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**Annual Press Conference 2023**

16. 3. 2023

**Christian Schenk, Škoda Auto CFO**

Speech

Thank you, Klaus.

Dear ladies and gentlemen,

Good morning, dobré ráno and welcome.

I’ll be presenting our annual financial statements and key figures for 2022, as well as an outlook on the current year.

I’m sure many people would agree with me that 2022 was a dramatic year. The impacts can be felt across the majority of industries, including the automotive sector as well as us at Škoda. The continued supply chain turbulences carried over from the previous year, rapid inflation and the outbreak of the war in Ukraine put tremendous pressure on our business.

What I’ll be focusing on today is how Škoda managed this year financially. Let’s first have a look at the development of the Škoda Auto Group’s revenues.

Despite all the challenges, the Škoda Auto Group managed to increase its revenues over 2021 by 19% to 21 billion euros. While sales volumes have once again been under pressure due to ongoing supply bottlenecks, our revenues have shown improvements thanks to several initiatives.

Firstly, improvements in product mix.

Our sales mix improved, as we delivered more high-revenue vehicles. Our two new all-electric vehicles – the Enyaq iV and Enyaq iV Coupé – made great contributions to this.

Secondly, our revenues in India improved significantly due to the success of our India 2.0 strategy. Introducing the Škoda Kushaq and Škoda Slavia led to a staggering 128% increase in deliveries to customers compared to 2021. In collaboration with our colleagues in India, we’ve shown that developing vehicles to meet regional requirements was the right strategy.

Thirdly, as part of taking further responsibilities within the Volkswagen Group, we were also able to increase sales of vehicles for other group brands, particularly in India where more Volkswagen vehicles were produced by Škoda.

Now, let’s take a look at how revenues developed in each quarter of 2022.

Overall, our net revenues in 2022 outperformed 2021, especially in the second half of the year.

In the first two quarters of 2022, revenues were similar to 2021, at around five billion euros.

In the third quarter of 2022, net revenues improved by 58% over 2021. Note that in Q3 2021, production shutdowns due to semiconductor shortages started to hit us hard. In 2022, we were able to stabilise production despite still not being at full capacity.

In Q4, we finished the year strong, increasing net revenues by 32% over 2021 to 5.8 billion euros – the highest of all quarters. Aside from the effects I mentioned earlier, we also launched the assembly of MEB batteries for the Group, which contributed to the increase.

Moving on to profit – we faced several challenges in our operating environment.

Thanks to effective countermeasures, we managed to achieve a positive operating profit amounting to 628 million euros compared to 1.083 million euros in 2021. This was attained despite the financial burden of extraordinary effects regarding the situation in Russia of almost 700 million euros. The return on sales without these extraordinary effects slightly exceeded last year's 6.1%, but dropped to 3.0% including these effects.

Besides Russia, there were further adverse effects on our business.

The after effects of the COVID pandemic and the outbreak of war in Ukraine led to the rampant inflation of raw material costs, mainly with steel and battery components.

Prices for semiconductor components increased due to the ongoing parts shortage. As I mentioned earlier, this also decreased our production output for the second year in a row.

Due to supply chain bottlenecks and inflationary trends, we also faced higher logistics and supply chain costs.

In addition, we were also impacted by the negative net effect of foreign exchange.

We compensated all these adverse effects by better product mix, which I mentioned previously under ‘revenues’. Our continued efforts in improving fixed costs also contributed positively to our operating profits.

Further efficiency initiatives have been launched within the framework of the Next Level Efficiency+ programme, which I’ll come back to later.

In these difficult times, we steered the business successfully. All in all, we achieved a solid profit level. For this, I sincerely thank all our stakeholders for their tremendously hard work throughout the year and our customers for their continued trust and support for our products and services.

Let’s take a closer look how the total operating profit developed by quarter.

Firstly, we can see that the operating profits in quarters 1 and 2 were stable, at around 340 million euros or 6.6% return on sales, lower than 2021. This was due to the overall increase in material costs and the consequences of the semiconductor shortage in 2022. We didn’t experience any semiconductor issues in the first half of 2021, which allowed us to run at full speed.

The results of Q3 started to be impacted by the extraordinary effects related to Russia. Therefore, return on sales dropped to 3.6% in 2022. Last year we suffered from Q3 onwards from long lasting production shutdowns due to parts supply issues. The consequent losses had been turned into profits this year and our supply management improved alongside our cost initiatives.

Unfortunately, Q4 brought losses of 228 million euros, once again due to the extraordinary effects relating to Russia. This had a negative impact on the ROS, from 4.1% in 2021 to -3.9% in 2022.

Dear ladies and gentlemen,

I will now summarise the Škoda Auto Group’s 2022 financial results.

As we’ve already discussed the development of sales revenue, operating profit and return on sales, I’ll now cover our earnings after tax and net cash flow.

Earnings after tax decreased by 461 million euros to 415 million euros compared to 2021, similar to the development of the operating profit.

Our positive net cash flow of 489 million euros decreased by only 65 million euros compared to 2021. Despite the high drop in operating profits and higher investments, we were able to generate almost the same amount of cash as last year. This shows that the Škoda Auto Group is robust and remained financially on track despite all the global challenges.

Let’s take a look at our investment and research & development activities in more detail:

Our strategy to transform the company towards e-Mobility and digitalisation means we’re making huge investments in our future.

We invested a total of 1.2 billion euros (5.5% of turnover), which is 375 million euros more than in 2021, an increase of 48%.

Out of the total 1.2 billion euros, a large share flowed into transformation activities at our plants, including optimising production lines for electric vehicle production and battery assembly, as well as digitalization.

In addition, we invested in the brand’s future by consolidating our brand rights, which we’ve revolutionised and rolled out with a new corporate identity and logo.

The total R&D expenditure of 852 million euros increased by 3% compared to last year.

Besides the ongoing modernisation of our fleet, our R&D activities focus on developing an all-new generation of BEV vehicles featuring our ‘Modern Solid’ design language. Klaus Zellmer will be providing more details on product events in a moment.

We’ll now take one last look at 2022 from the perspective of Škoda Auto a.s. – the Czech Company without our subsidiaries. The figures are covered in more detail in our Annual Report online, prepared in accordance with IFRS standards.

Operating profits decreased by a third to 17.6 billion Czech crowns in 2022. The reasons for the decrease were similar to my statements about the Škoda Auto Group and include the previously mentioned extraordinary effects regarding Russia.

Dear ladies and gentlemen,

2022 has indeed been a challenging year that impacted our operations and financial figures. We have consistently been working on effective countermeasures to mitigate the effects.

Looking at 2023, our operating environment is again going to be challenging. Uncertainties regarding supplies still remain, even though we expect the situation to further ease during the year.

In addition, inflation rises, driven especially by raw material and energy prices and will require strict cost discipline on our side.

Meanwhile, consumer inflation and uncertainties are also on the agenda, which is expected to lower the purchasing power of the public and put further pressure on the industry.

But, let me assure you that we are prepared. Besides our attractive model range, we’re running operations efficiently and providing added value to our customers through our Next Level Efficiency+ programme. I’ll give more details on this programme in just a moment.

We will continue to monitor and adjust our product mix. In order to diversify our revenue streams, we are entering new markets, such as Vietnam and continuing our growth plan in India

The Next Level Efficiency+ programme is the answer to improving our efficiency in the short term as well as delivering long-term profitability. I introduced this programme at this event last year. It aims to deliver profitability targets of over 8% from 2025 onwards. This programme is running successfully at full speed.

Let me walk you through each working package in more detail:

Under the ‘Maximizing revenue potential’ working package, we took a comprehensive approach to improving the future product and regional mix to ensure that we can offer our customers’ favourite models while remaining competitive in the market. This year, we will continue with those measures and additionally target distribution costs and enhance the profitability of our new digital services such as Location Based Offers and the upcoming SuperApp.

Under the ‘Revolutionising material costs’ working package, we did a lot of benchmarking last year. The goal was to identify areas where we could increase value for the customer while keeping costs under control. This year, we are going to intensify these efforts and step up the implementation of smart and sustainable materials to add additional customer value and promote our environmental initiatives.

Under the ‘Optimising production costs’ working package, we identified measures to improve production overheads in 2022. In 2023, we aim to implement further improvements through concepts like ‘design for manufacturing and assembly’, enabling us to harmonise our engineering and production processes.

Finally, under the ‘Optimising fixed costs’ working package, we rolled out measures to improve overhead costs in 2022. In 2023, we are going to generate further measures to ensure the optimisation of our investments.

Dear ladies and gentlemen, with our comprehensive new brand design and logo, we are demonstrating our ability to change, based on our rich heritage. Building on solid financial foundations, we will continue to transform Škoda and work towards a sustainable future. Throughout this process, people and products serving our customers will be in our focus.

I’ll now hand over to my colleague Martin Jahn, Board member for Sales and Marketing, who will go into more detail about our sales and market developments.