BMW GROUP

Corporate Communications

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Statement
Dr. Nicolas Peter
Member of the Board of Management of BMW AG, Finance
Conference Call Interim Report to 30 June 2019
Thursday, 1 August 2019, 10:00 a.m.

Ladies and Gentlemen,

The BMW Group remains on course after the first six months of 2019. In a challenging, declining overall market, we increased our segment share. As previously announced, the operating result for the Automotive Segment has improved compared to the first quarter and we are on track to meet our goals for the year, as planned.

Our performance shows that we are in a strong position compared to many competitors, despite a difficult political and economic environment. The company's half-year sales topped 1.25 million vehicles for the first time – thanks largely to our young and attractive product portfolio. A good example of this is the X7: By the end of June, the X7 had already been delivered to more than 13,000 customers around the world. Our performance remains particularly dynamic in China, where – despite a declining overall market – we reported double-digit growth.

Ladies and Gentlemen, Let's look first at our financial figures for the Group. Group revenues for the second quarter rose by 2.9% to 25.72 billion euros – benefitting in part from a slight currency tailwind. We once again made high upfront investments in the second quarter as we strive to shape technological change.

As expected, currency and commodity prices, higher depreciation and measures for emission-free mobility also had a dampening effect. The financial result for the second quarter came to -148 million euros. I will provide more details later for each segment.

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Impacted by the lower financial result, second-quarter pre-tax earnings totalled 2.05 billion euros. Due to the provision made in the first quarter in connection with antitrust allegations by the European Commission, pre-tax earnings for the first six months decreased to 2.82 billion euros. The Group EBT margin stood at 8.0% for the quarter and 5.8% for the half-year. Excluding the provision, the figure for the year to the end of June was 8.7%.

Ladies and Gentlemen, Running a sustainable, profitable business remains our top priority. We are therefore making systematic investments today to secure our future – even in the current challenging business environment. A high degree of flexibility is essential. With our efficient combustion engines, plug-in hybrids and battery-electric drive trains, we are highly diversified and open to different technologies. At the same time, we are continuing our research into fuel cells.

In addition to further developing our drivetrains, we are also focusing on increased connectivity between drivers, vehicles and their environment, autonomous driving and mobility services. Second-quarter research and development expenditure according to German Commercial Code amounted to 1.48 billion euros. The figure for the first half-year was around 2.83 billion euros. The R&D ratio for the second quarter stood at 5.7%. As previously announced, the ratio is likely to stay between 6 and 6.5% for the full year. It will therefore be lower than last year's exceptionally high figure of 7.1%, as planned.

We continue systematically gearing ourselves for future-oriented topics. This principle is also reflected in our investment strategy. In the second quarter, we invested a total of around 1.18 billion euros. Capital expenditure for the year to the end of June reached 2.18 billion euros. This seasonally atypical increase in the first half-year stems mainly from the large number of product ramp-ups, as for example the new 3 Series and the 1 Series, and the opening of the new plant in Mexico. Going forward, we will be able to export the 3 Series Sedan from San Luis Potosí to more than 40 countries that have free trade agreements with Mexico.

The capex ratio for the year to the end of June reached 4.5%. Despite the introduction of IFRS 16, we still expect the ratio for the full year to be only slightly higher than the previous year's 5.2%.

Ladies and Gentlemen, Let's move on to the individual segments. In the Automotive Segment, deliveries to customers remained stable from last year, as planned. Despite the model changeovers I mentioned and the highly competitive environment, especially in Europe, segment revenues for the second quarter increased to 22.62 billion euros.

The segment's operating earnings for the second quarter totalled 1.47 billion euros. The EBIT margin was 6.5%. Due to the provision we recognised in the first quarter, the margin for the first half-year was 2.8%. We are on course for the expected target range for the entire year of between 4.5 and 6.5%. Without the provision, the figure was 6.1% and therefore within our original guidance of 6 to 8%.

The increasingly challenging market environment and sustained intense competition dampened business development. As expected, higher manufacturing costs and scheduled depreciations also impacted earnings. R&D spending remained high, as planned – focusing, in particular, on development of vehicle architectures and drivetrains, as well as new products, electrification and connectivity.

In the financial result, the preliminary one-time revaluation effect from combining mobility services with Daimler was mostly offset by a planned loss in equity-accounted investments in YOUR NOW companies. In the previous year, the result included a positive valuation effect in connection with the acquisition of DriveNow.

Let's look at the segment's free cash flow: At 869 million euros for the second quarter, it was, as expected, significantly higher than in the first three months of the year. We are also targeting a positive free cash flow in the second half-year and aiming for a figure which should approach a similar level as last year.

In addition to high capital expenditure and upfront investments, market development in a number of regions is proving more challenging than originally anticipated. This is dampening earnings and cash flow generation.

Ladies and Gentlemen, Let's move on to the Financial Services Segment, which continued its growth trajectory in the second quarter. The number of new contracts concluded with retail customers rose by 4.4% in this quarter to more than 500,000 contracts. With more than 5.35 million retail contracts as of 30th of June, the total portfolio increased 2.3% from the end of 2018. The China region notably reported strong growth.

Pre-tax segment earnings for the first half-year rose 3.8% to 1.2 billion euros. This positive development in the first half-year is largely due to portfolio growth and the continued stability of the risk situation with reduced residual value risk expenses in individual markets.

The second-quarter figure was 573 million euros. This figure is impacted by negative effects in the financial result from the market valuation of interest rate derivatives due to falling interest rates across the globe.

Let's look next at the Motorcycles Segment. BMW Motorrad performed well in the first half of the year. A total of around 93,200 motorcycles were delivered to customers – an increase of 7.1 percent. This positive business development was reflected in the operating result, which, at 102 million euros for the second quarter, was also higher year-on-year. The EBIT margin was 14.0%.

Ladies and Gentlemen, Let's turn to the forecast for the current year: In the first six months, business developed in line with our expectations. As planned, we were able to improve on our first-quarter performance. We expect this solid earnings development to continue into the second half of the year, boosted further by our product momentum. We are therefore able to confirm our outlook for 2019.

As long as conditions do not deteriorate significantly, we expect to remain within our announced guidance range for the full year. In the Automotive Segment, deliveries are forecast to increase slightly. More new models will be launched in the second half of the year. We expect the new 3 Series and the larger X models, in particular, to generate positive momentum. We remain on course for an EBIT margin within our adjusted target range of 4.5 to 6.5% for 2019.

In the Motorcycles Segment, we are planning for a solid increase in deliveries. The EBIT margin should remain within our target range of 8-10%. In the Financial Services Segment, we expect return on equity to be on par with last year and above our target figure of 14%. Group earnings before tax will also be significantly lower year-on-year as a result of the provision for ongoing antitrust proceedings and the decrease in the financial result from the previous year. Our guidance assumes that political and economic conditions will not change significantly.

Ladies and Gentlemen, Our strong performance in a declining overall market shows that our attractive products and ground-breaking technologies are winning customers. Flexibility will also remain key to our future success. It allows us to respond to demand in different regions of the world at any time and adjust volumes in line with market development. At the same time, we continue to activate all levers at our disposal to secure our profitability.

The BMW Group is, and will remain, a strong company. Our innovative strength and a focus on growth, based on a very solid financial profile, provides the best basis for future success.

Thank you.