Carsten Isensee

Executive Vice President Finance, Volkswagen Group China
Morgan Stanley 3rd Annual China Summit, Beijing, 31 May 2017
1 Volkswagen Group China at a glance

2 Review 2016 and Q1 2017

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**
- **CHINA**
  - INHABITANTS: 1,382 million
  - DENSITY (People per km²): 144.0
  - AVERAGE AGE: 37 years
  - UNEMPLOYMENT: 4.1%
- **GERMANY**
  - INHABITANTS: 83 million
  - DENSITY (People per km²): 231.6
  - AVERAGE AGE: 47 years
  - UNEMPLOYMENT: 6.1%

**Economy**
- **CHINA**
  - GDP: $ 9,485 billion
  - GDP PER CAPITA: $ 6,862
  - GDP GROWTH RATE: 6.7 %
  - INFLATION: 2.0 %
  - TRADE BALANCE: $ 530.6 billion
- **GERMANY**
  - GDP: $ 3,763 billion
  - GDP PER CAPITA: $ 45,498
  - GDP GROWTH RATE: 1.8 %
  - INFLATION: 0.5 %
  - TRADE BALANCE: $ 316.8 billion

**Car industry**
- **CHINA**
  - TOTAL CAR PARK: 95 million
  - TOTAL MARKET: 22.8 million
  - PRODUCTION SITES: 163
  - DENSITY (Cars per 1,000 Inh.): 69.2
  - AVERAGE CAR AGE: 3.3
- **GERMANY**
  - TOTAL CAR PARK: 45 million
  - TOTAL MARKET: 3.4 million
  - PRODUCTION SITES: 25
  - DENSITY (Cars per 1,000 Inh.): 549
  - AVERAGE CAR AGE: 9.2

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

Volkswagen Group production facilities

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>Audi 556</td>
</tr>
<tr>
<td></td>
<td>Total 1,980</td>
<td>Total 1,917</td>
</tr>
</tbody>
</table>

Ownership structure

- SAIC 40%
- VCIC1) 50%
- VW AG2) 10%
- FAW 10%
- VW AG 60%
- Audi AG 20%

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\(^1\)

- 100% owned by Volkswagen AG\(^2\)
- Joint Venture Companies

1) Selection of major companies in the region China.
2) Direct and indirect holdings.
1 Volkswagen Group China at a glance

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# 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 (100% level; 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</th>
<th>SAIC VOLKSWAGEN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deliveries to customers (in ‘000 units)</td>
<td>1,854 (+13.5%)</td>
<td>1,949 (+12.3%)</td>
</tr>
<tr>
<td>of which 1,315 Volkswagen and 539 Audi</td>
<td></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>
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>
Strong market growth and pre-buy effect end of 2016 lead to slower start in 2017

<table>
<thead>
<tr>
<th>Total market development (in ‘000 units)</th>
<th>2016 vs. 2015</th>
<th>Q1: +8.8%</th>
<th>2017 vs. 2016</th>
<th>Q1: +1.3%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2: +12.0%</td>
<td>Q3: +27.8%</td>
<td>Q4: +23.1%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: CPCA, Insurance data
Volkswagen Group China deliveries to customers until April 2017

1) incl. Hong Kong, excl. Ducati. Group numbers incl. MAN and Scania

1,251 939 189 99 21
1,191 922 155 88 24

0 200 400 600 800 1,000 1,200 1,400 1,600 '000 units

1,448 964 469 245 93 86 21 24 99 88 155 189

-4.8% -18.1% -11.6% +13.2% -7.5% +91.4% +50.2%

Jan.- Apr. 2016 Jan.- Apr. 2017
Split between locally produced and imported vehicles until April 2017\(^1\)

Deliveries to customers (in ‘000 vehicles)

- Imported: 56
- < 5%
- Others: 581
- Total: 637

Import business 2017 (deliveries in ‘000 vehicles)

- Others: 3
- 2017: 16
- Total: 24
- Import: < 5%

Total deliveries in the region China amounted to 1,191 thousand until April in 2017

\(^1\) incl. Hong Kong, excl. Ducati. Group numbers incl. MAN and Scania
Positive effect through better mix and material cost improvements did not offset the negative effects in Q1 2017

Proportionate operating profit (in € million)

- Audi dealer situation
- Volume decline
- Currency effect

Mix effect (e.g. introduction of Tiguan L)
Material cost improvements

Q1 2016: 1,174
Q1 2017: 1,112

Change: +62
1. Volkswagen Group China at a glance

2. Review 2016 and Q1 2017

3. Future development
The continued rapid growth phase of China’s market is over, looking into the future we expect normalized growth.
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

New vehicle launches 2017 and to follow²)

SUV
- Teramont
- KODIAQ
- Tiguan LWB
- YETI
- Q5

Others
- Panamera Turbo
- A5 Coupé
- TT
- Phideon PHEV
- Lavida

imported
- Q7 e-tron
- R8 Spyder
- Panamera LWB
- Variant GTE

locally produced
- Bora

¹) Source: IHS
²) Schematic overview – does not show all models
Audi paves the way for the new two-partner strategy in China

Audi on the road to 2025

Further localization with focus on electrified cars with FAW-Volkswagen
› Strengthen development competencies in the area of electric mobility
› 5 new localized e-tron models within the next 5 years
› To advance localization, the collaboration in the field of tool making will be enhanced
› Establish new joint company with FAW-Volkswagen focusing on mobility and digital services

New business potential through planned collaboration with SAIC Motor
› Evaluating long-term collaboration for the production and distribution of Audi models and establishing data and mobility services
› Audi models from planned SAIC Audi collaboration to be distributed through existing dealer network
› New sales steering structure planned for unified distribution of Audi products
Legal requirements of average fuel consumption targets for fleets in China

- Requirement 2016: 6.7l ≈ 157g CO₂/km
- Requirement 2020: 5.0l ≈ ~120g CO₂/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

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

C6b early implementation in BJ, SH & other key regions possible

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 RDE requirements, which leads to reduced NOx RDE emission limits on the road, too.
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)
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 Credit</th>
<th>NEV Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>None</td>
<td>8%</td>
</tr>
<tr>
<td>2018</td>
<td>8%</td>
<td>10%</td>
</tr>
<tr>
<td>2019</td>
<td>10%</td>
<td>12%</td>
</tr>
</tbody>
</table>

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

NEV 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>2</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>&gt;50</td>
<td>&gt;50</td>
</tr>
<tr>
<td>250 - 350</td>
<td>2</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>&gt;350</td>
<td>4</td>
<td></td>
<td>5</td>
</tr>
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CAFC – Corporate Average Fuel Consumption
Mid- to Long-Term Development Plan for Automobile Industry foresees fast growing NEV market

New Energy Passenger Vehicles (in ‘000 units)

<table>
<thead>
<tr>
<th>Year</th>
<th>PHEV</th>
<th>BEV</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>128</td>
<td>63</td>
</tr>
<tr>
<td>2016</td>
<td>191</td>
<td>75</td>
</tr>
</tbody>
</table>

Source for data 2015-2016: CPCA

20% of total market

~ 25% CAGR

60% CAGR

~ 2,000

2025e

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**
The Volkswagen Group China strives for a leading position in Mobility Services

> **Goal: Top Provider of Mobility Services**

> We are in the process of developing a **comprehensive portfolio of digital services** for all brands.

> To generate a sustainable **competitive advantage**, we **build up new core competences**.
Goal: transformation from car manufacturer to leading mobility provider

Announced agreements for potential strategic partnerships

<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>
<tr>
<td>滴滴出行</td>
<td>优信 xin.com</td>
<td>首汽集团 Shou Qi Group</td>
</tr>
</tbody>
</table>

Alibaba Group
Baidu 百度
Tencent 腾讯
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>
</tr>
</thead>
<tbody>
<tr>
<td>Founded</td>
</tr>
<tr>
<td>Headquarters</td>
</tr>
<tr>
<td>No. of employees</td>
</tr>
<tr>
<td>R&amp;D quota</td>
</tr>
<tr>
<td>No. of patents</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mobvoi Technology &amp; Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voice recognition</td>
</tr>
<tr>
<td>Natural Language Processing</td>
</tr>
<tr>
<td>Search</td>
</tr>
<tr>
<td>Text-to-speech</td>
</tr>
</tbody>
</table>
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!
Carsten Isensee

Executive Vice President Finance, Volkswagen Group China
Morgan Stanley 3rd Annual China Summit, Beijing, 31 May 2017
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