Speech

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and
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Finance and IT
of Dr. Ing. h.c. F. Porsche AG

on the occasion
of the annual press conference

on March 11, 2016,

in Stuttgart

Check against delivery!

Ladies and gentlemen,
I also bid you a hearty welcome to the annual press conference of Porsche AG.

Last year was the most successful in our entire company history. Let me add: With a return on sales before tax in the amount of 16 percent, Porsche remained the most profitable car manufacturer in the world. That is a great success, and we are proud of it. I am more than happy to give you an overview of the earnings and financial situation of Porsche AG in the next couple of minutes.

Our hugely attractive product portfolio was, is and will remain the most important factor of success. It is the reason we could boost deliveries significantly in nearly all markets. Porsche reported two-digit growth even in countries with very difficult framework conditions such as Russia: in Russia, the growth added up to eleven percent; in the whole of Eastern Europe, without Russia, we sold 22 percent more vehicles.

At the end of the 2015 fiscal year, our overall sales growth was 25 percent, and, for the first time, sales surpassed the 20 billion euro mark and reached 21.5 billion euros. The operating profit of Porsche AG also rose by 25 percent to 3.4 billion euros. These results already take into account all accruable expenses in connection with remedying the diesel issue. Pre-tax earnings added up to 3.4 billion euros, following 3.1 billion euros in the prior year. The high financial result of the previous year included earnings in the amount of 271 million euros in the context of the transition to the at-equity accounting method of our shares in Bertrandt AG. After deducting taxes in the amount of one billion euros, our earnings after taxes were 2.3 billion euros. In the previous year, this figure stood at 2.2 billion euros.

A glance at the largest cost blocks reveals that we had to cope with significant increases here as well. Material costs rose by 16% to 12.1 billion euros. Personnel expenses climbed 20 percent to 2.6 billion euros.

Investments in fixed assets and intangible assets, including capitalised development costs, grew by 15 percent to 2.4 billion euros. Write-downs related to these investments increased by 6 percent to 1.5 billion euros. Research and development costs increased by 10 percent to 2.1 billion euros while, at the same time, the capitalisation ratio declined from 55 to 48 percent.

Nonetheless, Porsche still has a very healthy cost structure. Among other things, this is reflected in the return on investment, which correlates the operating profit after tax to the average invested assets of the automotive business area – it rose to 31 percent. In the previous year, the figure was 27 percent.

A glance at the financial situation completes this positive picture: the cash flow from ongoing business operations added up to 3.8 billion euros, after 3.2 billion euros last year. The main effects result from the increase in earnings, increased write-downs and, in the opposite direction, from higher income tax payments. The net liquidity of the automotive business area – i.e. the gross liquidity reduced by the financial debts irrespective of the individual financial services sector – improved, growing to 1.5 billion euros as at December 31, 2015, from 0.2 billion euros as at December 31, 2014.

Ladies and gentlemen,
of course, we at Porsche might pat one another on the back and congratulate ourselves on such results. However, caution is the order of the day – not only because we are a company with Swabian roots. But because there is a whole score of challenges to be tackled in the near future.

First of all, there are the enormous expenditures we have to shoulder in order to meet the continuously tightening CO_2 requirements. With our three plug-in hybrid models of the Cayenne and Panamera series as well as the 918 Spyder, we were the first premium supplier to offer these particularly environmentally-friendly sports cars in three different vehicle segments. Now we want to develop such a hybrid solution for further model series.

However, these measures cost money and reduce the contribution to earnings. The costs for the manufacture of a plug-in hybrid model, for example, exceed the costs for the respective sister model with combustion engine by 10,000 euros. Because the plug-in hybrid vehicle has both the conventional and the electrically operated drivetrain. You cannot get back these additional costs on the market, though, by correspondingly higher prices.

The second factor straining our earnings in the coming years are our huge investments. For the Mission E project alone, in addition to development costs we will invest approx. one billion euros in the factory and in new facilities at the Zuffenhausen and Weissach locations. These enormous investments won’t be initially offset by income from the sales of the Mission E, though. Because the market launch of our first all-electric sports car will take place toward the end of the decade. Then there are the significantly rising expenses for our IT, which are driven by new tasks such as the development of services revolving around the connected car. All in all, we will spend more than 300 million euros for IT themes in 2016. This includes a high two-digit million sum for projects that carry forward the digital transformation of the company. Because, in addition to the digitisation of the products and services, the digitisation of customer interaction as well as of actual business processes are vital issues for us.

The third factor I would like to mention does not refer to the rising costs but to the international market development – in particular the Chinese sales market. With a growth of 24 percent to over 58,000 new vehicles delivered China was our largest single market for the first time in 2015. A reason to celebrate – no doubt of it. But like all car makers, we see how the framework conditions in China have become clouded. A slowdown in economic growth is accompanied by special factors such as regulatory restrictions in major cities and a heightened price pressure.

We respond to this by trying to work the market even more intensively. For instance, we are expanding our dealer network again in 2016 by about ten operations.

On the other hand, we do not want to rely completely on the Chinese market and have boosted our efforts to find sales opportunities in neighbouring countries such as Taiwan, South Korea and Vietnam. New Porsche Centres joined the network in Cambodia, Indonesia, Malaysia and Thailand in the expired year.

Hand-in-hand with our trading partners, we have expanded our sales network in other regions too and made it even more effective. Currently, 820 Porsche centres exist around the world. In order to transform our customers' fascination for Porsche into a sophisticated racetrack experience, we are building 'Porsche Experience Centres' in key markets. The first centres are already in operation in Atlanta with our new US-headquarter and in Le Mans just beside the race track, two more due to be opening up soon in Los Angeles and in Shanghai.

Ladies and gentlemen,
I am at the end of my speech and would like to state one last thing: we are consistently pursuing our path of value-creating growth. With the enormous expenses for the expansion of our locations and for future sports cars, we are hedging the long-term success of Porsche. We are looking ahead and taking care of tomorrow's success now and today.

With our fascinating product portfolio, our international presence and our scalable cost structure with relatively low fixed costs, we are again optimally prepared for the current year.

Today we assume that sales will slightly rise in the 2016 fiscal year and that we will achieve a profit on the level of the previous year. Hence we intend to reach again our strategic target return of 15 percent