

Dr. Herbert Diess

Annual Session 2017 – Part 1

Ladies and Gentlemen,

A very warm welcome to the Volkswagen brand's first Annual Session here in Wolfsburg.

You understandably attach **great importance** to the Volkswagen brand. We are responsible for all vehicles in the Group with a transverse engine, in particular the **modular transverse toolkit**. Around **80 percent** of Group vehicles are based on this technology.

- ŠKODA with around **1.1 million vehicles**,
- SEAT with **400,000 vehicles**,
- Audi with **400,000 vehicles**,
- And especially the Chinese joint ventures with around **3 million vehicles** – they all build their business on products based on the technical architecture developed by Volkswagen.

Added to this are **200,000 large SUVs** that the VW plant in Bratislava produces for Audi and Porsche.

Half of **Volkswagen components** are produced for other Group brands. And in the future, the **majority of the electric vehicles** from SEAT, ŠKODA and Audi will be based on the **electric architecture** developed by us.

The Volkswagen brand is the **mainstay** of the Group.

So we believe transparency is best served by informing you **more often** and in **greater detail** about Volkswagen's progress.

Ladies and Gentlemen,

2016 was a **pivotal year** for the Volkswagen brand. It was a **year of transformation**. And a year that marked the start of a new phase for our company.

- We devoted immense energy to the **diesel crisis**.
- We initiated the **transformation** in business operations.
- And we laid the groundwork for the **strategic realignment** of the brand. Many of you were already here six months ago when we presented our "Transform 2025+" strategy and the Zukunftspakt.

Our mission in this endeavor is:

We want to make the Volkswagen brand competitive for the future. Our goal is: by 2025, we aim to play a leading role in the changed automotive industry, to provide innovative mobility solutions and to be the global market leader in e-mobility.

It is certainly still too early for a mid-term review of our strategy.

However, the first quarter is a good opportunity for us to review whether we are headed in the right direction. And it's a good time to provide you with an idea of our next steps for 2017.

First, I would like to address the **modification of the diesel vehicles**.

We are progressing as planned with this. In Europe, **more than half** of the vehicles have already received the necessary software update. In Germany, this figure is actually nearly three quarters. This means that over **2.6 million vehicles** have been modified.

Our customers are comfortable with the technical modifications. Less than one percent are not satisfied with the measures. We respond to every customer feedback and can usually solve these cases quickly.

Our **3,000 dealers** played a major role in this positive outcome as they handled the recall swiftly and have done an excellent job. I would like to take this opportunity to thank them wholeheartedly for their support with this.

Our goal: by the **end of the year, all Volkswagen brand vehicles** in Europe should be modified. We are also working on completing these modifications in North America and other regions in the world and would like to finalize this work as soon as possible.

So we are confident that this task will be completed in the foreseeable future. And we are also aware that it will take a great effort to make the brand shine again.

Ladies and Gentlemen,

We have devoted a great deal of energy and attention to the diesel crisis. Nonetheless, we have continued to make progress in our strategic and operational activities.

Volkswagen has a solid foundation – from development through production to sales. Our entire team is committed to driving the necessary change in the company.

Chart

With “**Transform 2025+**”, we have established our milestone plan for the next ten years. The strategic realignment is being executed in **three major phases**.

Chart

- By 2020, we intend to first **significantly improve profitability in the core business** and regain our position as a leading volume manufacturer. This includes an operating return on sales of at least 4 percent.
- By 2025, we intend to **take the lead on the car of the future – that is, the fully connected, fully electric vehicle**. The return is expected to increase to 6 percent.
- And, from 2025, we will also focus on **new mobility solutions and business models**. That is how we will shape the major transformation of our industry from a leading position.

Over the recent months, the main focus has been on **five key projects**.

First, the swift and resolute **implementation of the Zukunftspakt**.

It is an essential building block of our strategy and will decisively contribute to making Volkswagen **profitable** and **fit for the future**.

We agree with the Works Council that we must significantly increase productivity and reduce costs at the locations in Germany to put the Volkswagen brand back on track for success.

We have therefore agreed ambitious targets and measures for all locations in Germany. Together, we will now systematically implement this program.

Chart

Our goal for 2017 is to increase productivity by 7.5 percent. Specific action plans have been agreed with the Works Council for all locations for both components and vehicle production.

Key measures include:

- Improved ramp-up maturity of new products and thus more efficient ramp-ups. We have already demonstrated this with the Tiguan.
- Increased plant capacity utilization and thus reduced working hours - such as at the Salzgitter engine plant.
- A reduction in indirect, non-value adding activities.
- And a significant reduction in rework by improving processes.

We will transfer this program step by step to all production plants globally.

Most locations in Germany are on track after the first quarter. That being said, the locations with lower capacity utilization will have a hard time reaching the targets for 2017. That's why we will develop catch-up measures for the coming year to close the gap.

At the same time, we have already made decisions as part of the Zukunftspakt that safeguard the future of the locations in Germany in the long term.

- Starting from 2018, a new model for a sister brand will be produced in Wolfsburg.
- The fourth model for the Emden plant is in the development phase.
- The “**Center of Excellence**” in Salzgitter also recently commenced operations. It is responsible for the development, procurement and quality assurance of battery cells and modules. Pilot production is currently in the planning phase.

Project No. 2 is the successful launch of our **SUV offensive**. We will significantly strengthen our presence in this segment. By 2020, we will expand the global model range from the original two to 19 SUVs.

With the **Atlas**, **Teramont** and **Tiguan Allspace**, we have introduced three new SUVs in the recent months.

The **Tiguan** illustrates just how important these vehicles are as regards volumes, results and image. Since its product launch, more than **300,000 customers have placed orders** for the Tiguan.

Europe is not the only place we produce the Tiguan. Production is also now successfully under way in Russia, China and also Mexico for the North American market. The Tiguan is increasingly becoming a strong global revenue driver for the brand.

We have also made progress in the regions – our third major focus over recent months.

Chart

Our substantial restructuring programs are starting to bear fruit: in **North** and **South America** as well as **Russia**, we have grown at an above-average pace and have gained market share during the first quarter.

In **North America**, we have reduced fix costs and achieved a significant boost in productivity. The Puebla plant – our most important plant for North America – lifted productivity by more than 12 percent last year.

Deliveries have increased by 3.8 percent, and actually by **10 percent** in the United States. Thus, we have almost returned to pre-crisis levels within just one and a half years. And this is all without the diesel model, which we have completely withdrawn from US market.

In **South America**, we have undertaken massive restructuring. Over the past years, the number of employees was reduced by around 7,000; and, at the same time, the production plants have become significantly more productive.

The market is now picking up again following years of weak development. Deliveries increased by almost **13 percent** during the first three months.

We have also been through a tough restructuring in **Russia**. We have cut shifts, adjusted the number of employees and significantly reduced the amount of rework. We have turned the corner with an increase of 12.8 percent in deliveries.

In all three regions there was significant improvement in our **result**. This shows that our **turnaround programs** are starting to take hold.

In addition, we have restarted the **import business** in China and are achieving positive sales and margins again there post- Phaeton.

The fourth action area concerns the organization: we are becoming **faster, more agile and more efficient**.

Chart

Following the introduction of the **product line organization**, which independently manages the vehicle projects, the **regions** also assumed full responsibility at the beginning of the year.

We are already experiencing the positive effects of this autonomy: the regions are making decisions more swiftly and are closer to the markets and customers. Current vehicle projects are now being executed significantly more efficiently.

I think the best example of this is the next generation of the Golf: technology and design have already been signed off, two months before the originally planned date. Without a doubt, we have never been so far along the process in a vehicle project at this point in time.

The **fifth project** that is proceeding at a rapid pace is the Volkswagen **electric offensive**.

Chart

We are already taking a major step with the **new e-Golf**: a range of 300 kilometers guarantees everyday practicality and is completely sufficient for many customers.

In addition, over the last few months, we have given some true-to-life insights into the future of e-mobility and our brand with the **I.D.**, the **I.D. BUZZ**, and the **I.D. CROZZ**.

The I.D. family is based on a whole new electric vehicle architecture. With this architecture, we are creating the **technological and economic foundation** for the majority of the **future electric vehicles in the Group**.

Ladies and Gentlemen,

In recent months we have **driven forward** our strategy and are laying the foundation for a **new Volkswagen**.

Our **good results** in the first quarter 2017 illustrate that we are **on the right track**.

Chart

At about **1.4 million**, deliveries were down on the prior year. But that was mainly attributable to China, where the market in general felt the effects of expiring subsidies and general consumer reticence at the beginning of the year.

In the rest of the world, we recorded 1.2 percent growth in the first quarter. And meantime, we have returned to growth in China, too, where full-year deliveries will be up.

Chart

On the financial side, we are also doing well.

Sales revenue grew to around €19 billion.

And we generated an operating profit of around €870 million.

Due to **structural changes** in the Group, comparing these figures with those of the previous year is only possible to a limited degree. Dr. Antlitz will explain these changes and, of course, the figures themselves to you in more detail in a moment.

Chart

What can be said with certainty is that the brand has got off to a much **better** start this year than in 2015 and 2016.

Our **very special thanks** go to the entire Volkswagen team for this.

Dr. Antlitz, I would now like to hand over to you.