

The image features the Volkswagen Group China logo at the top center, consisting of the word "VOLKSWAGEN" in a bold, sans-serif font above "GROUP CHINA" in a smaller font. The background is white with several large, overlapping geometric shapes: a teal triangle on the left, a dark teal triangle on the right, and a small maroon triangle at the top left. The text "We are redefining mobility." is positioned in the lower right area, overlapping the dark teal triangle.

VOLKSWAGEN

GROUP CHINA

**We are
redefining
mobility.**

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	GERMANY
INHABITANTS	1,382 million	83 million
DENSITY (People per km ²)	144.0	231.6
AVERAGE AGE	37 years	47 years
UNEMPLOYMENT	4.1 %	6.1 %

Economy

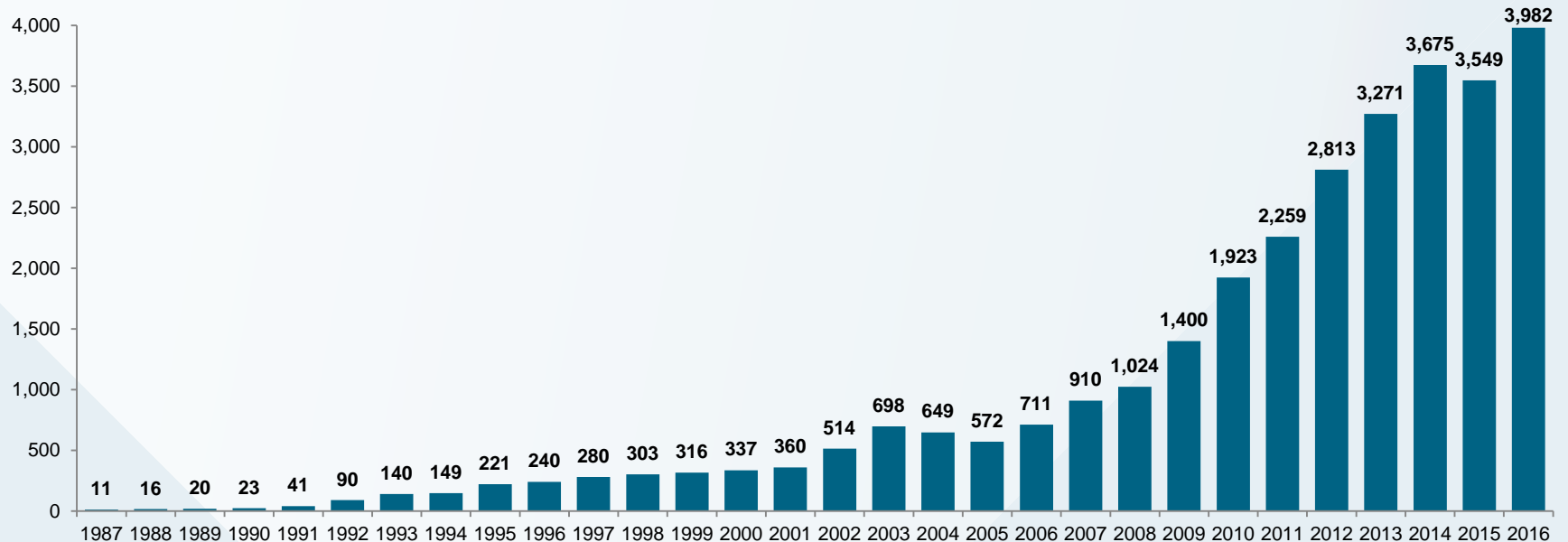
	CHINA	GERMANY
GDP	\$ 9,485 billion	\$ 3,763 billion
GDP PER CAPITA	\$ 6,862	\$ 45,498
GDP GROWTH RATE	6.7 %	1.8 %
INFLATION	2.0 %	0.5 %
TRADE BALANCE	\$ 530.6 billion	\$ 316.8 billion

Car industry

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

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

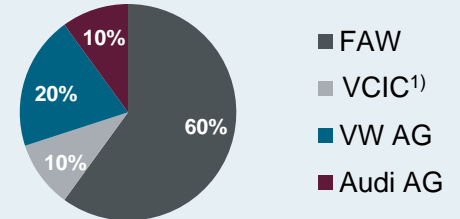
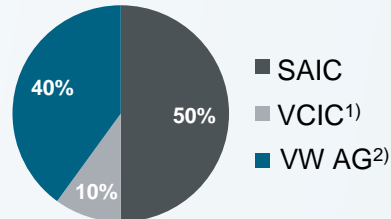
- 30 production plants in China
 - 4 FAW-Volkswagen vehicle plants
 - Changchun (2 plants)
 - Chengdu
 - Foshan
 - 8 SAIC VOLKSWAGEN vehicle plants
 - Shanghai (3 plants)
 - Nanjing
 - Yizheng
 - Ningbo
 - Urumqi
 - Changsha
 - 18 Component plants
- 3,897 thousand produced cars
- 3,784 thousand produced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

Joint Venture structure of Volkswagen Group in China



Start of production	1983 (Santana B2)		1991 (Jetta)	
1 st JV contract signed	1984		1990	
JV contract runs until	2035		2041	
Production in 2016 (in '000 vehicles)	Volkswagen	1,652	Volkswagen	1,361
	ŠKODA	328	Audi	556
	Total	1,980	Total	1,917

Ownership structure



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

Further entities in China¹⁾



¹⁾ Selection of major companies in the region China.

²⁾ Direct and indirect holdings.

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Strong operating result for the Volkswagen Group in China

	2012	2013	2014	2015	2016
Deliveries to customers (in '000 units)	2,815	3,271	3,675	3,549	3,982
Production (in '000 units)	2,643	3,135	3,528	3,420	3,897
Operating profit (100% level; in € million)	8,424	9,569	12,077	11,937	11,094
Prop. Operating profit (in € million)	3,678	4,296	5,182	5,214	4,956

Financials 2016 by car manufacturing JV – on 100% level



Deliveries to customers
(in '000 units)

1,854 (+13.5%)

of which 1,315 Volkswagen and 539 Audi

1,949 (+12.3%)

of which 1,632 Volkswagen and 317 ŠKODA

Sales revenue
(in € million)

40,875 (+1.0%)

26,064 (+0.2%)

Pre-tax profit
(in € million)

5,546 (-10.1%)

4,589 (+4.1%)

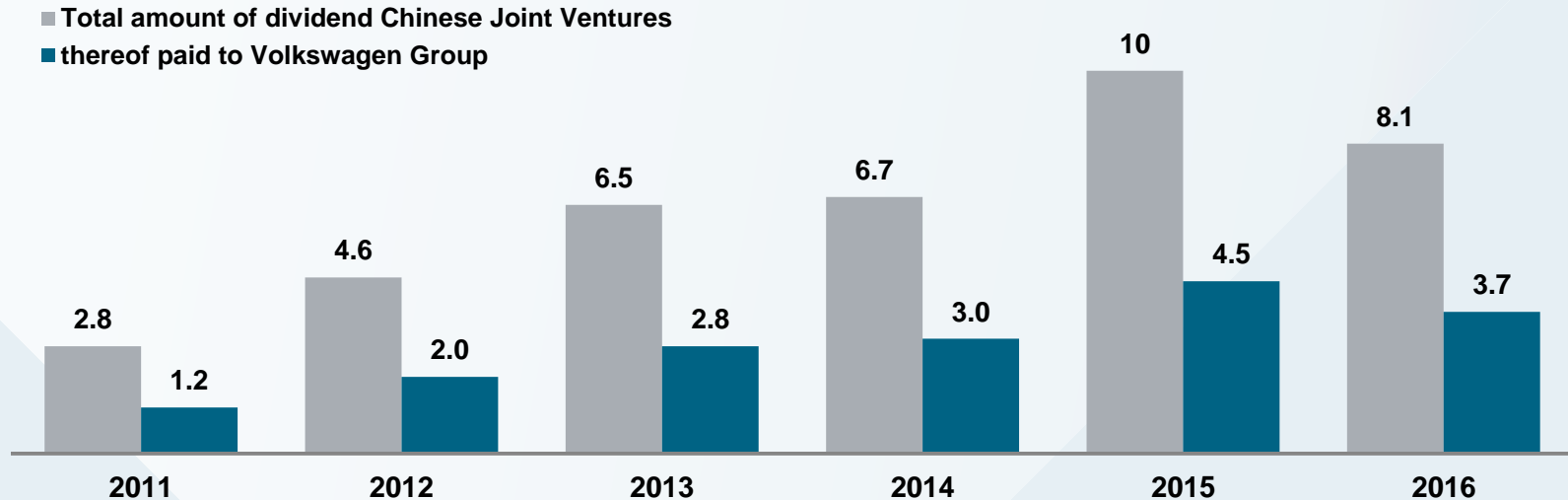
Margin

13.6%

17.6%

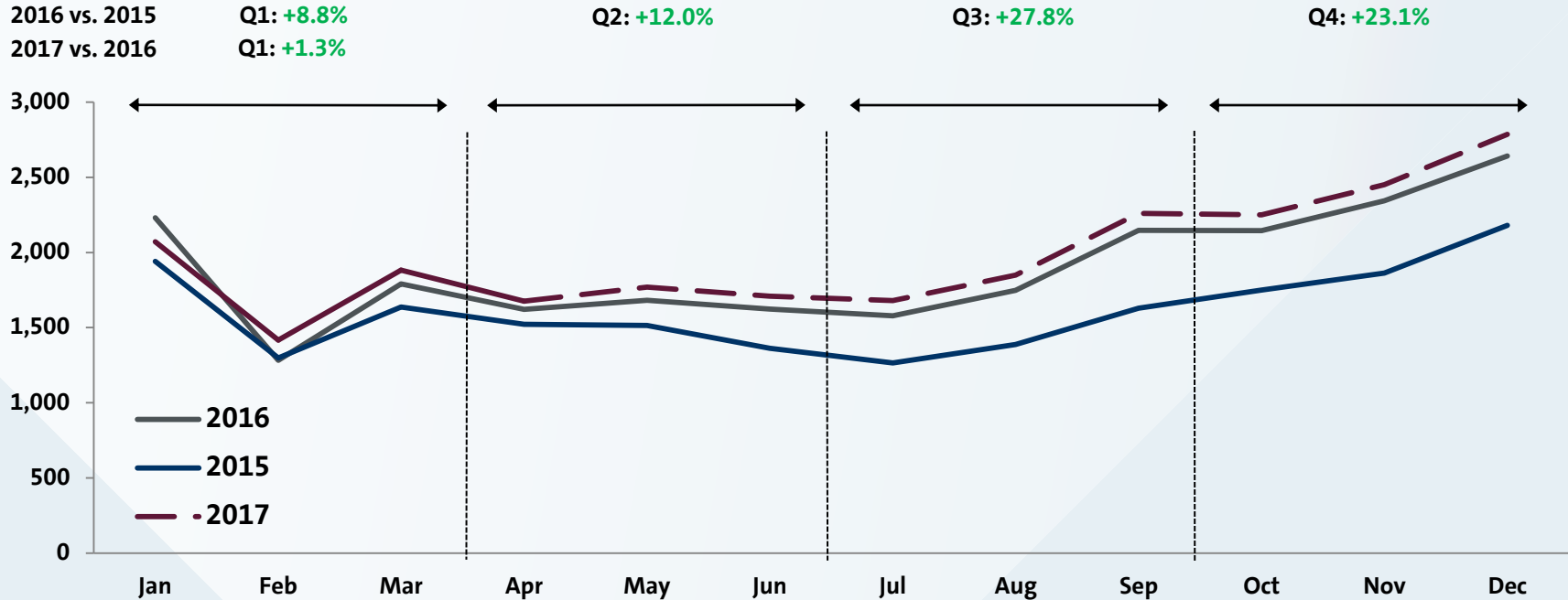
Chinese Joint Ventures generate substantial, self-funded growth and at the same time sustainably rising dividends

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

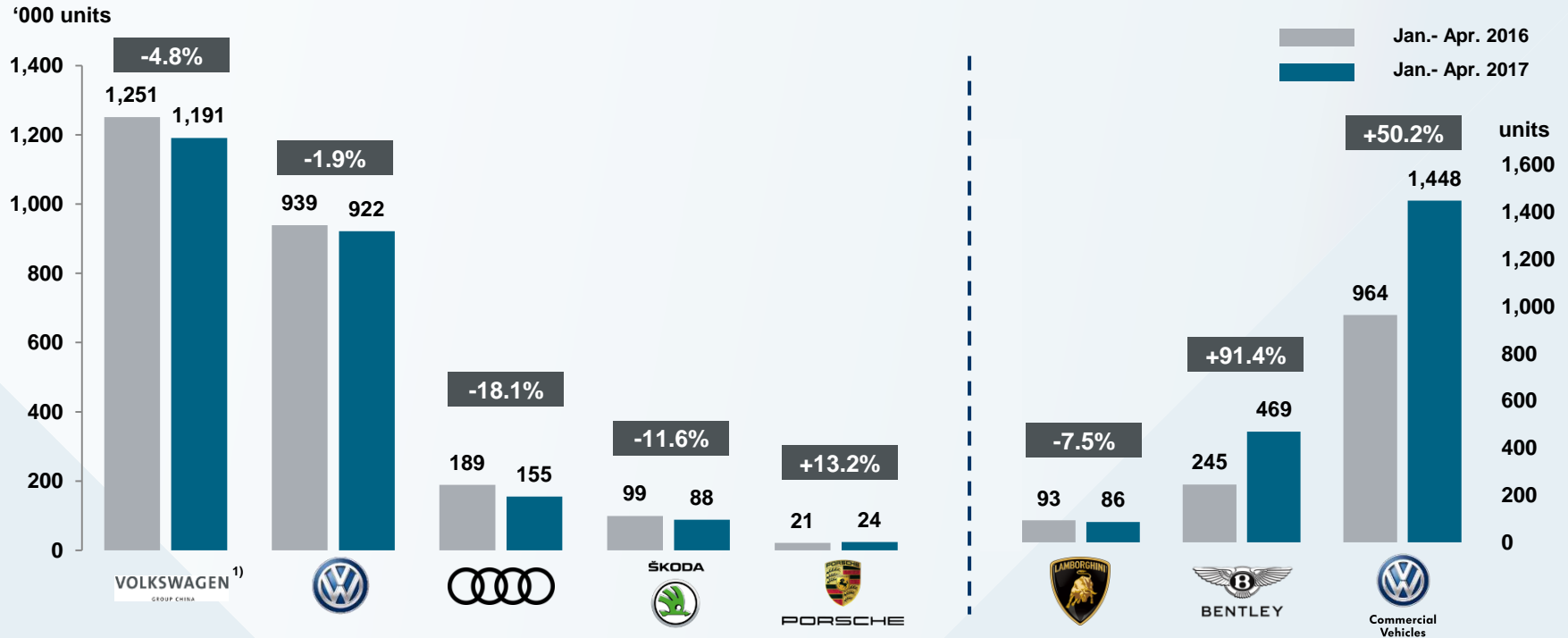


Strong market growth and pre-buy effect end of 2016 lead to slower start in 2017

Total market development (in '000 units)



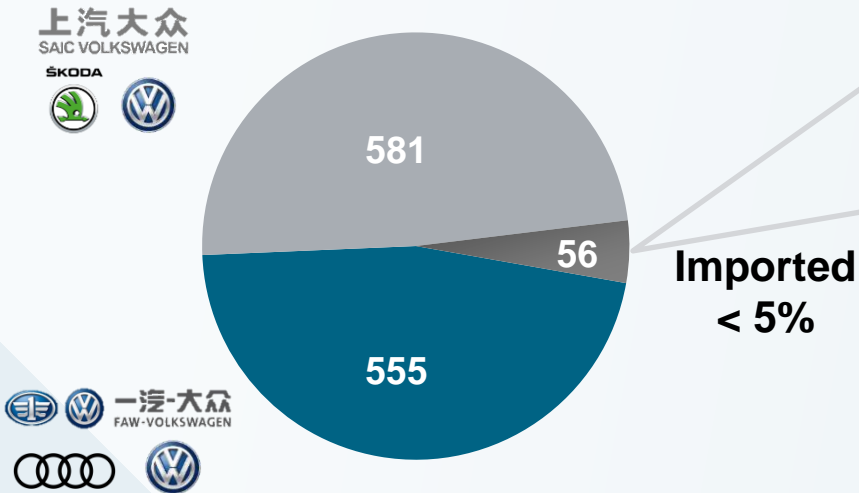
Volkswagen Group China deliveries to customers until April 2017



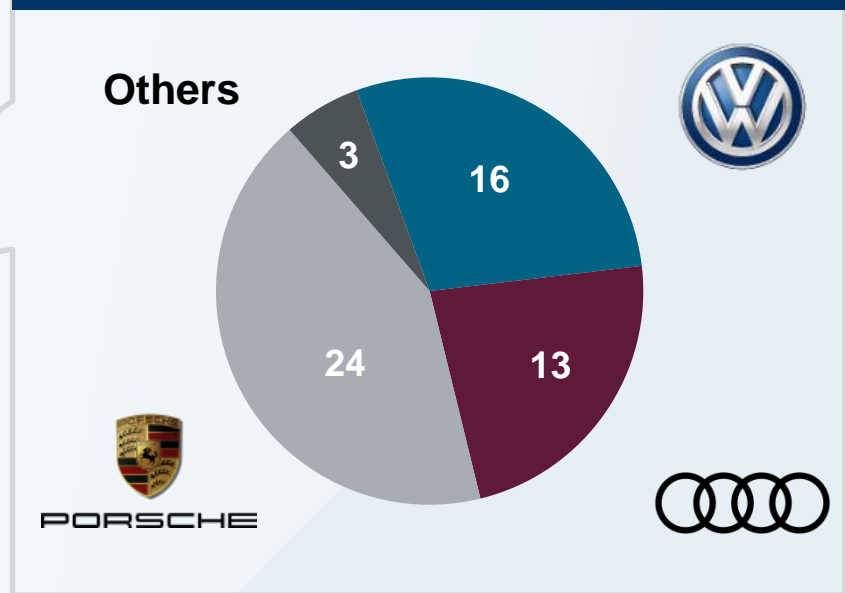
¹⁾ incl. Hong Kong, excl. Ducati. Group numbers incl. MAN and Scania

Split between locally produced and imported vehicles until April 2017¹⁾

Deliveries to customers (in '000 vehicles)



Import business 2017 (deliveries in '000 vehicles)

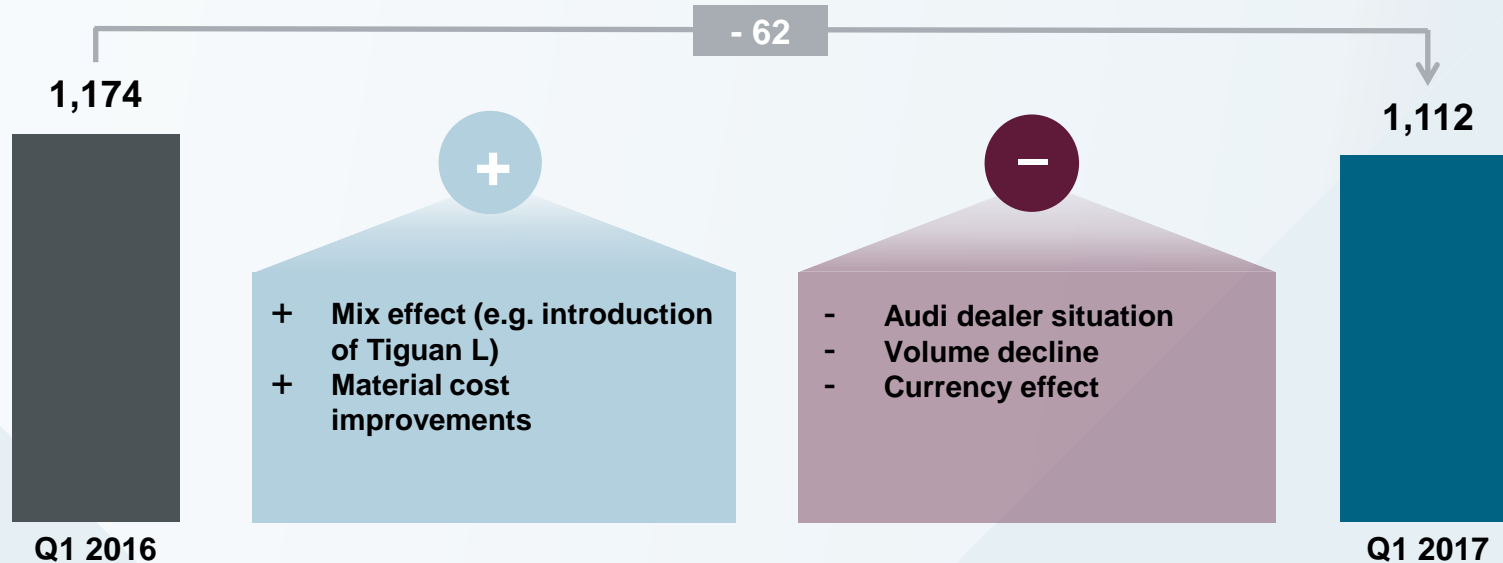


Total deliveries in the region China amounted to 1,191 thousand until April in 2017

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)

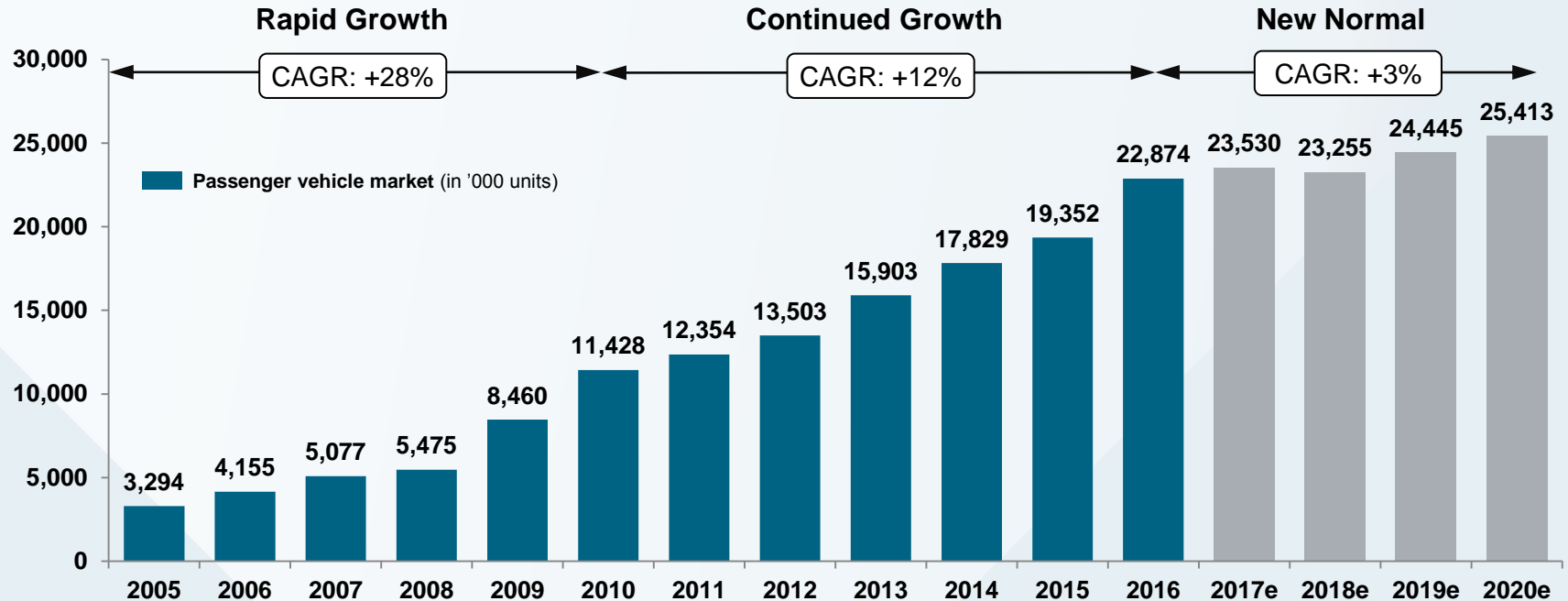


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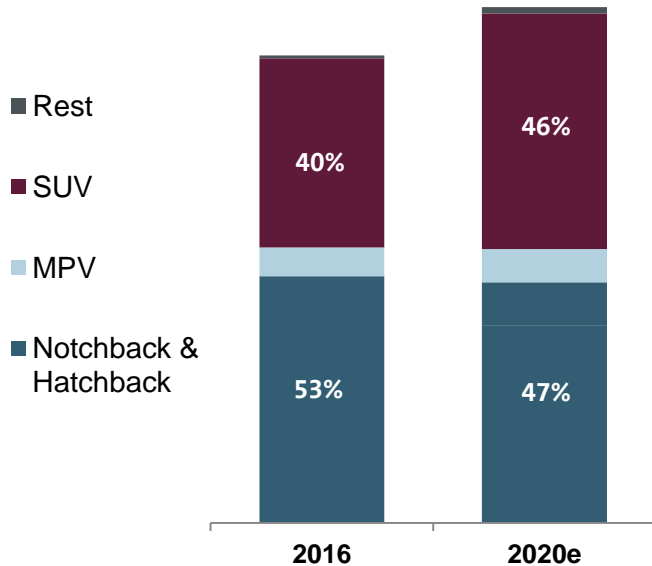
The continued rapid growth phase of China's market is over, looking into the future we expect normalized growth



Source: Forecast by IHS (as of Jan. 2017)

New product offering with an expanded SUV offering ¹⁾

Body style trends until 2020¹⁾



New vehicle launches 2017 and to follow²⁾

SUV



Others

imported

locally produced



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

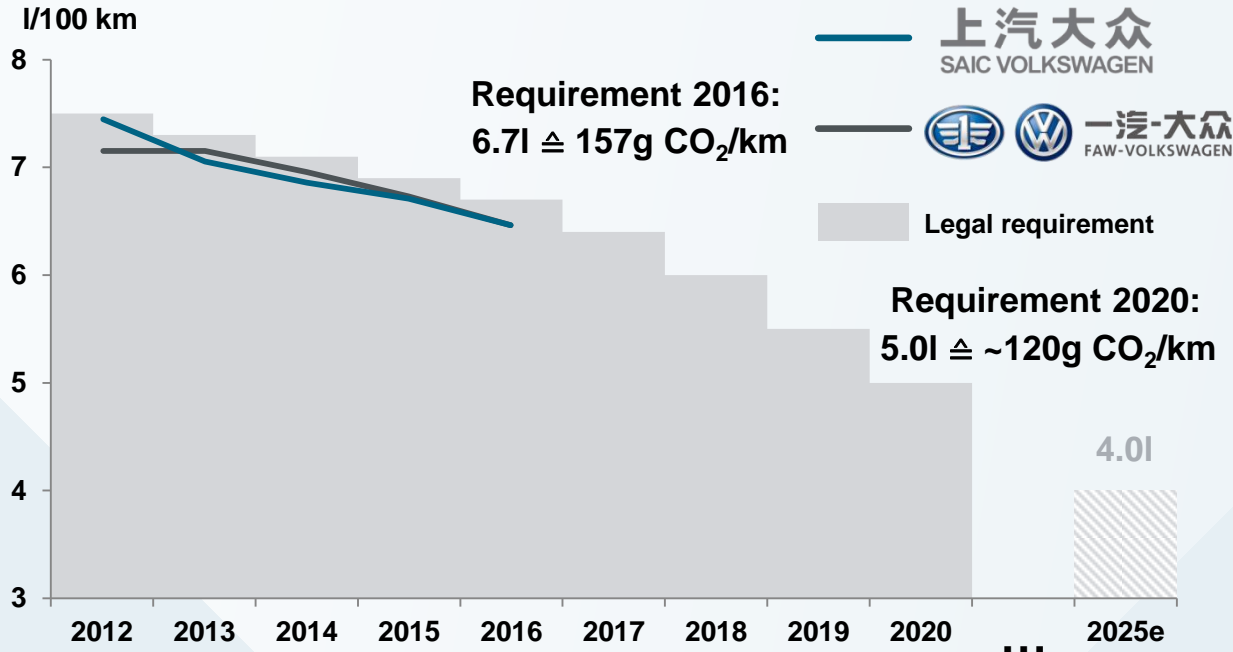
Further localization with focus on electrified cars with FAW-Volkswagen

- › 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

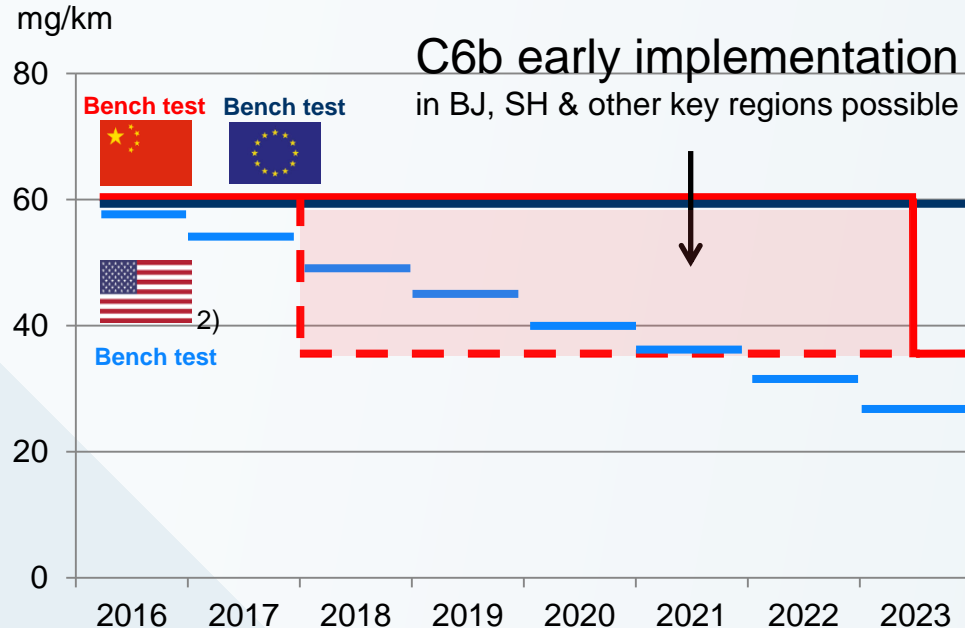


Challenges

- 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⁾



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**.

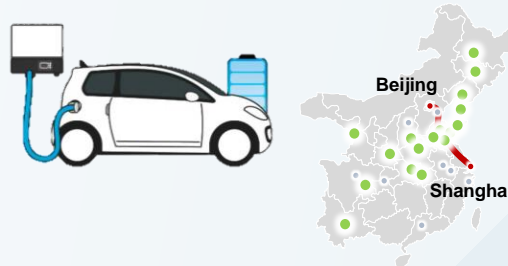
New Energy Vehicle strategy supported by Chinese Government

Subsidies for local NEVs¹⁾


- **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)

¹⁾ 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

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

2016	2018	2019	2020
None	8%	10%	12%

ICEs

min. NEV credit

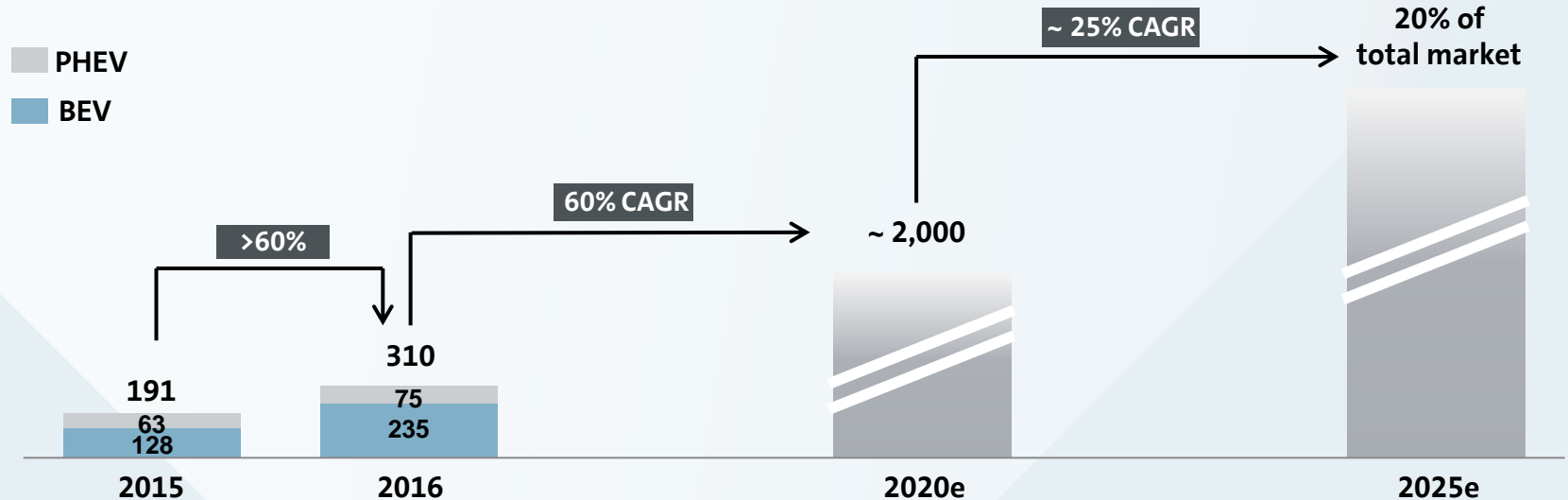
Example 2019:
1 million ICEs need
100,000 NEV credit points

NEV Credit Point Attribution per NEV Type

	BEV				PHEV	FCEV	
E-Range (in km)	80 - 150	150 - 250	250 - 350	>350	>50	250 - 350	>350
Credit Point	2	3	4	5	2	4	5

Mid- to Long-Term Development Plan for Automobile Industry foresees fast growing NEV market

New Energy Passenger Vehicles (in '000 units)



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

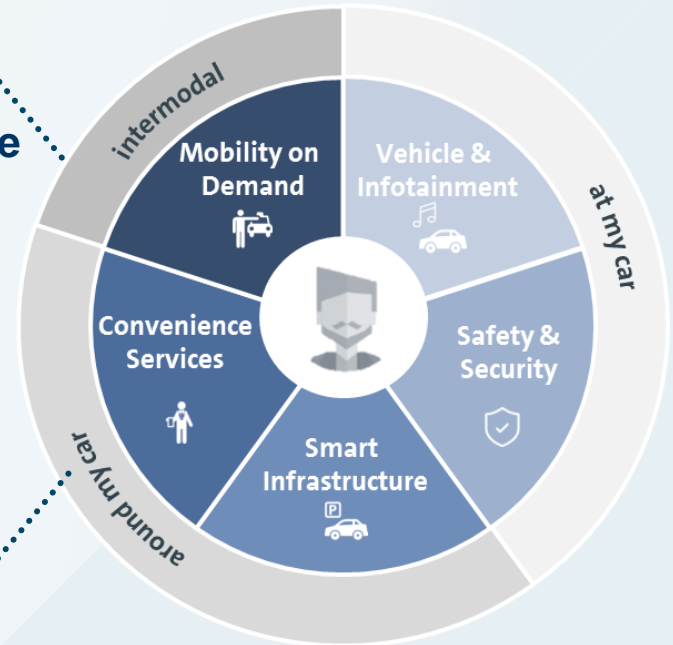
VOLKSWAGEN
GROUP CHINA

JAC 江淮汽车



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

Ride-hailing



滴滴出行
滴滴一下 美好出行

Didi Chuxing

Pre-owned car market



Youxin

Car-sharing



Shouqi



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 CHINA



AI MEETS AUTO



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

Mobvoi Inc. overview

Founded	2012
Headquarters	Beijing, China
No. of employees	310
R&D quota	50% engineers (Master or higher)
No. of patents	>50 (thereof 10 in Deep Learning)

Mobvoi Technology & Products

- Voice recognition
- Natural Language Processing
- Search
- Text-to-speech



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!**



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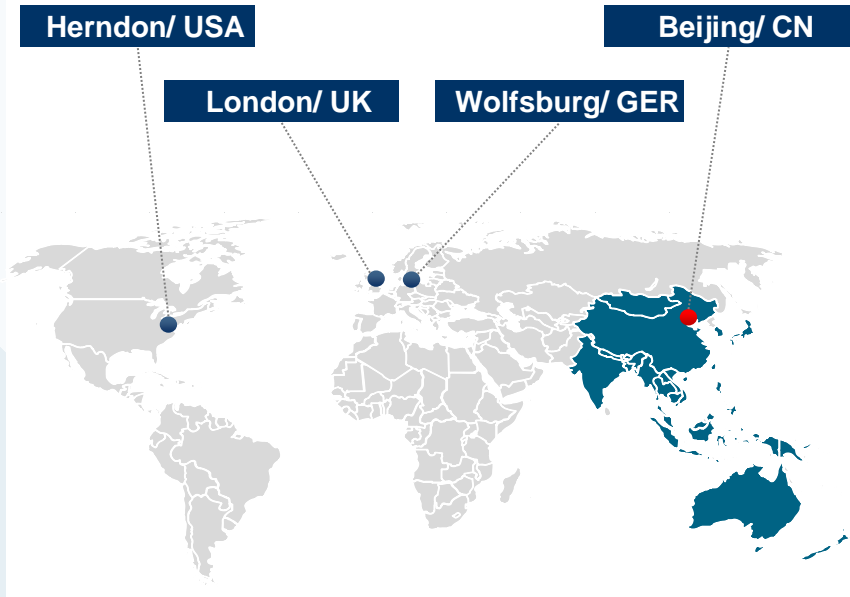
Carsten Isensee

Executive Vice President Finance, Volkswagen Group China

Morgan Stanley 3rd Annual China Summit, Beijing, 31 May 2017

Volkswagen Group Investor Relations – Your point of contact

Worldwide offices



Investor Relations in China



Lennart Schmidt

**CIIA/CEFA, CIRO
Investor Relations Manager**

**Volkswagen Group China
No. 3A, Xi Liu Jie, Sanlitun Road
Chaoyang District
Beijing 100027, P.R. China
Phone: +86 106 531 4132
Email: Lennart.schmidt@volkswagen.com.cn
www.volkswagenag.com/ir**