

ŠKODA Annual Press Conference 2015

Mladá Boleslav, 16th March 2015

Winfried Krause

ŠKODA AUTO Commercial Affairs

– The spoken word prevails –

Speech for Winfried Krause
ŠKODA AUTO a.s., Annual Press Conference 2015
on the 16th March 2015

Ladies and Gentlemen,

For my part, I too would like to offer you a warm welcome to our annual press conference. In the next few minutes I would like to inform you of last year's key financial figures.

Slide: 'Financial highlights 2014'

Professor Vahland has already mentioned that in 2014, for the first time, ŠKODA sold more than 1 million vehicles to customers within a year. A great performance from our colleagues and retail partners and clear proof that we have taken the right approach with our model campaign that we launched four years ago.

Along with this sales record for deliveries to customers, turnover also increased and reached a new record level at 11.76 billion euros.

An excellent result was also achieved in regard to our operating profit: last year the ŠKODA brand generated 817 million euros, an improvement over the same period of the previous year of 295 million euros, and a historical record. From this, it is apparent that the new Octavia family, with just under 390,000 vehicles delivered, is not only the 'heart of the brand', but also an important earnings driver for ŠKODA. I would like to highlight the very positive development of the sales numbers for emotionally charged derivatives, such as the Octavia RS and Octavia Scout, which have considerably exceeded our expectations.

In the past year, we have emphatically advanced the biggest model campaign in the company's history. We have made comprehensive investments in our new models, both in terms of real investments and development costs. Here, the focus was specifically on the new Fabia and Superb.

Last financial year, not only did we generate very good financial results but we also further strengthened our financial position: at the end of the year, key financial variables such as net cash flow and net liquidity closed on their highest ever values.

Slide: 'ŠKODA deliveries to customers vs. total car market'

Before we look in detail at the significant key performance figures of 2014, I would like to illustrate the positive development of ŠKODA deliveries compared to the respective total market development:

In Western Europe, once again ŠKODA achieved above-average growth and increased its market share even further. An equally positive development for ŠKODA was seen in Central Europe. Even though we were not able to fully escape the tense political and economic situation in Eastern Europe and vehicle sales there decreased by -5%, this was noticeably lower than the total market reduction and as a result increased our market share here as well.

In addition to the overall very positive development in Western and Central Europe, both the intensely competitive individual markets of Germany and the Czech Republic deserve a special mention: in the Czech market, we were able to significantly increase the sales of ŠKODA vehicles and to defend our excellent market share. In the German market, ŠKODA successfully achieved just under +10% increase and continued to strengthen its position as the strongest import brand.

The Chinese car market, with a growth of almost 12%, was an important catalyst for the whole of Asia: despite the double-figure growth, there was a slight reduction in the speed of growth compared to the previous year. ŠKODA increased deliveries in this increasingly competitive market very successfully with

a +24% growth on the previous year. The Chinese market is, and also remains, ŠKODA's most important market.

Ladies and gentlemen, let me just summarise the key figures of the 2014 financial year:

Slide: 'Key figures'

Our worldwide sales record was not just down to the Chinese market. Excluding the China region, we delivered 756,000 vehicles to customers worldwide, which is a significant increase of +8.9% compared to the previous year. 281,000 deliveries to customers in the Chinese market signified an increase of +24% compared to 2013.

ŠKODA revenue reached around 11.76 billion euros, which was a new record. Compared to the previous year, this represented an increase of +13.9%. Thanks to the improved vehicle mixes and specifications, revenue was disproportionately higher than the increase in volume.

Please note that deliveries in China are not included in ŠKODA's revenue figures. Shanghai Volkswagen is not a part of the ŠKODA brand – the consolidation 'at equity' is included in the financial results of Volkswagen Group.

The operating profit considerably surpassed that of 2013 with 817 million euros. The pre-tax profit reached 775 million euros and was negatively influenced by the development of the financial results. The return on investment amounted to 18.3% – significantly more than the previous year's value and more than the required minimum return of 9%.

In conclusion: despite a challenging market, especially in Eastern Europe, ŠKODA was able to achieve new record figures with regards to deliveries to customers and financial results.

Ladies and Gentlemen,

now to the individual items of the profit and loss accounts and the reconciliation of the operating profit year-on-year.

Slide: 'Operating profit (reconciliation)'

After the solid performances in 2013, we significantly increased our financial results by +57%. The main drivers behind the positive performance compared to the previous year were increased car sales, improved mixes – mainly driven by the new Octavia – and optimised product costs. We should emphasise that consistent costs and efficiency management remains a top priority at ŠKODA.

The results were negatively affected by the high depreciation on investments carried out in the last few years as well as by negative influences from exchange rates, in particular the significant devaluation of the Russian rouble.

Slide: 'Return on sales'

ŠKODA's high profitability is also reflected in the return on sales: in 2014 an operational profit margin of 7.0% was achieved, an improvement of +1.9%. This places ŠKODA at the upper end amongst European competitors and yet again demonstrates its high profitability.

Slide: 'Profit and loss account'

In 2014, ŠKODA achieved a pre-tax profit of 775 million euros, an increase of around +44.6% compared to the previous year's figure. The financial result was down by -42 million euros, primarily caused by negative effects from financial derivatives.

After tax, the profit was 665 million euros, which was significantly higher than the previous year.

Ladies and Gentlemen,

let me briefly come to real investments, the development of net cash flow, the net liquidity and return on investment.

Slide: 'Investments in tangible assets'

Last year, ŠKODA continued to consistently implement its model campaign and, in the process, once again made important investments in future products, engines and gearboxes. After the record investments in 2012/2013, we also invested just short of 700 million euros last year. Although this represents a reduction of -6% compared to 2013, it is also a statement that we remain committed and will continue to advance with the update and expansion of our model range.

Slide: 'Net cash flow'

As in the previous year, ŠKODA has been successful in financing all investment activity from self-generated funds. This is impressively reflected in the net cash flow: compared to 2013, we more than doubled the net cash flow by around +500 million euros. The significant increase compared to 2013 is mainly a result of the higher operating profit, a better working capital and higher depreciation. ŠKODA was therefore not only in a position to finance all investments into new products from current business, but could also achieve a significant surplus of 840 million euros.

Slide: 'Net liquidity'

This is also reflected in the positive development of the net liquidity: With over 2 billion euros, we not only reached a new record at the end of 2014, but also have a very solid financial basis upon which to continue to finance the model campaign from our own resources.

To summarise: ŠKODA is a truly healthy and completely profitable operating business.

Slide: 'ROI after tax'

The return on investment is another important financial key indicator for us:

Last year, ŠKODA reached a return on investment of 18.3% after tax – significantly more than in the previous year and once again above the internally required minimum of 9%. The increase compared to the previous year is primarily down to the significantly higher operating profit.

Slide: 'Development of model range and investments'

Ladies and Gentlemen,

since the beginning of ŠKODA's model campaign, the product portfolio has been fundamentally updated and additional model lines have been added. Since 2010, the model range has not only seen the addition of the Rapid, Rapid Spaceback and Citigo model series, but most of the existing model series have also been renewed.

The implementation of the model campaign is also reflected in the high real investments since 2010: in the record year of 2012, ŠKODA invested 832 million euros, primarily in refreshing and expanding the model range. This included extensive investments in gearbox production and in the new engine centre. During that period ŠKODA showed, on average, an investment quota of slightly over 6%.

The newly gained attractiveness of the model range is also reflected positively in the financial development.

Slide: 'Development of operating profit and net cash flow'

We have not only reached an operating profit of 648 million euros on average since 2010, but financial results have also substantially improved. This is a notable performance in light of the adverse market conditions within Europe in the past five years.

I would also like to point out that the net cash flow – that is, the cash flow after taking into account investments and tax payments, as well as before dividends – has shown a significant surplus in the last five years. This shows that the product campaign launched in 2010 not only won over significantly more customers to our products, but also further increased ŠKODA's financial results and financial strength.

Ladies and Gentlemen,

Let me give you a short summary of the 2014 financial year and a forecast for 2015:

Slide: 'Summary'

Despite an in parts very challenging, competitive environment, we can look back at the most successful financial year in our company's history.

As well as the deliveries to customers, ŠKODA has also reached record figures in terms of revenue.

The operating profit increased to 817 million euros, a real record-breaking figure for the ŠKODA brand. In addition, ŠKODA had an operating return on sales of 7.0% which is – even when compared with rest of the sector within Europe – a very good level.

Despite further high investments, net cash flow reached 840 million euros and exceeded the previous year's figure significantly. As a result, net liquidity at the end of the year was increased to the new record level of 2 billion euros.

2014 was marked by a mainly positive development of the automotive markets relevant to ŠKODA in which we were able to increase our shares disproportionately. Our expanded and updated model range has been very well received by our customers and encourages us to further advance our company strategy. Despite numerous product introductions and despite the difficult conditions in Eastern Europe, 2014 was ŠKODA's best financial year to date thanks to the strong, highly motivated staff and an attractive product range.

We will continue to consistently implement our growth strategy in 2015: as a first highlight, the Superb saloon has already been presented to the international public in Prague and Geneva; the Combi version will be on display for the first time at the Frankfurt Motor Show.

We shall continue to work hard, not only on our products but also on our internal processes and structures, in order to perfectly prepare ŠKODA for future challenges.

Despite further uncertain conditions in Eastern Europe and volatile exchange rates, we are expecting good financial results for 2015.

Now I would like to pass the floor to my fellow Board Member, Bohdan Wojnar.