



Axel Strotbek

Speech

Annual Press Conference

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**Member of the Board of Management of AUDI AG,
Finance and Organisation**

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-Check against delivery-

Ladies and Gentlemen,

I also would like to welcome you most cordially to today's Annual Press Conference.

Before I explain to you the key financials of the Audi Group in detail, I would like to give you a brief overview of the economic environment. In 2014, the general conditions for the entire automotive industry – and thus also for Audi – remained challenging. Although growth of the world economy of 2.7 percent was slightly stronger than in the previous year – the economies of important regions once again developed very disparately. Economic growth in some emerging markets was dampened by exchange-rate fluctuations and by structural deficits. On the other hand, the overall economic situation improved in many industrial countries.

The worldwide car market also grew at widely differing rates in 2014. The sales regions of North America and Asia-Pacific were very dynamic. In Western Europe, overall market demand increased by 4.9 percent during the year. But with a total of 12.1 million cars, unit sales were still significantly lower than the pre-crisis level of 2007. However, some car markets in South America and Central and Eastern Europe contracted significantly.

Demand for automobiles of the Audi brand developed better than the respective market in most regions. As a result, we further strengthened our position in the worldwide premium segment. I would now like to explain to you how this positive development is reflected in our key financials.

In 2014, the Audi Group achieved revenue of 53.8 billion euros. The increase of 7.8 percent – or 3.9 billion euros – is primarily due to the positive development of unit sales by the core brand, Audi. Particularly dynamic growth rates were posted by the Audi A3* model series, which profited above all from the worldwide roll-out of the new A3 Sedan*. In addition, we profited in 2014 once again from the great popularity of our SUV models: Audi Q3*, Q5* and Q7*. In the motorcycles segment, the Ducati brand achieved revenue of 575 million euros.



The Audi Group's cost of sales increased to 44.4 billion euros because of the increased production volume, and due to advance expenditure for future topics. As a result, the Audi Group increased its gross profit to 9.4 billion euros.

Despite our significant growth in deliveries and the market launch of numerous new models, distribution costs increased at a lower rate than revenue: by 5.5 percent to 4.9 billion euros. Administrative expenses also increased at a lower rate than revenue: by 3.7 percent to 587 million euros. Other operating result rose compared with the previous year to 1.3 billion euros. The significant increase of about 20 percent was mainly the result of positive currency effects on the measurement of receivables and liabilities.

The bottom line is that the Audi Group achieved an operating profit of 5.15 billion euros and therefore surpassed the high prior-year figure by 2.4 percent. These figures do not include the operating profit for our Chinese joint venture. This is consolidated proportionately at Equity and therefore reflected solely in the Group's financial result.

Let me now turn to the main drivers of our profit development: As in the previous years, the increased demand for Audi brand automobiles was the biggest driver of earnings. In addition, we made further improvements in the area of product costs, due in particular to significant productivity advances and optimized material costs. On the other hand, earnings were reduced by the ongoing tough competition in some key markets. Furthermore, our current business development also reflects our efforts to focus the Audi Group consistently on international growth and the demands of the future. We had correspondingly intensive activities for future topics in 2014.

The main area of our investment is on the renewal and expansion of our model and technology portfolio with a clear focus on stricter CO₂ limits around the world. Already in previous years, we substantially reduced our fleet emission figures. We achieved this mainly by taking conventional measures such as the standard application of start-stop systems, thermal management and energy recuperation. These are relatively simple and cost-effective measures. This means, however, that the next stage of CO₂ reductions – for example when implementing the next phase of our hybridization and electrification strategy – will be significantly more complex and therefore also more expensive. And if you think about the current discussion about reducing CO₂ limits in the EU until 2030, it becomes clear that the issue of CO₂ will be the main challenge for our industry far beyond 2020.

In addition to the modernization of our product and technology portfolio, we once again made large investments last year in the expansion of our worldwide production network. The main focus here was on the development of our new plants in Brazil and Mexico, so that we can fully utilize the growth potential on the American continent.

To summarize, in 2014 and 2015, we are in a phase of significant upfront investments for the coming years, in which we will see the corresponding revenues.

I would also like to say a few words about the development of earnings in the motorcycles segment: The operating profit posted by the Ducati brand of 48 million euros was lower than in 2013. This was primarily due to expenses for the expansion of international manufacturing structures, for example for the new plant in Thailand.



Taking account of additional depreciation following the revaluation of assets and liabilities for purchase-price allocation, the motorcycles segment achieved an operating profit of 23 million euros.

The Audi Group's financial result of 841 million euros was significantly higher than in 2013. The main positive factor here was the higher gain on the fair-value measurement of derivative financial instruments, primarily in connection with currency hedging transactions. Furthermore, we profited also in 2014 from an increased result from participation, due in particular to the positive business development of the Chinese joint venture FAW-VW Automotive Company.

The Audi Group therefore increased its pre-tax profit by 12.5 percent to approximately 6 billion euros.

Our company's financial strength can also be seen in the development of our key profitability ratios. With 9.6 percent, we once again achieved an operating return on sales at the upper end of our strategic target corridor of 8 to 10 percent despite the advance expenditure for future topics. We actually slightly increased our return on sales before taxes – from 10.7 percent in 2013 to 11.1 percent last year. With a return on investment of 23.2 percent, we achieved more than double our minimum required rate of return of 9 percent.

Ladies and gentlemen,
let me now explain the key figures of the cash flow statement. The cash inflow from operating activities of 7.4 billion euros was about 10 percent above the prior-year level. Against the backdrop of the substantial investment I previously mentioned in new models, technologies and production capacities, the cash outflow for investments in operating activities increased by about a quarter to 4.5 billion euros.

As in the previous years, the Audi Group fully financed all investments in operating activities out of its own resources and actually achieved a significant net cash inflow of about 3 billion euros. Net liquidity thus increased by 11 percent to 16.3 billion euros at the end of the year.

Ladies and gentlemen,
I would now like to describe the financial outlook for this year. In 2014, the Audi Group delivered more than 1.74 million automobiles of the Audi brand to its customers all over the world. Although we generally anticipate only slight growth in global car markets, we intend to continue along our growth path and thus to further strengthen our strong competitive position in the worldwide premium segment. That applies not only to core brand Audi. We expect significant growth in deliveries also for our Italian subsidiaries Lamborghini and Ducati.

Overall, we plan to increase the revenue of the Audi Group once again this year. The profit development will continue to reflect our company's extensive expenditure for the future. Towards the end of last year, we approved the biggest investment program so far in the company's history. By 2019, we intend to invest a total of 24 billion euros, which is 2 billion euros more than in the previous planning period. More than 70 percent of the investment will flow into new technologies and models. At the same time, we are setting up new plants – in Mexico and Brazil for example – to create the right structural conditions for a balanced global growth path.



Despite the ongoing high level of investment, we are maintaining our ambitious profitability targets, and plan to achieve an operating return on sales within the strategic target corridor of 8 to 10 percent once again this year.

At the same time, we want to generate a net cash inflow of more than 2 billion euros – although ratio of investments in property, plant and equipment is expected to be slightly above the target corridor of 5 to 5.5 percent due to ongoing high investment.

Our plans for the future also beyond 2015, can be seen for example in the current Audi Annual Report. The overall motto of “We create tomorrow” is more than just a statement for us. It is our attitude. And our driving force on the way into the future of the automobile.

Thank you for your attention!

– End –

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* The collective fuel consumption of all models named above and available on the German market can be found in the list provided at the end of this speech.



Fuel consumption figures of the models named above

The fuel consumption and the CO₂ emissions of a vehicle vary due to the choice of wheels and tires. They not only depend on the efficient utilization of the fuel by the vehicle, but are also influenced by driving behavior and other non-technical factors.

Audi A3:

Combined fuel consumption in l/100 km: 6.5 – 3.2
Combined CO₂ emissions in g/km: 149 – 85

Audi A3 Sedan:

Combined fuel consumption in l/100 km: 6.5 – 3.3
Combined CO₂ emissions in g/km: 149 – 88

Audi Q3:

Combined fuel consumption in l/100 km: 7.2 – 4.4
Combined CO₂ emissions in g/km: 168 – 114

Audi Q5:

Combined fuel consumption in l/100 km: 8.5 – 4.9
Combined CO₂ emissions in g/km: 199 – 129

Audi Q7:

Combined fuel consumption in l/100 km: 8.3 – 5.7
Combined CO₂ emissions in g/km: 193 – 149