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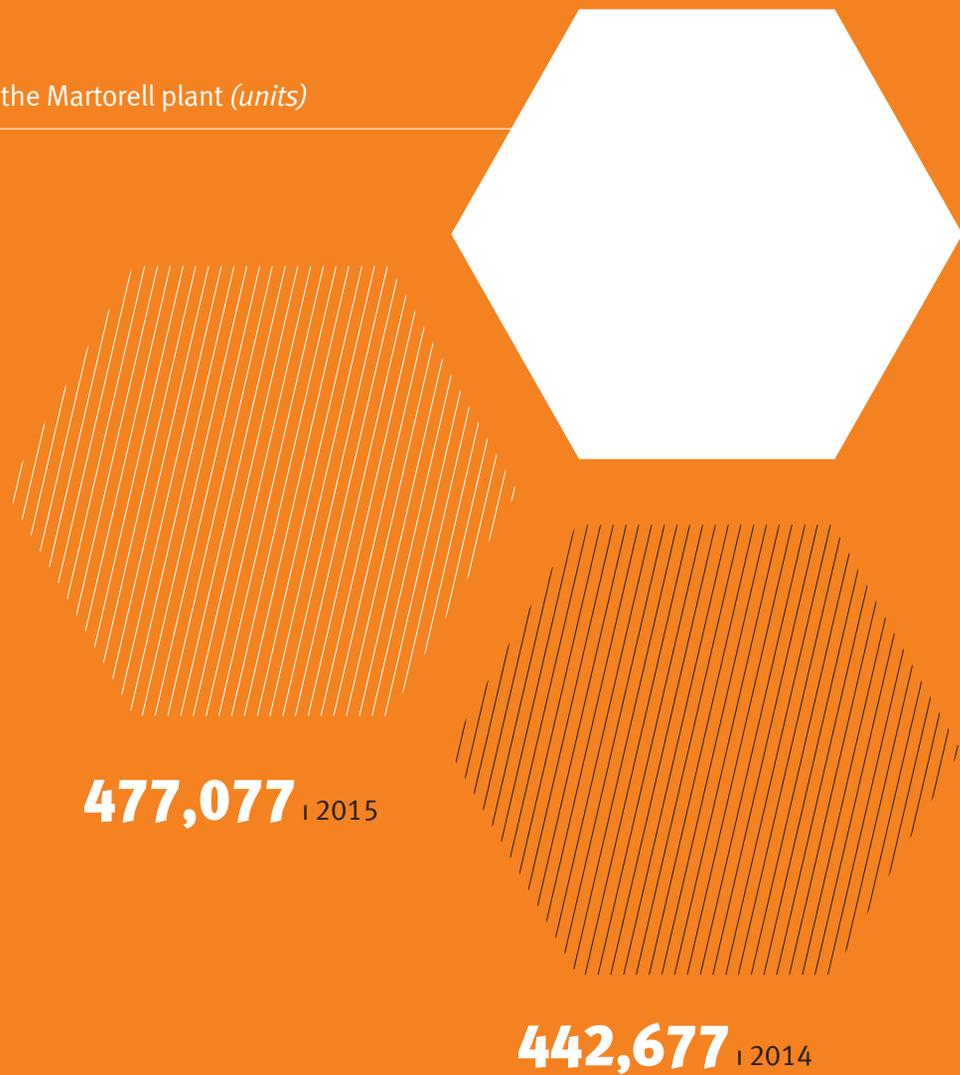
THE SMART FACTORY

PRODUCTION AND QUALITY

449,063

2016

Production at the Martorell plant (*units*)



EFFICIENCY: SEAT'S COMPETITIVE ADVANTAGE



Order to delivery 4.0

The strategic project Order to Delivery 4.0, which will make its debut in 2017 with a pilot test in the Austrian market, is cross-disciplinary and involves the whole company. Through this project, SEAT is seeking a new way to turn delivery time into one of the company's competitive advantages. This is in response to change in a society in which delivery time is now a key factor in the purchasing decision, providing greater flexibility and stability to the production process.

The launch of the Ateca in Kvasiny, the factory located in the Czech Republic, was a resounding success thanks to the close collaboration between the Production and Quality teams of the SEAT and ŠKODA brands. The market's excellent response to the model enabled a production volume of 35,883 units to be reached since its launch in April 2016. The Ateca is thus added to the external manufacturing of the SEAT brand: 18,720 units of the Mii in Bratislava (Slovakia), 18,029 Toledo in Mladá Boleslav (Czech Republic) and 31,214 Alhambra in Palmela (Portugal). In Spain, the Martorell factory closed the year with a volume of 449,063 vehicles. The 5.9% reduction on the production reached in 2015 (the highest figure in the last 13 years) was primarily due to the lower volumes of the Ibiza, mainly because of the works carried out to adapt the new generation of this model, and to the discontinuation of the Altea family, of which around 13,000 units were produced in 2015.

The bestselling Ibiza, in its penultimate year prior to the launch of the new model in 2017, maintained its position among the best-selling vehicles in its segment for another year, thanks to its advanced technology and excellent quality. The introduction of new electronic features, new engines and more finishes allowed

Production of SEAT models in Volkswagen Group plants

Bratislava (Slovakia)

18,720

SEAT vehicles

Martorell (Spain)

313,216

SEAT vehicles

Palmela (Portugal)

31,214

SEAT vehicles

Total production
417,012
SEAT vehicles
(+ 0.5% over 2015)

- Martorell | 75.1%
- Kvasiny | 8.6%
- Palmela | 7.5%
- Bratislava | 4.5%
- Mladá Boleslav | 4.3%

Mladá Boleslav (Czech Republic)

18,029

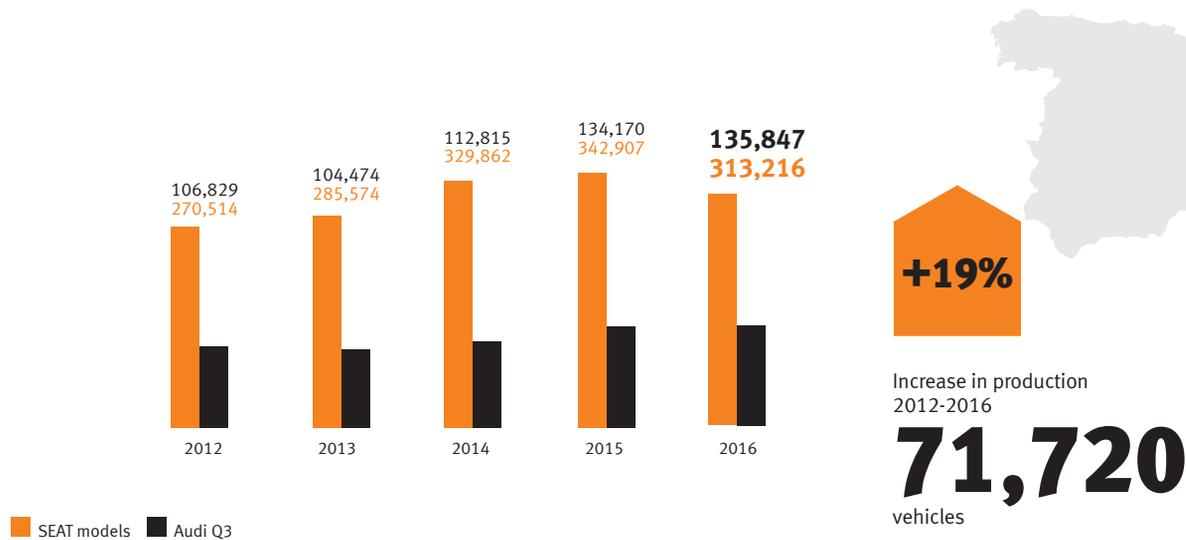
SEAT vehicles

Kvasiny (Czech Republic)

35,833

SEAT vehicles

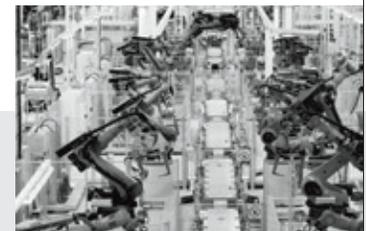
Production at the Martorell plant (units)



it to maintain a high level of production thanks to its extensive acceptance on the market. In July, after 148,434 units had been produced since 2010, manufacturing of the Sport Tourer (ST) version of the Ibiza ceased. The Leon, on the other hand, continues to be one of the pillars of SEAT. At the end of 2016, the Martorell factory launched a facelift (PA) of this model with some excellent quality standards. Furthermore, in the Spring of 2016, the 500,000th unit of both the Q3, the first car of the Audi brand produced at the factory, and the MQB-A, the platform used to put the Leon together, left the assembly line.

The dedication of the Production and Quality teams to the efficiency of the process allowed the productivity and stability of the manufacturing programmes to increase for yet another year. The training activities carried out, together with the improvements in the management of ideas and a programme tailored to the needs of the assembly line, managed to increase the productivity of the Martorell factory by 7.4% compared with 2015. This success would not have been possible without daily teamwork and a common strategy known as PQT, which is promoted by the Production and Quality areas in order to permanently improve quality and productivity in the manufacturing process.

The PQT strategy is based on three pillars (Productivity, Quality and Team) and is supported by 10 initiatives developed to reach a specific goal: to make SEAT the number 1 company in Europe in production and quality in 2025. In January 2016, the team responsible for implementing this strategy met to assess the progress made in the last few years and to debate the future challenges in the changing industrial environment in which the automotive sector finds itself.



Ready to take on the fourth industrial revolution

Industry 4.0 will lead to a new way of organising production resources through the interconnection of objects, people and systems. SEAT is working to create a smart, digitalised and coordinated factory that will be able to adapt to production needs and processes, and that will manage resources and communication between the different areas of the company more effectively.

For the first time in its facilities, the Centre for Prototype Development (CPD) carried out the prototype phase of an Audi model manufactured in the Martorell factory. The A1 represents the completion of an integrated process of development, planning and production of a model of another brand for the first time in the Production division. Furthermore, the CPD has the most advanced virtual reality and simulation resources, which allows it to assess the project without the need for a physical car, with significant repercussions in the quality and precision of the product. This technology has been employed in the development phase of the new Ibiza, and achieved a 30% reduction in the time taken to manufacture a prototype.

Production at the Martorell plant (units)

	2016	2015	Variation	
			Absolute	%
SEAT models	313,216	342,907	(29,691)	(8.7)
Ibiza	149,988	160,451	(10,463)	(6.5)
Altea	0	13,001	(13,001)	-
Leon	163,228	169,455	(6,227)	(3.7)
Audi models	135,847	134,170	1,677	1.2
Q3	135,847	134,170	1,677	1.2
Total production (*)	449,063	477,077	(28,014)	(5.9)

* Figures for 2016 and 2015 do not include 103,796 and 72,169 SEAT vehicles produced at other Volkswagen Group plants, respectively.



The SEAT Leon is the most produced car in the Martorell factory

163,228
units

Furthermore, the optimisation of the logistical processes in general, and of the distribution process in particular, managed to free up an area of more than 12,500 m² of one of the sections of the Martorell factory, which will allow part of that area to be adapted for other uses.

In 2016, the activities of the Training Centre for the SEAT Production System (SPS) focused on various areas. The first was the completion of the PQT III modular training (“Quality in the process”) aimed at all manufacturing staff and various indirect divisions in the company, with more than 10,300 participants and 438 direct production teams being trained in situ with personal training on the production line. The second area of focus was the intensification of the specific training in the various manufacturing divisions for the launch of the new MQB-A0 platform, of which SEAT is a pioneer in the Volkswagen Group. This same pursuit of advanced training is evident in the



Martorell, factory of the year in “outstanding quality”

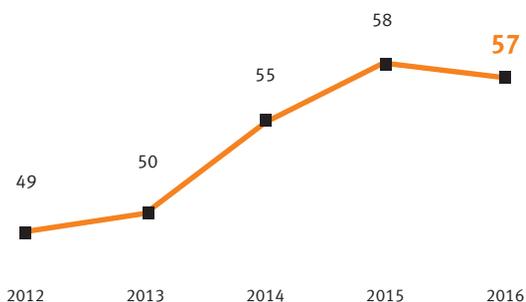
The brand’s main factory, Martorell, was recognised by the German magazine Produktion and the prestigious consultancy firm AT Kearney with the Award for factory of the year in the category of “outstanding quality”. This prize awards the continuous strive for excellence in the quality of its processes and recognises the work of the entire Production and Quality team of SEAT’s main factory, as well as the dedication of the whole company to achieve the utmost quality standards.

Centre for Logistical Training, whose team continues to strive for it to be recognised as a centre of excellence. In this field, of particular note is the training in new technologies and pilot technologies, such as 3D simulation to assure the quality of the process, prior to their implementation in the production line.

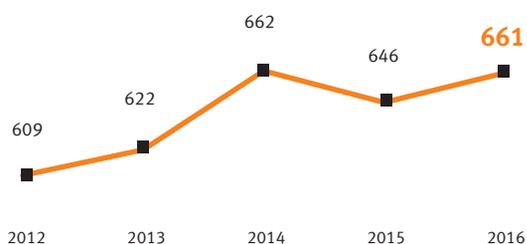
The SPS also completed its overhaul of ergonomics at the workstation, both within the direct and indirect areas. In the direct employees area, an ergonomic map of all the workstations was drawn up and those considered vulnerable to risks were reduced by 24%. Within the indirect area, more than 900 locations were assessed, with a particular emphasis on the anatomical position of the employee at their workstation, the temperature, ambient noise and the performance of relaxation exercises to achieve better satisfaction/wellbeing among the staff. Also, in addition to the uniform implementation of the Shopfloor Management programme (in situ management) in the direct areas of the Martorell, SEAT Componentes and SEAT Barcelona factories, the programme has begun to be implemented in the indirect areas as well, with the same goal of obtaining greater efficiencies by improving information flows and the resolution of incidents.

The phenomenon of digitalisation is having a significant impact on the industry and SEAT hopes to be a leader in this field. With this goal in mind, the PQT strategy has begun the Smart Factory programme, led by its technological innovation team. This programme of actions consists of three fundamental branches. Firstly, the generation of a new culture of innovation that seeks to maximise the team’s performance by taking advantage of the collective intelligence. Secondly, the development of experts in the new technological fields, such as mobile, collaborative and sensitive robotics, augmented and virtual reality, the interconnection of smart objects and the analysis and processing of big data. The third branch consists of the development and implementation of streamlined methods for developing ideas in innovation projects, together with the promotion of a network of external collaborations with start-ups and technology centres.

Production at SEAT Barcelona
(millions of parts)



Production at SEAT Componentes
(thousands of gearboxes)



+16.1%

Increase in production
2012-2016

8

millions of parts



+8.5%

Increase in production
2012-2016

52

thousands of gearboxes



In 2016, the SEAT Barcelona factory produced 56.7 million parts and maintained the production levels of the previous year. Since 2012, the volume of the plant has increased by 16.1%. This positive trend has allowed productivity to also increase in 2016 by 5.6%. As part of the PQT strategy, the factory has begun a thorough process of change and modernisation in various fields (infrastructure, organisation, product and attitude of the workforce) in order to make it more efficient and competitive. Furthermore, work began on installing the new PXL press assigned to SEAT Barcelona. This new facility, which will come into operation in the third quarter of 2017, represents an investment of 30 million euros. The SEAT Componentes factory, for its part, produced a total of 661,277 gearbox units, with an 8.8% improvement in its productivity, and in February it celebrated the production of its 13,000,000th gearbox. The units produced by these two factories are used both by the Martorell factory and by other centres of the Volkswagen Group.

THE PHENOMENON OF DIGITALISATION IS HAVING A SIGNIFICANT IMPACT ON THE INDUSTRY AND SEAT HOPES TO BE A LEADER IN THIS FIELD



SEAT Componentes, the best factory in Spain according to IESE

Located in El Prat de Llobregat, the SEAT Componentes factory won the Award for Industrial Excellence from the CELSA Chair of IESE. The award recognises the Spanish companies that contribute to economic competitiveness and that support the most advanced and value-generating business strategies for society.

The factory carries out all the processes for the manufacture of gearboxes (casting, tooling and assembly) for different models of the Volkswagen Group and supplies factories in 13 countries. In 2014, it was recognised with the EMAS Certification of the European Commission for its excellence in environmental management of the production process.

TOWARDS PERFECTION IN QUALITY

The Quality department is present in the conception, development, production and after sales of a car, from the first drafts to the delivery to the final customer and the subsequent guarantee period. Analyses and checks are performed constantly and perfection is the result of hard work, passion and attention to detail. This premise is what allows the strict tests to be passed and customers' expectations to be met at all times. To this end, besides continuously reducing the number of complaints, SEAT provides added value in the quality perceived by the customer. This commitment is reflected in the results of the NEVQS survey (New European Vehicles Quality Survey), in which SEAT was classified as the top brand for customer satisfaction with the product in Germany.

With the goal of achieving quality levels to match customers' demands, SEAT spreads awareness of the importance of quality not only among its staff but also throughout the supply chain involved in the manufacture of its products. Through different activities, such as Supplier Day or Ibiza Day, the company's main suppliers are informed about the evolution of the quality of the components they supply and their influence on the overall quality of the brand's vehicles, while nurturing their commitment to meeting the goals established.

One of the most significant aspects of the launch of the Ateca was the surface finish of its components. The new model has strengthened the links between ŠKODA and SEAT. The experience of working together with different structures and working methods has strengthened the brand and has shown once again that a successful launch can be completed, just as it was for the Audi Q3 and it will be for the new Audi A1, which will be manufactured in Martorell.

Encouraging work and collaboration between the factories of the Group is a common objective. For this reason, the Quality Processes programme has been carried out in the Volkswagen Group once again, which was attended by three members of the SEAT team over the course of four months to acquire a



QUESTION OF SMELL

We use our senses every day, including when getting into a car. The Quality division performs more than 400 tests per year to guarantee that the materials of a vehicle do not give off any unpleasant odour.



deeper knowledge of the tools of the Consortium. Furthermore, the Manufacturing Quality lines 1 and 2 and the Product Audit departments have new facilities attached to the Workshop 11 building, which offer them significant operating and logistical improvements to facilitate their operations. A new investment of 5.5 million euros was also made for the extension of the Cubing and Meisterbock centre, where SEAT's new models are given their shape.



Investments made
in quality in the
period 2012-2016

12.3
million euros



Reduction of
customer complaints
in the period
2012-2016

49%



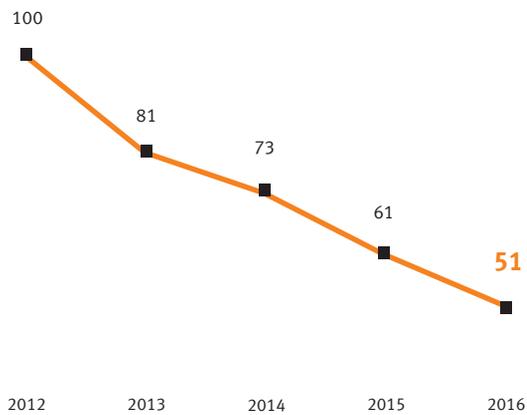
On 6 October, the Production and Quality Academies were established. Their role is to assure the transfer of knowledge and to develop the skills of these divisions' professionals through innovative learning techniques in order to develop specialists and experts in the company's key technologies.

The Audi Q3 and the Martorell factory win the JD POWER award

The Audi Q3, which is manufactured in the Martorell factory, was once again one of the winners in the Initial Quality Study (IQS) carried out by the consultancy firm J. D. Power and Associates and for the second consecutive year, it prevailed in the Small Premium SUV category.

The consultancy firm also awarded the silver award for quality in the Europe/Africa region to the Martorell factory for the manufacture of the Audi Q3. The IQS is one of the most influential studies in the sector for the North American industry and consumers.

Complaints / 1,000 end customers (base 100)



PERFECTION IS THE RESULT OF HARD WORK, PASSION AND ATTENTION TO DETAIL

