

116th Annual General Meeting
AUDI AG
on May 11, 2005

Rupert Stadler
Board Member for Finance and Organisation of AUDI AG

Ladies and Gentlemen,
Dear Shareholders,

A company with such an established tradition as Audi is reliant upon success: this is something that applies in equal measure to its products and to its key business figures.

In 2004, Audi was able to maintain the dynamic growth of recent years in spite of adverse market conditions in certain markets. Unit sales of Audi vehicles, for example, reached a new record level – despite the additional complication of a large number of new products being launched. At the same time, we boosted revenue to the highest figure our company has ever achieved throughout its long history.

This success is also reflected by our earnings figures. There was a year-on-year rise in both our profit before tax and our profit after tax.

We have consequently once again demonstrated that the Audi Group is capable of generating success even in difficult times, thanks to its high-quality, attractive product range.

In an effort to shed light on last year's business developments from a financial viewpoint, I propose first to explain the principal items of the income statement in greater detail. I will

then turn my attention to the key data in the cash flow statement and the development in the balance sheet of the Audi Group.

As already mentioned, we posted a new record level of revenue of EUR 24.5 billion – and this in spite of the erosion of proceeds by exchange rate movements. That represents an increase of almost five percent on the previous year.

Although domestic demand did not pick up until the end of the year, we succeeded in boosting our revenue in Germany by almost six percent to more than EUR 7.8 billion. That is equivalent to 32.0 percent of revenue worldwide. The marked rise in revenue in our home market can be ascribed in the first instance to sales of more exclusive vehicles and higher specifications.

68.0 percent of total revenue was generated by exports. As in previous years, Europe remained the principal sales market.

Demand for vehicles sporting the four-ring badge rose particularly in Great Britain and Spain, but also in the Benelux countries. Our sales figures in Europe (excluding Germany) consequently rose at an even higher rate than the market as a whole. This successful development meant that we moreover enjoyed an 8.1 percent increase in revenue, to EUR 12.2 billion.

The downside is that our revenue in North America slipped by 8.9 percent to EUR 2.3 billion last year.

This is attributable on the one hand to the continuing negative impact of the exchange rate, which we were nevertheless able to counterbalance within earnings by means of currency hedging transactions and other remedial measures.

On the other hand, the price war of recent years has continued to rage with undiminished force particularly in the USA. The overall car market – in this case excluding SUVs – nevertheless once again contracted, as expected. Audi, too, was unable to defy this negative trend.

Sales of Audi vehicles suffered in addition as a result of consumer reticence in advance of forthcoming model changeovers. Whereas the Audi A6 saloon has been on sale in North America since the end of 2004, the new Audi A4 models have only come onto the market in 2005.

The Audi A3 Sportback is moreover due for market launch in the USA this year. With this vehicle – a lifestyle-oriented combination of a coupé and an estate car – we will establish the premium compact class in the USA. We did precisely this in Europe, and with notable success, with the first generation of the Audi A3 in the mid-nineties.

From this year on, we consequently once more have an impressive line-up of models with which to resume our growth strategy in North America, even if our explicit priority is qualitative growth. Within the context of the Audi brand strategy, Audi will maintain its policy of not becoming too deeply ensnared in the ongoing price war. The positive development in our unit sales in the first four months of this year already seems to be supplying suitable endorsement of our stance.

In Asia we were almost able to match the high level of the previous year, with revenue reaching EUR 1.9 billion. Following the extremely steep growth of 2003, the Chinese government imposed a variety of measures including restrictions on car financing, to prevent the economy from overheating.

We were nevertheless able to safeguard our position as the unchallenged market leader in the premium car market in China – the Audi brand's third-largest export market – with a further increase in our vehicle sales.

Our new models will gradually be launched this year in the growing Chinese market, too. This will give a further significant boost to our product range's appeal.

Ladies and Gentlemen,

To follow on from my remarks on the breakdown of our revenue by region, I would now like to comment on the shares of revenue of the individual model series.

We boosted revenue from the sale of vehicles of the Audi brand by over 4 percent, to EUR 17.9 billion. This was achieved not only by selling more vehicles, but also by selling more exclusive models and higher-specification equipment worldwide.

The launch of the new Audi A4 car line in November is, as expected, reflected by an initial drop in the revenue share of 4.5 percentage points to 42.4 percent.

Sales of models of the Audi A6 car line boosted revenue in this segment quite significantly and the revenue share rose to 27.8 percent, even though the new Audi A6 saloon did not appear on the market in the USA until the second half of the year. The addition of important entry-level engine versions towards the end of last year and the recent market launch of the Audi A6 Avant in March ought to provide further impetus for 2005.

Revenue from the A3 segment benefited in particular from the launch of the new Sportback, pushing up the revenue share by 1.5 percentage points to 21.4 percent.

As well as vehicles of the Audi brand, the Audi Group sells models of the VW Passenger Car, VW Commercial Vehicle, Škoda and SEAT brands in Italy via the subsidiary AUTOGERMA S.p.A. Against a backdrop of cut-throat competition on the Italian market as a whole, which recovered only slightly in 2004 despite huge incentives for customers, sales by Autogerma of cars of other VW Group brands were down. Revenue consequently also dipped slightly compared with the previous year.

The cost of sales for the Audi Group rose year on year to almost EUR 22 billion. This change of 3.7 percent was consequently slightly lower than the development in revenue, in spite of the revenue-diminishing effects of exchange-rate factors.

After deduction of the cost of sales from revenue, we therefore achieved a substantial increase of 14.4 percent in the gross profit remaining, to more than EUR 2.5 billion.

The sales promotional measures required for the numerous new model launches resulted in a rise in distribution costs. This item rose last year to almost EUR 1.8 billion, also among other reasons as a result of the aggressive competitive practices that we were unable simply to ignore.

Administrative expenses were slightly down on the previous year at EUR 242 million.

The rise in the other operating result to EUR 717 million was prompted among other reasons by higher earnings from currency hedging transactions and lower other operating expenses.

In the past financial year, we pushed up the operating result by 17.7 percent to over EUR 1.2 billion.

This highly positive development is attributable most notably to the systematic implementation of the cost-cutting and process optimisation programmes that we adopted in good time.

The financial result for last year was minus EUR 95 million, well down on the prior-year level.

Within this item, the measurement of currency option transactions at fair value because of the reporting date, as required under the IFRS rules, in particular diminished the other financial results.

The lower income as a result of accounting for the shares in FAW-Volkswagen Automotive Company, Ltd. using the equity method furthermore diminished our investment result.

Profit before tax nevertheless improved by 3.7 percent to EUR 1.142 billion. The profit before tax of the Audi Group incorporates the consolidated individual earnings figures of AUDI AG and its subsidiaries. I should now like to comment briefly on the individual earnings figures for the principal companies.

The profit before tax of AUDI AG showed a year-on-year rise of 4.8 percent to EUR 768 million.

AUDI HUNGARIA MOTOR Kft., too, saw its profit before tax increase by 4.5 percent to EUR 300 million.

Mainly as a result of the restructuring costs following the closing-down of the Castings Division, COSWORTH TECHNOLOGY LIMITED posted a loss before tax of EUR 15 million.

As you will have seen in the press, we sold our shares in COSWORTH TECHNOLOGY LIMITED and its subsidiary COSWORTH TECHNOLOGY, Inc. with effect from January 1, 2005 to the Stuttgart-based Mahle company.

The result of the Lamborghini Group made highly satisfactory progress last year. In posting a profit before tax of more than EUR 4 million, the Italian sports car manufacturer – in this instance excluding Autogerma – reached the break-even point for the first time.

The downturn in sales at the subsidiary Autogerma, as mentioned earlier, is reflected in the lower pre-tax profit of EUR 65 million.

The pre-tax profit of quattro GmbH fell last year to EUR 28 million, principally because of falling licence income as a result of the winding-up of RS 6 business. The "S line" business area, on the other hand, progressed well. Sales of the new Audi RS 4, which you were able to view this morning, will give quattro GmbH's vehicle business a renewed substantial boost this year.

The tax expense of more than EUR 271 million last year was some 6.3 percent down on the prior-year figure.

We consequently boosted the consolidated net profit by 7.4 percent to a new record figure of EUR 871 million – a perfectly respectable figure considering that revenue growth was 4.7 percent.

Following the profit transfer of EUR 405 million to Volkswagen AG and deduction of the profit share of minority interests, we allocated the balance of EUR 463 million in entirety to other retained earnings.

Based on a distribute-and-recapture method, an amount of EUR 195 million of the profit transferred to Volkswagen AG was returned to AUDI AG in March 2005 via a corresponding allocation to the capital reserve.

Ladies and Gentlemen,

I should now like to explain a few of the key figures for the past financial year.

We achieved a new record net profit per share of EUR 20.19.

The pre-tax rate of return was on a par with the previous year, at 4.7 percent. However, the rate of return from operating activities simultaneously improved from 4.5 percent to 5.0 percent last year.

In the past financial year we succeeded in pushing up the return on capital, in other words the operating result after tax in relation to capital employed, by 1.1 percentage points to 8.7 percent. This was achieved largely through our systematic approach to investment management and the cost and process optimisation measures already mentioned earlier. In view of the average capital market interest rate, this represents a highly satisfactory appreciation in the value of the company that easily emulates the performance of many of our competitors.

I should now like to turn my attention to the development in cash flow and capital investments within the Audi Group.

The cash flow from operating activities remained virtually unchanged from the previous year at some EUR 2.7 billion, in spite of the higher level of tied-up capital within working capital for reporting date reasons.

As in previous years, we therefore more than covered capital investments from the financial resources generated by ongoing business operations.

Investing activities thus amounted to EUR 2.041 billion, more than one percent up on the previous year.

Following deduction of investing activities, there consequently remained a net cash flow of EUR 649 million.

The impressive financial strength of our company is therefore also reflected by a further rise in the net liquidity as at December 31, 2004. This item was 33 percent up on the corresponding prior-year figure, at more than EUR 2 billion. In terms of liquidity, too, I believe this equips us admirably to tackle the challenges that lie ahead.

Our investment volume has been largely influenced by the ongoing process of rejuvenating our model range. Capital investments were once again up on the previous year's high level, at almost EUR 2.1 billion.

Investments in property, plant and equipment alone accounted for EUR 1.2 billion, or 60 percent of the total.

Product-based capital investments accounted for some 70 percent of this amount.

Development expenditure recognised as an intangible asset totalling EUR 652 million was some 10 percent up on the corresponding figure for the previous year. It represented 32 percent of total capital investments.

Ladies and Gentlemen,

Before I conclude with a survey of the principal balance sheet items, I would like to draw your attention to the fact that a number of accounting standards applicable to the past financial year have changed.

The most significant change relates to IAS 1. As a result of this new standard, the balance sheet has been reclassified on the basis of maturities of items and the prior-year figures adjusted accordingly.

It is moreover no longer permissible to recognise certain overheads within development expenditure as assets, pursuant to IAS 38. Here too, the relevant prior-year figures have been adjusted for greater ease of comparison.

The balance sheet total for last year rose to EUR 14.8 billion, or by 5.6 percent.

The non-current assets showed an increase of 3.8 percent on the prior-year figure, to just under EUR 8.9 billion.

The intangible assets in particular rose as a result of the higher additions to development expenditure recognised as an intangible asset.

Long-term investments furthermore rose first and foremost as a result of the capital increase at FAW-Volkswagen Automotive Company, Ltd., and the establishment or acquisition of various sales subsidiaries in Germany and abroad in order to strengthen our sales activities worldwide.

The current assets rose by more than 8 percent in the past financial year to EUR 5.9 billion. Whereas inventories were slightly up on the prior-year figure at EUR 1.8 billion, the marked rise in cash and cash equivalents of more than 45 percent, likewise to EUR 1.8 billion, was the main factor behind the increase in current assets.

On the equity and liabilities side, equity rose by 7.9 percent to almost EUR 6 billion as a result of the allocation of the net profit to other retained earnings.

We were thus able to increase the equity ratio by 0.8 percentage points last year, to 40.4 percent – a distinctly impressive figure compared with our immediate competitors.

Liabilities were 4.1 percent up on the previous year, at EUR 8.8 billion.

The principal source of this increase was non-current liabilities. The rise of more than 12 percent to over EUR 4 billion is attributable first and foremost to the increased provisions for warranty claims and higher defined benefit liabilities. We have thus adequately covered future obligations and risks.

Current liabilities fell to less than EUR 4.8 billion, above all as a result of lower financial liabilities and a drop in trade payables.

The development in our balance sheet structures consequently provides another indication of the healthy growth of the Audi Group in the past year.

Ladies and Gentlemen,

Dear Shareholders,

As you are aware, the forecasts for the German car market in the current year are anything but heartening, and the aggressive price war being waged by competitors continues in certain key export markets, such as the USA.

Over the past few years we have nevertheless been able to demonstrate that the Audi Group is capable of operating successfully in the market over a longer period in spite of the difficult economic context, not least thanks to its systematic process and cost optimisation measures. Throughout this time, we have moreover consistently striven to rejuvenate our model range in an effort to be well equipped for the tasks and challenges of the next few years.

For example, this year the Audi A3 Sportback and the new Audi A4 models will now be available for the entire calendar year in Europe. The new Audi A6 Avant was furthermore launched in March. In anticipation of this new model's arrival, we registered a marked tendency among customers to delay their purchases last year. The sales figures for the successor model give us ample cause for optimism for the current year.

With one of the youngest model ranges in the premium market, we are therefore convinced that we will be able to build on the successes of recent years in 2005.

Thank you very much for your attention.