

## Summary of the Bloomberg TV interview with Rupert Stadler, Board Member for Finance and Organisation of AUDI AG

Bloomberg TV: Rupert Stadler, you are the CFO of AUDI AG. Thank you for being with us. You reported earnings and sales figures today and as it looks, the 6-months figure for revenue went up by 16.8 percent to EUR 15.5 billion. What were the principal factors which caused this increase in revenue?

Stadler: This success is mainly driven by the additional 40,000 new customers which we were able to acquire compared with the same period last year. We sold close to 463,500 cars with very high equipment levels in the top segments; this forms a significant part of our success.

Bloomberg TV: Looking at these 40,000 new cars and your model mix in general – can you see a deterioration or an increase of, shall we say, better-equipped cars or people upgrading to a larger model?

Stadler: There has been a noticeable increase in equipment level – and this is a major benefit for our revenue situation, too. So we are quite happy with that.

Bloomberg TV: Looking down at the bottom line – you are selling more cars, you are selling more expensive optional extras and your profit also increased also quite significantly - by approximately 36 percent after tax. Which regions contributed most to this increase?

Stadler: This was mainly driven by Europe. Here we recorded an increase of between 2 and 10 percent. A great contribution was also made by the USA with an increase of 7.3 percent. But the biggest increase which we achieved was obviously in China, with an increase of over 90 percent in sales.

Bloomberg TV: What do you expect in terms of net profit for the full year?

Stadler: A better result than last year.

Bloomberg TV: Could you give us a rough figure which you are aiming for?



Stadler: I would say that we are aiming for at least 10 percent of return on investment.

Bloomberg TV: And this would translate into how many Euros?

Stadler: This depends on the final revenues we close with, so we will still need six months.

Bloomberg TV: Looking at the 10 percent return on investment, which was actually a goal that you aim to reach by 2008. Now you are saying you would reach it by the end of this year. What's next?

Stadler: 11 percent is what comes next, that's for sure. But first of all we would like to close the year 2006 with 10 percent. We are very close to that and are quite confident about the way business is developing.

Bloomberg TV: Do you see this kind of return on investment being sustainable in the years after 2006/2007 for instance, that you will pretty much for sure – if the market doesn't deteriorate significantly – also be able to achieve that with your kind of cost structure?

Stadler: We are sure that we are talking about a sustainable growth and therefore the target of 10 percent will be an achievable target for the forthcoming years. Our very principles mean that we do not like to achieve only one-off successes or good figures based merely on short-term measures. We are driven by long-term success and therefore 10 percent is also a long-term target we want to achieve.

Bloomberg TV: Do you still see significant opportunities at Audi to further reduce labour cost, or have you reached a certain level that you can't really significantly improve upon?

Stadler: I would say that not only labour cost is a management task – we are looking at the whole cost structure in our company. We are looking at material cost and we are also looking at productivity levels: The labour cost is one issue. Another issue is what performance you can achieve with your existing workforce. And in the last two years, we achieved an increase of at least 28 percent in terms of revenue per employee.

Bloomberg TV: Is that a level you can still improve upon?

Stadler: I would say so.



Bloomberg TV: And which kind of delta are you looking at? What is a realistic possibility for you?

Stadler: Let's say an increase of 5 to 10 percent per year would be very good. And I will give you one example. We decided that the Audi Q5 will be produced in our German headquarters in Ingolstadt. If we achieve to produce the Audi Q5 with the existing workforce, then this would push our productivity levels to an amazingly high level.

Bloomberg TV: Looking at the US market: You are aiming for break-even in the year 2006 in the US operations. Where do you stand now after the first six months?

Stadler: In the first six months we sold more than 40,000 units to customers – this is an increase of more than 7 percent and I would say that we are well on track to achieve break-even for this year.

Bloomberg TV: Will you achieve it by the end of this year or do you anticipate achieving it before this and perhaps talk a little bit about profit also?

Stadler: We will achieve it on a month-by-month basis. So we are getting closer to that target.

Bloomberg TV: Looking also at reducing the loss in the US and turning it into break-even and profit eventually – the price war really quite fears in particular from the domestic carmakers. Which kind of impulses are you trying to set and how do you follow this trend?

Stadler: We would not like to follow the trend of the American industry at the moment – giving more incentives to sell at least the same volume. Our intention is very clear: we still have to invest in our brand to improve the image position and the prestige factors to put the Audi brand where it belongs – the Tier 1 segment. We also have to make some investments in our sales areas, i.e. in the top 25 metro areas where big business is running. This is N.Y., the L.A. area, California and also the Florida area. So we are trying to put our brand where it belongs, and step by step we also will be able to increase our price positioning. But first of all we still have to invest a little bit in that market. It is a very difficult market. But the investment should not be a sales incentives investment, it should be a marketing / brand investment.

Bloomberg TV: Speaking about investing – you invested heavily into the new full size SUV Audi Q7, which you have also



launched in the US. How do you characterize the success so far for the Audi Q7 in the US, which came to the market at a time when gas prices were very high?

Stadler: The reception of the Audi Q7 in the US was excellent. We presented the Audi Q7 in Arizona to the press and to the public a few months ago. We presented the car to our dealer association and as recently as July we sold the car to the first 2,000 customers and everybody was overwhelmed. We are convinced that this car will boost the Audi brand during the next 2 or 3 years.

Bloomberg TV: So you are saying that you have sold 2,000 cars in the US so far. What do you think is a realistic and achievable target for the Audi Q7 in the US this year?

Stadler: This depends on the full availability of all the engines we can offer and knowing that the 6-cylinder engine will arrive later in the year – in a full year we are talking about around 25,000 units a year.

Bloomberg TV: Can you see a significant order backlog in the US – I mean the market in the US works differently compared to Europe, with people going into showrooms to buy the car and leaving with the car.

Stadler: No, we don't talk about order backlogs in the US like we do here in Europe. The customer in the US comes, sees and takes the car with him. This is a different story which we have to perform.

Bloomberg TV: Moving on to China, the last market we would like to touch upon. You mentioned initially that you saw significant growth – approximately 90 percent more in the first half. Was that simply a market-driven event or also due to the change in how you offer your models in China – knowing that you do not only offer the CKD units but also the imported versions?

Stadler: I would say that the position of Audi as the leading premium brand in the Chinese market depends on several aspects. One aspect, of course, is the market performance at the moment – there is a lot of dynamism in the market and the market is developing very well, also in the premium segment. The second point is, for sure, the product range which you can offer to your customer. We decided years ago that the Audi A6, for example, should be produced in China with a long-wheelbase version so that the Chinese customer is able to enjoy just the spacious environment he requires. And the third



factor, of course, is the dealer network. And we achieved together with our joint venture partner that the capillarity of our dealer network could also be achieved for imported cars. We are convinced and we convinced our joint venture partner that for example with an excellent car like the TT, the Audi Cabriolet, the future coupe or the Audi R8 – these are the factors that help us to emotionalize the Audi brand in that market – to keep us ahead of the competition.

Bloomberg TV: Then all the best for you – in particular in this market and all the rest. Thank you for your time, Mr. Stadler.