

Goals and Strategies

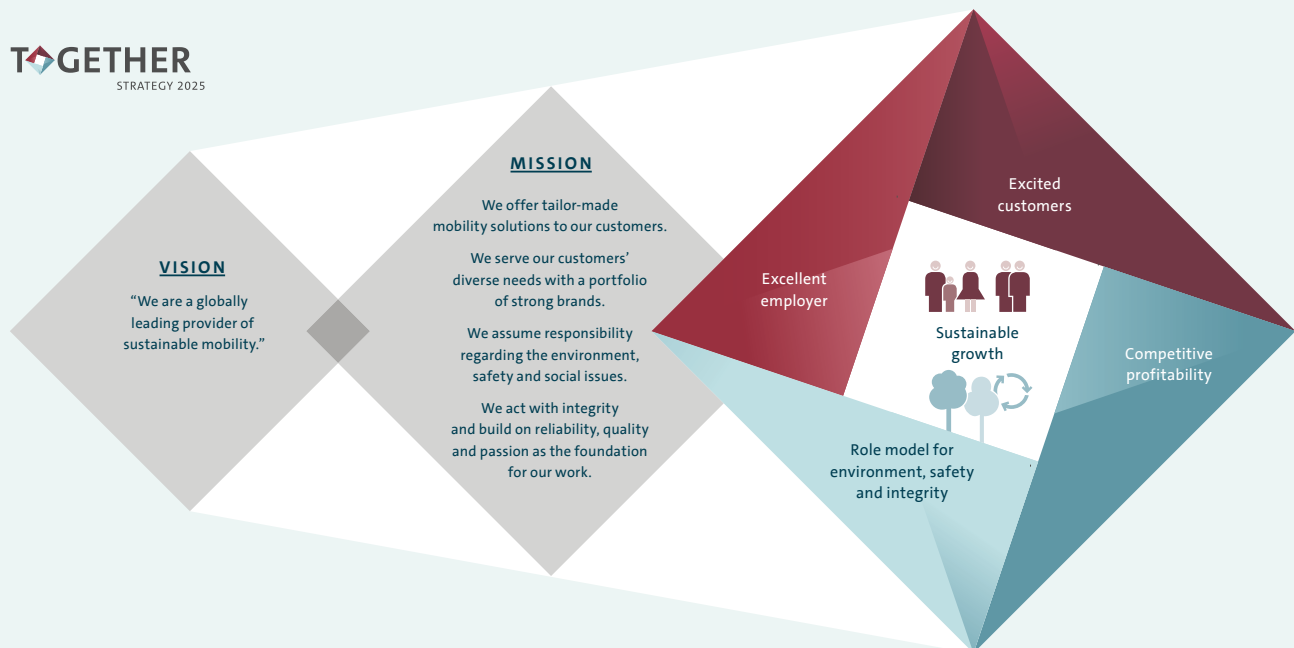
With its future program TOGETHER – Strategy 2025, the Volkswagen Group has launched the biggest change process in its history, laying the foundations for lasting success in tomorrow’s world of mobility and for its evolution into a globally leading provider of sustainable mobility.

The automotive world is in a state of transformation, and autonomous driving, e-mobility and connected vehicle concepts are the dominant trends. Technological changes are influencing customer needs and business models; new competitors are entering the market from other industries; shorter innovation cycles and the establishment of new core competencies are requiring ever more capital; stricter emission standards and increased market

volatility are leading to more complex underlying conditions. All this poses new challenges for us as a vehicle manufacturer.

Against this backdrop and with the approval of the Supervisory Board, the Volkswagen Group’s Board of Management resolved in June 2016 to launch the future program TOGETHER – Strategy 2025, the biggest change process in Volkswagen’s history. We want to make a decisive contribution to shaping not only today’s

FUTURE PROGRAM TOGETHER – STRATEGY 2025



mobility, but tomorrow's too. That is why the Group has reinvented itself, guided by the vision of becoming one of the world's leading providers of sustainable mobility. With the future program, we are making the Volkswagen Group more focused, efficient, innovative, customer-oriented and sustainable, and more systematically geared to generating profitable growth.

Experts from all parts of the Company worked on developing TOGETHER – Strategy 2025, which builds on the successful Strategy 2018. The strategy arose at the core of the Company and unites the knowledge, experience and vision of the Volkswagen Group and its employees. The time horizon until 2025, which features in the strategy's name, stands for long-term, future-oriented thought and action. The term TOGETHER describes the mindset that will be even more vital to the Volkswagen Group's long-term success going forward. Our intention with the new Group strategy is for everyone in the Volkswagen Group to join us in producing fascinating vehicles and forward-looking, tailor-made mobility solutions that will continue to inspire our customers, meeting their diverse needs with a portfolio of strong brands. Every day, we actively assume and exercise responsibility in relation to the environment, society and safety, and we wish to be a role model in these areas. Integrity, reliability, quality and passion form the basis for our work. The realignment will enable us to maintain our technological leadership in the industry and at the same time ensure our competitive profitability. Volkswagen will thus remain an attractive investment and, what is more, an excellent, reliable and secure employer.

TOGETHER – Strategy 2025 creates the framework and lays the building blocks for the evolution of the Group, with its strong brands, its international production sites and its skilled, dedicated workforce. The Code of Collaboration formulated as part of the future program is the foundation on which the Group strategy rests. The Code describes how collaboration is to take place within the Group and between individuals in their day-to-day work. Its core values are encapsulated in the terms “open and honest”, “uncomplicated”, “without prejudice”, “on an equal footing” and “for one another”. The change process is complemented by the corresponding strategies of the brands and functional areas.

FOUR KEY BUILDING BLOCKS OF THE FUTURE PROGRAM

TOGETHER – STRATEGY 2025

The new Group strategy comprises a raft of far-reaching strategic decisions and specific initiatives essentially aimed at safe-guarding the Group's long-term future and generating profitable growth. A total of 16 strategic Group initiatives are assigned to the four key building blocks of the program. The latter are: comprehensively transforming our core automotive business; establishing a new mobility solutions business; strengthening the Group's innovative power; and secure funding of our investments.

First key building block: transforming our core business

Developing, building and selling vehicles will remain essential for the Volkswagen Group going forward. However, there will be far-reaching and lasting changes to this business. That is why we are profoundly restructuring our core business to face this new era of mobility.

As part of this transformation process, we will prospectively 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. The Group's product portfolio will be geared to profitability, taking the needs of customers and regional markets into account. One focus will be on e-mobility. The regional growth strategy that has been launched will continue in particularly attractive automotive markets. Expansion and investment plans for North America and the expansion program in China will remain in place. In Asia, especially, we want to tap the economy segment, i.e. the segment comprising attractively priced entry-level products, forging partnerships with local companies to achieve this.

As part of its policy of generating profitable growth, the Volkswagen Group will review and streamline its modular toolkits so as to reduce complexity in development and production and simultaneously enhance efficiency. Transforming our core business also encompasses systematically promoting an entrepreneurial mindset and approach, which is why we have implemented a product line organization in the high-volume passenger car brands. The components business will be realigned, with the aim of improving competitiveness and efficiency, and making an important contribution to the trends that will shape the future.

With regard to vehicles and drivetrains, special emphasis will be placed on e-mobility. In the coming years, we intend to launch more than 30 different types of purely battery-powered electric vehicles (BEVs) and to sell between two and three million BEVs by 2025 – equivalent to around 20–25% of the Group's expected total unit sales.

In light of the expected rapid gains in market volume and unit sales of BEVs, the Volkswagen Group will develop battery technology as a new core competency, thus reducing the risk of becoming dependent on suppliers in these areas. On top of that, we will work together with partners.

A further lever for transforming our core automotive business is to develop new core competencies in forward-looking areas such as autonomous driving and artificial intelligence. We need to provide the necessary resources in order to develop a competitive technical solution for a self-driving system and have it licensed by the end of the decade.

16 COMPREHENSIVE GROUP INITIATIVES



Our goal and our aspiration is to systematically put ourselves in our customers' shoes. At three Volkswagen Group Future Centers in Germany, the USA and China, designers and digital experts are working together on the vehicles of the future so that the Group can offer the best-possible customer experience and make optimum use of the latest technologies.

In the Commercial Vehicles Business Area, too, we are pursuing a future-oriented policy with the Scania, MAN and Volkswagen Commercial Vehicles brands, one of our goals being to become a provider of intelligent transport solutions. Offering vehicles under several different brands, Volkswagen Truck & Bus is to become a global industry champion, with a significant presence in all key regions of the world and with enhanced overall performance.

After the strategic realignment of the Volkswagen Group, the Financial Services Division will continue to support the brands' business models and remain an important source of revenue.

Second key building block: establishing a mobility solutions business

The second key building block of the new Group strategy is the new cross-brand mobility solutions business, in which we are setting up mobility services. In this context, we have established a new business unit with MOIA. This will center on ride hailing. Subsequently, further attractive and profitable services that are tailored to customer requirements, such as robotaxis, carsharing, or on-demand transport for the logistics industry shall be developed or acquired. In order to achieve this, we will rely to a greater extent than previously on partnerships, acquisitions and venture capital investments. Investment selection will be managed centrally so as to generate maximum value for the Group and its brands.

We have secured the City of Hamburg as a strategic partner in our determination to become an end-to-end mobility provider. The focus of this partnership is on sustainable urban mobility concepts, intermodality, innovative vehicle concepts and technologies, autonomous driving and parking, and traffic flow management.

Third key building block: strengthening innovative power

Both the transformation of our core business and the new mobility solutions business require us to strengthen our traditionally excellent power to innovate and place it on an even broader footing. To this end, the Volkswagen Group is pushing ahead with the digital transformation in all parts of the Company.

This involves operational aspects such as Industry 4.0 in production and logistics as well as digitalization in sales. In addition, the Organization 4.0 initiative will put in place a more attractive, up-to-date work organization. Structures and processes will be changed in everyday work situations and an environment created that encourages open, collaborative working relationships across all levels.

Fourth key building block: secure funding

Becoming one of the world's leading providers of sustainable mobility calls for substantial capital expenditure. This expenditure is to be funded primarily through efficiency gains across all brands and functional areas: operational excellence is something that concerns the entire value chain, from product development and sourcing through to production and distribution. Additional funds for future investments can also be generated by optimizing the existing portfolio of brands and equity investments.

The continuity and even closer interlinking of strategic and operational planning enhances transparency when it comes to the financial assessment and the evaluation of directional decisions.

GOALS AND KEY PERFORMANCE INDICATORS OF THE GROUP'S STRATEGY

The strategic initiatives describe how we intend to achieve our vision of becoming one of the world's leading providers of sustainable mobility. For this purpose, we have defined four target dimensions – excited customers, excellent employer, role model for environment, safety and integrity, and competitive profitability – which are designed to help us grow sustainably.

Although these target dimensions apply throughout the Group, the strategic KPIs that we will use to measure how well we have implemented our Group strategy will depend on the business model. The business model for our passenger car brands is thus different not only from that of our truck and bus brands, but also from that of power engineering and our services business. In the following we describe the Group's strategic goals attached to these targets. The strategic KPIs of the competitive profitability target dimension have been defined and anchored uniformly in the Group. As the new Group strategy has yet to be specified in detail, the content of the strategic KPIs in the other targets is still being determined.

Target dimension: excited customers

This target dimension focuses on the diverse needs of our customers and on tailor-made mobility solutions. We aspire to exceed our customers' expectations, generating maximum benefit for them. That calls not only for the best products, the most efficient solutions and the best service, but also for flawless quality and an outstanding image. We want to excite our existing customers, win over new ones and retain their loyalty in the long term – because only loyal and faithful customers will recommend us to others.

The strategic KPIs include, for example, the loyalty rate, conquest rate and breakdowns.

Target dimension: excellent employer

Skilled and dedicated employees are one of the keys to sustainable success. We wish to promote their satisfaction and motivation by means of equal opportunities, a modern and attractive working environment, and a forward-looking work organization. An exemplary leadership and corporate culture forms the foundation for this, enabling us to retain our core workforce and attract new talent.

The strategic KPIs of this target dimension include the Group's attractiveness as an employer as determined internally by means of the opinion survey and as perceived externally, as well as the equality index.

Target dimension: role model for the environment, safety and integrity

Every day, we at the Volkswagen Group assume and exercise responsibility in relation to the environment, safety and society. This sense of responsibility informs all our thoughts and actions in equal measure in all the decisions we take.

We pay particular attention to the use of resources and the emissions of our product portfolio as well as those of our locations and plants, with the goal of continuously reducing our carbon footprint and lowering pollutant emissions. Through our innovations and outstanding quality, we offer our customers maximum product safety.

We want to regain and strengthen the trust of our customers and restore the Group's positive public image. The most important principles in this process include compliance with laws and regulations, the establishment of secure processes, and dealing openly with mistakes so that they can be avoided or rectified in the future. In terms of integrity, Volkswagen aims to become a role model for a modern, transparent and successful enterprise.

The strategic KPIs of this target dimensions include the decarbonization index and emissions figures, as well as compliance, process reliability and an error management culture.

Target dimension: competitive profitability

Investors judge us by whether we are able to meet our obligations as regards interest payments and debt repayments. As equity holders, they expect adequate dividends and a lasting increase in the value of their shares.

We make investments with a view to achieving profitable growth and strengthening our competitiveness, thus keeping the Volkswagen Group on a firm footing and ensuring it remains an attractive investment option.

The goals we have set ourselves are to achieve operational excellence in all business processes and to become the benchmark for the entire industry.

The strategic KPIs are operationalized for internal management purposes: target and actual data are derived from Volkswagen Group figures.

STRATEGIC KPIS: COMPETITIVE PROFITABILITY

	2015	2025
Operating return on sales ¹	6.0%	7 to 8%
Research and development ratio (R&D ratio) in the Automotive Division	7.4%	~ 6%
Capex/sales revenue in the Automotive Division	6.9%	~ 6%
Net cash flow in the Automotive Division	€8,887 million	Positive, to allow a distribution ratio of 30%
Net liquidity in the Automotive Division	€24,522 million, 11.5%	~ 10% of consolidated sales revenue
Return on investment (ROI) in the Automotive Division	-0.2%	> 15%

¹ 2015 before special items