

# BMW Group

## Corporate and Governmental Affairs

Media Information

18 March 2009

- Check against delivery -

### **Statement by Dr. Norbert Reithofer, Chairman of the Board of Management of BMW AG Annual Accounts Press Conference Munich, 18 March 2009**

Ladies and Gentlemen—

Fortune Magazine and Hay Consulting recently surveyed 4,000 global business leaders and experts to ascertain: Which are the world's most admired companies?

The BMW Group has been ranked “most admired company” in the automotive industry for the second time in a row. Not in Germany or Europe, mind you, but worldwide. This is exactly how we see ourselves—as a global company facing global challenges and global markets.

On Fortune's general list covering all industries, the BMW Group is the only German company ranked as one of the “Top 50 All Stars”.

However, in the current economic situation, every company has to demonstrate that it is able to overcome challenging times.

Under these exceptional circumstances, there are two crucial factors:

- First, financial stability. The combination of a sound financial footing and high liquidity is the key prerequisite for a company's ability to act. In the short term, this applies to the economic crisis. But in the long term, it also applies to the implementation of any activities that help safeguard our future.
- And second, innovative strength. It is reflected in state-of-the-art, trendsetting and attractive products that customers expect and desire.

Today, I would like to comment on three main points:

- 1.) What is important to consider in the current situation?
- 2.) How does Strategy Number ONE secure our future success?

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3.) How do we view the business development for the rest of the year?

Let's get straight to the first point:

We took the necessary steps to enable us to soften the impact of the crisis much earlier than any other car manufacturer.

At the same time, we have been focusing our efforts on consistently implementing our Strategy Number ONE, charting our course for the future.

Our goal is to maintain the BMW Group's independence.

Now more than ever, we see that size is not everything. To survive this current market situation, even perfectly healthy companies need to show

- a high degree of flexibility,
- the ability to stand their ground in a fiercely competitive global environment,
- as well as ideas and the strength to create and promote new forms of individual mobility.

This is why government bailouts for private businesses are a mixed blessing.

Don't get me wrong: It is important that governments join hands with business under such exceptional circumstances and provide companies with certain instruments. However, we need to concentrate our attention on where government intervention begins—and where it should end. The key is to avoid a distortion of competition, which would weaken productive companies.

The following eight points show the BMW Group's position in this challenging environment:

- First: In 2008, the BMW Group achieved an EBIT of € 921 million. Adjusted for the provisions for residual value risks and credit losses and additional expenses for headcount reductions, our 2008 result would

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have been significantly higher. Mr. Eichiner will present our annual accounts for the business year 2008 in detail. But let it be said right now: We are in a strong operating position.

- Second: The group's financial footing is absolutely sound. At the end of 2008, our liquidity was approx. € 8.1 billion. Obviously, liquidity and free cash-flow are top priorities in such economic times as these. Cash is king. We are in a position of financial security, which provides us with considerable room to maneuver.
- Third: We managed to reduce costs, investments and capital expenditure per vehicle. I instructed all divisions and areas to do their very best to save costs. As a result, our fixed costs in 2008 were lower than in 2007. We also managed to reduce our costs of materials significantly—thanks to our successful cooperation with suppliers. As you may know, we want to reduce material costs by € 4 billion by 2012. It is already clear that we will clearly exceed this target.
- Fourth: We reduced our fourth-quarter inventory below the third-quarter level. Compared to 2007, our inventories remained stable while competitors' stocks increased noticeably. In late 2008, we curbed production at our German plants. In the beginning of 2009, employees at certain locations worked short-time. This was a joint solution the Board of Management and the Works Council agreed upon in due time. In April and May, plants Dingolfing and Regensburg will once again work short-time for a while. This is how we protect the jobs of our highly productive permanent staff—people we absolutely need for the next growth period. This is in the best interest of our company, our employees and Germany as a business location.
- Fifth: In 2008, we sold more than 1.43 million cars. This is the second-best result in our company's history. In the past few years, we managed to increase our market share in the global premium segment to over 25 percent. This accomplishment is proof that our products are extremely desirable and our brands enjoy recognition. Our market share in the global automotive market has grown from 1.5 percent in 2000 to 2.3 percent at the end of 2008. We still remain the number one in the premium segment. Nevertheless, we think this is not the time to get

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caught up in a race for maximum volumes. Our goal is to strengthen and expand our market share in the individual markets.

- Sixth: We are the industry leader in terms of CO<sub>2</sub> emission reductions. At an average 156 grams per kilometer, our EU fleet emissions are much lower than those of any other premium manufacturer. Many car manufacturers frequently announce future plans and schedules. This is hypothetical. We are presenting facts today. Once again, we invested in Efficient Dynamics and new technologies last year. As announced, the amount was lower than the year before. We are now harvesting the fruits of our previous € 1.2 billion investment in environmentally friendly technologies. Efficient Dynamics is now working for us.

- Seventh: Regarding job reductions, we exceeded our target. Between the end of 2007 and the end of 2008, our permanent staff decreased by 7,498 to 100,041. Approximately 4,000 employees signed mutual termination agreements by December 31, 2008. We succeeded in streamlining all areas of the company. In the headquarters alone, we were able to eliminate 500 positions. Close to 1,800 jobs were reduced by selling Cirquent Group to the Japanese company NTT Data.

We can see today how important it was to begin reducing permanent staff—on a voluntary basis—already in early 2008. I would like to thank the Works Council for their support in this matter. We also made best use of the flexibility temporary work offers and reduced a total of 6,000 jobs in this area.

On the other hand, we will recruit several hundred new employees, primarily engineers, in 2009. There is no hiring freeze. In 2008, we created 226 new jobs.

We will also continue to train a large number of young people—sometimes beyond our own demand. We regard this as an aspect of corporate social responsibility. At the end of 2008, the number of trainees stood at 4,102, most of them in Germany. In other words: Trainees make up over 5 percent of our staff. In 2009, there will be approx. 1,100 new trainees at our company.

- Eighth: A profit-sharing program for our board members, executives and all employees is an important element of our compensation system. We apply this system in good times as well as in challenging times. Another

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important principle is that the amount of the profit-sharing bonus increases according to a person's management level within the company. The members of our Works Council agree with this approach. So the significant decrease in the 2008 operating result will have the following financial effect:

- o a Board Member's remuneration will decrease by 40 percent,
- o a senior executive's by about a third,
- o and non-management employees will earn about 10 percent less.

I am convinced that our employees understand the difficulty of the current situation and are willing to accept this hardship.

Various activities initiated in 2008 have provided us with a solid basis for the challenging year 2009.

Our business activities are and will remain focused on the long term.

This is why we discuss a lot about changing mobility requirements.

This brings me to my second point: How can we guarantee our future success in light of the changes and new challenges in our business environment?

Our Strategy Number ONE gives us a clear vision for the year 2020.

The main trends that are relevant to our business—such as the demand for mobility and the desire for differentiation—will remain unchanged.

You all know our strategy structure. We have implemented specific projects supporting all four pillars.

### 1.) Growth

The global car market will continue to grow, and along with it the demand for premium products and services.

All forecasts agree on this point.

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So the present decline in premium sales is not an indicator of the segment's future development.

The real question is: How will premium be defined in the future?

Future mobility will require us to find a new balance between individual and ecological demands. Sustainability will definitely play a key role in defining premium. This applies to both environmentally friendly drive systems and production processes.

The BMW Group is already the world's most sustainable car manufacturer.

2008 marked the fourth consecutive year the Dow Jones Sustainability Indexes ranked us as the global industry leader and we have been in this index since its birth in 1999.

This is reflected in our products, our production system and many little details. One example: We chose a climate-neutral process to print our annual report.

We currently see certain changes and shifts between individual segments of the auto market.

Due to legal requirements and national initiatives like the scrappage scheme, there seems to be an interest in smaller and highly efficient cars. This is only part of the full picture:

- Our premium brand MINI is very successful in the small-car segment.
- A few years ago, we launched the BMW 1 Series as our premium offering in the compact class. In 2008, sales of the BMW 1 Series increased by about 36 percent to more than 225,000 units. Today, BMW 1 Series models make up almost 19 percent of our portfolio. And 2009 will see the launch of a new model in the compact class—the BMW X1. This car combines the versatility of an SAV with the flexibility of a compact car

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and BMW's characteristic driving dynamics.

Another trend is innovation.

- Our new BMW 7 Series is a clear statement for the further innovation development of automobiles in general and the new benchmark for all competitors. We are convinced that the new BMW 7 Series is the best car on the market right now. Our flagship model and its innovations have received enthusiastic feedback from the media—also thanks to the car's efficiency. The 730d only uses 7.2 liter of Diesel per 100 km. This makes it very popular with customers as well: The new 7 Series was launched in Europe only a few months ago, but it is already the segment leader. In Germany alone, sales improved by 80 percent in the first two months of 2009 compared to last year's reference period. Competitors, on the other hand, suffered dramatic setbacks. The Austrian federal and state governments will drive BMW in the future, namely the 730d and the 520d, the most environmentally friendly cars in their respective segments. Thanks to the new cars, the Austrian government will reduce CO<sub>2</sub> emissions by 43 tons a year.
- In 2009, we are launching a versatile and highly variable vehicle: the BMW 5 Series Gran Turismo. It is the near-series implementation of the Progressive Activity Sedan. Once again, we are defining an entirely new segment. For me, the BMW 5 Series Gran Turismo is premium at its most innovative.

Premium is also a matter of design.

Design is and will remain a key factor in people's buying decision. It is one of the major trends in the automotive future.

We plan to focus strongly on design in the years to come, and plan to continue to be a trendsetter in the area of design. The new BMW Z4, due out in May, is a perfect example of the direction we want to take.

2.) Our strategy's second pillar: Shaping the Future.

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Shaping the future of the automobile—this can only be achieved by reducing fuel consumption and emissions.

No other car company has reduced emissions as much as the BMW Group.

We even exceeded the ACEA voluntary commitment: Between 1995 and 2008, our EU fleet consumption decreased by 27 percent. And let me add:

- We will also be able to meet the new EU emission performance requirements for 2012 and 2015.
- Excess penalties will not be an issue for the BMW Group.

The Federal Motor Transport Authority has confirmed our lead in the field of emission reduction:

- In Germany, our vehicles' average fuel consumption is 5.9 liters per 100 kilometers, with CO<sub>2</sub> emissions of 158 g/km. The average of all new cars registered in 2008 was 165 g/km.
- But more than that: BMW's fleet consumption is lower than that of Germany's major volume manufacturer and on par with that of manufacturers whose portfolios mainly comprise small cars.
- MINI's average carbon emissions are 138.6 gram.

If we begin to compare horse power to horse power, along with CO<sub>2</sub> emission levels, there is not a single engine from our competitors that can beat our engines when it comes to performance and fuel economy.

This is Efficient Dynamics at work.

BMW's new entry-level model was launched a few weeks ago: The BMW 116d is even "greener" than the "World Green Car of the Year", the 118d. This means an average of 4.4 liters per 100 km in the EU test cycle and CO<sub>2</sub> emissions of 118 grams.

49 models comply with the EU5 emission requirements. The BMW 330d with the optional BMW BluePerformance technology even meets the EU6



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standard taking effect in 2014.

Hybrid technology allows us to tap further efficiency potentials of up to 20 percent.

BMW's first two hybrid vehicles will go into series production this year—the new BMW 7 Series and the X6.

Our long-term goal is sustainable mobility. And project i is our tool to reach this goal.

The MINI E is the first result of project i and our first milestone towards electric mobility. Once again, we are ahead of our competitors. The MINI E is currently being tested by 500 customers in California in everyday city life. Customers in Berlin and Munich are about to join the project.

This field test makes us the car company with the largest fleet of electric cars.

The MINI E is also a technology leader: Fully charged, the 204 hp car can go up to 250 kilometers. And this is a good thing because most drivers do not want to give up driving fun or dynamics—not even for the car of the future.

But euphoria is not called for—not yet anyway. It will take years and years before electric cars will be a common sight on our roads.

Why is that so? First off, electric cars do not meet all the different mobility demands. And secondly, there are many open questions—regarding affordable technology, battery lifecycles, infrastructure, etc. Currently all manufacturers—and our society for that matter—are going through a learning process.

There are still a lot of areas to be defined when it comes to electric mobility. Political decisions have to be taken on the EU level at the least. And Germany should play a driving role in this process.

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But the point is that the BMW Group is working hard on developing solutions and that we are investing a lot of money in creating a new era of mobility.

The second specific result of project i will be our Megacity Vehicle.

This vehicle will be the first of a range of near-zero emission vehicles. Customers will have the choice between a fully electric drive and a high-efficiency combustion engine. Large-scale production could start in the first half of the next decade.

With the Megacity Vehicle, we are also pursuing a radical approach toward establishing a truly sustainable value chain—from development to production and sales.

Thanks to these efforts, we are at the forefront of sustainable mobility. So we are in an excellent position to define what premium will be in the future.

Sustainability is increasingly becoming a value driver. This is reflected in the third pillar of our strategy:

### 3.) Profitability

Once again, we focus strongly on improving our profitability this year. Mr. Eichiner will tell you more about that later.

Our long-term profitability targets for 2012 remain unchanged despite the current weakness of the market.

In 2012, we want to post:

- a Return on Capital Employed of 26 percent in the Automobile segment, and
- an EBIT-based return on sales of 8 to 10 percent in the Automobile segment.

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Another way to save money and resources is furthering the sustainable business development. It is wrong to believe that sustainability is always a cost factor.

Our “Clean Production” program has established sustainability in our production processes. One example: In 2008, we reduced our energy consumption by over 650,000 MWh, resulting in cost savings of approx. € 35 million.

Our targets for the coming years are also highly ambitious:

We plan to reduce the consumption of energy, water, sewage water, solvent emissions as well as waste in our international production network by another 30 percent between 2006 and 2012. This is responsibility that pays off.

We plan for the long term, so we need permanent access to technologies and customers.

This is what our strategy’s fourth pillar is all about:

#### 4.) Access to Technologies and Customers

The customer will continue to be an integral part of Strategy Number ONE.

We have restructured our marketing division to streamline it and improve customer focus.

Our idea is to generate new business by offering our customers a wider range of mobility services. Let me give you an example: our after-sales business.

In 2008, services and spare parts accounted for an additional contribution to operating income of € 90 million. Our goal is to increase after-sales revenues by 20 percent by 2014.

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We want to continue to set our own course.

Nevertheless, we will continue to cooperate with other car manufacturers—whenever necessary and reasonable. Obviously, a win-win situation is the key to a successful cooperation.

At present, we are developing our MINI engines together with PSA. And we have entered into a purchasing cooperation with Daimler which will soon be expanded. We plan to gradually increase the number of parts and components we purchase together. For the MINI E, we will work with utility companies, such as Vattenfall in Berlin and E.ON Energie in Munich.

Ladies and Gentlemen—

The successful implementation of our strategy shows that

in these difficult times, the BMW Group is setting the course for long-term growth and maintaining its independence.

The activities launched in the course of the past weeks and months will have a positive effect on our business development in the medium term.

Last but not least, my third point for the day: What is our forecast for the business year 2009?

2009 will be a transition year.

This is why we have set clear priorities: liquidity, free cash-flow and working capital, fixed costs, investments.

In other words: We are tightening our belts—just like any good businessman.

We expect the recovery period to start in 2010.

Unfortunately, the current downturn in business still continues. And as a

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result there still exists uncertainty in the overall market.

Therefore it makes no sense to offer a reliable forecast for 2009 right now.

We do not expect to match our 2008 retail level this year.

For this reason, we have developed several action scenarios depending on market development. At present, we expect automotive sales to decline by 10 to 20 percent in 2009.

From 2010 on, our sales will pick up pace thanks to our new product portfolio. This momentum will increase with the high-profit contribution models to be launched between 2010 and 2012.

Some of our competitors might enjoy a model-cycle advantage right now.

So we remain confident. And our profitability targets for 2012 remain unchanged.

I stated at various occasions that the biggest challenge is the crisis has filtered into people's mind. We think and act differently at the BMW Group. Our Strategy Number ONE is a clear roadmap to the future and because of this the BMW Group is well positioned to stay the course and meet successfully the challenges ahead. That's premium as well.

And this is why we will continue to be a strong and sustainable company with three outstanding brands: BMW, MINI and Rolls-Royce.

Thank you for your attention!