



Volkswagen

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Annual Media Conference 2019

Volkswagen Brand

Annual Media Conference of the Volkswagen Passenger Cars brand, March 13, 2019 | Wolfsburg

Speeches

check against delivery

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PART 1: INTRODUCTION – REVIEW OF 2018, RALF BRANDSTÄTTER

Good morning, Ladies and Gentleman,

Welcome to Wolfsburg. I would like to wish you a very warm welcome to the Annual Media Conference of the Volkswagen Passenger Cars brand on behalf of the Brand Board of Management.

2018 was another good fiscal year for Volkswagen. We made progress in transforming the brand. And we were able to post solid results in a challenging environment with a strong headwind.



- We delivered 6.2 million vehicles worldwide, setting another new record. Excluding the figures of our Chinese joint ventures, our vehicles sales rose by 4 percent to 3.7 million. These strong sales figures demonstrate that our model offensive includes exactly the vehicles that customers want.
- More cars sold means more sales revenue, too. We grew revenue sharply by 7 percent to € 84.6 billion. Our sales revenue outpaced our unit sales, an indication that we have moved the development of our product portfolio to a higher level, particularly with the help of SUVs.
- Operating profit before special items was € 3.2 billion, slightly down on the previous year. We had a very strong first half in 2018. WLTP then had a significant impact in the third quarter. We worked our way back in the fourth quarter. However, we were no longer fully able to compensate for the losses for the year as a whole.

Compared to the 1.8 percent we generated two years ago, the 3.8 percent return for 2018 as a whole is very respectable. However, it still fails to live up to our aspirations – especially when you look at the competition and the necessary investments for the future.



Nevertheless, we can say that our Transform 2025+ strategy is gaining traction. We are making good progress in achieving a sustained improvement in our competitiveness.

Further key elements of our Transform 2025+ strategy are working well:

- We are successfully continuing our SUV initiative.
- We are systematically pressing ahead with the restructuring of our pact for the future.
- Our electric offensive will be gathering momentum in the course of the current year.



We have rejuvenated our model range with vehicles like the T-Roc and the new Touareg. We have launched vehicles that are attractive for customers in the strongly growing SUV segment. And here is how we intend to press ahead in 2019: the T-Cross will round out the model range in the SUV segment in 2019. We will have two new models in our range in China: the Tharu and the Tayron.

All in all, Volkswagen is now well positioned in the high-margin SUV segment. Globally, every fifth vehicle sold by the brand is an SUV – every fourth car in Europe, and already every third car in North America. That trend will continue: by 2025, the Volkswagen brand will extend its global SUV portfolio to more than 30 models. By then, SUVs will make up more than half of our deliveries. As a result, we are strengthening our core business significantly.

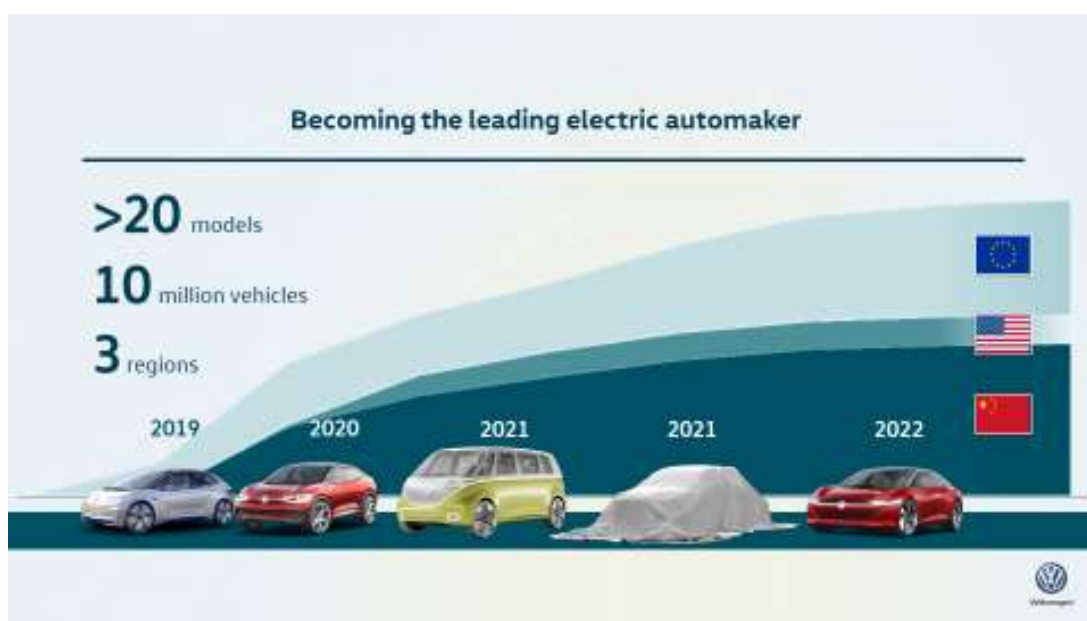


A key component of our restructuring was implementation of the pact for the future.

We have so far been able to realize around € 2.4 billion of the annual planned cost savings of € 3 billion by 2020.

We are also making progress with personnel measures. Since the pact for the future was launched, we have already created more than 2,700 new jobs in cutting-edge fields. However, the net reduction amounted to more than 6,300 jobs.

As you have heard, we are on track with the pact for the future, and will see it through to completion.



In parallel to our successful model offensive, we also laid the groundwork to make Volkswagen the number one company in e-mobility. The Volkswagen brand will manufacture more than 10 million electric vehicles in the next ten years at our factories in Europe, China and the USA. Our plans involve over 20 models.



Ladies and Gentlemen,

Looking at the past year, the bottom line is: we successfully managed the headwind that was generated by WLTP and the economic slowdown in important markets. We showed that we have become more profitable on a sustainable basis – although it goes without saying that the current return level is still not enough. And not least, our delivery record clearly demonstrates that our customers are greeting our vehicles with open arms.

PART 2: PRODUCTS AND REGIONS 2018, JÜRGEN STACKMANN



Ladies and Gentlemen,

Overall, 2018 was the most successful year in the company's history. Growth in South America and Europe helped to offset the negative effects in China and North America.

In Europe, we succeeded in strengthening our position and gaining market share despite WLTP. The new Tiguan Allspace, Arteon and T-Roc models and the new version of the Polo were particularly popular. We also recorded growth in Germany.

Last November we delivered the thirty millionth Volkswagen in China. What an achievement! In 2018, we launched nine new models there. Of course we, too, noticed that the overall market is slowing down. In this difficult environment, however, we succeeded in keeping our deliveries virtually stable at 3.1 million vehicles and even expanding our market share.

In North America, we saw a decline in sales last year. However, this was attributable solely to the market situation in Mexico, where economic conditions remain difficult. In the United States, on the other hand, we are continuing to grow thanks to our successful SUV models.

Our performance in South America is also very encouraging. Brazil was our driving force here with an increase of 28.6 percent.

We started 2019 on a strong footing. That said, our delivery figures are slightly below those of the previous year, in line with expectations.



This applies to January and also holds true for February, where the figures have only just become available. The brand's global deliveries fell by 2.2 percent last month. The figures for North America and China are down, while Europe has grown slightly.

South America has the strongest momentum, and Brazil remains the major driver of growth there.



So far this year, the Volkswagen brand is performing better than the overall market, and we are continuing to grow our market share. So we have made a solid start to the year. And we are confident that we will be able to catch up in the second half of the year and match the previous year's level. This confidence is based not least on our high order backlog. We could sell even more vehicles if we had more petrol drives. Here we are working at full speed to expand our capacity.



Ladies and Gentlemen,

The Volkswagen Passenger Cars vision is "Moving people forward". Last year was a milestone on our path to fulfilling this claim. The Volkswagen brand systematically expanded and further updated its product portfolio in 2018. Worldwide, we launched more than 20 models as product premieres or as refreshed models.



Ladies and Gentlemen,

The Volkswagen brand's electrification offensive will also change our dealers' business model. With the ID., we will be bringing a kind of "second franchise" within our brand to the dealers in addition to the conventional models starting from next year.

The new dealer agreements that we signed last year form the contractual basis for the restructuring of our distribution system. That realignment will be decisively shaped by digitalization– the second major issue. It will not only be about "what", i.e. new models, but in future also about "how" we sell our vehicles and how we communicate with our customers. Our core business will continue to be the hardware, i.e. the car. But competitive differentiation will also be achieved through software, i.e. through connectivity and apps as well as a coherent brand ecosystem.

We must therefore invest heavily so that our vision can become reality. And, of course, we need to earn this money first.

PART 3: DEEP DIVE FINANCIAL FIGURES FOR 2018, DR. ARNO ANTLITZ



Ladies and gentlemen,

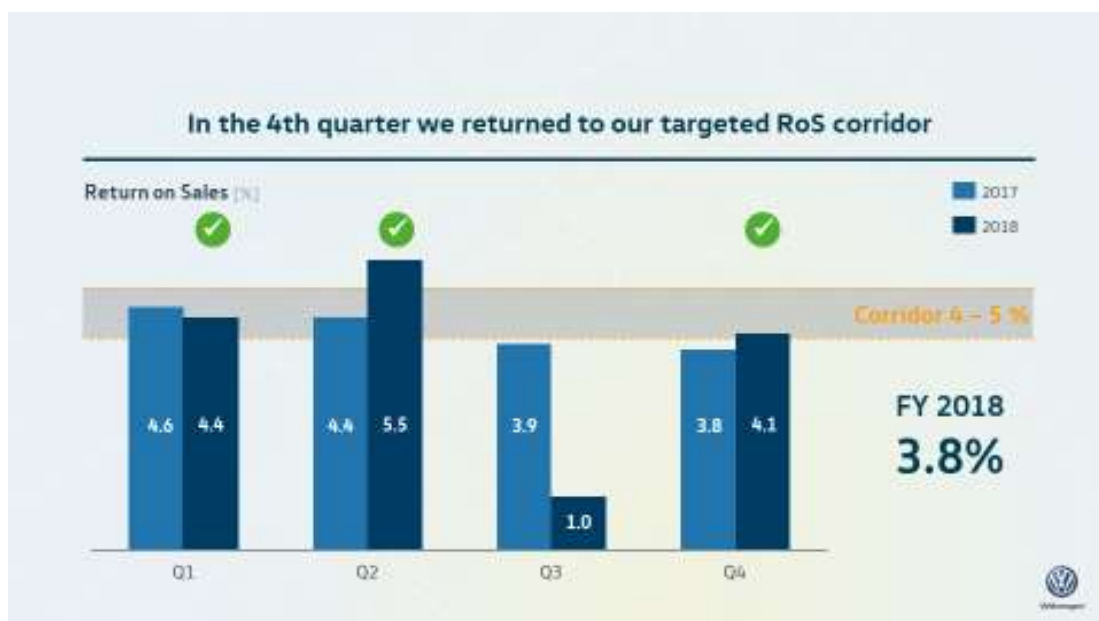
We delivered a solid financial performance in fiscal year 2018 and remain on course in a difficult market environment.

- We increased unit sales by 4 percent.
- We grew our sales revenue to € 84.6 billion.
- And achieved an operating profit before special items of € 3.2 billion.
- The operating return on sales stood at 3.8 percent.
- The special items attributable to the diesel issue amounted to € 1.9 billion in 2018.
- These were mainly attributable to the fines resulting from the final administrative orders issued by Braunschweig public prosecutor's office (€ 1.0 billion) as well as higher legal risks and legal defense costs.
- After special items, we achieved operating profit of € 1.3 billion in 2018.



The changeover to the new WLTP test procedure also had an impact on the past fiscal year. This effect was particularly acute in the third quarter and we saw operating profit decline to € 200 million as a result.

In the fourth quarter we were able to return to the successful trend established in the first six months of the year and achieved earnings of € 900 million – a considerable increase on the same quarter in the previous year. The fourth quarter demonstrates that we are on the right path with our measures aimed at increasing the competitiveness of the Volkswagen brand.



This is also confirmed by the operating return on sales.

We reached or even exceeded our target figure of 4 to 5 percent in the first two quarters of 2018. We returned to our margin corridor in the fourth quarter.

Unfortunately, we were unable to compensate fully for the slump in the third quarter, leaving a return of 3.8 percent for fiscal year 2018.

However, this result includes

- approximately € 500 million in charges resulting from the transition to WLTP.
- Costs amounting to around € 360 million were incurred through the environmental incentive in Germany, part of our efforts to help improve air quality.
- And, as in previous years, restructuring expenses mainly for partial retirement programs are included in the operating profit.

Despite these effects, we regard the fact that we were able to nearly match the previous year's result as a success.

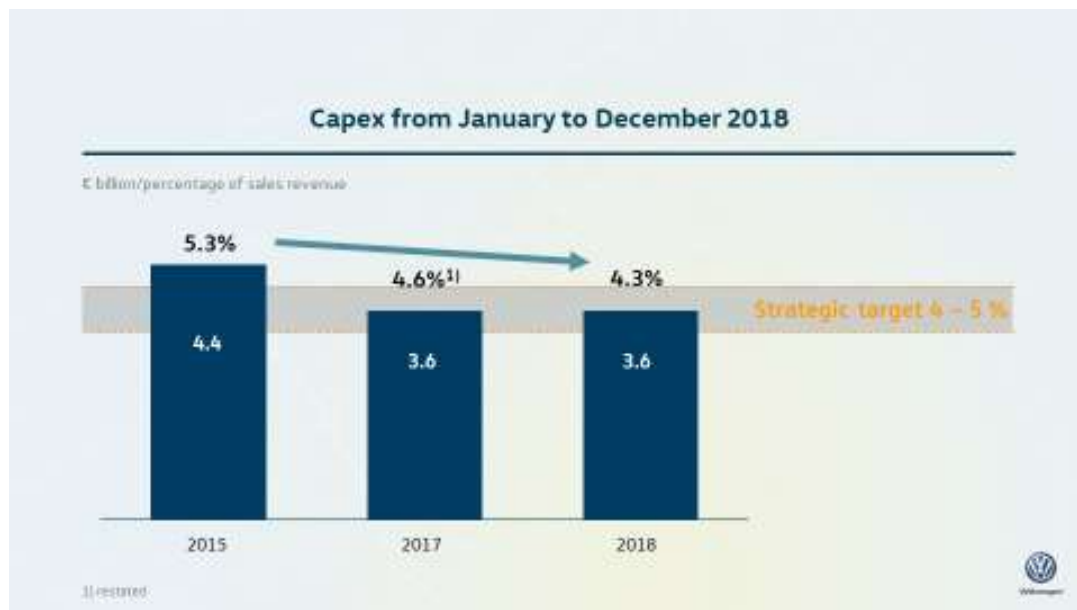


The profit reconciliation shows that currency effects reduced our operating profit by around € 700 million. However, we were able to largely offset the impact of high depreciation in countries like Argentina and Russia through price increases.

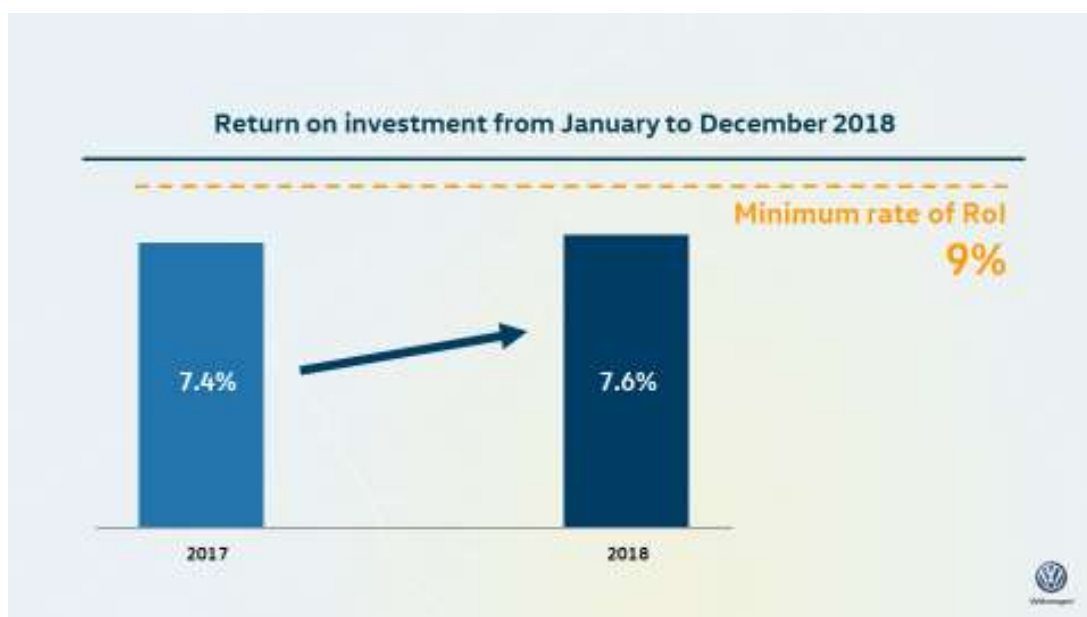
The remaining contribution from Volume/Price/Mix was largely negative due to the WLTP impact we mentioned before. The costs of the environmental incentive are also recorded in this item.

Product costs saw a year-on-year improvement of around € 200 million.

Year-on-year, the total for Fixed Costs/Others was unchanged. This meant that the expansion of our production capacity and the upfront expenditure for electrification of our fleet was fully compensated for.



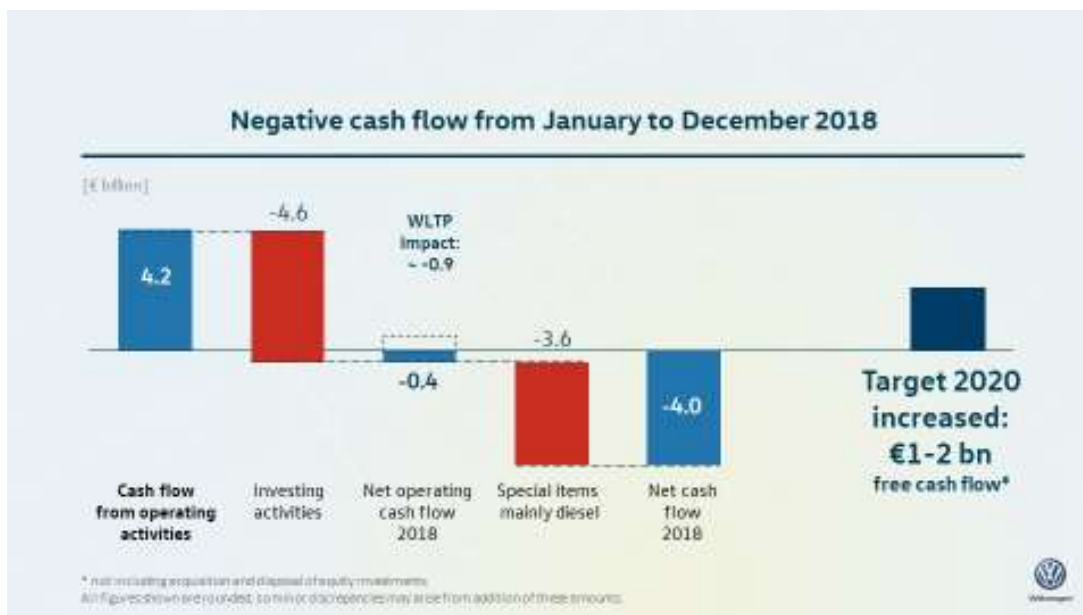
In 2018, we also made significant progress with regard to expense and cost discipline: against the background of increasing sales revenue, we invested a similar figure to 2017 (around € 3.6 billion), which improved the ratio of capex to sales revenue to a competitive 4.3 percent in absolute terms.



Return on investment is another key metric in our industry. This indicates the ratio of the operating result after tax to average invested capital.

Here we again registered a slight improvement of 7.6 percent last year over the previous year.

However, we still remain well below our minimum rate of return on invested capital of 9 percent.



We still remain quite some way below our strategic goals with regard to cash flow as well.

The net cash flow of the Volkswagen brand adjusted for the effects of the diesel issue stood at minus € 0.4 billion at year-end, which is below our target of at least breaking even for 2018 and around € 1 billion below our target for 2020.

Here, too, the transition to WLTP had a significant impact. Particularly the capital tied up of around € 900 million due to the WLTP-related increase in inventories at the end of 2018 and the increase in receivables from late-invoiced vehicles had a negative effect.

Our overall assessment has not changed, however. We firmly believe that there is substantial improvement potential with regard to cash flow, and we will be able to exploit this consistently over the coming years.

This is why we have once again slightly increased our target for 2020 and are aiming for a free cash flow of € 1 to 2 billion.

Key levers for improving the result: status update

Product offensive



Achievements 2018:

- SUV portfolio widened: T-Roc, Tiguan, Tiguan Allspace, Touareg, Atlas
- Increase of MQB share to 60%

Outlook 2019:

- More SUVs coming: T-Cross, 5-seater B-SUV (US)
- Increase of MQB share to 80%



Turnaround in the regions



Achievements 2018:

- Positive result in Russia maintained
- NAR better than 2017
- SAM with strong progress

Outlook 2019:

- SAM to break even
- Further improvements in NAR, turnaround planned for 2020



Pact for the future



Achievements 2018:

- Realized cost improvements of more than €2.4 billion
- > 9,000 early retirement contracts
- Headcount reduction ahead of target

Outlook 2019:

- Further improvements in costs and productivity



Although the WLTP issue played a decisive role during fiscal year 2018: it should be noted that our strategic areas of action ensure that we remain firmly on course. The three main drivers of our earnings show that:

- Our product offensive was in full swing last year.
- We are making faster progress than originally projected in implementing the pact for the future.
- And we are achieving further success in turning our regions around.



In Russia, we maintained the positive earnings level in spite of the ruble's devaluation. In South America, we took a major step forward in 2018 in terms of unit

sales, sales revenue and earnings and are confident that we will break even this year. And we have also significantly improved in North America and are still seeking to break even by 2020.

All in all, we were able to improve our consolidated operating results in the regions to the tune of around € 500 million in 2018.

Ladies and Gentlemen,

Looking back, 2018 was a year of contrasts for us. The changeover to WLTP proved extremely challenging. At the same time, we further developed our strategic levers for improving earnings and see ourselves somewhat better positioned than before with regard to achieving a sustained improvement in our competitiveness.

PART 4: CHALLENGES IN 2019, RALF BRANDSTÄTTER

Ladies and Gentlemen,

While it's pleasing to know that we've already come a long way, we cannot afford to let up. On the contrary, we must step up the pace even further to overcome the challenges ahead of it and to achieve a sustained improvement in our competitiveness.



The market environment in the automotive industry is changing dramatically and even faster than many expected: in essence, two major developments are under way.

- The first is the transformation to e-mobility. Here, we are already making very good progress. 2019 will be the key year in which our electric offensive really takes off.
- The second major theme is digitalization. Not just in our vehicles, but also in the company itself. New topics have been added since the pact for the future was concluded. For this reason, we are initiating a digitalization roadmap. This year, we will also take further important steps to bolster our long-term competitiveness.



Of the world's major car manufacturers, we are the company that has made the strongest commitment to and by far the largest investment in e-mobility. By 2023, the Volkswagen brand alone will channel around nine billion euros into its electrification offensive. Our goal is to become the world's number one in e-mobility by 2025 and to sell more than one million electric vehicles a year by then. To achieve that, we've planned more than 20 models based on our MEB platform. 2019 will be a key year in this push. First, because we will present the compact ID., the first member of this new generation of electric cars, at the IAA in Frankfurt this year. Second, because this year we'll make major advances toward converting our production network to e-mobility.

The Volkswagen Zwickau plant will become Europe's largest and most efficient electric car factory

World's **lead factory** for MEB production

Up to **330,000** vehicles per year

6 models from **3** brands

Total investments of **€ 1.2** billion





Zwickau, where production of the new ID. will start at the end of the year, will play a pioneering role in that. Going forward, our lead factory for e-mobility will build six models from three brands, with a maximum annual capacity of 330,000 units.



2019 will also be a key year for our electric offensive for a third reason: The Volkswagen brand will show what climate-neutral auto-mobility is! As the Group's first electric car, the ID. will have a net zero carbon footprint over its entire life cycle. It will be produced in a CO₂-neutral process. With the help of our subsidiary Elli, we will also offer 100 percent green power for usage.

ID. as the first electric vehicle below € 30,000 – we keep our promise



Fully connected vehicle
innovative interface

CO₂-neutral
e-mobility

Updates over the air

< 30.000€

SOP
Q4/19

2019




With the ID., we are making environmentally-friendly electric cars affordable. The entry price will be less than € 30,000. Customers will receive a fully-connected car for their money. The top-of-the-line model will have a range of up to 550 kilometers. The ID. will always have the latest digital technology thanks to automatic software updates.

In addition to electrification, the other major issue for the Volkswagen brand is digital transformation. To address that, we have established the new Board of Management function for “Digital Car & Services” headed by Christian Senger. We are taking the next logical step and are intensifying our efforts to digitalize Volkswagen.

Volkswagen invested around € 19 billion in topics of the future – of which € 4.6 billion in a digitalization roadmap

Additional negative impact due to investments/expenses for topics of the future¹⁾



around **€ 7** billion over five years

Status of the pact for the future 2016


around **€ 19** billion over five years

Latest findings

Invest into digitalization of Volkswagen **€ 4.6 billion²⁾**

- » Volkswagen secures its fitness for the digital age
- » Employees are being prepared for a working environment shaped by digitalization
- » Improved efficiency through digitalization will allow for lean admin functions

1) Estimate; 2) In some cases, the terms will spread over the next five years. Some of the project volumes are Group-related



Ladies and Gentlemen,

When we concluded the pact for the future in 2016, we assumed that we would need € 7 billion to cover investments in electrification and digitalization.

- We now expect to invest € 19 billion in these fields of the future. This is € 8 billion more than we earmarked in November 2018 for the planning period of 2019 to 2023!
- € 4.6 billion alone will go toward implementing our digitalization roadmap. That is the largest IT investment in administrative processes in Volkswagen's history. The digitalization roadmap is the framework for training our employees to perform the jobs of the future. In addition, we want to step up the pace of digitalization in our administrative processes, thus becoming considerably more efficient.

PART 5: FINANCIAL EFFECTS AND RETURN, DR. ARNO ANTLITZ



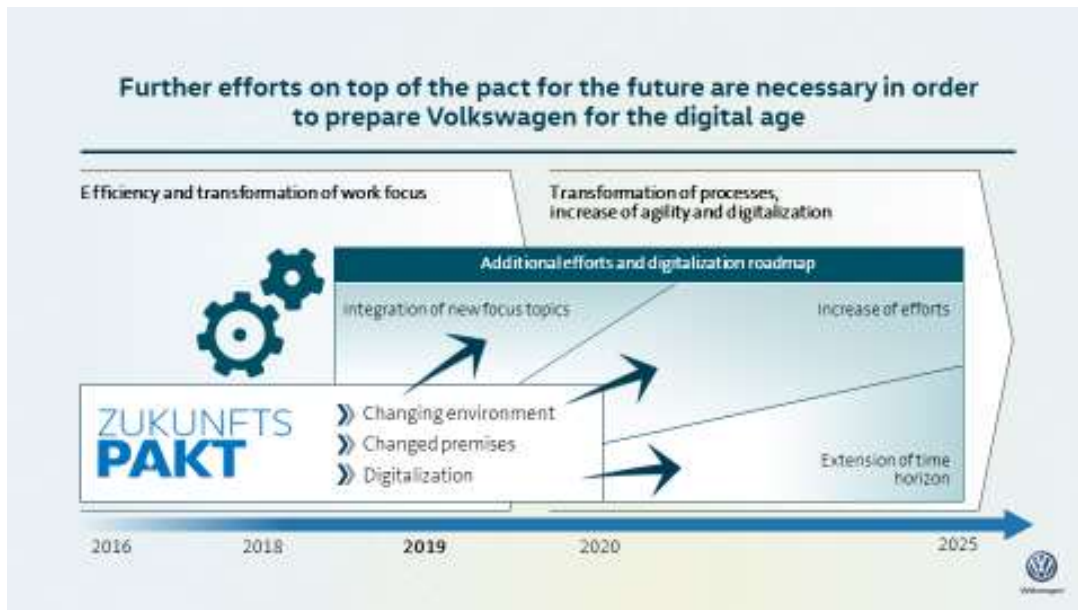
Ladies and Gentlemen,

The digitalization roadmap will make an important contribution to improving our competitiveness, but it will first require substantial investments before it is able to deliver long-term cost savings.

What's more, at the same time we need to

- Mitigate the rising costs of reducing fleet CO₂.
- We need to raise the necessary upfront expenditures for the changeover to e-mobility and implementation of future technologies.

- And we need to further improve our returns in the direction of 6 percent so that we can live up to our strategic claim of being the leader in our industry.



For this reason the first step is to continue to systematically implement the current pact for the future. At the same time, it is absolutely vital that we increase the speed of our transformation. This is why we have supplemented the pact for the future with selected topics, further intensified our efforts, and set our sights on 2025.



The additional contribution to defraying the costs I mentioned before and achieving a competitive return level of 6 percent will be around € 5.9 billion from 2023 onwards.

Around half of this will be achieved through cost cutting and the other half through performance improvements – made possible, for example, through an improved mix of products and offerings, through further SUVs or a better regional mix.

PART 6: EXPLANATION OF THE MEASURES, RALF BRANDSTÄTTER



Ladies and Gentlemen,

We have developed a package of measures to generate the required earnings contribution of € 5.9 billion. We have set the following goals here.

- First, we must further increase the productivity of our plants – in terms of both vehicle manufacture and components. Our objective is an increase of 5 percent each year through 2023 as a way of strengthening the company's foundation beyond the range of the pact for the future.
- Second, we aim to make significant improvements on the performance and cost side. Key elements here are:
 - Less complexity for more success. We are focusing on optimizing vehicle offerings and engine/transmission combinations. We have made good progress in this area and 25 percent of all engine/transmission combination have been canceled.
 - We are also reviewing component complexity and the number of parts.
 - And we are looking for sustainable improvements in our cost position in the area of e-mobility by exploiting economies of scale with the MEB.

- In administration, we aim to cut nonstaff overheads and personnel requirements in our administration by 15 percent each. A key lever for this will be the digitalization roadmap.

We have already held initial constructive talks with the Works Council on the planned implementation of the digitalization roadmap in the administrative areas of the company. Both sides understand that the increased automation of routine jobs will result in fewer administrative positions. We estimate that 5,000 to 7,000 jobs of employees who leave the company will not be refilled. The potential number of employees born during the next three defined periods eligible for partial retirement totals about 11,000. This means that reorganization would be possible purely through early retirement measures. We will be creating 2,000 new jobs in Technical Development area, which relates to electronics architecture and software. Volkswagen has given its workforce a job security guarantee until at least 2025. That remains valid.



We are pushing ahead with implementation of the measures under our earnings improvement program. Key aspects of the program are already being put into action. Optimizing margins, increasing productivity and optimizing fixed costs are being systematically implemented by the departments. Reducing complexity is a cross-section initiative throughout the brand. The transformation in HR is another initiative. This includes using socially acceptable instruments via the demographic curve, as well as qualification measures for the digital working world.

We now need to come to concrete agreements on productivity and the digitalization roadmap in 2 working groups with the Works Council.

We will manage this change together and in consensus with employee representatives. Our aim is to make Volkswagen more efficient and agile and a more attractive and modern employer, especially in administration.

PART 7: OUTLOOK FINANCE, DR. ARNO ANTLITZ

	Forecast 2019	Target 2020	Target 2022	Target 2025
Sales revenue	up to +5 %	tbd	tbd	tbd
Operating return on sales	4-5 %	4-5 %	≥ 6 %	> 6 %
Capex ratio	4-5 %	4-5 %	4-5 %	4-5 %
R&D ratio	-4 %	4 %	4 %	4 %
Free cash flow	Positive operating cash flow	€1-2 billion	> €2 billion	> €2 billion

Ladies and Gentlemen,

The measures outlined here will bear fruit especially in the medium term up to 2023.

For 2019 we are aiming for sales growth of up to 5 percent and for an operating return on sales in the range of 4-5 percent.

We are also hoping to generate a positive net cash flow once again.

For 2022, we are targeting a return of 6 percent. The necessary measures have been firmly rooted in our planning.

The planned improvement in earnings should also have a correspondingly positive effect on our cash funds by then. We have raised our target for net operating cash flow in 2022 to at least € 2 billion.

Ladies and Gentlemen,

We intend to and will

- shape the future of our industry,
- offer our customers attractive vehicles and mobility solutions,
- while at the same time protecting the environment and conserving resources
- and become a role model of a values-based company again.

In the field of e-mobility, we will set an industry standard encompassing not only the electric vehicle but also the software and the ecosystem. To do this, efforts on a much larger scale than has been the case in the past are needed. So the task for the next months and years could hardly be bigger.

PART 8: LOOK AHEAD TO SALES TOPICS, JÜRGEN STACKMANN



We are looking forward to fascinating new vehicles and mobility solutions that we will be putting on the market. This change will be felt by our customers in 2019 for the first time in the shape of concrete products. We therefore view 2019 as the year in which “New Volkswagen” was born. The production launch of the ID. in the fourth quarter also marks the beginning of this new era.

The ID. CROZZ in Tiguan format – our first fully-electric SUV – will follow one year later. There will also be a lean, coupé-like version of this model in 2021. And in 2022 Volkswagen will launch the ID. BUZZ – the electric successor to our world-famous campervan.



The first stage of this journey will get underway in May 8. That is when pre-booking for the ID. starts. Starting then, customers who want to be among the very first ID. owners can make a down-payment to secure an early production slot. I think it not improbable that the launch edition will already have sold out before the ID. is unveiled at the Frankfurt Motor Show. The numbers being reported by our dealers indicate that.



After that, things will happen in quick succession, ladies and gentlemen. Only a few weeks after the world premiere of the ID. in Frankfurt, we will be unveiling the next Golf generation. With its eighth edition, Golf fans will get what they expect: a genuine Golf, fully-connected, with our "We" ecosystem.

Product highlights of Volkswagen brand 2019 – European market



It goes without saying that there'll be other new models in 2019: our first mini-SUV T-Cross and the T-Roc R* will be launched soon and give deliveries a boost.

Product highlights of Volkswagen brand 2019 – European market



And the new Passat celebrated its premiere in Geneva just last week. We've not only given this classical car a face lift, but also fitted it with numerous features to help it live up to its reputation as a business class innovator.

[*Near-production concept]

Product highlights of Volkswagen brand 2019 – Chinese market



We will also be serving up exciting product innovations in China in 2019. 14 new models are planned.

JETTA brand ready to conquer new customers in additional market segments



And finally, the third quarter will see the launch of our new brand in China: JETTA, with which Volkswagen aims in particular to address young Chinese customers and enter the Chinese market's entry-level segment, which is growing at a particularly dynamic pace.



Ladies and Gentlemen,

Apart from the hardware – the vehicle itself – the software and the digital experience will be an important sales argument for our cars in the new brand design. We're pooling all services in, on and relating to the car in our "Volkswagen We" ecosystem. Our "We Park" parking app has already gone live. Launched in Berlin two years ago, the app is now available in more than 120 towns and cities in Germany.

Summary

- Successful year in 2018
- 2019 will be the year of the "New Volkswagen"
- Number of new and exciting vehicles
- Start of the electrification offensive
- Increase in the speed of the transformation
- Digitalization roadmap defined

➤ **Volkswagen will become more efficient, productive and agile.**

PART 9: CONCLUSION AND FINAL WORDS, RALF BRANDSTÄTTER

Ladies and Gentlemen,

In spite of some headwinds, the past fiscal year was all in all a good one for Volkswagen. We will breathe life into “New Volkswagen” in 2019.

We are looking forward to a whole raft of fascinating new vehicles that will cause a stir in the market and inspire our customers.

We will be giving our electric offensive a new face in the shape of the ID., thus sending out a powerful signal of our commitment to sustainable mobility.

At the same time, we’ll have our hands full to ensure that our operating performance is within our target corridor in a tough environment.

Despite all that, we will significantly step up the pace of our transformation even further so as to make our company fit for the electric and digital era.

Our goal is clear: at Volkswagen, we want to remain the leading high-volume manufacturer in the future – and prove at the same time that individual auto-mobility and responsibility for the climate can go hand in hand.

We know what needs to be done to achieve that. We must become more efficient, more productive and more agile. And we’re determined to accomplish that.

Many thanks for your attention.