



Axel Strotbek

**Speech**

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**Speech at the  
126. Annual General Meeting AUDI AG**

**Axel Strotbek  
Member of the Board of Management of AUDI AG,  
Finance and Organization**

**Neckarsulm, May 22, 2015**

-Check against delivery-

Ladies and Gentlemen, dear shareholders,

I also would like to welcome you most cordially to the 126th Annual Shareholders Meeting of AUDI AG here in Neckarsulm – I am delighted about your keen interest. In 2014, we set a new record for unit sales, delivering more than 1.74 million automobiles of the Audi brand and setting new records in more than 50 individual markets. As Mr. Stadler has already pointed out, we were successful last year also in financial terms. We achieved the targets we had set ourselves for earnings and return on sales despite the ongoing challenges. Let me now give you a detailed overview of the development of our key financial figures.

I would first like to begin with the income statement. In the year 2014, the Audi Group's revenue of 53.8 billion euros for the first time passed the mark of 50 billion euros. The increase of 7.8 percent – or 3.9 billion euros – is primarily due to the previously mentioned positive development of unit sales by the Audi brand. An important growth driver was our A3 premium compact family, which profited in 2014 above all from the worldwide rollout of the Audi A3 sedan. In addition, unit sales of our Q models – Audi Q3, Q5 and Q7 – increased significantly. In the motorcycles segment, the Ducati brand achieved total revenue of 575 million euros.

Because of our increased production volume, but also due to advance expenditure for future topics, the Audi Group's cost of sales rose to 44.4 billion euros. As a result, gross profit amounted to 9.4 billion euros and the gross margin reached 17.4 percent. Despite our significant growth in deliveries and the market launch of numerous new models, selling expenses 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 income improved to 1.3 billion euros.

Overall, the Audi Group achieved an operating profit of 5.15 billion euros, surpassing the high prior-year figure by 2.4 percent. In this context, I would like to emphasize that the figures mentioned do not include the operating profit of our Chinese joint venture. That company is consolidated using the equity method and our share of its earnings are presented in the Audi Group's financial income.



Let me now explain the main drivers of the development of our operating profit: As in the previous years, the significant increase in unit sales by the Audi brand was by far the biggest driver of earnings. On the other hand, earnings were reduced by ongoing tough competition in some key markets. But overall, volume, market and mix effects had a significantly positive impact on our earnings of about 700 million euros. Furthermore, we achieved positive earnings effects in the area of product costs of more than 400 million euros from additional material-cost optimizations and productivity advances.

At the same time, we made great efforts to focus the Audi Group consistently on international growth and to make it fit for the demands of the future. We therefore made substantial advance expenditure for future topics also in the year 2014; this was by far the biggest factor reducing our earnings.

One important area was the renewal and expansion of our model and technology portfolio with a clear focus on stricter CO<sub>2</sub> limits around the world. In recent years, we have reduced our fleet emission figures above all by taking conventional measures such fitting the start-stop system as standard equipment, thermos management and energy recuperation. But the next steps, such as further electrification of the drivetrain, will be significantly more complex and therefore also more cost intensive.

The second focus of our future activities is the expansion of our international production network. The key area last year was the development of our new plants in Brazil and Mexico to allow us to fully utilize the growth potential of the American continent. In summary, 2014 once again featured significant advance expenditure for coming years.

Just a few words about the development of earnings in the motorcycles segment: At 48 million euros, the operating profit of the Ducati brand was lower than in the previous year. This was primarily due to expenses for the expansion of international manufacturing structures, for the new plant in Thailand for example, and to broader the model portfolio. Taking into account scheduled amortization following the remeasurement of assets and liabilities in the context of purchase-price allocation that took place in 2012, the motorcycles segment achieved an operating profit of 23 million euros.

The Audi Group achieved financial income of 841 million euros, which is significantly higher than in 2013. The biggest positive driver was the higher gain on the fair-value measurement of derivative financial instruments, mainly in connection with hedging transactions. We also profited from increased investment income, due in particular – as previously mentioned – to the positive business development of the Chinese joint venture FAW-VW Automotive Company.

The Audi Group's pre-tax profit therefore surpassed the prior-year level by 12.5 percent and reached approximately 6 billion euros.

Ladies and gentlemen, the strong profitability of the Audi Group can also be seen in the development of our key financial 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 aforementioned challenges. Our return on sales before taxes improved compared with the previous year by 0.4 percentage points to 11.1 percent.



Ladies and gentlemen, let me now turn to the development of our balance sheet. In 2014, the Audi Group's balance-sheet total increased by 12.4 percent to 50.8 billion euros. Growth in non-current assets of 2.6 billion euros to 22.5 billion euros primarily reflects the higher level of property, plant and equipment resulting from increased investment. Current assets were also at a higher level than a year earlier, amounting to 28.2 billion euros at December 31, 2014. This is mainly the result of higher cash funds, as well as increased receivables due to the positive business development.

On the liabilities side of the balance sheet, borrowed capital increased to 31.6 billion euros at December 31, 2014. The growth in non-current liabilities resulted primarily from higher provisions for pensions due to interest-rate factors, as well as volume-related higher liabilities from sales operations. The development of current liabilities was affected in particular by higher trade liabilities and the changed fair values of currency-hedging instruments.

Equity increased by 3.4 percent to 19.2 billion euros at December 31, 2014. The equity-capital base was strengthened above all by a capital injection of 1.6 billion euros by Volkswagen AG. Furthermore, the allocation of the remaining net profit after the profit transfer increased retained earnings by 1.1 billion euros. On the other hand, remeasurement effects to be recognized according to IFRS reduced equity by a total of 2.1 billion euros with no effect on profit and loss. As of the balance sheet date, the equity ratio of the Audi Group therefore amounts to 37.8 percent.

Ladies and gentlemen, let me now explain the key figures of the cash flow statement. In the year 2014, the cash inflow from operating activities of 7.4 billion euros was approximately 10 percent higher than in 2013. Due to the aforementioned substantial advance expenditure, the cash outflow for investments in operating activities increased to 4.5 billion euros. As in the previous years, we financed all investments in operating activities out of our own resources, and actually achieved a significantly positive net cash inflow of about 3 billion euros. Net liquidity therefore increased by 11 percent to 16.3 billion euros at the end of 2014.

Ladies and gentlemen, this means that overall, the Audi Group continued along its path of qualitative growth last year. And we made successful progress also in the first quarter of 2015: Worldwide deliveries by the Audi brand increased by 6.1 percent to about 438,000 automobiles – a new record. Revenue amounted to 14.7 billion euros, surpassing the figure for the prior-year period by 13 percent. Operating profit increased to 1.4 billion euros. Accordingly, the operating return on sales of 9.7 percent was once again at the upper end of our return corridor of 8 to 10 percent. The first quarter is therefore a good basis for us to further develop our strong position in the worldwide premium segment also in full-year 2015.

We have set ourselves the following specific targets: Despite the ongoing high level of competition, especially in China and Western Europe, we intend to significantly increase our unit sales. For this reason, we plan to achieve further revenue growth for the Audi Group.

The development of earnings will be affected also over the full year by further intensified efforts for the future of our company. In late 2014, we approved the biggest investment program in the company's history. By 2019, a total of 24 billion euros is to be invested, more than 70 percent of it in new models and in groundbreaking drive technologies. At the same time, we are pushing forward with the expansion of our production network.



With our investments, we are creating the foundation for future financial success – our high financial strength gives us the required scope for action. Despite a record level of investment, we are maintaining our ambitious targets and plan to achieve an operating return on sales within the strategic target corridor of 8 to 10 percent also this year.

In full-year 2015, we aim to generate a net cash inflow of more than 2 billion euros – although ongoing high capital expenditure means that investment in property, plant and equipment is likely to slightly exceed the target corridor of 5 to 5.5 percent of revenue.

Ladies and gentlemen, allow me to finish my speech with another reference to our Annual Report 2014, which you received today at the information desk. Under the motto of “We create tomorrow,” the latest Audi Annual Report explains with several emotive and informative feature articles how the company is shaping the automotive future.

Thank you for your attention!

– End –

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