

VOLKSWAGEN

GROUP CHINA



Volkswagen Group China – Pioneering the Future

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Investor Visit, 1 December 2016, Beijing

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Volkswagen Group China

1. Chinese Market
2. Volkswagen Group in China
3. Sales
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5. Strategy and Future Development



Chinese Market

Volkswagen Group in China

Sales

Financials

Strategy and Future Development

Volkswagen's second home market in comparison

Size of the countries



CHINA: 9,562,911 km²

GERMANY: 357,021 km²

Population

	CHINA	GERMANY
INHABITANTS	1,370 million	81 million
DENSITY (People per km ²)	139.6	232.1
AVERAGE AGE	37 years	44 years
UNEMPLOYMENT	4.1 %	6.4 %

Economy

	CHINA	GERMANY
GDP	\$ 10,916 billion	\$ 3,353 billion
GDP PER CAPITA	\$ 7,833	\$ 41,106
GDP GROWTH RATE	6.9 %	1.5 %
INFLATION	1.4 %	0.2 %
TRADE BALANCE	\$ 682.3 billion	\$ 291.7 billion

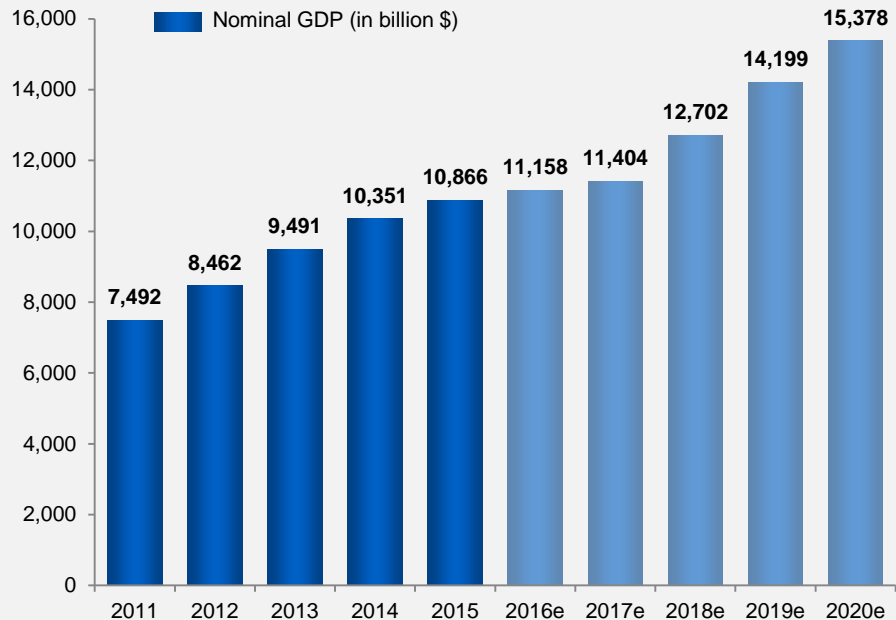
Car industry

	CHINA	GERMANY
TOTAL CAR PARK	83 million	44 million
TOTAL MARKET	19.7 million	3.2 million
PRODUCTION SITES	172	23
DENSITY (Cars per 1,000 Inh.)	84	548
AVERAGE CAR AGE	3.3	9.0

Sources: Data for FY 2015, Statistisches Bundesamt, National Bureau of Statistics of China; IMF; UN DESA: Bundesagentur fuer Arbeit; WTO; IHS; PWC Autofacts, VDA , IHS

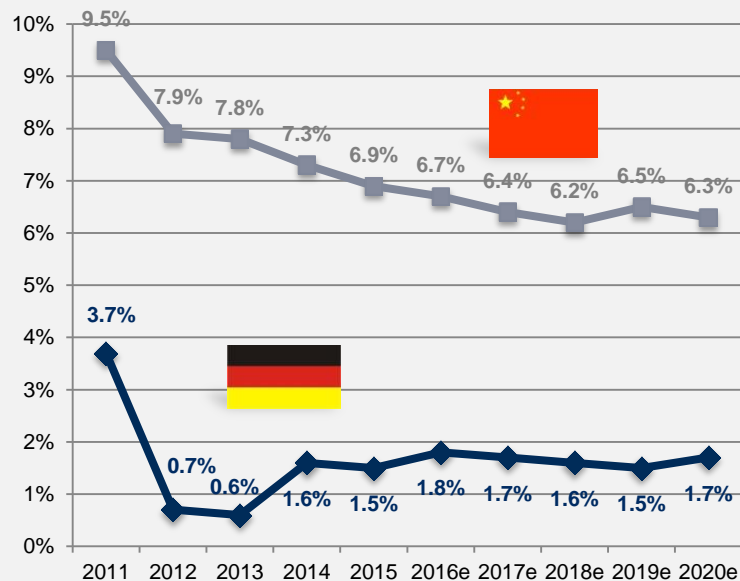
Chinese economy – Declining growth rate towards new normalization

China's economic growth



Source: Worldbank & Wind

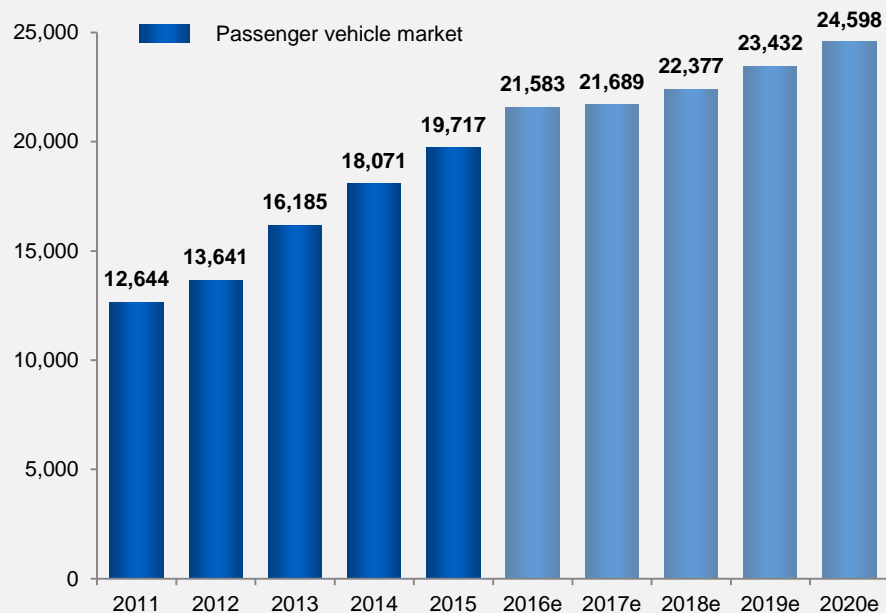
Real GDP growth comparison



Source: Worldbank & Wind and IHS

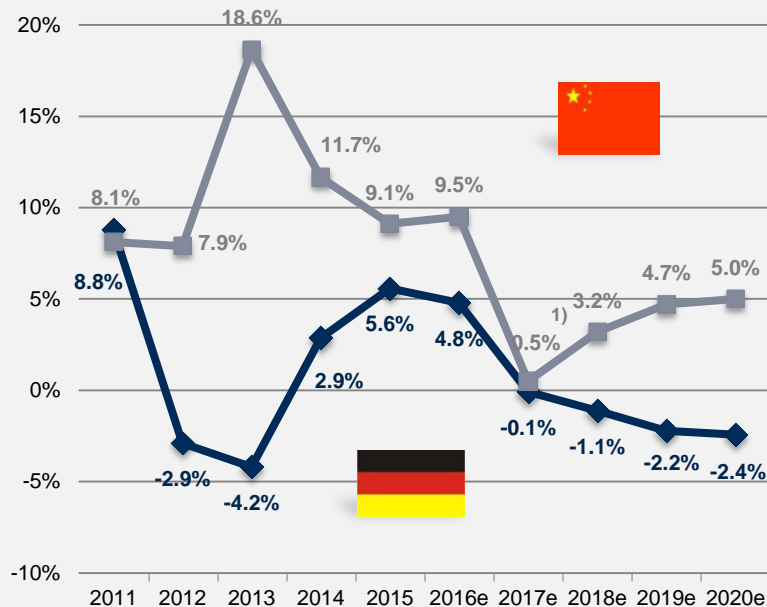
Strong historical car market growth changing towards normalization

Chinese total car market (in '000 units)



Source: HIS, 11/2016

Car market growth comparison

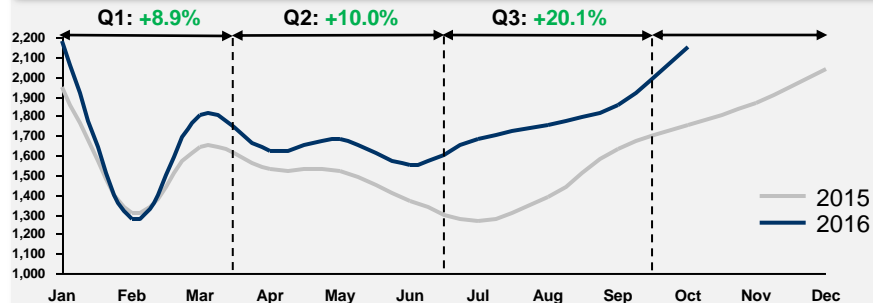


Source: IHS, 11/2016

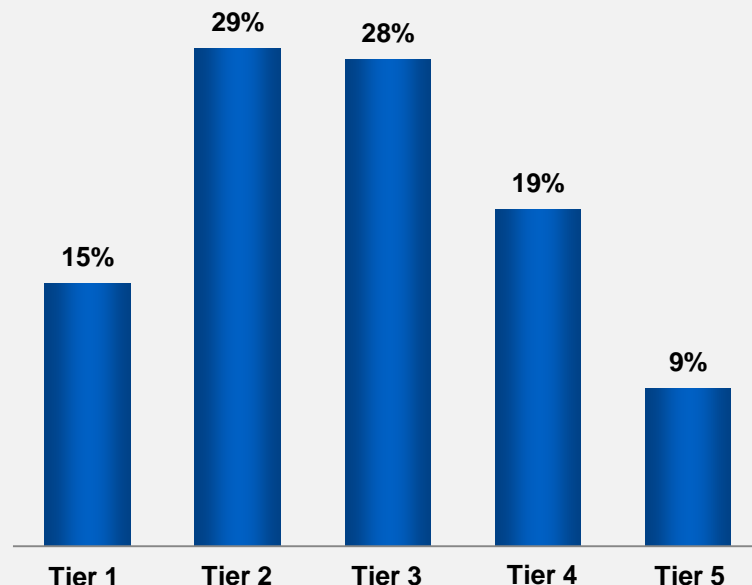
1) 2017 estimate under the assumption of no specific tax cut for cars in China.

Chinese market grows outside tier 1 cities

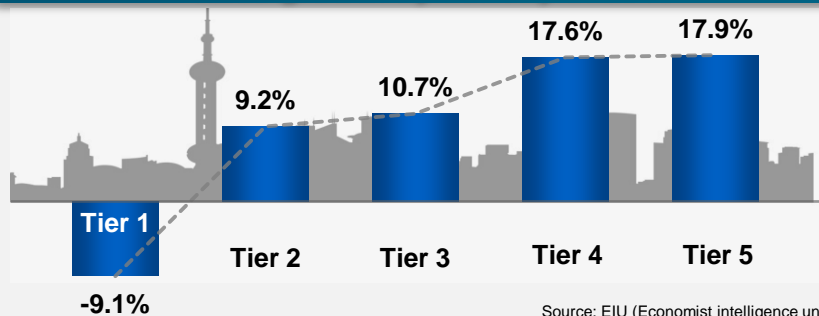
Market development 2016 vs. 2015 (in '000 units)



Share of total passenger car market sales by tier city in 2015



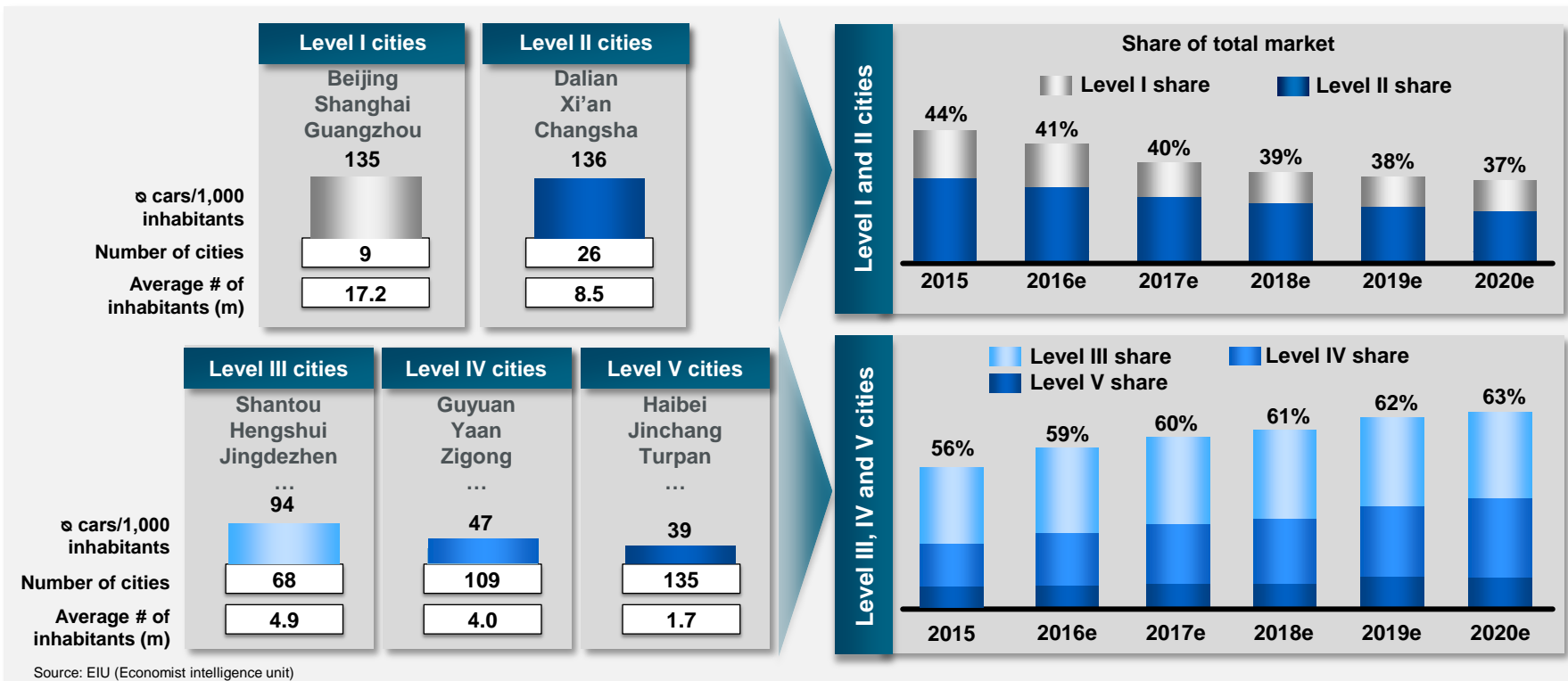
Sales growth by tier city in 2015



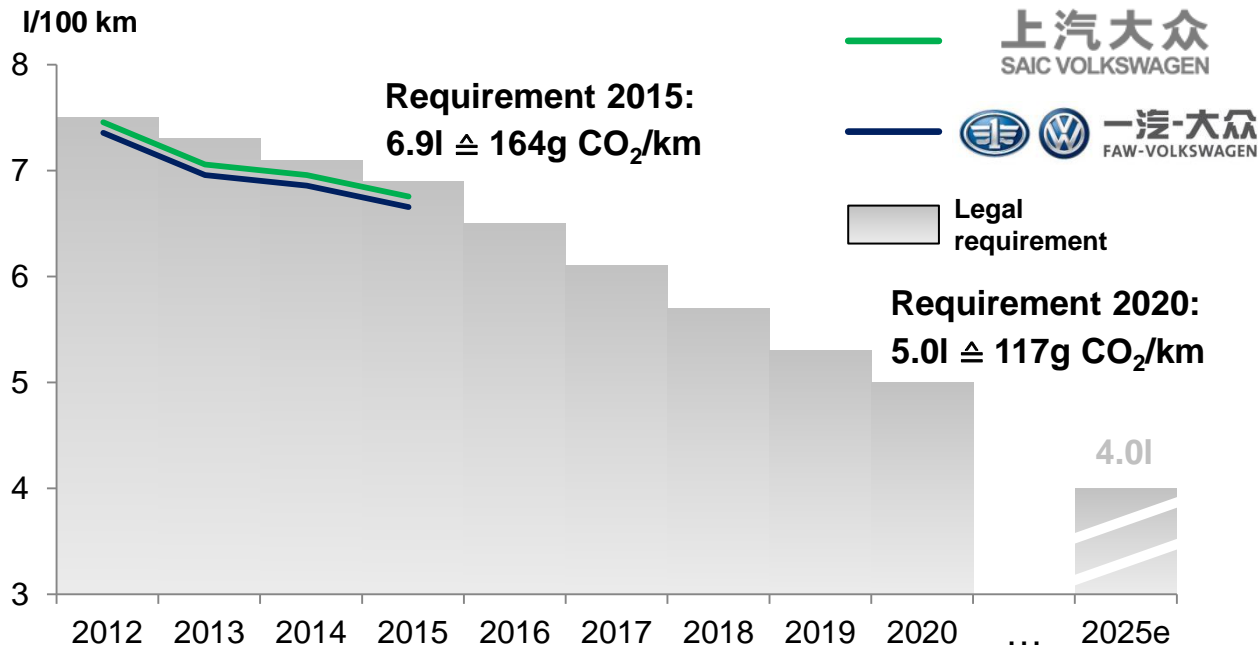
Source: EIU (Economist intelligence unit)

Source: EIU (Economist intelligence unit)

Less developed cities provide new opportunities



Volkswagen Group is taken considerable efforts to meet the legal requirements of average fleet fuel consumption



To achieve the legal requirements in China Volkswagen will

- Develop further emission reducing technologies

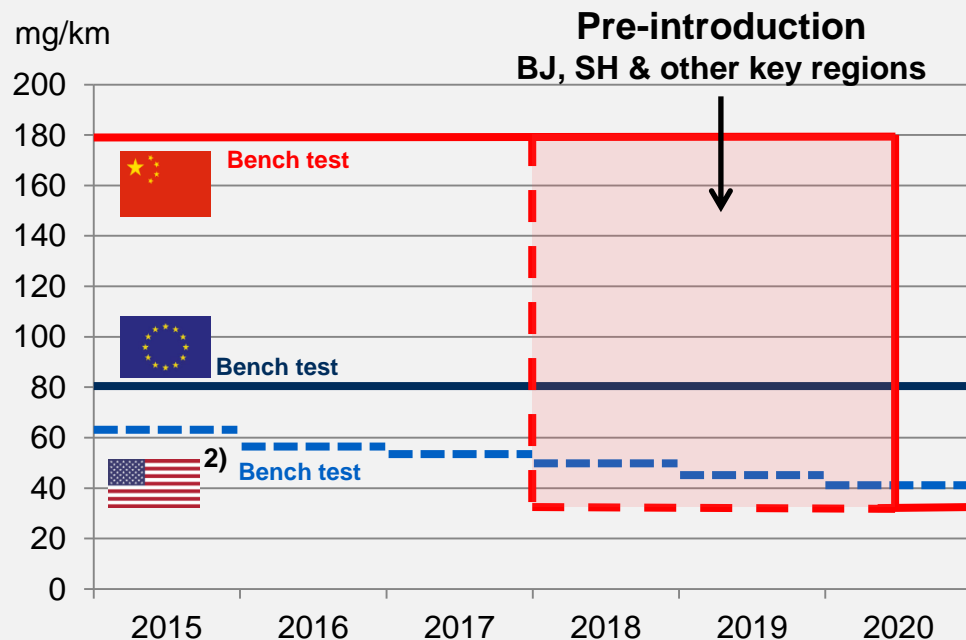


- Actively engage in the NEV market



China 6 regulation – Worldwide toughest emission legislation

NOx emission legislation ¹⁾



¹⁾ Schematic overview

²⁾ USA fleet average for NMOG+NOx per model year

Highlights

Emission regulation **China 6 for gasoline engines** – WTO draft was published in October 2016 – not final

Implementation on national level planned for **2020**

Beijing and Shanghai may start with similar regulation in **2018** and other key regions in **2019**

Roller bench test **NOx** emission should fall **below 35 mg/km**

Further driving emissions need to be reduced dramatically – e.g. CO, THC, PM

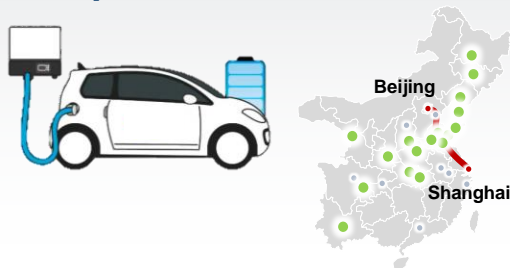
New Energy Vehicle strategy supported by Chinese Government

Subsidies for local NEVs¹⁾


- **National subsidies for NEVs**
- **Purchase tax exemption** (10% Net Selling Price)
 - **No „circulation tax“**
 - **Direct subsidy** (up to 55,000 RMB for BEV, 30,000 RMB for PHEV)
- **Additional subsidies from local provinces**

Infrastructure investments

- **Target: Charging infrastructure for 5 million NEVs by 2020**
 - **12,100 charging stations** (mainly along the east coast)
 - **4,800,000 charging pillars**



Number plate access

- **Easier access to number plates in some restricted cities**

- **Free number plates for a certain amount of NEVs**
- **Free parking space for NEVs** (in discussion)
- **Free NEV driving lanes** (in discussion)

¹⁾ Subsidies are supposed to run until 2020.

Volkswagen Group China

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Chinese Market

Volkswagen Group in China

Sales

Financials

Strategy and Future Development

Volkswagen Group China at a glance¹⁾



More than
150 models



12 fascinating
brands



1984: first Joint
Venture Shanghai
VW was founded



1990: FAW-VW was
founded in
Changchun



More than 95,000
employees end of
2015



~320,000 employees
within dealer network
in 2015



29 production
plants end of 2015



Around €4.4 billion
investments
planned for 2016



More than 18%
market share in
China's passenger
car market in 2015



Over 25 million
cars delivered
since market entry



3.55 million
deliveries in 2015



Proportionate
operating profit of
€5.2 billion in 2015

¹⁾ Data as of end 2015.

Joint Venture structure of Volkswagen Group in China



Start of production

1983 (Santana B2)

1991 (Jetta)

1st JV contract signed

1984

1990

JV contract runs until

2035

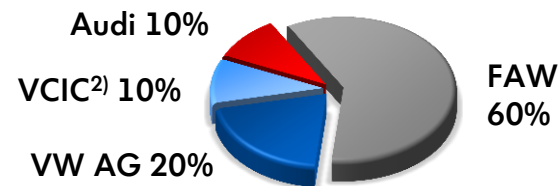
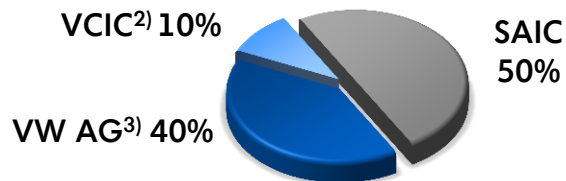
2041

Deliveries to customers in 2015
(in '000 vehicles)¹⁾

Volkswagen	1,455
ŠKODA	281
Total	1,736

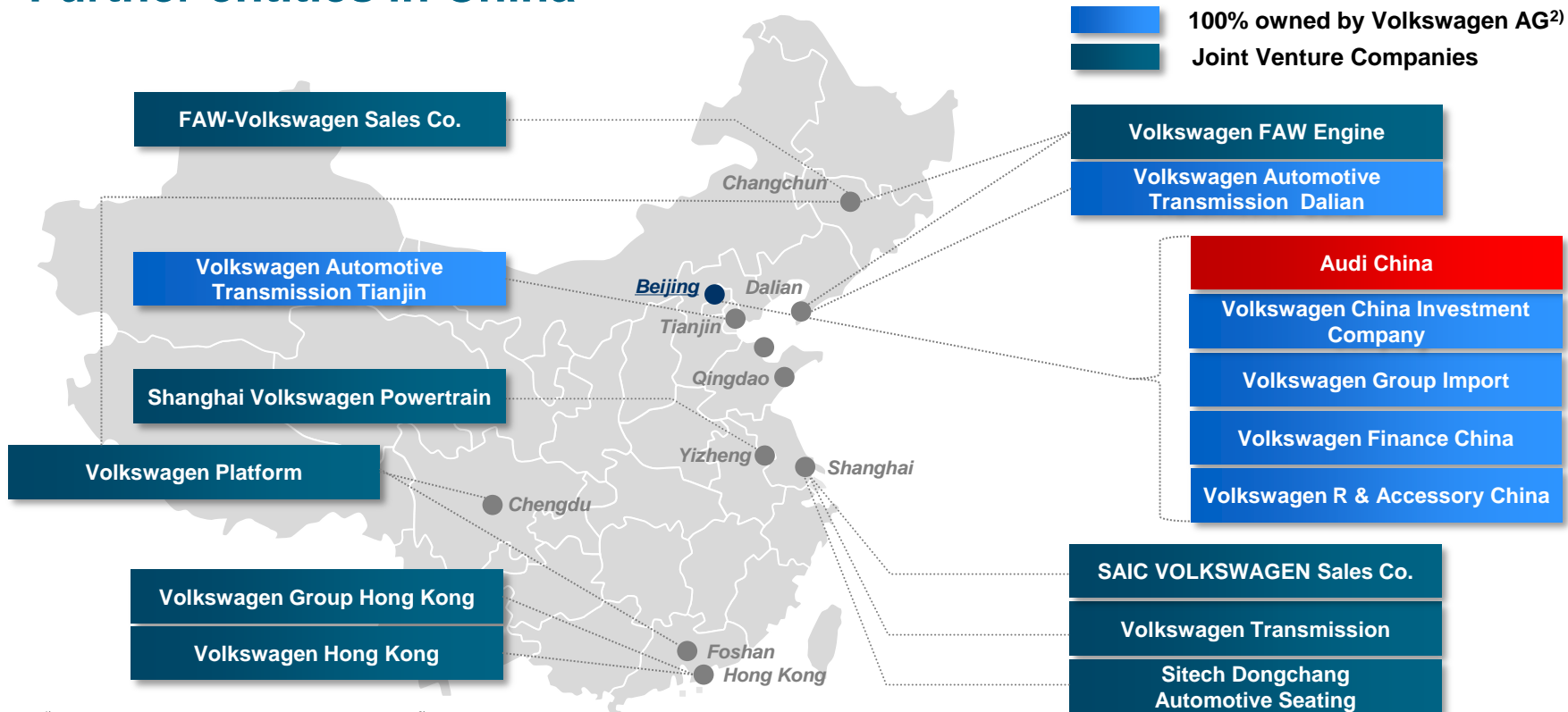
Volkswagen	1,121
Audi	512
Total	1,634

Ownership structure



¹⁾ Excluding imported vehicles of respective brands. ²⁾ Volkswagen (China) Investment Co., Ltd. 100% owned by Volkswagen AG. ³⁾ Including a stake of ŠKODA AUTO a.s.

Further entities in China¹⁾

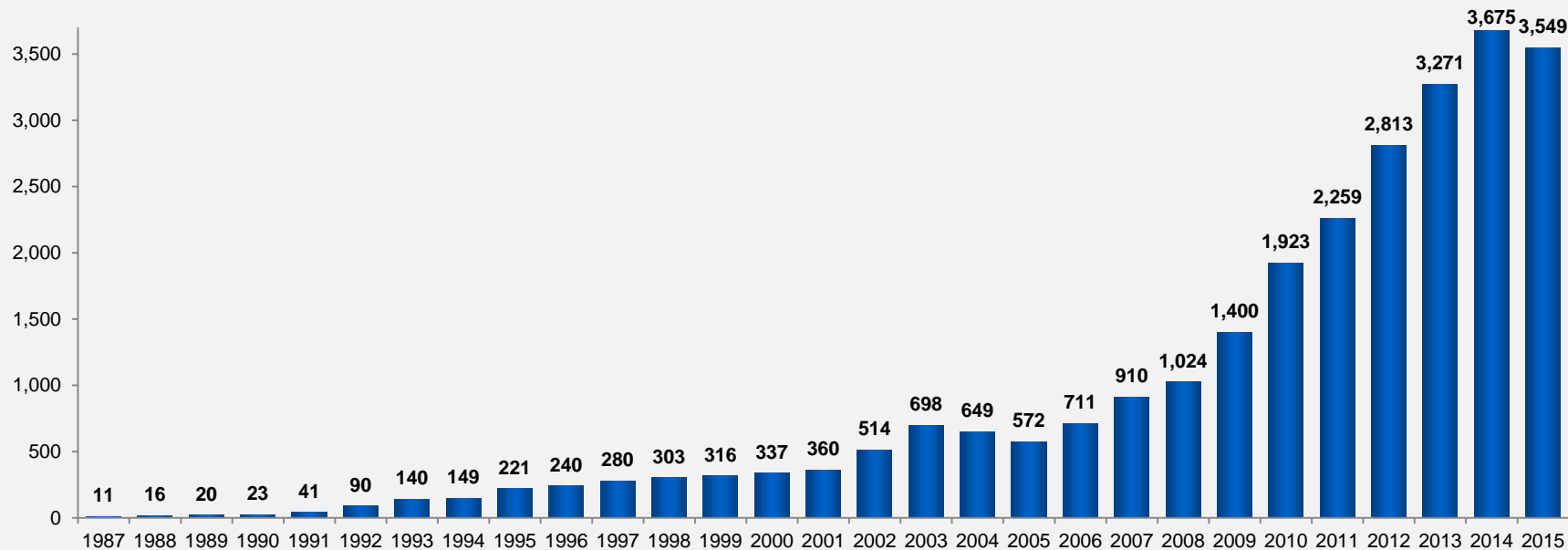


¹⁾ Selection of major companies in the region China.

²⁾ Direct and indirect holdings.

Volkswagen Group in China – A long-term success story

Volkswagen Group development of deliveries to customers (in '000 units)



Great range of locally produced vehicles...

上汽大众
SAIC VOLKSWAGEN



Polo



Santana



Gran Santana



Lavida



Gran Lavida



Lamando



Touran L



Tiguan



Passat

ŠKODA



Fabia



Rapid
Spaceback



Rapid



Octavia



Superb



Yeti



一汽-大众
FAW-VOLKSWAGEN



Golf



Golf Sportsvan



Jetta



Bora



Sagitar



Magotan



CC



A3



A3 Limousine



A4L



A6L



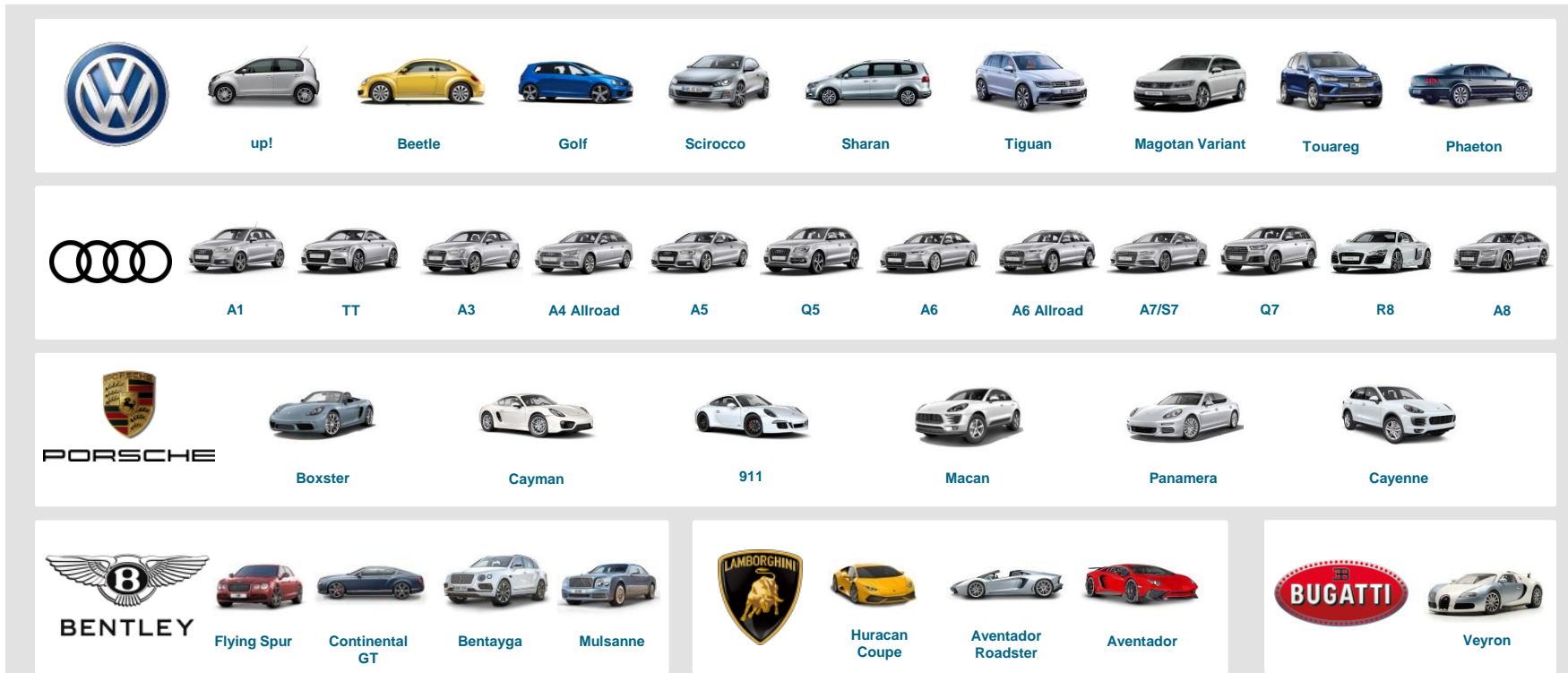
Q3



Q5

Data as of June 2016.

... and imported passenger cars serving Chinese customers' demand



Data as of June 2016.

Volkswagen Group production sites all over China

Volkswagen Group production facilities



- FAW-Volkswagen vehicle plants
- SAIC VOLKSWAGEN vehicle plants
- Component plants
- MAN Diesel & Turbo
- Headquarters Volkswagen Group China

Facts 2015

- 29 production plants in China
 - 4 FAW-Volkswagen vehicle plants
 - Changchun (2 plants)
 - Chengdu
 - Foshan
 - 8 SAIC VOLKSWAGEN vehicle plants
 - Shanghai (3 plants)
 - Nanjing
 - Yizheng
 - Ningbo
 - Urumqi
 - Changsha
 - 17 Component plants
- 3,420 thousand produced cars
- 3,270 thousand produced engines

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Chinese Market

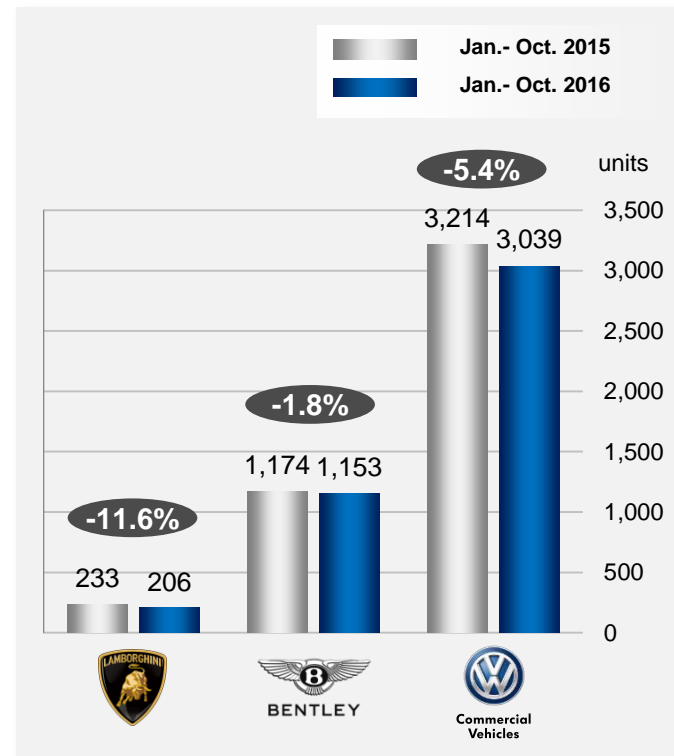
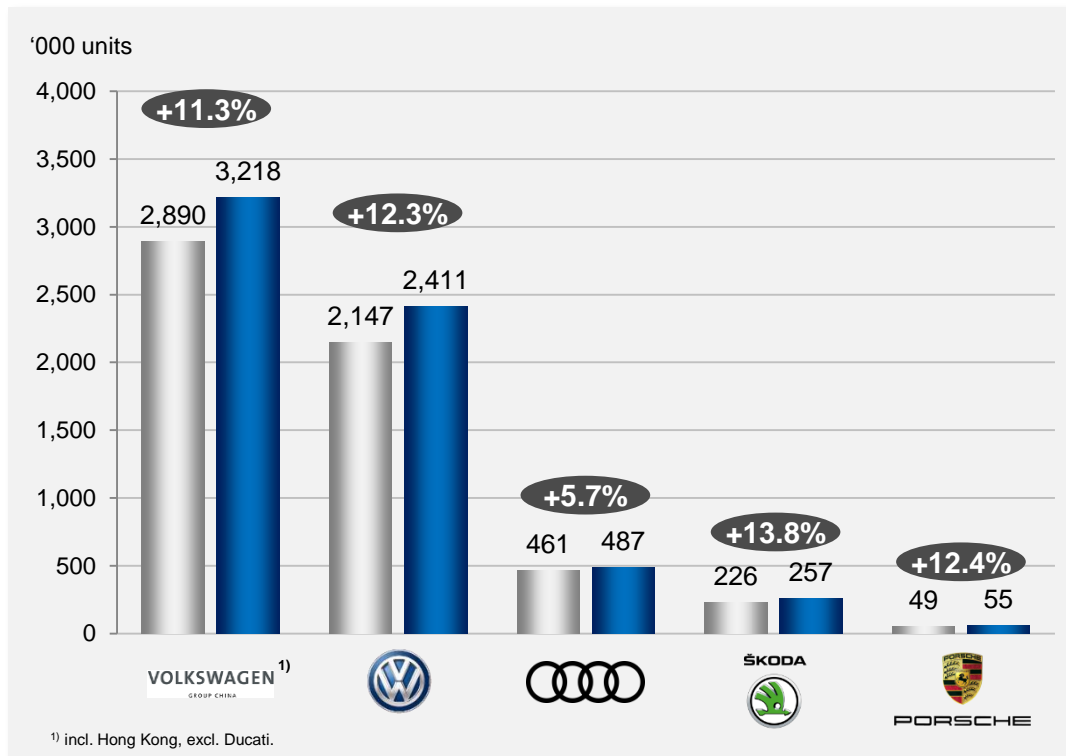
Volkswagen Group in China

Sales

Financials

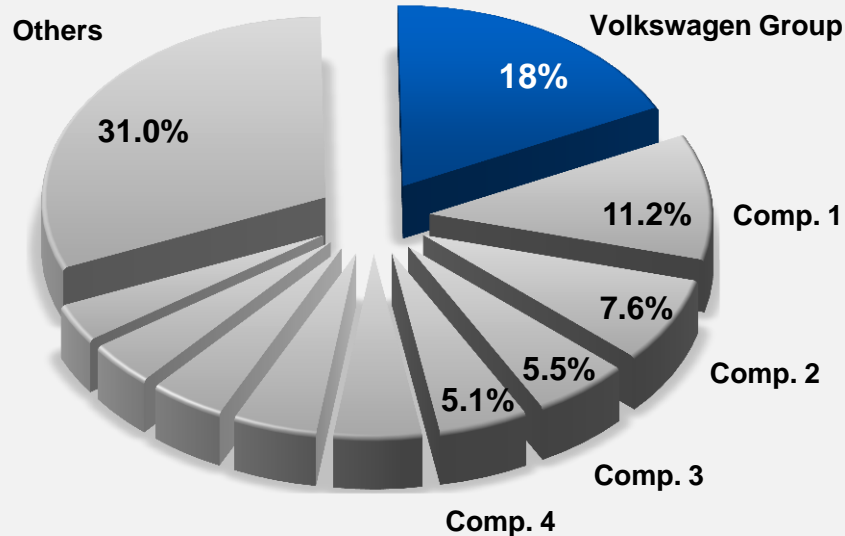
Strategy and Future Development

Deliveries to customers by brand January to October 2016



Volkswagen Group – No. 1 in the Chinese passenger vehicle market

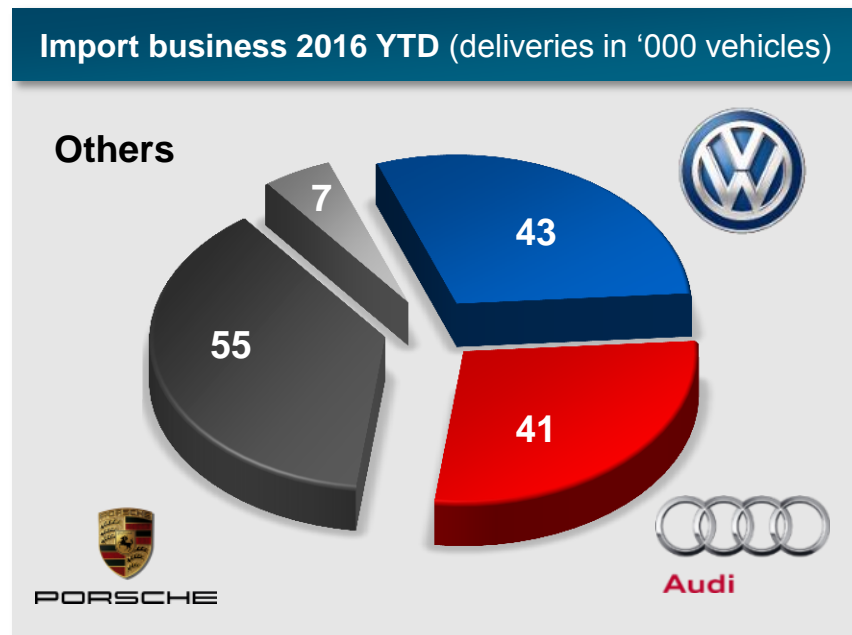
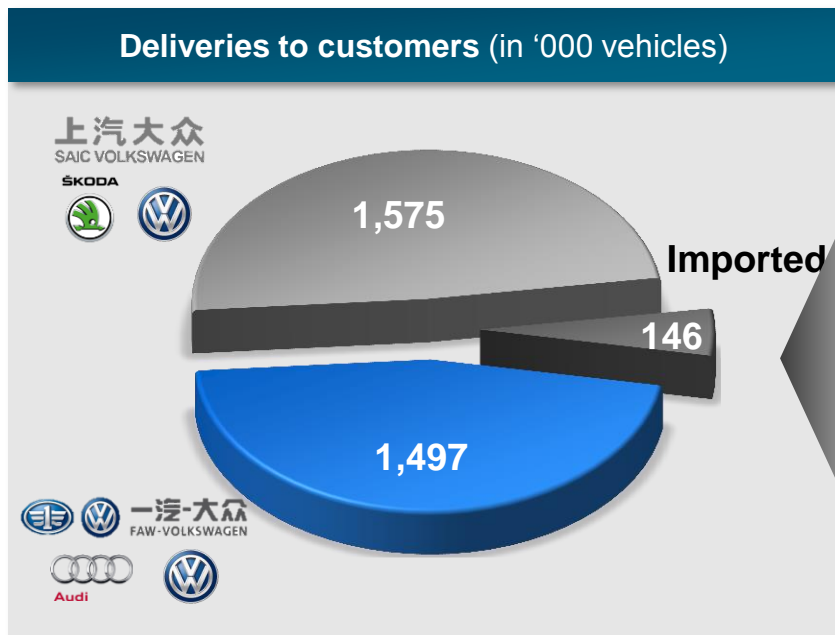
Passenger vehicles market share, YTD October 2016



Rank	Group	Market share (Delta vs YTD Oct 2015)
1	Volkswagen Group	- 0.8%
2	Comp.1	+ 0.3%
3	Comp. 2	- 0.7%
4	Comp. 3	+ 0.4%
5	Comp. 4	- 0.1%

Source: CKD from China Passenger Car Association (CPCA), CAAM; FBU from insurance data

Split between locally produced and imported vehicles¹⁾

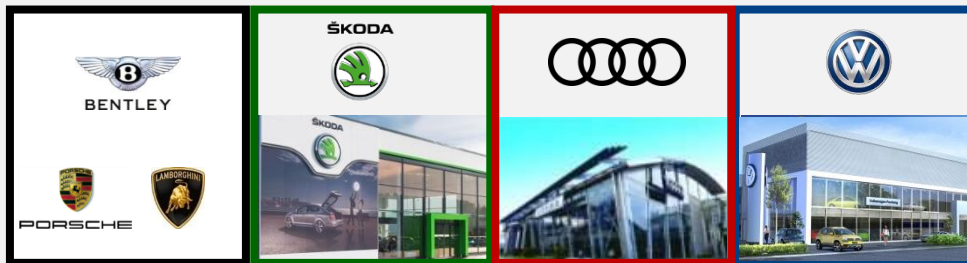
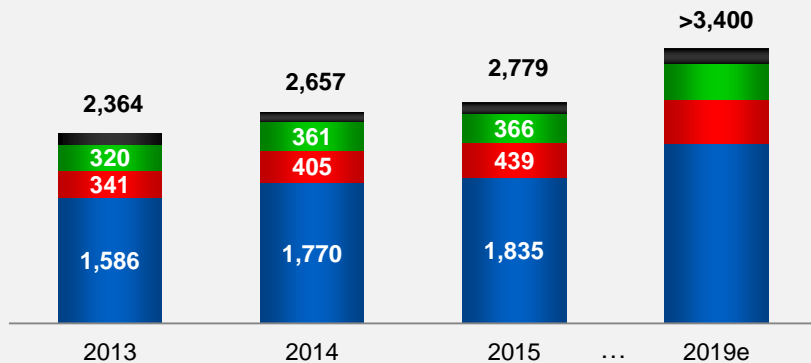


Total deliveries in the region China amounted to 3,218 thousand in Jan to Oct 2016

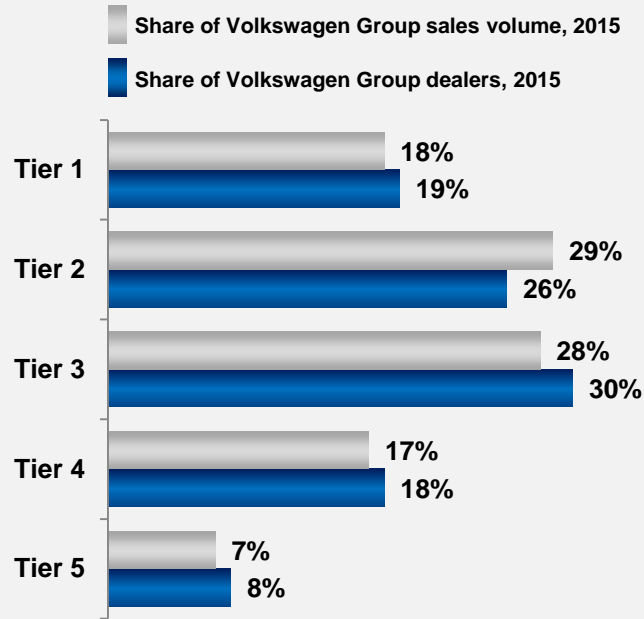
¹⁾ incl. Hong Kong, excl. Ducati. All figures shown are rounded.

Strong focus on growth of our well diversified dealer network

Dealer network



Well diversified through tier cities



All figures shown are rounded. Source for market share by tier city: EIU (Economist intelligence unit)

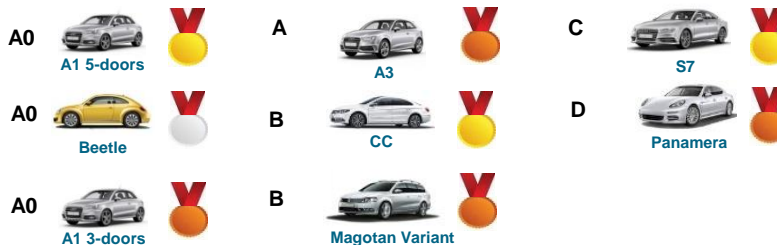
Strong residual values of Volkswagen Group models

Residual value ranking¹⁾

CKD Models



FBU Models



¹⁾ China Automotive Residual Value Research Committee - RV Report 11/2016; Rankings based on the 3-year residual value

Importance of residual values

High and stable residual values are important due to

- Reduced total cost of ownership
 - › leading to attractive leasing
 - › important argument for sales team
- Increased new car sales volume
 - › while stabilizing new car prices
- Increased pre-owned car business and its competitiveness

High and stable residual values finally lead to higher

- Brand value
- Customer loyalty
- Revenue & Profit

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Chinese Market

Volkswagen Group in China

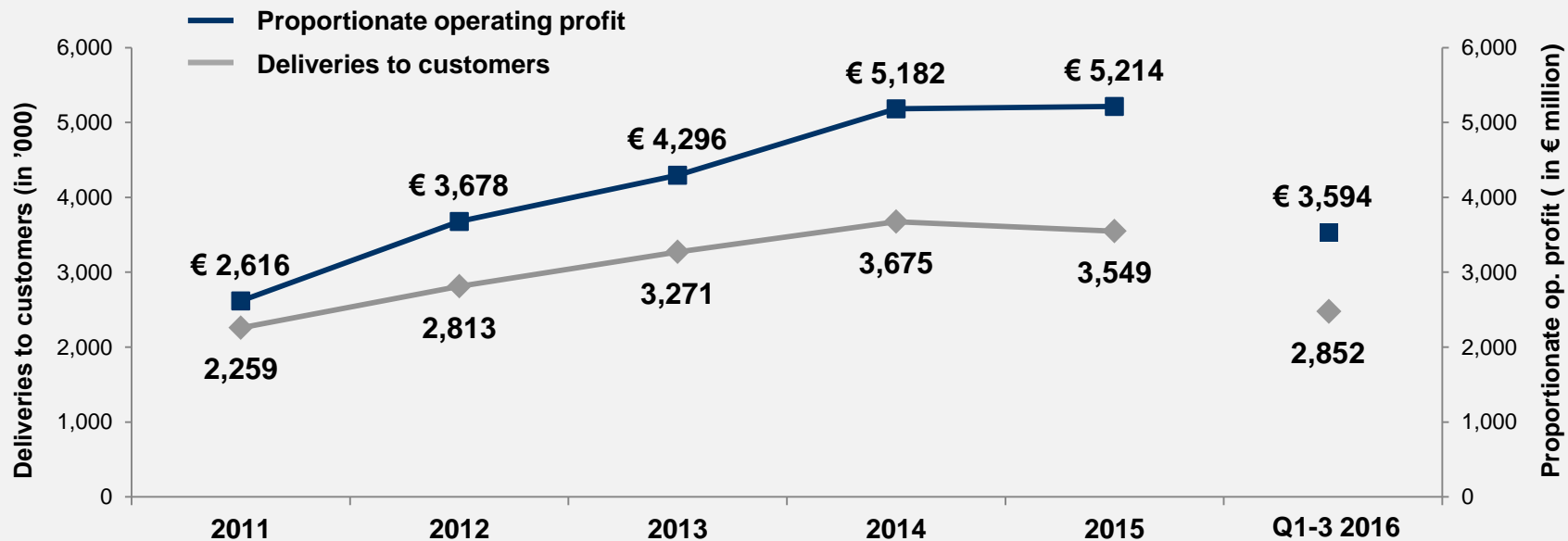
Sales

Financials

Strategy and Future Development

Strong volume and profit development of Volkswagen Group China

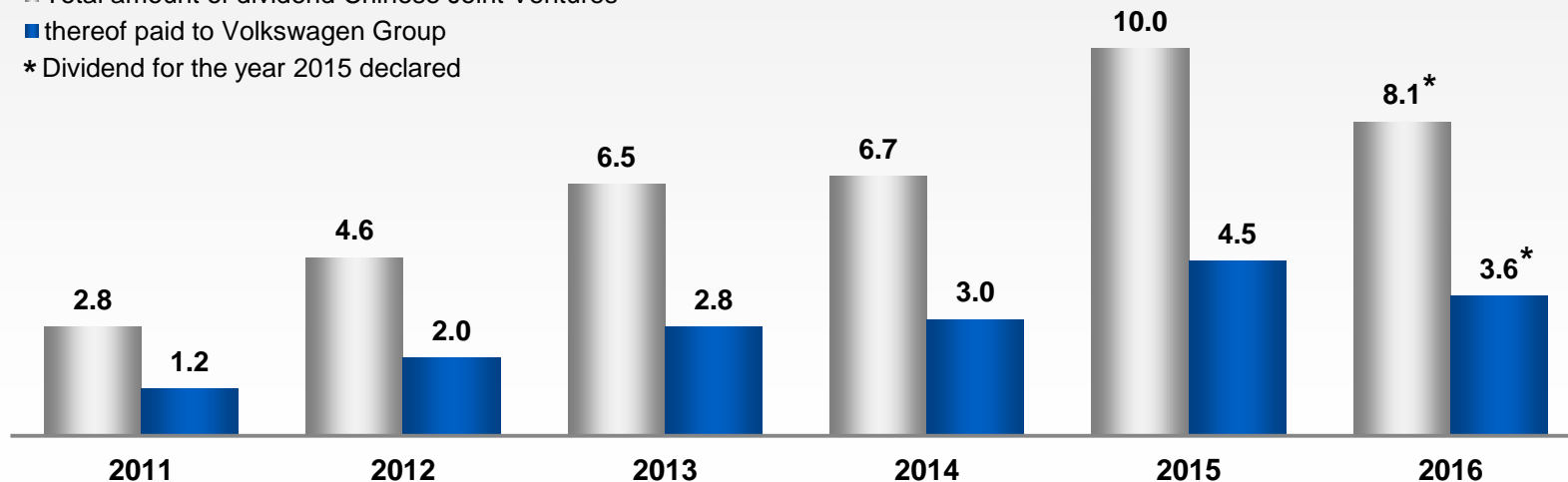
Volkswagen Group deliveries to customers and proportionate operating profit in China



Chinese Joint Ventures generate substantial, self-funded growth and at the same time robust dividend pay-out

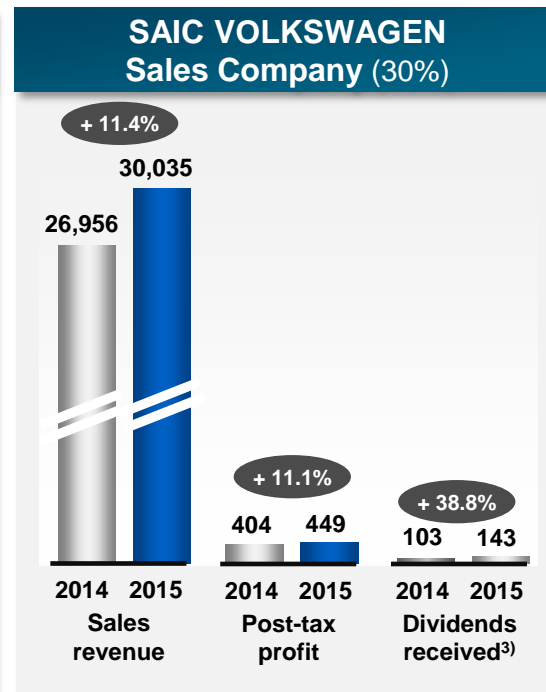
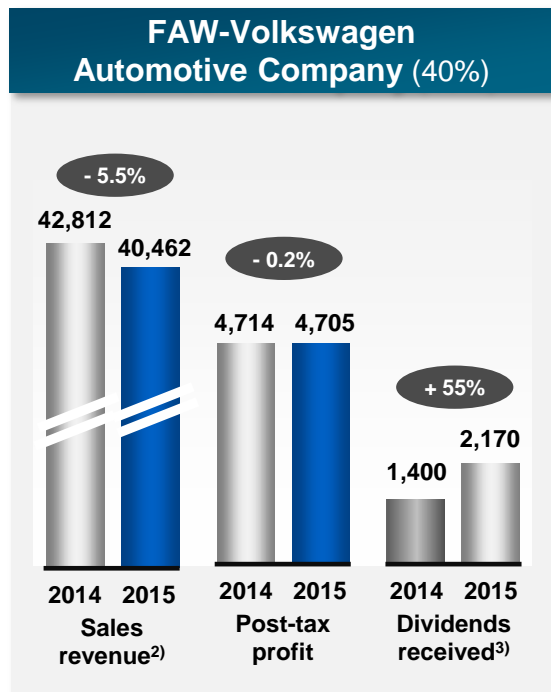
Total amount of dividends paid out to Joint Venture partners (in € billion)

- Total amount of dividend Chinese Joint Ventures
- thereof paid to Volkswagen Group
- * Dividend for the year 2015 declared



Chinese Joint Ventures with strong financial performance in 2015¹⁾

(January to December 2015 vs. 2014, in € million)



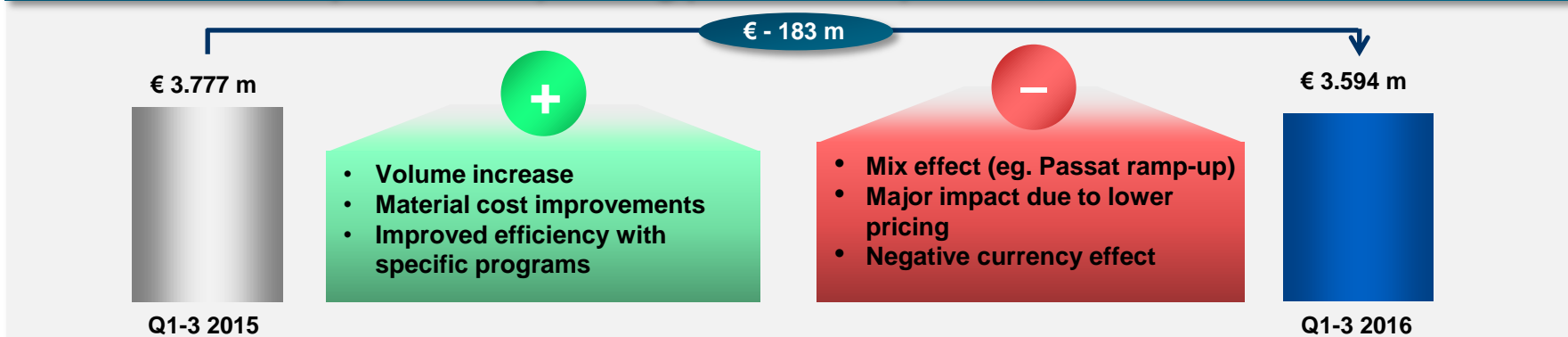
¹⁾ Financial data on a 100% basis, Volkswagen Group equity interest in brackets; SAIC VOLKSWAGEN sales revenue is mostly generated from its business with SAIC VOLKSWAGEN, which sells passenger cars for SAIC VOLKSWAGEN.

²⁾ Including sales revenue from sales of imported Audi models ³⁾ Dividends received by the Volkswagen Group related to the previous year's local result of our joint ventures.

Another solid operating result for the Volkswagen Group in China

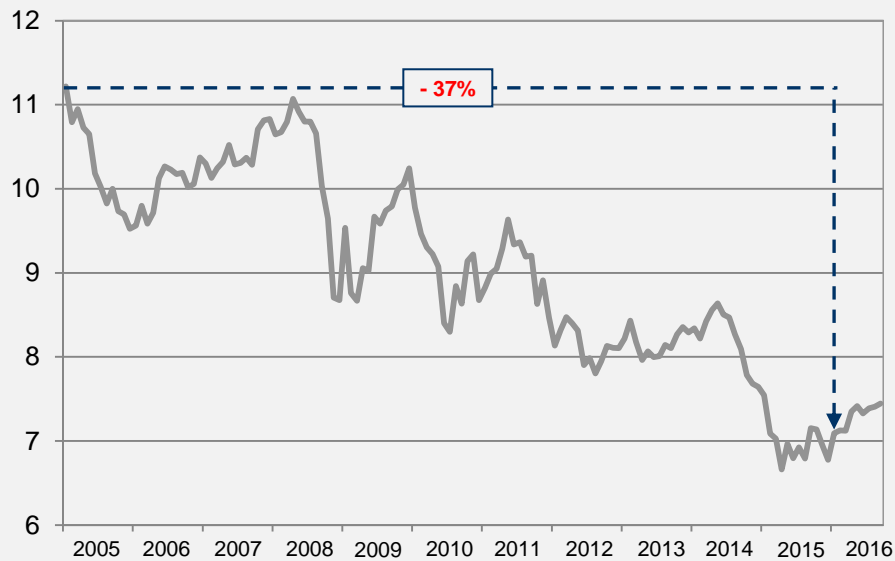
	2014	2015	Q1-3 2015	Q1-3 2016
Deliveries to customers ('000 units)	3,675	3,549	2,577	2,852
Production (100%)* ('000 units)	3,528	3,420	2,427	2,801
<small>*SAIC-VW Group / FAW-VW Group</small>				
Proportionate Operating Profit (€ million)	5,182	5,214	3,777	3,594

Proportionate operating profit development Q1-3 2016 vs 2015

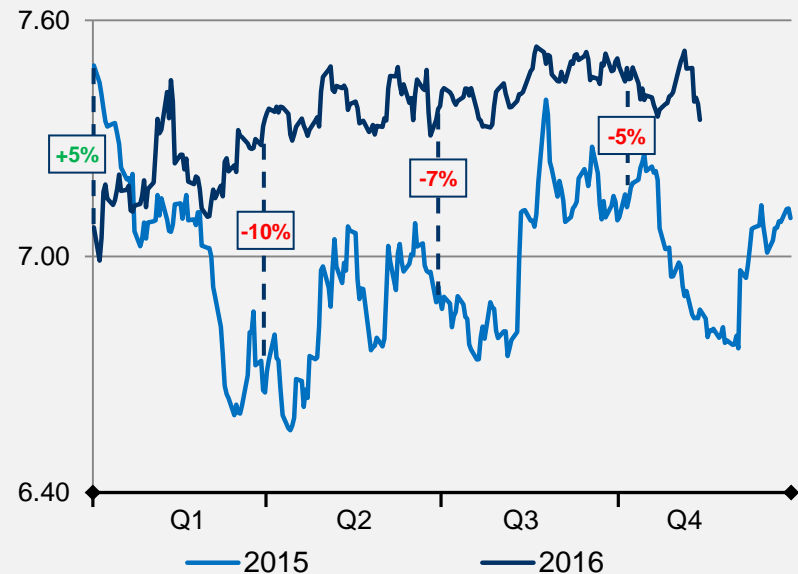


Euro decreased significantly vs. Chinese Renminbi over the last decade but is increasing year-to-date

EUR/CNY long-term development



CNY decreased 5% on average YTD vs. EUR



Efficiency program to support our margins in a market characterized by increased competition



China efficiency program

Production & Logistics optimization



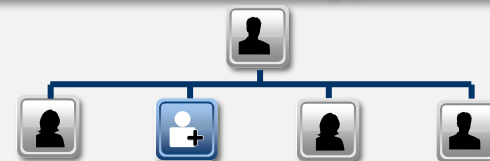
- **Change focus from “production volume maximization” to “cost-efficiency”**
 - Improved production processes
 - Optimized maintenance
- **Shift from “trucks only” to train and ship transportation within China**
- **Investment plan adjustment**

Review of product portfolio



- **Variance Reduction**
 - Decrease number of overlapping models
 - Reduce number of component variances
- **Add models in major growth segments**

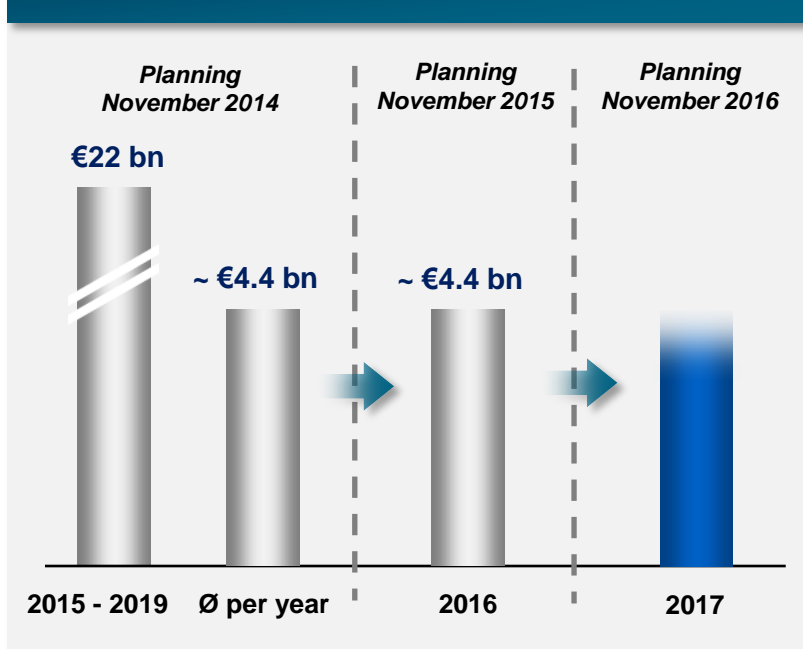
Implementation of new culture & lean decision making processes



- **New organizational structure**
 - Enhance responsibility in China
 - Flexible and decision-oriented structure
 - Improved information flow and lead-time
 - Entrepreneurial spirit
 - Project house working environment e.g. NEVs

Investments of our Joint Ventures in China are fully self-funded

Joint Venture investments



Prioritization and focus on investments

Increased investments in development for digitalization, new energy vehicle technology and autonomous driving

New attractive models to address the needs of our discerning Chinese customers

Ongoing investment plan adjustment process to take latest market developments into account

Capacity expansion through investments in existing and future factories for vehicles as well as components

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Chinese Market

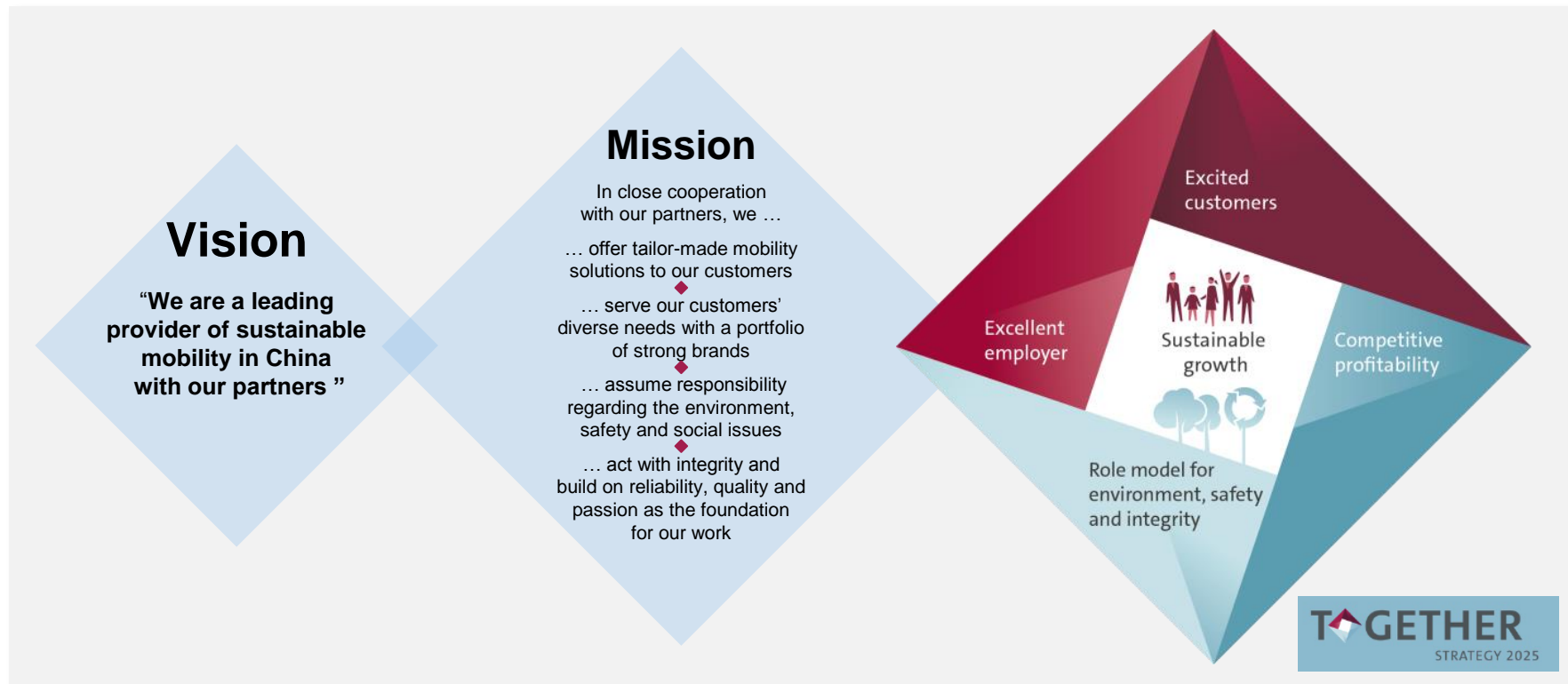
Volkswagen Group in China

Sales

Financials

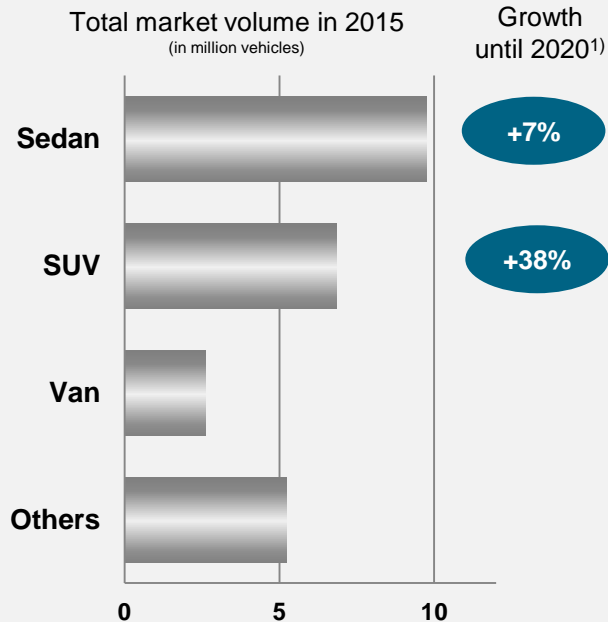
Strategy and Future Development

Strategy 2025 – We are addressing key opportunities



New product offering aligned with expected future market trends¹⁾

Body group trends until 2020¹⁾

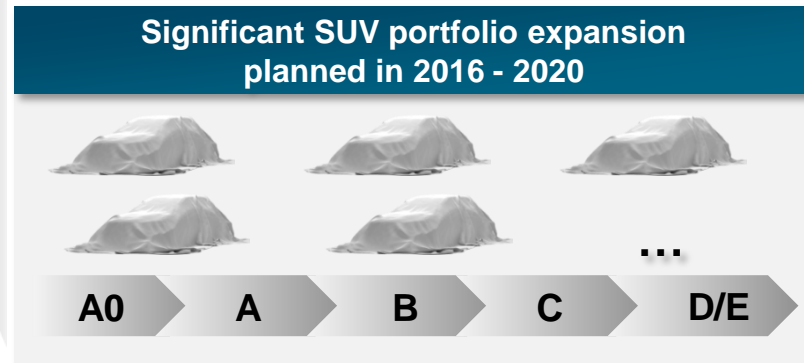
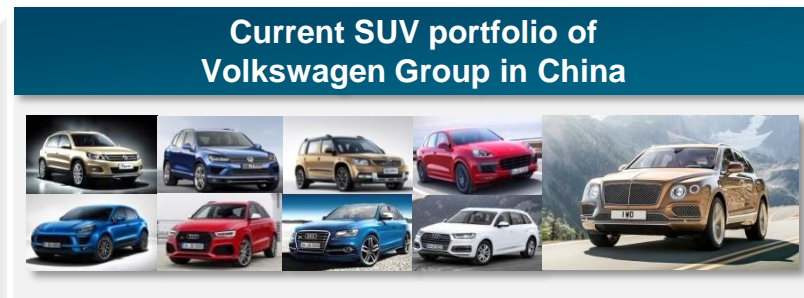
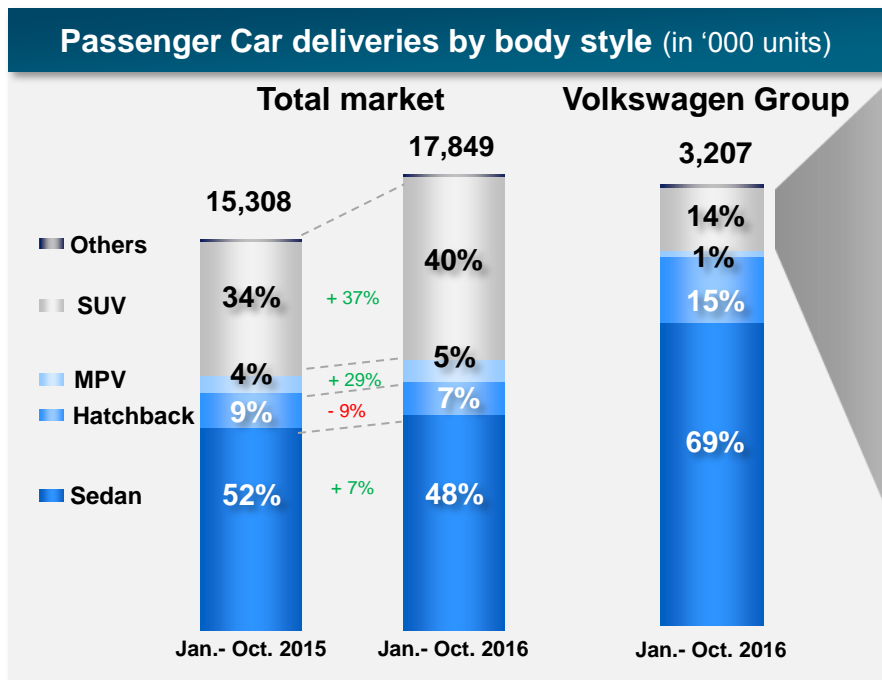


New vehicle launches 2016 and to follow²⁾



²⁾ Schematic overview – does not show all models


Strong growth in SUV segment – 10 additional locally produced SUVs planned over the next three to four years



Volkswagen Group China will be prepared to deliver around 1.5 million zero emission cars to Chinese customers by 2025

Phase 1

Locally produced plug-in hybrids based on current toolkits

 Range: up to 1.000km
Pure electric: up to 60km



Audi A6 L e-tron

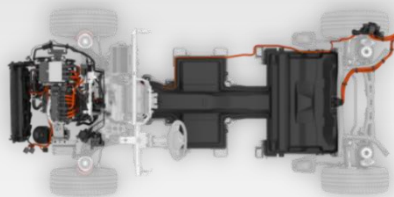


Volkswagen
Phideon PHEV

Phase 2


Locally produced pure electric vehicles based on current toolkits

 Pure electric: up to 300km



Phase 3

Locally produced pure electric vehicles based on scalable electric toolkit (MEB) for different vehicle classes

 Pure electric: up to 600km
Speed charging of 80% in just 15min



Urban Mobility is evolving from traditional transportation to “New Mobility” trends

Traditional Transportation

Car **Ownership**

Limited Choices

Government funded Public Transit

Unconnected and suboptimal



Multimodal and **Shared** Transport

More Choices

Public and **private** transit operate in parallel

On-demand and **Connected**

New Urban Mobility

Source: McKinsey “Urban mobility at a tipping point”, September 2015

Volkswagen Group is exploring business opportunities through strategic partnerships in 4 key areas

1 Ride Sharing

- Driver Partnership Program
- Customized vehicles for on-demand mobility
- R&D Autonomous Driving



2 Mobility Club

- Premium Mobility Club
- Executive Mobility Club
- Car-sharing Mobility Club



3 Car Sharing

- New business model is to be adopted for the rollout nationwide



4 Financial Leasing and PoC e-Commerce

- Proactive Sourcing
- Financial Leasing



Volkswagen is making digital transformation a top priority with focus on digitalization and autonomous driving

Volkswagen Group Future Centers



- **Three new Volkswagen Group Future Centers** in Silicon Valley, Potsdam and **Beijing**
- **Approach:** Designers and digitalization experts work hand in hand to create the car of the future

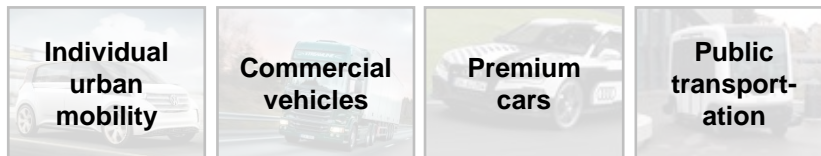
Our Goal

Best in class customer experience, interface design and user friendliness, new interior concepts, integration of infotainment and entertainment systems

20th Century:
Engine is the core of the automobile

21st Century:
Self-driving system is the core of the automobile

Top fields of use

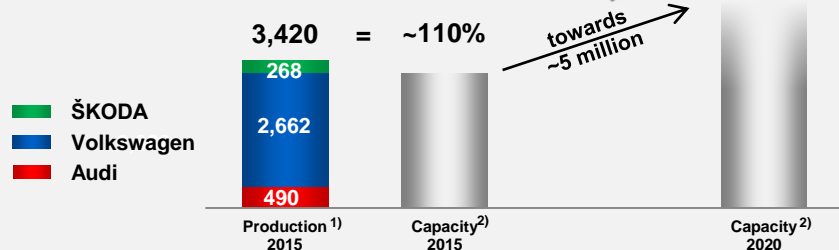


Group is building on strong knowledge base – initiative started to get to market ahead of competitors

Volkswagen and its partners invest in capacity expansion and modernization of factories to lower the CO₂ emission output

Production sites and capacity

- New vehicle plants
- Vehicle plants expansions
- New component plants
- Component plant expansion
- Existing plants



¹⁾ Actual production volume in '000 vehicles

²⁾ Installed capacity on the basis of 250 working days.

New plants and capacity expansions

Vehicle plants

New plants
Tianjin (FAW-VW)
Qingdao (FAW-VW)

Capacity increase
Foshan (FAW-VW)
Chengdu (FAW-VW)
Ningbo (SAIC VW)

Component plants

New plants
Changchun (FAW-VW)
Qingdao (FAW-VW)

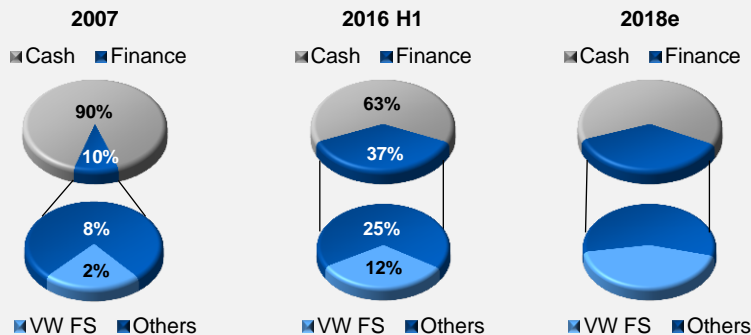
Capacity increase
Tianjin (VW ATJ)

CO₂ measures in place
to reduce emissions

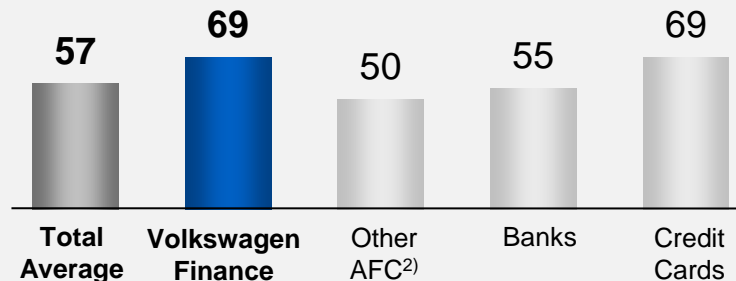
Volkswagen Finance (China) – Gaining share in an expanding market

Growing penetration of financing business

Retail finance penetration (% of deliveries to customers for Volkswagen Group)



Highest customer satisfaction¹⁾



¹⁾ 2014-2015 China Auto Finance Consumer Behavior Report (Conducted by Ipsos and VWFC)
²⁾ Other Automotive Finance Companies

Financial Services China: Strategic growth dimensions

Leasing / Credits

Fleet Management

Used Cars

New Mobility

After Sales / Insurance

Volkswagen Group Investor Relations – Your point of contact

Worldwide offices



Investor Relations in China



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Panamera 4S Executive



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Volkswagen Group China – Pioneering the Future

Carsten Isensee

Executive Vice President Finance, Volkswagen Group China

Investor Visit, 1 December 2016, Beijing