

ŠKODA AUTO Annual Press Conference

Mladá Boleslav, 20 March 2019

Speech by Mr Klaus-Dieter Schürmann

Board Member for Finance and IT

- The spoken word prevails -

Script for Mr Klaus-Dieter Schürmann

ŠKODA AUTO a.s. Annual Press Conference 2019

20 March 2019

Ladies and Gentlemen,

Dobrý den and a warm welcome. During the next few minutes, I will brief you on our **annual accounts and the key financial figures for 2018**. Furthermore, I would like to provide you with a **financial outlook** for the projects for the future of ŠKODA AUTO.

Slide: 'We deliver on our Strategy 2025'

We are rigorously pressing ahead with our **Strategy 2025** in the four key areas:

- the SUV campaign;
- internationalisation;
- digitalisation;
- eMobility.

For the future, we have a clear **profitability target** of over seven per cent return on sales. And we are delivering the **right intermediate results** on our path to that target.

- We are now selling our products **internationally** in more than 100 countries, which include the important growing regions: China, India and Russia.
- With the KODIAQ and the KAROQ as well as the KAMIQ in China, we had three **excellent, high-margin SUVs** in the market in 2018, with high double-digit growth rates.
- We are a benchmark for **connectivity and infotainment in the volume segment**.

This is the foundation for further steps into the future as well as for our excellent results in 2018.

Slide: 'Excellent results of ŠKODA AUTO Group in 2018'

Contrary to the overall market trend in 2018, the ŠKODA AUTO Group was able to increase **deliveries to customers** to a new record in all key regions. We also increased **sales revenue** by 4.4 per cent and set a new record of 17.3 billion euros. This figure does not include local business in China, which is included in the pre-tax results of the ŠKODA AUTO Group in the form of dividend payments received.

The ŠKODA AUTO Group is on a financially stable track. Despite negative external influences – Mr Maier has already mentioned some of them – in 2018, we achieved an **operating profit of 1.377 billion euros**. This is the second-best result in the company's history. We achieved a **return on sales of 8.0 per cent**. That is less than the previous year, but still high – especially when compared to other volume manufacturers.

Profit after tax was about **1.2 billion euros** and just seven per cent below that of the year before. The main reason for this is our **financial result** which was 110 million euros higher.

Slide: 'Strong performance despite headwinds'

Allow me to put the **operating profit in perspective** from other angles. In 2017, a year that in many respects was an exceptionally positive one, the ŠKODA AUTO Group achieved an excellent 1.6 billion euros. The just less than 1.4 billion euros generated in 2018 was a **strong performance in a much more difficult environment with severe headwinds**:

- The **overall markets** in Western Europe, China and overseas were decreasing.
- The **exchange rates** for virtually all export currencies have changed for the worse. This affected us in particular with regards to the Russian rouble, British pound and US dollar. The once again strong appreciation of the Czech koruna against the euro equally had a detrimental effect for the ŠKODA AUTO Group as this made the value generated in the Czech Republic more expensive.
- Furthermore, the **collective bargaining agreement** in the Czech Republic had a significant impact on our profit. Due to the high tariff increases, which came into force at 12 per cent in April 2018, our labour costs climbed considerably in comparison to the previous year. In contrast to this, growth in terms of work productivity was considerably lower. As a result, we have lost some competitiveness.
- The **upfront expenditure** necessary now for new future technologies, which most notably include electrification, the digitalisation at ŠKODA as well as

taking on important tasks within Volkswagen Group, also had a negative effect.

- Finally, the bottlenecks in availability and the added costs associated with the **switch to WLTP** created the most considerable challenge.

All of these factors combined had a negative impact on our operating profit to the tune of hundreds of millions of euros. However, through **effective countermeasures** we have been able to compensate for part of this:

- In terms of sales, we have achieved sales growth and better price positioning thanks to our **active sales management**, which includes the implementation of our SUV campaign.
- In terms of costs, we have made savings on our product costs through additional **efficiencies and optimisation**.
- Through our **hedging activities** we were able to absorb a considerable proportion of the negative currency effects, but not all of them.

Overall, in 2018 we achieved a truly respectable performance our staff can be proud of.

Slide: 'Solid key figures at ŠKODA AUTO a.s.'

We are presenting a comparably **solid result** in the annual report compiled by the Czech company **ŠKODA AUTO a.s.** with reporting according to IFRS. Mr Maier explained the differences at the beginning.

In 2018, **sales revenue** increased by 2.3 per cent to **roughly 416.7 billion Czech korunas**. This is over 9 billion korunas more than in 2017.

Operating profit decreased to **just less than 34 billion Czech korunas**. The main reasons for this were rising labour costs as well as the necessary upfront expenditure for new products, increasing legal requirements (including WLTP) and the digital change to implement the Strategy 2025.

Profit before tax totalled **35.1 billion Czech korunas**, which is just four billion korunas below that of the previous year due to the positive financial result. ŠKODA AUTO a.s. will also pay a significant amount of **tax** for 2018. After deferred taxes, over **5.4 billion Czech korunas** of the total tax expense of 6.2 billion **will be paid out** to the tax authorities.

At **28.9 billion Czech korunas, profit after tax** again reached a good level. ŠKODA AUTO a.s. is a profitable company, which is in a financially stable position for the future.

Slide: 'Highest level of investments in history'

Ladies and Gentlemen, a **look ahead** at the transformation of the automotive industry shows that, more than ever, the decisions for future success are made today. The groundwork for future products must be done today – and quickly. From a financial perspective, 'speeding up the change' means that the ŠKODA AUTO Group is making the largest investments in its history.

In 2018, we increased our **investments in tangible assets** of the ŠKODA AUTO Group once more compared to the year before, by 22 per cent to 896 million euros. This corresponds to an **investment ratio** of over 5 per cent of the sales revenue. Most of this, over 500 million euros, was spent directly on expanding and equipping our Czech plants for the future. We are consistently developing these for our new products, the SCALA, KAMIQ and revised SUPERB. Specific examples include the new paint shop in Mladá Boleslav and the increase in production capacity at Kvasiny. We will continue to follow this path with our product campaign.

Furthermore, we are making the sites **fit for the digital future and eMobility**. Examples are the new high-performance data centre in Mladá Boleslav as well as the use of digital Industry 4.0 production technology. This year, we're commencing production of electrical components in Mladá Boleslav that will be used in ŠKODA models as well as by other Volkswagen Group brands. The Kvasiny site has been upgraded in preparation for the start of production of the electrified SUPERB with plug-in-hybrid drive. And the first investments have already been made for the all-electric models to follow and the development of the charging infrastructure at our Czech plants.

Despite these considerable investments as well as expenditures on research and development – which I will cover shortly – we achieved a **return on investment of 26.3 per cent** in 2018. This is lower than in the year before. However, it is once again level with the benchmark in our industry.

In 2018, we increased our **expenditures on research and development** even more. 859 million euros, i.e. around 5 per cent of the sales revenue, mean they were almost at the same level as our investments in tangible assets. The funds were used specifically to master the **triad** of:

- **Further developing ŠKODA's core business** – to give you just bullet points: product upgrades and model campaign, compliance with the increasing legal emissions standards;

- **Assuming responsibility for important tasks from Volkswagen Group** – such as the responsibility for the models in India;
- And **developing the future business** – in bullet points: connectivity (with the SCALA as the first spearhead), digital product ranges and eMobility.

Slide: 'Future investments to speed up change'

Ladies and Gentlemen, this is not an end in itself, but rather a clear sign that we are taking the technological changes ahead of us very seriously.

We are systematically preparing ŠKODA for the **change in business model** to fulfil our Strategy 2025 targets.

We will therefore have to continue to invest at a comparable or very high level during the transition phase over the next few years – of course with discipline and using all of the synergies available within Volkswagen Group.

So as things stand, in the planning period of 2019 to 2023 we will:

- Significantly push ahead with **further internationalisation**. For example, in the **growing market of India**, where we will expend just short of one billion euros on investments in tangible assets and on research and development for the 'INDIA 2.0' project. We will thereby fulfil the responsibility assigned to us for the region and the models.
- At the same time, we will continue to move forward with the **transformation to alternatively powered product and mobility solutions** at full force. To this end, we will invest a combined sum of roughly three billion euros in various projects.

Slide: 'Performance Programme of > 3 billion'

Our **promise for this future** still stands. However, the path to get there is going to be a **financial feat** for the ŠKODA AUTO Group. One that will require the greatest of effort and discipline. We can therefore currently no longer afford tariff increases, which are considerably higher than the increase in productivity. Especially as our brand cannot yet consistently keep up with the same price level of our Western European competitors.

At the same time, the volatilities and risks addressed by Mr Maier must be offset in today's business. Only a profitable ŠKODA with sufficient cash flow can fulfil the necessary future requirements, and safeguard jobs on a sustainable basis.

To ensure profits, we applied a **Performance Programme** containing detailed measures in terms of cost and sales in 2018. Their implementation is gradually picking

up speed in 2019 and the programme will offer its full benefit in terms of profit each year from 2020 onwards. We aim for and expect a cumulative effect of **more than three billion euros** by 2025.

Our task includes making do with **less complexity**. For example, by specifically reducing engine/drive combinations and sensibly limiting the not entirely profitable variety of equipment in our products. At the same time, we will make **even better use of our market potential** by further refining our sales mix and consistently implementing our price strategy.

At the same time, we are further optimising our **direct product costs and costs in procurement**. We will implement everything that, from the customer's perspective, can be made better and leaner. We are more closely examining everything that can already be adjusted in the design stage to be able to build a vehicle more quickly in future. And we are cleverly improving our **processes** in production as well as administration in order to increase **productivity** and keep **capital expenditure and fixed costs** under control.

Slide: 'Summary'

So, Ladies and Gentlemen, to **summarise**:

- Despite a very challenging business environment and competitive environment, we can look back on a **successful financial year in 2018**. We achieved new record figures in terms of **deliveries and sales revenue**; **operating profit and profit after tax** are once again high compared with industry.
- With our **new products and infrastructure**, we are in a good position to push ahead with the **growth dynamics** of our Strategy 2025. All of the important projects regarding eMobility and internationalisation have been planned and are being implemented.
- We are **actively shaping the change** in business model and are **investing more than ever** on future-proofing ŠKODA.
- We must **pull together** in all areas to ensure the profitability and financial resources required in these challenging times. This includes a balanced next collective bargaining agreement and successful implementation of our **Performance Programme**.
- We will thus continue to guide ŠKODA on a **successful development trajectory** and ensure **sustainability**.

Thank you very much for listening. I would now like to hand over the floor to my fellow Board Member Bohdan Wojnar, who will tell you about staff-related topics and regional implications.