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**PORSCHE**

# **Speech**

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Member of the executive board responsible for  
finance and IT at Dr. Ing. h.c. F. Porsche AG  
on the occasion of the annual press conference  
on March 13, 2015

Check against delivery

Ladies and gentlemen,

May I also wish you a warm welcome to the Annual Press Conference of Porsche AG here in the Porsche Museum.

As you have heard: the fiscal year 2014 was the most successful year to date in the history of our company. Porsche achieved record deliveries, a record revenue and record earnings. Right from the outset of my comments, I would like to supplement these extremely pleasing results with an additional highlight: the excellent development of Porsche also reflects our financial situation. Net liquidity of the car business division – in other words gross liquidity less financial liabilities and excluding the financial services business in each case – improved from minus 899 million euros as of 31 December 2013 to plus 195 million euros as of 31 December 2014. This means that we have achieved our medium-term target of completely repaying our net debt while simultaneously financing our growth from the operating cash flow in 2014, and hence two years before the target date specified in Strategy 2018.

There is one main reason behind the tremendous earnings power of Porsche: the current demand for our vehicles is unprecedented. As Mr Müller has stated in his speech: we have seized our opportunities on the global markets with the right products. Just take the 911 Targa. Having received awards such as the “Golden Steering Wheel”, the new edition of the 911 Targa is undisputedly one of the outstanding design innovations of recent years. Overall, deliveries of the 911 series at 30,500 vehicles again exceeded the figures of the previous year. And with just under 11,000 units, we were also able to deliver more

models of the Cayman than in the previous year. The Boxster, which achieved some 12,800 deliveries in a difficult market environment, fell just short of the previous year's result. Porsche also handed over 301 new vehicles of the 918 Spyder super sports car to customers. In the meantime, this model has sold out.

Despite the generation change in 2014, our strongest selling series continues to be the Cayenne with just under 66,000 vehicles delivered. The new Macan recorded some 44,600 deliveries in its very first year, and managed this although the gradual launch of the compact sports utility vehicle on the global markets only started in April. The Panamera series clearly surpassed the previous year's mark with 24,800 vehicles delivered.

What particularly pleases me is the fact that we have been able to grow in all regions, hence also in Europe, where the structural economic problems in a number of countries are still a long way from being resolved. Nevertheless, our vehicle deliveries in this region increased by almost a fifth to 60,800 units. Thus, the overall growth here was even higher than in the USA, which continues to be our largest sales market. Deliveries here rose by 11 per cent to some 47,000 new vehicles. China continued to occupy second position in our sales markets with a growth of one quarter to just under 47,000 vehicle deliveries.

Today we have to clearly recognise that little remains of the euphoria surrounding the future development of the BRIC countries, which could be felt everywhere just a few years ago. Countries such as Brazil are experiencing a weak phase. And even in China growth potential is not

unlimited. In large cities such as Beijing, new car registrations are increasingly being limited. The Chinese authorities are introducing such measures to combat the high levels of air pollution.

How is Porsche reacting to these market trends? Quite simply by looking intensively at additional markets. Our aim is to step up the pace of expansion for our dealer networks in the promising emerging markets. In South Korea, for example, we set up an independent importers' organisation during the last business year. In its first year, the Porsche subsidiary made a very successful start with approximately 2,700 deliveries. Compared with the previous year, this represents an increase of almost one third.

One consequence of this internationalisation strategy is that we are generating an increasingly large share of our income in different currencies. Now more than 70 per cent of our income originates from regions outside of the euro zone. However, Porsche incurs most of its costs within the euro zone. Exchange rate fluctuations therefore have a direct impact on our earnings. In order to achieve a high level of security in planning in spite of this, we hedge a large proportion of future income in 14 different currencies. This hedging always becomes particularly important for the earnings of Porsche when a currency weakens against the euro and sales revenues for our vehicles in euros fall as a result. In the fiscal year 2014, for example, this was the case with the rouble. Not least because of the successful currency hedging, Porsche was able to buck the general market trend for 2014 in Russia and increase its deliveries by a quarter to almost 4,800 vehicles. In this case, currency hedging proved to be a thoroughly strong tool supporting sales.

The main driving force behind our rise in earnings is – as already mentioned – the excellent car business. The operating profit increased by five per cent to 2.7 billion euros. Earnings before tax was just under 3.1 billion euros. With a tax rate of 28 per cent, earnings after tax achieved a figure of 2.2 billion euros. Compared with the previous year, this represents a rise of 14 per cent.

This brings me to the financial situation. Cash flows from operating activities amounted to 3.2 billion euros in the fiscal year 2014, which represents a growth of nine per cent. The main effects result from the increased earnings, higher allowances for depreciation and, contrary to the trend, a higher level of resources tied up in working capital. Cash flows from investing activities led to an eight per cent higher outflow of funds of 2.25 billion euros.

The cost structure, which remains healthy despite the increased investments and high expenditure on future technologies, together with the sustainably high earning power of Porsche are also reflected in the key return ratios. The operating return on sales was thus 16 per cent and the return on sales before tax was 18 per cent. Return on capital, defined as the operating profit after tax in relation to the average invested assets in the car business division, was 27 per cent, the return on equity after taxes 24 per cent.

At the beginning of the 2015 business year, Porsche has a broader and hence better position with its product range than ever before. In 2015, our new best-seller, the Macan, will now be available for a full twelve months for the first time. We therefore assume that sales and deliveries will continue to rise in the current year. In addition, we shall

persist in ensuring that our earnings requirements are fulfilled through continuous productivity and process improvements as well as through stringent cost management.

However, Porsche has to bear tremendous expenditure in order to comply with the increasingly demanding CO<sub>2</sub> standards. This means: if we wish to expand our range of models and further extend our technological leadership, we will have to contend with increasing expenditure for vehicle development, personnel and depreciation allowances. Meeting the CO<sub>2</sub> requirements alone costs us approximately 2,000 euros per vehicle.

In terms of electromobility and connectivity we are also aware of the challenges and expectations of our customers. In the past business year of 2014, we took another great step forward in this field with the introduction of the Cayenne plug-in hybrid. Porsche thus became the only producer with a range that already includes three extremely modern plug-in hybrid vehicles in the premium segment: alongside the Cayenne, these are the Panamera and the 918 Spyder super sports car. Without these models, we would not be in a position to even remotely achieve the statutory CO<sub>2</sub> requirements.

On the other hand, the costs of producing a plug-in hybrid model are more than 10,000 euros above those of the respective sister models with a combustion engine. After all, the plug-in hybrid has both the conventional and the additional electrically powered drivetrain. However, you do not recoup these additional costs on the market. In the case of the Cayenne, for example, the prices of the S E-Hybrid

and the S Diesel are identical. The increasing use of aluminium to reduce weight is also having a powerful impact. And here, too, the customer does not pay more for a 911 as a result.

In my view, the investments quoted are promising fields that will secure the long-term success of Porsche. It is essential to remain state of the art and keep pace with the times. It is, after all, only those who are at the forefront of progress and remain there who will achieve success in the future. However, innovative vehicle projects also have effects on development costs. I have outlined the problems with the Cayenne S E-Hybrid and S Diesel as examples. The high investments involved in maintaining and developing our sites represent additional burdens.

Finally, we must also make sure that we do not close our eyes to the current market trends. A shift in the model mix is becoming increasingly apparent here. Although we delivered more vehicles from the 911 and Panamera series in 2014, the long-term trend is towards SUVs, hence to the Cayenne and now to the Macan as well.

Against this backdrop, it is becoming clear that repeating a result at the level of the previous year represents an ambitious aim. Safeguarding the constant growth in earnings and meeting our envisaged return with increasing investment and fixed costs remains a challenge. Nevertheless, we shall adhere to our strategic returns target of 15 per cent.

I thank you for your attention.