

ŠKODA AUTO Annual Press Conference

Mladá Boleslav, 20 March 2019

Speech by Mr Bernhard Maier

CEO ŠKODA AUTO

- The spoken word prevails. -

Script for Bernhard Maier's speech

ŠKODA AUTO a.s. Annual Press Conference 2019

20 March 2019

Slide: [Intro]

Good morning ladies and gentlemen,

I would like to wish you a warm welcome to ŠKODA's annual press conference here in Mladá Boleslav! I am pleased to inform you today about the 2018 balance sheet and, at the same time, to look ahead to what we want to achieve in the coming months and years as part of our Strategy 2025.

Slide: [Strategy 2025]

2018 was a good year for ŠKODA. We achieved a lot and made many changes:

- More than 39,000 Škodians gave a solid team performance, working with great passion and dedication. I would like to thank all my colleagues for that!
- Our products were very well received by customers around the world.
- And we have taken numerous strategic decisions that will sustainably strengthen ŠKODA.

2018 also showed that the transformation process in the automotive industry is rapidly gaining momentum. In addition, there are geopolitical and economic challenges between the US and China, and Brexit, as well.

Nevertheless, ŠKODA has held its own in this challenging environment. I would like to explain a few things before I get to the key figures:

Slide: [ŠKODA AUTO a.s. vs. ŠKODA Group]

The annual report has been created for ŠKODA Auto a.s., as illustrated here on the left. It is published in accordance with Czech IFRS, and the values are stated in Czech crowns.

My following statements refer to the consolidated ŠKODA Group, i.e. the ŠKODA brand, whose key figures are also published by the Volkswagen Group – illustrated here on the right.

The main foreign and affiliated companies are consolidated there in the balance sheet and income statement. The Group accounting standard applies in accordance with IFRS, and the values are stated in euros.

Slide: [2018 VEHICLE SALES & FINANCIAL RESULTS]

Now to the key figures:

- With around 1,253,700 vehicles worldwide, the ŠKODA AUTO Group increased its deliveries by 4.4% over the previous year – a new record.
- Our market share in EU5 including the Czech Republic was 3.8% above the previous year's level.¹
- The company's sales increased by 4.4% and achieved the best result in the company's history at 17.29 billion euros.
- And operating profit remains at a high level of 1.377 billion euros.

Ladies and gentlemen,

The figures show that ŠKODA is a strong business and financially stable. We are therefore able to create the essential prerequisites for investing billions into future technologies such as e-mobility and digitalisation.

Over the past year, how did the overall markets where ŠKODA is represented develop?

Slide: [GLOBAL MARKET DEVELOPMENT]

- In Western Europe, deliveries declined slightly by 0.7% year-on-year to 14.25 million vehicles.
- 1.18 million vehicles were delivered in Central Europe – an increase of 7.5%.
- Eastern Europe grew significantly; the region recorded growth of 14.8% to 538,000 vehicles.
- In Russia, the overall market grew by 14.1% to 1.68 million vehicles.
- In China, deliveries fell 4.8% to 22.7 million vehicles.
- India grew by 7.5% to 3.3 million vehicles.

How did ŠKODA perform in these sales regions? By looking at the individual markets, we see that:

¹ EU5 + CZ market share in 2017: 3.7%

Slide: [ŠKODA DELIVERIES TO CUSTOMERS]

- Against the trend in Western Europe, we increased our deliveries to customers by 1.8% to 486,400 Vehicles. Germany remains ŠKODA's second strongest individual market. We grew by 1.9% in the region, delivering 176,600 vehicles. Once again, we are the number-one import brand and thus consolidate our position among the well-known volume brands. ŠKODA posted double-digit growth in numerous Western European countries: in France, 17.5%, Spain, 11.5%, the Netherlands, 11.6% and Greece, 17.6%.
- In Central Europe, ŠKODA grew by 2.8% to 212,900 vehicles. In our Czech home market, we delivered 93,600 vehicles, a slight decrease of 1.5%. Nevertheless, we were able to improve our market share compared to the previous year.² In Poland, we grew by 6.7%. Slovakia, Hungary, Slovenia and Croatia also made substantial progress.
- In Eastern Europe excluding Russia, we also recorded strong growth of 11.5% to 46,100 vehicles over the year; Romania, Bulgaria, Bosnia and Kazakhstan performed particularly well.
- We made significant gains in Russia where we delivered 81,500 vehicles, an increase of 30.7%.
- In China, we increased deliveries to 341,000 vehicles, an increase of 4.9%, despite the declining overall market. The market remains ŠKODA's strongest sales region. This was a particular success for us, as ŠKODA was able to significantly increase awareness of the brand in China, having acted as an independent brand since the end of 2016.
- In India, we grew slightly, outperforming the previous year, delivering 17,200 vehicles.

How did the ŠKODA models perform?

Slide: [CITIGO]

- Contrary to the typical lifecycle trend, sales of the CITIGO increased last year. Deliveries rose by 5.5% to 39,200 vehicles. This year, we are presenting the all-electric version of the CITIGO – the perfect electric car for the city with a 300-kilometre range, making it suitable for everyday use.

Slide: [FABIA]

- We presented the refreshed FABIA at the Geneva Motor Show in March 2018. However, due to the ramp-up and WLTP, deliveries fell by 7.6% to 190,000 vehicles last year.

² Overall CZ market 2018: -3.7% vs. 2017; SKODA CZ 2018: -1.5% vs. 2017)

Slide: [RAPID]

- As expected, we delivered fewer RAPIDs, with European production ending in December last year. ³ Based on our product strategy, we will continue to manufacture the model in China and Russia.

Slide: [SCALA]

- We did not deliver any vehicles from the new SCALA series to customers in 2018. It was, however, still one of the most important models that we presented last year. The world premiere took place in Tel Aviv at the beginning of December. The driving presentation will start in Croatia in just a few days. The car is an entirely new development – a real milestone for us. It sets standards in design, connectivity and safety in this class.

Slide: [OCTAVIA]

- The OCTAVIA is and remains ŠKODA's best-selling model series. In total, we delivered 388,200 units in 2018. The OCTAVIA is consistently performing at the highest level in its seventh year after market launch. We have lots of things lined up for the icon of the brand this year – just in time for its 60th birthday.

Slide: [SUPERB]

- We delivered 138,100 units of our flagship SUPERB – representing a decline of 8.5%; the entire segment is in decline as the trend shifts towards SUVs. However, we are experiencing less of a drop than the segment in general. And we are actively counteracting it by launching the facelift on the market this year. Also, we are electrifying the series and making the SUPERB our first plug-in hybrid that we are going to introduce later this year.

We now turn to the SUVs – these segments continue to grow rapidly around the world. We jumped on the bandwagon relatively late, but we have obviously hit the mark with our SUV campaign.

Slide: [KODIAQ]

- Our large SUV, the KODIAQ, has got off to a strong start. Within just two years, we have produced more than a quarter of a million units. Last year, we again increased deliveries by around 50% compared to the previous year – also because we have expanded the model series to a whole product family within a very short period and even launched another derivative with the KODIAQ GT in China.

³ EOP RAPID Spaceback: 12/18, RAPID Hatch: 05/19

Slide: [KAROQ]

- The KAROQ exceeded our expectations. It has successfully completed the year with 115,700 units. The world premiere was in May 2017, and it was launched in October. The KAROQ has been highly commended in the international trade press, winning awards such as the Golden Steering Wheel, Car of the Year and the Best Cars readers' poll. The Sportline and Scout versions now complete the range.

Slide: [KAMIQ IN CHINA]

- With the Chinese variant of the KAMIQ, we presented our new crossover model 'made in China, for China' last April at the Motorshow in Beijing, which rounds off the lower end of our SUV range. With this model, we are continuing our model campaign in our largest single market. The KAMIQ has been very well received by our customers in China; we have already delivered 27,900 units. It is now entering its first full year.

Slide: [KAMIQ EU]

- The name KAMIQ also suits our new crossover model in Europe that we introduced at the Geneva Motor Show. This car rounds off the lower end of our SUV range. We are thus creating a distinct hierarchy in our SUV lineup with a clear brand and product identity. The KAMIQ marks the next step in our SUV campaign for ŠKODA.

Slide: [PRODUCT HIGHLIGHTS 2018]

Ladies and gentlemen,

Last year, we successfully continued our product campaign, introducing a total of seven new models. The consistently high demand – we could have even sold 100,000 units in 2018 if we'd had the capacity to do so – the positive response from the international press and the numerous awards demonstrate that we are aligned with our customers' tastes

This is also because our new products all feature ŠKODA's typical characteristics:

- superior space
- maximum functionality.
- compelling value for money
- many 'Simply Clever' ideas.
- And a clear, forward-looking design full of character.

We can summarise all this under the term 'Smart Understatement' – a set of values our customers all around the world appreciate.

In addition to our new products, two concept cars inspired global audiences in 2018:

Slide: [VISION X]

- In Geneva, we presented the VISION X – a concept very similar to the series-production version, the KAMIQ, which I mentioned earlier. With this model, we are entering the fast-growing segment of small SUVs. It's a completely new development and has what it takes to reach an even wider customer base.

Slide: [VISION RS]

- And the VISION RS created quite a buzz in Paris. It combines performance with sustainability thanks to its plug-in hybrid and demonstrates how we will be developing the RS idea in the future. At the same time, the VISION RS offered a preview of what was to come with the SCALA, our new compact model that I introduced to you earlier.

Moving on from the products to the strategic cores topics of the past year:

We have systematically developed ŠKODA in all areas to emerge stronger from the transformation process.

Slide: [COLLAGE]

The best example is the digital transformation, which we are actively promoting throughout the company:

We are using autonomous drones, fully autonomous robots, cooperating robots and handling robots, working according to the principles of Industry 4.0.

And with our new data centre, we are taking a decisive step towards becoming a digital company.

In terms of products in the coming year, we will be making the car a 'perfect third place' after the office and home. With its state-of-the-art connectivity and over-the-air updates, the new SCALA is already taking a big step in this direction.

And we think beyond the car – for example with the KLEMENT: our Smart Mobility Device that we have brought along today.

The KLEMENT is

- fully electric with a range of over 60 kilometres,
- fully networked thanks to smartphone integration with inductive charging and over-the-air updates.
- And – of course – packed with ‘Simply Clever’ ideas including cruise control, hill hold function and a heated seat.

And so it represents exactly what ŠKODA has at its heart: 'Driven by inventiveness - clever ideas since 1895'.

Slide: [HoppyGo, CareDriver, Uniqway + Trunk-Delivery]

To complement our core products, we now offer our customers a whole range of mobility and vehicle-on-demand solutions, such as HoppyGo, CareDriver and Uniqway, all created at our DigiLab. Or something completely new and, above all, practical – the Boot Delivery Service, whereby parcels are delivered directly to our customers' car boots. The test phase has already started.

Slide: [myŠKODA]

It is important to us that we make life on the go as easy, convenient and comfortable as possible. That is why we are working hard to combine all ŠKODA services under the name 'myŠKODA'.

Ladies and gentlemen,

What is becoming increasingly important in expanding the digital business are collaborations. Our motto is: Partnering is key!

And we are doing that in various ways:

We are now cooperating with over ten promising Israeli start-ups in areas such as Big Data and Artificial Intelligence.

Slide: [PRAGUE]

At the same time, we are working closely with cities on the topic of 'Smart City'. For example, in October we signed an MoU with the city of Prague, covering

- optimising the flow of traffic (30% of drive time in Prague is spent finding a parking space)
- significantly expanding the range of mobility services, such as car sharing or ride-hailing

- intelligently interlinking intermodal transport, thereby increasing people's safety and convenience
- and reducing our impact on the environment.

Slide: [II. COLLOQUIUM]

We exchanged views on Smart City and other important future topics with the Czech government and business representatives at a second colloquium. As you will remember, the first meeting took place in early 2017, which many of you covered extensively.

The result was 25 work packages focusing on electromobility, autonomous driving and digitalisation as well as multi-disciplinary issues such as promoting education, research and science. Now we have analysed the progress in each area and defined the next steps.

A central point of discussion was the topic of sustainability – practically the 'mother' of all changes.

Slide: [SUSTAINABILITY]

We have clearly stated our goals:

For example, we are reducing our fleet's CO₂ emissions by more than 25% between 2015 and 2025. An essential lever for this is the transition from the internal combustion engine to the electric car. By the end of 2022, we will have brought out more than ten partially or fully electrified cars.

Another goal is to convert the production at our Czech factories to 100% CO₂-neutral energy by the second half of the next decade.

Also, when recycling our cars, we do our utmost to be as environmentally friendly as possible. For example, 85% of the components in the SCALA are already reusable or recyclable. We are continuing our efforts to increase this percentage.

We will be strengthening our compliance and sustainability standards this year. In purchasing, sustainability criteria will be considered equally important as quality, development or logistics in the tender process.

And we are taking the concept of sustainability even further:

Slide: [ŠKODA ENDOWMENT FUND]

Since the beginning of this year, we have been supporting projects that sustainably improve people's quality of life in the regions surrounding our Czech sites, especially in Mladá Boleslav with the 30-million-euro ŠKODA endowment fund.

We plan to support specific projects in the transport sector as well as in the areas of security, modern healthcare, social work and culture. In doing so, we are fulfilling our responsibility as a company and working closely with our partners in politics, local government and civil society. One thing is clear to us: Our responsibility does not end at the factory gates!

Ladies and gentlemen,

Responsibility also means taking our employees with us on our way to the future. For us this means training, further education and qualifications are essential for our long-term success!

A recent study by the World Economic Forum concludes that by 2025 – in just under seven years – 75 million jobs will disappear around the world due to the development of machines and algorithms that control automated processes. At the same time, however, 133 million new jobs would be created.⁴ And we do not even know the title of 30% of these new jobs!

These figures alone show how important lifelong learning is for our employees. And that's why we are investing around 120 million euros in our employees' training and further education over the next three years.

Also, we are assuming responsibility within the Volkswagen Group in a variety of ways:

- with INDIA 2.0
- with Russia
- With the development and production of the next SUPERB/Passat generation
- And with the planning of the new multi-brand plant

Where are we up to with these topics?

Slide: [INDIA 2.0]

The INDIA 2.0 project aims to sustainably strengthen the presence of ŠKODA and the Volkswagen Group by significantly expanding our offer in the volume segment.

Since 2017, we have been responsible for the MQB A0 platform, initially focusing on India. In the past few months we have reached crucial milestones:

- The management team for the India business is now firmly established under Gurpratap Boparai as Managing Director.
- The new Technology Centre in Pune has been in operation since January.

⁴ 'The Future of Jobs', WEF, 2018

- And we are also making progress with the planned localisation level of over 90%.

Our objective for 2019 is to intensify the close collaboration of the individual companies in the region to combine our expertise and ensure leaner coordination processes that will allow us to make decisions much faster. In this way, we are creating the prerequisites to make significant improvements in all areas – from development and production to customer service.

The first model we will be developing and producing is a midsize A0 SUV. We are going to present the first show car at the Delhi Motor Show next year.

In addition to India, we are also taking on Group responsibility for the Russian region this year, and we are heavily involved with the structuring.

Slide: [VOLUME BRANDS]

An important reform in 2018 was the reorganisation of the management structure in the Volkswagen Group:

ŠKODA is now part of the brand group 'volume'. With this new, more compact structure, we can accelerate coordination processes, make better use of synergies and reduce complexity and costs.

For example, from this year on, we will be providing additional development services to the Group and developing the next generation of the Volkswagen Passat and the ŠKODA SUPERB. From 2023, both models will be produced alongside each other at our Czech plant in Kvasiny.

Another example is the planned multi-brand plant: The Group has commissioned us to look for a suitable location. We have drawn up a shortlist and will make a decision in the coming months.

Slide: [OUTLOOK]

Let's now move on to the outlook.

For the time being, it looks promising: The global car market will continue to grow. Experts believe that the 95-million-mark may be surpassed by 2025/2027. ŠKODA will be participating in this growth. We also expect positive business developments for this year, wind and weather permitting.

But it is also clear that the trade dispute between the US and China is slowing the global economy, Brexit is keeping Europe busy and volatile exchange rates are having

a negative impact on our business. According to a recent study by the International Monetary Fund, we may even be at the end of the longest upswing in over 70 years.

Alongside these, there are also challenges specific to our industry: Both the 95-gram target and the EU's target of cutting the CO₂ emissions of new cars by an average of 37.5% by 2030 incur significant costs. This will make individual mobility more expensive – the necessary additional technologies come at a price and cannot be compensated elsewhere. ŠKODA is not alone here; there's no way around this for any car manufacturer.

Slide: [GOAL: CUMULATIVE PROFIT IMPACT OF >3 BILLION € UNTIL 2025]

Ladies and gentlemen,

We are actively countering these challenges by remaining flexible:

Just a few months after presenting our Strategy 2025, we released the first update with Strategy 2025+. Since then, topics such as artificial intelligence, big data and digitalisation have been firmly anchored.

Another update is our performance programme, which we set out at the end of 2017. Our goal is to achieve a cumulative impact on earnings of over three billion euros by 2025 to finance the additional investment in new technologies, which has become necessary as a result of the new EU limits.

We have thus laid the foundation for sustainable success, the job security of over 39,000 Škodians worldwide, and a healthy return on sales.

Ladies and gentlemen,

The challenges I have just mentioned make one thing clear: Anyone not already thinking about next week may not even be here tomorrow.

And this is especially true of ŠKODA's home country: The Czech Republic now has the greatest dependence on the automotive cluster, producing 134 vehicles per 1,000 inhabitants.

In other words, today, the country is highly industrialised, and the population is benefitting from this. However, we already know that in addition to industry, the digital economy in the region must be strengthened with new digital services and business models to increase the country's competitiveness.

Slide: [„The Simply Clever Company for best mobility solutions“]

We are consistently pursuing our transformation from being a car manufacturer to a 'Simply Clever company for the best mobility solutions'.

We have already made a successful start to this year: In the first two months, we delivered a total of 193,500 vehicles. This is a slight drop of just under 1.3% compared to the same period last year. However, given the declining Chinese market, this is a very promising start to the year worldwide.

Ladies and gentlemen,

ŠKODA AUTO is celebrating its 125th anniversary next year. Something that so far only five other car brands have managed.⁵

And we remain true to ourselves in the future. Our mission is:

“We have devoted our entrepreneurial spirit and our commitment to individual mobility for over 120 years, and we will do so in the future!”

We are substantially picking up the pace in all areas to emerge stronger from the transformation process.

Over 39,000 Škodians are working with great commitment to ensure that ŠKODA remains a strong brand, a profitable company and an attractive employer.

Thank you very much.

And now I can hand over the word to my colleague Klaus-Dieter Schürmann who will inform you about ŠKODA AUTO's financial situation.

⁵ Opel (1862), Vauxhall (1857), Daimler (1890), Peugeot (1810) and Tatra (1850)