



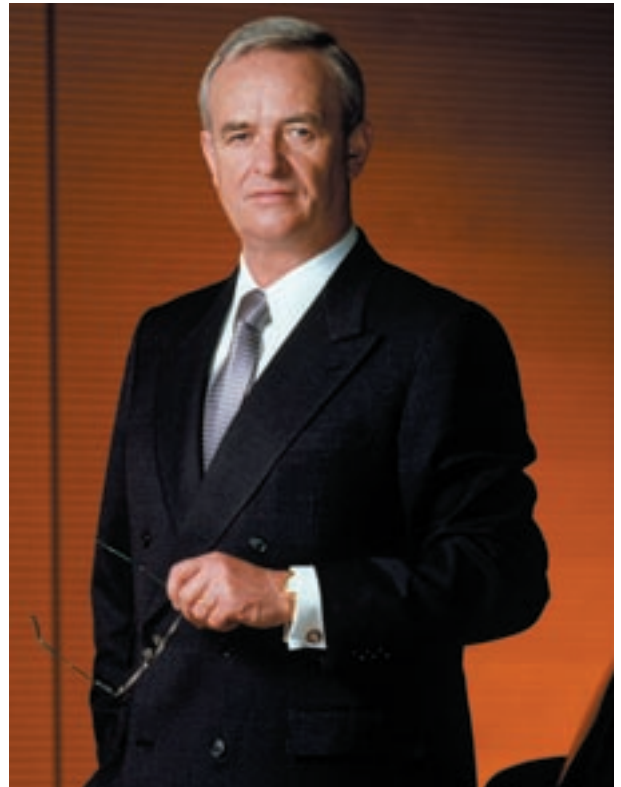
## 2003 Interim Report



## Audi Group

		1-6/2003	1-6/2002	Change in %
Production	Cars	378,074	363,174	4.1
	Engines	693,217	649,694	6.7
Vehicle sales	Cars	512,644	519,504	-1.3
	Audi	387,767	382,478	1.4
	Germany	121,033	126,270	-4.1
	Outside Germany	266,734	256,208	4.1
	Lamborghini	239	172	39.0
	Other Volkswagen Group brands	124,638	136,854	-8.9
Employees	Average	51,985	50,785	2.4
Revenue	EUR million	11,449	11,243	1.8
Operating result	EUR million	535	635	-15.7
Profit before tax	EUR million	505	565	-10.6
Net profit	EUR million	289	386	-25.1
Rate of return before tax	Percent	4.4	5.0	
Capital investments	EUR million	984	941	4.6
Depreciation	EUR million	901	773	16.6
Cash flow from operating activities	EUR million	1,093	1,226 <sup>1</sup>	-10.8
		30 June 2003	31 Dec. 2002	Change in %
Balance sheet total	EUR million	13,251	12,787	3.6
Equity ratio	Percent	39.9	38.6	

<sup>1</sup> The figure for the previous year has been adjusted due to a change in the structure of the cash flow statement.



*Ladies and Gentlemen,*

The first half of 2003 was a time of difficult underlying conditions and major challenges for car manufacturers and consumers alike: political and economic uncertainties prompted many people all over the world to exercise noticeable spending restraint.

Audi was nevertheless able to hold its ground in the first half of this year: if we compare our performance with previous first-half figures, it transpires that this was the best six-month period for vehicle sales in the history of our brand.

We secured a highly satisfactory market share of 3.7 percent in June in Western Europe, the largest sales market in the world.

We have succeeded in making our company "lean" and resilient enough to be able to post healthy financial figures even in times of economic slackness and disadvantageous shifts in exchange rates.

The confidence and commitment we have demonstrated in developing and launching new, fascinating cars was rewarded by our customers in the first half of 2003.

The new Audi A8 made its *début* in the luxury segment with flying colours. Customers and the media

have acclaimed its superb quality and decidedly dynamic character. The new Audi S4 has extended our successful A4 car line, and the new A3 is in the process of bettering the remarkable success of its predecessor.

New Audi concept studies placed the spotlight on the future of the brand during the first few months of 2003: the Pikes Peak quattro as the pioneer of a new type of crossover vehicle, and the Nuvolari quattro, a modern interpretation of a very sporty and luxurious Gran Turismo.

In the first half of this year, Audi took major steps towards strengthening its position in North America and extending its market lead in the premium segment in China, the most important growth market in the world.

Ingolstadt, August 2003

*Dr. rer. nat. Martin Winterkorn*

Dr. rer. nat. Martin Winterkorn



## General economy and the sector

### General development of the economy

The outbreak of war in Iraq in March dominated economic developments in industrial nations in the first half of 2003. In the USA in particular, the war undermined the effect of monetary and fiscal measures introduced in the previous year. Even now that the war is over, the prospect of a rapid recovery in the worldwide economy has not materialised.

Households in eurozone countries continue to exercise spending restraint. The prevailing exchange rate between the euro and the US dollar, which is unfavourable for European export industry, imposed a further burden on companies. Cost-cutting remains the priority for general corporate policy. The European Central Bank responded to the protracted slackness in consumer demand by cutting the base rate to 2.0 percent on June 5. However, the effect of these monetary stimuli is not likely to trickle through until the end of the year.

The stage was set for a recovery in the United States mid-way through 2003, despite poor employment market figures. In contrast to Europe, the American export industry is benefiting from the weak dollar. The cut in the base rate to 1.0 percent by the Federal Reserve Bank at the end of June takes it to a record low and thus provides a basis for a recovery in demand. In Western Europe, we are not anticipating a lasting recovery before the start of next year. Although the national economies in the eurozone will benefit from the cut in interest rates by the European Central Bank and consumer confidence has recovered following the end of the Iraq war, the unemployment rate in the EU rose more sharply in the first few months of 2003 than in the previous year. Despite the higher level of confidence, a recovery in consumption by private households is therefore unlikely in the short term.

### Development in car markets

The general economic situation is reflected by the state of car markets. Against a backdrop of contracting overall markets, competition for market shares is currently becoming more intense and is increasingly leading to price wars.

Registrations of new cars in EU countries fell by 1.5 percent in the first half of 2003. In the USA, the import car market shrank by 3.6 percent, and the overall car market by as much as 5.8 percent. On the US market, car manufacturers' profit margins are already being denuded by sluggish sales.

In Asia, and China in particular, car sales continued to rise in the first six months of the year. The outbreak of the lung infection SARS did not affect the car sector adversely. In fact, the fear of using public transport prompted some people to buy a car sooner than they had originally been planning.

The car market in Germany was more stable than other markets in Europe, with registrations of new vehicles down just 0.9 percent. New model campaigns by manufacturers and the withdrawal of proposals to increase taxation of company cars mean that the domestic market is likely to enjoy a recovery over the next few months. The German Automotive Industry (VDA) accordingly forecasts that first-time registrations for the whole of 2003 will remain unchanged from the previous year, at 3.25 million vehicles. We are similarly cautious in our forecasts for the German market. In view of the high average age of the current vehicle population, there is nevertheless potential for demand that can be exploited through an attractive models policy.



## Situation of the Audi Group

### Development in sales and earnings

The revenue of the Audi Group rose by 1.8 percent on the first half of 2002, to EUR 11,449 million. Whereas the proceeds from sales of Audi vehicles were up 2.1 percent, the figures exclusively from trading business for the Italian importer AUTOGERMA S.p.A., which sells all brands of the Volkswagen Group and original parts, showed a slight downturn.

Sales of Audi vehicles on export markets were yet again up on the previous year. Within Europe, Great Britain was one of our largest growth markets. Audi also enjoyed substantial growth rates in China. The Changchun plant commenced assembly of the Audi A4 earlier this year, in addition to the Audi A6.

As expected, the sustained strength of the euro against the US dollar and against sterling diminished revenue and earnings, though the negative effect on earnings was largely cushioned by the implementation of cost-cutting measures.

The cost of sales of EUR 10,282 million was up by 2.6 percent. The cost of sales included research and development costs of EUR 252 (244) million which cannot be capitalised. The total costs for research and development included in the Income Statement amounted to EUR 469 (403) million. In accordance with IAS 38, a further EUR 324 (289) million were capitalised as intangible assets.

The gross profit, representing the difference between revenue and cost of sales, fell slightly from EUR 1,217 to 1,167 million.

Distribution costs rose by 17.6 percent to around EUR 681 million due to market factors, and general administrative costs were on a par with the previous year at EUR 102 million.

The other operating result rose from EUR 88 million to 151 million, principally as a result of foreign currency hedging transactions.

The operating result was EUR 535 million, compared with EUR 635 million in the previous year.

The financial result was EUR -30 million. The improvement of EUR 40 million compared with the first half of 2002 was attributable in particular to the rise in the price of our securities.

Profit before tax totalled EUR 505 million, down EUR 60 million or 10.6 percent on the corresponding period of 2002, and the net profit was down EUR 97 million to EUR 289 million.

### Outlook

There are continuing risks for 2003 as a whole from the protracted slackness of the economy and disadvantageous exchange rates. The macroeconomic conditions are making it increasingly difficult to match the high full-year earnings of recent years.

Thanks to our good market position, we are nevertheless optimistic that we will be able to report a new record for vehicle sales by the end of this year.

For this sales success to filter through into the financial figures, we will need to optimise our internal cost structures further, a venture which we have already embarked upon with considerable success in recent months. The impact of extensive product investments over recent years – in particular for the new Audi A3 and Audi A8 – will be reflected positively in the earnings figures for this year.



Audi sales by market size		
	1-6/2003	1-6/2002
<b>Audi cars worldwide</b>	<b>387,767</b>	<b>382,478</b>
of which:		
Germany	121,033	126,270
USA	41,089	42,195
Great Britain	38,299	35,801
China	29,412	16,110
Italy	25,534	25,591
Spain	21,208	22,485
France	18,286	21,545
Belgium	10,517	11,088
Austria	8,877	8,627
Switzerland	8,143	9,274
Netherlands	7,689	6,623
Sweden	6,125	5,978
Japan	5,777	5,485
Brazil	4,800	4,957
Canada	3,969	3,531
Other	37,009	36,918

Vehicle sales by model		
	1-6/2003	1-6/2002
<b>Audi cars</b>	<b>387,767</b>	<b>382,478</b>
of which:		
Audi A2	15,912	21,982
Audi A3	65,871	66,147
Audi TT	17,311	19,648
Audi A4	170,963	177,485
Audi A4 Cabriolet	19,297	3,784
Audi A6	78,231	79,060
Audi RS 6	2,808	0
Audi allroad quattro	8,935	9,349
Audi A8	8,439	5,023
Lamborghini cars	239	172
Other Volkswagen		
Group brands	124,638	136,854
<b>Total for Audi Group</b>	<b>512,644</b>	<b>519,504</b>

### Audi vehicle sales show year-on-year rise

Sales of Audi vehicles in the first six months of the year rose to 387,767, and were therefore 1.4 percent up on the previous year. On the other hand, sales of other brands which we trade fell by 8.9 percent.

Audi vehicle sales experienced mixed fortunes on various markets. Among the major European markets, Great Britain was the exception to the generally negative trend, with seven percent more vehicles sold there. In Germany, sales fell by 4.1 percent, though Audi's market share of 7.4 percent was maintained on a par with the previous year.

Asia remains the region with the highest rate of growth. An important landmark was reached in China with the completion of the 100,000th Audi A6 in Changchun in mid-June. Our success in China, the largest single market in the Asia-Pacific region, continues to make a significant contribution towards AUDI AG's overall vehicle sales.

### Successful launch for new Audi A3

The new Audi A3 was launched in the first half of the year in all major markets, meeting with a resoundingly positive response from our customers and the trade press.

As in previous years, the A4 was the most popular Audi vehicle, with the saloon and Avant models selling in approximately equal numbers. The Audi A4 Cabriolet and RS 6, which were launched last year, are both proving immensely popular and selling well. Sales of the Audi A6 held up in spite of the competitive situation in its category and the forthcoming switch to the new model, and this remains the second-highest selling model in our product range.

The range of products in the top segment was extended in the past half-year by the long-wheelbase Audi A8 4.2 quattro and the Audi A8 4.0 TDI, with the most powerful eight-cylinder diesel engine in the world.

Vehicle production		
	1-6/2003	1-6/2002
Audi cars	377,807	362,978
of which:		
TDI	172,617	170,746
quattro	91,481	94,906
Audi A2	15,709	21,492
Audi A3	63,854	59,836
Audi TT	17,657	17,943
Audi A4	168,589	164,669
Audi A4 Cabriolet	16,377	6,449
Audi A6	74,636	77,360
Audi allroad quattro	8,752	10,018
Audi RS 6	2,808	32
Audi A8	9,425	5,179
Lamborghini cars	267	196
<b>Audi Group</b>	<b>378,074</b>	<b>363,174</b>
Engine production		
	1-6/2003	1-6/2002
<b>Audi Group</b>	<b>693,217</b>	<b>649,694</b>
of which:		
AUDI HUNGARIA MOTOR Kft.	688,930	648,371
COSWORTH TECHNOLOGY LIMITED	4,020	1,127
Automobili Lamborghini S.p.A.	267	196

Employees		
	30 June 2003	30 June 2002
<b>Audi Group</b>	<b>52,348</b>	<b>50,783</b>
of which:		
AUDI AG	44,761	44,040
Ingolstadt	31,203	30,487
Neckarsulm	13,558	13,553
AUDI HUNGARIA MOTOR Kft.	4,888	4,669
COSWORTH TECHNOLOGY LIMITED	788	789
Lamborghini Group	638	565
AUTGERMA S.p.A.	711	702

### Production at new record level

With vehicle production totalling 378,074 units, including 267 super sports cars of the Lamborghini brand, Audi Group production was up four percent on the corresponding period of the previous year, establishing a new all-time company record. Engine production likewise reached a new record level.

Lamborghini reported the highest growth rate in the Audi Group, with car production up 36 percent. The Lamborghini Gallardo has been in production at Sant'Agata Bolognese since February, alongside the Murciélago.

During the first quarter, the production facilities at the Ingolstadt plant were switched to production of the new Audi A3, of which 32,097 had been built by the end of June.

The 250,000th aluminium-bodied Audi left the production line at Neckarsulm at the end of May. Over 117,000 of the Audi A8 and almost 133,000 of the Audi A2 have been built there using the high-strength but lightweight aluminium frame, or Audi Space Frame, since the start of series production in 1993. Almost two decades of experience in the use of aluminium in vehicle construction have earned Audi a reputation as a leading expert for this pioneering technology.

### Slight rise in employee total

The number of employees within the Audi Group rose slightly by 3.1 percent in the past half-year period. Additional personnel were required for handling the increased production output above all at AUDI AG, AUDI HUNGARIA MOTOR Kft. and the Lamborghini Group.

Despite difficult underlying economic conditions, Audi stepped up its investments in the vocational training of young people: at the end of June, there were 1,557 (previous year: 1,475) apprentices under contract with AUDI AG.

## Income statement of the Audi Group for the 1st half of 2003

EUR million	1-6/2003	1-6/2002
<b>Revenue</b>	<b>11,449</b>	<b>11,243</b>
Cost of sales	10,282	10,026
<b>Gross profit</b>	<b>1,167</b>	<b>1,217</b>
Distribution costs	681	579
General administrative costs	102	91
Other operating result	+151	+88
<b>Operating result</b>	<b>535</b>	<b>635</b>
Financial result	- 30	-70
<b>Profit before tax</b>	<b>505</b>	<b>565</b>
Income tax expense	216	179
<b>Net profit</b>	<b>289</b>	<b>386</b>
<b>EUR</b>		
Earnings per share	6.68	9.00
Diluted earnings per share	6.68	9.00

## Balance sheet of the Audi Group at June 30, 2003

ASSETS in EUR million	30 June 2003	31 Dec. 2002
Fixed assets	8,370	8,238
Current assets	4,740	4,412
Deferred tax assets	141	137
	<b>13,251</b>	<b>12,787</b>

EQUITY AND LIABILITIES in EUR million	30 June 2003	31 Dec. 2002
Equity	5,289	4,940
Minority interests	5	6
Provisions	3,757	3,680
Liabilities	3,378	3,373
Deferred tax liabilities	822	788
	<b>13,251</b>	<b>12,787</b>




## Development of equity

	Issued capital	Capital reserves	Revenue reserves			Consolidated retained earnings	Total
			Legal and other revenue reserves	Currency exchange reserve	Reserve for cash flow hedges		
<b>EUR million</b>							
<b>Position at 31 Dec. 2001</b>	<b>110</b>	<b>57</b>	<b>4,169</b>	<b>7</b>	<b>-1</b>	<b>-</b>	<b>4,342</b>
Currency adjustments	-	-	-	-7	-	3	-4
Consolidated income	-	-	-	-	-	386	386
Other changes	-	-	-	-	30	-	30
<b>Position at 30 June 2002</b>	<b>110</b>	<b>57</b>	<b>4,169</b>	<b>0</b>	<b>29</b>	<b>389</b>	<b>4,754</b>
<b>Position at 31 Dec. 2002</b>	<b>110</b>	<b>57</b>	<b>4,760</b>	<b>-4</b>	<b>17</b>	<b>-</b>	<b>4,940</b>
Currency adjustments	-	-	-	-15	-	4	-11
Consolidated income	-	-	-	-	-	287	287
Other changes	-	-	-	-	-8	-	-8
Differences from change in consolidated companies <sup>1</sup>	-	-	81	-	-	-	81
<b>Position at 30 June 2003</b>	<b>110</b>	<b>57</b>	<b>4,841</b>	<b>-19</b>	<b>9</b>	<b>291</b>	<b>5,289</b>

The transfer of profit to Volkswagen AG takes place after approval of the annual accounts.

<sup>1</sup> The difference from the change in consolidated companies resulted primarily from the first-time inclusion of FAW-Volkswagen Automotive Company, Ltd., Changchun (China) at equity. Income as a result of at-equity valuation and relating to earlier accounting periods has been netted against the revenue reserve with no effect on income.

## Cash flow statement of the Audi Group from January 1 to June 30, 2003

EUR million	1-6/2003	1-6/2002
<b>Cash flow from operating activities</b>	<b>1,093</b>	<b>1,226</b>
<b>Investing activities</b>	<b>-979</b>	<b>-927</b>
<b>Net cash flow</b>	<b>114</b>	<b>299</b>
Change in marketable securities	1	122
<b>Financing activities</b>	<b>-356</b>	<b>-114</b>
<b>Change in cash</b>	<b>-241</b>	<b>307</b>
<b>Cash at start of period</b>	<b>540</b>	<b>462</b>
<b>Cash at end of period</b>	<b>299</b>	<b>769</b>

The change in liabilities from factoring will be allocated to financing activities from 2003.

The prior-year figures have been adjusted for ease of comparison.

## Segment reports

### from January 1 to June 30, 2003

EUR million	External revenue		Internal revenue		Total revenue		Profit before tax	
	1-6/2003	1-6/2002	1-6/2003	1-6/2002	1-6/2003	1-6/2002	1-6/2003	1-6/2002
Germany	8,308	8,090	816	784	9,124	8,874	330	399
Rest of Europe	3,128	3,153	1,192	1,242	4,320	4,395	197	177
South America	13	0	0	0	13	0	5	0
Consolidation measures	-	-	-2,008	-2,026	-2,008	-2,026	-22	-11
<b>Audi Group</b>	<b>11,449</b>	<b>11,243</b>	<b>0</b>	<b>0</b>	<b>11,449</b>	<b>11,243</b>	<b>505</b>	<b>565</b>

The Audi Group is structured along the lines of the regional locations of its assets, into the following segments: Germany (AUDI AG, quattro GmbH, Audi Vertriebsbetreuungsgesellschaft mbH), Rest of Europe and South America (AUDI DO BRASIL E. CIA., AUDI SENNA Ltda.). The assets in the Rest of Europe segment comprise AUDI HUNGARIA MOTOR Kft.,

COSWORTH TECHNOLOGY LIMITED and the Lamborghini Group, which comprises the companies Automobili Lamborghini Holding S.p.A., Automobili Lamborghini S.p.A., Motori Marini Lamborghini S.p.A., Lamborghini ArtiMarca S.p.A. and the Italian general importer AUTGERMA S.p.A.

## Audi shares

### Earnings per share

Earnings per share are calculated by dividing the consolidated net result for the period by the weighted average number of shares in circulation during the financial year.

There were no potential shares in AUDI AG in existence at either June 30, 2002 or June 30, 2003 which could have caused a dilution of this key figure as a result of share options and convertible bonds. Therefore, in the case of Audi, the diluted earnings per share are the same as the basic earnings per share.

	1-6/2003	1-6/2002
Profit share of AUDI AG shareholders in EUR million	287	386
Weighted average number of shares (basic and diluted totals are identical)	43,000,000	43,000,000
<b>Earnings per share in EUR</b>	<b>6.68</b>	<b>9.00</b>



## Accounting basis

### Financial reporting based on International Accounting Standards (IAS)

The consolidated financial statements of AUDI AG are prepared on the basis of the International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). This Interim Report at June 30, 2003 has correspondingly been drawn up in agreement with IAS 34, "Interim Financial Reporting". The accounting policies applied were the same as those for the 2002 consolidated financial statements. The Notes section of the 2002 Annual Report contains a detailed description of these policies.

## Important dates in 2004

<b>Annual Press Conference</b>	February 25, 2004
<b>Annual General Meeting</b>	May 12, 2004
<b>Interim Report</b>	August 2004

As at August 5, 2003

### Consolidated companies

In addition to AUDI AG, the consolidated financial statements include all key companies where AUDI AG directly or indirectly has scope for determining the financial and business policy in such a way that other group companies benefit from the activities of the companies in question (subsidiaries). Compared with the consolidated financial statements for 2002, Audi Vertriebsbetreuungsgesellschaft mbH is a new addition to the consolidated companies. Moreover, FAW-Volkswagen Automotive Company, Ltd. has now been consolidated at equity instead of being reported simply as an associated company. This change to the consolidated companies does not impair comparability with the first half of 2002.

### Events occurring after the first-half balance sheet date

No events of particular significance which must be reported according to IAS 10 occurred after June 30, 2003.



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