Volkswagen Group – Moving ahead

Frank Witter
Member of the Board of Management
UniCredit Kepler Cheuvreux German Corporate Conference, Frankfurt, 20 January 2016
Disclaimer

The following presentations contain forward-looking statements and information on the business development of the Volkswagen Group. These statements may be spoken or written and can be recognized by terms such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “seeks”, “estimates”, “will” or words with similar meaning. These statements are based on assumptions relating to the development of the economies of individual countries, and in particular of the automotive industry, which we have made on the basis of the information available to us and which we consider to be realistic at the time of going to press. The estimates given involve a degree of risk, and the actual developments may differ from those forecast.

Consequently, 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.

If any of these or other risks occur, or if the assumptions underlying any of these statements prove incorrect, the actual results may significantly differ from those expressed or implied by such statements.

We do not update forward-looking statements retrospectively. Such statements are valid on the date of publication and can be superceded.

This information does not constitute an offer to exchange or sell or an offer to exchange or buy any securities.
How the NOx issue will be solved

**Europe** (approved by KBA)

<table>
<thead>
<tr>
<th>Engine</th>
<th>Quantity</th>
<th>Fix Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>EA189 2.0l (EU5)</td>
<td>~ 5.2m units</td>
<td>• Software fix only</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Working time ca 30 min.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Fix starts in Q1 2016</td>
</tr>
<tr>
<td>EA189 1.6l (EU5)</td>
<td>~ 3m units</td>
<td>• Soft- and Hardware fix required</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Working time &lt; 1h</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Fix starts in Q3 2016</td>
</tr>
<tr>
<td>EA189 1.2l (EU5)</td>
<td>~ 0.3m units</td>
<td>• Software fix only</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Working time ca 30 min.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Fix starts in Q2 2016</td>
</tr>
</tbody>
</table>

**USA**

<table>
<thead>
<tr>
<th>Engine</th>
<th>Quantity</th>
<th>Fix Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>EA189 2.0l (Gen 1)</td>
<td>~ 0.4 million units</td>
<td>• Fix starts in Q2 2016</td>
</tr>
<tr>
<td>EA189 2.0l (Gen 2)</td>
<td>~ 0.1 million units</td>
<td>• Fix starts in Q3 2016</td>
</tr>
<tr>
<td>EA288 2.0l (Gen 3)</td>
<td>~ 0.1 million units</td>
<td>• Fix starts in Q4 2016</td>
</tr>
</tbody>
</table>

Currently coordinating viable solution concepts and time lines with the responsible authorities EPA and CARB.
Our 5 top priorities

**Helping our customers**
Communicating & providing effective technical solutions

**Uncovering what happened**
Finding out the truth and learning from it

**New structure**
Launching a more entrepreneurial & decentralized Group structure

**New mindset**
Profoundly changing the way we do things

**New destination**
Re-evaluating what we do & re-defining our targets
Volkswagen Group reduces level of capex and accelerates the achievement of Group synergies

<table>
<thead>
<tr>
<th>Investments in property, plant and equipment</th>
<th>Prioritization and focus on digitalization and e-mobility</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Prior planning as of November 2014</strong></td>
<td>Uncertainty requires prioritization of investments</td>
</tr>
<tr>
<td>€64.3 bn</td>
<td>Cancellation or delay of all projects that are not absolutely necessary</td>
</tr>
<tr>
<td>~€13 bn</td>
<td>Not jeopardizing our future: spending on digitalization and alternative drive train technologies will be increased further</td>
</tr>
<tr>
<td>2015 - 2019 Ø per year</td>
<td>Focus: new products, continuing rollout and enhancement of toolkits, completion of ongoing capacity expansion</td>
</tr>
<tr>
<td>2016 max €12 bn</td>
<td></td>
</tr>
</tbody>
</table>
Development World Car Market vs. Volkswagen Group Car Deliveries to Customers\(^1\)
(Growth y-o-y in deliveries to customers, January to December 2015 vs. 2014)

<table>
<thead>
<tr>
<th>Region</th>
<th>Market</th>
<th>VW Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>2.6%</td>
<td>-1.8%</td>
</tr>
<tr>
<td>North America</td>
<td>6.1%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Western Europe</td>
<td>9.0%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Central &amp; Eastern Europe</td>
<td>-23.3%</td>
<td>-7.7%</td>
</tr>
<tr>
<td>South America</td>
<td>-21.2%</td>
<td>-29.0%</td>
</tr>
<tr>
<td>Rest of World</td>
<td>2.5%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>4.0%</td>
<td>-3.0%</td>
</tr>
</tbody>
</table>

\(^1\) Figures excl. Volkswagen Commercial Vehicles, Scania and MAN.
Volkswagen Group – Deliveries to Customers by Brands
(January to December 2015 vs. 2014)

1) Incl. all brands of Volkswagen Group (Passenger Cars and Commercial Vehicles); -1.8% excl. Volkswagen Commercial Vehicles, Scania and MAN.
2) MAN incl. MAN Latin America Trucks and Busses GVW > 5t
Volkswagen Group – Generating cash and robust financial position

Automotive Division - Net Liquidity

Funding programs as of September 30 1)

<table>
<thead>
<tr>
<th>(in € bn)</th>
<th>Utilization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money and Capital Markets</td>
<td></td>
</tr>
<tr>
<td>Commercial Papers</td>
<td>5.5</td>
</tr>
<tr>
<td>Medium Term Notes / Bonds</td>
<td>60.0</td>
</tr>
<tr>
<td>thereof: Hybrid Bonds</td>
<td>7.5</td>
</tr>
<tr>
<td>ABS2)</td>
<td>26.5</td>
</tr>
<tr>
<td>Borrowings</td>
<td></td>
</tr>
<tr>
<td>Committed Lines</td>
<td>2.2</td>
</tr>
<tr>
<td>Uncommitted Lines</td>
<td>7.7</td>
</tr>
<tr>
<td>Supranationals, development banks, government, other</td>
<td>16.0</td>
</tr>
<tr>
<td>Direct Banking Deposits</td>
<td>23.5</td>
</tr>
<tr>
<td>Total Amount</td>
<td>141.4</td>
</tr>
</tbody>
</table>

1) Outstandings excluding Porsche, MAN, Scania
2) Including Porsche, MAN

Source: Volkswagen Group

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We expect …
- deliveries to customers for the Volkswagen Group in 2015 to remain on a level with the previous year in a persistently challenging market environment.
- 2015 sales revenue for the Volkswagen Group and its business areas to increase by up to 4% y-o-y, depending on the economic conditions. However, economic trends in Latin America and Eastern Europe will need to be continuously monitored in the Commercial Vehicles/Power Engineering Business Area.

In terms of operating profit…
- due to the impact relating to the Diesel issue we anticipate a Group operating profit as well as for the Passenger Cars Business Area significantly below the prior year level.

Before special items…
- we anticipate a Group operating return on sales of between 5.5% and 6.5% in 2015 in light of the challenging economic environment.
- the operating return on sales is expected to be in the 6.0% to 7.0% range in the Passenger Cars Business Area and between 2.0% and 4.0% in Commercial Vehicles/Power Engineering.

For the Financial Services Division, we are forecasting an operating profit at the prior-year level.
Passenger car market forecast 2016 – most of the regions are expected to grow

- **North America 1)**
  - 2014: 19.6
  - 2015: 20.6
  - 2016: 21.2

- **Western Europe**
  - 2014: 12.1
  - 2015: 13.1
  - 2016: 13.3

- **Eastern Europe**
  - 2014: 3.6
  - 2015: 2.7
  - 2016: 2.8

- **South America 1)**
  - 2014: 5.2
  - 2015: 4.2
  - 2016: 3.8

- **Asia-Pacific**
  - 2014: 30.4
  - 2015: 30.9
  - 2016: 32.6

- **Rest of World**
  - 2014: 4.0
  - 2015: 4.2
  - 2016: 4.3

Source: *IHS Economics as of December 2015

1) Passenger cars and Light Commercial Vehicles
Product firework\(^1\) in line with expected future market trends

**Body group trends until 2020\(^2\)**

| Body Group       | Volume in 2015 \(^3\) | until 2020 |\(|\) |\(|\) |\(|\) |\(|\) |
|------------------|------------------------|------------|---|---|---|---|
| Sedan            |                        |            |    |    |    |    |
| SUV              |                        |            |    |    |    |    |
| Hatchback        |                        |            |    |    |    |    |
| Pick-Up          |                        |            |    |    |    |    |
| MPV              |                        |            |    |    |    |    |
| Transporter      |                        |            |    |    |    |    |
| Micro Van        |                        |            |    |    |    |    |
| Estate           |                        |            |    |    |    |    |
| City Van         |                        |            |    |    |    |    |
| Coupe            |                        |            |    |    |    |    |
| million          | 0                      | 10         | 20 |    |    |    |

**New models 2016 and to follow**

- **Sedan**
  - A6L e-tron
  - Panamera
  - C-Model (CN)
  - Magotan
  - Voyage

- **SUV**
  - Bentayga
  - Tiguan
  - A+ SUV
  - B-SUV
  - Q2
  - Entry SUV
  - Q5
  - SEAT A-SUV

- **Hatchback**
  - A3
  - Leon
  - Rapid (IND)
  - Gol
  - up!

- **Other**
  - Beetle
  - T-Roc
  - 911
  - Saveiro
  - A5
  - Boxster
  - Cayman

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\(^1\) Schematic overview – does not show all models  
\(^2\) Source: IHS  
\(^3\) Preliminary figures
Tightening environmental regulation and major trends driving R&D expenditures

... CO₂ and EU6 regulations

<table>
<thead>
<tr>
<th>Year</th>
<th>EU Baseline</th>
<th>US Baseline</th>
<th>China Baseline</th>
<th>China 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>142</td>
<td>219</td>
<td>185</td>
<td>167</td>
</tr>
<tr>
<td>2020</td>
<td>95</td>
<td>107</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: based on ICCT

... Market / consumer trends

- Digitalization
- Shorter lifecycles
- E-mobility
- SUV trend
- Automated driving
- Shift in priorities
Volkswagen Brand: Substantial efficiency measures across all business areas to ensure €5 billion earnings improvement

- Adapt lifecycle strategy to meet core regional competition
- Focus on models providing sustainable profitability
- Expand after-sales business

- Reduce complexity and improve decision making process
- Increase use of common parts and reduction of number of variants
- Sharpen target-oriented investment
- Increase localization in core markets
- Enhance R&D efficiency
- Leverage scale effects and groupwide synergy potential further
Efficiency program well on the way in all business areas

<table>
<thead>
<tr>
<th>Complexity reduction(^1)</th>
<th>Logistics cost improvement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Glove box</td>
<td>Production location optimization</td>
</tr>
<tr>
<td>~65%</td>
<td></td>
</tr>
<tr>
<td>Steering wheel packages</td>
<td></td>
</tr>
<tr>
<td>~40%</td>
<td></td>
</tr>
<tr>
<td>Interior paneling</td>
<td></td>
</tr>
<tr>
<td>~50%</td>
<td></td>
</tr>
<tr>
<td>Front seats</td>
<td></td>
</tr>
<tr>
<td>~20%</td>
<td></td>
</tr>
<tr>
<td>Battery</td>
<td></td>
</tr>
<tr>
<td>~50%</td>
<td></td>
</tr>
<tr>
<td>Interior lamps</td>
<td></td>
</tr>
<tr>
<td>~50%</td>
<td></td>
</tr>
</tbody>
</table>

\(^1\) Percentage of reduction in number of variants, Example: Golf 7
USA - Shorter life cycles, presence in growth segments and realizing scale

- Moving towards a 2 x 5 year life cycle
- Extending the product range by offering more models in growth segments
- Design, size and interior are steered by North American Planning & Engineering Center in Chattanooga, TE
- Moving all major models on MQB to realize economies of scale
- Significant increase of local production, sourcing and working on costs
Product innovation and cost reduction are the key pillars of Volkswagen’s strategy to cope with challenges in emerging markets.

1. **Restructure business**, streamline cost position and intensify export.
2. **Refresh existing product portfolio** and extend range of drivetrain technologies.
3. **Introduce range of MQB vehicles** incl. A0/SUVs utilizing global sourcing and synergies in R&D and production.

**Volume under pressure in difficult environment**

**Intensified competitive environment**

**Export difficult due to high cost base & trade barriers**
Deep roots and strong market position combined with further growth potential assures continued profitable growth in China.

**Delivery to customers - solid 4th quarter**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>FY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Units</td>
<td>881</td>
<td>933</td>
<td>906</td>
<td>955</td>
<td>3,675</td>
</tr>
<tr>
<td></td>
<td>898</td>
<td>845</td>
<td>835</td>
<td>969</td>
<td>3,549</td>
</tr>
<tr>
<td>Year</td>
<td>2014</td>
<td>2015</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Strong operational & financial track record**

- Proportionate Operating Profit
- Dividends paid to Volkswagen AG

**Significant extension of SUV portfolio until 2020**

- Market Segmentation
  - 2014: 24% Other Bodystyles, 76% SUVs
  - 2015: 30% Other Bodystyles, 70% SUVs
- Locally produced SUVs
  - 2015: 4
  - Mid-term: >10

**Localization of New Electric Vehicles**

- 2013: Import
- 2016: Local production
- >15 models
## Core challenges in commercial vehicle industry ...

| **Cyclical markets** | Strong correlation to GDP in developed world  
Not all regions hit by economic downturns at the same time |
| **Further globalization** | Local OEMs dominating in BRIC markets  
Improving infrastructure, stronger regulations open opportunities for Volkswagen |
| **Emission regulations** | Europe with aggressive regulations, focus shifting to diesel lock-outs  
BRIC trailing behind, but with ambitious roadmap |
| **Connectivity & digitalization** | Platooning and partly-autonomous driving as transition solutions  
Data management for customers and traffic of broad interest |
| **After sales and new business opportunities** | After sales increasingly important as alternative source of revenues  
New business models (e.g. enhanced telematics) can stabilize revenues |
... require Volkswagen truck brands to cooperate closely

- **Cyclical markets**
- **Further globalization**
- **Emission regulations**
- **Connectivity & digitalization**
- **After sales and new business opportunities**

**Global market reach** to ensure sufficient volume in local up- & downturns

**Reduced fixed costs** through modularization and shared components

**Combined R&D know-how** for competitive product development

**Additional value** through customer services

**Close cooperation going forward**

VOLKSWAGEN TRUCK & BUS
VW Financial Services\(^1\): A global, well diversified and successful business

**Strong global presence**
- Existing markets
- Focus markets
- Start / market entry

**Rising penetration rates**
- w/o China
- with China

**Continuous portfolio expansion**
- in '000 contracts
- Total portfolio 12,817

**Diversified funding structure**
- Equity, liabilities to affiliated companies, other
- Asset backed securitization
- Bonds, Commercial Paper, liabilities to financial institutions

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\(^1\) All shown figures show VW Financial Services as of 30 June 2015, excluding financial service activities of Scania, Porsche AG and Porsche Holding Salzburg; MAN financial services activities are included from 1 January 2014
Strategy 2025 is currently being developed to prepare the Volkswagen Group for the new challenges in the automotive industry

New focus areas

- **Digitalization**
  - New function reporting to Group CEO
  - Group-wide initiative
  - Digital Future Labs
  - Industry / Business 4.0

- **Sustainability**
  - 20 additional e-models by 2020
  - Focus on battery technology
  - Innovative conventional drive trains

- **Integrity/Compliance**
  - New function in Board of Management
  - Firmly anchored in structures and processes

Strategy 2018

Future Tracks

Strategy 2025

(to be presented mid-2016)
Appendix
Volkswagen Tiguan
Volkswagen Budd-e
Audi e-tron quattro concept
Audi A4 TFSI quattro
Porsche Mission E Concept
ŠKODA Superb Combi SportLine
SEAT Leon Cross Sport
Lamborghini Huracán LP 610-4 Spyder
Volkswagen Multivan
Scania R 730 6x4 Streamline
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