Shaping the transformation together.

Carsten Isensee

Executive Vice President Finance, Volkswagen Group China
Morgan Stanley 4th Annual China Summit, Beijing, 1 June 2018
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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 in particular relative to the US dollar, sterling, yen, Brazilian real, Chinese renminbi and Czech koruna.

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1 VOLKSWAGEN GROUP CHINA - OVERVIEW

2 GOOD START TO 2018

3 STRATEGY
Volkswagen Group China at a glance

- More than 170 models
- 12 fascinating brands
- 1984: first Joint Venture Shanghai VW was founded
- 1990: FAW-VW was founded in Changchun
- Around 100,000 employees end of 2017
- Around €4 billion investments planned for 2018
- 30 production plants end of 2017
- 17.5% market share in China’s passenger car market in 2017
- Over 34 million cars delivered since market entry
- 4.18 million deliveries in 2017
- 4.7 billion proportionate operating profit in 2017
- ~380,000 employees within dealer network in 2017
# Joint Venture structure of Volkswagen Group in China

## Ownership structure

<table>
<thead>
<tr>
<th></th>
<th>SAIC</th>
<th>VCIC&lt;sup&gt;1&lt;/sup&gt;</th>
<th>VW AG&lt;sup&gt;2&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>JAC</td>
<td>50%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Volkswagen Group</td>
<td>50%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

<sup>1</sup>Volkswagen (China) Investment Co., Ltd. 100% owned by Volkswagen AG.  <sup>2</sup>Including a stake hold by ŠKODA AUTO a.s.

## Start of production

<table>
<thead>
<tr>
<th>Year</th>
<th>Model</th>
<th>Volkswagen</th>
<th>ŠKODA</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983</td>
<td>Santana B2</td>
<td>1,722</td>
<td>332</td>
<td>2,054</td>
</tr>
<tr>
<td>1991</td>
<td>Jetta</td>
<td>1,435</td>
<td>553</td>
<td>1,988</td>
</tr>
</tbody>
</table>

## JV contract runs until

<table>
<thead>
<tr>
<th>Year</th>
<th>Contract runs until</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984</td>
<td>2035</td>
</tr>
<tr>
<td>1990</td>
<td>2041</td>
</tr>
</tbody>
</table>

## JV contract signed

<table>
<thead>
<tr>
<th>Year</th>
<th>Contract signed</th>
<th>Contract runs until</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984</td>
<td>1984</td>
<td>2035</td>
</tr>
<tr>
<td>1990</td>
<td>1990</td>
<td>2041</td>
</tr>
</tbody>
</table>

## Production in 2017 (in ‘000 vehicles)

<table>
<thead>
<tr>
<th>Year</th>
<th>Model</th>
<th>Volkswagen</th>
<th>ŠKODA</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>Santana B2</td>
<td>1,722</td>
<td>332</td>
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<tr>
<td>2018</td>
<td>Jetta</td>
<td>1,435</td>
<td>553</td>
<td>1,988</td>
</tr>
</tbody>
</table>

## Start of production in 2018

- FAW: 50%
- SAIC: 50%
- VW AG: 20%
- Audi AG: 10%
- Volkswagen Group: 60%
- JAC: 50%
Strong brands and products
1 VOLKSWAGEN GROUP CHINA - OVERVIEW

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The Chinese market started strong into 2018

<table>
<thead>
<tr>
<th>Total market development (in ‘000 units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017 vs. 2016</td>
</tr>
<tr>
<td>Q1: +1.3%</td>
</tr>
<tr>
<td>2018 vs. 2017</td>
</tr>
<tr>
<td>Q1: +6.7%</td>
</tr>
<tr>
<td>Q2: +5.2%</td>
</tr>
<tr>
<td>Q3: +6.5%</td>
</tr>
<tr>
<td>Q4: +4.7%</td>
</tr>
</tbody>
</table>

Source: CPCA, Insurance data

FY2017: +4.5%
FY2016: +18.0%
**Volkswagen Group China with a good start to 2018 Clearly outperforming the market**

<table>
<thead>
<tr>
<th>January - April 2017</th>
<th>January - April 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volkswagen</td>
<td>+12.9%</td>
</tr>
<tr>
<td>Audi</td>
<td>+8.8%</td>
</tr>
<tr>
<td>Škoda</td>
<td>+33.5%</td>
</tr>
<tr>
<td>Porsche</td>
<td>+22.3%</td>
</tr>
<tr>
<td>Bentley</td>
<td>-37.2%</td>
</tr>
<tr>
<td>Commercial Vehicles</td>
<td>+33.1%</td>
</tr>
<tr>
<td>MAN</td>
<td>+13.6%</td>
</tr>
</tbody>
</table>

Units

<table>
<thead>
<tr>
<th>January - April 2017</th>
<th>January - April 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volkswagen</td>
<td>1,191</td>
</tr>
<tr>
<td>Audi</td>
<td>922</td>
</tr>
<tr>
<td>Škoda</td>
<td>155</td>
</tr>
<tr>
<td>Porsche</td>
<td>88</td>
</tr>
<tr>
<td>Bentley</td>
<td>469</td>
</tr>
<tr>
<td>Commercial Vehicles</td>
<td>1,448</td>
</tr>
</tbody>
</table>

Units

000 units

0 200 400 600 800 1,000 1,200 1,400 1,600 1,800 2,000

1) incl. Hong Kong, excl. Ducati. Group numbers incl. MAN and Scania. All figures are rounded.
Highly localized product offering of our JVs is complemented by import business\(^1\)

### Deliveries to customers Jan-Apr 2018 (in ‘000 vehicles)

- **632**
- **656**
- **57**

- **Imported < 5%**

### Import business Jan-Apr 2018 (deliveries in ‘000 veh.)

- **25**
- **13**
- **16**
- **4**

- **Volkswagen**
- **Porsche**
- **Audi**
- **Others**

Total deliveries in the region China amounted to 1,345 thousand in Jan-Apr 2018

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\(^1\) incl. Hong Kong, excl. Ducati. Group numbers incl. MAN and Scania. All figures are rounded.
Proportionate operating profit of our Joint Ventures increased in Q1

Proportionate operating profit of Chinese Joint Ventures (in € million)

Q1 2017

1,112

+ Mix effect (e.g. Teramont & Audi situation)
+ Volume increase
+ Material & Fixed cost improvements

Q1 2018

1,163

+ 51

- Currency effect
- Competitive market environment

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Volkswagen Group China looks forward to a successful year 2018

**Vehicles Sales Chinese Market**
Growth around the level of last year

- 2016: 22,867
- 2017: 23,893

**Deliveries to Customers**
Growth around the level of last year

- 2016: 3,982
- 2017: 4,184

**Prop. Operating Profit of JVs**
Around the level of last year

- 2016: 4,956
- 2017: 4,746

**Outlook 2018**
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Key building blocks of our global strategy are complemented by China-specific block
Key focus on the development of the SUV market in China

Deliveries by body style in China (in ’000 units)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total market</th>
<th>VOLKSWAGEN</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
<td>2017</td>
</tr>
<tr>
<td></td>
<td>22,835</td>
<td>23,852</td>
</tr>
<tr>
<td>Others</td>
<td>41%</td>
<td>45%</td>
</tr>
<tr>
<td>SUV</td>
<td>47%</td>
<td>43%</td>
</tr>
<tr>
<td>MPV</td>
<td>5%</td>
<td>7%</td>
</tr>
<tr>
<td>Hatchback</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td>Sedan</td>
<td>5%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Volkswagen Group China SUV share

In 2017 Volkswagen Group China increased **SUV deliveries** by **32%** to a **SUV share of 18%**

We expect that in the year **2020 at least 40%** of all Volkswagen Group vehicles sold in China will be **SUVs**

Data source: CPCA
Our SUV offensive in China accelerates significantly

12 Volkswagen brand SUV models by 2020
Full portfolio in both Joint Ventures

10 Audi additional SUV variances without predecessor until 2022

6 ŠKODA SUVs until 2020
Volkswagen Group China and its Joint Ventures expand into exports

First step to South East Asia markets with pilot shipment to the Philippines

Pioneering effort for Volkswagen Group China

- Next step in the ongoing expansion and development of our Joint Ventures
- Target is to deliver several thousand cars to customers annually in this region
- Export of Volkswagen Group vehicles will be coordinated by Volkswagen Group Import Co.¹)
- Vehicles will be sold through Volkswagen Group’s existing sales channels

¹ Volkswagen Group China Import Co. Ltd. is a 100% owned subsidiary of Volkswagen Group.
Volkswagen Finance (China) – Gaining share in an expanding market

Growing penetration of financing business

- Retail finance penetration (% of deliveries to customers for Volkswagen Group)
  - 2007: 90% Cash, 10% Finance
  - 2017: 53% Cash, 47% Finance

- Target 2025: 20% of VW Group cars financed by VWFS

Number of contracts of Volkswagen Finance (China) (in ’000)

- CAGR +42%

- 2011: 136
- 2012: 227
- 2013: 346
- 2014: 563
- 2015: 646
- 2016: 850
- 2017: 1,107

Financial Services China: Strategic growth dimensions

- Retail Finance
- Financial Leasing
- Used Cars
- Digitalization
- NEV Strategy
We address all building blocks to provide sustainable mobility solutions.
Efficient combustion engines play a major role for the future of sustainable mobility

The future is electric and green.

- Significant improvements in consumption and emissions of gasoline engines
- All new gasoline engines will be ready to fulfill the latest emission standards (C6B with RDE)
- All new gasoline engines will use the “EVO” technology
- It's possible to change from MPI to TSI engines
- All new gasoline engines will be ready for electrification (mHEV)
We will be prepared to deliver around 1.5 million zero emission cars to Chinese customers 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 (start 2020/21)**
  - Pure electric vehicles based on scalable electric toolkit

**Mass market BEV cooperation**
Volkswagen Group China opens new factories to strengthen SUV offensive and e-Mobility

Production capacity will increase

Factories starting in 2018

Tianjin  
Start in August

Qingdao  
Opening ceremony on May 28  
New Bora & 2 Audi models on MQB platform  
ICE & EV production on one production line  
Production of battery systems

Hefei  
First production model unveiled  May 25  
Production of JAC Volkswagen’s SOL brand

Foshan  
Start in June  
Focus on the SUVs (Audi & VW)  
Additional factory at the production site  
MQB platform will be electrified  
Battery system assembly and MEB to follow

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1) Actual production volume in ’000 vehicles  
2) Available capacity on the basis of 250 working days.
E-mobility model offensive of the Volkswagen Group in China

Until 2025
Almost 40 locally produced NEV models
Plan to invest around €10 bn in e-mobility
Prepared to deliver 1.5 million NEVs in 2025
Future Center Asia is envisioning people’s mobility needs of the future and creating visionary solutions.

**Our Goal**

Future Center Asia will provide mobility solutions specifically for the Chinese and Asia market.

- **Visionary Products & Services**
- **Disruptive Technology**
- **Urban Solution**
- **Scouting**

**Future Center Asia**

- **Find & Evolve**
  - new technologies
  - product/service ideas
  - smart city concepts
- **Create**
  - outstanding user experience
  - e.g. customer journeys
- **Ideation & Scouting**
- **User Experience**
- **Design**
- **Future Center Asia**
  - Leadership & organization
- **Visualize**
  - ideas and concepts for brands and process partners

**Three new Volkswagen Group Future Centers** in Beijing, Potsdam Silicon Valley

**Approach:** Designers and digitalization experts work hand in hand to create the mobility of the future.
Mobility ecosystem linking Volkswagen Group users' in-car and mobile experiences

Close gap between ecosystems to provide the best integrated customer experience and best service offering.
Core strategic areas of Volkswagen Group China to build its mobility ecosystem

- Luxury / Premium Ride-Hailing
- Ride Hailing
- Voice-controlled Personal Services
- Car Sharing
- Pre-owned Car e-Commerce
- BEV Charging
- Smart City
- Data Monetization
- Autonomous Driving
- Group ID, Reward Program and In-Car-Payment
- Backend
- Telematics Enablers
- Core Services (Mapping/Pol, charging, parking, payment)
We work on the strategic topics to master the challenges and make use of opportunities arising in the Chinese market

**IMPROVE THE CORE BUSINESS AND SECURE FUNDING**
- Safeguarding the profits in China
- Accelerating SUV offensive
- Use opportunities with Export, Financial Services business etc.
- Invest local Cash Flows with our partners in China while securing strong dividends

**TRANSFORM TOWARD MORE ELECTRIFICATION**
- Achieve fuel consumption and NEV credit compliance
- Start producing and selling first BEVs with JAC-VW in 2018 followed by first BEVs from SAIC VW and FAW-VW
- Work with local partners on battery cell technology and charging infrastructure
- Secure profitability of Electric Vehicles

**BUILD MOBILITY SOLUTIONS BUSINESS & STRENGTHEN INNOVATION POWER**
- Future Center - Envision Chinese’ mobility needs of the future and create visionary solutions
- Mobility Asia – Build ecosystems for our customers and deliver profitable Mobility Services
Shaping the transformation together.

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