

Company Name: BMW
Company Ticker: BMW GR
Date: 2013-08-01
Event Description: Q2 2013 Earnings Call

Market Cap: 46,653.65
Current PX: 72.45
YTD Change(\$): -.48
YTD Change(%): -.658

Bloomberg Estimates - EPS
Current Quarter: N.A.
Current Year: 7.836
Bloomberg Estimates - Sales
Current Quarter: 19425.000
Current Year: 78277.792

Q2 2013 Earnings Call

Company Participants

- Maximilian Schöberl
- Norbert Reithofer
- Friedrich Eichiner

Other Participants

- Fraser E. Hill
- José Asumendi
- Jochen Gehrke
- Laura I. Lembke
- Christian Ludwig
- Philippe J. Houchois

MANAGEMENT DISCUSSION SECTION

Maximilian Schöberl

Good afternoon, ladies and gentlemen. I would like to welcome you all to the telephone conference of BMW AG on the second quarter 2013. With me today are Dr. Norbert Reithofer, Chairman of the Board of Management of BMW AG, and Dr. Friedrich Eichiner, our CFO.

First, Dr. Reithofer will give you all an update on the business performance during the first six months of the year. Dr. Eichiner will then take you through our financial results for the second quarter and half-year. Afterwards, we will have time for our Q&A session.

Dr. Reithofer, please go ahead.

Norbert Reithofer

Good afternoon, ladies and gentlemen. Today more than ever before our industry is undergoing dramatic change. New technology, business fields, and service offerings for customers are opening up new perspectives and growth opportunities. This fundamental transformation requires innovative strength, flexibility and new ways of thinking, but most of all, it requires the determination to act. It's a question of finding the right balance between evolution and revolution and being innovative in both.

Three days ago, we showed you what we mean by revolution when we unveiled the BMW Group's first all-electric vehicles in New York, Beijing, and London simultaneously. With the BMW i3, we are tailoring sheer driving pleasure to suit the needs of cities and megacities in the 21st century. For us, the BMW i3 is just the first step in the revolution. The next step comes in 2014. That's when our BMW i8 plug-in hybrid with a three-cylinder petrol engine reaches the market.

So what makes BMW i a game-changer in the automotive industry? First, the BMW i3 was designed around an electric power train. Second, the BMW i3 consists of a unique vehicle concept that comprises a live module and a drive module. Third, in BMW i3 production, resources are used efficiently, powered by energy generated from wind and

Company Name: BMW
 Company Ticker: BMW GR
 Date: 2013-08-01
 Event Description: Q2 2013 Earnings Call

Market Cap: 46,653.65
 Current PX: 72.45
 YTD Change(\$): -.48
 YTD Change(%): -.658

Bloomberg Estimates - EPS
 Current Quarter: N.A.
 Current Year: 7.836
 Bloomberg Estimates - Sales
 Current Quarter: 19425.000
 Current Year: 78277.792

water. i3 production is venturing into entirely new territory.

Fourth, the BMW i3 is our response to the ever-tougher CO2 requirements set by many countries around the world. It's also a solution for increasing regulations facing individual mobility in many large cities. Fifth, the BMW i3 is premium through and through, and premium is and always will be at the heart of what we do at the BMW group.

One daily newspaper here in Germany wrote the following about the BMW i3. Ultimately, the BMW i3 seems so well balanced, it's as if the last 125 years in the auto industry have merely been paving the way for this truly emotional yet totally sensible car. A British newspaper said this about the i3: Judged on its innovative style alone, which is refreshingly modern and unlike any other car on sale today, at long last an electric car that is desirable. Positive media response like these will start the process of people overcoming their reservations about electric mobility.

The BMW i3 is a true BMW and it drives like a true BMW. It reaches the European market in November of this year, and that's when our customers will get to enjoy its unique driving experience. For us, the decision to enter the world of electric mobility was made with our long-term business success in mind. It's part of our strategy that will take us to 2020.

Our development work on future drive systems is guided by a clear maxim: intelligent spectrum. The same is true of our path towards zero emissions mobility. For urban areas, we have the electric BMW i3. For slightly longer distances, we have our plug-in hybrids, such as the BMW i8. And for long distances, we are looking into solutions such as fuel cell-powered electric motors. In the future, options like this will offer short refueling times and enable long distance travel with zero emissions.

In terms of technologies, we are, of course, cooperating with the Toyota Motor Corporation. Here, too, we believe purpose-built vehicle architecture is the right approach for a serious vehicle in the future. This is the same as our BMW i family today.

And then of course, there is evolution. We continue to enhance the efficiency of our conventionally powered vehicle range with our EfficientDynamics program. Since 1995, the BMW Group has reduced its fleet CO2 emissions faster than any other European car company. At the moment, our customers can choose between 36 models with 120 grams CO2 per kilometer or less. Our fleet average currently stands at 138 grams CO2 per kilometer. By 2020, the E.U. has set an average of 95 grams CO2 per kilometer.

That means we must continue investing in the electrification of our vehicles. But in order to do so, we need to remain profitable. We want to continue our success in the current business year. Our goals for 2013 are as follows: new record sales at group level, a pre-tax profit similar to the previous year's level, an EBIT margin for the automotive segment within our stated target range of 8% to 10%.

These targets reflect what we mean by premium. After the first six months of 2013, we remain on track to achieve our goals for the year as a whole. However, our forecast assumes that global, economic and political conditions do not worsen significantly.

Where do we stand after the first six months? In the first half of 2013, we sold more than 954,000 vehicles around the world. That's up 6% on figures for the first half of 2012. We sold more BMW Mini and Rolls-Royce vehicles than ever before in this period.

Pre-tax profits reached more than €4 billion, which is very similar to what we achieved in the same period last year. Net profit rose to more than €2.7 billion. The EBIT margin in our automotive segment currently stands at 9.8%, at the upper end of the 8% to 10% profitability range we are aiming for. However, business and political conditions remain uncertain and highly volatile. Our sales figures reflect this fact, and the development was uneven.

In America and Asia, sales were up in the first half of this year. In Europe, sales remain at a similar level to last year's. Conditions remain challenging in a number of European markets. A tougher economic climate means tougher competition in the premium segment, as elsewhere. We are countering these challenging developments with attractive new models.

Company Name: BMW
 Company Ticker: BMW GR
 Date: 2013-08-01
 Event Description: Q2 2013 Earnings Call

Market Cap: 46,653.65
 Current PX: 72.45
 YTD Change(\$): -.48
 YTD Change(%): -.658

Bloomberg Estimates - EPS
 Current Quarter: N.A.
 Current Year: 7.836
 Bloomberg Estimates - Sales
 Current Quarter: 19425.000
 Current Year: 78277.792

Besides the forthcoming all-electric BMW i3, what can our customers look forward to in the second half of this year? The updated BMW 5 Series, the new BMW X5, the BMW 4 Series Coupe, and the Rolls-Royce Wraith.

Ladies and gentleman, at the BMW group we have always taken a long-term approach. That's why we are making some major investments right now to ensure we continue our success in the future. These investments are focused on new technologies, facilities, new models, and innovative mobility services. The investments will keep us strong as an innovator and secure market share as well as secure jobs in the future. We are making these decisions with careful consideration. We prioritize our projects according to how much they secure the future success of the BMW Group. This gives us the ability we need to realize ground-breaking ideas like the BMW i.

Meanwhile, in our core business, we continue to promote evolutionary advances. 2013 and 2014 will see 25 new models reach the market. Ten of them are completely new. In the 15 years between 2005 and 2020, our model range will have tripled in size.

In 2014, BMW Motorrad will also enter the world of electric mobility with the BMW C evolution electric scooter. At the same time, we are refocusing BMW Motorrad on urban mobility. In 2014, the BMW Active Tourer will come to the market. It will be the first BMW with front-wheel drive. MINI and BMW will introduce modular three- and four-cylinder petrol and diesel engines, allowing us to benefit from economies of scale.

All this goes to show that our business is becoming increasingly complex, the markets are becoming more volatile, and the political arena is more demanding than ever. But at the BMW Group, challenges are what drive us. We intend to remain industry leaders. That's why we are ushering in a new era of mobility with BMW i. Clearly, we plan to continue being the architects of our own future. That's what makes BMW premium. Thank you very much.

Maximilian Schöberl

Thank you very much, Mr. Reithofer. And now, Mr. Eichiner, please go ahead.

Friedrich Eichiner

Ladies and gentlemen, good afternoon from my side as well.

The second quarter was characterized by a more difficult situation in European markets. Nevertheless, the BMW Group posted record sales and was successful overall, thanks primarily to our overseas markets. Profitability remains within our target range, despite the previously announced major investments in growth and future projects.

Retail sales reached a new high of more than 506,000 units in the second quarter, an increase of 6.6% over the same period last year. The BMW Group benefited from its young and attractive model line-up, especially the BMW brand, which has a strong position in all vehicle classes. Sales of our MINI and Rolls-Royce premium brands also performed to plan. Our core 3 Series, 5 Series, 6 Series and 7 Series all remain segment leaders. Our SAV models are also in strong demand. The strongest growth was reported by the X1, which is also number one in its segment.

Our broad global presence was another advantage. We were able to offset declining demand in Europe with strong gains in Asia and the Americas, in particular, and reallocated vehicles accordingly. However, we cannot fully escape the challenges in our home region. Like other manufacturers, we are experiencing competitive pressure, especially in the [ph] southern (13:08) European markets.

Even Germany saw a decrease of about 8% in new vehicle registrations. In Western Europe, only the UK performed well. The premium segment in France and Italy contracted, also impacting our premium brands. We maintained the same level of sales in the European regions as last year. Overall, market development in Western Europe was much weaker than previously forecast. We no longer expect to see a reversal of this trend in 2013 and are preparing to face a persistently difficult market environment.

Company Name: BMW
 Company Ticker: BMW GR
 Date: 2013-08-01
 Event Description: Q2 2013 Earnings Call

Market Cap: 46,653.65
 Current PX: 72.45
 YTD Change(\$): -.48
 YTD Change(%): -.658

Bloomberg Estimates - EPS
 Current Quarter: N.A.
 Current Year: 7.836
 Bloomberg Estimates - Sales
 Current Quarter: 19425.000
 Current Year: 78277.792

We benefited from sales growth outside of Europe, especially in the United States and China. Recovery of the U.S. economy and housing market gave demand a boost. In the first six months of the year, we delivered more than 173,000 vehicles to customers in the U.S., an increase of 8.9%. The Financial Services segment also profited from growth in this traditionally strong leasing market.

In China, we sold more than 183,000 vehicles, an increase of 15%. The gains in China came mostly from locally produced models. In the second half of the year, we expect to see further growth from the 3 Series GT and the new X5. Over the summer months, we predict strong growth in our two largest markets, the U.S. and China. Although the current product momentum also reflects base effects, we expect growth to be sustained throughout the second half of the year.

At group level, revenues climbed to more than €19.55 billion in the second quarter. Our quarterly earnings before taxes reached €2.03 billion, a 2.8% increase over the same quarter last year. We continued our previously announced expenditures and investments in our production network in the second quarter.

The group's R&D costs totaled €1 billion for the second quarter, a slight increase over the previous year. Our R&D activities continue to focus on the development of new models, alternative drive trains, and light-weight technologies, as we strengthen our leading position in these fields. The R&D ratio for the first half-year stood at 5.3% of group revenues. This is in our target range of 5% to 5.5% of revenues. As previously announced, we will exceed our target range for the year as a whole.

The BMW Group's capital expenditure for the first six months totaled €2.4 billion. This represents an increase of 60% over the same period last year. Preparations for series production of the BMW i3 are now completed. We plan to continue expanding our entire vehicle portfolio and paving the way for the next phase of growth.

Right now we are also preparing for this growth in our plants, where our capacity utilization is already very high. This expansion is crucial to the vehicle projects planned for the coming years. We also continue to invest in developing new business areas.

The CapEx ratio for the first half-year stood at 6.4% of revenues. As previously announced, we will exceed our CapEx target of below 7% of revenues over the full year. Capital expenditure will rise, as usual in the second half of the year. As per 30 June, Group liquidity totaled almost €11 billion. Our liquid asset position therefore, remains solid.

Now let's move on to the Automotive segment. The Automotive segment had revenues of €18.2 billion in the second quarter. EBIT for the Automotive segment totaled almost €1.76 billion. As previously announced, the Automotive segment also made up-front investments in future projects. Over the full year, we expect an incremental burden of around €1 billion. The first half of 2013 was impacted to a lesser extent by this, which benefited earnings development in the second quarter. The planned expenditures will be accrued, for the most part, in the second half of the year.

Our profitability for the second quarter of 2013 was at the upper end of our target range of 8% to 10%. The EBIT margin for the segment stood at 9.6%. Dynamic business trends within the segment generated a strong operating cash flow and a free cash flow of more than €1 billion for the second quarter. Free cash flow for the first six months of the year totaled almost €1.7 billion.

We still expect to generate a strong free cash flow for 2013. Also, it is likely to remain under €3 billion for the full year. This is primarily due to a significant increase in capital expenditure, especially in the second half of the year. As per 30 of June, net financial assets in the Automotive segment amounted to almost €13.3 billion.

Ladies and gentlemen, the Financial Services segment continued its positive business performance in the second quarter. Our growing automotive business and strong demand for financial services are generating sustained growth in this segment. Financial Services concluded more than 388,000 leasing and financing contracts with retail customers in the second quarter. This represents a 12.2% increase over the same period last year.

In Europe, the main gains were in the UK, with growth also in the Americas and the Asia Pacific region. As per the 30 of June, the total number of service contracts in place had risen to 3.98 million. Thanks to this strong growth, Financial Services generated a quarterly pre-tax profit of €467 million, an increase of 8.4% year on year. The percentage of new

Company Name: BMW
 Company Ticker: BMW GR
 Date: 2013-08-01
 Event Description: Q2 2013 Earnings Call

Market Cap: 46,653.65
 Current PX: 72.45
 YTD Change(\$): -.48
 YTD Change(%): -.658

Bloomberg Estimates - EPS
 Current Quarter: N.A.
 Current Year: 7.836
 Bloomberg Estimates - Sales
 Current Quarter: 19425.000
 Current Year: 78277.792

BMW vehicles leased or financed by the Financial Services segment reached 44.5% for the year to the end of June. This increase of 5.8 percentage points compared to the same quarter last year is mainly due to new businesses in the U.S. and China.

The risk situation is largely unchanged from last quarter. As expected, credit risk has remained stable in Asia and the Americas. However, the situation is still difficult in Southern and Western European markets. Although we do not anticipate any significant deterioration over the short-term, still, provisions have been made to cover potential risks.

The used car business remained stable in the Americas and Asia in the second quarter. However, prices decreased slightly in a number of European markets, increasing pressure on residual values. We expect market performance to remain uneven during the second half of the year and have factored this potential volatility and pressure in the European markets into our risk provisions.

Now let's take a look at our Motorcycle segment. We delivered more than 40,000 BMW motorcycles to customers in the second quarter of 2013, a plus of nearly 16% over the same period last year.

In its anniversary year, BMW Motorrad reported the best quarterly and half-year sales in its 90-year history. The segment's strong sales growth was generated by new models. Together, the new F 800 GT Special Anniversary models and the new R 1200 GS beat the overall downward market trend.

The growth of BMW Motorrad in the first half of the year mainly came from the U.S., Brazil, and Japan. But BMW Motorrad also made gains in its primary market of Germany and other Western European countries. Second quarter revenues climbed to €475 million, with an EBIT of €46 million for the same period. BMW Motorrad has a young and attractive model line-up and is expected to further develop sales in the second half of the year.

Ladies and gentlemen, the BMW Group is currently on course to meet its guidance for the full year. We accomplished this despite deterioration in the situation in Europe and Western European markets in particular. This demonstrates our strength. We continue to profit from our robust strategic alignment, our strong premium brands, and our undisputed position as an innovation leader.

The BMW Group is investing heavily in its future this year. These investments are vital to the Group's continued profitable growth over the long-term. We will certainly feel the impact of the expenditures and up-front investments in future projects I mentioned earlier over the rest of the year. This includes market launch and ramp-up costs for the BMW i3 and other new models in the second half of the year.

We continue to benefit from our attractive product portfolio and global market presence. The BMW Group is aiming for a new sales record for the full year as long as markets in Asia and the Americas continue to perform well and there is no further deterioration in European markets.

The BMW Group is targeting pre-tax earnings for the full year on a similar scale to that reported in 2012. We are also maintaining our target range of 8% to 10% for EBIT margin in the Automotive segment. The target for the Financial Services segment is a return on equity of at least 18%. We also expect the positive business development in the Motorcycle segment to continue.

We are working hard to continue our successful course and confirm these targets, assuming that economic and political conditions do not worsen significantly. In other words, the BMW group remains geared towards sustainable profitability and growth. Thank you.

Maximilian Schöberl

Thank you very much, Mr. Eichiner. Ladies and gentlemen, the line will shortly be open for questions. Please wait for some technical advice.

Q&A

Company Name: BMW
 Company Ticker: BMW GR
 Date: 2013-08-01
 Event Description: Q2 2013 Earnings Call

Market Cap: 46,653.65
 Current PX: 72.45
 YTD Change(\$): -.48
 YTD Change(%): -.658

Bloomberg Estimates - EPS
 Current Quarter: N.A.
 Current Year: 7.836
 Bloomberg Estimates - Sales
 Current Quarter: 19425.000
 Current Year: 78277.792

Operator

[Operator Instructions] The first question comes from Mr. Fraser Hill, Bank of America.

<Q - Fraser E. Hill>: Good afternoon. It's Fraser Hill from Bank of America. I've got two questions that I wanted to put to you. Particularly on pricing, could you just give us a little bit more color around pricing? I know that you had talked on conference calls earlier in the year about 0.5% to 1% decline in pricing likely for this year. I just wondered if you could give us a little more color on that. Are we now looking further towards the bottom end of that range? Would it be fair to interpret your comments today that perhaps there's been a sequential step-down again in the second quarter in pricing? So that was the first question.

And then the second question onto China, you've obviously talked about the locally produced models performing well for you, but you had a pretty phenomenal June for your imported models. I think you were up 50% or something for imported models for June on your own data. Why was June quite so strong? What was the dynamic behind that growth? Thank you.

<A - Maximilian Schöberl>: Thank you very much, Fraser Hill. The answer will come from Mr. Eichiner. Mr. Eichiner?

<A - Friedrich Eichiner>: Your first question about the pricing, so our guidance was that the impact for the whole year will be between 50 and 100 basis points. Actually I think it's closer to the 100 basis points, and that's actually the level of sales support that we have to give in order to maintain our momentum in Europe. We don't think that it will further worsen in the second half of the year, but we don't see any relief at the same point in time. So it's close to 100 basis points that would be, possibly, the effect, especially driven, as I said, by the European markets.

Then your question about the second quarter in China, we basically – we redistributed costs from the weaker European regions into China. That was done in the first quarter. Then they were ready for sales in the second quarter. We started a bit more careful in the first quarter in China because it was not very clear where the market would go to. And, as you already said, the recovery in the European markets didn't happen. So, we had to react and one of the reactions was, for example, attractive products, like the X3, were reallocated to the Chinese market. And that gave us a certain momentum then in this market in the second quarter. That was the background of this development.

<Q - Fraser E. Hill>: Okay. Thanks. Could I get a follow-up on the pricing point? You said you probably still needed to support pricing a little bit more. Is that because, just because market deteriorated to a certain level that you need to use pricing to maintain your market share? Or is it more a response to what you've seen from competitors who, perhaps, have already been a bit more aggressive with market share and now you need to follow suit?

<A - Friedrich Eichiner>: At the end of the day, it's both, right. And it depends on the segment you're talking about, right. But in a nutshell, it's both, and the outcome is that we at least have now, compared to last year, a higher support level of 50 basis points to 100 basis points.

<Q - Fraser E. Hill>: Thank you.

<A - Maximilian Schöberl>: Thank you very much, Fraser Hill. Next question, please.

Operator

The next question comes from Mr. José Asumendi, JPMorgan.

<Q - José Asumendi>: Thank you. Thank you very much. Three items please, the first one, starting off with production, could you please confirm production will be higher in the second half versus the first half? Second, could you please advise on the additional expenses we should expect on the labor side in H2, as well as launch costs for the i3 for the launch? And then finally, I wanted to confirm the additional burden for [ph] future one (29:29) costs net of cost savings, they're going to be around €1 billion additional headwind this year. How should we think about next year? Will there still be a year-on-year headwind? I know that the figure will be lower, but will it still be a year-on-year

Company Name: BMW
 Company Ticker: BMW GR
 Date: 2013-08-01
 Event Description: Q2 2013 Earnings Call

Market Cap: 46,653.65
 Current PX: 72.45
 YTD Change(\$): -.48
 YTD Change(%): -.658

Bloomberg Estimates - EPS
 Current Quarter: N.A.
 Current Year: 7.836
 Bloomberg Estimates - Sales
 Current Quarter: 19425.000
 Current Year: 78277.792

headwind for the P&L? Thank you.

<A - Maximilian Schöberl>: Thank you very much, José Asumendi. We start in the first part of the question with Mr. Eichiner.

<A - Friedrich Eichiner>: Well, first question was about our production plan, and absolutely right, what you said. We are expecting a stronger production momentum in the second half of the year, so that we'll have a higher volume. There are many reasons behind, first of all, the launch of new products, like the new X5, like the 4 Series, that will be brought to the market. And then we are preparing growth for 2014 as well. In order to get that, you need to have production in place. And that's basically the reason that the momentum in the second half of the year will be higher.

Your last question was about the headwind coming from the extra amount of CapEx, and of course, we need to protect our future position. The €1 billion is still the number. We think it's right, and we think we will get a headwind in 2014 in this item as well, but not as high as it is this year. So it'll level out then to a certain extent.

And then your second question was cost. I mean, you raised the question about the personnel costs. I mean basically, the head count didn't move up a lot in the BMW Group during the year, but we had wage increases and that definitely has an implication on our cost base, which is a mid-three digit million number we have to consider as a headwind.

<Q - José Asumendi>: Should we expect anything electric costs, launch costs?

<A - Friedrich Eichiner>: Yeah, a launch cost, we will have additional launch costs for the i3, for the introduction of the i3 at the end of the year. That will happen possibly in the fourth quarter.

<Q - José Asumendi>: And roughly how much [indiscernible] (31:47)?

<A - Friedrich Eichiner>: Well, I think we don't have the number here now, the exact number for the i3, but it will be a lower number.

<Q - José Asumendi>: Okay. Thank you.

<A - Maximilian Schöberl>: Okay. Thank you very much. Next question please?

Operator

The next question comes from Mr. Jochen Gehrke, Deutsche Bank.

<Q - Jochen Gehrke>: Yes, good afternoon, just three quick follow-ups, please. First of all, on this H2/H1 [ph] Auto Con (32:16) cost, if I didn't miss it. Could you just help us understand how this incremental billion is roughly splitting between second half and first half, just on the cost side? And then also, you said production momentum is going to accelerate. In the first half, you already produced 50,000 units more than what at least you showed on your retail. I understand the preparation for growth, but is this about the full year what you're looking for? Or should we expect that production continues to outgrow, in nominal terms, your sales level?

Then secondly, just on China, there's been a lot of press and now with your partner and the license granting for the production that seems to be delayed. Do you regard this as usual noise in China? Or do you think that there is a risk that increasingly the political sentiment towards luxury cars is turning a bit, and that we might be looking forward to a more difficult market, environmental and regulatory wise?

And then finally, just on i3, I think the selling price of €35,000 that you – at the entry, surprised many, certainly on my side. Could you just help us understand, was this the reflection that your costs came down quicker? Was this what you always planned? And can you just tell us what we should be thinking commercially, about volumes, i3? I know it's very early days, but what's been the reception in terms of orders and so on? Thank you.

<A - Maximilian Schöberl>: Okay. Thank you very much, Jochen Gehrke. I think we start with the first part of your question, with the E3 and with the price, Mr. Reithofer and then Mr. Eichiner.

Company Name: BMW
 Company Ticker: BMW GR
 Date: 2013-08-01
 Event Description: Q2 2013 Earnings Call

Market Cap: 46,653.65
 Current PX: 72.45
 YTD Change(\$): -.48
 YTD Change(%): -.658

Bloomberg Estimates - EPS
 Current Quarter: N.A.
 Current Year: 7.836
 Bloomberg Estimates - Sales
 Current Quarter: 19425.000
 Current Year: 78277.792

<A - Norbert Reithofer>: Regarding the BMW i3, let me start with the cost side. I mean, we see the BMW i3 as a long-term investment and we are at the moment, at during the next five to seven years, in the first industrialization loop. And we see it as a preparation phase for the Group as a whole, focused on the year 2020 and on the year 2025. So from a cost point of view, I think it will come down over the years, starting in 2014, but not suddenly, definitely not. And as I said it to, Mr. Gehrke, this is a long-term investment and we are focusing with the BMW i3 already on the year 2020, and the reason we all know, tougher CO2 regulations in the United States, in the European Union, and in China.

And as you see, the year 2025, then I said on Monday in New York, to achieve, let me say a figure of 75 grams CO2 per kilometer, the BMW Group needs roughly 30% plug-in hybrids and petro-electric vehicles as part of our total volume. That is how we see the BMW i3. The price, was it a surprise? Not for us.

<A - Maximilian Schöberl>: Thank you very much. Second part, Mr. Eichiner.

<A - Friedrich Eichiner>: Okay. I'd also like to come back to your first question about the incremental billion split. So more or less, at least two thirds of those costs in this headwind will come in the second half of the year, though. That is not an equal split between first and second. Most of it is coming in the second half.

Production, well you have to see that we are introducing new models like the whole fleet of 4 Series models. We have to replace the X5, and you have to ramp up pipelines, if you do though, so. And this will take place now in the second half of the year, so production has to grow. Otherwise, we are not ready for certain growth in the first half of 2014. So we think, aligned with this, we will see a slightly increasing working capital driven by inventory in the second half of the year, but not much.

And then, your third question was about China. We had it already in the morning. I think it's kind of a misunderstanding from our perspective. It was driven by information being given by the Chinese Ministry of Environmental Protection. They are publishing all the [ph] broad checks (36:53) and the applications, and there was a misunderstanding. So it was that in Chinese, that our application was returned because they had additional questions and we had to deliver further data. And it was translated rejected. It was not rejected. It was returned. So now we have to give them further information, and then this is a normal process. We are waiting for the approval. We don't see any obstacles there. So that's basically the background.

And if you look at Tiexi, Tiexi is the most sustainable vehicle plant in China. You know our targets, and we will deliver those. For example, in the motorcycle, we are using 90% of the water will be recycled. So there is really the latest environmental technology in place in this plant, and we don't see any reasons that we will not meet the environmental standards the Ministry is giving us. So that's more or less a background and it was a bit of noise made out of this. A misunderstanding. Thank you.

<Q - Jochen Gehrke>: Thank you.

<A - Maximilian Schöberl>: Thank you very much. Next question please?

Operator

The next question comes from Miss Laura Lembke at Morgan Stanley.

<Q - Laura I. Lembke>: Yeah, good afternoon, and thank you for taking my questions. I also have three please, and the first one is on your average selling prices. I noticed that they've been a little weaker in H1, and I guess that's mostly driven by the, let's say, more adverse mix in China or higher share of the JV sales. I'm just wondering is this an affect that we should expect going forward also in the second half? Or would you say that there will be a little bit of a reversal here?

And then secondly, more generally on the 7 Series, the sales here remain pretty weak, and I'm just wondering again, is this just something to do with where the 7 Series is in its lifecycle? Or would you say that there is maybe a structural shift going on in the segment towards other segments? And also in this respect, are you already seeing an impact on

Company Name: BMW
 Company Ticker: BMW GR
 Date: 2013-08-01
 Event Description: Q2 2013 Earnings Call

Market Cap: 46,653.65
 Current PX: 72.45
 YTD Change(\$): -.48
 YTD Change(%): -.658

Bloomberg Estimates - EPS
 Current Quarter: N.A.
 Current Year: 7.836
 Bloomberg Estimates - Sales
 Current Quarter: 19425.000
 Current Year: 78277.792

your order book from the new S Class launch? And then just lastly, I was wondering if you could comment a little bit on the development of the German car market, and if possible, also on how the individual segments are developing here, so basically retail and the corporate side. Thank you.

<A - Maximilian Schöberl>: Thank you very much, Laura Lembke. Now we start first of all with Mr. Eichiner and the first part of the question, yes.

<A - Friedrich Eichiner>: Okay. Your question about the selling prices, well basically, we don't see that there will be a big, well, change, to the average prices we are. I mean, the momentum on the local production side in China is strong and will stay strong. We will – we have to move first the new models in, for example, the new X5. The X5 will come late in the year, so selling will start in 2014 only. So we have now, this year, a kind of intermediate situation driven by the portfolio changes that are relevant for the imported volume. Now that is more or less the background, and this will be then, well, washed out with the beginning of 2014, when the new X5 is available and the new 4 Series of the cars are available. So this then will definitely make a difference.

Now on your question about the 7 Series, basically, if you look around the world, 7 Series sales in Europe clearly under pressure, but the whole segment is heavily under pressure. We all know the reasons why. In the U.S., it's like, it's planned and adequate to the life cycle position. And then we have the strongest market, that is China. And in China, in the beginning there was a – first of all, there was a bit of over supply last year, we have to admit. And the whole segment was under distress. So we had to, well, cut back a bit sales supply on the 7 Series in order to give the segment a certain relief, which happened now in the first half of the year. And then we saw the market for the 7 Series more normalizing, as we expected it.

Your question about influences of the S Class, it's too early. It's not yet full available, especially not in Chinese market, and so that's really too early. It's more a segment issue, I would say, right.

<A - Maximilian Schöberl>: Thank you very much. Your last question, Laura, about German car markets will be answered by Mr. Reithofer.

<A - Norbert Reithofer>: If you see Germany, then first of all, let's focus on 2013. Germany's total passenger car market is expected to shrink by about 5.9%, our opinion, to approximately 2.9 million units. And how we see it, retail and corporate demand is becoming increasingly uncertain, and for us, only one reason behind. It is as a result of the euro crisis. And then, if you see Germany, you have to see a first price level and a second price level in Germany. And of course, we prefer to operate in the first price level. That means, first, profitability for the BMW Group in the German market and second, volume, and not vice versa.

And if I see the German market on a medium- and long-term perspective, then the total market will also remain stagnant over the medium-term. However, it will shrink over the long-term due to demographic trends. That is how we see Germany short-term in 2013 and medium-term. And as I said, at the moment, we have a tough competition in Germany, and we have to see in Germany of course, not just the volume development of the car companies, we have to see, do they operate mainly in the first price level or do they operate mainly in the second price level? It makes a huge of a difference.

<Q - Laura I. Lembke>: Okay. Thank you.

<A - Maximilian Schöberl>: Thank you very much. Next question, please?

Operator

The next question comes from Mr. Christian Ludwig, Bankhaus Lampe.

<Q - Christian Ludwig>: Yes. Good afternoon. Thank you for taking my questions, two quick ones here. First of all, on your admin costs, I have seen a significant increase in Q2. Maybe you could explain what is behind that. And secondly, going back to China, if I look at your equity result, there was a huge jump in that figure and also in Q2. Is that basically a function of the better sales in China, or all the pricing in China? [ph] Will you give (43:44) a little bit

Company Name: BMW
 Company Ticker: BMW GR
 Date: 2013-08-01
 Event Description: Q2 2013 Earnings Call

Market Cap: 46,653.65
 Current PX: 72.45
 YTD Change(\$): -.48
 YTD Change(%): -.658

Bloomberg Estimates - EPS
 Current Quarter: N.A.
 Current Year: 7.836
 Bloomberg Estimates - Sales
 Current Quarter: 19425.000
 Current Year: 78277.792

more color, what happened there? Thank you.

<A - Maximilian Schöberl>: Thank you very much. Mr. Eichiner?

<A - Friedrich Eichiner>: Well, in the company, actually, we are working in processes and structures in order to compensate the pressure that's coming from outside. One of the basic measures we have taken was to restructure our whole IT organization in this company, and we centralized, more or less, the IT. That means that thousands of people had to be reallocated, and this has a cost implication as well. And that's what you see in the administrative expenses, and this is one of the reasons that they increased by more than 30%.

Now your second question was China. Well basically, we have, this year, a strong momentum in the joint venture and the reason is, they have the younger products. We introduced the X1 on top of the already very new long version of the 3 Series, and the 5 Series is still a good running car, so we have now a very strong portfolio in place, and that is selling very well. And that is the reason that we have this sales momentum on the local side.

<Q - Christian Ludwig>: Just to clarify, for the administrative cost, so [ph] we should see (45:24) a decline in the second half of the year, because this is a – basically a one-off for the IT restructuring?

<A - Friedrich Eichiner>: Not because we did it recently, and that was one, in fact, was basically the reallocation of IT. The other is that we had, of course also, wage increases on the cost side, right, in the headquarters. So, [ph] other than the shift (45:51) and the wage increases, altogether is, at the end of the day, the effect, but the basic effect was IT. And next year, you will – then it will wash out. Then we have it in the basis, and then the incremental will be much lower. That's what we can say.

<Q - Christian Ludwig>: Okay. Thank you.

<A - Friedrich Eichiner>: You're welcome.

<A - Maximilian Schöberl>: Thank you very much. Next question please.

Operator

The next question comes from Mr. [ph] Michel Ponssect with Tetbank. (46:15)

<Q>: [ph] Yes, Michel Ponssect with Tetbank (46:15). Good afternoon. I have one question regarding your performance in the financial service division. You mentioned in your speech, Mr. Eichiner, that the penetration of the percentage rate of cars financed by your financial services division increased to 44.5%. But that implies an increase to more than 50% in Q2. Maybe you can explain a bit more what's behind that development and if you could expect similar figures in the quarters to come. Thanks.

<A - Maximilian Schöberl>: Thank you very much. Mr. Eichiner?

<A - Friedrich Eichiner>: Well, what we see now, that two markets are really pulling when it comes down to financial services. The most important one is U.S., and in the U.S. market, we have a much higher penetration rate than average, so it's more than 70% there, so. And the growth we generated in the U.S. market in the second quarter has driven the overall penetration up. That's one reason.

The second is that we are now going away from the lower penetration rates in China. In our Chinese business, penetration rate is picking up as well, and this is the second reason why, overall, we are at a level of 44.5%.

[ph] And on your question (47:26) going forward, going forward, I don't see that we will maintain 44.5%. I believe it will be more around 40% going forward.

<Q>: A follow-up, if I can. In China, is that – are customers more looking for financing or leasing?

<A - Friedrich Eichiner>: We don't have operational leasing in place in China, so it's, those days, financing and financing only.

Company Name: BMW
 Company Ticker: BMW GR
 Date: 2013-08-01
 Event Description: Q2 2013 Earnings Call

Market Cap: 46,653.65
 Current PX: 72.45
 YTD Change(\$): -.48
 YTD Change(%): -.658

Bloomberg Estimates - EPS
 Current Quarter: N.A.
 Current Year: 7.836
 Bloomberg Estimates - Sales
 Current Quarter: 19425.000
 Current Year: 78277.792

<Q>: Okay. Thanks.

<A - Friedrich Eichiner>: You're welcome.

<A - Maximilian Schöberl>: Thank you very much. Next question.

Operator

The next question comes from Mr. [ph] Michael Tyndall, Barclays. (48:13)

<Q>: Yeah, hi there. It's [ph] Mike Kendall from MacLeache (48:13). Thanks for taking my question, two if I may, the first, just touching again on China Financial Services. Could you just talk about whether or not the penetration rate you're talking about is dealer financing, or are we actually seeing customers now starting to take, basically, consumer financing?

And then the second question, it's a bit of a more long-term question and a strategy question. You've stepped up your investment considerably over the last two years. You clearly have a view on 2020 and 2025. I'm just wondering, when we think about the return on that investment, how does it play out? Does it play out in your minds, as you take a lot more market share? Or do you find yourself in a position where you are better prepared than your competitors and subsequently, you have better margins than your competitors when 2020 arrives? I know it's kind of a tough question, but I'm just curious to know when we will see the return on that investment. Thanks.

<A - Maximilian Schöberl>: Okay. Thank you very much. Mr. Eichiner?

<A - Friedrich Eichiner>: Sorry. Now in China, the penetration is clearly driven, mainly driven, by dealer financing, but same point in time, the penetration rate in retail financing is picking up now. We started with a very – in the beginning, we started with a single-digit number and now we are on a double-digit number when it comes down to the penetration rate, but you have to see that we are still in a phase where we are growing our dealer network. We are adding dealer to the network. It will be a significant number this year as well, and that needs financing. And this is what is driving the business in China forward. So that's the first question.

Your second question about the investments. I would say our investments, they are going in two directions. One direction is clearly capacity, because we are reaching now the limits of our capacity, and in order to allow the company to grow in the future, we need to make investments on the plant side. We need to ramp up our production capacities. So that's the first question. And clearly, those kind of investments, they will definitely have a good return. As long as our product portfolio is profitable, the return will be in place.

The second part of it goes into lightweight construction, electrification, so to say, in technology and innovations. Now, my personal view on this is, if you do so, the company will be in a position not only to meet the requested targets, for example on the CO2 front, we will be able to differentiate ourselves as well from competition. And this, in the long-term, will possibly have an implication on the market share side. So this will work out for us, because our cars will be more attractive in the future, so we get a return from there as well. It's not as easy to calculate as the first part of it, but I absolutely believe we will get the return.

<A - Maximilian Schöberl>: Thank you very much. Next question.

Operator

The next question comes from Mr. Philippe Houchois, UBS.

<Q - Philippe J. Houchois>: Good afternoon. Two questions, please, the first one is, Dr. Eichiner, you explained to us the pricing seems to be kind of the worst end of your expectations. Is it fair to assume, though, when it comes to raw materials or currency, given the euro against dollar and renminbi, that those two drivers are probably moving towards

Company Name: BMW
 Company Ticker: BMW GR
 Date: 2013-08-01
 Event Description: Q2 2013 Earnings Call

Market Cap: 46,653.65
 Current PX: 72.45
 YTD Change(\$): -.48
 YTD Change(%): -.658

Bloomberg Estimates - EPS
 Current Quarter: N.A.
 Current Year: 7.836
 Bloomberg Estimates - Sales
 Current Quarter: 19425.000
 Current Year: 78277.792

the better end of your expectations, and acting as an offset?

And the second question, for Dr. Reithofer is, as you've communicated a lot around the i3, we see a lot of discussions in the press about now the i3 versus Tesla. Tesla is of course a competitor. At the same time, though, how do you look at the situation? I think that the success of Tesla near-term is a great support to what you're trying to do in terms of acceptance of the electric car, and the market is kind of niche-y enough for a while. So what's your view? Do you see Tesla as a competitor, or do you see Tesla's success as a great support to your endeavors in that direction?

<A - Maximilian Schöberl>: Thank you very much, Philippe, for your last question. I think the question about Tesla is the right question for the chairman. Mr. Reithofer, please?

<A - Norbert Reithofer>: For us, of course Tesla is a competitor, but on the other hand, the results of Tesla are encouraging for us. Why? If you see the market for electric cars in the year 2012, we are talking about 93,000 vehicles worldwide. The estimate for the year 2013 is roughly 150,000 cars. So that means – and Tesla is part of it, and if you see the United States of America as one example, then in the first quarter of 2013, the growth rate in the U.S. market was roughly 135% for battery electric vehicles, and battery electric vehicles with range extender.

And, as I said, I see the results of Tesla, as for us, very encouraging so because it opens up the market for electric vehicles, and now we are entering the market with our BMW i3 and next year with our plug-in hybrid BMW i8. And it will show as well to a lot of customers that electric cars and plug-in hybrids are a real alternative.

And let me tell you one thing about the cost. If you go into the year 2020 or 2025, then it will cost you a lot to reduce the conventional cars from a CO2 level where we are at a moment to a much lower level. That means from a cost point of view, you are coming from both sides, electrification the one side, and you have to accept more and more costs as well in your conventional cars to bring them down from a CO2 point of view. So that means if the Tesla vehicles are a success, our i3 is a success, then it's really a breakthrough for electric cars.

<A - Maximilian Schöberl>: Thank you very much. Second part, pricing on worst end of expectations. Mr. Eichiner?

<A - Friedrich Eichiner>: I agree with you, Philippe. So pricing is still a critical issue for us, especially in Europe, fortunately, not in the other regions of the world. It's a European problem so far. And I think I said everything about what our expectation is this year, the 50 to 100 basis points overall.

On the FX and raw materials side, so basically, we don't see at present a significant effect on earnings. I mean, the euro is still strong compared to the dollar, for example, though everybody thought that the dollar would be strong and the euro could weaken, but we don't see it day-by-day so nothing is coming so far from this side. Raw material prices on the other side are a bit under pressure, so overall there are some offsets here and the total net effect is more or less neutral.

<Q - Philippe J. Houchois>: Thank you.

<A - Maximilian Schöberl>: Thank you very much. Do we have one more question?

Operator

We currently have no further questions.

Maximilian Schöberl

Okay. Thank you very much. Ladies and gentlemen, thank you for joining in our call today and for your questions. On behalf of the BMW Group team, I wish you all a pleasant summertime. Thank you very much and bye-bye.

Operator

Company Name: BMW
Company Ticker: BMW GR
Date: 2013-08-01
Event Description: Q2 2013 Earnings Call

Market Cap: 46,653.65
Current PX: 72.45
YTD Change(\$): -.48
YTD Change(%): -.658

Bloomberg Estimates - EPS
Current Quarter: N.A.
Current Year: 7.836
Bloomberg Estimates - Sales
Current Quarter: 19425.000
Current Year: 78277.792

Ladies and gentlemen, thank you for your attendance. This call has been concluded. You may now disconnect.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP.

© COPYRIGHT 2013, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.