Speeches

128th Annual General Meeting

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Prof. Rupert Stadler  
Chairman of the Board of Management of AUDI AG

Speech at the 128th Annual General Meeting

May 18, 2017

Review

-Look against delivery-

Ladies and gentlemen,
welcome to all of you from my Board of Management colleagues and myself.

I would like to start my speech with a news that we received two weeks ago. The Center of Automotive Management research institute in Bergisch Gladbach named Audi the most innovative brand amongst all automobile manufacturers worldwide. This is outstanding recognition of our company and of our employees’ enthusiasm for technology. Audi is the most innovative brand with the best vehicle concepts, the best design and the best automotive connectivity. I would therefore like to start by saying, on behalf of the Board of Management and the Supervisory Board, a heartfelt “thank you” to everyone at Audi!

Every day, we do our utmost to achieve progress for our customers. I would actually say that for one and a half years now, our employees have been working even harder to prove how seriously we take our aspiration. Because – yes – we have had a hard time since the beginning of the diesel crisis: tarnished customer confidence, many inquiries from authorities all over the world, enormous expenses for technical solutions and recalls; and in parallel, external challenges that increase the headwinds in our everyday work such as turbulent markets and currencies and the global political conditions. And not least: We are in the middle of the biggest transformation in our company’s history – as if that didn’t require enough effort. It is therefore even more important that we achieved robust earnings in 2016.

Without a doubt, 2016 was one of the most challenging years in Audi’s history. But 2016 was not a lost year for us. We made great progress with clearing up the diesel crisis. We set the right strategic course for 2025, with new technologies and products for digitization, sustainability and urbanization. And we demonstrated continuity in our business operations, with an operating profit before special items of 4.8 billion euros. After special items, we achieved an operating profit of 3 billion euros. The diesel issue was by far the biggest special item. It has had a serious impact on us. I would therefore like to begin by reporting to you on the current status.
Audi Communications

A task force for the diesel issue headed by Dr. Bernd Martens is working worldwide literally day and night together with colleagues from Volkswagen. This task force is driving solutions for our customers. And it is working on settlements with the authorities.

We have already made very good progress on solutions for our diesel customers. About 2.3 million cars of the Audi brand with the four-cylinder TDI are affected. More than 1.2 million of them have already been in our workshops and have had a software update. In the United States, about 14,000 Audi A3 models are affected. Customers there can choose between several options: a buyback or early return of a leased car or a field fix. The authorities have already approved such a field fix for model-year 2015 cars with this engine. We want to convince as many US customers as possible to have their car’s software updated and to keep their cars.

Now to the six-cylinder TDI engine. With regard to EU type approval, there have been no objections to our 3-liter V6 TDI engine. Nonetheless – like some other manufacturers – we are carrying out a voluntary service action for selected models in Europe. In the United States, we agreed with the authorities early this year on the procedure for 83,000 cars with the 3-liter TDI engine. Nearly a quarter of them – about 20,000 cars – are equipped with the first generation of that engine: those of model years 2009 to 2012. We are offering to buy back those cars from their owners or to accept early returns if the cars are leased.

Alternatively, we want to offer a technical modification as soon as it is approved by the authorities. The customers will then be able to choose between buyback, return or field fix. More than 75 percent of the affected automobiles with six-cylinder diesel engines in the United States are from the second generation. Those cars are to be given a software update and in some cases new hardware will be installed. The US authorities still have to review and approve this technical solution. After the field fix, the cars will comply with the emission regulations in force at the time of type approval.

The settlement under civil law with all parties in the United States – the so-called second partial consent decree – is to be assessed as an important next step. The settlement meets the demands of the Environmental Protection Agency (EPA), the State of California and the California Air Resources Board (CARB), the Department of Justice (DoJ), and the private plaintiffs in the court-appointed steering committee.

As a consequence of this diesel crisis, we are carrying out far-reaching reviews at Audi. Above all, this involves improving processes, reallocating responsibilities and adjusting our organization. We are establishing a new and expanded compliance structure with new reporting and control systems. We have strengthened the position of Chief Compliance Officer. In addition to his regular compliance tasks, he is also responsible for risk management and a central project-management office, especially for attending to the requirements of the US Department of Justice. The Chief Compliance Officer reports directly to our CFO, Mr. Axel Strotbek. In its meeting yesterday, the Supervisory Board decided to allocate Board of Management responsibility for integrity to Mr. Strotbek. His overall area of responsibility is now Finance, IT and Integrity.

In addition, Mr. Larry Dean Thompson will support the VW Group and thus also the Audi Group with this task as an external monitor for a period of three years. This will take place in accordance with the conditions of the settlement agreement between the Volkswagen Group and the US government. We see the monitor as an opportunity that we will utilize to strengthen our processes. We have also made an important organizational change in the Technical Development division.

* Fuel consumption and CO₂ emission figures depend on the tires-/wheels used.
** These cars are not yet on sale. They do not have type approval and are therefore not subject to Directive 1999/94/EC.
We have strictly separated the functions of product development, homologation and type approval. We have now set up a new department for technical conformity, with special responsibility for type-approval procedure in the markets. We will organize the processes together with Dr. Peter Mertens, our new Board of Management Member for Technical Development. He has been with us since May 1. At this point, I would like to welcome Peter Mertens as a member of the Audi Board of Management.

Ladies and gentlemen, the process of clearing up is not yet completed. We will continue until the job is done – with the tenacity that our company is well known for. We at Audi are acting with absolute determination to make sure that nothing like the diesel crisis ever happens again. We therefore undertake to regain the trust of the authorities and our customers and place it on a firm foundation, to make the law and ethics into the ultimate benchmark for our actions, and to show that we stand for transparency, honesty and dependability.

In a few minutes, my colleague Axel Strotbek will tell you about the year 2016 from the financial perspective. He will also inform you about our business development in the first quarter of 2017. And he will talk about the company’s key metrics, based on our sales success last year. The Audi brand delivered nearly 1.9 million automobiles to customers. That represents an increase of 3.6 percent. So we have had the seventh consecutive year of growth since 2010. We do nearly half of our business in Europe. We sell every tenth car in the United States. And every third Audi is sold in China.

In China, we have had a significant decrease in sales since December. This is continuing and has had an impact on the start of this year. In our current phase of a comprehensive strategic realignment, the Audi dealers in China have been rather cautious with their business. The background to this is that we are taking the new approach of a two-partner strategy in China. We have negotiated and signed a memorandum of understanding on the key points with Shanghai Automotive Industry Corporation (SAIC), the existing partner for the VW Group in SAIC/SVW (Shanghai Volkswagen).

What is our motivation for a two-partner strategy? We want our market leadership of recent years in a growing premium market to continue for the long term. And for that reason, we want to place our business onto two pillars in our most important single market. Our sister brand Volkswagen has operated with two partners in production and sales for many years.

Another reason for our repositioning is that we want to accelerate the implementation of innovative business models in the future: new sales formats, mobility services and digital services. In parallel, we have agreed on a ten-year plan with our longstanding joint-venture partner FAW-VW. In this way, we are affirming our commitment to long-term cooperation: more activities to enhance our image and prestige, more cooperation on electric mobility, more local production in China and thus more growth.

We will expand our model range systematically and quickly. For example, following the example of the Audi A6 L e-tron (this model is exclusively available in the Chinese market), we will localize more plug-in hybrids and electric cars in the next five years. We are convinced that the Chinese market is big enough and is continuing to grow. That guarantees stable growth for all our partners. Current volume reductions will not affect this strategically important step. It is important and right for the long term.
I would now like to talk about the models of 2016: We launched more than 20 new or updated Audi models worldwide. Our sporty spearhead, the Audi R8, is now available as a convertible version: the Spyder (combined fuel consumption in l/100 km: 11.7; combined CO₂ emissions in g/km: 277*). The Audi TT is available in the third generation as an RS model again. The Audi TT RS Coupe (combined fuel consumption in l/100 km: 8.4-8.2; combined CO₂ emissions in g/km: 192-187*) and the Audi TT RS Roadster (combined fuel consumption in l/100 km: 8.5-8.3; combined CO₂ emissions in g/km: 194-189*) with their five-cylinder engine stand firmly in the tradition of our legendary rally models.

We completely renewed our successful Audi A4/A5 core model series last year. The Audi A4 is now available as the Sedan, Avant and allroad quattro. The Audi S4 sporty version is available as the Sedan (combined fuel consumption in l/100 km: 7.5-7.3; combined CO₂ emissions in g/km: 170-166*) and Avant (combined fuel consumption in l/100 km: 7.6-7.5; combined CO₂ emissions in g/km: 175-171*).

In Europe, the new A4 is selling very well and is the premium market leader. We offer the second generation of the Audi A5 and S5 as Coupe (combined fuel consumption in l/100 km: 7.4-7.3; combined CO₂ emissions in g/km: 170-166*), Sportback (combined fuel consumption in l/100 km: 7.5-7.3; combined CO₂ emissions in g/km: 170-166*) and Cabriolet (combined fuel consumption in l/100 km: 7.8-7.7; combined CO₂ emissions in g/km: 177-175*) models. The Audi A5 Coupe has won the Golden Steering Wheel as the best sports car. The Audi Q2 won our second Golden Steering Wheel. Since its market launch in the fall of 2016, our order books have been well filled – this car addresses the spirit of our times.

Meanwhile, every third Audi customer buys a Q model: a 16-percent increase in demand for our sport utility vehicles. The second-generation Audi Q7 convinced more than 100,000 customers in its first full year. That’s twice as many as its predecessor achieved on average. Demand is particularly strong for the most powerful model version, the Audi SQ7 TDI (combined fuel consumption in l/100 km: 7.6-7.2; combined CO₂ emissions in g/km: 199-189*). The Q7 won the “Best Luxury SUV” accolade from Consumer Reports in the United States this March. Furthermore, Audi was placed as the best brand in this consumer ranking. Back to the Audi Q7: We launched a new generation of our bestselling Q model, the Audi Q5, in 2016. For the first time, we are producing a model for the world market outside the European continent – in San José Chiapa, Mexico.

We are presenting our new models in the Audi Forum Neckarsulm today, outside the building and here on the ground floor. Our sporty RS models can be seen on the next floor above. Anyone who has seen these products understands the passion of our Audi employees. 88,000 people stand for our brand and for our success. 88,000 people are suffering from the disrepute that the diesel issue has brought us. With these 88,000 people, we are tackling our future and will steer through the crisis. Despite all of last year’s difficulties, we will pay the employees of AUDI AG an average profit participation of 3,510 euros at the end of May.

Internally, we have massively expanded our program of further training: on electric drive systems and high-voltage safety for example, and on digital learning formats and technologies such as virtual and augmented reality. Electrification and digitization are core competencies with which we are systematically strengthening our strategic resources. In this way, we are preparing our workforce for the future.

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Ladies and gentlemen,
when I summarize what we at Audi have achieved in the past ten years, our brand’s success story becomes very clear: We have increased our deliveries to customers by one third in Europe, we have more than doubled them in the United States, and we have increased them sevenfold in China.

But we have grown not only in terms of sales volume. Our key financials also reflect the successful development of the past decade: We have nearly doubled our revenue; we have more than doubled our earnings and lifted them to a level of 5 billion euros in recent years.

With this dynamism, we at Audi will also tackle the issues of tomorrow and the further future beyond. I will tell you more about that in the second part of my speech.

Thank you.
Axel Strotbek
Member of the Board of Management of AUDI AG
Finance, IT and Integrity

Speech at the 128th Annual General Meeting

May 18, 2017

-Ladies and gentlemen, I am delighted to welcome you here in Neckarsulm today at the 128th Annual General Meeting of AUDI AG!

An annual meeting to look back on the year 2016: without a doubt one of the most difficult but also one of the most strategically important years in our company's history. Because it is now about managing current issues while positioning ourselves for the future – and with the right focus. That's the key to our ongoing profitability and success. And that is therefore also our common business responsibility of the Audi Board of Management.

Audi’s transformation already started last year – and it is tangible – as is made clear by the title of our Annual Report: “turning.moment”. With new technologies and changes in people’s values, a great transformation is ahead of us. That applies to the entire automotive industry, but it will also have a major impact on society as a whole and on us personally. And digitization is just the breeding ground for constantly accelerating change.

The pressure to change is enormous. We accept this challenge: responsibly and with a clear focus on our targets. We have already proven that we are capable of that. We have developed from a volume brand into a global premium brand and are now one of the top players in the industry. Today, our products set benchmarks, with quality and design for example, and especially with innovative technologies.

So change is part of our DNA. The challenge is that we are strategically repositioning ourselves while securing the profitability of our current business model. With our new Strategy 2025, we have therefore launched a package of measures under the heading SPEED UP!

This program helps us to rethink our processes, to utilize opportunities and to optimize cost structures, with the sole goal of securing our future viability and profitability in the interests of all our company’s stakeholders. I will return to this topic later in my speech. In this way, we will manage the transformation out of our own resources. And in this way, we succeeded in achieving a robust operating profit and a strong cash flow in 2016.
And despite all the challenges, we had a robust development also in the markets. We increased deliveries of the Audi brand by 3.6 percent in 2016. We achieved balanced growth and increased our unit sales in all three core regions.

In the United States for example, our growth of 4 percent was significantly stronger than the generally weak market. In fact, we were the only OEM to achieve growth among the top six in the US premium market. In addition to the new A4, the new Q7 also developed very positively. Our top-end SUV was launched in the United States in spring 2016. Since then, we increased our sales of this model by about 60 percent to more than 30,000 units. Across all our Q models, we increased our unit sales in the US by about 19 percent to more than 100,000 vehicles. And we were particularly pleased to receive the award from the US magazine Consumer Reports: “best car brand 2016” and, as Mr. Stadler has already mentioned, for 2017 as well.

In the Europe region, we posted strong growth once again, despite numerous political and economic uncertainties. The A4 is actually the European market leader in its segment; this represents a volume growth of 25 percent compared with the previous year. We delivered a total of 857,000 cars to customers in Europe, representing growth of more than 7 percent. Our performance in four of that region’s markets was especially pleasing: Germany, with nearly 300,000 automobiles, or plus 8.6 percent. The United Kingdom, despite the BREXIT vote, was at the record level of approximately 177,500 cars. And we had double-digit growth in both Spain and Italy.

Let’s now turn to China, our biggest single market. China continues to be one of the world’s fastest-growing economies, which is reflected by the Chinese car market. We increased our car sales in China from an already high level by another 3.6 percent and delivered 590,000 automobiles. Demand is high also in the premium compact segment. Compared with the previous year, sales of the Audi A3 were up by 30 percent. And with an increase of about 28 percent, significantly more Chinese customers decided in favor of the Audi Q3. Since last fall, the new Audi A4 with a longer wheelbase (this model is exclusively available in the Chinese market) has been available at the dealerships. In addition, we have the market launch of the locally produced plug-in hybrid Audi A6 L e-tron (this model is exclusively available in the Chinese market). So we are setting an important milestone in the electrification of our Chinese model range. And already this year, the Audi Q7 e-tron (combined fuel consumption in l/100 km: 1.9-1.8; combined CO\textsubscript{2} emissions in g/km: 50-48*) will follow as an import model.

Ladies and gentlemen,
conditions remain challenging. But our core business is robust. On the revenue side, thanks to our strong unit sales, we reached the new record of 59 billion euros. There was a positive contribution also from our other automotive business, including the delivery of parts for local production in China.

Currency effects were disadvantageous, however, due in particular to the depreciation of the British pound. Also, the launch of new models at first led to lower revenue. In the year 2016, for example, we launched the new generation of the Audi A5 Coupe. And at our new plant in San José Chiapa, Mexico, we started production of the next-generation Audi Q5.

So let’s have a look at the most important cost positions. The Audi Group’s cost of goods sold increased by 5 percent to 49 billion euros due to the growth in sales and also because of the diesel crisis. However, improved product costs and productivity had a positive impact, as in the previous years. Selling expenses of 5.8 billion euros were at the prior-year level. Against the backdrop of growth in unit sales and despite
special items due to the diesel issue, that’s quite an achievement. We have good brand and price positioning. That strengthens our cars’ residual values and protects our profitability.

Now let’s have a close look at our other operating result: minus 405 million euros compared with minus 119 million euros in 2015. There is an impact on our figures here from risk provisions relating to the diesel crisis. There was a positive effect, however, resulting from gains on the settlement of currency hedges. The bottom line is that the Audi Group achieved an operating profit of 3 billion euros in 2016, which is significantly lower than in the previous year.

Despite a good operating performance, our earnings were reduced in 2016 by special items totaling 1.8 billion euros. They include an expense of 162 million euros connected with airbags from the Japanese supplier Takata. And we had expenses of 1.6 billion euros in the context of the diesel crisis. This amount relates to technical measures, sales measures and legal risks in connection with the settlement agreements in the United States.

Yes, that is certainly a high financial burden, but it is also great progress in the context of clearing up this issue. We are now focusing more intensely on our core business again. Excluding special items – purely from business operations that is – we achieved an operating profit of 4.8 billion euros. On that basis, our operating return on sales of 8.2 percent remains within our strategic target corridor of 8 to 10 percent.

The main drivers of this earnings development include above all the strong demand for automobiles of the Audi brand. Furthermore, with our “SPEED UP!” program, we initiated important optimizations of processes and costs, resulting in additional positive effects.

There were negative effects last year from the growth-related increase in fixed costs and higher advance expenditure for future topics. We systematically further expanded our model and technology portfolio. The ramp-up of our new, ultramodern plant in Mexico also initially reduced our earnings. And currency effects had a net negative impact.

To sum up, I can say that we achieved solid earnings in 2016 despite extremely difficult conditions and during a phase of important strategic investment. As you can see, our business operations are robust and resilient, and that is the important point to me. This is also demonstrated by the continuation of our very good cash flow. As before, this is one of Audi’s strengths, even in times of strong headwinds. Like in the previous years, we financed all operating and strategic investments completely out of our own resources. With a net cash inflow of 2.1 billion euros, we once again had a substantial positive cash flow. This means we have net liquidity of 17 billion euros at year-end 2016.

One thing is clear: We need not only the resources, but also the right plan to be successful in the future, and we have it! We are therefore increasing our focus on return and cost discipline. We are performing a balancing act between cost discipline and important investment in the future. I previously mentioned our strategic program of measures, SPEED UP! We will gradually implement it, and I am personally involved in that implementation! The initial positive effects of SPEED UP! were actually already apparent in the past financial year. This is a clear sign of the motivation and atmosphere of change in the entire organization.
And I can tell you that a large part of the financial resources that this program will free up will be in the medium and long term. Nevertheless, the initial positive effects of these additional efficiency measures were already apparent in the past financial year. This is a clear sign of the atmosphere of change in the entire organization.

The plan is ready: We are systematically streamlining our portfolio and prioritizing our products and powertrains. We are using more shared parts and reducing complexity: of our products and throughout the whole company. And, last but not least, we are redefining core processes and digitalizing them.

Let me give you a few examples from the business units: We are making Audi’s production process fit for the future. Our goal is fully connected and intelligent manufacturing – the smart factory. In our Technical Development division, we are increasingly applying virtual methods such as the launch of digital prototypes. This allows us not only to accelerate processes, but also to develop products more flexibly, faster and with reduced costs. We are recognizing globalization with the Group-wide introduction of video chats directly at the workplace, which avoids unnecessary business trips and costs. A side-effect was that in 2016, despite major projects worldwide, we reduced our traveling expenses by 15 percent.

Ladies and gentlemen,
profitability is especially important not only to me, but to all of my Board of Management colleagues. We aim to grow profitably. This is also a clear commitment to our promise of premium: premium products with premium margins.

We have many new technologies in the pipeline offering genuine value added: first of all for our customers, but also for us and for you as our shareholders, to further improve the Audi brand’s product and price positioning, and hence also the company’s success. Furthermore, we will systematically further optimize our conventional business and add new business models. One thing is clear: Our automobiles are and will remain the core of our business. The focus continues to be on our customers and the quality of our customer relations. So we will create new business models all around our customers’ automotive needs, such as function on demand. Mr. Stadler will talk more about that soon.

Ladies and gentlemen,
2016 was a difficult year for Audi. A year in which we started many projects despite all of the challenges. And you can rely on us: We have set ourselves ambitious targets also for 2017, and we will work hard to achieve them. For example, early this year, we established the company Autonomous Intelligent Driving GmbH. This is a 100-percent subsidiary of AUDI AG that will push forward with autonomous driving in cities and with the related business models. We want to vote with you today on the conclusion of a domination and profit-and-loss-transfer agreement; that is item 5 of today’s agenda.

Let me now talk about the results of our business in the first quarter of 2017. As was already apparent at the end of last year, it was a difficult quarter. It was primarily impacted by the special situation in China – Mr. Stadler has already told you about that in detail. Despite lower unit sales, our revenue of more than 14 billion euros was close to the level of the prior-year period. That’s a good performance and demonstrates our good product and price positioning. Thanks to successful new models such as the new Audi Q2 and the new Audi A5 model series – and effective cost discipline – we actually slightly increased our operating profit to 1.2 billion euros. Unlike in the previous year, operating profit in the first quarter of 2017 was not reduced by special items. At the end of this difficult first quarter, our operating return on sales of 8.7 percent was significantly within our strategic target corridor of 8 to 10 percent. We therefore achieved a robust financial performance in challenging conditions.
We are aware that the coming months will also be challenging. But we see ourselves as well positioned with the planned new models and market launches. Our ambitious forecast for the full year remains unchanged. We intend to achieve further growth in unit sales. This will be helped by the significantly rejuvenated product and technology portfolio. To give just a few examples: our completely new entry-level SUV – the Audi Q2, the new generation of the Audi Q5, the successive launch of the new Audi A5 models, and we are also launching the new Audi A8**. In other words, our pipeline is really full!

In terms of revenue, we anticipate a slight increase this year. We aim once again to achieve an operating return on sales within our strategic target corridor of 8 to 10 percent. Our return on investment is likely to be between 15 and 18 percent. And just like in the previous years, we will finance all investments and spending ourselves. This year, that will also include cash outflows caused by the diesel crisis. We therefore anticipate a net cash flow that will be significantly lower than in 2016, but it will clearly continue to be positive. Excluding the effects of the diesel issue, we should actually be above the level of 2016. Our ratio of capex is likely to be within the strategic target corridor of 5 to 5.5 percent.

As part of our new Strategy 2025, this year we have defined a new controlling metric as a so-called “key performance indicator”: the research and development ratio. It is calculated as the ratio of R&D spending to revenue. This metric is an indicator of the innovative strength of our company and it also helps us to develop efficiently. For this metric, we have set ourselves a strategic target corridor of 6 to 6.5 percent. In 2017, we will probably slightly exceed that corridor. This will be due to investment in future topics, the planned model launches, and the expansion of our product portfolio – especially in the upper and high-margin car segments.

Ladies and gentlemen,
I can assure you that things are changing in our organization and we will systematically guide our company into a successful future. The current mood of optimism is helping us – it is our driving force! The ambitious long-term financial targets of our new Strategy 2025 set the course. We aim to achieve an operating return on sales of 8 to 10 percent and a return on investment of 21 percent. Also, we plan to reach an R&D ratio of 6 to 6.5 percent and a capex ratio of 5 to 5.5 percent. And, something which is especially important to me, all of that along with a positive net cash flow.

Clear goals, clear responsibilities and clear measurability are our premises. In this context, we have prioritized numerous projects and are systematically implementing them. And we are making agility into an Audi core competence – in all processes of the entire organization, as a part of our corporate culture. Because we have to become faster and more agile. Agility and flexibility are crucial success factors in a world that is changing faster and faster. We want to be successful in the long term and sustainably. Shortly: Profitability is our focus!

Ladies and gentlemen,
there is no doubt that the Four Rings have great charisma. That will continue to be the case in the future. We work on that every day at Audi with great efforts and motivation, because we continue to promise Vorsprung. Our strategy for the future is clear; the course is set. We now have to advance at full speed, with maximum turning.moment!

Thank you.
Ladies and gentlemen,
you as shareholders, and therefore as investors, are of course interested in the future of our company. Where is the journey taking us? In the second part of my speech, I will explain to you what we at the Audi Group have planned for the medium and long term: new models, new technologies and strategic plans that will all affect the future of our company. We are rejuvenating our product range and will renew five core model series by mid-2018. Here are just two examples: On July 11, we will hold our first Audi Summit in Barcelona. At this event, we will present to the world everything that defines Vorsprung durch Technik and our brand.

We will have the world premiere of our high-end sedan, the Audi A8**, with a completely new operating concept, which is generously dimensioned and intuitive. The new A8 will be produced here in Neckarsulm. This automobile opens a new chapter in our successful story of lightweight construction, one of our brand’s core competencies. In the next-generation A8, we will offer a key technology as soon as it is allowed by legislation in core markets: highly automated driving on highways.

At this point, I would like to emphasize the German government’s commitment to piloted driving. With its latest resolution, the cabinet has prepared the way for modern road traffic laws. This will make Germany into a pioneer for automated driving. In the first stage of application, the car takes over the task of driving. In slowly moving traffic on the highway at speeds up to 60 km/h, it will be possible to take one’s hands from the steering wheel and the driver can then do other things, such as using our digital services for information, entertainment and so on.

Now let’s look at the second model series that we will renew. The new Audi A7** will continue to be the most progressive large five-door top-segment coupe. It will have its world premiere in the fourth quarter. And like the first generation, the design of the new Audi A7 makes a striking statement for our brand.

But we are not only fundamentally renewing five core model series. We will also supplement our product portfolio with some completely new models. As you know, the Audi Q2 was our newcomer of the year 2016 and met with a tremendous response as our first crossover between sport utility vehicle and coupe.

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We will now supplement our successful Q family with two new crossover concepts featuring very sporty styling. The first new model is to be launched in 2018: The Audi Q8** will combine the elegance of a coupe with the functionality of an SUV. We presented two show cars at the Detroit and Geneva motor shows. Both models are plug-in hybrids. They have a powerful TFSI six-cylinder engine and a powerful and efficient electric motor. You will recognize the Q8 from its low roof line and its extremely sporty stance. We will produce it as of 2018 in Bratislava, where its sister model, the Q7, is also produced.

The successor to the Audi Q3** will also be launched in 2018, and then the Audi Q4** in 2019. With this car, we will enter the segment of compact utility vehicles, or CUVs. The very sporty Audi Q4 with a typical coupe silhouette will be positioned between the Q3 and the Q5.

In addition to the two new Q-models, we will electrify our customers with the launch of numerous environmentally friendly e-tron models. Between 2020 and 2023, we anticipate strong demand for purely electric automobiles. By then at the latest, we will have significantly more sales stimulus from electric cars in markets all over the world.

We will launch the Audi e-tron** in 2018. You heard me correctly: It’s called quite simply e-tron. With this car, we will make a break from our naming convention, because it marks a turning point for us: like the Audi quattro in the nineteen-eighties, which already revolutionized the drive concept. The battery-electric Audi e-tron is an SUV: It is the first electric car from Audi. With a range of more than 500 kilometers, a unique driving experience and fantastic design, we will make the electric car into a “must have” in the coming decade.

The Audi e-tron Sportback** will follow in 2019. We showed how we imagine this model at the Shanghai Motor Show in April. The Audi e-tron Sportback concept is a design study and technology pioneer, an e-car and power pack in coupe form. And we are proud of this: Its design language carries over the classical Audi elements into the new architecture of e-mobility.

And in the following year, 2020, we will offer a premium electric car also in the compact segment. This will be based on the VW Group’s modular electrification platform (MEB). This is a great example of how maximum synergies can be utilized within the Group.

Starting in 2021, we will successively electrify Audi models in each core series. In order to make even faster progress with this future-oriented task, Audi and Porsche agreed on April 5, 2017 to cooperate on engineering development. We will develop the premium electrification architecture for our electric cars in the coming decade together with Porsche. With the combined expertise of the two companies, we will optimally utilize the synergies of our premium brands. Together, we will set the technical course for the future. We will tackle the topics of electrification, digitization and autonomous driving in collaboration with our colleagues at Porsche.

This cooperation makes great economic sense: It will make the development of our electric cars significantly faster and more efficient. Thanks to economies of scale, material unit costs will also fall significantly. Across the brands, our cooperation with Porsche will create potential for cost reductions in a triple-digit million amount each year. One thing is certain: Our customers will always recognize an Audi unmistakably as an Audi also with this intensified cooperation.

We take the target of zero emissions seriously. Our mobility of the future will be emission free in the long term. That’s why we venture the following prediction: By the middle of the next decade, every third Audi
delivered to a customer will be either partially or fully electric. That means we will make the models we offer so attractive that at least one in three customers will make the change.

How are we preparing for this transformation internally? Focus is important. In the long run, we will reduce our current drive versions by up to 40 percent. We are taking complexity out of the system and thereby freeing up resources for the electric drive systems of the future. At the same time, we are creating a convincing system offering. This means that as well as a charging solution for at home, the possibility to charge batteries is required when on long journeys. We are therefore taking on an infrastructure task – something unusual for a manufacturer – to provide starting assistance for electric mobility. In Europe, the Volkswagen Group with Porsche and Audi plans to establish a joint venture in cooperation with BMW, Daimler and Ford. Together, we want to set up high-performance charging points with up to 350 kilowatts for fast charging when on long journeys on the main highway routes in Europe. In the United States, Volkswagen Group of America will start a similar project called “Electrify America.”

So from the e-tron models and the related system offering, I will now turn to production. Our Audi plants are the cornerstones of our brand in the transformation process towards sustainable mobility. Brussels is the production site of our first electric car. Such a car requires sustainable production. Our credo is “clean cars from clean factories.” We therefore plan to make our plant in the capital of Europe into the first CO₂-neutral Audi plant. We will also set up our first battery production in this pioneering plant of our electrification.

The Audi plant in Neckarsulm is the competence center for the development of fuel-cell technology for the Volkswagen Group. Hydrogen as the energy source is the next major milestone on our electrification roadmap. For customers who require cars with a very long range, the fuel cell will be a genuine alternative: lighter, quick to refuel and highly economical in the future.

The Ingolstadt plant is on the one hand the brand’s main development center. As the biggest production facility in the Audi Group, it has expertise in electric mobility. And it has experience with integrating plug-in hybrids very efficiently into the existing production infrastructure. We are also basing the g-tron drive technology for the Audi A3, A4 and A5 models in Ingolstadt.

The facility in Győr, Hungary, is starting with production of electric motors for our Audi e-tron. The logistics center close by is supplied with CO₂-neutral energy, thanks to Hungary’s biggest photovoltaic installation for industrial use.

And following its successful start, our youngest car plant – in North America – is now preparing for production of the plug-in hybrid version. The Audi Q5 e-tron** will soon drive off the same assembly lines in Mexico as its gasoline and diesel siblings.

In this transformation phase, we will therefore need the conventional combustion engine in our portfolio also into the next decade. We are further developing our successful TFSI and TDI engines, because revolution and evolution in drive-system development go hand in hand.

The g-tron technology means that “stepping on the gas” now takes on a completely new meaning for Audi customers. With our synthetic Audi e-gas, g-tron models reduce the emission of fossil carbon dioxide by 80 percent. To help persuade as many drivers as possible to switch over to clean gas, we now have a new offer for buyers of the Audi A3 Sportback g-tron (combined fuel consumption in l/100 km: 3.6-3.3*; combined fuel consumption in l/100 km: 5.5-5.1* (42.8 - 46.1 US mpg); combined CO₂ emissions in g/km...
(CNG): 98-89* (157.7 143.2 g/mi); combined CO₂ emissions in g/km (gasoline): 128-117* (206.0-188.3 g/mi)) and soon also the new Audi A4 Avant g-tron (CNG consumption in kg/100 km: 4.4-3.8*; combined fuel consumption in l/100 km: 6.5-5.5* (36.2 - 42.8 US mpg); combined CO₂ emissions in g/km (CNG): 117-102* (188.3-164.2 g/mi); combined CO₂ emissions in g/km: 147-126* (236.6-202.8 g/mi)) and Audi A5 Sportback g-tron models (CNG consumption in kg/100 km: 4.3 - 3.8*; combined fuel consumption in l/100 km: 6.4 - 5.6* (36.8 - 42.0 US mpg); combined CO₂ emissions in g/km (CNG): 115-102* (185.1 - 164.2 g/mi); combined CO₂ emissions in g/km (gasoline): 144-126* (231.7 - 202.8 g/mi)). We will give our customers the additional cost of this clean fuel from the date of purchase of a g-tron for a period of three years. Because we want this innovation for climate-friendly driving to succeed.

When running on Audi e-gas, the g-tron emits only the CO₂ that we have used when producing the fuel. This materials cycle alone would actually be CO₂-neutral. But when we take the complete energy-generation process into account, the result is 80 percent less fossil carbon dioxide. So Audi e-gas is a pioneering fuel.

With the Audi A3 Sportback g-tron, we have a model in our portfolio that appeals not only with its driving pleasure and environmental compatibility. It is also more reliable than any car ever before. In the endurance test carried out by the magazine Auto Bild over 100,000 kilometers, our natural-gas model was given the best possible mark of 1+. The Audi A3 g-tron was the very first car to obtain this mark, which is impressive proof of the car’s quality.

With e-tron and g-tron, we are making our customers an offer to switch over. We know that any change takes time. For this reason, we will have at least one model in each series with a combustion engine also as a mild hybrid until 2025. Thanks to our 48-volt electric system, it will recuperate braking energy better than ever before, and that will reduce fuel consumption. In the transitional phase, we have the plug-in hybrids I previously mentioned to serve as a bridge technology providing emission-free driving for day-to-day situations and a range suitable for long journeys.

Society’s value system has changed. This is resulting in a sustainable and digital lifestyle. Our customers want to take their modern lives with them in their cars. That’s why we will make Audi connect into standard equipment in the foreseeable future. Each Audi will be part of the Internets of things in the future. Its sensors will deliver valuable data for the new swarm intelligence.

The next step will be to gather together our customers and fans online and to create added value for them: By 2025, we expect to have ten million users on our digital platform. Together with new partners, we will offer entertainment, shopping, convenience and lots more on this platform. In connection with digitization, I would like to point out how our traditional hardware business model is also changing.

Function on demand is a revolutionary concept in the car industry. Customers will pay for some of the functions only when they need them. Some examples are the matrix function of LED headlights or new software functions in the car’s Audi connect system. This means more flexibility and individuality for our customers. Their Audi models will surprise them again and again. And the next owners will also be pleased with the updates and upgrades: downloaded via mobile telephony “over the air.”

We are developing our worldwide production network into a large, cross-border smart factory. I would just like to say: Welcome to the Fourth Industrial Revolution! We are using the power of electronics and big data and analyzing complex production interdependencies in real time. We are digitally connecting all of the separate industrial processes and thinking beyond today’s assembly lines. One day, we will have modular assembly whereby people will set the pace again, and the car bodies will only drive themselves
to those stations where they are needed. I am talking about intensive human-robot cooperation. At Audi, the firm focus is on the human. And I am talking about self-learning machines. Artificial intelligence marks the birth of a new, exciting way of working in factories.

In addition to sustainability and digitization, we are following a third important megatrend: urbanization. For ten years now, more people worldwide have lived in cities than in the country. By 2050, the ratio is expected to be 70 to 30. Cities are getting bigger and bigger. Their essential backbone is mobility. Space is becoming scarce, traffic jams are getting worse and intelligent solutions are required. In this decade, we will create innovative mobility services for people living in cities in more than 15 markets. Pilot projects of recent years under the leadership of Audi Business Innovation such as Audi on demand, Audi shared fleet, Audi at home or Audi select are all scalable projects.

And we are developing technologies for the city of the future: piloted parking and driving, detailed digital maps from our investment in HERE – which is producing the world’s biggest real-time reality index, connected stoplights, parking spaces and parking garages, and the swarm intelligence of objects in the Internet of things. We see potential for highly automated driving also in the city, where traffic is highly complex; this is the ultimate test for us and the entire industry.

In the next decade, we will also have robot taxis. They will close the gap in urban public transport. We will first experience cars without a steering wheel and pedals on predefined short journeys. Self-driving systems are the basis. In this context, we have just founded a separate company called Autonomous Intelligent Driving GmbH, which works for the entire Volkswagen Group.

The first self-driving cars will be on the roads in cities early in the next decade. We have set up this company as an open platform. Like with our investment in the digital map company, HERE, partners in the automotive and IT industries are welcome!

Ladies and gentlemen,
in the past few minutes, I have sketched out how Audi is on its way into the year 2025. I will now summarize.

First: We are rejuvenating and broadening our product range, with five core model series renewed by mid-2018 and two new Q models.

Second: We are digitizing our products and our production, with potential for connectivity in every Audi, added value on our digital platform, and the smart factory as a vision of connected manufacturing.

Third: We are creating sustainable offers for the mobility of the future, with the Audi e-tron with convincing charging concepts and more electric cars being planned, a strong g-tron family with innovative fuels, mild hybrids in each core model series by 2025, and new rules for sustainable supply relations.

And fourth: We are applying our expertise and our technologies as an answer to the megatrend of urbanization, with attractive offers for mobility in the city of the future and the technology of piloted driving, and including the founding of Autonomous Intelligent Driving GmbH.
So you see: We know where we want to get to and we are positioning ourselves in the best possible way for the future. The diesel crisis has not yet been overcome and requires our attention. But new products and technologies are on their way. The automotive industry is in its biggest transformation of recent decades. Disruption is accompanying this transformation.

For us, the diesel crisis was probably the worst disruption of all time. And nonetheless, I am convinced that it’s giving us the strength to leave behind things we have grown to like but which have become too expensive. We are doing this so that something new can arise. So we will reinvent ourselves by thinking from the customer’s perspective, by having the right products, by daring to make a far-reaching transformation, and by standing united as a strong team behind this brand.

Thank you.

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