Statement by Dr. Friedrich Eichiner
Member of the Board of Management of BMW AG, Finance
Conference Call Interim Report to 30 June 2010
3 August 2010, 10:00 a.m.

Ladies and Gentlemen,

Good morning from my side as well. We have had an exceptionally strong second quarter. The BMW Group has greatly improved its profitability: In the first half-year, we achieved an EBT margin of 6.5% – and an EBIT margin of 6.6% in the Auto Segment. That puts us on the right track to reach the target range set by Strategy Number ONE for 2012.

We generated just under 15.4 billion euros in Group revenues in the second quarter. We also returned an extremely robust profit before tax of 1.3 billion euros. Besides this very significant improvement, we report a clear increase in our Financial Services earnings.

Both resulted from the positive effects of our strategic measures to boost profitability as well as our attractive, new models.

Let us start by taking a look at the individual segments:

The Auto Segment in the second quarter posted an EBIT of 1.3 billion euros, with a pre-tax profit of 938 million euros. EBIT for the first half-year totalled 1.6 billion euros.
The sales situation has continued to improve. We benefitted overall from the global economic recovery – with double-digit sales growth in many of our markets.

And, with the launch of the new 5 Series in Europe, we saw a strong model mix in the second quarter.

Our attractive portfolio also allowed us to maintain a better price position on the markets. As expected, sales incentive levels decreased – thanks to our younger product portfolio and changes in sales management processes.

Our efforts to reduce material costs over recent years also had a positive impact.

We also expect sales to perform well in the second half of the year. With the upcoming model launches, the focus will shift to the European and American markets. The share of vehicles sold in China will decrease slightly.

As a result of our production activities, inventories rose again in the second quarter. We have prepared ourselves for the demand in the second half of the year and have shipped vehicles overseas. The US market launch of the 5 Series Sedan in late June was also a significant factor. This contributed to an increase in working capital in a high two-digit million euro amount.

We invested around 410 million euros in capital markets to fund a further share of our pension obligations in Germany. Adjusted for this amount, free cash flow in the Auto Segment totalled 1.2 billion euros for the year to June 30th. Unadjusted, it was 789 million euros.

At 9.7 billion euros, our Group liquidity for the year to the end of June remained high.
The Financial Services Segment generated a pre-tax profit of 379 million euros in the second quarter. For the first half of 2010 as a whole, EBT totalled 601 million euros.

In a highly profitable second quarter, Financial Services benefitted from much better conditions for short and long-term funding. Globally, central bank interest rates were at a historic low.

The used car markets in North America and Continental Europe continued to develop heterogeneously in the first half of 2010. Most European markets stabilized at a low level. In Southern Europe, used car prices failed to recover. The US and UK used car prices showed greater stability.

Due to this, our end-of-lease business improved. This had an additional impact on the earnings through the end of June of around 100 million euros.

The initiated measures to optimize process efficiency had a further positive effect.

Almost 284,000 new contracts were signed with retail customers in the second quarter: 9.5% more than in the same period last year. In the first half of the year, more than 527,000 new contracts were signed worldwide.

New business accounted for 13.1 billion euros—9% more than the same period last year.

The percentage of new vehicles leased or financed by Financial Services dropped slightly to 46.6% – of which the leasing business made up 23.8%, and financing 22.8%.

The serviced portfolio comprised 76.468 billion euros.
The risk situation in the leasing and loan financing business has continued to improve throughout the economic recovery. The credit loss ratio for the first half of 2010 dropped to 0.59%, from 0.74% in the same period last year. We expect our financing business to face lower default risks from retail customers and dealers in the second half of the year.

Any slowdown of the economic recovery could potentially weaken this positive trend again.

The Motorcycles Segment performed exceptionally well in a difficult market environment. We delivered more than 36,000 BMW motorcycles to customers in the second quarter. Against this market trend, we increased sales by almost 22% from the same period last year.

We were able to improve our competitive position significantly. For instance, we are now the market leader in Europe’s biggest motorcycle markets, Germany and Italy. Most markets in our relevant segment with engines above 500 cubic centimetres showed a decline. Global unit sales in the segment fell by 11%.

We generated a sales volume of 439 million euros in the Motorcycles Segment in the second quarter. We posted an EBIT of 54 million euros.

Should you want more details on our results, more information is available in our quarterly report which can be seen or downloaded from our website.

Our much stronger performance is reflected in higher earnings and our excellent key profitability ratios. Cost improvements and our efforts to boost efficiency are yielding results. Our key ratios are fully in line with the targets set out in our strategy. We are continuing to work on our strategic initiatives and programs, and will further optimise both the cost and performance side. We will not rely on the economy continuing to recover at this pace.
As far as the second half of the year is concerned, we are planning overall for a good earnings situation. However, it would be a mistake to project the strong second-quarter earnings onto the full year.

On the one hand, we expect smaller increases in sales worldwide in the third quarter – partly as a result of seasonal factors. On the other hand, the launch of new models – the 5 Series Touring and the 5 Series four-wheel-drive Sedan, the X3 and the MINI Countryman – will create additional sales momentum in the United States and Europe. These markets’ share of sales will increase slightly at the expense of China and other emerging markets. This will dampen earnings in the third quarter in particular.

Our forecasts cannot generally predict potential fluctuations in the global economy. However, we are aware that the efforts of many countries to consolidate their overextended budgets could put a brake on global consumption. This could hinder a further global economic recovery and also impact our business performance.

We want to increase our company’s earning power sustainably over the long term – we aim to grow all of our brands in the markets worldwide.

We announced an EBIT target range of more than 5% in the Auto Segment for the full 2010 financial year. We are also standing by our target range of an 8-10% EBIT margin in the Auto Segment in 2012. In the Financial Services Segment, we are aiming for a return on equity of more than 18% for 2010.

The BMW Group is on the right track. With our attractive portfolio, we are profiting from the current growth phase. Our increased earnings power will have a substantial positive impact on our result for the full financial year.
Although we are currently satisfied – we have no intention of resting on our laurels. We will continue to optimize our efficiency and structures in order to maintain our course for success moving forward into the future.

Thank you.