BMW GROUP THE NEXT 100 YEARS

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 31 March 2019
Tuesday, 7 May 2019, 10:00 a.m. CEDT

Ladies and Gentlemen,
Good morning!

On the operational side, the BMW Group started the year as expected, in a business environment that remains challenging and volatile.

Our first-quarter financials were heavily impacted by the provision of around 1.4 billion euros we made in connection with antitrust allegations by the European Commission. The Statement of Objections leads us to believe that it is probable that the Commission will issue a fine. This led us to recognise a provision in the first quarter in line with the International Financial Reporting Standards.

Ladies and Gentlemen,

We are firmly convinced and would like to underline that the allegations made by the EU Commission are unwarranted!

We regard these proceedings as an attempt to equate the permissible coordination of industry positions regarding the regulatory framework with unlawful cartel agreements. The BMW Group will contest the EU Commission's allegations with all the legal means at its disposal if necessary.

The EU commission also clearly stated that the ongoing investigation is not related to the use of illegal defeat devices.

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Regarding the diesel discussions, which are completely separate, I would like to emphasise again: a deliberate and systematic illegal manipulation of exhaust emissions is, for us, not acceptable.

The provision in connection with the antitrust allegations alone reduced the EBIT margin in the Automotive Segment for the period under review by around seven percentage points to -1.6%. As previously announced, we have adjusted our guidance for the year to reflect this effect.

Before we look at the quarter in more detail, there is one new development I would like to draw your attention to. Changes in the legal framework allow for a condensed quarterly reporting for the first and third quarter of the financial year. Starting with Q1 of 2019, we will utilise this option. As a result, our future reporting for those periods will be more concise, without significantly reducing the information content.

But, now, let's look at the details for the first three months.

We continue implementing our strategy and investing in the future.

Our young product portfolio, which we strengthened again last year, is doing very well, both in comparative tests and with our customers. In the first quarter, contrary to the market trend we gained segment share, despite several model changeovers. The key regions developed as follows:

The sustained market turbulence in Europe resulting from the transition to WLTP, as well as uncertainty over Brexit and how the economy will further develop, continue to have a dampening effect. We are seeing robust development in the United States – thanks in part to our new SAV models. We expect the new X5 and the new X7, which have been well received by dealers and customers, to provide further impetus over the course of the year.

China continues to develop positively for us. The premium segment – and the BMW Group, in particular –outperformed the weaker Chinese car market in the first quarter. The locally-built X3 is now fully available and proving especially popular.

Ladies and Gentlemen,

Let's take a look at our financial figures for the Group.

Group revenues for the first quarter totalled 22.46 billion euros and were therefore on par with the previous year. The financial result decreased to 173 million euros. This was partly due to changes in interest rates that had a negative effect on market valuation of related derivatives. Pre-tax earnings amounted to 762 million euros. The main factor here was the provision I already mentioned. The EBT margin for the first quarter stood at 3.4%. Without the provision, the figure was 9.6%, and therefore remains at a high level.

As previously announced, due to model changeovers for some of our major model series, we expect the first half-year to be slightly weaker overall.

Ladies and Gentlemen,

Long-term, profitable business development remains our top priority. The upfront investments we are making today to further develop electromobility and autonomous driving are the foundation for our future business success. By the end of the year, for example, we will have ten plug-in hybrid models on the roads.

As planned, first-quarter research and development expenditure was around 100 million euros higher than the same period of last year. The R&D ratio was at 6.0% and is likely to stay between 6 and 6.5% for the full year.

In a volatile environment, flexibility is more important than ever. This principle is reflected in our investment strategy. All our larger plants will soon be able to build all types of vehicles within the same production structure – from combustion engine, plug-in hybrid to battery-electric vehicles. Electrified models are already integrated into production at nearly all our locations.

In the first quarter, we invested a total of almost one billion euros.
That is over a third more than in the same period of last year – mainly for modernisation and increased flexibility in our plant structures and for construction of our new facility in Mexico. Upfront investments were also needed for production ramp-up and market launch of the 3 Series and the new 1 Series.

The capex ratio reached 4.4%. We expect the ratio for the full year to be only slightly higher than in 2018, despite the introduction of IFRS 16.

Let's move on to the individual segments.

In the Automotive Segment, deliveries to customers remained stable in a declining overall market, as expected. Due to the model changeovers I mentioned and the highly competitive environment particularly in Europe, segment revenues remained on par with last year at 19.21 billion euros. The segment's operating earnings of -310 million euros were impacted by the provision of nearly 1.4 billion euros which I have already mentioned. The EBIT margin was -1.6%. Without the provision, the figure was 5.6%, as planned.
First-quarter sales were largely driven by strong growth in China. But since our business in China is only partly included in our operating income, this positive effect is not fully reflected in the EBIT margin.

As previously announced, higher manufacturing costs – mainly for fulfilment of regulatory requirements – impacted earnings.

The pricing situation remained challenging, especially in Europe. We faced headwinds from currency and commodity prices, as expected. In addition to other factors, the collective agreement pay increase in April 2018 also contributed to higher personnel costs. The financial result decreased to 283 million euros, mainly due to positive valuation effects in the previous year´s quarter.

I would like to say a few words about the segment's free cash flow: On the one hand, as is usual at this time of the year, we have built up inventory – in particular, for upcoming model launches. On the other hand, both the lower net profit and higher capital expenditure are reflected here. As a result, free cash flow for the first quarter totalled -559 million euros.

Based on current assessments, we are aiming for a similar free cash flow for 2019 as last year. A possible future payment related to the antitrust allegations has not been factored into this assessment.

Ladies and Gentlemen,

Let's move on to the Financial Services Segment, which is off to a good start this year. The total portfolio grew to nearly 5.74 million contracts. In the year to the end of March, almost 470,000 new contracts were concluded with retail customers – an increase of 3.9% over the previous year. Segment earnings increased significantly to 627 million euros. In addition to portfolio growth, the Financial Services segment also benefited from a generally stable risk situation, which was reflected in lower risk provisioning expenses for residual values in a number of markets.

Let's look next at the Motorcycles Segment.
After a challenging 2018, BMW Motorrad made a good start to 2019. Deliveries to customers increased to around 38,600 motorcycles. This positive business

development was also reflected in the operating result – which, at 87 million euros, climbed 11.5% from the previous year. The EBIT margin of 15.2% was also higher than for the same quarter of last year. With attractive new models, we are looking forward to dynamic growth for BMW Motorrad over the next few months.

Ladies and Gentlemen,

The BMW Group is in a very robust position in these challenging times.
Our financial strength enables us to continue investing in the future, even in a difficult external business environment. As long as conditions do not deteriorate significantly, we expect that the full financial year 2019 will develop in line with our guidance.

In the Automotive Segment, we expect a slight increase in deliveries.

Barring the effect of the provision for the antitrust allegations, the target range for our EBIT margin of between 6 and 8 percent remains unchanged. We are still on course to reach this goal. Since the provision however has a negative impact of 1.5 percentage points on the EBIT margin, we are expecting a margin in the Automotive segment for 2019 between 4.5 and 6.5 percent. Our clear strategic target in a stable business environment remains in the range of 8-10%.

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 be significantly lower than the previous year, also as a result of the announced decrease in the financial result. Our guidance assumes that political and economic conditions will not change significantly. We expect the second half-year to benefit from the strong product momentum generated by the many new and updated models currently ramping up and ready for launch.

However, conditions will remain volatile. For one thing, there is lingering uncertainty over the future course of trade policy and the UK's withdrawal from the European Union. We will also continue to monitor economic developments worldwide very closely. Weaker development in southern Europe, in particular, could affect our business in the coming months.

Thanks to our high degree of flexibility, we are capable of responding quickly to new developments and can steer production as needed. We will continue to work on all factors we can actively influence. This includes reducing complexity, improving efficiency and continuing to optimise processes and structures. Through Performance > NEXT, we are using key levers to systematically realign the company.

Ladies and Gentlemen,

The BMW Group has a solid foundation to build on: Sustainable, profitable growth remains our goal.

Innovation leadership and profitability are key to maintaining our position at the forefront of our industry. Every single BMW Group employee is committed to this objective. This commitment is what distinguishes us as a company.

I firmly believe that, with our clear strategy and its systematic implementation by all of our associates, we can continue to lead the BMW Group into a successful future.
Thank you.