Statement
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BMW Group Product, Technology and Business Update

BMW Group Classic
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Ladies and Gentlemen,

A warm welcome from me as well!

My colleagues have already given you an overview today of our new products and technological progress, and explained how we are responding to growing volatility in our environment.

I would like to add a few words about our current environment and our expectations for the next few months.

As I emphasised already during the announcement of our Q3 results: Transparency and openness are core values for the BMW Group.

We all know that conditions are more demanding than ever for the whole industry. In times like these, we feel it is especially important to explain the progress we are making with our strategy, as well as the current opportunities and challenges in a transparent manner.

Global auto markets will contract this year for the first time since the financial crisis.

Although the premium segment will continue to grow slightly, even here, the forecast has been corrected downwards significantly over the course of the year.

In China, we expect the total market to shrink for the first time in 20 years.
In Europe, some countries are on a fragile path to growth. But uncertainty is especially high thanks to Brexit, emissions legislation and the diesel debate.

New vehicle registrations are down in most countries, partly due to the introduction of WLTP.

We made our vehicles compliant – ahead of schedule. Although we quickly adjusted our production to the changing environment, we have still not been able to completely avoid the fallout from the heavy incentive programmes offered by some of our competitors.

Ongoing trade disputes have impacted earnings development worldwide and across the entire industry.

Punitive tariffs on vehicles, aluminium and other key parts and raw materials are hurting carmakers and suppliers throughout the value chain.

And then there’s the diesel debate in Germany and a number of other European markets: Facts no longer seem to carry much weight in this highly emotional discussion.

As a rule, state-of-the-art diesels are more fuel efficient, so their CO₂ emissions are lower. Without cutting-edge diesel engines, CO₂ targets for Europe will be very difficult to meet.

Another key fact is that all BMW diesels were properly approved and met all applicable standards at all times. Our Euro 6 diesel engines also boast some of the lowest emissions in the marketplace.

And our engineers are working at full speed to expand this edge.

Additional cost burdens this year come from goodwill and warranty issues. We have responded as an organisation by stepping up our ongoing quality measures. Following the initial outlay in Q3, a smaller part of this burden will still impact us in the fourth quarter as well.

Despite these significant additional challenges, which have increased considerably over the course of the year, we are still targeting an operating margin of at least 7% in our automotive business for the full year.

Year-to-date September, we still delivered the second-best nine-month-result in our history. This shows that our business model remains solid and can withstand challenges.
It is especially important in times like these that we continue to implement our strategy systematically. We are naturally monitoring developments very closely.

But anyone constantly looking from left to right, frantically taking action, risks losing sight of the path.

The BMW Group charts its own course. As we have proven again and again: We can handle off-road. We can handle rocky terrain. We are clearly focused on the future.

In recent months, we have set a decisive course for the next few years.

We had a large number of new launches in 2018. In fact, we have released more models in the last two years than ever before in a two-year period.

On the one hand, we renewed a large slice of our portfolio, including key models like the X2, X3, X4 and X5.

In the SAV segment, in particular, we have significantly expanded our production capacity and made ourselves even more flexible worldwide. The new X3 is now built at three locations and can be sold in all major markets, regardless of the trade climate.

On the other hand, we have also expanded our model line-up. The new 8 Series Coupe has already ramped up. It will be followed next year by the Convertible, the Gran Coupe and the M8. We are also nearing the finishing line with our preparations for the new X7.

At Rolls-Royce, the first Cullinan models have been handed over to customers. You already saw the completely revised 7 Series earlier today, which we will be presenting in Shanghai in January. The X6 will also be renewed in late 2019.

These important strategic projects will substantially expand our presence in the high-margin segments.

The successor to our top-selling model, the new 3 Series, is just ramping up at our Munich plant. The Sedan will be available for delivery from spring, followed by the Touring in summer. Our next-generation hybrids are also ready to go.

Over the course of the year, we will update four of our plug-in hybrid models with our latest generation of electric drive trains and ranges up to 80 kilometres according to WLTP. We will also be releasing a further SAV model as a hybrid by the end of 2019.
Next winter, the first battery-electric MINI will roll off the production line in Oxford. In total, we will be bringing another 20 new and revised models onto the market in 2019.

Ladies and Gentlemen,

One of the cornerstones of our strategy is continued development in the key market China. This year, we paved the way with a number of important steps.

In autumn, we became the first foreign manufacturer to announce that we would be increasing our stake in our Chinese joint venture BBA to 75% from 2022.

At the same time, we have extended our joint venture agreement with our long-standing partner Brilliance until 2040.

We laid the foundations for a new plant in Shenyang, which will increase our total capacity in China to up to 650,000 vehicles per year. This summer also saw the successful launch of the new X3 in China.

And, finally, we created the basis for another Chinese joint venture, with manufacturer Great Wall. Together, we will strengthen the MINI brand in China.

These important steps will expand our access to the world’s largest auto market over the long term and position us for further growth.

China is also one of the most important markets for future topics, such as e-mobility and autonomous driving. From 2020, we will produce the fully-electric iX3 there and export it worldwide.

With two newly opened R&D centres, China is now by far our biggest R&D location outside of Germany. We were also the first foreign manufacturer to receive a test licence for autonomous driving.

We are investing globally to secure our company’s future competitiveness.

This high level of commitment pays off. Take e-mobility, for instance, where we are already the market leader in Europe. Nearly one in five electrified vehicles sold there is a BMW or MINI.
We have acquired extensive know-how in producing batteries for electric vehicles. A very high percentage of value added takes place in-house – from packaging and developing power electronics to steering and cooling.

Expertise will be pooled in Munich, where we will open our battery cell competence centre in the spring, with 200 employees and an investment of around 200 million euros.

We secured cell-production capacity early on through a major contract with our long-standing partner CATL. With construction of the CATL plant in Germany, we will have the entire value chain for e-mobility in Europe. The new factory will also produce battery cells for the iNEXT.

Sustainable mobility goes far beyond just electric cars.

To secure our long-term supply of battery cells, we formed a technology consortium with Swedish cell manufacturer Northvolt and Umicore, which has specialised in battery cell components, in October. Our joint goal is sustainable industrialisation of battery cells in Europe – in other words, “green batteries”.

We will be looking at the full lifecycle, from development through production to recycling. With the strategic moves we made this year, we have created the best possible conditions for further expanding our leading position in electromobility.

We have also made considerable progress in autonomous driving.

In April, we officially opened our campus near Munich. We are right on schedule. A total of 1,800 experts will be working there by the middle of next year.

All development partners – including international players like Intel, Mobileye, Fiat-Chrysler, Aptiv (Note: formerly Delphi), Continental and Magna – are fully committed to our joint goal.

By the end of the year, the size of our autonomous test fleet will have almost doubled to around 70 vehicles, as planned.

Last week, we presented our Vision iNEXT in Los Angeles. The iNEXT is more than just a car: It is a technology pioneer and our building kit for the future, which we will use to enable our whole fleet.
It represents safe autonomous and partially-automated driving with zero emissions and an electric range of up to 700 kilometres according to WLTP. The iNEXT also plays in the Champions League when it comes to connectivity and digitalisation.

Ladies and Gentlemen,

As you can see, we are investing in strategically crucial areas and products. We will maintain this pace of development next year.

At the same time, we will also keep our operating business on course, despite the many challenges all around us.

We aim to continue our growth in all major sales regions in 2019. Expanding our portfolio in highly profitable segments will generate fresh momentum.

Among our X models, in particular, we expect to see double-digit growth: The X family’s share of total sales will climb to over 37%.

A number of important high-margin products will not be launched until later in the year. This product momentum will therefore not be fully reflected in earnings development in 2019.

At the same time, current 1 Series, 2 Series, 3 Series and 4 Series models and the X6 are all being phased out.

Much of the planned growth will take place in China. Locally produced models, led by the new X3, will see the biggest gains. This will mainly benefit our BBA joint venture.

We have many new models ready to go and continue to invest in future technologies. Although the R&D ratio will no longer reach the exceptional high of 2018, it will still exceed the figure for 2017.

What kind of environment should we expect in 2019?

The economic outlook still points to growth. However, the IMF has recently lowered its forecast for 2019, mainly due to trade issues.
There are significant risks associated with interest rate increases in the US and the impending Brexit. Even in the case of a relatively smooth withdrawal from the European Union, we still expect to face permanently higher costs.

Despite the strong economy, the US auto market will contract slightly in 2019 again. Our estimations for the premium segment see slight growth.

After a drop in 2018, we currently still expect the Chinese car market to grow next year. The premium segment should even grow slightly faster.

It is currently hard to predict how Europe will develop. We expect the premium segment to grow slightly. The political climate remains uncertain in key markets like the UK and Italy, with difficult situations also in Turkey and many emerging economies.

Trade disputes are unsettling consumers worldwide. We will feel the effect of tariffs between the US and China for the first time in the full year 2019. We are expecting a charge in the mid-three-digit-million euro range. Depending on their production locations, not all competitors are equally affected.

Tariff increases between the US and the European Union are still a possibility.

Exchange rates and commodity prices look to continue their negative development. We anticipate a headwind in the mid-to-high three-digit million euro range for 2019.

And then there are the risks associated with new legislative developments. To meet regulatory requirements, we are forced to pack more and more technology into our cars – for example, to further reduce emissions and CO2.

After the transition to WLTP, next up in 2019 is the introduction of RDE testing. As with the WLTP launch, we have prepared thoroughly for this. It remains to be seen whether this will again disrupt the market, if not everyone is equally well prepared.

Conditions will remain difficult for the industry as a whole next year. In light of the risks worldwide, it is hard to reliably predict future development at this time.

Our profitability target of between 8 and 10% remains unchanged. Whether we achieve this in 2019 will depend on many different factors – but it would currently appear quite challenging.
The automotive industry is in the midst of a transformation. We want to further expand our leading position and will continue to make necessary investments.

Ladies and Gentlemen,

Staying clearly focused on what is essential is more important than ever.

We continue to implement our strategy and create the necessary financial room for future-oriented investments.

We are constantly working to cover at least some of the rising cost of regulatory requirements. For example, we have set clear manufacturing cost targets for all model series on new vehicle architectures. Fewer variants means less costly and more efficient development and homologation.

Simply getting rid of the separately-opening two-piece tailgate in the next generation of the 3 Series and 5 Series Touring generated savings in the mid-double-digit million-euro range.

We have reduced the amount of vehicle color options for models beginning in 2021 by nearly half compared to today. For example, there will only be three instead of eight shades of black in the future.

We are also reducing the number of engine variants across all model series: In the US, for example, diesel has never played a significant role – consequently, we will stop selling diesels there in the medium term.

Data analytics help us evaluate variants for actual customer benefit and weed out those with a low take rate. Big data instead of gut feeling – that means big potential for us, minimum impact on customers.

Ladies and Gentlemen,

Your trust is a valuable commodity.

Transparent and open communication with our stakeholders is an integral part of who we are as a company. Even though the industry as a whole faces greater difficulties than in the
previous years: The BMW Group will remain highly profitable and financially solid, even in volatile times. We remain committed to a payout-ratio of between 30 and 40%.

Our Strategy NUMBER ONE > NEXT sets out clear guidelines for the coming years. Our offensive in the higher segments will bolster profitability and sharpen our brand profile.

At the same time, we are gradually bringing new technologies into series-produced vehicles. As a result, we are well prepared to meet evermore demanding regulatory requirements in many regions of the world.

To give us the necessary financial leeway, we continue to rely on profitable growth. In 2018, we set out our course for the next few years. Rest assured: We will take further steps in 2019.

Flexibility is how we respond to volatile conditions: This applies just as much to the latest generation of our vehicle architectures as to our production network.

Success cannot be taken for granted – we know that. We are therefore working hard on our performance and will do everything it takes to become even more efficient.

I firmly believe we are on the right track.