
VOLKSWAGEN Group China

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China – Macroeconomic Overview and Changing Regulatory Framework

Analyst/Investor Conference
Shanghai, 24 May 2006

Overview

1. Key Economic Data

2. Current Situation and Problems

3. Future Development

Overview

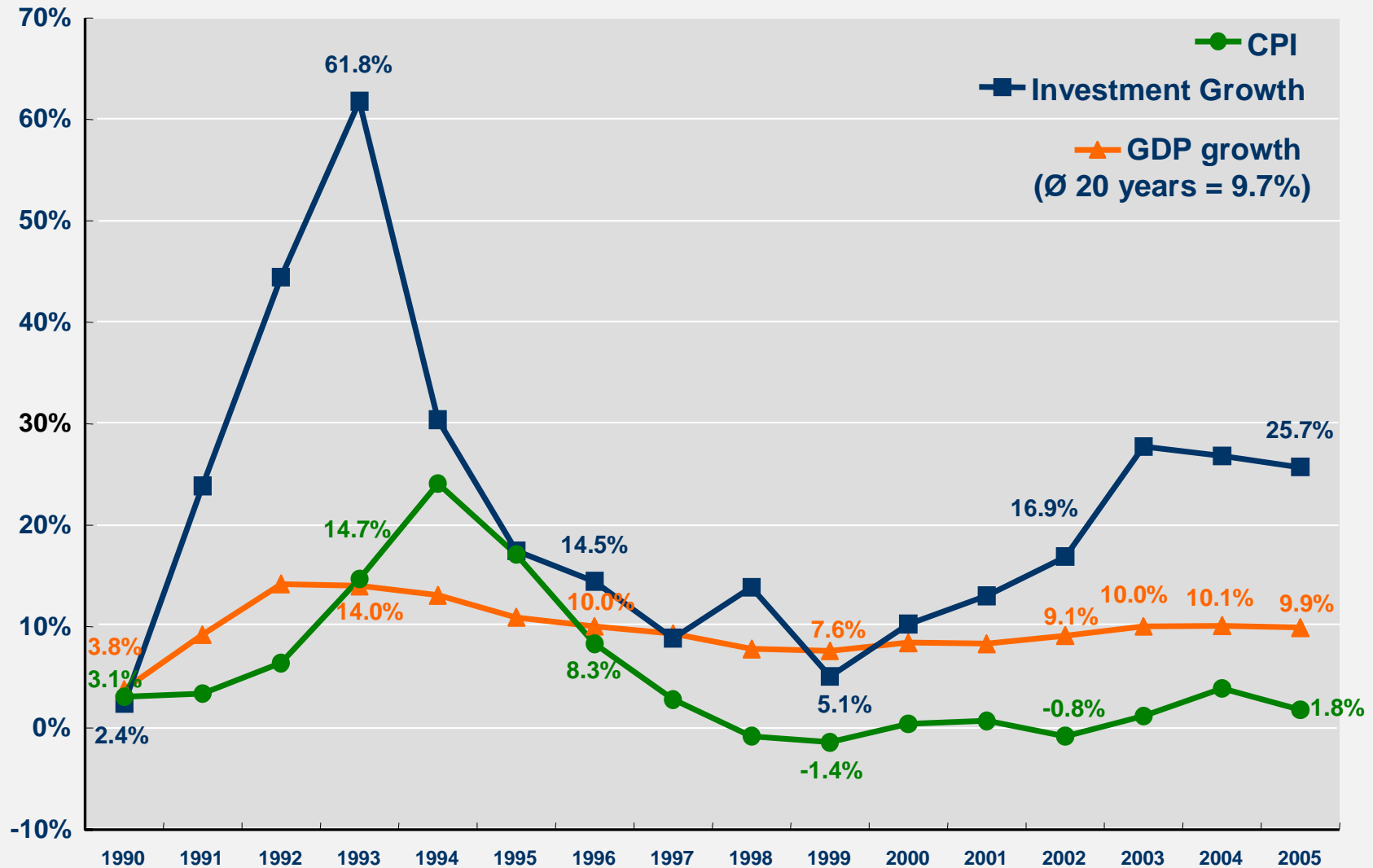
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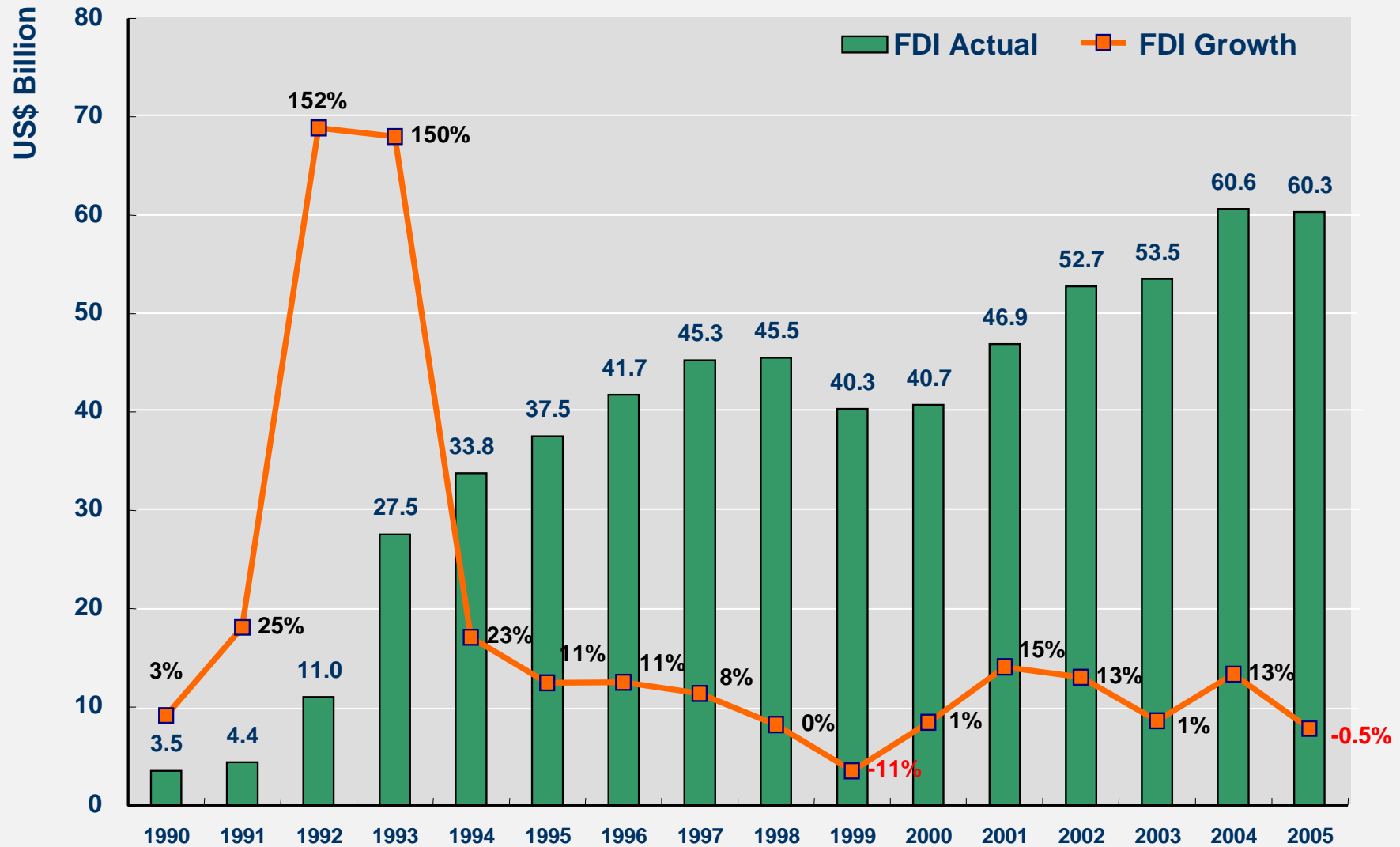
Key Economic Data

Macroeconomic Development



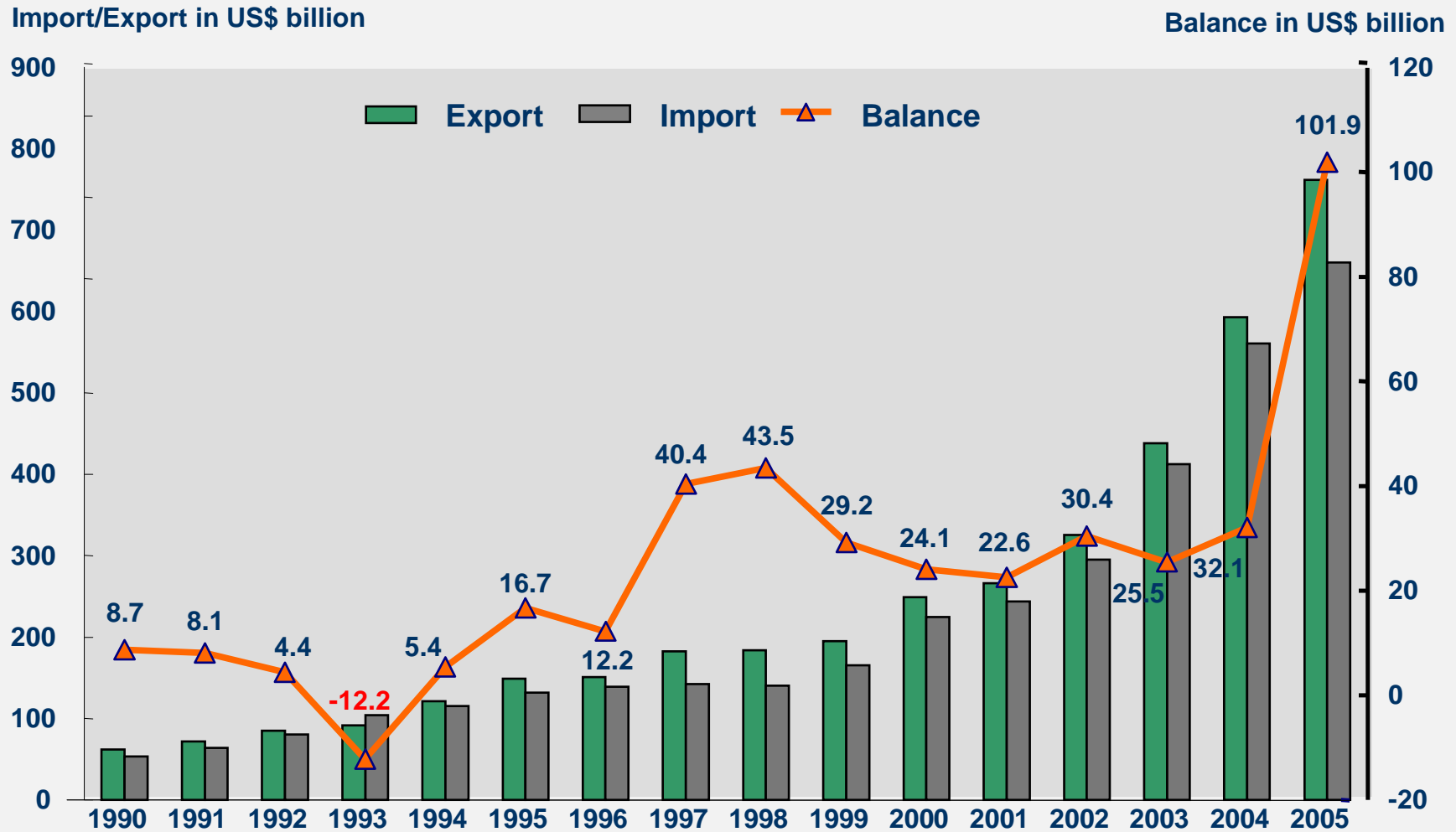
Key Economic Data

Foreign Direct Investment (FDI) Development



Key Data

Foreign Trade Development



Overview

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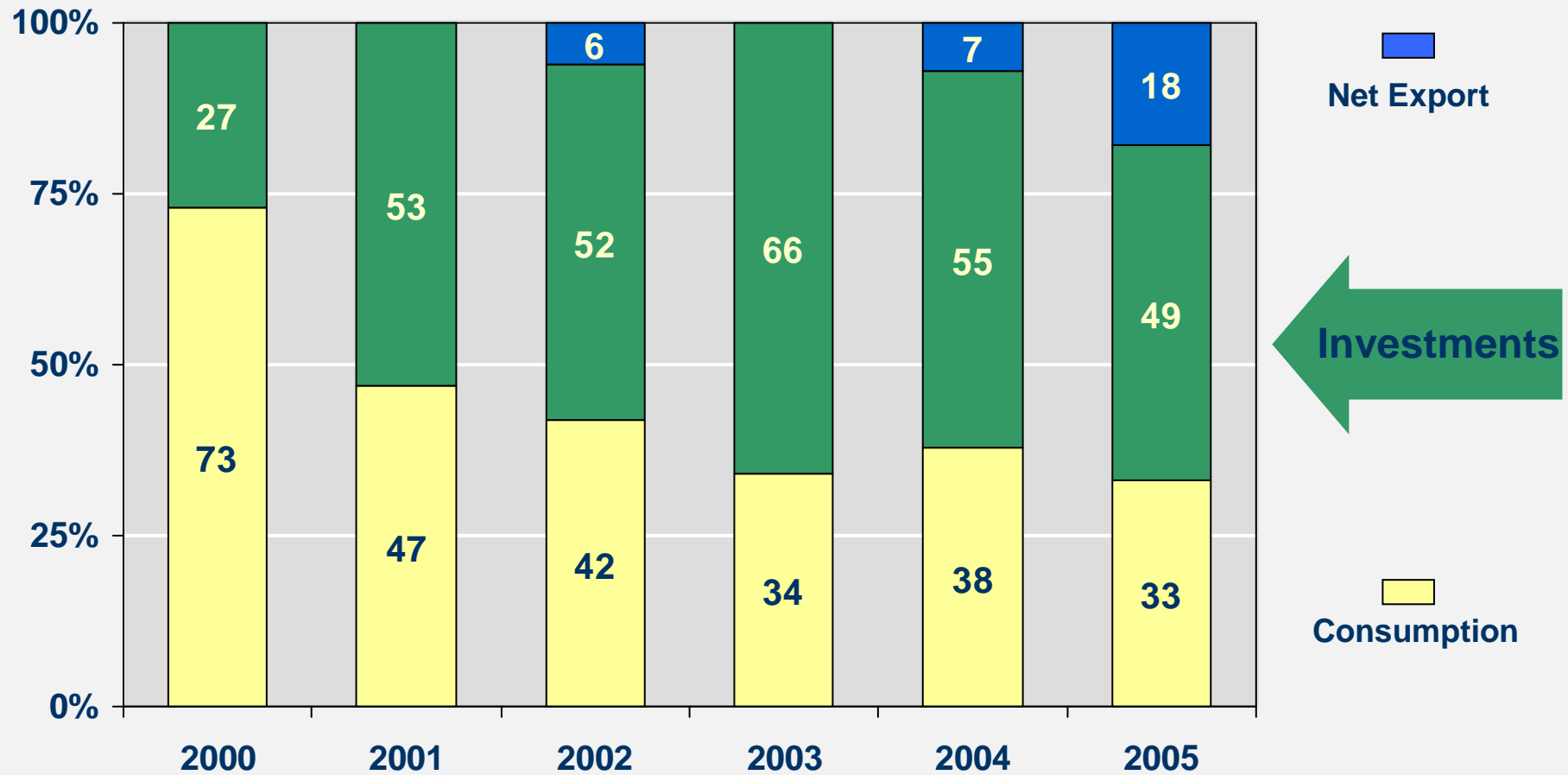
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Current Situation and Problems

Contribution to GDP Growth per year

- High growth rate boosted mainly by investments...

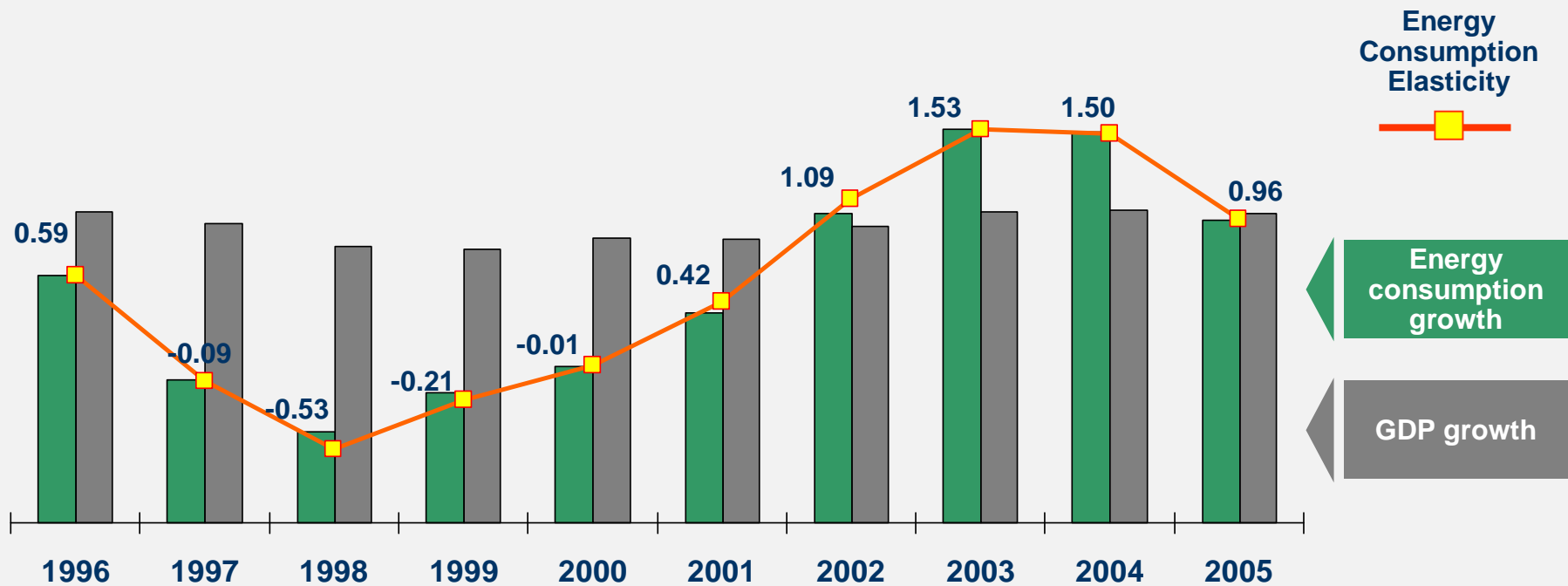


Current Situation and Problems

Energy Consumption Elasticity

■ ...and supported by massive input of resources

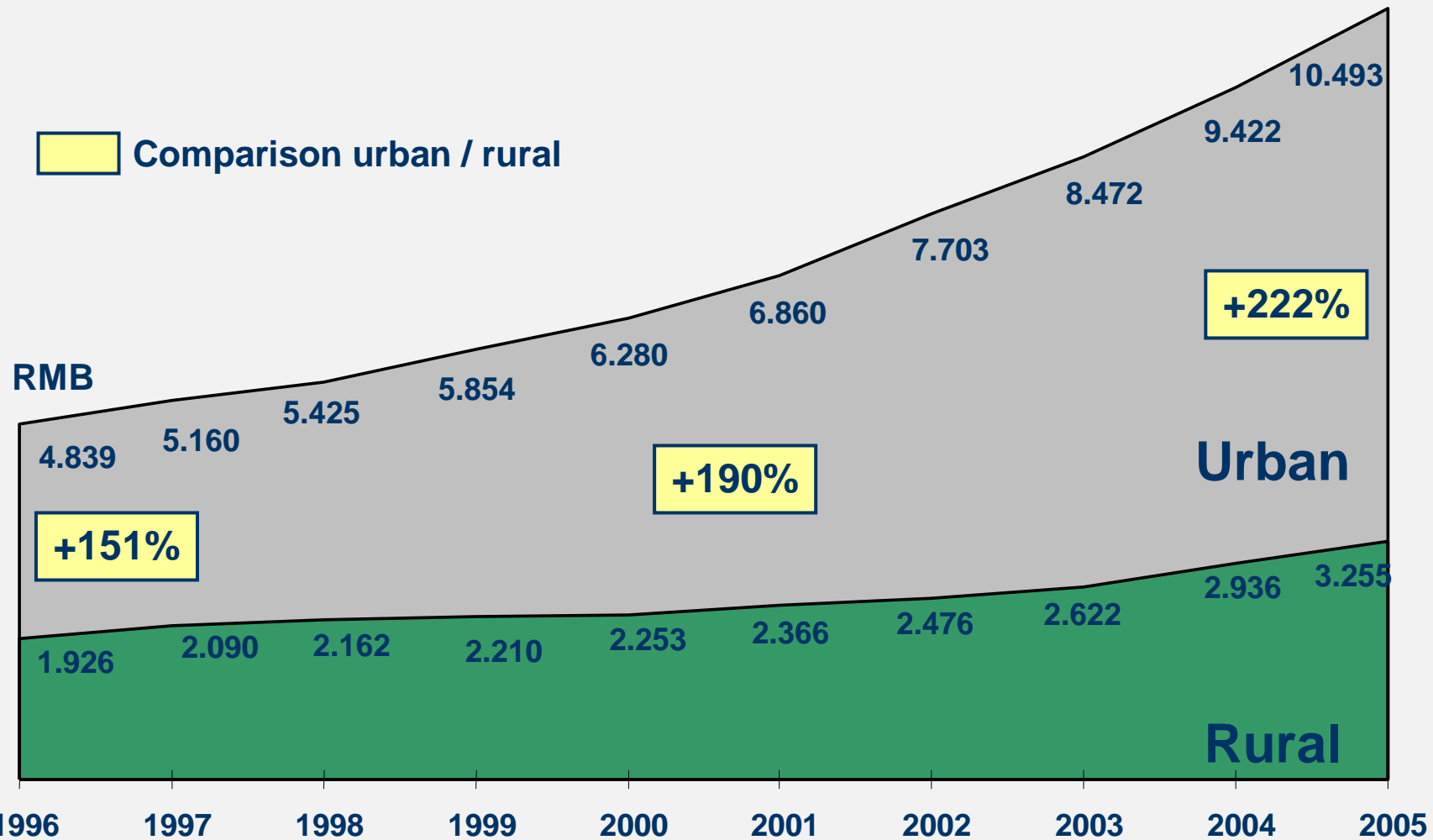
| 1980-2000 | 2001-2005 |
|--|---|
| Ø GDP growth: 9.8% | Ø GDP growth: 9.5% |
| Ø Energy consumption growth: 4.6% | Ø Energy consumption growth: 10.7% |
| Ø Elasticity: 0.47 | Ø Elasticity: 1.13 |



Current Situation and Problems

Urban/Rural Income Gap (per capita per year)

- The income gap between urban and rural areas has increased



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Future Development Guideline on Science & Technology (2006 – 2020)

“To build country of innovation” is the new national strategy

- Enhance competitiveness of China
- Adjust structure of economy and pattern of economic growth
- Develop from a BIG economy to a STRONG economy

Keywords

- Chinese-dominated innovation, leap in key scientific fields

Key targets

- Master a number of core technologies
- Proportion of R&D expenditure up to 2.5% of GDP (currently: 1.3%)
- Progress of Science & Technology to contribute over 60% to the country's development (currently: 39%)
- The country's reliance on foreign technology declines to 30% (currently: 60%)
- Rank among the World top 5 in the number of patents granted

Future Development

Supporting Policies and Measures

Government Fiscal Support

- Growth of financial input in S&T notably higher than growth of regular revenue income (2006 budget = YoY change of 19.2%)
- Ensure financial input in national key projects and key scientific programs

Tax Incentives

- Extend pretax deduction of enterprises' investment in self-dominated innovation
- Allow acceleration of depreciation on R&D facilities
- Improve tax policies in favor of high-tech enterprises

Financial Support

- Improve risk investment for start up companies
- Set up multi-level capital market system
- Improve insurance service
- Complete foreign exchange policy

Government Purchase

- Set up certificate system for self-dominated innovation products and create catalog accordingly for government purchase
- Revise the assessing methodology in favor of self-dominated innovation products
- Set up Government Buy-first and Order-by-Government mechanism

Future Development

National 11th Five Year Plan (2006-2010)



Keywords:

Quality and pattern of growth,
harmonization and sustainability

Principles:

- Stability of economic development while maintaining reasonable growth
- Efficiency of resource input and quality of growth
- Capability of Chinese-dominated innovation
- Harmonized development of urban and rural areas
- Harmonization between economy, society and environment
- Deeper reform and further opening-up

Future Development

National 11th Five Year Plan (2006-2010) – Key Goals

| Category | Key Goals | 2005 | 2010 | Annual rate % |
|------------------------------------|---|--------|--------|---------------|
| Economic growth | GDP (trillion RMB) | 18.2 | 26.1 | 7.5 |
| | Per Capita GDP (RMB) | 13,985 | 19,270 | 6.6 |
| Economic structure | Share of service industry's value added to GDP (%) | 40.3 | 43.3 | [3] |
| | Share of R&D expenditure of total GDP (%) | 1.3 | 2 | [0.7] |
| Population, Resources, Environment | Reduction of energy consumption per unit of GDP (%) | | | [20] |
| | Reduction of total discharge of major pollutants (%) | | | [10] |
| | Population (x billion persons) | 1.30 | 1.36 | <8% |
| | Reduction of water consumption per unit of industry add value (%) | | | [30] |
| Public service, People's life | Coverage of urban basic pension (x million person) | 174 | 223 | 5.1 |
| | Coverage of the new rural cooperative medical care system (%) | 23.5 | >80 | >[56.5] |
| | New jobs created for urban residents (x million person) | | | [45] |
| | Average length of education of citizens (Year) | 8.5 | 9 | [0.5] |

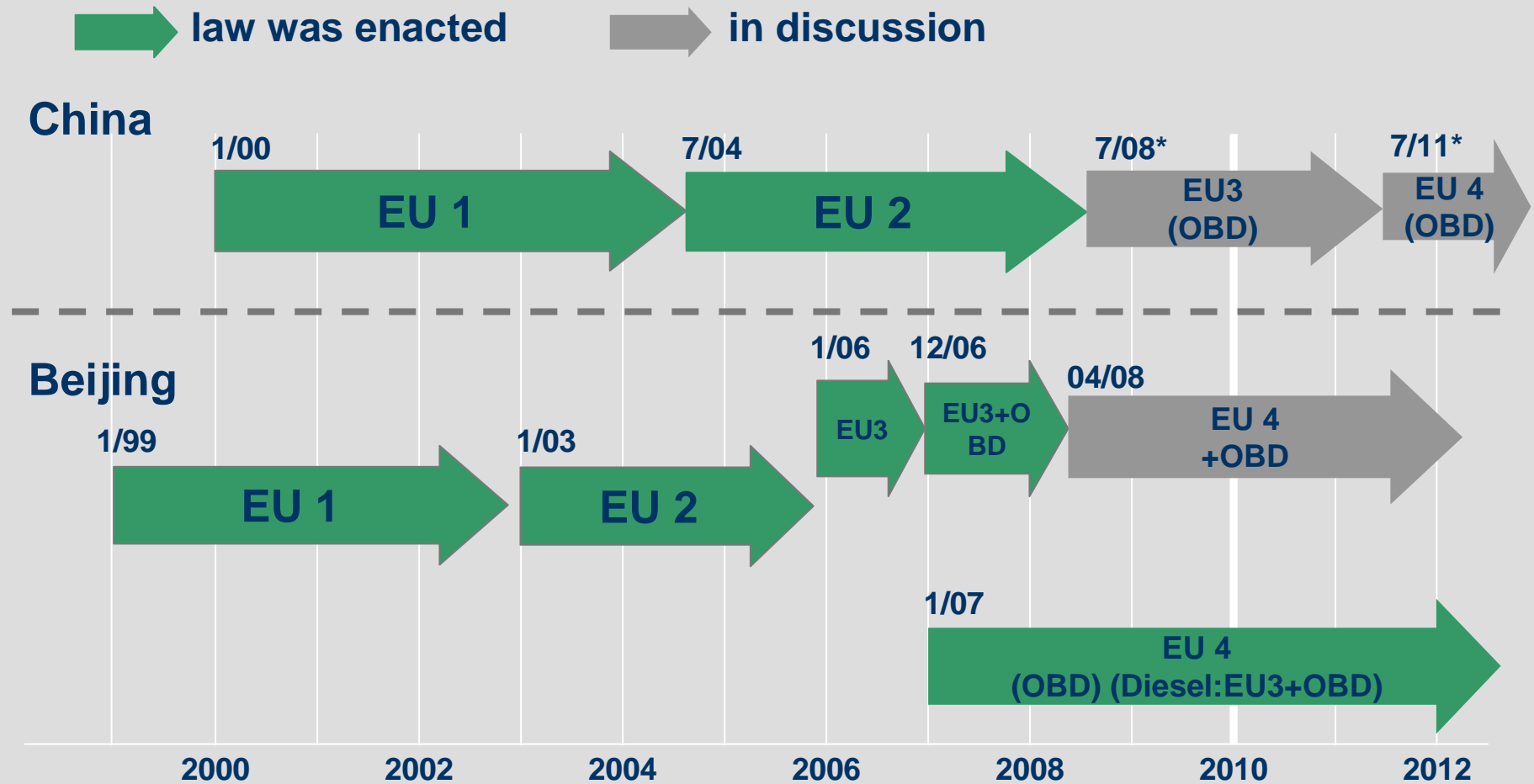
Expected Goals

Binding Goals

2006-2010 Forecast: ØGDP growth: 8.5%

[] Accumulated rate in 5 years

Future Development Chinese Emission Regulations for Passenger Cars



OBD = On Board Diagnostics

*New cars must apply for this standard one year earlier

Future Development

Economic Forecast* 2006-2010

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|-------------------------------|--------|--------|--------|--------|--------|
| Real GDP % | 9.0 | 8.4 | 8 | 8.7 | 8.9 |
| GDP per capita (RMB) | 15,323 | 16,859 | 18,426 | 20,430 | 22,738 |
| Real Consumption % | 7.1 | 6.8 | 7.2 | 7.4 | 7.3 |
| Export % | 20 | 16 | 13 | 21 | 18 |
| Import % | 17 | 15 | 13 | 19 | 16 |
| CPI % | 1.8 | 1.5 | 1.2 | 2.0 | 2.2 |
| FX rate RMB/ USD | 7.75 | 7.45 | 7.15 | 6.8 | 6.5 |
| FDI (USD bn) | 64.20 | 68.37 | 65.00 | 70.85 | 75.81 |
| Fixed Investment % nominal | 16.7 | 12 | 9 | 14 | 15 |
| Industrial Production % | 14.3 | 13 | 12.5 | 14.2 | 14.8 |

*Forecast by Banks

Future Development Trends in the Automotive Industry

- **Strong growth in the car market**
- **Faster growth of small cars**
- **Chinese brands increasing market share/ pressure on foreign companies**
- **R&D activities on alternative technologies and products**
- **Growth of vehicle exports**
- **Reorganization (merger and acquisition) within state owned enterprises**

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