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New Group strategy adopted: Volkswagen Group to become a world-leading provider of sustainable mobility

- **“TOGETHER – Strategy 2025” ushers in the biggest change process in the Company’s history, with the focus on transforming the core business and tapping potential new revenue streams**
- **Major electrification initiative planned: more than 30 new e-vehicles by 2025, annual unit sales target of two to three million**
- **Battery technology, digitalization and autonomous driving to be developed into new Group competencies**
- **Components business to be realigned**
- **New mobility solutions business to be quickly expanded**
- **Projected investments in future technologies in the double-digit billion range, financed through Group-wide efficiency improvements and portfolio optimization**
- **Operating return on sales of 7 to 8 percent and return on capital employed in the Automotive Division of more than 15 percent by 2025 targeted**
- **Increasing profitability and efficiency of the Volkswagen brand are key to achieving Group targets**
- **CEO Matthias Müller: “The Volkswagen Group will be more focused, efficient, innovative, customer-driven and sustainable – and systematically geared to generating profitable growth.”**

Wolfsburg, June 16, 2016 – The Volkswagen Group is laying the foundations for lasting success in tomorrow’s world of mobility and its evolution into a world-leading provider of sustainable mobility. In order to achieve these goals, the Board of Management – with the approval of the Supervisory Board – has adopted a future program, “TOGETHER – Strategy 2025”. By doing so, it has also launched the biggest change process in the Volkswagen Group’s history. The new Group strategy comprises a raft of far-reaching strategic decisions and specific initiatives essentially aimed at safeguarding its long-term future and generating profitable growth. This is to be achieved by comprehensively transforming the core automotive business, rapidly establishing a new mobility solutions business, significantly increasing efficiency as well as strengthening innovation power and entrepreneurial mindset and approach in the Company.

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“Volkswagen has always enriched the lives of millions of people all over the world with its brands and products. Our aspiration is to continue that success story and play a leading role in shaping auto-mobility for future generations, too. This will require us – following the serious setback as a result of the diesel issue – to learn from mistakes made, rectify shortcomings and establish a corporate culture that is open, value-driven and rooted in integrity,” explained CEO Matthias Müller during the presentation of the new strategic direction in Wolfsburg.

“Our future program ‘TOGETHER – Strategy 2025’ will make the Volkswagen Group more focused, efficient, innovative, customer-driven and sustainable – and systematically geared to generating profitable growth. We aim to create lasting value for all our stakeholders. This can only be achieved together – with our employees, with and for our customers, shareholders and business partners – while being fully aware of our responsibility toward society and the environment,” Müller continued.

“TOGETHER – Strategy 2025” provides the framework and compass for the Volkswagen Group’s envisioned evolution from car manufacturer into a world-leading provider of sustainable mobility. It will be fleshed out with corresponding strategies for the Group brands to be gradually elaborated over the coming months. Volkswagen will present the detailed strategic program, broken down into brands and functions and backed up with specific measures and financial targets, before the end of the year.

This also includes the Volkswagen brand’s “pact for the future”, which the Brand Board of Management and the Works Council have been working on since early June. It involves significantly increasing efficiency, productivity and profitability with the aim of safeguarding competitiveness and jobs, and financing the necessary future investments in products and locations. In light of the brand’s importance within the Volkswagen Group, it will also play a key role in achieving the Group targets.

Transformation of the core business

Today saw the presentation of the key building blocks in the new Group strategy which centers on transforming Volkswagen’s core automotive business or, to put it another way, making a fundamental realignment in readiness for the new age of mobility. For this, Volkswagen will sharpen the positioning of the Group brands and optimize the vehicle and drivetrain portfolio to focus on the most attractive and fastest-growing market segments. Furthermore, the Group’s current product portfolio of around 340 different model variants will be systematically geared to profitable growth, taking regional market and customer needs into account.

With regard to vehicles, and drivetrains, special emphasis will be placed on e-mobility. The Group is planning a broad-based initiative in this area: it intends to launch more than 30 purely battery-powered electric vehicles (BEVs) over the next ten years. The Company estimates that such vehicles could then account for around a quarter of the global passenger car market. The Volkswagen Group forecasts that its own BEV sales will be between two and three million units in 2025, equivalent to some 20 to 25 percent of the total unit sales expected at that time.

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Volkswagen is also to review and streamline its modular architectures in the context of generating profitable growth so as to reduce complexity in development and production, increase efficiency and thus make better use of the system's economic merits.

The regional growth strategy already initiated in particularly attractive automotive markets is being continued. The Volkswagen Group is affirming its expansion and investment plans already announced for North America and its continued expansion program in China. In this context, the Volkswagen Group intends to tap the economy segment – i.e. the segment comprising attractively-priced entry-level products that is, for instance, especially relevant for Asia – by partnering with regional players. Talks in this regard are at an advanced stage.

New competencies

A further lever for transforming the core automotive business is to develop new competencies. The Group therefore intends to independently provide the resources necessary to address the future topic of autonomous driving and artificial intelligence. The aim is to license a competitive self-driving system (SDS) developed in-house by the end of the decade.

In light of the rapid gains in market volume and unit sales of electric vehicles over the coming years, the Volkswagen Group is also to develop battery technology as a new competency. The strategic options for participating in the potential revenue stream associated with this and developing battery technology into a new Group competency will be carefully examined.

Entrepreneurial mindset and approach

Transforming the core business also encompasses systematically promoting an entrepreneurial mindset and approach in the Group. Alongside gradually implementing the model line organization at the Group brands, this primarily involves realigning the components business, which currently accounts for around 67,000 employees at 26 locations worldwide. The relevant activities are to be systematically combined across all brands and strategically realigned. The Volkswagen Group hopes that realigning the components business will strengthen competitiveness, increase efficiency and make significant contributions to future topics such as the e-mobility initiative.

The Volkswagen Group will resolutely pursue the future topics in both the passenger cars and commercial vehicles segments. For its commercial vehicles business, which currently comprises the Scania, MAN and Volkswagen Commercial Vehicles brands, the Group is reaffirming its strategic goal of creating a global champion. The plan is for Volkswagen Truck & Bus, as a multi-brand provider across the cycle, to become the most profitable company in the sector, with a significant presence in all key regions of the globe. These targets are to be achieved firstly through much closer cooperation between the commercial vehicles brands and, secondly, by enhancing the group's overall performance as well as expanding its global footprint. New business models will also play a decisive role in this. In the medium term, the business unit will increasingly evolve from a purely commercial vehicles manufacturer into a provider of intelligent transportation solutions.

Under the strategic realignment of Volkswagen, the Financial Services Division will also be a significant source of earnings for the Group and a mainstay of its brands' success.

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“Developing, building and selling vehicles, including the related financial services, will remain essential for the Volkswagen Group going forward. However, the transformation we have initiated today will permanently change the face of our core business, ensuring that we remain a leading player over both the medium and the long term.

As is traditional in the Volkswagen Group, we will take a responsible, collaborative approach. Such far-reaching change as we have set out to achieve is only possible together,” said CEO Matthias Müller.

Mobility services as additional growth driver

The second key building block of “TOGETHER – Strategy 2025” alongside the transformation of the core business involves the establishment of a cross-brand mobility solutions business. The new unit will develop and acquire offerings tailored to customer requirements – centering on and starting with ride hailing, i.e. on-demand mobility services. Other services such as robotaxis, carsharing and transport on-demand will then be grouped around this nucleus. The Volkswagen Group already secured its first foothold in the ride hailing segment at the end of May, when it invested in a strategic partnership with on-demand mobility company Gett.

In a rapidly expanding market, Volkswagen’s aim is for the new mobility solutions business unit to generate sales revenue in the billions by 2025.

Both the transformation of the core business and the new Group mobility solutions unit require Volkswagen to strengthen its traditionally excellent innovation power and place it on an even broader footing. The Group is driving forward with digitalization across all areas and brands. At the same time, the Company will rely to a greater extent than before on partnerships, acquisitions and venture capital investments. In the future, investment selection will be managed centrally so as to generate maximum added value for the Group and its brands.

Significant efficiency improvements

In total, Group-wide investments in future topics under Strategy 2025 are expected to be in the double-digit billion range. To ensure they can be financed, operational excellence above all is to be increased significantly across all divisions and functions. At the Volkswagen brand in particular, the Group will thus strive to unlock the efficiency potential, which by industry standards is considerable. This goes for the entire value chain in the automotive business, from product development through sourcing and production to distribution.

More specifically, the Volkswagen Group is aiming for a ratio of capex to sales revenue in the automotive business of 6.0 percent by 2025. The efficiency of research and development expenditures is also to be significantly improved; the ratio of R&D costs to sales revenue is likewise to be reduced to 6.0 percent. In addition, selling, general and administrative expenses, which as a percentage of sales revenue have increased significantly in recent years, are to be reduced to under 12 percent. Overall, based on the figures for fiscal year 2015, the Volkswagen Group expects more efficient use of resources to generate the potential for a significant annual improvement in earnings. The individual measures at Group, brand and divisional level will be set out in greater detail in the coming months.

Additional funds for future investments can also be generated by optimizing the existing portfolio of brands and equity investments.

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Financial targets amended

“Strategy 2025” is backed up with amended financial targets. “In line with being systematically geared to generating profitable growth, the focus is clearly on earnings power. Over the coming years, we will do all we can to continuously create value for our shareholders based on a solid financial position,” explained Chief Financial Officer Frank Witter. For the Group’s operating return on sales, which in 2015 stood at 6.0 percent before special items, the aim is an increase to between 7 and 8 percent by 2025. The return on capital employed in the Automotive Division is then intended to be more than 15 percent. The payout ratio to shareholders is to be sustained at around 30 percent of net profit.

“The Volkswagen of the future will inspire its customers with fascinating vehicles, financial services tailored to demand, and smart mobility solutions. We will be a technology leader and role model when it comes to environment, safety and integrity. The Group will achieve competitive profitability, and so remain both an attractive investment and an excellent, reliable and secure employer. In short, Volkswagen will be an enterprise we can all be proud of,” said CEO Matthias Müller in summary.

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