

**Speech of**  
**Dr. Norbert Reithofer**  
**Press Conference on the Strategic Realignment of the BMW Group**

**Munich, 27 September 2007**

Embargo: 27 September 2007, 3:00 pm

– Check against delivery –

Ladies and Gentlemen,

I, too, would like to express my sincere thanks for your attending this press conference!

The BMW Group is about to implement a fundamental strategic realignment.

I know that many of you believe this will primarily involve one of the three following options:

- First: a major acquisition or merger.
- Second: a restructuring along with mass layoffs.
- Or third: a brand-new business model.

Our definition of strategy is a long-term and target-oriented approach. Forward-looking action on the basis of comprehensive analyses is what has enabled this company to prosper for over 90 years now.

We as the BMW Group will continue to chart our own course.

The Board of Management has taken the time for a very thorough strategic review.

For us, it was worth it. After all, our new strategy is the framework for all our future decisions. We have defined what we intend to do as well as what we do not want to do in the future.

The Board of Management set the course for the company's future on its own instead of handing over this task to external consultants. And this very fact guarantees that our strategy will be implemented.

Our strategy will lead the BMW Group through some fundamental changes.

1. We will consistently align the BMW Group to achieve profitability and increase value over the long term.
2. We will create the basis for ensuring the Group's long-term growth.
3. We will share the company's success with our shareholders to a greater extent.
4. We will start a program to tap into efficiency potential amounting to billions.

5. We will engineer new technologies in the field of mobility within the scope of an innovation initiative.
6. We will focus even more on our customers. They will be the benchmark for all our activities.

All of this will ensure the company's success and safeguard the Group's independence.

Ladies and Gentlemen,

Why are we launching a new strategy at this point in time?

The BMW Group is acting today from a position of strength:

- We are the world's leading manufacturer of premium automobiles in terms of retail. This is backed by the largest product and market initiative in our corporate history.
- With BMW, MINI and Rolls-Royce, we have three extremely strong and authentic premium brands.
- The BMW Group is the most attractive employer in Germany.
- The Dow Jones Sustainability Indices ranked us first in our sector in terms of sustainability for the third consecutive year.
- We have gained a clear lead over our competitors in reducing CO<sub>2</sub> emissions – thanks to our EfficientDynamics initiative.

This shows that we are successful!

But, would the BMW Group have remained so successful if the company had not changed course? Would we have been able to increase our company's value over the long term?

- While retail and revenues have risen steadily in recent years, our profit has displayed disproportionately low development.
- Our key performance indicators have worsened.

On top of that, our retail curve would have leveled off substantially once the second step of the product initiative came to an end a few years from now. If we didn't take measures to adjust our strategy, our growth would slow down.

We clearly realized: Yesterday's formula for success will not work in the future.

This assessment was supported by the analysis of the many external challenges that affect us at present and that will intensify in the future:

- currency burdens that we have to cope with as an international company,
- rising raw material prices and the depletion of fossil fuel reserves,
- stricter regulatory conditions, which face us with requirements that differ widely from one market to the next,
- the public's increased environmental awareness and the debate concerning the acceptance of individual mobility in the future,
- the aging population in our key sales markets, and
- The limits of mobility in increasingly densely populated areas.

We conducted an in-depth study on the business environment to address these challenges along with 200 other trends.

It became obvious that our competitive position was at stake. We realized that we couldn't carry on as we had before.

We therefore took action!

- We carried out a comprehensive evaluation of all the opportunities and risks relating to our future growth.
- We chose the opportunities we wanted to take advantage of and created a timetable.
- We set the stage for the BMW Group's ongoing success – in the interests of our shareholders and all of the other stakeholders.

The reach of our strategy is until 2020. Our strategic objective is: The BMW Group is the leading provider of premium products and premium services for individual mobility.

As you know, any good strategy only unleashes its full potential in the medium to long term. Nevertheless, we set ourselves an milestone for the first five years to 2012.

We will significantly improve our profitability and capital efficiency.

To this end, we will focus the entire organization more strongly on the return on capital. We will reduce capital expenditure per vehicle.

- Our future key performance indicator for our automotive business is the Return on Capital Employed. We intend to achieve a RoCE of 26 percent in the Automobile segment by 2012.
- This results for the EBIT-based return on sales of 8 to 10 percent in the Automobile segment.
- We aim to increase our automobile retail to 1.8 million units.
- We will increase our motorcycle retail by 50 percent to 150,000 units per year.

We will also take another step forward in improving the transparency of our financial reporting: We will extend our segment reporting in the business year 2008, breaking down performance by operating segments. In the process, we will introduce new financial targets and key performance indicators for BMW Motorrad and Financial Services.

Furthermore, we have set ourselves ambitious long-term growth targets.

Once again, the main focus here is to place profitability and earnings quality at the forefront. This will be the basis of all our decisions.

As far as retail volume is concerned, we intend not only to remain the world's leading premium provider in the automotive industry. By 2020, we want to lead all of the segments in which we are active.

What this means is that we intend to increase our automobile retail to more than two million units by 2020. This includes completely new vehicle concepts for individual mobility.

We will launch a far-reaching program to tap into efficiency potential today in order to achieve our ambitious profitability targets.

It is designed to tap approximately six billion euros in efficiency potential by 2012 – compared with our original budget.

This is the cost we would have had to bear if we had continued growing on the basis of our current level of costs. These efficiency measures will allow us to sustainably improve earnings quality and to cover risks arising from currency exchange rates, raw materials and legislation. In addition, they will give us flexibility for investing in future technologies.

The program includes measures that will have a lasting effect on both cost and performance.

We will take our very own approach here as well:

From today to 2012, we will keep our headcount stable while taking on additional tasks. We follow the principle of EfficientDynamics. What this means is: More output from less input.

As far as performance is concerned, we understand “more output” as:

- additional earnings potential from expanding present operations and launching new activities and
- positioning our vehicles consistently in the premium segment.

This will lead to a significant improvement in revenue and profit per unit.

As far as costs are concerned, we understand “less input” as:

- a rise in productivity of at least 5 percent per year,
- putting all of our costs structures to the test,
- a reduction in costs, capital expenditure and capital employed per vehicle,
- economies of scale through cooperation in the fields of components, modules and drive systems,
- the standardizing of processes, and
- taking additional measures to counter currency-related burdens.

We will continue to step up natural hedging and global sourcing:

- We will increase the production capacity of our US plant in Spartanburg to 240,000 units. Plans for the expansion are already underway.
- We will also strategically increase purchasing in US dollars.
- We will raise the Oxford MINI plant's capacity to 260,000 units per annum – without making additional structural investments.
- We will take the first step to increasing our capacity in China from 30,000 to 44,000 units a year.

We will implement these measures to take the efficiency of our high-performance organization to a new level within the next five years. And this will definitely improve the Group's profitability over the long term. So at the end of the day, the BMW Group will be even more attractive to shareholders.

And we plan to do even more for our shareholders in the future!

- The Board of Management will propose to the Supervisory Board and the Annual General Meeting that the dividend for the 2007 financial year be increased substantially. This is only a first step. We are convinced that our strategic review will bring about lasting success. We will continue to let our shareholders directly participate in our company's success. This is important to us.  
And I would like to add that a further increase in the dividend will not have an effect on our employees' profit sharing plan. This is why we set a cap here.
- We have the option of a share buyback on the table. However, this is not on the agenda for the next twelve months. For the time being, we will concentrate on increasing the dividend payout ratio.
- The incentive program for our management will be realigned. In the future, executive pay will be based both on the company's earnings quality and on individual performance.

We are doing more for our shareholders. And we are doing more for our associates as well.

In order to safeguard their pensions, we will fund out our pension obligations in three phases over the next few years starting in 2008. Thereby, we will also reduce the risks associated with our pension obligations amounting to about four billion euros.

We examined all of the options for future growth as we worked on our strategic review.

We did not rule anything out and are ready to break new ground and define new frontiers.

We took a look at the competitive environment to determine whether we can generate added growth by purchasing a fourth brand. Such a brand would have had to meet the following criteria:

1. An additional automotive brand would have to be a perfect fit for us and our strengths.
2. Rising unit figures would have to result in a decline in unit costs and thus lead to economies of scale.
3. The new brand would have to at least make the same contribution to earnings as our existing automobile business.

None of the automotive brands we evaluated meets our requirements at present.

In the meantime, we took action in the Motorcycles segment during the strategic review and acquired the Husqvarna brand which has a rich tradition. Its sporty profile will enable us to attract younger target groups even more rapidly.

In principle, we will keep acquisitions on our agenda. We defined clear criteria for potential acquisitions within the scope of our strategic review. This will allow us to act swiftly whenever necessary.

The premium business remains our strength –

not the near-premium business, nor the mass market segment.



What this translates into for our automobiles and motorcycles is:

- ground-breaking design,
- high emotionality, and
- product substance.

As far as our services are concerned, this means:

- resolute customer focus,
- comprehensive service, and
- innovative mobility solutions – anytime, anywhere.

Another – and of course obvious – option in our strategic review is further growth via new models from our existing brand portfolio.

In order to focus on capital efficiency, we will further continue to make our product decisions based on derivative utilization as well as on modular systems.

Here is an outlook until 2012:

- We would like to confirm the announcement of the BMW X1. This model is going to complement the successful X family, together with the BMW Concept X6 presented at the Frankfurt Motor Show.
- Furthermore, we decided to manufacture a four-door Gran Turismo based on the CS concept study showcased in Shanghai.
- Another result of our strategy is that we will not build a space-functional concept. It will be replaced by a fundamentally altered concept. What I am talking about here is a new segment. We currently call the concept Progressive Activity Sedan or PAS in short. Expect this concept to introduce its own interpretation of the sedan and to surprise you with intelligent features.
- As far as Rolls-Royce is concerned, we would like to confirm our plans for the third variant of the Phantom: a coupe. Moreover, we reevaluated and confirmed an additional Rolls-

Royce model during our strategic review. It will slot in below the Rolls-Royce Phantom in terms of both size and price.

- At MINI, we opted for a further model in the sports activity vehicle segment.
- We will continue to extend the range of products under our BMW Motorrad and Husqvarna Motorcycles brands in the years ahead.

Further product decisions beyond the planning horizon until 2012 have been taken. Nevertheless, we cannot provide any details at this point.

We will tap further growth potential as regards the markets as well. The greatest opportunities are harbored by the BRIC markets, with China and Russia leading the way. We will seize these opportunities, by expanding our retail network, for instance.

Going beyond our core business and the above-mentioned strategic directions – products and markets –, we identified additional growth prospects concerning segments situated along the vehicle lifecycle and along our industry's value chain.

We defined specific potential in both areas and all suitable options will be pursued consistently in order to achieve a significant result contribution in the future. I hope you will understand that we need to protect our competitive advantage. Therefore, I cannot give you any details right now.

The mobility of the future was an issue we tackled alongside different options for growth.

This is an area involving growth through new vehicle concepts.

Demands placed on mobility are undergoing fundamental change. Moreover, driving in increasingly densely populated areas is different than going out on a dynamic drive in one's spare time.

The BMW Group will invest substantially in future technologies with a view to developing entirely new mobility solutions. This applies to design, concept and drive systems.

In concrete terms, we are striving to achieve an additional retail volume in a six-digit range by 2020. We made a conscious decision to leave the choice of concepts, technologies and drive systems with which we will achieve this open.

Ladies and Gentlemen,

I am firmly convinced that this strategy will lead us to continued business success.

Business success and responsibility are firmly linked to each other.

Global change poses a major challenge to the BMW Group as a company. We pursue clearly defined strategic goals and assume responsibility:

- First: Our development strategy EfficientDynamics gives us an edge over our competitors. We continue to invest in high-efficiency combustion engines as well as alternative drivetrains – ranging from full hybrid to hydrogen drive. Our vision for individual mobility of the future is: Zero-emission driving. And the BMW Hydrogen 7 shows one way to do this.
- Second: As an industrial enterprise, we are confronted with the depletion of natural resources. This is another area in which we are very ambitious: The BMW Group should be the most responsible company when it comes to using natural resources. This principle applies to the BMW Group's entire value chain, running the full range from purchasing and production to recycling. More importantly, we are making further inroads in sustainable development within the BMW Group. This is reflected in what our associates do every day.
- Third: It is a known fact that social causes matter to the BMW Group. We make our contribution exactly where we see the possibility to make a difference. We will point the way to the future with exemplary lighthouse projects. Launching social projects – the way we see it, this is also what being a good corporate citizen is about.
- Fourth: Assuming responsibility is also crucial within the company. Part of the review required bringing our corporate values in line with our strategy. This involved redefining some of our existing basic principles.

Why is this important to us?

We would like to create just as much value for ourselves as we do for society. This added value is called future viability.

Ladies and Gentlemen,

Corresponding with our strategy, the entire Group will be realigned.

The BMW Group's basic organizational structure has remained mostly unchanged since 2000. Due to the new strategy, however, complexity of our tasks will rise significantly. This is exemplified first of all by our strategic directions – products, markets as well as new business segments and activities along the vehicle lifecycle and the value chain.

In the end, this means that all divisions will have to shoulder significantly more challenging workloads. And each area will have to find its own approach and focus to deal with the tasks at hand.

In a nutshell: Strategy implementation requires a high-performance organization capable of handling the complexity of our activities and generating growth.

Given that, we brought our organizational structures in line with the new strategic requirements.

The Supervisory Board followed our proposal to create two new divisions. Accordingly, we appointed two new members to the Board of Management this morning:

- By establishing the new division Corporate and Brand Development, we have underlined the importance of corporate planning, brand management and strategic implementation. The new division will help the entire company focus on the defined objectives. It will also be home to BMW Motorrad, Financial Services and Softlab, three business units that will be developed further according to our strategic targets. If new business units result from the strategic review, they will be assigned to this division as well. The division will be headed by our former director of corporate planning, Dr. Friedrich Eichiner.

- The new division Purchasing and Supplier Network is also a direct result of our strategic review. This division will primarily be responsible for optimizing the process chain, from raw material to finished products, with the top priority of lowering material costs while improving the quality of parts. After all, this is our major expense factor. Correspondingly, our strategic approach includes optimizing the interface between the BMW Group and its supplier network as well as redefining the share of in-house activities in strategically relevant technologies. This is why the new division includes material procurement, parts logistics, as well as the vehicle components and systems area. Dr. Herbert Diess, up to now in charge of BMW Motorrad, will be head of this division. He has made major accomplishments in these areas at BMW Motorrad. In addition, his professional background with Bosch makes him an expert on the supplier side.

In conjunction with implementing our strategy, we decided to make a so-called castling move, like in chess, to secure our future competitive edge. Dr. Michael Ganal and Stefan Krause will in the future take on each other's current responsibilities. As you well know, they are both very familiar with corporate culture within the BMW Group. This move underscores our flexible personnel policy. We want our executives to be global thinkers, highly skilled and able to apply their expertise in various areas throughout the Group. This has proven a mainstay of our business savvy.

In the future, Dr. Ganal will be heading the finance division while Mr. Krause will be in charge of sales and marketing. Both colleagues have done an excellent job for years. They are now going to give fresh input to their new divisions by sharing their vast experience in leading their respective teams.

Besides the structural realignment and the board reorganization, internal implementation will be ensured by two board committees:

- I will head up the "Strategy Implementation" Committee myself. The committee's task is clear: guarantee implementation and review progress made.
- The Board of Management's "Profitability Improvement" Committee will be headed by our CFO, Michael Ganal. He will see to it that all our divisions and all our projects are completely in line with our efficiency targets.

So let me name my colleagues on the Board of Management in alphabetical order:

- Frank-Peter Arndt for the production division
- Ernst Baumann for the division human resources, Industrial Relations Director
- Dr. Herbert Diess for the division purchasing and supplier network
- Dr. Klaus Draeger for the development division
- Dr. Friedrich Eichiner for the division corporate and brand development
- Dr. Michael Ganal for the finance division
- Stefan Krause for the division sales and marketing.

There will be a photo opportunity following the Q&A session.

Implementation of our strategy within the new structures and with the new Board of Management will start on October 1.

Ladies and Gentlemen,

The BMW Group is at the beginning of a new era.

Thank you!