Statement
Dr. Klaus Draeger,
Member of the Board of Management of BMW AG

Update on Business Development
16 April 2008, Greenville/ Spartanburg

- Check against Delivery -
Ladies and Gentlemen—

I would like to welcome you on behalf of the BMW Group. Thank you for accepting our invitation. Unfortunately, Dr. Michael Ganal cannot be here with you today. But the fact that our CFO had to cancel at short notice has given me as the head of development my first opportunity to talk to analysts and investors. And I am definitely delighted about that.

Some of you have put up with a long journey to join us here. But I can assure you that this trip will be worthwhile. What we want to do today is to give you interesting information about and impressions of the BMW Group. I am sure that, in combination with tomorrow’s test drive of the new BMW X6, that will make up for the inconvenience of traveling to Greenville.

Right now, I would like to give you an update on our current business operations. To be more specific, I am going to touch upon three points:

1. At present, the BMW Group is investing in the United States as we see great growth potential in the medium term and intend to further reduce our dependency on currency transaction rates.
2. In 2008, we will again generate growth—based on our attractive product portfolio.
3. The company is implementing its strategy Number ONE as planned.

Our present focus is on Plant Spartanburg—where we are raising production capacities by a third. The first step is an expansion to 240,000 by 2012 at the latest. This makes our US production location the only one worldwide to undergo major expansion. Our overall investment will amount to 750 million US dollars.

This afternoon, Mr. Kerscher will show you around the plant. Spartanburg is about to become our competence center for the four-wheel drive models of the X range. In the medium term, the plant will also build the new-generation X3. And our first hybrid car, the new X6 Active Hybrid, will also be manufactured in Spartanburg.
What are the reasons behind our present investment?

Some of you might consider that pointless, given the current situation in the automotive market here in the US. We, however, expect sales to rise gradually over the next few years. A plant expansion is a project with a time horizon of at least the next ten years. Considering shorter cycles would not make any sense for us. We have to take the decisions for tomorrow today.

Imagine what would have happened if we had not had a long-term strategy in the past. I assume there would still be no BMW production in the United States today. You all know that our footprint in the US market is the envy of more than one competitor.

The BMW Group is confident that the American premium segment has major growth potential. We expect the premium share of the overall market to continue to rise substantially in the future. These expectations are confirmed by external sources which forecast that the American premium segment will increase by 70 percent between 2000 and 2020. Ten years from now, the US will account for about a third of global premium car sales.

Our excellent position in the North American premium segment gives us a competitive edge. This position of strength is the result of years of hard work. 2007 was the sixteenth year of consecutive retail growth. Just recently, BMW ranked first in a survey about brand characteristics. Technological expertise and innovative power will help us to strengthen our lead. At a time that is all about efficient combustion engines and new drive technologies the BMW Group has a good hand.

So there is one thing we will definitely not do in the current situation, and that is to back out. Our competitors would be all too eager to fill the gap.

Moreover, expanding production in Spartanburg is a step in pursuing one of our strategic objectives, namely to minimize currency exposure. For future vehicle projects which are already relevant in purchasing today, we will cooperate with new NAFTA-based suppliers. We have successfully raised the share of components from NAFTA countries over the course of the years. In 2007, for instance, products from the NAFTA region accounted for ten percent of our global purchasing volume. Compared to 2006, this is an increase of almost 16 percent.
We will continue to increase the share of local content in our Spartanburg production operations. Our goal is to reach the same level for the X3 as for the X5 and X6. We also plan to step up NAFTA sourcing for our European plants in the medium term.

As we see it, the growing automobile cluster here in the American Southeast is a place of opportunities: There is a clear tendency among European manufacturers to set up production in this region. As a result, suppliers will relocate to the area as well—suppliers that might become business partners of BMW Manufacturing Corp.

All of this will require great stamina. However, our approach shows that our strategy and our growth plans go hand in hand.

So much for that. Now let’s return to the current situation: At the end of the month, we are going to inform you about our financial performance in the first quarter of the year. I hope you can exercise yourselves in patience for a few more days. But I can assure you: Sales have developed nicely.

The BMW Group sold a total of over 351,000 vehicles—this is an increase of 5.7 percent. First-quarter retail for the three individual brands in a nutshell:

- At 293,000 units, BMW retail rose by 2.7 percent over the prior-year period.
- More than 58,000 MINIs were delivered to customers. This means that sales exceeded the previous year’s level by 23.6%.
- Rolls-Royce Motor Cars sold 183 automobiles in the first quarter, 61.9% more than during the reference period.

The emerging markets advanced most strongly, with China and Russia reporting growth rates of 40 percent and higher.

Our strategy for the Indian market, namely to set up local production in order to develop this market, has worked out well: In the first quarter, sales soared by more than 800% over the same period last year. All in all, we delivered 862 BMWs to customers. Good news also from the Middle East where we improved by 26 percent to 3,800 units.
The positive development of our traditional markets in Western Europe continued as well, with increases on an already high level. The key growth factor there was EfficientDynamics. New and existing private and corporate buyers are attracted to our cars as they meet both their environmental needs and dynamic driving aspirations. In Portugal, the BMW Group improved by 29.2% to over 2,800 units. In France, sales rose by almost 24% to more than 16,000 cars. France has introduced a charge on new cars with emissions over 200 grams of CO2 per kilometer. In turn, customers receive a bonus of 200 euros for buying a new car that runs below the emission limit of 140 g/km. A quarter of all BMWs sold in France were below the 140 gram limit, half of all BMWs were not subject to the new charge.

Other countries that grew on a high level were Germany with 6.7 percent or 64,000 cars, and Italy with almost 10%.

Retail in Great Britain grew by 7%. Once again, EfficientDynamics proved to be a significant sales argument. BMW UK has secured a market share of almost 5 percent. Sales also benefitted from the BMW Direct Sales strategy introduced in January.

As always, we had reason to be pleased with the number of MINIs sold in Great Britain: As per March, deliveries stood at more than 12,000 units, an increase of 6 percent over the reference period. One out of five new MINIs sold in March was a MINI Clubman. Production at the MINI plant in Oxford looks set to reach record levels in 2008.

We expect sales for the business year 2008 to exceed the previous year’s level.

In a moment, Tom Purves will tell you a bit more about sales here in the United States.

What are our expectations for this business year?

Our outlook remains positive:

1. We plan to achieve new record sales for all three automotive brands. Not only are our products highly attractive; they also allow us to respond to our customers’ demand for environmental friendliness and fuel efficiency—combined with excellent driving characteristics.
Today BMW, “the ultimate driving machine”, stands for performance and efficiency. We have successfully repositioned the brand. BMW has become a pioneer in the field of fuel efficiency and environmental friendliness. Following Tom Purves’ talk, I will give you some information on our EfficientDynamics strategy and the introduction of BMW Advanced Diesel Blue Performance.

2. We want to reach a group-wide profit before taxes above last year’s level—adjusted for the one-time effect from the Rolls-Royce exchangeable bond in 2007.

3. We intend to improve earnings quality for the business year 2008. This will be reflected in key performance data such as return on sales and return on capital employed.

Needless to say that we are aware of the great challenges ahead.

- We still face headwinds in terms of raw materials and currency transaction rates. However, we are almost fully hedged against the main currencies for 2008. Therefore, we expect that the additional currency effects will be lower than in 2007. Our estimate is approximately 400 million euros.
- Furthermore, risks might arise from the subprime crisis in the US.
- As stated at the analysts’ conference in March, the financial services segment will also be affected.

There were three major challenges our business unit Financial Services had to deal with last year:

1. Higher refinancing costs due to higher loan charges. These risk premiums are the result of the subprime crisis and the subsequent loss of confidence in the money and capital markets.

2. Financial Services recorded a marginal increase in credit defaults in our financial services operations. This was primarily driven by the development in the US. The bad
debt ratio increased by five basis points to 0.46%. The message is clear: The slowdown of the US economy will not fail to have an effect. But one should not forget that an advantage of the premium segment is that most of our customers are wealthy and have high incomes.

3. 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 and react appropriately.

A few words about refinancing: Benefiting from our good rating, we are and will remain able to cover our refinancing demand on the capital markets at acceptable terms. Moreover, we can draw on a sophisticated funding strategy implemented for the purpose of improving financial flexibility and independence. As a result, there is increased diversification in funding instruments and markets. While this might be a very traditional approach, combined with our financial strength it gives us some room to maneuver even in a time of crisis.

As part of our strategy Number ONE, we have launched various activities that will help us meet our profitability targets. The first tangible results will be seen this year already.

Let me give you a few examples from development, the division I am in charge of.

We regard development costs as an important and necessary contribution to securing our future success. Nevertheless, we want to improve efficiency and customer orientation in all development processes. The R&D ratio according to German HGB is supposed to stand at between 5 and 5.5%. With 5.6%, we almost reached this goal last year.
We will continue to strategically invest in important fields such as EfficientDynamics. After all, we want to strengthen and extend our competitive advantage!

Our motto is not fewer projects and future technologies—but less complexity and more efficiency!

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 drivetrains, also across product lines. For instance: The number of shared components in our current four and six-cylinder engine generations will rise from 20% to 35%. In addition, we use cross-industry modules in non-customer critical areas. Just think about our engine cooperation with PSA and our two partnerships in the field of hybrid transmission development. We are also a cooperation partner in Auto-SAR, a project that will help determine industry-wide interfaces. All these projects help to bring about the desired economies of scale.

- Engineering hardware—namely test parts, testing tools, etc.—is a very big cost item in research and development. In total, we are talking about some 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—in line with our customers’ demands. Our goal is to promote innovations that are perceived by our customers and
that are important to them. In areas of less relevance to the customer, we will increase the share of standardized solutions.

You see: The development division is tackling the matter of improving efficiency from different angles, but with a sense of proportion. Success won’t come overnight. Some projects have a long-term planning horizon and will not show a direct effect right away.

That much about the BMW Group’s current situation. We will face quite a few challenges in the months ahead. Nevertheless, we are confident that 2008 will be a successful business year for us.

The fact that we have highly attractive products will help us tap into new segments—and thus help us win new customers. We expect our new models—such as the BMW 1 Series Convertible, the BMW X6 and the M3 Coupe and Convertible—to generate additional growth in sales.

Tomorrow, you will have a chance to experience the BMW X6 and its driving characteristics on the race track—we are looking forward to your order!

Thank you very much for your attention.