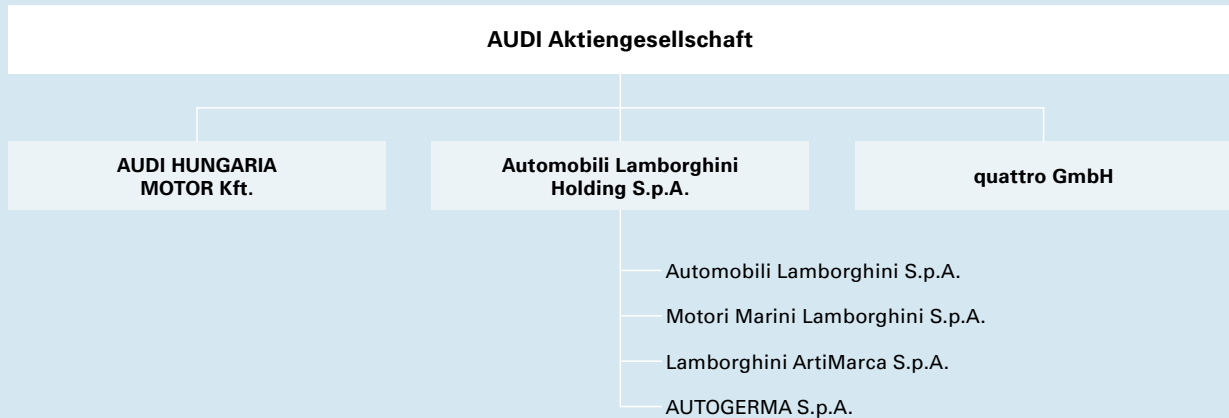


# Group Companies

## Main companies within the Audi Group



### Audi Hungaria maintains pattern of growth

The success story of AUDI HUNGARIA MOTOR Kft. continued in the 2004 financial year: Audi's Hungarian subsidiary was able to boost its revenue and engine production further. Thanks to additional capital investments in engine development operations and production capacity, the company has paved the way for its continuing steady development in the future.

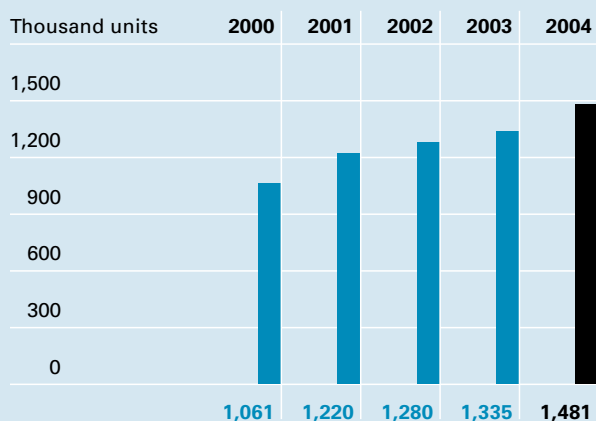
In the field of engine production, the production volume in the year under review rose by 10.9 percent to a total of 1,480,630 (1,334,985) units. The production total was made up of 1,194,700 (1,048,128) four-cylinder engines, 233,877 (238,387) six-cylinder engines and 52,053 (48,470) eight-cylinder engines.

AUDI HUNGARIA MOTOR Kft. supplied a total of 597,095 (600,537) engines to the Audi Group. 805,562 (659,698) engines were destined for use in vehicles of other Volkswagen Group brands. Wilhelm Karmann GmbH in Rheine was supplied with 31,862 (29,375) engines for the Audi A4 Cabriolet, which it builds on behalf of AUDI AG. Outside customers, too, took advantage of the expertise of AUDI HUNGARIA MOTOR Kft. in the field of engine development and production, placing orders for 39,281 (30,043) units.

Reflecting the product life cycle of the Audi TT, which appeared on the market in 1998, vehicle production fell to 23,605 compared with 33,953 units (incl. 1,616 of the Audi A3) in the previous year. This total included 14,753 (20,807) of the Audi TT Coupé and 8,852 (11,530) of the Audi TT Roadster.

In building the Audi TT, which already ranks as a classic in the sports car segment, AUDI HUNGARIA MOTOR Kft. has established its reputation as a vehicle production plant within the Audi Group. The company will put the expertise thus acquired to good use in the future. The successor version of the Audi TT, for example, will again be built in Győr.

### AUDI HUNGARIA MOTOR Kft. engine production



Investments in intangible assets and in property, plant and equipment amounted to EUR 449 (319) million in the 2004 financial year. The focus of investing activities was on the second phase of the engine development centre and the resulting doubling of development capacity. AUDI HUNGARIA MOTOR Kft. in addition staged numerous investment projects for the engine production area, in particular for six-cylinder engine production (3.2 FSI and 3.0 TDI) and four-cylinder engine production (2.0 TFSI). In the components area, manufacturing penetration was further increased by the installation of a connecting rod production line for four-cylinder diesel engines. This facility will enable AUDI HUNGARIA MOTOR Kft. to manufacture its own connecting rods in future.

AUDI HUNGARIA MOTOR Kft. saw its revenue rise by 5.4 percent to 3,929 (3,726) million. One of Hungary's highest-revenue companies, it employed an average of 5,146 (4,939) people in the year under review.

#### Further growth at Lamborghini

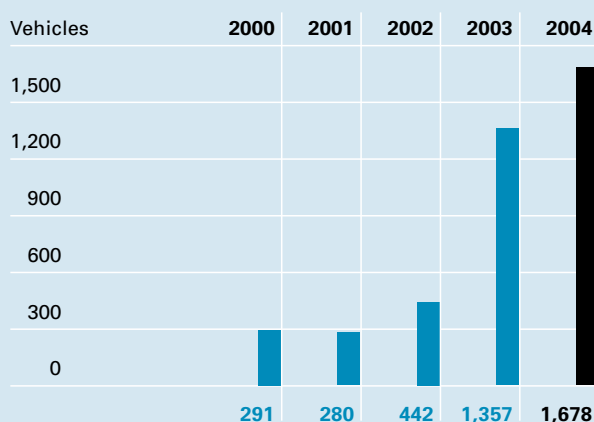
Automobili Lamborghini S.p.A reported continuing business expansion in the 2004 financial year. The luxury sports car manufacturer from Sant'Agata Bolognese achieved vigorous growth in production, revenue and sales, and consequently further strengthened its outstanding competitive position in this market segment. This success was due in no small measure to the Lamborghini Gallardo, which completed an outstanding first full year in production.

Lamborghini unveiled the Murciélago Roadster at the Geneva Motor Show in the early part of the year; this is the open-top version of the super sports car. Like the Murciélago Coupé, the Roadster possesses uncompromising dynamism and a matchless design. The Murciélago Roadster\* thus extends the tradition of open-top Lamborghini twelve-cylinder models, whose ranks include the 350 GTS, Miura Roadster and latterly the Diablo Roadster.

The Murciélago Roadster was first launched in the final quarter of 2004 in what is Lamborghini's most important market – the USA. The new model then went on sale at the start of 2005 in all other countries in which the Italian brand with the fighting bull logo maintains a presence.

Lamborghini models again received design awards and prizes in various countries in 2004, the newest model being no exception. An international jury comprising designers, car and art historians and journalists voted the Murciélago Roadster the "Most Beautiful Car in the World 2004" in the supercar category. The Gallardo had been honoured with the same award one year earlier.

#### Automobili Lamborghini S.p.A. vehicle production



Such acclaim from specialist critics served as further evidence of the exceptional achievements of Lamborghini's designers, who were able to occupy the new "Centro Stile Lamborghini" in 2004 – the design centre that represents the future of the brand. The building also houses facilities that have the purpose of upholding Lamborghini's heritage: the restoration workshop for historic vehicles and the Service Centre, which is able to service every Lamborghini ever built.

Production by Automobili Lamborghini S.p.A. in 2004 rose by a further 23.7 percent on the record figure of the previous year to 1,678 (1,357) vehicles. This total was made up of 304 units of the Murciélago Coupé, 1,294 of the Gallardo and, for the first time, 80 of the Murciélago Roadster.

\* CO<sub>2</sub> emission and fuel consumption figures can be found in the glossary.

Vehicle sales totalled 1,592 (1,305) units, 22.0 percent up on the 2003 figure. The principal sales region was the USA, which accounted for 41 percent of the total. Some 13 percent were sold in Germany, just under 9 percent in Great Britain around 8 percent in Japan.

The brand is now also represented in China, which has emerged as one of the world's major car markets. Lamborghini presented its first official Chinese dealer, based in Beijing, at the Beijing Motor Show in June 2004. Two further dealers, in Shanghai and Guangzhou, commenced trading in the latter part of the year.

In the year under review, the Gallardo contributed substantially towards the 21.5 percent rise in Lamborghini Group revenue to EUR 243 (200) million. The number of employees as an average for the year rose to 726 (685) by virtue of the higher production volume.

#### Difficult market context for AUTOGERMA S.p.A.

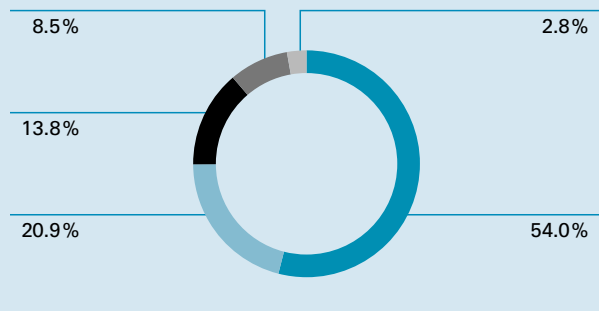
AUTOGERMA S.p.A., based in Verona, is the general importer in Italy for Audi and all other brands of the Volkswagen Group. The company, a subsidiary of Automobili Lamborghini Holding S.p.A., has been part of the Audi Group since 2000. Autogerma remained confronted by a difficult market context in the 2004 financial year, with intense competition over prices and high levels of pre-registered cars. Despite the appearance of countless new models, the car market as a whole was only slightly above the previous year's level, with sales totalling just under 2.3 million units.

Autogerma recorded sales of 241.299 (283,934) vehicles in the year under review. When broken down by brand, Audi almost matched the prior-year figure in the premium segment with sales of 50,500 (51,341) vehicles. Sales of Volkswagen commercial vehicles made good progress. In particular the new VW Caddy and the new T5 Transporter model, which has been available since 2003, helped to push sales up to 6,709

(5,282) vehicles. The other brands of the Volkswagen Group, on the other hand, experienced a reversal. Škoda sales were relatively stable at 20,478 (23,061) units, despite the impending model change in the high-volume Škoda Octavia Combi. SEAT posted sales of 33,233 (41,057) cars. A total of 130,289 (163,193) Volkswagen cars were delivered to their new owners. One factor behind this downturn was the advanced life cycle of several Volkswagen models, in particular the Passat.

#### AUTOGERMA S.p.A. vehicle sales

	2004	2003
Volkswagen Passenger Cars	130,289	163,193
Audi	50,500	51,341
SEAT	33,323	41,057
Škoda	20,478	23,061
VW Commercial Vehicles	6,709	5,282



There were several market launches at Autogerma in the 2004 financial year: the first new models were the twelve-cylinder Audi A8\* in January and the VW Caddy in March, followed by the SEAT Altea and the Audi A6 saloon in April. The Audi A3 Sportback and the new Škoda Octavia saloon appeared on the market in September. The new Audi A4 was launched in November.

Autogerma unveiled two new models at the Bologna Motor Show at the end of the year. The new VW Golf Plus made its international debut, and the new Audi A6 Avant was displayed for the first time to a wider audience.

In view of the difficult market situation, the revenue of AUTOGERMA S.p.A. fell by 0.5 percent to EUR 4,456 (4,480) million. The average size of the workforce throughout the year was 770 (712) employees.

**quattro GmbH still forging ahead**

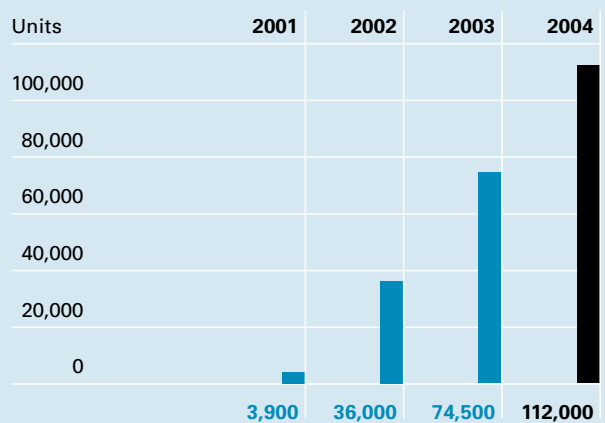
quattro GmbH supports the premium values “sportiness”, “individuality” and “exclusivity” of the Audi brand through its range of products. Established in 1983 as a fully-owned subsidiary of AUDI AG, it develops and creates exclusive lifestyle articles, high-performance vehicles such as the RS 4 and the RS 6, and also exclusive customised fittings and attractive sports packages.

The success of the Audi RS 6 was maintained in its last year in production. Approximately 1,200 more of this model were sold in 2004, taking the total for the most powerful production Audi to date to 8,100 units, all within the space of just 24 months. To mark the phase-out of the RS 6, there was a very successful limited edition by the name of RS 6 plus, with an output of 353 kW (480 bhp) and an electronically governed top speed of 280 km/h. Development work at quattro GmbH is currently focusing primarily on the RS 4 successor model.

The Audi exclusive customisation programme is designed to meet individual customer preferences. Around 51,000 Audi models were customised before handover to the customer during the past financial year. As well as exclusive equipment items, quattro GmbH is able to supply technically sophisticated infotainment and communications systems. Through Audi exclusive, quattro GmbH is able to target discerning groups of customers in the deluxe segment and thus support the positioning of the Audi brand further up the range.

The S line sports packages underline the sporty emphasis of Audi models and place the accent on specific exterior and interior packages, alloy wheels and sports suspension. The launching of S line sports packages for the new Audi A3 Sportback and Audi A6 models now extends the S line range, which is thus available for virtually all car lines. The S line range has helped quattro GmbH post a further rise in profits from this area of business. Almost one in ten customers fitted their Audi with at least one of the available S line sports packages in the 2004 financial year.

**Sales of S line sports packages**



With the reorganisation of the business area for Audi design lifestyle articles, quattro GmbH has positioned the product range with greater emphasis on design. With this new emphasis in mind, new products were developed in the first quarter of 2004. The Audi design product range includes Audi design mountain bikes, the exclusive leather collection and, as its new highlight, the Audi design Square chronograph by Sinn. These sophisticated lifestyle articles successfully transfer Audi’s typical design language from the world of cars into other product domains.

quattro GmbH is able to look back on a successful 2004 financial year. Revenue was boosted year on year by around 9.5 percent, to EUR 220 (201) million. Increased revenue from the customisation programmes more than compensated for the fall in revenue from the Audi RS 6 due to its phase-out.

# Corporate Governance

## **No additions to Code in 2004**

No changes or additions were agreed by the Government Commission on the German Corporate Governance Code in 2004.

## **Implementation of recommendations**

The Board of Management and Supervisory Board considered the Code's regulations in the past financial year.

The Code in the version dated May 21, 2003 is complied with. However, the restriction applies that AUDI AG will not disclose the remuneration of members of the Board of Management (Section 4.2.4 Sentence 2) or the remuneration of members of the Supervisory Board (Section 5.4.5 Para. 3 Sentence 1) individually, in order not to infringe privacy rights.

The following qualifications moreover apply to the suggestions made in the Code:

The Annual General Meeting will not be broadcast on the Internet (Section 2.3.4) in order not to infringe individual shareholders' right to privacy.

The scope for absent shareholders to contact the company's proxy exercising voting rights (Section 2.3.3 Sentence 3, 2nd half of sentence) even during the Annual General Meeting is not relevant, as the Annual General Meeting is not broadcast on the Internet.

The Code's suggestion of taking long-term performance into consideration in the Supervisory Board's remuneration (Section 5.4.5 Para. 2 Sentence 2) and taking one-off variable components tied to business success into consideration in the Board of Management's remuneration (Section 4.2.3 Sentence 2) is not currently implemented by AUDI AG, as the debate in specialist quarters as to the specific form to be taken has not yet been brought to a close. The outcome of this debate is to be awaited.

## **System of remuneration**

The basic principles of the system of remuneration for the members of the Board of Management are described in detail in the Notes to this Annual Report, under "Details of the Supervisory Board and Board of Management". This information is also available on the company's website ([www.audi.com/notes](http://www.audi.com/notes)).

## **Internet declaration on the Code**

The joint declaration of the Board of Management and Supervisory Board of AUDI AG on the recommendations of the German Corporate Governance Code was placed on the Audi website (<http://www.audi.com/cgk-declaration>) on December 6, 2004.

# Audi Shares

## Stock market developments

International stock markets experienced a sideways shift in 2004. The main indices fluctuated within a narrow range and exhibited only slight growth overall. The growth in the global economy consequently failed to spill over into financial markets.

Following a positive start to the year, question marks over the sustainability of growth and the impact of higher raw materials prices unsettled investors. Despite the healthy market fundamentals, the mood on stock markets remained subdued until the autumn. Stock markets worldwide received a boost in the final quarter following the clear outcome to the US presidential elections and as a result of companies announcing higher than expected profits. This prompted sharp stock market gains initially in the USA, then subsequently provided a boost to stock markets worldwide. It was not until the end of the year that most indices surpassed their opening levels.

The German Share Index (DAX) rose to 4,150 points by the end of January. The index then experienced several upswings and downswings up until August within the corridor of 3,650 to 4,150 points. Particularly the terrorist attacks in Madrid in March and the oil price rises in May and August precipitated a sharp slump in the market. The DAX reached its year-low of 3,646 points in August. Mirroring the more positive mood on international share markets, the index recovered in the fourth quarter, closing the year on 4,256 points.

The Prime Automobile sector index for German automotive shares started the year on 352 points. In the run-up to the season of shareholders' meetings at the end of April 2004, the index reached its year-high of 369 points, then fell in line with the general trend. After falling back to 324 points following heavy price losses in August, the Prime Automobile became disconnected from the positive market trend and merely moved sideways. The index closed the year on 345 points.

## Audi share price trend

Audi shares started the year on EUR 220 and rose in parallel with the market to a year-high of EUR 250 at the end of January. The share price yielded again in the months that followed, remaining within the range of EUR 210 and 230 between April and the end of the year. Audi shares finished the year on EUR 220.

## Profit transfer and compensatory payment for shareholders

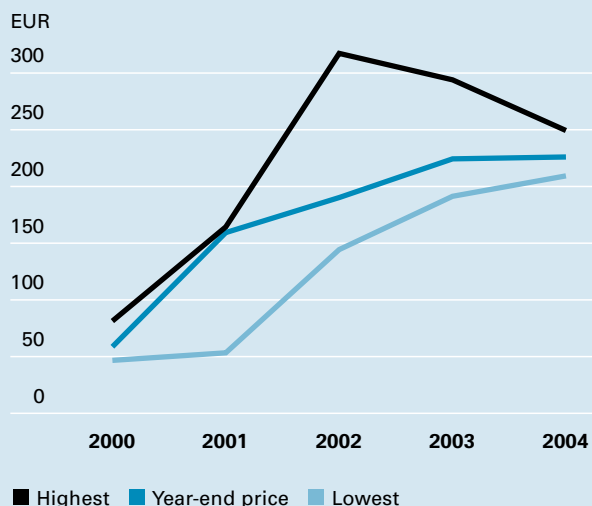
There exists between AUDI AG and Volkswagen AG, which controls around 99 percent of the share capital of AUDI AG, a control and profit transfer agreement in which the level of the compensatory payment to the outside shareholders is laid down. The latter accordingly receive the amount that is paid as a dividend on one Volkswagen ordinary share for the same financial year. The dividend payable for the 2004 financial year will be determined by the Annual General Meeting of Volkswagen AG on April 21, 2005.

## Audi share price (Munich Stock Exchange)

International Securities Identification number (ISIN): DE0006757008, German Securities Identification Number (WKN): 675700

EUR	2004	2003
Highest	250.00	294.90
Lowest	210.00	192.00
Year-end price	220.15	225.00

## Audi share price trend



## Ratios per Audi share

EUR	2004	2003*
Profit after tax	20.19	18.80
Cash flow from operating activities	62.55	64.80
Equity	139.26	129.11

\* The values per share have been adjusted in the context of the change to IAS 38.

# Management Report of the Audi Group

## General economy and the sector

### Global economic situation

Following a phase of vigorous expansion in the global economy at the start of 2004, global growth lost momentum in the second quarter of the year. Despite the high prices of oil and raw materials, however, the upward growth trend as a whole remained intact. The global economy thus achieved its highest rate of growth for three decades in 2004. All major economic regions shared in this buoyancy in the global economy, which was driven by the USA and China. Growth was promoted by such factors as the favourable underlying monetary conditions and lively investment activity by companies, particularly in developing countries.

As a result of lively demand, corporate investment and imports in the USA rose sharply. However, the high economic dynamism of the United States as the driving force behind the global economy eased off somewhat mid-way through the year. Both the end of the US Federal Reserve's low-interest policy and the abandonment of financial policies which had exercised a stimulating effect served to diminish private demand. The quality of private consumption nevertheless improved as a result of the positive trend in employment.

There was no uniform pattern to the impact of the economic recovery in Western Europe. Considerable differences in the vigour and origins of expansion were nevertheless apparent. Whereas domestic demand in Great Britain and Spain bolstered the economy, expansion in Italy for example was only very restrained. Central and Eastern European countries, on the other hand, experienced a high level of economic growth.

Germany continued to bring up the rear compared with the remainder of Europe. Whereas domestic demand remained slack last year, exports enjoyed further growth until mid-way through the year. In the second half of the year, the weakness of the US dollar then proved an increasing burden on exports, causing the economic upswing that had taken root at the start of the year to grind to a halt.

Latin America was able to emerge from a period of stagnation lasting several years and enjoyed dynamic economic growth. High export activity and strong domestic demand contributed in particular towards this development.

In Asia, China's sustained high growth spread throughout the entire region. Both developing Asian countries and Japan, where the economy expanded more rapidly than had been expected, benefited from the Chinese import market.

### International car market

As a result of substantial growth in the global economy, car sales worldwide in 2004 rose by around five percent on the prior-year total, to 41.2 million passenger cars. The Asian and South American regions acted as the driving forces behind this growth. On the other hand, sales in major car markets in Western Europe and the passenger car market in the USA remained flat or slipped back. Developments in numerous sales markets were dominated by intense competition stemming from the practice of granting high discounts.

In Western Europe, new car registrations in 2004 were 2.1 percent up on the previous year at 14.5 million units. This positive overall result was due in no small measure to vigorous market growth of 9.7 percent in Spain. Of the other major markets in Europe, Italy and Germany achieved only slight rates of growth, whereas new car registrations in France remained virtually unchanged from the previous year. The car boom has passed its latest peak in Great Britain. Registrations of new cars here were down 0.5 percent, the first fall in four years.

The generally dynamic state of the US economy was not mirrored by sales of passenger cars. In a difficult market context where strong purchase incentives continued to be offered, the overall American car market slipped back by 1.6 percent to some 7.5 million vehicles.

In South America, registrations in Brazil, the most important car market, once again rose by 7.7 percent following two years of negative growth. In Argentina, the recovery in the economy was accompanied by resurgent vehicle sales, which more than doubled year on year.

The Asia/Pacific region posted growth of 7.6 percent in 2004, with 11.3 million new passenger cars registered. In China, the second-largest market in the region after Japan, the rate of growth nonetheless gradually slowed down as the year progressed. Particularly the restrictions on vehicle financing imposed by the state served to dampen growth.

### The German car market

The weak domestic demand in the German car market had a noticeable impact in 2004. In spite of the large number of new models, the attractive terms of finance available and to some extent high discounts, a recovery in car sales only materialised towards the end of the year. Registrations of new cars totalled just under 3.3 million units, an increase of 0.9 percent on the prior-year figure. The market shares of foreign manufacturers slipped marginally by 0.4 percentage points to 35.1 percent.

The trend towards diesel models continued in the year under review. Their share of total passenger car registrations rose by 4.1 percentage points to 44.0 percent. In addition to the marked rise in the number of low-consumption diesel models offered on the market, higher fuel prices were an important factor behind this trend.

Domestic passenger car production was 1.4 percent up on the previous year, at almost 5.2 million vehicles. Passenger car exports were on a par with the previous year, at around 3.7 million units. Western Europe was the principal sales region for German manufacturers, with just under 2.6 million units. The strength of the euro, on the other hand, hindered car exports to the USA, which were 3.8 percent down on the previous year.

### Situation of the company

#### Another record year for production

The Audi Group extended the successful progress of recent years and stepped up vehicle production by 3.1 percent to a new record level of 784,972 (761,582) units. Of this total, 783,294 (760,225) were Audi vehicles and 1,678 (1,357) vehicles of the Lamborghini brand.

Audi increased production of the Audi A3 and Audi A4 car lines at the Ingolstadt plant to a total of 480,015 (476,964) vehicles. In addition, 7,762 of the Audi A3 and 31,962 (29,285) of the Audi A4 Cabriolet were built on behalf of AUDI AG. The 9.1 percent rise in production output at Neckarsulm to 239,950 (220,023) Audi vehicles resulted above all from high demand for the new Audi A6 saloon. Even though this model did not appear on the market until almost half-way through the year and key entry-level engine versions were not available until the final quarter,

production of the A6 car line rose by 22.4 percent to 181,701 (148,477) units. Models of the Audi A2, Audi RS 6, Audi allroad quattro and Audi A8 car lines were also built at Neckarsulm.

The subsidiary AUDI HUNGARIA MOTOR Kft. manufactured 23,605 (32,337) of the Audi TT Coupé and Audi TT Roadster at its plant in Győr, Hungary.

AUDI AG shipped a total of 61,128 (55,584) of the A4 and A6 model lines to China last year in completely knocked down form.

Just one year before quattro drive celebrates its 25th anniversary, the proportion of Audi vehicles fitted with permanent four-wheel drive reached 26.7 (24.7) percent.

Automobili Lamborghini S.p.A. increased its production of super sports cars from 1,357 to 1,678 units. In addition to production of 384 (424) Coupé and Roadster versions of the Murciélago, 1,294 (933) of the Gallardo were built at Sant'Agata Bolognese.

#### Production of vehicles

	2004	2003
Audi A2	19,745	27,323
Audi A3	174,750	151,117
Audi A4	313,027	327,463
Audi A4 Cabriolet	31,962	29,285
Audi A6	181,701	148,477
Audi RS 6	1,233	4,841
Audi allroad quattro	14,842	17,634
Audi A8	22,429	21,748
Audi TT Coupé	14,753	20,807
Audi TT Roadster	8,852	11,530
<b>Total, Audi brand</b>	<b>783,294</b>	<b>760,225</b>
Lamborghini Murciélago	384	424
Lamborghini Gallardo	1,294	933
<b>Total, Lamborghini brand</b>	<b>1,678</b>	<b>1,357</b>
<b>Total, Group</b>	<b>784,972</b>	<b>761,582</b>

The Audi Group stepped up engine production in the year under review to 1,485,536 (1,342,883) units. The breakdown of the total again serves to demonstrate Audi's expertise worldwide in the domain of diesel technology. Compared with the previous year, the proportion of Audi vehicles with a diesel engine rose to 51.6 (46.0) percent of the production total.

#### Proportion of Audi vehicles with a diesel engine



In Hungary, AUDI HUNGARIA MOTOR Kft. increased its production volume to 1,480,630 (1,334,985) four, six and eight-cylinder engines.

Production of ten and twelve-cylinder engines at Automobili Lamborghini S.p.A. for installation in Gallardo and Murciélago models was increased to 1,678 (1,357) units.

Engine production by the British subsidiary COSWORTH TECHNOLOGY LIMITED fell to 3,228 (6,541) units in the year under review, principally as a result of the phasing-out of the Audi RS 6.

#### Audi vehicle sales up on prior-year level

Sales of Audi models last year again showed an increase on the previous year to 779,441 (769,893) vehicles, despite the difficult conditions encountered in certain markets and the large number of model changes affecting the core car lines A3, A4 and A6.

Automobili Lamborghini S.p.A., too, enjoyed a further marked rise in vehicle sales of 22.0 percent to 1,592 (1,305) sports cars.

#### Vehicle sales

	2004	2003
Audi A2	21,452	28,547
Audi A3	179,966	151,536
Audi A4	310,469	328,727
Audi A4 Cabriolet	30,541	32,079
Audi A6	172,965	153,405
Audi RS 6	1,233	4,841
Audi allroad quattro	14,840	18,621
Audi A8	22,773	19,621
Audi TT Coupé	15,876	20,218
Audi TT Roadster	9,326	12,298
<b>Total, Audi brand</b>	<b>779,441</b>	<b>769,893</b>
Lamborghini Murciélago	377	415
Lamborghini Gallardo	1,215	890
<b>Total, Lamborghini brand</b>	<b>1,592</b>	<b>1,305</b>
<b>Other Volkswagen</b>		
<b>Group brands</b>	<b>190,799</b>	<b>232,593</b>
<b>Total, Group</b>	<b>971,832</b>	<b>1,003,791</b>

The downturn in vehicle sales by the Italian subsidiary AUTOGERMA S.p.A. to 190,799 (232,593) vehicles of the SEAT, Škoda, Volkswagen Passenger Cars and Volkswagen Commercial Vehicles brands reflects the continuing difficulties being experienced by the Italian market.

The vehicle sales of the Audi Group consequently also fell to 971,832 (1,003,791) units.

#### Model launches in 2004

Audi extended its product range in the luxury segment back in February 2004 with the launch of the 12-cylinder Audi A8.

Timed to coincide with the start of the open-air season, the Audi S4 Cabriolet put in its first appearance on the market in March 2004.

In the second quarter, the Audi A6 saloon then enjoyed a successful debut in the Western European market, initially with six-cylinder and eight-cylinder engines. Important entry-level engine versions were added to the engine range in the course of the year, and the Audi A6 saloon also went on sale in further significant markets such as North America.

The new Audi A3 Sportback, a cross between a compact five-door car and an elegant sports coupé in the premium compact class, appeared on the market in September 2004.

The new Audi A4 model generation became available to customers from November. Audi unveiled particularly high-performance versions of the A4 car line in December, in the guise of the Audi S4 and Audi S4 Avant.

The new Audi design line featuring the Audi single-frame grille has consequently been adopted for virtually all models in the core car lines since last year. At the same time, the AUDI AG product range was rejuvenated during the past financial year in an effort to further enhance the customer appeal of the Audi brand.

Automobili Lamborghini S.p.A. also extended its model range during the past year with the launch of the Murciélago Roadster in November.

#### Number of employees (annual average)

The average number of employees within the Audi Group rose by 0.9 percent during the past financial year to 53,144 (52,689).

#### Employees within the Audi Group (annual average)

	2004	2003
Ingolstadt plant	31,150	31,087
Neckarsulm plant	13,768	13,641
AUDI HUNGARIA MOTOR Kft.	5,146	4,939
COSWORTH TECHNOLOGY LIMITED	766	813
Lamborghini Group	726	685
AUTOGERMA S.p.A.	770	712
Other	818	812

The workforce of AUDI AG rose to 44,918 (44,728) employees. Of this total, 31,150 (31,087) employees were based in Ingolstadt and 13,768 (13,641) employees in Neckarsulm. There were 5,146 (4,939) employees at AUDI HUNGARIA MOTOR Kft. The number of employees at COSWORTH TECHNOLOGY LIMITED showed a slight year-on-year decrease to 766 (813). The Lamborghini Group employed an average of

726 (685) people throughout 2004. There was also a higher average workforce total at the Italian importer AUTOGERMA S.p.A., with 770 (712) employees.

#### Newly consolidated companies

Audi Zentrum Stuttgart GmbH & Co. KG, based in Stuttgart, was added to the group of companies consolidated under the umbrella of the Audi Group in the 2004 financial year. It was consolidated using the equity method.

#### Sale of shares

The shares in the participating interest COSWORTH TECHNOLOGY LIMITED, with its headquarters in Northampton, Great Britain, as well as in its subsidiary COSWORTH TECHNOLOGY, Inc., based in Novi, USA, were sold with effect from January 1, 2005, subject to the approval of the antitrust authorities. There were consequently no changes to the group at the reporting date of December 31, 2004.

#### Profit transfer agreements

The Annual General Meeting of AUDI AG ratified the profit transfer agreement with Audi Akademie GmbH on May 12, 2004.

#### Change in accounting standards

The balance sheet was restructured for the 2004 financial year as a result of revised accounting standards. The prior-year figures for certain items in the income statement, balance sheet and cash flow statement were in addition adjusted as a result of changes to accounting standards in respect of intangible assets. The following explanatory notes are based on the adjusted prior-year figures.

#### Research and development

Research and development spending within the Audi Group amounted to EUR 1,398 (1,257) million in the past financial year. An amount of EUR 652 (591) million of this total was recognised in the balance sheet. The research and development expenditure recognised as an expense, including EUR 468 million for amortisation of intangible assets arising from development and for disposals, consequently totalled EUR 1,214 (1,103) million.

## Financial performance

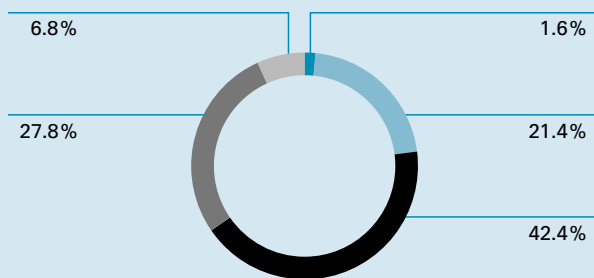
### Revenue at new record level

Revenue rose last year by 4.7 percent to a new record level of EUR 24,506 (23,406) million.

Revenue from the sale of Audi vehicles rose overall by 4.2 percent to EUR 17,854 (17,139) million. The A4 car line brought in the largest share of revenue, namely 42.4 percent. Sales of A4 models generated EUR 7,571 (8,043) million. The success of the newly launched Audi A6 saloon is also reflected in the substantial rise of 3.9 percentage points in the revenue share of this car line, to 27.8 percent. Revenue from sales of A3 and TT models amounted to EUR 3,823 (3,416) million. Sales of A8 models brought in revenue of EUR 1,215 (1,190) million, or 6.8 percent of the total revenue from the sale of Audi vehicles.

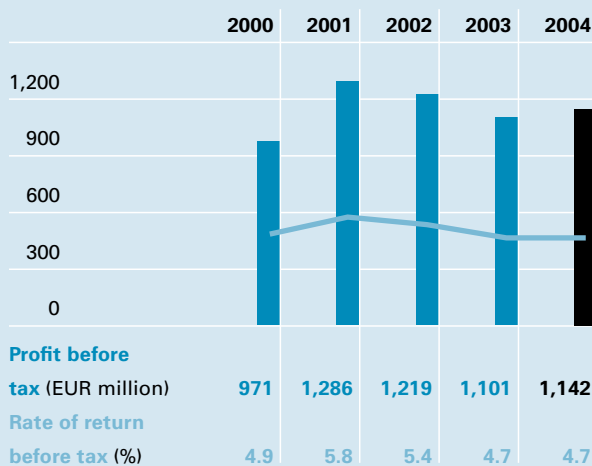
### Revenue by model line

EUR million	2004	2003
■ Audi A2	278	388
■ Audi A3/TT	3,823	3,416
■ Audi A4/A4 Cabriolet	7,571	8,043
■ Audi A6/allroad quattro/RS 6	4,967	4,102
■ Audi A8	1,215	1,190



The 3.7 percent rise in cost of sales to EUR 21,989 (21,206) million was less than the proportional increase in revenue, in spite of the erosion of proceeds by exchange rate movements last year. After deduction of the cost of sales from revenue, the gross profit is consequently up sharply by 14.4 percent to EUR 2,517 (2,200) million.

### Development of profit before tax and rate of return before tax



Distribution costs rose, in particular as a result of the large number of model changes following the rejuvenation of the model range, to EUR 1,755 (1,458) million. Administrative expenses were slightly down on the previous year at EUR 242 (246) million.

Other operating expenses showed a rise of 29.2 percent on the corresponding prior-year figure, to EUR 717 (555) million.

The profit from operating activities thus rose by 17.7 percent to EUR 1,237 (1,051) million.

The financial result for the year under review was EUR -95 (50) million. This downturn is attributable among other things to lower income from accounting for the shares in FAW-Volkswagen Automotive Company, Ltd. using the equity method and the measurement of currency option transactions at fair value because of the reporting date.

The profit before tax of the Audi Group was boosted to EUR 1,142 (1,101) million in the past financial year.

### Key earnings data

	2004	2003
Rate of return before tax	4.7%	4.7%
Rate of return after tax	3.6%	3.5%
Equity return after tax	15.1%	15.5%
Capital turnover	1.7	1.7

The rate of return before tax was on a par with the previous year, at 4.7 percent.

After deduction of taxes, earnings for last year rose to EUR 871 (811) million. AUDI AG transferred EUR 405 (160) million to Volkswagen AG on the basis of the control and profit transfer agreement. The balance of 463 (648) million remaining after deduction of the profit share of minority interests was allocated to other retained earnings.

### Added value calculation

The added value calculation illustrates the output generated by the Audi Group in the past financial year, less inputs received. Including other income, the added value for 2004 amounted to EUR 4,585 (4,287) million.

#### Added value

	2004	2003	2004	2003
	EUR million	EUR million	%	%
Revenue	24,506	23,406		
+ Other income	1,401	1,248		
– Expenditures	21,322	20,367		
<b>Added value</b>	<b>4,585</b>	<b>4,287</b>	<b>100.0</b>	<b>100.0</b>
Distribution				
Employees	3,072	2,938	67.0	68.5
Creditors (interest)	78	43	1.7	1.0
State	565	495	12.3	11.6
Transfer of profits to Volkswagen AG	405	160	8.8	3.7
Profit share of minority shareholders	2	3	0.1	0.1
Transfer to retained earnings	463	648	10.1	15.1

When broken down according to the individual parties involved in the added value process, the employees account for the lion's share of 67.0 percent or EUR 3,072 (2,938) million. Creditors accounted for EUR 78 (43) million, a higher share than in the previous year. The state accounted for EUR 565 (495) million. The share represented by the profit transfer to Volkswagen AG of EUR 405 (160) million or 8.8 (3.7) percent of the added value was up on the previous year. The profit share of minority interests amounted to EUR 2 (3) million. The balance of EUR 463 (648) million was allocated to the retained earnings to strengthen the equity base.

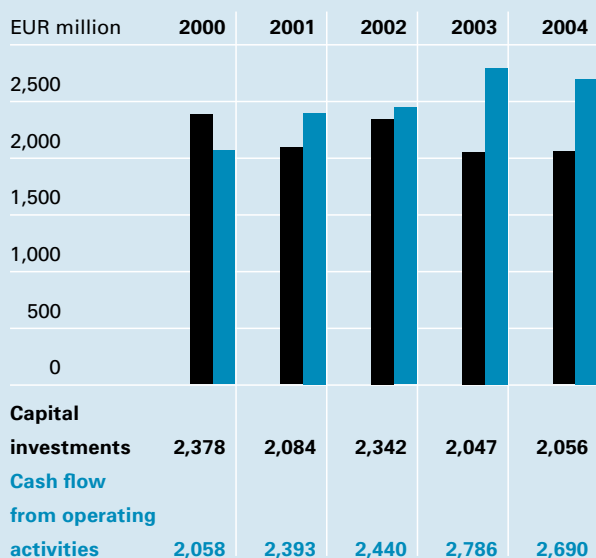
## Net worth and financial position

### Development of balance sheet

The balance sheet total for the Audi Group rose by 5.6 percent in 2004, to EUR 14,806 (14,024) million.

Of this total, the non-current assets rose to EUR 8,872 (8,549) million. Fixed assets were slightly higher than in the previous year at EUR 8,430 (8,263) million to a large degree as a result of the continuing high level of investment spending. Capital investments by the Audi Group over the past year totalled EUR 2,056 (2,047) million. Of this total, investments in property, plant and equipment amounted to EUR 1,236 (1,382) million. Other non-current assets totalled EUR 442 (286) million.

### Capital investments by the Audi Group



The current assets of the Audi Group rose to EUR 5,934 (5,475) million. Inventories showed only a slight increase on the previous year at EUR 1,832 (1,814) million. Whereas other current assets fell to EUR 2,343 (2,453) million in the year under review, cash and cash equivalents were boosted substantially to EUR 1,759 (1,208) million.

Equity rose by 7.9 percent to EUR 5,988 (5,552) million following the transfer of the remaining balance for the year of EUR 463 (648) million to the other retained earnings. The equity ratio of 40.4 percent was consequently 0.8 percentage points up on the previous year. The non-current liabilities rose by 12.1 percent to EUR 4,033 (3,597) million in particular as a result of the higher provisions for warranty claims and higher defined benefit liabilities. Current liabilities were slightly down on the previous year, at EUR 4,785 (4,875) million.

### Healthy financial position

The cash flow from operating activities amounted to EUR 2,690 (2,786) million in the past financial year. The decrease of 3.4 percent on the previous year can be attributed first and foremost to the higher tied-up capital within working capital for reporting date reasons. The cash flow once again covered the entire investment spending for the past financial year.

After taking account of the outflow for investing activities totalling EUR 2,041 (2,017) million, there consequently remains a net cash flow of EUR 649 (769) million.

Net liquidity was thus augmented by 32.9 percent to EUR 2,033 (1,530) million at the balance sheet date.

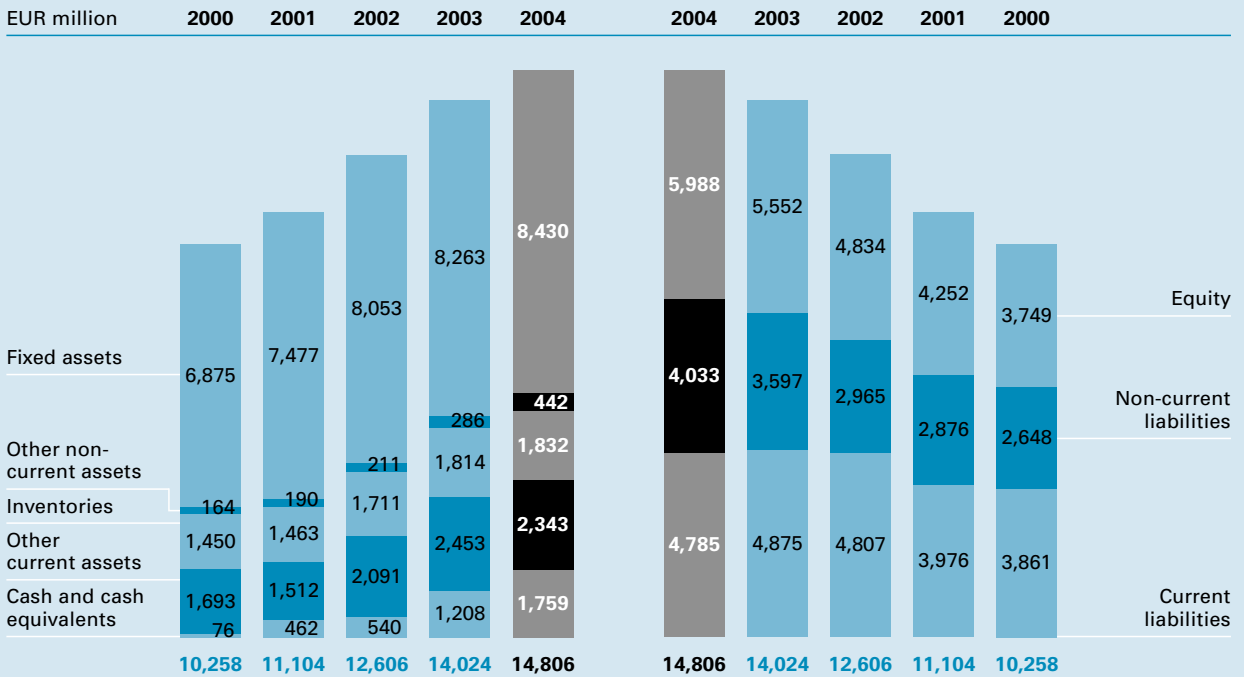
### Cash flow

EUR million	2004	2003
Cash flow from operating activities	2,690	2,786
Investing activities	2,041	2,017
Net cash flow	649	769
Net liquidity	2,033	1,530

**Balance sheet structure**

**Assets**

**Equity and liabilities**



**Risk report**

**The risk management system within the Audi Group**

In accordance with the risk management strategy of the Audi Group, the wide-ranging risks that are inseparably associated with the business activities of the company are minimised or if possible avoided in order to prevent potential losses to the company. Risks are consciously taken only where they are readily calculable and this course of action is unavoidable within the context of seizing favourable business opportunities to enhance the value of the company.

The Audi Group maintains a group-wide risk management and risk early warning system. This covers the parent company and all subsidiaries from which potential existence-threatening developments could spread to the parent company.

The tasks of risk management in the Audi Group are reflected by organisational processes at the level of the individual corporate divisions and subsidiaries. Risk management is thus an integral aspect of the existing business processes of the Audi Group. Clearly defined task areas as well as reporting and recording obligations are laid down for the corporate divisions and subsidiaries.

In the context of the defined spheres of responsibility within the risk management system, potential

risks are identified, appropriate measures are elaborated and implemented for their management and monitoring, and the success of the measures taken is constantly monitored. The effectiveness of the management and monitoring system is constantly examined.

Within the process of identifying and evaluating risks, the probability of individual risks materialising is estimated and the potential extent of the loss in each individual case quantified. The lost profit contribution serves as the measure for this purpose.

Reports on key risks are submitted to the Board of Management and Supervisory Board on a regular basis.

In the context of its business activities, the Audi Group encounters the following key risk areas:

**Risks from the economic context and the car industry**

In view of its business activities, the Audi Group is highly dependent on the general underlying state of the economy. Economic stagnation or recession, particularly in the Western European region, has a direct impact on consumer behaviour in the car sector.

The resulting sales risks relate in particular to sales of vehicles of other Volkswagen Group brands via the subsidiary AUTOGERMA S.p.A. in the Italian market.

The premium segment, in which the models of the Audi brand are positioned, is fundamentally less exposed to the negative impact of cyclical fluctuations. The possibility of sales risks from a deterioration in the general economy and the consequent downturn in the market can, however, not be excluded even in that segment.

As an international player, the Audi Group generates a significant portion of its revenue in foreign currency. This revenue is exposed to risks from exchange rate movements. A further weakening of the US dollar in relation to the euro can in particular significantly reduce revenue.

Changes to the legal context, such as tougher statutory requirements for vehicle safety, fuel consumption and exhaust emissions, can have a negative impact on earnings by necessitating technical development expenditure on such aspects and modifications to the standard specifications of vehicles.

Growing predatory competition in the car sector as a result of the increasing use of sales promotion measures harbours further market risks.

The risks of continuing price increases in international raw materials markets are countered by targeted strategies. Although long-term supply contracts have been concluded, additional costs, particularly where passed on by suppliers, may be incurred in the medium term.

#### **Risks from operating activities**

There are diverse risks within the context of the Audi Group's operating activities which can potentially undermine its financial position and financial performance.

There exists adequate insurance cover against potential losses as a result of failure of the energy supply, technical faults, fires, explosions and similar incidents.

The close, economically advantageous collaboration between car manufacturers and suppliers that is customary in this industry and the resulting dependency inflate the risk of production hitches as a result of delivery delays, non-delivery and quality defects. The resulting risks of loss of income are held in check through the use of appropriate methods of selecting and monitoring suppliers and by taking out appropriate insurance cover.

Despite the presence of an efficient, systematic quality management approach within the Audi Group, potential product liability risks cannot be entirely excluded. These can both result in financial losses to the company and also harm its image.

#### **Financial risks**

As a result of the international emphasis of its business activities, the Audi Group is exposed to risks from price and exchange rate fluctuations. There are in addition interest-rate, liquidity and credit risks in the context of the company's use of financial instruments.

Detailed information on the hedging policy and on risk management in the area of financial risks, in particular in relation to the use of derivative financial instruments in hedging transactions, is provided in the notes to the consolidated financial statements of the Audi Group from page 104, in the chapter "Other particulars" under the item "Hedging policy and risk management".

#### **Overall assessment of the risk situation**

Compared with the previous year, there is no substantial change in the risk situation of the Audi Group.

The risks described harbour the potential to undermine the net worth and financial position and financial performance of the Audi Group to a significant degree. However, on the basis of all known particulars and circumstances, there are currently no risks that can endanger the company's survival for the foreseeable future.

#### **Events occurring after the balance sheet date**

No events of particular significance which must be reported according to IAS 10 occurred after December 31, 2004.

## Outlook

### Economic development

Following high overall growth in the previous year, the global economy will continue to expand in 2005, though with less vigour. As a result of only moderate rises in interest rates and positive prospects of income, corporate investment will continue to rise. Raw material and crude oil prices in particular will prove a burden, and are set to remain high at least for the medium term.

In the USA, the gradual tightening of monetary and financial policy will have the effect of slowing down economic expansion. The rising interest rates will act as a brake on private consumption and investment activity.

In Western Europe, the rate of growth is expected to be below average, as there will be no appreciable improvement in internal demand. Exports will moreover be hindered by the continuing strength of the euro. This will affect the German economy in particular, which will continue to depend principally on exports in 2005. Early indicators already point towards a slowdown in growth in the first half of the year. There is again no evidence of a self-sustaining upturn in the German economy in 2005.

Asia will continue to enjoy dynamic growth. Economic expansion is expected to remain high in China. State measures to counteract an overheating of the economy should, however, reduce the rate of growth and consequently dampen economic developments somewhat in developing countries in the Far East and in Japan.

### Outlook for the car market

As a result of continuing global economic growth, a further increase in worldwide car sales is expected in 2005. The Asia/Pacific region will continue to provide the stimuli. Above all China will remain an important growth market, even if the growth rates will no longer reach the levels of previous years. India can be regarded as an up-and-coming car market. The market for premium products here, however, is still relatively small.

A slight increase in registrations of new cars is expected in the American passenger car market following several recessive years.

On the other hand, persistently slack internal demand will mean that there will be no recovery in the car market in Western Europe.

There are no foreseeable factors that could precipitate a sustained recovery in passenger car sales in the German car market. The overall volume of registrations is therefore expected to remain on a par with the previous year.

German car manufacturers will nevertheless benefit from the rise in worldwide passenger car sales in 2005, and will be able to step up both vehicle production and exports.

In light of this, Audi anticipates a stable earnings situation for the 2005 financial year and a renewed rise in production and revenue.

### New models in 2005

The first models of the new Audi A6 Avant will be delivered to customers as early as March 2005. The new Audi RS 4 will also make its public debut in March, at the Geneva Motor Show. This new top model in the Audi A4 car line will then go on sale in April.

### Capital investments

The Audi Group intends to maintain the high level of capital investments of recent years. The scheduled investment volume for the period from 2005 to 2009 is EUR 12.6 billion. This represents around eight percent of the scheduled revenue. 74 percent of this total alone will be invested in new products.

Over 80 percent of the investment budget is earmarked for the German locations Ingolstadt and Neckarsulm. Around nine percent is to be invested in the Hungarian plant in Győr.