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**PORSCHE**

# **Speech**

**Lutz Meschke**

Deputy Chairman of the Executive Board  
and Member of the Executive Board for Finance and IT at Dr. Ing. h.c. F. Porsche AG  
on the occasion of the Annual Press Conference of Porsche AG  
on March 17, 2017

at the Porsche Museum  
in Stuttgart-Zuffenhausen, Germany  
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Ladies and gentlemen,

I would also like to offer you a warm welcome to our annual press conference.

As Oliver Blume has already said, 2016 was the most successful financial year in the history of our company. For the sixth time in a row, we have succeeded in surpassing the record figures achieved in the previous year. And what is particularly pleasing is that Porsche continues to be one of the most profitable companies in the automotive industry worldwide, with a gross profit margin of 17 per cent. All of us at Porsche are extremely proud of this outstanding achievement.

I would now like to give you some more details on the financial position and profit situation at Porsche AG.

Over the last year, our company has generated a revenue of 22.3 billion euro. This is an increase of 4 per cent compared to 2015. We have even increased the operating result at Porsche AG by 14 per cent to 3.9 billion euro. On the reporting date, earnings before tax totalled 3.7 billion euro, compared to 3.4 billion euro in the previous year. After deduction of tax amounting to 1.1 billion euro, our result is 2.6 billion euro. In the reporting year, the tax quota was 29 per cent. In the previous year, we achieved earnings before tax of 2.3 billion euro. Once again, our successful currency hedging strategy contributed significantly to this year's record result.

In order to build on this success in future, we need to master the balancing act between containing costs and making essential investment in important future projects. These include projects in the areas of connectivity and electromobility. We have been very successful in these areas over the last year. For example, over the last year, we have moved much closer to our goal of launching our first purely electric sports car – the Mission E – on the market by the end of the decade. We were also able to successfully implement many projects in the area of digitalisation. I will provide more details about this later.

Although Porsche is making significant investments in its future, we have a firm grip on our costs. Costs relating to research and development have increased by only 3 per cent to 2.2 billion euro, for example. The increase in investment in material

assets in the vehicle business of 5 per cent to 1.4 billion euro was also moderate. Personnel expenditure increased by 10 per cent to 2.9 billion euro. This means that Porsche continues to demonstrate a very healthy cost and balance sheet structure. This is evident both in relation to the equity ratio of 37 per cent and the return on investment, which compares the operating result after tax to the average assets invested in the vehicle business. As in the previous year, this is 31 per cent.

The financial position completes this positive picture: Cash flow from operating activities stood at 3.9 billion euro, compared to 3.8 billion euro in the previous year. The key impacts came from the increased result and, inversely, from changes to working capital. Net liquidity in the vehicle business improved from 1.5 billion euro on December 31, 2015 to 2.0 billion euro as at December 31, 2016.

Alongside the vehicle business, the financial services business is another significant cornerstone at the Porsche Group. We were able to achieve outstanding results in this area too, with a return-on-equity ratio of over 21 per cent.

Meine Damen und Herren,

We are delighted that our work has yielded such positive results, but Porsche continues to keep its feet on the ground. We are looking confidently to the future, while remaining respectful of the challenges in front of us.

Digitalisation is bringing completely new players into the market who are changing the world through brand new methods of using data and algorithms. Globalisation has brought companies from far and wide to the forefront as competitors. Until recently, they were simply considered to be subcontractors. Customer expectations are changing. They are demanding personalised services that are tailored to them. And this comes against the backdrop of cost pressure and political uncertainty. In times such as these, companies need strong, new ideas. And in future, they will have to operate and respond with much more speed and flexibility if they want to keep up with the global dynamic.

Electrification, digitalisation and connectivity are the three big trends for the future. This means that the automotive industry is facing a complete break with the previous

system – and so is Porsche. On the one hand, this represents a huge challenge. On the other, it is an enormous opportunity, and we must be consistent in capitalising on it. We have a clearly defined goal: We want to develop Porsche into the leading provider of digital mobility solutions in the premium automotive segment. Today, we are making targeted investments in order to achieve this goal.

By establishing Porsche Digital GmbH in Ludwigsburg, we have already taken a huge step forward. It focuses on digital products, business areas and processes. Its tasks also include worldwide scouting. The goal is to identify and assess new trends so that we can gain early access to innovative technologies that are relevant to the future. Plans are also under way for additional sites in Israel, in the Silicon Valley and in Asia.

One of the first companies we invested in was Evopark – a start-up that makes parking easier and more convenient. Evopark replaces paper tickets with cards that automatically open the barriers to many multi-storey and underground car parks. The advantages for the customer are obvious: No more queuing at the pay station, and the total amount is transferred electronically at the end of the month.

Our second innovation laboratory is the Digital Lab in Berlin. In contrast to Digital GmbH, it focuses primarily on improving internal company IT processes. Its tasks range from trend scouting and ideation to building IT prototypes. With its vibrant start-up scene, Berlin is the ideal location for the Lab, as it puts us in contact with the right people. And colleagues are able to work without being distracted by day-to-day business. The Lab also takes on specific development projects for various departments in Stuttgart.

Digital GmbH, Digital Lab Berlin and our many partnerships and projects are just the first steps. There is much more to come. So what are our areas of activity in relation to digitalisation?

The first is our products and services: The connected car and automated driving are the hot topics for every automotive manufacturer today. Developing a mobility infrastructure is fundamental to this. But we have to go even further – beyond the

vehicle itself. Porsche will become a platform provider as well as a mobility provider. This will enable us to branch out beyond the boundaries of the automotive sector. We must not lose sight of Porsche customers when they shut the car door. Instead, we must accompany them in the rest of their life too. Because even outside the car, Porsche offers the promise of freedom.

The second area of activity is our customers and retail: This is all about digitalisation in sales. Our focus is on customer interfaces – both online and in stationary retail. Porsche needs to become something akin to an Internet company itself. This means not only do we have to know our customers, Porsche has to possess customer data itself, and then use it to develop the business models of the future.

This requires trust, which, fortunately, we have as a reputable German company. Porsche believes that data sovereignty clearly lies with the customer. The customer should decide which elements of their data are used and in what way. And we will comply with their decision. If the sensors on my Panamera or 911 identify black ice on the road, naturally I am happy to provide this data to other road users in the area, because, in return, I will receive similar safety-related information from other drivers. On the other hand, I don't want personalised advertising to appear on my display every time I drive past a restaurant. Our customers have the option of defining clear rules when it comes to how their data is used.

The third area concerns the company and its processes: Our focus here is on bringing digitalisation into the company by modernising our workplaces and designing our processes with greater efficiency on the basis of digitalisation. Networked automation assists us in areas where accuracy of repetition is essential. However, a Porsche is built by people. And we will continue to follow this manufacturing concept. For us, it is more a matter of making manufacturing work as comfortable as possible, particularly with regard to ergonomics. Of course, we also want to improve efficiency, productivity and quality.

By contrast, in our offices we want to give more scope for innovation, and provide a modern and contemporary working environment that gives more opportunities for spontaneous interaction. Our new office space in Ludwigsburg is one such example.

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From March onwards, all colleagues working on our smart mobility projects will come together to work at this location. The idea is to concentrate expertise in one place, and to encourage close and direct communication in a way that is not based on departmental considerations or hierarchies.

We have called the fourth area “people and culture”. Our goal here is for our employees to develop digital competencies so they become the drivers of digital transformation – and noticeably strengthen the culture of innovation in the company. Our employees have to be ready to try new things and to venture into areas where they have never been before, even if there is a risk that they will fail. That’s because we can only be successful if we have the courage to take risks. Clearly, no-one can demand that this will happen overnight. But it is our job to take our employees with us on this journey, to ensure they are sufficiently skilled and to keep encouraging them to advocate their ideas.

What is absolutely crucial is that we find our own way to shape the change. Our approach is not to copy others, but to work things out for ourselves. “Ready-made” solutions are rarely suitable. They must always be adapted to the needs and culture of the individual company.

Ladies and Gentlemen,

There is a question that I have not yet discussed. But it is a crucial one: When will the whole thing become profitable? One thing is clear: Autonomous driving will alter the efficiency of vehicle use drastically. We have to start adapting to this reality today and thoroughly prepare by opening up new areas of business, and gradually tapping into additional growth potential beyond our core business of sports cars.

We have a great many plans for the coming months and years. In the medium term, we want to generate a double-digit percentage of sales through digital services. However, these new services are not going to simply fall into our laps. They must be developed with care, and we need to make sure the necessary funds are available. While the focus of our research and development investment has until now been almost exclusively on developing vehicles, we will invest significantly more in developing new digital services in the future.

Not only do we have to generate growth through the new services, but they have to be profitable too. And we will only be successful in this area by using innovative digital business models that give us the option to grow with few resources, so that fixed costs and investment do not both increase at an equal rate. But it is not always necessary to have the resources ourselves. In this respect, it is possible we will invest in start-ups or established external partners, or seek to cooperate with them.

Meine Damen und Herren,

At the beginning of his speech, Oliver Blume referred to the fact that Porsche has had to adapt to a continuously changing environment over the last year. This uncertainty is continuing into the current year. It is simply not possible to make reliable predictions about developments in politics and the global economy.

In Europe, the United Kingdom's exit from the EU is top of the agenda. And economists are totally divided about what impact this will have. For some time now, Greece has not been able to overcome its debt crisis. Some experts believe Italy and France pose the next risk to the eurozone. Lately, there have been indications that the USA is moving into a period of economic protectionism. And economic growth in China has recently decelerated further. Then there are the various political hotspots and military confrontations around the world.

We are all hopeful of a positive outcome, but it is not certain where Europe, the USA, Russia, China and the Middle East are heading in the long run. As a company, we therefore need to continually prepare for potential crisis scenarios. But above all, we have to remain flexible – and ready to adapt to a new environment at any moment. This is a form of insurance that will help us to come through the more difficult times with confidence and to emerge stronger than the competition.

Ladies and gentlemen,

Please allow me to conclude my speech by being very clear about one thing: Porsche is continuing to pursue its goal of achieving value-creating growth. By making considerable investment in the expansion of our sites and in developing the sports cars of the future, we are safeguarding Porsche's long-term success. The

same applies to our involvement in digital services. We are proactively working today towards the success of tomorrow.

We are in an ideal position to face the current year thanks to our fascinating product range, our international position and our scalable cost structure with comparatively low fixed costs.

Despite the risks that we face, as of today, we are confident that we will be able to increase our deliveries and revenue slightly in the 2017 financial year. On the basis that foreign exchange rates are stable, by the end of the year, we are aiming to achieve an operating result at the level of the previous year. And for 2017, we are unwavering in our efforts to achieve our strategic goal of an operating profit margin of at least 15 per cent. I am very confident that we will achieve this.