Volkswagen Group

Oliver Larkin
Group Head of Investor Relations, Volkswagen AG
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Consequently, a negative impact relating to ongoing claims or investigations, any unexpected fall in demand or economic stagnation in our key sales markets, such as in Western Europe (and especially Germany) or in the USA, Brazil or China, will have a corresponding impact on the development of our business. The same applies in the event of a significant shift in current exchange rates relative to the US dollar, sterling, yen, Brazilian real, Chinese renminbi and Czech koruna.

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Ad hoc release issued on January 10, 2017

Volkswagen AG confirms that it is in advanced discussions with the US Department of Justice and U.S. Customs and Border Protection. The aim of the discussions is to reach a settlement agreement regarding the settlement of certain criminal investigations and certain civil fines in connection with the Diesel issue in the USA.

Volkswagen AG further confirms market rumors that the company negotiated a concrete draft of a settlement agreement with the aforementioned US authorities which contains criminal and civil fines with a total amount of USD 4.3 Billion as well as measures to further strengthen the Compliance and Control-Systems including the appointment of an Independent Monitor for the next three years. Further, part of the settlement agreement is a Guilty Plea regarding certain US criminal-law provisions and a Statement of Facts on the basis of which the fines have to be made.

The final conclusion of the settlement agreement is still subject to the approval by the Management Board and the Supervisory Board of Volkswagen AG and by the competent corporate bodies of further Group Companies involved.
A final conclusion of the settlement agreement is further subject to the execution by the competent US authorities and to the approval of the competent US courts.

In case of a settlement agreement, the payment obligations are expected to lead to a financial expense that exceeds the current provisions. The concrete impact regarding the annual result 2016 cannot be defined at present due to its dependency on various further factors."
**What do the 2.0L US settlement agreements cover?**

<table>
<thead>
<tr>
<th>With whom?</th>
<th>U.S. Federal and State Regulators (DOJ, CARB, FTC), and Private Plaintiffs represented by the Plaintiffs’ Steering Committee to resolve civil claims</th>
</tr>
</thead>
<tbody>
<tr>
<td>Which engines?</td>
<td>2.0L TDI Diesel engines approx. 475,000 (thereof 460,000 Volkswagen and 15,000 Audi vehicles)</td>
</tr>
<tr>
<td>Claims status</td>
<td>According to the December 27, 2016 independent Claims administrator’s report, as of December 18, 2016, approx. 436,000 consumers had registered their claims and nearly 200,000 consumers have been issued offers, with an aggregate value of approx. $3.477bn</td>
</tr>
</tbody>
</table>
| Granted Final Approval on October 25, 2016               | Volkswagen has established a maximum funding pool of $10.033bn for vehicles currently in use and eligible for:  
• Buyback/Lease terminations; OR  
• Emissions modifications (if approved by regulators)  
• Cash payments for affected customers  
  
Pay $2.7bn over 3 years to an environmental trust to remediate excess NOx emissions  
Invest $2bn over 10 years in Zero emission infrastructure, access and awareness initiatives |
| States resolution                                        | Agreement with 44 states, the District of Columbia and Puerto Rico to resolve existing and potential state consumer protection claims regarding both 2.0L and 3.0L engines (approx. $603m)  

- **Regarding the 3.0L TDI engines**, Volkswagen has reached agreement with US environmental regulators to resolve civil claims. Volkswagen has also reached an agreement in principle with the Court-appointed Plaintiffs’ Steering Committee. The Court has instructed the parties to file preliminary settlement approval documents by January 31, 2017.  
- The Court has filed its order granting preliminary approval to the settlement with **Volkswagen-branded franchise dealers** on October 18, 2016.  
- The Court will hold a fairness hearing to consider granting final approval on January 18, 2017
Development Volkswagen Group Deliveries to Customers\(^1\)
(in comparison to previous year)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>10.1</td>
<td>9.9</td>
<td>2.5</td>
<td>2.5</td>
<td>2.6</td>
<td>2.6</td>
<td>2.4</td>
<td>2.5</td>
<td>1.7</td>
<td>1.8</td>
<td>9.9</td>
<td>10.3</td>
</tr>
</tbody>
</table>

\(^1\) Figures incl. Volkswagen Commercial Vehicles, Scania and MAN; in m units
Volkswagen Group – Outlook for 2016

Deliveries to customers
- slightly above prior year

Sales revenue
- may reach prior year level

Operating return on sales
- between 5.0% and 6.0%
Passenger car market – Outlook 2016-2017

Growth to slow down across most regions

1) Source: IHS as of Dec. 2016; 2016 preliminary figures, all figures rounded; in m units
### Product roadmap aligns with expected future market trends

#### Body group trends until 2020

<table>
<thead>
<tr>
<th>Body Group</th>
<th>Volume in 2016</th>
<th>until 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>SUV</td>
<td>+7%</td>
<td>+22%</td>
</tr>
<tr>
<td>Sedan</td>
<td>+4%</td>
<td></td>
</tr>
<tr>
<td>Hatchback</td>
<td>+7%</td>
<td></td>
</tr>
<tr>
<td>Pick-Up</td>
<td>+7%</td>
<td></td>
</tr>
<tr>
<td>MPV</td>
<td>-3%</td>
<td></td>
</tr>
<tr>
<td>Transporter</td>
<td>+7%</td>
<td></td>
</tr>
<tr>
<td>Micro Van</td>
<td>+11%</td>
<td></td>
</tr>
<tr>
<td>Estate</td>
<td>-5%</td>
<td></td>
</tr>
<tr>
<td>City Van</td>
<td>+9%</td>
<td></td>
</tr>
<tr>
<td>Coupe</td>
<td>+11%</td>
<td></td>
</tr>
<tr>
<td><strong>Total market</strong></td>
<td></td>
<td><strong>+10%</strong></td>
</tr>
</tbody>
</table>

#### Upcoming models

**SUV**
- Q5
- Kodiaq
- Teramont (CH)
- Atlas (US)
- Tiguan Allspace (US)
- T-Roc
- Arona

**Sedan**
- Phideon (CH)
- A6L e-tron (CH)
- Octavia FL
- Arteon
- A8
- Jetta (US)

**Hatchback**
- C-Trek (CH)
- Golf FL
- Leon FL
- Rapid FL
- Polo
- Ibiza

**Other**
- A5 Sportback
- Crafter
- Panamera Sport Turismo
- A7 Sportback
- other

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How our industry is changing – The key trends in the automotive world at a glance

**Future vehicle concepts**
- Autonomous
- Electrified
- Connected

**Advanced mobility solutions**
- Robotaxi
- PRT, GRT, FRT*

**Today’s vehicle concepts**
- SUV/CUV trends
- Budget cars

**Sharing & Mobility On Demand**
- Shared
- Conventional drive system

*Current OEM core business

PRT = Personal Rapid Transit; GRT = Group Rapid Transit; FRT = Freight Rapid Transit
The electrification initiative of the Volkswagen Group

- Goal: to position Volkswagen as a driving force behind the expansion of electro-mobility; e-car to become a new hallmark of the Group
- >30 new pure-electric vehicles by 2025
- Annual unit sales of 2 to 3 million e-cars by 2025, equivalent to 20–25 percent of total sales
# STRATEGY 2025 – INITIATIVES AT A GLANCE

**GROW PROFITABLY**

1. Sharpen positioning of brands
2. Develop winning vehicle and drivetrain portfolio
3. Streamline modular architectures
4. Partner with regional players to win in economy segment
5. Develop self-driving system for autonomous vehicles and artificial intelligence in-house
6. Develop battery technology as new core competency
7. Develop best-in-class user experience across brands and customer touchpoints
8. Implement model line organization
9. Realign “Components” business

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**DEVELOP STRATEGIC CAPABILITIES**

10. Build mobility solutions business
11. Develop and expand attractive and profitable smart mobility offering

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**ENHANCE ENTREPRENEURIAL SPIRIT**

12. Improve operational excellence
13. Optimize business portfolio
14. Drive digital transformation
15. Create organization 4.0

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**Strengthen innovation power**

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**Secure funding**
## NEW FINANCIAL TARGETS ADOPTED: FOCUS ON PROFITABILITY

<table>
<thead>
<tr>
<th>Key financial targets</th>
<th>2015</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
<td></td>
</tr>
<tr>
<td>Operating return on sales</td>
<td>6.0%</td>
<td>7–8%</td>
</tr>
<tr>
<td>before special items</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on capital</td>
<td>13.8%</td>
<td>&gt;15%</td>
</tr>
<tr>
<td>Automotive Division</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capex ratio</td>
<td>6.9%</td>
<td>~6%</td>
</tr>
<tr>
<td>Automotive Division</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Strategic realignment of Volkswagen brand will take place in three phases

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

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

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

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**

* before special items
** Operating return based on adjusted sales revenue (without turnover from multi brand sales companies)
U.S. Portfolio Strategy: Growing in core segments, optimization and a major transfer to electrification

I. Growth in Core Segments / “double up”
   - Compact/Midsize SUV and Sedan with >1.5 mil. per segment
   - Increase segment coverage/volume

II. Portfolio Optimization / enter new segments

<table>
<thead>
<tr>
<th>Segment</th>
<th>2015 (m units)</th>
<th>Market share 2015 (%)</th>
<th>FC Volume ∆ until 2019 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sedan</td>
<td>5.9</td>
<td>33.6</td>
<td>-12.6</td>
</tr>
<tr>
<td>Hatchback</td>
<td>0.9</td>
<td>5.0</td>
<td>+8.6</td>
</tr>
<tr>
<td>Coupe</td>
<td>0.5</td>
<td>2.8</td>
<td>+2.1</td>
</tr>
<tr>
<td>Wagon</td>
<td>0.1</td>
<td>0.3</td>
<td>+6.5</td>
</tr>
<tr>
<td>Cabrio/Roadster</td>
<td>0.2</td>
<td>0.9</td>
<td>+17.5</td>
</tr>
<tr>
<td>SUV</td>
<td>6.4</td>
<td>36.6</td>
<td>+10.9</td>
</tr>
<tr>
<td>Pick-Up</td>
<td>2.5</td>
<td>14.6</td>
<td>+1.7</td>
</tr>
<tr>
<td>MPV</td>
<td>0.7</td>
<td>3.8</td>
<td>-15.9</td>
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<tr>
<td>Transporter</td>
<td>0.3</td>
<td>1.9</td>
<td>-2.3</td>
</tr>
<tr>
<td>City Van</td>
<td>0.1</td>
<td>0.5</td>
<td>-0.0</td>
</tr>
</tbody>
</table>

- Leverage portfolio opportunities
- Check currently offered models with insufficient contribution

III. Transfer to Electrification / new customer experience
   - Expand e-Golf
   - Introduce BEVs
   - Introduce HEV

IV. Strong product cadence and sustainable profitability

- Build profitable volume base
- Improved portfolio for market
- E-Mobility rollout
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