Volkswagen Passenger Cars Corporate Strategy:

Benefitting from transformation – Moving resolutely and vigorously to the top of the new automotive industry

Wolfsburg, 22.11.2016
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Volkswagen Passenger Cars – Strategy TRANSFORM 2025+

1. Initial situation
2. Strategy components
3. Implementation
Four radical trends set the framework for the Volkswagen strategy TRANSFORM 2025+

<table>
<thead>
<tr>
<th>Connectivity</th>
<th>Autonomous Driving</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 600 million</td>
<td>&gt; 90 minutes</td>
</tr>
<tr>
<td>Number of fully connected vehicles worldwide in 2025</td>
<td>Average time spent by drivers in their cars each day in Europe and the USA</td>
</tr>
</tbody>
</table>

**Connectivity**
- The car becomes the most important internet exchange point
- The manufacturer is in direct contact with its customers

**Autonomous Driving**
- The car performs even more tasks for the driver

**Electrification**
- Electric mobility is experiencing a breakthrough

**Shared Mobility**
- The car is put to better use

**Shared Mobility**
- Proportion of usage-based automobility in urban areas in 2025

**Electrification**
- < 90g CO₂/km
- Global environmental standards expected to be intensified drastically after 2020

**Shared Mobility**
- > 10%
- Proportion of usage-based automobility in urban areas in 2025
Volkswagen passenger cars has significant potential for improvement

- No recipe for success for US automobile market
- Eroding market shares in price-sensitive markets of Brazil, India and ASEAN
- Inconsistent brand image in the regions
- High increase in fixed costs
- Growing productivity gap compared to competitors
- High product complexity (similar to premium segment) is weakening ability to compete in volume segment
- Product portfolio is lagging behind international trends and requirements of local customers
- High level of vertical integration / need for investment in fields without differentiation from competitors
- Centralised, functional and hierarchical organisation
- Insufficient generation of returns/cash
Volkswagen has important qualities that enable it to take the lead in the volume segment

- Globally **acknowledged and established brand** and **strong customer loyalty**
- **High-quality portfolio — cars with character**
  - Golf, GTI, Tiguan, Passat, Jetta and Magotan
- **Global presence** and scalable platforms:
  - Volkswagen Group backbone
- **Unsurpassed market leadership** in China, market leadership in Europe, and corresponding **better price position of products**
- Committed, highly qualified **workforce** that **identifies with the brand**
- **Quality orientation**, an eye for detail, and superb technical expertise
High additional costs increase urgency and need for action

The sudden tightening of **emissions standards** worldwide and even stricter fleet consumption targets are increasing the technical work involved.

The transformation of the automotive industry requires new abilities and high **investment**.

Investment in products and the market is needed to win back shares in the BRIC markets.

The diesel crisis has resulted in a **strong loss of trust in the brand**.
Volkswagen Passenger Cars – Strategy TRANSFORM 2025+

1. Initial situation
2. Strategy components
3. Implementation
Strategic realignment of brand will take place in three phases

1. **Radical restructuring**
   - Restructuring
   - Development of expertise
   - Acceleration
   - SUV offensive

   - 2015: Diesel crisis 2% RoS*

2. **Leap to the top of electric mobility**
   - MEB offensive
   - Extension of earnings base
   - Growth
   - Excellence

   - 2020: Leading and profitable volume manufacturer 4% RoS**

3. **Major transformation**
   - New business models
   - Mobility solutions worldwide

   - 2025: Global leader in e-mobility 6% RoS**

   - 2030: Global leader in auto-mobility >6% RoS**

*1 before special items  
**1 Operating return based on adjusted sales revenue (without turnover from multi brand sales companies)
We have defined central fields of action for each phase

### Radical restructuring

1. Assert a global brand position – Top of Volume
2. SUV as launch pad for emotionalization and earnings power
3. Basis for market leadership in electric mobility
4. Create basis for market leadership in connectivity
5. Europe/China: secure market leadership
6. Turnaround NAR
7. Successful in economy regions/markets (SAM, RUS, IND)
8. Direct customer relationship, new sales and distribution concept
9. Implement „Future Pact“
10. Redirect resources
11. Decentralize organisation and make it more agile
12. Concentrate on value creation in all business areas
13. New corporate culture, anchor entrepreneurial thinking

**2015**
- Diesel crisis
- 2% RoS*

**2020**
- Leading and profitable volume manufacturer
- 4% RoS**

**2025**
- Global leader in e-mobility
- 6% RoS**

**2030**
- Global leader in auto-mobility
- >6% RoS**

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### Leap to the top of electric mobility

- **first choice for the aspiring middle class**
  - Leader in transformation of the car industry
  - Secure earnings from classic product portfolio
  - First manufacturer with 1 million electric vehicles
  - Cost leadership in electric mobility
  - Leading digital ecosystem in the automotive sector
  - Establish basis for autonomous mobility and future business models
  - Profitable in NAR
  - Growth and profitability in economy segment
  - Operational excellence throughout the entire value chain

- **Global leader in e-mobility 6% RoS**

### Major transformation

- **Global leader in auto-mobility >6% RoS**
  - Leading digital ecosystem in the mobility sector
  - Business model for
    - Autonomous driving
    - Profitable coverage of new fields of mobility
    - Emission-free driving
    - Global and tailored vehicle portfolio

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1. Diesel crisis 2015
2. Leading and profitable volume manufacturer 2020
3. Global leader in e-mobility 2025
4. Global leader in auto-mobility 2030

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** Operating return based on adjusted sales revenue (without turnover from multi brand sales companies)
Goal: Volkswagen becomes the strongest brand in the volume segment

Top of Volume means:

- Leadership in volume segment in key world markets
- Products that set the standard in the volume segment concerning innovation, quality and retention of value
Brand image in critical markets will be improved step by step and brought in line with Europe.

**Brand positioning**

Top of Volume

**Brand image in critical markets will be improved step by step and brought in line with Europe**

**Transfer price**

- Premium
- Volume

**Brand image**

Weak | Strong
--- | ---
Brazil | China | Europe
USA | EU

**Measures for a globally consistent brand positioning**

- SUV and BEV offensive
- Customer-relevant innovation
- Price positioning depending on brand strength and purchasing power in the target group of the aspiring middle class
- Strengthen brand image by means of uniform brand leadership across the world
New brand positioning is built on a likeable image and focus on trend-setting topics.
A radically changed product plan focuses resources on the strategic goals

**Radical restructuring**

- Assert a global brand position – Top of Volume
- **SUV as launch pad for emotionalisation and earnings power**
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**Leap to the top of electric mobility**

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**Major transformation**

- Leading digital ecosystem in the mobility sector
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- **Global and tailored vehicle portfolio**

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** Operating return based on adjusted sales revenue (without turnover from multi brand sales companies)
Realignment of product strategy oriented towards the three phases of the Transform 2025+ corporate strategy

1. Radical restructuring
   - SUV campaign
   - Conventional product portfolio
   - Toolkit strategy
   - Powertrain strategy

2. Leap to the top of electric mobility
   - 1st MEB wave
   - 2nd MEB wave

3. Major transformation
   - New mobility

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The SUV offensive has a global impact: Investment channeled into high earnings and high growth segments
Reducing complexity leads to lower expenditure, frees up resources and increases productivity

<table>
<thead>
<tr>
<th>Business field</th>
<th>Reduced number of variants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sucessors / new vehicles</td>
<td>-30 to -60%</td>
</tr>
<tr>
<td>Platforms</td>
<td>-40%</td>
</tr>
<tr>
<td>Drive trains</td>
<td>-30 to -40%</td>
</tr>
</tbody>
</table>

>15,000 fewer component variants

>€700 Mn lower initial investment
The number of platforms will be reduced consistently to create economies of scale worldwide

- **Currently**: 13 PQx
- **MQB Incl. global MQB**
- **MEB**

### Timeline
- **2012**
- **2019**
- **2026**
- **2030**

### New toolkit (MEB)
- MEB enables cost and concept leadership for electric vehicles

### Conventional toolkit (MQB)
- Using MQB for second product life cycle minimises the expenditure necessary for the transformation (no further changes to platform basis necessary)

### Old platforms (PQx)
- Avoiding expenses for maintaining and upgrading vehicles by discontinuing eleven PQ platforms (except the two PQ12x platforms)
The I.D. begins a new era for Volkswagen Design
The purely electric vehicle architecture allows for new proportions and a significantly larger interior.
Volkswagen will make electric vehicles affordable and profitable

**Key measures**

- Concept determined by: customer benefit and package for cost-optimized implementation of e-components
- MEB: economies of scale from use of MEB across entire Group
- “Design for manufacturing”: higher productivity, shorter manufacturing time
- Lower material and distribution costs
- Significant reduction in variants
- Early involvement of suppliers
Direct customer contact and services from the Volkswagen cloud set Volkswagen apart in the volume segment

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Leap to the top of electric mobility

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Major transformation

1. Leading digital ecosystem in the mobility sector
   - Business model for
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Volkswagen passenger cars is planning an industry-leading ecosystem.
Volkswagen passenger cars earning strength will be significantly improved by aggressive regional programs.

### Radical restructuring
1. **Turnaround NAR**
   - Direct customer relationship, new sales and distribution concept
   - Implement „Future Pact“
   - Reroute resources
   - Decentralize organisation and make it more agile
   - Concentrate on value creation in all business areas
   - New corporate culture, anchor entrepreneurial thinking

2. **Successful in economy regions /markets (SAM, RUS, IND)**
   - First Choice for the aspiring middle class
   - Leader in transformation of the car industry
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   - First manufacturer with 1 million electric vehicles
   - Cost leadership in electric mobility
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3. **Profitable in NAR**
   - Operational excellence throughout the entire value chain

### Leap to the top of electric mobility
4. **Leading and profitable volume manufacturer**
   - Diesel crisis 2% RoS*
   - 2015
   - 2020
   - Leading and profitable volume manufacturer
   - 4% RoS**

5. **Global leader in e-mobility**
   - 2025
   - Global leader in e-mobility
   - 6% RoS**

### Major transformation
6. **Leading digital ecosystem in the mobility sector**
   - 2030
   - Global leader in auto-mobility
   - >6% RoS**

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Volkswagen passenger cars is planning a strong comeback in the USA

Focus on US Core Segments

Key measures

- Extend SUV offering, focus on US core segments (SUVs, sedans)
- Market-oriented pricing
- Market-oriented alignment to local standards and customer expectations
- Reduce material, product and fixed costs
- “Electrify America”: infrastructure and locally produced cars from 2021
A product offensive will initiate a new growth phase in South America

<table>
<thead>
<tr>
<th>Product offensive in South America</th>
<th>Key measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Polo Global</td>
<td>• reduce capacities and fixed costs</td>
</tr>
<tr>
<td>Polo Sedan Global</td>
<td>• Increase productivity, align products to local requirements</td>
</tr>
<tr>
<td>Small SUV Global</td>
<td>• Product offensive, €2.5 bn investment</td>
</tr>
<tr>
<td></td>
<td>• New brand positioning</td>
</tr>
<tr>
<td></td>
<td>• New growth strategy for Latin America</td>
</tr>
</tbody>
</table>
The “Future Pact” is an important building block for the radical realignment of the brand

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*Implement „Future Pact“*

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What the “Future Pact” will achieve

1. Restore the financial competitiveness of the Volkswagen brand

2. Shift value creation to future-orientated areas and jobs
Increase in competitiveness and safeguarding of the future are the focus points of the agreement.

<table>
<thead>
<tr>
<th>Competitiveness</th>
<th>Secure the Future</th>
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<tbody>
<tr>
<td><strong>WG 1 Production</strong></td>
<td>• Increase of productivity by 25%</td>
</tr>
<tr>
<td></td>
<td>• Reduction of plant costs</td>
</tr>
<tr>
<td><strong>WG 2 Components</strong></td>
<td>• Increase of productivity by 25%</td>
</tr>
<tr>
<td></td>
<td>• Discontinuation of unprofitable products</td>
</tr>
<tr>
<td><strong>WG 3 Technical Development</strong></td>
<td>• Reduction of hardware-oriented development work</td>
</tr>
<tr>
<td></td>
<td>• Increased efficiency in development processes</td>
</tr>
<tr>
<td><strong>WG 4 Administration</strong></td>
<td>• Reduction of bureaucracy</td>
</tr>
<tr>
<td><strong>WG 3 Technical Development</strong></td>
<td>• Competency/capacity increase in autonomous driving, electrification, connectivity etc.</td>
</tr>
<tr>
<td><strong>WG 4 Administration</strong></td>
<td>• Creation of employment in new business segments</td>
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Reduction in workforce based on demographic curve
New leadership culture and more agile organizational forms speed up decisions, processes and implementation.

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Volkswagen
Product line organisation and regionalisation are making us faster and more entrepreneurial.

**Product line organisation**

- **G1 – Small**
- **G2 – Compact**
- **G3 – Mid- & Fullsize**
- **G4 – e-Mobility**

**Regionalisation**

- **NAR**
  - Head NAR
  - Regions: F, V, E, B, P, S, GS
- **SAM**
  - Head SAM
  - Regions: F, V, E, B, P, S, CEO VWA
- **CHN**
  - Head CHN
  - Regions: F, V, E, G4, G1-3, Project EBO*

New organisation model implemented in all product lines.

New organisation model implemented for the regions.

* EBO = Budget Car Organisation
Our new mission statement

We are putting the future into series production – as the global leader for e-mobility.

We drive our customers and society forwards – with innovation.

We use our strengths – to shape the transformation together.
12 KPIs measure the achievement of the strategy in four targets

**Enthusiastic customers**
- Best-in-class recommendation from enthusiastic customers
- Top quality for the customer
- Direct customer contact in a digital environment

**A strong team that gets things moving**
- Vibrant corporate culture and dedicated employees
- Employer of choice for top talents
- Great diversity and expertise in our team

**Secure earnings power**
- Secure operating return
- Secure return on investment
- Ensuring financial viability

**Sustainable mobility**
- Global market leader in electric mobility
- Integrity as a guiding principle
- Reducing our carbon footprint
### We are successful in North America

*We have direct customer contact thanks to our superior digital ecosystem*

- Dr. A. Antlitz
- Th. Ulbrich
- T. Schmall

### We are globally competitive in the volume segment

- Dr. A. Antlitz
- Th. Ulbrich
- T. Schmall

### We have globally reached the brand position "Top of volume" with our emotional and attractive products, services and mobility services

- J. Stackmann
- Dr. F. Welsch

### We are the global leader in e-mobility

- Dr. F. Welsch
- R. Brandstätter

### We are strengthening our market leadership in Europe and securing it in China

- J. Stackmann
- Th. Ulbrich

### We are successful in economy markets

- Dr. F. Welsch
- R. Brandstätter

### We are an agile organization and act with integrity

- Dr. K. Blessing
- Dr. A. Antlitz