

July 29, 2014

Europe | Germany | Automotive

DR. KALLIWODA
RESEARCH GmbH

Initiating Coverage

BUY

Target price: EUR 215

Industry: Automotive
 Country: Germany
 ISIN: DE0007664039
 Bloomberg: VOW3.GR
 Reuters: VOW3.DE
 Website: www.volkswagenag.com

Last Price:	High	Low
178.60	205.00	166.50
Price 52 W.:		
Market Cap. (EURbn)	85.60	
No. of Shares (in m, prefs.)	300	
No. of Shares (in m, total)	480.6	
Avg. Daily Volume	862,729	

Voting rights distribution

Porsche Automobil Holding SE	50.73%
State of Lower Saxony	20.00%
Qatar Holding	17.00%
Others	12.27%

Performance

4 Weeks	-8.19%
13 Weeks	-9.87%
26 Weeks	-8.97%
52 Weeks	1.77%
YTD	-14.11%

Dividend

	in EUR	in %
2010	2.26	1.27%
2011	3.06	1.71%
2012	3.56	1.99%
2013	4.06	2.27%

Volkswagen AG

On the rise to the world market leader?

- Volkswagen Group has made significantly acquisitions over the last decade resulting in its strong diversified brand portfolio, ranging from high-end luxury vehicles to mass market cars as well as commercial vehicles. With its outstanding stance and popularity in the Chinese market, the company is well positioned to participate in the growth of the biggest car market worldwide.
- However the growth momentum in the US still lags behind the expectations, which is especially disappointing given that the US market registered its highest volume since 2007. Despite those difficulties our key takeaway from the IR-conversation was that VW Group has learned from the pitfalls in the US by specifically addressing domestic customer needs and plans to start the turnaround by 2016 backed by new models such as a midsize-SUV. Our confidence on US operations is supported by the black zero in 2014.
- In the year 2014 Volkswagen Group is continuing to benefit from the roll out of the MQB platform. Cost savings due to higher flexibility resulting in better capacity utilization and economies of scale will have a positive effect on VW brand margins as demonstrated with the improvement of the Skoda's margin from 4.6% (Q1 2013) to 6.2%.Upside potential is still huge since only 10% of group deliveries were based on MQB in 2013 but this may double in 2014 as to Mr Poetsch.
- Key trend from Q1 results is the recovery in Europe with Passenger Cars being up 8.1% in Q1 2014 y-o-y in Western Europe and 12.3% in Eastern Europe respectively. The operating margin (6.0%) is a positive surprise vs market consensus, although VW Passenger Cars margin (1.8%) is disappointing.
- We initiate coverage of Volkswagen AG with a 12-months price target of €215 and a Buy rating. Our price target is based on peer group valuation. In our view, Volkswagen will continue to benefit from its powerful, diversified brands, strong foothold in emerging markets such as China, the introduction of a tailor-made midsize-SUV in the US and efficiency improvements (MQB).

EURmn	2010	2011	2012	2013	2014E	2015E
Revenues	126.875	159.337	192.676	197.007	200.947	205.468
EBIT	7.141	11.271	11.510	11.671	12.057	13.355
Net income	6.835	8.609	21.717	9.066	10.650	11.506
EPS	15,23	33,16	46,48	18,69	22,21	23,99
DPS	2,26	3,06	3,56	4,06	4,89	5,52
RoE	14,87%	14,96%	28,02%	10,33%	11,30%	11,16%
RoCe	5,83%	7,39%	5,64%	5,67%	5,84%	6,33%
EBIT margin	5,63%	7,07%	5,97%	5,92%	6,00%	6,50%
P/E	11,73	5,39	3,84	9,56	8,04	7,44
Equity ratio	23,06%	22,67%	25,03%	27,05%	28,98%	31,01%

Source: Dr. Kalliwoda Research GmbH, Thomson Reuters Eikon

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1 Company profile

The Volkswagen Group with its headquarters in Wolfsburg is one of the world's leading automobile manufacturers and the largest carmaker in Europe. In 2013, the Group increased the number of vehicles delivered to customers to 9.731 million (2012: 9.276 million), corresponding to a 12.8 percent share of the world passenger car market. The Group comprises twelve brands from seven European countries: Volkswagen Passenger Cars, Audi, SEAT, ŠKODA, Bentley, Bugatti, Lamborghini, Porsche, Ducati, Volkswagen Commercial Vehicles, Scania and MAN. The company, which was founded in 1937, operates 106 production plants in 19 European countries and a further eight countries in the Americas, Asia and Africa. As of 31 March 2014, the Volkswagen Group had in total 572,800 employees producing 39,350 vehicles every weekday.

2 SWOT

Strengths	Weaknesses
<ul style="list-style-type: none"> - Broad diversification through 12 strong and independent brands - Modular Transverse Toolkit: cost savings and ongoing harmonisation during the manufacturing process, allows flexible adaption to consumer demand - innovative, high-quality vehicles for all market and customer groups like the new XL1 - Volkswagen Group is the market leader in Europe and China - High liquidity in the Automotive Division at €17.7bn - wide range of products from motorcycles low-consumption small cars, luxury vehicles to buses and heavy trucks allows VW to serve a broad field of customers - hostile acquisition is prevented since the majority of common stock is owned by the family clan - Intense R&D with a budget of €10.2bn (largest budget in Germany) and more than 40.000 engineers 	<ul style="list-style-type: none"> - weak market position in the US in comparison to other competitors - relatively low profitability of Seat and VW - relatively high production costs in comparison to other manufacturers especially in Asia
Opportunities	Threats
<ul style="list-style-type: none"> - VW plans to produce low cost vehicles specifically tailored for asian markets to attract new customers - Higher focus on the development of environmentally friendly cars to meet the changing consumer demand as planned in "Group Strategy 2018" - growth potential beyond the established markets like China, Brazil, the Middle East region and in the ASEAN - Higher integration of information technology into vehicles - In fast-growing markets like Asia or Eastern Europe cars are an important status symbol 	<ul style="list-style-type: none"> - Higher prices of raw materials affect margins negatively - Competitive pressure in saturated markets - Risks associated with exchange rate fluctuations - higher fuel prices as a result of geopolitical instability - cyclical risks especially for premium brands and commercial vehicles - tight financial condition for suppliers operating in Southern Europe - Car recalls - risk that European Commission is planning to end design protection for visible vehicle parts - stricter regulation concerning average CO₂ emissions for european manufacturers being imposed by the EU commission (95g CO₂ / km by 2020) - Limitations of the number of cars in Chinese cities or similar forms of stricter regulations - risk of self-cannibalizing and brand dilution between different VW brands

3 Valuation

Peer Group Analysis

Our peer group comprises four listed automobile manufacturers:

- (1) *Daimler AG*: Headquartered in Stuttgart/Germany, Daimler develops, manufactures and distributes passenger cars, trucks, vans and busses. With its brand Mercedes-Benz the company is one of the main producers of premium cars worldwide. Its other brands include Smart (city cars), Fuso (busses and trucks), Freightliner (trucks), Western Star (trucks), Thomas Built (busses) and Setra (busses). Daimler has production facilities in 19 countries and distributes its automotive products and related financial services through its own German sales network and service centers, foreign sales subsidiaries and external partners. In fiscal-year 2013, the company had total revenues of €117.982bn and 274,616 employees.
- (2) *BMW AG*: Headquartered in Munich in Southern Germany, BMW AG is one of the leading manufacturers of premium cars and motorcycles worldwide. The company, which was founded in 1916, has 28 own production facilities in 13 countries on four continents including Germany, UK, US, South Africa, Italy, Austria and China (Joint Venture with Brilliance). Further facilities like in Araquari, Brazil are planned. BMW's cars and motorcycles are distributed through the company's 42 sales subsidiaries. As of 31th December 2013, the BMW Group had in total 110,351 employees and total revenues of €76.058bn in fiscal-year 2013.
- (3) *Toyota Motor Corp.*: Toyota Motor, which in 2013 was the world's largest car manufacturer, is a Japanese producer of cars, busses and trucks. The company operates under the brands Toyota, Scion, Daihatsu (all mainly serve the mass car market), Hino (trucks and busses) and Lexus (premium cars). For fiscal-year 2013, which ended on the 31th of March, Toyota Motor reported net revenues of \$234.601bn and had 338,875 employees (as of March 31, 2014).
- (4) *Nissan Motor Co. Ltd.*: Nissan Motor, which is based in Japan, has employed 160,530 people in 2013. Apart from cars and trucks, the company, in which Renault has held a stake of 43.5% since 1999, also produces forklifts and boats. Nissan Motor operates under the following brands: Nissan, which mainly sells cheaper vehicles for the mass market, and Infinity, which is the company's premium brand. Nissan is also involved in a strategic partnership with Daimler since 2010. In fiscal-year 2013, Nissan's net revenues amounted to JPY 10.438tr.

Company	EV/EBITDA		EV/EBIT		P/E		EBITDA margin	Net gearing	P/BVPS
	2014E	2015E	2014E	2015E	2014E	2015E	Latest	Latest	Latest
Daimler (EUR)	8,38x	7,67x	12,31x	11,34x	10,23x	9,52x	12,90%	35,09%	1,61
BMW (EUR)	9,13x	8,66x	13,94x	13,21x	10,55x	9,86x	15,50%	41,22%	1,72
Toyota (JPY)	9,85x	9,16x	14,48x	13,22x	10,00x	9,19x	13,80%	33,57%	1,34
Nissan (JPY)	9,13x	8,30x	13,56x	12,25x	9,64x	8,40x	11,20%	40,48%	0,97
Median	9,13x	8,48x	13,75x	12,73x	10,12x	9,35x	13,35%	37,78%	1,48x
VW (EUR)	7,52x	6,89x	14,61x	13,19x	8,04x	7,44x	12,10%	27,92%	0,99
Premium/Discount	-17,6%	-18,7%	6,3%	3,6%	-20,5%	-20,4%			
Fair value Volkswagen (EUR)	215,03								

Source: Dr. Kalliwoda Research GmbH, Thomson Reuters Eikon

According to our peer group, VW currently trades at a significant discount to its peers. In our view, this could be partly explained by disappointing sales figures from the US and relatively weak profitability of some brands. Nonetheless we are convinced about VW strong position in important markets like Asia and Europe.

According to the Peer Group, our 12-months price target for the stock equals €215.03.

4 Q1/14 financial results and outlook

Revenues

In Q1/14, Volkswagen generated total revenues of €47.831bn, which were 2.7% higher y-o-y. Between January and March, the company was able to increase its domestic revenues by 3.7% y-o-y to 305k and foreign revenues by 8.5% y-o-y to 2.257k units. While the revenues of most brands like Audi (+10.37%), SKODA (+23.7%) or Porsche (20.12%) grew significantly compared to Q1/13 other brands like VW Passenger Cars (-0.74%) or MAN (-12.69%) grew weaker due to lower demand from South America and as a result of exchange rates.

With revenues of 5.123m Volkswagen Financial Services grew by 8.7% in Q1/2014 compared to the previous year.

Q1/2014 results vs. previous year

in EURbn	Q1 2014	Q1 2013	Q1/14 vs Q1/13
Net revenues	47.83	46.57	2.7%
EBITDA	6.75	5.91	14.2%
<i>EBITDA margin</i>	14.1%	12.7%	
EBIT	2.86	2.34	21.8%
<i>EBIT margin</i>	6.0%	5.1%	
Net income	2.40	2.03	18.2%
<i>Net margin</i>	5.0%	4.4%	

Source: Company data, Dr. Kalliwoda Research GmbH

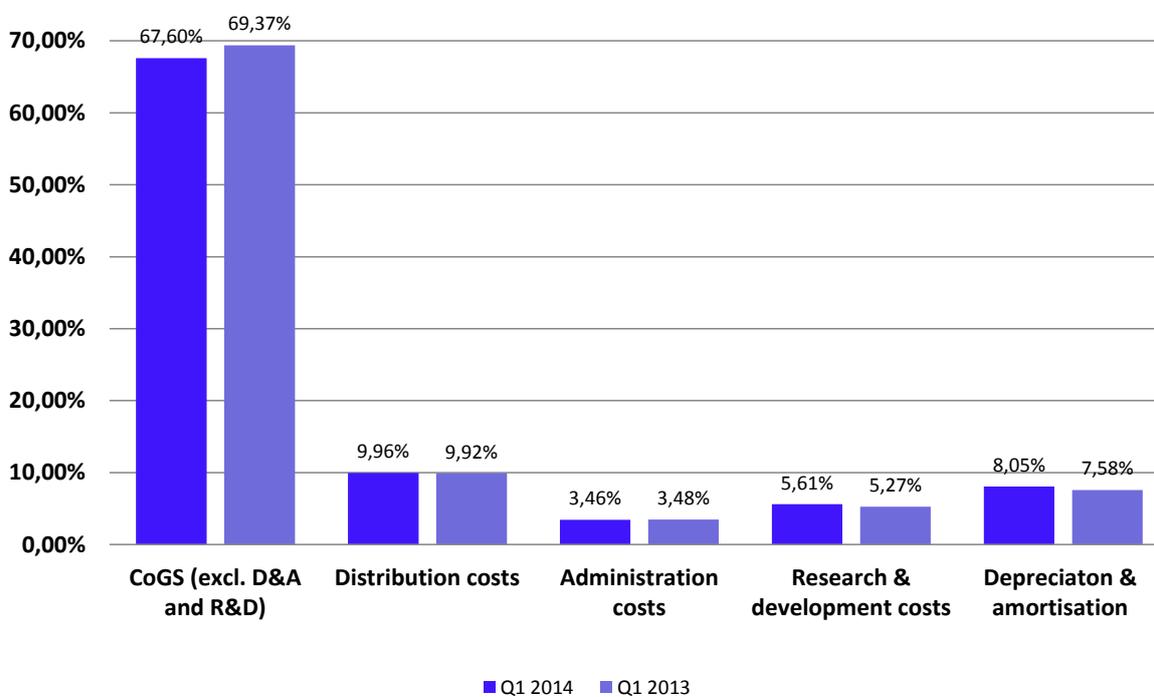
Revenues split Q1/14 vs. previous year

in EURbn	Q1 2014	Q1 2013
Automotive	42.05	41.13
(% of net revenues)	87.9%	88.3%
Units sold (in k)	2562	2375
Financial services	5.78	5.44
(% of net revenues)	12.1%	11.7%
Total net revenues	47.83	46.57

Source: Company data, Dr. Kalliwoda Research GmbH

Profitability

Share in revenues Q1/14 vs. Q1/13



Source: Company data, Dr. Kalliwoda Research GmbH

Compared to the Q1/2013 results, the recent quarter recorded double-digit change over the last year period. This is especially due to lower CoGS (67.6% vs. 69.37%) compared to the year before. Distribution and administration costs stayed constant, while R&D and D&A share of revenues slightly increased.

Balance Sheet and Cash Flow

As of 31 March 2014, Volkswagen AG had total assets of € 333.9bn (vs. € 324.3bn in 2013). Expressed in percentage figures, 26.16% of that was financed by equity (€ 87.3bn) and 46.83% of the debt were noncurrent liabilities in comparison to 49.37% in 2013.

In Q1/14, Volkswagen generated an operating cash flow of €1.5bn (Q1/13: €2.5bn), which leads to a y-o-y change of -41.23% due to change in working capital (especially change in inventories and receivables). On the other hand the cash outflow from investing went down from €3.57bn in 2013 to €2.33bn in 2014. At the end of March 2014, VW's cash position (incl. cash equivalents) amounted to €25.2bn.

Outlook

After good Q1/14 results, beating the market expectations in regard to EBIT, we remain optimistic about Volkswagen Group's development in the following quarters of 2014, although we also see headwinds in particular from volatile currencies in the emerging markets and its potential effects on customer demand. In our view, Volkswagen's results will also depend on how the American markets, especially Brazil, will perform compared to the first quarter which has been marked by very poor performance in this region due to a deterioration in the macroeconomic environment.

In our perception Volkswagen Group has a well-diversified product portfolio from motorcycles through compact cars to commercial vehicles (trucks and buses). Its premium brands including Audi, Porsche, Lamborghini and Bentley have a strong reputation for technological excellence and quality. In the first half of 2014 Porsche sold 87,800 cars, Skoda sold 522,500 vehicles and Audi sold 869,350 autos. What all those figures have in common is that they do represent all-time highs for the respective brand. Nevertheless fierce competitive pressure is stemming from rivals such as Toyota Motor Corp. with its strong standing in the fast growing American market. Since the Group is close to selling more than 10 million cars a year, it will be very difficult to reach the goal of an profit before tax higher than 8% (main component of Strategy 2018) in the near future given the weak 2.9% operating margin of its Volkswagen Passenger Car brand.

To sum up, we are confident about Volkswagen's recent transactions and development along with an experienced management which has guided conservatively in the past.

Our forecasts

in EURbn	2014E	2015E	2016E
Revenues	200.95	205.47	210.61
Gross Profit	36.77	38.01	39.38
<i>Gross margin</i>	18.3%	18.5%	18.7%
EBIT	12.06	13.36	14.74
<i>EBIT margin</i>	6.0%	6.5%	7.0%
Net income	10.65	11.51	12.64
<i>Net margin</i>	5.3%	5.6%	6.0%

Source: Dr. Kalliwoda Research GmbH

Our 2014 estimates for Volkswagen AG are below the current market consensus (€201.148bn) on the top-line and on the bottom-line (€12.488bn) as we remain cautious in terms of the recent European recovery, despite some chinks of light represented by better capacity utilization in Southern Europa production plants as to the Volkswagen IR Department. However, we would like to emphasize that Volkswagen Group is significantly exposed to the economic development in China and does additionally rely on double digit operating margins from its premium brands.

We believe that Volkswagen's guidance for a Profit Before Tax margin of 8% by 2018 will provide a severe challenge to the company. The rumored "Budget Car" for the Chinese market could potentially further endanger this goal.

in EURbn	2013	2014E	2015E	2016E
Passenger Cars	140.08	142.68	145.68	149.11
<i>(% of net revenues)</i>	71.1%	71.0%	70.9%	70.8%
Commercial Vehicles	34.93	35.42	36.02	36.71
<i>(% of net revenues)</i>	17.7%	17.6%	17.5%	17.4%
Financial services	22.00	22.85	23.77	24.79
<i>(% of net revenues)</i>	11.2%	11.4%	11.6%	11.8%
Total net revenues	197.01	200.95	205.47	210.61
Europe/Other markets	117.06	117.75	118.97	120.47
<i>(% of net revenues)</i>	59.4%	58.6%	57.9%	57.2%
North America	27.43	28.53	29.59	30.75
<i>(% of net revenues)</i>	13.9%	14.2%	14.4%	14.6%
South America	17.50	18.49	19.52	20.64
<i>(% of net revenues)</i>	8.9%	9.2%	9.5%	9.8%
Asia-Pacific (ex. China)	35.02	36.17	37.40	38.75
<i>(% of net revenues)</i>	17.8%	18.0%	18.2%	18.4%

Source: Dr. Kalliwoda Research GmbH

In 2015 and 2016, we expect higher growth rates for the top-line due to better performance in key markets (for instance the Americas). Nevertheless, margins will be under pressure, especially if the European car market continues to demand high price discounts. On top of that the sharply increasing air pollution in Chinese cities could have a negative effect on the demand for cars in Volkswagen's most important market.

4.1 Earnings-Preview Q2/2014

in EURbn	Q2 2014	Q2 2013	Q2/14 vs Q2/13
Revenues	52.383	52.122	0.50%
EBIT	3.248	3.437	-5.51%
<i>EBIT margin</i>	6.20%	6.60%	
Net income	2.776	2.832	-1.97%
<i>Net margin</i>	5.30%	5.43%	
EPS	5.553	5.860	-5.24%

Source: Dr. Kalliwoda Research GmbH

For the second quarter 2014 we expect revenues of €52.383bn (vs. €52.487bn market consensus), operating income of €3.248bn (vs. €3.340bn market consensus) and net income of €2.776bn (vs. €2.789bn market consensus). EPS is estimated to be at €5.55. Our conservative take is due to uncertainty prevailing from the European market, which has performed quit well in Q1, but compared to last year Q2 figures we do not expect the Volkswagen Group to generate a 6.6% operating margin again. However, while we are less optimistic on the development of the EBIT margin, our revenue forecast basically is in line with market expectations.

5 Business description

The Volkswagen Group, which is one of the 30 biggest companies on the Frankfurt Stock Exchange, is a manufacturer of automobiles, trucks and buses. Its most important market is China with 3.038m cars being sold in 2013, a 16.4 % change y-o-y.

Volkswagen's business is divided into two business divisions: Automotive Division, including Passenger Cars, Commercial Vehicles, Power Engineering, and Financial Services Division. In 2013, the Automotive Division had revenue of €175.003bn and generated an operating margin of 5.6%. The Financial Services Division generated revenue of €18.983bn. The Volkswagen Group sells cars under twelve brands.



The company's most popular brand is Volkswagen Passenger Cars with revenue of €99.397bn and an operating margin of 2.9%. Especially the new Golf and a 16.6% increase in Sales in China affected the 2013 brand's revenue positively, although revenue is 4.4% less than the year before as a result of exchange rates. The bestselling models were the Jetta, Golf and Lávada.



Audi In the premium segment, Audi has become one of the strongest car brands worldwide. In 2013 it delivered 1.578m cars to its customers, exceeding the 2015 target by 1.5 million cars in 2013. In terms of products, the A3 saloon has launched into the world's fastest growing segment: the compact saloon class. The product pipeline has been enriched by sporty S and RS models. Revenue for 2013 has been increasing by 2.3 % from 2012 up to €49.880bn. Operating margin declined by 0.9 points to 10.1%. Most produced in 2013 were the A4, A6 and Q5.



ŠKODA With Revenues of €10.3 billion in 2013, SKODA is the third bestselling brand in the Volkswagen Group. Focusing on value-conscious buyers, it has sold 921,000 vehicles last year. The operating margin is 5.1% (down 1.7% from year before).



The Spanish brand SEAT primarily attracts young and design-oriented customers in Europe. Especially the rollout of the Leon family made revenue increase by 6.0% y-o-y up to €6.874bn while the operating margin remained negative (-2.2 %).



Located Crewe, England and since 1998 part of the Volkswagen Group, the British luxury car company Bentley dedicates itself to luxurious high performance cars. The introduction of the Flying Spur and its Continental GT have contributed to a revenue of €1.679bn resulting from 10,120 cars sold. The operating margin (10.0%) was up 3.1 points from the year before.



This year Porsche celebrates the 50th anniversary of the Porsche 911. Indeed the 911 is still the second bestselling car with 29,751 cars being sold in 2013. All models together generated revenues of €14.326bn. The operating margin was at a very attractive 18.0%.



Volkswagen Commercial Vehicles, which include the Multivan/Caravan, Saveiro and Amarok, are made for private as well as business customers. It delivered 552,000 units in 2013 and generated €9.370bn revenue with a 4.8% operating margin.



Apart from the cars business, Volkswagen does also own the brands Scania and MAN. The Swedish Scania brand manufactures high-performance trucks and buses. In 2013 Scania launched environmental friendly low-emission Euro 6 engines. It reported revenue of €10.360bn in 2013. The operating margin slightly dropped by 0.6 points to 9.4%.



MAN builds diesel engines, turbomachinery and special gear units, alongside trucks and buses. In 2013 it adapted its product that fit the Euro 6 emission standard further taking advantage of its engineering expertise. Annual revenue remained flat at €15.861bn, however the operating margin declined by 3.1 points to 2% in 2013.



Ducati, which was acquired in 2012, is allocated in the Audi brand and one of the most famous manufacturers of premium motorcycles worldwide. Product highlights of the brand include the new Hypermotard SP, Multistrada 1200 S Granturismo and the Superbike 899 Panigale models. In 2013 they sold 45,018 motorcycles after 15,734 in 2012 (starting in July 2012).



Lamborghini and Bugatti complete the brand portfolio. The Italian carmaker Lamborghini targets the so-called super sport cars and sold about 2,100 premium cars in 2013, while Bugatti is known for unique, extraordinary autos, namely the Bugatti Veyron. Bugatti delivered 47 cars in 2013 after 31 in 2012.

The Financial Services segment comprises all of Volkswagen's financing activities, especially its credit and leasing business as well as insurance activities. The company also operates an own bank, the Volkswagen Bank. In 2013, Financial Services generated an operating profit of €1.614bn (14.6% up y-o-y).

Revenues split and production volumes 2010-2013

in EURbn	2013	2012	2011
Passenger Cars	140.08	138.57	129.706*
<i>(% of net revenues)</i>	71.1%	71.9%	81.4%
<i>Units sold (in k)</i>	9,071	8,706	8,256
Commercial Vehicles	34.93	34.25	12.39
<i>(% of net revenues)</i>	17.7%	17.8%	7.8%
<i>Units sold (in k)</i>	657	639	105
Financial services	22.00	19.85	17.24
<i>(% of net revenues)</i>	11.2%	10.3%	10.8%
Total net revenues	197.01	192.68	159.34
Europe/Other markets	117.06	115.38	103.89
<i>(% of net revenues)</i>	59.4%	59.9%	65.2%
North America	27.43	25.05	17.55
<i>(% of net revenues)</i>	13.9%	13.0%	11.0%
South America	17.50	18.31	14.91
<i>(% of net revenues)</i>	8.9%	9.5%	9.4%
Asia-Pacific (ex. China)	35.02	33.94	22.98
<i>(% of net revenues)</i>	17.8%	17.6%	14.4%

* including Light Commercial Vehicles

Source: Company data, Dr. Kalliwoda Research GmbH

6 Market environment

In 2014, the global demand for passenger cars grew by 5.0% y-o-y to 70.1m units. While revenues in Western Europe fell by 1.9% to 11.5m units, a 20 year low, Central and Eastern Europe declined by 3.9% to 3.8m vehicles. This is especially due to the extra duty on imported cars which could not have been offset by the introduction of subsidized government car loans in Russia, by far the region's largest vehicle market. The North American market advanced by 7.3% to 18.4m vehicles, a level last seen in 2007, which is specifically backed by favorable financing conditions in the US, contributing 15.6m units to the North American car market. The South American market was not able to exceed prior year's sales volume, the number of passenger cars sold decreased slightly. The Asian-Pacific region has hit a new all-time high with more than 28.0m units being sold. This 8.6% growth was primarily driven by a strong, resilient Chinese market being bolstered by sound macroeconomic conditions. India and Japan however could not keep up with the trend, resulting in a 6.7% respectively 0.1% drop.

In 2014, 11.8m light commercial vehicles were sold, a 0.6% increase y-o-y, while demand for mid-sized and heavy trucks slightly increased by 2.5% to 2.7m.

For 2014, Volkswagen Group expects that the growth momentum will slightly decline compared to the 2013 level. After the fourth year of car volume decline in Western Europe the company anticipates growing demand for car vehicles. However given the wide disparities in the economic well-being of the countries in Europe, the picture of a European recovery will be fragmented. In Southern Europe demand is still negatively impacted by austerity measures. Central and Eastern European region will decline due to a steep drop in demand in its biggest market, Russia. Regarding China, which is the largest auto market worldwide, the car manufacturer is looking forward increasing sales volume based on the underlying mega trend of affordable mobility. In general the Asian-pacific region is expected grow further.

Robust economic data and attractive financing conditions in the US will have a positive effect on the car market in 2014 backed by a trend to make use of this market environment to replace the car given the fact that the average age of US passenger cars is 11.4 years old. The Mexican car market is expected to keep growing while the Canadian market is supposed to stagnate. In total growth momentum will likely decrease in the following year.

South America's exposure to the shape of the global economy along with measures of protectionism is assumed to have a negative influence on the sales volume in this region. Nevertheless, high inflation in countries of this region and extended tax breaks in Brazil might somehow mitigate the overall trend, which will still be a decline y-o-y.

For 2014 the Volkswagen Group expects a minor increase in market volume for Commercial vehicles, while the subdivision trucks and buses is expected to decrease as result of challenging market conditions in Eastern Europe and South America.

The Power Engineering market is more likely to be subject to regional differences therefore trends in this market are generally independent of each other.

7 Profit and loss statement

Profit and Loss Statement Volkswagen AG								
in EURbn	Fiscal year							
	2009	2010	2011	2012	2013	2014E	2015E	2016E
Total Revenue	105.187	126.875	159.337	192.676	197.007	200.947	205.468	210.605
Cost of Sales	91.608	104.130	130.635	157.312	161.061	164.174	167.457	171.222
Gross Profit	13.579	22.745	28.702	35.364	35.946	36.773	38.012	39.383
Selling/Distribution	10.537	12.213	14.582	18.850	19.655	20.095	20.547	21.061
General Administrative	2.739	3.287	4.384	6.220	6.888	7.033	7.191	7.371
Other General & Administrative	--	1.302	1.392	1.386	1.442	1.500	1.560	1.622
Research & Development Expenses	5.429	6.866	5.537	6.900	7.722	7.992	8.272	8.562
Depreciation & Amortisation	7.275	7.871	8.636	11.211	12.222	12.258	12.534	12.847
EBIT	1.855	7.141	11.271	11.510	11.671	12.057	13.355	14.742
EBT	1.260	8.994	12.126	25.492	12.428	14.324	15.933	17.735
Net Income	960	6.835	8.609	21.717	9.066	10.650	11.506	12.636
EPS	2,37	15,17	33,10	46,41	18,63	22,21	23,99	26,35
Dividend per Share	1,60	2,26	3,06	3,56	4,06	4,89	5,52	6,32

Source: Dr. Kalliwoda Research GmbH, Thomson Reuters Eikon

8 Balance sheet

Balance sheet Volkswagen AG								
	Fiscal year							
	2009	2010	2011	2012	2013	2014E	2015E	
Assets (in EURbn)								
Cash and Short Term Investments	23.869	24.171	24.437	25.921	31.670	31.219	32.954	
Total Receivables, Net	36.656	40.954	51.385	55.371	61.869	63.426	64.853	
Total Inventory	14.123	17.631	27.550	28.674	28.653	28.632	28.611	
Total Current Assets	77.776	85.936	105.640	113.061	122.192	135.708	147.304	
Property/Plant/Equipment, Total - Net	34.565	37.482	48.317	59.265	64.648	73.440	81.635	
Intangibles, Net	9.978	9.694	17.841	35.224	59.243	59.649	59.912	
Long Term Investments	11.310	16.019	26.645	18.236	27.053	27.053	27.053	
Note Receivable - Long Term	37.606	37.170	44.659	52.008	51.198	52.478	53.265	
Total Assets	177.177	199.393	253.769	309.644	324.333	325.262	332.581	
Liabilities (in EURbn)								
Accounts Payable	10.546	12.841	16.325	17.268	18.024	18.442	18.857	
Current Liabilities	69.534	76.899	101.236	105.512	118.625	118.965	121.642	
Long Term Debt	36.993	37.159	44.442	63.603	61.517	61.517	61.517	
Total Debt	77.599	77.011	98.420	122.088	121.504	124.542	127.655	
Total Liabilities	141.898	153.415	196.232	232.128	236.600	230.994	229.453	
Shareholders Equity (in EURbn)								
Common Stock, Total	1.025	1.191	1.191	1.191	1.191	1.191	1.191	
Retained Earnings (Accumulated Deficit)	35.279	44.891	58.117	76.503	84.770	93.077	101.937	
Total Equity	35.281	45.978	57.539	77.515	87.733	94.268	103.128	
Total Liabilities & Shareholders' Equity	177.179	199.393	253.771	309.643	324.333	325.262	332.581	

Source: Dr. Kalliwoda Research GmbH, Thomson Reuters Eikon

9 Cash flow statement

Cash Flow Statement Volkswagen AG							
	2009	2010	2011	2012	2013	2014 E	2015E
Cash Flow-Operating Activities (in EURbn)							
Net Income	1.261	8.994	18.926	25.492	12.428	10.650	11.506
Depreciation	7.275	7.871	8.636	11.211	12.222	12.258	12.534
Changes in Working Capital	1.061	(8.217)	(17.568)	(18.307)	(17.216)	(16.125)	(15.034)
Others	3.144	2.807	(1.494)	(11.187)	5.161	6.442	4.880
Net operating cash flow	12.741	11.455	8.500	7.209	12.595	13.225	13.886
Cash Flow-Investing Activities (in EURbn)							
Capital Expenditures	(5.963)	(5.758)	(8.087)	(10.493)	(15.406)	(14.328)	(13.325)
Cash from Investing Activities	(9.674)	(11.048)	(18.632)	(19.484)	(16.890)	(17.981)	(18.645)
Cash Flow-Financing Activities (in EURbn)							
Cash from Financing Activities	5.534	(852)	8.315	13.711	8.973	9.966	6.494
Net Change in Cash	8.792	(8)	(1.733)	1.298	4.216	5.210	1.735
Net Cash - Beginning Balance	9.443	18.235	18.228	16.495	17.794	22.009	27.219
Net Cash - Ending Balance	18.235	18.228	16.495	17.794	22.009	27.219	28.954
Free Cash Flow	6.778	5.697	0.413	(3.284)	(2.811)	(1.103)	0.561

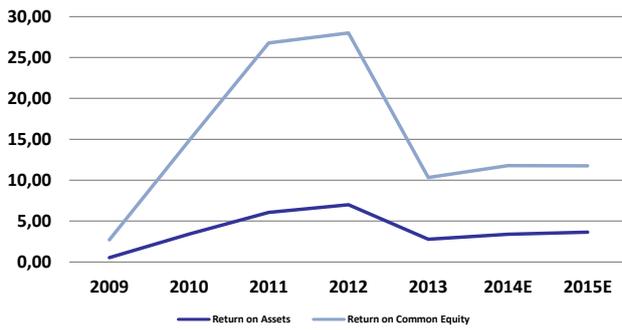
Source: Dr. Kalliwoda Research GmbH, Thomson Reuters Eikon

10 Financial ratios

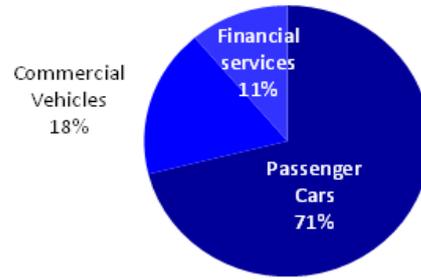
Fiscal year	2009	2010	2011	2012	2013	2014E	2015E
Gross margin	12.91%	17.93%	18.01%	18.35%	18.25%	18.30%	18.50%
EBIT margin	1.76%	5.63%	7.07%	5.97%	5.92%	6.00%	6.50%
Net margin	0.91%	5.39%	5.40%	11.27%	4.60%	5.30%	5.60%
Return on equity (ROE)	2.72%	14.87%	14.96%	28.02%	10.33%	11.30%	11.16%
Return on assets (ROA)	0.54%	3.43%	3.39%	7.01%	2.80%	3.27%	3.46%
Return on capital employed (ROCE)	1.72%	5.83%	7.39%	5.64%	5.67%	5.84%	6.33%
Net debt (in EURm)	53,730	52,840	73,983	96,167	89,834	93,322	94,701
Net gearing	66.62%	64.82%	67.70%	66.59%	63.19%	61.42%	59.08%
Equity ratio	19.91%	23.06%	22.67%	25.03%	27.05%	28.98%	31.01%
Current ratio	1.12	1.12	1.04	1.07	1.03	1.14	1.21
Quick ratio	0.45	0.42	0.34	0.35	0.37	0.37	0.38
Book value per share	73.41	95.67	119.72	161.29	182.55	196.15	214.58
CAPEX/Sales	5.67%	4.54%	5.08%	5.45%	7.82%	7.13%	6.49%
EV/Sales	1.67	1.39	1.11	0.91	0.89	0.88	0.86
EV/EBIT	94.96	24.67	15.63	15.30	15.09	14.61	13.19
P/BVPS	2.43	1.87	1.49	1.11	0.98	0.91	0.83
P/E	75.36	11.77	5.40	3.85	9.59	8.04	7.44

Source: Dr. Kalliwoda Research GmbH, Thomson Reuters Eikon

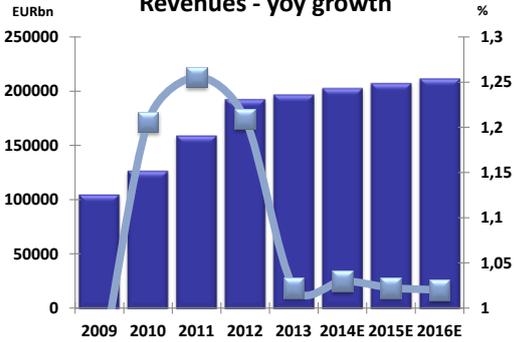
Return development (%)



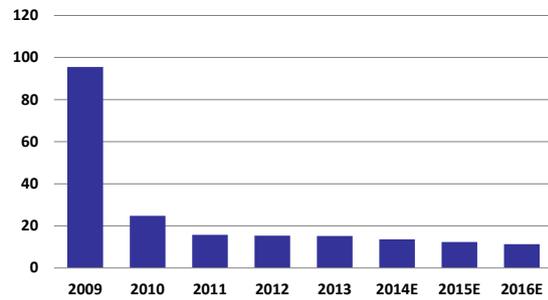
Sales split 2013



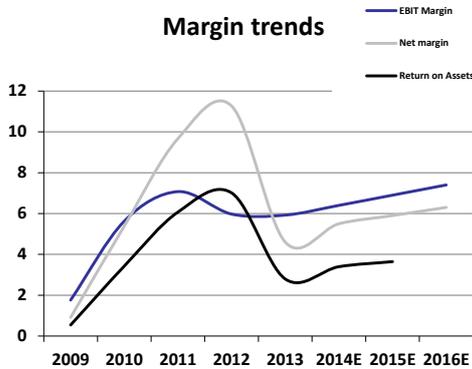
Revenues - yoy growth



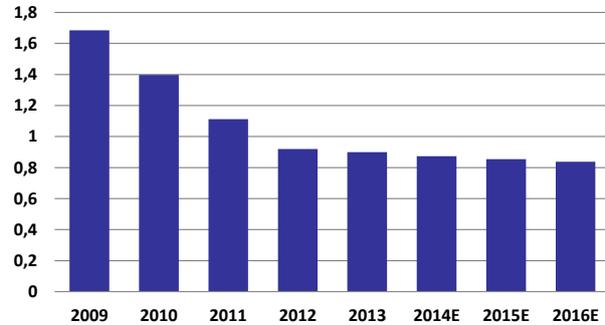
EV/EBIT



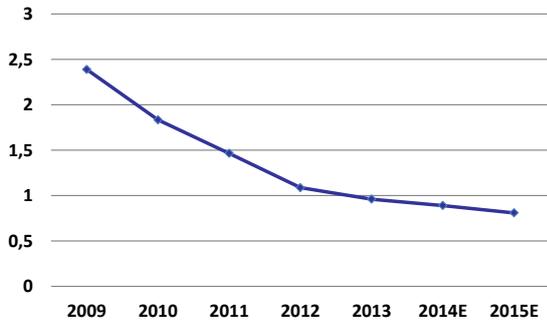
Margin trends



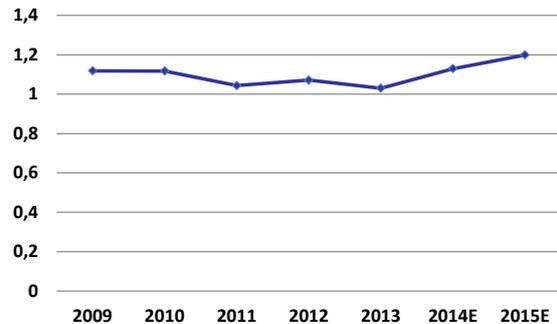
EV/Sales



P/BVPS



Current ratio



Source: Company data, Dr. Kalliwoda Research GmbH

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