

Media Information  
7 November 2018

- Check against delivery -

## **Statement**

**Dr. Nicolas Peter**

**Member of the Board of Management of BMW AG,  
Finance**

**Conference Call Interim Report to 30 September 2018  
7 November 2018, 10:00 a.m. CET**

Ladies and Gentlemen, good morning.

The increasingly difficult market environment in the third quarter has impacted earnings development across the entire automotive industry, including at the BMW Group. In September, we therefore adjusted our forecast for 2018. In line with this new guidance, earnings for the first nine months are on track to reach our goals for the year.

Group earnings before tax for the year to the end of September totalled 7.88 billion euros. Although lower than the previous year, this is still our second-best nine-month result ever. The EBIT margin of 7.6% in the Automotive Segment is also on course to meet our adjusted guidance of at least 7% for the full year. We are tackling the current challenges and concentrating on our operating business as well as gearing up for the future. The latter remains our absolute priority.

As previously announced, we will be investing a total of around one billion euros more in research and development of new technologies this year. As communicated at the beginning of the year, the R&D ratio increased to 6.9% in the third quarter. We knew from the start that 2018 was never going to be easy.

In addition to high upfront investments in future projects, we are also facing currency and commodity headwinds in the high three-digit-million range, as expected. These already challenging conditions intensified even further over the course of the summer. The WLTP transition has thrown the European market completely off balance. We had our vehicles certified early, ahead of the deadline – but have still not been able to isolate ourselves from the overall market development.

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We made a conscious decision early on not to follow every price war. The BMW Group responded immediately to these changes, and we adjusted our production volumes accordingly. Thanks to this careful planning, we were able to reduce our inventories by nearly 20,000 units in the third quarter.

The trade dispute between the US and China is straining the global economy. With different production locations worldwide, not all competitors are equally affected. The volatile trade situation also unsettled customers in the third quarter. As previously announced, we have increased our provisions for warranty costs and goodwill significantly to ensure that we are appropriately covered in this area. On the cost side, we began implementing countermeasures early on. In addition to prioritising more strictly, we also decided on a number of short and long-term measures in recent months.

In light of the challenges I referred to, additional efforts will be needed to support our profitability targets. Let's take a look at the Group financial statements for the first nine months in more detail. Revenues for the year to the end of September totalled 72.46 billion euros – slightly lower than the previous year, due to currency translation. Adjusted for this effect, revenues rose by 1.5%.

In view of the factors I just mentioned, pre-tax earnings were in line with our expectations, reaching 7.88 billion euros at the end of September. The figure for the third quarter was 1.85 billion euros. Regardless of these challenging external conditions, the BMW Group remains on course for the future. Upfront investments in continued development of e-mobility and autonomous driving will be essential for tomorrow's success.

Research and development expenditure for the year to the end of September increased accordingly to around 4.45 billion euros, as planned. The R&D costs recognised in the income statement were nearly 400 million euros higher year-on-year.

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The R&D ratio for the first three quarters rose to 6.1%. Capital expenditure for the same period reached 2.89 billion euros, with a capex ratio of 4.0%. This mainly reflects product and structural investments for the new X3, as well as preparations for the launch of the X5 and the X7. As planned, capital expenditure will increase once again in the fourth quarter, with the start of production of our new 3 Series and 8 Series models. At Group level, the EBT margin currently stands at 10.9%.

Let's take a brief look at the individual segments. The Automotive segment saw a slight increase in deliveries in the first nine months of 2018 to more than 1.83 million vehicles. Adjusted for currency translation effects, segment revenues rose slightly by 2.9%. The unadjusted figure was on a par with the previous year at around 62.63 billion euros.

Here, we are also feeling the effects of the difficult pricing situation in Europe due to the WLTP transition. Higher expenses for warranty and goodwill activities have raised our cost of sales. As previously mentioned, R&D costs will also be significantly higher than the previous year. Higher tariffs, resulting from the current trade tensions, have put earnings under further pressure. The Automotive Segment's operating earnings for the third quarter decreased to 930 million euros. As a result, the figure for the year to the end of September was also lower, at 4.73 billion euros. As I already mentioned, the EBIT margin of 7.6% for the year to the end of September is in line with our new guidance.

The financial result benefited from our BBA joint venture business in China, which increased by 11.7% year-on-year. Pre-tax earnings in the Automotive Segment totalled 5.35 billion euros for the first nine months of 2018.

Let me say a few words about the cash flow statement: Our free cash flow mainly reflects lower profits. For the year to the end of September, it nevertheless amounted to around 2.04 billion euros.

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In the third quarter, free cash flow amounted to about 100 million euros. Despite the difficult conditions, we are still targeting a free cash flow of three billion euros for the full year. But here I must emphasize: In light of the current challenges this will not be an easy task.

In the Financial Services Segment, our business with retail customers continues to perform well. At the end of the third quarter, we managed a total of 5.14 million contracts: This is 4.4% more than at the start of the year. China, in particular, posted significant growth of almost 17% in its total contract portfolio. The number of new financing contracts rose significantly in the third quarter, with a slight increase on the leasing side. At 1.7 billion euros, pre-tax earnings for January to September were slightly lower year-on-year – reflecting the negative impact of currency translation effects, among other factors. As expected, the risk situation remained stable overall. In Europe, as in the previous quarter, residual values trended slightly downwards in a number of markets. In North America, on the other hand, used car prices made a slight recovery. In Asia, we continue to see stable development.

Let's move on briefly to the Motorcycles Segment. Despite the model changeover in the mid-size class, deliveries remained at the same high level as the previous year. Operating earnings were at 208 million euros. The EBIT margin was 12.5%.

Ladies and Gentlemen,

Conditions remain challenging for the automotive industry. Trade barriers, the transition to WLTP, the debate over emissions and their respective levels – all these factors are hampering our business environment. The BMW Group responded promptly, of course, and has launched both short and long-term measures within the company. We are strengthening our sales side with targeted programmes.

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At the same time, we are stepping up countermeasures on the cost side. Thanks to our flexible international production system and high level of capacity utilisation, we are able to adapt quickly to new situations. We are watching trade developments, in particular, very closely. If conditions deteriorate significantly, effects on our guidance cannot be ruled out.

Against this background, our outlook for the full year is as follows: Group earnings before tax are expected to show a moderate decrease from the high level of the previous year. This adjusted outlook does not reflect any positive earnings effects that may result, should the planned mobility services joint venture receive regulatory approval and close in 2018. In the Automotive Segment, deliveries are expected to be slightly higher than the previous year, with an EBIT margin of at least 7%. Revenues are now forecast to be slightly lower year-on-year. In the Motorcycles Segment, we should see a slight increase in deliveries, with an EBIT margin in the range of 8-10%. And, in the Financial Services Segment, we are aiming for a return on equity above our target figure of 14%.

Ladies and Gentlemen,

You know that the BMW Group has always been reliable and transparent. We remain true to our values even in these challenging times. We openly acknowledge risks and take appropriate action. We are facing a highly volatile environment as we enter the final quarter of the year. We cannot rule out that several of the factors I mentioned may continue to impact our business beyond 2018.

However, we will see positive impetus next year from our rejuvenated product line-up. There will be new generations of several key models. At the end of the year, our plants will be ramping up the successor to our successful 3 Series. Further 8 Series models will also go into production before the end of the year. In recent months, the new X3 has also successfully ramped up at three separate

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plants. With the X5 and X7, we have two more vehicles with high contribution margins ready to go. We expect these to give us fresh momentum in the next year. The entire automotive industry is currently confronted with challenging conditions.

The BMW Group is, and will remain, a high-performance company. Even in turbulent times, we never lose sight of our long-term goals and continue to stay the course.

Thank you.

## **CONSUMPTION AND EMISSION DATA.**

BMW i3 (120 Ah, 42.2 kWh):

CO<sub>2</sub> emissions in g/km (combined): 0

Power consumption in kWh/100 km (combined): 13.1

BMW i3s (120 Ah, 42.2 kWh):

CO<sub>2</sub> emissions in g/km (combined): 0

Power consumption in kWh/100 km (combined): 14.6 – 14.0

BMW 3 Series:

Fuel consumption in l/100 km (combined): 6.1 – 4.1\*

CO<sub>2</sub> emissions in g/km (combined): 139 – 108\*

BMW 8 Series Coupé:

Fuel consumption in l/100 km (combined): 10.5 – 6.1

CO<sub>2</sub> emissions in g/km (combined): 240 – 160

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## BMW 8 Series Convertible:

Fuel consumption in l/100 km (combined): 10.0 – 5.9\*

CO<sub>2</sub> emissions in g/km (combined): 229 – 155\*

## BMW X3:

Fuel consumption in l/100 km (combined): 9.1 – 5.3

CO<sub>2</sub> emissions in g/km (combined): 207 – 140

## BMW X4:

Fuel consumption in l/100 km (combined): 9.1 – 5.4

CO<sub>2</sub> emissions in g/km (combined): 206 – 142

## BMW X5:

Fuel consumption in l/100 km (combined): 11.6 – 6.0\*

CO<sub>2</sub> emissions in g/km (combined): 264 – 158\*

## BMW X5 xDrive45e iPerformance:

Fuel consumption in l/100 km (combined): 2.1\*

CO<sub>2</sub> emissions in g/km (combined): 49\*

Power consumption in kWh/100 km (combined): 23.0\*

## BMW X7:

Fuel consumption in l/100 km (combined): 11.4 – 6.5\*

CO<sub>2</sub> emissions in g/km (combined): 261 - 171\*

The figures for fuel consumption, CO<sub>2</sub> emissions and power consumption are calculated based on the measurement methods stipulated in the current version of Regulation (EU) 2007/715. This information is based on a vehicle with basic equipment in Germany; ranges take into account differences in wheel and tyre size selected as well as optional equipment.

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Power consumption, emissions figures and ranges have been calculated based on the new WLTP test cycle and adapted to NEDC for comparison purposes, dependent on the tyre format selected. In these vehicles, different figures than those published here may apply for the assessment of taxes and other vehicle-related duties which are (also) based on CO<sub>2</sub>-emissions. These figures are provisional.

For further details of the official fuel consumption figures and official specific CO<sub>2</sub> emissions of new cars, please refer to the "Manual on fuel consumption, CO<sub>2</sub> emissions and power consumption of new cars", available at sales outlets, from Deutsche Automobil Treuhand GmbH (DAT), Hellmuth-Hirth-Str. 1, 73760 Ostfildern-Scharnhausen and at <http://www.dat.de/angebote/verlagsprodukte/leitfaden-kraftstoffverbrauch.html>.

The figures for fuel consumption, CO<sub>2</sub> emissions and power consumption marked with \* are preliminary.