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Short-term pressures, long-term focus:

The Bosch strategy comes into its own.

Franz Fehrenbach
Chairman of the Board of Management

Gerhard Kümmel
Member of the Board of Management

at the Annual Press Conference on April 23, 2009

Check against delivery

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Ladies and gentlemen,

Since last fall, our business environment has taken a dramatic turn for the worse. Along with its peers, our company has been hit hard by the sharp global economic slowdown. And like our peers, we must move swiftly in response. Yet even through the tightest of straits, ours is a company that stays true to its long-term goals. This, then, is the long and the short of it: We are cutting back at all levels and across the board, but not on the essential tasks of building our future.

This dynamic balance, which we are determined to keep up, will be a recurring theme in our press conference today. To begin with a brief outline:

- We had to accept a drop in sales and earnings in 2008 due to the steep downturn after the financial crisis came to a head. Mr. Kümmel will go over this in his review.
- 2009 will be one of the toughest years in our corporate history – with major risks for sales and earnings, even if the economy levels off in the second half. I shall explain this in my outlook, before showing how our strategic compass nonetheless comes into its own especially at times like these.

We are currently in the midst of a financial and economic crisis. It is a crisis not only in terms of a sharp slowdown in nearly every region and sector, but also in light of how and why we came to these dire straits in the first place. We have had to learn, the hard way, the danger of underrating what we could have seen coming and could have applied critical judgment to for years: the destructive potential of short-term thinking and action geared to maximum returns. To far too great an extent, this pushed aside long-term responsibility for the stability of business enterprises themselves and of the society of which they are part.

Tracing the word back to its roots, a crisis is a turning point or a decisive change in a threatening course of events. It is at just such a turning point that we stand today. There is much to be done:

- Bring the international financial system back under control
- Bring bonus and severance rules back into line
- But most importantly, secure responsible conduct at all levels of management. And that, first and foremost, means putting long-term focus before short-term profit maximization

This latter task is at once the hardest and most decisive. If it is not fully achieved, the price may not be just more national debt, but a wave of nationalizations – one in which the regulatory policy compass could well go right overboard. It would not do full justice to the situation to criticize policymakers for this risk now. For it is not the governments now being turned to for support who mostly caused the problems to start with. However, there can and will be no rolling back of the state until business itself and, most of all, the banking sector earn back confidence from all sides.

Hoping for a return to stability in our business environment does not relieve us of our main duty now – that of safeguarding our company. This means acting very fast to stem the loss of earnings and above all of liquidity. Nor can we avoid structural change. Where decreases in workload are due to fluctuations in business activity and hence temporary, we plan to cushion the effect by cutting working hours. On this occasion a year ago, I stressed the importance of high-caliber people in attaining our long-term goals. Today, the imperative is to keep the custodians of our corporate know-how on board – subject to one qualification: for as long as it is possible to do so. Because changes made to gain flexibility can never be more than stop-gap measures. So our current determination to weather the storm depends on the economy actually leveling off this year.

As to the development of the Bosch Group in the longer term, we believe we are still well-positioned strategically. This is reflected in:

- Our broad international presence
- Our strong foothold in a range of industries
- Our great innovative strength
- And, quite generally, our basic technological and business direction as expressed in our corporate slogan, 'Invented for life.'

Our growth opportunities, above all in environmental protection and resource conservation, are something I will return to in greater detail. There is no reason for Bosch or any other industrial enterprise to use the current economic crisis, for example, as a pretext for failing to combat climate change. The crisis will blow over – but oil and gas reserves will go on shrinking. Efforts centering on energy for the future are enough on their own to keep our research and development expenditure at their present high levels. With an eye to these basic challenges, we continue to go our own way regardless of cyclical trends.

This is reason enough not to let my presentation of our strategy be overshadowed by the current state of affairs. First, though, I will hand over to Mr. Kümmel for his review of the past year.

Fiscal 2008: the downturn leaves its mark

As Mr. Fehrenbach just said, ladies and gentlemen, the Bosch Group, too, was significantly affected by the global downturn in business activity in the course of 2008.

At last year's annual press conference, we had already announced that we expected to see a global weakening of economic activity. However, even we were caught off-balance when the financial crisis escalated in mid-September 2008. We were also surprised by the intensity and pace of the subsequent economic downturn. The distortions in the financial markets and the downturn were mutually reinforcing. This is the reason why all industrialized nations have gone into a severe recession since the fall of last year, the severest recession in many decades.

As a result, growth in the global economy was nearly halved year on year in 2008, falling to roughly two percent. The automotive industry was hit especially hard by the economic downturn. For the first time since 2001, automotive production declined worldwide. Taking the year as a whole, the fall-off was three percent. But the decline accelerated in the fourth quarter, reaching 20 percent in some cases. With a slight delay, this downturn then also affected the capital goods industry. This also applied to the Consumer Goods and Building Technology business sector, especially those areas of business closely related to the housing and construction industries.

Without doubt, the international financial crisis imposed an extremely heavy burden. But there had already been some considerable braking effects in the first half of the year, as a result of the steep rise in raw materials prices. This was compounded by the at times considerable appreciation of the euro against the dollar, as well as against other major international currencies. It was not until the fourth quarter that the situation as concerns the latter two factors showed some marked improvement.

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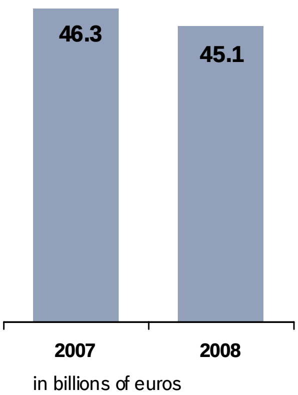
Bosch Group sales revenue: noticeable drop



Change from 2007	in billions of euros	in %
nominal	**-1.2**	-2.6 %
adjusted for currency effects	**-0.2**	-0.5 %
Change in sales following	in billions of euros	in %
First consolidation	**+0.5**	+1.1 %
Internal changes	**-0.7**	-1.6 %
Currency effects	**-1.0**	-2.1 %

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The appreciation of the euro knocked roughly one billion euros off the figure for sales disclosed for 2008, the equivalent of a strong two percentage points. After adjusting for currency effects, our sales were down slightly by 0.5 percent year on year. Expressed in euros, however, sales fell by 2.6 percent to 45.1 billion euros.

By contrast, newly consolidated companies had a positive effect on sales, adding roughly 0.5 billion euros or a strong percentage point to the total. For the most part, however, the acquisitions will not affect sales until 2009. Last year, we spent around 3.2 billion euros on acquisitions and on increasing our holdings in existing affiliated companies. This was considerably more than in previous years, when we exercised caution due to company valuations that were at times excessive.

The acquisitions we made strengthened all three of our business sectors. The major acquisitions included the following:

- in Automotive Technology, the takeover of a Danish remanufacturer of starters and generators, Holger Christiansen, and of the brakes business of the U.S. Morse Automotive Corporation.
- in Industrial Technology, the German photovoltaics manufacturer ersol Solar Energy AG and the Swedish hydraulics specialist Hägglunds Drives
- and in the Consumer Goods and Building Technology business sector the following additions to the Power Tools division: the Swiss abrasives specialist sia Abrasives, the Italian saw-blade manufacturer Freud, and the U.S. manufacturer of laser measuring tools CST/berger. In Security Systems, we acquired the Canadian video specialist Extreme CCTV.

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Sales revenue by region: international balance

Region	Sales revenue 2007	Sales revenue **2008**	Change from 2007 nominal	Change from 2007 after adjustment
Europe	30.3	**29.7**	-1.9 %	-1.0 %
North America	6.9	**5.9**	-15 %	-8.9 %
South America	1.5	**1.7**	+12 %	+12 %
Asia Pacific	7.6	**7.9**	+3.2 %	+7.0 %

in billions of euros

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Our strong international presence and our diversification paid off once again. At least in part, we were able to offset shortfalls in individual regions and business areas.

Let me deal first of all with the development in the regions.

- In Europe, sales fell by 1.9 percent to 29.7 billion euros. After adjusting for currency effects, the drop amounted to roughly one percent. This was mainly due to significant reductions in call orders from automakers.
- The greatest losses were recorded in North America. At 5.9 billion euros, sales were down 15 percent year on year. Even after adjusting for currency effects, they were down nine percent. Automotive Technology was hardest hit, due to the difficulties facing North American automakers.
- In South America, the economic downswing kicked in later. Both in euros and in local currencies, we were able to grow our sales here last year by roughly 12 percent to 1.7 billion euros.

- In Asia Pacific, by contrast, we were able only to slightly increase our sales by 3.2 percent, and by 7 percent in local currencies. Here too, the most important factor was the development of business activity. It led to a significant drop in production at many automakers in the fourth quarter, with corresponding repercussions for automotive suppliers. In the medium and long term, however, Asia Pacific remains an attractive growth market for us. We shall further expand our activities there.

The picture is similarly varied when it comes to the business sectors.

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Sales revenue by business sector: impact varies

	Sales revenue		Change from 2007	
Business sector	2007	**2008**	nominal	after adjustment
Automotive Technology	28.4	**26.5**	-6.9 %	-5.1 %
Industrial Technology	6.0	**6.7**	+13 %	+15 %
Consumer Goods and Building Technology	11.7	**11.9**	+1.4 %	+4.2 %

in billions of euros

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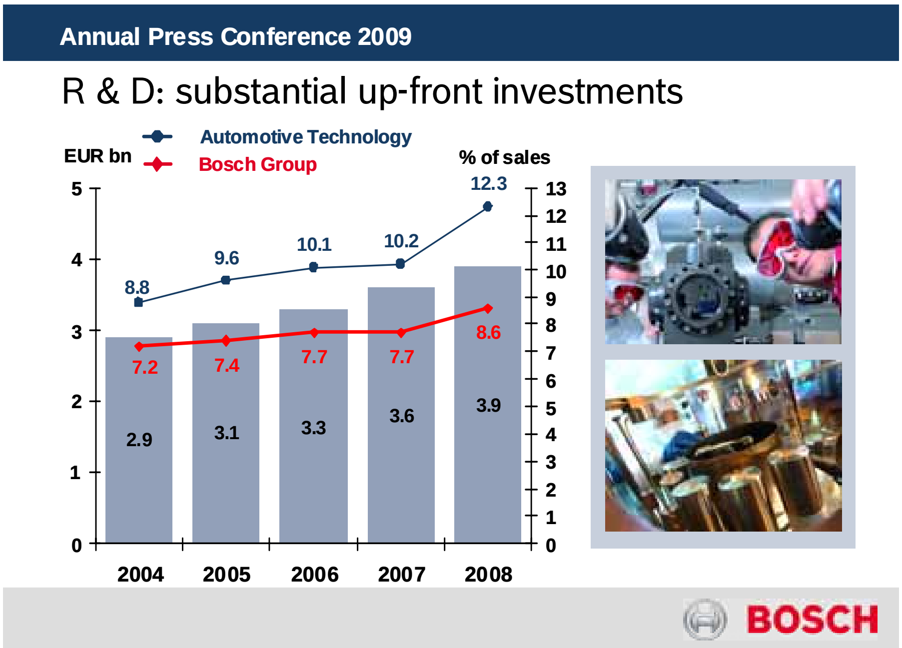
- We recorded considerable losses in Automotive Technology. Sales dropped by 6.9 percent to 26.5 billion euros. After adjusting for currency effects, sales were still down year on year by 5.1 percent. The main reason for this decline is to be found in North America. In our business plans, we had expected automotive production there to shrink by some four percent. But when it came, the contraction was significantly more severe, at 16 percent. The situation was made worse by the cooling of automotive business in Europe from the middle of the year. In the fourth quarter, considerable cuts in production worldwide triggered by the escalation of the financial crisis also played a role.

The divisions that are especially active in North America were particularly affected. This applies above all to the Chassis Systems Brakes division, which is also suffering as a result of structural changes in the brakes market. In addition, demand for diesel technology was dampened by the rise in the price of diesel, in combination with the at times minor difference in the price of diesel and gasoline in Europe. Moreover, the unsatisfactory situation in the Car Multimedia division was further exacerbated by economic developments. As already announced in 2008, this division will focus in the future on the areas of systems integration and OEM business.

- The Industrial Technology business sector still achieved good sales growth last year. One reason for this was that the downturn did not affect the capital goods industry until after a certain delay. Sales rose to 6.7 billion euros – an increase of 13 percent, or 15 percent after adjusting for currency effects. If the effects of the first-time pro rata consolidation of ersol are disregarded, sales grew by roughly ten percent.

- In the Consumer Goods and Building Technology business sector, we increased sales slightly by 1.4% to 11.9 billion euros. In local currencies, we achieved growth of 4.2%. Growth was significantly slower than in previous years as a result of the housing crisis in North America and in major European markets. This applies in particular to our power tools, household appliances, and security systems businesses. The Thermotechnology division, by contrast, felt the positive effect of improved incentive schemes for modern heating systems in a number of European countries.



But despite these business cycle-related effects, we managed to strengthen our competitive position in all three business sectors last year. Apart from our acquisitions, this was helped by a large number of innovative products designed to save energy and protect the environment. In the Bosch Group, we now generate roughly one-third of our total sales with products such as these. Last year, moreover, we spent a record 3.9 billion euros on research and development, while total capital expenditure came to 3.3 billion euros.

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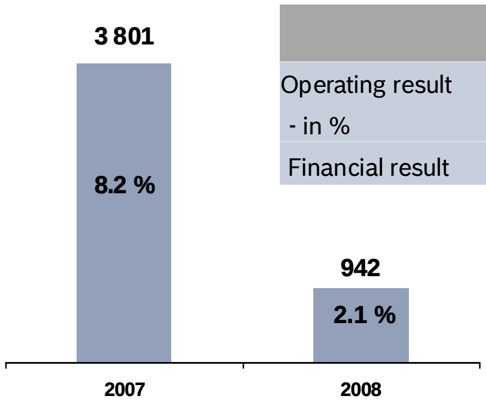
Profit before tax: considerable impact



	2007	2008
Operating result	3 170	**1 515**
- in %	6.8	**3.4**
Financial result	631	**-573**

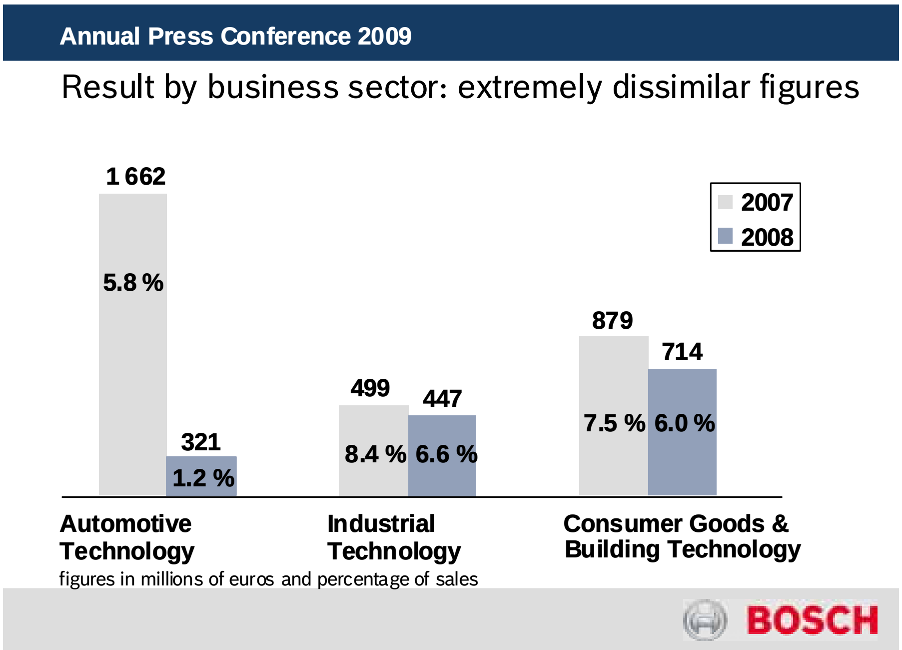
figures in millions of euros

The decrease in sales revenue in 2008 significantly affected the development of earnings. Operating result was halved, to some 1.5 billion euros. Profit before tax reached only some 940 million euros, compared with 3.8 billion euros in the previous year. At 2.1 percent, the return on sales was significantly below our long-term target of seven to eight percent. The main reasons for this are the worsened earnings situation in the Automotive Technology business sector – to which I shall return in a moment – and a negative financial result of roughly minus 570 million euros, compared with a significantly positive result of some 630 million euros in the previous year.

The main factors for the negative financial result are:

- lower interest income due to lower liquidity, itself mainly due to the large number of acquisitions.
- write-downs of the securities portfolio and price losses sustained in securities transactions as a result of the situation in the capital market.

So how did operating result develop in the individual business sectors?



- In Automotive Technology, the return on sales from operations fell to 1.2 %, down from 5.8 % in the previous year. The divisions that are especially active in North America, such as Chassis Systems Brakes, were hit particularly hard. Here, we had to recognize additional depreciation of property, plant, and equipment. In North America, we are again well into the red, despite having made progress with result in the previous year. The situation was worsened by restructuring costs, particularly in the Car Multimedia division, and, as a result of the difficult market environment, by a greater necessity for provisions for potential losses in a number of areas.
- Although we achieved a decent return on sales from operations in Industrial Technology, the 6.6 percent figure was also down on the previous year. This was due to

increased raw materials prices, to the appreciation of the euro, which was significant at times, and to considerable up-front investments and measures to expand capacity, especially in the wind-power field.

- The return on sales from operations in Consumer Goods and Building Technology came to six percent, compared with 7.5 percent in the previous year. Result was affected by the difficult market situation in North America and some European countries, as well as by the rise in raw materials prices and by currency effects.

Due to the good results achieved in previous years, and thanks to our conservative financial policy, the Bosch Group's financial position remains healthy. I would like to illustrate this on the basis of three graphs, showing our cash flow statement, our net financial position, and our equity on the balance sheet.

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Cash flow statement: investments covered

	2007	2008
Cash flow as a percentage of sales	**5 052** 10.9	**4 032** 8.9
Liquidity*) at beginning of year (Jan. 1)	2 849	2 789
• Cash flows from operating activities	+ 4 076	+ 4 444
• Cash flows from investing activities	- 3 528	- 4 242
• Cash flows from financing activities	- 585	- 719
• Other	- 23	- 5
Liquidity at end of period (Dec. 31)	2 789	2 267

figures in millions of euros

*) cash and cash equivalents

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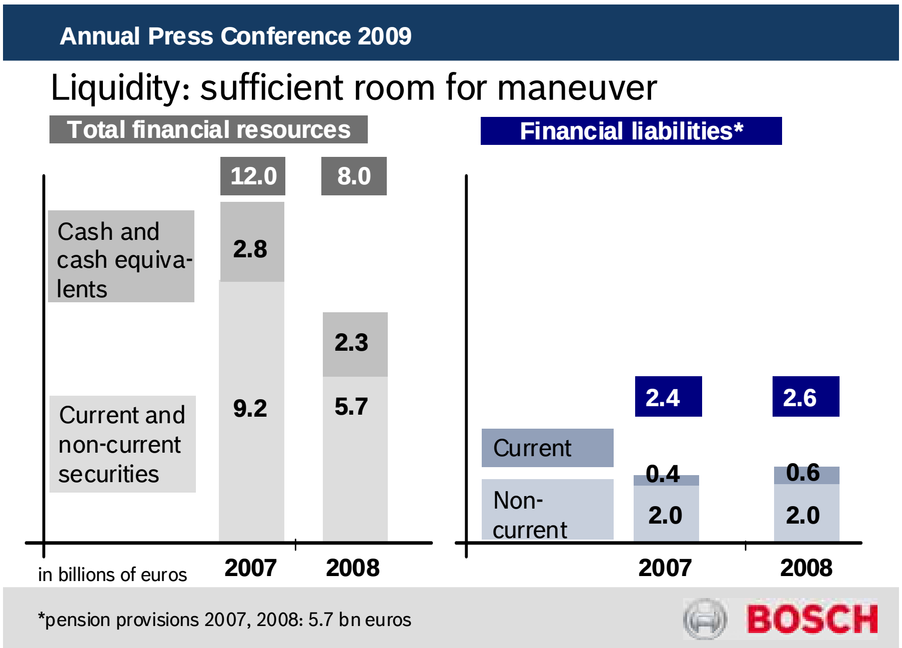
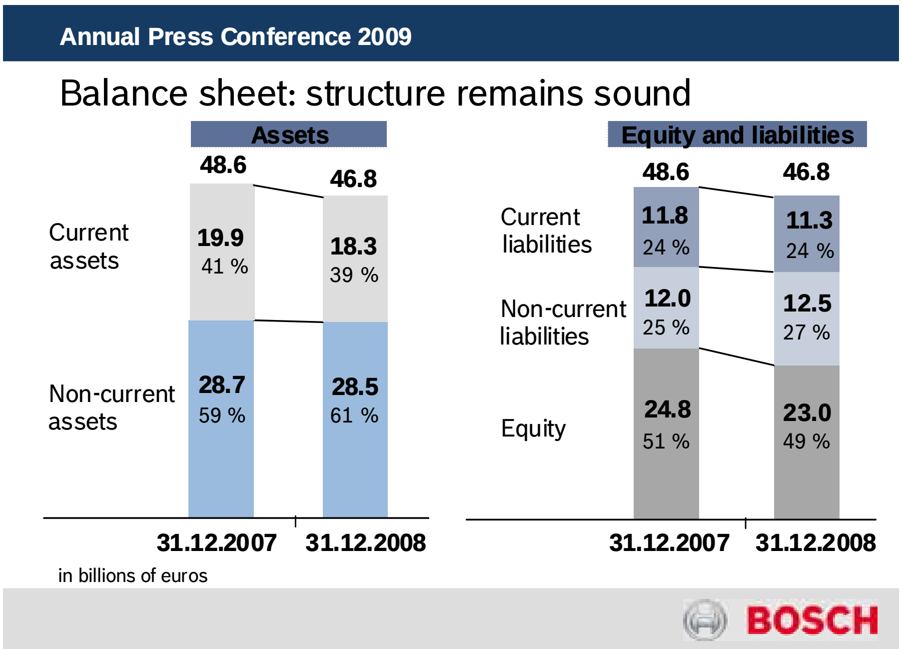
- The cash flow statement discloses a cash flow of 4.0 billion euros. This was less than in the previous year, but still came to 8.9 percent of sales. We were able to comfortably finance our investments in fixed assets from cash flow from operating activities. For our acquisitions, we utilized securities worth roughly two billion euros. The cash flows from financing activities come to some 700 million euros. Here, a major role is played by the acquisition of outstanding shares in our formerly publicly listed subsidiary Bosch Corporation in Japan. At year end, our liquidity came to 2.3 billion euros. Although this means it was a good 500 million euros less than in the previous year, we nonetheless have plenty of liquidity at our disposal.



- Our financial resources continue to ensure that our company can act with a high level of flexibility. Despite many acquisitions last year, we disclose some eight billion euros in cash, cash equivalents, and securities at balance-sheet date. This contrasts with financial liabilities of just 2.6 billion euros. Accordingly, our pension provisions of some 5.7 billion euros are also nearly completely covered by our financial resources.

The balanced structure of our non-current financial liabilities also helps to keep our financial situation fundamentally sound. As in the previous year, these liabilities totaled 2.0 billion euros. They fall due between 2010 and 2016. In addition, at the end of the year we had access to unused commercial paper programs to the tune of around 1.5 billion dollars and 1 billion euros. In the first quarter of 2009, moreover, we created further financial headroom by taking a note loan of some 500 million euros.



- I would like to close by taking a look at our balance-sheet structure. On the assets side, it has barely changed. The reduction in the share of current assets to 39 percent corresponds to the development of sales revenue. This means that we disclose fewer trade receivables. The decline in non-current financial assets is a reflection of our acquisitions and of the lower value of our publicly listed investments at balance-sheet date. By contrast, plant, property, and equipment increased as a result of our heavy investments, and intangible assets and inventories rose as a result of acquisitions.

The changes in equity and liabilities mainly relate to equity. It fell from 24.8 billion euros to 23 billion euros. One reason for this is unrealized exchange-rate losses from securities and investments, as well as currency losses and translation effects when valuing our assets outside Germany at current year-end rates, and the decrease in result. In addition, the profit after tax was subject to a far higher tax ratio than in the previous year. This was the result of write-downs recognized on deferred taxes in connection with the loss situation in North America.

With an equity ratio of 49%, however, we continue to have a sound financial base. Nonetheless, on all levels of the company we must do our utmost to adjust costs to current developments. This will allow us to continue to drive forward important future projects despite the persistently difficult economic situation. Mr. Fehrenbach will now explain to you how we intend to master this difficult balancing act, and what the focal points of our strategy will be.

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Presentation structure

Review of 2008
- Gerhard Kümmel

➡ **Outlook for 2009**
- Franz Fehrenbach

Objectives and strategies
- Franz Fehrenbach

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Outlook for 2009: Hoping for the economy to stabilize

Ladies and gentlemen, the balancing act Mr. Kümmel refers to will require great efforts on our part during the current year. Not least because the year has already got off to a very poor start.

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Bosch Group: Outlook for 2009

➡ **Economic environment:** Severest global recession in decades; hope for stabilization of business activity in second semester

➡ **Sales:** Sharp decline in first quarter; decline also in year as a whole

➡ **Result:** Began year with negative development; outlook for year as a whole very gloomy

➡ **Actions:** Secure liquidity; prioritize tasks and expenditure; remedy structural weaknesses – balancing act between saving and investment

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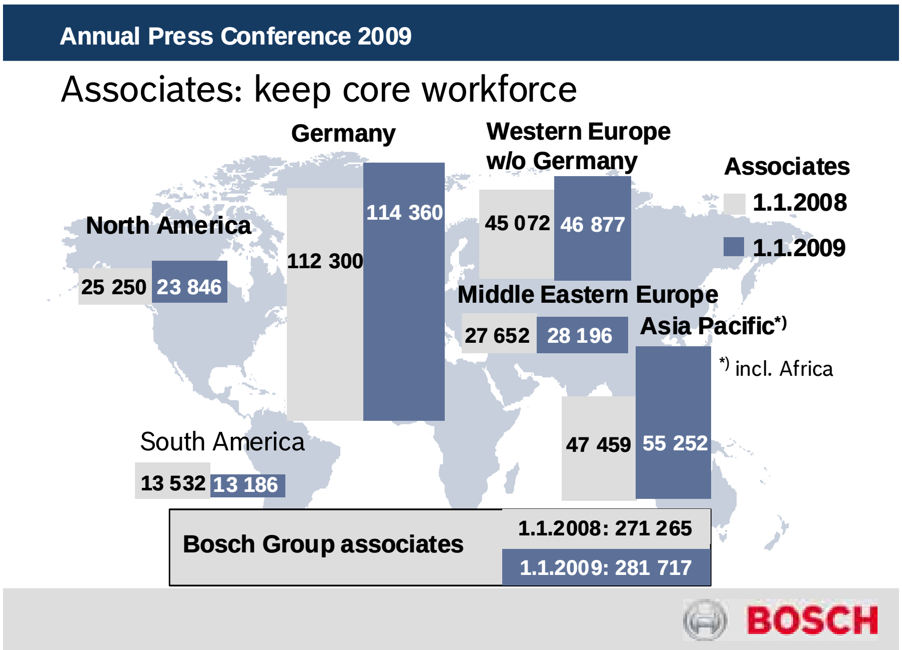
Sales dropped in the first quarter at a rate we have not seen for many decades. Our Automotive Technology business sector continues to be particularly hard hit, with global automobile production having dropped by some 30 percent so far this year. But the picture in Industrial Technology has also significantly worsened. After a positive prior year, this sector is now looking at a double-digit fall in sales. So far, the situation in Consumer Goods and Building Technology is a little more stable, but sales are visibly down in this sector, too. And highlighting the seriousness of the situation, the negative trend in the first quarter affected all regions to practically the same degree the world over.

Our current expectation is that the first three months of this year will mark the bottom of the curve and the coming quarters will not be quite so deeply negative. We may also see a return to growth toward the year-end, though from a very low prior-year base. All told, we project a very marked drop in sales for the Bosch Group in 2009 – a decrease we will do our utmost to keep in the single-digit percentage range.

An even greater challenge is that of safeguarding our result – not least because we must still make provision for future growth. There is no doubt that this balancing act will become harder with every day the recession lasts. Weathering it will take discipline and rigor. Here are a few indications of what this means:

- We are prioritizing all activities and expenditures within budgets which we have scaled back substantially overall.

- We are securing liquidity through strict management of inventory and receivables, but also in ongoing capital expenditure and acquisitions.
- Finally, we are eliminating structural weaknesses in various divisions.



We follow similarly clear principles in our human resources policy:

- As a matter of principle, wherever we are faced with solely cyclical fluctuations in workload, our aim is to keep our core team as far as possible. For this, we use options to reduce working hours, provided these options are available in the various countries concerned.
- At the same time, we must not put off structural adjustments that are pending anyway, where losses were already being made or excess capacity was already foreseeable.

We will stay true to these principles as the year progresses. In accordance with collective agreements alone, we have reduced the working hours of some 26,000 German associates by between two and five hours a week. We have additionally registered for shorter working weeks for some 32,000 associates in Germany. Working hours have also been reduced for approximately 35,000 associates outside Germany. In countries where there is no provision for adjustments of this kind, on the other hand, we have already had to lay off some 3,000 associates. Regrettably, this number is likely to swell over the remaining course of the year. In Germany, too, the trend is toward a reduction in the workforce.

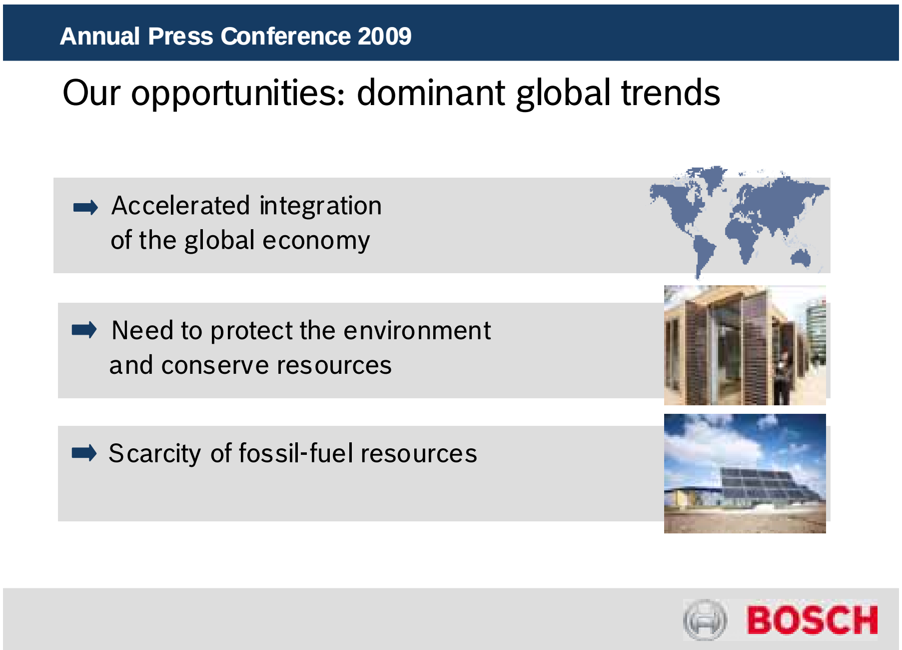
To what extent these issues come to a head ultimately depends on whether the business trends indeed level out in the second half of the year. Despite the currently poor state of business, we believe they might – and for three reasons:

- Firstly, economic stimulus packages, some of them extensive, have been introduced worldwide in an effort to re-kindle demand. In several countries, these are already beginning to bear fruit.
- Second, the financial crisis seems to have peaked. If, on the other hand, the situation of individual banks should become any more dramatic, we can expect to see specific support measures being taken.
- Third, and in light of these first two effects, business and consumer confidence indicators in major countries are showing slight signs of improvement.

Having said that, it will likely be months before these developments translate into stable expectations of a change for the better. During this time, there remains a considerable risk that forecasts will turn negative again. So we cannot rely on emerging from the crisis soon without further reversals. Events so far have been enough on their own for us to expect a two to three percent drop in global economic output. This means we are recording the sharpest recession in recent decades. And industry, which in major countries is currently suffering an average downturn of some 20 percent, will doubtless need two or three years to recover from these declines. All the same, the fundamental growth forces in the global economy remain intact, which means the initial levels seen before the recession will be exceeded again in the mid-term.

Our strategy: spot global trends and seize opportunities

Ladies and gentlemen, however little forward visibility we might have regarding economic developments, our strategy remains clear. This is partly why we spent some ten billion euros on research and development, capital expenditure, and acquisitions in the past year – all of which represents investment in ongoing growth.



I should now like to show you where we are headed, first and foremost in terms of the future of energy, but also with a view to our innovation and human resources policies. This will highlight the advantages of our maintaining a broad regional and sectoral footprint. Our strategic focus continues to apply in times of difficulty. It is rooted in an analysis of global trends that are no more than temporarily hidden from view in the current economic tempest. Even if we failed to seize the business opportunities they present, there would be no getting around these trends in the long term. In this regard, three points are decisive for us notably at this current time:

- First, the emerging economies are still catching up, if currently at a slightly reduced pace, to join the ranks of industrialized nations.

- Secondly, in all countries, protecting the environment and mitigating climate change continue to gain in importance. These can only be grasped as global responsibilities. Ecological globalization follows economic globalization. Anyone who thinks they can just coast along in this regard will be left behind later: It is important to continue engaging with green issues even through the crisis. This not only makes good ecological sense, it also makes good business sense.
- Thirdly, humankind must find a way around the growing scarcity of oil and gas. Most of all, this means making more efficient use of fossil fuels and harvesting renewable sources of energy. Aside from the climate change aspect, this poses one of the greatest global challenges, one whose relevance is in no way diminished by the current crisis. And we can only meet this challenge with more technology.

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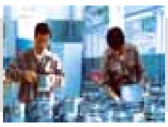
Our strategy: the focus is right

➡ Further internationalization



➡ Focused diversification

➡ Great innovative strength;
guided by “Invented for life” slogan

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Our strategy in the context of these trends is guided by our slogan 'Invented for life.' This shows through particularly strongly in our innovation policy. We want to provide lasting technological answers to ecological questions. In 2007, 40 percent of our research and development budget was aimed at conserving resources and protecting the environment. This year, the figure is roughly 45 percent. And we now generate a strong third of our sales with products that meet these criteria. Over the next few years, we want to increase this figure significantly.

Just as the environmental focus in our innovation policy retains its validity through times of crisis, so too do two other main lines of strategy:

- Ongoing internationalization
- Focused diversification.

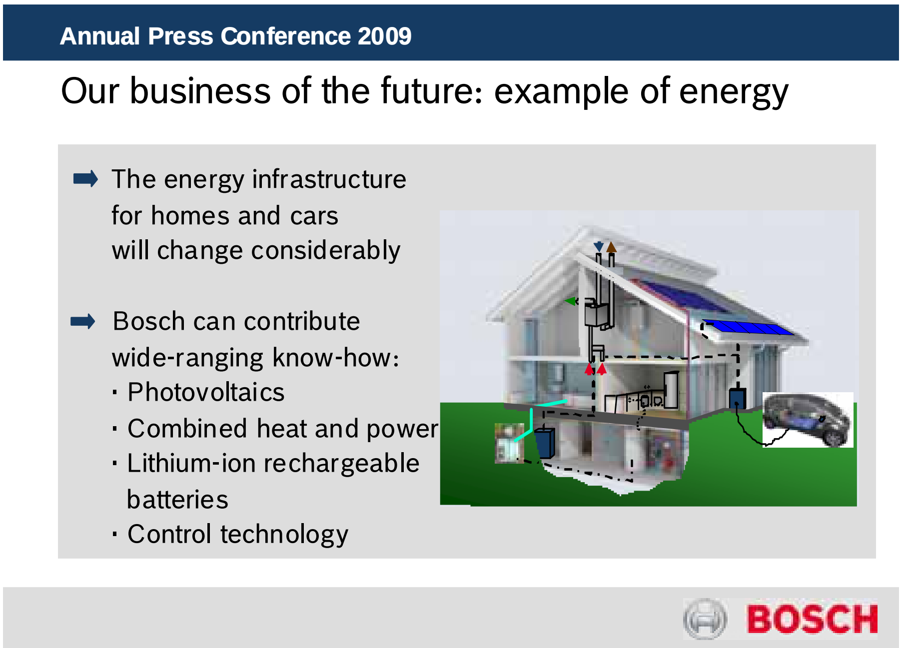
We stand by our goal of generating over half our sales in the combined regions of the Americas and Asia Pacific. And we continue to target above-average growth in consumer goods, building technology, and industrial technology as well as in new business areas, without neglecting market opportunities in automotive technology. The objective here is to achieve a balanced sales structure, and thus also a spread of opportunity and risk.

The soundness of this rationale is even visible in a recession that has hit nearly all sectors and regions. For the impact of this recession is distinctly uneven – less in our consumer goods activities than in automotive technology, less in Asia and South America than in Europe and North America. Private consumption has so far acted as a stabilizing factor worldwide.

And industrial production in a country like China at the beginning of 2009 was still 50 percent up on the level of 2005, whereas in Germany it was already down from that level. Especially at a time like this, there are good reasons to work to improve the sectoral and regional balance of our businesses.

Our way forward: smooth transition on multiple fronts

While the main lines of our strategy remain valid, we too face major long-term challenges. For example, foreseeable changes in energy supply affect all our business sectors. To give a brief long-term outlook in just two areas:



- First, the future of residential housing is one of converging technologies and industries. Heating, ventilation and air conditioning systems will merge. Buildings could become mini power stations. We are forging ahead with the development of decentralized power generating systems not just using photovoltaics, but with combined heat and power, where we are part of a European field test with 500 of our Stirling engines.

- Second, it is possible that we will have to provide for the automobile as part of home energy systems. Future electric vehicles could power up at home charging stations. Depending on electricity prices, this power could come from the grid or from home solar panels. Either way, electromobility will have a major impact on energy infrastructure. This is another focus of our work – and in it, we can bring expertise to bear that ranges from lithium-ion rechargeable batteries and solar cells through to control technology.

Our aim is to achieve a smooth transition into the future – from fossil to renewable energy sources, from incremental efficiency gains to wholly new technologies. Electromobility will come, for instance, but at first only in very small volumes – say, with about 500,000 new vehicles worldwide in 2015. That will hardly help the automotive industry meet the stricter carbon emission standards for new vehicles in Europe – which is reason enough in itself to continue systematically improving fuel economy in diesel and gasoline engines. But these endeavors will not keep us from continuing to work on previously unimaginable solutions, right through to organic solar cells that could be used to coat the body of a car to harvest power from the sun. In all business sectors, we must move forward on multiple fronts, tapping the commercial and technical potential of existing business areas while opening up new avenues into the future. I should now like to go into this in greater detail.

Bosch advances: for gasoline engines, diesel engines, and electric motors

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Fighting on several fronts: automotive progress by Bosch

➡ We are making progress toward the electric drive

➡ At the same time, we can reduce the consumption of gasoline and diesel engines by 25 and 30 percent respectively

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Let us start with our Automotive Technology sector. Like the rest of the automotive industry, it is competing to keep ahead on many fronts – and that on top of the current economic problems. We also generally keep at least one step ahead of statutory standards for road transport, in safety as well as in fuel economy and emissions. Adoption of the ESP® electronic stability program, for example, is to be made mandatory both in Europe and in the U.S. Worldwide, every second new vehicle under six metric tons is to be fitted with this system by 2012. In 2008, it was one in three. This represents a vast opportunity for Bosch, the pioneer of ESP®. And in light of coming EU legislation on carbon emissions from new passenger cars, there is a need for technical solutions to save fuel. One example is our start-stop system, which boosts fuel economy in the urban cycle by up to eight percent. We will be shipping some 850,000 units of this system in this difficult year alone – more than twice as many as in 2008.

First and foremost, however, we continue to refine our gasoline and diesel systems. And here, too, we are making strong progress, not least by rendering engines more compact without compromising performance. This downsizing requires turbocharger technology of the kind we make possible in our joint venture with Mahle. All told, we expect we can make gasoline engines another 25 percent more efficient and diesel engines at least another 30 percent. This turns a mid-range diesel into a car with fuel economy of three liters per 100 kilometers and carbon emissions of less than 100 grams per kilometer. The extra cost is recouped in fuel savings in no more than three years. And we expect that the diesel technology in the bottom-most vehicle segments will not become more expensive even under future emission standards. Thanks to Bosch, the internal-combustion engine still has a strong and above all a prolonged future.

Yet there is no getting around the fact that oil reserves are finite. With its long-term focus, a company like Bosch in particular is already preparing for a post-oil world. All our efforts to boost efficiency in established engine technologies are paralleled by intensive, varied work on the electrification of the automobile.

- A first transitional technology is the hybrid drive, which combines a combustion engine with an electric motor. In 2008 alone, we secured projects with cumulative sales of over a billion euros for this technology. Series production is set to start at the beginning of 2010.

- From hybrid drives to fuel cell technology, we have pooled our vehicle electrification activities in a single business unit. This unit currently boasts 400 engineers; by the year-end it could be 600. We are achieving major technical advances in this field. For example, we are confident of being able to more than halve the space taken up by power electronics in the next few years.
- The key technology in the future of electric motive power, however, is the lithium-ion battery. We have already made this technology successful in power tools, and have now joined forces with Samsung SDI to establish SB LiMotive in order to make it automobile-ready. The joint venture currently has 150 developers and a capital spending budget of some 500 million dollars over the next five years. We are the only automotive supplier to be involved in battery cell development through a joint venture. Our goal is to at least double the energy density of lithium-ion batteries compared with existing applications combined with a substantial lengthening of their working life. A lot of work is still needed, but we aim to have the new battery technology up and running by 2011.

It can be said, then, that we have put an enormous amount of energy into our development work in alternative drive systems. At the same time, we continue to tap the considerable remaining scope for efficiency gains with diesel and gasoline. We are developing both the car of tomorrow and the car of the more distant future.

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Two-pronged approach: conserving resources

➡ In industrial and building technology, we take a two-pronged approach

➡ We harness renewable energies – and at the same time increase the efficiciency of existing technologies

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There is more than one path into the future. This is true in automotive technology, and it is no less true in industrial and building technology. Our activities relating to renewable energy sources span a broad range in themselves, from electric heat pumps and solar collectors to wind and marine energy systems. Acquiring the German solar cell manufacturer ersol Solar Energy AG has added photovoltaics to our portfolio. If we include our new photovoltaics business, then our sales of renewable energy technology passed the one billion euro mark for the first time in 2008 – and even in the difficult year of 2009, they will rise to more than 1.2 billion euros. In this area as elsewhere, we are naturally feeling the effects of the economic crisis at the moment, but we have every reason to aim for long-term growth. Among other things, the world market for photovoltaics is set to increase fivefold in size to 200 billion euros by 2012. By then, we will have invested a good 530 million euros in expanding our solar cell production. This is one area especially where our sights are set far beyond the current fluctuations in the economy.

We pursue a similar twin-pronged strategy in industrial and building technology as we do in automotive technology. In industrial and building technology, this means not solely focusing on the long term and renewables, but also on immediate and low-cost efficiency gains with existing technologies. Two examples show just how successfully we meet customer needs by doing so:

- First, Bosch Rexroth: Our subsidiary doubled shipments of large wind turbine gearboxes in 2008, and production has now begun in Nuremberg and Beijing in addition to the Witten factory. In total, this has involved a capital investment of nearly 300 million euros. A good 120 million euros of this were spent at our established Nuremberg location, which previously produced solely automotive technology and hydraulics. While demand for wind power technology is down this year, projections beyond the year-end are strongly positive. A key factor in this concerns large countries like the U.S., China and India promoting a rapid expansion of wind power. But for Bosch Rexroth, focusing on tomorrow's technology, including fitting out prototype marine energy installations, is only one side of the coin. The other side is energy efficiency, which our subsidiary can improve right now in its core factory automation business. For example, energy savings of 75 percent are available on a plastic molding press – with no loss in productivity.

- Second, thermotechnology: Here again, we have added extra capacity for systems to harvest renewables. Our sales of solar collectors in Europe grew twice as fast as the market in the past year. Demand pulled ahead in Germany, too, helped along by state subsidies. But heating systems can also be upgraded with condensing boilers. These use 30 percent less oil and gas than conventional units by recovering exhaust heat. Sales in our condensing boiler business increased by over 17 percent in 2008 to top the one billion euro mark for the first time. In thermotechnology as elsewhere, we target both renewables and energy efficiency: a twin-pronged strategy that is good for the environment and good for sales.

Focused diversification: the example of Power Tools

We conserve resources in many different ways with our consumer goods products, too. The power and water saving Bosch household appliances are one example. The most energy-efficient battery lawnmower in the world is another. We recently launched its successor on the market – with a further 20 percent cut in power consumption.

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Diversification: also in Power Tools

➡ Diversification is not just about opening up new areas of business

➡ It can also be about extending a division such as Power Tools - while con-sistently focusing on our core competencies

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Power tools are another product where lithium-ion battery technology is deployed – and for six years this technology has taken the Power Tools division from one market success to another. Eighteen of the twenty best-selling power tools in DIY stores in major European countries such as the UK, France, and Germany are Bosch products. It is in no small part due to our strong market standing that sales of no-name tools are on the decline – by 14 percent in Germany's DIY stores during 2008 alone. We are keeping up this momentum:

- Take power tool accessories, a segment in which we are world market leaders. We have further added to our business by taking over the Freud group and sia Abrasives.
- Or take measurement tools for tradespeople and DIYers. Having acquired RoboToolz and CST/berger, we are now one of the two world market leaders.

Diversification can mean entering new areas of business. This is something we aim to do through our 200 million euro-strong venture capital fund, for instance. But diversification can also mean expanding existing divisions. Either way, we stay focused on our core competencies. Size alone is not important for us, and so we avoid taking gambles. Instead, we operate to a logical rigor that is established ahead of each and every acquisition. To this end, we systematically ask questions as strategic filters:

- Do the potential business activities fit the Bosch vision and values?
- Are we able to handle the critical success factors, risks, and complexity involved?
- Would the outcome be a model for lasting success?

As the acquisitions I have mentioned show, our slogan, ‘Invented for life,’ goes well beyond environmental protection and resource conservation. We also work to achieve ease of use as well as promote health and safety both at home and on the road. Energy is a special focus of our attention, but ‘Invented for life’ covers an even greater range still.

Our innovative strength: clear priorities are the key to success

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Innovative strength: more patents, new products

- ➡ 32,500 associates in research and development worldwide
- ➡ 3,850 patent applications in 2008 – more than ever before
- ➡ New products such as automatic emergency braking

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Above all, we must keep delivering on this commitment with new technologies. This takes innovative strength, which in turn calls for financial strength. We want and need to cut costs, but neither wish nor can afford to neglect investment for the future. This is an especially hard balancing act. But now above all, clear priority-setting is called for. After all, this is what leadership is all about. Specifically, our research and development budget will no longer increase in absolute terms this year, but will remain virtually unchanged.

Money alone is no guarantee of innovations. They are the product of creative minds. At the beginning of 2009, we employed a good 32,500 associates in research and development, including some 10,000 outside of Europe, and over 7,000 of them in Asia alone. Our innovations have long been generated in an international network. In 2008, we added research centers in St. Petersburg and Singapore. However, our development activity will continue to be focused in Germany – not least for the proximity to major customers and research institutes. Our cluster in south-western Germany will remain particularly important. Among other things, we plan to build a new research center in Malmsheim. The initial capital outlay is projected at some 160 million euros. And we are already in the process of expanding our development center in Abstatt to the tune of more than 60 million euros, primarily for our subsidiary Bosch Engineering. More than anything else, these plans show how foresighted the actions of companies like Bosch can be in difficult times.

Our priority on research and development naturally produces some notable results. Here are just a few examples:

- First, we filed another record number of patent applications in 2008 – a good 3,850 over the year, or 15 each working day. That makes us the most innovative company in Germany – and puts us in fifth place in terms of submissions to the World Intellectual Property Organization in Geneva.
- Second, our engineers regularly reap awards with their work. One that stood out in 2008 was the German innovation and advanced technology prize conferred by the German Federal President for our micro-electromechanical systems, which today are deployed not just in cars but also in devices such as laptops and cellphones. We have produced over a billion such devices. We are also building a new 600 million-euro semiconductor manufacturing facility in Reutlingen – our single largest capital investment.
- Third, we are launching further major new products in 2009. Take driver assistance systems, one of our main innovation areas. This year sees the onset of series production for our

automatic emergency braking system, which uses radar and video sensors to prevent three out of four rear-end collisions.

Success at innovating means constantly opening up new avenues for researchers and developers. Above all, we work to intensify cooperation among our best minds across national and divisional borders. For example, we are now testing video calls on desktop computers to this end.

Our internationalization: more local expertise

Global cooperation is not only a feature of our research and development activities, but is also a mainstay of our human resources policy. We will not scrimp on promoting it now – just as we are not making any cuts in training. Intercultural training has become an indispensable part of our management training programs, for example, but we are stepping up this kind of training in many other areas as well. Our corporate training department alone offers 40 types of seminars on such topics, attended by over 1,000 people last year. We also promote international exchange. In 2008, a good 2,500 Bosch associates were seconded abroad for terms exceeding 18 months – 200 more than a year earlier.

At the same time, we attach great importance to localization. In human resources policy, this primarily means more local managers in emerging economies. This is another reason why we are continuing our programs for junior staff in undiminished form – for apprentices, graduates, and doctoral candidates alike. We need more than 600 additional local managers by 2011 in China alone, and another 120 in India. It is only with their national knowledge that we can tap these markets.

But localization also means more local development and production to meet local needs. In the Asia Pacific region alone – still our number one growth region – we invested some 530 million euros to this end in 2008. A couple of examples show the progress we are making:

- This year will see the start of production of antilock braking systems and control units in India. And more than ever, our Indian software engineers are working for all our business sectors. Our development center in Bangalore is already the largest outside of Germany. We are expanding a second center in nearby Coimbatore from a workforce of 1,500 today to 2,500 in 2010.
- In China, not only are we starting production of large wind turbine gearboxes as mentioned before, we are also launching a series of products for low-price vehicles – all of them joint developments by Chinese, Indian, and German engineers. We are expanding our Technical Center in Wuxi

mainly for the China 4 emission standard (on a par with the European Union’s Euro 4). More than 50 percent of our local diesel applications already target this objective.

This last example testifies to our unflagging efforts toward the globalization of diesel technology. We are also making strides along this road in North America. Since 2008, our first clean diesel projects there have begun going into production – in vehicles that attract substantial tax breaks and, above all else, are economical. Demand both for energy-efficient solutions and for renewable energy sources is set to grow generally in the U.S. A tenth of the U.S. economic stimulus package – that is, some 80 billion dollars – is targeted in this direction, an opportunity we intend to seize. The electric heat pump business of our subsidiary FHP, which we acquired only two years ago, is already growing rapidly. And this trend will continue, once again for fiscal reasons, since President Obama’s stimulus bill introduces a 30 percent tax credit – some 7,000 dollars – for homeowners who install heat pump systems. In the U.S. too, then, there is good news among all the bad. In these times of crisis, we must make an effort to be receptive to both, worldwide.

Conclusion: decisiveness and sense of proportion in the crisis

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Leadership in difficult times

Decisiveness and a sense of proportion are called for.
And above all: "We do not constantly redefine our strategy, but stick to it even in constantly changing circumstances."

(Franz Fehrenbach)

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To draw to a close, managing a company like Bosch must now more than ever be guided by a clear yet discerning view of things. In this complicated situation, politicians and business people alike tend to invoke a cliché: whatever happens, we will come out of the crisis stronger. If this is to be more than an empty hope, then our company needs two things:

- On the one hand, resolute and determined action to sustain earning power and liquidity in light of the currently unavoidable decreases in sales. This also means not only addressing the economic downturn, but swiftly tackling structural change.
- On the other hand, a sense of proportion in order to keep opportunities open for when the crisis is over. We aim to grow vigorously – vigorously in the sense of sustainably. And this means not just fine-tuning means and goals in the short term, but taking into account long-term knock-on and feedback effects. It is exactly this approach that leads us to

prioritize the tasks of building our future at a time when it is necessary to cut costs wherever possible.

This brings me back to my starting proposition at this annual press conference: our strategic compass points well beyond the current economic slowdown. And this is why we are responding as flexibly as possible to fluctuations in workload – at the very least with enough flexibility to avoid loss of expertise. We have a dual responsibility in this regard:

- Responsibility to our associates and the societies in which they live.
- But responsibility, too, to our company. Because safeguarding the future of the Bosch Group remains our prime objective. Financial soundness is the base from which we shape the future through technological prowess.

As I said at the outset, I consider a return to responsible conduct fundamental to overcoming the current crisis. And a fair amount remains to be done before this is achieved. We are pleased to see a survey of managers single out Bosch as the most equitable company in Germany. The outcome of another German survey is, however, telling: that young managerial staff bemoan a lack of values like trust and honesty in their companies. We must show that these are not just empty words. This is the only way to re-establish confidence in the economy and its leaders. The causes of the current crisis are not just cyclical. It goes back to people in important positions acting irresponsibly. But precisely because recent experience has been so negative, something good may come of it. Rather than being considered optional, reflecting on responsibility may become an integral part of entrepreneurial thinking.

But first, we face the economic problems of the moment. It is not yet possible to say when the recession will bottom out. We do, however, have reason to hope it will level off in the second half of this year. Yet rather than focus on this alone, we also look further ahead. And in everything we do in the short term, we stay true to our long-term goals.

Bosch is a company that values continuity – more so than is considered modern in current management thinking. And we have always sought to strike a balance:

- Between our business sectors
- Between industrialized and emerging economies
- A balance, too, between economic, societal, and environmental facets of business responsibility. A balance that is sustainable and therefore lasting.

Some of this – notably diversification – currently seems to be coming back into fashion. But this need not be taken as confirmation of our approach, any more than we had felt ourselves proven wrong before. Bosch is an independent company – independent, too, of whether prevailing opinion glorifies shareholder value or decries it as misguided. We are affected by the current severe crisis, but even this crisis does not call our fundamental strategy into question. We do not constantly redefine our strategy, but stick to it even in constantly changing circumstances, and for as long as the basic premises of our long-term scenarios hold true. There is nothing in the present situation to convince us otherwise. Even in this extremely difficult year, therefore, Bosch will remain quintessentially Bosch.

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Thank you for your attention!

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