

## Golden Steering Wheel for the Audi Q7

A special distinction for the Audi Q7: in November, the German Sunday newspaper Bild am Sonntag voted the high-performance SUV with the four-ring badge the best vehicle in its class, earning it the "Golden Steering Wheel 2005". The "Golden Steering Wheel" jury comprised VIPs, technical experts and professional racing and rally drivers. Thanks to its dynamic qualities, the Audi Q7 performed as impressively in test drives as it did in the disciplines of design, equipment and comfort. The "Golden Steering Wheel" has been awarded to the year's best new car models since 1975. The award for the Audi Q7 is the fifteenth triumph for Audi. In 2004, the "Golden Steering Wheel" went to the Audi A6.



## Dazzling array of new products at Detroit

Audi surprised visitors to the Detroit Motor Show in January 2006 with three world firsts. The Audi S6\* kicked off at the press conference with its 309 kW (420 bhp), ten-cylinder FSI engine. Audi then unveiled a vehicle with an entirely new space concept, an evolutionary formal idiom and an array of technological innovations in the guise of the Roadjet Concept study. The third model making its debut was the Audi Q7, with the newly developed 3.6-litre FSI engine\*. The six-cylinder engine develops 206 kW (280 bhp) at 6,200 rpm. The peak torque of 360 Nm is available at just 2,500 rpm and permits a commanding, relaxed driving style.

## Two millionth Audi quattro: The triumph of an idea

There is no stopping quattro: the two millionth Audi with permanent four-wheel drive, an A8 6.0 L quattro\* with a twelve-cylinder engine, now has a celebrity owner. One of the most successful German pop stars of the past few years, Xavier Naidoo, collected the car in Neckarsulm last December. Audi revolutionised the car industry in 1980 by unveiling the first Audi quattro. Four-wheel drive means greater traction, better handling and superior driving safety, as confirmed by countless awards and test results. There are currently 74 four-wheel drive versions in the Audi model range.





### Innovative brake system in the luxury class

Better braking performance, lower weight and longer operating life: the carbon fibre reinforced ceramic brake discs that first appeared on the twelve-cylinder A8\* offer considerable advantages compared with conventional steel brake discs. The innovative brake discs are made from a ceramic material that is reinforced with carbon fibres. The composite material is not susceptible to corrosion and is around 50 percent lighter than steel. The high abrasion resistance of the ceramic discs quadruples the operating life of such a brake disc to as much as 300,000 kilometres. The ceramic brakes were first made available on the twelve-cylinder A8 in July 2005. They are also available on the new Audi S8\*.

## A8: Executive Car of the Year

The Audi A8 was able to fend off its challengers in the poll for the "Executive Car of the Year". The Audi A6 came second in the deluxe midsize class. Around 12,000 directors, managers and self-employed people participated in the poll, which was organised by the business magazine Impulse. The award for the Audi A8, the results of which were announced in September 2005, adds to the long list of awards that Audi's top model has scooped in recent years. The Audi A8 is available in four engine versions and two body designs. In the opinion of trade journalists, the luxury saloon sets new technical and ergonomic standards, for instance with its aluminium body and the award-winning MMI operating system. Modern diesel and petrol engines and quattro permanent four-wheel drive highlight the unique status of the Audi A8.



### Audi steps up involvement in DTM

Audi will continue to focus on the DTM in future and is even stepping up its involvement in the most popular international touring car race series in the 2006 season. With Audi works driver Mattias Ekström capturing the title in 2004 but Audi being pipped to the post last season, its aim is now to wrest the title back from Mercedes-Benz. Two of the leading German premium car brands are thus pitted directly against each other in the DTM in 2006. This is a repeat of the duel between the legendary "Silver Arrow" models of Auto Union and Mercedes-Benz that captivated spectators 70 years ago. Audi will be entering an advanced version of the A4 DTM. In addition to modifications to its aerodynamics and suspension, it features a newly developed V8 engine.

\* fuel consumption figures at the end of the Annual Report



# Today's profits are tomorrow's success

How does a company hold its ground on the market at a time when the underlying conditions are becoming much tougher? Rupert Stadler, Board Member for Finance and Organisation for the past three years, on weathering adverse conditions, staying-power and a healthy measure of dissatisfaction.

## “If you always follow in the footsteps of others, you’ll never overtake.”

Mr. Stadler, you took charge of the Finance and Organisation department on April 1, 2003, becoming the youngest Board Member in the process. How are you faring now?

**Stadler:** Excellently! Mind you, I feel like I’ve been here for years. I have been very well received by the company and have come to appreciate being part of an outstanding team in the last few years.

The changes in the market and also exchange rate movements have presented us with a stiff challenge in recent years. And the intensity of competition has increased substantially. All that has prompted us to become very closely knit over the past few years. We have been working very hard, and our industry has paid off. It is my impression that Audi’s ability to weather adverse conditions has improved substantially. That fills me with pride. But it is also clear that we cannot afford to rest on our laurels.

It sounds as if you have had rather a strenuous time. How do you keep fit?

**Stadler:** I’m something of an endurance sports fanatic. I love riding my racing bike, and I go running. The latter is even possible when I’m away on business if I can plan it in. But there, too, it’s always a question of willpower and staying-power. It’s like your work: you always have to overcome a certain pain barrier. And my wife also knows that the whole family benefits if I can fit in an hour’s running through the woods after a hard week’s work.

How do you rate Germany’s current fitness as an industrial location?

**Stadler:** In my opinion, Germany is in better shape as an industrial location than people keep making out.

But its mental constitution is somewhat ailing, and its training condition also leaves something to be desired. In this connection, we like to talk of the tolerability factor – and that is something that concerns every one of us. I think we’ve been a little spoiled by the many years of prosperity. So our perception of what is genuinely intolerable and what is merely uncomfortable has become rather clouded.

As entrepreneurs, we have all been aware of the need for reforms, both political and economic. That’s the only way the climate of consumption and investment can recover. These reforms concern each and every one of us: a leisure society that is not capable of performing is not viable in a globalised economy. So social responsibility should not be interpreted as meaning that we can never change a thing.

Germany achieved success through its pioneering spirit, inventions and innovations. Some people are still sunning themselves in the light of their past achievements.

We need a little more faith – faith in our own ability, as well as the desire to perform. We need to make sure that we restore Germany’s long-term competitiveness as an industrial base. I believe the much-cited shake-up that Germany needs is long overdue.

Yet Audi has still managed to build vehicles profitably in Germany in the past few years ...

**Stadler:** Yes, precisely because we were never content to rest on our laurels even though we kept bettering our own records. Our brand thrives on moving forward. We have our products and innovations on the one hand and a highly qualified team on the other to thank for that. These factors help us to maintain our standards of quality day in, day out, while ensuring that we use our resources optimally. It’s only natural that an entrepreneur should keep reassessing processes, costs and investment. The important thing is that customers sense our passion for quality and our attention to detail. They will affirm the esteem in which they hold us by investing in our brand, in other words by buying one of our vehicles. That’s where I see a very complex cycle being completed.

It all sounds as if you can afford to sit back and relax, now that you have everything under control.

**Stadler:** No, quite the contrary. Being equipped for the future depends on having ambitious goals. There’s a nice saying that goes “if you always follow in the footsteps of others, you’ll never overtake”. As a sporty driver, that’s why I prefer to flick my indicator and overtake. And believe me, my colleagues on the Board are just as fond of getting a move on as I am. Ultimately, we have set ourselves the goal of selling around one million Audi vehicles worldwide each year from 2008, with a return on investment of more than 10 percent ... every year, that is! We are not interested in one-off successes. That’s also why we adopt a very long-range view in our corporate planning.

What does that mean in concrete terms?

**Stadler:** The basis for profitable, sustainable growth is fundamentally a product range tailored to our target group. That’s the essential thing for our company. We will consequently be unveiling six additional models and other new derivative products by 2008. That will promote penetration of our existing markets and underpin our ambitions to expand in new markets. There will also be the occasional product, such as our Audi R8, that will further enhance Audi’s brand image and emotional appeal. As a consequence, image and prestige will be further stimulated. We will also be doing quite a bit to improve the range of services available to our customers.

Could you elaborate on that? In order to grow, you will first of all need to increase your financial outlay. So how can you hope to increase your profits during that phase?

**Stadler:** You know, over the past few years adverse conditions have taught us how to use limited resources very sparingly and above all very profitably. And we’ve demonstrated our ability to achieve profitable growth at the same time as renewing almost our entire product range. I think the training camp we’ve been attending has got us into good shape as a company, but it’s still not enough. That’s why the Board of Management has drawn up a training plan for the next three years that we now need to implement systematically: the spotlight is naturally on investment spending, processes, structures and productivity. But above all on the people who then have to manage it all.

**“A measure of dissatisfaction has always acted as the driving force behind performance and entrepreneurial success.”**

And that means?

**Stadler:** Product and investment decisions will more than ever be gauged by tougher objectives. And the intelligent, disciplined use of modular toolkits plays a vital role in this process. The result will be a measurable improvement in productivity, both directly and indirectly. By focusing clearly on our core skills, we really ought to be capable of yet further substantial growth. We can then be judged each year by the progress we have achieved.

Mr. Stadler, it all sounds very positive. Have there been things in the past that have not turned out to your satisfaction?

**Stadler:** Of course. But a measure of dissatisfaction has always served as the driving force behind performance and entrepreneurial success. Anything else would be contrary to our business philosophy. We are no fair weather flyers, we prefer to tackle problems head

upwards will be to improve our product quality in the long term – and therefore to keep redeeming our product pledge “Made by Audi”. In terms of brand image, too, we will make up ground in the USA. What we have achieved in Europe in recent years will serve as a hard-and-fast benchmark. We have already taken the first few successful steps with our new models. And the response to our latest vehicle, the Audi Q7, is highly promising.

Mr. Stadler, to wind up this conversation could you give us a preview of what we can expect in 2006?

**Stadler:** First of all, we will be launching a raft of exciting products in 2006. Our impressive list of model launches, comprising the Audi Q7, the new TT, the S3, S6\* and S8\* and the Audi A6 all-road quattro, will help us to complete the next stage of our training programme successfully. We are absolutely convinced that they will



on. But the fact is that we’re finding the situation in the USA, for example, more energy-sapping than we had initially supposed. We are making steady progress with our team on the ground and are gradually improving the business position in a very difficult context. But as an RS4\* driver I’m no friend of speed limits. I know, however, that I am not the only person in the world. I think I, and my colleagues too, are simply driven on by a healthy impatience.

How are you planning to narrow the gap between your sales figures and those of your core competitors in that market?

**Stadler:** The thing I find unsatisfactory is the speed with which we are moving forward in the USA. But an endurance athlete knows his goal, and shows huge commitment to reach it. What matters is that you must never give up. We assumed independent responsibility for sales of our vehicles in the USA in 2004. We will be adopting a clear strategy to manage and steer our sales activities in the so-called “metro markets” more actively. We will continue to invest in the quality of our team in order to do that. Another important step

not only appeal to our existing customers, but also attract new target groups to our brand. Nevertheless, the competitive arena is not going to get any easier, and various macroeconomic indicators suggest that the market will remain as tough as ever. That’s why we are focusing our efforts specifically on the intrinsic productivity and efficiency of our company and of the partners that we work with. If you want to succeed, three factors must come together: you need to know what you are doing, you need to love what you are doing, and you need to believe in what you are doing. All three elements are very deeply rooted at Audi.

*† The interview was conducted by Martin Primus.*

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# A babel in Germany's midst?

The story of the building of the Tower of Babel, as recounted in the Bible in the Book of Genesis, epitomises a human trauma: the inability to communicate with another person because each speaks a different language. At a time when the world appears to be drawing closer together and barriers to the cross-border movement of goods are coming down, it is becoming increasingly important to have a common, internationally recognised language in the sphere of accounting, too. But is it really possible to venture through the capital market without a navigation system or translator?

Accounting has moved centre stage amid the array of communication measures aimed at the capital market. Once a year, companies seize the opportunity to bare their innermost thoughts – their figures, forecasts, risks and strategies – and report on them at length. Their target audience includes not just shareholders, but also customers, competitors and all those interested in the company. The annual report thus doubles up as a company's calling card: far from being a set of faceless accounts, the modern financial report provides an emotionally charged but also well-founded insight into a company, arouses interest in it and ideally fulfils the requirement to be informative virtually as a routine affair. In other words, in such a way that the reader does not feel overwhelmed by the plethora of details.

## More than an instrument for counting money

Every annual report is intended to provide the reader with the relevant data and facts on the year in question. The focus of interest is, of course, commonly on the financial results and therefore on the company's accounts. Yet accounting has long since ceased to be solely the task of those who keep the books – and the balance sheet no longer involves simply totting up various assets and liabilities. It is more than a mere instrument for counting money, even though it must summarise all monetary items. The objective of accounting is

**Prof. Karlheinz Küting** and the colleagues at his institute ([www.iwp.uni-sb.de](http://www.iwp.uni-sb.de)) are considered the leading authority in Germany on all matters concerning accounting, and have been advocating a strongly practical approach to research and teaching for around the past 15 years. In addition, Küting has for some years been holding seminars on aspects of group accounting and on practical aspects of IFRS accounting for representatives of the profession and of companies (for further details, visit [www.leistungsakademie-bareither.de](http://www.leistungsakademie-bareither.de)).

to provide as accurate as possible a picture of the economic reality – this, at least, is the ambition of accounting standards and the expectation of every annual report's target audience.

Its primary purpose nowadays, therefore, is to take stock of opportunities and risks, and to communicate the management's assessment of the company's future. In other words, it seeks to create order out of chaos – indeed, has been attempting to do so for over 500 years, because in 1494 Pacioli, who is often referred to as the founding father of modern accounting, wrote “ubi non est ordo, ibi est confusio”: where there is no order, confusion will arise. And that is precisely what must be avoided. It is all about time expertise, the ability and talent to make assessments with the necessary awareness of the temporal context.

### **Navigating reliably through parallel worlds**

Achieving this objective is rendered more difficult by the co-existence of many different accounting systems, the differences between which are sometimes considerable. Companies disclose both fiscal results and the profit proposed for distribution to their shareholders – the former based on national tax law and driven by fiscal interests, the latter on the basis of the German Commercial Code (HGB), which focuses consistently on the protection of creditors. As if this were not enough, the International Financial Reporting Standards now commonly serve as the basis for communication with the capital market. If a German company is also listed in the USA, it will in addition need to publish a set of accounts in compliance with American law – the United States Generally Accepted Accounting Principles (US-GAAP). Although all these standards have the purpose of presenting information in a “true and fair” manner, the underlying objectives of the various accounting systems differ. And the accounting terminology used varies along with these objectives. The result is a babel of languages on the capital market. At present, the big challenge that companies are facing is how to obtain a reliable means of navigating

between parallel sets of accounts, while guiding the reader – the recipient of the information – through the thicket of information provided.

### **Uniform language – the challenge of the future**

The German capital market has espoused the much-acclaimed advantages of an accounting system that emphasises fair value, is forward-looking and comprises a strong element of forecast: it increasingly speaks the language of IFRS – even though IFRS is anything but an accessible language, let alone a clear one. It is nevertheless right and important that the capital market should be striving to find a uniform language. As well as the commodity markets, capital market information needs to become more readily comparable and uniform. But we still have a long way to go before the babel-like situation in Germany is disentangled. This can only be accomplished through a joint effort by standard-setters, companies, auditors, financial analysts and banks, and undoubtedly also universities and accountancy teachers. This is required if all capital market operators are ultimately to be steered unscathed through the forest of accounting systems, and unfulfilled expectations and thus disillusionment avoided.

### **No real alternative to parallel systems**

IFRS is the language of the future, at least as far as the capital market in Germany and Europe is concerned. But HGB will not disappear: it remains the predominant accounting language among mid-corporates; by virtue of being closely dovetailed with tax law, it will continue to dominate the individual financial statements of all companies, whether big or small, whether focused on the capital market or not – and influence the determination of profits in fiscal terms. But much would be achieved in Germany if we could at least stamp some order on our babel of languages to the extent that the only distinction required in future would be between HGB accounting, with its focus less on the capital market than on the individual financial statement, and the capital market language of major corporations. This would at least facilitate navigation and communication within the annual reports and individual and consolidated financial statements of German companies.

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