

Information

19 March 2008

- Check against delivery -

Statement by Dr. Michael Ganal, Member of the Board of Management of BMW AG, Finance, Financial Analysts' Meeting Munich, 19 March 2008

Ladies and Gentlemen,

I would like to address the three following topics in the next 40 minutes:

1. The 2007 financial statements with special regard to the factors on our earnings.
2. Our outlook for the current financial year.
3. The status of our efficiency-enhancement program, which we initiated as part of our strategic realignment.

1. 2007 Review

1.1. Brief Overview

Let me start with the 2007 financial results.

As Dr. Reithofer explained earlier, we have achieved our targets for the year, despite the ongoing difficult conditions:

- We increased Group revenues by 14.3% to 56 billion euros. We therefore surpassed the 50 billion mark for the first time. Adjusted for currency effects, revenues rose by 17.6%.
- We earned a profit before tax of 3.87 billion euros.

In absolute terms, this corresponds to a decline of 251 million euros, or 6.1 per cent.

But, adjusted for the one-off effects of the exchangeable bond option on our shares in Rolls-Royce plc, as announced, we achieved a gain over the

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previous year of 0.6%.

In 2006, the exchangeable bond had a positive impact of 372 million. We also felt a positive effect from the exchange of the last remaining shares. But, at 97 million euros, it was very much lower.

- We increased the earnings before interest and tax – EBIT for short – by four per cent to 4.2 billion euros.

This proves that:

- We met our forecast.
- We kept our promise!
- But we still have a rather long road ahead of us if we want to achieve the targets we set ourselves by 2012.

This rounds up my overview. Before we go into the Group's income statement and balance sheet in more detail, let me give you a summary of the development of our three operating segments: Automobiles, Motorcycles and Financial Services.

1.2. Segment Summary

Automobiles

Starting with the automobile business:

- We have already provided you with extensive information on our positive retail trend.
- Thanks to high customer demand, revenues generated by the automobile business rose by 12.7% to 53.8 billion.
- In sum, we were therefore able to increase our operating result: EBIT generated by this business amounted to 3.45 billion euros, which was 12.9% more than in the previous year.

The main effects on earnings are presented on this chart.

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- Once again, the strongest headwind came from currencies, with the US dollar and Japanese yen leading the way. At 517 million euros, the additional charge was below the 666 million euros experienced a year earlier. Nevertheless, we are still dealing with a huge magnitude here.
- In addition, we suffered heavier burdens because of higher raw material prices. In sum, we had to bear 288 million euros in additional costs. By comparison, additional costs incurred in 2006 amounted to 178 million euros.
- Depreciation rose as well – by 403 million euros. And here's the reason why: the investments we have made as part of our product campaign in recent years. They now lead to depreciation over the products' life cycles.

We thus had to shoulder 1.2 billion euros in additional charges on the bottom line. This represents nearly 40% of our 2006 EBIT!

This is some strong headwind. But we wouldn't be the BMW Group if we didn't know how to compensate for this.

- We recovered 1.4 billion euros above all through higher retail and improvements in our product mix.
- We realized another 351 million euros via efficiency enhancements.

Therefore, all in all, despite the additional burdens, we succeeded in maintaining the Automobiles segment's EBIT margin at a constant 6.4%. We therefore achieved a stable return despite the challenges I just mentioned.

As expected, we posted a strong operating performance in the fourth quarter. Combined with our efficiency and cost measures, this resulted in a strong EBIT margin of 7.8% in Q4.

This brings me to the return on capital employed, or RoCE for short, which we consistently use as an internal key performance indicator. On this chart, you can see the fundamental methodology and the parameters behind it. There is one major parameter concerning the return on capital that I would like to talk about in some more detail: the capital turnover.

- It reflects the ratio of revenues to capital employed. The latter is defined as the difference between operating assets and non interest-bearing liabilities.

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- Capital employed advanced by 7.5%. This growth was disproportionately lower than that of revenues, which increased by more than 14%.

Accordingly, capital turnover rose as well.

In contrast, the EBIT margin, which is the ratio of EBIT to revenues, was flat, as explained earlier. All in all, RoCE, which is the product of the EBIT margin and capital turnover, recorded a corresponding rise, increasing from 21.7% to 22.8%.

Motorcycles

Now let us move on to the motorcycle business. Despite retail growth, revenues declined by 2.9% to 1.23 billion euros due to the change in the model mix. Nevertheless, EBIT was up 6.7% to 80 million euros. The decisive driver of these improvements was sustained efficiency enhancements, which were successfully initiated by Dr. Diess. This is also reflected in the corresponding key figures:

- The motorcycles business' EBIT margin rose to 6.5% from 5.9% in the previous year.
- RoCE climbed from 17.7% to 18.2%.

Financial Services

Next on the agenda are our financial services operations. This is another field in which we can look back on a successful year:

- The business volume recorded on our balance sheet jumped 16.5% to 51.3 billion euros.
- The number of leasing and financing agreements concluded with customers rose by 15.8% to 2.63 million.
- The penetration rate increased by 2.3 percentage points to 44.7%.
- Revenues advanced by one fourth to just under 14 billion euros.
- We lifted EBIT by 4.1% to 717 million euros.

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The fact that the rise in earnings was disproportionately lower than revenue growth is primarily due to the higher refinancing costs. In turn, this development was driven by the two following factors:

- The generally higher level of interest rates
- and the crisis of the international credit markets. This was a cause of substantial concern especially in the USA, where it led to a rise in credit spreads.

This has a tangible impact on earnings – and on the return on assets, our key parameter in the financial services business. It recorded a slight decrease, slipping from 1.4% to 1.3%.

In addition, developments on credit markets have an effect on the creditworthiness of our US customers as well. This impact is not direct, since we are not active in the subprime sector. But it does have an indirect effect, since the subprime crisis affects the entire US mortgage industry. This is accompanied by the general slow down of the US economy, which will not fail to affect demand and consumer confidence. But one should not forget that one of the advantages of the premium segment is that most of our customers are wealthy and have strong incomes. Nevertheless, we recorded a marginal increase in credit defaults in our financial services operations. This was primarily driven by the developments in the USA. The bad debt ratio increased by 5 basis points to 0.46%. Moreover, prices in the used car business are on a significant decline for the reasons I mentioned earlier, since customers active on this market react more strongly to the general economic slowdown than buyers of new premium cars do. However, the situation is manageable at present. Our risk provisions cover the generally expected trend. But we will continue to keep a close watch on this trend and react appropriately.

Reconciliations

To round off the review of our business fields, I would like to give you a few comments on our reconciliations. This segment includes companies that are not assigned to any of the other three segments as well as consolidations between the segments. Reconciliations posted a pretax loss of 173 million euros,

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compared with a pretax profit of 361 million a year earlier. This drastic swing has two reasons:

1. The exercise of the exchangeable bond option on shares in Rolls-Royce plc. In 2006, this had a positive effect on the bottom line. But in 2007, this one-off effect was much lower, as I explained earlier.
2. Moreover, there were changes in the market values of some of our derivative financial instruments, for example due to changes in foreign exchange rates.

1.3. Income Statement Summary

Ladies and Gentlemen,

This rounds up my presentation of the individual business lines. Now let us get back to the Group level and start with the income statement.

Gross Profit

I would like to start with the cost of sales. They rose by 16.4%, thus outpacing revenues. This was due to the explained effects of exchange rates, raw materials and refinancing costs. All told, gross profit advanced by 7.5%. As a result, the gross margin decreased slightly, slipping from 23.1% to 21.8%.

Sales and Administrative Costs

Sales and administrative costs increased by 5.7% to 5.25 billion euros. This was due to the expansion in business volume. However, the rise was disproportionately lower than revenue growth, since we took a more efficient and focused approach – above all in marketing-related communications. Accordingly, the share of revenues accounted for by this cost block dropped for the fourth straight year, from 0.7 percentage points to 9.4%.

R&D Expenditure

Research and development costs advanced by 14.8% to 2.92 billion euros. This figure includes depreciation on capitalized development costs in the amount of 1.1 billion euros. Most importantly, however, this item includes several hundred million euros for the important field of EfficientDynamics – our technologies for lower CO₂-emissions. After all, we want to maintain our leadership position in this area. This is how we are securing our future proactively! Nevertheless, the ratio of R&D costs to revenues according to IFRS remained at 5.2% – thanks to our more efficient development processes.

Total R&D expenditure according to German HGB totaled 3.14 billion euros and was thus two per cent down year on year. The R&D ratio according to German HGB thus declined substantially, dropping from 6.5% to 5.6%.

The capitalization ratio decreased from 47.9% to 42.4% owing to the smaller number of projects in series development.

EBIT

The next item on our income statement is other operating income and expenses. We had a positive balance of 200 million euros, which represents a decline of 11.9%. The decrease is primarily due to the drop in other operating earnings. All in all, this results in a new record EBIT of 4.21 billion euros. As I said earlier, this corresponds to a rise of 4.0%. Since EBIT growth was disproportionately lower than the revenue gain, the Group's EBIT margin slipped by 0.8 percentage points to 7.5%.

Financial Result

This brings me to the financial result. It decreased considerably, from 413 million euros in the previous year to 339 million euros in the year under review. Once again, the contributing factor was the basic effect of the exchangeable bond option on shares in Rolls-Royce plc in the other financial result.

Profit before tax, Taxes, Net Profit, Earnings per Share

In light of the development of the financial result, the profit before tax declined by 6.1% to 3.87 billion euros. Excluding the one-off effects of the Rolls-Royce exchangeable bond mentioned earlier, the profit before tax increased by 0.6%. The earnings trend results in a 1.5 percentage point decrease in the return on sales to 6.9% compared with 8.4% in 2006.

These earnings were subject to 739 million euros in taxes, following 1.25 billion in the previous year. This corresponds to a decline in the effective tax rate from 30.3% to 19.1%. This significant change principally stems from the lower valuation of our deferred tax assets, which was caused by the corporate tax reform introduced on July 6, 2007. We expect that the effective tax rate will not remain this low. It was a result of a one-off re-measurement effect.

After deducting the 739 million euros in taxes, we arrive at a net profit of 3.13 billion euros. This is 9% more than in 2006 and the first time we surpassed the three billion euro mark.

This leads to earnings of 4.78 euros per common share and 4.80 euros per preferred share – an increase of 9.1%.

Now let us put aside the income statement and dedicate ourselves to the consolidated balance sheet and cash flow statement.

1.4. Balance Sheet, Cash Flow Statement

I will not go into the balance sheet items in detail. Let me just address a key item on the assets side: Changes in tangible, intangible and investment assets, which reflect our capital expenditure.

Capital Expenditure

In 2007, capital spending amounted to 4.3 billion euros, which was on par year on year. Property, plant and equipment and intangible assets accounted for 2.84 billion euros, corresponding to a decline of 2.2%.

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- The lion's share of capital expenditure went to the production network. We were active especially in Spartanburg and Dingolfing. We are preparing for the integration of the BMW X3 and X6 in Spartanburg. In Dingolfing, we are gearing up for the next generation of the BMW 7 Series.
- Moreover, we made substantial investments in our sales network. The BMW Welt is our flagship project in this area.

Capitalized development costs totaled 1.3 billion euros. This was slightly less than the 1.5 billion euros recorded in 2006. As I said before, this was due to the lower number of capitalizable series projects. The capital expenditure ratio dropped from 8.8% to 7.6%. We thus came pretty close to our target of less than 7% of revenues.

Cash Flow Statement

This brings me to the cash flow statement. Operating cash flow – namely cash inflow from operating activities in our industrial operations – amounted to 6.34 billion euros. This represents an increase over the prior year of 18%, or one billion euros. The cash outflow from investing activities in the industrial business declined by 8.3%, or nearly 400 million euros, to 4.0 billion euros.

Free cash flow from industrial operations thus grew significantly, from about a billion euros to 2.3 billion euros. This includes an one-off effect from the sale of property of 236 million euros. This strong cash flow trend results in an increase in net financial assets in the industrial business of 31% to over seven billion euros. In principle, this is too high for us.

However,

- The high level of cash flow enabled us to internally refinance part of our financial services operations. We thus avoided the poor conditions on the capital market in certain cases. As you know, this loan from industrial operations to financial operations was a temporary measure.
- However, in light of the uncertainty prevailing on capital markets, our financial power gives us some flexibility in refinancing the SF business.

Nevertheless, we make use of our significant financial strength in other ways as well. First and foremost to substantially increase the dividend payment:

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- The Supervisory Board and the Board of Management will propose to the Annual General Meeting that the dividend for fiscal 2007 be increased. We would like to lift the dividend by 51% to 1.06 euros for common shares. We suggest that the dividend on preferred shares be raised by 50% to 1.08 euros.
- As a result, the dividend total will climb to 694 million euros.
- The payout ratio will rise from 16% to 22% of net profit. But we see even more potential here. This is thus merely the first step to increasing our dividend. Further steps will follow. In the future, we want our shareholders to participate more in the business and earnings performance.

Moreover, we want to transfer our pension commitments. This will lead to further cash outflows. All in all, there will be three tranches. So far, we have anticipated a total of 4.5 billion euros. However, due to a higher discount rate, the commitments currently amount to about 3.8 billion euros. Why are we doing this?

- On the one hand, in order to further minimize the usual pension risks – for the benefit of our workforce.
- On the other hand, we are making use of our strong cash position today to prevent the demographic trend from having a negative impact on our cash flow tomorrow.

1.5. Conclusion for 2007

Ladies and Gentlemen,

My conclusion for the 2007 financial year is as follows: Once again, we kept our promise.

- The BMW Group stayed on its course, despite unfavorable underlying conditions.
- We more than offset the significant negative effects of foreign exchange rates and raw materials. This is clear proof of our operating strength and earnings power.

But, regarding our return figures, I will be very clear: We can – and must – do better! This is why we have launched the new corporate strategy and the

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program to improve profitability. I will come back to this later. This concludes my remarks regarding fiscal 2007 for the time being. Let us take a look at the development displayed in 2008 together.

2. Outlook for 2008

2008 Business Performance

As Dr. Reithofer mentioned, the environment continues to be difficult:

- We still face headwinds in terms of raw materials and – above all – currencies. This is reflected in poor currency transaction rates. However, we are almost fully hedged against the main currencies for 2008. Therefore, a spot price of 1.50 dollars per euro or more will not find its way onto our income statement. All in all, we thus expect that the additional currency effects will be lower than in 2007.
- Furthermore, as I mentioned earlier, we believe risks will arise from the credit crunch in the US. In the last few years, we have put the BMW Group on a global course, in order to capitalize on opportunities for growth and anticipate global trends. As you know, the US has become our single-largest market. We are convinced of the opportunities the USA will offer in the future. But today, we are faced with challenges. I already described the rise in credit defaults and the pressure on used car prices seen thus far. This has been manageable so far. But it remains to be seen how these areas develop further.

In principle, however, we expect to continue our positive business performance in fiscal 2008.

- Despite the difficult environment, we aim to improve absolute earnings in the automobile business. Furthermore, we currently expect RoCE to increase as well – in line with our company's value orientation, which we constantly push for.

For reasons you are familiar with, the Automobiles segment's EBIT margin has decreased over the years. We put a stop to this development in 2007. We have stabilized it, and now we have our sights set on landing between 8% and 10% by 2012.

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- The motorcycle business is another area where we aim to grow earnings. We want to achieve a slight year-on-year increase in 2008.
- Financial Services is expected to continue expanding its business volume and display a positive earnings trend. However, as I explained before, this will be against the backdrop of higher burdens and risks.
- In 2008, the capital expenditure and R&D ratios will move towards the target ranges we communicated as part of our strategy.
- Furthermore, we will incur a one-off personnel cost for the workforce reduction in 2008. Here, the emphasis is on one-off. You already know the details.
- All in all, adjusted for the one-off effect of the Rolls-Royce exchangeable bond in 2007 of 97 million euros, we intend to generate a Group profit before tax, which would be higher than in 2006.

Segment Reporting Preview

Besides this preview of our business trend, I would like to give you an extended outlook of a more technical nature. We will present you with a restructured segment reporting in the 2008 financial statements. Why are we doing this? We want to offer you more transparency and deeper insight into our Group target system, for example with regard to our internal RoCE parameters. I already presented to you the RoCE figures, which are decisive for non interest-bearing liabilities and capital employed, in the RoCE tree earlier on. In addition, this data has also been published in our current annual report. But we want to take this a step further, in order to give you a better understanding of the qualitative and quantitative performance of our Automobiles, Motorcycles and Financial Services segments. Our re-segmentation also cancel the separation between industrial and financial operations. Above all, this will make our financial services business more transparent. In this context, we are also re-arranging the target system in our financial services business. The return on assets, which was our former KPI, is being replaced with the return on equity. As I said earlier, we will introduce the new reporting in the 2008 financial statements. We have already started to apply all of the new parameters.

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3. Status of the Profitability-Enhancement Program

Ladies and Gentlemen,

This concludes my remarks on the 2007 and 2008 financial years. Let us look further into the future, setting our sights on 2012 and thus on the profitability and efficiency targets of our Number ONE strategy. Because there is one thing I would like to emphasize once more:

- The BMW Group is a healthy company, is market leader and innovation leader.
- But, we still have to do our homework when it comes to efficiency and effectiveness. As evidenced by our key return indicators, we are good, but there is always room for improvement. This applies especially to a sector that is as competitive as the auto industry.

Therefore, we want to become better and more efficient, so that we can survive in the face of global competition. And thus cope with the responsibility we shoulder for our stakeholders. This is why, as we have stated frequently, we established a separate board committee for profitability, alongside the board committee responsible for strategy implementation. This committee is where all of our efforts to improve our earning power are controlled. And we are talking about a large number of efforts, because we have launched a large number of projects and activities. Rollout is in full swing.

The key questions are: What do these activities look like?

And will there be an impact on the bottom line? Let me give you a brief overview of this.

First of all, we will reduce our exposure to currency risks by stepping up natural hedging. This means:

- We will increase our production output in the dollar zone from 150,000 to 240,000 units. We already published some details on this last week, including the required capital expenditure of 750 million US dollars.
- In addition, we will expand sourcing in the USA. At present, only 9% of the purchasing volume for our global production network stems from NAFTA. This is far too little.

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- Furthermore, we intend to further increase our manufacturing output in Great Britain and China as well.

Of course, this won't happen overnight. It will take some time. The next major lever is efficiency enhancements. All told, we want to realize an accumulated six billion euros in savings by 2012 – on top of our former plans. This is an area in which we are picking up speed and will soon be going full throttle. In other words, the effects will be felt following a warm-up phase, after which they will come into play sustainably.

The lion's share – which would be two thirds or four billion euros – will be achieved in purchasing, which easily represents the largest cost item, amounting to 26 billion euros. Accordingly, we created a board division for this, which is going full steam ahead. In this context, I would like to stress the following on behalf of Mr. Diess, the colleague of mine who is in charge of this division:

- We want to maintain our constructive cooperation with our suppliers. Only by joining forces can we maximize value for our customers at competitive costs.
- This is why we are not pursuing a one-dimensional goal – to the disadvantage of our suppliers – of negotiating lower prices.
- Instead, we intend to work with our partners to reduce their costs as a basis for lower prices. For example, we are providing them with advice, drawing on our product and engineering expertise. This will benefit both parties. Lastingly. And, most importantly, without facing quality risks. After all, customer orientation is the prime objective of what we do.
- But of course, we negotiate price cuts as well. That goes without saying. And these cuts are on top of our original budgets.
- In addition, we are exploring ways to leverage efficiency potential throughout our supply chain – not just at the first stage. Potential lies dormant here as well. This is why we are analyzing the entire value-added chain. In clear terms: Everything that is not perceived by customers as product performance or quality and that they are not prepared to pay for is being called into question.

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Once again, the maxim here is that these activities will take time, and the effects will require a run-up period before they take full effect. Nevertheless, the first tangible results will be seen this year already. We expect that savings in 2008 will be in the three-digit million range.

This rounds up my comments on the four billion euros in efficiency enhancements and cost reductions in purchasing. This leaves us with another two million, which we will realize by reducing fixed costs and streamlining development processes. In so doing, we will continuously reduce the R&D ratio to between 5.0% and 5.5%. But, it will definitely not fall below that! Investments secure the future – especially as regards environmental technology. Therefore, we will continue to steer the company with foresight, while strategically investing in important fields such as EfficientDynamics and defending and extending our competitive advantage! In line with our purchasing approach, we will not simply cut costs. Instead, we will look for an intelligent, creative solution.

As a result, our motto is not fewer projects and future technologies – but less complexity and more efficiency! We are not just saving for the sake of saving. Instead, we try to find intelligent solutions to keep costs down. Let me give you a few examples:

- We will make more and more use of construction kits for products and drive-trains, for instance by increasing the number of shared components in our current four and six cylinder engine generations from 20% to 35%.
- Engineering hardware, namely test parts, testing tools, etc., is a very big cost item in research and development. In total several hundred million euros per year. This is an area where we have a very focused approach, for example by refining virtual processes in order to reduce the number of prototypes we use. And, in turn, the development costs.
- We see huge potential in third-party development work as well. This is why we are currently working with our colleagues in purchasing to come up with ideas for more efficient processes.

Furthermore, we will draw up a clear list of priorities.

- Which innovations are perceived by our customers? What are our customers willing to pay for?
- And what technical areas are of less relevance to the customer, which would open the door to standardized solutions?

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As you can see, we are leveraging potential in development as well – but with good measure. This takes time, too. Some projects have a long-term horizon and do not take full effect immediately.

Conversely, we will already see results in terms of personnel costs from 2009 onwards. As you know, starting next year, we intend to realize annual savings of up to 500 million euros in this area. And, last but not least, we will further reduce the capital expenditure ratio, to less than seven per cent by 2012. Let me give you a concrete potential scenario: By introducing a new painting technique in our Oxford plant, we avoided making two-digit million investments when expanding capacity in 2006/2007.

Moreover, thanks to our flexible production system, we will be able to achieve the targeted retail of 1.8 million by 2012 without a full new plant – building on our existing structures, a strict orientation towards creating value, and associated efficiency enhancements.

This concludes my remarks on some of the activities through which we will realize the envisioned six billion euros in cost reductions.

The program's logical consequence will be the announced increase in margins and the sustained improvement of free cash flow:

- The objective is to achieve a level of approximately two billion euros by 2012.
- From 2012 onwards, we want to clearly exceed the two billion-euro mark.

Ladies and Gentlemen,

To sum up: We have set clear targets towards increasing our profitability and to strengthening our competitiveness. In so doing, we do not intend this to be a flash in the pan. Our goal is to create value over the long term! Accordingly, our strategy is not a one-dimensional savings strategy. We want to grow first and foremost through new products, new services and new markets.

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We also want to become even more profitable. In line with this, we will make sure that our efficiency-related activities are not one-dimensional, either. Instead, we will always keep an eye on all stakeholders:

- Securing the future primarily translates into customer orientation. This is why we will not save on the substance or quality of our products – we continue to consistently invest in attractive automobiles and motorcycles as well as strong brands! After all, 56 billion euros in revenues do not fall from the sky. Instead, they are an expression of the appreciation our customers have for us!
- Furthermore, we are fully aware of the fact that our employees are the key prerequisite for our success. Therefore, we want to continue to attract and retain the best people. The prerequisite for this is that we remain attractive as an employer. However, we will only achieve this if we ensure lasting success on the basis of ample profitability—and this also includes adjusting the headcount to the necessities of our business operations, as we are doing right now.
- And of course, we intend to remain a good investment at the end of the day. This is why we want our shareholders to consistently participate in our company's success through an increased dividend.

Ladies and Gentlemen, thank you very much.