Volkswagen Group China
Dr. Jörg Mull, Executive Vice President, Finance
HSBC Roadshow, Hongkong
December 09th, 2013
Content

Our Momentum in China

Outlook Market Development

Investments Volkswagen Group China

Driven by Design and Technology

Financial results, challenges and opportunities
Introduction of Volkswagen Group China (VGC)

Volkswagen production facilities in China

History


- 2004: Founding of Volkswagen Group China for coordination and management of activities of Volkswagen Group within China.

Total investments 1985-2013: € 18.5 Billion
Planned Investments 2014-2018: € 18.2 Billion
Employees 2012: 74,500
Successful partnership with FAW and SAIC

### FAW - VOLKSWAGEN

<table>
<thead>
<tr>
<th>Foundation</th>
<th>1991</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share</td>
<td>FAW 60%, VW AG 30%, AUDI AG 10%</td>
</tr>
<tr>
<td>Deliveries</td>
<td>1,319,000 units</td>
</tr>
</tbody>
</table>

#### Volkswagen

- **New Bora**
- **Sagitar**
- **Magotan**
- **Jetta**
- **CC**
- **Golf**
- **Audi A4L**
- **Audi A6L**
- **Audi Q3**
- **Audi Q5**

#### Škoda

- **Yeti**
- **Fabia**
- **Superb**
- **Octavia**
- **Rapid**

### SHANGHAI VOLKSWAGEN

<table>
<thead>
<tr>
<th>Foundation</th>
<th>1985</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share</td>
<td>SAIC Motor 50%, VW AG 50%</td>
</tr>
<tr>
<td>Deliveries</td>
<td>1,304,000 units</td>
</tr>
</tbody>
</table>

#### Volkswagen

- **Gran Lavida**
- **Santana**
- **Passat**
- **Tiguan**
- **Polo**
- **Touran**
- **Lavida**

#### Škoda

- **Yeti**
- **Fabia**
- **Superb**
- **Octavia**

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Deliveries of Volkswagen in China from January to October 2013

VW Group: 172

Import FBU ¹) ('000 Units)

Locally Produced ('000 Units)

FAW-VW 1,236

SVW 1,244

Σ 2,480

Total Deliveries Region China 2,652

¹) incl. Hongkong; Source: Volkswagen Group China
Deliveries to customers by brand from January – October 2013*

The overall sales performance is significantly better than 2012!

* figures including Porsche AG as from 1 August 2012
Volkswagen Group leading both Passenger and Premium Vehicle Market*

**China Passenger Vehicle Market**

- **Volkswagen Group**: 21%
- **Comp.1**: 10%
- **Comp.2**: 10%
- **Comp.3**: 6%
- **Comp.4**: 5%
- **Others (i.e. local brands)**: 30%

<table>
<thead>
<tr>
<th>Rank</th>
<th>Brand/Group</th>
<th>Changes of market share (YTD)**</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Volkswagen Group</td>
<td>- 0.2%</td>
</tr>
<tr>
<td>2</td>
<td>Competitor 1</td>
<td>- 0.4%</td>
</tr>
<tr>
<td>3</td>
<td>Competitor 2</td>
<td>+ 0.5%</td>
</tr>
<tr>
<td>4</td>
<td>Competitor 3</td>
<td>- 0.3%</td>
</tr>
<tr>
<td>5</td>
<td>Competitor 4</td>
<td>- 0.5%</td>
</tr>
</tbody>
</table>

**China Premium Vehicle Market**

- **Audi**: 35%
- **Comp.1**: 26%
- **Comp.2**: 15%
- **Comp.3**: 5%
- **Comp.4**: 13%

<table>
<thead>
<tr>
<th>Rank</th>
<th>Brand/Group</th>
<th>Changes of market share (YTD)**</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Audi</td>
<td>+ 1.0%</td>
</tr>
<tr>
<td>2</td>
<td>Competitor 1</td>
<td>+ 0.8%</td>
</tr>
<tr>
<td>3</td>
<td>Competitor 2</td>
<td>- 1.1%</td>
</tr>
<tr>
<td>4</td>
<td>Competitor 3</td>
<td>- 0.1%</td>
</tr>
<tr>
<td>5</td>
<td>Competitor 4</td>
<td>- 1.4%</td>
</tr>
</tbody>
</table>

* China Mainland Market Share Jan.-Oct. 2013; Figures for the Group including Porsche AG as from 1 August 2012
** Compared to last Year YTD
Content

- Our Momentum in China
- Outlook Market Development
- Investments Volkswagen Group China
- Driven by Design and Technology
- Financial results, challenges and opportunities
Q3 2013 GDP reached 7.8% growth year on year, and the economy is now on a path of stable growth.
After a strong boom in the past years, passenger car market growth in China is stabilizing and will develop further in the future.

Total Passenger Car Market – China (incl. HK) (’000 Units)

* Estimate
Data Source: Volkswagen Group China / IHS Global Insight
Current 5-year-plan: New growth model with focus on domestic market

Past:
Focus on export and quantitative growth

Now:
Focus on domestic market and qualitative growth

- Multi-National-Companies and infrastructure projects as growth generator
- Big growth in manufacturing trade
- Jobs in cities to keep unemployment low
- Internationally comparable price stability and well-adjusted foreign trade balance

- Domestic consumption as growth accelerator
- Megacities as growth generator
- Focus on environmental protection and energy efficiency
- Encouragement of Chinese innovations
- Social stability due to balanced allocation of prosperity
- Selective policies for foreign investment as well as globalization of Chinese companies
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>Ø cars/1,000 inhabitants</td>
<td>123</td>
<td>70</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td></td>
<td>167</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td></td>
<td>74</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2.3</td>
<td></td>
</tr>
</tbody>
</table>
GDP Growth development is expected to differentiate more strongly between the various Chinese regions

Data Source: Provincial Government Report / Regional Government Media
Content

Our Momentum in China

Outlook Market Development

Investments Volkswagen Group China

Driven by Design and Technology

Financial results, challenges and opportunities
Go West and Go South Strategy for further growth

- **Go West Strategy**
  - Urumqi
  - Chengdu

- **Go South Strategy**
  - Shanghai
  - Nanjing
  - Yizheng
  - Foshan
  - Changsha

- **Existing vehicle production site**
- **Planned vehicle production site**
Capacity expansion plans – on the way to 4 million units in 2018
Standard capacity of 250 working days

Capacity expansion plans are based on certain assumptions for the development of unit sales growth, upward flexibility (e.g. additional working days) and downward flexibility (e.g. postponement of expansion steps) are given.
Implementation of MQB* toolkit in Chinese production network

MQB provides substantial efficiency gains
- Reduction of unit costs
- Lower one-off expenditure
- Less engineered hours per vehicle
- Significant weight and emission reduction

Toolkit affords
- Flexibility in length, height, width
- Significant economies of scale
- Opportunity for low volume niche models
- Alternative powertrain concepts

*MQB: Modularer Querbaukasten / modular transversal toolkit

Start: 2013
Further strengthening of partnerships with SAIC and FAW

- Signing ceremony **May 26th, 2013** in Berlin
- Confirmed engagement in **Changsha**

- Signing ceremony **May 26th, 2013** in Berlin
- Capacity expansion in **Foshan**
Volkswagen Group China: Planned product portfolio in 2015 with more than 90 models

Note: number of product models
Significant growth of dealer networks planned*

* Map includes only Volkswagen, Audi and Škoda dealers; discrepancies may occur due to reporting backlog
# Volkswagen China – Product solutions to match our customer’s needs

## China special detail solutions

<table>
<thead>
<tr>
<th>Passat USA</th>
<th>Passat China</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="Passat USA" /></td>
<td><img src="image" alt="Passat China" /></td>
</tr>
</tbody>
</table>

## China specific wheelbase extensions + trim

<table>
<thead>
<tr>
<th>Passat Europe</th>
<th>Tiguan Europe</th>
<th>Magotan China</th>
<th>Tiguan China</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="Passat Europe" /></td>
<td><img src="image" alt="Tiguan Europe" /></td>
<td><img src="image" alt="Magotan China" /></td>
<td><img src="image" alt="Tiguan China" /></td>
</tr>
</tbody>
</table>

## China specific colors

- Hunting Brown
- Sandstone
Volkswagen China – Product solutions to match our customer’s needs

<table>
<thead>
<tr>
<th>New Lavida</th>
<th>New Jetta</th>
<th>New Santana</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image1.jpg" alt="New Lavida" /></td>
<td><img src="image2.jpg" alt="New Jetta" /></td>
<td><img src="image3.jpg" alt="New Santana" /></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Gran Lavida</th>
<th>New Bora</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image4.jpg" alt="Gran Lavida" /></td>
<td><img src="image5.jpg" alt="New Bora" /></td>
</tr>
</tbody>
</table>
Latest drivetrain and vehicle technologies of the Volkswagen Group for China

**Drivetrain technologies**

- TSI®
- Downsizing
- DSG®
- Optimized Automatic-Gearbox
- E-Mobility

**Vehicle Technologies**

- Weight Reduction
- Optimized Aerodynamics
- Reduced electric power consumption
- Start-Stop
Environmental Friendly Standard Factories

Example FAW-VW Foshan

- **Light Domes** – improving lighting and saving electrical energy
- **Insulation of buildings** for saving heating and cooling energy
- **Advanced water treatment process** – savings of 27% of fresh water demand through completed re-use of treated water

New Paint Shops - Savings through e.g. E-Scrub Process

- **Water** -23%
- **VOC*** -65%
- **Energy** -22%
- **CO2** -18%

* Volatile organic compounds

First Chinese automotive plant with triple star Green Building Award
Content

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Financial results, challenges and opportunities
Volkswagen Group China reported another strong operating result for the first half of 2013

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Q1-Q3 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deliveries to Customers ('000 Units)</td>
<td>1,400</td>
<td>1,923</td>
<td>2,259</td>
<td>2,813</td>
<td>2,360</td>
</tr>
<tr>
<td>Production (100%)(^1) ('000 Units)</td>
<td>1,387</td>
<td>1,914</td>
<td>2,202</td>
<td>2,643</td>
<td>2,296</td>
</tr>
<tr>
<td>Operating profit (quotal) (€ m)</td>
<td>831</td>
<td>1,907</td>
<td>2,616</td>
<td>3,678</td>
<td>3,530</td>
</tr>
</tbody>
</table>

1) SVW Group/FAW-VW Group
Challenges in a regulatory environment

Risk of restrictive policies for new car sales in developed Eastern Megacities

According to CAAM*, there are 8 more cities which will implement restriction policies; Hangzhou, Tianjin, Shijiazhuang and Wuhan have already issued a draft to the public.

Shanghai  
Beijing  
Guangzhou

<table>
<thead>
<tr>
<th>City</th>
<th>Quota (2013)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>240k cars/year</td>
</tr>
<tr>
<td></td>
<td>&lt; 120k cars/year (not fixed)</td>
</tr>
<tr>
<td></td>
<td>120k cars/year</td>
</tr>
</tbody>
</table>

Demanding requirements for fleet consumption

Details for Phase IV still under review

* China Association of Automobile Manufacturers
Volkswagen Group China has relevant strategies in place

Future growth prospects also coming from less developed regions and Tier 2-3 cities

Different measures in place to realize the ambitious fleet consumption targets

- Engine and transmission technology:
  - Recuperation
  - Start-Stop
  - Optimal ATM

- Vehicle measures:
  - Weight reduction
  - Aerodynamic optimization
  - Reduction of electric consumption

- E-Traction:
  - Hybrid EVs
  - BEVs
  - Plug-in hybrid EVs

Production and Dealer network extension will support growth in Western and Southern provinces

New technologies and products will help to achieve targets
Additional business opportunities

Growing Chinese used car market

Total Used Car Market forecast¹)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Units</td>
<td>2.4</td>
<td></td>
<td></td>
<td></td>
<td>20.0</td>
</tr>
</tbody>
</table>

+30% p.a.

¹) Source: China Automotive Dealer Association

Financial Services expects increase in retail finance share²)

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share</td>
<td>20%</td>
<td>min. 30%</td>
</tr>
<tr>
<td>Cash buyer dominance</td>
<td>80%</td>
<td>max. 70%</td>
</tr>
</tbody>
</table>

²) Based on the total passenger car sales in the market China

Roll out and implementation of the successful Volkswagen Group used car brand “Das WeltAuto” in the Chinese dealer network

Volkswagen Financial Services also aims to establish
- Mobility packages
- Long Term Rental & Fleet Business
- Insurance Related & After Sales Services
Volkswagen Group China is well positioned to maintain its number one position in the market and seize additional opportunities in the future.
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