

Media Information  
19 October 2012

- Check against delivery -

## **Statement**

**Dr. Friedrich Eichiner**

**Member of the Board of Management of BMW AG, Finance**  
**Capital Markets Day China 2012**  
**19 October 2012**

Ladies and Gentlemen,

Thank you for joining us today. We are pleased that so many people are interested in our activities in China.

The Chinese market is a success story for the BMW Group and we aim to continue our success.

China has shown very strong growth.

The Chinese government had set a more moderate growth goal in the current five-year plan than it has in previous five-year plans. Both growth in industrial production and export growth appear less dynamic. However, China remains among the fastest growing economies in the world.

The automotive market and premium segment are also growing somewhat more moderately than in the past few years, but on a broader basis. As of September, the automotive market has grown by 8% to over 9.4 million units in China — making it the second largest automotive market in the world.

The premium segment has a share of 9.5% of the overall market, which is on par with the global average.

As of September, more than 894,000 premium and luxury cars have been delivered in Mainland China – 27% more than last year. That makes the plus segment in Mainland China even larger than that of Germany, with about 688,000 units sold in the same period. In fact, here in China there are more



Media Information

19 October 2012

Date

Subject

Dr. Friedrich Eichiner, Member of the Board of Management of BMW AG,  
Capital Markets Day China 2012

Page

2

premium cars currently being delivered than in the UK, France, Italy and Spain combined.

By the end of the year, Mainland China is expected to have sales of over 1.2 million premium cars. This segment size has been reached very quickly.

As of September, the BMW Group sold more than 237,000 units in China and has grown by nearly 34% over last year. The rate is lower than the previous year. But that was expected and we already announced this trend. After two years of extraordinarily high demand, the base level has increased accordingly.

We expect growth rates in China to trend lower in the future, but they will remain above the global premium segment.

Because of this, we remain confident and are optimistic about our continued performance. China offers many opportunities. But the market is also undergoing a maturation process. We are therefore anticipating changing market conditions in the coming years that will be more in line with those in mature markets. We also anticipate that customers will make more frequent use of financing. The used car market will grow. By the end of this year, we will have about 1 million vehicles of the BMW Group on the road in China.

Our dealers will have additional opportunities with the used car and aftersales business.

The basic growth trends in Mainland China are intact. China's industrialization and urbanization continues – the growth potential among 1.3 billion people is still higher than in any other market. The Western lifestyle remains popular and products are in great demand. This includes a desire for differentiation with premium brands. The demand in our segment continues to be very positive.



Media Information

19 October 2012

Date

Subject

Dr. Friedrich Eichiner, Member of the Board of Management of BMW AG,  
Capital Markets Day China 2012

Page

3

In a relatively young market like China, volatility is higher than we are used to from our traditional markets. We know what we have to prepare for, and we have clear goals: We aim to take advantage of our strong position and continue to grow in the double-digit range.

What is BMW Group's situation today in China? What future expectations do we have?

I will get into these topics shortly. Dr. Stark, the President & CEO of BMW Region China and Dr. Kirchert, Senior Vice President Sales & Marketing of our Joint-Venture BMW Brilliance Automotive (BBA), will then provide more details on our activities in the market.

I would like to start by sharing with you the global situation of the BMW Group.

As of September, the BMW Group is on track to meet its sales targets for the year. In the first nine months, we delivered 1.335 million vehicles — achieving 8.3% growth.

This is a solid performance – especially considering the challenging environment we are currently experiencing in the European markets.

In the coming months, we anticipate a boost in growth from our new vehicles.

For example:

- In Europe, the new 7 Series, the 3 Series Touring and the three-door 1 Series have been available for a few weeks.
- In China, the locally produced X1 and 3 Series Sedan with long wheelbase and the new 7 Series are available.
- In the USA, important models such as the new 7 Series, the 3 Series Sedan with all-wheel drive, and the updated X1 are available.



Media Information

19 October 2012

Date

Subject

Dr. Friedrich Eichiner, Member of the Board of Management of BMW AG,  
Capital Markets Day China 2012

Page

4

For Rolls-Royce, we expect an additional momentum from the Phantom II, which has been coming off the line in Goodwood since September. The Rolls-Royce special model Phantom Coupé Aviator Collection is also available as a limited edition.

Our product momentum continues to gain strength across our entire lineup of vehicles.

We still anticipate ongoing challenging market conditions. We expect the economic environment will keep facing headwinds, especially in Europe. The European markets will likely further slow down in the last quarter of the year. We also expect increasing competitive pressure. We have allocated vehicles that were scheduled for the European markets to growing markets. We have also continuously adapted production to demand.

In China, the US, and in certain emerging markets, we will continue to take advantage of growth opportunities.

Over the full year, we still expect to deliver more units than last year and intend to increase group earnings compared to last year. In the automotive segment, we are targeting an EBIT margin at the top end of our target range of 8%-10%. We are working very hard on achieving these goals – particularly since the conditions in the EU have become increasingly difficult.

Our targets remain unchanged – and we are striving to achieve them. This is based on the assumption that the market conditions do not dramatically change.

In the coming year, we expect little to no change in the market situation. In Europe, we anticipate a continuing challenging environment. This could have corresponding consequences for our pricing. For the United States, China, and other growth markets, we are confident. There, we expect rising sales figures.



Media Information

19 October 2012

Date

Subject

Dr. Friedrich Eichiner, Member of the Board of Management of BMW AG,  
Capital Markets Day China 2012

Page

5

We are maintaining our strategic course. In the coming year, we will continue to invest in our future and for us this means: alternative drivetrains, lightweight construction, and preparations for the launch of new products. It also means increasing brand touch points, including: more ways for customers to access our brands through our FUTURE RETAIL program, and new services.

2013 will be the year of BMW i. With the new BMW i3, we are defining the era of electro mobility. Strategic topics such as further enhancement of our combustion engines, electric powertrain modularity and new business areas require additional investment to maintain and expand our lead in the premium segment.

We will continue our work on these areas next year. As a result, R&D spending and CAPEX will increase in comparison with this year.

The cash R&D ratio for 2013 is expected to be at the top of the range from 5%-5.5%, depending on the trend in revenues. The capex ratio is expected to rise from about 6% this year to a higher level in 2013. Our goal for the following years is to support the strategic target ranges we set for CAPEX and R&D ratios.

The fact that we are maintaining our strategic goals underscores the strength of our position. In the medium term, we want to achieve an EBIT margin in the automotive segment of 8%-10%. We announced this expectation already in 2007 and have achieved this goal since 2010.

This range exceeds our own past margins and positions us amongst the most profitable premium carmakers in the world.

More details on the third quarter will be available when our results are released on November 6.



Media Information

19 October 2012

Date

Subject

Dr. Friedrich Eichiner, Member of the Board of Management of BMW AG,  
Capital Markets Day China 2012

Page

6

Now back to China. We are continuing to focus on this market. Two things in particular justify this:

- Mainland China has great potential for the future as well.
- The significance of China for the automotive industry and the BMW Group will continue to grow.

China has beaten the forecasts for the past years regarding market growth and the speed of development. The market shows stable growth trends in the medium and long term. In the short term in Mainland China, we anticipate double-digit growth rates in the premium segment – and that means higher sales growth than in all other regions in the world. In the medium term, the premium segment growth will be somewhat lower, but on a correspondingly larger basis.

We anticipate that in the long term, China will grow into the largest premium market for vehicles in the world. The country currently has an 18% share of the global premium segment.

Higher income levels are driving consumption. The purchasing power of the population is rising. The salaries of professionals today are already at Western levels. Even today, we estimate that there are about 15 million households in Mainland China, who have a yearly income equivalent of about 100,000 US dollars in purchasing power. Customers with this level of income are able to afford a premium vehicle.

This customer segment will continue to grow: By 2025, estimates show about 104 million households in the upper class in Mainland China.

Chinese consumers are also very brand-conscious with a strong affinity for luxury. Strong brands are highly valued in China and are a key purchase criterion.



Media Information

19 October 2012

Date

Subject

Dr. Friedrich Eichiner, Member of the Board of Management of BMW AG,  
Capital Markets Day China 2012

Page

7

In addition, China currently ranks fourth in the world in terms of the number of people with a net worth of more than USD 1 million.

With the growth in GDP, the number of high net worth individuals will continue to increase. Among emerging markets, China is number 1.

Income growth is closely related to the industrialization and urbanization of the country. The development of new urban areas with around 1 million to 5 million inhabitants has been advancing. The Chinese government is supporting the development of these regions by expanding infrastructure and the road network. Individual mobility will also continue to grow in these cities. I expect these cities to develop dynamically.

Even when accounting for normalization, our outlook on the market is positive. We will continue to seize opportunities in the future.

The BMW Group has an attractive position in the market:

1. We are relying on a profitable joint venture in which both partners are equal.

Brilliance Automotive and the BMW Group work together successfully and as partners. Both partners have a shared goal, but also a clear division of labor.

Another strength for market success is our uniform marketing presence. Our Chinese subsidiary BMW China and our joint venture BBA act together in the market. They closely coordinate brand communication.

We actively apply a one-face-to-the-customer strategy. Our customers receive each BMW from their dealer.



Media Information

19 October 2012

Date

Subject

Dr. Friedrich Eichiner, Member of the Board of Management of BMW AG,  
Capital Markets Day China 2012

Page

8

Our dealers order imported vehicles from BMW China and locally produced models from BBA.

We have a powerful dealer network with a high level of expertise. At the end of September, there were 332 BMW dealers in Mainland China. We are continuing to expand the network, across all tier cities.

## 2. Demand in the premium segment continues to be high.

The BMW brand enjoys an excellent reputation in China. You all know that there have been sporadic negative signals from the market: Some Chinese dealers in past months have reported low profitability and falling margins. This should be put in perspective: Over the past two years, we have experienced extremely high demand that could not be fully met. As usual in emerging markets, it was a challenge to balance supply and demand.

In the past few years, for example, sales above the list price were the order of the day. Demand for new cars was so high that our dealers made the majority of their profits with new cars.

Our dealers normally generate 60% of their revenues from the sale of new cars, and the remainder coming from the sale of used cars and the aftersales business.

In the last few months – due to increased supply – we have seen increasing discounts. Many manufacturers have reallocated vehicles from Europe to China. In this time, we have worked to rebalance supply. The collective actions of dealers and manufacturers have further reduced vehicle inventory.

In the coming months, the consolidation phase should be complete. The growing car park of the BMW Group is opening up new opportunities for us in the Chinese market, and especially for our dealer organization.



Media Information

19 October 2012

Date

Subject

Dr. Friedrich Eichiner, Member of the Board of Management of BMW AG,  
Capital Markets Day China 2012

Page

9

We support our dealers with corresponding training in the growing new business fields of parts and used cars, and in measures to increase customer loyalty. So far, many of our customers are first-time buyers: Their very first automobile is a BMW Group vehicle. Brand loyalty has to be built in such a young market as China. It must be learned. We want to create loyalty amongst our customers, and we place a great deal of value on stable customer relationships.

The MINI brand is establishing itself among the young, urban buyer segment. MINI grew in China by 46% as of September, delivering more than 17,000 units. There are more than 76 MINI dealers in all, primarily in tier-1 to tier-3 cities.

The Rolls-Royce brand has successfully established itself in Mainland China as well. It is now the largest market for our luxury brand, currently with 13 showrooms in Eastern and Central China.

Our motorcycle business has taken its first steps in Mainland China. We are currently present with BMW Motorrad in Beijing and Shanghai.

The motorcycle market also has enormous growth potential and we consider it strategically important.

Profit contributions from China are still very good and are above the global average.

The joint venture is also quite profitable and growing dynamically.

Our strategy of sustainable growth is connected to price discipline. We want to maintain our strong position in the market and use product and brand strength to expand our market share.



Media Information

19 October 2012

Date

Subject

Dr. Friedrich Eichiner, Member of the Board of Management of BMW AG,  
Capital Markets Day China 2012

Page

10

Due to the previous generation 3 Series coming to the end of its model cycle and price pressure in large luxury sedan segment, this was only possible to a limited extend in the past few months. With attractive models, we will return to more favorable pricing. A less volatile supply and demand environment will contribute to this as well.

3. Over the next few months, we anticipate continued growth due to our new models.

The new 3 Series long wheelbase has been successful in the market from the beginning and is seeing very strong demand. This allows us to achieve a solid price positioning. The X1 has also been well received. SUVs are currently in great demand. With the compact model, we want to address new customer groups.

The locally produced 5 Series long wheelbase continues to be very successful. As of September, we sold 73,000 vehicles, representing a growth of 51% over the previous year.

The new 7 Series is now also available in the market. However, this market segment is still under pressure.

4. In general, we will continue to expand our activities in the market.

We are optimizing our processes and structures in the market and are preparing for the next steps for growth.

That first step is our production capacity: In Shenyang, the joint venture opened the first engine plant outside Europe at the beginning of 2012. 2.0-liter four-cylinder twin power turbo engines are produced there. A few months ago, the new plant in Tiexi went into production, where our employees are producing the



Media Information

19 October 2012

Date

Subject

Dr. Friedrich Eichiner, Member of the Board of Management of BMW AG,  
Capital Markets Day China 2012

Page

11

X1 and the new 3 Series Sedan. In Dadong, we are now exclusively producing the 5 series Sedan with a higher level of volumes.

By the end of this year, we will be producing between 140,000 and 150,000 units locally in the two plants.

By the end of 2013, the installed capacity in Tiexi should rise to 200,000 units. Dadong is preparing to be able to manufacture over 100,000 units. In the medium term, if demand holds, we want to produce up to 400,000 units in both plants. Since 2009, BBA has invested a total of 1.5 billion Euros in China. The capacity expansion will require additional investment of 500 million Euros, which will be borne by the joint venture.

We are also continuing to expand BMW Financial Services in Mainland China. We started the business at the end 2010. BMW Financial Services China is still in the ramp-up phase, but is exceeding our expectations and is already profitable.

Our business volume today is about RMB 10 billion. Currently, the subsidiary employs about 200 people in Mainland China. BMW Financial Services is integrated in nearly all outlets in Mainland China.

In the beginning, we were primarily active in the area of dealer financing. Today, the focus of our activities is on financing contracts with end customers. A few months after our business was founded, the Chinese government set restrictive quotas for issuing credit. These restrictions were intended to stem the risk of inflation temporarily and have been loosened in the meantime.

We are working successfully with Chinese partner banks and can therefore offer our customers additional financing options. Our dealers offer customers direct financing with our partner banks. Certain dealer groups work with previously determined partner banks. Since this spring, the demand for financing by end



Media Information

19 October 2012

Date

Subject

Dr. Friedrich Eichiner, Member of the Board of Management of BMW AG,  
Capital Markets Day China 2012

Page

12

customers and dealers has risen. The penetration rate of BMW Financial Services China is currently around 12%.

The path has been cleared for further growth at BMW Financial Services China.

With the X1 on the market, we expect a growing demand for financing. This compact model appeals to a younger customer group with good income and greater demand for credit to meet their consumer desires.

Over the past few years, we have established an outstanding position in China and remain on the path to growth.

This year, we anticipate a sales growth of around 30% and have a confident view of the future. We expect double-digit growth in the medium term – as well as ongoing market normalization.

In the coming year, local production will rise. The increase in sales volume will be driven by the growth in locally produced vehicles. The ratio of imports to local production will change over the next years, and will be more heavily weighted towards local production. We aim to continue expanding our market presence.

In the medium term, China will remain the growth driver in Asia for the BMW Group. We are not relying on China alone, however, but are working to achieve balanced growth throughout the world.

Dr. Stark will now share more details about the Chinese market with you.

Thank you.