

ŠKODA AUTO Annual Press Conference

Mladá Boleslav, 21/03/2018

Speech by Mr Bernhard Maier

ŠKODA AUTO CEO

- The spoken word prevails -

Speech manuscript for Mr Bernhard Maier

ŠKODA AUTO a.s., 2018 Annual Press Conference

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[Covering page]

Good morning, Ladies and Gentlemen,

I'd like to offer you a very warm welcome to ŠKODA's Annual Press Conference here in Mladá Boleslav! I look forward to reporting on the results of 2017 today as well as taking a look ahead together with you to what we've got planned for the next few months and years as part of our 2025 Strategy.

2017 was the best year in ŠKODA's 122-year history. Our strategy is having an impact. That is the most important message this morning. The company typifies steady success in times of major and rapid changes.

And this success is based on three strong pillars:

- Firstly, a cohesive **team effort**: Every day, around 35,000 Škodians work with an excellent sense of commitment, passion and a great team spirit to make the company a success.
- Secondly, impressive **products**: With 7 model ranges, ŠKODA has the widest and most attractive range of models ever. And these have gone down extremely well with our customers.
- And thirdly, strong **partners**: Volkswagen Group has been a reliable partner of ours for 27 years, bringing the company a valuable competitive advantage – especially in the midst of radical change. And we have a strong social partner by our side, the KOVO Union, with whom we have previously collaborated trustingly and will continue to do so in the future. Mr Povšík, I'm delighted to have you with us today.

2017 has, however, also shown that rapid, fundamental changes are increasingly becoming the 'new normal' – in world politics, in the global economy, and thus also in the automotive industry.

[Overview of key figures]

In this challenging environment, ŠKODA saw growth in 2017– in every important aspect.

- With 1,200,500 vehicles, the brand was able to increase its **deliveries** by 6.6% compared to the previous year – a new sales record.
- At 1.44%, our **global market share** was slightly above that of the year before.
- The company's **sales revenue** improved to a new all-time high of 16.6 billion euros – 20.8% more than in 2016.
- And our **operating profit** also reached a new record level: it increased by 34.6% to 1.611 billion euros.

Ladies and Gentlemen,

We are as delighted about this growth in profit as it is important for us. It provides us with the necessary scope to invest in future technologies such as electromobility.

Overall, these figures show that ŠKODA is very healthy, ŠKODA is attractive and ŠKODA impresses both private and corporate customers – and, in fact, all over the world.

[Development of the overall markets]

How did the overall markets develop last year in which ŠKODA is represented?

- **Western Europe** is continuing its growth phase. Deliveries increased by 2.5% to 14.3 million vehicles in comparison to the year before.
- In **Central Europe**, 1.09 million vehicles were delivered – an improvement of 12.5%.
- **Eastern Europe** has seen considerable growth: the region recorded an increase of 14% to 470,000 vehicles.
- In **Russia**, the market grew by 12.3% to 1.47 million vehicles.
- **China** is and remains the driving force for growth: the largest automotive market in the world grew by 4.1% to 23.8 million vehicles.
- Deliveries in **India** also increased – by 8.6% to 3 million vehicles.

[ŠKODA's development]

How has ŠKODA developed in these sales regions? Let's take a look at the individual markets:

- In **Western Europe**, we increased our deliveries to customers by 5.2% to 477,700 vehicles. With 173,300 vehicles, Germany is still the second strongest single market for ŠKODA. There, sales improved by 4.9%. This means we are once again the number-one import brand and have consolidated our position among the prestigious high-volume brands. ŠKODA has seen double-digit growth in several Western European countries: in France with 18.5%, Italy with 20.3%, Austria with 17.9% and Norway with 11.7%.
- In **Central Europe**, ŠKODA increased deliveries by 12.7% to 207,100 vehicles. In the home market of the Czech Republic, 95,000 units meant 8% more deliveries to customers compared to the previous year. We achieved strong double-digit growth in Poland, Slovakia, Hungary, Slovenia and Croatia.
- With an increase of 17.9% to 41,300 vehicles in **Eastern Europe** excluding Russia, we also recorded strong growth over the entire year. The Baltics and Serbia saw particularly positive developments, as did Ukraine and Bosnia.
- In **Russia**, deliveries to customers grew by 12.5% to 62,300.
- In **China**, we increased the number of vehicles sold by 2.5% to 325,000. This market therefore remains ŠKODA's strongest region for sales.
- In **India**, we saw very strong growth of 31.4%.
- And we also achieved particular success in **Israel** – an increase of 14.5%. This makes us the fourth-strongest brand in the Israeli car market.

Let's take a look at how the individual ŠKODA models developed.

[CITIGO]

The new edition of the **CITIGO** was launched in May. Whilst deliveries therefore generally decreased in the first half of 2017, the launch of the extensively revised model caused the number of orders and deliveries to increase considerably – as expected.

The CITIGO is now becoming part of our electrification campaign, in other words: the eCITIGO – an affordable e-car, perfect for urban traffic – is on its way. We will introduce it as early as next year.

[FABIA]

Contrary to typical life cycle trends, the **FABIA** saw growth last year. Deliveries increased by 2.1% to 206,500 vehicles. The model has now been revamped and celebrated its debut at the Geneva Motor Show. We are expecting ongoing positive development this year.

[RAPID]

The ŠKODA **RAPID**, our second-best-selling model family, is steadily developing at the previous year's level, even in its seventh year. We delivered a total of 211,500 units to customers.

[YETI]

The **YETI** was also a really successful model. We have sold a total of around 685,000 units since its launch in 2009. Even in its last six months, just short of 70,000 customers opted for this model.

[OCTAVIA]

The **OCTAVIA** is and remains ŠKODA's bestselling model range. Last year, the current generation passed the 1.5-million mark. In 2017, we delivered a total of 418,800 units. This means that in the sixth year after its launch, the OCTAVIA is still selling at a high level.

[SUPERB]

Our flagship, the **SUPERB**, is living up to its role at the top of our model range once again. Deliveries increased by 8.7% to 150,900 vehicles. Never before have we delivered as many units of this model to customers within one year.

Let's now move on to the SUVs – these segments are growing rapidly all over the world. Admittedly, we were relatively late to the party. However, we have made a great start.

[KODIAQ]

The **KODIAQ** started things off. It was the first large SUV from ŠKODA – a real game changer for us. It made a strong start and impressed 100,000 customers in just its first year. The SUV is therefore one of the drivers for growth.

[KAROQ]

We then quickly upped the ante with the all-new compact SUV, the KAROQ. Its world premiere took place in Stockholm in mid-May; it was launched in October.

The KAROQ is going down extremely well with the international trade press. It has been awarded a total of seven international prizes so far. To name just the most important three:

- The 'AutoBild' Golden Steering Wheel
- 'Car of the Year' in the Czech Republic
- And in the 'Best Cars' readers' choice awards of the specialist magazine 'auto, motor und sport', it was voted best import in the compact SUV category

[Entire model range]

However, our products not only win comparison tests and prizes; they also win the hearts of our customers – which is the most important thing.

Ladies and Gentlemen,

With a total of 11 new models and model upgrades, ŠKODA has put its largest product campaign within one year into action. The sustained high demand from customers as well as the positive international press response and the numerous awards show that the product campaign has taken full effect – and in fact in every global market.

This year, we are also working intensively on electromobility – one of the key topics of our 2025 Strategy.

We left our first mark last year with the VISION E concept car.

[VISION E]

We introduced this fully electric and partly autonomous-driving design study at the motor shows in Frankfurt and Shanghai and the international media were very interested indeed. In 2020, the VISION E will be launched as a purely electric car from the brand. It will be produced here in ŠKODA's heartland – in the Czech Republic.

I am particularly pleased that we were able to make this decision for ŠKODA at Group level last November. It is part of three groundbreaking decisions:

- Firstly: We will be manufacturing ŠKODA's purely electric models here in Mladá Boleslav.
- Secondly: E-components for plug-in hybrid models from several Group brands will also be produced here at the main plant.
- And thirdly: The first ŠKODA plug-in hybrid model will be produced in Kvasiny.

This set of decisions proves the high level of trust the Group has in the ŠKODA team.

We have equipped both sites with new technologies and thereby laid the foundation for future developments with the Group as equals. With these decisions, we are safeguarding the future of our company and of the Czech Republic as an automotive hub.

[Colloquium]

But not only that: at the start of 2017 we held a colloquium in collaboration with the Czech government and business representatives which many of you reported on in detail.

In October, the memorandum of understanding between Auto SAP and the government was signed, in which 25 binding concrete work packages were adopted.

It is about the key issues of electromobility, autonomous driving and digitalisation, as well as cross-sectoral topics such as the promotion of training, research and science. An important step for the Czech Republic, but also for ŠKODA. Now it is imperative not to take our foot off the accelerator when implementing the concrete measures! ŠKODA is expecting support from all parties concerned. Because, it is clear that we will not be able to make this radical change a success unless we tackle it together!

[ŠKODA factory in India]

Ladies and Gentlemen,

We are also shaping the future far away from our home market:

ŠKODA has been given the task by VW Group of developing an entry-level platform for cars in emerging countries, initially with a focus on India. This is no simple

undertaking, the competition in India is intense. We have come far with our investigations; a final decision should be made by the middle of the year. We could be selling the first cars based on this platform in India at the start of 2021. But a final decision will be made by the middle of this year at the earliest.

There's no doubt that taking over responsibility for the MQB A0 project is a great challenge for ŠKODA, one which we will address with respect and motivation. Yet at the same time we also broaden our base even more with this project, because it will create new, high-quality jobs and increase the brand's development competence within the Group.

[DigiLab]

Ladies and Gentlemen,

Developing, producing and selling vehicles will always remain a part of ŠKODA's DNA. But added to this will also be new forms of mobility that will make our customers' lives on the go even safer, more comfortable and more environmentally friendly.

We are also developing digital services in our DigiLab in Prague, which some of you may already have visited. We are currently assessing and considering more than 40 ideas.

Our Geneva show car, the VISION X, incorporates no less than four of these mobility offerings: Smart Parking, Hoppy Go, Ride Share and Care Driver.

These services:

- guide you to available parking spaces,
- offer your car to others for rental when you don't need it,
- or offer car sharing opportunities in your vehicle
- and ensure that your child is picked up from nursery reliably and safely by a trustworthy person if you can't make it on time. We successfully completed our first testing phase in Munich. We are now bringing the service to Wolfsburg and plans are underway for other cities.

For us, it is about creating added value for our customers with these offerings.

Services such as these are not only developed in our digital creative headquarters – the DigiLab – but also in the ŠKODA Innovation Lab, the first spin-off right in the heart of Tel Aviv, which is the start-up stronghold beyond Silicon Valley.

We are now raising our digitalisation activities there to a new level and to this end we founded a joint venture with our partner Champion Motors. Why are we doing this? To improve our networking in Israel and to maintain direct access to the most promising start-up ideas.

Ladies and Gentlemen,

We have not only invested heavily in the new mobility solutions business last year, but also in our core business of car manufacturing – throughout the entire process chain. I would like to highlight three key projects:

[Press line]

- Firstly: The new press line for aluminium body parts, which we opened at the start of April. It is one of the most modern in Europe. The benefits for ŠKODA: more flexible production processes, shorter changeover times and an energy saving of 15%. And with it we have created 140 new jobs here in Mladá Boleslav.

[Paint shop]

- Secondly: We are investing around 215 million euros in a new paint shop and will create up to 650 new jobs. This increases the overall paint shop capacity by 600 units to 2,700 cars per day. If everything runs according to plan, the new paint shop will begin operation as early as June 2019.

[Vocational school]

- And thirdly: The modernisation of the Vocational School for Mechanical Engineering, which was completed at the end of February 2017. In the last three years, we invested over 10 million euros in renovations and new buildings as well as modern educational technology. Consequently, we offer our students high-quality teaching in modern classrooms and thus we are investing specifically in human capital.

[Outlook]

This now brings us to the outlook.

One thing is certain, the car business will remain challenging this year too. Investments in existing and new future-oriented technologies are more than a double burden. Political and economic uncertainties will continue in some markets. And competition will also remain fierce. In addition, discussions about possible trade tariff disputes are not expedient for any of those involved.

In addition, there's also the gradual transition of our entire model portfolio to the new consumption cycle, the '**Worldwide Harmonized Light Vehicles Test Procedure**' – WLTP for short. We are currently working at full speed on this. Customers will benefit from the new standard, as it will provide a more realistic benchmark for fuel

consumption and emissions. However, it requires a huge amount of effort from us car manufacturers and thus ŠKODA too, especially this year. It is clear that the transition may also have an impact on the availability of products in some European markets this year.

Of course, there is also positive news for 2018, such as the fact that the global automotive market will continue to grow. Experts anticipate that the 95-million mark could be surpassed by 2025/2027. ŠKODA will have a share in this growth. We expect our deliveries to customers for this year to exceed those of last year as well – weather permitting.

Ladies and Gentlemen,

As you know, we are currently in the midst of collective bargaining negotiations. At the moment, we still have a significant way to go – to put it mildly.

I am fully aware that we need an extraordinary collective bargaining agreement in order to remain competitive in the labour market. But this also means that it must neither be too high nor too low. Because in both cases, both sides lose: the person who demands too much and the person who promises too much.

For us, what matters is an impressive overall package for all of our employees. Our guiding principle is: 'Good pay for good work'.

[196,000 vehicles; +12.4%]

And that is what the entire ŠKODA team delivered once again at the start of the year: we started the new year from a position of strength. In the first two months we were able to deliver a total of 196,000 vehicles. That is an increase of 12.4% compared to the same period last year and a new record. Leading the way, our SUV models, the KODIAQ and KAROQ, are particularly popular with our customers. So, the start of the year has been successful.

['19 new models by the end of 2020']

We are building on this momentum. By the end of 2020, we will have launched a total of 19 new models. This extensive product campaign is one crucial lever in our 2025 Strategy for achieving sustainable growth in the coming years. Based on this, we see the opportunity to be selling more than two million cars per year by 2025.

In order to successfully continue our growth strategy, we need to take the necessary action now. To this end, we will continue our talks with all stakeholders. We are assessing other capacities within the Group's intelligent company network. And of course, we aim to have the Czech Republic and the Mladá Boleslav region participate

in the growth. We are therefore also assessing the increase of capacities here in Mladá Boleslav – for example by adjusting shift systems for the short term. In this context, it is then also a matter of fundamental infrastructure measures such as an improved road network, new housing or social facilities. To be specific, we are assessing a development fund, to which ŠKODA could contribute millions of euros.

Our objective is to be a future-proof employer in an attractive location, which successfully implements its growth strategy with the largest product and technology campaign in its history and with a strong impetus from its home market.

[VISION X]

One component of this product campaign is our new urban crossover, the VISION X, which we presented at the Geneva Motor Show at the start of the month. It will be launched as early as next year. Incidentally, the concept car provides a glimpse at the evolution of our design language that Head of Design, Oliver Stefani, and his team are working on. We are making our models even more attractive and desirable!

[FABIA + KODIAQ L&K]

The spotlight at the Geneva Motor Show was also on two other models:

- The new FABIA, which will be launched in the second half of this year.
- And our bestselling SUV, the KODIAQ, which is now also available in the top trim level 'Laurin & Klement'.

[Covered cars]

Last week, we launched the KAROQ in China, and the media have been very interested indeed. In April at the Beijing Motor Show we will then be unveiling the all-new CUV, which we are building exclusively for our Chinese customers. The same applies to the KODIAQ GT, which will follow a few weeks later. Both models show: we are serious about 'doubling the business' in China! We want to roughly double sales figures by 2020, taking us to about 600,000 cars per year.

Ladies and Gentlemen,

One topic plays a particularly central role in our product campaign: the electrification of the model range:

['Around 2 billion euros within the next 5 years']

By 2022, we are going to have invested a total of around two billion euros in alternative drive technologies and digitalisation. This will include investments in the development of new products as well as in the vehicles' production, procurement, quality and launch. It is the largest investment programme in ŠKODA's history.

The product road map for electromobility is clear: we will bring a total of 10 electrified models to our customers by 2025.

[10 electrified models by 2025]

Next year, ŠKODA will launch its first plug-in hybrid model, the SUPERB. And, as has already been mentioned, in the same year we will introduce the eCITIGO. At the same time, production of electrical components for PHEV models from several Group brands will begin. And the production version of the VISION E will follow in 2020 – a large SUV based on the MEB modular electric car platform with a range of 500 km and positioned between the KAROQ and the KODIAQ. With this model we make full use of all the benefits of electromobility: short charging times, long ranges and reasonable battery costs. We think that only then will electromobility be really attractive – only then will it be 'Simply Clever'.

Ladies and Gentlemen,

To summarise: we are vigorously pressing ahead.

- Firstly, with more models: By the end of 2020, we will be bringing a total of 19 new models to our customers.
- Secondly, with more 'e': E-mobility from ŠKODA is not just affordable, but also emotive, efficient and easy to use in everyday life. By 2025, we will have launched 10 electric models; and over the next five years, we are going to invest approximately two billion euros in e-mobility.
- And thirdly, with more digitalisation: We are currently testing around 40 ideas in our digital facility. Our objective is crystal clear: to develop even more digital 'Simply Clever' concepts even faster, and to establish mobility services as a new business segment.

[2025 Strategy]

Ladies and Gentlemen,

As you can see, ŠKODA is on the move and, despite all of the challenges facing us, we are looking to the future with great optimism. Our recipe for success is 'Driven by Inventiveness – clever ideas since 1895'. This is exactly what we are working on this year too. We are picking up the pace once again and positioning ourselves for the future on an even stronger footing with new products and mobility services, and the development of new markets. ŠKODA remains on track with the implementation of its 2025 Strategy. You can rely on ŠKODA. More than ever.

Thank you very much.

I will now pass you on to my colleague Klaus-Dieter Schürmann, who will tell you about ŠKODA's financial situation.
