

As of: February 2008

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Jilin Province and the Audi Changchun plant

Jilin Province

Jilin Province is located in northeast China, around one and a half hours by air from Beijing. It covers an area of 187,400 km² (72,356 square miles), around half the size of Germany, but accounts for only 2 percent of China's land mass. Jilin is home to around 27 million people. GDP per capita in 2006 amounted to 14,478 RMB (approx. 1,376 euros). Jilin Province is part of the heavy-industry belt in northeast China. It shares a 232 km (144 mile) border with Russia and a border of about 1,200 km (746 miles) with North Korea. Alongside Han Chinese, Koreans and Mongolians represent the largest ethnic groups.

Changchun

The capital of Jilin Province is Changchun. During the Japanese occupation of China from 1932 to 1945, Changchun was the capital city and seat of government of the puppet state Manchukuo set up by the Japanese under China's last emperor Pu Yi. Modern-day Changchun is a city with around 2.5 million inhabitants. As home to the oldest and largest Chinese automotive group, First Automobile Works (FAW), the city has a long tradition in car manufacturing and is the number one location in the Chinese car industry. Following an international design competition, the German star architect Albert Speer was awarded the contract in 2006 to build a city neighborhood dedicated to the car industry for 300,000 inhabitants, scheduled to be completed by 2015.

Distances

- Beijing approx. 1000 km
- Harbin approx. 250 km
- Shenyang approx. 300 km
- Vladivostok approx. 700 km

The Chinese car market in 2007

The booming Chinese car market

The rapid growth of the Chinese car market has continued undiminished since the People's Republic of China joined the World Trade Organization (WTO) at the end of 2001. In 2007, more than 5 million vehicles were sold in China for the first time ever. With growth of about 22 percent compared with the previous year, China has defended its status as the car market with the most dynamic growth in the world. It has surpassed Germany and Japan and is now the world's second largest national market after the US. Steady growth is forecast for the next few years.

All major car manufacturers are represented in China with their own production locations and joint ventures. Foreign companies dominate with two-thirds of the market, but China's automotive industry wants to catch up and to achieve stronger positioning in the domestic market with independent brands.

Audi in China in 2007

Audi achieved record sales in China in 2007: for the first time, more than 100,000 cars were sold in China and Hong Kong. With growth of about 25 percent, Audi grew faster than the market as a whole. A total of 93,168 cars were produced locally in Changchun – including 73,404 Audi A6 and 19,764 Audi A4 cars. Imports achieved an above-average 115 percent increase to 7,720 cars. The Audi A8 increased 22 percent to 3,401 cars, and sales of the Q7 grew by 349 percent to 3,631 cars. Hong Kong also recorded growth of more than 23 percent (1,108 cars sold).

All this means that Audi continues to be the number one provider of premium cars in China and the fastest-growing premium brand. Audi enjoys a market share of about 45 percent in the local premium segment.

The customer satisfaction that Audi enjoys in China is also reflected in the series of awards it has received. In the famous J.D. Power Study (CSI Study), Audi came out on top yet again in 2006 and 2007 in the "Service" and "Sales" ratings. Audi is the only company which has featured in the top three in each of the last five years. In the 2007 J.D. Power Initial Quality Study, which analyzes complaints from buyers of new cars, Audi took first place for the third time in a row with the fewest complaints. In addition,

the Audi A6L, Q7 and R8 were the winners in their classes in the selection of “Best Cars” of 2008, which was based on a survey of readers of the Chinese edition of Germany’s “auto motor und sport” magazine.

China as the biggest export market

In 2007, China became AUDI AG’s second-largest sales market after Germany, making it the most important export market, with the USA and the United Kingdom following. With 73,404 vehicles sold, China is the world’s largest market for the Audi A6 sedan – even larger than Germany.

Audi’s good position in the Chinese market is the result of a successful partnership stretching back to 1989, initially taking the form of the joint-venture project with the Chinese First Automobile Works (FAW) to build the Audi 100, and subsequently Audi’s inclusion in the FAW-Volkswagen joint venture for production of the Audi 200. These developments paved the way for the successful market launch of the Audi A6.

Audi’s activities in China

Partnership with First Automobile Works (FAW)

The First Automobile Works (FAW), founded in 1953 in the city of Changchun in north-east China, is the oldest car manufacturer in the People’s Republic. FAW comprises over 100 individual companies employing more than 100,000 people in total.

The most important milestones

1988- 1996: Joint venture with First Automobile Works (FAW)

Agreements on the manufacturing of the Audi 100 under license were signed as long ago as August 13, 1988, with this date marking the conclusion of negotiations lasting one year. The Audi 100 (C3 with 1.8l 4-cylinder engine and 2.2l 5-cylinder engine, the Audi 100 C4 with 2.6l V6 and the long-wheelbase Audi V8) was assembled at the FAW Changchun plant from SKD/CKD parts kits (SKD = semi knocked down, CKD = completely knocked down). The joint venture agreement included both the technology transfer for the production and planning of the Audi

100 and the setting up of after sales support. Expertise was in addition transferred by providing training for some 500 Chinese workers at Audi in Germany. Furthermore, around 30 Audi employees were posted to Changchun to provide production support.

The supply of parts kits for the Hong Qi ("Red Flag") by Audi was discontinued in 2003. A total of around 100,000 Hong Qi parts kits had been supplied to FAW since 1995.

Since 1996: Audi in the FAW-Volkswagen joint venture

In November 1993, the then-Board Chairman of FAW and VOLKSWAGEN AG, signed a letter of intent on the integration of Audi production and a V6 engine plant into the FAW-Volkswagen joint venture, which had been established at the end of 1991. As a result of the signing of the agreements in December 1995, Audi acquired a 10 percent stake in the joint venture by the name of FAW-Volkswagen Automotive Company Ltd. Volkswagen AG controls 30 percent, with FAW continuing to hold a 60 percent stake. The joint venture currently employs around 17,000 workers.

The first Audi product built by the joint venture, a modified Audi 100 with V6 engine bearing the model designation Audi 200, went into production in May 1996. The Audi 200 remained in production until summer 1999 (facelift of the Audi 100) with 2.6 and 2.4 liter V6 engines and the 4-cylinder, 1.8 liter turbo power unit. The content manufactured locally at the Changchun plant was 60 percent.

The China version of the Audi A6

The version of the Audi A6 that was modified jointly by Audi and FAW for the Chinese market was brought onto the market in early January 2000. It went into production on September 6, 1999.

Around 200 Chinese engineers and skilled workers attended training courses lasting several weeks at Audi's Neckarsulm and Ingolstadt plants in preparation for this landmark. Through a program spanning several months, around 100 Audi employees provided support for the launch of the new A6 at the FAW-Volkswagen plant. Audi

shipped ultramodern vehicle and production technology (such as laser welding and wax-flooding) to China in order to build the Audi A6 there.

The main customers were initially official bodies and government departments. However, the proportion of private customers, for the most part owners of small and medium-sized companies and successful entrepreneurs, has risen to 70 percent in the meantime.

The new Audi A6L was launched in China in the middle of 2005. Like its predecessor, the A6L built in Changchun is specially designed for the specific wishes of Chinese customers with its long wheelbase. In addition to 4-cylinder and 6-cylinder engine versions, an 8-cylinder version with quattro drive (A6 4.2 quattro) is now being offered.

The locally manufactured Audi A4

Following the major success of the Audi A6 in China, AUDI AG has added the locally built Audi A4 to its product range. The Chinese-built A4 was first launched in April 2003.

Audi sales and marketing

Audi models are sold through an exclusive Audi dealer network that has become a benchmark for the competition. Since January 2006, both the dealerships for locally manufactured Audi products and those for imported Audi models have been integrated into this sales network. Today, 124 dealerships in the 86 most important cities and regions now belong to the sales network. The majority of these are housed in typical Audi-style hangar buildings. As well as the locally built products, the Audi A8L and Audi S8 are also available; the Audi Q7 has been available since July 2006; and the new Audi TT Coupe has been offered since March 2007.

The Audi sales organization was further extended with the opening of five regional offices in Guangzhou (responsible for South China), Beijing, Shanghai, Chengdu and Changchun.

An expansion of the model range available in China is planned for 2008. The Audi R8 was introduced to the market in January, and the Audi A5 and Audi S5 will follow during the course of the year.

The Volkswagen China Investment Limited Group, with its Shanghai Volkswagen and FAW-VW joint ventures, has been named the official automotive partner for the 2008 Olympic Games in Beijing. Within the context of this agreement, Audi – the “Official Premium Car” – will supply about 800 cars for the very first Olympics to be held on Chinese soil.

With numerous initiatives in the field of cultural and sports sponsorship, Audi has further strengthened its brand image in China. The company, for example, sponsors the Beijing Music Festival and the annual Shanghai Fashion Award. The most famous ambassadors for Audi in China include the Chinese star pianist Lang Lang and the internationally successful actress Maggie Cheung.

Audi Forum Beijing

An exclusive Audi Forum was opened in the Chinese capital Beijing in July 2003. This is the ninth Audi Forum worldwide, after cities such as New York, Paris, London and Berlin, and the first in Asia. The Audi Forum, which covers an area of around 1,000 square meters, includes an exhibition section for about nine cars, an exclusive A8 lounge, the quattro boutique and offices.

Communication Audi Sites

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