Volkswagen Group China

Prof. Dr. Jochem Heizmann
Member of the Board of Management, Volkswagen Aktiengesellschaft
Volkswagen Investor Day, Frankfurt, 9 September 2013
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Agenda

- China’s economy and passenger car market
- Volkswagen Group in the Chinese passenger car market
- Outlook for the Volkswagen Group in China
Agenda

China’s economy and passenger car market

Volkswagen Group in the Chinese passenger car market

Outlook for the Volkswagen Group in China
China’s contribution to the world's GDP is expected to continue to grow.

Nominal GDP Contribution to global GDP [%]

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2015E</th>
<th>2020E</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>9%</td>
<td>14%</td>
<td>18%</td>
</tr>
<tr>
<td>Other</td>
<td>26%</td>
<td>22%</td>
<td>20%</td>
</tr>
<tr>
<td>RoW</td>
<td>23%</td>
<td>21%</td>
<td>18%</td>
</tr>
<tr>
<td>USA</td>
<td>42%</td>
<td>43%</td>
<td>43%</td>
</tr>
</tbody>
</table>

Source: IHS Global Insight
China’s growth rates are returning to normal

Real GDP Growth rate Y/Y

Source: Internal calculations based on IHS Global Insight
China’s share of the global vehicle market is expected to grow further

Share of worldwide passenger vehicle and light commercial truck sales

- **2010**: 77% (RoW: 23%)
- **2015E**: 73% (RoW: 27%)
- **2020E**: 71% (RoW: 29%)

Source: IHS Global Insight
Growth rate normalising: Volkswagen Group expects above average growth

<table>
<thead>
<tr>
<th></th>
<th>2007 – 2012</th>
<th>01 – 08/2013* vs. 01 – 08/2012</th>
<th>2013 – 2020E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total pass. car market</td>
<td>20.9 % p.a.</td>
<td>15.8 %</td>
<td>5 % – 7 % p.a.</td>
</tr>
<tr>
<td>China</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Volkswagen Group China</td>
<td>24.3 % p.a.</td>
<td>17.9 %</td>
<td>&gt; overall market</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Estimates based on IHS and internal calculations

* Based on preliminary August sales figures
Restrictive policies for new car sales in additional eight tier-1 and tier-2 cities

Existing quotas: Beijing 240k cars/year; Shanghai < 120k cars/year (not fixed); Guangzhou 120k cars/year
High GDP growth moving westwards

GDP growth 2012
- **12-15%**
- **10-12%**
- **7-10%**
### Low vehicle density in Level III and IV cities in China

<table>
<thead>
<tr>
<th>Level I cities</th>
<th>Level II cities</th>
<th>Level III cities</th>
<th>Level IV cities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing</td>
<td>Dalian</td>
<td>Shantou</td>
<td>Guyuan</td>
</tr>
<tr>
<td>Shanghai</td>
<td>Xi´an</td>
<td>Hengshui</td>
<td>Yaan</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>Changsha</td>
<td>Jingdezhen</td>
<td>Zhangyue</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of cities</td>
<td>8</td>
<td>47</td>
<td>167</td>
</tr>
<tr>
<td>Average # of inhabitants (m)</td>
<td>14.7</td>
<td>7.6</td>
<td>4.0</td>
</tr>
<tr>
<td>∅ cars/1,000 inhabitants</td>
<td>123</td>
<td>70</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>18</td>
</tr>
</tbody>
</table>
High rate of first time buyers across tiers

<table>
<thead>
<tr>
<th>Megacities</th>
<th>Lower tier regions</th>
</tr>
</thead>
<tbody>
<tr>
<td>First car purchase</td>
<td>First car purchase</td>
</tr>
<tr>
<td>52%</td>
<td>64%</td>
</tr>
<tr>
<td>48%</td>
<td>36%</td>
</tr>
</tbody>
</table>

Source: NCBS 2011; Definition „Megacity“: Tier 1, „Lower tier regions“: Tier 3 as reference
Legal requirements of average fuel consumption targets for fleets in China

I/100 km

- 7.5
- 6.9 l = 164g CO₂/km
- 120g CO₂/km = 4.8 l
- 95g CO₂/km = 3.8 l

Published data from the government

Assumptions of the Volkswagen Group
CO₂ parameters in EU and China

Fleet emission consumption targets

<table>
<thead>
<tr>
<th></th>
<th>EU 2020</th>
<th>China 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO₂ emission</td>
<td>95</td>
<td>119</td>
</tr>
<tr>
<td>[g CO₂/km]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumption</td>
<td>3.8l</td>
<td>5.0l</td>
</tr>
<tr>
<td>[l/100km]</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Fuel consumption targets in EU and China are a similar challenge due to …

- **Diesel proportion**
  - 2012 Europe: 55%
  - 2012 China: <1%

- **Certification**
  - Different test conditions

- **Fleet definition**
  - Targets for each individual fleet
Activities to address CO$_2$ challenges

**Drivetrain technologies**
- TSI®
- Downsizing
- DSG®
- Optimized automatic gearbox
- E-mobility

**Products**
- Weight reduction
- Optimized aerodynamics
- Reduction of electrical power consumption
- Start-Stop
Agenda

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Volkswagen Group in China: 30 years of success

1983

- 1 brand
- 1 model (Santana)
- 600 units

2013

- 12 brands
- > 80 passenger car models
- ≥ 3.0 million units expected
Volkswagen Group sales 2012 – selected countries in comparison
Deliveries to customers [million units]
Volkswagen Group China: clear market leader

Market share Volkswagen Group China Jan – Jul 2013 [passenger car market]

1. Volkswagen Group 20.7%
2. Competitor 1 10.3%
3. Competitor 2 10.1%
4. Competitor 3 5.4%
5. Competitor 4 5.1%

Market share Volkswagen Brand China Jan – Jul 2013 [passenger car market]

1. Volkswagen 15.7%
2. Competitor 1 6.5%
3. Competitor 2 5.4%
4. Competitor 3 5.1%
5. Competitor 4 4.8%

Note: China Mainland
Audi China: clear premium market leader

Market share Audi China
Jan – Jul 2013 [premium car market]

<table>
<thead>
<tr>
<th>Position</th>
<th>Competitor</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Audi</td>
<td>35.2%</td>
</tr>
<tr>
<td>2.</td>
<td>Competitor 1</td>
<td>26.4%</td>
</tr>
<tr>
<td>3.</td>
<td>Competitor 2</td>
<td>15.0%</td>
</tr>
<tr>
<td>4.</td>
<td>Competitor 3</td>
<td>5.2%</td>
</tr>
<tr>
<td>5.</td>
<td>Competitor 4</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

Note: China Mainland
Deliveries to customers by brand from January – August 2013*:
The overall sales performance is significantly better than 2012

* Volkswagen Group China figures including Porsche AG as from August 1st 2012
Deliveries to customers by local production and import from January – August 2013*

('000 units)

<table>
<thead>
<tr>
<th></th>
<th>2013 Jan-Aug</th>
<th>2012 Jan-Aug</th>
</tr>
</thead>
<tbody>
<tr>
<td>SVW</td>
<td>952</td>
<td>825</td>
</tr>
<tr>
<td>FAW-VW</td>
<td>962</td>
<td>808</td>
</tr>
<tr>
<td>Imports</td>
<td>136</td>
<td>112</td>
</tr>
</tbody>
</table>

* Volkswagen Group China import figures including Porsche AG as from August 1st 2012
More than 350 new dealerships in 2013

12/2012

2,052

other brands

2013E

> 2,400

> 350
Investments

New Plants

New Products

Sustainability

Volkswagen Group China Joint Venture investments 2013 – 2015: € 9.8 billion
Agenda

China’s economy and passenger car market

Volkswagen Group in the Chinese passenger car market

Outlook for the Volkswagen Group in China
Volkswagen Group China – Strategy 2018 and beyond

Volkswagen Group Vision

China’s most successful, innovative and sustainable automaker

Leading in customer satisfaction and quality

Top Employer

Volkswagen Group China profit before tax margin > 8 %

Volumes > 4 million units p.a.
Volkswagen Group China – Strategy 2018 and beyond

Volkswagen Group Vision

China’s most successful, innovative and sustainable automaker

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Leading in customer satisfaction and quality

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Investments also in our employees

- 2012: 75,000
- 2018: 100,000
- Increase: +25,000
High employer attractiveness of JV brands

- Winner of CRF’s China Top Employer 2007-2013

- Winner of CRF’s China’s Top Employer 2011-2013

- No. 1 in auto industry in China HR Best Employer for university graduates 2011-2012
Extension of R&D know-how in China

~ 2,500 engineers in R&D in China

Design
  Engine development
  Body development
  Electronics & battery development
  Prototype workshop
  Vehicle test facilities
  3D development environments
Volkswagen Group China – Strategy 2018 and beyond

**Volkswagen Group Vision**

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- Leading in customer satisfaction and quality
- Top Employer
- Volkswagen Group China profit before tax margin > 8%
- Volumes > 4 million units p.a.
## Awards for brands and products of Volkswagen Group China

<table>
<thead>
<tr>
<th>Brand</th>
<th>Award</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&quot;Culture Car of The Year&quot; 2013 - The Beetle</td>
<td>(Auto Motor und Sport)</td>
</tr>
<tr>
<td></td>
<td>The racing game app &quot;Sports Car Challenge&quot;</td>
<td>won the Best Marketing Innovation Award (Global Entrepreneur magazine)</td>
</tr>
<tr>
<td></td>
<td>Gold Cannes Lion Award for Brand Entertainment - PCP</td>
<td>(The Cannes Lions International Festival of Creativity)</td>
</tr>
<tr>
<td></td>
<td>The Best Cars 2013</td>
<td>6 brand awards and 4 model awards (Auto Motor and Sport China)</td>
</tr>
<tr>
<td></td>
<td>2012 Car of the Year: New Audi A6L</td>
<td>(CCTV)</td>
</tr>
<tr>
<td></td>
<td>Premium Passenger Car of the Year: New Audi A6L</td>
<td>(CCTV)</td>
</tr>
<tr>
<td></td>
<td>The Golden Steering Wheel Award 2012 - New Audi A6L</td>
<td>(Auto Bild China)</td>
</tr>
<tr>
<td></td>
<td>Category Champion: Superb of Below 250k (selling price)</td>
<td>2012 China Auto Customer Satisfaction Indicator (CACSI)</td>
</tr>
<tr>
<td></td>
<td>Top Sales and Service Satisfaction Index amongst Joint Venture</td>
<td>2012 China Auto Customer Satisfaction Indicator (CACSI)</td>
</tr>
<tr>
<td></td>
<td>Golden Service Award 2012</td>
<td>Excellent Service Award and Innovative Customer Care Award (Auto Driving &amp; Service, Sohu Auto)</td>
</tr>
</tbody>
</table>
Customer Satisfaction is our 1st priority
Volkswagen Group China – Strategy 2018 and beyond

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- Volumes > 4 million units p.a.
# 29 launches of Volkswagen Group China in 2013

<table>
<thead>
<tr>
<th>Launch of locally produced models</th>
<th>Launch of new imported models</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gran Lavida</td>
<td>Golf Cabrio GTI</td>
</tr>
<tr>
<td>New Jetta</td>
<td>Yeti</td>
</tr>
<tr>
<td>Tiguan</td>
<td>Superb Combi</td>
</tr>
<tr>
<td>CC</td>
<td>S6</td>
</tr>
<tr>
<td>Sagitar GLI</td>
<td>S7</td>
</tr>
<tr>
<td>Q3</td>
<td>A6 Hybrid</td>
</tr>
<tr>
<td>Q5</td>
<td>A8 Hybrid</td>
</tr>
<tr>
<td>Rapid</td>
<td>Ibiza 3d/5d/ST</td>
</tr>
<tr>
<td>Superb FL</td>
<td>Alhambra</td>
</tr>
<tr>
<td>Yeti LWB</td>
<td>911 Carrera 4/4S</td>
</tr>
<tr>
<td></td>
<td>Cayman</td>
</tr>
<tr>
<td></td>
<td>Panamera LWB</td>
</tr>
<tr>
<td></td>
<td>Panamera PHEV</td>
</tr>
<tr>
<td></td>
<td>GT/GTC Speed</td>
</tr>
<tr>
<td></td>
<td>Flying Spur</td>
</tr>
<tr>
<td></td>
<td>Aventador Roadster</td>
</tr>
<tr>
<td></td>
<td>Golf R Cabrio</td>
</tr>
<tr>
<td></td>
<td>R8 FL</td>
</tr>
<tr>
<td></td>
<td>RS5 Cabrio</td>
</tr>
</tbody>
</table>
Planned local product portfolio to exceed 30 models in 2015

<table>
<thead>
<tr>
<th></th>
<th>Locally produced</th>
<th>Imported</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Today</strong></td>
<td>21 models</td>
<td>62 models</td>
<td>83 models</td>
</tr>
<tr>
<td><strong>2015</strong></td>
<td>&gt; 30 models</td>
<td>&gt; 65 models</td>
<td>&gt; 95 models</td>
</tr>
</tbody>
</table>
ŠKODA benefits from multiplying its product portfolio

<table>
<thead>
<tr>
<th>Year</th>
<th>Models</th>
<th>Locally produced</th>
<th>Import</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007 – 2012</td>
<td>3 models</td>
<td>Fabia, Octavia,</td>
<td>Yeti, New Octavia Combi</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Superb</td>
<td>Superb Combi</td>
</tr>
<tr>
<td>2013 – 2014</td>
<td>9 models</td>
<td>Fabia, New Octavia, Superb FL</td>
<td>Yeti LWB, Rapid Spaceback, Rapid</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Locally produced</td>
<td>Import</td>
</tr>
</tbody>
</table>

2007 – 2012: 3 models

2013 – 2014: 9 models
Volkswagen intensifies its activities in the commercial vehicles sector - Improving transport efficiency
Planned capacity of 4 million vehicles by 2018

- **2012 Production**: 250 working days, 2.6 million units
- **Production +50 working days**: 3.1 million units
- **2018E Capacity**: 4 million units

Volkswagen AG
Volkswagen Group China: Go-South / Go-West Strategy

Vehicle production sites

Headquarters Volkswagen Group China
Important production site openings 2013

- Car plant
- Component plant

- Urumqi
- Chengdu
- Loutang
- Anting
- Ningbo
- Foshan
- Changchun
Important production site openings 2014 / 2015

- Changsha
- Tianjin

- Car plant
- Component plant
Think Blue.Factory. – Worldwide and in China
Volkswagen Group Vision

China’s most successful, innovative and sustainable automaker

- Leading in customer satisfaction and quality
- Top Employer
- Volkswagen Group China profit before tax margin > 8%
- Volumes > 4 million units p.a.

Volkswagen Group China – Strategy 2018 and beyond
Volkswagen Group China reported another strong operating result for the first half of 2013

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Deliveries to Customers</td>
<td>1,400</td>
<td>1,923</td>
<td>2,259</td>
<td>2,813</td>
<td>1,542</td>
<td>+ 19%</td>
</tr>
<tr>
<td>Production (100%)&lt;sup&gt;1)&lt;/sup&gt;</td>
<td>1,387</td>
<td>1,914</td>
<td>2,202</td>
<td>2,643</td>
<td>1,477</td>
<td>+ 18%</td>
</tr>
<tr>
<td>Operating profit (proportionate)</td>
<td>831</td>
<td>1,907</td>
<td>2,616</td>
<td>3,678</td>
<td>2,370</td>
<td>+ 33%</td>
</tr>
</tbody>
</table>

<sup>1</sup> SVW Group/FAW-VW Group
Use of modular toolkits (MQB – MLB) in China

Introduction to production sites has started

- Continuous rollout has been initiated
- Immediate impact with Golf, Audi A3 family and ŠKODA Octavia

Advantages

- Cost advantages
- Scale and synergy effects
- Transfer of new technologies
Growth potential: pre-owned car business

Rollout and implementation of the successful Volkswagen Group pre-owned car brand “Das WeltAuto” in the Chinese dealer network

Source: Chinese Automobile Dealers Association (CADA)
Growth potential: Financial Services

Financial Services penetration – total market*

<table>
<thead>
<tr>
<th>2012</th>
<th>2018E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Finance</td>
</tr>
<tr>
<td>85%</td>
<td>min. 30%</td>
</tr>
<tr>
<td>15%</td>
<td>max. 70%</td>
</tr>
</tbody>
</table>

cash buyer dominance

stronger finance demand expected

* Based on the total passenger car sales in the market China

Volkswagen Financial Services also aims to establish

- Mobility Packages
- Long-term Rental & Fleet Business
- Insurance Related & After Sales Services
Growth potential: After Sales

Vehicle population Volkswagen Group China

<table>
<thead>
<tr>
<th>Year</th>
<th>Million Vehicles</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>12</td>
</tr>
<tr>
<td>2017E</td>
<td>24</td>
</tr>
</tbody>
</table>

Sales revenue After Sales

<table>
<thead>
<tr>
<th>Year</th>
<th>% After Sales of Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td></td>
</tr>
<tr>
<td>2017E</td>
<td></td>
</tr>
</tbody>
</table>
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