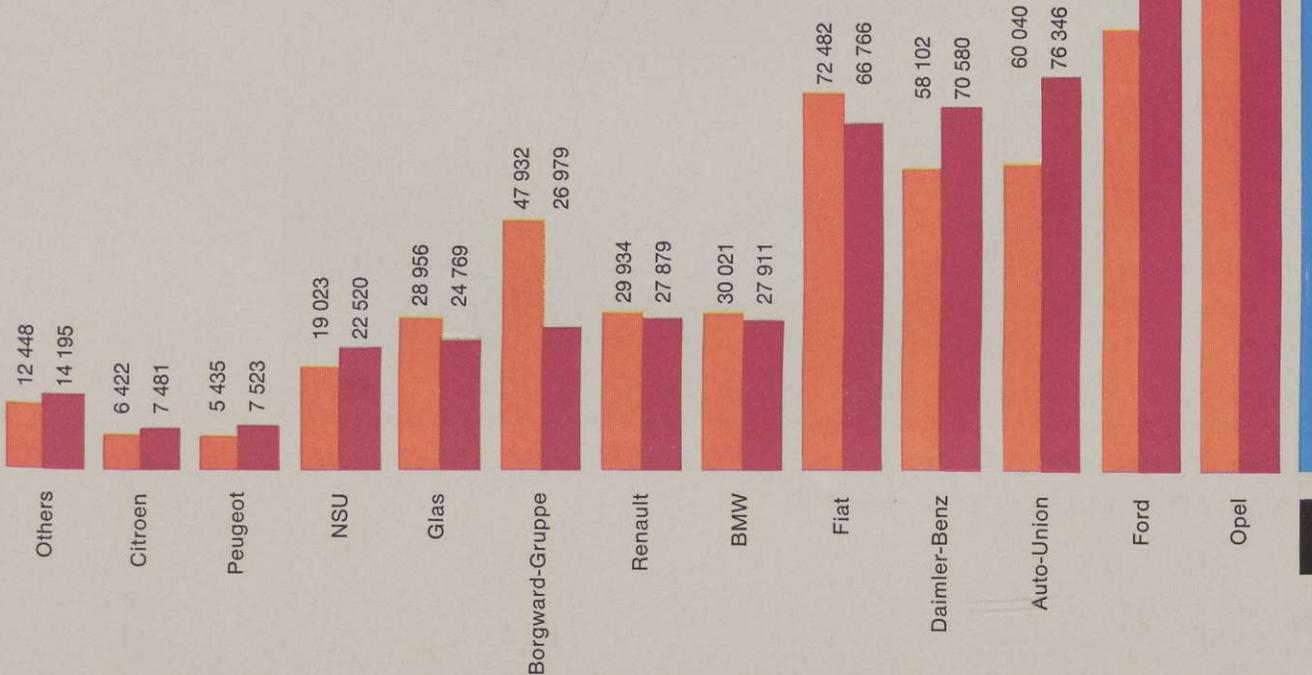
New Vehicle Registrations in the Federal Republic and West Berlin

1960 1961 tentative
 1960 1961

Kombi Station Wagons and Trucks with a capacity up to 2,750 lbs.



Passenger Cars, including Station Wagons and Ambulances



EXPORT MARKET

The major automobile producing countries, especially in the second half of 1961, had to contend with many problems in the export field, particularly Great Britain and France whose auto exports decreased by some 25 % each.

Exports from the Federal Republic of Germany in 1961, however, increased by 2.4 % (23,413 vehicles) over exports in 1960. The Republic's total of 1,006,243 cars sold in the export market in 1961 represented 47 % of its total production, with the result that Germany has maintained its position as the leading auto exporter.

When compared with the year 1960, Volkswagenwerk in 1961 increased its vehicle exports by 9 % (44,148 autos) and now accounts for 53 % of the total Federal Republic vehicle exports. Of the automotive exports from the Federal Republic in 1961, in respect of passenger cars and Kombi Station Wagons and Trucks, 56.8 % and 47.3 % respectively, were Volkswagenwerk products. Comparable figures for 1960 were 53.6 % and 43.8 %.

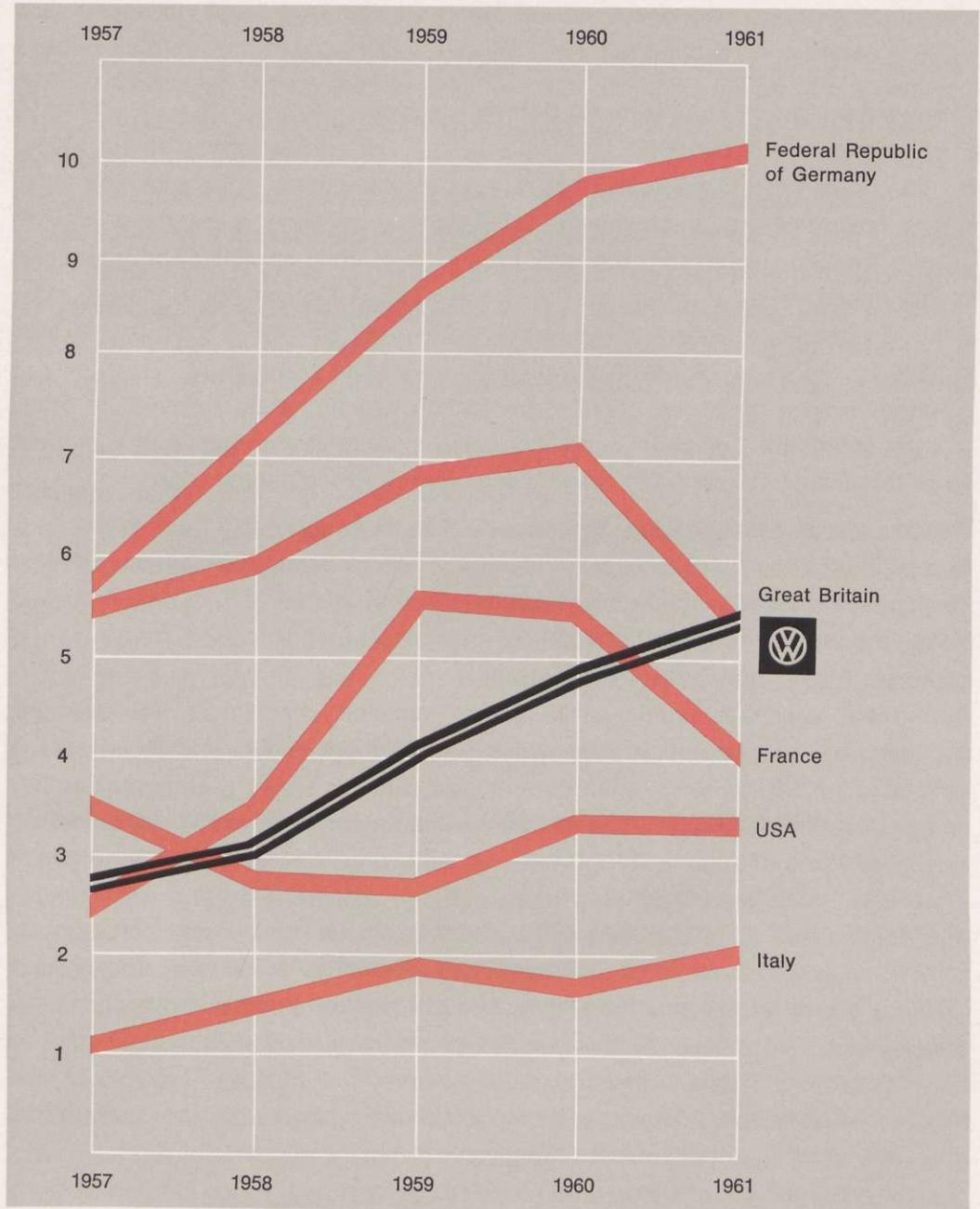
During 1961, Volkswagens were exported to:

	Passenger Cars	Transporters	Total	% of total
Europe	180,976	51,098	232,074	43.5
America	207,416	29,981	237,397	44.5
Africa	18,572	6,314	24,886	4.6
Australia and the islands of the Pacific	14,695	3,278	17,973	3.4
Asia	10,090	3,616	13,706	2.6
Exports through Tourists	6,738	646	7,384	1.4
Total 1961	438,487	94,933	533,420	100.0
Total 1960	397,046	92,226	489,272	
% Increase	10.4	2.9	9.0	

Of our exports, approximately 90 % went to 20 countries and the remainder was spread over more than 110 other countries. Our largest foreign customer was again the United States of America which accounted for 185,510 vehicles or 34.8 % of our total exports. Approximately 1 out of every 3 vehicles exported went to the U.S.A.

Vehicle shipments to European countries in 1961 increased by 43,001 over those of 1960 to a total of 232,074. Of this total, 77,776 or 33.5 % went to EEC countries and 141,783 or 61.1 % to EFTA countries.

Automobile Exports
of Major Producing
Countries and of
Volkswagenwerk
In Units of 100,000



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

Capital stock Cr. \$ 7,850,000,000 Percentage of ownership 80 %

During the year 1961, the capital of the Company was increased by Cr. \$ 3,040,000,000. Our share of this increase was contributed in the form of productive equipment.

The production capacity was increased to nearly 220 vehicles daily during 1961, however, further increases are not planned for the immediate future. With a current year's production of 47,340 vehicles, our subsidiary enjoyed the position of being the leading automobile manufacturer in Brazil. Of the materials used in Volkswagen production at this location, 95 %, by weight, are obtained in Brazil.

With sales of 47,320 units, the 1961 sales exceeded those of 1960 by 67.2 %. Volkswagen's portion of the market rose from 32.4 % of the total in 1960 to 41.0 % in 1961.

Earnings for the year 1961 were satisfactory.

During 1961, *Cia. VVD de Credito, Financiamento e Investimentos*, in which Volkswagen do Brasil S.A. holds a 50 % interest, increased the stated value of its capital stock to Cr. \$ 80 million by a transfer of Cr. \$ 30 million from retained earning to its capital stock account. The increase in the sales financing portion of the business reflects the increase in sales experienced by Volkswagen do Brasil.

Both companies employed a total of 8,014 persons at the end of 1961.

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

Capital stock Rand 800,000 Percentage of ownership 63 %

During 1961, we increased our ownership in this company from 59.2 % to 63.0 % through the purchase of additional capital stock.

The South African market during the year showed the influence of the political and economic difficulties experienced in the area. In December of 1960, the South African Government, in order to cope with an unfavorable balance of payments in foreign trade, was forced to restrict both imports and the granting of credit. With the resulting contraction in the domestic demand for products, the auto market suffered a decline which was reflected in decreased sales for our South

African affiliate. Volkswagen's share of new auto registrations remained virtually unchanged with 13.7 % in 1961 compared with 13.9 % in 1960.

Earnings in 1961 remained satisfactory.

Earnings of *South African Motor Acceptance Corporation (Pty.) Ltd. (SAMAC)*, continued at a satisfactory level during 1961 even though operations were more difficult under the Government's restrictive credit policy and the resulting increase in financing costs.

SAMAD continues to hold a 50 % interest in *Volkswagen Insurance Service (Pty.) Ltd.* Although income remained at the same level as that of 1960, increased expenditures resulted in lower earnings for the year ended December 31, 1961.

The South African companies employed a total of 1,123 persons at the end of 1961.

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

Capital stock Aust. £ 5,000,000

Percentage of ownership 100 %

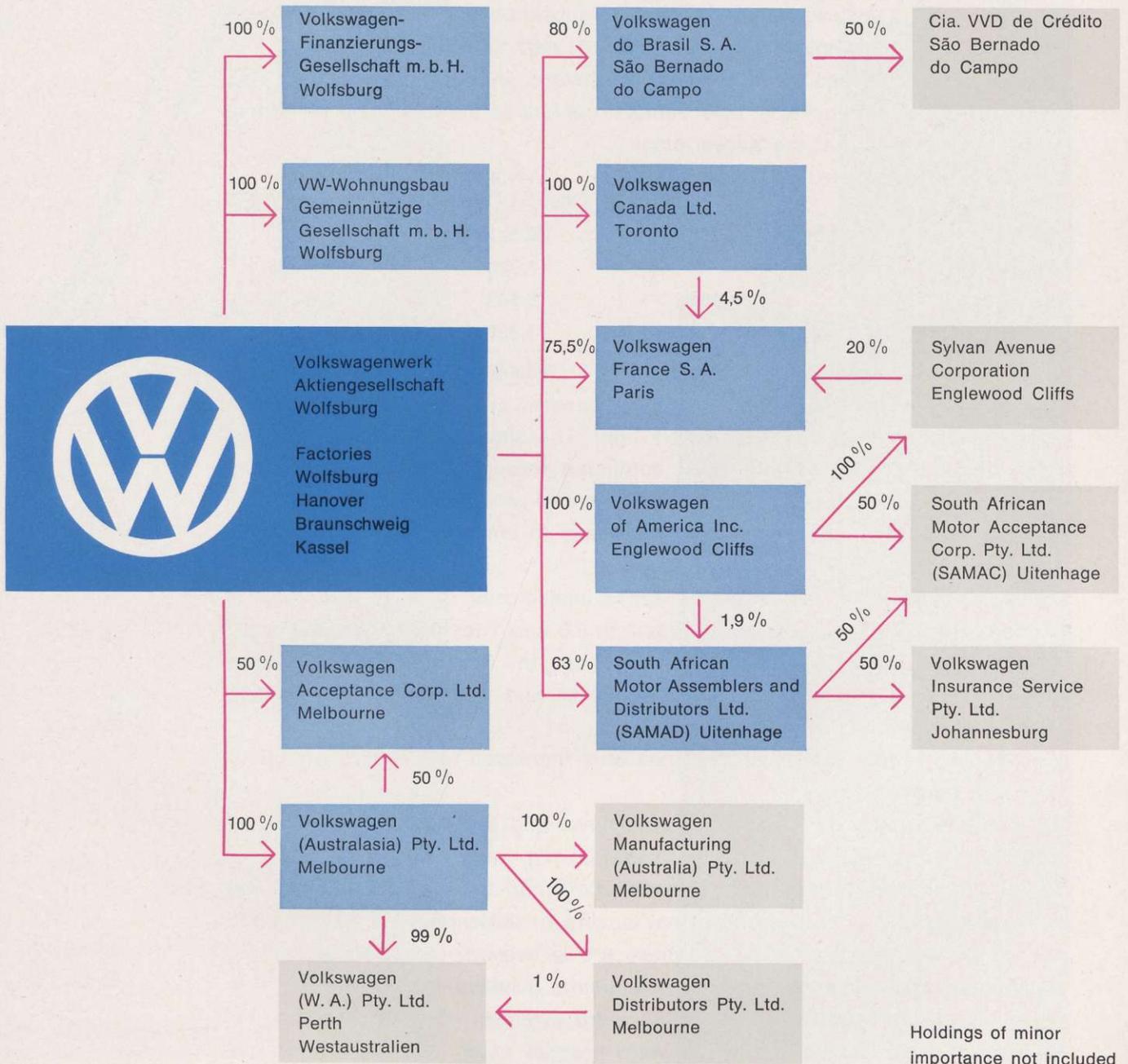
With the purchase of additional shares of stock in 1961, this Company is now completely owned by Volkswagenwerk AG. There was an increase in the capital of the company from Aust. £ 2.5 million to Aust. £ 5 million during the year through a contribution of cash and productive machinery.

Volkswagen (Australasia) is a holding company for our Australian affiliates; Volkswagen Distributors Pty. Ltd. and Volkswagen (W.A.) Pty. Ltd., both of which are sales organizations, and *Volkswagen Manufacturing (Australia) Pty. Ltd.*, which is the producing company. The holding company is importer of knocked-down Volkswagens, sub-assemblies and parts, and in addition, purchases other production materials in the local market.

The productive machinery contributed by us, which is reflected in the increased capitalization of Volkswagen (Australasia), has been used to expand the production facilities of Volkswagen Manufacturing. Thus, in 1962, there will be a manufacturing rather than an assembly operation in Australia which will require an increasing level of local raw material usage.

During 1961, restrictive economic policies of the Australian Government depressed the general business level, which resulted in a considerable decline in automobile

Holdings in Subsidiary and Affiliated Companies as of December 31, 1961



LABOR FORCE

The labor force of Volkswagenwerk AG and its subsidiary and affiliated companies increased to 80,764 employees at December 31, 1961.

Volkswagenwerk AG had a total of 69,446 employees, an increase of 5,307 (8.3 %) over the number employed in 1960. Almost one-half of the additional personnel in 1961 are employed at the Kassel plant.

Breakdown of employees by plant:

	Number of Employees	
	Dec. 31, 1961	Dec. 31, 1960
Wolfsburg	38,511	36,652
Hanover	17,928	17,548
Kassel	8,609	6,106
Braunschweig	4,398	3,833
	69,446	64,139

In spite of a cyclical lessening of activity in some areas of the economy, the labor market continued to be extremely tight. The shortage in skilled laborers, which has existed for several years, continued through 1961. The productive hours lost through illness in 1961, which increased over that in 1960, in addition to the general labor shortage made it necessary to employ foreign labor in the early part of 1962.

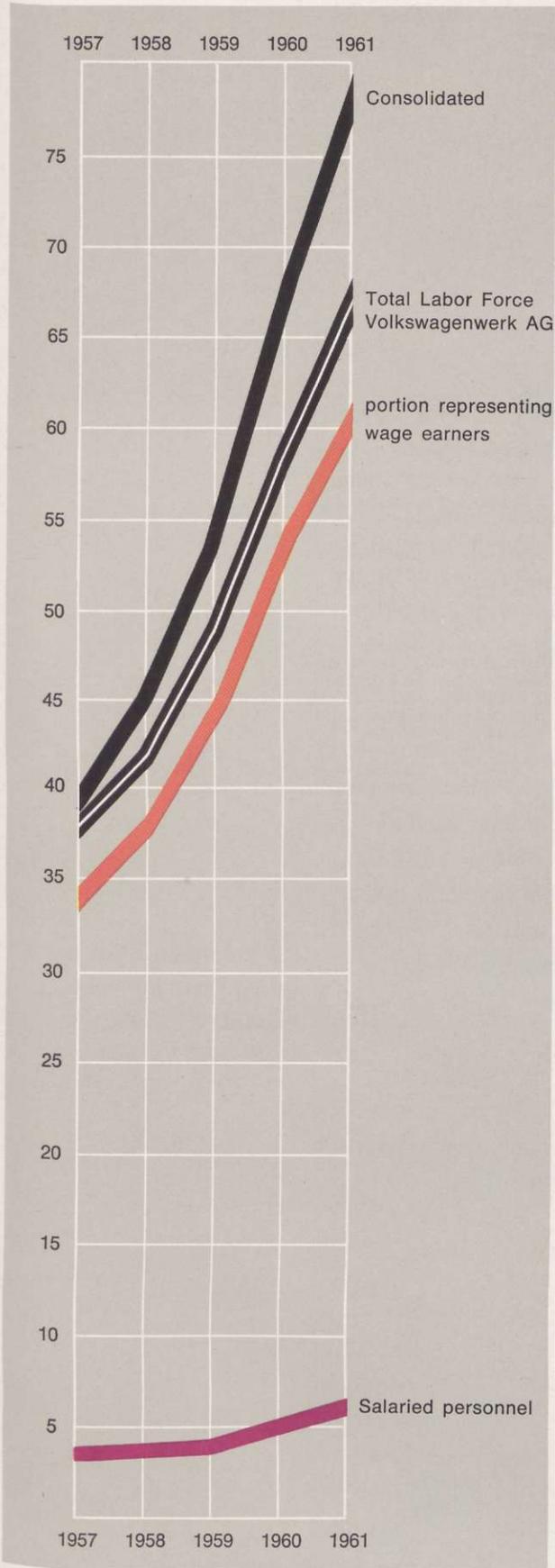
Employee turnover in 1961 of 6.2 % approximated that of 1960. The ratio of salaried personnel to wage earners was 1 to 9.6 and 1 to 10.3 on December 31, 1961 and 1960, respectively. At those same dates, the respective percentages of female labor to the total labor force were 12.3 % and 11.3 %. The average age of our employees was 33.2 at year end.

Effective July 1, 1961, wages and salaries were increased by 5 % through agreement with trade unions.

Our program for the training of new employees and the further developing of supervisory personnel was expanded in 1961.

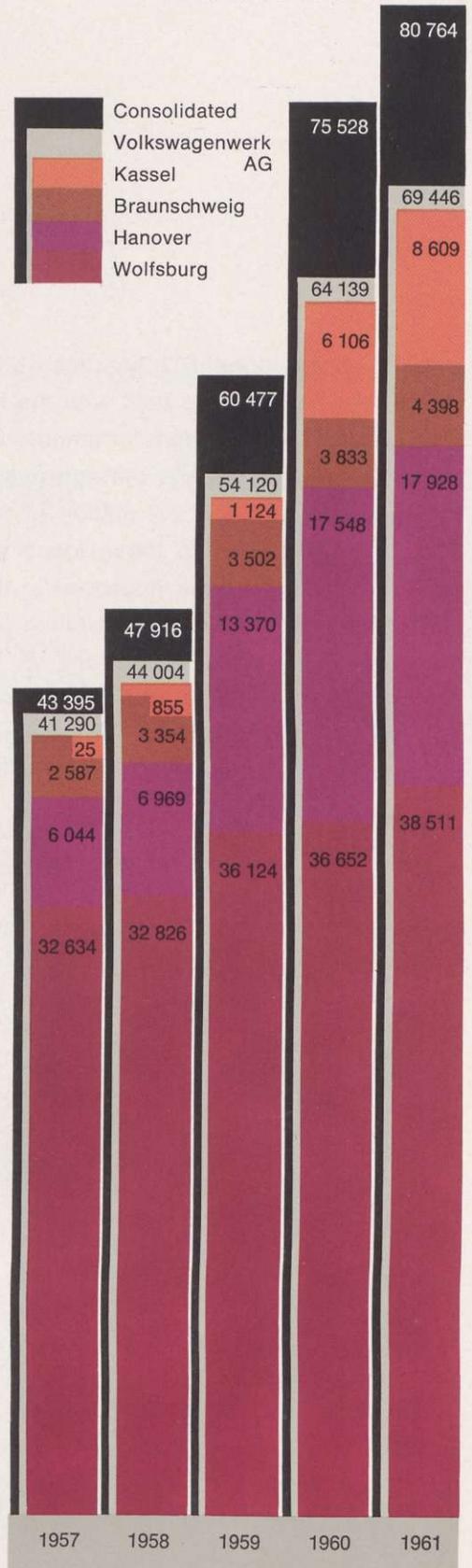
During 1961, we rented another recreation center in the Harz Mountains. This makes a total of 5 of such areas in that locality for our employees in addition to one in the Lueneburger Heide. Of these areas, two are owned at present by Volkswagen and a third is under construction in Schulenberg, Harz.

Under our Health Care Plan, 176 invalids were given a two-week vacation and special two-week vacations with pay were granted to an additional 4,493 employees, all expenses paid, at the recreation centers.

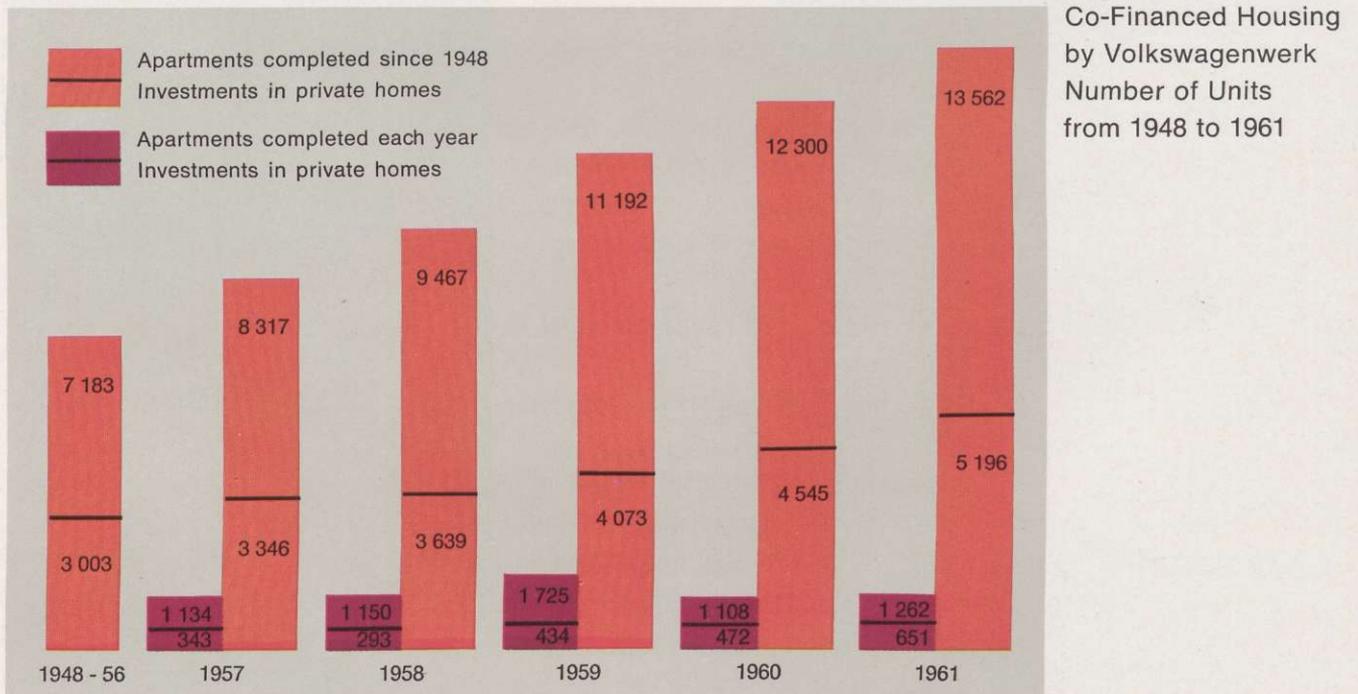


Growth of Labor Force
Annual Averages
in Thousands

Number of Employees
at Year End



In 1961, an additional 611 apartments for factory employees were completed and 651 private homes were built with the help of financing from the Company. Also during the year, loans in amount of DM 16 million were granted for housing construction which brings the aggregate of such loans since the currency reform to DM 100 million. DM 7.2 million of the loans has been repaid as of December 31, 1961. In addition to those loans granted in 1961, applications for housing construction loans were approved in the amount of DM 16.2 million. At December 31, 1961, 1,277 dwelling units were under construction in the area, most of which were in the city of Wolfsburg. With a continually increasing demand for apartments and decreasing amounts of public funds available for the Housing Aid Program, Volkswagenwerk will have to provide substantial amounts for construction of apartments in the coming years.



During 1961, expenditures were made for social contributions, both compulsory and voluntary, as follows:

	DM	DM
Compulsory Social Charges		
Employer's share of social security contributions, trade association dues and contributions to the family allowance fund		64,868,338.47
Compulsory Social Benefits		
Mainly for legal holidays, paid annual vacations, accident insurance, company's sickness fund and sickness benefits		46,886,512.36
Voluntary Social Contributions (Fringe Benefits)		
a) <i>Directly benefiting personnel:</i>		
mainly expenditures for pension plan, burial aid, group accident insurance, Christmas bonuses, incentive bonuses and additional paid vacation days	65,389,934.99	
Subsidies for canteens and stores, recreation centers, public health matters, marriage, birth and death allowances, etc.	14,070,441.87	
b) <i>Indirectly benefiting personnel:</i>		
Donations and subsidies to cultural activities, sports, religious organizations, kindergartens and schools, etc.		
Contributions to the public heating system of the City of Wolfsburg	2,415,567.46	81,875,944.32
Total		193,630,795.15

During 1961, a special effort was required of all our employees as a result of the initial production of the Volkswagen 1500. We wish to express gratitude to all personnel whose cooperation and untiring efforts contributed to the success of the year 1961. We also wish to thank the Members of the Work Council at our plants for their cooperation which reflects a continuing mutual confidence and understanding.

OUTLOOK

There is an undiminished demand for our products and prospects for VW sales in the major foreign markets appear promising; accordingly, we will continue to increase production.

Even though production will increase, our order backlog will decrease only gradually in both the domestic and export markets. In order to cope with the ever increasing demand, we will increase production of the Volkswagen 1500.

The general trend toward liberalization in the world markets will stimulate international trade and the trade alliance of the EEC and virtually all EFTA countries will result in a large automobile market in Europe. With the relatively low number of automobiles per capita, by comparison with U.S. standards, and the growing average personal income in European countries, the demand for automobiles will remain at a high level for a considerable period of time. Those manufacturers who do not keep their productive facilities up to date technically and who do not adjust their product lines on a timely basis will find themselves at a disadvantage when attempting to meet the more severe competitive conditions that are expected. Volkswagenwerk has prepared well for this development by a continuous modernization and stream-lining of its productive facilities which will continue to require substantial expenditures in the future.

At the end of March 1962, we were forced to increase domestic prices by DM 240 each for both the Volkswagen 1200 convertible and export model sedan. In addition, the price for the Volkswagen 1200 standard sedan, now also equipped with hydraulic brakes, was increased by DM 390. These price increases were necessitated by cost increases, which also continued throughout the early part of 1962. Prices for the truck and station wagon series, the Volkswagen 1500 and all Karmann Ghia models have remained unchanged.

Balance Sheet

General

Total assets increased during 1961 by some DM 238 million to a total approximating DM 2.1 billion at year end. The balance sheet reflects further investments of substantial amounts in property, plant and equipment and the conversion of a portion of our short term liabilities into a long term loan.

Assets

The book value of the *Property, Plant and Equipment and Investments* increased during the year under review by DM 230.3 million to a total of DM 1,529.2 million at December 31, 1961.

Additions to *Property, Plant and Equipment*, in the amount of DM 595.5 million, were higher than in any prior year since the 1948 currency reform.

	1961	1960
Land and buildings	DM 278.4 million	DM 187.2 million
Machinery and other equipment	DM 317.1 million	DM 277.9 million

Depreciation of plant and equipment was provided for on a basis consistent with that of the prior year and, to the extent permissible for tax purposes, was computed on the declining balance method. Additional costs incurred in order to accelerate construction of facilities in recent years were written off completely in 1961.

All our property, plant and equipment is free of liens and encumbrances.

Additions to *Investments in Subsidiary and Affiliated Companies* amounted to DM 52.6 million. They include, primarily, the acquisition of the remaining shares of Volkswagen (Australasia) Pty., Ltd., Melbourne and our contributions to new capital of that company and Volkswagen do Brasil S. A., São Bernardo do Campo. The other additions are comparatively minor; they include the cost of additional shares of Volkswagen France S.A., Paris, and of the VW-Wohnungsbau Gemeinnützige Gesellschaft m.b.H., Wolfsburg; the acquisition of additional shares of SAMAD (South African Motor Assemblers and Distributors, Ltd.), Uitenhage; and the final payment on our subscription to shares of Kern-Reaktor-Finanzierungsgesellschaft m.b.H. (Nuclear Reaktor Finance Company, Ltd.), Frankfurt.

The costs of our investments in foreign companies were written down to nominal amounts, in accordance with established company policy. The political instability prevailing in various countries and the continuing deterioration of the national currency in Brazil are indicative of the risks inherent in long-term foreign investments.

In addition, the final payment on our subscription to shares of Kern-Reaktor-Finanzierungsgesellschaft m.b.H. was written off in full.

The additions to *Other Investments Securities* include DM 25 million invested in the Anleihe zur Förderung von Entwicklungsländern (Loan for the Promotion of Underdeveloped Countries). In view of certain special terms of the loan, we reduced the book value of this investment to 92 %, which is permissible for tax purposes.

The book value of our *Inventories* remained virtually unchanged. The inventories of work-in-process and raw materials increased as a result of the expansion of our production. This was offset by a decrease in the inventory of finished products. Through favorable arrangements with suppliers, we were able to decrease our inventory of spare parts. In the valuation of the inventories, we made such allowances, as we deemed necessary for increased risks inherent in the maintenance of stocks.

We granted additional interest free *Long-Term Loans* of DM 16.1 million for housing purposes to VW-Wohnungsbau Gemeinnützige Gesellschaft m.b.H. and other builders as well as to company employees.

Effective January 1, 1962, the tax benefits available, under Section 7 c of the German Income Tax Law, in connection with construction of privately owned homes and apartments were discontinued. We, therefore, placed into escrow accounts amounts corresponding to those portions of our loan commitments which, under the terms agreed upon, were to be made available after December 31, 1961. The total book value of all loans granted by us as of December 31, 1961 amounted to DM 96.3 million as against DM 84.1 million at the end of 1960. For balance sheet purposes, interest free loans were discounted to indicate present values. Amortization payments were received in accordance with the terms of existing agreements.

The major portion of our *Trade Receivables* represents amounts owed by customers abroad. Those amounts due have been collected, subsequently, except for minor balances.

Receivables from Subsidiary and Affiliated Companies increased by DM 7.2 million during the year to a total of DM 90.3 million at December 31, 1961. The receivables are, principally, from subsidiaries in North and South America. Where the terms of payment are longer than usual, appropriate interest is being charged. Adequate provision has been made to cover risks arising out of currency transfer restrictions.

Other Accounts Receivable include cash surrender value of pension insurance in the amount of DM 20.1 million and a loan amounting to DM 3.3 million secured by a mortgage. Doubtful accounts receivable have been written off.

Liabilities

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

The *Reserve in accordance with Section 47 of the Deutsche Mark Bilanzergänzungsgesetz* (Law Relating to the Implementation of Balance Sheets With Respect to Deutsche Mark), which had been created in previous years through revisions of tentative estimates, was transferred to other reserves in accordance with the provisions of the *Viertes DM-Bilanzergänzungsgesetz* (Fourth Act Relating to Supplementation of Balance Sheets With Respect to Deutsche Mark).

The *Reserve for the Share-the-Burden Property Levy* corresponds to the discounted amount of this liability as of December 31, 1961.

The *Reserve for Replacement* has been liquidated following construction of the facilities destroyed by fire in 1959.

Other Reserves were increased by DM 66.5 million during the year. These reserves, aggregating DM 328.3 million at December 31, 1961, are intended for major repairs to our plants, to provide for the further development of the Volkswagen automobile and to cover, to a limited extent, risks generally inherent in the automobile business.

Undetermined Liabilities increased during the year in the aggregate by DM 3.3 million to a total of DM 317.6 million. The increase is due, primarily, to higher pension plan and warranty obligations. This increase was largely offset through

the transfer to earnings of the unused amount provided in the prior year for issuance of Volkswagen stock to our employees.

The amounts provided for undetermined liabilities were established conservatively, in the light of our knowledge of the pertinent facts. In addition to the obligations already referred to, amounts were provided to cover risks of litigation, other risks of a general nature, recurring special bonus payments to personnel, deferred income tax obligations in connection with certain reserves and further obligations, the amount of which cannot yet be determined, but which have arisen in the ordinary course of business.

The provision for the possible liability in respect of the Volkswagen-Sparer-Prozess (Volkswagen Savers' Litigation) remains unchanged. The settlement of this lawsuit in 1961 has since become effective upon transfer to us of the savings accounts, converted into DM, which were held at the former Bank der Deutschen Arbeit (Bank of German Labor). At the present time, we cannot determine, accurately, the cost which will be involved in the settlement, the performance of which will take place over an extended period of time. According to current estimates and considering the transfer of the savings account, we believe that the present provision is adequate.

Of the undetermined liabilities, which aggregate DM 317.6 million, approximately 40 % can be considered as relating to long term risks, while some 30 % apply to medium term risks and the balance to those of a short term nature.

Long-Term Loans include a loan of DM 50 million granted to us by the Land Niedersachsen (State of Lower Saxony), payable in January 1966, and the first instalment of a DM 150 million loan amounting to DM 55.2 million. The remainder of this loan is to be made available to us in two annual instalments.

The other liabilities included in long-term loans are loans and mortgages in connection with housing construction. They were reduced during the year under review by regular amortization payments.

Prepayments by Customers, as in the past represent, primarily, advance payments by purchasers abroad, the total of which was DM 3.4 million less than the comparable amount at the end of 1960.

Trade Accounts Payable show a decrease of DM 16.5 million between the current and prior year.

Accounts Payable to Subsidiary and Affiliated Companies consist, primarily, of prepayments for merchandise by Volkswagen of America, Inc. for deliveries to be made in the first half of 1962. These prepayments are interest bearing.

Amounts due to Banks are divided equally between short and medium-term obligations. The short-term debt arose out of temporary financing of several large export transactions while the medium-term obligations represent drawings on existing credit lines. As a matter of precaution, we have obtained credit commitments for the years 1962 to 1965 to have them available for possible heavy cash requirements in subsequent years.

Other Liabilities are DM 55.0 million below the comparable amount at December 31, 1960. The main items consist of tax liabilities and payroll obligations for December 1961. The undistributed dividends owed to Lower Saxony, which appeared in this account in 1960, have been converted into a long-term loan. *Deferred Income* consists, for the most part, of prepaid interest on amounts due from subsidiary and affiliated companies in addition to advance payments for services to be rendered.

At December 31, 1961, our *Contingent Liability in respect of Discounted Trade Acceptances* amounted to DM 17,123,838.74.

Statement of Earnings

Compared with 1960, there was an increase of 11.7 % in total gross output consisting of sales, higher inventory, and an increase in capitalized additions to assets of company manufacture.

Following are other significant increases in 1961 over 1960:

Expenditures for materials	14.5 %
Depreciation of fixed assets	15.4 %
Wages and salaries, disregarding the special bonus granted in the prior year for the acquisition of one VW share of stock per employee,	17.2 %

There was a decrease in:

Taxes on income, earnings and property by	6.9 %
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Changes in major expense and income items between years, not commented on elsewhere, are as follows:

The relatively large increase in *Expenditures for Raw Materials and Supplies* is due to additional requirements as a result of the technical improvements made to the Volkswagen 1200 and the Volkswagen Trucks and Station Wagons.

Expenditures for Wages and Salaries increased disproportionately to the gross output. This was due to an 8.5 % wage and salary increase effective July 1, 1960 and a further 5 % wage and salary increase effective July 1, 1961.

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

The *Losses on Disposal of Plant and Equipment* were caused, for the most part, by the demolition of buildings, in whole or part, in connection with expansions of the Wolfsburg, Hanover and Kassel plants.

The increase in *Interest Expense and Similar Charges* is due, principally, to credit commitment charges as well as interest on bank loans, other loans, prepayments and in connection with various import and export transactions.

Deferred expenses, which have been allowed as deductions for tax purposes, and higher special charges have contributed to the decrease of *Taxes on Income, Earnings, and Property*.

Other Taxes are comprised almost entirely of the sales tax.

The decrease of *Other Expenses* was due, largely, to lower requirements for provisions relating to litigation and risks of a general nature. On the other hand, the expenditures for maintenance, advertising and sales promotion have increased. *Sales* increased by 12.5 % in 1961 compared with the previous year. The proportion of export sales to total sales decreased from 55.2 % in 1960 to 53.5 % in 1961. We received *Income from Investments in Subsidiary and Affiliated Companies* through the distribution of dividends for the year 1960, the major portion of which was from Volkswagen do Brasil S.A.

Dividends were also received from

South African Motor Assemblers and Distributors Ltd.

Volkswagen Canada Ltd.

Volkswagen of America, Inc.

Volkswagen-Finanzierungs-Gesellschaft m.b.H. and

VW-Wohnungsbau Gemeinnützige Gesellschaft m.b.H.

The *Income from Other Investment Securities* represents interest received by us on the „Loan for the Promotion of Underdeveloped Countries“.

The major portion of *Other Income* consists of revenue from kitchen and cafeteria sales, charges for various services, collections on accounts receivable previously written off, currency exchange profits and miscellaneous items.

The *Total Compensation to Management* for the year 1961, including pension payments and an amount relating to the year 1960, was DM 3,092,133.95; compensation to members of the *Board of Directors* amounted to DM 123,000.

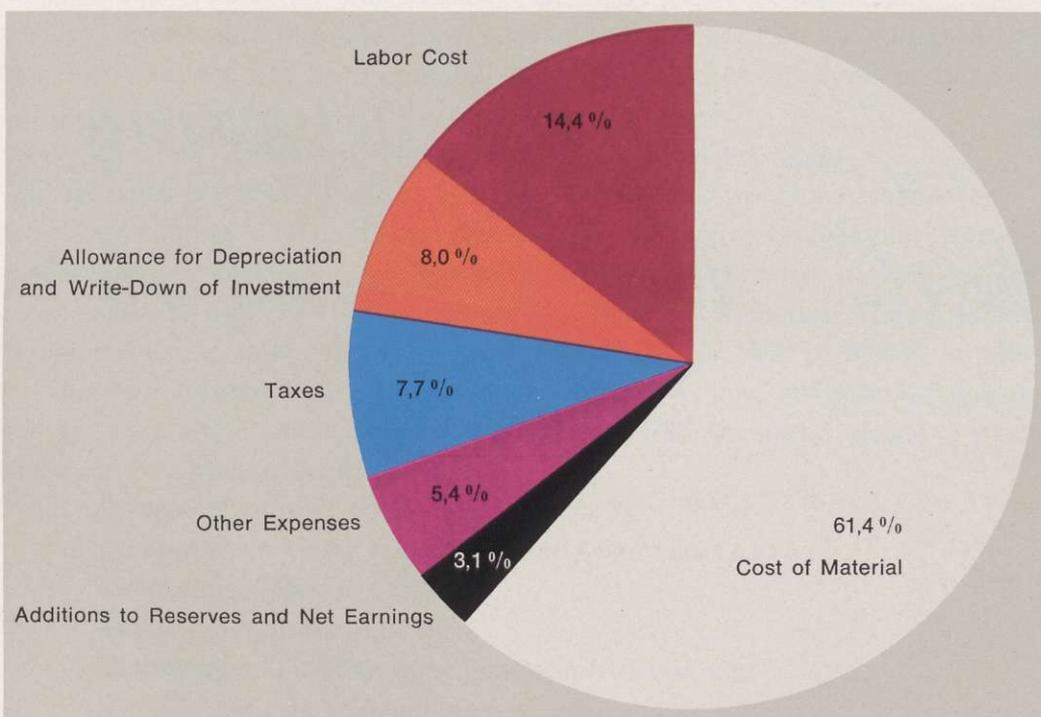
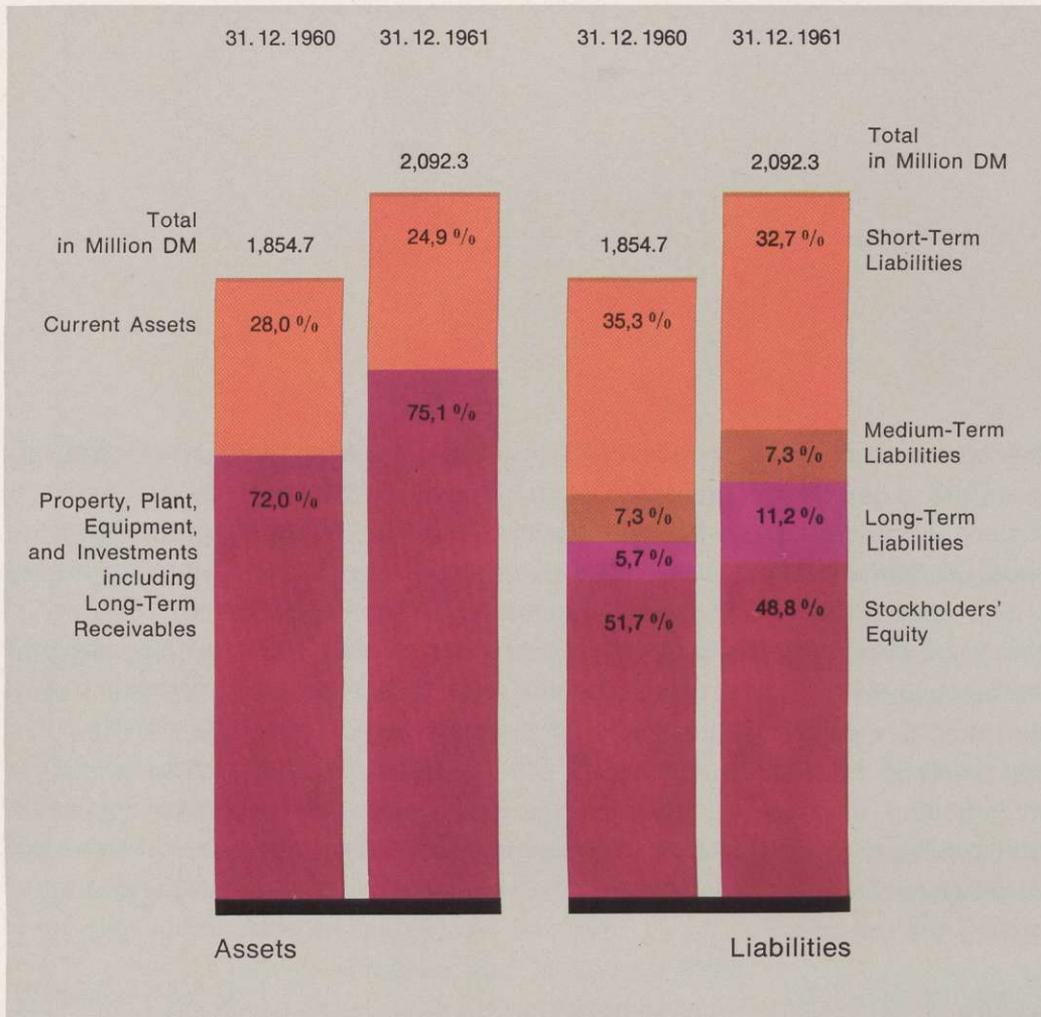
Net earnings for 1961 amounted to DM 71,916,251.77 which, when added to undistributed earnings for 1960, in the amount of DM 235,783.19, results in total *Net Earnings* of DM 72,152,034.96. With the consent of the Board of Directors, we propose to distribute a dividend of 12 %, equal to DM 72 million, and carry forward the balance.

Wolfsburg, April 1962

THE MANAGEMENT

Vorstand: Linn, Hoffmann, Ullmann
Lohmann, Kowatz, Amm, Hansen, Steiner

STRUCTURE OF BALANCE SHEET



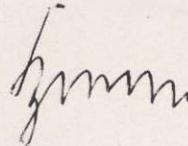
REPORT OF THE BOARD OF DIRECTORS

The management has kept the Board of Directors informed currently through periodic written reports and in the course of conferences on the status of the Company as well as on important questions relating to the conduct of the business.

The audit of the financial statements for 1961 by Deutsche Revisions- und Treuhand-Aktiengesellschaft, Hanover, has not disclosed any exceptions.

The Board of Directors has approved the yearly report prepared by the management. The report is thereby confirmed. The Board of Directors concurs with the proposal of the management concerning the distribution of earnings.

Wolfsburg, April 1962



CHAIRMAN OF THE BOARD OF DIRECTORS

STATEMENT OF EARNINGS

Year Ended December 31, 1961 with comparative figures for 1960

Expenditures

	1961	1960
DM	DM	in Thousand DM
Expenditures for Raw Materials, Supplies, and Outside Services	2,758,334,369.16	2,408,077
Wages and Salaries	562,870,706.34	500,319
Social Expenditures – Compulsory	64,868,338.47	56,248
Social Expenditures – Other	17,308,718.81	16,085
Allowance for Depreciation of Physical Plant	304,684,732.34	239,566
Write-Downs of Financial Investments	52,699,216.19	70,013
Write-Offs of Accounts Receivable (Including Discounts)	11,328,320.01	18,818
Losses on Disposal of Plant and Equipment	3,604,381.23	3,806
Interest Expense and Similar Charges	12,870,700.84	7,086
Taxes on Income, Earnings, and Property	265,941,860.32	285,596
Other Taxes	80,744,549.53	70,963
Share-the-Burden Property Levy	2,784,782.—	2,785
Other Expenses	296,652,943.11	310,760
Additions to Other Reserves	66,482,939.—	34,246
Net Earnings		
Net Earnings Brought forward from previous year	235,783.19	—
Net Earnings for the Year	71,916,251.77	72,236
	72,152,034.96	72,236
	4,573,328,592.31	4,096,604

Wolfsburg, April 1962

Volkswagenwerk Aktiengesellschaft

Board of Management

Nordhoff Frank Haaf Hiemenz Höhne

Novotny Orlich Paulsen Siebert

Earnings

	1961	1960
DM	DM	in Thousand DM
Sales	4,422,743,806.82	3,932,719
Increase of Finished Products and Work-in-Process Inventories	767,832.72	39,794
Capitalized Additions to Assets of Company Manufacture	64,955,088.20	45,838
Income from Investments in Subsidiary and Affiliated Companies	7,705,814.41	6,996
Income from Other Investment Securities	993,055.57	—
Other Interest and Similar Income	8,335,622.36	12,423
Gain on the Disposal of Plant and Equipment	1,415,021.40	573
Elimination of Reserves (Undetermined Liabilities) no Longer Required	13,372,968.82	7,934
Other Income	50,688,210.38	43,427
Net Earnings Brought forward from the Previous Year	235,783.19	—
Transfers from Reserves		
Reserve for the Share-the-Burden Property Levy	1,240,000.—	1,220
Reserve for Replacement	875,388.44	5,680
	4,573,328,592.31	4,096,604

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 25, 1962

Deutsche Revisions- und Treuhand-Aktiengesellschaft

Schneider
Auditor

Dr. Apelt
Auditor

Aerial Photographs by AERO-LUX, Frankfurt (Main). Released by Ministry of Economics in Hessen under No. 824/61



VOLKSWAGEN 1200 SEDAN (EXPORT MODEL)



VW DELIVERY VAN



VOLKSWAGEN 1200 CONVERTIBLE 4 SEATS

VW PICK-UP



VOLKSWAGEN 1200 KARMANN GHIA COUPE 2 SEATS



VW STATION WAGON "DE LUXE"



VOLKSWAGEN 1500 SEDAN

VOLKSWAGEN 1500 CONVERTIBLE 4 SEATS

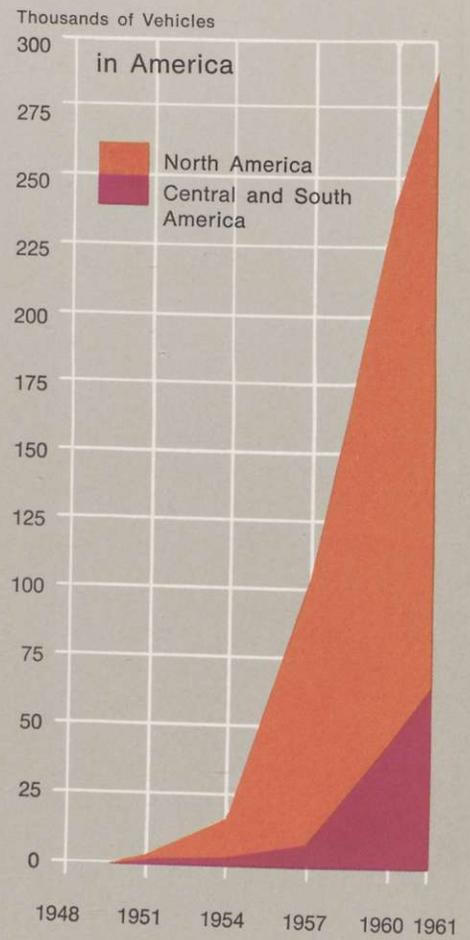
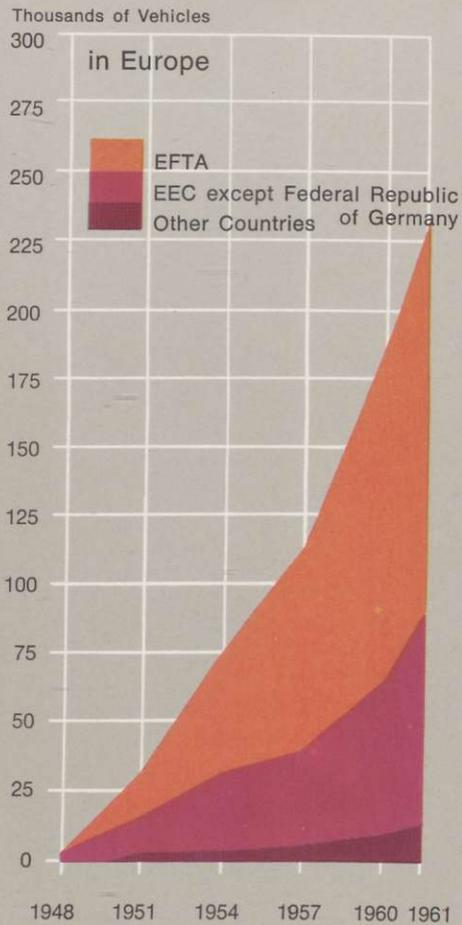
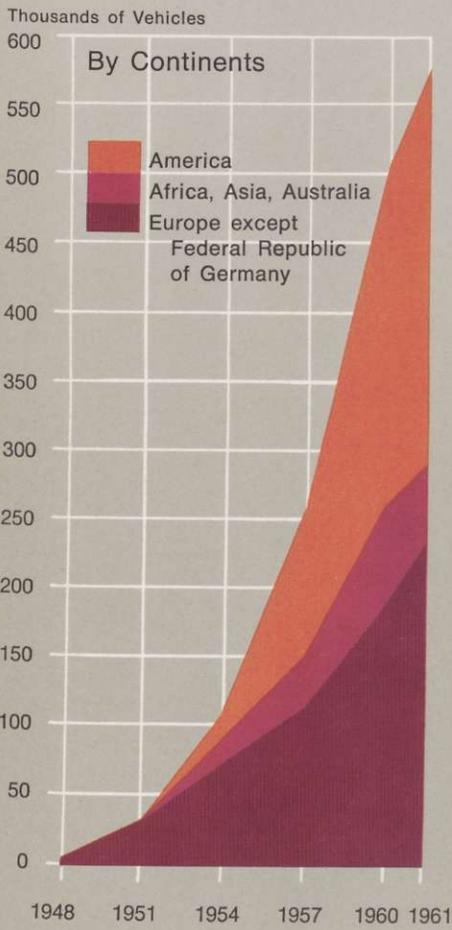


VOLKSWAGEN 1500 KARMANN GHIA COUPE 2 SEATS

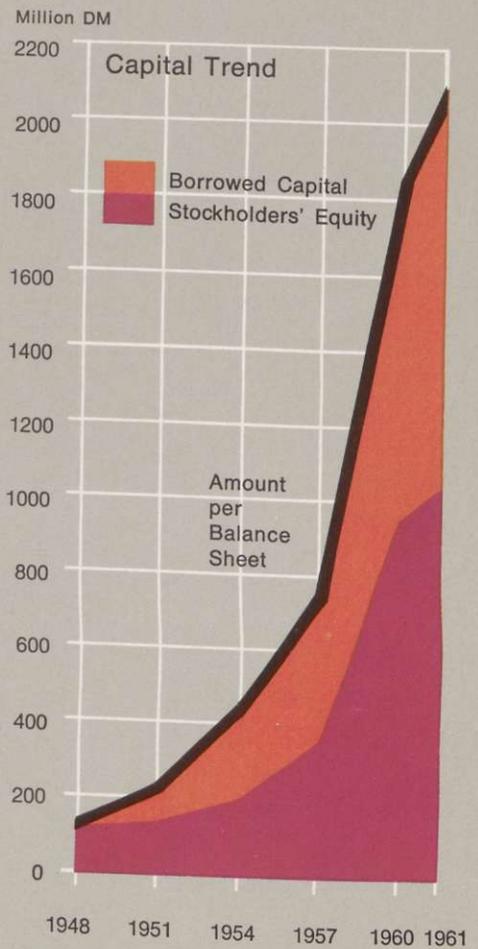
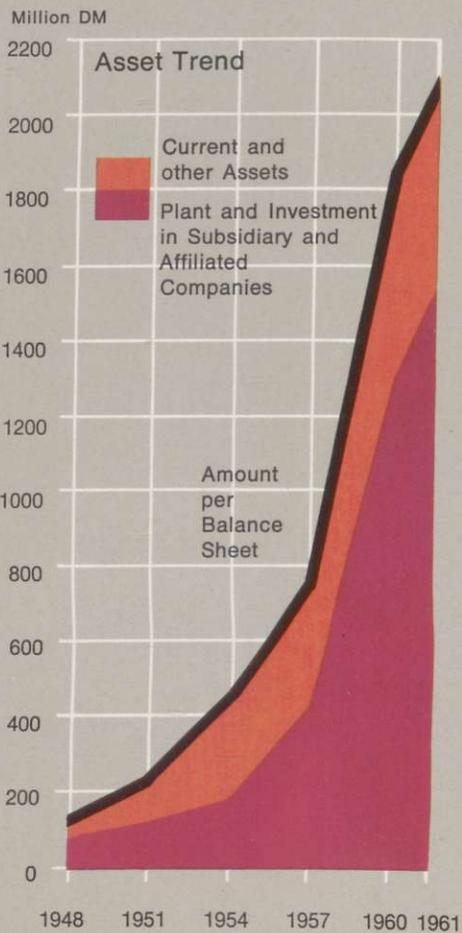
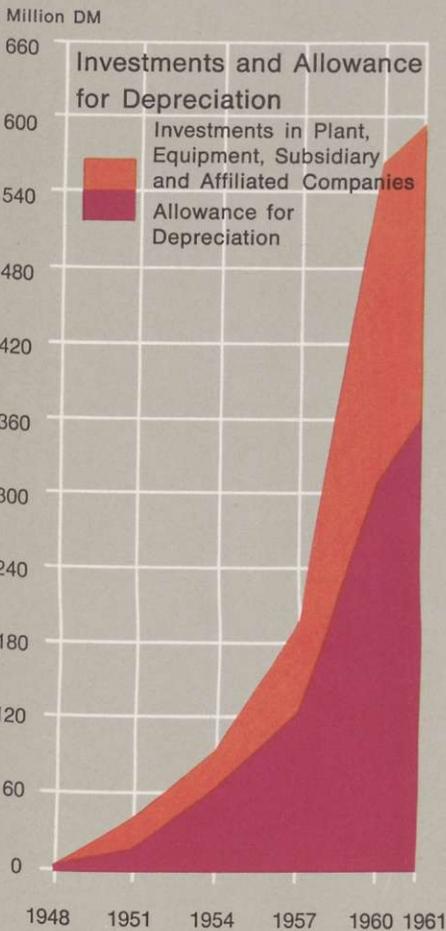


VW 1500 STATION CAR

VEHICLES SALES OF FOREIGN SUBSIDIARY AND AFFILIATED COMPANIES



VOLKSWAGENWERK AG



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