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Statement by
Dr. Friedrich Eichiner
Member of the Board of Management of BMW AG, Finance
Annual Accounts Press Conference
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Ladies and Gentlemen,

I would also like to welcome you to the BMW Group's press conference on last year's results.

I would like to start by making two important statements:

1. A decline in retail and unusually high charges characterized 2008 for the BMW Group and the entire industry. We accrued substantial additional risk provisions. We recognized substantial one-off expenses for a voluntary personnel reduction.

2. Management focused on cutting costs, adjusting production, reducing inventories and resolutely managing liquidity. We thus prepared the company with foresight for the challenging business environment this year. We worked hard on our cost structures and improved our efficiency even further.

Let me start with our Group earnings in 2008.

Group revenues totaled nearly 53.2 billion euros. This represents a 5 percent decrease compared to the previous year.

Net of currency effects, Group revenues would have dropped by only 0.8 percent.

Despite the high one-off charges caused by the financial crisis, we achieved a Group EBIT of 921 million euros. This corresponds to an EBIT margin of 1.7 percent.

Company
Bayerische
Motoren Werke
Aktiengesellschaft

Postal Address
BMW AG
80788 München

Telephone
+49 (0)89 / 382-28042

Internet
www.bmwgroup.com

Profit before tax was clearly positive at 351 million euros, but was 91 percent down year on year. This was caused by the decline in retail and the unusually high charges mentioned earlier, which amounted to more than 2.4 billion euros.

Let me review the one-off charges that had the largest impact on our earnings.

- We accrued additional risk provisions for our financial services business. More than 1.97 billion euros were additionally recognized for residual value and credit default risks. I will say more on this shortly.

- We spent some 455 million euros on personnel measures as part of our severance program. We expect this to result in 500 million euros in annual savings moving forward.

At their core, the Group's operating activities were very successful. The following adjustments show the company's operational strength.

Without the aforementioned additional charges, Group EBIT would have totaled 3.3 billion euros. On this basis, the EBIT margin would have been 6.3 percent.

This proves that the company fared well and demonstrated its operating strength in a very challenging business environment. Initiatives from strategy Number ONE made a major contribution to this. They enabled us to optimize costs even further. By taking action early on, we improved the company's performance once again.

This brings me to the individual items on the income statement.

Our cost of sales in 2008 were slightly up year on year. They rose by 1.1 percent to 44.3 billion euros. The charges mentioned earlier—namely the risk provisions, the decline in retail and the effect of currencies and raw material prices—had the biggest impact on the gross profit.

The sales cost amounted to more than 4 billion euros and were down 5.5 percent year on year. The ratio of sales cost to revenues was unchanged. This development benefited from our comprehensive optimization measures.

Our administrative costs were up 36 percent owing to the unusual personnel expense. Net of the severance payments, the BMW Group would have improved in this area as well. This proves that actions taken to streamline administration are showing the desired results.

Research and development costs according to IFRS amounted to 2.8 billion euros. They were thus 95 million euros lower year on year. The ratio of R&D costs to revenues according to IFRS was 5.3 percent. This puts us in the R&D ratio target range of 5 to 5.5 percent which we aim to achieve by 2012.

The capitalization ratio was 42.7 percent.

We continued to invest in future technologies and efficient drive systems. In the process, we benefited from significant improvements in efficiency in research and development.

We want to maintain our technology lead, especially as regards efficient and alternative drive technologies, light weight construction and active safety systems. They give us a clear competitive advantage. In the future, we will leverage more synergies and make significant improvements in enhancing efficiencies.

We will change the structure of our income statement from the interim report on the first quarter of 2009 onwards. The change relates to the separate statement of our research and development costs. Since we adopted IFRS in 2001, you have seen them as a separate item on the income statements in our financial statements. We were asked by the German Financial Reporting Enforcement Panel to disclose research and development costs under sales costs in the future. We decided to comply with this request from fiscal 2009 onwards. In addition, we will make sure that research and development costs are transparent to you through relevant commentary in the notes.

At -570 million euros, the financial result was much lower than in the previous year. This is due to the other financial result. The decline largely stems from the negative effects of the measurement of stand-alone interest derivatives resulting from the change in the interest structure. In the previous year, the conversion of the Rolls-Royce exchangeable bond had a positive effect on the financial result of 97 million euros.

The 351 million euros in profit before tax were taxed 21 million euros, compared to 739 million euros in tax in the previous year. The effective tax rate in 2008 was thus 6 percent, compared to 19 percent in 2007.

Deducting taxes results in a net profit of 330 million euros. The return on sales after tax was thus 0.6 percent.

Net profit is used to calculate earnings per share of common stock. They amounted to 49 euro cents, and the profit per share of preferred stock amounted to 51 euro cents.

The BMW Group is maintaining its stakeholder oriented approach and considering shareholder interests appropriately despite the difficult environment. The Board of Management and the Supervisory Board are proposing a dividend of 0.30 euros per share of common stock and 0.32 euros per share of preferred stock to the Annual General Meeting. The dividend payment totals 197 million euros.

Now I would like to briefly address the fourth quarter.

We earned 12.8 billion euros in revenues within the Group. Revenues were 2.8 billion euros lower year on year due to the decline in retail.
Automobile production was reduced by 96,000 units compared to the previous year. We were foresighted enough to avoid stockpiling.

We suffered unusually strong burdens in the fourth quarter, the extent of which was impossible to predict.

We had to spend an additional 800 million euros for residual value risks alone in the fourth quarter. This was compounded by 131 million euros in expenses for credit default risks. The one-off personnel expense totaled 197 million euros. These charges resulted in a negative Group EBIT of 718 million euros in the fourth quarter.

Net of these substantial one-off effects, Group EBIT would have clearly been in the black in the fourth quarter, at +410 million euros.

We are convinced that the fourth quarter was significantly affected by the turmoil on international capital markets. As regards the amount of the additional charges, we do not view this as being the trend for the coming months.

What counter-measures have we taken to cushion the negative effects?

- In 2008, we reduced fixed costs compared with the previous year. This is reflected in the sales costs and administrative costs adjusted to exclude the one-off expense.

- We also realized substantial savings in material costs. We optimized our value-added chain lastingly in terms of costs, quality and innovations. In addition, we achieved substantial productivity improvements in our in-house manufacturing. Furthermore, we will benefit even more from the use of component kits and increased component sharing between our model series in the future.

- But cost structures were not the only area we worked on in order to prepare ourselves for the difficult environment. We strengthened our robust financial position even further. Despite the turmoil on capital markets, we managed to strengthen our liquidity and expand it proactively for 2009. As of December 31, 2008, the Group had 8.1 billion euros in cash and cash equivalents. I will come back to this point shortly.

Before moving on to the performance of the individual segments, I would like to inform you of the change in segment reporting. We want to make our reporting as transparent to our shareholders, partners on the capital market and the public as possible. Therefore, we applied IFRS 8, the mandatory segment reporting standard from fiscal 2009 onwards, early to our 2008 statements. We have exceeded the transparency requirements. From now on, we will prepare separate balance sheets, income statements and cash flow statements for our segments. Naturally, this change has no effect on our earnings.

This means, as you can see here, that we provide disclosure for all major key figures for each segment. The reported segment results are the basis for the BMW Group's segment-specific key performance indicators.

This chart gives you an overview of the new way in which we present our segments. From now on, we will disclose a full balance sheet, income statement and cash flow statement for the Automobiles and the Financial Services segments.

Consolidations are now stated separately from the BMW Group's other entities. The Other Entities segment includes all of the companies that cannot be clearly assigned to one of the core business areas. In the BMW Group, these are primarily the holding and Group financing companies. The "Reconciliation to the Group figure" column states the consolidations as well as amounts that cannot be assigned to any of the individual segments.

Company assignments to the segments differ from the old company assignments to the sub-groups. Assignments by segment are clearer.
Now I would like to comment on the financials of our individual segments.

Let me start with the automobile business.

In this segment, we posted revenues of 48.8 billion euros, falling 9.4 percent short of the high level achieved in the previous year.

At 690 million euros, EBIT was 2.76 billion euros down year on year.

RoCE of the Automobiles segment was 4.9 percent, compared with 24.7 percent a year earlier. Net of the one-off charges I mentioned earlier, RoCE would have amounted to 14.6 percent.

The significant decline in earnings reflects the substantial burdens experienced in the last financial year. This slide shows some of the causes of this sharp decline in earnings:

- The decline in retail as well as mix and price-related effects reduced earnings by 1.45 million euros.

- The additional risk provision for residual values decreased our earnings by 911 million euros.

- The additional currency charge of 387 million euros foreshadowed over the course of the year primarily stems from the US dollar and the British pound.

- The severance payments mentioned earlier had a negative effect of 452 million euros on the Automobiles segment.

- Depreciation and amortization had a further adverse effect on earnings of 16 million euros.

- Raw material price increases had an earnings-reducing impact of 196 million euros.

Conversely, efficiency enhancements had a positive effect of 801 million euros. What I said regarding the Group as a whole also applies to the Automobiles segment. Our overall operating performance improved. We succeeded in becoming even more efficient and reducing fixed costs even more. We improved efficiency by 450 million euros compared with 2007.

We increased productivity by 7 to 8 percent, although we manufactured far fewer units than originally planned. Therefore, this rise should be viewed even more positively.

Moreover, we stepped up efforts to manage working capital efficiently very early on. Our proactive and foresighted management activities involved decreasing production, optimizing receivables management and reducing inventories in good time. This decreased our net current assets by nearly 1.2 billion euros.

In light of the significant decline in retail, the Automobiles segment had a moderate level of free cash flow of -81 million euros as of December 31. Free cash flow was only marginally negative in the fourth quarter as well. In sum, this development is proof of our solid financial management. We are better positioned in this area than many competitors.

Our 9 billion euros in net financial assets in the Automobiles segment give us a solid position from which to tackle the challenges of 2009.
Due to the introduction of new segment reporting from the 2008 annual financial statements onwards, we now report net financial assets for the Automobiles segment and no longer do so for the Industrial Operations sub-group.
The method for calculating net financial assets was adjusted to the practices common in the auto sector. Now, only internal receivables and liabilities from financing activities are netted against each other.
The positive development in 2008 was driven by the higher level of cash and cash equivalents and the rise in internal net financial receivables of the Automobiles segment companies. Net financial receivables of the Automobiles segment from the Other Entities segment were up some 4.5 billion euros to 8.2 billion euros. This was primarily due to the reassignment of subsidiaries as part of an internal restructuring. The internal loan to the financial services business amounts to 3.5 billion euros. It is thus essentially unchanged compared to its level after nine months.
Financial liabilities also grew year on year, increasing to about 4.8 billion euros. The rise stems from capital market borrowings by companies that belong to the Automobiles segment.

Therefore, in 2008, our net financial assets totaled 9.0 billion euros.

Given the difficult business environment, our financial management focused especially on maintaining a high level of liquidity and widely diversified financing.

Furthermore, we strengthened our cash and cash equivalents substantially in 2008. This was achieved through successful capital market transactions with international investors and the expansion of the customer deposit business.

This brings me to the Financial Services segment.

We concluded just under 1.2 million new contracts with end customers—10.3 percent more than a year earlier. Contracts on hand with end customers and dealers thus rose by 15.2 percent to a total of 3.03 million units.

The business volume based on balance sheet carrying amounts rose 12.3% to 57.6 billion euros.

We steered growth more towards credit financing via our proactive management in this area. The lease penetration rate was thus essentially flat. In total, the penetration rate rose to 48.5 percent in the year under review.

The Financial Services segment recorded a negative profit before tax of 292 million euros.

The main reason for the decline in earnings was the negative impact of the additional risk provision of 1,057 million euros. The rise in refinancing costs also played a role. Credit risks had a negative impact of 363 million euros. The risk provision for the leasing portfolio's residual value losses was the single-largest item. Expenses for the entire volume of leases on hand totaled 694 million. Contractual risks were primarily in the USA, UK, Germany and Canada. We accrued an additional risk provision of 580 million euros in the fourth quarter alone.

Without these additional charges, our EBT for 2008 in this segment would have amounted to 768 million euros, which would have been a year-on-year improvement of 3.4 percent. On this basis, the return on equity would have been 19.1 percent.

From our current perspective, we have sufficiently considered the foreseeable exposure of all our contracts to residual value risks with the risk provisions we have built in both segments.

We observed a marginal improvement on the US used car market in January and February: The average residual value loss per vehicle declined slightly. This is in line with our forecasts. Based on our assumptions, the situation on this market should stabilize and eventually improve over the medium term.

Of course, we are aware of the volatility of this business field. Therefore, we cannot completely rule out further residual value risks in 2009. In the end, this will depend on the development of the markets.

Last year, we further made a proactive move to reduce the number of lease agreements in the USA in favor of credit financing. This will result in a significant decline in lease returns in 2011 compared to 2008.

As a precautionary measure, we significantly lowered the residual values included in those lease agreements concluded last year. This reduces the residual value risks for new contracts.

In the last few months, we have taken a series of measures on the US market in order to bolster our residual values:

- We adjusted monthly lease installments in order to take the residual value trend and the rise in refinancing costs into account.

- We refined our used car strategy for the American market. Its measures support the marketing of returns. Our successful CPO program is one of the elements. CPO stands for “Certified Pre-Owned.” We offer these cars with

extended warranties once they have gone through an extensive maintenance procedure.
Last year, we delivered more than 104,000 CPO cars in the USA—14 percent more than in 2007. We see strong demand for our CPO vehicles at present.

- This enabled us to reduce inventories in the USA and the number of our vehicles in stock at dealerships substantially. BMW and MINI currently rank among the top five brands with the lowest number of days in inventory in the USA.

- In addition, we reduced the risk of credit losses even further by making our credit award process even stricter. Our rigorous creditworthiness checks ensure that we are only exposed to manageable risks when entering into new credit agreements. The credit loss rate rose to 0.59 percent compared with 0.46 percent in the previous year.

  However, we cannot rule out a further increase in credit defaults due to the global economic situation.

Despite these effects, the field of financial services is attractive to the BMW Group, both now and in the future. Leasing gives us the opportunity to put a well-to-excellently equipped car into the hands of a customer every three years. In contrast, vehicles purchased with cash are usually kept by the first owner by an average of over five years. On average, extras ordered for purchased cars are 40 percent lower than those for leased cars. The loyalty rates for leased cars are encouragingly high, at over 75 percent.

All in all, the environment on the leasing market has changed because a number of competitors have abandoned the business. Leasing is and will remain a good tool for the BMW Group to ensure customer loyalty over the medium term. Despite higher refinancing costs and the additional risk provisions, the Financial Services segment is profitable in organic terms and is an important element of our Group strategy.

The dependence on money and capital markets becomes especially evident in light of the world financial market crisis. The BMW Group has managed to refinance itself without a problem since last September, but at much higher costs.

In light of the more favorable basis interest rates caused by the interest-rate cuts implemented by the central banks, we expect that the rise in refinancing costs will remain within limits.

As mentioned earlier, we diversified our refinancing tools: This includes the customer deposit business in Germany and the USA as well as the issuance of benchmark bonds, private placements, commercial paper, ABS (asset-backed securities) and bank loans. These instruments and our numerous contacts with investors will enable us to secure seamless refinancing going forward as well.

Financial services now account for about two thirds of total assets. Therefore, we are looking into the further development of the structure of the financial services business. In so doing, we aim to make progress in optimizing refinancing and improve risk management.

Now I will provide you with some information on the Motorcycles segment. BMW Motorrad nearly managed to match the previous year's retail figure and generated 1.23 billion euros in revenues in a difficult market environment. Regardless of the underlying conditions, the segment expanded its product portfolio and launched several new models.

The EBIT amounted to 60 million euros due to the difficult economic framework, and was thus 25 percent down year on year. RoCE was 13.9 percent.

What awaits us in 2009 and how will we react to the challenges? This year, we expect the market to shrink by 10 to 20 percent compared to 2007. We have initiated measures that will help minimize the negative effects on earnings. And we will maintain this course with resolve.

Processes to prioritize costs have been introduced successfully across all levels. Cost control will be a top priority in the next few months as well. We are consistently continuing the efficiency-enhancement measures introduced by strategy Number ONE.
We expect our cooperation with Daimler AG to result in cost advantages as well: We will leverage economies of scale when purchasing jointly developed parts.

We have been regularly holding talks on pooling purchasing volumes with Daimler AG. Both parties have identified a double-digit number of suitable components. None of these components help differentiate between the brands or are relevant from a customer perspective. Both companies—as well as our suppliers—will benefit from this in the foreseeable future.

We are making a huge effort to further optimize the use of our capital. We have identified the potential to reduce capital expenditure in 2009 to less than four billion euros compared with 2008. In light of the large number of vehicle projects, this is an ambitious goal, which we will achieve through efficiency improvements and optimization measures. Nevertheless, we will continue to invest in our future.

Thanks to our Strategy Number ONE we are looking into the future with confidence. We are certain of having the right strategy and the best products—also and especially given the difficult global environment.

This forces us to make some significant cuts. Cost management is our top priority today and in the months to come. Our staff understands how necessary this is. We will continue to chart our existing course for cost reduction and efficiency optimization on this basis.

We continue to actively manage net current assets (working capital) and free cash flow. Safeguarding and increasing our liquidity is also extremely important.

In so doing, we are setting the stage for giving the BMW Group the best possible position for this financial year and afterwards. The Board of Management of the BMW Group and all its employees will fight for every vehicle sold, for every cent saved and for every cent earned. If the economic environment should worsen, we will reassess the situation and work on the basis of a new scenario if need be.

We view the current situation as an opportunity, as a fitness program for our company. We will use this year to optimally align the BMW Group for the challenges we face today and prepare for the growth opportunities we will have tomorrow. We continue to invest in our future-oriented areas since they are the key to our future success. With our strategy Number ONE, we are charting the right course—also in light of the challenges in 2009.

Thank you for your attention!