Carsten Isensee

Executive Vice President Finance, Volkswagen Group China
Morgan Stanley Conference, Shanghai, 18 April 2017
1 Volkswagen Group China at a glance

2 Review 2016 – Volkswagen Group China

3 Future development
Volkswagen Group in China

- More than 150 models
- 12 fascinating brands
- 1984: first Joint Venture Shanghai VW was founded
- 1990: FAW-VW was founded in Changchun
- Around 95,000 employees end of 2016
- ~330,000 employees within dealer network in 2016
- 30 production plants end of 2016
- Around €4 billion investments planned for 2017
- More than 17% market share in China’s passenger car market in 2016
- Over 30 million cars delivered since market entry
- 3.98 million deliveries in 2016
- Around €5 billion proportionate operating profit in 2016
Volkswagen’s second home market in comparison

Size of the countries

CHINA: 9,596,960 km²

GERMANY: 357,021 km²

Population

<table>
<thead>
<tr>
<th></th>
<th>CHINA</th>
<th>GERMANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>INHABITANTS</td>
<td>1,382 million</td>
<td>83 million</td>
</tr>
<tr>
<td>DENSITY</td>
<td>144.0</td>
<td>231.6</td>
</tr>
<tr>
<td>AVERAGE AGE</td>
<td>37 years</td>
<td>47 years</td>
</tr>
<tr>
<td>UNEMPLOYMENT</td>
<td>4.1 %</td>
<td>6.1 %</td>
</tr>
</tbody>
</table>

Economy

<table>
<thead>
<tr>
<th></th>
<th>CHINA</th>
<th>GERMANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>$ 9,485 billion</td>
<td>$ 3,763 billion</td>
</tr>
<tr>
<td>GDP PER CAPITA</td>
<td>$ 6,862</td>
<td>$ 45,498</td>
</tr>
<tr>
<td>GDP GROWTH RATE</td>
<td>6.7 %</td>
<td>1.8 %</td>
</tr>
<tr>
<td>INFLATION</td>
<td>2.0 %</td>
<td>0.5 %</td>
</tr>
<tr>
<td>TRADE BALANCE</td>
<td>$ 530.6 billion</td>
<td>$ 316.8 billion</td>
</tr>
</tbody>
</table>

Car industry

<table>
<thead>
<tr>
<th></th>
<th>CHINA</th>
<th>GERMANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL CAR PARK</td>
<td>95 million</td>
<td>45 million</td>
</tr>
<tr>
<td>TOTAL MARKET</td>
<td>22.8 million</td>
<td>3.4 million</td>
</tr>
<tr>
<td>PRODUCTION SITES</td>
<td>163</td>
<td>25</td>
</tr>
<tr>
<td>DENSITY</td>
<td>69.2</td>
<td>549</td>
</tr>
<tr>
<td>AVERAGE CAR AGE</td>
<td>3.3</td>
<td>9.2</td>
</tr>
</tbody>
</table>

Sources: Data for FY 2016, CIA World Factbook, IHS Markit, VDA, KBA, PwC
Volkswagen Group in China – A long-term success story

Volkswagen Group development of deliveries to customers (in ‘000 units)
Volkswagen Group production sites all over China

Facts 2016

- 30 production plants in China
  - 4 FAW-Volkswagen vehicle plants
    - Changchun (2 plants)
    - Chengdu
    - Foshan
  - 8 SAIC VOLKSWAGEN vehicle plants
    - Shanghai (3 plants)
    - Nanjing
    - Yizheng
    - Ningbo
    - Urumqi
    - Changsha
  - 18 Component plants
- 3,897 thousand produced cars
- 3,784 thousand produced engines
- 2,196 thousand produced transmissions
- 1,919 thousand produced axle systems
Joint Venture structure of Volkswagen Group in China

<table>
<thead>
<tr>
<th>Start of production</th>
<th>1983 (Santana B2)</th>
<th>1991 (Jetta)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st JV contract signed</td>
<td>1984</td>
<td>1990</td>
</tr>
<tr>
<td>JV contract runs until</td>
<td>2035</td>
<td>2041</td>
</tr>
<tr>
<td>Production in 2016 (in ‘000 vehicles)</td>
<td>Volkswagen 1,652</td>
<td>Volkswagen 1,361</td>
</tr>
<tr>
<td></td>
<td>ŠKODA 328</td>
<td>ŠKODA 556</td>
</tr>
<tr>
<td></td>
<td>Total 1,980</td>
<td>Total 1,917</td>
</tr>
</tbody>
</table>

Ownership structure

- SAIC 40%
- VCIC 1)
- VW AG 2)
- FAW 60%
- Audi AG 10%
- VW AG 20%
- VCIC 10%
- FAW 10%

1) Volkswagen (China) Investment Co., Ltd. 100% owned by Volkswagen AG.
2) Including a stake hold by ŠKODA AUTO a.s.
Further entities in China

1) Selection of major companies in the region China.

2) Direct and indirect holdings.

- FAW-Volkswagen Sales Co.
- Volkswagen Automatic Transmission (Tianjin)
- Shanghai Volkswagen Powertrain
- Volkswagen FAW Platform
- Volkswagen Group Hong Kong
- Volkswagen Hong Kong
- Volkswagen FAW Engine
- Volkswagen Automatic Transmission (Dalian)
- Audi China
  - Volkswagen (China) Investment Company
  - Volkswagen Group Import
  - Volkswagen Finance (China)
- SAIC VOLKSWAGEN Sales Co.
- Volkswagen Transmission
- Sitech Dongchang Automotive Seating

100% owned by Volkswagen AG
Joint Venture Companies
1 Volkswagen Group China at a glance

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3 Future development
Strong market growth of +17.9% to 22.9m units in 2016

Total market development 2016 vs. 2015 (in ‘000 units)

Q1: +8.8%
Q2: +12.0%
Q3: +27.8%
Q4: +23.1%

Key market driver: tax reduction on vehicles ≤1.6l

Source: CPCA, Insurance data
Volkswagen Group China deliveries to customers grew by 12.2% in 2016

Volkswagen Group China deliveries to customers grew by 12.2% in 2016 compared to 2015. The group’s combined China deliveries to customers reached 3,982,000 units in the period from January 1 to December 31, 2016, compared to 3,549,000 units in the corresponding period of the previous year.

The Volkswagen Group China’s deliveries in 2016 included those of all major brands, such as Volkswagen, Audi, Skoda, and Porsche. The growth in deliveries was driven by an increase in sales of these brands.

Split between locally produced and imported vehicles

Deliveries to customers (in ‘000 vehicles)

- Imported: 1,854
- Others: 1,949

Total deliveries in the region China amounted to 3,982 thousand in 2016

Import business 2016 (deliveries in ‘000 vehicles)

- Imported: 179
- Others: 52
- Others: 65
- Porsche: 53

*incl. Hong Kong, excl. Ducati. All figures shown are rounded.*
### Strong operating result for the Volkswagen Group in China

<table>
<thead>
<tr>
<th>Year</th>
<th>Deliveries to customers (in ’000 units)</th>
<th>Production (in ’000 units)</th>
<th>Operating profit (in € million)</th>
<th>Prop. Operating profit (in € million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>2,815</td>
<td>2,643</td>
<td>8,424</td>
<td>3,678</td>
</tr>
<tr>
<td>2013</td>
<td>3,271</td>
<td>3,135</td>
<td>9,569</td>
<td>4,296</td>
</tr>
<tr>
<td>2014</td>
<td>3,675</td>
<td>3,528</td>
<td>12,077</td>
<td>5,182</td>
</tr>
<tr>
<td>2015</td>
<td>3,549</td>
<td>3,420</td>
<td>11,937</td>
<td>5,214</td>
</tr>
<tr>
<td>2016</td>
<td>3,982</td>
<td>3,897</td>
<td>11,094</td>
<td>4,956</td>
</tr>
</tbody>
</table>
# Financials 2016 by car manufacturing JV – on 100% level

<table>
<thead>
<tr>
<th></th>
<th>FAW-VOLKSWAGEN (1,854 (+13.5%))</th>
<th>SAIC VOLKSWAGEN (1,949 (+12.3%))</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deliveries to customers (in ‘000 units)</td>
<td>of which 1,315 Volkswagen and 539 Audi</td>
<td>of which 1,632 Volkswagen and 317 ŠKODA</td>
</tr>
<tr>
<td>Sales revenue (in € million)</td>
<td>40,875 (+1.0%)</td>
<td>26,064 (+0.2%)</td>
</tr>
<tr>
<td>Pre-tax profit (in € million)</td>
<td>5,546 (-10.1%)</td>
<td>4,589 (+4.1%)</td>
</tr>
<tr>
<td>Margin</td>
<td>13.6%</td>
<td>17.6%</td>
</tr>
</tbody>
</table>
Positive effect through Volume increase and material cost increases did not offset the negative effects in 2016

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume increase</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Material cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>improvements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improved efficiency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>with specific programs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mix effect (eg. Passat &amp; Magotan ramp-up)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competitive market environment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency effect</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Proportionate operating profit (in € million)

5,214

- 258

4,956
Chinese Joint Ventures generate substantial, self-funded growth and at the same time sustainably rising dividends

Total amount of dividends paid out to Joint Venture partners and Volkswagen Group (in € billion)

- Total amount of dividend Chinese Joint Ventures
- thereof paid to Volkswagen Group

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Dividends</th>
<th>Dividends to Volkswagen Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>2.8</td>
<td>1.2</td>
</tr>
<tr>
<td>2012</td>
<td>4.6</td>
<td>2.0</td>
</tr>
<tr>
<td>2013</td>
<td>6.5</td>
<td>2.8</td>
</tr>
<tr>
<td>2014</td>
<td>6.7</td>
<td>3.0</td>
</tr>
<tr>
<td>2015</td>
<td>10</td>
<td>4.5</td>
</tr>
<tr>
<td>2016</td>
<td>8.1</td>
<td>3.7</td>
</tr>
</tbody>
</table>
1 Volkswagen Group China at a glance

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3 Future development
Volkswagen Group China deliveries to customers until March 2017

1) incl. Hong Kong, excl. Ducati. Group numbers incl. MAN and Scania
Split between locally produced and imported vehicles

Deliveries to customers (in ‘000 vehicles)

- Imported: 439 - 41 = 418
- Locally produced: 411

Total deliveries to customers amounted to 892 thousand until March in 2017

Import business 2017 (deliveries in ‘000 vehicles)

- Others: 12
- Imported: 18
- Locally produced: 9

1 incl. Hong Kong, excl. Ducati. Group numbers incl. MAN and Scania
Legal requirements of average fuel consumption targets for fleets in China

- Requirement 2016: 6.7l \( \equiv \) 157g CO\(_2\)/km
- Requirement 2020: 5.0l \( \equiv \) ~120g CO\(_2\)/km

Challenges:

- Almost no diesel passenger cars in China
- Preference for large cars in the market
- Test standards result in higher consumption figures
- Specifications based on “separate fleets” (locally produced & import)
China 6 regulation – Worldwide toughest emission legislation

Development gasoline NOx limits in different markets ¹)

<table>
<thead>
<tr>
<th>Year</th>
<th>Limit (mg/km)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>20</td>
</tr>
<tr>
<td>2017</td>
<td>40</td>
</tr>
<tr>
<td>2018</td>
<td>60</td>
</tr>
<tr>
<td>2019</td>
<td>80</td>
</tr>
<tr>
<td>2020</td>
<td>20</td>
</tr>
<tr>
<td>2021</td>
<td>40</td>
</tr>
<tr>
<td>2022</td>
<td>60</td>
</tr>
<tr>
<td>2023</td>
<td>80</td>
</tr>
</tbody>
</table>

Highlights

- Implementation in China in two steps:
  - C6a from July 2020
  - C6b from July 2023 (stricter emission limits)

- Beijing/Shanghai may start earlier with C6 motivated by local air quality problems

- In C6b roller bench test NOx emissions limits are reduced to 35 mg/km

- Beside EU, China also is working on RDE³ requirements, which leads to reduced NOx RDE emission limits on the road, too.

¹) Schematic overview (NOx = Nitrogen Oxides) ²) USA fleet average for NMOG+NOx per model year ³) Real Driving emissions: Measure emissions under real driving conditions on the road
New Energy Vehicle strategy supported by Chinese Government

Subsidies for local NEVs

- New Requirement on national subsidies for NEVs
  - raise the entry threshold
  - may be adjusted dynamically
- Direct national subsidy
  (up to 44,000 RMB for BEV and 24,000 RMB for PHEV)
- Additional subsidies from local provinces
  (≤50% of national subsidy)
- Purchase tax exemption
  (10% Net Selling Price)

Infrastructure investments

- Target: Charging infrastructure for 5 million NEVs by 2020
  - 12,100 charging stations (mainly along the east coast)
  - 4,800,000 charging pillars

Ownership incentives

- Easier access to number plates in some restricted cities (e.g. Beijing)
- Free number plates for a certain amount of NEVs (e.g. Shanghai)
- No ban day for driving
- Free parking for NEVs (in discussion)
- Free NEV driving lanes (in discussion)

Subsidies are supposed to run until 2020.
Potential regulatory framework for NEV credits remains unclear

Proposals by MIIT
- Independent management of CAFC and NEV credits
- Companies need to fulfill both requirements

CAFC Credit:
- Transfer between affiliated companies
- Credit carry-over to next 3 years with depreciation
- Option to use positive NEV credits

NEV Credits:
- No transfer from CAFC credits to NEV credits
- No carry-over for coming years
- “Just” trading of NEV credits

So far - No final regulatory framework.

MIIT draft for NEV Credit Calculation

\[
\text{min. NEV credit points} = \text{ICE Volume} \times \text{NEV credit point ratio}
\]

<table>
<thead>
<tr>
<th>Year</th>
<th>CAFC</th>
<th>BEV</th>
<th>PHEV</th>
<th>FCEV</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>None</td>
<td>2</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>2018</td>
<td>8%</td>
<td>3</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>2019</td>
<td>10%</td>
<td>4</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>2020</td>
<td>12%</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

Example 2019:
1 million ICEs need 100,000 NEV credit points

ICE Credit Point Attribution per NEV Type

<table>
<thead>
<tr>
<th>E-Range (in km)</th>
<th>BEV</th>
<th>PHEV</th>
<th>FCEV</th>
</tr>
</thead>
<tbody>
<tr>
<td>80 - 150</td>
<td>2</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>150 - 250</td>
<td>3</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>250 - 350</td>
<td>4</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>&gt;350</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>&gt;50</td>
<td>2</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>250 - 350</td>
<td>4</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>&gt;350</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>
Fast growing NEV market expected

New Energy Passenger Vehicles (in ‘000 units)

Source for data 2015-2016: CPCA
We will be prepared to deliver around 400,000 NEVs by 2020 and 1,500,000 by 2025

**Introduction of locally produced NEV**

**Phase 1**
Plug-in hybrids based on current toolkits

**Phase 2**
Pure electric vehicles based on current toolkits

**Phase 3**
Pure electric vehicles based on scalable electric toolkit

**Mass market BEV cooperation**
Goal: transformation from car manufacturer to leading mobility provider

<table>
<thead>
<tr>
<th>Ride-hailing</th>
<th>Pre-owned car market</th>
<th>Car-sharing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Didi Chuxing</td>
<td>Youxin</td>
<td>Shouqi</td>
</tr>
</tbody>
</table>

Announced agreements for potential strategic partnerships
Volkswagen Group China and Mobvoi join forces to develop and implement Artificial Intelligence technologies in cars

Significant milestone of Artificial Intelligence technologies for Chinese car owners

50:50 Joint venture to develop automotive applications

Volkswagen Group committed an overall investment of USD 180m into the joint automotive activities and further growth story of Mobvoi Inc.

<table>
<thead>
<tr>
<th>Mobvoi Inc. overview</th>
<th>Mobvoi Technology &amp; Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Founded</td>
<td>Voice recognition</td>
</tr>
<tr>
<td>Headquarters</td>
<td>Natural Language Processing</td>
</tr>
<tr>
<td>No. of employees</td>
<td>Search</td>
</tr>
<tr>
<td>R&amp;D quota</td>
<td>Text-to-speech</td>
</tr>
<tr>
<td>No. of patents</td>
<td></td>
</tr>
</tbody>
</table>

- 2012
- Beijing, China
- 310
- 50% engineers (Master or higher)
- >50 (thereof 10 in Deep Learning)
New product offering with an expanded SUV offering ¹)

**Body style trends until 2020¹)**

- **Rest**: 40% in 2016, 46% in 2020e
- **SUV**: 53% in 2016, 47% in 2020e
- **MPV**:

<table>
<thead>
<tr>
<th>Year</th>
<th>Rest</th>
<th>SUV</th>
<th>MPV</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>40%</td>
<td>53%</td>
<td>3%</td>
</tr>
<tr>
<td>2020e</td>
<td>46%</td>
<td>47%</td>
<td>4%</td>
</tr>
</tbody>
</table>

**New vehicle launches 2017 and to follow²)**

- **SUV**
  - Teramont
  - KODIAQ
  - Tiguan LWB
  - YETI
  - QS

- **Others**
  - Panamera Turbo
  - A5 Coupé
  - TT
  - Phideon PHEV
  - Lavida
  - Q7 e-tron
  - R8 Spyder
  - Panamera LWB
  - Variant GTE
  - Bora

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¹) Source: IHS ²) Schematic overview – does not show all models
Outlook 2017 – Volkswagen Group China Targets

Deliveries to customers

Sales revenue

Pre-tax profit

Our Joint Venture companies plan investments of around EUR 4 billion in 2017!
Volkswagen Group Investor Relations – Your point of contact

Worldwide offices
- Herndon/ USA
- London/ UK
- Wolfsburg/ GER
- Beijing/ CN

Investor Relations in China
- Lennart Schmidt
  - CIIA/CEFA, CIRO
  - Investor Relations Manager

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