BMW GROUP

Corporate Communications

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BMW Group sets strategic course under challenging conditions

- Second-highest Group profit to date achieved
- EBT margin above target of 10 per cent
- Record research and development expenditure
- More than ten new electrified models lined up
- EBIT margin in Automotive segment above 7 per cent
- Second-highest dividend proposed
- Krüger: "Great efforts needed"

Munich. In the course of a challenging financial year 2018, the BMW Group made important strategic decisions set to secure its long-term success. As part of the company's **Strategy NUMBER ONE > NEXT**, the green light was given to launch a new product offensive in the upper luxury class and the cornerstone was laid for additional expansion of the company's presence in China, the world's largest automobile market. With the **BMW Vision iNEXT**, the Group also presented its new technology flagship, which integrates the key **future-oriented topics** of autonomous driving, connectivity, electrification and services **(ACES)**. The BMW Group continues to systematically broaden its range of electrified models and is increasingly focusing on co-operations in the fields of mobility services and autonomous driving. At the same time, especially during the second half of the year, business performance was impacted by significant challenges relevant to the entire sector, and which are expected to accompany the BMW Group beyond 2018.

"2018 was a challenging year for the automotive sector as a whole. Nevertheless, we achieved the second-highest Group profit to date," said **Harald Krüger**, Chairman of the Board of Management of BMW AG, in Munich on Friday. "The challenges facing the entire sector are unlikely to diminish in the coming months. Great efforts will therefore be needed across the entire Group to help shape the sector's transformation under such conditions."

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Alongside the challenges facing the entire industry over the past year, from the BMW Group's perspective, ongoing international trade conflicts also contributed to a tightening market situation and greater uncertainty. Moreover, the shift to the new WLTP test cycle caused significant supply distortions on several European markets, leading to unexpectedly intense competition. In the third quarter of the financial year 2018, increased statutory and non-statutory warranty measures resulted in significantly higher additions to provisions in the Automotive segment.

"We expect strong headwinds to continue to effect the entire sector in 2019. However, we are tackling these various challenges systematically, in order to emerge from them even stronger than before," stated **Nicolas Peter**, Member of the Board of Management of BMW AG, Finance. "This is why we launched our Performance > NEXT programme back in 2017 with the aim of optimising performance, improving structural efficiency and reducing complexity wherever possible. In view of current developments, we intend to further broaden and significantly intensify these efforts."

The BMW Group currently sees challenges in various areas, including political uncertainty, a cooling global economy (partly due to international trade conflicts), rising production costs to meet regulatory requirements, exchange rate effects and rising raw materials prices. To counteract these negative factors, measures already in place to reduce product portfolio complexity are being expanded and also applied to model derivatives. For example, despite a good level of demand, no successor model will be developed for the current generation of the BMW 3 Series Gran Turismo.

High upfront expenditures in a volatile environment

Despite the demanding conditions, the BMW Group continues to invest substantial amounts in the mobility of the future. At € 5,029 million, **capital**

expenditure in 2018 was 7.3% above the previous year's high level (€ 4,688 million). The Capex ratio rose to 5.2% (2017: 4.8%). Investments included work connected with the introduction of new models in the Spartanburg, Dingolfing and Munich plants and building of the Group's plant in Mexico. As planned, **research and development** expenses in 2018 were significantly higher than in the previous year and totalled € 6,890 million (2017: € 6,108 million; +12.8%). R&D expenditure for the year was therefore equivalent to 7.1% of Group revenues (2017: 6.2%). In addition to ramping up the roll-out of new models, the focus is also on future-oriented topics such as autonomous driving and the systematic expansion of electric mobility.

Pioneer of electric mobility systematically expanding product range

With **more than 350,000 units** (over 130,000 fully electric vehicles and more than 220,000 plug-in hybrids) delivered to customers up to the end of 2018, the BMW Group is already a leading supplier of electrified vehicles. At the beginning of March, the new plug-in hybrid versions of the BMW 3 Series, BMW 7 Series, BMW X5 and BMW X3, which now come with **extended electric range**, were showcased at the Geneva Motor Show. By the end of next year, the BMW Group will have **more than ten** new or revised models equipped with fourth-generation electric drivetrain technology ("Gen 4") on the roads.

By the end of 2019, these will include the all-electric **MINI Electric** manufactured at the Oxford plant and, from 2020, the **BMW iX3**, which will be produced for the world market in Shenyang, China. Together with the pioneering BMW i3, the **BMW i4** and the **BMW iNEXT**, the Group will have **five all-electric models** on the market by 2021 and the number is scheduled to rise to at least twelve models by 2025. Including the rapidly growing range of plug-in hybrids, the BMW Group's product portfolio will then comprise at least 25 electrified models.

This wide range of electrified models on offer will be made possible by **highly flexible vehicle architectures** and an equally agile global production system. Going forward, the BMW Group will be capable of manufacturing models with all-electric (BEV), hybrid-electric (PHEV) and conventional (ICE) drivetrains on one production line. The ability to integrate e-mobility in its production network will enable the BMW Group to respond even more flexibly as demand grows. In 2018, the BMW Group delivered more than 140,000 electrified vehicles to customers. By the end of this year, the company expects to have an overall total of more than half a million electrified vehicles on the roads.

The BMW Group is currently developing the **fifth generation** of its electric drivetrain, in which the interplay of electric motor, transmission, power electronics and battery will be further optimised. Integrating the electric motor, the transmission and power electronics also plays a role in cutting costs. Furthermore, the electric motor **does not require rare earths**, enabling the BMW Group to reduce its dependence on their availability. The fifth generation of the Group's electric drivetrain technology will be installed for the first time in the BMW iX3 from 2020.

Cooperation for next generation of autonomous driving

The BMW Group believes long-term partnerships within a flexible, scalable, non-exclusive platform are key to advancing the industrialisation of **autonomous driving**. As early as 2016, the BMW Group established a non-exclusive platform with technology specialists, suppliers and OEMs to take the technology to series maturity and has now successfully consolidated work in this area at the **Autonomous Driving Campus** in Unterschleißheim, near Munich. The generation of technologies currently under development will go into series production as Level 3 automation in the **BMW iNEXT** in 2021, this vehicle will also be Level 4-enabled for pilot projects.

The BMW Group has joined forces with Daimler AG to advance the development of the **next generation** of technologies needed for autonomous driving. At the end of February, the two companies signed a Memorandum of Understanding (MoU) to jointly develop the technologies that are vital for future mobility. Initially, the focus will be on advancing the development of next-generation technologies for driver assistance systems, automated driving on highways and parking features (in each case up to SAE Level 4).

The BMW Group and Daimler AG view their partnership as a long-term, **strategic cooperation** and aim to make next-level technologies widely available by the middle of the coming decade. Combining the outstanding expertise of the two companies will boost their joint innovative strength. Moreover, it will both accelerate and streamline the development of future technology generations. The development of current-generation technologies and the ongoing collaborations both companies have in this field will remain unaffected and continue as planned. Both parties will also explore additional partnerships with other technology companies and automotive manufacturers that could contribute to the success of the platform.

Major investments in joint venture for mobility services

The BMW Group and Daimler AG are also working together in the field of **mobility services**, creating a new global player that provides sustainable urban mobility for its customers. The two companies are investing more than one billion euros to develop and more closely intermesh their offerings for car-sharing, ride-hailing, parking, charging and multimodal transport. The cooperation comprises five joint ventures: REACH NOW (multimodal), CHARGE NOW (charging), FREE NOW (ride-hailing), PARK NOW (parking) and SHARE NOW (car-sharing).

The common **vision** is clear: the five services will increasingly merge to form a single mobility service portfolio with an all-electric, self-driving fleet of vehicles that charge and park autonomously and also interconnect with other modes of transport. This service portfolio will be a key cornerstone in the BMW Group's strategy as a mobility provider going forward. The cooperation represents the ideal approach for maximising opportunities in a growing market, while jointly shouldering the unavoidable cost of investment.

"With our Strategy NUMBER ONE > NEXT, we are making consistent advances in the various ACES fields and bringing the mobility of the future onto the roads. Our path is clear: in areas with a high degree of differentiation potential, such as electric drivetrains, we will rely entirely on our own excellent development expertise; where high scalability is more important than exclusivity, we will seek to cooperate with dependable partners," said **Krüger**.

Challenging conditions in the financial year 2018

In terms of its **core business**, the BMW Group had always expected 2018 to be a challenging year. Compared with 2017, alongside additional upfront expenditure for the mobility of the future, a high three-digit million euro negative impact from exchange-rate and raw materials price developments had been factored into expected earnings for the year. As announced on 25 September 2018, several additional factors dampened business performance in the third quarter. Unlike many of our competitors, the BMW Group implemented the requirements of the **WLTP regulations** early. The industry-wide shift to the new WLTP test cycle resulted in considerable supply distortions in Europe and unexpectedly intense competition, given that numerous competitor models which had not yet gained WLTP certification were registered before the 1 September deadline. Within the framework of its flexible production and sales strategy, the BMW Group responded to the situation by reducing its volume planning to **focus on earnings quality**. At the same time, increased statutory and non-statutory warranty measures resulted in significantly higher additions to provisions in the Automotive segment. Ongoing international trade conflicts also served to exacerbate the market situation and feed uncertainty. These circumstances resulted in greater-than-expected distortions in demand and unexpected pressure on pricing in several markets.

Nevertheless, **deliveries** of the BMW Group's three premium automotive brands (BMW, MINI and Rolls-Royce) grew by 1.1% to a new record figure of 2,490,664 units in 2018 (2017: 2,463,526 units). At € 97,480 million, **Group revenues** were at the previous year's level (2017: € 98,282 million: -0.8%). Adjusted for currency factors, they increased by 1.2%. Due to the various adverse aspects arising in the third quarter, combined with high levels of upfront expenditure for research and development, **profit before financial result** fell to € 9,121 million (2017: € 9,899 million; -7.9%). At € 9,815 million, **Group profit before tax** in 2018 was moderately down on the previous year, but nevertheless the second-best figure ever recorded in the company's history (2017: € 10,675 million; -8.1%). At 10.1% (2017: 10.9%), the return on sales before tax **(EBT margin)** exceeded the target value of ten percent.

Group net profit amounted to € 7,207 million (2017: € 8,675 million; -16.9%). In the previous year, net profit was exceptionally high due to valuation effects of around € 1 billion arising in connection with the US tax reform. Despite very challenging conditions, the Automotive segment generated **free cash flow** of € 2,713 million in 2018 (2017: € 4,459 million).

Based on the annual financial statement, the Board of Management and the Supervisory Board will propose payment of a **dividend** of € 3.50 per share of common stock and € 3.52 per share of preferred stock at the Annual General Meeting on 16 May 2019. This is the second highest payout in the company's history. The total dividend payment will amount to € 2.3 billion, or 32.0% of net profit (previous year: 30.3%[3]). "The trust of our investors is very important to us," said **Nicolas Peter.** "This is especially true in times when transformation and volatility are presenting the entire industry with challenges on a completely new scale."

Automotive segment exposed to volatile business conditions

At € 85,846 million, **Automotive segment revenues** were at a similar level to the previous year (2017: € 85,742 million; +0.1%). Influenced by the factors referred to above and combined with high levels of upfront expenditure for research and development, **EBIT** was € 6,182 million (2017: € 7,888 million; -21.6%). Due to various adverse factors, the **EBIT margin** came in at 7.2% (2017: 9.2%). **Profit before tax** amounted to € 6,977 million (2017: € 8,717 million; -20.0%).

A total of 2,125,026 **BMW** brand vehicles were delivered to customers worldwide (2017: 2,088,283 units; +1.8%). As well as the BMW 5 Series (382,753 units; +10.2%), the BMW X family in particular benefited from strong demand during 2018, with worldwide deliveries up significantly on the previous year to 792,605 units (+12.1%). The BMW X3 made an important contribution to this performance, with deliveries up by more than one third to 201,637 units (+37.7%).

Worldwide deliveries of **MINI** brand vehicles during the twelve-month period totalled 361,531 units (2017: 371,388 units; -2.8%). The **MINI Countryman** recorded double-digit growth with 99,750 units (+17.5%). Almost every seventh MINI Countryman was a plug-in hybrid (13.3%).

In 2018, **Rolls-Royce Motor Cars** achieved its best sales result in over 100 years of corporate history with 4,107 deliveries worldwide (2017: 3,362 units; +22.2%). The Rolls-Royce Phantom and the new Rolls-Royce Cullinan, which has been available to customers since November 2018, contributed substantially to this performance.

While deliveries of the BMW Group's three automotive brands in **Europe** remained at the previous year's high level (1,098,523; -0.3%), the **Americas** (457,715 units; +1.5%) and **Asia** (876,614 units; +3.3%) regions recorded slight growth. In **China**, volumes grew significantly as local production of the new BMW X3 was ramped up in the second half of the year. A total of 640,803 BMW Group vehicles were delivered to customers in the course of 2018 (+7.7%).

Motorcycles segment revises model range

BMW Motorrad revised its 2018 product range on a massive scale, adding nine new models. Production adjustments necessary during the ramp-up phase had a negative impact on deliveries during the first half of the year. Over the full year, 165,566 BMW motorcycles and maxi-scooters were delivered to customers (2017: 164,153 units; +0.9%).

Revenues totalled € 2,173 million (2017: € 2,272 million; -4.4%). **Profit before financial result** came in at € 175 million (2017: € 207 million; -15.5%), corresponding to a segment **EBIT margin** of 8.1% (2017: 9.1%). **Profit before tax** amounted to € 169 million (2017: € 205 million; -17.6%).

Financial Services segment records contract portfolio growth

The **Financial Services segment** continued to perform well in 2018. In total, 1,908,640 **new contracts** were signed with retail customers in 2018 (2017: 1,828,604; +4.4%). The **contract portfolio** with retail customers comprised 5,708,032 contracts at 31 December 2018 (31 December 2017: 5,380,785 contracts; +6.1%). **Segment revenues** totalled € 28,165 million (2017: € 27,567 million; +2.2%). **Profit before tax** amounted to € 2,161 million (2017: € 2,207 million; -2.1%).

Slight increase in workforce

The BMW Group's **workforce** comprised 134,682 employees at 31 December 2018, 3.7% more than at the end of 2017. The Group continues to recruit skilled staff and IT specialists in future-oriented areas such as digitalisation, autonomous driving and electric mobility.

BMW Group forecasts continued volume growth in 2019

In view of the ongoing model offensive, the BMW Group anticipates further volume growth in the current financial year 2019 and is targeting a slight increase in the number of deliveries to customers. New models such as the BMW X7 and the seventh generation of the BMW 3 Series are expected to provide fresh impetus. The BMW 3 Series model change is likely to dampen growth during the first half of the year.

Supervisory Board

At the Annual General Meeting to be held on 16 May 2019, the Supervisory Board will propose the re-election of Susanne Klatten, entrepreneur, and Stefan Quandt, entrepreneur, to the Supervisory Board.

Furthermore, the Supervisory Board will propose Dr. Vishal Sikka, founder and CEO of Vian Systems and former member of the Executive Board of SAP SE, for election to the Supervisory Board. After 15 years as a member of the Supervisory Board, the mandate of Franz Haniel, entrepreneur, expires at the end of the upcoming Annual General Meeting. The Supervisory Board wishes to thank Mr Haniel for his valuable and trusted cooperation during his mandate.

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Further information on the Group Financial Statements 2018 and the outlook for the current year will be available at the BMW Group's Annual Accounts Press Conference to be held in Munich on 20 March 2019.

The BMW Group – an Overview		**2018**	**2017**	**Change in %**
Deliveries to customers				
Automotive	units	**2,490,664**	**2,463,526**	**1.1**
thereof: BMW	units	2,125,026	2,088,283	1.8
MINI	units	361,531	371,881	-2.8
Rolls-Royce	units	4,107	3,362	22.2
Motorcycles	units	**165,566**	**164,153**	**0.9**
Workforce[1]	(compared to 31.12.2017)	**134,682**	**129,932**	**3.7**
EBIT margin Automotive segment [3]	%	7.2	9.2	-2.0 % pts
EBIT margin Motorcycles segment[3]	%	8.1	9.1	-1.0 % pts
EBT margin BMW Group[3]	%	**10.1**	**10.9**	**-0.8 % pts**
Revenues[3]	€ million	**97,480**	**98,282**	**-0.8**
thereof: Automotive[3]	€ million	85,846	85,742	0.1
Motorcycles[3]	€ million	2,173	2,272	-4.4
Financial Services	€ million	28,165	27,567	2.2
Other Entities	€ million	6	7	-14.3
Eliminations[3]	€ million	-18,710	-17,306	-8.1
Profit before financial result (EBIT) [3]	€ million	**9,121**	**9,899**	**-7.9**
thereof: Automotive[3]	€ million	6,182	7,888	-21.6
Motorcycles	€ million	175	207	-15.5
Financial Services	€ million	2,190	2,194	-0.2
Other Entities	€ million	-27	14	-
Eliminations[3]	€ million	601	-404	-
Profit before tax (EBT) [3]	€ million	**9,815**	**10,675**	**-8.1**
thereof: Automotive[3]	€ million	6,977	8,717	-20.0
Motorcycles	€ million	169	205	-17.6
Financial Services	€ million	2,161	2,207	-2.1
Other Entities	€ million	-45	80	-
Eliminations[3]	€ million	553	-534	-
Income taxes[3]	€ million	**-2,575**	**-2,000**	**-28.8**
Net profit for the year [3.4]	€ million	**7,207**	**8,675**	**-16.9**
Earnings per share[2.3]	€	**10.82/10.84**	**13.07/13.09**	**-17.2/-17.2**

[1] Excluding dormant employment contracts, employees in the work and non-work phases of pre-retirement part-time working arrangements and low wage earners
[2] Earnings per share of common stock/preferred stock
[3] Prior year figures adjusted due to first-time application of revised IAS 15, see note [6] to the Group Financial Statements
[4] Value for 2018 (including a loss from discontinued operations of € 33 million)

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The BMW Group

With its four brands BMW, MINI, Rolls-Royce and BMW Motorrad, the BMW Group is the world's leading premium manufacturer of automobiles and motorcycles and also provides premium financial and mobility services. The BMW Group production network comprises 30 production and assembly facilities in 14 countries; the company has a global sales network in more than 140 countries.

In 2018, the BMW Group sold over 2,490,000 passenger vehicles and more than 165,000 motorcycles worldwide. The profit before tax in the financial year 2018 was € 9.815 billion on revenues amounting to € 97.480 billion. As of 31 December 2018, the BMW Group had a workforce of 134,682 employees.

The success of the BMW Group has always been based on long-term thinking and responsible action. The company has therefore established ecological and social sustainability throughout the value chain, comprehensive product responsibility and a clear commitment to conserving resources as an integral part of its strategy.

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