

VOLKSWAGEN

GROUP CHINA



Volkswagen Group China – Balancing the “New Normal”

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Volkswagen Group China at a glance



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

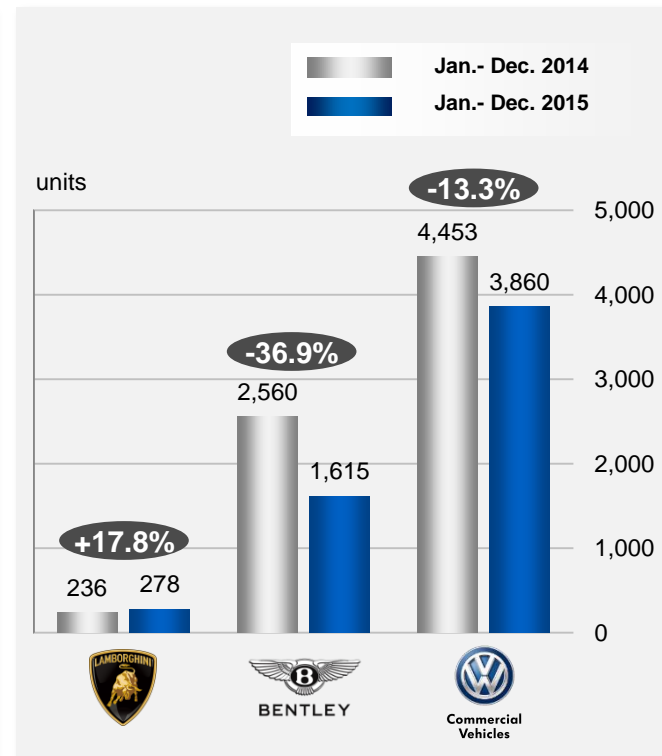
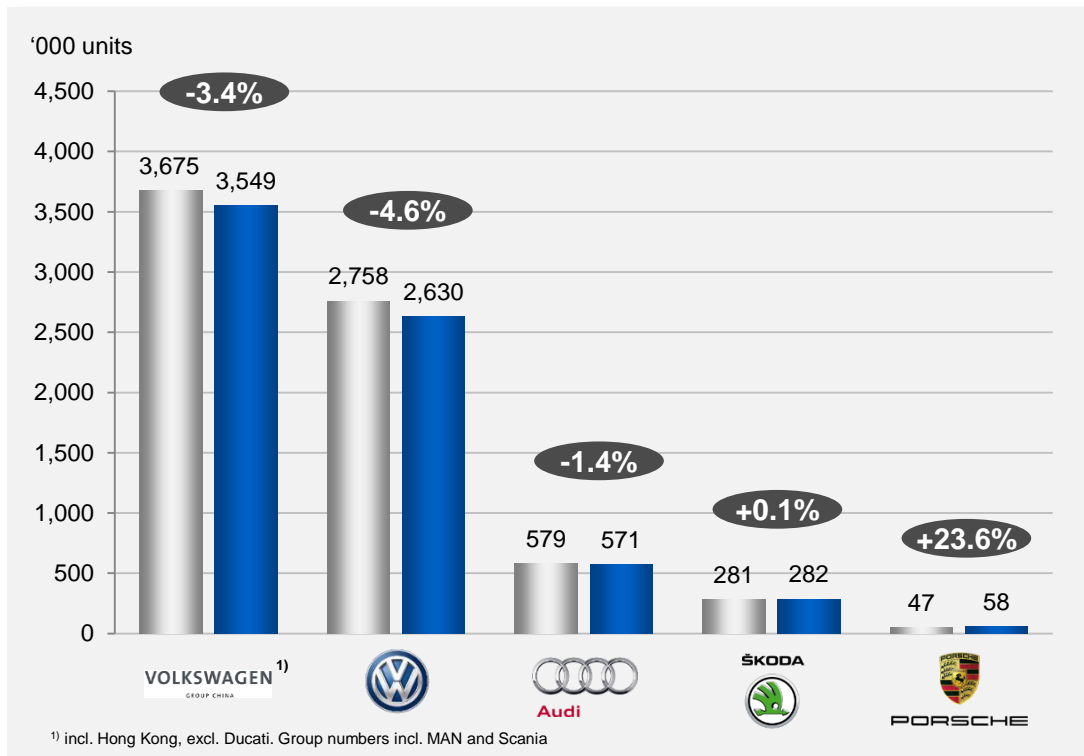


3.55 million deliveries in 2015

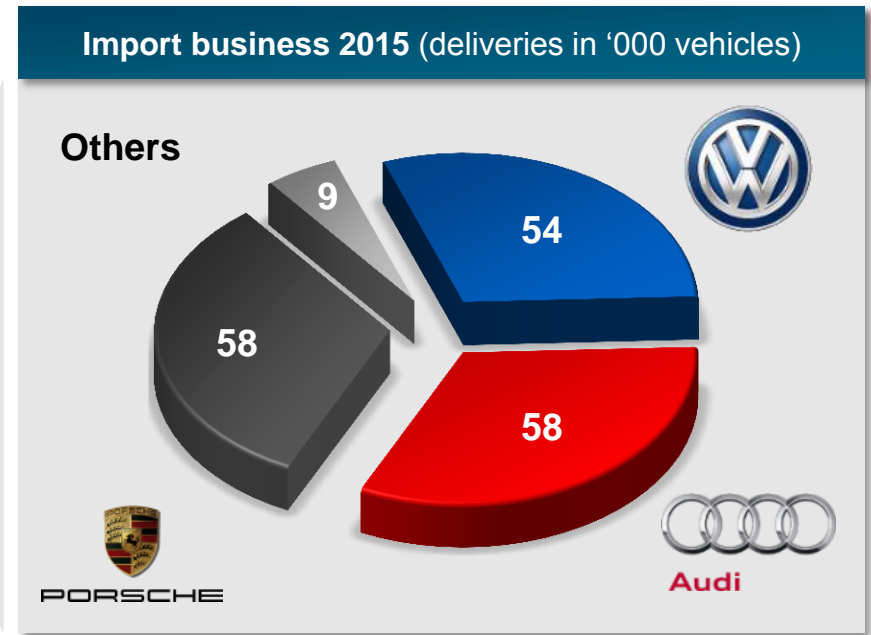
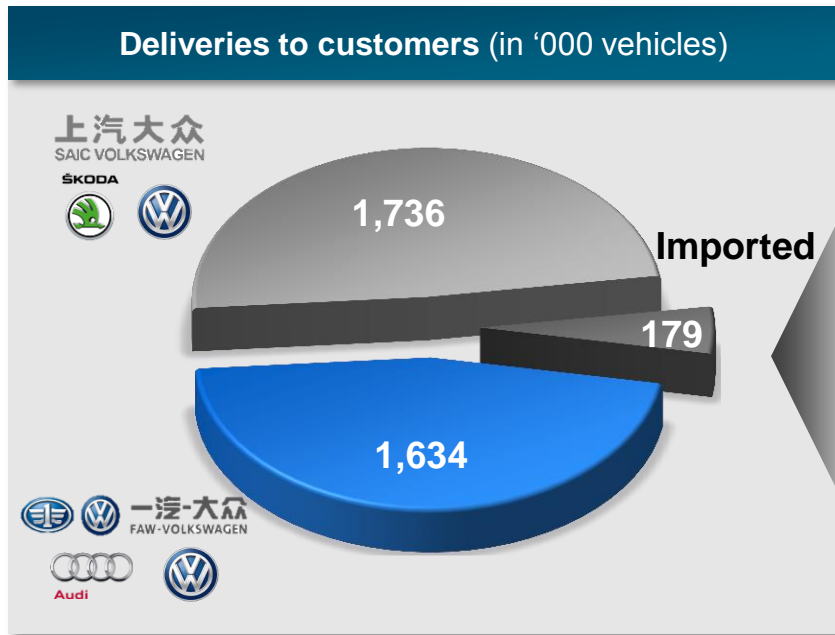


Proportionate operating profit of €5.2 billion in 2015

Volkswagen Group deliveries to customers by brand 2015 vs. 2014



Split between locally produced and imported vehicles¹⁾

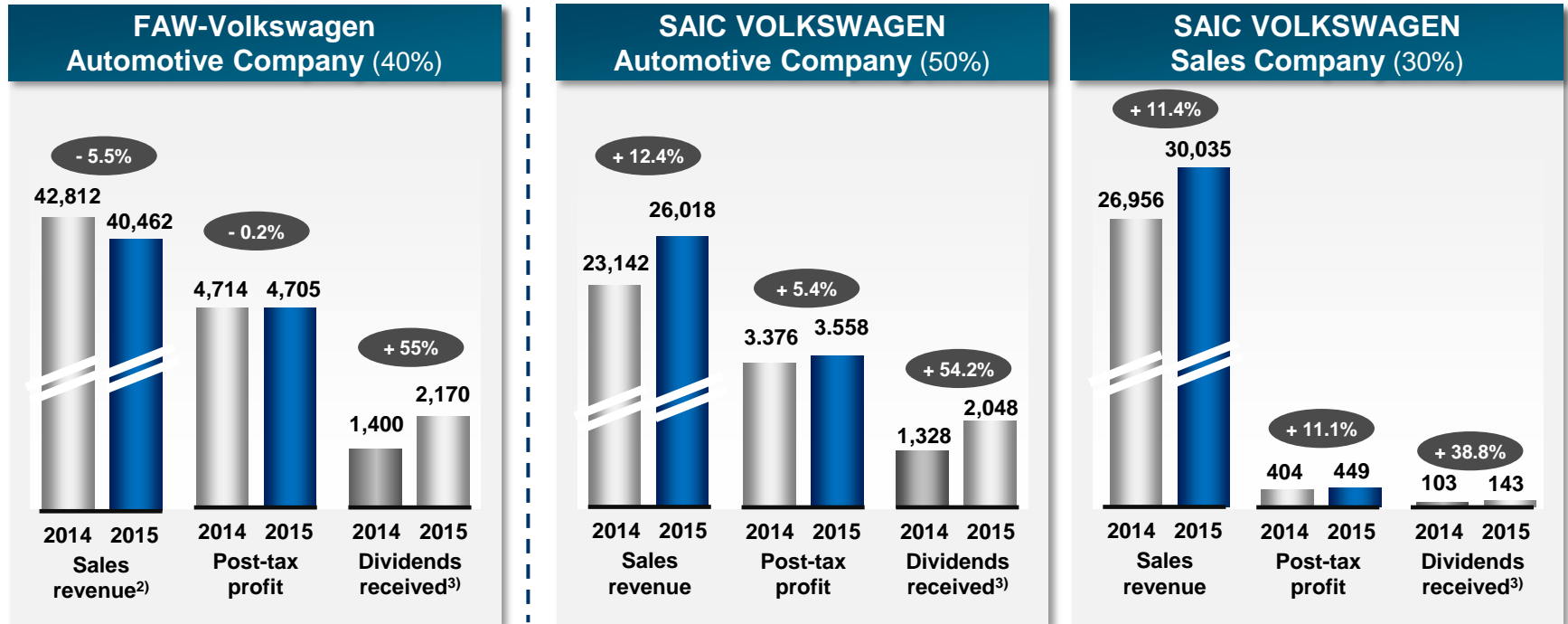


Total deliveries in the region China amounted to 3,549 thousand in 2015

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

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.

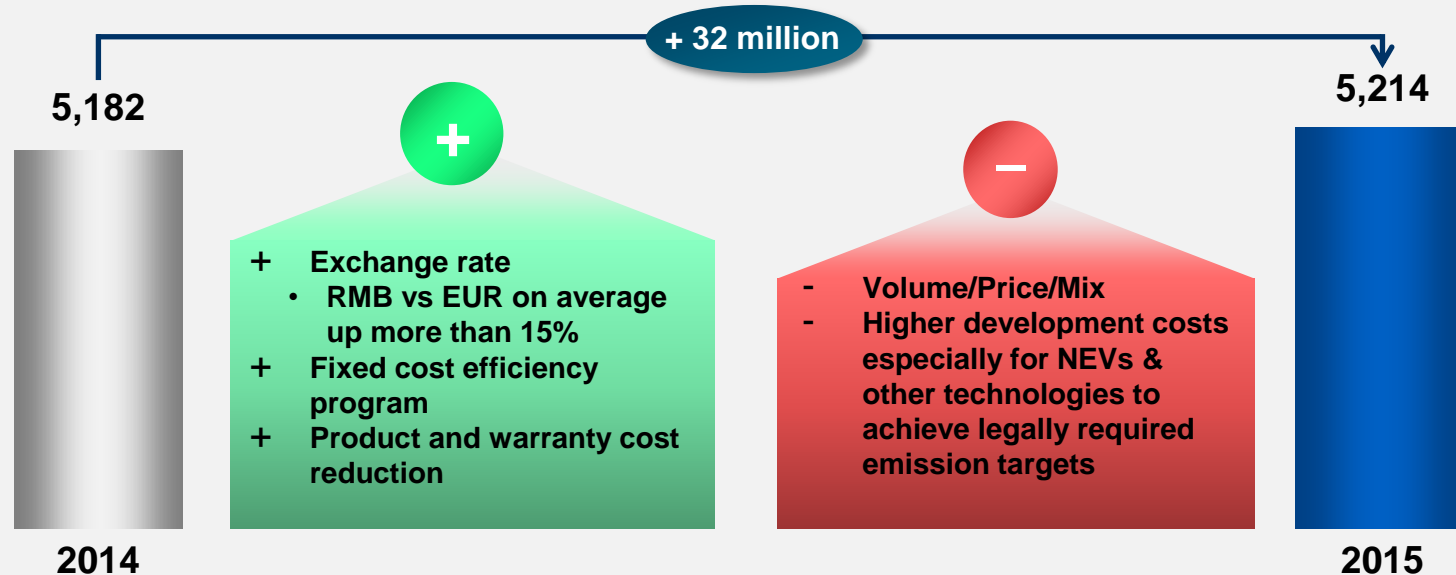
²⁾ Including sales revenue from sales of imported Audi models ³⁾ Dividends received by the Volkswagen Group related previews year's local result of our joint ventures.

Another strong operating result for the Volkswagen Group in China

		2012	2013	2014	2015	Q1 2016
Deliveries to Customers	('000 units)	2,815	3,271	3,675	3,549	980
Production (100%)¹⁾	('000 units)	2,643	3,135	3,528	3,420	931
<small>¹⁾ SAIC-VW Group / FAW-VW Group</small>						
Operating profit (100%)	(€ million)	8,424	9,569	12,077	11,937	2,622
Operating profit (proportionate)	(€ million)	3,678	4,296	5,182	5,214	1,174

Negative effect through increased competition was more than offset by exchange rate effect and fixed as well as product cost reductions

Proportionate operating profit (in € million)



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



China efficiency program

Production & Logistics optimization



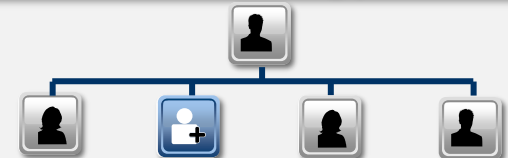
- **Change focus from “production volume maximization” to “cost-efficiency”**
 - Improved production processes
 - Optimized maintenance
- **Shift from “trucks only” to train and ship transportation within China**
- **Investment plan adjustment**

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

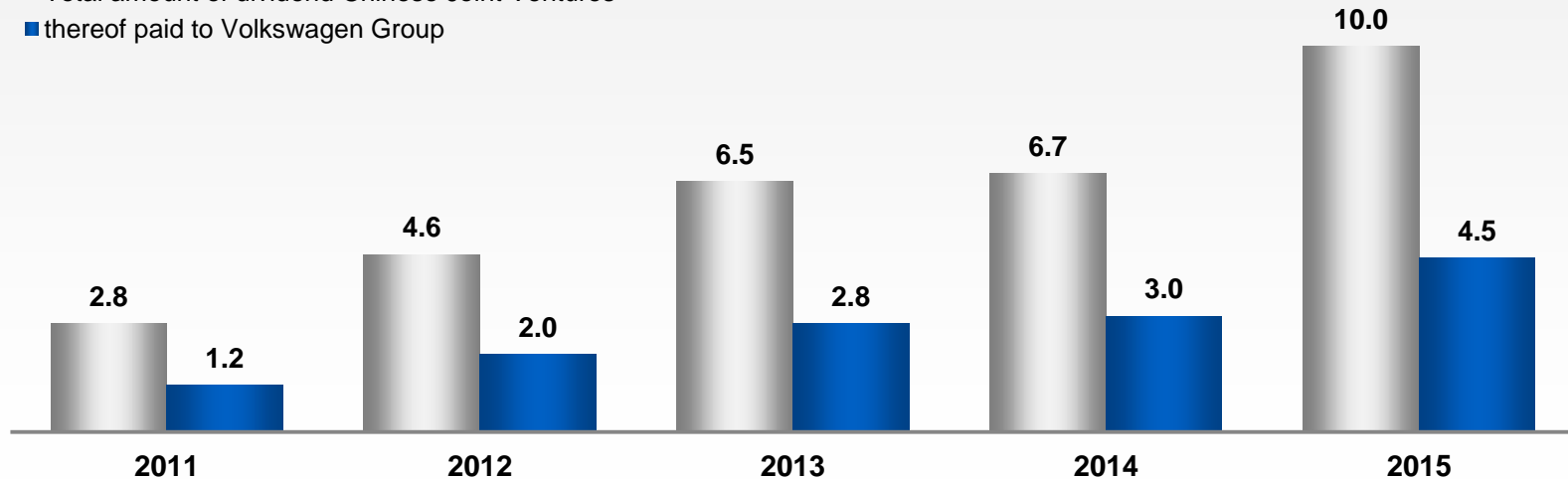


- **New organizational structure**
 - Enhance responsibility in China
 - Flexible and decision-oriented structure
 - Improved information flow and lead-time
 - Entrepreneurial spirit
 - Project house working environment e.g. NEVs

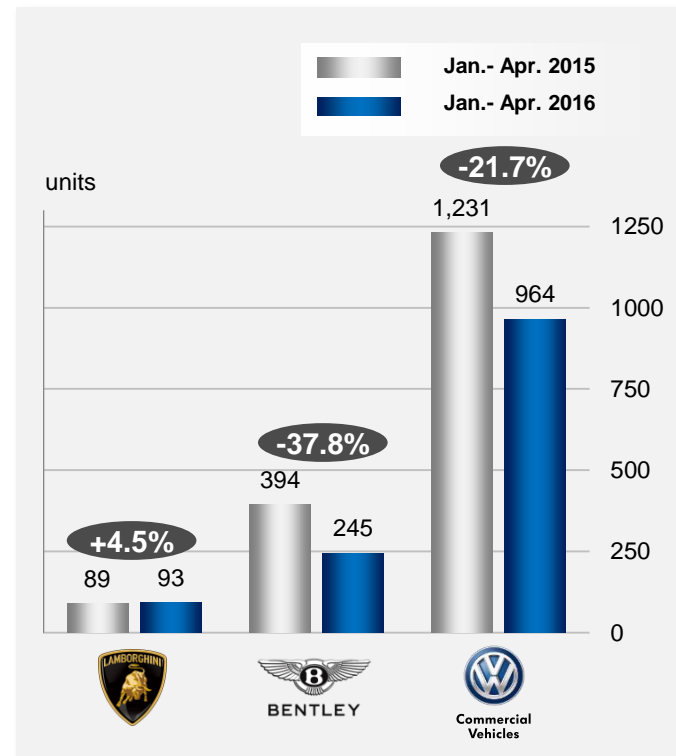
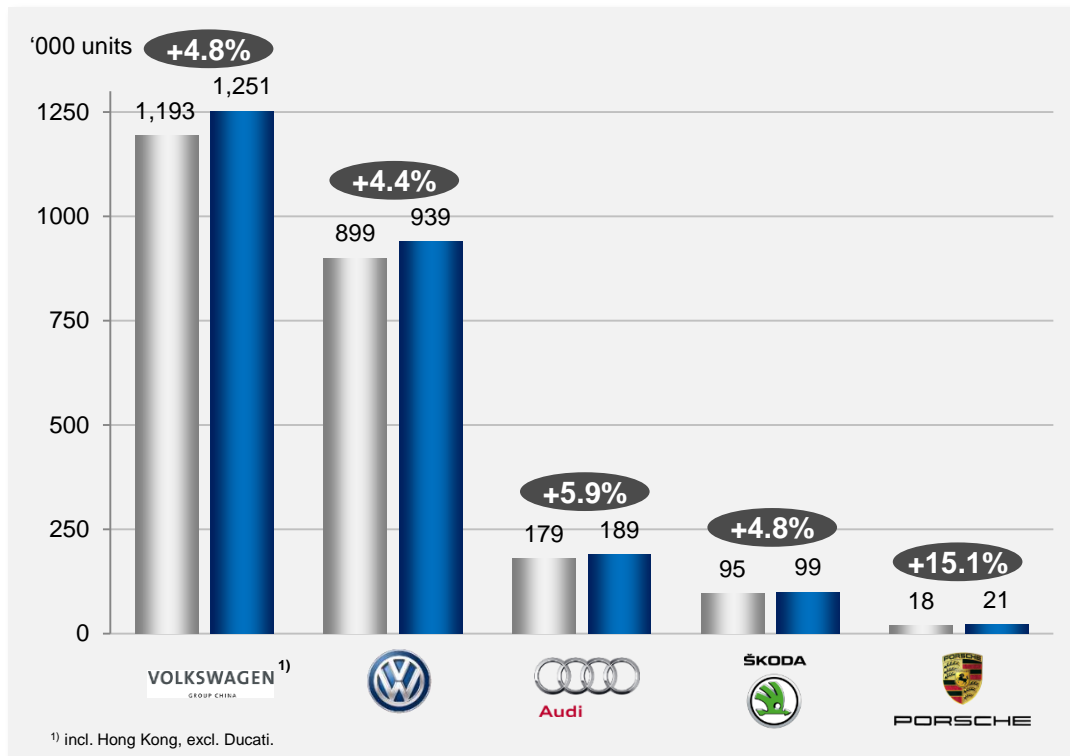
Chinese Joint Ventures generate substantial, self-funded growth and at the same time sustainably rising dividends

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

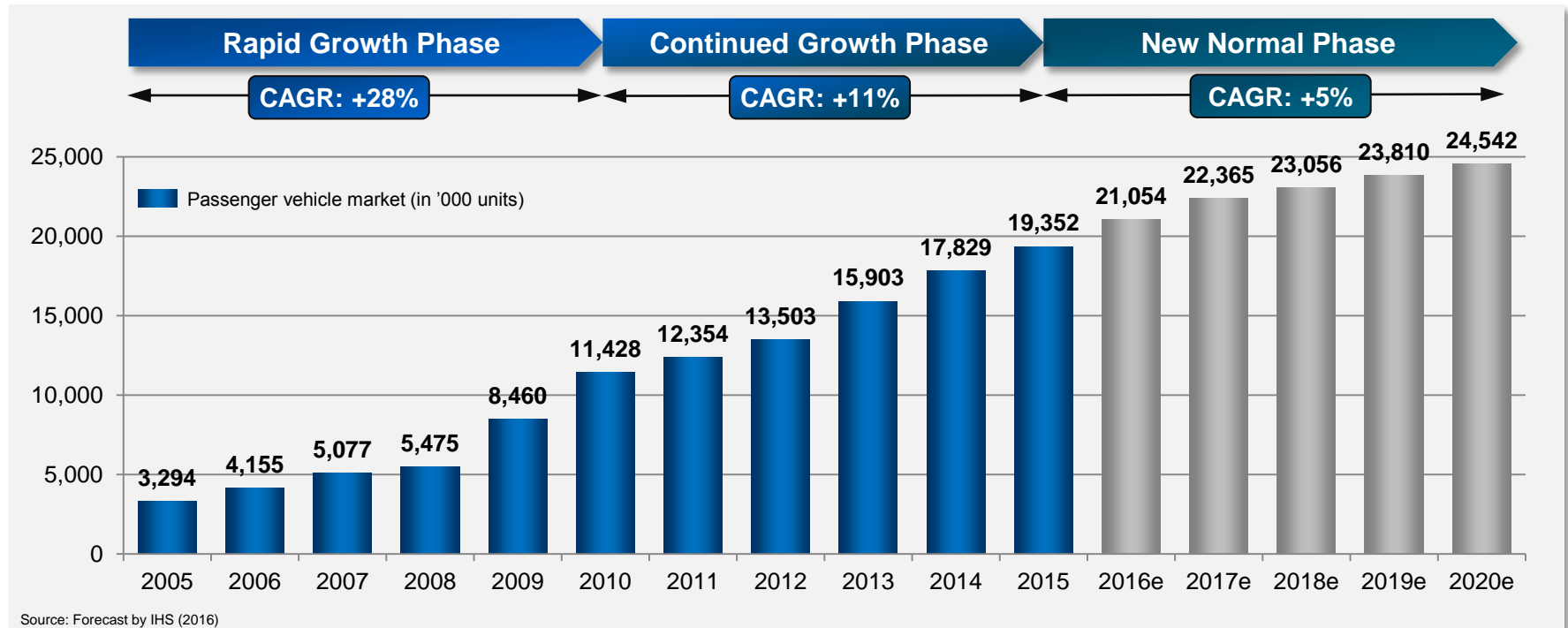
■ Total amount of dividend Chinese Joint Ventures
■ thereof paid to Volkswagen Group



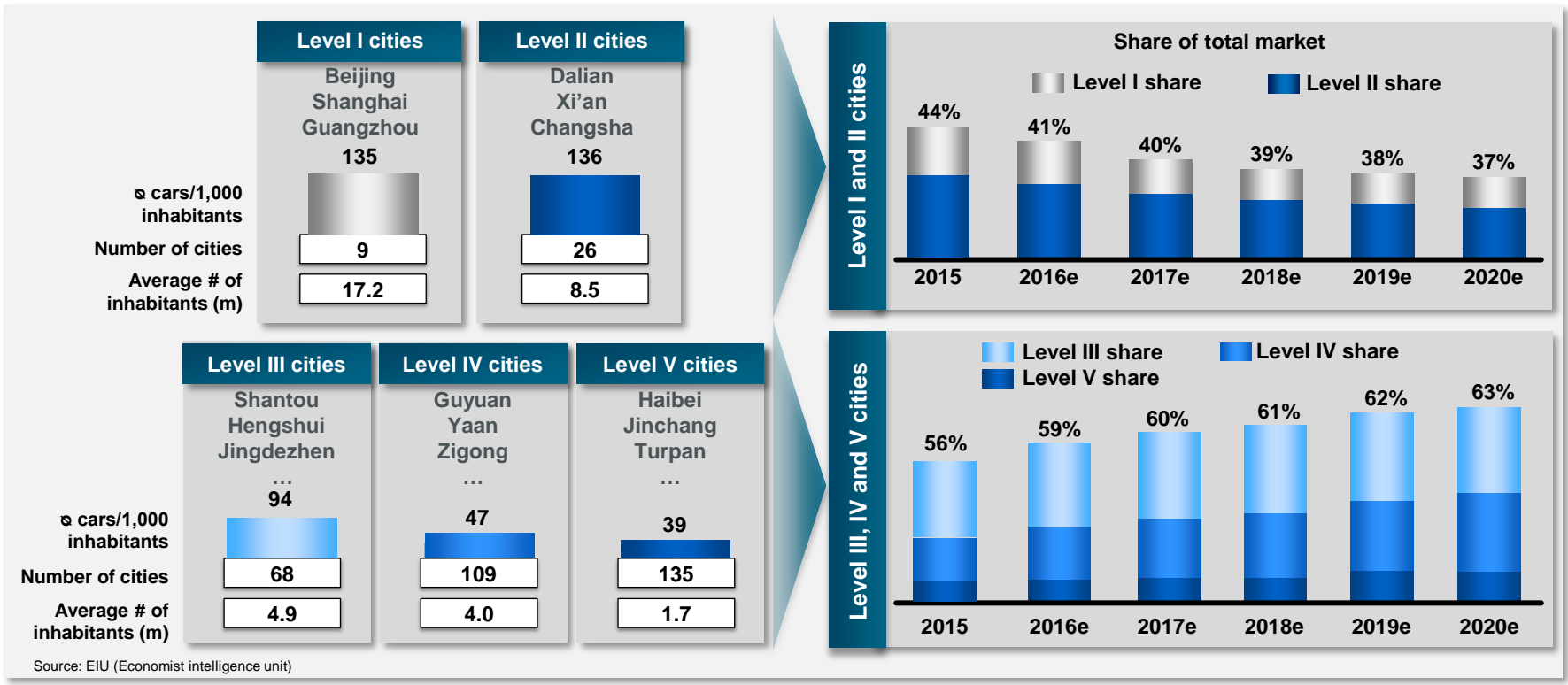
Deliveries to customers by brand January to April 2016



The rapid growth phase of China's market is over, looking into the future we expect growth to flatten

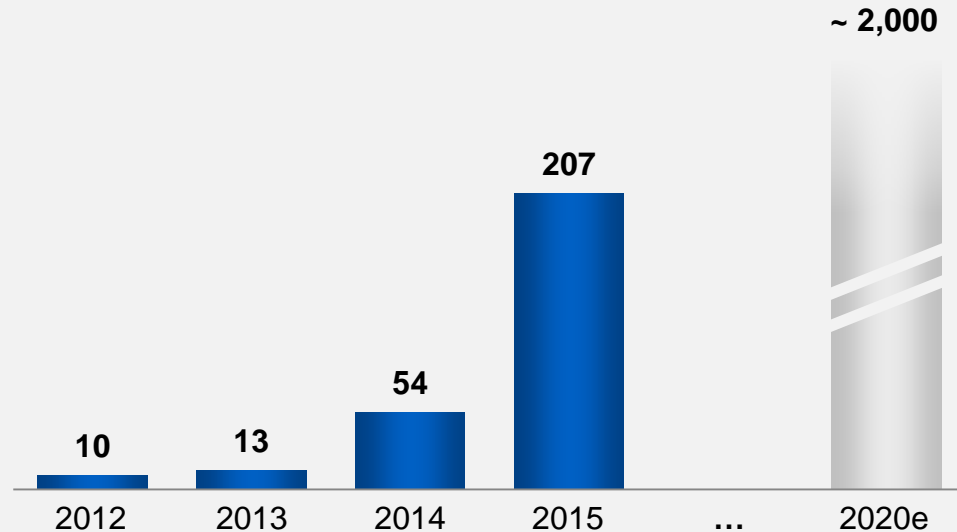


Less developed cities provide new opportunities



Market for New Energy Vehicles will increase significantly and change the Chinese market rapidly

New Energy Passenger Vehicles (in '000 units)

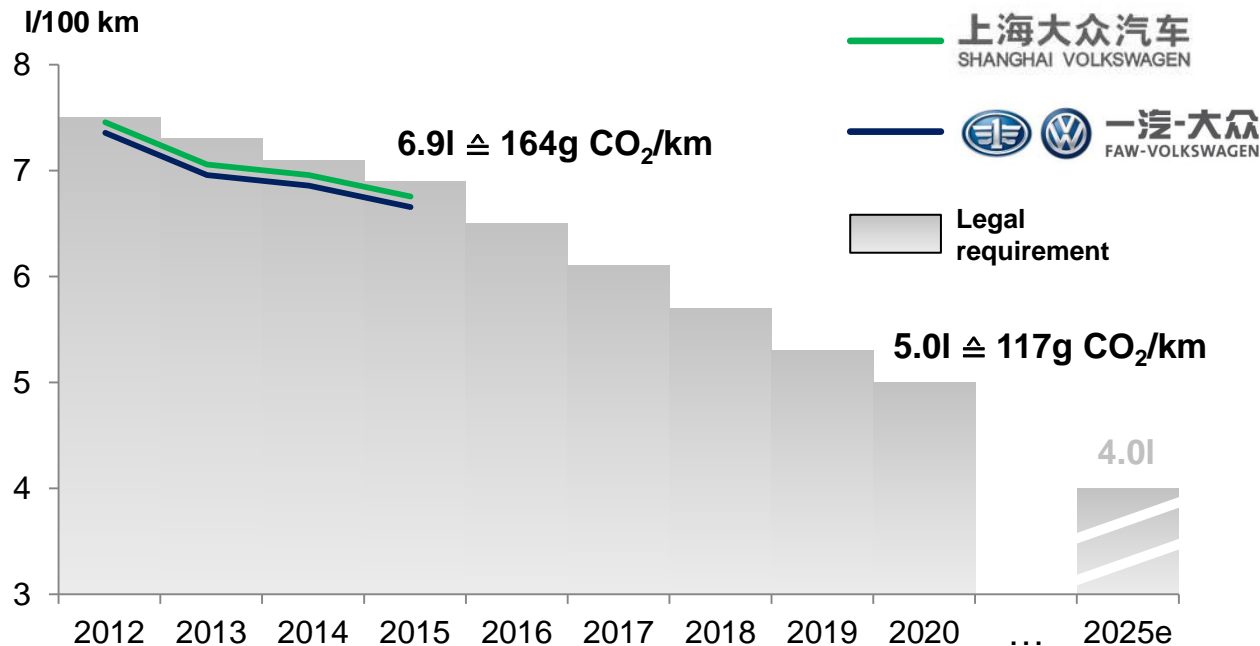


Source for data 2012-2015: CAAM

Highlights

- Government target of reducing air pollution, emission restrictions and subsidies are major drivers for China's NEV market
- 2015 pure BEV amounted for more than 2/3 of the NEV volume
- 2 million NEVs by 2020 would imply an average annual growth rate of around 60% until 2020
 - However, market expectations show high divergence
- Significant increase in NEV production capacity by local and foreign OEMs

Legal requirements of average fuel consumption targets for fleets in China



To achieve the legal requirements in China Volkswagen will

- Develop further emission reducing technologies



- Actively engage in the NEV market



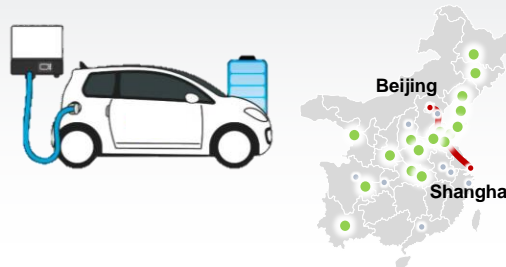
New Energy Vehicle strategy supported by Chinese Government

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)

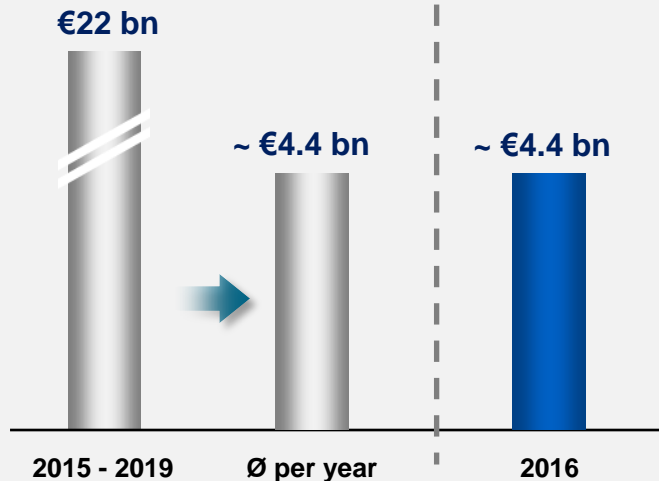
¹⁾ Subsidies are supposed to run until 2020.

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

Joint Venture investments

Prior planning as of November 2014

New planning as of November 2015



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

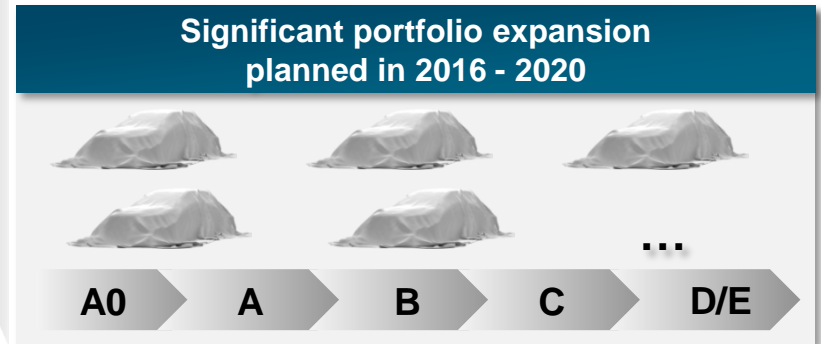
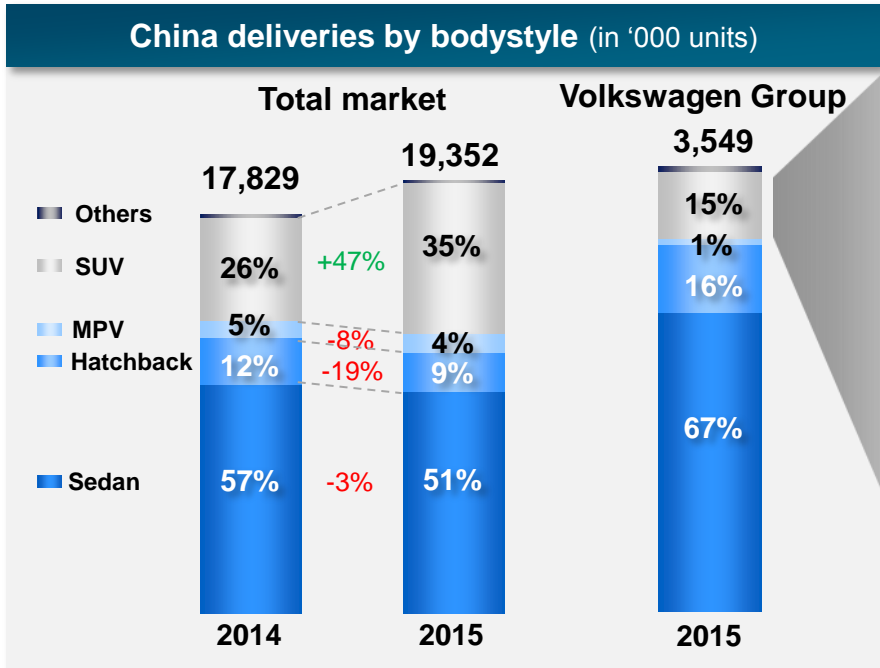
Ongoing investment plan adjustment process to take latest market developments into account

Capacity expansion through investments in existing and future factories

Volkswagen Group China is actively engaging in the New Energy Vehicle market with locally produced cars

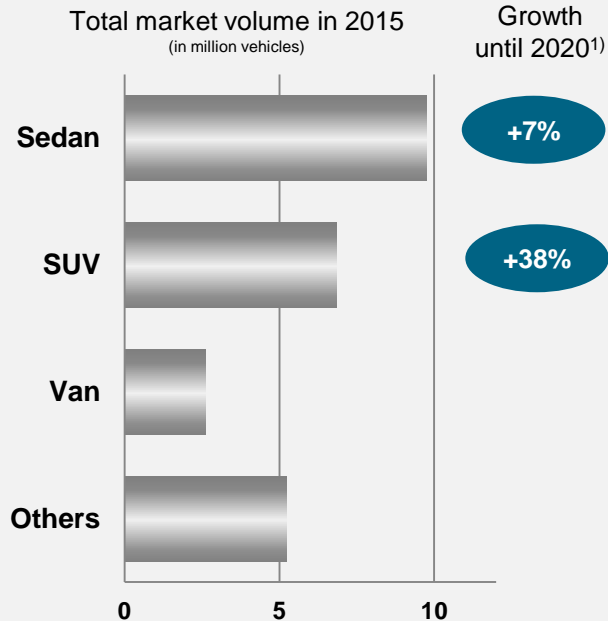


Strong growth in SUV segment – 10 additional locally produced SUVs over the next three to four years planned



New product offering aligned with expected future market trends¹⁾

Body group trends until 2020¹⁾



New vehicle launches 2016 and to follow²⁾

Sedan

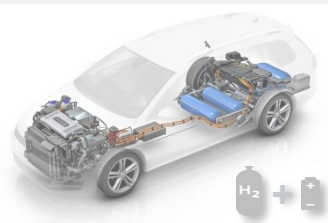
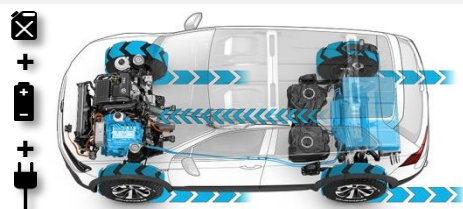
SUV

Others

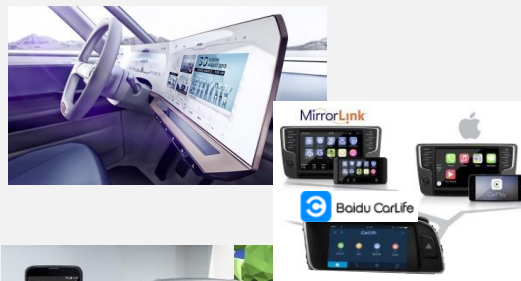
²⁾ Schematic overview – does not show all models

Research & Development – Fields of focus for the future

New Energy Vehicles



Digitalization



Autonomous Driving



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

New production sites



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 for plants in place
to reduce emissions

Sustainable and efficient production is supporting the environment and is giving us a competitive advantage

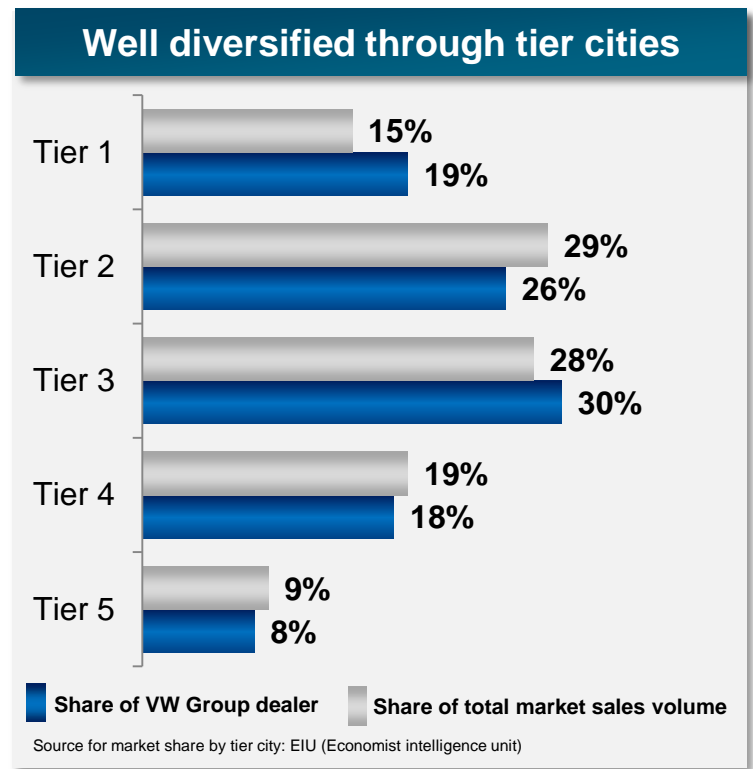
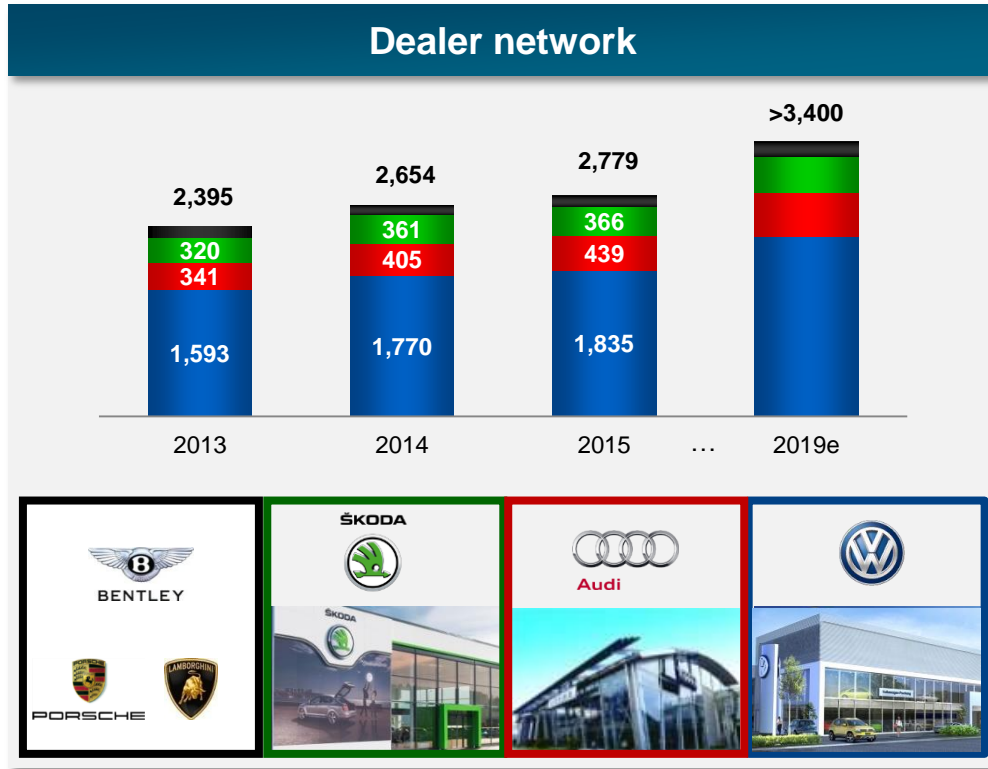
Volkswagen Group's global environmental standards throughout the whole production process



Philosophy of our environmental management

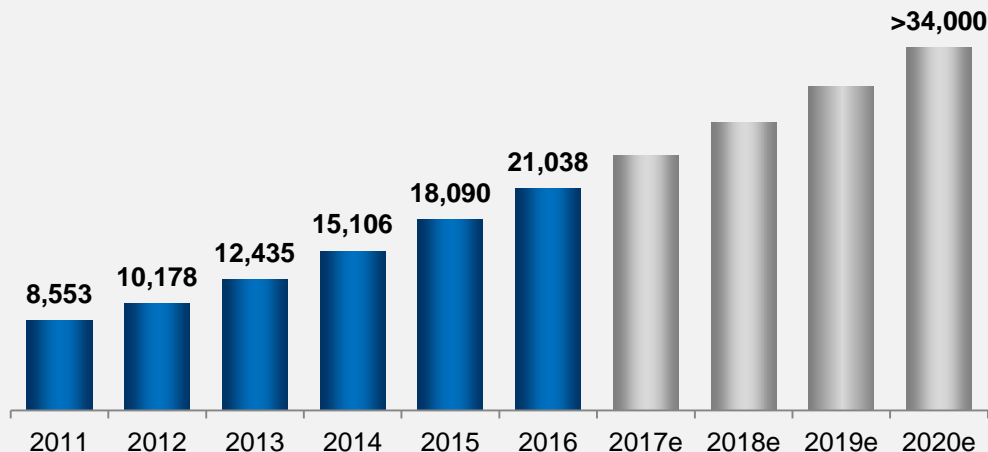
- We build and extend production facilities according to advanced environmental technologies, e.g.
 - Wastewater treatment & reuse systems
 - Online energy metering systems
 - Waste management systems
 - etc.
- We continue to reconstruct our existing plants and upgrade the production technology, e.g.
 - Natural gas boiler
 - Photovoltaic power generation systems
 - Combined heat & power systems
 - Water-base paint shops
 - etc.

Strong focus on growth of our well diversified dealer network



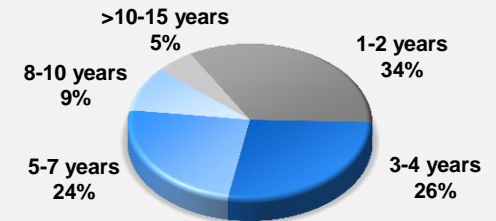
Car park development of Volkswagen Group China brands shows substantial opportunities for growth in the service and spare parts business

Car park of Volkswagen Group China brands (in '000 units)

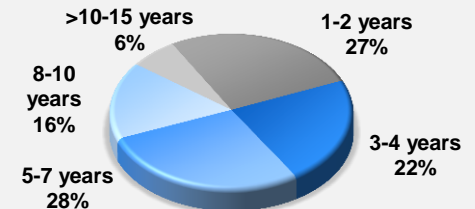


Car park covers all Volkswagen Group brands (only luxury car park does not use scrapping rate)
Definition: Car park 2016 is car park as at 31 Dec 2015

Age segmentation of car park 2016



Age segmentation of car park 2020e

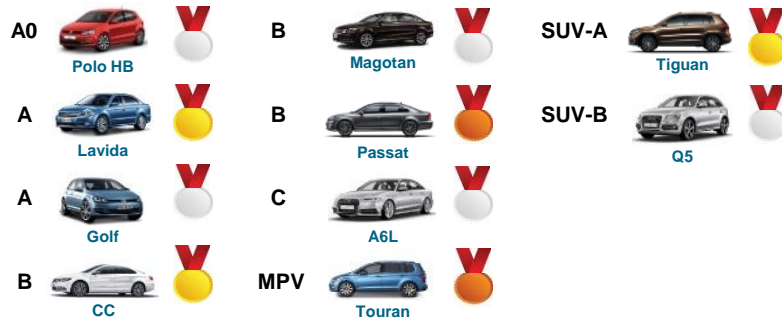


Car park will grow significantly and offers great opportunities!

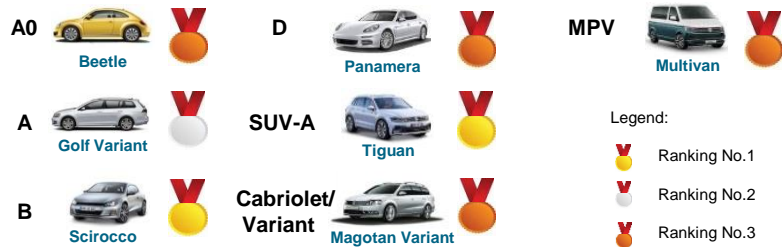
Strong residual values of Volkswagen Group models

Residual value ranking¹⁾

CKD Models



FBU Models



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

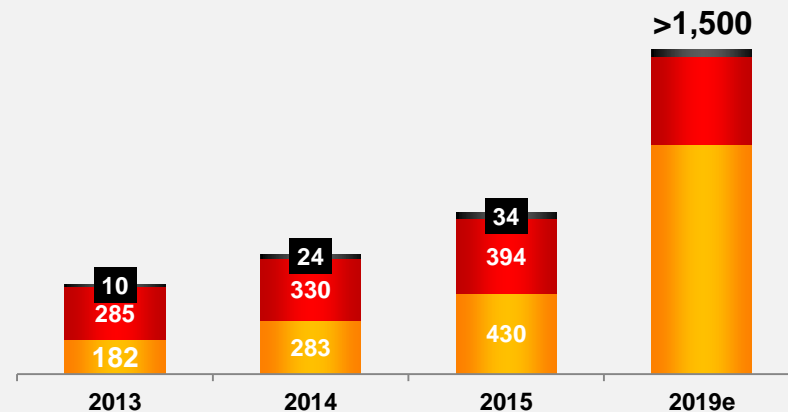
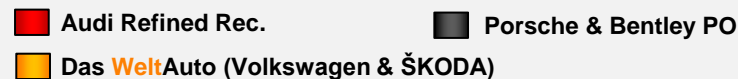
¹⁾ China Automotive Residual Value Research Committee - RV Report 2016; Rankings based on the 3-year residual value

Roll out of pre-owned car dealer business

Volkswagen Group's pre-owned car brands



Group pre-owned car dealer roll-out

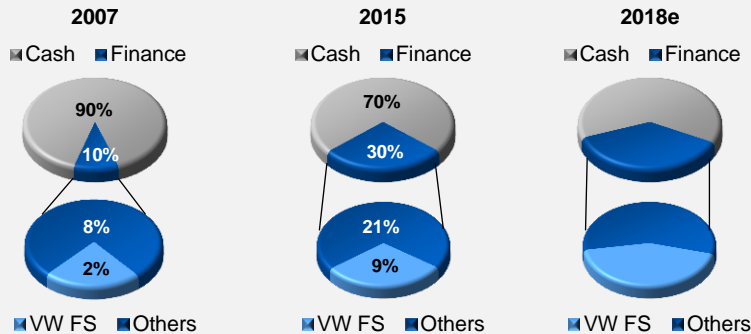


Our Group pre-owned car programs are market leaders in China

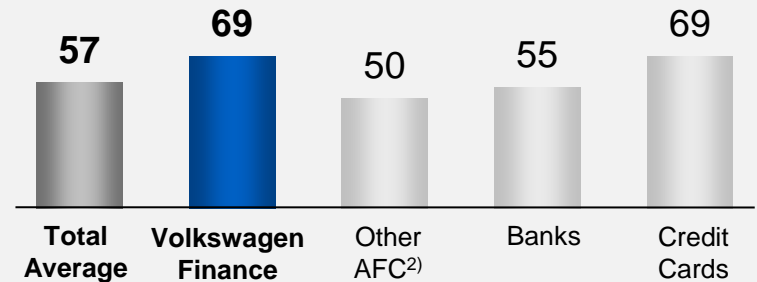
Volkswagen Finance (China) – Gaining share in an expanding market

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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