

# VW cuts 2016 capital investment 8% due to cost of fixing emissions cheat

Next Phaeton, new design center delayed



CEO Matthias Mueller at today's press conference: "Anything that is not absolutely necessary will be cancelled or postponed."

*Photo credit: Reuters*

## From wire reports

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**WOLFSBURG** -- Volkswagen Group will cut 1 billion euros (\$1.1 billion) from its investment plan for next year, as the carmaker braces for a multi-billion-euro hit from its emissions cheating scandal.

The automaker will cap spending on property, plant and equipment at around 12 billion euros (\$12.8 billion) in 2016, down about 8 percent

<http://www.autonews.com/article/20151120/OEM11/151129993/vw-cuts-2016-capital-investment-8-due-to-cost-of-fixing-emissions>

on its previous plan of around 13 billion euros, VW's supervisory board said **today in a statement**.

VW CEO Matthias Mueller said construction of a planned new design center in the company's home town of Wolfsburg was being put on hold, saving about 100 million euros, while the construction of a paint shop in Mexico was under review.

The successor to the high-end Phaeton sedan, which will be an electric model only, is being delayed. The next Phaeton was due in 2019 and German media reports have said VW is mulling closing the Dresden, Germany, factory where it is built.

"We are operating in uncertain and volatile times and are responding to this," Mueller said. "We will strictly prioritize all planned investments ... anything that is not absolutely necessary will be cancelled or postponed."

VW said it will increase spending on alternative drive technology such as electric and hybrid vehicles by 100 million euros next year compared with previous targets.

VW's supervisory board, managers and labor leaders are wrangling over how best to prune an automotive group that spans 12 brands and more than 300 models.

In previous years, the company has published investment plans for several years ahead. But today, it only gave numbers for next year, and did not give a figure for r&d, which last year accounted for about a quarter of overall planned spending of 85.6 billion euros for 2015-19.

Bernd Osterloh, VW's powerful works council chief, said in a statement the supervisory board would take another look at investment and capacity plans at its first meeting next year. "We will continue to keep a particularly vigilant eye on the job situation," he

said. "We see risks here at individual sites, especially in the area of temporary employment."

The supervisory board plans to meet again in just over two weeks as it grapples with the scandal.

On the agenda for the Dec. 9 meeting would be feedback from regulators on the technical solutions proposed to fix cars manipulated to cheat on emissions tests, people familiar with the plans told Bloomberg. The company is working on a more comprehensive spending overhaul as part of a new strategy Mueller intends to unveil next year, said one of the people, who asked not to be named because the talks are private.

"This is clearly just the beginning as you can't halt everything at once," said Frank Schwope, a Hanover-based analyst at NordLB. "It's urgently needed. The company needs to save, save, save."

### **Past spending**

Prior to today's announcement, VW had more than doubled its annual investment spending since 2008.

Some analysts have long urged VW to reduce spending and become more efficient, with profit margins at the VW brand lagging those at rivals. They have suggested the emissions scandal could provide an opportunity for management to force through changes that otherwise might have been resisted by the company's influential trade unions.

VW has space to cut capital expenditures and development costs by 10 percent, according to estimates from Evercore ISI. Arndt Ellinghorst, a London-based analyst at Evercore, said of the 8 percent cut: "It's still a huge amount of investment. It still leaves them outspending their competitors."

VW said Mueller would temporarily take on responsibility for personnel matters until a replacement was found for Horst Neumann,

who retires at the end of November. It named two new employee representatives to the supervisory board as well, to replace departing ones.

### **New board members**

**In a separate announcement**, Volkswagen named Joerg Hofmann, the leader of the IG Metall trade union, and Johan Jaervklo of Scandinavian union IF Metall, to its supervisory board as employee representatives.

They will replace former IG Metall boss Berthold Huber and Hartmut Meine, also of IG Metall, the carmaker said.