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Start of Speech



PORSCHE

Speech

(part I)

Matthias Müller

Chairman of the Executive Board of Dr. Ing. h.c. F. Porsche AG
on the occasion of the Annual Press Conference of Porsche AG
held on March 13, 2015

in Stuttgart
Check against delivery!

Good morning ladies and gentlemen,

To start with, in the first part of my speech I would like to take a look back at 2014. To get straight to the point: once again, we can look back at very pleasing twelve months of the last business year.

"Porsche is the most successful manufacturer of exclusive sports cars worldwide" – that was our ambitious vision in 2011 which all strategic corporate targets are derived from. Last year we were once again able to prove how seriously we take this: our business developed extremely positively – as you have come to expect from Porsche.

However, there is one event that particularly stands out in the course of the year. Of course, it is no coincidence that our 919 Hybrid has set the mood for us twice today – first of all the original outside and now once again as the leading actor in the film. In the last race of the World Endurance Championship on 30 November in Sao Paulo, we achieved a very important victory with this prototype. The return to the World Endurance Championship after 16 years and then being the first to pass the finishing line with an LMP1-category race car – that was a real highlight for all of us at Porsche.

Why am I emphasising our return to the WEC and the victory in Sao Paulo today? Because it is not only races that we are winning over long distances, but first and foremost new knowledge. This is because on the circuits of Le Mans, the Nürburgring and in Sao Paulo we are already testing the new technologies that will be integrated in the development of our production vehicles in the future. The hybrid technology fitted in the 919 plays a key role, which I would like to depict in more detail later.

2014 was an important year for Porsche – not only in sporty competitions on the racetrack, but also in terms of economic competition. In a difficult global environment we succeeded in successfully continuing our growth strategy – once again providing impressive proof that we set the right course four years ago with the Porsche strategy 2018.

This success is demonstrated by:

- almost 190,000 customer deliveries – some 17 percent more than in the previous year;
- sales growth of around 20 percent to 17,2 billion euros
- and an 14 percent increase in the earnings after taxes to a good 2.2 billion euros.

My Executive Board colleague Lutz Meschke will shortly explain our figures to you in more detail. But there is one decisive thing that I would already like to mention at this point: the business year 2014 was the most successful in the history of our company to date.

However, this success isn't something that can be taken for granted, but rather the result of a clear strategy that was resolutely pursued. In 2014 we once more had the right products in the right markets at the right time and we made full use of our opportunities with new models. Yet we never lost sight of the core values of our brand and we always paid attention to our price premium. This is how Porsche succeeded in building seamlessly on the success of past years with value-creating growth. The business environment was far from ideal last year: the world economy grew at a rate of 3.3 percent – the same level as in 2013. Although above-average growth was forecast for the "BRIC" states a year ago, in the end only China was able to more or less meet the expectations. However, in 2014 the Chinese economy recorded the slowest growth in two decades. The eurozone was able to regain some stability last year. But at 0.8 percent economic growth remained paltry. Major European economies such as France and Italy stagnated. By contrast, a positive economic trend was seen in North America: the world's largest economy is on a growth course once again. Together with the fall in the oil price, the United States made a decisive contribution to stabilising the world economy.

This overall picture is also reflected in the global demand for motor vehicles: in 2014 the worldwide passenger car market saw moderate growth of 4.7 percent to more than 73 million vehicles. The two largest automotive markets USA and China were also the growth drivers. By contrast, the registration figures in large parts of Southern

and Eastern Europe stagnated. The passenger car markets Brazil, Russia and India continued to remain greatly behind the original expectations.

In this difficult environment Porsche developed very positively and in many aspects even against the trend. We grew in all regions of the world – with two-digit growth rates everywhere, representing a much stronger growth than the market as a whole. We were able to win market shares in all segments. In China we delivered approximately 25 percent more vehicles than in 2013. In the United States we were able to achieve sales growth of approximately eleven percent, and this remains the largest national market for Porsche with a very slim lead over China. For deliveries to customers in Europe Porsche recorded strong growth of more than 19 percent. On the domestic German market we delivered almost 24,000 new vehicles to our customers – more than ever before.

A decisive cornerstone for this success is our latest model series – the Macan. In February 2014 we celebrated the official start of the production of our sporty compact SUV in Leipzig. The worldwide market launch started in April. And by the end of the year almost 45,000 units of the Macan had been delivered. This figure is very impressive proof of the enthusiasm with which our new five-door sports car was greeted on the market. The new model range is of huge strategic importance for us. In the long term the market success of the Macan is just as important to us as the many victories we achieved in Le Mans in the past decades. This is why we analysed the markets very carefully in advance – and identified a segment offering considerable growth opportunities for a new product. We wanted the future model to embody the DNA of the Porsche brand without any compromises and to perfectly complement our existing product portfolio.

And with the Macan we have succeeded in doing just this: with this premium sports car among the sports utility vehicles that is ideal for everyday driving we have opened up a completely new field. Today we know that three out of four Macan buyers are new customers who have never owned a Porsche before. So we are in the process of considerably expanding our existing customer base. Despite the surge in growth achieved with the Macan, Porsche remains a relatively small premium manufacturer

with highly exclusive products. At present only two to three of 1,000 new vehicles bear the Porsche emblem on the bonnet. And we want to retain this exclusivity.

Last year the 918 Spyder super sports car appealed to a very exclusive clientele. Almost exactly a year ago we handed over the first vehicle from our small-scale production in Zuffenhausen to a customer. In just ten months the production that was limited to 918 vehicles had completely sold out. With the world's first street-legal super sports car featuring plug-in hybrid technology we proved something very important: extremely efficient performance and even more driving pleasure are not a contradiction and can complement each other extremely well. An incredible lap time on the Nürburgring and the fuel consumption of a small car – this puts us in the pole position for the development of the cars of the future.

In addition to the 918 Spyder we currently have two further plug-in hybrids in our range. The Panamera E-Hybrid and the Cayenne E-Hybrid give us a development lead over our competitors. And we plan to keep this.

This is a further reason why we are sending the LMP1 prototype 919 Hybrid as a vehicle with highly sophisticated technology to the World Endurance Championship. This progressive racing car from Weissach is no less than a high-tech laboratory on wheels which we are using to explore what is technically feasible at present in the field of hybrid and electric mobility. The findings we obtain from the racetrack today will delight our customers in the future. Needless to say, we also want to win races with the 919 Hybrid. We have a long tradition of sporting ambition that is demonstrated by more than 30,000 motorsport victories. But even when none of our works drivers make it to the top of the podium, there is still always a clear winner: the Porsche customer.

In addition to a whole lot of sweat and brain work, all these endeavours naturally cost a lot of money. Lutz Meschke will shortly explain to you exactly how much. Research and development are very cost-intensive if you don't just want to ride with the competition but to win. But these investments are necessary. They are far-sighted and profitable because they secure our future.

In addition, our strong growth calls for considerable investments in production capacities, plants, tools, office buildings and land. We must continuously expand our facilities and modernise our plants. To some extent we are still dealing with the consequences of the investment backlog from the last decade, which we are now clearing.

In February 2014 the facility extension at the Leipzig site for the production of the Macan was officially put into operation. The expansion to a full plant with a painting facility and its own body shop cost approximately half a billion euros. In the summer we officially inaugurated our new electronics integration centre, the new design studio and a state-of-the-art wind tunnel in Weissach. Total costs: 150 million euros. At present we are constructing a new engine test building for a further 100 million euros, which will be put into operation in the coming year. We have also made considerable investments in our main plant here in Zuffenhausen. We have purchased large parcels of land and numerous buildings: the area of the company site has almost doubled since 2010. We are currently building a new training centre and new office and supply buildings on the site. This high level of investment activity shows that Porsche is on the road to success. 2014 was a good year and we are now looking to the future with confidence.

I would like to take this opportunity to once again express my sincere thanks to all employees for their commitment. They all did an excellent job last year.

However, the success in 2014 should not make us complacent – and it should most certainly not let us lean back and relax. On the contrary: this year and in coming years many new challenges await us which we must actively face up to. I will elaborate on this in the second part of my speech. But for now I would like to hand over to my colleague Lutz Meschke.

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Ladies and gentlemen,

After looking at business year 2014 in detail, I would now like to put my focus on 2015 and the medium-term future.

The new business year started extremely well for Porsche. We were able to follow up on the success of the previous year with good delivery figures. By the end of February, we had already delivered 31,000 new vehicles to our customers worldwide. This is approximately a third more than the first two months of 2014.

These figures are particularly pleasing because the global environment has not improved and is anything but easy. The worldwide political situation is unchanged and characterised by many uncertainties. We can only hope that there will be a lasting change for the better to the situation in the Ukraine and the Middle East. And likewise neither can the euro crisis be regarded as solved, as the latest developments in Greece show. In China, too, long-term planning is difficult in view of the looming threat of trade barriers and stricter environmental standards.

We have therefore spoken out very clearly in favour of the free trade agreement between the EU and the USA. The rules and regulations standardised by TTIP will help us to reduce costs. For example, today we still have to offer two different door mirrors or attachments for number plates. With TTIP this would no longer be necessary. I am fundamentally convinced that in the long term we would all benefit from open markets with fair, contractually agreed rules.

A few weeks ago I read a report by "technology trend researchers" that said that in eight years' time at the latest we will be able to use an app to call a driverless taxi. Maybe that will be the case, who knows. But even in eight years' time most people will much prefer to do something else – to drive a Porsche themselves.

Of course, we will also follow the technological path to the future and support our customers with intelligent assistance systems in their Porsche if there is a demand for this and it is expedient. But we do not need to be the technology leader in this area.

We want to continue to take the lead and to leave the competitive field behind where the essential values of our brand are found. This particularly applies to the engine, the drivetrain and the whole chassis. These are the decisive components for the sporty performance of a vehicle. And these are also the main features that distinguish a Porsche from the competition and make it unique.

Nonetheless, with every new model generation we will provide a contemporary answer to actual customer wishes relating to connectivity and operating convenience. Our customers quite rightly expect this from us. But they don't want a smartphone on four wheels or the biggest touchscreen in the centre console from us. At Porsche there is no room for window-dressing. Rather, we aim to smartly combine the available technologies and applications with the automobile, which already is a highly complex system, to form a single unit. This alone necessitates high investments in research and development.

And we are also tightening our quality assurance. In July last year we opened a new analysis and quality centre in Zuffenhausen. This enables even more detailed error-cause analyses for the different components. A comparable quality and analysis centre will start operation in Leipzig in a year's time. Because we believe that if you stop becoming better, you stop being good.

In addition, we have set ourselves the challenge of developing sustainable solutions for climate protection. This continues to be a very important topic for our industry. Porsche has shown that downsizing, hybrid drive systems and lightweight design enable great advances in reducing fuel consumption and CO₂ emissions without limiting the sporty driving pleasure that is typical of our brand. We will continue to resolutely pursue this strategy.

As you see, big challenges still face us. But if we act circumspectly to remain highly profitable on a long-term basis, the future will hold lots of opportunities for Porsche, and we will seize them with confidence.

This year our deliveries will reach the 200,000-vehicle mark. But it is not this number alone that is decisive for us. I have always said that the creation of value is what is

important to us – that means long-term and sustainable growth. This is also demonstrated by the fact that we continue to be on target with our operating results with an average operating return on sales of 15 percent and return on investment of 21 percent.

Even more important than the corporate figures are the people who work for Porsche. I would like to take this opportunity to draw your attention to the fact that the number of employees in the Porsche Group has grown by more than 70 percent since 2010 to more than 22,400 today. Last year alone we employed around 3,000 women and men. Can you name another German industrial enterprise of a comparable size that is able to report such recruitment figures? And we will create further jobs to secure our growth. Our target for 2018 is approximately 25,000 employees.

Integrating all these new colleagues in the existing workforce to create a powerful team requires a huge effort. Eventually, we all want to retain the culture of our company and to remain a highly attractive employer in the future.

This is why we will consistently develop our sites and prepare them for the future. This also applies to our main plant in Zuffenhausen where, among other things, in the next few years we will be constructing a new engine plant and a new body shop for a total of more than 600 million euros. The heart of our company is here in Zuffenhausen. From 2016 this is where all our two-door sports cars will be produced – the 911, the Boxster and the Cayman – with maximum production flexibility.

This applies to our development centre in Weissach in which we will continue to invest approximately 100 million euros each year. Even though we do not know which road will lead to the automotive future, we are certain that cars engineered by Porsche will drive on it. This applies equally to our second production site, the plant in Leipzig. There we are further expanding our capacities for more than 500 million euros so that we can produce the entire Panamera in our Saxony plant from 2016. In the course of this year we will start employing and training several hundred new production staff. In addition, we are creating approximately 100 new jobs for engineers.

We are looking forward to the new members of the Porsche team. Because one thing is clear: we will only be able to secure and extend our market leadership if we succeed in attracting and retaining excellent employees in the future.

As you know, I was reappointed Chairman of the Executive Board of Porsche AG for another term of office in January of this year. Furthermore, two weeks ago the Executive Board of Volkswagen AG appointed me to the Group Board of Management. I see it as a great honour and a sign of confidence to be a regular member there. However, I would like to emphasise that this appointment will not affect my work here at Porsche in any way. It goes without saying that I will remain Chairman of the Executive Board here in Zuffenhausen. Together with my colleagues I have lots of plans here.

For example, in the not too distant future we will present a seventh model series. But I am not yet able to tell you exactly when this will happen. There are already promising plans, but no board decision yet. But one thing is clear: there is no urgency whatsoever here. Because we are very successful with our derivative strategy for the existing model series. And we will intensify this strategy. Our derivatives meet the wish of many of our customers to own a vehicle that is as individual as possible. In this respect, this year we have already made people sit up and take notice with the Cayman GT4 and the 911 GT3 RS. And you can expect further highlights from us in the coming months.

There is one thing that I would like to expressly mention today: Le Mans! At the annual press conference last year I told you that for our return to the world's most famous endurance race our focus was not primarily on "winning" but rather on "keeping up" with the competition. We did more than just keep up. But when you're thwarted so close to the finishing line as the leader – as we were – then it's certainly painful! On this day I sympathised with the team and all our fans who followed the race on the track or live here at the museum. But those who know us understand that we love sporty competition and that we are already eagerly anticipating this year's race in Le Mans.

This year we will enter with three teams and an even better 919 Hybrid. And it is no secret when I say that this time we would like to have a place on the podium. All these efforts have an objective that goes far beyond Le Mans. The experience and the knowledge from the high-speed high-tech laboratory of the 919 Hybrid will benefit all our future vehicles and therefore also our customers.

Because today more than ever the principle of "from the racetrack to the road" applies. The advancement of electric mobility is also a focus here. For us the question is not *whether* a vehicle powered purely by electricity with the performance typical of Porsche will hit the roads, but rather *when* we will delight our customers with a vehicle like this. Our plug-in hybrids are currently the best conceivable offer. One thing is certain: in the future, too, we will be driven by the perfect synthesis of performance and efficiency. We call this "Intelligent Performance" – and it is typically Porsche.

Porsche has developed successfully and is in a better position today than ever before. We have already achieved major targets of the Porsche Strategy 2018 ahead of time. That was a Herculean task, which called for a huge effort on the part of all those involved. But we can be more than satisfied with what we have achieved so far.

Of course, we are already thinking about setting the strategic course for the future of Porsche far beyond the year 2018. Nevertheless, it is still too early to formulate a new Porsche Strategy 20-X. Our first priority now is to consolidate what we have achieved and secure these achievements in the long term. Against the background of rapid growth in the last four years we need to carefully examine and optimise our processes and adjust them to new requirements if necessary. But despite all the changes one thing is certain: in the future we will continue to delight our customers with exciting sports cars.