WE ARE SHAPING THE MOBILITY OF THE FUTURE

ANNUAL REPORT 2017

BMW GROUP

THE NEXT 100 YEARS

Rolls-Royce
Motor Cars Limited

The new era of electric mobility requires visionaries and people of action. Find out in our image brochure how BMW Group is shaping the mobility of the future.

CONTENTS

1 TO OUR SHAREHOLDERS

2 COMBINED MANAGEMENT REPORT

3 GROUP FINANCIAL STATEMENTS

4 CORPORATE GOVERNANCE

5 OTHER INFORMATION

TOWARDS THE FUTURE

Our Annual Report is also available in digital form under: http://annual-report2017.bmwgroup.com

The fuel consumption, CO_2 emissions, power consumption and operating range figures were determined according to the European Regulation (EC) 715/2007 in the version applicable. The figures refer to a vehicle with basic configuration in Germany and the range shown considers the different sizes of the selected wheels/tyres and the selected items of optional equipment.

Further information on official fuel consumption figures and specific CO_2 emissions values of new passenger cars is included in the "Guideline for fuel consumption, CO_2 emissions and electric power consumption of new passenger cars", which can be obtained free of charge from all dealerships and at https://www.dat.de/en/offers/publications/guideline-for-fuel-consumption.html.

TO OUR SHAREHOLDERS

1

BMW GROUP IN FIGURES

Key non-financial performance indicators

→ 01

	2013	2014	2015	2016	2017	Change in %
GROUP						
Workforce at year-end[1]	110,351	116,324	122,244	124,729	**129,932**	4.2
AUTOMOTIVE SEGMENT						
Deliveries[2]	1,963,798	2,117,965	2,247,485	2,367,603	**2,463,526**	4.1
Fleet emissions in g CO_2/km[3]	133	130	127	124	**122**	– 1.6
MOTORCYCLES SEGMENT						
Deliveries[4]	115,215	123,495	136,963	145,032	**164,153**	13.2

Further non-financial performance figures

→ 02

	2013	2014	2015	2016	2017	Change in %
AUTOMOTIVE SEGMENT						
Deliveries						
BMW[2]	1,655,138	1,811,719	1,905,234	2,003,359	**2,088,283**	4.2
MINI	305,030	302,183	338,466	360,233	**371,881**	3.2
Rolls-Royce	3,630	4,063	3,785	4,011	**3,362**	–16.2
Total[2]	**1,963,798**	**2,117,965**	**2,247,485**	**2,367,603**	**2,463,526**	**4.1**
Production volume						
BMW[5]	1,699,835	1,838,268	1,933,647	2,002,997	**2,123,947**	6.0
MINI	303,177	322,803	342,008	352,580	**378,486**	7.3
Rolls-Royce	3,354	4,495	3,848	4,179	**3,308**	– 20.8
Total[5]	**2,006,366**	**2,165,566**	**2,279,503**	**2,359,756**	**2,505,741**	**6.2**
MOTORCYCLES SEGMENT						
Production volume[6]						
BMW	110,127	133,615	151,004	145,555	**185,682**	27.6
FINANCIAL SERVICES SEGMENT						
New contracts with retail customers	1,471,385	1,509,113	1,655,961	1,811,157	**1,828,604**	1.0

[1] Figures exclude suspended contracts of employment, employees in the non-work phases of pre-retirement part-time arrangements and low income earners.
[2] Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2013: 198,542 units, 2014: 275,891 units, 2015: 282,000 units, 2016: 316,200 units, 2017: 384,124 units).
[3] EU-28.
[4] Excluding Husqvarna, deliveries up to 2013: 59,776 units.
[5] Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2013: 214,920 units, 2014: 287,466 units, 2015: 287,755 units, 2016: 305,726 units, 2017: 396,749 units).
[6] Excluding Husqvarna, production up to 2013: 59,426 units.

Key financial performance indicators

→ 03

	2013	2014	2015	2016	2017	Change in %
GROUP						
Profit before tax in € million	7,893	8,707	9,224	9,665	10,655	10.2
AUTOMOTIVE SEGMENT						
Revenues in € million	70,630	75,173	85,536	86,424	88,581	2.5
EBIT margin in % (change in %pts)	9.4	9.6	9.2	8.9	8.9	–
RoCE in % (change in %pts)	63.0	61.7	72.2	74.3	78.6	4.3
MOTORCYCLES SEGMENT						
EBIT margin in % (change in %pts)	5.3	6.7	9.1	9.0	9.1	0.1
RoCE in % (change in %pts)	16.4	21.8	31.6	33.0	34.0	1.0
FINANCIAL SERVICES SEGMENT						
RoE in % (change in %pts)	20.0	19.4	20.2	21.2	18.1	–3.1

Further financial performance figures

→ 04

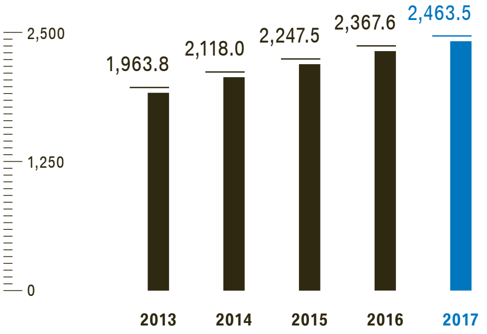
in € million	2013	2014	2015	2016	2017	Change in %
Total capital expenditure[1]	6,711	6,100	5,890	5,823	7,112	22.1
Depreciation and amortisation	3,741	4,170	4,659	4,806	4,822	0.3
Free cash flow Automotive segment	3,003	3,481	5,404	5,792	4,459	–23.0
Revenues	**76,059**	**80,401**	**92,175**	**94,163**	**98,678**	**4.8**
Automotive	70,630	75,173	85,536	86,424	88,581	2.5
Motorcycles	1,504	1,679	1,990	2,069	2,283	10.3
Financial Services	19,874	20,599	23,739	25,681	27,567	7.3
Other Entities	6	7	7	6	7	16.7
Eliminations	–15,955	–17,057	–19,097	–20,017	–19,760	1.3
Profit before financial result (EBIT)	**7,978**	**9,118**	**9,593**	**9,386**	**9,880**	**5.3**
Automotive	6,649	7,244	7,836	7,695	7,863	2.2
Motorcycles	79	112	182	187	207	10.7
Financial Services	1,643	1,756	1,981	2,184	2,194	0.5
Other Entities	44	71	169	–17	14	–
Eliminations	–437	–65	–575	–663	–398	40.0
Profit before tax (EBT)	**7,893**	**8,707**	**9,224**	**9,665**	**10,655**	**10.2**
Automotive	6,561	6,886	7,523	7,916	8,691	9.8
Motorcycles	76	107	179	185	205	10.8
Financial Services	1,619	1,723	1,975	2,166	2,207	1.9
Other Entities	164	154	211	170	80	–52.9
Eliminations	–527	–163	–664	–772	–528	31.6
Income taxes	**–2,564**	**–2,890**	**–2,828**	**–2,755**	**–1,949**	**29.3**
Net profit	**5,329**	**5,817**	**6,396**	**6,910**	**8,706**	**26.0**
Earnings per share in €	**8.08/8.10**	**8.83/8.85**	**9.70/9.72**	**10.45/10.47**	**13.12/13.14**	**25.6/25.5**
Pre-tax return on sales[2] in % (change in %pts)	**10.4**	**10.8**	**10.0**	**10.3**	**10.8**	**0.5**

[1] Expenditure for capitalised development costs, other intangible assets and property, plant and equipment.
[2] Group profit before tax as a percentage of Group revenues.

BMW Group deliveries of automobiles*

→ 05

in 1,000 units

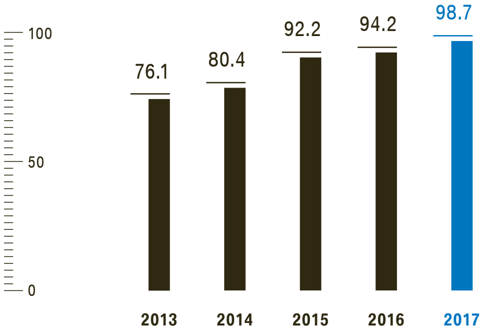


* Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2013: 198,542 units, 2014: 275,891 units, 2015: 282,000 units, 2016: 316,200 units, 2017: 384,124 units).

BMW Group revenues

→ 07

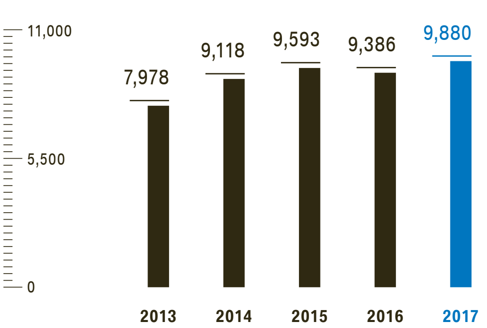
in € billion



BMW Group profit before financial result (EBIT)

→ 06

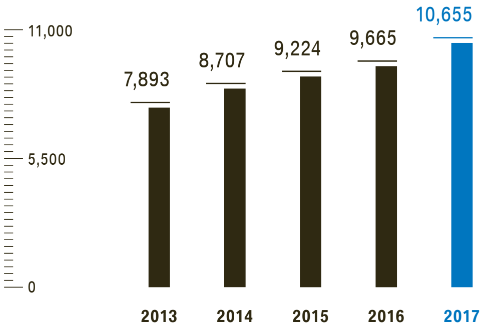
in € million



BMW Group profit before tax

→ 08

in € million



REPORT OF THE SUPERVISORY BOARD

STATEMENT OF THE CHAIRMAN OF THE BOARD OF MANAGEMENT

BMW STOCK AND CAPITAL MARKETS IN 2017

Norbert Reithofer

Chairman of the Supervisory Board

Dear Shareholders,

The BMW Group sold more than 100,000 electrified vehicles during the past year. With the move towards electrification of the fleet and the biggest model offensive ever undertaken in the company's history, the BMW Group is getting ready for the future. The BMW Group delivered an outstanding earnings performance in the financial year 2017 and once again confirmed its leading position in the premium segment with record deliveries.

Monitoring and advisory activities of the Supervisory Board

Throughout the financial year 2017, the Supervisory Board performed its duties with the utmost care in accordance with the law and the Articles of Incorporation. We provided the Board of Management in their strategic development and management of the BMW Group with constructive advice and closely and continuously monitored its running of the business.

The Board of Management reported regularly to us on the implementation of Strategy NUMBER ONE > NEXT. Key areas of focus included the BMW Group's strategy for drivetrain technology and progress in the field of electric mobility. Further major activities were the revised Board of Management compensation system and the Group business plan. At each of our five Supervisory Board meetings, we discussed in detail the current situation of the BMW Group with the Board of Management.

The Company's situation and development have been continually in our focus, also outside of meetings. The Board of Management reported to us regularly on the latest sales and workforce figures and provided us with information on matters of particular importance as they arose.

Between meetings, the Chairman of the Board of Management, Mr Harald Krüger, informed me directly and promptly in our regular consultations on the current state of major business transactions and projects.

Furthermore, when necessary, the Chairman of the Audit Committee, Dr Karl-Ludwig Kley, liaised directly with the Member of the Board of Management responsible for Finance, Dr Nicolas Peter, outside scheduled meetings.

In its regular reports on the BMW Group's current situation, the Board of Management provided us with information on the deliveries trend and the competitive environment in the Automotive and Motorcycles segments as well as the development of new contracts and business volumes in the Financial Services segment, also explaining any variances against forecast. The Board of Management also provided us with the latest workforce figures, reported on developments on key markets and explained business forecasts.

The Board of Management also highlighted in its situation reports important current transactions and projects, which we then followed up in our in-depth discussions. These included, for example, progress made in the areas of product quality and customer satisfaction. The Board of Management also reported on events such as the "diesel summit" in Berlin and the International Motor Show (IAA Cars) in Frankfurt. In addition, the Board of Management explained the status of various cooperation negotiations and transactions, such as the establishment of a joint venture with other manufacturers to build a European network of fast charging stations.

Regarding the Chinese market, the Board of Management provided us with detailed information on business developments and specific local requirements and explained the strategy pursued in this region.

At the beginning of the year, the Board of Management presented to us the new models and model revisions due for market launch in 2017.

One Supervisory Board meeting was held at the Dingolfing plant. A major focus of this meeting was the report of the Board of Management on the development of the worldwide production network, highlighting in particular international cooperation between the plants. It also explained how Industry 4.0 innovations are being applied in production, for example in the field of logistics, where components tracking increases supply reliability. The Group has already been exploiting the possibilities of additive manufacturing (3D printing) in production for several years. A further topic of the meeting was BMW Group's strategy in the area of taxes and customs duties. The Board of Management presented a range of scenarios on the operational and financial impact for the BMW Group of the United Kingdom's exit from the European Union. We were also briefed by the Board on the US administration's announcements regarding taxes and duties and the possible consequences for the BMW Group. We also discussed the CSR Directive Implementation Act and its impact on non-financial reporting for the BMW Group. In this context, the Supervisory Board has amended its rules of procedure and expanded the tasks of the Audit Committee. We commissioned the audit firm PricewaterhouseCoopers GmbH to perform a voluntary, limited assurance review of the separate report on non-financial information. During a guided tour of the Dingolfing plant, we were able to learn about the future production of the BMW i NEXT, amongst others.

The two-day Supervisory Board meeting focused in particular on the Group's strategy and the long-term corporate plan.

During the first part of the meeting we discussed the annual review of Strategy NUMBER ONE > NEXT with the Board of Management. The Board of Management explained the decisions taken in each strategic area, such as the expansion of digital services and products and developments in the field of autonomous driving. It also presented various scenarios for the development of drivetrain systems and outlined the measures it has taken to respond flexibly to customer requirements. The Board of Management also provided us with a detailed account of the competitive environment in the electric mobility sector. We support the Board of Management's initiatives to expand the charging infrastructure.

In the course of a vehicle presentation, we had the opportunity to drive the current BMW Group models with various drivetrain concepts on a test track. We were able to see for ourselves the progress made in the field of autonomous driving. Selected vehicles, including various battery-electric vehicles (BEVs), and technologies were also presented and explained to us through models and exhibits.

In the second part of the meeting, we reviewed in detail the long-term corporate plan for the years 2018 to 2023 and discussed in depth various risk scenarios with the Board of Management. The Board of Management explained the Performance NEXT programme, which will support the financing of future topics by leveraging potential on the performance and cost side. After careful examination and discussion, we approved the plan and urged the Board to implement systematically the measures proposed and to drive ahead with electric mobility at the BMW Group, in order to act from a position of strength.

We also took a close look at the BMW Group's IT strategy. The Board of Management explained the steps already taken towards further digitalisation of the BMW Group. At the same time, it informed us on the threat of cyberattacks and outlined the safeguards and defence measures within the IT security management system.

At our final meeting of the financial year 2017, the Board of Management presented the annual planning for the financial year 2018. We reviewed in detail the opportunities and risks and discussed them with the Board of Management.

With respect to vehicle architecture, the Board of Management explained measures taken to implement the electrification strategy and presented the specific benefits.

In addition, the Board of Management addressed the allegations made against BMW in various media outlets with regard to emissions treatment and confirmed that the BMW Group engages in no activities or technical measures to influence the test mode for measurement of emissions.

Furthermore, the Board of Management reported in detail on the performance, risk situation and business strategies of the Financial Services segment. It described the measures in place to comply with regulatory requirements and provided information on the status of regulatory proceedings against a locally based financial services company.

Within the Personnel Committee and Supervisory Board, we closely examined the structure and amounts of compensation for members of the Board of Management. In our review, we took into account the development of the Group, as well as compensation of the executive management and the overall workforce in Germany over time. In addition, we consulted studies of the compensation at DAX-listed companies. We were assisted here by an independent external compensation consultant. After a detailed examination and discussion, we concluded that the compensation of the Board of Management for the financial year 2017, including pension entitlements, is appropriate.

While leaving the existing overall upper limits unchanged, we have revised the compensation system for the Board of Management. Apart from an increase in Board members' base salary, the focus was on revising the system for variable remuneration. We have paid special attention to linking variable remuneration even more closely to sustainable business development and the long-term business plan. A new multi-year component has been introduced, in the form of a performance cash plan. Other provisions contained in the standard service contract for Board members were also updated. With the agreement of its members, all Board of Management service contracts have been amended with effect from 1 January 2018. Further information on Board of Management compensation and on the new compensation system with effect from the financial year 2018 is provided in the Compensation Report (see section Statement on Corporate Governance).

A further topic reported on by the Board of Management was the current status of the diversity concept. The Board informed us on the targets they have set for increasing the proportion of women in the workforce, particularly in the management, and the current level of target achievement. In addition, the Board of Management explained the measures it has taken to encourage cultural diversity and a mixed age structure in the workforce.

Together with the Board of Management, we gave careful consideration to the corporate governance standards of the BMW Group as well as the provisions of the German Corporate Governance Code. The same also applies to the proposal that the Chairman of the Supervisory Board should engage in dialogue with investors on subjects specific to the Supervisory Board. As a result of the revision of the compensation system with effect from the financial year 2018, it was necessary to retrospectively cancel the previous performance targets for variable compensation for the years 2018 and 2019 and replace them with the new, more ambitious target system. The current Declaration of Compliance pursuant to § 161 AktG is included in the Corporate Governance Report.

The Supervisory Board had already adopted detailed targets for its own composition which included competence-related criteria. These targets were confirmed in the form of the "competency profile". Based on a self-review conducted by the Supervisory Board, it was concluded that the current composition of the Supervisory Board is in line with the targets of the diversity concept and competency profile, as well as other targets set for its composition at 31 December 2017.

No conflicts of interest arose on the part of Members of the Board of Management or Supervisory Board during the year under report. Significant transactions with Supervisory Board members and other related parties as defined by IAS 24, including close relatives and intermediary entities, were examined on a quarterly basis.

Following a detailed efficiency examination in the previous year, the Supervisory Board reviewed the efficiency of its activities in 2017 on the basis of a structured questionnaire. Moreover, members of the Supervisory Board had the opportunity to discuss matters with me individually. The self-review was discussed in the full Supervisory Board. Overall, the work of the Supervisory Board was deemed efficient. No significant need for change was identified. Proposals, for example with respect to the reports provided by the Board of Management, were taken into account.

Average attendance of the five Supervisory Board meetings held in the financial year 2017 was 94 %. An individualised overview of attendance at meetings of the Supervisory Board and its committees for the financial year 2017 has been published on the BMW Group's website. All members of the Supervisory Board attended more than half of the meetings of the Supervisory Board and those committees to which they belonged during their term of office in the financial year 2017.

Description of Presiding Board activities and committee work

In order to increase efficiency and ensure better preparation of its plenary meetings, the Supervisory Board has established a Presiding Board and four committees. Committee chairpersons reported in detail and in a timely manner on Presiding Board and committee work at the following meeting of the Supervisory Board. The shareholder representatives were informed by myself of the activities of the Nomination Committee. A detailed description of the duties, composition and work procedures of the various committees is provided in the Corporate Governance Report.

The Presiding Board convened five times during the financial year under report. Assuming no other committee was responsible, the focus of our activities was on preparing the detailed agenda for the meetings of the full Supervisory Board. Complex and wide-ranging topics, such as the long-term plan, were prepared together in detail with the Board of Management and senior heads of department on the basis of written and oral reports. We also selected further topics for full Supervisory Board meetings and made suggestions for reports submitted to the full Supervisory Board.

The Audit Committee held five meetings and two telephone conference calls during the financial year 2017. In the course of those conference calls and at one meeting together with the Board of Management, we reviewed the Quarterly Financial Reports prior to their publication. Representatives of the external auditors were present during the presentation of the Half-Year Financial Report.

The Audit Committee's meeting in spring 2017 focused primarily on preparing for the Supervisory Board meeting at which the financial statements were to be examined. Before recommending to the full Supervisory Board that KPMG AG Wirtschaftsprüfungsgesellschaft be elected as Company and Group auditor at the Annual General Meeting 2017, we obtained a Declaration of Independence from KPMG. We also considered the scope and composition of non-audit services, including tax advisory services provided by KPMG entities to the BMW Group. We found no indications of grounds for exclusion, conflicts of interest, or risk to the independence of the auditor.

The fee proposals for the audit of the year-end Company and Group Financial Statements 2017 and the review of the Half-year Financial Report were deemed appropriate. Subsequent to the Annual General Meeting 2017, we therefore appointed KPMG AG Wirtschaftsprüfungsgesellschaft for the relevant engagements and specified additional audit focus areas.

During the financial year 2017, the Head of Group Controlling reported to the Audit Committee on the current risk profile of the BMW Group. In this context, we reviewed in depth a number of individual topics, such as risk management with regard to suppliers.

The Head of Group Financial Reporting presented to us current developments in the internal control system (ICS) underlying financial reporting. The tests performed highlighted no material ICS weaknesses which would jeopardise the system's effectiveness.

The Head of Group Internal Audit presented the main findings of Group internal audits performed during the year under report and outlined the areas of focus for planned audits. He also informed us about an external quality assessment of Group audit activities, which concluded that the relevant German and international standards were met.

A key focus of the Audit Committee's work was on compliance. The Chairman of the BMW Group Compliance Committee informed us about the status of compliance within the Group, initially in the regular report at the end of June. He presented here new IT systems designed to support compliance management. Immediately after the appearance of media reports on cartel allegations at the end of July in connection with the so-called "circle of five", we held a meeting of the Presiding Board and the Audit Committee. The Board of Management informed us in detail of the status of the internal investigation that it had immediately launched and which is being conducted with the support of an international law firm. The Head of Legal Affairs and Patents explained the legal background of the allegations. We also discussed the BMW Group Compliance Management's existing preventive measures with respect to antitrust compliance. The progress of the internal investigation was analysed in detail at the two subsequent Audit Committee meetings, both of which were attended by a representative of the appointed law firm. As a precautionary measure, the Chairman of the Audit Committee also had the representative of the appointed law firm report on the progress of the investigation without members of the Board of Management or myself being present. These issues were discussed at length at the subsequent meetings of the Supervisory Board.

Another area of focus for the Audit Committee was preparing for the change in external auditor with effect from the 2019 financial year. In this context, we organised a tender procedure in accordance with new statutory requirements and, after carefully examining the applicants, made a recommendation to the full Supervisory Board. The non-audit services provided by the auditor were also regularly scrutinised.

An independent auditor engaged by us to conduct the mandatory audit of over-the-counter derivative transactions confirmed the effectiveness of the system that BMW AG currently employs to ensure compliance with regulatory requirements.

In conjunction with the Employee Share Programme, the Audit Committee approved the decision of the Board of Management to raise the Company's share capital in accordance with § 4 (5) of the Articles of Incorporation (Authorised Capital 2014) by €491,000 and to issue a corresponding number of new non-voting bearer shares of preferred stock, each with a par value of €1, at favourable conditions to employees.

The Personnel Committee convened four times during the financial year 2017. The meetings focused on preparations for revising the Board of Management compensation system and related service contracts.

The Personnel Committee also undertook the preparatory work for the Supervisory Board's decision to appoint a new Board of Management member to head the Sales and Brand BMW, Aftersales BMW Group, taking account of the requirements profile and diversity concept agreed upon for the Board of Management.

In individual cases, we also gave our approval to Board of Management members to assume mandates outside the Group.

The Nomination Committee convened once during the financial year 2017. We reviewed the succession planning for shareholder representatives and made recommendations for the proposal of candidates for the Supervisory Board election of the Annual General Meeting 2018, taking into account the composition targets previously resolved by the Supervisory Board.

The statutory Mediation Committee did not need to convene during the financial year 2017.

Composition of the Board of Management

The composition of the Board of Management changed at the turn of the year following the appointment of Pieter Nota as a Member of the Board of Management with effect from 1 January 2018. Mr Nota has joined the BMW Group with a wealth of international experience in the areas of sales and marketing. He succeeds Dr Ian Robertson as Board member responsible for Sales and Brand BMW, Aftersales BMW Group. In agreement with the Supervisory Board, Dr Robertson retired from the Board of Management with effect from the end of 31 December 2017. He will continue to support the BMW Group with his expertise as ambassador of the BMW Group in the United Kingdom until 30 June 2018. With his energy and commitment, Dr Robertson contributed to the BMW Group's outstanding growth and success during an almost ten-year term of office on the Board. We wish to express our appreciation and thank Dr Robertson for his dedicated services.

In addition, we decided in three cases to renew the appointment of members of the Board of Management.

Composition of the Supervisory Board, the Presiding Board and Supervisory Board Committees

In view of the applicable age limit, with effect from the end of the Annual General Meeting 2017, Professor Henning Kagermann stepped down from the Supervisory Board, of which he had been a member since 2010. We thank Professor Kagermann for his valuable work and the trustful cooperation with which he served on the Supervisory Board. At the Annual General Meeting 2017, Dr.-Ing. Heinrich Hiesinger was elected as new shareholder representative for a five-year term of office.

The composition of the Presiding Board and the committees of the Supervisory Board remained unchanged during the financial year. The Corporate Governance Report includes a summary of the composition of the Supervisory Board and its committees.

Examination of financial statements and the profit distribution proposal

KPMG AG Wirtschaftsprüfungsgesellschaft has audited the Company and Group Financial Statements of Bayerische Motoren Werke Aktiengesellschaft (BMW AG). It also conducted a review of the abridged Interim Group Financial Statements and Interim Group Management Report for the six-month period ended 30 June 2017. The results of the review were presented to the Audit Committee by representatives of KPMG AG Wirtschaftsprüfungsgesellschaft. No issues were identified that might indicate that the abridged Interim Group Financial Statements and Interim Group Management Report had not been prepared in all material respects in accordance with the applicable provisions.

The Group and Company Financial Statements of BMW AG for the year ended 31 December 2017 and the Combined Management Report – as authorised for issue by the Board of Management on 15 February 2018 – were audited by KPMG AG Wirtschaftsprüfungsgesellschaft and given an unqualified audit opinion.

The Auditor's Report has been signed since the financial year 2016 by Christian Sailer, as independent auditor (Wirtschaftsprüfer), and since the financial year 2014 by Andreas Feege, as independent auditor (Wirtschaftsprüfer) responsible for the performance of the engagement.

The financial statements for the financial year 2017, the Combined Management Report, the reports of the external auditors and the Board of Management's profit distribution proposal were made available to all members of the Supervisory Board in a timely manner.

The Audit Committee closely examined and discussed these documents at a meeting held on 26 February 2018. The Audit Committee reviewed in detail the key audit matters raised in the auditor's report of the Company and Group Financial Statements and the related audit procedures performed by KPMG.

The Supervisory Board examined the relevant drafts of the Board of Management at its meeting on 8 March 2018, after hearing the committee chairman's report on the meeting of the Audit Committee. In both meetings, the Board of Management gave a detailed explanation of the financial reports it had prepared. Representatives of the external auditor were present at both meetings. They reported on the main findings of their audit, explained the key audit matters in the audits of the Company and Group Financial Statements and answered additional questions of members of the Supervisory Board.

The representatives of the external auditor confirmed that the risk management system established by the Board of Management is capable of identifying at an early stage developments that might threaten the Company's going-concern status. They confirmed that no material weaknesses in the internal control system and risk management system with regard to the financial reporting process were identified. Similarly, they did not identify in the course of their audit work any facts that were inconsistent with the contents of the Declaration of Compliance pursuant to § 161 AktG, issued by the Board of Management and the Supervisory Board.

Based on thorough examination by the Audit Committee and the full Supervisory Board, we concurred with the results of the external audit. In accordance with the conclusion reached after the examination by the Audit Committee and the full Supervisory Board, no objections were raised. The Group and Company Financial Statements of BMW AG for the financial year 2017 prepared by the Board of Management were approved at the Supervisory Board meeting held on 8 March 2018. The financial statements have therefore been adopted.

We also examined the proposal of the Board of Management to use the unappropriated profit to pay an increased dividend of €4.00 per share of common stock and €4.02 per share of non-voting preferred stock. We consider the proposal appropriate and have therefore approved it.

On presentation of the Sustainable Value Report, the Audit Committee and the Supervisory Board also reviewed the separate non-financial report of BMW AG (Company and Group) at 31 December 2017, which has been drawn up for the first time by the Board of Management. The audit firm PricewaterhouseCoopers GmbH has performed a "limited assurance" review of these reports and issued an unqualified opinion thereon. The documents were carefully examined by the Audit Committee at its meeting on 26 February 2018 and by the Supervisory Board at its meeting on 8 March 2018. The Board of Management gave a detailed explanation of the reports at both meetings. Representatives of the auditors attended both meetings, reported on significant findings and answered additional questions raised by the members of the Supervisory Board. The Supervisory Board acknowledged and approved the separate non-financial report (Company and Group) drawn up by the Board of Management.

Expression of appreciation by the Supervisory Board

We wish to express our appreciation to the members of the Board of Management and the entire workforce worldwide of the BMW Group for their joint efforts and hard work, which have contributed to the outstanding performance for the financial year 2017.

Munich, 8 March 2018

On behalf of the Supervisory Board

Yours

Norbert Reithofer

Chairman of the Supervisory Board

Harald Krüger
Chairman of the Board of Management

Dear Shareholders,

Progress is not possible without change. Change is a constant in all of our lives. The BMW Group charts its own course – with innovation, determination and foresight. We want to offer solutions for the challenges of today and tomorrow. Each and every one of our associates is giving their all. Our corporate culture encourages values of openness and transparency in our everyday actions.

Financial year 2017: goals accomplished

At the BMW Group, we stand by our promises. And we deliver! We achieved our targets for the financial year 2017, with new all-time highs for automobile and motorcycle deliveries, as well as Group pre-tax earnings.

BMW Group leads global premium segment in 2017

More and more customers are buying vehicles built by the BMW Group. Our customers have made this company a leading manufacturer in the global premium segment for the past 14 years. For the seventh consecutive year, sales reached a new all-time high in 2017. As forecast, automotive deliveries rose slightly to 2.46 million vehicles. This represents an increase of 4.1 percent in a highly competitive environment.

Our strong, emotional brands are extremely desirable to customers. In Fortune Magazine's "World's Most Admired Companies", the BMW Group is now the highest-ranked automobile manufacturer in the top 20 and the most admired European company.

All-time highs for BMW, BMW M, MINI and BMW Motorrad

Our core BMW brand once again sold more than two million vehicles in 2017 – over four percent more than the previous year. BMW M GmbH also contributed to this, reporting record deliveries of more than 80,000 M and M Performance models for the first time.

MINI sales climbed more than 3 percent to over 370,000 vehicles. BMW Motorrad saw a significant increase, with deliveries of motorcycles and scooters up more than 13 percent to 164,000 units. In the ultra-luxury segment, Rolls-Royce was unable to match the previous year's strong result. With the Phantom model changeover and in a difficult environment, sales decreased by around 16 percent to 3,362 vehicles.

Milestone: over 100,000 electrified vehicles sold

Electric mobility is currently our main strategic focus. We reached an important milestone on the road to sustainable mobility last year, when I presented the 100,000th electrified vehicle sold by the BMW Group to its new owner at BMW Welt in Munich. It was a BMW i3, purchased by an 80-year-old customer – which just goes to show that it is never too late to switch to an electric car.

In 2017, we delivered 103,080 cars with electrified drivetrains to customers. Overall, sales of our BMW i models together with BMW iPerformance and MINI Electric plug-in hybrids increased by two-thirds over the previous year.

Every customer and every market counts

It is part of our philosophy that every customer counts – and so does every market. We aim for a balanced distribution of sales across the main market regions of Europe, Asia and the Americas. This enables us to balance out regional market fluctuations.

Asia was the main growth driver in 2017 and China the most important single market. In Mainland China, deliveries climbed to more than 590,000 vehicles. In Europe, sales remained on a par with the previous year, at around 1.1 million units, despite a downturn in the UK, with ongoing Brexit negotiations. In the Americas and the US, we saw slight decreases, with total sales of around 450,000 vehicles for the region. However, the trend has reversed in the US since late 2017.

Our value creation is as global as it is flexible

The high flexibility of our global production network lays the foundation for the BMW Group's continued growth. In 2017, twice as many vehicles came off the production line than in 2009. The company currently operates 31 facilities in 14 countries, and we continue to invest in our locations in Germany and worldwide. A good example of this is the major expansion of our Dadong plant in Shenyang, China, which we operate as part of our joint venture with Brilliance China Automotive Holdings Ltd.

In San Luis Potosí, Mexico, plant construction is proceeding according to schedule. We are already qualifying young specialists at our new training centre there. Over the next few years, we will see different types of drivetrains on the roads. We are preparing our sites for this diversity by creating flexible architectures and plants. This will allow us to produce models with efficient combustion engines alongside electric vehicles and plug-in hybrids. From 2020 on, the use of scalable modular electric construction kits will enable us to fit all model series with any type of drivetrain. This will make us extremely flexible, whichever way demand develops.

Financial indicators reach new highs

In the financial year 2017, Group revenues rose slightly to reach a new all-time high of 98.7 billion euros. Earnings before tax posted a significant increase of 10.2 percent year-on-year and exceeded 10 billion euros for the first time. Annual net profit was up 26 percent to 8.7 billion euros.

The Group financial statements also reflect the positive impact of the tax reform in the US. The EBIT margin in the Automotive segment stands at 8.9 per cent and therefore remains within our target range. The Financial Services segment once again made a significant contribution to the Group result, with pre-tax earnings of more than 2 billion euros.

Significantly higher dividend

Dear shareholders, your company remains on track for success – and it is only fitting that you should share in that success. The Board of Management and Supervisory Board will therefore propose to the Annual General Meeting that the unappropriated profit of BMW AG for the financial year 2017 be used to issue a dividend of 4.00 euros per share of common stock and 4.02 euros per share of preferred stock. That is the highest dividend the company has ever paid. BMW AG associates in Germany will also benefit from the company's positive performance through our profit-sharing programme.

The momentum will continue in financial year 2018

Phase II of the biggest model offensive in our history

In 2018, we will enter the second year of the biggest model offensive in our history. We will continue moving forward, with highly emotional new models like the BMW i8 Roadster and the BMW Z4.

We are focusing on two segments in particular: first, the highly profitable luxury class. Here, we will be launching new luxury models like the BMW 8 Series, the BMW X7 and the Rolls-Royce Phantom onto the market. These will bring us closer to our goal of occupying the leading position in the luxury segment.

2018 will also be our "X year", with the expansion of our highly successful BMW X family. As well as the X7, this will include the new X3 available since late last year, the cool new X2 and the new X4. I am sure our new X vehicles will totally appeal to our customers.

Half a million electrified vehicles in total by the end of 2019

Electrification will remain a top priority for us over the coming years. We aim to sell more than 140,000 electrified vehicles in 2018 and have half a million electrified BMWs and MINIs on the roads by the end of 2019.

When the BMW i3 was released in 2013, not many would have believed that the BMW Group would today be leading the market for electrified vehicles in Europe. Today, in this growing segment, we already have a much larger market share than in traditional drivetrains.

All our brands will gradually be electrified. All electrified BMW models will become part of BMW i. We have a clear roadmap to 2025: in 2019, a battery-electric MINI; in 2020, the first fully electric model from the core BMW brand, the X3. These will be followed in 2021 by the iNEXT, our new technology flagship, which the whole company will learn from.

BMW i Vision Dynamics eagerly awaited

This concept car was one of the stars of the Frankfurt Motor Show in 2017. In the BMW i Vision Dynamics, we are targeting an electric range of 600 kilometres – fifth-generation storage and battery technology will make this possible.

Electrification pays off: European fleet CO_2 emissions continue to fall

By stepping up the pace on sustainable drivetrains, we are also reducing our fleet CO_2 emissions. This was also the case in 2017, even though the percentage of diesel vehicles decreased, partly due to the current discussions in Germany. Emissions figures for our new vehicle fleet in Europe currently stand at 122 grams of CO_2 per kilometre. We have a clear objective to meet the European Union's emissions requirements from 2021.

Developing electric mobility infrastructure

Against this backdrop, we are actively supporting infrastructure development. We aim to be a system provider for electric mobility: with ChargeNow and IONITY for charging infrastructure, the new BMW Energy Services business segment and our Battery Cell Competence Centre in Munich.

The future belongs to autonomous driving

We will officially open our campus for autonomous driving, just outside Munich, in spring 2018. Here, we will work with our partners, Intel and Mobileye, to develop autonomous driving – which we see as one of the main driving forces for the mobility of tomorrow. A growing number of renowned companies from different industries are joining our shared platform. We believe that security is vital to autonomous driving – not just with respect to the vehicles themselves, but also customer data.

Ten million BMW Group vehicles are already connected via Connected Drive. It takes about 25 million test kilometres to get an autonomous vehicle ready for series production. In 2018, our fleet of autonomous BMW 7 Series models will continue to collect data on the roads, mainly in Germany, Israel and California.

Global expansion of the NOW family

Systematic expansion of our mobility services is firmly anchored in our Strategy NUMBER ONE > NEXT. In early 2018, we signed a contract to acquire 100 percent of DriveNow. Our premium car-sharing service already has over a million customers in 13 cities. A growing number of older people, families and business travellers are also using DriveNow. Our ReachNow service is available in the US and, since late 2017, also in China, in collaboration with a local partner.

Finding a parking space is a problem for many drivers. Earlier this year, the BMW Group acquired Parkmobile LLC, in a move that makes us the largest provider of mobile parking services in North America and Europe, with 22 million customers in 1,000 cities.

Dear Shareholders,

These examples show how we are successfully shaping the future of mobility in all its different facets. With your support, we are transforming ourselves into a tech company for mobility with a clear focus on customers and service. You have given us your backing for our long-term approach with Strategy NUMBER ONE > NEXT. For that, I would like to thank you personally, and on behalf of the entire Board of Management and our associates worldwide.

Our associates stand behind Strategy NUMBER ONE > NEXT

According to our most recent employee survey, 90 percent of our associates say they are proud to work for the BMW Group. More than 80 percent say they are familiar with the target and content of our strategy. This shared understanding will give us even greater momentum. We all want the BMW Group to be the first place customers turn to for individual premium mobility experiences. We aim to be the clear number one.

Your company delivers consistently high profitability

Of course, dear shareholders, that also means ensuring your company remains profitable. The BMW Group has the financial resources to fund these upfront investments in the future – which gives us a clear competitive edge. Our R&D ratio will increase in 2018, from 6.5 to 7 percent, or around 7 billion euros. Expenditure will also remain high in 2019. For the past eight years, we have kept the EBIT margin in the Automotive segment within our target range of 8 to 10 percent, or higher, from one quarter to the next. We intend to maintain this high-level of consistency.

Top-rated European automobile manufacturer

Our sharp focus on the future, combined with solid financials, enables us to have easier access to international capital markets. Moody's has upgraded BMW AG's long-term rating to A1. Our company also has the highest Standard & Poor's rating of any European automobile manufacturer.

We will continue to follow our path, taking advantage of the opportunities that arise. By doing so, we can ensure that BMW AG remains an attractive investment over the long term and a company with a promising future.

Yours

H. Krüger

Harald Krüger

Chairman of the Board of Management

BMW STOCK AND CAPITAL MARKETS IN 2017

Ratings at top level

Dividend proposal foresees significant increase

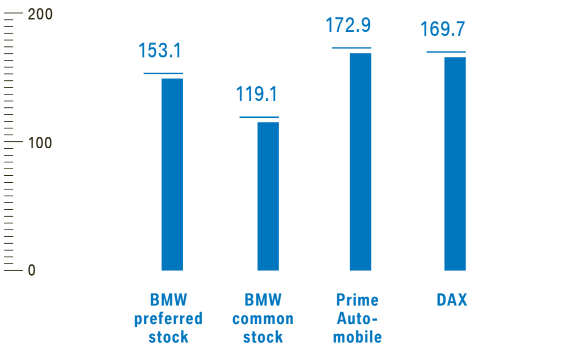
→ www.bmwgroup.com/ir

Over the course of 2017, capital markets were influenced by a favourable global economy. Positive growth signals coming from emerging markets as well as robust economic developments in industrialised countries made for an encouraging year on worldwide exchanges.

Development of BMW stock compared to stock market indices since 28 December 2012

→ 09

in %



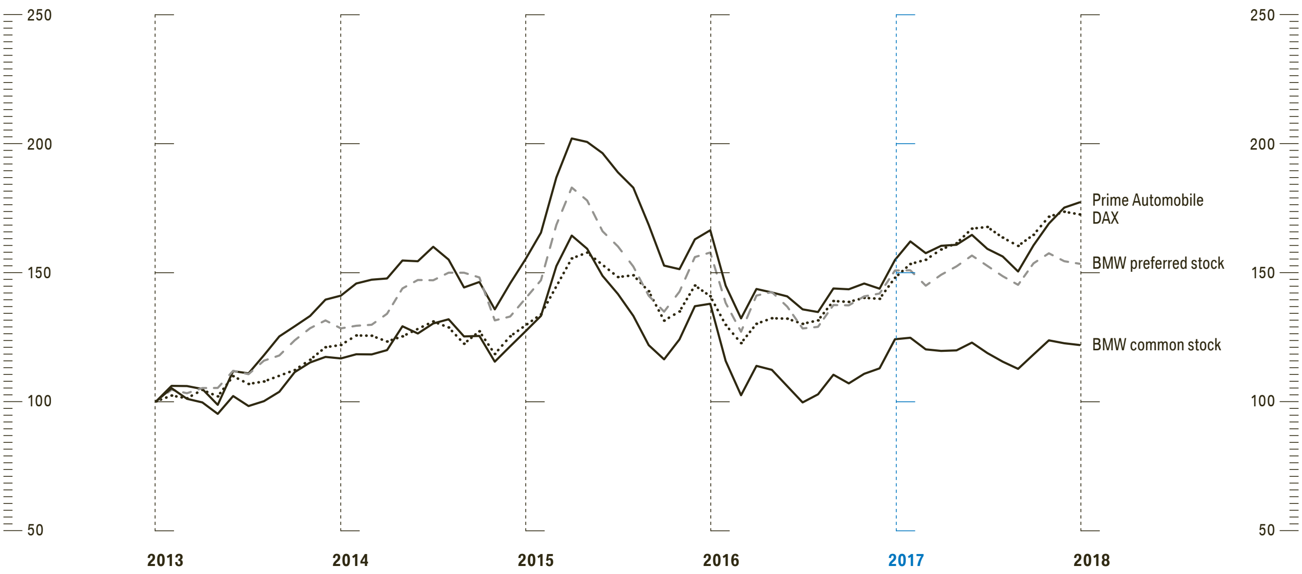
Favourable year on stock markets

A variety of factors influenced developments on stock markets during the period under report. The year began with considerable political uncertainty concerning future developments in the European Union (EU). Consequently, the German stock index (DAX) recorded its low point for the year in February at 11,510 points. Concerns about the stability of the EU abated following the strong election performance of pro-European parties in the Netherlands and France, providing the DAX with renewed upward momentum towards the middle of the year. Nevertheless, the ongoing tension between the USA and North Korea dampened the mood on stock markets perceptibly. In the autumn months, positive economic and job market figures in Germany contributed to an upswing on the stock market. Despite uncertainty surrounding the formation of a new government in Germany, the DAX remained stable during the final months of the year. Furthermore, the European Central Bank's (ECB) decision to keep benchmark interest rates low – and thus maintain its expansionary monetary policy – had a beneficial impact on investor sentiment. In the USA, the Federal Reserve gradually raised the reference interest rate. Likewise, the Bank of England increased interest rates for the first time in a decade. The reform bill passed to cut tax rates in the USA also fuelled hopes of further economic growth.

BMW AG development of stock

→ 10

Index: December 2012 = 100



Source: Reuters.

The DAX remained above the previous year's closing level throughout the year. After the elections in the Netherlands and France, the index rose in June 2017 to its then high for the year of 12,889 points before retreating somewhat during the summer months. Thanks to a strong upturn lasting through to early October, the DAX closed the year at 12,918 points, posting a significant gain for the period (+12.5 %).

The EURO STOXX 50 recorded a 6.5 % rise over the same period, finishing the year at 3,504 points.

Investor uncertainty caused the Prime Automobile Index to lose ground significantly during the first half of the year, driven by doubt as to whether the business models of German automobile manufacturers will remain profitable going forward. The debate about diesel engines had a further negative impact on the German automobile sector. The IAA motor show in Frankfurt am Main in September 2017 strengthened confidence on capital markets with the presentation of numerous initiatives in the field of electric mobility. The improvement in investor sentiment was reflected in the sector index, which finished the year at 1,687 points, 12.0 % up over the previous year.

BMW common stock followed the downward trend of the sector index during the first seven months of the year, finishing July 12.4 % down on the previous year-end level. Its value picked up after the IAA, rising to an interim high of €89.97 in November 2017. After losing some ground during the remainder of the year, BMW common stock closed at €86.83, 2.2 % down over the year. BMW preferred stock finished the year at €74.64, 2.7 % up on its market price one year earlier.

At the end of 2017, with market capitalisation amounting to some €56.3 billion, the BMW Group was among the ten most valuable German enterprises listed on the stock market.

Ratings remain at top level

Thanks to its consistent future-oriented approach and solid financials, the BMW Group continues to be the best-rated carmaker in Europe.

Company rating	Moody's	Standard & Poor's
Non-current financial liabilities	A1	A+
Current financial liabilities	P–1	A–1
Outlook	stable	stable

Since December 2013, BMW AG has had a long-term rating of A+ (stable outlook) and a short-term rating of A-1 from the rating agency Standard & Poor's. This represents currently the highest rating given by Standard & Poor's to a European car manufacturer.

In January 2017, Moody's raised its long-term rating for BMW AG from A2 (positive outlook) to A1 (stable outlook). The P-1 short-term rating was confirmed. The improved assessment reflects the attractive product launches as part of the model offensive, the good position of the BMW Group with regard to the challenges faced by the automobile industry, a consistently strong operating performance and a solid financial and capital structure.

The ratings underline the BMW Group's robust financial profile and excellent creditworthiness. As a result, the Company not only enjoys good access to international capital markets, but also benefits from attractive refinancing conditions.

Employee Share Programme

For more than 40 years, BMW AG has enabled its employees to participate in its success. Since 1989, this participation has taken the form of an Employee Share Programme. A total of 491,114 shares of preferred stock were issued to employees as part of this programme in 2017.

In this context, and with the approval of the Supervisory Board, the Board of Management increased BMW AG's share capital in 2017 by €491,000 from €657,109,600 to €657,600,600 by issuing 491,000 new non-voting shares of preferred stock. This increase was executed on the basis of Authorised Capital 2014 in Article 4 (5) of the Articles of Incorporation. The new shares of preferred stock carry the same rights as existing shares of preferred stock. The newly issued shares of preferred stock for employees are entitled to receive dividends with effect from the financial year 2018. In addition, 114 shares of preferred stock were acquired via the stock market or as a result of cancelled employee purchases relating to the previous year.

Significant increase in dividend

Due to the positive earnings development, the Board of Management and the Supervisory Board are proposing to the Annual General Meeting to use the net profit of BMW AG of €2,630 million (2016: €2,300 million) for the payment of a dividend of €4.00 per share of common stock (2016: €3.50) and a dividend of €4.02 per share of preferred stock (2016: €3.52). The payout ratio for the year 2017 therefore stands at 30.2 % (2016: 33.3 %).

BMW stock

→ 11

	2017	2016	2015	2014	2013
COMMON STOCK					
Number of shares in 1,000	**601,995**	601,995	601,995	601,995	601,995
Stock exchange price in €[1]					
Year-end closing price	**86.83**	88.75	97.63	89.77	85.22
High	**90.83**	92.25	122.60	95.51	85.42
Low	**77.71**	65.10	75.68	77.41	63.93
PREFERRED STOCK					
Number of shares in 1,000	**55,605**	55,114	54,809	54,500	54,260
Stock exchange price in €[1]					
Year-end closing price	**74.64**	72.70	77.41	67.84	62.09
High	**78.89**	74.15	92.19	74.60	64.65
Low	**67.29**	56.53	58.96	59.08	48.69
KEY DATA PER SHARE IN €					
Dividend					
Common stock	**4.00**[2]	3.50	3.20	2.90	2.60
Preferred stock	**4.02**[2]	3.52	3.22	2.92	2.62
Earnings per share of common stock[3]	**13.12**	10.45	9.70	8.83	8.08
Earnings per share of preferred stock[4]	**13.14**	10.47	9.72	8.85	8.10
Free cash flow Automotive segment	**6.78**	8.81	8.23	5.30	4.58
Equity	**82.95**	72.08	65.11	57.03	54.25

[1] Xetra closing prices.
[2] Proposed by management.
[3] Weighted average number of shares for the year.
[4] Stock weighted according to dividend entitlements.

Intensive communication with capital markets continued

The BMW Group continued to inform analysts, investors, and rating agencies throughout 2017 with regular quarterly and year-end financial reports. The comprehensive information package provided for capital market participants included numerous one-on-one and group meetings, dedicated socially responsible investment (SRI) roadshows for investors using sustainability criteria in their investment decisions, and debt roadshows for fixed-income investors and credit analysts. Communication focused on the BMW Group's new model offensive and answers to the challenges facing the automobile industry going forward. Topics discussed included autonomous driving and electric mobility. A further focus was the profitability of the BMW Group's business models. In addition to participating in various conferences and roadshows, product presentations and a technology workshop were held for analysts and investors in Munich.

COMBINED MANAGEMENT REPORT

2

GENERAL INFORMATION AND GROUP PROFILE

Fleet CO_2 emissions again reduced

€ 6,108 million

↗ +18.3 %

Research and development expenditure up significantly

ORGANISATION AND BUSINESS MODEL

→ www.bmwgroup.com/company

This Combined Management Report incorporates the management reports of Bayerische Motoren Werke Aktiengesellschaft (BMW AG) and the BMW Group.

General information on the BMW Group is provided below. There have been no significant changes compared to the previous year.

Bayerische Motoren Werke Aktiengesellschaft (BMW AG), based in Munich, Germany, is the parent company of the BMW Group. The general purpose of the Company is the production and sale of engines, engine-equipped vehicles, related accessories and products of the machinery and metal-working industry as well as the rendering of services related to the aforementioned items. The BMW Group is subdivided into the Automotive, Motorcycles and Financial Services operating segments. The segment Other Entities primarily comprises holding companies and Group financing companies. The BMW Group operates on a global scale and is represented in more than 150 countries. At the end of the reporting period, the BMW Group employed a workforce of 129,932 people.

Founded in 1916 as Bayerische Flugzeugwerke AG (BFW), Bayerische Motoren Werke G.m.b.H. came into being in 1917 before finally becoming Bayerische Motoren Werke Aktiengesellschaft (BMW AG) in 1918. The BMW Group comprises BMW AG and all subsidiaries over which BMW AG has either direct or indirect control. BMW AG is also responsible for managing the BMW Group as a whole.

With the three automobile brands BMW, MINI and Rolls-Royce, as well as the motorcycles business BMW Motorrad and the Financial Services business, the BMW Group gives its customers and their demands always the highest priority. The BMW Group is therefore one of the most successful makers of automobiles and motorcycles worldwide and among the largest industrial companies in Germany. It is the only manufacturer that focuses exclusively on the premium segment with all its brands. With BMW, MINI and Rolls-Royce, the BMW Group owns three of the best-known premium brands in the automotive industry. In addition to its strong market position in the premium segment of the global motorcycles sector, the BMW Group is also successful in the financial services business. Moreover, the BMW Group has developed in recent years into one of the leading providers of premium services for individual mobility.

In 2016, the BMW Group presented its Strategy NUMBER ONE > NEXT. This builds on the previous strategy and expands its scope in light of new developments and the social responsibility of the BMW Group. At the heart of Strategy NUMBER ONE > NEXT is a commitment to future-oriented activity with development of products, brands and services in the premium segment for individual mobility. New technologies such as alternative drivetrains, digitalisation and connectivity are further key areas of focus. The BMW Group is currently in the process of transformation from a traditional automobile maker to a customer-oriented mobility company. This means that customer focus will be given greater emphasis. All activities of the Group are oriented towards the customer.

Presentation of segments

In order to provide a better insight into the Group, this report also includes a presentation of the operating segments Automotive, Motorcycles and Financial Services.

Automotive segment

The core BMW brand caters to a broad array of customer requirements, ranging from fuel-efficient and innovative models equipped with Efficient Dynamics to efficient, high-performance BMW M vehicles. At the same time, the BMW Group continues to redefine the boundaries of premium with BMW i. With an even greater focus on innovation and sustainability, BMW i embodies the vehicle of the future, with electric drivetrain, intelligent lightweight construction, exceptional design and newly developed mobility services.

The MINI brand is an icon promising supreme driving pleasure in the premium small car segment. Rolls-Royce is the strongest brand in the ultra-luxury segment with a tradition stretching back well over 100 years. Rolls-Royce Motor Cars is specialised in bespoke customer experiences and offers the highest level of quality and service.

The global sales network of the automobile business currently comprises around 3,400 BMW, 1,580 MINI and 140 Rolls-Royce dealerships. Within Germany, sales are conducted through branches of the BMW Group and independent authorised dealerships. Sales outside Germany are handled primarily by subsidiary companies and by independent import companies in some markets. The BMW i dealership and agency network currently covers more than 1,500 locations.

Motorcycles segment

The Motorcycles business is also clearly focused on the premium segment. The model range currently comprises motorcycles for the Sport, Tour, Roadster, Heritage, Adventure and Urban Mobility segments. BMW Motorrad also offers a broad range of equipment options to enhance rider safety and comfort. The motorcycles sales network is organised similarly to that of the automobiles business. Currently, BMW motorcycles are sold by more than 1,200 dealerships and importers in over 90 countries.

Financial Services segment

The BMW Group is also a leading provider of financial services in the automobile sector, operating more than 50 entities and cooperation arrangements with local financial services providers and importers worldwide. The segment's main business is credit financing and the leasing of BMW Group brand cars and motorcycles to retail customers. Customers can also choose from an attractive array of insurance and banking products. Operating under the brand name Alphabet, the BMW Group's international multi-brand fleet business provides financing and comprehensive management services for corporate car fleets in 19 countries. Through its multi-brand business Alphera, the BMW Group provides credit financing, leasing and other services to retail customers. The segment also supports the BMW Group's dealership organisation, for example by financing dealership vehicle inventories.

Research and Development

A major factor in the success of the BMW Group is its consistent focus on the future. A long tradition of innovation is not only the basis of the BMW Group's economic success, but an integral part of its corporate philosophy. Shaping individual mobility and finding innovative solutions today for the needs of tomorrow is a key driving force for the BMW Group. Research and development (R&D) are therefore of key importance for the BMW Group as a premium provider.

With its Strategy NUMBER ONE > NEXT, the BMW Group is focusing on the topics of electric mobility, digitalisation and autonomous driving. The key trends of individual mobility are summarised at the BMW Group in the term ACES (Autonomous, Connected, Electrified, Services).

Accordingly, the BMW Group's R&D activities include the following four topics:

1. **Autonomous**
   Since 2017, the BMW Group has pooled its development expertise in the fields of vehicle connectivity and autonomous driving at its own development centre. More than 600 BMW Group employees are now working in cooperation with other partners at a campus near Munich, thereby developing and expanding the open platform for autonomous driving. By the end of the expansion, more than 2,000 employees will be working at the new site towards achieving fully autonomous driving in fields ranging from software development to road testing.

2. **Connected**
   The second strategic direction is summarised under the term Connected Drive, an integrated digital concept in which the driver, the vehicle and the outside world are all able to interact with one another. The vehicle can be attuned to the individual needs of each driver, thus making it a smart companion. In future, transferring certain tasks to the vehicle will broaden the range of options available to the customer when driving. The time saved can be used for other purposes. This results in increased comfort for the driver and greater safety for road users in general. Numerous safety and comfort features already exist in BMW, MINI and Rolls-Royce brand automobiles as well as BMW Motorrad brand motorcycles. In 2021, the BMW iNEXT will take to the roads with an electric drivetrain and full connectivity. It will also reach a new level on the way to autonomous driving.

3. **Electrified**
   One of the strategic objectives of the BMW Group is to continuously optimise the energy efficiency of automobiles and motorcycles, including electrification of the product range across all brands. Under the term Efficient Dynamics, the BMW Group has been successfully working on reducing fuel consumption and vehicle emissions through the development of highly efficient combustion engines, increasing electrification of drivetrains, intelligent lightweight construction, improved aerodynamics and coordinated energy management.

   The BMW i brand reflects Efficient Dynamics in its most systematic form. Flexible vehicle architecture, innovative electric and plug-in hybrid drivetrains and the use of new materials are the results of an integrated approach that is also reflected in a resource-efficient selection of materials and the intensive use of renewable energy in the production process. This contributes to a very favourable environmental footprint in BMW i vehicles over the entire product life cycle.

As part of the BMW i brand, the BMW iPerformance range forms a model family of its own with plug-in hybrid drivetrains. All BMW iPerformance models are equipped with a smart energy management system that ensures ideal interaction between the combustion engine and the electric motor. The option to drive all-electric, added efficiency gained through electric assistance features and the spontaneous response characteristics provided by the additional electric drivetrain lead to a new harmony of driving pleasure and sustainability. The flexibility of the technologies used makes it possible to rapidly expand the broad range of iPerformance models to include further series as required.

With its MINI Electric, MINI is reinterpreting the urban tradition of the brand for the electric age and reinventing individual mobility for the city. The market launch of the first plug-in hybrid of the MINI brand (MINI Cooper S E Countryman ALL4: fuel consumption in l/100 km (combined) 2.3 – 2.1//CO_2 emissions in g/km (combined) 52 – 49//Electric power consumption in kWh/100 km (combined) 14.0 – 13.2) in summer 2017 was followed by the presentation of the all-electric MINI Electric Concept at the IAA Cars in 2017. The series launch of all-electric MINI vehicles is scheduled to begin in 2019.

The Vision 100 study presented for the Rolls-Royce brand in 2016 gave customers a first glimpse into the future of automobile luxury powered by electric drivetrains.

4. Services

The fourth strategic direction relates to individual mobility services. The BMW Group aims to be the leading provider of premium mobility services going forward. To achieve this, it is essential to understand clearly the needs of its customers worldwide. This knowledge is the basis for providing customers with an attractive, comprehensive range of services. This includes easy-to-use, digitally supported mobility services that also feature bring-and-collect services or help customers find free parking spaces in urban environments. Further information can be found in the section “Sales and Marketing”.

Against a backdrop of rapid technological change within the automotive industry, the BMW Group also enters into specific cooperation agreements with selected technology partners. The aim of collaboration with external partners, also across sectors, is to combine expertise in order to bring innovations to customers within the shortest time possible.

A total of 14,047 people at 16 locations in five countries worked in the BMW Group’s global research and development network at 31 December 2017.

Research and development expenditure rose significantly year-on-year to €6,108 million (2016: €5,164 million; +18.3 %). The research and development expenditure ratio stood at 6.2 % (2016: 5.5 %). The ratio of capitalised development costs to total research and development expenditure for the period (capitalisation rate) stood at 39.7 % (2016: 40.5 %). Amortisation of capitalised development costs totalled €1,236 million (2016: €1,222 million; +1.1 %). Further information on research and development expenditure is provided in the Report on Economic Position (Results of Operations) and in → note 7 of the Group Financial Statements.

→ see note 7

In 2017, numerous awards and prizes once again underscored the BMW Group’s high level of innovation competence, above all in the areas of design, the use of innovative technologies and intelligent connectivity.

Sustainability

Long-term thinking and responsible action have long been the foundations of the BMW Group's identity and its economic success. As early as 1973, the BMW Group appointed an environmental officer in what was then a pioneering development within the automobile sector. Today, the Sustainability Board, comprising all members of the Board of Management, sets the strategic direction along with binding targets. Since 2001, the BMW Group has been committed to the United Nations Environment Programme, the UN Global Compact and the Cleaner Production Declaration.

For years, the BMW Group has ranked among the most sustainable companies in the automotive industry and is the only carmaker to have been listed consecutively in the renowned Dow Jones Sustainability Index since 1999.

The BMW Group takes a holistic approach to sustainability management that encompasses the entire value chain. Apart from reduction of CO_2 emissions, key components of the sustainability strategy include operational environmental protection, sustainability in the supply chain, employee orientation and social commitment.

Since 1995, the BMW Group has cut the CO_2 emissions of new cars sold in Europe (EU-28) by more than 42 %. Average CO_2 emissions in Europe (EU-28) in 2017 amounted to 122 g/km (2016: 124 g/km; –1.6 %). The systematic expansion of the Group's vehicle fleet with alternative drivetrains as well as innovative mobility services have contributed significantly to the progress made. In 2017, for the first time more than 100,000 electrified vehicles were sold in one year.

The BMW Group has set itself the goal of being a leader in the use of renewable energy in production and the value chain. In 2017, 81 % (2016: 63 %) of the BMW Group's electricity worldwide came from renewable sources.

In view of increasingly complex supplier relationships, it is important for the BMW Group to work together with suppliers to increase transparency and resource efficiency along the supply chain. The aim is to require suppliers to comply with environmental and social standards across the value chain.

The BMW Group attaches great importance to training and development of its workforce. In 2017, investment in training and development programmes across the Group amounted to €349 million (2016: €352 million). In addition, 1,554 trainees were hired worldwide. A total of 4,750 young people are currently undergoing vocational training or participating in internal programmes to develop young talent.

For several years now, the BMW Group has supported intercultural exchange. In partnership with the UN Alliance of Civilizations, the BMW Group presents the Intercultural Innovation Award for exemplary projects in this field.

The principles and importance of sustainable business management are emphasised in the new Strategy NUMBER ONE > NEXT, which includes a clear commitment to preserving resources. The BMW Group remains fully committed to ecological and social sustainability along the entire value chain as well as to comprehensive product responsibility.

Further information on sustainability and human resources can be found in the sections "Workforce" and "Sustainability" in the Group Management Report and in the Sustainable Value Report 2017 published on the Company's website at → **https://www.bmwgroup.com/svr**.

Production Network

At the end of the reporting period, the Group's production network totalled 31 locations in 14 countries. These comprise 19 BMW Group plants, five joint ventures, four partner plants and three contract production plants. The same quality, safety and sustainability standards apply for all plants throughout the BMW Group production network worldwide.

The 19 BMW Group plants comprise 13 automobile and engine plants, two plants for BMW motorcycles, three sites for producing components, pressed parts and tools and one supply centre. In 2017, the BMW Group was already producing electrified vehicles at a total of nine locations.

Locations	Country	Products
BMW GROUP PLANTS		
Araquari	Brazil	BMW 3 Series, BMW X1, BMW X3, BMW X4
Berlin	Germany	BMW motorcycles, Maxi-Scooters, car brake discs
Chennai	India	BMW 1 Series, BMW 3 Series, BMW 5 Series, BMW 6 Series, BMW 7 Series, BMW X1, BMW X3, BMW X5
Dingolfing	Germany	BMW 3 Series, BMW 4 Series, BMW 5 Series, BMW 6 Series, BMW 7 Series, BMW M Chassis and drivetrain components Components for electric mobility Rolls-Royce bodywork, pressed parts
Eisenach	Germany	Toolmaking, outer body parts for Rolls-Royce, aluminium tanks for BMW Motorrad
Hams Hall	United Kingdom	Petrol engines for BMW, MINI BMW i8 plug-in hybrid engines Core engine parts
Landshut	Germany	Lightweight construction components, electric drivetrain systems and special engines
Leipzig	Germany	BMW 1 Series, BMW 2 Series, BMW i, BMW M
Manaus	Brazil	Motorcycles
Munich	Germany	BMW 3 Series, BMW 4 Series, BMW M Petrol and diesel engines, high-performance engines for M models Core engine parts
Oxford	United Kingdom	MINI Hatch, MINI Clubman
Rayong	Thailand	BMW 1 Series, BMW 3 Series, BMW 5 Series, BMW 7 Series, BMW X1, BMW X3, BMW X4, BMW X5 Motorcycles
Regensburg	Germany	BMW 1 Series, BMW 2 Series, BMW 3 Series, BMW 4 Series, BMW X1, BMW X2, BMW M
Rosslyn	South Africa	BMW 3 Series
Spartanburg	USA	BMW X3, BMW X4, BMW X5, BMW X6, BMW M
Steyr	Austria	Petrol and diesel engines for BMW and MINI Core engine parts High-performance engines for M models
Swindon	United Kingdom	Pressed parts and bodywork components
Wackersdorf	Germany	Distribution centre for parts and components Cockpit assembly Processing of carbon fibre components
Rolls-Royce Manufacturing Plant Goodwood	United Kingdom	Rolls-Royce Phantom, Ghost, Wraith, Dawn

The plants in Shenyang (China) are operated within the joint venture with Brilliance China Automotive Holdings Ltd. The Shenyang site comprises the Dadong and Tiexi automobile plants as well as an engine plant complete with foundry and battery factory.

Locations	Country	Products
JOINT VENTURE BMW BRILLIANCE AUTOMOTIVE HOLDINGS LTD.		
Dadong (Shenyang)	China	BMW 5 Series Extended-Wheelbase Version
Tiexi (Shenyang)	China	BMW 1 Series, BMW 2 Series, BMW 3 Series (and Extended-Wheelbase Version), BMW X1 Extended-Wheelbase Version
Tiexi (Shenyang)	China	Petrol engines, production of core engine parts

SGL Automotive Carbon Fibers (ACF) is a joint operation of the BMW Group and the SGL Group. At the Moses Lake site in the state of Washington, USA, carbon fibres are produced for subsequent use in manufacturing carbon fibre fabrics in Wackersdorf. In November 2017, the SGL Group and the BMW Group signed an agreement, under which SGL Carbon SE will gradually acquire the BMW Group's 49 % stake in the joint operation SGL ACF. At the same time, an agreement exists for the continuation of the business relationship in future projects involving the use of carbon.

Locations	Country	Products
JOINT OPERATION SGL AUTOMOTIVE CARBON FIBERS		
Moses Lake	USA	Carbon fibres
Wackersdorf	Germany	Carbon fibre fabrics

The main function of the BMW Group's four partner plants is to serve regional markets. During the year under report, BMW and MINI vehicles were manufactured in Kaliningrad (Russia), Cairo (Egypt), Jakarta (Indonesia) and Kulim (Malaysia).

Locations	Country	Products
PARTNER PLANTS		
Jakarta	Indonesia	BMW 3 Series, BMW 5 Series, BMW 7 Series, BMW X1, BMW X3, BMW X5
Cairo	Egypt	BMW 3 Series, BMW 5 Series, BMW X1, BMW X3, BMW X4, BMW X5, BMW X6
Kaliningrad	Russia	BMW 3 Series, BMW 5 Series, BMW 7 Series, BMW X1, BMW X3, BMW X4, BMW X5, BMW X6
Kulim	Malaysia	BMW 1 Series, BMW 3 Series, BMW 5 Series, BMW 7 Series, BMW X1, BMW X3, BMW X4, BMW X5, BMW X6, MINI Countryman

The BMW Group also awards production contracts to external partners for specific vehicle types and motorcycles. During the period under report, BMW and/or MINI models were produced by Magna Steyr AG & Co KG, Graz (Austria) and VDL Nedcar bv, Born (Netherlands). In addition, BMW motorcycles were manufactured by TVS Motor Company Limited, Hosur (India).

Locations	Country	Products
CONTRACT PRODUCTION		
Born	Netherlands	MINI Hatch, MINI Convertible, MINI Countryman, BMW X1
Graz	Austria	BMW 5 Series Sedan
Hosur	India	Motorcycles

BMW Group locations worldwide

→ 12

43
↗ Sales subsidiaries and Financial Services locations worldwide

31
↗ Production and assembly plants

16
↗ Research and development locations

▲ Research and development network outside Europe

- BMW Group Designworks, Newbury Park, USA
- BMW Group Technology Office USA, Mountain View, USA
- BMW Group Engineering and Emission Test Center, Oxnard, USA
- BMW Group ConnectedDrive Lab China, Shanghai, China, and BMW Group Designworks Studio Shanghai, China
- BMW Group Technology Office, Shanghai, China
- BMW Group Engineering China, Beijing, China
- BMW Group Engineering Japan, Tokyo, Japan
- BMW Group Engineering USA, Woodcliff Lake, USA
- BMW Technology, Chicago, USA

Production outside Europe

- ■ BMW Group plant Araquari, Brazil
- BMW Group plant Chennai, India
- BMW Group plant Manaus, Brazil
- BMW Group plant Rayong, Thailand
- BMW Group plant Rosslyn, South Africa
- BMW Group plant Spartanburg, USA
- ◪ BMW Brilliance Automotive, China (joint venture – 3 plants)
- ◪ SGL Automotive Carbon Fibers (joint operation – 2 plants)

□ Partner plants outside Europe

- Partner plant, Hosur, India
- Partner plant, Jakarta, Indonesia
- Partner plant, Cairo, Egypt
- Partner plant, Kaliningrad, Russia
- Partner plant, Kulim, Malaysia

Sales subsidiaries and Financial Services locations worldwide

* Sales locations only.

BMW Group locations in Europe

→ 13

■ **Production in Europe**

BMW Group plant Berlin
BMW Group plant Dingolfing
BMW Group plant Eisenach
BMW Group plant Landshut
BMW Group plant Leipzig
BMW Group plant Munich
BMW Group plant Regensburg
BMW Group plant Wackersdorf
BMW Group plant Steyr, Austria
BMW Group plant Hams Hall, UK
BMW Group plant Oxford, UK
BMW Group plant Swindon, UK
Rolls-Royce Manufacturing Plant, Goodwood, UK

□ **Partner plants in Europe**

Partner plant, Born, Netherlands

Partner plant, Graz, Austria

▲ **Research and development network in Europe**

BMW Group Research and Innovation Centre (FIZ), Munich, Germany

BMW Group Research and Technology, Munich, Germany

BMW Group Autonomous Driving Campus, Unterschleißheim, Germany

BMW Group Designworks, Munich, Germany

BMW Car IT, Munich, Germany

BMW Innovation and Technology Centre, Landshut, Germany

BMW Diesel Competence Centre, Steyr, Austria

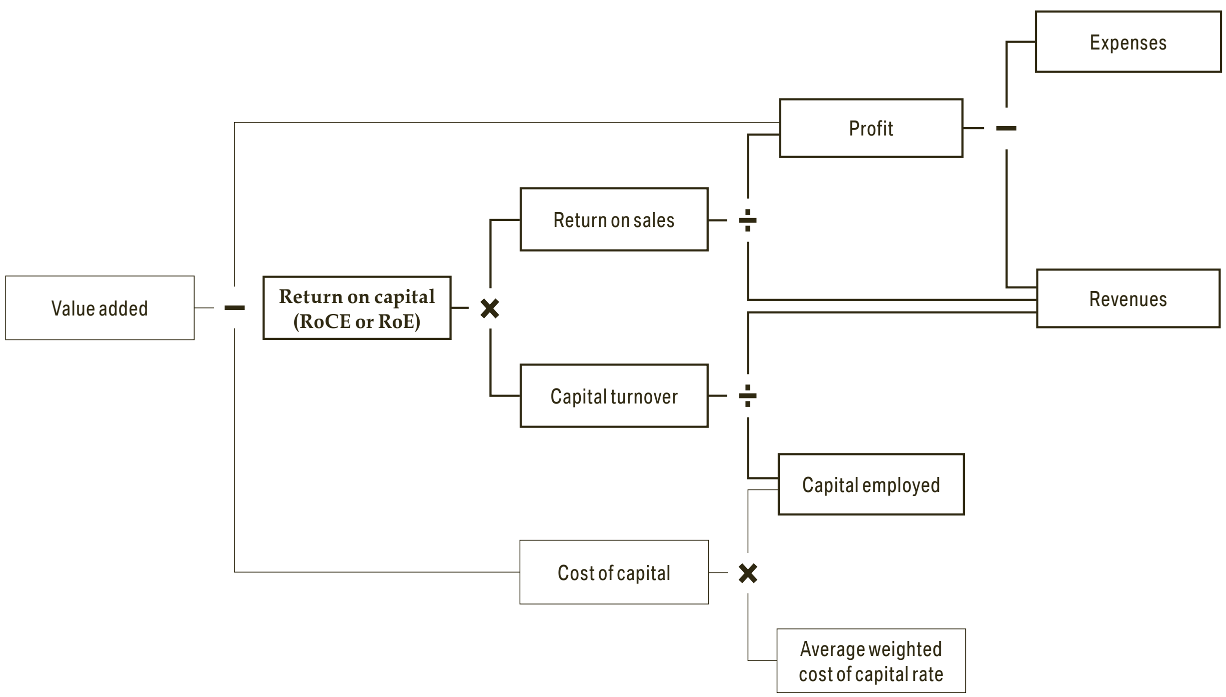
Sales subsidiaries and Financial Services locations Europe

MANAGEMENT SYSTEM

The business management system applied by the BMW Group follows a value-based approach, with a clear focus on profitability, consistent growth, value increase for capital providers and safeguarding jobs. To ensure the desired degree of corporate autonomy, the Company's available capital is to be profitably employed. The prerequisite is that the amount of profit generated sustainably exceeds the cost of the Company's equity and debt capital.

The BMW Group's internal management system is based on a multi-layered structure with varying degrees of detail, depending on the level of aggregation. Operating management occurs primarily at segment level. In order to manage long-term Company performance and assess strategic issues, additional key performance indicators are taken into account within the management system at Group level. In this context, with effect from the beginning of the 2017 financial year, the pre-tax return on sales has been introduced as a new indicator of earnings quality for the BMW Group as a whole. Value added continues to serve as an indicator for the contribution made to enterprise value during the financial year. This approach is made operational at both Group and segment level through key financial and non-financial performance indicators (value drivers). The link between value added and the relevant value drivers is shown in simplified form in the following diagram.

BMW Group – value drivers
→ 14



Due to the high level of aggregation, it is impractical to manage the business on the basis of value added. This key indicator therefore only serves for reporting purposes. Relevant value drivers having a significant impact on business performance and therefore on enterprise value are defined for each controlling level. The financial and non-financial value drivers are reflected in the key performance indicators used to manage the business. In the case of project decisions, the system provides a project-oriented management logic based on value or profitability measures. These provide a fundamental basis for decision-making.

Management of operating performance at segment level

→ Operating performance at segment level is managed at an aggregated level on the basis of returns on capital. Depending on the business model, the segments are measured on the basis of return on total capital or equity. Specifically, return on capital employed (RoCE) is used for the Automotive and Motorcycles segments and return on equity (RoE) for the Financial Services segment. These indicators combine a wide range of relevant economic information, such as profitability (return on sales) and capital efficiency (capital turnover), to provide a measurement of segment performance and the development of enterprise value.

→ see sections Performance Indicators and Outlook

Automotive segment

The most comprehensive key performance indicator used for the Automotive segment is RoCE. This indicator provides information on the profitability of capital employed and the operational business. RoCE is measured on the basis of segment profit before financial result and the average capital employed in the segment. The strategic target for the Automotive segment's RoCE is 26 %.

$$\text{RoCE Automotive} = \frac{\text{Profit before financial result}}{\text{Average capital employed}}$$

Return on capital employed

→ 15

	Profit before financial result in € million		Average capital employed in € million		Return on capital employed in %	
	2017	2016	2017	2016	2017	2016
Automotive	7,863	7,695	10,009	10,361	78.6	74.3

Capital employed corresponds to the sum of all current and non-current operational assets, less liabilities that do not incur interest (e.g. trade payables and other provisions).

Due to its key importance for the Group as a whole, the Automotive segment is managed on the basis of additional key performance indicators which have a significant impact on RoCE and hence on segment performance. These value drivers are sales volume, segment revenues and the operating return on sales (EBIT margin: profit/loss before financial result as a percentage of revenues) as the key performance indicator for segment profitability. The management system also takes into account average CO_2 emissions for the fleet, which, through their influence on ongoing development costs and due to regulatory requirements, can have a significant long-term impact on Group performance. Fleet emissions correspond to average CO_2 emissions of new cars sold in the EU-28 countries.

By managing the business on the basis of key value drivers, it is possible to gain a better understanding of the causes of changes in the RoCE and to define suitable measures to influence it.

Motorcycles segment

As with the Automotive segment, the Motorcycles segment is managed on the basis of RoCE. Capital employed is determined on the same basis as in the Automotive segment. The strategic RoCE target for the Motorcycles segment is 26 %.

$$\text{RoCE Motorcycles} = \frac{\text{Profit before financial result}}{\text{Average capital employed}}$$

Return on capital employed

→ 16

	Profit before financial result in € million		Average capital employed in € million		Return on capital employed in %	
	2017	2016	2017	2016	2017	2016
Motorcycles	207	187	609	566	34.0	33.0

In view of the increasing strategic importance of the segment, the operating return on sales (EBIT margin: profit/loss before financial result as a percentage of revenues) was adopted in the year under report as a key performance indicator. The long-term target range is between 8 and 10 %. In conjunction with the non-financial value driver sales volume, this will enable RoCE development to be understood in greater detail.

Financial Services segment

As is common practice in the banking sector, the Financial Services segment is managed on the basis of return on equity. RoE is defined as segment profit before tax, divided by the average amount of equity capital in the Financial Services segment. In view of generally increasing regulatory requirements, a greater amount of equity capital will be allocated to the segment in future, which will result in a lower RoE. In this context, the long-term target return will be changed with effect from 2018 from at least 18 % currently to at least 14 %.

$$\text{RoE Financial Services} = \frac{\text{Profit before tax}}{\text{Average equity capital}}$$

Return on equity

→ 17

	Profit before tax in € million		Average equity capital in € million		Return on equity in %	
	2017	2016	2017	2016	2017	2016
Financial Services	2,207	2,166	12,167	10,236	18.1	21.2

Strategic management at Group level

Strategic management and quantification of financial implications within the long-term corporate planning are performed primarily at Group level. The key performance indicators are Group profit before tax and the size of the Group's workforce at the year-end. Group profit before tax provides a comprehensive measure of the Group's overall performance after consolidation effects and a transparent basis for comparing performance, particularly over time. The size of the Group's workforce is monitored as an additional key non-financial performance indicator.

The information provided by these two key performance indicators is further complemented by pre-tax return on sales and value added. Value added, as a highly aggregated performance indicator, also provides an insight into capital efficiency and the (opportunity) cost of capital required to generate Group profit. A positive value added means that a company is generating more value than the cost of capital.

Value added Group **= earnings amount − cost of capital**

= earnings amount − (cost of capital rate × capital employed)

in € million	Earnings amount 2017	Earnings amount 2016	Cost of capital (equity + debt capital) 2017	Cost of capital (equity + debt capital) 2016	Value added Group 2017	Value added Group 2016
BMW Group	10,958	10,000	6,843	6,407	4,115	3,593

Capital employed comprises the average amount of Group equity employed during the year as a whole, the financial liabilities of the Automotive and Motorcycles segments, and pension provisions. The earnings amount corresponds to Group profit before tax, adjusted for interest expense incurred in conjunction with the pension provision and on the financial liabilities of the Automotive and Motorcycles segments (earnings before interest expense and taxes). The cost of capital is the minimum rate of return expected by capital providers in return for the capital employed. Since capital employed comprises an equity capital (e.g. share capital) and a debt capital element (e.g. bonds), the overall cost of capital rate is determined on the basis of the weighted average rates for equity and debt capital, measured using standard market procedures. The pre-tax average weighted cost of capital for the BMW Group in 2017 was 12%, unchanged from the previous year.

Value-based project management

Operational business in the Automotive and Motorcycles segments is largely shaped by its life-cycle-dependent project character. Projects have a substantial influence on future business performance. Project decisions are therefore a crucial component of financial management in the BMW Group.

Project decisions are based on calculations derived from the expected cash flows of the individual project. Calculations are made for the full term of a project, incorporating future years in which the project is expected to generate cash flows. Project decisions are taken on the basis of net present value and the internal rate of return calculated for the project.

The net present value of a project indicates the extent to which a project will be able to generate a positive contribution to earnings over and above the cost of capital. A project with a positive net present value enhances value added and therefore results in an increase in enterprise value. The internal rate of return of the project corresponds to the average return on capital employed in the project. It is equivalent to the multi-year average RoCE for an individual project. It is therefore consistent with one of the key performance indicators.

For all project decisions, the project criteria and long-term periodic results impact are measured and incorporated in the long-term Group forecast. This approach enables an analysis of the impact of project decisions on periodic earnings and profitability over the term of each project. The overall result is a cohesive management model.

REPORT ON ECONOMIC POSITION

Best-ever sales volume for automobiles and motorcycles

€ 10,655 million

+10.2 %

Group profit up significantly

GENERAL AND SECTOR-SPECIFIC ENVIRONMENT

General economic environment

Compared to the previous year, the global economy improved noticeably during the period under report with a growth rate of 3.7 %. The economic upturn extended to all regions of the world, regardless of political uncertainties. The Chinese economy also grew at a faster rate.

The eurozone recorded its fourth consecutive year of growth in 2017. At 2.5 %, the region even registered its biggest increase in gross domestic product (GDP) since the financial crisis. With economic output up in Germany (+ 2.2 %), France (+1.9 %), Italy (+1.5 %) and Spain (+ 3.1 %), GDP growth within the eurozone was broadly based. The favourable order-book levels of industrial companies, rising exports and an increased willingness to invest contributed to this positive development. This led, amongst others, to a drop in unemployment from recent high levels to their lowest level for several years. Despite rising government spending, the debt ratio for the 19 eurozone countries dropped slightly to 88 % of GDP.

In the United Kingdom, uncertainty regarding the country's future relations with the EU continued to dominate. Previously favourable consumer sentiment within private households subsided perceptibly and the public sector was able to make only a moderate contribution to economic growth. As a consequence, economic growth slowed for the third time in succession to stand at 1.8 %. The situation was aggravated by the Bank of England's raising interest rates in order to dampen price inflation. The weak pound, on the other hand, caused exports to pick up significantly during the period under report and restricted import growth, resulting in a lower current account deficit.

Economic output in the USA continued to expand at a robust rate of 2.3 % in 2017. Private domestic demand, boosted in part by low unemployment, was a key source of momentum for the economy. Exports and industrial production also grew strongly. In light of these factors, the US Federal Reserve raised interest rates further over the course of the year and changed its reinvestment policy for securities.

China's GDP grew by 6.9 % in 2017, driven by further year-on-year growth in industrial production. Demand from private households remained at a similarly high level to previous years. However, rising levels of debt within the private sector prompted the central bank to tighten monetary policy. As a result, the increase in the price of real estate in China's largest cities was halved.

At 1.7 %, the Japanese economy grew far more dynamically in 2017 than in previous years. Consumer spending and demand for capital goods increased, in part substantially. Exports also increased strongly due to the weak yen. Industrial production grew at the fastest rate since 2010.

Solid GDP growth was also registered for emerging markets overall. Russia (+1.5 %) and Brazil (+0.9 %) both returned to growth. The upswing in Russia was broadly based, with private demand picking up noticeably and both investment and industrial production also recovering. By contrast, economic growth in Brazil was able to gain only moderate momentum. Although industrial production rose moderately, domestic consumer spending remained flat and investment spending even fell for the fourth year in succession.

After a relatively weak first half of 2017 in India, due to the impact of the switch to new banknotes, the economy experienced a turnaround during the second half of the year. Over the year as a whole, the Indian economy recorded a 6.6 % increase in GDP.

Currency markets

The US dollar/euro exchange rate fluctuated between 1.04 and 1.20 US dollars to the euro during 2017 and weakened slightly on average to 1.13 US dollars to the euro. As announced, the US Federal Reserve raised its benchmark interest rates during the year under report, thus continuing on its less expansionary monetary course. The ECB reduced the volume of its purchases of securities during the same period.

Fluctuations in the value of the British pound currently also reflect political uncertainty. At the beginning of 2017, the pound was able to regain some ground. With new elections resulting in a minority government, doubts emerged regarding the United Kingdom's future political course and its economic performance. The value of the British currency fell from 0.84 to an interim rate of 0.93 pounds to the euro, ending the year with an average rate of 0.88 pounds to the euro.

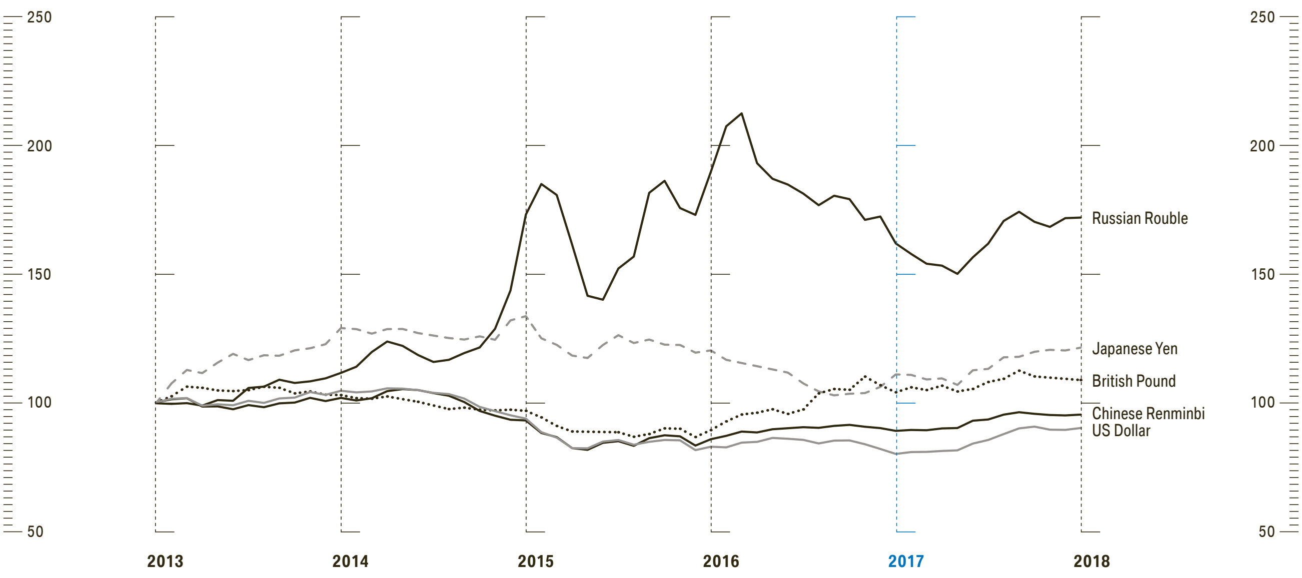
The Chinese renminbi again lost value year-on-year, with an average exchange rate of 7.63 renminbi to the euro for the period. The Japanese yen fell by about 5 % in 2017. The average exchange rate for the year was 127 yen to the euro.

By contrast, the currencies of major emerging economies rose in value during the reporting period. The Russian rouble and the Brazilian real gained some 12 % and 7 % respectively against the euro. The Indian rupee appreciated by just 1 % against the euro.

Exchange rates compared to the euro

→ 18

Index: December 2012 = 100

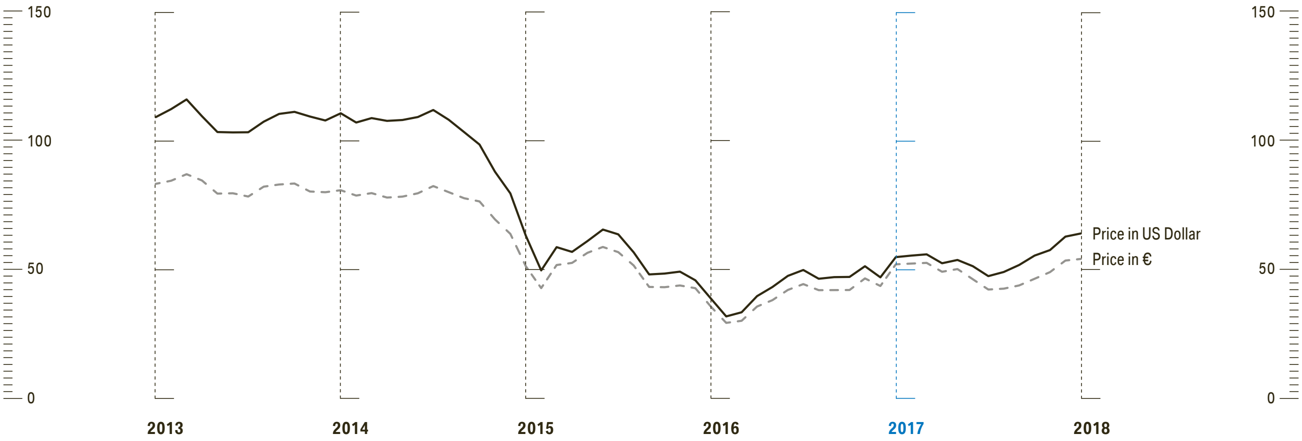


Source: Reuters.

Oil price trend

→ 19

Price per barrel of Brent Crude

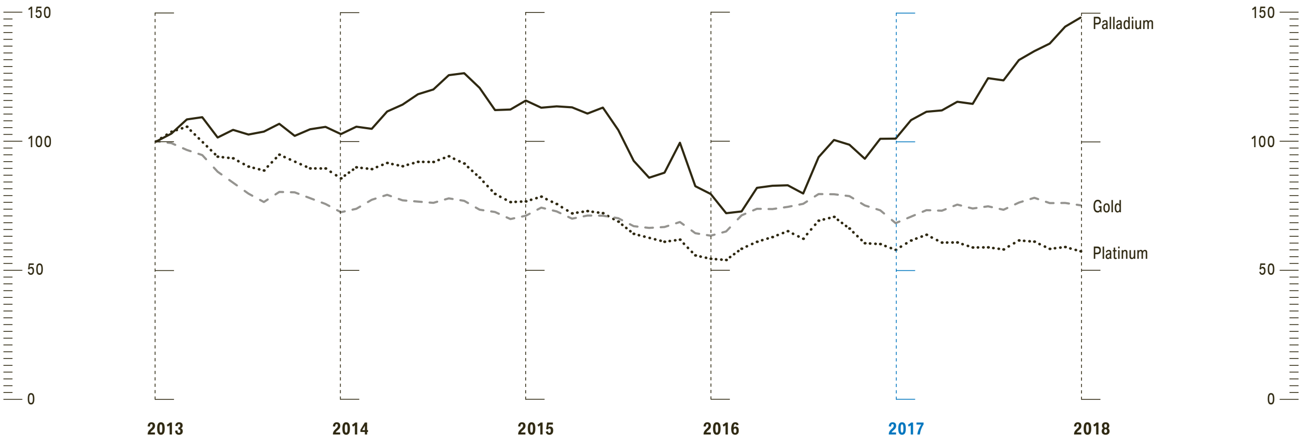


Source: Reuters.

Precious metals price trend

→ 20

Index: December 2012 = 100



Source: Reuters.

Energy and raw materials prices

The agreement reached between the Organisation of Petroleum Exporting Countries (OPEC) and other countries to cut back crude oil production proved stable during the year under report and was extended at the end of 2017. Against this backdrop, the price of Brent crude oil per barrel rose from an average of 44 US dollars in 2016 to 54 US dollars in 2017.

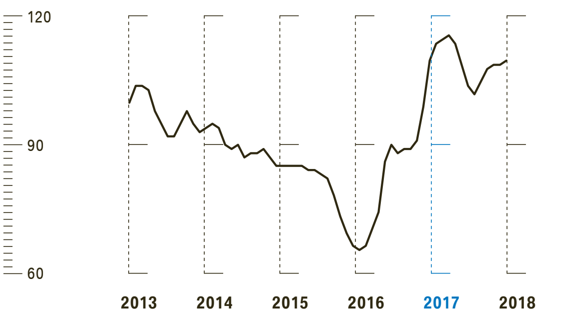
The robust economy also boosted demand for precious and non-ferrous metals in 2017. The average price of raw materials relevant for the BMW Group increased in part significantly by between 15 and 40 % year-on-year. On the production side, stricter environmental regulations and severe weather events resulted in reduced supply availability.

Steel markets developed similarly, with prices for the input materials iron ore and coking coal rising again in 2017. In addition, both the USA and the EU continued to apply protectionist measures on steel products from various countries. At the same time, the wave of consolidation in the steel industry continued.

Steel price trend

→ 21

Index: January 2013 = 100



Source: Working Group for the Iron and Metal Processing Industry.

International automobile markets

Registrations of passenger cars and light commercial vehicles on international automobile markets grew by 1.9 % to 87.7 million units in 2017. The overall positive trend from the previous year therefore continued, albeit at a less dynamic pace. Momentum came primarily from Europe (15.6 million units; + 3.3 %) and China (24.7 million units; + 2.4 %). By contrast, registrations in the USA fell by 1.8 % to 17.2 million units.

In Europe, Italy (2.0 million units; + 8.0 %) and Spain (1.2 million units; + 7.7 %) recorded robust growth. French and German markets both performed better than one year earlier, recording increases of 4.8 % to 2.1 million units and 2.7 % to 3.4 million units respectively. The UK automobile market was dominated during the year under report by uncertainty regarding the Brexit negotiations, causing the number of registrations to drop by 5.7 % to 2.5 million units.

Japan saw a turnaround on the domestic automobile market in 2017, with new registrations rising significantly by 5.5 % to 5.0 million units.

Automobile markets in major emerging economies came out of recession in much stronger health in 2017. Russia saw a 16.1 % increase to 1.5 million units, while registrations in Brazil grew by 9.9 % to 1.9 million units.

International motorcycle markets

Motorcycle markets in the 250 cc plus class developed inconsistently in 2017. Worldwide, motorcycle registrations were slightly down on the previous year (–1.5 %). Motorcycle registrations in Europe increased by 1.8 %. However, declining markets in Germany (–12.9 %) and the UK (– 2.1 %) had a dampening effect on the overall performance. By contrast, increases were recorded for Spain (+ 3.8 %) and France (+ 6.6 %). A particularly strong rise of 14.3 % was registered in Italy. The absolute number of new registrations in Italy was therefore higher than in Germany for the first time since 2012. The US market fell short of the previous year's level for the second year in succession (– 5.4 %).

International interest rate environment and development of pre-owned vehicle prices in the premium segment

The global economy gained momentum in 2017. Major central banks supported this development with their continued expansionary policy. Over the course of the year, however, they also took measures partly to tighten monetary policy.

The ECB, on the other hand, continued its monetary policy. In October, it announced it would halve the volume of its bond purchases with effect from January 2018. This news was perceived by capital markets as a sign of a less expansionary monetary policy rather than a turnaround.

High import costs brought about by the weakening of the British pound since the Brexit decision caused inflation in the UK to rise above its target of 2 % over the course of the year. In a bid to counteract this development, the Bank of England decided in November to raise its interest rate by 25 basis points to 0.5 %.

During 2017, the US Federal Reserve continued the process of normalising its monetary policy. In the course of the year, it resolved on three occasions to raise the benchmark interest rate, in each case by 0.25 % and to gradually reduce the size of its balance sheet.

After a strong performance in the first half of the year, economic momentum in China dropped slightly in the second half. At the same time, inflation rose moderately, driven by rising raw material prices. After repeated increases in money market interest rates, the Chinese central bank decided against any further tightening of its monetary policy in the second half of the year.

The Japanese economy gained pace in 2017 and unemployment fell to a 20-year low. As the inflation rate remained well below the target of 2 %, the Japanese central bank decided to retain its highly expansionary monetary policy.

In some European countries, in particular Germany and the UK, diesel engines were often the subject of political discussions in 2017. Pre-owned car markets in the premium segment responded here with price declines for diesel vehicles. In mainland Europe, prices for petrol vehicles remained stable or even rose slightly, resulting in stable price levels overall. In the UK a similar effect was seen for pre-owned diesel and petrol vehicles, however the overall market for pre-owned premium vehicles was slightly down on previous years. Prices for pre-owned vehicles were also slightly down in North America. Markets in Asia have so far been unaffected by discussions about types of engine. Prices in this region were stable in 2017 and even slightly up in China.

OVERALL ASSESSMENT BY MANAGEMENT

Overall assessment of business performance

The BMW Group can look back on a successful business performance in 2017, despite growing uncertainties in the international environment and increased competition. The overall picture for the results of operations, financial position and net assets was positive. Overall, the business development met or even exceeded management expectations. This assessment also takes into account events after the end of the reporting period.

FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

The following section provides information on the key financial and non-financial performance indicators for the Group and segments. They are used as the basis for internal management of the BMW Group. As part of the analysis of operations and the financial condition of the BMW Group, forecasts made the previous year for the financial year 2017 are compared with the actual business development in 2017.

Group

Profit before tax: significant increase

Group profit before tax increased significantly year-on-year by 10.2 % to €10,655 million and therefore surpassed expectations (2016: €9,665 million). In the Quarterly Report to 30 September 2017, the BMW Group predicted a solid increase in Group profit before tax. In the Annual Report 2016, a slight increase had been foreseen.

The BMW Group profited among other things from strong volume growth in the Automotive and Motorcycles segments. The significantly higher financial result also played an important role. This included a substantial contribution from the result from equity accounted investments, which grew as a result of improved performance of the joint venture BMW Brilliance Automotive Ltd., Shenyang, as well as valuation effects arising from the participation of new investors in the HERE mapping service. Furthermore, commodity derivatives gave rise to further positive valuation effects in other financial result, particularly in the final quarter of the year.

Workforce at year-end: slight increase

The BMW Group workforce consisted of 129,932 employees at the end of the reporting period (31 December 2016: 124,729 employees; + 4.2 %). Projects relating to the electrification of vehicles, autonomous driving and the new model offensive played a major role in the workforce increase. Growth in automobile and motorcycle business and the expansion of financial and mobility services also contributed to the higher head count.

As foreseen in the outlook for the financial year 2017, there was a slight increase in the size of the BMW Group's workforce, which was thus in line with expectations.

Automotive segment

Deliveries to customers: slight increase

In 2017, the Automotive segment sold a record number of vehicles for the seventh year in succession. Despite growing political and economic uncertainties in the international environment, deliveries to customers increased slightly by 4.1 % to a total of 2,463,526[1] BMW, MINI and Rolls-Royce brand vehicles (2016: 2,367,603[1] units). Dynamic market conditions, particularly in Asia, had a positive impact on automobile sales volumes. In Europe, sales volume remained at the previous year's high level despite slightly lower deliveries to customers in Germany and the UK. Sales volume in the Americas region, however, was slightly down on the previous year.

[1] Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2017: 384,124 units, 2016: 316,200 units).

Sales of the core BMW brand increased slightly by 4.2 % to 2,088,283[1] units in the year under report (2016: 2,003,359[1] units). MINI also recorded slight growth, with deliveries up by 3.2 % to 371,881 units (2016: 360,233 units). Rolls-Royce Motor Cars sold 3,362 units (2016: 4,011 units; –16.2 %).

As foreseen in the outlook for the financial year 2017, Automotive segment sales volumes increased slightly and were therefore in line with expectations.

Fleet carbon dioxide (CO_2) emissions[2]: slight decrease

[2] EU-28.

The fleet-wide deployment of Efficient Dynamics technologies and the increasing proportion of electrified automobiles are effectively reducing vehicle CO_2 emissions. CO_2 emissions from the vehicle fleet sold in Europe (EU-28) decreased slightly in the year under report to 122 g CO_2/km (2016: 124 g CO_2/km; –1.6 %).

As foreseen in the outlook for the full year 2017, fleet carbon emissions fell slightly and were therefore in line with forecast.

Revenues: slight increase
Automotive segment revenues rose by 2.5 % in 2017 to a new high level of €88,581 million and were therefore slightly up on the previous year (2016: €86,424 million). The favourable translation effects on foreign currencies, which led to an upward revision of the outlook for revenues at the end of the first half-year, could not be realised, as reported in the Quarterly Report to 30 September 2017.

The forecast of a slight rise in Automotive segment revenues made in the Annual Report 2016 was therefore confirmed.

EBIT margin in target range of between 8 and 10%
The EBIT margin in the Automotive segment (profit before financial result divided by revenues) came in unchanged at 8.9 % compared to the previous year. As foreseen for the financial year 2017, the EBIT margin in the Automotive segment was therefore within the target range of between 8 and 10 % and in line with expectations.

Return on capital employed: slight increase
The return on capital employed (RoCE) increased to 78.6 % (2016: 74.3 %; + 4.3 percentage points), reflecting the improvement in capital employed and the positive segment earnings development, which was better than expected. Higher deferred income from Connected Drive and service contracts also had an impact.

The outlook for RoCE, which had already been raised in the Quarterly Report to 30 June 2017 from a slight decrease to in line with last year's level was once more exceeded. The RoCE of the Automotive segment in 2017 was therefore once again well above the minimum target of 26 %.

Motorcycles segment

Deliveries to customers: significant increase
The Motorcycles segment reported significant growth in 2017, with deliveries to customers rising by 13.2 % to 164,153 units (2016: 145,032 units). This performance not only set a new record, it also took the single-year sales volume figure above the 150,000 mark for the first time.

As foreseen in the outlook for the financial year 2017, Motorcycles segment sales volumes increased significantly and were therefore in line with expectations.

EBIT margin in target range of between 8 and 10%
The EBIT margin in the Motorcycles segment (profit before financial result divided by revenues) came in at 9.1 % (2016: 9.0 %; + 0.1 percentage point). As foreseen for the financial year 2017, the EBIT margin was within the target range of between 8 and 10 % and therefore in line with expectations.

Return on capital employed: slight increase
The return on capital employed (RoCE) of the Motorcycles segment increased slightly by 1.0 percentage point to 34.0 % (2016: 33.0 %), mainly reflecting effective working capital management and the improvement in earnings.

The outlook for RoCE, which had been raised in the Quarterly Report to 30 June 2017 from in line with last year's level to a slight increase, was achieved. In the Annual Report 2016, RoCE in line with last year's level had been foreseen.

Financial Services segment

Return on equity: slight decrease

As predicted in the Annual Report 2016, the return on equity of the Financial Services segment was lower than one year earlier, at 18.1 % (2016: 21.2 %; – 3.1 percentage points). The slight decrease mainly reflected the impact of more stringent regulatory requirements for equity capital. Nevertheless, the internal RoE target of at least 18 % was once more achieved.

The key performance indicators of the BMW Group and its segments can be summarised as below:

BMW Group comparison of 2017 forecasts with actual outcomes 2017

→ 22

	Forecast for 2017 in 2016 Annual Report	Forecast revision during the year		Actual outcome in 2017
GROUP				
Profit before tax	slight increase	Q3: solid increase	€ million	**10,655 (+ 10.2 %)**
Workforce at year-end	slight increase			**129,932 (+ 4.2 %)**
AUTOMOTIVE SEGMENT				
Deliveries to customers[1]	slight increase		units	**2,463,526 (+ 4.1 %)**
Fleet emissions[2]	slight decrease		g CO_2 / km	**122 (– 1.6 %)**
Revenues	slight increase	Q2: solid increase Q3: slight increase	€ million	**88,581 (+ 2.5 %)**
EBIT margin	target range between 8 and 10		%	**8.9 (–)**
Return on capital employed	slight decrease	Q2: in line with last year's level	%	**78.6 (+ 4.3 %pts)**
MOTORCYCLES SEGMENT				
Deliveries to customers	significant increase		units	**164,153 (+ 13.2 %)**
EBIT margin	target range between 8 and 10		%	**9.1 (+ 0.1 %pts)**
Return on capital employed	in line with last year's level	Q2: slight increase	%	**34.0 (+ 1.0 %pts)**
FINANCIAL SERVICES SEGMENT				
Return on equity	slight decrease		%	**18.1 (– 3.1 %pts)**

[1] Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2017: 384,124 units).
[2] EU-28.

REVIEW OF OPERATIONS

Automotive Segment

Deliveries up slightly to new record level

The BMW Group sold 2,463,526* BMW, MINI and Rolls-Royce brand vehicles worldwide in 2017, thereby setting a new record for the seventh year in succession (2016: 2,367,603* units; +4.1 %). BMW brand sales increased slightly by 4.2 % to 2,088,283* units (2016: 2,003,359* units). The number of MINI brand vehicles sold also grew slightly by 3.2 % to 371,881 units (2016: 360,233 units). Rolls-Royce Motor Cars delivered 3,362 limousines to its customers during the period under report (2016: 4,011 units; –16.2 %). A new all-time high was thus not only recorded at Group level, but also for the BMW and MINI brands.

Dynamic growth in Asia, volatility on European and US markets

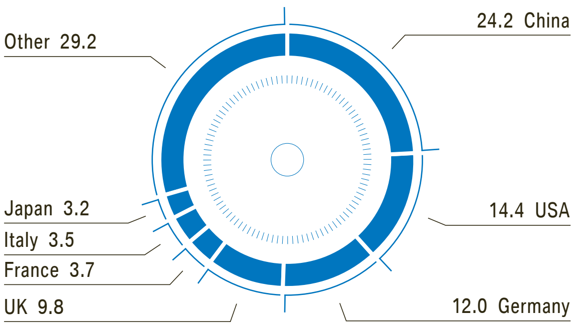
The BMW Group reported further significant sales volume growth on Asian markets in 2017. In total, it sold 848,826* BMW, MINI and Rolls-Royce brand vehicles, achieving a double-digit increase of 13.6 % (2016: 747,291* units). The Chinese market made an important contribution to this performance with 595,020* units delivered to customers (2016: 516,785* units; +15.1 %).

Within Europe, the diesel debate in Germany and the UK and uncertainty surrounding the Brexit negotiations weighed on the generally positive deliveries trend. The BMW Group sold a total of 1,101,760 units of its three brands, matching the previous year's high figure (2016: 1,092,155 units; +0.9 %). In Germany, deliveries to customers fell slightly year-on-year to 295,805 units (2016: 298,928 units; –1.0 %). In the UK, sales volume at 241,674 units was also down on the previous year (2016: 252,205 units; –4.2 %).

The highly competitive market environment on the American continent dampened the Group's sales performance, particularly during the first nine months of 2017. Deliveries fell by 2.0 % to 451,136 units (2016: 460,398 units). Sales in the USA fell slightly by 3.5 % to 353,819 units (2016: 366,493 units). In the fourth quarter of 2017, however, a turnaround was perceptible in both the USA (98,137 units; fourth quarter 2016: 96,609 units; +1.6 %) and on the continent as a whole (124,547 units; fourth quarter 2016: 122,393 units; +1.8 %).

BMW Group – key automobile markets 2017
→ 23

as a percentage of deliveries



BMW Group deliveries of vehicles by region and market
→ 24

in 1,000 units	2017	2016	2015	2014	2013
Europe	1,101.8	1,092.2	1,000.4	914.6	859.5
thereof Germany	295.8	298.9	286.1	272.3	259.2
thereof UK	241.7	252.2	231.0	205.1	189.1
Americas	451.1	460.4	495.9	482.3	463.8
thereof USA	353.8	366.5	405.7	397.0	376.6
Asia*	848.8	747.3	685.8	658.4	578.7
thereof China*	595.0	516.8	464.1	456.7	391.7
Other markets	61.8	67.7	65.4	62.7	61.8
Total*	**2,463.5**	**2,367.6**	**2,247.5**	**2,118.0**	**1,963.8**

* Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2017: 384,124 units, 2016: 316,200 units, 2015: 282,000 units, 2014: 275,891 units, 2013: 198,542 units).

BMW* brand sales at record level

In 2017, the number of BMW brand vehicles delivered to customers worldwide grew slightly by 4.2 % to 2,088,283 units (2016: 2,003,359), thereby setting a new deliveries record. Major contributions came from the BMW 1 Series, the new BMW 5 Series, the BMW 7 Series, the BMW X1, the BMW X5 and BMW i.

Sales of the BMW 1 Series rose significantly by 14.7 % to 201,968 units (2016: 176,032 units). By contrast, deliveries of the BMW 2 Series were down year-on-year to 181,113 units (2016: 196,183 units; – 7.7 %). Sales of the BMW 3 Series at 409,005 units were close to the previous year's level (2016: 411,844 units; – 0.7 %). Deliveries of the new BMW 5 Series at 347,313 units were up on the previous year (2016: 331,410 units; + 4.8 %), with an 11.7 % increase in the second half of 2017. Customers took delivery of 64,311 units of the BMW 7 Series worldwide (2016: 61,514 units; + 4.5 %).

Demand for the BMW X family was strong in 2017, with worldwide sales up by 9.6 % to 706,741 units (2016: 644,992 units). Growth was particularly significant for the BMW X1 with sales up by almost one-third to 286,743 units (2016: 220,378 units; + 30.1 %). The BMW X3 model change did not take place until November 2017, which resulted in sales falling short of the previous year's high figure (146,395 units; 2016: 157,017 units; – 6.8 %). Deliveries of the BMW X5 rose solidly to 180,905 units (2016: 166,219 units; + 8.8 %).

Deliveries of BMW vehicles by model variant*

→ 25

in units	2017	2016	Change in %	Proportion of BMW sales volume 2017 in %
BMW 1 Series	201,968	176,032	14.7	9.7
BMW 2 Series	181,113	196,183	– 7.7	8.7
BMW 3 Series	409,005	411,844	– 0.7	19.6
BMW 4 Series	131,688	133,272	– 1.2	6.3
BMW 5 Series	347,313	331,410	4.8	16.6
BMW 6 Series	11,052	13,400	– 17.5	0.5
BMW 7 Series	64,311	61,514	4.5	3.1
BMW X1	286,743	220,378	30.1	13.7
BMW X3	146,395	157,017	– 6.8	7.0
BMW X4	52,167	58,055	– 10.1	2.5
BMW X5	180,905	166,219	8.8	8.7
BMW X6	40,531	43,323	– 6.4	1.9
BMW Z4	1,416	5,432	– 73.9	0.1
BMW i	33,676	29,280	15.0	1.6
BMW total	**2,088,283**	**2,003,359**	**4.2**	**100.0**

* Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2017: 384,124 units, 2016: 316,200 units).

Increased deliveries at MINI

The MINI brand also set a new sales volume record in 2017, with worldwide deliveries up by 3.2 % to 371,881 units (2016: 360,233 units). The new MINI Countryman made an important contribution, with growth of almost one-quarter (84,888 units; 2016: 68,301 units; +24.3 %). The Convertible also remained successful in 2017 with 33,351 units sold (2016: 30,050 units; +11.0 %). The MINI Hatch (3- and 5-door models) fell slightly short of the previous year's level with 194,070 units sold (2016: 198,373 units; –2.2 %).

Deliveries of MINI vehicles by model variant

→ 26

in units	2017	2016	Change in %	Proportion of MINI sales volume 2017 in %
MINI Hatch (3- and 5-door)	194,070	198,373	–2.2	52.2
MINI Convertible	33,351	30,050	11.0	9.0
MINI Clubman	59,572	63,509	–6.2	16.0
MINI Countryman/Paceman	84,888	68,301	24.3	22.8
MINI total	**371,881**	**360,233**	**3.2**	**100.0**

Rolls-Royce affected by political uncertainties

Sales volume development at Rolls-Royce Motor Cars in 2017 was influenced primarily by ongoing political uncertainties in the Middle East and unfavourable market conditions in the USA. Moreover, the top-of-the-range model, the Phantom, was no longer fully available. Deliveries of the successor model began in January 2018 (Rolls-Royce Phantom: fuel consumption in l/100 km (combined) 13.9//CO_2 emissions in g/km (combined) 318 – 319). In 2017, Rolls-Royce Motor Cars delivered 3,362 vehicles to customers worldwide (2016: 4,011 units; –16.2 %).

Deliveries of Rolls-Royce vehicles by model variant

→ 27

in units	2017	2016	Change in %
Phantom	235	389	–39.6
Ghost	1,098	1,175	–6.6
Wraith/Dawn	2,029	2,447	–17.1
Rolls-Royce total	**3,362**	**4,011**	**–16.2**

For the first time, more than 100,000 electrified vehicles sold

The BMW Group achieved its target of delivering more than 100,000 electrified vehicles in 2017, underlining its position as a worldwide market leader in terms of combined sales of all-electric and plug-in hybrid vehicles and market leader in Europe.

With a total of 103,080 BMW i, BMW iPerformance and MINI Electric vehicles, deliveries of electrified vehicles to customers were approximately two-thirds up on the previous year (2016: 62,255 units; +65.6 %). BMW i and BMW iPerformance deliveries grew by more than one-half to 97,281 vehicles (2016: 62,255 units; +56.3 %). The BMW i3 (BMW i3 (94 Ah) with fully electric eDrive: electric power consumption in kWh/100 km (combined) 13.6-13.1//CO_2 emissions in g/km (combined) 0) continued to be in high demand, with deliveries to customers rising by well over a fifth to 31,482 vehicles (2016: 25,528 units; +23.3 %). A significant contribution came from the sporty version, the BMW i3s, which was launched in summer 2017 (BMW i3s (94 Ah) with fully electric eDrive: electric power consumption in kWh/100 km (combined) 14.3//CO_2 emissions in g/km (combined) 0). Deliveries of BMW plug-in hybrid models sold under the iPerformance brand almost doubled to 63,605 units (2016: 32,975 units; +92.9 %). Between launch in June 2017 and the end of the year under report, 5,799 units of the MINI Electric were delivered to customers.

Deliveries of electrified models

→ 28

in units	2017	2016	Change in %
BMW i	33,676	29,280	15.0
BMW iPerformance	63,605	32,975	92.9
MINI Electric	5,799	–	–
Total	**103,080**	**62,255**	**65.6**

High capacity utilisation across production network

In 2017, strong customer demand and new model launches resulted in high capacity utilisation across the BMW Group production network. New production records were set in 2017, with a total of 2,505,741[1] BMW, MINI and Rolls-Royce brand vehicles manufactured (2016: 2,359,756[1] units; +6.2 %), comprising 2,123,947[1] BMW (2016: 2,002,997[1] units; +6.0 %), 378,486 MINI (2016: 352,580 units; +7.3 %) and 3,308 Rolls-Royce brand vehicles (2016: 4,179 units; –20.8 %).

Vehicle production of the BMW Group by plant

→ 29

in units	2017	2016	Change in %	Proportion of production in %
Dingolfing	376,580	339,769	10.8	15.0
Spartanburg	371,316	411,171	–9.7	14.8
Regensburg	338,259	346,291	–2.3	13.5
Leipzig	246,043	246,550	–0.2	9.8
Munich	196,455	216,769	–9.4	7.9
Tiexi[2]	269,309	161,901	66.3	10.8
Dadong[2]	127,440	143,825	–11.4	5.1
Oxford	223,817	210,971	6.1	8.9
Rosslyn	53,105	63,117	–15.9	2.1
Rayong	21,084	17,844	18.2	0.9
Araquari	12,768	15,408	–17.1	0.5
Chennai	8,952	8,568	4.5	0.4
Goodwood	3,308	4,179	–20.8	0.1
Graz (Magna Steyr)[3]	50,272	53,528	–6.1	2.0
Born (VDL Nedcar)[3]	168,969	87,609	92.9	6.7
Partner plants (Jakarta, Cairo, Kaliningrad, Kulim)	38,064	32,256	18.0	1.5
Group	**2,505,741**	**2,359,756**	**6.2**	**100.0**

[1] Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2017: 396,749 units, 2016: 305,833 units).
[2] Joint Venture BMW Brilliance Automotive Ltd., Shenyang.
[3] Contract production.

The BMW Group's leading production system is well positioned for the future with its unique flexibility. In line with the Strategy NUMBER ONE > NEXT, the system is characterised in particular by efficiency and robust processes. Production competence thus provides a crucial competitive edge and contributes to the BMW Group's profitability and sustained success.

Flexibility, quality and adaptability are key characteristics of the Group's production system. Its flexibility enables the BMW Group to respond rapidly to changing market situations and fluctuations in regional sales volumes by adapting its production plans. Digitalisation, standardised modules and intelligent composite construction demonstrate the competence of the Group's production network. At the same time, the production system offers customers a high degree of customisation.

International production network

By expanding its international production network, the BMW Group follows global market developments with the aim of ensuring a balanced distribution of added value.

25 years ago the BMW Group announced its decision to build a plant in the USA, in Spartanburg, South Carolina. Marking that anniversary, the first third-generation BMW X3 came off the production line in 2017. More than four million vehicles have been produced at the plant to date.

In San Luis Potosí (Mexico), preparations for constructing the new plant are progressing according to plan. In 2017, the new training centre was opened in the first of the buildings to be completed at the plant, which is due to become operational in 2019.

In Europe, the British production cluster comprising the plant in Oxford, the engine plant at Hams Hall and the pressing plant in Swindon forms part of the BMW Group's production network. The MINI Hatch and the MINI Clubman are produced in Oxford. In order to keep pace with forecast growth, the MINI Hatch, the MINI Convertible and the MINI Countryman are also produced under contract for the BMW Group at the automobile manufacturer VDL Nedcar bv, Born, the Netherlands. In total, MINI production increased by 7.4 % year-on-year to 378,486 units.

In 2017, production of the new Rolls-Royce Phantom began at the Rolls-Royce manufacturing plant in Goodwood (UK). Important construction work was also carried out at the site during the reporting period. In order to accommodate future models, Rolls-Royce Motor Cars is investing in a new single-line production system at the plant. Furthermore, the technology and logistics centre in Bognor Regis near Goodwood was expanded in 2017.

In Rosslyn (South Africa), preparations are currently underway for producing the next generation of the BMW X3. The necessary expansion and modification measures are being carried out during the ongoing production of the BMW 3 Series.

In Shenyang (China), the two plants of the joint venture BMW Brilliance Automotive Ltd. (BBA) in Dadong and Tiexi produced over 396,000 units of five BMW models, setting a new record in the process. The new large-scale northern extension at the Dadong plant was opened in 2017. During the opening ceremony, the first extended-wheelbase version of the new BMW 5 Series Sedan rolled off the production line. As a result of the expansion, space has been created at the plant to add a sixth BMW model to the line-up, the new BMW X3. BBA also opened the High Voltage Battery Centre in Tiexi during the year under report. This will also supply batteries to the Dadong plant, where the BMW 5 Series plug-in hybrid will be produced for the local market from 2018 onwards.

Production competence in Germany

The German plants play a leading role within the Group's international network. For the seventh year in succession, the BMW Group produced over one million vehicles at its German plants in Munich, Dingolfing, Regensburg and Leipzig.

In 2017, the BMW Group plants in Dingolfing and Landshut celebrated their 50th anniversary. The two locations play a key role within the BMW Group as competence centres for the future technologies lightweight construction and electric mobility. Dingolfing and Landshut are the Group's plants for electric drivetrains. Battery production and the BMW Group's new lightweight and engineering centre are also located there.

In May 2017, a new paint shop was commissioned at the BMW Group Munich plant. The facility is not only highly efficient, it also sets new standards for sustainable production. The consumption of electricity, gas and water, as well as the production of waste air, have been significantly reduced.

At the end of 2017, production of the BMW X2 started at the BMW Group plant in Regensburg. At the highly flexible Regensburg plant eight models are produced on a single production line.

The BMW Group's Leipzig plant put into operation a battery storage farm, demonstrating how batteries can be both sustainably and profitably reused after vehicles reach the end of their life cycle. Using on-site wind turbines, the BMW Group as a major industrial consumer combines its own decentralised renewable energy generation with local energy storage. The plant reached further milestones with the production of the 100,000th BMW i3 and the 15,000th BMW i8 during the year under report.

The BMW Group Eisenach plant celebrated its 25th anniversary in 2017. Apart from its toolmaking expertise, the Eisenach plant has specialised in recent years in the production of almost all sheet metal, aluminium and stainless steel outer body parts for the Rolls-Royce plant in Goodwood (UK).

Worldwide network for drivetrain production

The engine plants in Munich, Hams Hall (UK) and Steyr (Austria) supply diesel and petrol engines for the worldwide network. The Shenyang (China) engine plant supplies local production facilities. The BMW Group's largest engine plant in Steyr has produced engines for 35 years. In 2017, the 20 millionth engine came off the production line.

Drivetrain production for electrified vehicles is spread over various locations within the production network. The technologies used in making electric drivetrain components are developed at the Prototype Construction Centre in Munich. As competence centres, Dingolfing and Landshut take a leading role in the production of electric drivetrain systems. Electric motors for the BMW Group's electrified vehicles are also produced at these plants. The batteries required are produced at the three battery factories in Dingolfing, Spartanburg and Shenyang. The battery factory in Shenyang was opened in 2017. At the end of 2017, the foundation stone was laid in Munich for a battery cell competence centre, which is scheduled for completion by the beginning of 2019. The aim is to continue developing battery cell technology.

Motorcycles Segment

BMW Motorrad grows significantly

In 2017, the Motorcycles segment profited amongst others from the launch of numerous attractive new models and model revisions. Deliveries of BMW motorcycles worldwide were significantly higher than the previous year, rising by 13.2 % to 164,153 units (2016: 145,032 units). The segment thus surpassed the 150,000-unit mark for the first time, setting a new sales volume record for a financial year.

Dynamic growth in Europe

Motorcycle sales in Europe grew strongly in 2017, exceeding 100,000 units for the first time. BMW Motorrad delivered a total of 101,524 units to customers (2016: 87,983 units; +15.4 %). In Germany, sales volume was up by 7.1 % to 26,664 units (2016: 24,894 units), despite a contracting motorcycles market. Sales growth in Italy (14,430 units, 2016: 12,300 units; +17.3 %) and Spain (11,193 units, 2016: 9,520 units; 17.6 %) was even in the double digits. Sales in France were particularly strong, with deliveries up by almost one-quarter to 16,607 units (2016: 13,350 units; + 24.4 %). In the USA sales at 13,546 units fell just short of the previous year's level (2016: 13,730 units; –1.3 %) in a difficult market environment. However, the market recorded an upturn in the fourth quarter (3,346 units; 2016: 2,782 units; + 20.3 %).

Motorcycles production significantly expanded

A total of 185,682 motorcycles rolled off production lines during the year under report (2016: 145,555 units; + 27.6 %). The significant increase in output was mainly driven by high demand and the start of production by the Indian partner, TVS Motor Company Limited. Expansion work at the BMW Group plant in Berlin was largely completed during the reporting period and will be finalised in 2018. The latest measures will create the capacities required to achieve planned growth.

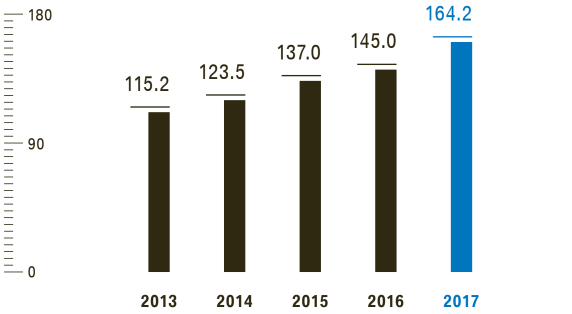
R nineT family now complete

BMW Motorrad completed the R nineT product family line-up in 2017 with the launch of the R nineT Pure, R nineT Racer and R nineT Urban G/S models. In August 2017, the K 1600 B was introduced to keep up with demand on the US motorcycle market. It will be followed in March 2018 by the K 1600 Grand America, which was presented at the EICMA motorcycle trade show. All in all, BMW Motorrad launched six new motorcycle models and five model revisions during the period under report.

BMW Group deliveries of motorcycles*

→ 30

in 1,000 units

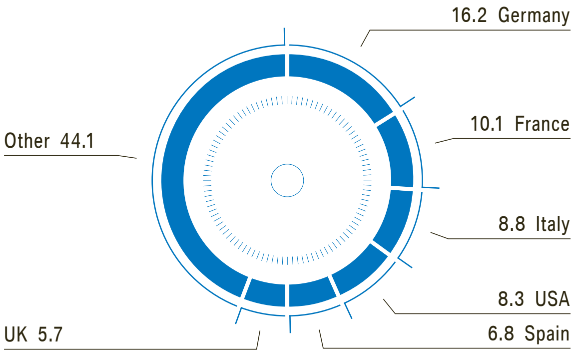


* Excluding Husqvarna, sales volume up to 5 March 2013: 59,776 units.

BMW Group – key motorcycle markets 2017

→ 31

as a percentage of sales volume



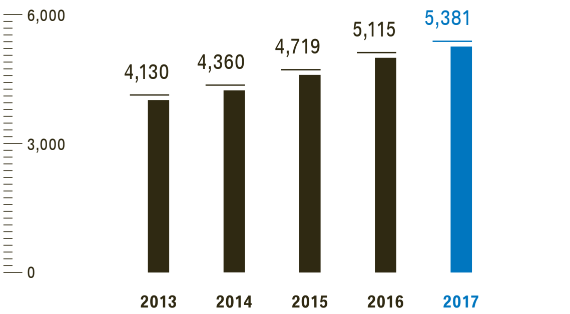
Financial Services Segment

Continued growth for the Financial Services segment

The Financial Services segment continued to perform well within a highly competitive market environment and concluded a successful financial year 2017. In balance sheet terms, business volume grew by 1.1 % to €124,719 million (2016: €123,394 million). Adjusted for exchange rate factors, business volume amounted to €131,995 million (+7.0 %). The contract portfolio under management at 31 December 2017 comprised 5,380,785 contracts and therefore grew by 5.2 % year-on-year (2016: 5,114,906 contracts).

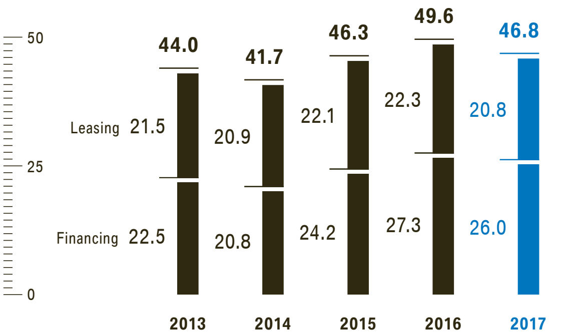
Contract portfolio of Financial Services segment
→ 32

in 1,000 units



BMW Group new vehicles financed or leased by Financial Services segment*
→ 33

in %



* Until 2015 excluding Rolls-Royce.

Slight growth in new business

Credit financing and leasing business with retail customers remain a key element of the success of the Financial Services segment. During the period under report, 1,828,604 new credit financing and leasing contracts were concluded with customers, slightly up (+1.0 %) on the previous year (2016: 1,811,157 contracts). Credit financing grew slightly by 2.8 %, while the number of new leasing contracts fell slightly by 2.6 %. Overall, leasing accounted for 33.0 % and credit financing for 67.0 % of new business.

The proportion of BMW Group new vehicles leased or financed by the Financial Services segment in the financial year 2017 amounted to 46.8 %, 2.8 percentage points down on the previous year (2016: 49.6 %).* The decrease was due to a cap on new business volume in China, through which the People's Bank of China regulates the banking and financial services sector.

* The calculation only includes automobile markets in which the Financial Services segment is represented by a consolidated entity.

In the pre-owned financing and leasing business for BMW and MINI brand vehicles, the segment recorded a solid increase in the number of new contracts signed, which was up by 7.2 % to 387,937 contracts (2016: 361,928 contracts).

The total volume of new credit financing and leasing contracts concluded with retail customers during the period under report amounted to €55,049 million, in line with the previous year (2016: €55,327 million; – 0.5 %).

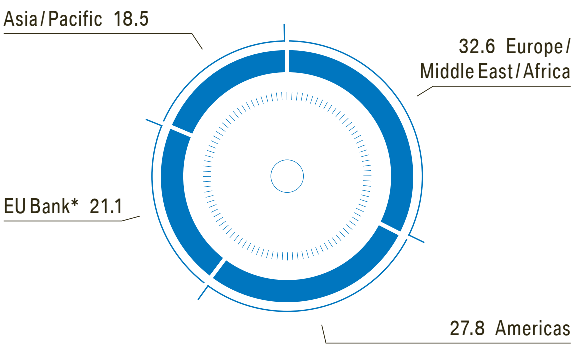
The total portfolio of credit financing and leasing contracts with retail customers developed positively again during the financial year 2017, with a slight increase of 4.7 % year-on-year. In total, 4,926,228 contracts were in place with retail customers at 31 December 2017 (2016: 4,703,417 contracts). The Asia/Pacific region continued to grow in 2017, with a 9.6 % increase in the contract portfolio. The Europe/Middle East/Africa region (+ 8.8 %) and the EU Bank* (+ 5.1 %) also registered solid year-on-year growth, while the Americas region saw a slight decrease in the contract portfolio (– 2.7 %).

* The EU Bank comprises BMW Bank GmbH, its branches in Italy, Spain and Portugal, and its subsidiary in France.

Contract portfolio retail customer financing of Financial Services segment 2017

→ 34

in % per region



* EU Bank comprises BMW Bank GmbH, its branches in Italy, Spain and Portugal, and its subsidiary in France.

Solid growth in fleet business

The BMW Group is one of Europe's foremost leasing and full-service providers. The Financial Services segment's fleet management business, under the brand name Alphabet, offers commercial customers leasing and financing arrangements as well as specific services. The number of fleet contracts rose by 5.5 % during the financial year 2017. At 31 December 2017, the segment was thus managing a portfolio of 679,895 fleet contracts (2016: 644,420 contracts).

Contract portfolio in multi-brand financing business decreases

The Financial Services segment recorded a slight increase (+ 2.8 %) in the number of new multi-brand financing contracts in 2017, with 157,626 contracts (2016: 153,297 contracts). As a result of a portfolio sale, the total contract portfolio comprised 406,813 contracts at 31 December 2017, significantly lower than one year earlier (2016: 466,436 contracts; –12.8 %).

Dealership financing up year-on-year

The total volume of dealership financing increased to €19,161 million in the period under report (2016: €18,307 million; + 4.7 %).

Deposit business volume at previous year's level

Customer deposits represent an important source of refinancing for the Financial Services segment. The volume of deposits stood at €13,572 million at the end of the reporting period, in line with the previous year (2016: €13,512 million; + 0.4 %).

Solid growth in insurance brokerage business

With a solid increase of 5.9 % in 2017, the number of new brokered insurance contracts grew to 1,337,652 contracts (2016: 1,262,973 contracts). At 31 December 2017, the total number of brokered insurance contracts amounted to 3,649,362 (2016: 3,411,872 contracts; + 7.0 %).

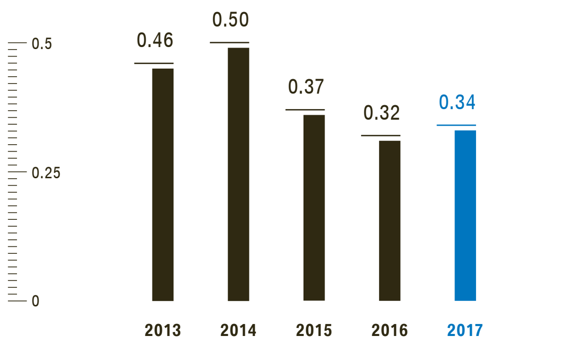
Risk profile

Despite ongoing political and economic uncertainties and the debate, particularly in some European countries, about exhaust emissions from diesel vehicles, the global economy continued to develop positively in 2017. This contributed to the continued low level of risk in the overall Financial Services portfolio.

Development of credit loss ratio

→ 35

in %



The risk profile of the segment's credit financing portfolio also remained stable at a low level. The credit loss ratio on the total credit portfolio amounted to 0.34 %, marginally higher than one year earlier (2016: 0.32 %).

Sales proceeds generated from BMW and MINI brand vehicles showed a solid increase from the previous year, due to volume and mix effects. Despite the positive development, the level of residual value losses on remarketed vehicles rose year-on-year. The expected increase was mainly due to the debate on diesel engines in parts of Europe. The situation was also affected by continuing challenges on the North American pre-owned vehicle market.

Further information on the risk situation is provided in the section Risks and Opportunities.

Research and Development

→ www.bmwgroup.com/innovation

New development centre for autonomous driving

At the end of 2016, around 600 BMW Group employees were already working on developing highly automated driving technologies. In 2017, the BMW Group began to pool its entire expertise in vehicle connectivity and autonomous driving at a new campus near Munich.

The new development centre aims to promote collaboration across companies and individual decision-making competence. This is achieved through flat organisational structures, lean processes and teams working in close proximity. At the new location, more than 2,000 employees will work across disciplines on development of the next steps towards fully autonomous driving.

During the year under report, 40 BMW 7 Series test vehicles were used to conduct trials for highly automated and autonomous driving on motorways and in urban environments. These vehicles were tested at worldwide locations, in particular at the sites of Intel (USA), Mobileye (Israel) and the BMW Group (Munich). The joint further development of these BMW 7 Series prototypes will lead to the BMW Group's first highly automated series-produced vehicle: the BMW iNext, which is due to be launched in 2021.

Connectivity and digital services expanded

At the BMW Innovation Days 2017, the BMW Group presented the current level of progress and the latest developments with regard to integrating vehicles in the customer's digital world. In the context of digitalisation, connectivity is a key pillar in the BMW Group's strategy for the future, NUMBER ONE > NEXT. Today, around 10 million BMW Group vehicles are already connected worldwide through Connected Drive.

The customer is the central focus of the Group's personalised digital services. The range is divided into four fields: vehicle-related services, lifestyle-related services, mobility-related services and the integration of digital assistants.

The vehicle-related services field is already extensive and includes functions such as automatic climate control via smartphone or a 3D view of the vehicle from a remote location. It also includes services such as reminders of the next vehicle service appointment or individual financial services. Going forward, services for personalised vehicle settings will also be available, so that each vehicle will automatically adapt to the current user and situation.

Mobility-related services help users to reach their destinations conveniently and as quickly as possible. These services help users find the most pleasant route, not only when in the vehicle, but also when nearby. For example, drivers can use their smartphones to display the best time to begin their next journey. Parking and charging options at the selected destination can also be displayed via the vehicle's navigation system.

Lifestyle-related services allow the vehicle to be integrated in the digital life of the user. For example, third-party services such as entertainment, news or music can be seamlessly and easily integrated.

The range of supporting services also includes integration of digital assistants from the user's environment, for example the already familiar concierge services.

Research project on fast charging technology

In July 2016, under the leadership of the BMW Group, the "FastCharge" project was begun together with Allego GmbH, Phoenix Contact E-Mobility GmbH, Dr. Ing. h.c. F. Porsche AG and Siemens AG. The aim of the three-year project is to conduct research on electric vehicles with far shorter charging times and the required charging infrastructure. A further aim is to demonstrate ways of implementing the findings for everyday use.

The joint project is examining every aspect of fast charging in practice, with the aim of introducing the required technologies on an industrial scale. The overall system is to be implemented in prototypes and presented to the public in the course of the current year.

Purchasing and Supplier Network

Ensuring access to resources in a volatile environment

With its globally oriented organisation, the Purchasing and Supplier Network ensures access to all necessary external resources in an environment that remains highly volatile. Activities include the procurement and quality assurance of production materials, raw materials, capital goods and services. External suppliers are selected systematically on the basis of competitiveness according to the criteria of quality, innovation, flexibility and cost. More recently, activities have been focused particularly on the ability to respond quickly to changing demand for various types of drivetrain technology.

Connecting procurement markets

The BMW Group remains committed to its strategy of maintaining a regional balance with regard to growth in sales volume, production and purchasing volumes. The strategy makes an important contribution to natural hedging against currency fluctuations.

Investments ensure expertise in productivity and technology

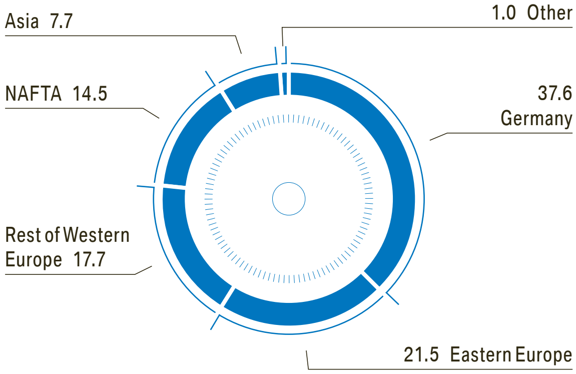
Alongside purchasing and quality assurance, the third pillar of the Purchasing and Supplier Network's activities remains in-house production of key vehicle components. In order to ensure over the long term the flexibility and competitiveness of internal component production, the BMW Group invests in state-of-the-art production facilities and efficient structures.

During the period under report, logistics processes at the Group's most important component plant in Landshut were significantly simplified with the opening of the new supply centre, thus achieving another important milestone.

Regional mix of BMW Group purchase volumes 2017

→ 36

in %, basis: production material



Sales and Marketing

→ www.bmwgroup.com/brands

The BMW Group's sales and distribution network comprises some 3,400 BMW, 1,580 MINI and 140 Rolls-Royce dealerships worldwide. Sales are conducted by independent authorised dealerships, BMW Group branches and subsidiaries, and independent importers in certain markets. The dealership and agency network for BMW i currently comprises over 1,500 locations.

BMW i continues to grow

Under the brand name BMW i, the BMW Group has offered customers a range of electric mobility solutions since 2013. The brand covers BMW i and BMW iPerformance vehicles as well as a wide array of services. Under the name 360° ELECTRIC, BMW i provides a comprehensive range of products and services for all-electric vehicles and plug-in hybrids worldwide. In 2016 and 2017, the second generation of the BMW i Wallbox was introduced for quick and easy charging at home.

During the year under report, the BMW Group together with other automobile manufacturers founded the joint venture IONITY with the aim of establishing a high-performance, fast-charging network in Europe along key transport routes. The BMW Digital Charging Service uses Connected Drive to integrate the vehicle in the customer's charging infrastructure and automatically charges at the cheapest times, taking electricity prices into account. The service also provides a constant overview of the vehicle's energy requirements as well as ongoing and completed charging activities.

Premium services for individual mobility

In the context of the Group's corporate strategy NUMBER ONE > NEXT, mobility services are given increasing emphasis. Since 2011, the BMW Group has offered a growing range of services for individual mobility, including mobility services such as DriveNow in Europe and ReachNow in the USA and China. In addition, ParkNow and ChargeNow provide customers with digital solutions for parking and charging.

At 31 December 2017, the DriveNow premium car sharing service had over one million customers in 13 major European cities. The percentage of electrically powered vehicles in these fleets stands at around 15 % and is due to increase. Since introduction of the first electrified vehicles into the DriveNow fleet more than 16 million kilometres with zero local emissions have been driven. This corresponds to a CO_2 saving of around 2,500 tonnes.

In January 2018, the BMW Group signed an agreement with Sixt SE for the complete acquisition of the shares in the car sharing provider DriveNow. The agreement was signed subject to the approval of the antitrust authorities.

In 2016, the BMW Group launched the ReachNow service in the USA, where it is currently available in Seattle, Portland and Brooklyn. Apart from car sharing, ReachNow is also offering as a pilot project in Seattle a service that enables customers to book a premium vehicle with a driver (ReachNow Ride). Customers can also reserve the use of a vehicle for several days, including delivery of the vehicle to the desired location (ReachNow Reserve). Moreover, ReachNow offers individual small fleets for residential complexes or company solutions (ReachNow Fleet Solutions). ReachNow currently has around 80,000 members in the USA.

On 1 December 2017, "ReachNow powered by EvCard" was launched in Chengdu, China, offering in cooperation with local partner EvCard a fleet of 100 BMW i3 vehicles for hire. The vehicles can be picked up or returned at 25 central locations in the urban area.

ParkNow is the BMW Group's digital parking service. It enables ticket-free, cashless parking via app, both at roadside and in multi-storey car parks. In January 2018, the BMW Group acquired Parkmobile LLC, the largest provider of mobile parking services in North America. Parkmobile Group Europe, which also owns ParkNow amongst its brands, has been wholly owned by the BMW Group since April 2016. In Europe and North America, Parkmobile reaches over 22 million customers and offers digital parking solutions in more than 1,000 towns and cities.

Through ChargeNow, the BMW Group provides easy access to a constantly growing network of public charging stations. With more than 130,000 charging points in 29 countries, ChargeNow provides access to the world's largest charging network. Customers can locate the charging stations directly via the ConnectedDrive navigation system integrated in the vehicle, via the ChargeNow app or via the internet website.

In February 2017, the BMW Group founded the company "Digital Charging Solutions", which sells access to the ChargeNow charging network, as well as related services, also to third parties. Groupe PSA was one of ChargeNow's first corporate customers during the period under report. PSA will provide its electric vehicle customers in France with charging access via the network established by ChargeNow.

BMW rejuvenates model range

During the period under report, the BMW brand rejuvenated its range with six new models and 15 model revisions. The market launch of the seventh generation of the BMW 5 Series played a significant role, with the Sedan (in February), the extended-wheelbase version for China and the Touring version (both in June). The 5 Series also includes iPerformance, M Performance and M5 models. The new BMW 6 Series Gran Turismo and the new X3 were launched in November. The model initiative includes revised models of the BMW 1 Series, 2 Series and 4 Series. The revised BMW i3 and the new BMW i3s came onto the market in autumn 2017.

Record year for BMW M

The year 2017 was the strongest in the history of BMW M GmbH for sales of M and M Performance models. In view of growing demand in the high-performance automobile segment, the dealership network is being systematically enlarged. In 2017, the number of BMW M certified dealerships grew to 850 worldwide, representing a doubling in size over the last four years.

New Rolls-Royce Phantom presented

A highlight of the year 2017 was the presentation of the new Rolls-Royce Phantom in London in July. With its Black Badge Edition, Rolls-Royce Motor Cars is targeting new customer groups in the super-luxury class. After launching the Black Badge models Ghost and Wraith, the Dawn Black Badge was added as a third version in 2017 (Rolls-Royce Ghost Black Badge: fuel consumption in l/100 km (combined) 14.6//CO_2 emissions in g/km (combined) 333; Rolls-Royce Wraith Black Badge: fuel consumption in l/100 km (combined) 14.6// CO_2 emissions in g/km (combined) 333; Rolls-Royce Dawn Black Badge: fuel consumption in l/100 km (combined) 14.7//CO_2 emissions in g/km (combined) 337).

MINI reports another record year

In 2017, the MINI brand achieved its third record-breaking year in succession for sales volume. The successful market launch of the new Countryman generation in the first quarter 2017 played a major role in this performance. The second edition of the popular Countryman range also went on sale as a plug-in hybrid version in summer of 2017, making it the first MINI plug-in hybrid in series production.

Growth in service business

During the year under report, the BMW Group's service business was strengthened by investment in the future logistics network and by measures aimed at ensuring a high level of customer satisfaction. Digitalisation of offerings is playing a crucial role in these developments. Business with spare parts has also been expanded. The creation of the joint venture Encory by the BMW Group and the ALBA Group in September 2016, with additional offerings in reuse of automotive spare parts, is making a valuable contribution to the BMW Group's sustainability strategy. A pilot project was initiated in Spain in mid-2017. Other markets are set to follow.

Workforce

→ www.bmwgroup.com/careers

Slight increase in workforce

The BMW Group's worldwide workforce increased to a total of 129,932 employees at the end of the reporting period (2016: 124,729 employees; + 4.2 %). The increase mainly reflects the expansion of the BMW Group's international production network. Moreover, in conjunction with the implementation of the Group's Strategy NUMBER ONE > NEXT, an increasing number of experts in future-oriented fields such as artificial intelligence and autonomous driving, electric mobility, smart production and logistics, data analysis and software development were hired.

BMW Group employees

→ 37

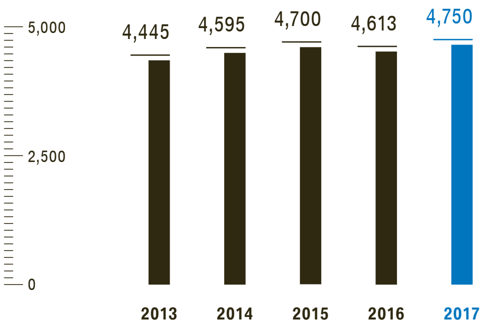
	31.12.2017	31.12.2016	Change in %
Automotive	117,664	112,869	4.2
Motorcycles	3,506	3,351	4.6
Financial Services	8,645	8,394	3.0
Other	117	115	1.7
Group	**129,932**	**124,729**	**4.2**

Realignment of dual vocational training

In the context of digitalisation and technological change, the BMW Group has initiated a strategic realignment of its dual vocational training. As well as promoting STEM subjects (science, technology, engineering and mathematics), the focus is also on introducing new digital forms of teaching and learning. In this context, the BMW Group has initiated the process of adapting existing career profiles and introducing new ones across its national and international training network. The total number of apprentices and participants in development programmes for young talent increased slightly to 4,750 (2016: 4,613; + 3.0 %).

BMW Group apprentices at 31 December

→ 38



High level of investment in employee qualification

At €349 million, spending on training and development remained high (2016: €352 million; – 0.9 %). By training its workforce in areas such as electric mobility, hydrogen, fuel cells, lightweight construction and robotics, the BMW Group is creating an important foundation for future activities. Expansion of digital and agile competences is a further area of focus.

The BMW Group remains a highly attractive employer

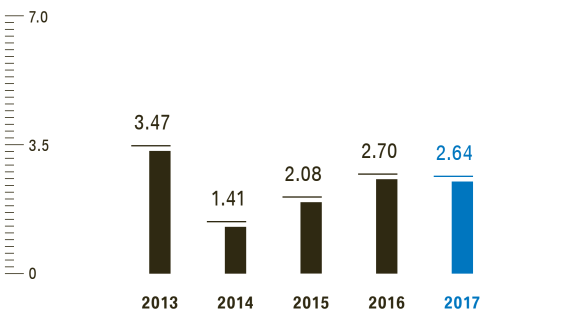
In 2017, the BMW Group was once again ranked among the world's most attractive employers. In the latest "World's Most Attractive Employers" rankings published by the agency Universum, the BMW Group was once again named best German employer across all sectors and the most attractive automotive company in the world. In 2017, BMW Group China was named for the first time most attractive employer across all sectors in China.

The BMW Group also came out top in the Trendence Young Professional Barometer Germany. Moreover, the Group again improved its position in the Trendence Barometer Study for engineering graduates in Germany, moving up to first place in 2017. In addition, the Group again achieved strong results in the Universum study "Young Professionals Germany" with placings one, three and five in the categories Business, Engineering and IT respectively. The BMW Group was therefore among the best-ranked companies in the studies across all sectors.

Employee attrition rate at BMW AG*

→ 39

as a percentage of workforce



* Number of employees on unlimited employment contracts leaving the Company.

Diversity as a competitive factor

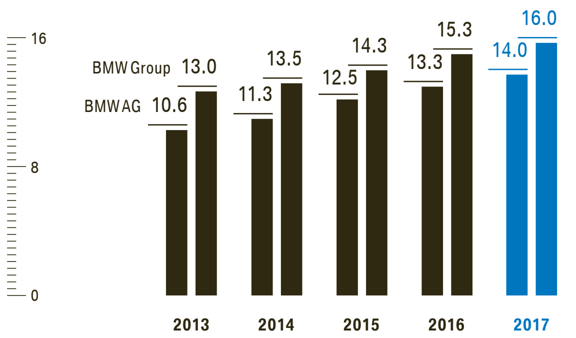
Diversity will remain a key factor in ensuring the BMW Group's continued competitiveness in future. Focus is given to the three aspects of gender, cultural background and age/experience. The aim is to ensure equal opportunities for all employees and at the same time utilise and promote the diversity of the Group's workforce. Over the year, the BMW Group again implemented a broad array of measures to promote diversity. Further information on this topic is also provided in the Sustainable Value Report 2017.

The proportion of women in the workforce as a whole, as well as in management functions and young talent development programmes, increased during the financial year under report. The percentage of women in the total BMW Group workforce rose to 19.3 % (BMW AG: 16.1 %), above the internal target range of 15 to 17 %. The proportion of women in management positions rose to 16.0 % across the BMW Group (BMW AG: 14.0 %). In the year under report, female representation on the BMW Group's trainee programme and in student programmes stood at approximately 44 % and 31 % respectively.

Proportion of female employees in management functions at BMW AG / BMW Group*

→ 40

in %



*Since 2017 including maternity leave.

The workforce at the Group's locations within Germany is becoming increasingly international. Employees from over 110 countries work together successfully in Munich. Moreover, a balanced age structure in the workforce encourages an exchange of ideas and knowledge between generations and plays a key role in reducing the loss of know-how when valuable employees retire.

Sustainability

→ www.bmwgroup.com/responsibility

Economic success, the responsible use of resources and the assumption of social responsibility form the basis for long-term growth within the BMW Group. Through sustainable activity, the Company secures the future of its business model. With regard to sustainability, the BMW Group concentrates on three areas:

- The development of products and services for sustainable individual mobility (for example electric mobility and services such as DriveNow and ReachNow)
- The efficient use of resources along the entire value chain
- Responsibility towards employees and society

Through its sustainability policy, the BMW Group supports the achievement of the UN's Sustainable Development Goals (SDG), which were adopted in September 2015.

Further information on sustainability within the BMW Group and related topics is provided in the Sustainable Value Report, which is published online at → https://www.bmwgroup.com/svr at the same time as the Annual Report. The Sustainable Value Report is drawn up in accordance with the "Comprehensive" option of the Standards of the Global Reporting Initiative (GRI) and subject of a limited assurance engagement in accordance with IASE 3000 (International Standard on Assurance Engagements 3000 (Revised): "Assurance Engagements other than Audits or Reviews of Historical Financial Information").

In accordance with the stipulations of the German CSR Directive Implementation Act, BMW AG is required to publish a non-financial declaration at both Company and Group level for the first time for the reporting year 2017. The declaration is published jointly for BMW AG and the BMW Group as a combined separate non-financial report within the Sustainable Value Report. The information required by law is included in the sub-chapters preceding the voluntary reporting in accordance with GRI standards and is marked accordingly.

The combined separate non-financial report is available online within the Sustainable Value Report 2017 at: → https://www.bmwgroup.com/svr.

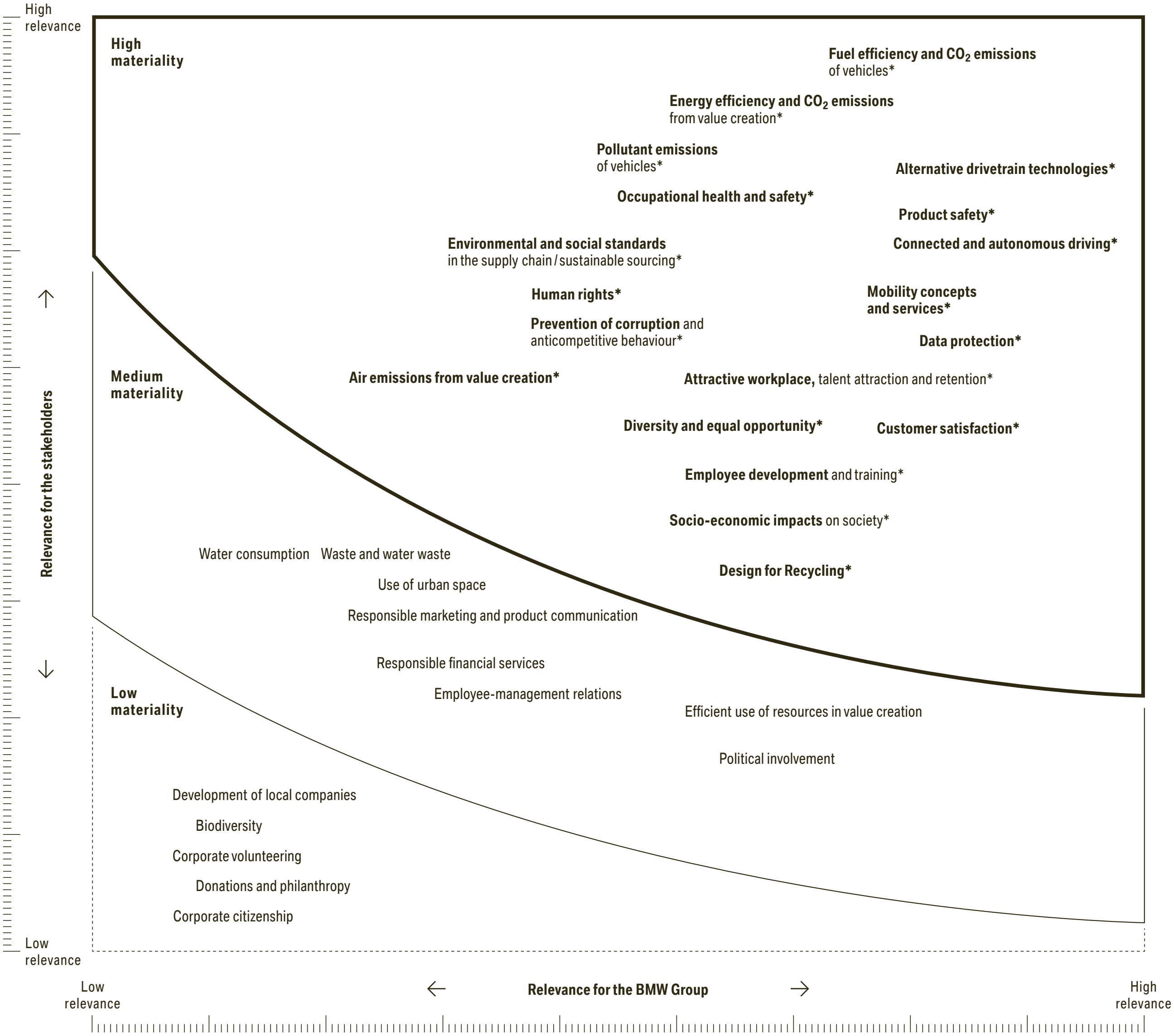
Stakeholder dialogues and materiality analysis as basis for sustainability management

The BMW Group is in continual dialogue with a large number of stakeholders, both in Germany and abroad. Dialogue helps the Company to recognise global trends at an early stage, achieve sustainability objectives more effectively and strengthen social commitment. In the course of this dialogue, the BMW Group gains a clear picture of how current trends are changing the business environment and which role the BMW Group can play. For example, stakeholder dialogue events on the topic of urban mobility were held during 2017 in Milan, Chicago, Hangzhou, Mexico City and Delhi.

In order to identify key sustainability topics at an early stage, the BMW Group also conducts materiality analyses on a regular basis. Moreover, social challenges are continually monitored and analysed in order to gauge their significance, from the point of view of both external and internal stakeholders. The materiality analysis is used to create a materiality matrix, which is used as a basis to monitor the strategic direction of sustainability management. The materiality matrix is described in greater detail in the Sustainable Value Report 2017.

Materiality matrix

→ 41



* These areas were rated highly material, as they were among the three topics the respondent stakeholder groups considered most important.

Top rankings in sustainability ratings

The BMW Group again achieved top rankings in prestigious sustainability ratings in 2017, thereby underlining its leading position as a sustainable company. In the Dow Jones Sustainability Indices (DJSI) rating, the BMW Group is the only German automobile maker to have been included once again in the two indices "World" and "Europe" and the only company in the sector to have been continuously represented since the indices were established.

In the CDP rating (formerly the Carbon Disclosure Project), the Group achieved the best rating for its climate protection efforts. The BMW Group is therefore one of only two companies worldwide to have been listed in the highest category eight times in succession. The BMW Group also achieved the best rating in the CDP water rating, which assesses companies' responsible use of water resources. The Group was again listed in the British FTSE4Good Index in 2017.

Fleet carbon dioxide emissions reduced

The development of sustainable products and services is an integral part of the BMW Group's business model. The fleet-wide deployment of Efficient Dynamics technologies is contributing to a continual reduction in CO_2 emissions. The electrification of the fleet continued to make significant progress in 2017. Due to the expansion of the model range, annual sales of electrified BMW Group vehicles increased significantly and, with 103,080 units, surpassed the announced target of 100,000 units. Efficient Dynamics and electrification form the basis for future compliance with legal CO_2 and fuel consumption requirements. Between 1995 and 2017, average CO_2 emissions of vehicles of the Group's three brands sold in Europe fell by 42 %.

In 2017, the BMW Group's fleet of new vehicles sold in Europe (EU-28) consumed an average of 4.6 litres of diesel and 5.6 litres of petrol per 100 km respectively. CO_2 emissions averaged 122 g/km.

Clean production

Integrated sustainability management in production processes ensures that resources are used efficiently. Since 2006, the consumption of resources and emissions per vehicle produced have been reduced by an average of 53.2 %. The individual figures for the development since 2006 are as follows:

in %	2017
Energy consumption	– 36.5
Water consumption	– 31.9
Process wastewater	– 51.2
Non-recyclable waste	– 79.6
Solvent emissions	– 59.0
CO_2 emissions	– 61.0

In 2017, at 2.17 MWh per vehicle produced, the BMW Group slightly reduced energy consumed in the production process compared with the previous year (2016: 2.21 MWh; – 1.8 %). This was mainly due to the implementation of new production structures at Group plants in Shenyang and the installation of LED lighting throughout the entire Group production network.

Through measures to boost energy efficiency and the purchase and in-house generation of electricity from renewable sources at BMW Group production sites, production-related CO_2 emissions fell significantly by 24.1 % to 0.41 tonnes per vehicle produced in 2017 compared with the previous year (2016: 0.54 tonnes). The substantial improvement in CO_2 efficiency was mainly due to improvement in energy efficiency and, above all, sourcing of power supplies in Germany, the UK and Austria exclusively from renewable sources.

In 2017, at 2.22 m^3 per vehicle produced, water consumption was slightly below the previous year's level (2016: 2.25 m^3; – 1.3 %). At 0.40 m^3, the volume of process wastewater per vehicle produced fell by 4.8 % (2016: 0.42 m^3). The amount of non-recyclable waste from production processes increased from a very low level the previous year to 3.86 kg per vehicle produced (2016: 3.51 kg; + 10.0 %) in the period under report. Solvent emissions were cut by 9.6 % to 1.03 kg per vehicle produced during 2017 (2016: 1.14 kg).

Overall in 2017, the BMW Group reduced resource usage and emissions per vehicle in the production process by an average of 5.3 %, equivalent to a total cost reduction of €161 million, mainly due to a slight improvement in the energy efficiency ratio.

Sustainability along the value chain

Sustainability criteria also play a key role in the selection and evaluation of suppliers as well as in the field of transport logistics. The BMW Group has therefore integrated comprehensive sustainability management in its purchasing processes. The Group's positive business performance in recent years has also caused a significant rise in transportation requirements worldwide. The BMW Group principle that production follows the market is an effective method of significantly reducing the need for transportation, thus keeping CO_2 emissions as low as possible.

Sustainability in human resources policies

In 2017, the BMW Group continued to consolidate its position as one of the most attractive employers worldwide. Its leading role in terms of sustainability contributes significantly to the high degree of employee loyalty within the BMW Group and is one of the reasons for the low staff attrition rate. This enables the BMW Group to maintain a low level of personnel recruitment expenditure. Further information on the attrition rate is provided in the section "Workforce".

A key reason for the BMW Group's ongoing success and an example of the high level of employee identification are the personal engagement and the ideas brought forward by staff members. This is demonstrated by the €18.2 million saved in 2017 in conjunction with the ideas management programme CREATE.

Social engagement

In 2017, the BMW Group contributed a total of €33.4 million for social engagement (2016: €87.8 million), including €16.2 million for donations (2016: €70.4 million). The significant decrease compared to 2016 was due to a one-time donation to the BMW Foundation in honour of the Company's centenary year 2016.

RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

Results of operations

In the financial year 2017, the BMW Group again achieved year-on-year growth in revenues, deliveries and profit before tax. The number of BMW, MINI and Rolls-Royce brand vehicles delivered to customers rose slightly by 4.1 % to 2,463,526* units.

BMW Group condensed income statement

→ 42

in € million	2017	2016	Change in %
Revenues	98,678	94,163	4.8
Cost of sales	–78,744	–75,442	–4.4
Gross profit	**19,934**	**18,721**	**6.5**
Selling and administrative expenses	–9,560	–9,158	–4.4
Other operating income and expenses	–494	–177	–
Profit before financial result	**9,880**	**9,386**	**5.3**
Financial result	775	279	–
Profit before tax	**10,655**	**9,665**	**10.2**
Income taxes	–1,949	–2,755	29.3
Net profit	**8,706**	**6,910**	**26.0**
Earnings per share of common stock in €	13.12	10.45	25.6
Earnings per share of preferred stock in €	13.14	10.47	25.5

in %	2017	2016	Change in %pts
Pre-tax return on sales	10.8	10.3	0.5
Post-tax return on sales	8.8	7.3	1.5
Gross margin	20.2	19.9	0.3
Effective tax rate	18.3	28.5	–10.2

Profit before tax for the financial year 2017 was significantly higher year-on-year.

*Includes the joint venture BMW Brilliance Automotive, Shenyang Ltd. (2017: 384,124 units, 2016: 316,200 units).

BMW Group revenues increased slightly by 4.8 % year-on-year to reach €98,678 million (2016: €94,163 million). This was mainly driven by higher sales volume of BMW Group vehicles, growth in the leasing and credit financing contract portfolio and increased sales of returned leasing vehicles in the Financial Services business.

Negative currency effects held down revenue growth. Currency effects were mainly the result of developments in the average exchange rates of the British pound and the Chinese renminbi.

Group revenues by region were as follows:

BMW Group revenues by region

→ 43

in %	2017	2016
Europe	45.6	47.1
Asia	30.1	28.8
Americas	21.2	20.7
Other regions	3.1	3.4
Group	**100.0**	**100.0**

BMW Group cost of sales

→ 44

in € million	2017	2016	Change in %
Manufacturing costs	43,877	43,175	1.6
Cost of sales relating to financial services business	22,932	20,723	10.7
thereof interest expense relating to financial services business	1,801	1,638	10.0
Research and development expenses	4,920	4,294	14.6
thereof amortisation of capitalised development costs	1,236	1,222	1.1
Service contracts, telematics and roadside assistance	2,081	2,018	3.1
Warranty expenses	2,041	2,165	– 5.7
Other cost of sales	2,893	3,067	– 5.7
Cost of sales	**78,744**	**75,442**	**4.4**

The Group's cost of sales was slightly higher than in the previous year due to volume and mix effects. Costs relating to the Group's Financial Services business, which were significantly higher than the previous year, also contributed. Revenue growth from the sale of returned leasing vehicles had a corresponding effect on cost of sales. Currency effects held down the scale of the increase.

BMW Group performance indicators relating to research and development expenses

→ 45

in %	2017	2016	Change in %pts
Research and development expenses as a percentage of revenues	5.0	4.6	0.4
Research and development expenditure ratio	6.2	5.5	0.7
Capitalisation rate	39.7	40.5	–0.8

Due to the continued product offensive, vehicle electrification and development work on autonomous driving, research and development expenses at €4,920 million (2016: €4,294 million) were significantly up on the previous year. As a result, total research and development expenditure – comprising research costs, non-capitalised development costs and capitalised development costs (excluding amortisation thereon) – amounted to €6,108 million in the year under report (2016: €5,164 million). The capitalised development costs were mainly related to the production start of new models and modules.

Overall, gross profit amounted to €19,934 million, reflecting a solid improvement over the previous year.

Selling and administrative expenses were €402 million higher at €9,560 million, mainly as a result of the increased workforce and higher marketing and IT expenses.

Depreciation and amortisation on property, plant and equipment and intangible assets recorded in cost of sales and in selling and administrative expenses totalled €4,822 million (2016: €4,806 million).

The net amount of other operating income and expenses in 2017 was €–494 million (2016: €–177 million), with, amongst others, higher allocations to provisions for litigation and other legal risks contributing to the year-on-year change.

Profit before financial result (EBIT) increased solidly and amounted to €9,880 million (2016: €9,386 million).

At €775 million, the financial result was significantly higher than one year earlier. This was mainly driven by a €297 million increase in the result from equity accounted investments to €738 million. This was due, amongst others, to a €183 million positive earnings effect following the sale of 15% of the shares in HERE International B.V., Amsterdam, by THERE Holding B.V., Amsterdam. The earnings contribution from BMW Brilliance Automotive Ltd. also increased, driven by sales volume within a stable competitive environment. In addition, other financial result improved by €117 million to €248 million. In contrast to the previous year, the result on investments in 2017 included no impairment losses on other investments. Furthermore, the net interest result improved by €82 million to a net amount of €–211 million. This was mainly due to the lower interest expense arising from the unwinding of the discount on non-current provisions and higher liquidity, which resulted in lower financing requirements in selected countries.

Overall, profit before tax increased significantly year-on-year to €10,655 million (2016: €9,665 million).

The income tax expense for the year amounted to €1,949 million (2016: €2,755 million). The significantly lower year-on-year tax expense was mainly due to the reduction in the US federal corporate income tax rate from 35% to 21% with effect from 1 January 2018, which was taken into account in the measurement of deferred taxes at 31 December 2017. The revaluation of deferred taxes had an overall positive impact of €977 million on net profit for the year. Further information is provided in → note 12 of the Group Financial Statements.

→ see note 12

Results of operations by segment

BMW Group revenues by segment

→ 46

in € million	2017	2016	Change in %	Currency adjusted change* in %
Automotive	88,581	86,424	2.5	3.9
Motorcycles	2,283	2,069	10.3	11.1
Financial Services	27,567	25,681	7.3	8.7
Other Entities	7	6	16.7	–
Eliminations	–19,760	–20,017	1.3	–
Group	**98,678**	**94,163**	**4.8**	**5.1**

*The adjustment for exchange rate factors is calculated by applying the relevant current exchange rates to the prior year's figures.

BMW Group profit / loss before tax by segment

→ 47

in € million	2017	2016	Change in %
Automotive	8,691	7,916	9.8
Motorcycles	205	185	10.8
Financial Services	2,207	2,166	1.9
Other Entities	80	170	–52.9
Eliminations	–528	–772	31.6
Group	**10,655**	**9,665**	**10.2**

BMW Group margins by segment

→ 48

in %	2017	2016	Change in %pts
Automotive			
Gross profit margin	18.4	17.9	0.5
EBIT margin	8.9	8.9	–
Motorcycles			
Gross profit margin	20.8	20.8	–
EBIT margin	9.1	9.0	0.1

Automotive segment
Automotive segment revenues grew slightly due to higher sales volumes, with currency factors and a continued highly competitive business environment holding revenue growth down. Cost of sales increased slightly in line with sales volume growth. The gross profit margin was in line with the previous year.

Profit before financial result increased slightly to €7,863 million (2016: €7,695 million). The positive effect of volume growth was offset by increases in research and development expenses, selling and administrative expenses and other operating expenses.

At €828 million, the financial result was significantly higher than one year earlier. In addition to the effects from result from equity accounted investments and other financial result described above, the net interest result also had a positive impact on the Automotive segment's financial result. Thanks to lower year-on-year interest and similar expenses, the net interest result improved significantly to a net amount of €– 205 million (2016: €– 413 million).

Overall, the Automotive segment reported a solid increase in pre-tax profit.

Motorcycles segment
Motorcycles segment revenues rose significantly, mainly reflecting year-on-year volume growth. Higher sales of optional equipment, spare parts and accessories as well as improved pricing also contributed.

The net amount of other operating income and expenses deteriorated by €24 million to a net amount of €–11 million. The previous year's figure benefited in particular from higher income arising on the reversal of write-downs than in the year under report.

Profit before tax rose significantly compared to the previous year thanks to the positive business development.

Financial Services segment
The Financial Services segment recorded solid revenue growth due to positive development in the credit financing business and the higher volume of returned leasing vehicles sold. The risk profile remained at a historically favourable level in the year under report.

Segment selling and administrative expenses increased by €76 million to €1,370 million, mainly due to higher personnel and IT project costs.

The net amount of other operating income and expenses improved by €51 million to €–17 million. Income from the reversal of provisions, amongst others, had a positive effect.

The financial result improved by €31 million to a net amount of €13 million, due, amongst others, to higher fair value measurement gains within other financial result.

Profit before tax in the Financial Services segment was slightly up on the previous year, mainly reflecting business volume growth and the improved net amount of other operating income and expenses.

Other Entities segment/Eliminations
Profit before tax in the Other Entities segment fell significantly year-on-year, mainly due to the lower net interest result.

Inter-segment eliminations reduced Group profit before tax by €528 million. The amount of eliminations was lower than in the previous financial year as a result of the lower volume of new leasing business in 2017 and the positive effect of reversals in the portfolio of leased products (2016: negative impact of €772 million).

Financial position

The cash flow statements for the Group and the Automotive and Financial Services segments show the sources and applications of cash flows for the financial years 2017 and 2016. Cash flows are classified according to operating, investing and financing activities. Cash and cash equivalents in the cash flow statements correspond to the amounts disclosed in the balance sheet.

Cash flows from operating activities are determined indirectly, starting with Group and segment net profit. By contrast, cash flows from investing and financing activities are based on actual payments and receipts.

BMW Group financial position

→ 49

in € million	2017	2016	Change
Cash inflow/outflow from operating activities	5,909	3,173	2,736
Cash inflow/outflow from investing activities	–6,163	–5,863	–300
Cash inflow/outflow from financing activities	1,572	4,393	–2,821
Effects of changes in exchange rate and composition of Group	–159	55	–214
Change in cash and cash equivalents	**1,159**	**1,758**	**–599**

The increase in cash inflow from the Group's operating activities was mainly due to the higher net profit for the year (€1,796 million) and lower additions to leased products (€1,392 million), compared to the previous year.

The increase in cash outflow from the Group's investing activities mainly reflects higher overall investments in intangible assets and property, plant and equipment (€1,289 million), partially offset by higher cash proceeds from the disposal of investments and other business units (€1,096 million).

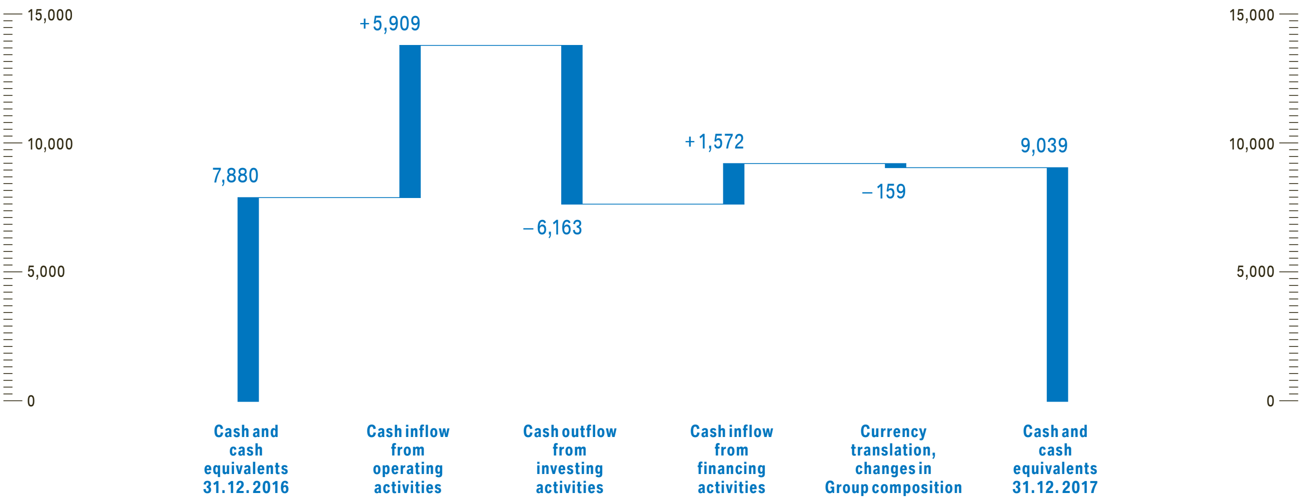
The Group's financing activities show a €1,913 million reduction in cash inflows from the issue of bonds and a €1,000 million decrease in cash outflows for bond repayment. In addition, cash inflows from other financial liabilities decreased by €4,261 million. Changes in commercial paper gave rise to net cash inflow of €953 million (2016: net cash outflow of €1,632 million).

The cash outflow from investing activities exceeded the cash inflow from operating activities by €254 million in the financial year 2017. In the previous year, the shortfall was higher at €2,690 million.

BMW Group change in cash and cash equivalents

→ 50

in € million



Free cash flow for the Automotive segment was as follows:

in € million	2017	2016	Change
Cash inflow/outflow from operating activities	10,848	11,464	– 616
Cash inflow/outflow from investing activities	– 6,544	– 5,432	– 1,112
Net investment in marketable securities and investment funds	155	– 240	395
Free cash flow Automotive segment	**4,459**	**5,792**	**– 1,333**

The decrease in cash inflow from the Automotive segment's operating activities was mainly due to higher net outflow for other operating assets and liabilities. Cash outflow from investing activities was influenced in particular by the overall €1,273 million increase in investments in intangible assets and property, plant and equipment.

Net financial assets of the Automotive segment comprise the following:

in € million	2017	2016	Change
Cash and cash equivalents	7,157	4,794	2,363
Marketable securities and investment funds	4,336	4,147	189
Intragroup net financial assets	9,774	12,077	– 2,303
Financial assets	**21,267**	**21,018**	**249**
Less: external financial liabilities*	– 1,480	– 1,498	18
Net financial assets Automotive segment	**19,787**	**19,520**	**267**

* Excluding derivative financial instruments.

Net cash inflows and outflows for the Financial Services segment were as follows:

in € million	2017	2016	Change
Cash inflow/outflow from operating activities	–6,384	–9,844	3,460
Cash inflow/outflow from investing activities	937	–102	1,039
Cash inflow/outflow from financing activities	4,334	11,601	–7,267
Net	**–1,113**	**1,655**	**–2,768**

Cash outflow from operating activities in the Financial Services segment is driven primarily by the cash flows relating to leased products and receivables from sales financing. Cash inflow from investing activities results mainly from cash proceeds from the disposal of investments and other business units (€970 million). Cash inflow from financing activities is mainly driven by the change in other financial liabilities.

Refinancing

A broad range of instruments on international money and capital markets is used to refinance worldwide operations. Funds raised are used almost exclusively to finance the BMW Group's Financial Services business.

The overall objective of Group financing is to ensure at all times the solvency of the BMW Group. This leads to three areas of focus:

1. Ability to act through permanent access to strategically important capital markets

2. Autonomy through the diversification of refinancing instruments and investors

3. Focus on value through optimisation of financing costs

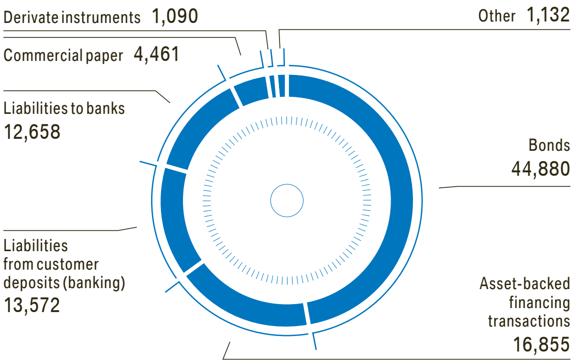
Financing measures undertaken centrally ensure access to liquidity for the Group's operating subsidiaries at standard market conditions and consistent credit terms. Funds are acquired in line with a target liability structure, comprising a balanced mix of financing instruments. The use of longer-term financing instruments to finance the Group's financial services business and the maintenance of a sufficiently high liquidity reserve serves to avoid liquidity risk in the portfolio. This conservative financial approach also supports the Group's rating. Further information is provided in the section Liquidity risks within the Report on Outlook, Risks and Opportunities.

Thanks to its good ratings and the high level of acceptance it enjoys on capital markets, the BMW Group was again able to refinance operations at favourable conditions on debt capital markets during the financial year 2017. In addition to the issue of bonds, loan notes and private placements, commercial paper was also issued. As in previous years, all issues were in high demand, not only from private but also in particular from institutional investors. In addition, retail customer and dealership financing receivables and rights and obligations from leasing contracts are securitised in the form of asset-backed securities (ABS) financing arrangements. Specific banking instruments, such as customer deposits used by the Group's own banks in Germany and the USA, are also used for financing. Loans are also taken out with international banks.

BMW Group composition financial liabilities

→ 51

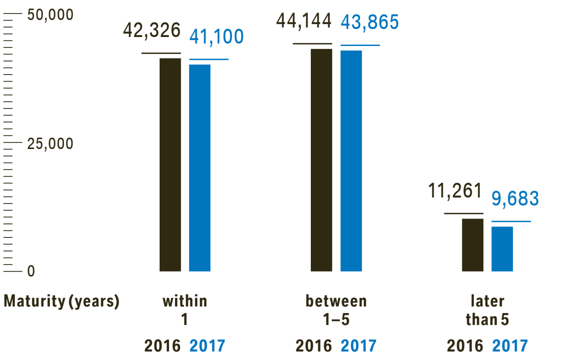
in € million



BMW Group financial liabilities by maturity

→ 52

in € million



In 2017, the BMW Group issued four euro benchmark bonds on the European capital market with a total issue volume of €3.75 billion, as well as bonds on the US capital market with a total issue volume of US$2.20 billion. Bonds were also issued in British pounds, US dollars, Canadian dollars, Indian rupees, South Korean won and Norwegian krone for a total amount of €1.17 billion. Private placements totalling €4.50 billion were also issued.

A total of twelve public ABS transactions were executed in 2017, including three in China, two each in Germany and the USA, and one each in Canada, South Korea, South Africa, the UK and Switzerland, with a total volume equivalent to €6.9 billion. Further funds were also raised via new ABS conduit transactions in Japan, the UK and the USA totalling €2.4 billion. Other transactions remain in place in Germany, Switzerland, South Korea, South Africa and Australia, amongst others.

The following table provides an overview of amounts* utilised at 31 December 2017 in connection with the BMW Group's money and capital market programmes:

Programme	Programme framework	Amount utilised*
in € billion		
Euro Medium Term Notes	50.0	34.7
Australian Medium Term Notes	1.6	0.3
Commercial Paper	13.0	4.4

* Measured at exchange rates at the relevant transaction dates.

At 31 December 2017, liquidity stood at a solid level of €14.5 billion.

The BMW Group also has access to a syndicated credit line which was newly agreed in July 2017. The syndicated credit line of €8 billion has a minimum term to July 2022 and is made available by a consortium of 44 international banks. The credit line was not being utilised at 31 December 2017.

→ see notes 29, 33 and 37

Further information with respect to financial liabilities is provided in → notes 29, 33 and 37 of the Group Financial Statements.

Net assets

BMW Group condensed balance sheet at 31 December

→ 53

in € million	Group 2017	Group 2016	Change in %	Currency adjusted change* in %	Proportion of balance sheet total in % 2017
ASSETS					
Intangible assets	9,464	8,157	16.0	16.2	4.9
Property, plant and equipment	18,471	17,960	2.8	5.3	9.5
Leased products	36,257	37,789	–4.1	2.0	18.7
Investments accounted for using the equity method	2,767	2,546	8.7	8.7	1.4
Other investments	690	560	23.2	24.1	0.4
Receivables from sales financing	80,434	78,260	2.8	9.1	41.6
Financial assets	10,334	9,770	5.8	6.8	5.3
Deferred and current tax	3,493	4,265	–18.1	–6.4	1.8
Other assets	7,160	6,682	7.2	10.0	3.7
Inventories	12,707	11,841	7.3	11.1	6.6
Trade receivables	2,667	2,825	–5.6	–1.8	1.4
Cash and cash equivalents	9,039	7,880	14.7	18.2	4.7
Total assets	**193,483**	**188,535**	**2.6**	**7.6**	**100.0**
EQUITY AND LIABILITIES					
Equity	54,548	47,363	15.2	19.1	28.2
Pension provisions	3,252	4,587	–29.1	–27.4	1.7
Other provisions	11,750	10,918	7.6	13.0	6.1
Deferred and current tax	3,365	3,869	–13.0	10.3	1.7
Financial liabilities	94,648	97,731	–3.2	1.8	48.9
Trade payables	9,731	8,512	14.3	16.7	5.0
Other liabilities	16,189	15,555	4.1	10.0	8.4
Total equity and liabilities	**193,483**	**188,535**	**2.6**	**7.6**	**100.0**

* The adjustment for exchange rate factors is calculated by applying the relevant current exchange rates to the prior year's figures.

The balance sheet total of the BMW Group increased slightly compared to 31 December 2016. Adjusted for currency effects, the increase was solid. Currency effects arose primarily from the period-end exchange rates of the US dollar, Chinese renminbi and British pound against the euro.

Intangible assets increased significantly compared to the end of 2016. Within this item, the carrying amount of capitalised development costs rose by €1,188 million as a result of the continued product offensive, vehicle electrification and development work on autonomous driving.

Leased products decreased slightly compared to 31 December 2016. Adjusted for currency effects, however, they increased slightly. The portfolio of leasing contracts grew by 3.8 % to 1,744,297 contracts, with increases recorded in particular in France, Spain and Germany.

Receivables from sales financing were slightly higher compared to 31 December 2016. Adjusted for currency effects, however, there was a solid increase, particularly in the UK and China. A total of 1,224,546 new credit financing contracts were signed in 2017 and the contract portfolio grew by 5.3 % to 3,181,931 contracts.

A solid increase in inventories was recorded compared to the end of 2016. Adjusted for currency effects the increase was significant. The increase was primarily due to finished goods, mainly relating to stocking up effects in connection with the introduction of new models, amongst others, the 5 Series and the X3 and X1 models.

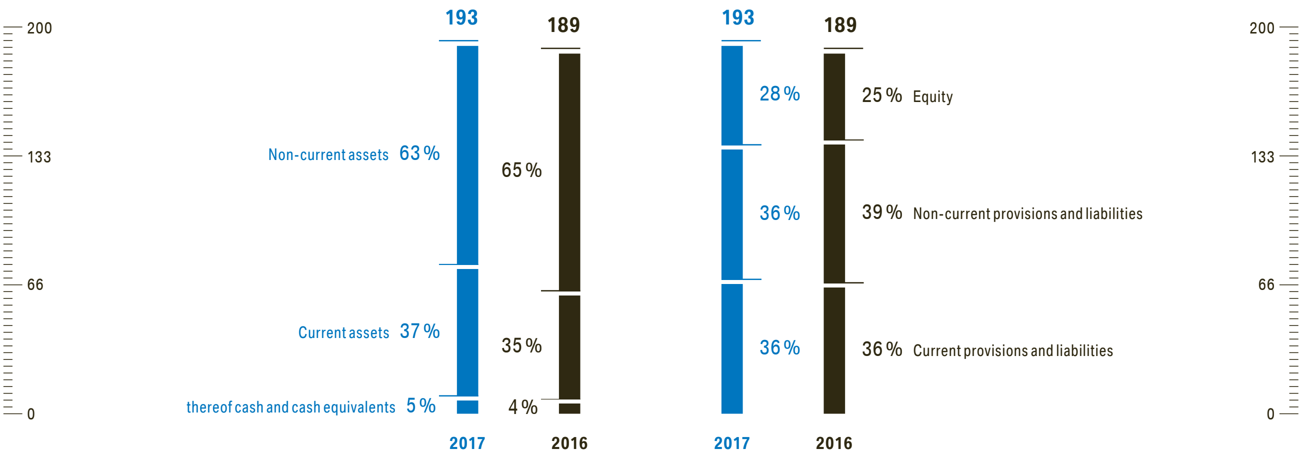
Financial assets increased solidly compared to 31 December 2016, mainly due to the positive development of currency and commodity derivatives.

Cash and cash equivalents grew significantly by €1,159 million, compared to one year earlier.

Balance sheet structure – Group

→ 54

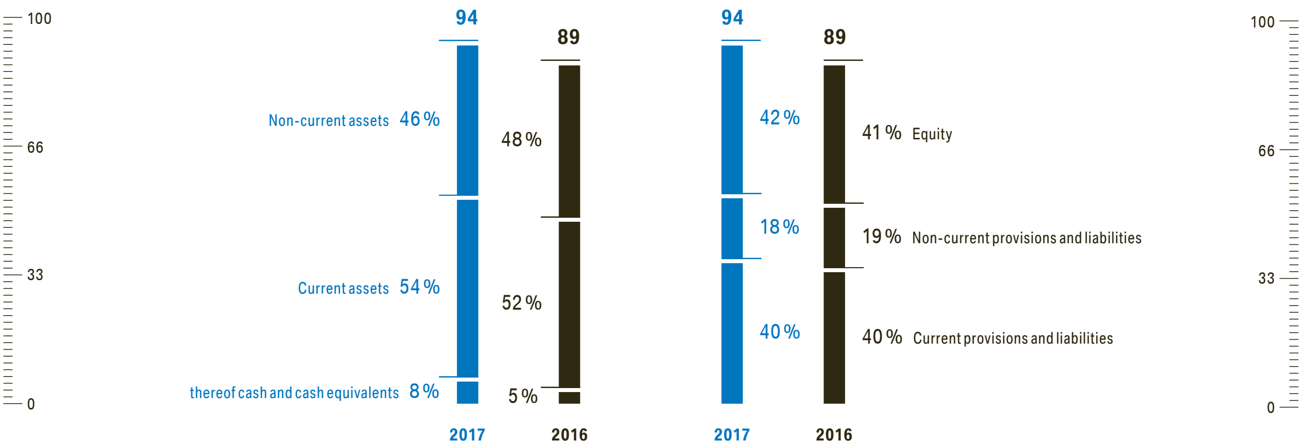
Balance sheet total in € billion



Balance sheet structure – Automotive segment

→ 55

Balance sheet total in € billion



Group equity rose by €7,185 million to €54,548 million. Equity increased year-on-year mainly as a result of the net profit attributable to shareholders of BMW AG amounting to €8,620 million, fair value gains on derivative financial instruments amounting to €1,914 million and the positive impact of remeasurements of the net defined benefit liability for pension plans amounting to €693 million, due mainly to the revaluation of plan assets. The dividend payment of €2,300 million, negative currency translation effects of foreign operations amounting to €1,171 million and deferred taxes on fair value changes recognised directly in equity amounting to €815 million had a negative impact on equity.

BMW Group equity ratio

→ 56

in %	31.12.2017	31.12.2016	Change in %pts
Group	**28.2**	25.1	3.1
Automotive segment	**42.0**	41.3	0.7
Financial Services segment	**10.7**	8.0	2.7

Pension provisions decreased significantly compared to the end of the financial year 2016. The decrease was mainly due to gains on plan assets as well as gains from the closing of defined benefit plans in the UK. A transfer from plan assets for pre-retirement part-time working arrangements to plan assets for pension plans brought about a further reduction in pension provisions.

Financial liabilities fell slightly compared to 31 December 2016. Adjusted for currency effects, they increased slightly. The increase was mainly due to the issue of bonds and commercial paper. In addition, new ABS transactions were concluded in various countries. Changes in derivatives and lower liabilities to banks kept down the increase in financial liabilities.

The significant increase in trade payables mainly reflects higher production volumes and model start-ups.

Overall, the results of operations, financial position and net assets position of the BMW Group continued to develop positively during the year under report.

Value added statement

The value added statement shows the value of work performed by the BMW Group during the financial year, less the value of work bought in. Depreciation and amortisation, cost of materials, and other expenses are treated as bought-in costs in the net value added calculation. The allocation statement shows the value added of each of the participants involved in the value added process. The bulk of the net value added is related to employees. The proportion remaining in the Group is retained to finance future operations. The gross value added amount treats depreciation as a component of value added which, in the allocation statement, would be treated as internal financing.

Net valued added by the BMW Group remained at a high level in the financial year 2017.

BMW Group value added statement

→ 57

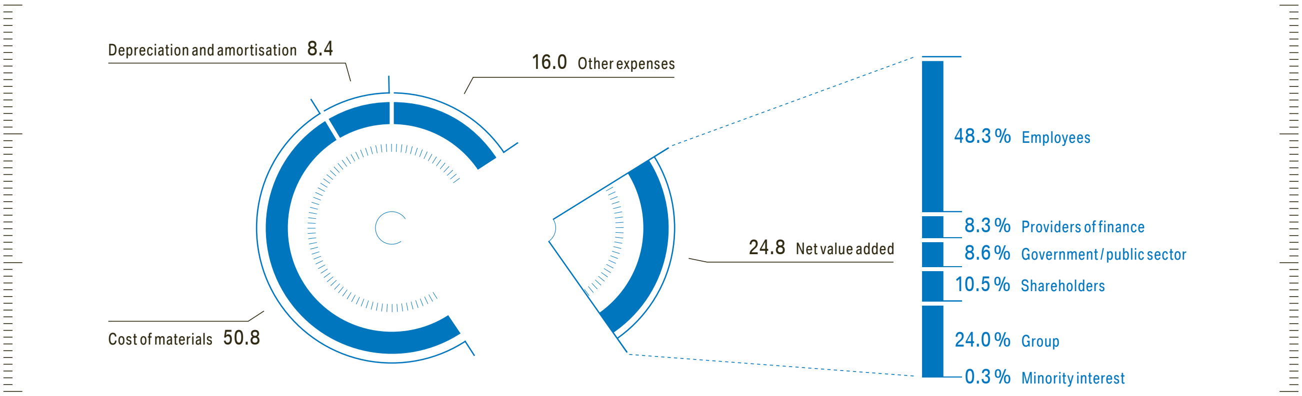
	2017 in € million	2017 in %	2016 in € million	2016 in %	Change in %
WORK PERFORMED					
Revenues	98,678	98.2	94,163	98.4	
Financial income	1,123	1.1	875	0.9	
Other income	720	0.7	670	0.7	
Total output	**100,521**	**100.0**	**95,708**	**100.0**	**5.0**
Cost of materials*	51,043	50.8	50,279	52.5	
Other expenses	16,045	16.0	13,502	14.1	
Bought-in costs	**67,088**	**66.8**	**63,781**	**66.6**	**5.2**
Gross value added	**33,433**	**33.2**	**31,927**	**33.4**	**4.7**
Depreciation and amortisation of total tangible, intangible and investment assets	8,455	8.4	8,304	8.7	
Net value added	**24,978**	**24.8**	**23,623**	**24.7**	**5.7**
ALLOCATION					
Employees	12,052	48.3	11,535	48.8	4.5
Providers of finance	2,066	8.3	1,965	8.3	5.1
Government / public sector	2,154	8.6	3,213	13.7	–33.0
Shareholders	2,630	10.5	2,300	9.7	14.3
Group	5,990	24.0	4,563	19.3	31.3
Minority interest	86	0.3	47	0.2	83.0
Net value added	**24,978**	**100.0**	**23,623**	**100.0**	**5.7**

* Cost of materials comprises all primary material costs incurred for vehicle production plus ancillary material costs (such as customs duties, insurance premiums and freight).

BMW Group value added 2017

→ 58

in %



COMMENTS ON FINANCIAL STATEMENTS OF BMW AG

Bayerische Motoren Werke Aktiengesellschaft (BMW AG), based in Munich, Germany, is the parent company of the BMW Group. The comments on the BMW Group and Automotive segment provided in earlier sections apply to BMW AG, unless presented differently in the following section. The Financial Statements of BMW AG are drawn up in accordance with the provisions of the German Commercial Code (HGB) and the relevant supplementary provisions of the German Stock Corporation Act (AktG).

The key financial and non-financial performance indicators for BMW AG are essentially identical and concurrent with those of the Automotive segment of the BMW Group. These are described in detail in the Report on Economic Position section of the Combined Management Report.

Differences between the accounting treatment of the German Commercial Code and International Financial Reporting Standards (IFRS), according to which the BMW Group Financial Statements are prepared, are mainly to be found in connection with the capitalisation of intangible assets, the creation of valuation units, the recognition and measurement of financial instruments and provisions, and the recognition of deferred tax assets. Differences also arise in the presentation of assets and liabilities and of items in the income statement.

Business environment and review of operations

The general and sector-specific environment of BMW AG is essentially the same as that of the BMW Group and is described in the Report on Economic Position section of the Combined Management Report.

BMW AG develops, manufactures and sells automobiles and motorcycles as well as spare parts and accessories manufactured in-house, by foreign subsidiaries and by external suppliers, and performs services related to these products. Sales activities are carried out primarily through branches, subsidiaries, independent dealerships and importers. In 2017, BMW AG increased deliveries by 138,389 units to 2,494,115 units. This figure includes 396,749 units relating to series sets supplied to the joint venture BMW Brilliance Automotive Ltd., Shenyang, an increase of 91,023 units over the previous year. At 31 December 2017, BMW AG employed a workforce of 87,940 people, 2,186 more than one year earlier.

Results of operations

BMW AG Income Statement

→ 59

in € million	2017	2016
Revenues	79,215	75,350
Cost of sales	–62,817	–60,946
Gross profit	**16,398**	**14,404**
Selling expenses	–3,958	–3,635
Administrative expenses	–2,733	–2,504
Research and development expenses	–5,168	–4,504
Other operating income and expenses	–303	–137
Result on investments	1,081	1,015
Financial result	–541	–35
Income taxes	–1,563	–1,308
Profit after income tax	**3,213**	**3,296**
Other taxes	–16	–19
Net profit	**3,197**	**3,277**
Transfer to revenue reserves	–567	–977
Unappropriated profit available for distribution	**2,630**	**2,300**

Revenues rose by 5.1 % year-on-year, mainly reflecting increased deliveries of the BMW 5 Series. In geographical terms, the increase mainly related to Asia and Europe. Revenues amounted to €79,215 million (2016: €75,350 million), of which Group internal revenues accounted for €59,736 million (2016: €56,412 million) or 75.4 % (2016: 74.9 %).

Cost of sales increased by 3.1 % to €62,817 million, mostly due to the higher cost of materials. Gross profit improved by €1,994 million to €16,398 million.

Selling and administrative expenses increased overall year-on-year, reflecting an increase in workforce, IT projects and increased marketing costs.

Research and development expenses related mainly to new vehicle models in conjunction with the product offensive (including new X models), expenses for the development of drivetrain systems and innovations, for example in connection with the electrification of vehicles and the further development of autonomous driving. Compared to the previous year, research and development expenses increased by 14.7 %.

The net amount of other operating income and expenses deteriorated by €166 million to € –303 million, with the year-on-year change mainly attributable to higher net expenses for financial transactions as well as legal disputes.

Results on investments benefited from higher profit transfers from Group companies. By contrast, the financial result deteriorated by €506 million, mainly due to higher interest expenses for pension liabilities and lower income from the corresponding plan assets. The reversal of impairment losses on the investment in SGL Carbon SE, however, had a positive impact on the financial result.

The expense for income taxes relates primarily to current tax for the financial year 2017.

After deducting the expense for taxes, the Company reported a net profit of €3,197 million compared to €3,277 million in the previous year.

Financial and net assets position

BMW AG Balance Sheet at 31 December

→ 60

in € million	2017	2016
ASSETS		
Intangible assets	288	310
Property, plant and equipment	11,455	11,163
Investments	3,676	3,238
Tangible, intangible and investment assets	**15,419**	**14,711**
Inventories	4,643	4,260
Trade receivables	766	667
Receivables from subsidiaries	7,641	6,001
Other receivables and other assets	2,827	2,525
Marketable securities	4,185	3,846
Cash and cash equivalents	4,218	2,676
Current assets	**24,280**	**19,975**
Prepayments	483	430
Surplus of pension and similar plan assets over liabilities	1,290	1,183
Total assets	**41,472**	**36,299**
EQUITY AND LIABILITIES		
Subscribed capital	658	657
Capital reserves	2,153	2,127
Revenue reserves	9,605	9,038
Unappropriated profit available for distribution	2,630	2,300
Equity	**15,046**	**14,122**
Registered profit-sharing certificates	29	30
Pension provisions	139	93
Other provisions	8,469	7,606
Provisions	**8,608**	**7,699**
Liabilities to banks	965	995
Trade payables	5,619	5,030
Liabilities to subsidiaries	8,187	5,951
Other liabilities	333	406
Liabilities	**15,104**	**12,382**
Deferred income	**2,685**	**2,066**
Total equity and liabilities	**41,472**	**36,299**

Capital expenditure on intangible assets and property, plant and equipment in the year under report amounted to €2,628 million (2016: €2,346 million), up by 12.0% compared to the previous year. Depreciation and amortisation amounted to €2,350 million (2016: €2,233 million).

The carrying amount of investments increased to €3,676 million (2016: €3,238 million), mainly as a result of a share capital increase at BMW Automotive Finance (China) Co., Ltd., Beijing. A previously recognised impairment loss of €70 million on the investment in SGL Carbon SE, Wiesbaden, was reversed in 2017, since the reasons for valuing the investment at the lower market value no longer existed at the balance sheet date.

At €4,643 million, inventories were higher than at the end of the previous year (2016: €4,260 million), due to an increase in finished goods.

Receivables from subsidiaries, most of which relate to intragroup financing receivables, rose to €7,641 million (2016: €6,001 million).

The increase in other receivables and other assets to €2,827 million (2016: €2,525 million) was mainly due to higher receivables from companies in which an investment is held, as well as higher tax receivables.

Equity increased by €924 million to €15,046 million. The equity ratio fell from 38.9 % to 36.3 %, mainly due to the increased balance sheet total.

In order to secure pension obligations, investments in fund assets totalling €498 million were transferred to BMW Trust e.V., Munich, in conjunction with a Contractual Trust Arrangement (CTA). Fund assets are offset against the related guaranteed obligations. The resulting surplus of assets over liabilities is reported in the BMW AG balance sheet on the line item Surplus of pension and similar plan assets over liabilities.

Provisions for pensions increased from €93 million to €139 million, after offsetting of pension liabilities with pension assets.

Other provisions increased year on year, mainly due to increased provisions for pre-retirement part-time arrangements. With effect from 2017, fund assets relating to pre-retirement part-time working arrangements are secured by bank guarantees, with the result that at the reporting date no offsetting amount was recorded for corresponding assets. Also, provisions were increased as a result of further additions to the provision for litigation and liability risks.

Liabilities to banks decreased as a result of the repayment of project-related loans.

Liabilities to subsidiaries comprise mainly intragroup financial liabilities.

Deferred income increased by €619 million to €2,685 million and included mainly amounts relating to services still to be performed related to service and maintenance contracts.

Liquidity within the BMW Group is managed centrally by BMW AG on the basis of a group-wide liquidity concept. This involves concentrating a significant part of the Group's liquidity at BMW AG. An important instrument in this context is the cash pool based at BMW AG. The liquidity position reported by BMW AG therefore reflects the global activities of BMW AG and other Group companies.

Cash and cash equivalents increased by €1,542 million to €4,218 million, mainly due to the surplus from operational activities and the increase in financial liabilities. Investment in tangible, intangible and investment assets and in marketable securities, as well as payment of the dividend from the previous year, had an offsetting effect.

Risks and opportunities

BMW AG's performance is essentially dependent on the same set of risks and opportunities that affect the BMW Group and which are described in detail in the Report on Outlook, Risks and Opportunities section of the Combined Management Report. As a general rule, BMW AG participates in the risks entered into by Group companies in proportion to the respective shareholding percentage.

BMW AG is integrated in the group-wide risk management system and internal control system of the BMW Group. Further information is provided in the section Internal Control System Relevant for Accounting and Financial Reporting Processes within the Combined Management Report.

Outlook

Due to its significance in the Group and its close ties with Group companies, expectations for BMW AG with respect to its financial and non-financial performance indicators correspond largely to the BMW Group's outlook for the Automotive segment. This is described in detail in the Report on Outlook, Risks and Opportunities section of the Combined Management Report.

KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, has issued an unqualified audit opinion on the financial statements of BMW AG, of which the balance sheet and the income statement are presented here. The BMW AG financial statements for the financial year 2017 will be submitted to the operator of the electronic version of the German Federal Gazette and can be obtained via the Company Register website. These financial statements are available from BMW AG, 80788 Munich, Germany.

REPORT ON OUTLOOK, RISKS AND OPPORTUNITIES

Positive overall outlook for global economy

Strong business performance expected to continue in 2018

Outlook foresees increase in deliveries and revenues

OUTLOOK

The report on outlook, risks and opportunities describes the expected development of the BMW Group, including the significant risks and opportunities, from a Group management perspective. In line with the Group's internal management system, the outlook covers a period of one year. Risks and opportunities are managed on the basis of a two-year assessment. The report on risks and opportunities therefore addresses a period of two years.

The report on outlook, risks and opportunities contains forward-looking statements. These are based on the BMW Group's expectations and assessments and are subject to uncertainty. As a result, actual outcomes can deviate either positively or negatively – for example on account of political and economic developments – from the expectations described below. Further information is provided in the section Risks and Opportunities.

Assumptions used in the outlook

The following outlook relates to a forecast period of one year and is based on the composition of the BMW Group during that time. The outlook takes account of all information available at the time of reporting and which could have an effect on the overall performance of the Group. The expectations contained in the outlook are based on the BMW Group's forecasts for 2018 and reflect its most recent status. The basis and principal assumptions of the forecasts are set out below. They represent a consensus of opinions of leading organisations, such as economic research institutes and banks. These assumptions flow into the planning basis of the BMW Group.

The continuous forecasting process ensures the BMW Group's ability to exploit opportunities quickly and systematically as they arise and react in a similar way to unexpected risks. The principal risks and opportunities are described in detail in the section Risks and Opportunities. The risks and opportunities discussed therein are relevant for all of the BMW Group's performance indicators and could result in variances between the outlook and actual outcomes.

Economic outlook

Despite an array of uncertainties, particularly in the area of international trade, the overall outlook for the world economy is positive. Global economic growth is forecast to be around 3.9 % in 2018. The exit negotiations between the EU and the UK and the current US administration's future trade policy remain factors that could at least significantly slow down the current upward trend in the event of unfavourable developments. Moreover, financial market stability could be jeopardised by over-restrictive monetary policies in the USA, high levels of corporate debt in China and excessive sovereign debt in Japan as well as some eurozone countries. Further information on political and global economic risks is also available in the section Risks and Opportunities.

After a year of robust expansion, economic growth in the eurozone is forecast to slow down slightly to 2.2 % in 2018. Germany, Europe's largest economy, is expected to grow at a similar rate (+ 2.3 %). Economic growth of the other member states in the eurozone is also predicted to develop positively. France (+ 2.0 %) and Italy (+1.4 %) are likely to see an increase in GDP over the outlook period. Based on an expected growth rate of 2.7 %, the Spanish economy is set to grow faster than the eurozone average. The economies of both Portugal and Greece are also expected to grow at around 2.1 %, enabling a reduction in unemployment.

The UK's economic performance in the outlook period will be influenced significantly by the progress of EU exit negotiations. In view of the official leaving date in March 2019 and with negotiations making slow progress to date, the UK economy is preparing for various scenarios. British companies are considering, amongst others, relocation of operations to the EU. The lack of planning certainty is weighing on companies and private households alike. Consequently, the economy is expected to slow further with a growth rate of only 1.4 % for the current year.

In the USA, the administration's tax-cutting programme is likely to give companies greater flexibility for investment and thereby boost business expansion. These factors are expected to have a slightly positive impact on the economy, which is expected to expand by 2.6 % in 2018. The US Federal Reserve will most likely continue pursuing a more restrictive monetary policy. The prerequisite is that domestic demand in private households as well as corporate and public sectors remains robust and prices rise.

In 2018, China is likely to focus on reducing credit growth and stimulating the services sector. Greater diversification of economic sectors could lead to a reduction in overcapacities. Against this backdrop, GDP is forecast to rise by 6.5 %. Many Chinese industrial companies are confronted with high debt levels, a situation that could also threaten financial market stability. Safeguarding market stability therefore remains one of the most urgent tasks for the Chinese government. The risk of a significant economic downturn in China cannot therefore be ruled out.

The Japanese economy is expected to grow by 1.3 % in 2018. Moderate demand for capital goods as well as consumer spending could help drive growth. The weak yen is also likely to create momentum for exports.

If India succeeds in implementing further reforms aimed at promoting growth, economic output could rise by even more than the 7.3 % forecast for 2018. Economic growth is also forecast for Russia (+1.9 %) and Brazil (+ 2.5 %), supported by higher raw material prices and solid corporate investment.

Currency markets

Currencies of particular importance for the international operations of the BMW Group are the US dollar, the Chinese renminbi, the Japanese yen and the British pound. All of these major currencies are expected to remain volatile in 2018.

A significantly more restrictive monetary policy on the part of the US Federal Reserve as well as economic stimulus through tax cuts for companies and private households could raise the value of the US dollar against the euro. However, a simultaneous economic upturn in the eurozone, falling unemployment and rising inflation rates could lead the ECB to gradually scale down its expansionary monetary policy. As a result, the euro would probably remain at a similar value against the US dollar as in the second half of 2017.

The strong economic ties between China and the USA make it likely that the Chinese renminbi will follow a similar trend to the US dollar. As a result, the renminbi/euro exchange rate is likely to move sideways in 2018, subject to volatility.

The performance of the British pound will be determined largely by the progress made in negotiations between the EU and the UK. If the negotiating parties are able to agree on withdrawal terms and successfully conclude talks on trade relations for the period after March 2019 or for a transition period, the pound could appreciate moderately against the euro. If, on the other hand, planning uncertainty persists, the pound may come under additional downward pressure.

The central bank in Japan continues to pursue a highly expansionary monetary policy. For this reason, the value of the yen against the euro is likely to be almost unchanged compared to the year-end closing rate or only slightly lower.

Currencies in numerous emerging economies are likely to remain under pressure against the US dollar as a result of the ongoing normalisation of US monetary policy. This applies in particular to countries that export raw materials, such as Russia, Brazil and South Africa. By contrast, any increase in raw material prices will tend to have a positive impact on these economies.

International automobile markets

New registrations are forecast to increase slightly by around 1.5 % worldwide to 89.0 million units in 2018, with growth expected from emerging markets in particular.

The automobile market in Europe is unlikely to benefit from the global economic recovery, and registrations are predicted to fall slightly overall (15.6 million units; – 0.6 %). New registrations in Germany are forecast to decrease by 1.2 % to 3.4 million units. The French market is forecast to be flat (2.1 million units; – 0.4 %). In Italy, the automobile market is set to slow after a strong year, with growth in 2018 expected at only 1.2 % (2.0 million units). In the UK the forecast for new registrations is negative. A further fall of approximately 4.5 % to around 2.4 million units is expected here.

According to forecasts, the downward trend in the USA is set to continue. New registrations are expected to be down by 2.5 % to 16.8 million units.

In China, a 3.3 % increase is expected in passenger car registrations to around 25.5 million units. The automobile market in Japan is likely to see moderate contraction in 2018. Registrations are forecast to be down 2.7 % year-on-year to approximately 4.9 million units.

Registrations in Russia are expected to rise by around 10 % in 2018 to 1.6 million units on the back of economic recovery. In Brazil, registration figures are also expected to increase in the current year by about 10 % to 2.0 million units.

International motorcycle markets

The world's motorcycle markets in the 250 cc plus class are expected to remain stable overall in 2018, with individual markets continuing to develop divergently. In Europe, the BMW Group expects the major markets of France, Italy and Spain to continue their positive trend, while the German market is likely to show a stable development compared to the previous year. Markets in the UK and the USA could see a further slight contraction after the previous year's decline.

International interest rate environment

The global economic upturn is expected to gain further momentum in 2018. While successive rises in benchmark interest rates seem likely in the USA, tightening of monetary policies in other industrialised countries is likely to be carried out with great caution.

The US Federal Reserve is expected to raise interest rates in three or four increments in the course of 2018 in line with its policy of increasing interest rates.

The ECB is predicted to maintain its expansionary monetary policy in 2018, while continuing to reduce the volume of monthly bond purchases.

The uncertainty surrounding the ongoing Brexit negotiations is expected to continue to weigh on the UK economy in 2018. The Bank of England is expected to adopt initially a cautious approach and intervene where necessary.

Growth in China could weaken moderately in 2018. Japan's central bank is likely to maintain its ultra-expansive monetary policy in order to drive inflation and stimulate the economy.

Expected consequences for the BMW Group

Future developments on international automobile markets have a direct impact on the BMW Group. While competition could intensify in contracting markets, new opportunities may appear in growth regions. Challenges in the competitive environment will have a significant effect on sales volumes in some countries. Due to its global business model, the BMW Group is well placed at all times to exploit opportunities, even at short notice. Coordination between the Group's sales and production networks also enables it to balance out the impact of unforeseeable developments in the various regions. Investments in markets important for the future also form a basis for further growth, while simultaneously strengthening the global presence of the BMW Group. Thanks to its three premium brands – BMW, MINI and Rolls-Royce – the BMW Group expects to continue performing successfully in 2018.

Outlook for the BMW Group

Application of International Financial Reporting Standards IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers) is mandatory with effect from 1 January 2018. While application of IFRS 15 requires adjusted comparative figures for the financial year 2017, no adjustment of comparative figures is required in the case of IFRS 9. In order to ensure a transparent presentation of changes in key financial performance indicators, the outlook shows values adjusted in accordance with IFRS 15 as well as those actually reported for 2017. With regard to key financial performance indicators for 2018, the outlook is based on values for 2017 adjusted in accordance with IFRS 15. Further information on IFRS 9 and IFRS 15 is provided in → note 5 of the Group Financial Statements.

→ see note 5

Group

Profit before tax expected at previous year's level

Competition on international automobile markets is set to remain intense during the current year. Furthermore, political and economic developments in Europe remain uncertain. Above all, this is due to the unforeseeable effects of Brexit negotiations between the EU and the UK. The economic policy of the US administration also remains difficult to predict. Further information is provided in Risks and Opportunities in the section Macroeconomic risks and opportunities.

Nevertheless, the BMW Group intends to continue its strong business performance in 2018. Notable contributions are likely to come from new vehicles as well as successful established models. At the same time, investments in future-oriented projects remain high, including continued electrification of vehicles, digitalisation and autonomous driving, amongst others. The production network will also be further expanded during the outlook period. Due to the challenges, Group profit before tax is expected to be in line with the previous year's level (2017 adjusted: €10,675* million).

* Adjusted in accordance with IFRS 15.

Workforce size at year-end: slight increase expected

The need for qualified staff across the BMW Group will remain high in 2018. Above all, projects relating to vehicle electrification and autonomous driving, growth in the automobile and motorcycle business and the expansion of financial and mobility services will lead to a slight increase in the workforce, according to current estimates (2017: 129,932 employees).

Automotive segment

Deliveries to customers: slight increase expected
The BMW Group expects a further year-on-year increase in sales of BMW, MINI and Rolls-Royce brand vehicles and aims to occupy a leading position in the global premium segment again in 2018. Balanced growth in major sales regions will help to even out volatilities in individual markets. Assuming economic conditions do not deteriorate, deliveries to customers are forecast to rise slightly to a new high (2017: 2,463,526[1] units).

Important contributions to sustained growth can be expected, amongst others, from the new BMW 6 Series Gran Turismo, the new BMW X3 (both launched in November 2017) and the BMW X2 (available since March 2018). The extended-wheelbase version of the BMW 5 Series in China will also provide additional impetus. The new BMW X4, model revisions of the BMW 2 Series Active Tourer and Gran Tourer (including the Active Tourer plug-in hybrid) (BMW 225xe iPerformance Active Tourer: fuel consumption in l/100 km (combined) 2.5 – 2.3//CO_2 emissions in g/km (combined) 57 – 52//Electric power consumption in kWh/100 km (combined) 13.7 –13.4) and the BMW i8 Coupé (BMW i8 Coupé: fuel consumption in l/100 km (combined) 1.9//CO_2 emissions in g/km (combined) 42//Electric power consumption in kWh/100 km (combined) 14.0) will go on sale during the spring. The launch of the new BMW i8 Roadster (BMW i8 Roadster: fuel consumption in l/100 km (combined) 2.1//CO_2 emissions in g/km (combined) 46// Electric power consumption in kWh/100 km (combined) 14.5) and the BMW 8 Series Coupé are set to follow later in the year. Model revisions of the MINI Hatch (3- and 5-door) and MINI Convertible should also boost demand. The eighth generation of the Rolls-Royce Phantom has been available since January 2018.

[1] Includes the joint venture BMW Brilliance Automotive, Shenyang Ltd. (2017: 384,124 units).

Fleet CO_2 emissions[2]: slight decrease expected
The BMW Group is continuing in its efforts to reduce both fuel consumption and CO_2 emissions. In addition, the share of electrified vehicles in total deliveries is expected to increase. Accordingly, CO_2 emissions across the vehicle fleet as a whole are expected to decrease slightly during the outlook period, and continue the trend seen in previous years (2017: 122 g CO_2/km).

[2] EU-28.

Revenues: slight increase expected
Automotive segment revenues should benefit from growth in deliveries. Accordingly, a slight increase in segment revenues is forecast for 2018 (2017 adjusted: €85,742[3] million).

[3] Adjusted in accordance with IFRS 15.

EBIT margin in target range between 8 and 10 % expected
An EBIT margin again within a range of 8 to 10 % is expected for the Automotive segment (2017 adjusted: 9.2[4] %).

[4] Adjusted in accordance with IFRS 15.

Return on capital employed: significant decrease expected
Segment RoCE is forecast to lie significantly below the previous year's level (2017 adjusted: 77.7[4] %). The decrease is attributable, among other things, to increasing investments in the electrification of the vehicle fleet, digitalisation and the expansion and renewal of the model portfolio. However, the long-term target RoCE of at least 26 % for the Automotive segment will be significantly surpassed.

In view of the introduction of IFRS 16 (Leases) as of 1 January 2019, the future significance of RoCE as a performance indicator, as opposed to an operational management tool, is under review.

Motorcycles segment

Deliveries to customers: solid increase expected
The BMW Group expects the positive trend in the Motorcycles segment to continue. The renewal of the product range in the previous year, and new models introduced at the EICMA 2017, such as the F 750 GS, F 850 GS and K 1600 Grand America, should all have a positive impact. Furthermore, the Scooter C 400 X expands the product range for urban environments. Overall, a solid increase in deliveries of BMW motorcycles to customers is forecast (2017: 164,153 units).

EBIT margin in target range between 8 and 10 % expected
The segment EBIT margin in 2018 is expected to lie within the target range between 8 and 10 % (2017: 9.1 %).

Return on capital employed: slight increase expected
The Motorcycles segment RoCE is expected to increase slightly year-on-year (2017: 34.0 %). The long-term target RoCE of 26 % for the Motorcycles segment will therefore be surpassed.

Financial Services segment

Return on equity: slight decrease expected

The BMW Group expects the Financial Services segment to continue its successful performance in 2018. In view of increasing regulatory requirements worldwide, more equity capital will be required in the segment going forward. Accordingly, segment RoE is expected to decrease slightly (2017: 18.1 %). In this context, with effect from the 2018 financial year the sustainable target return will be changed from its current level of at least 18 % to a new level of at least 14 %.

Overall assessment by Group management

Business is expected to show a stable development in the financial year 2018, with significant contributions from numerous new automobile and motorcycle models as well as expansion of individual mobility-related services. Group profit before tax is expected to be in line with last year's level, due to the challenges described above. Automotive segment revenues should grow slightly based on the forecast of a slight increase in deliveries to customers. At the same time, fleet carbon dioxide emissions are forecast to decrease slightly. The Group's targets are to be met with a slight increase in workforce. The Automotive segment's EBIT margin in 2018 is set to remain within the target range of between 8 and 10 %, while its RoCE is forecast to decrease significantly. A slight decrease is also forecast for the RoE in the Financial Services segment. However, both performance indicators will be above their long-term targets of 26 % (RoCE) and 14 % (RoE[1]) respectively. Deliveries to customers in the Motorcycles segment are forecast to show a solid increase, with an EBIT margin within the target range of between 8 and 10 % and RoCE slightly up on the previous year.

Depending on the political and economic situation and the risks and opportunities described below, actual business performance could differ from current expectations.

BMW Group key performance indicators

→ 61

		2017 reported	2017[2] adjusted	2018 Outlook[3]
GROUP				
Profit before tax	€ million	10,655	10,675	in line with last year's level
Workforce at year-end		129,932	129,932	slight increase
AUTOMOTIVE SEGMENT				
Deliveries to customers[4]	units	2,463,526	2,463,526	slight increase
Fleet emissions[5]	g CO_2 / km	122	122	slight decrease
Revenues	€ million	88,581	85,742	slight increase
EBIT margin	%	8.9	9.2	between 8 and 10
Return on capital employed	%	78.6	77.7	significant decrease
MOTORCYCLES SEGMENT				
Deliveries to customers	units	164,153	164,153	solid increase
EBIT margin	%	9.1	9.1	between 8 and 10
Return on capital employed	%	34.0	34.0	slight increase
FINANCIAL SERVICES SEGMENT				
Return on equity	%	18.1	18.1	slight decrease

[1] Adjusted with effect from the financial year 2018.
[2] Adjusted in accordance with IFRS 15.
[3] Based on adjusted outlook.
[4] Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2017: 384,124 units).
[5] EU-28.

RISKS AND OPPORTUNITIES

As a worldwide-leading provider of premium cars, motorcycles and mobility services, as well as related financial services, the BMW Group is exposed to numerous uncertainties and change. Making full use of the opportunities arising out of change is a fundamental basis of the Group's corporate success. In order to achieve growth, profitability, efficiency and continued sustainable activities going forward, the BMW Group must consciously assume risk.

Management of opportunities and risks is essential for the Group to react appropriately to changes in political, economic, technical or legal conditions. Opportunities and risks which are likely to materialise are taken into account in the Outlook Report. The following sections focus on potential future developments or events, which could result in a positive (opportunity) or a negative deviation (risk) from the BMW Group's outlook. The earnings impact of risks and opportunities is assessed separately without offsetting. Opportunities and risks are assessed with respect to a medium-term period of two years.

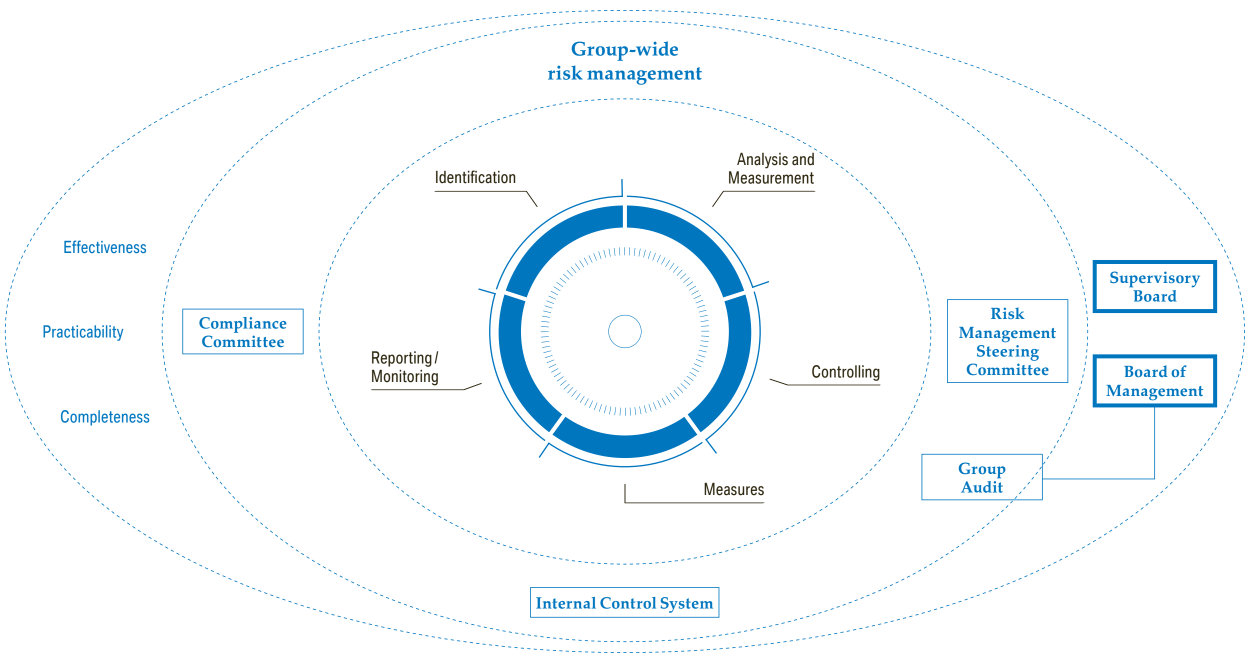
As part of the risk management process, all individual and cumulative risks that represent a threat to the success of the business are monitored and managed. Any risks capable of posing a threat to the going-concern status of the BMW Group are generally avoided. Where no specific reference is made, opportunities and risks relate to the Automotive segment. The scope of entities consolidated in the Report on Risks and Opportunities corresponds to the scope of consolidated entities in the BMW Group Financial Statements.

Risk management system

The objective of the risk management system, and the main function of risk reporting, is to identify, record and actively manage internal or external risks that could threaten the attainment of the Group's corporate targets. The risk management system covers all significant and existential risks to the Group. Group risk management focuses on the criteria of effectiveness, practicability and completeness. Responsibility for risk reporting is not allocated to a central function, but is part of the task of each employee and manager, according to their individual function. According to Group-wide rules, every employee and manager has a duty to report risks through the relevant reporting channels.

Risk management in the BMW Group

→ 62



Group risk management is organised formally as a decentralised, company-wide network and is steered by a centralised risk management function. Every BMW Group division is represented within the risk management organisation by Network Representatives. This formal structure reinforces the network's visibility and underlines the importance of risk management within the BMW Group. Roles, responsibilities and tasks of the central risk management function and the Network Representatives are clearly described, documented and understood. In view of the dynamic growth of business and the increasingly volatile environment, the BMW Group regularly reviews its risk management system for effectiveness and appropriateness.

Risk management as a whole comprises the Risk Management Steering Committee, the Compliance Committee, the Internal Control System and Group Internal Audit.

Risk management process

The risk management process covers the entire Group and comprises early identification of risks, detailed analysis and risk assessment, the coordinated use of relevant management tools as well as monitoring and evaluation of measures taken.

Significant risks reported from within the network are firstly presented for review to the Risk Management Steering Committee, chaired by Group Controlling. After review, the risks are reported to the Board of Management and the Supervisory Board. Risks are classified according to the magnitude of impact on the Group's results of operations, financial position and net assets. The magnitude of risk is measured in each case after risk mitigation measures and according to the probability of occurrence.

The risk management system is regularly examined by Group Internal Audit. Regular monitoring of external practice ensures that new insights are incorporated in the risk management system of the BMW Group, thus providing for continual improvement. Training sessions, development programmes and information events are regularly conducted across the BMW Group, particularly within the risk management network. These measures are essential ways of preparing those involved in the process for new or additional demands.

In addition to comprehensive risk management, sustainable business practice constitutes one of the core strategic principles of the company. Risks or opportunities relating to sustainability issues are considered by the Sustainability Committee. Resulting strategic options and measures are put forward to the Sustainability Board, which comprises the entire Board of Management. Where necessary, risk aspects may be integrated within the Group-wide risk network. The composition of the Risk Management Steering Committee and the Sustainability Committee ensures that risk and sustainability management are closely coordinated.

In order to comply with the CSR Directive Implementation Act, a review of risks with impact on the non-financial aspects referred to in the law was conducted as part of the reporting process for the Group's Non-Financial Declaration. Significant risks within the meaning of the law are those relating to business activities, business relationships and products and services of the BMW Group which are highly likely to have a serious adverse impact. No significant risks were identified during the review. The Group's Non-Financial Declaration is provided in the Sustainable Value Report 2017, which is available on the internet at → https://www.bmwgroup.com/svr.

In the Financial Services segment risk management also addresses regulatory requirements, such as Basel III. Internal methods to identify, measure, manage and monitor risks within the Financial Services segment comply with national and international standards. The risk strategy, in combination with a set of strategic principles and guidelines, serves as the basis for risk management in the Financial Services business. The risk management process is ensured organisationally through a clear division between front- and back-office activities and a comprehensive internal control system. The main instrument of risk management within the Financial Services segment is ensuring the Group's risk-bearing capacity. At all times, risks in the sense of unexpected losses must be covered. This is achieved by means of an asset cushion in the form of equity capital derived from the entity's risk appetite. Unexpected losses are measured according to various value-at-risk models, which are validated at regular intervals. Risks are aggregated after taking account of correlation effects. In addition to assessing the Group's ability to bear risk under normal circumstances, stress scenarios are also examined. The segment's risk-bearing capacity is regularly controlled through an integrated limit system for the various risk categories.

Risk measurement

Risks are classified as high, medium or low, based on their significance with respect to results of operations, financial position and net assets and to performance indicators of the BMW Group. The impact of risks is measured and reported net of risk mitigation measures (net basis).

The overall impact of a risk's occurrence on the results of operations, financial position and net assets for the two-year assessment period is classified as follows:

Class	Earnings impact
Low	> €0 – 500 million
Medium	> €500 – 2,000 million
High	> €2,000 million

In the following sections, earnings impact is used consistently to cover the overall impact on results of operations, financial position and net assets.

The risk amount is the basis for the classification of risk levels at the BMW Group. The measurement of risk amount takes account of both earnings impact (net of appropriate countermeasures) and the probability of occurrence. In the case of risks measured on the basis of value at risk and cash flow at risk models, the risk amount is determined through approximation. These approximations flow into the classification of risk levels.

Overall, the following criteria apply for the purposes of classifying the risk amount:

Class	Risk amount
Low	> €0 – 50 million
Medium	> €50 – 400 million
High	> €400 million

Opportunity management system and opportunity identification

A dynamic market environment also gives rise to opportunities. The BMW Group continually monitors macroeconomic trends as well as developments within the sector and overall environment. This includes external regulations, suppliers, customers and competitors. Identifying opportunities is an integral part of the strategic planning process of the BMW Group. The Group's product and service portfolio is continually reviewed on the basis of these analyses. This results, for example, in new product projects being presented to the Board of Management for consideration.

The continuous optimisation of major business processes and strict cost controls are essential for ensuring strong profitability and return on capital employed. Probable measures to increase profitability are incorporated in the outlook. The implementation of modular and common architectures, for instance, allows identical components to be deployed increasingly across models and product lines. This reduces development costs and investment on the series development of new vehicles and contributes positively to profitability. In addition, it also supports economies of scale in production costs and increases production flexibility. Moreover, a more competitive cost basis opens up opportunities to enter new market segments.

The implementation of identified opportunities is undertaken on a decentralised basis within the relevant functions. The significance of opportunities for the BMW Group is classified on a qualitative basis in the categories "significant" and "insignificant".

Risks and opportunities

The following table provides an overview of all risks and opportunities and indicates their significance for the BMW Group.

Overall, no risks which could threaten the continued existence of the BMW Group were identified either at the balance sheet date or at the date on which the Group Financial Statements were drawn up.

Risks and opportunities which could, from today's perspective, have a significant impact on the results of operations, financial position and net assets of the BMW Group are described below.

	Risks classification	Change compared to prior year	Opportunities classification	Change compared to prior year
RISKS AND OPPORTUNITIES				
Macroeconomic risks and opportunities	High	Stable	Insignificant	Stable
Strategic and sector risks and opportunities				
Changes in legislation and regulatory requirements	High	Increased	Insignificant	Stable
Market developments	High	Stable	Insignificant	Stable
Risks and opportunities relating to operations				
Production and technology	Medium	Decreased	Insignificant	Stable
Purchasing	High	Increased	Insignificant	Stable
Sales and marketing	Low	Stable	Insignificant	Stable
Information, data protection and IT	High	Stable	Insignificant	Stable
Financial risks and opportunities				
Foreign currencies	Medium	Stable	Significant	Stable
Raw materials	Low	Stable	Significant	Stable
Liquidity	Low	Stable	–	–
Pension obligations	Medium	Stable	Significant	Stable
Risks and opportunities relating to the provision of financial services				
Credit risk	Medium	Stable	Significant	Stable
Residual value	Medium	Stable	Significant	Stable
Interest rate changes	Low	Stable	Significant	Stable
Operational risks	Low	Stable	–	–
Legal risks	Medium	Stable	–	–

Macroeconomic risks and opportunities

Economic conditions influence business performance and hence the results of operations, financial position and net assets of the BMW Group. Unforeseen disruptions in global economic relations can have highly unpredictable effects. Macroeconomic risks can lead to reduced purchasing power in the countries and regions affected and lead to reduced demand for the products and services offered by the BMW Group. Macroeconomic risks could – due to sales volume fluctuations – have a high earnings impact over the two-year assessment period. Overall, the risk amounts attached to macroeconomic risks are classified as high. Macroeconomic risks are evaluated on the basis of historical data and by means of a cash-flow-at-risk approach, supplemented by scenario analyses.

In view of the political events of recent years, global economic developments continue to be subject to a high degree of uncertainty, in particular with respect to potential barriers to global trade. For example, a reorientation of the USA's economic policy, the planned exit of the UK from the EU and possible election wins for anti-globalisation parties in EU countries could result in higher tariff and non-tariff barriers to trade in the coming years.

A possible introduction of trade barriers, including anti-dumping customs duties, by the US administration could have an adverse impact on the BMW Group's operations through less favourable conditions for importing vehicles. Moreover, countermeasures by the USA's trading partners could slow down global economic growth and have an adverse impact on the export of vehicles produced in the USA. The BMW Group's "production follows the market" strategy involves local production both in the USA and with other important trade partners. Regional production reduces the existing risk of trade barriers. Nevertheless, any increase in trade barriers would have an adverse impact on the BMW Group.

The planned Brexit could have a long-term adverse impact on the BMW Group, particularly as a result of increased trade barriers in the form of customs duties in relation to the European single market. Any such trade barriers could have a negative impact on volumes and costs both for vehicles and components produced in the EU for the UK as well as those produced in the UK for the European market. In extreme cases, this could lead to interruptions in production due to the processing of customs formalities. In addition, Brexit could lead to reduced customer spending in the wake of weaker economic performance, particularly in the UK. In the short and medium term, uncertainty regarding the outcome of the negotiations with the EU could exacerbate these factors and cause further negative currency effects. A possible further economic downturn within the EU could also potentially reduce growth prospects for the BMW Group. European integration with a unified economic and currency area is an important pillar of economic stability in Europe.

The ongoing transition in China from an investment-driven to a consumer-driven economy is associated with slower growth rates and potentially greater instability on financial markets. If the Chinese economy were to grow at a significantly slower pace than expected, the consequence would be not only a decline in automobile sales, but also, potentially, lower demand for raw materials, which would have a negative impact above all on emerging economies such as Brazil, Russia or South Africa. Any further drop in raw material prices could result for the BMW Group in lower demand from these countries. Turmoil on the Chinese property, stock and banking markets and an overly rapid increase in interest rates by the US Federal Reserve could pose considerable risks for global financial market stability.

Furthermore, increasing political unrest, military conflicts, terrorist activities, natural disasters or pandemics could have a lasting negative impact on the global economy and international capital markets.

The BMW Group addresses macroeconomic risks primarily by internationalising its sales and production structures, in order to minimise the extent to which earnings depend on risks in individual countries and regions. Flexible sales and production processes within the BMW Group increase the ability to react quickly to regional economic developments.

Should the global economy develop significantly better than presented in the outlook, macroeconomic opportunities could arise for the BMW Group's revenues and earnings. Significantly stronger GDP growth in China, consumer-oriented reforms within the eurozone, a cancellation of Brexit plans and intensified trade relations between the EU and the UK, growth stimulus through the tax reform in the USA or more robust consumer spending in emerging markets due to rising raw material prices could result in significantly stronger sales volume growth, reduced competitive pressures and corresponding improvement in pricing. Macroeconomic opportunities that could generate a sustainable impact on earnings are currently classified by the BMW Group as insignificant.

Strategic and sector risks and opportunities

Changes in legislation and regulatory requirements

The sudden introduction of more stringent legislation and regulations, particularly with regard to emissions, safety and consumer protection and regional vehicle-related purchase and usage taxes, represents a significant risk for the automobile industry. Country- and sector-specific trade barriers can also change at short notice. A sudden tightening of regulations in any of these areas can necessitate significantly higher investments and ongoing expenses or influence customer behaviour. Risks from changes in legislation and regulatory requirements could have a medium impact on earnings over the two-year assessment period. The risk amount attached to these risks is classified as high. In particular, risks arising from the tightening of emission laws have resulted in the assessment of the risk level being raised.

At present, the BMW Group sees increasingly restrictive vehicle emissions regulations, particularly for conventional drivetrain systems, not only in the developed markets of Europe and North America, but also in growth markets such as China. The introduction of new measurement procedures to represent standard driving cycles, combined with significantly lower emissions thresholds, represents a major challenge for the automotive sector. The BMW Group is addressing this risk with its Efficient Dynamics concept and is playing a pioneering role in reducing both fuel consumption and emissions within the premium segment. The product range has been increasingly expanded with electric drivetrain systems in BMW i vehicles since 2013 and plug-in-hybrid technologies in a growing number of series models since 2015. These technologies have contributed to fulfilment of legal requirements with regard to CO_2 emissions.

Further risks can result from the tightening of existing import and export regulations. These lead primarily to additional expenses, but can also restrict imports and exports of vehicles or parts.

An established regulatory framework for innovative mobility solutions as well as government incentives are important prerequisites for introducing product innovations, such as autonomous driving, and for scaling up the range of electric mobility offerings. For BMW i and iPerformance vehicles with alternative drivetrain systems a faster expansion of charging infrastructure could increase acceptance and help boost sales of planned or recently introduced product innovations compared to forecast. This includes implementation of the 360° ELECTRIC portfolio in the field of electric mobility and collaboration with Toyota on hydrogen fuel cell technology.

The BMW Group's earnings could also be positively affected in the short to medium term by changes in trading policies. A possible reduction in tariff barriers, import restrictions or direct excise duties could lower the cost of materials for the BMW Group, and enable products and services to be offered to customers at lower prices. Further opportunities for the earnings performance of the BMW Group from changes in legislation and regulatory requirements compared to the outlook are classified as insignificant.

Market development

In addition to the economic factors and sector-specific political conditions, increasingly fierce competition among established manufacturers and the emergence of new competitors could also have effects which are difficult to predict. Unforeseen consumer preferences and changes in brand perceptions can give rise to opportunities and risks. If market risks were to materialise, they could have a high earnings impact over the two-year assessment period. The risk amount is classified as high.

Intense competition, particularly in Western Europe, the USA, China, Japan and Korea is a potential cause for lower demand and for fluctuations in the regional distribution and composition of demand for BMW, MINI and Rolls-Royce brand vehicles and for mobility services. Greater competition could put pressure on selling prices and margins. Changes in customer behaviour can also be brought about by changes in attitudes, values, environmental factors and fuel or energy prices. For example, the ongoing political and public discussion on diesel engines could adversely affect demand for diesel vehicles. At the same time, however, this could lead to increased demand for vehicles with petrol engines or alternative drivetrains. In order to determine price and margin risks, a scenario approach is used. The BMW Group's flexible sales and production processes enable risks to be reduced and newly arising opportunities in market and product segments to be taken.

Local restrictions affecting product usage in specific sectors may limit BMW Group sales in individual markets. In some urban areas, for instance, local measures have been, or are being, introduced, including entry restrictions, congestion charges or, in some situations, highly restrictive registration rules. These may affect local demand for the BMW Group vehicles affected and hence have a negative impact on sales, margins and, possibly, the residual value of these vehicles. The BMW Group addresses this risk by offering locally emissions-free vehicles, such as the BMW i3, which benefit from state subsidies and exemptions.

New opportunities are continuously being sought to create even greater added value for customers than currently expected, and thereby to realise significant opportunities with respect to sales growth and pricing. Further development of the product and mobility portfolio and expansion in growth regions offer the most important medium- to long-term growth opportunities for the BMW Group. Continued growth depends above all on the ability to develop innovative products and bring them to market. The range of services on offer was further expanded in 2017, particularly in the area of electric mobility. ChargeNow customers have access to more than 130,000 charging points in 29 countries. A new digital business field was created under the name BMW Energy Services. The BMW Group expects these opportunities to have no significant earnings impact over the two-year assessment period compared to the assumptions made in the outlook.

Risks and opportunities relating to operations

Risks and opportunities relating to production and technologies

Risks relating to production processes and technology fields are particularly apparent in potential sources of interruptions in production or additional costs to comply with quality standards under changed market conditions. If risks arising from production processes and technologies were to materialise, they could have a high earnings impact over the two-year assessment period. The corresponding risk amounts are classified as medium. By dealing with risk issues at the planning stage and taking appropriate measures, the risk has been reduced.

Production stoppages and downtimes due to fire, machine and tooling breakdowns, IT disruptions, damage to infrastructure, power failures, transportation and logistical disruptions represent risks which the BMW Group addresses through appropriate precautions. Production structures and processes are designed from the outset with measures to minimise potential damage and the probability of occurrence. Measures taken include technical fire protection, land development with regard to flooding risks when facilities are expanded or new buildings added, interchangeability of production facilities, preventative maintenance, management of spare parts across sites, and predictive planning of transportation alternatives. Risk is also reduced through flexible working hour models and working time accounts as well as the ability to build individual split models or engine types at other sites within the production network. As a result, backlogs arising from production interruptions can be quickly recovered. Risks arising from interruptions and production downtime due to fire are also appropriately covered with insurance companies of good credit standing.

In order to meet high standards in product quality and achieve favourable external ratings (e.g. for product safety), reduce statutory and non-statutory warranty obligations and keep down follow-up costs arising from other changes in planning assumptions, it may be necessary to incur a higher level of expenditure than originally forecast. In addition, availability of products may be limited, particularly at the start of production of new vehicles. These risks are mitigated through regular audits and the continual improvement of quality management, which ensures the high standard of quality. The BMW Group also recognises appropriate accounting provisions for statutory and non-statutory warranty obligations. These reduce the risk to earnings, as they are already taken into account in the outlook. Further information on risks related to provisions for statutory and non-statutory warranty obligations is provided in → note 31 of the Group Financial Statements.

→ see note 31

The BMW Group sees opportunities in production processes and technology fields primarily through the competitive edge gained from mastering new and complex technologies. Opportunities could arise as a result of further technological innovations related to products or processes, as well as from organisational changes which improve efficiency or increase competitiveness. For example, the BMW Group has been using since 2017 a fully automated quality control system in the paint shop newly opened in 2017 at the BMW Group plant in Munich. The data obtained provides valuable feedback on the precision of upstream painting processes. These can be continuously optimised, potential sources of error promptly identified and rework avoided. Given the long lead times in developing new products and processes, additional opportunities within the reporting period are considered insignificant for the results of operations of the BMW Group.

Risks and opportunities relating to purchasing

Purchasing risks relate primarily to supply risks caused by the failure of a supplier as well as risks associated with the quality of bought-in parts. Production problems incurred by suppliers could lead to increased expenditure for the BMW Group through to interruptions in production and a corresponding reduction in sales. The increasing complexity of the supplier network, especially at the level of lower tier suppliers, whose operations can only be indirectly influenced by the BMW Group, is a further potential cause of downtimes at supplier locations. The increased threat of IT attacks on the supplier network in particular has resulted in a more critical assessment of the risk situation. If purchasing risks materialised, they could have a high earnings impact over the two-year period. The risk amount attached to purchasing risks is classified as high.

Close cooperation between carmakers and suppliers in the development and production of vehicles and the provision of services generates economic benefits, but also increased dependency. Potential reasons for the failure of individual suppliers include in particular increased IT-related risk, non-compliance with sustainability or quality standards, insufficient financial strength of a supplier, the occurrence of natural hazards, fires and insufficient supply of raw materials. As part of supplier pre-selection, the BMW Group checks for compliance with the sustainability standards for the supplier network. This includes compliance with internationally recognised human rights and applicable labour and social standards. The principal means for ensuring compliance with the Sustainability Standard is a three-stage risk management system for sustainability. In addition, the technical and financial capabilities of suppliers are monitored, especially where modular-based production is concerned. Supplier sites are assessed for exposure to natural hazards, such as floods or earthquakes, in order to identify supply risks at an early stage and implement appropriate precautions. Fire risks at series suppliers are evaluated by means of questionnaires and selective site inspections. In order to minimise supply risks, the BMW Group draws up measures to reduce the use of raw materials or to substitute alternative raw materials.

The BMW Group pays particular attention to the quality of parts built into its vehicles. In order to attain a very high level of quality, it may become necessary to invest in new technological concepts or discontinue planned innovations, with the result that the cost of materials could exceed levels accounted for in the outlook. By monitoring and developing global supplier markets, the BMW Group continuously strives to optimise its competitiveness by working together with the world's best product and service providers.

Within the Purchasing and Supplier Network, opportunities arise above all in the area of global sourcing through increased efficiency and the use of innovations developed by suppliers, which can lead to a broader range of products. Making full use of location-specific cost factors, in particular through local supplier structures in close proximity to new and existing BMW Group production plants and the introduction of new, innovative production technologies, could lead to lower cost of materials for the BMW Group. The new supply centre opened in Landshut in 2017 represents a further step in ensuring efficient and flexible logistics processes. Integration of previously unidentified innovations from the supplier market in the Group's product range could provide a further source of opportunities. The BMW Group offers innovative suppliers numerous possibilities for creating specific contractual arrangements which are attractive for those developing innovative solutions. At regular intervals, the BMW Group honours its most inventive suppliers with the Supplier Innovation Award. The BMW Group expects these opportunities to have no significant earnings impact over the assessment period as compared to the assumptions made in the outlook.

Risks and opportunities relating to sales and marketing

In order to sell its products and services, the BMW Group employs a global sales network, comprising primarily independent dealerships, branches, subsidiaries and importers. Any threat to the continued activities of parts of the sales network would entail risks for the BMW Group. The occurrence of sales and marketing risks is associated with a low earnings impact over the two-year assessment period. The risk amount is classified as low.

New developments in the field of digital communication and connectivity in particular offer new opportunities for the BMW Group's brands. BMW CarData has made it possible since 2017 to provide customised service offers to BMW drivers based on data from the vehicle. If customers wish to use a specific service and actively consent to the release of their telematics data, requesting companies receive the data they need for the service in encrypted form via BMW's secure backend database. This information provides the basis for customised, data-driven and innovative service solutions. Additional opportunities could arise if new sales channels contribute to greater brand reach to customer groups than currently envisaged in the outlook. Digital communication and connectivity enables consumers to be reached on a more targeted and individualised basis, thus strengthening long-term relationships and brand loyalty. This can lead to a more intense product and brand experience for customers, which could lead to higher sales volume and have a positive impact on revenues and earnings. The BMW Group invests in advanced marketing concepts in order to intensify customer relationships. The BMW Group estimates the earnings impact as insignificant over the two-year assessment period as compared to the assumptions made in the outlook.

Information, data protection and IT

Increasing digitalisation across all areas of business places considerable demands on the confidentiality, integrity and availability of electronically processed data and the associated use of information technology (IT). In addition to the increased threat of cybercrime, regulations covering the handling of personal data are becoming more stringent, for example as a result of the EU General Data Protection Regulation. If risks relating to information security, data protection and IT were to materialise, they could have a high earnings impact over the two-year assessment period. Despite extensive security measures, the risks in this area are classified as high.

In addition to cyber attacks and direct physical intervention, lack of awareness or misconduct on the part of employees may also represent a danger to the confidentiality, integrity and availability of information, data and systems. Direct consequences include expenditure required for rapid information, data and systems recovery. Negative impacts on operational performance due to the non-availability of products and services or disruptions in the production of components or vehicles are also possible. A further indirect result could be reputational damage.

Great importance is attached to the protection of the confidentiality, integrity and availability of business information as well as employee and customer data, for instance against unauthorised access or misuse. Data security is an integral component of business processes and is aligned with the International Standard ISO/IEC 27001. As part of risk management, information security, data protection and IT risks are systematically documented, allocated appropriate measures by the departments concerned and continuously monitored with regard to threat level and risk mitigation. Regular analyses and controls as well as rigorous security management ensure an appropriate level of security. Despite continuous testing and preventative security measures, it is impossible to eliminate risks completely in this area. All employees are required to treat with care information such as confidential business, customer and employee data, to use information systems securely and handle risks with transparency. Group-wide requirements are documented in a comprehensive set of principles, guidelines and instructions, such as, for example, the Privacy Corporate Rules for handling personal data. Regular communication and awareness-raising measures create a high level of security and risk awareness among those involved. Employees receive training to ensure compliance with the legal requirements and internal rules. With regard to cooperations and business partnerships, the BMW Group protects its intellectual property as well as customer and employee data through clear instructions on information security and data protection and the use of information technology. Information pertaining to key areas of expertise as well as sensitive personal data are subject to particularly stringent security measures. Technical data protection incorporates industry-wide standards and good practices. Responsibility for information security and data protection lies for each Group entity with the Board of Management or relevant management team.

With the advance of digitalisation, the BMW Group is improving the customer experience and its existing lines of business. At the same time, new digital business segments are emerging, which are mainly focused on information technology. The development and provision of digital services for customers, increased vehicle connectivity and autonomous driving solutions are opening up new opportunities. Through BMW ConnectedDrive and BMW CarData the range of services and apps on offer to customers is constantly being expanded and updated. The BMW Group expects these opportunities to have no significant earnings impact over the assessment period compared to the assumptions made in the outlook.

Financial risks and risks relating to the use of financial instruments

Currency risks and opportunities

As an internationally operating enterprise, the BMW Group conducts business in a variety of currencies, thus giving rise to currency risks and opportunities. A substantial portion of Group revenues, purchasing and funding occur outside the eurozone (particularly in China and the USA). Cash-flow-at-risk models and scenario analyses are used to measure currency risks and opportunities. If currency risks were to materialise, they could be associated with a high earnings impact over the two-year assessment period. The risk level attached to currency risks is medium. Significant opportunities can arise if currency developments are favourable for the BMW Group.

Operational currency management is based on the results of currency risk analyses. The BMW Group manages currency risks at both strategic (medium and long term) and operational level (short and medium term). Medium- and long-term measures include increasing production volumes and purchase volumes in foreign currency regions (natural hedging). Currency risks are managed in the short to medium term and for operational purposes by means of hedging on financial markets. The principal objective of this currency management process is to increase planning reliability for the BMW Group. Hedging transactions are entered into only with financial partners of good credit standing. Opportunities are also secured through the use of options during specific market phases.

Risks and opportunities relating to raw materials

As a large-scale manufacturing company, the BMW Group is exposed to purchase price risks, particularly in relation to raw materials used in vehicle production. The analysis of raw material price risk is based on planned purchases of raw materials and components containing those raw materials. If risks relating to raw material prices were to materialise, they would likely have a low earnings impact over the two-year assessment period. A low risk level is attached to these risks. Significant opportunities could arise if raw material prices developed favourably for the BMW Group.

Changes in commodity prices are monitored on the basis of a well-defined management process. The principal objective is to increase planning reliability for the BMW Group. Price fluctuations for precious metals (platinum, palladium, rhodium), non-ferrous metals (aluminium, copper, lead, nickel) and, to some extent, for steel and steel ingredients (iron ore, coking coal) and energy (gas, electricity) are hedged using financial derivatives or supply contracts with fixed pricing arrangements.

Liquidity risks

The major part of the Financial Services segment's credit financing and leasing business is refinanced on capital markets. Liquidity risks may arise in the form of rising refinancing costs or from restricted access to funds as a consequence of the general market situation or the failure of individual banks. If liquidity risks were to materialise, they would be likely to have a low earnings impact over the two-year assessment period. The risk amount associated with liquidity risk, including the risk of the BMW Group's credit rating being downgraded, which would lead to an increase in financing costs, is classified as low.

Based on the experience of the financial crisis, a minimum liquidity concept has been developed and is rigorously adhered to. Use of the "matched funding principle" to finance the Financial Services segment's operations eliminates liquidity risks to a large extent. Solvency is assured at all times throughout the BMW Group by maintaining a liquidity reserve and by the broad diversification of refinancing sources. Regular measurement and monitoring ensure that cash inflows and outflows for the various maturities and currencies offset each other. This approach is incorporated in the BMW Group's target liquidity concept. The liquidity position is monitored continuously and managed through Group-wide planning of financial requirements and funding. A diversified refinancing strategy reduces dependency on any specific type of instrument. Moreover, the BMW Group's solid financial and earnings position results in high credit ratings from internationally recognised rating agencies. A description of the methods applied for risk measurement and hedging in conjunction with currency and commodity risks is provided in → note 37 of the Group Financial Statements. If the relevant recognition criteria are fulfilled, derivatives used by the BMW Group as hedges are generally accounted for as hedging relationships. Further information on risks in conjunction with financial instruments is provided in → note 37 of the Group Financial Statements.

→ see note 37

→ see note 37

Risks and opportunities relating to pension obligations

Pension obligations are influenced in particular by fluctuations of market yields on corporate bonds, as well as by other economic and demographic parameters. Opportunities and risks arise depending on changes in these parameters. If risks relating to pension obligations materialised, they could have a high earnings impact over the two-year assessment period. The risk amounts relating to pension obligations are classified as medium. Within a favourable capital market environment, the return generated by growth-oriented pension assets may exceed expectations and reduce the deficit of the relevant pension plans. This could have a significantly favourable impact on the net asset position of the BMW Group.

Future pension payments are discounted on the basis of market yields on high-quality corporate bonds. These yields are subject to market fluctuation and therefore influence the level of pension obligations. Changes in other parameters, such as rises in inflation and longer life expectancy, also impact pension obligations and payments. The BMW Group's pension obligations are mainly held in external pension funds or trust arrangements with the related assets legally separated from those of the Group. The amount of funds required to finance pension payments out of operations in the future is substantially reduced by the fact that the Group's pension obligations are mainly settled out of pension fund assets. The pension assets of the BMW Group comprise interest-bearing securities, equities, real estate and other investment classes. Assets held by pension funds and trust arrangements are monitored continuously and managed on a risk-and-return basis. Diversification of investments also helps to mitigate risk. In order to reduce fluctuations in pension funding shortfalls, investments are structured to match the timing of pension payments and the expected development of pension obligations. Remeasurements on the liability and fund asset sides are recognised net of deferred taxes in other comprehensive income and hence directly in equity (within revenue reserves).

Further information on risks in conjunction with pension provisions is provided in → note 30 of the Group Financial Statements.

→ see note 30

Risks and opportunities relating to the Financial Services segment

The categories of risk relating to financial services comprise credit and counterparty risk, residual value risk, interest rate risk, operational risks and liquidity risk. Evaluation of liquidity risk for the Financial Services segment is included in the liquidity risk category for the Group as a whole.

The segment's total risk exposure was covered at all times during the 2017 financial year by the available risk-covering assets. As a result, the Financial Services segment's risk-bearing capacity was assured at all times.

Credit and counterparty risks and opportunities relating to the Financial Services segment

Credit and counterparty default risk arises within the Financial Services segment if a contractual partner (e.g. a customer or dealer) either becomes unable or only partially able to fulfil its contractual obligations, so that lower income is generated or losses incurred. If credit and counterparty risks were to materialise, they could have a medium earnings impact over the two-year assessment period. The risk amount is classified as medium. The BMW Group classifies potential opportunities in this area as significant.

As part of its credit and counterparty risk management, the Financial Services segment uses rating systems in order to assess the creditworthiness of its contractual partners. Credit risks are managed at the time of the initial credit decision on the basis of a calculation of the present value of standard risk costs and subsequently, during the term of the credit, by risk provisioning to cover risks resulting from changes in customer creditworthiness. Individual customers are hereby classified by category each month on the basis of their current contractual status, and appropriate levels of allowance recognised in accordance with that classification. If macroeconomic developments are more favourable than assumed in the outlook, credit losses may be reduced, leading to a positive earnings impact.

Residual value risks and opportunities relating to the Financial Services segment

Risks and opportunities arise in conjunction with leasing contracts if the market value of a leased vehicle at the end of the contractual term of a lease differs from the residual value estimated at the inception of the lease and factored into the lease payments. A residual value risk exists if the expected market value of the vehicle at the end of the contractual term is lower than its estimated residual value at the date the contract is entered into. If residual value risks were to materialise, they could have a high earnings impact from the Group's perspective over the two-year assessment period. A high and medium earnings impact would then arise for the affected Financial Services and Automotive segments, respectively. The risk amount is classified as medium for the Group as a whole. Opportunities can arise out of a positive deviation between the actual market value and the original residual value forecast. The BMW Group classifies potential residual value opportunities as significant.

Each vehicle's estimated residual value is calculated on the basis of historical external and internal data. This estimation provides the expected market value of the vehicle at the end of the contractual period. As part of the management of residual value risks, the net present value of risk costs is calculated at contract inception. Market developments are observed throughout the contractual period and the risk assessment updated.

Interest rate risks and opportunities relating to the Financial Services segment

Interest rate risks in the Financial Services segment relate to potential losses caused by changes in market interest rates. These can arise when fixed interest rate periods do not match for assets and liabilities recognised in the balance sheet. If risks relating to interest rate risks were to materialise, they could have a medium earnings impact over the two-year assessment period. The risk amount is classified as low. The BMW Group classifies potential interest rate opportunities compared to the outlook as significant. Interest rate risks in the Financial Services business are managed by matching maturities for refinancing and by employing interest-rate derivatives. If the relevant recognition criteria are fulfilled, derivatives used by the BMW Group are accounted for as hedging instruments. Further information on risks in conjunction with financial instruments is provided in → note 37 of the Group Financial Statements.

→ see note 37

Operational risks in the Financial Services segment

Operational risks are defined in the Financial Services segment as the risk of losses arising as a consequence of unsuitability or failure of internal procedures (process risks), people (personnel-related risks), systems (infrastructure and IT risks) and external events (external risks). The recording and measurement of risk scenarios, loss events and countermeasures in the operational risk management system provide the basis for a systematic analysis and management of potential or materialised operational risks. Annual self-assessments are also carried out. If operational risks were to materialise, they would be likely to have a low earnings impact over the two-year assessment period. The risk amount is classified as low.

Legal risks

Compliance with the law is a basic prerequisite for the success of the BMW Group. Applicable law provides the binding framework for the BMW Group's worldwide activities. As a result of its global operations, the BMW Group is exposed to various legal risks. If legal risks were to materialise, they could have a high earnings impact over the two-year assessment period. The risk amount attached to significant identified legal risks is classified as medium. However, it cannot be ruled out that new legal risks, as yet unforeseen, could materialise that could have a high earnings impact for the BMW Group.

The increasing globalisation of the BMW Group's operations and of business interdependencies in general, combined with the variety and complexity of legal provisions, including increasingly import and export regulations, give rise to an increased risk of non-compliance with applicable law. A Compliance Management System is in place at BMW Group to ensure that the representative bodies, managers and staff consistently act in a lawful manner. Further information on the BMW Group's Compliance Management System can be found in the section Corporate Governance.

Like all entities with international operations, the BMW Group is confronted with legal disputes, claims relating to warranties and product liability or rights infringements and proceedings initiated by government agencies. Any of these could, amongst others, have an adverse impact on the Group's reputation. Such proceedings are essentially typical for the sector or a consequence of realigning product or purchasing strategies to changed market conditions. Particularly in the US market, class action lawsuits and product liability risks can have substantial financial consequences and cause damage to the Group's public image. More rigorous application or interpretation of existing regulations could result in a greater number of recalls. The high quality of the Group's products, which is ensured by regular quality audits and ongoing improvement measures, helps reduce this risk.

Possible risks for the BMW Group related to competition and antitrust law cannot be predicted or quantified at present. Further information on current developments with regard to antitrust risks and contingent liabilities can be found in → note 36 of the Group Financial Statements.

→ see note 36

The BMW Group recognises appropriate levels of provision for lawsuits. In addition, a part of these risks is insured where this makes business sense. Some risks, however, either cannot be estimated or only to a limited extent, or may lead to costs only in an unlikely event. Such items are reported as contingent liabilities. It cannot be ruled out, however, that damages could arise that are either not covered or not fully covered by insurance policies or provisions or reported as contingent liabilities. In accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), the required information is not provided if the BMW Group concludes that disclosure of the information could seriously prejudice the outcome of the relevant legal proceedings. Further information on contingent liabilities is provided in → note 36 of the Group Financial Statements.

→ see note 36

Overall assessment of the risk and opportunities situation

The overall risk assessment is based on a consolidated view of all significant individual risks and opportunities. Exposure to risks in the individual risk categories remains essentially stable. The combination of more stringent emissions requirements worldwide and the possibility that related laws and regulations may be brought forward results in a higher risk level in that area. In addition, the increased threat of IT attacks in the supplier network has led to an increased estimation of the risk in purchasing. By contrast, the risk level for production has been reduced by the implementation of measures. Overall, there has been no significant change in the overall risk or opportunities level compared to the previous year.

In addition to the risk categories described above, unforeseen events could have a negative impact on business operations and hence on the BMW Group's results of operations, financial position and net assets, and its reputation. A comprehensive risk management system is in place to ensure that the BMW Group successfully manages these risks.

From today's perspective, management does not see any threat to the BMW Group's status as a going concern. As in the previous year, identified risks are considered to be manageable, but could – like the opportunities – have an impact on the BMW Group's outlook if they were to materialise. The BMW Group's financial position is stable and cash needs are currently covered by available liquidity and credit lines.

INTERNAL CONTROL SYSTEM* RELEVANT FOR ACCOUNTING AND FINANCIAL REPORTING PROCESSES

* Disclosures pursuant to § 289 (5) HGB and § 315 (2) no. 5 HGB.

The internal control system relevant for accounting and financial reporting processes has the task of ensuring that accounting and financial reporting by the BMW Group is both correct and reliable. Internationally recognised standards for internal control systems have been taken into account in the design of the components of the BMW Group's internal control system. The system comprises:

- Group-wide mandatory accounting guidelines,
- controls integrated into processes and IT systems,
- organisational measures incorporating the principle of separation of duties, and
- process-independent monitoring measures.

The internal control system is subject to continuous improvement, with system effectiveness assessed regularly on the basis of centralised and decentralised process analyses, analyses of data within the various financial systems and audit procedures. The principal features of the internal control system, as far as they relate to individual entity and Group accounting and financial reporting processes, are described below.

Guidelines for recognising, measuring and allocating items to accounts are available to all employees via the intranet. New accounting standards are assessed for their impact on the BMW Group's accounting and financial reporting. Accounting guidelines and processes are reviewed continuously and revised at least once a year or more frequently, if necessary.

Controls are integrated into the accounting and financial reporting processes, at both individual entity and Group level. These are both preventive and detective in nature and take account, where appropriate, of the principle of the separation of duties. Important accounting-related IT systems incorporate controls which, amongst others, prevent business transactions from being recorded incorrectly and ensure that business transactions are recorded completely and measured properly in accordance with applicable requirements. Controls are also in place to test the appropriateness of consolidation procedures. The recording of items requiring disclosure is also performed largely through IT systems.

As part of the ongoing development of accounting and financial reporting processes at individual entity or Group level, such controls are adapted to take account of new requirements and opportunities arising with advances in information technology. In addition, the BMW Group uses data analysis tools to ensure that any control weaknesses are quickly identified and eliminated.

Responsibilities for ensuring the effectiveness of the internal control system in relation to individual entity and Group accounting and financial reporting processes are clearly defined and allocated to the relevant line and process managers. These report annually on their assessment of the effectiveness of the internal control system for accounting and financial reporting. The assessment also includes the results of internal and external audits as well as of ongoing data analysis. In this context, the Group's units confirm the effectiveness of the internal control system for accounting and financial reporting. The results of the assessment are gathered and documented with the aid of tools. Weaknesses in the control system are eliminated, taking into account their potential impact on accounting processes. The Board of Management and Audit Committee are briefed annually on the assessment of the effectiveness of the internal control system for accounting and financial reporting. The Board of Management and, where applicable, the Supervisory Board, are informed immediately in the event of any significant changes in the effectiveness of the internal control system.

DISCLOSURES RELEVANT FOR TAKEOVERS* AND EXPLANATORY COMMENTS

* Disclosures pursuant to § 289 a (1) HGB and § 315 a (1) HGB.

Composition of subscribed capital

The subscribed capital (share capital) of BMW AG amounted to €657,600,600 at 31 December 2017 (2016: €657,109,600) and, in accordance with Article 4 no. 1 of the Articles of Incorporation, is subdivided into 601,995,196 shares of common stock (91.54 %) (2016: 601,995,196; 91.61 %) and 55,605,404 shares of non-voting preferred stock (8.46 %) (2016: 55,114,404; 8.39 %), each with a par value of €1. The Company's shares are issued to bearer.

The rights and duties of shareholders derive from the German Stock Corporation Act (AktG) in conjunction with the Company's Articles of Incorporation, the full text of which is available at → www.bmwgroup.com. The right of shareholders to have their shares evidenced is excluded in accordance with the Articles of Incorporation. The voting power attached to each share corresponds to its par value. Each €1 of par value of share capital represented in a vote entitles the holder to one vote (Article 18 no. 1 of the Articles of Incorporation).

The Company's shares of preferred stock are shares within the meaning of § 139 ff. AktG, which carry a cumulative preferential right in terms of the allocation of profit and for which voting rights are excluded. These shares confer voting rights only in exceptional cases stipulated by law, in particular when the preference amount has not been paid or has not been fully paid in one year and the arrears are not paid in the subsequent year alongside the full preference amount due for that year. With the exception of voting rights, holders of shares of preferred stock are entitled to the same rights as holders of shares of common stock. Article 24 of the Articles of Incorporation confers preferential treatment to the non-voting shares of preferred stock with regard to the appropriation of the Company's unappropriated profit. Accordingly, the unappropriated profit is required to be appropriated in the following order:

(a) subsequent payment of any arrears on dividends on non-voting preferred shares in the order of accruement

(b) payment of an additional dividend of €0.02 per €1 par value on non-voting preferred shares

(c) uniform payment of any other dividends on shares of common and preferred stock, provided the shareholders do not resolve otherwise at the Annual General Meeting

Restrictions on voting rights or the transfer of shares

As well as shares of common stock, the Company has also issued non-voting shares of preferred stock. Further information can be found in the section "Composition of subscribed capital".

When the Company issues non-voting shares of preferred stock to employees in conjunction with its Employee Share Programme, these shares are generally subject to a company-imposed blocking period of four years, calculated from the beginning of the calendar year in which the shares are issued.

Contractual holding period arrangements also apply to shares of common stock acquired by Board of Management members and certain senior department heads in conjunction with the share-based remuneration programmes (Compensation Report of the Corporate Governance section; → note 39 of the Group Financial Statements).

→ see note 39

Direct or indirect investments in capital exceeding 10 % of voting rights

Based on the information available to the Company, the following direct or indirect holdings exceeding 10 % of the voting rights at the end of the reporting period were held at the stated reporting date:[1]

in %	Direct share of voting rights	Indirect share of voting rights
Stefan Quandt, Germany	0.2	17.4[2]
AQTON SE, Bad Homburg v. d. Höhe, Germany	17.4	
Johanna Quandt GmbH, Bad Homburg v. d. Höhe, Germany		16.4[3]
Johanna Quandt GmbH & Co. KG für Automobilwerte, Bad Homburg v. d. Höhe, Germany	16.4	
Susanne Klatten, Germany	0.2	12.6[4]
Susanne Klatten Beteiligungs GmbH, Bad Homburg v. d. Höhe, Germany	12.6	

[1] Based on voluntary notifications provided by the listed shareholders as at 31 December 2017.
[2] Controlled entities, of which 3 % or more are attributed: AQTON SE.
[3] Controlled entities, of which 3 % or more are attributed: Johanna Quandt GmbH & Co. KG für Automobilwerte.
[4] Controlled entities, of which 3 % or more are attributed: Susanne Klatten Beteiligungs GmbH.

The voting percentages disclosed above may have changed subsequent to the stated date if these changes were not required to be reported to the Company. As the Company's shares are issued to bearer, the Company is generally aware of changes in shareholdings only if such changes are subject to mandatory notification rules.

Shares with special rights which confer control rights

There are no shares with special rights which confer control rights.

Control of voting rights when employees participate in capital and do not exercise their control rights directly

Like all other shareholders, employees exercise their control rights pertaining to shares they have acquired in conjunction with the Employee Share Programme and/or the share-based remuneration programme directly on the basis of relevant legal provisions and the Company's Articles of Incorporation.

Statutory regulations and Articles of Incorporation provisions with regard to the appointment and removal of members of the Board of Management and changes to the Articles of Incorporation

The appointment or removal of members of the Board of Management is based on the rules contained in § 84 ff. AktG in conjunction with § 31 of the German Co-Determination Act (MitbestG).

Amendments to the Articles of Incorporation must comply with § 179 ff. AktG. Amendments must be decided upon by the shareholders at the Annual General Meeting (§ 119 (1) no. 5, § 179 (1) AktG). The Supervisory Board is authorised to approve amendments to the Articles of Incorporation which only affect its wording (Article 14 no. 3 of the Articles of Incorporation). Resolutions are passed at the Annual General Meeting by simple majority of shares exercised unless otherwise explicitly required by binding provisions of law or, when a majority of share capital is required, by simple majority of shares represented in the vote (Article 20 no. 1 of the Articles of Incorporation).

Authorisations of the Board of Management in particular with respect to the issuing or buying back of shares

The Board of Management is authorised to buy back shares and sell repurchased shares in situations specified in § 71 AktG, for example to avert serious and imminent damage to the Company and/or to offer shares to persons employed or previously employed by BMW AG or one of its affiliated companies.

In accordance with the resolution passed at the Annual General Meeting on 15 May 2014, the Board of Management is also authorised up until 14 May 2019 to acquire shares of non-voting preferred stock of the Company via the stock exchange, up to a maximum of 1 % of the share capital existing at the date of the resolution. The consideration paid by the Company per share of non-voting preferred stock (excluding transaction costs) may not be more than 10 % above or below the market price of the stock determined by the opening auction on the date of trading in the Xetra trading system (or a successor system having a comparable function). Moreover, the Board of Management is authorised to use the acquired own shares of non-voting preferred stock for all legally admissible purposes, specifically including the right to offer for sale and transfer shares to persons employed by the Company or one of its affiliated companies up to a proportionate amount of €5 million of share capital. The subscription rights of existing shareholders to the new shares of preferred stock used for the purpose stated above are excluded. The authorisations may also be exercised in parts over several transactions.

In accordance with Article 4 no. 5 of the Articles of Incorporation, the Board of Management is authorised, with the approval of the Supervisory Board, to increase in return for cash contributions BMW AG's share capital during the period until 14 May 2019 by up to €3,654,383 for the purposes of an Employee Share Programme by issuing new non-voting shares of preferred stock, which carry the same rights as existing non-voting preferred stock (Authorised Capital 2014). Subscription rights of existing shareholders are excluded. No conditional capital is in place at the reporting date.

Significant agreements of the Company taking effect in the event of change in control following a takeover bid

BMW AG is party to the following major agreements, which contain provisions that would apply in the event of a change in control or the acquisition of control as a result of a takeover bid:

- An agreement concluded with an international consortium of banks relating to a syndicated credit line, which was not being utilised at the balance sheet date, entitles the lending banks to give extraordinary notice to terminate the credit line, such that all outstanding amounts, including interest, would fall due immediately if one or more parties jointly acquire direct or indirect control of BMW AG. The term control is defined as the acquisition of more than 50 % of the share capital of BMW AG, or the right to receive more than 50 % of the dividend or the right to direct the affairs of the Company, or appoint the majority of the members of the Supervisory Board.

- A cooperation agreement concluded with Peugeot SA relating to the joint development and production of a new family of small (1- to 1.6-litre) petrol engines entitles each of the cooperation partners to give extraordinary notification of termination in the event of a competitor acquiring control over the other contractual party and if any concerns of the other contractual party concerning the impact of the change of control on the cooperation arrangements are not resolved during the subsequent discussion process.

- BMW AG acts as guarantor for all obligations arising from the joint venture agreement relating to BMW Brilliance Automotive Ltd. in China. The agreement grants an extraordinary right of termination to either joint venture partner in the event that – either directly or indirectly – more than 25 % of the shares of the other party are acquired by a third party, or if the other party is merged with another legal entity. The termination of the joint venture agreement may result in the sale of the shares to the other joint venture partner or in the liquidation of the joint venture entity.

- Framework agreements are in place with financial institutions and banks (ISDA Master Agreements) relating to trading activities with derivative financial instruments. These agreements include an extraordinary right of termination which triggers the immediate settlement of all current transactions in the event that the creditworthiness of the party involved is significantly weaker following a direct or indirect acquisition of beneficially owned equity capital that confers the power to elect a majority of the Supervisory Board of a contractual party or any other ownership interest that enables the acquirer to exercise control over a contractual party, or which constitutes a merger or a transfer of net assets.

- Financing agreements in place with the European Investment Bank (EIB) entitle the EIB to request early repayment of the loan in the event of an imminent or actual change in control of BMW AG, if the EIB has reason to assume – after the change in control or 30 days after it has made a request to discuss the situation – that the change in control could have a significantly adverse impact, or if the borrower refuses to hold any such discussions. A change in control of BMW AG arises if one or more individuals take over or lose control of BMW AG, with control being defined in the above-mentioned financing agreements as (i) holding or having control over more than 50 % of the voting rights, (ii) the right to appoint the majority of the members of the Board of Management or Supervisory Board, (iii) the right to receive more than 50 % of dividends payable or (iv) any other comparable controlling influence over BMW AG.

- BMW AG was until 11 January 2018 party to an agreement with SGL Carbon SE, Wiesbaden, relating to the joint operations SGL Automotive Carbon Fibers LLC, Delaware, USA and SGL Automotive Carbon Fibers GmbH & Co. KG, Munich. The agreement included call and put rights in case – either directly or indirectly – 50 % or more of the voting rights relating to the relevant other shareholder of the joint operations were acquired by a third party, or if 25 % of such voting rights were acquired by a third party if that third party was a competitor of the party unaffected by the acquisition of the voting rights. In the event of such acquisitions of voting rights by a third party, the non-affected shareholder had the right to purchase the shares of the joint operations from the affected shareholder or to require the affected party to acquire the other shareholder's shares. This agreement was revoked on 11 January 2018 in conjunction with the sale, on the same date, of BMW Group's investment in SGL Automotive Carbon Fibers GmbH & Co. KG, Munich to SGL Carbon SE, Wiesbaden.

- The framework cooperation agreement entered into amongst others by BMW AG and Sixt SE, relating to the foundation and operation of the car-sharing joint venture DriveNow, may be terminated by Sixt SE if a car hire company acquires more than 50 % of the shares of common stock of BMW AG. In the event of such a termination, Sixt SE may, at its own discretion, stipulate the sale of BMW's interest in the joint venture to Sixt SE or the purchase of Sixt's interest in the joint venture by BMW AG or one its subsidiaries. On 29 January 2018, the BMW Group concluded with Sixt SE a contract for the purchase of all shares in DriveNow, which, subject to approval by the antitrust authority, is expected to take effect in March 2018. On completion, the framework cooperation agreement ceases to be effective.

- Several supply and development contracts between BMW AG and various industrial customers, all relating to the sale of components for drivetrain systems, grant an extraordinary right of termination to the relevant industrial customer in specified cases of a change in control at BMW AG (for example BMW AG merges with a third party or is taken over by a third party; an automobile manufacturer acquires more than 50 % of the voting rights or share capital of BMW AG).

- BMW AG is party to the shareholder agreement relating to THERE Holding B.V., which is the majority shareholder of the HERE Group. In accordance with the shareholder agreement, each contractual party is required to offer its directly or indirectly held shares in THERE Holding B.V. for sale to the other shareholders in the event of a change in control. A change in control of BMW AG arises if a person takes over or loses control of BMW AG, with control defined as (i) holding or having control over more than 50 % of the voting rights, (ii) the possibility to control more than 50 % of voting rights exercisable at Annual General Meetings on all or nearly all matters, or (iii) the right to determine the majority of members of the Board of Management or the Supervisory Board. Furthermore, a change in control occurs if competitors of the HERE Group or certain potential competitors of the HERE Group from the technology sector acquire more than 25 % of BMW AG. If none of the other shareholders acquire these shares, the other shareholders are entitled to resolve that THERE Holding B.V. be dissolved.

- The development collaboration agreement between BMW AG, Intel Corporation and Mobileye Vision Technologies Ltd., relating to the development of technologies used in highly and fully automated vehicles, may be terminated by any of the contractual parties if a competitor of one of the parties acquires and subsequently holds at least 30 % of the voting shares of one of the contractual parties.

Compensation agreements with members of the Board of Management or with employees in the event of a takeover bid

The BMW Group has not concluded any compensation agreements with members of the Board of Management or with employees for situations involving a takeover offer.

GROUP FINANCIAL STATEMENTS

3

BMW GROUP INCOME STATEMENT STATEMENT OF COMPREHENSIVE INCOME

Income Statements for Group and Segments

→ 63

in € million	Note	Group 2017	Group 2016	Automotive (unaudited supplementary information) 2017	Automotive (unaudited supplementary information) 2016	Motorcycles (unaudited supplementary information) 2017	Motorcycles (unaudited supplementary information) 2016
Revenues	6	98,678	94,163	88,581	86,424	2,283	2,069
Cost of sales	7	–78,744	–75,442	–72,266	–70,973	–1,809	–1,639
Gross profit		**19,934**	**18,721**	**16,315**	**15,451**	**474**	**430**
Selling and administrative expenses	8	–9,560	–9,158	–7,927	–7,604	–256	–256
Other operating income	9	720	670	675	616	4	27
Other operating expenses	9	–1,214	–847	–1,200	–768	–15	–14
Profit / loss before financial result		**9,880**	**9,386**	**7,863**	**7,695**	**207**	**187**
Result from equity accounted investments	22	738	441	738	441	–	–
Interest and similar income	10	201	196	325	260	–	–
Interest and similar expenses	10	–412	–489	–530	–673	–2	–2
Other financial result	11	248	131	295	193	–	–
Financial result		**775**	**279**	**828**	**221**	**–2**	**–2**
Profit / loss before tax		**10,655**	**9,665**	**8,691**	**7,916**	**205**	**185**
Income taxes	12	–1,949	–2,755	–3,415	–2,475	–63	–53
Net profit / loss		**8,706**	**6,910**	**5,276**	**5,441**	**142**	**132**
Attributable to minority interest		86	47	22	10	–	–
Attributable to shareholders of BMW AG	29	**8,620**	**6,863**	**5,254**	**5,431**	**142**	**132**
Basic earnings per share of common stock in €	13	13.12	10.45				
Basic earnings per share of preferred stock in €	13	13.14	10.47				
Dilutive effects		–	–				
Diluted earnings per share of common stock in €	13	13.12	10.45				
Diluted earnings per share of preferred stock in €	13	13.14	10.47				

Statement of Comprehensive Income for Group

→ 64

in € million	Note	2017	2016
Net profit		**8,706**	**6,910**
Remeasurement of the net defined benefit liability for pension plans	30	693	–1,858
Deferred taxes		–218	529
Items not expected to be reclassified to the income statement in the future		**475**	**–1,329**
Available-for-sale securities		39	40
Financial instruments used for hedging purposes		1,914	2,008
Other comprehensive income from equity accounted investments		–30	43
Deferred taxes		–597	–721
Currency translation foreign operations		–1,171	–230
Items expected to be reclassified to the income statement in the future		**155**	**1,140**
Other comprehensive income for the period after tax	17	**630**	**–189**
Total comprehensive income		**9,336**	**6,721**
Total comprehensive income attributable to minority interests		86	47
Total comprehensive income attributable to shareholders of BMW AG	29	**9,250**	**6,674**

Financial Services (unaudited supplementary information) 2017	Financial Services (unaudited supplementary information) 2016	Other Entities (unaudited supplementary information) 2017	Other Entities (unaudited supplementary information) 2016	Eliminations (unaudited supplementary information) 2017	Eliminations (unaudited supplementary information) 2016	
27,567	25,681	7	6	–19,760	–20,017	Revenues
–23,986	–22,135	–	–	19,317	19,305	Cost of sales
3,581	**3,546**	**7**	**6**	**–443**	**–712**	**Gross profit**
–1,370	–1,294	–27	–30	20	26	Selling and administrative expenses
96	35	130	110	–185	–118	Other operating income
–113	–103	–96	–103	210	141	Other operating expenses
2,194	**2,184**	**14**	**–17**	**–398**	**–663**	**Profit / loss before financial result**
–	–	–	–	–	–	Result from equity accounted investments
12	11	1,110	1,250	–1,246	–1,325	Interest and similar income
–10	–24	–986	–1,006	1,116	1,216	Interest and similar expenses
11	–5	–58	–57	–	–	Other financial result
13	**–18**	**66**	**187**	**–130**	**–109**	**Financial result**
2,207	**2,166**	**80**	**170**	**–528**	**–772**	**Profit / loss before tax**
1,840	–389	–19	–49	–292	211	Income taxes
4,047	**1,777**	**61**	**121**	**–820**	**–561**	**Net profit / loss**
64	37	–	–	–	–	Attributable to minority interest
3,983	**1,740**	**61**	**121**	**–820**	**–561**	**Attributable to shareholders of BMW AG**
						Basic earnings per share of common stock in €
						Basic earnings per share of preferred stock in €
						Dilutive effects
						Diluted earnings per share of common stock in €
						Diluted earnings per share of preferred stock in €

BMW GROUP BALANCE SHEET AT 31 DECEMBER 2017

in € million	Note	Group 2017	Group 2016	Automotive (unaudited supplementary information) 2017	Automotive (unaudited supplementary information) 2016	Motorcycles (unaudited supplementary information) 2017	Motorcycles (unaudited supplementary information) 2016
ASSETS							
Intangible assets	19	9,464	8,157	8,981	7,705	57	46
Property, plant and equipment	20	18,471	17,960	18,050	17,566	388	365
Leased products	21	36,257	37,789	–	–	–	–
Investments accounted for using the equity method	22	2,767	2,546	2,767	2,546	–	–
Other investments		690	560	4,985	5,195	–	–
Receivables from sales financing	23	48,321	48,032	–	–	–	–
Financial assets	24	2,369	2,705	1,302	1,287	–	–
Deferred tax	12	1,927	2,327	3,079	4,310	–	–
Other assets	26	1,635	1,595	3,671	4,043	32	28
Non-current assets		**121,901**	**121,671**	**42,835**	**42,652**	**477**	**439**
Inventories	27	12,707	11,841	12,103	11,344	580	492
Trade receivables	28	2,667	2,825	2,354	2,502	160	144
Receivables from sales financing	23	32,113	30,228	–	–	–	–
Financial assets	24	7,965	7,065	5,578	4,862	–	–
Current tax	25	1,566	1,938	714	1,000	–	–
Other assets	26	5,525	5,087	23,124	21,561	5	2
Cash and cash equivalents		9,039	7,880	7,157	4,794	8	–
Current assets		**71,582**	**66,864**	**51,030**	**46,063**	**753**	**638**
Total assets		**193,483**	**188,535**	**93,865**	**88,715**	**1,230**	**1,077**
EQUITY AND LIABILITIES							
Subscribed capital	29	658	657				
Capital reserves	29	2,084	2,047				
Revenue reserves	29	51,256	44,445				
Accumulated other equity	29	114	–41				
Equity attributable to shareholders of BMW AG	29	**54,112**	**47,108**				
Minority interest		436	255				
Equity		**54,548**	**47,363**	**39,441**	**36,624**	**–**	**–**
Pension provisions	30	3,252	4,587	2,405	2,911	69	83
Other provisions	31	5,437	5,039	4,980	4,570	101	103
Deferred tax	12	2,241	2,795	1,446	740	–	–
Financial liabilities	33	53,548	55,405	832	1,942	–	–
Other liabilities	34	5,410	5,357	6,793	6,530	487	442
Non-current provisions and liabilities		**69,888**	**73,183**	**16,456**	**16,693**	**657**	**628**
Other provisions	31	6,313	5,879	5,656	5,187	99	90
Current tax	32	1,124	1,074	874	770	–	–
Financial liabilities	33	41,100	42,326	947	1,481	–	–
Trade payables	35	9,731	8,512	8,516	7,483	355	303
Other liabilities	34	10,779	10,198	21,975	20,477	119	56
Current provisions and liabilities		**69,047**	**67,989**	**37,968**	**35,398**	**573**	**449**
Total equity and liabilities		**193,483**	**188,535**	**93,865**	**88,715**	**1,230**	**1,077**

in € million	Financial Services (unaudited supplementary information)		Other Entities (unaudited supplementary information)		Eliminations (unaudited supplementary information)	
	2017	2016	2017	2016	2017	2016
ASSETS						
Intangible assets	425	405	1	1	–	–
Property, plant and equipment	33	29	–	–	–	–
Leased products	44,285	45,134	–	–	–8,028	–7,345
Investments accounted for using the equity method	–	–	–	–	–	–
Other investments	2	3	7,160	6,585	–11,457	–11,223
Receivables from sales financing	48,321	48,032	–	–	–	–
Financial assets	176	221	1,089	1,780	–198	–583
Deferred tax	442	389	130	263	–1,724	–2,635
Other assets	3,082	3,093	26,628	27,120	–31,778	–32,689
Non-current assets	**96,766**	**97,306**	**35,008**	**35,749**	**–53,185**	**–54,475**
Inventories	24	5	–	–	–	–
Trade receivables	152	178	1	1	–	–
Receivables from sales financing	32,113	30,228	–	–	–	–
Financial assets	1,531	1,504	1,163	1,329	–307	–630
Current tax	55	44	797	894	–	–
Other assets	5,331	5,417	45,963	44,782	–68,898	–66,675
Cash and cash equivalents	1,856	3,046	18	40	–	–
Current assets	**41,062**	**40,422**	**47,942**	**47,046**	**–69,205**	**–67,305**
Total assets	**137,828**	**137,728**	**82,950**	**82,795**	**–122,390**	**–121,780**
EQUITY AND LIABILITIES						
Subscribed capital						
Capital reserves						
Revenue reserves						
Accumulated other equity						
Equity attributable to shareholders of BMW AG						
Minority interest						
Equity	**14,740**	**11,049**	**18,102**	**16,744**	**–17,735**	**–17,054**
Pension provisions	72	77	706	1,516	–	–
Other provisions	356	353	–	13	–	–
Deferred tax	4,302	6,755	38	48	–3,545	–4,748
Financial liabilities	17,819	17,718	35,095	36,328	–198	–583
Other liabilities	28,835	29,413	198	601	–30,903	–31,629
Non-current provisions and liabilities	**51,384**	**54,316**	**36,037**	**38,506**	**–34,646**	**–36,960**
Other provisions	549	599	9	3	–	–
Current tax	233	255	17	49	–	–
Financial liabilities	24,853	27,368	15,607	14,107	–307	–630
Trade payables	849	702	11	24	–	–
Other liabilities	45,220	43,439	13,167	13,362	–69,702	–67,136
Current provisions and liabilities	**71,704**	**72,363**	**28,811**	**27,545**	**–70,009**	**–67,766**
Total equity and liabilities	**137,828**	**137,728**	**82,950**	**82,795**	**–122,390**	**–121,780**

BMW GROUP CASH FLOW STATEMENT

in € million	Group 2017	Group 2016
Net profit	8,706	6,910
Reconciliation between net profit and cash inflow / outflow from operating activities		
Current tax	2,558	2,670
Other interest and similar income / expenses[1]	65	131
Depreciation and amortisation of tangible, intangible and investment assets	4,822	4,998
Change in provisions	696	883
Change in leased products	–1,134	–2,526
Change in receivables from sales financing	–7,440	–8,368
Change in deferred taxes	–609	85
Other non-cash income and expense items	–249	–15
Gain / loss on disposal of tangible and intangible assets and marketable securities	–43	–4
Result from equity accounted investments	–738	–441
Changes in working capital	166	–104
Change in inventories	–1,293	–749
Change in trade receivables	45	–93
Change in trade payables	1,414	738
Change in other operating assets and liabilities	1,285	1,229
Income taxes paid	–2,301	–2,417
Interest received[1]	125	142
Cash inflow / outflow from operating activities	**5,909**	**3,173**
Investments in intangible assets and property, plant and equipment	–7,112	–5,823
Proceeds from the disposal of intangible assets and property, plant and equipment	30	10
Expenditure for investment assets	–142	–338
Proceeds from the disposal of investment assets and other business units	1,236[2]	140
Investments in marketable securities and investment funds	–4,041	–3,592
Proceeds from the sale of marketable securities and investment funds	3,866	3,740
Cash inflow / outflow from investing activities	**–6,163**	**–5,863**
Payments into equity	38	20
Payment of dividend for the previous year	–2,324	–2,121
Intragroup financing and equity transactions	–	–
Interest paid[1]	–165	–118
Proceeds from the issue of bonds	12,061	13,974
Repayment of bonds	–9,374	–10,374
Proceeds from new non-current other financial liabilities	11,894	8,952
Repayment of non-current other financial liabilities	–7,427	–8,443
Change in current other financial liabilities	–4,084	4,135
Change in commercial paper	953	–1,632
Cash inflow / outflow from financing activities	**1,572**	**4,393**
Effect of exchange rate on cash and cash equivalents	**–223**	**17**
Effect of changes in composition of Group on cash and cash equivalents	**64**	**38**
Change in cash and cash equivalents	**1,159**	**1,758**
Cash and cash equivalents as at 1 January	7,880	6,122
Cash and cash equivalents as at 31 December	**9,039**	**7,880**

[1] Interest relating to financial services business is classified as revenues / cost of sales.
[2] Includes €969 million from the sale of receivables from sales financing (multibrand portfolio) amounting to €939 million and other receivables and payables amounting to €22 million (2016: € – million) as well as dividends received from investment assets amounting to €258 million (2016: €134 million).

	Automotive (unaudited supplementary information)		Financial Services (unaudited supplementary information)	
	2017	2016	2017	2016
Net profit	5,276	5,441	4,047	1,777
Reconciliation between net profit and cash inflow/outflow from operating activities				
Current tax	2,699	2,787	–114	–117
Other interest and similar income/expenses[1]	89	283	–5	12
Depreciation and amortisation of tangible, intangible and investment assets	4,699	4,876	35	29
Change in provisions	988	970	225	139
Change in leased products	–	–	–1,855	–3,532
Change in receivables from sales financing	–	–	–7,440	–8,368
Change in deferred taxes	906	–187	–1,872	275
Other non-cash income and expense items	25	11	46	11
Gain/loss on disposal of tangible and intangible assets and marketable securities	–41	–3	–2	–1
Result from equity accounted investments	–738	–441	–	–
Changes in working capital	78	–172	161	50
Change in inventories	–1,179	–758	–20	2
Change in trade receivables	43	–43	19	–12
Change in trade payables	1,214	629	162	60
Change in other operating assets and liabilities	–1,362	–246	705	–283
Income taxes paid	–1,896	–1,997	–315	164
Interest received[1]	125	142	–	–
Cash inflow/outflow from operating activities	**10,848**	**11,464**	**–6,384**	**–9,844**
Investments in intangible assets and property, plant and equipment	–6,972	–5,699	–15	–10
Proceeds from the disposal of intangible assets and property, plant and equipment	28	9	2	–
Expenditure for investment assets	–482	–122	–	–
Proceeds from the disposal of investment assets and other business units	1,037	140	970	–
Investments in marketable securities and investment funds	–3,810	–3,196	–231	–396
Proceeds from the sale of marketable securities and investment funds	3,655	3,436	211	304
Cash inflow/outflow from investing activities	**–6,544**	**–5,432**	**937**	**–102**
Payments into equity	38	20	–	–
Payment of dividend for the previous year	–2,324	–2,121	–	–
Intragroup financing and equity transactions	567	–1,833	4,315	6,191
Interest paid[1]	–165	–118	–	–
Proceeds from the issue of bonds	–	–	552	870
Repayment of bonds	–	–	–489	–1,160
Proceeds from new non-current other financial liabilities	–	67	11,385	8,295
Repayment of non-current other financial liabilities	–48	–520	–7,119	–7,215
Change in current other financial liabilities	73	–720	–4,181	4,425
Change in commercial paper	–	–	–129	195
Cash inflow/outflow from financing activities	**–1,859**	**–5,225**	**4,334**	**11,601**
Effect of exchange rate on cash and cash equivalents	**–82**	**10**	**–141**	**21**
Effect of changes in composition of Group on cash and cash equivalents	**–**	**25**	**64**	**11**
Change in cash and cash equivalents	**2,363**	**842**	**–1,190**	**1,687**
Cash and cash equivalents as at 1 January	4,794	3,952	3,046	1,359
Cash and cash equivalents as at 31 December	**7,157**	**4,794**	**1,856**	**3,046**

The reconciliation of liabilities from financing activities is presented in note 33.

BMW GROUP
STATEMENT OF CHANGES IN EQUITY

in € million	Note	Subscribed capital	Capital reserves	Revenue reserves
1 January 2017	29	**657**	**2,047**	**44,445**
Net profit		–	–	8,620
Other comprehensive income for the period after tax		–	–	475
Comprehensive income 31 December 2017		**–**	**–**	**9,095**
Dividends paid		–	–	– 2,300
Subscribed share capital increase out of Authorised Capital		1	–	–
Premium arising on capital increase relating to preferred stock		–	37	–
Other changes		–	–	16
31 December 2017	29	**658**	**2,084**	**51,256**

in € million	Note	Subscribed capital	Capital reserves	Revenue reserves
1 January 2016	29	**657**	**2,027**	**41,027**
Net profit		–	–	6,863
Other comprehensive income for the period after tax		–	–	–1,329
Comprehensive income 31 December 2016		**–**	**–**	**5,534**
Dividends paid		–	–	– 2,102
Subscribed share capital increase out of Authorised Capital		–	–	–
Premium arising on capital increase relating to preferred stock		–	20	–
Other changes		–	–	–14
31 December 2016	29	**657**	**2,047**	**44,445**

Accumulated other equity						
Currency translation differences	Securities	Derivative financial instruments	Equity attributable to shareholders of BMW AG	Minority interest	Total	
–171	**52**	**78**	**47,108**	**255**	**47,363**	**1 January 2017**
–	–	–	8,620	86	**8,706**	Net profit
–1,323	41	1,437	630	–	**630**	Other comprehensive income for the period after tax
–1,323	**41**	**1,437**	**9,250**	**86**	**9,336**	**Comprehensive income 31 December 2017**
–	–	–	–2,300	–	**–2,300**	Dividends paid
–	–	–	1	–	**1**	Subscribed share capital increase out of Authorised Capital
–	–	–	37	–	**37**	Premium arising on capital increase relating to preferred stock
–	–	–	16	95	**111**	Other changes
–1,494	**93**	**1,515**	**54,112**	**436**	**54,548**	**31 December 2017**

Accumulated other equity						
Currency translation differences	Securities	Derivative financial instruments	Equity attributable to shareholders of BMW AG	Minority interest	Total	
132	**24**	**–1,337**	**42,530**	**234**	**42,764**	**1 January 2016**
–	–	–	6,863	47	**6,910**	Net profit
–303	28	1,415	–189	–	**–189**	Other comprehensive income for the period after tax
–303	**28**	**1,415**	**6,674**	**47**	**6,721**	**Comprehensive income 31 December 2016**
–	–	–	–2,102	–	**–2,102**	Dividends paid
–	–	–	–	–	**–**	Subscribed share capital increase out of Authorised Capital
–	–	–	20	–	**20**	Premium arising on capital increase relating to preferred stock
–	–	–	–14	–26	**–40**	Other changes
–171	**52**	**78**	**47,108**	**255**	**47,363**	**31 December 2016**

NOTES TO THE GROUP FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES AND POLICIES

01
Basis of preparation

The consolidated financial statements of Bayerische Motoren Werke Aktiengesellschaft (BMW Group Financial Statements or Group Financial Statements) at 31 December 2017 have been drawn up in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Union, and the supplementary requirements of § 315 a (1) of the German Commercial Code (HGB). The Group Financial Statements and Combined Management Report will be submitted to the operator of the electronic version of the German Federal Gazette and can be obtained via the Company Register website. Bayerische Motoren Werke Aktiengesellschaft, which has its seat at Petuelring 130, Munich, is registered in the Commercial Register of the District Court of Munich under the number HRB 42243.

The Group currency is the euro. All amounts are disclosed in millions of euros (€ million) unless stated otherwise.

The BMW Group and segment income statements are presented using the cost of sales method.

In order to provide a better insight into the results of operations, financial position and net assets of the BMW Group, and going beyond the requirements of IFRS 8 (Operating Segments), the Group Financial Statements also include income statements and balance sheets for the Automotive, Motorcycles, Financial Services and Other Entities segments. The Group Cash Flow Statement is supplemented by statements of cash flows for the Automotive and Financial Services segments. This supplementary information is unaudited. Inter-segment transactions relate primarily to internal sales of products, the provision of funds for Group companies and the related interest. These items are eliminated in the relevant "Eliminations" columns. A description of the nature of the business and major operating activities of the BMW Group's segments is provided in → note 43 ("Explanatory notes to segment information").

→ see note 43

On 15 February 2018, the Board of Management granted approval for publication of the Group Financial Statements.

02 Group reporting entity and consolidation principles

The BMW Group Financial Statements include BMW AG and all material subsidiaries over which BMW AG – either directly or indirectly – exercises control. This also includes 57 structured entities, consisting of asset-backed securities entities and special-purpose funds.

All consolidated subsidiaries have the same year-end as BMW AG with the exception of BMW India Private Ltd. and BMW India Financial Services Private Ltd., whose year-ends are 31 March in accordance with local legal requirements.

When assessing whether an investment gives rise to a controlled entity, an associated company, a joint operation or a joint venture, the BMW Group considers contractual arrangements and other circumstances, as well as the structure and legal form of the entity. Discretionary decisions may also be required. If indications exist of a change in the judgement of (joint) control, the BMW Group undertakes a new assessment.

An entity is deemed to be controlled if BMW AG – either directly or indirectly – has power over it, is exposed or has rights to variable returns from it and has the ability to influence those returns.

An entity is classified as an associated company if BMW AG – either directly or indirectly – has the ability to exercise significant influence over the entity's operating and financial policies. As a general rule, the Group is assumed to have significant influence if it holds 20 % or more of the entity's voting power.

Joint operations and joint ventures are forms of joint arrangements. Such an arrangement exists when a BMW Group entity jointly carries out activities with a third party on the basis of a contractual agreement.

In the case of a joint operation, the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Assets, liabilities, revenues and expenses of a joint operation are recognised proportionately in the Group Financial Statements on the basis of the BMW Group entity's rights and obligations (proportionate consolidation). Together with SGL Carbon SE, companies of the BMW Group are party to joint operations for the manufacture of carbon fibres and carbon fibre fabrics used in vehicle production. In November 2017, an agreement was signed with SGL Carbon SE concerning that entity's gradual acquisition of the BMW Group's 49 percent shareholding. Accordingly, between the beginning of 2018 and the end of 2020 at the latest, SGL Carbon SE will become the sole owner of the hitherto joint operations. As a consequence of the transaction, the joint operations will cease to be proportionately consolidated in the BMW Group Financial Statements with effect from the financial year 2018.

The BMW Group is also party to a cooperation with Toyota Motor Corporation, Toyota City, for the development of a sports car. This cooperation is accounted for as a joint operation.

In the case of a joint venture, the parties which have joint control only have rights to the net assets of the arrangement.

Associated companies and joint ventures are accounted for using the equity method, with measurement on initial recognition based on acquisition cost.

The following changes took place in the Group reporting entity in the financial year 2017:

	Germany	Foreign	Total
Included at 31 December 2016	21	178	**199**
Included for the first time in 2017	1	20	**21**
No longer included in 2017	1	11	**12**
Included at 31 December 2017	**21**	**187**	**208**

03 Foreign currency translation and measurement

The financial statements of consolidated companies which are presented in a foreign currency are translated using the modified closing rate method. Under this method, assets and liabilities are translated at the closing exchange rate, whilst income and expenses are translated at the average exchange rate. Differences arising on foreign currency translation are presented in "Accumulated other equity".

In the single entity accounts of BMW AG and its subsidiaries, foreign currency receivables and payables are measured on initial recognition using the exchange rate prevailing at the date of first-time recognition. At the end of the reporting period, foreign currency receivables and payables are measured using the closing exchange rate. The resulting unrealised gains and losses, as well as realised gains and losses arising on settlement, are recognised in the income statement.

The exchange rates of currencies which have a material impact on the Group Financial Statements were as follows:

	Closing rate		Average rate	
1 Euro =	31.12.2017	31.12.2016	2017	2016
US Dollar	1.20	1.06	1.13	1.11
British Pound	0.89	0.85	0.88	0.82
Chinese Renminbi	7.80	7.34	7.63	7.35
Japanese Yen	134.93	123.34	126.68	120.25
Korean Won	1,281.41	1,274.34	1,276.47	1,283.86

04 Accounting policies; assumptions, judgements and estimations

Revenues from the sale of products and services are recognised when the risks and rewards of ownership are transferred to the dealership or customer, provided that the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and costs incurred or to be incurred in respect of the sale can be measured reliably. Revenues are stated net of settlement discount, bonuses and rebates.

If the sale of products includes a determinable amount for services ("multiple-component contracts"), the related revenues are deferred and recognised as income over the service period. Amounts are normally recognised as income by reference to the pattern of related expenditure.

Profits arising on the sale of vehicles for which a Group company retains a repurchase commitment (buyback agreements) are not recognised immediately. The difference between the sales and buyback price is accounted for as deferred income and recognised in instalments as revenue over the contract term.

Revenues relating to operating lease arrangements are recognised on a straight-line basis over the lease term. Interest income arising on finance leases and on retail customer/dealership financing is recognised using the effective interest method.

Public sector grants are not recognised until there is reasonable assurance that the conditions attaching to them have been complied with and the grants will be received. The resulting income is recognised in cost of sales over the same periods as the costs occur which they are intended to compensate.

Earnings per share are calculated as follows: Basic earnings per share are calculated for common and preferred stock by dividing the net profit after minority interest, as attributable to each category of stock, by the average number of outstanding shares. The net profit is accordingly allocated to the different categories of stock. The portion of the Group net profit for the year which is not being distributed is allocated to each category of stock based on the number of outstanding shares. Profits available for distribution are determined directly on the basis of the dividend resolutions passed for common and preferred stock. Diluted earnings per share are calculated and separately disclosed in accordance with IAS 33.

Purchased and internally-generated **intangible assets** are recognised as assets where it is probable that the use of the asset will generate future economic benefits and where the costs of the asset can be determined reliably. Such assets are measured at acquisition or manufacturing cost, as a general rule without borrowing costs, and, to the extent that they have a finite useful life, amortised on a straight-line basis over their estimated useful lives. With the exception of capitalised development costs, intangible assets are amortised as a general rule over their estimated useful lives of between three and 20 years.

Development costs for vehicle, module and architecture projects are capitalised at manufacturing cost, to the extent that attributable costs (including development-related overhead costs) can be measured reliably and both technical feasibility and successful marketing are assured. It must also be sufficiently probable that the development expenditure will generate future economic benefits. Capitalised development costs are amortised on a straight-line basis following the start of production over the estimated product life cycle (usually five to 12 years).

Goodwill arises on first-time consolidation of an acquired business when the cost of acquisition exceeds the Group's share of the net fair value of the assets identified during the acquisition, liabilities and contingent liabilities.

If there is any indication of **impairment of intangible assets,** or if an annual impairment test is required (i.e. intangible assets with an indefinite useful life, intangible assets during the development phase and goodwill), an impairment test is performed. Each individual asset is tested separately unless the cash flows generated by the asset are not sufficiently independent from the cash flows generated by other assets or other groups of assets. In this case, impairment is tested at the level of a cash-generating unit.

For the purpose of the impairment test, the carrying amount of an asset (or a cash-generating unit) is compared with the recoverable amount. The first step of the impairment test is to determine the value in use. If the value in use is lower than the carrying amount, the next step is to determine the fair value less costs to sell and compare the amount so determined with the asset's carrying amount. If the fair value is lower than the carrying amount, an impairment loss is recognised, reducing the carrying amount to the higher of the asset's value in use or fair value less selling cost.

If the reason for a previously recognised impairment loss no longer exists, the impairment loss is reversed up to the level of the recoverable amount, but no higher than the amortised acquisition or manufacturing cost. Impairment losses on goodwill are not reversed.

As part of the assessment of recoverability, it is generally necessary to apply estimations and assumptions – in particular regarding future cash inflows and outflows and the length of the forecast period – which could differ from actual amounts. Actual amounts may differ from the assumptions and estimations used if business conditions develop differently to the expectations.

The BMW Group determines the value in use on the basis of a present value calculation. Cash flows used for this calculation are derived from long-term forecasts approved by management. These forecasts are based on detailed forecasts drawn up at the operational level and, with a planning period of six years, correspond roughly to the typical product life cycle of vehicle projects. For the purposes of calculating cash flows beyond the planning period, a residual value is assumed which does not take growth into account. Forecasting assumptions are continually adjusted to current information and regularly compared with external sources. The assumptions used take account in particular of expectations of the profitability of the product portfolio, future market share development, macroeconomic developments (such as currency, interest rate and raw materials prices) as well as the legal environment and past experience.

Amounts are discounted on the basis of a market-related cost of capital rate. Impairment tests for the Automotive and Motorcycles cash-generating units are performed using a risk-adjusted pre-tax cost of capital (WACC). In the case of the Financial Services cash-generating unit, a pre-tax cost of equity capital is used, as is customary in the sector. The following discount factors were applied:

in %	2017	2016
Automotive	12.0	12.0
Motorcycles	12.0	12.0
Financial Services	13.4	13.4

The risk-adjusted discount rate, calculated using a CAPM model, takes into account specific peer-group information relating to beta-factors, capital structure data and borrowing costs. In conjunction with the impairment tests for cash-generating units, sensitivity analyses are performed for the main assumptions, in order to rule out that possible changes to the assumptions used to determine the recoverable amount would result in the requirement to recognise an impairment loss.

Items of **property, plant and equipment** are measured at acquisition or manufacturing cost less accumulated depreciation and accumulated impairment losses. The cost of internally constructed plant and equipment comprises all costs which are directly attributable to the manufacturing process as well as an appropriate proportion of production-related overheads. This includes production-related depreciation and amortisation as well as an appropriate proportion of administrative and social costs. Financing costs are not included in acquisition or manufacturing cost unless they are directly attributable to the asset. The carrying amount of items of depreciable property, plant and equipment is written down according to scheduled usage-based depreciation – as a general rule on a straight-line basis – over the useful lives of the assets. Depreciation is recorded as an expense in the income statement.

The following useful lives are applied throughout the BMW Group:

in years	
Factory and office buildings, residential buildings, fixed installations in buildings and outside facilities	8 to 50
Plant and machinery	3 to 21
Other equipment, factory and office equipment	2 to 25

For machinery used in multiple-shift operations, depreciation rates are increased to account for the additional utilisation. If there is any indication of impairment of property, plant and equipment, an impairment test is performed as described above for intangible assets.

With respect to **lease arrangements** of the BMW Group, use of judgement is required, in particular with regard to the transfer of economic ownership of a leased item.

Leased items of property, plant and equipment whose economic ownership is attributed to the BMW Group (finance leases) are measured on initial recognition at fair value or, if lower, at the net present value of minimum lease payments. The assets are depreciated using the straight-line method over their estimated useful lives or, if shorter, over the contractual lease period. The obligations for future lease payments are recognised at their net present value in other financial liabilities.

Group products recognised by BMW Group entities as **leased products** under operating leases are measured at manufacturing cost, including any initial direct costs. All other leased products are measured at acquisition cost. All leased products are depreciated over the period of the lease using the straight-line method down to their expected residual value. Where the recoverable amount of a lease exceeds the asset's carrying amount, changes in residual value expectations are recognised by adjusting scheduled depreciation prospectively over the remaining term of the lease. If the recoverable amount is lower than the asset's carrying amount, an impairment loss is recognised for the shortfall. A test is carried out at each balance sheet date to determine whether an impairment loss recognised in prior years no longer exists or has decreased. In such cases, the carrying amount of the asset is increased to the recoverable amount, at maximum up to the amount of the asset's amortised cost.

Assumptions and estimations are required regarding future residual values, since these represent a significant part of future cash inflows. Relevant factors to be considered include the trend in market prices and demand on the pre-owned vehicle market. The assumptions are based on internally available historical and current market data as well as on forecasts of external institutions. Furthermore, assumptions are regularly validated by comparison with external data.

Investments accounted for using the equity method are recognised at the Group's share of their revalued equity capital, provided no impairment has been recognised.

Financial assets reported as **other investments** are recognised and measured at their fair value in accordance with the requirements of IAS 39. If this value is not available or cannot be determined reliably, they are measured at cost. Subsidiaries, joint arrangements and associated companies included in other investments, but which are not material to the BMW Group, do not fall within the scope of IAS 39.

A **financial instrument** is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets are accounted for on the basis of the settlement date.

On initial recognition, financial assets are measured at their fair value. Transaction costs are included unless the financial assets are allocated to the category "financial assets measured at fair value through profit or loss".

The Group's financial assets are allocated to either cash funds or to the categories "loans and receivables", "available-for-sale", "held for trading" or "fair value option".

The fair value option is applied by the BMW Group for non-current marketable securities with embedded derivatives and non-current loans receivable from third parties. The related gains and losses are presented in the income statement line item Other financial result. Related interest income and expenses are presented in net interest result.

Subsequent to initial recognition, financial assets which are available-for-sale or held-for-trading or for which the fair value option is applied, are measured at their fair value. The fair values shown are determined on the basis of market information available at the balance sheet date, prices quoted by the contract partners or appropriate measurement methods, e.g. discounted cash flow models.

Those non-derivative financial assets that are not classified as "loans and receivables" or "held-to-maturity investments" or as items measured "at fair value through profit and loss" are classified as "available-for-sale". Financial assets that are classified as loans and receivables are measured at amortised cost using the effective interest method. All financial assets for which published price quotations in an active market are not available and whose fair value cannot be determined reliably are measured at cost.

Assessments are regularly made as to whether material objective evidence indicates that a financial asset or portfolio of assets is impaired. For the purposes of assessing possible impairment, the BMW Group takes account of all available information, such as market conditions and prices as well as the duration and magnitude of the decline in value. In the case of equity instruments that are listed on a stock market, it is assumed that an item is impaired if, for example, its fair value falls below acquisition cost significantly (more than 20 %) or on a prolonged basis (more than 5 % over nine months).

Receivables from sales financing are measured at amortised cost using the effective interest rate method. This also includes receivables arising on vehicle finance leases. Impairment allowances are recognised both on a specific-item and a group basis. For these purposes, the main factors taken into consideration are past experience and current market data (such as the level of arrears), as well as information on rating classes and scoring. Consideration is also given to current market data and macroeconomic conditions that could have an impact on the general creditworthiness of customers as well as the overall market environment for pre-owned vehicles. The market value of vehicles which serve as collateral changes when prices on pre-owned vehicle markets fall. Specific allowances are recognised if there is objective evidence of impairment. In the retail credit financing and leasing business, the existence of overdue balances or the incidence of similar events in the past are examples of such evidence. In the event of overdue receivables, allowances are always recognised individually based on the duration of the arrears. In the case of dealership financing receivables, the allocation to a corresponding rating category also represents objective evidence of impairment. If no objective evidence of impairment exists, allowances are recognised using a portfolio approach based on similar groups of assets. Company-specific loss probabilities and loss ratios, derived from historical data, are used to measure allowances on similar groups of assets.

The recognition of allowances on receivables relating to the industrial business is also based, as far as possible, on the same procedures applied in the financial services business. The impairment allowances are recorded in separate accounts and are derecognised at the same time the corresponding written-down receivables are derecognised.

Derivative financial instruments are used within the BMW Group for hedging purposes in order to reduce currency, interest rate, fair value and market price risks arising from operating activities and the related financing requirements. All derivative financial instruments are measured at their fair value. The fair values of derivative financial instruments are determined using measurement models and are therefore subject to the risk that they could differ from realisable market prices on disposal. Observable financial market price spreads are taken into account in the measurement of derivative financial instruments. The supply of data for the model used to calculate fair values also takes account of tenor and currency basis spreads.

In addition, the Group's own credit risk and that of counterparties is taken into account on the basis of credit default swap values for market contracts with matching terms. The BMW Group applies the option of measuring the credit risk for a group of financial assets and financial liabilities on the basis of the net exposure of long and short positions. Portfolio-based value adjustments to the individual financial assets and financial liabilities are allocated using the relative fair value approach (net method).

Where hedge accounting is applied, changes in fair value are recognised in the income statement or in other comprehensive income as a component of accumulated other equity, depending on whether the hedging relationship is classified as a fair value hedge or a cash flow hedge. In the case of a fair value hedge, the results of the fair value measurement of the derivative financial instruments and the related hedged items are recognised in the income statement. Fair value hedges are mainly used to hedge the market prices of bonds, other financial liabilities and receivables from sales financing. In the case of a cash flow hedge, the effective portion of the fair value gain or loss on the derivative financial instrument is recognised directly in accumulated other equity. The ineffective portion of the fair value gain or loss is recognised in the income statement. Amounts recorded in accumulated other equity are recognised in the income statement when the hedged item or external revenue item is recognised in the income statement. If, contrary to the usual practice within the BMW Group, hedge accounting cannot be applied, the gains or losses arising on the fair value measurement of derivative financial instruments are recognised in the income statement.

Deferred taxes are recognised on all temporary differences between the tax and accounting bases of assets and liabilities and on consolidation procedures. The recoverability of deferred tax assets is assessed at each balance sheet date on the basis of planned taxable income in future financial years. If with a probability of more than 50 percent future tax benefits will not be realised, either in part or in total, a valuation allowance is recognised on the deferred tax assets. The calculation of deferred tax assets requires assumptions to be made with regard to the level of future taxable income and the timing of recovery of deferred tax assets. These assumptions take account of forecast operating results and the impact on earnings of the reversal of taxable temporary differences. Since future business developments cannot be predicted with certainty and to an extent cannot be influenced by the BMW Group, the measurement of deferred tax assets is subject to uncertainty. Deferred taxes are calculated on the basis of tax rates which are applicable or expected to apply in the relevant national jurisdictions when the amounts are recovered.

Current income taxes are calculated within the BMW Group on the basis of tax legislation applicable in the relevant countries. To the extent that judgement was necessary to determine the treatment and amount of tax items presented in the financial statements, there is in principle a possibility that local tax authorities may take a different position.

Inventories of raw materials, supplies and goods for resale are stated at the lower of average acquisition cost and net realisable value.

Work in progress and finished goods are stated at the lower of manufacturing cost and net realisable value. Manufacturing cost comprises all costs which are directly attributable to the manufacturing process as well as an appropriate proportion of production-related overheads. This includes production-related depreciation and amortisation and an appropriate proportion of administrative and social costs. Financing costs are not included in the acquisition or manufacturing cost of inventories.

Cash and cash equivalents comprise mainly cash on hand and cash at bank with an original term of up to three months, and are measured at face value.

Assets held for sale and disposal groups held for sale are presented separately in the balance sheet in accordance with IFRS 5 if the carrying amount of the relevant assets will be recovered principally through a sale transaction rather than through continuing use. This applies only in cases in which the assets can be sold immediately in their present condition, the sale is expected to be completed within one year from the date of classification and the sale is highly probable. At the date of classification, property, plant and equipment, intangible assets and disposal groups which are being held for sale are measured at the lower of their carrying amount and their fair value less costs to sell, and are no longer subject to scheduled depreciation/amortisation. This does not apply, however, to items within the disposal group which are not covered by the measurement rules contained in IFRS 5. At the same time, liabilities directly related to the sale are presented separately on the equity and liabilities side of the balance sheet as Liabilities in conjunction with assets held for sale.

Provisions for pensions are measured using the projected unit credit method. Under this method, not only obligations relating to known vested benefits at the reporting date are recognised, but also the effect of future expected increases in pensions and salaries. The calculation is based on independent actuarial valuations which take into account relevant biometric factors.

In the case of funded plans, the pension obligation is offset against plan assets measured at their fair value. If the plan assets exceed the pension obligation, the surplus is tested for recoverability. In the event that the BMW Group has a right of reimbursement or a right to reduce future contributions, it reports an asset (within Other financial assets), measured on the basis of the present value of the future economic benefits attached to the plan assets. For funded plans, in cases where the obligation exceeds plan assets, a liability is recognised under pension provisions.

The calculation of the amount of the provision requires assumptions to be made with regard to discount rates, salary trends, employee fluctuation and the life expectancy of employees. Discount rates are determined by reference to market yields at the end of the reporting period on high quality fixed-interest corporate bonds. The salary trend relates to the expected future rate of salary increase which is estimated annually based on inflation and the career development of employees within the Group.

Net interest expense on the net defined benefit liability and net interest income on net defined benefit assets are presented separately within the financial result. All other costs relating to allocations to pension provisions are allocated to costs by function in the income statement.

Past service cost arises when a BMW Group company introduces a defined benefit plan or changes the benefits payable under an existing plan. This cost is recognised immediately in the income statement. Similarly, gains and losses arising on the settlement of a defined benefit plan are recognised immediately in the income statement.

Remeasurement of the net liability can result from changes in the present value of the defined benefit obligation, the fair value of the plan assets or the asset ceiling. Remeasurement can result, amongst others, from changes in financial and demographic parameters, as well as changes following the portfolio development. Remeasurements are recognised immediately in other comprehensive income and hence directly in equity (within revenue reserves).

Other provisions are recognised when the BMW Group has a present legal or factual obligation towards a third party arising from past events, the settlement of which is probable, and when the amount of the obligation can be reliably estimated. Provisions with a remaining term of more than one year are measured at their net present value.

The measurement of provisions for **statutory and non-statutory warranty obligations (statutory, contractual and voluntary)** involves estimations. In addition to manufacturer warranties prescribed by law, the BMW Group offers various categories of guarantee depending on the product and sales market. These provisions are recognised when the risks and rewards of ownership of the goods are transferred to the dealership or retail customer or when a new category of warranty is introduced. With respect to the level of the provision, estimations are made in particular based on past experience of damage claims and processes. Future potential repair costs and price increases per product and market are also taken into account. Specific and expected warranty items, such as vehicle recalls, are also included. Provisions for warranties for all companies of the BMW Group are adjusted regularly to take account of new information, with the impact of any changes recognised in the income statement. Similar estimates are made in conjunction with the measurement of expected reimbursement claims, which are presented as separate assets.

The recognition of provisions for **litigation and liability risks** necessitates making assumptions in order to determine the probability of liability, the amount of claim and the duration of the legal dispute. The assumptions made, especially the assumption about the outcome of legal proceedings, are subject to a high degree of uncertainty. The appropriateness of assumptions is regularly reviewed, based on assessments undertaken both by management and external experts, such as lawyers. If new developments arise in the future that result in a different assessment, provisions are adjusted accordingly.

If the recognition and measurement criteria relevant for provisions are not fulfilled and the outflow of resources on fulfilment is not unlikely, the potential obligation is disclosed as a **contingent liability.**

Financial liabilities are measured on first-time recognition at their fair value. Transaction costs are also taken into account, except in the case of financial liabilities allocated to the category "measured at fair value through profit or loss". Subsequent to initial recognition, liabilities are – with the exception of derivative financial instruments – measured at amortised cost using the effective interest method.

Related party disclosures comprise information on associated companies, joint ventures and non-consolidated subsidiaries as well as individuals which have the ability to exercise a controlling or significant influence over the financial and operating policies of the BMW Group. This includes all persons in key positions of the Company, as well as close members of their families or intermediary entities. In the case of the BMW Group, this also applies to members of the Board of Management and the Supervisory Board. Details relating to these individuals and entities are provided in → note 38 and in the list of investments disclosed in → note 44.

→ see notes 38 and 44

Share-based remuneration programmes which are expected to be settled in shares are measured at their fair value at grant date. The related expense is recognised as personnel expense in the income statement over the vesting period and offset against capital reserves. Share-based remuneration programmes expected to be settled in cash are revalued to their fair value at each balance sheet date between the grant date and the settlement date and on the settlement date itself. The expense is recognised as personnel expense in the income statement over the vesting period and presented in the balance sheet as a provision.

The share-based remuneration programme for Board of Management members and senior heads of department entitles BMW AG to elect whether to settle its commitments in cash or with shares of BMW AG common stock. Based on the decision to settle in cash, the share-based remuneration programmes for Board of Management members and senior heads of department are accounted for as cash-settled, share-based remuneration programmes. Further information on share-based remuneration programmes is provided in → note 39.

→ see note 39

05

Financial reporting rules

(a) Standards and Revised Standards significant for the BMW Group applied for the first time in the financial year 2017:

Standard / Interpretation		Date of issue by IASB	Date of mandatory application IASB	Date of mandatory application EU
IAS 7	Disclosures Initiative – Reconciliation of Liabilities From Financing Activities (Amendments to IAS 7)	29. 1. 2016	1. 1. 2017	1. 1. 2017

The amendments to **IAS 7 (Statement of Cash Flows)** require a reconciliation between the opening and closing balances of liabilities arising from financing activities, for which cash inflows and outflows are presented in the Statement of Cash Flows. The reconciliation is presented in → note 33.

→ see note 33

(b) Financial reporting pronouncements issued by the IASB that are significant for the BMW Group, but have not yet been applied:

Standard/Interpretation		Date of issue by IASB	Date of mandatory application IASB	Date of mandatory application EU
IFRS 9	Financial Instruments	24. 7. 2014	1. 1. 2018	1. 1. 2018
IFRS 15	Revenue from Contracts with Customers	28. 5. 2014 11. 9. 2015 12. 4. 2016	1. 1. 2018	1. 1. 2018
IFRS 16	Leases	13. 1. 2016	1. 1. 2019	1. 1. 2019

IFRS 9 (Financial Instruments) contains new requirements for the classification and measurement of financial assets that are based on the reporting entity's business model for the management of these financial instruments and the characteristics of its contractual cash flows ("Solely Payments of Principal and Interest" (SPPI) criterion). IFRS 9 also gives rise to a new model for determining impairment, which is based on expected credit losses. To date, impairments have been recognised when corresponding objective evidence existed. Furthermore, the requirements for hedge accounting were revised with the aim of bringing the accounting treatment more into line with risk management activities.

The BMW Group will apply IFRS 9 for the first time with effect from 1 January 2018. An exception is made in the accounting treatment of fair value hedging of a portfolio against interest rate risk, for which the requirements of IAS 39 will continue to be applied. IFRS 9 requires retrospective application in the areas of classification and measurement, while the new rules for hedge accounting are required to be applied prospectively, with few exceptions. The BMW Group will apply the exemption contained in IFRS 9, allowing unadjusted comparative information for prior periods.

The new requirements for the classification and measurement of financial assets and financial liabilities result in a number of cases to a change in measurement category for the BMW Group. In future, changes in the value of equity instruments falling within the scope of IFRS 9 which are held at the date of adoption, will be recognised through the income statement. Due to the change in the measurement category, an increase in the revenue reserves amounting to approximately €78 million is recognised at the date of adoption of the new rules, net of the deferred tax effect of approximately €1 million. This includes approximately €76 million for equity instruments which gives rise to a reduction in accumulated other equity of the same amount.

Implementation of the new impairment model has required substantial modifications to existing processes and systems, especially for the Financial Services segment. Receivables from sales financing have been measured using the three-stage model stipulated by IFRS 9. Operating lease receivables represent an exception, in which the simplified approach has been applied. For these receivables, expected losses are calculated for the remaining term. The transfer criteria for the three-stage impairment model is based in principle on a comparison of default probabilities pursuant to the definitions used in the internal risk management system for each financial instrument. In addition, qualitative indicators are taken into account in the transfer criteria, such as overdue period or significant changes in the internal credit rating. Impairment allowances are calculated in a central application. The risk models used were determined on the basis of internal historical default information and macroeconomic factors.

For trade receivables, the simplified approach has been applied. The parameters used to calculate impairment allowances are determined specifically for each portfolio.

Overall, the introduction of the new impairment model across the BMW Group with effect from 1 January 2018 results in a reduction in impairment allowances and an increase in revenue reserves of approximately €82 million net of deferred tax effects of approximately €31 million. Of this amount, approximately €86 million relates to receivables from sales financing net of deferred tax effects of approximately €33 million.

With regard to the accounting treatment of hedging relationships, it is expected that it will be possible in future to apply hedge accounting rules to the majority of commodity hedging instruments. Moreover, changes in the time value of options are required to be recognised as "cost of hedging" in accumulated other equity during the hedging period. These changes are expected to result in a significant reduction in the volatility of amounts reported for financial result and Group earnings.

In future, costs arising in conjunction with hedging will be reported in total in the income statement as part of the profit before financial result (EBIT). As the cost of options to hedge foreign currency exposures is currently reported in the financial result, this will have a negative impact on the Automotive segment's EBIT. The scale of the impact will depend on the future volume of option contracts. The volume of option contracts at 31 December 2017 is not material.

At the date of the first-time application, the new accounting requirements for interest rate hedging instruments will result in an increase in revenue reserves of approximately €18 million, net of deferred tax effects of approximately €6 million.

The new Standard **IFRS 15 (Revenue from Contracts with Customers)** is aimed to assimilate the numerous existing requirements and interpretations relating to revenue recognition into a single Standard. The new Standard also stipulates uniform revenue recognition principles for all sectors and all categories.

The Standard will be applied retrospectively in its entirety with effect from 1 January 2018, meaning that all comparative information for prior periods will be adjusted in accordance with IFRS 15. The exemption provision, allowing contracts fulfilled prior to 1 January 2017 not to be newly assessed in accordance with IFRS 15, has been applied.

The new Standard is based on a five-step model, which sets out the rules for revenue from contracts with customers. Revenues are required to be recognised either over time or at a specific point in time.

A major difference to the previous Standard is the increased scope of discretion for estimates and the introduction of thresholds, thus influencing the amount and timing of revenue recognition.

As a result of the accounting treatment of buyback arrangements and rights of return for sales of vehicles which the Financial Services segment will subsequently lease to customers, intragroup eliminations within the BMW Group will be subject to earlier recognition. The application of IFRS 15 results in a retrospective decrease in Group revenue reserves as at 1 January 2017 amounting to approximately €499 million, net of deferred taxes of approximately €239 million (1 January 2018: reduction of revenue reserves by approximately €553 million, net of deferred taxes of approximately €192 million). No significant impact is expected to arise during the period of first-time application.

In the case of multi-component contracts with variable consideration components, changes in the allocation of transaction prices will result for the Automotive segment in higher amounts being recognised for vehicle sales and a lower level of amounts deferred for service contracts. The shift in the timing of revenue recognition results in a retrospective increase in Group revenue reserves as at 1 January 2017 of approximately €89 million, net of deferred taxes of approximately €38 million (1 January 2018: increase in revenue reserves of approximately €112 million, net of deferred taxes of approximately €42 million). The shift is not expected to have a significant impact on the income statement during the period of first-time application.

In accordance with IFRS 15, costs relating to sales promotion measures in the Automotive segment, such as sales support or residual value subsidies are to be treated as variable components of consideration and will therefore in future be recognised as revenue deductions. A part of these costs have been reported to date within cost of sales. The change in presentation in the income statement will result in a decrease in both revenues and cost of sales. For the financial year 2017, the amount subject to changed accounting presentation in the Automotive segment amounts to approximately €2.9 billion, and is insignificant for the Group.

As a result of the adjustments described above, the Automotive segment's EBIT margin for 2017 will improve by 0.3 percentage points to 9.2 %.

A different accounting treatment may be required if buyback arrangements are in place with customers, resulting in a shift in the timing of revenue recognition. The resulting impact is not expected to be significant.

Buyback arrangements between the Automotive and Financial Services segments are not reflected in the internal management system or reporting and therefore, in accordance with IFRS 8, do not result in any changes in the presentation of segment information.

The following table shows a summary of the estimated effect on revenue reserves of the first-time application of IFRS 9 and IFRS 15.

in € million	Amendment	Impact on revenue reserves 1.1.2017	Impact on net profit 2017	Impact on revenue reserves 1.1.2018	Segment
IFRS 15	Elimination of buyback arrangements and rights	–499	–54	–553	Eliminations
IFRS 15	Change in transaction prices relating to multi-component contracts[1]	89	23	112	Automotive
IFRS 9	Change in measurement category	–	–	78	Automotive/Other
IFRS 9	Introduction of impairment model	–	–	82	Automotive/Financial Services
IFRS 9	Hedge accounting	–	–	18	Financial Services/Other
	Total impact of first-time application	**–410**	**–31**[2]	**–263**	

[1] Includes the effect of the adjustment relating to entities accounted for using the equity method.
[2] Includes effects relating to the reduction of the US federal corporate tax rate from 35 % to 21 % with effect from 1 January 2018. The pre-tax profit impact amounts to € +20 million.

The new Standard **IFRS 16 (Leases)** sets out a new approach to accounting for leases by lessees. While under IAS 17, the accounting treatment of a lease was determined on the basis of the transfer of risks and rewards incidental to ownership of the asset, in the future, all leases in general are to be accounted for by the lessee in a similar way to finance leases.

The BMW Group will use the grandfather clause available for existing leases and apply the available exemptions regarding the recognition of short-term leases and low value leasing assets. The new Standard will be applied for the first time using the modified retrospective method. Intragroup leasing arrangements are not reflected in the internal management system or in internal reporting pursuant to IFRS 16 and therefore, in accordance with IFRS 8, do not result in any changes in the presentation of segment information. Early adoption of IFRS 16 is not planned.

The accounting requirements for lessors, particularly in relation to the requirement to classify leases, will remain largely unchanged.

The impact on the BMW Group's results of operations, financial position and net assets is currently being analysed as part of a Group-wide implementation project. A reliable quantitative measurement of the impact is not possible at present, in particular because the compilation and assessment of contracts across the Group has not yet been completed. The BMW Group expects a slight increase in the balance sheet total and the result before financial result, as well as a slight improvement in the net cash flow from operating activities and a slight deterioration in the net cash flow from financing activities.

Other financial reporting standards issued by the IASB and not yet applied are not expected to have a significant impact on the BMW Group Financial Statements.

NOTES TO THE INCOME STATEMENT

06
Revenues

Revenues by activity comprise the following:

in € million	2017	2016
Sales of products and related goods	71,443	68,681
Sales of products previously leased to customers	10,208	9,258
Income from lease instalments	9,816	9,507
Interest income on loan financing	3,720	3,455
Other income	3,491	3,262
Revenues	**98,678**	**94,163**

An analysis of revenues by segment and region is shown in the segment information in → note 43.

→ see note 43

07
Cost of sales

Cost of sales comprises:

in € million	2017	2016
Manufacturing costs	43,877	43,175
Cost of sales relating to financial services business	22,932	20,723
thereof: Interest expense relating to financial services business	1,801	1,638
Research and development expenses	4,920	4,294
Service contracts, telematics and roadside assistance	2,081	2,018
Warranty expenditure	2,041	2,165
Other cost of sales	2,893	3,067
Cost of sales	**78,744**	**75,442**

Cost of sales is reduced by public-sector subsidies in the form of reduced taxes on assets and reduced consumption-based taxes amounting to €61 million (2016: €69 million).

Research and development expenditure was as follows:

in € million	2017	2016
Research and development expenses	4,920	4,294
Amortisation	–1,236	–1,222
New expenditure for capitalised development costs	2,424	2,092
Total research and development expenditure	**6,108**	**5,164**

08
Selling and administrative expenses

Selling expenses amounted to €6,167 million (2016: €6,030 million) and comprise mainly marketing, advertising and sales personnel costs.

Administrative expenses amounted to €3,393 million (2016: €3,128 million) and relate mainly to personnel and IT costs.

09
Other operating income and expenses

Other operating income and expenses comprise the following items:

in € million	2017	2016
Exchange gains	282	262
Income from the reversal of provisions	138	115
Income from the reversal of impairment losses and write-downs	8	51
Gains on the disposal of assets	80	46
Sundry operating income	212	196
Other operating income	**720**	**670**
Exchange losses	–246	–249
Expense for additions to provisions	–580	–303
Expense for impairment losses and write-downs	–29	–28
Sundry operating expenses	–359	–267
Other operating expenses	**–1,214**	**–847**
Other operating income and expenses	**–494**	**–177**

Income from the reversal of and expenses for the recognition of impairment losses and write-downs relate primarily to impairment allowances on receivables.

The expense for additions to provisions includes litigation and other legal risks. Income from the reversal of provisions includes legal disputes that have been resolved.

10
Net interest result

in € million	2017	2016
Other interest and similar income	201	196
thereof from subsidiaries:	9	12
Interest and similar income	**201**	**196**
Expense relating to interest impact on other long-term provisions	–66	–84
Net interest expense on the net defined benefit liability for pension plans	–81	–78
Other interest and similar expenses	–265	–327
thereof subsidiaries:	–2	–4
Interest and similar expenses	**–412**	**–489**
Net interest result	**–211**	**–293**

11
Other financial result

in € million	2017	2016
Income from investments in subsidiaries and participations	14	13
thereof from subsidiaries:	13	13
Impairment losses on investments in subsidiaries and participations	–	–192
Result on investments	**14**	**–179**
Income (+) and expenses (–) from financial instruments	234	310
Sundry other financial result	**234**	**310**
Other financial result	**248**	**131**

12
Income taxes

Taxes on income of the BMW Group comprise the following:

in € million	2017	2016
Current tax expense	2,558	2,670
Deferred tax expense (+) / deferred tax income (–)	–609	85
thereof relating to temporary differences	–553	80
thereof relating to tax loss carryforwards and tax credits	–56	5
Income taxes	**1,949**	**2,755**

Current tax expense includes tax income of €104 million (2016: €174 million) relating to prior periods.

The tax expense was reduced by €91 million (2016: €49 million) as a result of utilising tax loss carryforwards, for which deferred assets had not previously been recognised and in conjunction with previously unrecognised tax credits and temporary differences.

The tax expense resulting from the change in the valuation allowance on deferred tax assets relating to tax losses available for carryforward and temporary differences amounted to €67 million (2016: €38 million).

Deferred taxes are determined on the basis of **tax rates** which are are currently applicable or expected to apply in the relevant national jurisdictions when the amounts are recovered. After taking account of an average municipal trade tax multiplier rate (Hebesatz) of 425.0 % (2016: 425.0 %), the underlying income tax rate for Germany was as follows:

in %	2017	2016
Corporation tax rate	15.0	15.0
Solidarity surcharge	5.5	5.5
Corporation tax rate including solidarity surcharge	15.8	15.8
Municipal trade tax rate	14.9	14.9
German income tax rate	**30.7**	**30.7**

Deferred taxes for non-German entities are calculated on the basis of the relevant country-specific tax rates. These range in the financial year 2017 between 9.0 % and 45.0 % (2016: between 12.5 % and 45.0 %). Changes in tax rates resulted in deferred tax income of €824 million (2016: €70 million). The principal reason for this development was the reduction in the US federal corporate income tax rate from 35.0 % to 21.0 % with effect from 1 January 2018.

The difference between the expected tax expense based on the underlying tax rate for Germany and actual tax expense is explained in the following **reconciliation:**

in € million	2017	2016
Profit before tax	10,655	9,665
Tax rate applicable in Germany	30.7 %	30.7 %
Expected tax expense	**3,271**	**2,967**
Variances due to different tax rates	–1,071	–119
Tax increases (+) / tax reductions (–) as a result of non-deductible expenses and tax-exempt income	58	78
Tax expense (+) / benefits (–) for prior years	–104	–174
Other variances	–205	3
Actual tax expense	**1,949**	**2,755**
Effective tax rate	18.3 %	28.5 %

Variances due to different tax rates were influenced in particular by the reduction in the US federal corporate income tax rate, which was required to be taken into account in the measurement of deferred taxes as of 31 December 2017. This resulted in a reduction in tax expense of €977 million.

Tax increases as a result of non-deductible expenses and tax reductions due to tax-exempt income decreased compared to one year earlier. As in the previous year, tax increases as a result of non-tax-deductible expenses were attributable mainly to the impact of non-recoverable withholding taxes and transfer price issues.

Tax income relating to prior years resulted primarily from adjustments to income tax receivables and provisions for prior years.

Other variances comprise various reconciling items, including the Group's share of earnings of companies accounted for using the equity method.

The allocation of deferred tax assets and liabilities to **balance sheet line items** at 31 December is shown in the following table:

	Deferred tax assets		Deferred tax liabilities	
in € million	2017	2016	2017	2016
Intangible assets	18	13	2,593	2,234
Property, plant and equipment	88	26	195	305
Leased products	473	467	4,655	6,987
Other investments	3	3	10	17
Sundry other assets	613	1,448	3,629	2,861
Tax loss carryforwards and capital losses	608	536	–	–
Provisions	5,192	4,966	78	184
Liabilities	2,431	2,760	403	298
Eliminations	3,016	3,481	691	797
	12,442	**13,700**	12,254	**13,683**
Valuation allowances on tax loss carryforwards and capital losses	–502	–485	–	–
Netting	–10,013	–10,888	–10,013	–10,888
Deferred taxes	**1,927**	**2,327**	**2,241**	**2,795**
Net	–	–	314	468

Tax **loss carryforwards** – for the most part usable without restriction – amounted to €928 million (2016: €637 million). This includes an amount of €548 million (2016: €464 million), for which a valuation allowance of €186 million (2016: €158 million) was recognised on the related deferred tax asset. For entities with tax losses available for carryforward, a net surplus of deferred tax assets over deferred tax liabilities is reported at 31 December 2017 amounting to €131 million (2016: €90 million). Deferred tax assets are recognised on the basis of the management's assessment that there is material evidence that the entities will generate future taxable profits, against which deductible temporary differences can be offset.

Capital losses available for carryforward in the United Kingdom which do not relate to ongoing operations decreased to €1,854 million (2016: €1,926 million) due to currency factors. As in previous years, deferred tax assets recognised on these tax losses – amounting to €315 million at the end of the reporting period (2016: €327 million) – were fully written down since they can only be utilised against future capital gains.

Netting relates to the offset of deferred tax assets and liabilities within individual entities or tax groups to the extent that they relate to the same tax authorities.

Deferred taxes recognised directly in **equity** amounted to €997 million (2016: €1,812 million).

Changes in deferred tax assets and liabilities during the reporting period can be summarised as follows:

in € million	2017	2016
Deferred taxes at 1 January (assets (–) / liabilities (+))	468	171
Deferred tax expense (+) / income (–) recognised through income statement	– 609	85
Change in deferred taxes recognised directly in equity	772	163
thereof relating to fair value gains and losses on financial instruments and marketable securities recognised directly in equity	591	724
thereof relating to the remeasurements of net liabilities for defined benefit pension plans	181	– 561
Exchange rate impact and other changes	– 317	49
Deferred taxes at 31 December (assets (–) / liabilities (+))	**314**	**468**

As a result of currency translation, deferred taxes recognised directly in equity in the financial year decreased by €43 million (2016: €29 million).

Deferred taxes are not recognised on retained profits of €42.8 billion (2016: €38.7 billion) of foreign subsidiaries, as it is intended to invest these profits to maintain and expand the business volume of the relevant companies. No calculation was made of the potential impact of income taxes on the grounds of proportionality.

The tax returns of BMW Group entities are checked regularly by German and foreign tax authorities. Taking account of numerous factors – including interpretations, commentaries and legal decisions relating to the various tax jurisdictions as well as past experience – adequate provision has been made, to the extent identifiable and probable, for potential future tax obligations.

13
Earnings per share

		2017	2016
Net profit attributable to the shareholders of BMW AG	€ million	8,619.9	6,862.9
Profit attributable to common stock	€ million	7,895.9	6,289.2
Profit attributable to preferred stock	€ million	724.0	573.7
Average number of common stock shares in circulation	number	601,995,196	601,995,196
Average number of preferred stock shares in circulation	number	55,114,290	54,809,375
Basic earnings per share of common stock	€	13.12	10.45
Basic earnings per share of preferred stock	€	13.14	10.47
Dividend per share of common stock	€	4.00*	3.50
Dividend per share of preferred stock	€	4.02*	3.52

* Proposal by management.

Earnings per share of preferred stock are calculated on the basis of the number of shares of preferred stock entitled to receive a dividend in each of the relevant financial years. As in the previous year, diluted earnings per share correspond to basic earnings per share.

14
Personnel expenses

The income statement includes personnel expenses as follows:

in € million	2017	2016
Wages and salaries	10,022	9,581
Pension and welfare expenses	1,211	1,152
Social insurance expenses	819	802
Personnel expenses	**12,052**	**11,535**

Personnel expenses include €54 million (2016: €61 million) of costs relating to workforce measures. The total pension expense for defined contribution plans of the BMW Group amounted to €105 million (2016: €90 million). Employer contributions paid to state pension insurance schemes totalled €630 million (2016: €607 million).

The average number of employees during the year was:

	2017	2016
Employees	119,611	115,842
thereof at proportionately-consolidated entities	182	204
Apprentices and students gaining work experience	7,913	7,913
thereof at proportionately-consolidated entities	1	1
Average number of employees	**127,524**	**123,755**

The number of employees at the end of the reporting period is disclosed in the Combined Management Report.

15
Fee expense for the Group auditor

The fee expense pursuant to § 314 (1) no. 9 HGB recognised in the financial year 2017 for the Group auditor and its network of audit firms amounted to €25 million (2016: €23 million) and consists of the following:

in € million	2017	2016*
Audit of financial statements	**17**	**16**
thereof KPMG AG Wirtschafts-prüfungsgesellschaft, Berlin	5	4
Other attestation services	**4**	**4**
thereof KPMG AG Wirtschafts-prüfungsgesellschaft, Berlin	3	4
Tax advisory services	**2**	**2**
thereof KPMG AG Wirtschafts-prüfungsgesellschaft, Berlin	–	–
Other services	**2**	**1**
thereof KPMG AG Wirtschafts-prüfungsgesellschaft, Berlin	1	–
Fee expense	**25**	**23**
thereof KPMG AG Wirtschafts-prüfungsgesellschaft, Berlin	9	8

* Prior year figures have been adjusted.

Services provided by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, on behalf of BMW AG and subsidiaries under its control relate to the audit of the financial statements, other attestation services, tax advisory services and other services.

The audit of financial statements comprises mainly the audit of the Group financial statements and Company financial statements of BMW AG and its subsidiaries, and, following the introduction of new regulations, all work related thereto, including the review of the Group Interim Financial Statements.

Other attestation services include mainly project-related audits, comfort letters as well as legally prescribed, contractually agreed or voluntarily commissioned attestation work.

Tax advisory services were performed particularly in conjunction with tax compliance.

Other services include mainly preparation of studies.

16
Government grants and government assistance

Income from asset-related and performance-related grants, amounting to €30 million (2016: €31 million) and €112 million (2016: €126 million) respectively, was recognised in the income statement in 2017.

These amounts mainly relate to public sector grants aimed at the promotion of regional structures as well as subsidies received for plant expansions.

NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

17 Disclosures relating to the statement of comprehensive income

Other comprehensive income for the period after tax comprises the following:

in € million	2017	2016
Remeasurement of the net defined benefit liability for pension plans	693	–1,858
Deferred taxes	–218	529
Items not expected to be reclassified to the income statement in the future	**475**	**–1,329**
Available-for-sale securities	**39**	**40**
thereof gains / losses arising in the period under report	83	79
thereof reclassifications to the income statement	–44	–39
Financial instruments used for hedging purposes	**1,914**	**2,008**
thereof gains / losses arising in the period under report	2,017	1,458
thereof reclassifications to the income statement	–103	550
Other comprehensive income from equity accounted investments	**–30**	**43**
Deferred taxes	**–597**	**–721**
Currency translation foreign operations	**–1,171**	**–230**
Items expected to be reclassified to the income statement in the future	**155**	**1,140**
Other comprehensive income for the period after tax	**630**	**–189**

Deferred taxes on components of other comprehensive income are as follows:

	2017			2016		
in € million	Before tax	Deferred taxes	After tax	Before tax	Deferred taxes	After tax
Remeasurement of the net defined benefit liability for pension plans	693	–218	475	–1,858	529	–1,329
Available-for-sale securities	39	2	41	40	–12	28
Financial instruments used for hedging purposes	1,914	–568	1,346	2,008	–680	1,328
Other comprehensive income from equity accounted investments	–30	–31	–61	43	–29	14
Currency translation foreign operations	–1,171	–	–1,171	–230	–	–230
Other comprehensive income	**1,445**	**–815**	**630**	**3**	**–192**	**–189**

Other comprehensive income arising from equity accounted investments is reported in the Statement of Changes in Equity within currency translation differences with an amount of € –152 million (2016: € –73 million) and within derivative financial instruments used for hedging purposes with an amount of €91 million (2016: €87 million).

NOTES TO THE BALANCE SHEET

18

Analysis of changes in Group tangible, intangible and investment assets 2017

	Acquisition and manufacturing cost					
in € million	1.1.2017[1]	Translation differences	Additions	Reclassifications	Disposals	31.12.2017
Development costs	11,484	–	2,424	–	943	**12,965**
Goodwill	386	–1	–	–	–	**385**
Other intangible assets	1,530	–37	286	–	29	**1,750**
Intangible assets	**13,400**	**–38**	**2,710**	**–**	**972**	**15,100**
Land, titles to land, buildings, including buildings on third party land	10,940	–299	271	228	52	**11,088**
Plant and machinery	35,924	–681	2,123	1,027	1,560	**36,833**
Other facilities, factory and office equipment	2,674	–91	314	70	168	**2,799**
Advance payments made and construction in progress	2,255	–97	1,694	–1,325	2	**2,525**
Property, plant and equipment	**51,793**	**–1,168**	**4,402**	**–**	**1,782**	**53,245**
Leased products	**45,595**	**–3,047**	**18,281**	**–**	**16,686**	**44,143**
Investments accounted for using the equity method	**2,546**	**–**	**639**	**–**	**418**	**2,767**
Investments in non-consolidated subsidiaries	501	–8	74	–	129	**438**
Participations	710	–7	118	–	1	**820**
Non-current marketable securities	28	–	–	–	–	**28**
Other investments	**1,239**	**–15**	**192**	**–**	**130**	**1,286**

[1] Including first-time consolidation.
[2] Including assets under construction of €2,010 million.
[3] Including €3 million recognised through the income statement and €76 million directly in equity.

Analysis of changes in Group tangible, intangible and investment assets 2016

	Acquisition and manufacturing cost					
in € million	1.1.2016[1]	Translation differences	Additions	Reclassifications	Disposals	31.12.2016
Development costs	10,522	–	2,092	–	1,130	**11,484**
Goodwill	369	–	–	–	–	**369**
Other intangible assets	1,455	–2	100	–	58	**1,495**
Intangible assets	**12,346**	**–2**	**2,192**	**–**	**1,188**	**13,348**
Land, titles to land, buildings, including buildings on third party land	10,458	–15	300	231	34	**10,940**
Plant and machinery	35,497	–185	1,510	691	1,589	**35,924**
Other facilities, factory and office equipment	2,606	22	234	32	222	**2,672**
Advance payments made and construction in progress	1,600	23	1,587	–954	3	**2,253**
Property, plant and equipment	**50,161**	**–155**	**3,631**	**–**	**1,848**	**51,789**
Leased products	**42,334**	**316**	**18,339**	**–**	**15,401**	**45,588**
Investments accounted for using the equity method	**2,233**	**–**	**513**	**–**	**200**	**2,546**
Investments in non-consolidated subsidiaries	233	2	321	–	56	**500**
Participations	656	–	56	–	2	**710**
Non-current marketable securities	28	–	–	–	–	**28**
Other investments	**917**	**2**	**377**	**–**	**58**	**1,238**

[1] Including first-time consolidation.
[2] Including assets under construction of €1,760 million.

	Depreciation and amortisation							Carrying amount		
	1.1.2017[1]	Translation differences	Current year	Reclassi-fications	Value adjustments[3]	Disposals	31.12.2017	31.12.2017	31.12.2016	
	4,263	–	1,236	–	–	943	**4,556**	**8,409**	7,221	Development costs
	5	–	–	–	–	–	**5**	**380**	364	Goodwill
	928	–16	191	–	–	28	**1,075**	**675**	572	Other intangible assets
	5,196	**–16**	**1,427**	**–**	**–**	**971**	**5,636**	**9,464**	**8,157**	**Intangible assets**
	4,786	–115	337	–5	–	37	**4,966**	**6,122**	6,154	Land, titles to land, buildings, including buildings on third party land
	27,092	–531	2,820	5	–	1,548	**27,838**	**8,995**	8,832	Plant and machinery
	1,952	–62	238	–	–	158	**1,970**	**829**	721	Other facilities, factory and office equipment
	–	–	–	–	–	–	**–**	**2,525**[2]	2,253	Advance payments made and construction in progress
	33,830	**–708**	**3,395**	**–**	**–**	**1,743**	**34,774**	**18,471**	**17,960**	**Property, plant and equipment**
	7,801	**–379**	**3,633**	**–**	**–**	**3,169**	**7,886**	**36,257**	**37,789**	**Leased products**
	–	**–**	**–**	**–**	**–**	**–**	**–**	**2,767**	**2,546**	**Investments accounted for using the equity method**
	192	–3	–	–	–	–	**189**	**249**	308	Investments in non-consolidated subsidiaries
	484	–	–	–	–76	–	**408**	**412**	226	Participations
	2	–	–	–	–3	–	**–1**	**29**	26	Non-current marketable securities
	678	**–3**	**–**	**–**	**–79**	**–**	**596**	**690**	**560**	**Other investments**

	Depreciation and amortisation							Carrying amount		
	1.1.2016[1]	Translation differences	Current year	Reclassi-fications	Value adjustments	Disposals	31.12.2016	31.12.2016	31.12.2015	
	4,171	–	1,222	–	–	1,130	**4,263**	**7,221**	6,351	Development costs
	5	–	–	–	–	–	**5**	**364**	364	Goodwill
	797	3	181	–	–	58	**923**	**572**	657	Other intangible assets
	4,973	**3**	**1,403**	**–**	**–**	**1,188**	**5,191**	**8,157**	**7,372**	**Intangible assets**
	4,516	–28	320	4	–	26	**4,786**	**6,154**	5,915	Land, titles to land, buildings, including buildings on third party land
	25,891	–100	2,865	2	–	1,566	**27,092**	**8,832**	9,593	Plant and machinery
	1,942	9	218	–4	–	214	**1,951**	**721**	660	Other facilities, factory and office equipment
	2	–	–	–2	–	–	**–**	**2,253**[2]	1,591	Advance payments made and construction in progress
	32,351	**–119**	**3,403**	**–**	**–**	**1,806**	**33,829**	**17,960**	**17,759**	**Property, plant and equipment**
	7,308	**19**	**3,306**	**–**	**–**	**2,834**	**7,799**	**37,789**	**34,965**	**Leased products**
	–	**–**	**–**	**–**	**–**	**–**	**–**	**2,546**	**2,233**	**Investments accounted for using the equity method**
	76	–	116	–	–	–	**192**	**308**	157	Investments in non-consolidated subsidiaries
	411	–	76	–	–	3	**484**	**226**	245	Participations
	2	–	–	–	–	–	**2**	**26**	26	Non-current marketable securities
	489	**–**	**192**	**–**	**–**	**3**	**678**	**560**	**428**	**Other investments**

19 Intangible assets

Intangible assets mainly comprise capitalised development costs on vehicle, module and architecture projects as well as subsidies for tool costs, licences, purchased development projects, software and purchased customer lists.

Other intangible assets include a brand-name right amounting to €41 million (2016: €42 million) which is allocated to the Automotive segment and is not subject to scheduled amortisation since its useful life is deemed to be indefinite. The year-on-year change is solely due to currency effects. Intangible assets also include goodwill of €33 million (2016: €33 million) allocated to the Automotive cash-generating unit (CGU) and goodwill of €347 million (2016: €331 million) allocated to the Financial Services CGU.

Intangible assets amounting to €41 million (2016: €42 million) are subject to restrictions on title.

As in the previous year, there was no requirement to recognise impairment losses or reversals of impairment losses on intangible assets in 2017.

As in the previous year, no borrowing costs were recognised as a cost component of intangible assets in 2017.

20 Property, plant and equipment

No impairment losses were recognised in 2017, as in the previous year.

As in the previous year, no borrowing costs were recognised as a cost component of property, plant and equipment in 2017.

Property, plant and equipment include an amount of €94 million (2016: €107 million) relating to land and buildings, for which economic ownership is attributable to the BMW Group (finance leases). Leases to which BMW AG is party, with a carrying amount of €78 million (2016: €90 million), run for periods up to 2030 at the latest and contain price adjustment clauses in the form of index-linked rentals as well as extension and purchase options.

Minimum lease payments are as follows:

in € million	31.12.2017	31.12.2016
Total of future minimum lease payments		
due within one year	19	23
due between one and five years	73	73
due later than five years	100	127
	192	223
Interest portion of the future minimum lease payments		
due within one year	10	11
due between one and five years	32	36
due later than five years	40	50
	82	97
Present value of future minimum lease payments		
due within one year	9	12
due between one and five years	41	37
due later than five years	60	77
	110	126

21
Leased products

Minimum lease payments of non-cancellable operating leases amounting to €17,982 million (2016: €17,850 million) fall due as follows:

in € million	31.12.2017	31.12.2016
within one year	8,586	8,692
between one and five years	9,383	9,154
later than five years	13	4
Minimum lease payments	**17,982**	**17,850**

Contingent rents of €52 million (2016: €46 million), based principally on the distance driven, were recognised in income. The agreements have, in part, extension and purchase options.

Impairment losses amounting to €148 million (2016: €384 million) were recognised on leased products in 2017 as a consequence of changes in residual value expectations. No income was recognised in 2017 from the reversal of impairment losses (2016: € – million).

22
Investments accounted for using the equity method

Investments accounted for using the equity method comprise the joint venture BMW Brilliance Automotive Ltd. (BMW Brilliance), the joint ventures DriveNow GmbH & Co. KG and DriveNow Verwaltungs GmbH (DriveNow), the joint venture IONITY Holding GmbH & Co. KG (IONITY) and the interest in the associated company THERE Holding B.V. (THERE).

BMW Brilliance produces mainly BMW brand models for the Chinese market and also has engine manufacturing facilities, which supply the joint venture's two plants with petrol engines.

The BMW Group maintains the joint ventures DriveNow GmbH & Co. KG and DriveNow Verwaltungs GmbH together with Sixt SE, Pullach. DriveNow offers car-sharing services in major German cities and abroad. In January 2018, the BMW Group signed an agreement with Sixt SE for the complete acquisition of the shares in DriveNow. The agreement was signed subject to the approval of the antitrust authorities. DriveNow is valued at €418 million in total. Apart from a one-time positive earnings impact, the purchase is not expected to have a significant impact on the results of operations, financial position or net assets of the BMW Group.

During the financial year under report, the BMW Group, Daimler AG, Stuttgart (Daimler AG), the Ford Motor Company and the Volkswagen Group, each with equal shareholdings, founded the joint venture IONITY Holding GmbH & Co. KG. IONITY's business model envisages the construction and operation of high-performance charging stations for battery electric vehicles in Europe. The plan is to build some 400 fast-charging stations by 2020 in order to support electric mobility on long-haul routes and thereby establish the market.

In the financial year 2015, BMW AG, Daimler AG and AUDI AG, Ingolstadt (Audi AG) jointly acquired the mapping and location-based services business (HERE Group) of Nokia Corporation, Helsinki. HERE's digital maps are laying the foundations for the next generation of mobility and location-based services, providing the basis for new assistance systems and, ultimately, fully automated driving.

In December 2016, THERE signed contracts relating to the sale of shares in HERE International B.V., Amsterdam (HERE). The sale of 15 % of the shares to Intel Holdings B.V., Schiphol-Rijk was completed on 31 January 2017. The sale of the shares resulted in a loss of control, as defined by IFRS 10, at the level of THERE. For this reason, at 31 December 2016 THERE reported its investment in HERE as "held-for-sale". Since THERE continues to have a significant influence over HERE, the latter is included in THERE's consolidated financial statements as an associated company using the equity method. The loss of control and the subsequent deconsolidation of HERE and its subsidiaries led to a positive earnings effect at the level of THERE. The BMW Group portion amounted to €183 million, which was recognised in the result from equity accounted investments.

It was planned to sell a 10 % stake in HERE to a consortium consisting of NavInfo Co. Ltd., Beijing, Tencent Holdings Ltd., Shenzhen, and GIC Private Ltd. of Singapore. The sale will not be completed, however, as no practicable approach was found to obtain approval from the relevant authorities during a regulatory review process. The transaction will therefore not be pursued.

In December 2017, BMW AG, Audi AG and Daimler AG signed contracts for the sale of shares in THERE. It is planned to sell 5.9 % stakes each to Robert Bosch Investment Nederland B.V., Boxtel, and Continental Automotive Holding Netherlands B.V., Maastricht. The sale is to be executed in equal parts by BMW AG, Audi AG and Daimler AG. Completion of the transaction depends on approval from the relevant authorities and is expected to take place in the first quarter of 2018. The sale is expected to have no significant impact on the results of operations, financial position and net assets of the BMW Group.

Financial information relating to equity accounted investments is summarised in the following tables:

in € million	BMW Brilliance 2017	BMW Brilliance 2016	THERE 2017	THERE 2016	DriveNow 2017	DriveNow 2016	IONITY 2017	IONITY 2016
DISCLOSURES RELATING TO THE INCOME STATEMENT								
Revenues	14,628	12,991	71*	1,240	71	58	–	–
Scheduled depreciation	637	486	–	52	–	–	–	–
Profit / loss before financial result	1,619	1,328	–1	–149	–17	–15	–12	–
Interest income	46	30	–	1	–	–	–	–
Interest expenses	–	2	–	22	–	–	–	–
Income taxes	454	363	–	3	–	–	2	–
Profit / loss after tax	1,337	1,031	362	–167	–17	–15	–10	–
thereof from continuing operations	–	–	–151	–1	–	–	–	–
thereof from discontinued operations	–	–	513	–166	–	–	–	–
Other comprehensive income	–121	30	2	–4	–	–	–	–
Total comprehensive income	1,216	1,061	364	–171	–17	–15	–10	–
Dividends received by the Group	258	134	–	–	–	–	–	–

* Revenues relate only to the month of January up to the time of loss of control of HERE.

in € million	BMW Brilliance 2017	BMW Brilliance 2016	THERE 2017	THERE 2016	DriveNow 2017	DriveNow 2016	IONITY 2017	IONITY 2016
DISCLOSURES RELATING TO THE BALANCE SHEET								
Non-current assets	5,910	5,779	1,906	2,802	–	–	4	–
Cash and cash equivalents	2,617	2,106	289	209	9	20	45	–
Current assets	5,212	4,405	289	592	26	33	46	–
Equity	5,377	4,678	2,195	1,832	4[1]	15[1]	40	–
Non-current financial liabilities	–	–	–	525	–	–	–	–
Non-current provisions and liabilities	962	670	–	1,044	–	–	–	–
Current financial liabilities	6	87	–	73	–	–	–	–
Current provisions and liabilities	4,783	4,835	–	518	22	18	10	–
RECONCILIATION OF AGGREGATED FINANCIAL INFORMATION								
Assets	11,122	10,183	2,195	3,394	26	33	50	–
Provisions and liabilities	5,745	5,505	–	1,562	22	18	10	–
Net assets	5,377	4,678	2,195	1,832	4	15	40	–
Group's interest in net assets	2,689	2,339	732	611	2[2]	10[2]	10	–
Eliminations	–666	–414	–	–	–	–	–	–
Carrying amount	2,023	1,925	732	611	2	10	10	–

[1] Corresponds to the consolidated equity capital provided by the shareholders of DriveNow GmbH & Co. KG and its subsidiaries.
[2] The BMW Group holds 52.8 % (2016: 67.2 %) of the net assets at 31 December 2017. Due to the allocation of voting power within the decision-making bodies of the two entities, operations remain subject to joint control.

23
Receivables from sales financing

Receivables from sales financing comprise the following:

in € million	31.12.2017	31.12.2016
Credit financing for retail customers and dealerships	62,401	61,602
Finance lease receivables	18,033	16,658
Receivables from sales financing	**80,434**	**78,260**

Non-guaranteed residual values that fall to the benefit of the lessor amounted to €140 million (2016: €118 million).

In December 2017, the Financial Services segment sold a multi-brand portfolio amounting to €939 million for strategic reasons.

Impairment allowances

in € million	31.12.2017	31.12.2016
Gross carrying amount of items with impairment allowances recognised on a specific-item basis	12,983	14,440
Impairment allowances recognised on a specific-item basis	–701	–934
thereof for finance lease receivables	–105	–141
Gross carrying amount of items with impairment allowances recognised on a group basis	59,588	52,951
Impairment allowances recognised on a group basis	–446	–467
Carrying amount without impairment allowances	9,010	12,270
Net carrying amount	**80,434**	**78,260**

Allowances on receivables from sales financing, which arise only within the Financial Services segment, developed as follows:

	2017		
	Allowance for impairment recognised on a		
in € million	specific item basis	group basis	Total
Balance at 1 January*	943	469	**1,412**
Allocated (+) / reversed (–)	143	2	**145**
Utilised	–337	–8	**–345**
Exchange rate impact and other changes	–48	–17	**–65**
Balance at 31 December	**701**	**446**	**1,147**

* Balance at 1 January adjusted due to initial consolidation of entities.

	2016		
	Allowance for impairment recognised on a		
in € million	specific item basis	group basis	Total
Balance at 1 January	963	535	**1,498**
Allocated (+) / reversed (–)	248	–25	**223**
Utilised	–304	–41	**–345**
Exchange rate impact and other changes	27	–2	**25**
Balance at 31 December	**934**	**467**	**1,401**

The estimated fair value of collateral for receivables on which impairment losses were recognised totalled €35,060 million (2016: €30,542 million) at the reporting date. This collateral related primarily to vehicles. The carrying amount of assets held as collateral and taken back as a result of payment default amounted to €45 million (2016: €153 million).

Finance leases are analysed as follows:

in € million	31.12.2017	31.12.2016
Gross investment in finance leases		
due within one year	6,122	5,921
due between one and five years	13,772	12,574
due later than five years	21	32
	19,915	18,527
Present value of future minimum lease payments		
due within one year	5,655	5,348
due between one and five years	12,358	11,278
due later than five years	20	32
	18,033	16,658
Unrealised interest income	1,882	1,869

24 Financial assets

Financial assets comprise:

in € million	31.12.2017	31.12.2016
Marketable securities and investment funds	5,447	5,287
Derivative instruments	4,341	3,922
Credit card receivables	248	287
Loans to third parties	114	129
Other	184	145
Financial assets	10,334	9,770
thereof non-current	2,369	2,705
thereof current	7,965	7,065

With effect from the financial year 2017, credit balances arising in conjunction with pre-retirement part-time working arrangements are secured by bank guarantees. For this reason, the corresponding assets are not reported at the balance sheet date. In the previous year, the amount by which the value of investment funds exceeded obligations for part-time working arrangements (€17 million) was reported under other financial assets.

Marketable securities and investment funds relate to available-for-sale financial assets and comprise:

in € million	31.12.2017	31.12.2016
Fixed income securities	4,662	4,449
Stocks and other equity capital instruments	534	734
Other debt securities	251	104
Marketable securities and investment funds	5,447	5,287

The contracted maturities of debt securities are as follows:

in € million	31.12.2017	31.12.2016
Fixed income securities		
due within three months	628	780
due later than three months	4,034	3,669
Other debt securities		
due within three months	251	104
due later than three months	–	–
Debt securities	4,913	4,553

Allowances for impairment and credit risk

Receivables relating to credit card business comprise the following:

in € million	31.12.2017	31.12.2016
Gross carrying amount	258	296
Allowance for impairment	–10	–9
Net carrying amount	**248**	**287**

Allowances for impairment losses on receivables relating to credit card business developed as follows during the year under report:

	2017		
	Allowance for impairment recognised on a		
in € million	specific item basis	group basis	Total
Balance at 1 January	9	–	9
Allocated (+) / reversed (–)	11	–	11
Utilised	–9	–	–9
Exchange rate impact and other changes	–1	–	–1
Balance at 31 December	**10**	**–**	**10**

	2016		
	Allowance for impairment recognised on a		
in € million	specific item basis	group basis	Total
Balance at 1 January	8	–	8
Allocated (+) / reversed (–)	8	–	8
Utilised	–8	–	–8
Exchange rate impact and other changes	1	–	1
Balance at 31 December	**9**	**–**	**9**

25
Income tax assets

Income tax assets totalling €1,566 million (2016: €1,938 million) include claims amounting to €364 million (2016: €351 million), which are expected to be settled after more than one year. Claims may be settled earlier than this depending on the timing of proceedings.

26
Other assets

Other assets comprise:

in € million	31.12.2017	31.12.2016
Prepayments	2,018	1,914
Other taxes	1,537	1,135
Receivables from companies in which an investment is held	1,334	1,217
Expected reimbursement claims	847	779
Collateral receivables	316	387
Receivables from subsidiaries	276	422
Sundry other assets	832	828
Other assets	**7,160**	**6,682**
thereof non-current	1,635	1,595
thereof current	5,525	5,087

Prepayments relate mainly to prepaid interest, commission paid to dealerships and amounts paid in advance to suppliers and contract manufacturers. Prepayments of €1,136 million (2016: €1,018 million) have a maturity of less than one year.

Collateral receivables comprise mainly customary collateral (banking deposits) arising on the sale of receivables.

27 Inventories

Inventories comprise the following:

in € million	31.12.2017	31.12.2016
Finished goods and goods for resale	10,436	9,684
Work in progress, unbilled contracts	1,125	1,157
Raw materials and supplies	1,146	1,000
Inventories	**12,707**	**11,841**

Out of the total amount recognised for inventories at 31 December 2017, inventories measured at net realisable value amounted to €541 million (2016: €871 million). Write-downs to net realisable value amounting to €27 million (2016: €101 million) were recognised in 2017.

The expense recorded in conjunction with inventories during the financial year 2017 amounted to €55,969 million (2016: €55,129 million).

28 Trade receivables

Trade receivables comprise the following:

in € million	31.12.2017	31.12.2016
Gross carrying amount	2,723	2,882
Allowance for impairment	–56	–57
Net carrying amount	**2,667**	**2,825**

Impairment allowances on trade receivables developed during the year under report as follows:

	2017		
	Allowance for impairment recognised on a		
in € million	specific item basis	group basis	Total
Balance at 1 January	46	11	**57**
Allocated (+) / reversed (–)	8	–2	**6**
Utilised	–4	–1	**–5**
Exchange rate impact and other changes	–1	–1	**–2**
Balance at 31 December	**49**	**7**	**56**

	2016		
	Allowance for impairment recognised on a		
in € million	specific item basis	group basis	Total
Balance at 1 January	84	12	**96**
Allocated (+) / reversed (–)	–21	–	**–21**
Utilised	–19	–1	**–20**
Exchange rate impact and other changes	2	–	**2**
Balance at 31 December	**46**	**11**	**57**

In addition, trade receivables exist which are overdue but for which no impairment allowance has been recognised. Receivables that are overdue by between one and 30 days do not normally result in bad debt losses since the overdue nature of the receivables is mainly due to the timing of receipts. Overdue balances fall into the following time windows:

in € million	31.12.2017	31.12.2016
1–30 days overdue	187	174
31–60 days overdue	43	23
61–90 days overdue	19	29
91–120 days overdue	25	17
More than 120 days overdue	75	64
Balance at 31 December	**349**	**307**

In the case of trade receivables, collateral is generally held in the form of vehicle documents and bank guarantees so that the risk of bad debt loss is very limited.

29
Equity
Number of shares issued

	Preferred stock		Common stock	
	2017	2016	2017	2016
Shares issued / in circulation at 1 January	55,114,404	54,809,404	601,995,196	601,995,196
Shares issued in conjunction with Employee Share Programme	491,114	305,029	–	–
Less: shares repurchased and re-issued	114	29	–	–
Shares issued / in circulation at 31 December	55,605,404	55,114,404	601,995,196	601,995,196

All Company stock is issued to bearer and each share has a par value of €1.00. Preferred stock, to which no voting rights are attached, bear an additional dividend of €0.02 per share.

In 2017, a total of 491,114 shares of preferred stock was sold to employees at a reduced price of €55.05 per share in conjunction with the Company's Employee Share Programme. These shares are entitled to receive dividends for the first time with effect from the financial year 2018.

Issued share capital increased by €0.5 million as a result of the issue to employees of 491,000 shares of non-voting preferred stock. BMW AG is authorised up to 14 May 2019 to issue 5 million shares of non-voting preferred stock amounting to nominal €5.0 million. At the end of the reporting period, 3.7 million of these shares amounting to nominal €3.7 remained available for issue.

In addition, 114 previously issued shares of preferred stock were acquired and re-issued to employees.

Capital reserves
Capital reserves include premiums arising from the issue of shares and totalled €2,084 million (2016: €2,047 million). The change related to the share capital increase arising in conjunction with the issue of shares of preferred stock to employees amounting to €37 million.

Revenue reserves
Revenue reserves comprise the non-distributed earnings of companies consolidated in the Group financial statements. In addition, remeasurements of the net defined benefit liability for pension plans are also presented in revenue reserves.

It is proposed that the unappropriated profit of BMW AG for the financial year 2017 amounting to €2,630 million according to HGB be utilised as follows:

- Distribution of a dividend of €4.02 per share of preferred stock (€222 million).
- Distribution of a dividend of €4.00 per share of common stock (€2,408 million).

The proposed distribution was not recognised as a liability in the Group Financial Statements.

Accumulated other equity
Accumulated other equity comprises amounts recognised directly in equity resulting from the translation of the financial statements of foreign subsidiaries, changes in the fair value of derivative financial instruments and marketable securities and the related deferred taxes.

Capital management disclosures
The BMW Group's objectives with regard to capital management are to safeguard over the long-term the Group's ability to continue as a going concern and to provide an adequate return to shareholders.

The capital structure is managed in order to meet needs arising from changes in economic conditions and the risks of the underlying assets.

The BMW Group is not subject to any unified external minimum equity capital requirements. Within the Financial Services segment, however, there are a number of individual entities which are subject to equity capital requirements of relevant regulatory banking authorities.

In order to manage its capital structure, the BMW Group uses various instruments, including the amount of dividends paid to shareholders and share buybacks. Moreover, the BMW Group actively manages its debt capital, carrying out funding activities with a target debt structure in mind. A key aspect in the selection of financial instruments is the objective to achieve matching maturities for the Group's financing requirements. In order to reduce non-systematic risk, the BMW Group uses a variety of financial instruments available on the world's capital markets to achieve diversification.

The capital structure at the end of the reporting period was as follows:

in € million	31.12.2017	31.12.2016
Equity attributable to shareholders of BMW AG	54,112	47,108
Proportion of total capital	36.4 %	32.5 %
Non-current financial liabilities	53,548	55,405
Current financial liabilities	41,100	42,326
Total financial liabilities	94,648	97,731
Proportion of total capital	63.6 %	67.5 %
Total capital	**148,760**	**144,839**

The equity ratio attributable to shareholders of BMW AG increased during the financial year by 3.9 percentage points, primarily reflecting the increase in revenue reserves.

30
Pension provisions

In the case of defined benefit plans, the BMW Group is required to pay the benefits it has granted to present and past employees. Defined benefit plans may be covered by provisions or pension assets. Pension commitments in Germany are mostly covered by assets contributed to BMW Trust e.V., Munich, in conjunction with a contractual trust arrangement (CTA). Funded plans also exist in the UK, the USA, Switzerland, Belgium and Japan. In the meantime, most defined benefit plans have been closed to new entrants.

The assumptions stated below, which depend on the economic situation in the relevant country, are used to measure the defined benefit obligation of each pension plan. The following weighted average values have been used for Germany, the United Kingdom and other countries:

	Germany		United Kingdom		Other	
in %	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Discount rate	1.79	1.80	2.34	2.51	3.13	3.70
Pension level trend	1.82	1.78	2.44	2.55	–	–
Weighted duration of all pension obligations in years	20.8	21.3	21.3	20.9	18.3	17.6

The following mortality tables are applied in countries, in which the BMW Group has significant defined benefit plans:

Germany	Mortality Table 2005 G issued by Prof. K. Heubeck (with invalidity rates reduced by 50 %)
United Kingdom	S2PA tables and S2PA light tables with weightings

In Germany, the so-called "pension entitlement trend" (Festbetragstrend) also represents a significant actuarial assumption for the purposes of determining benefits payable at retirement and was left unchanged at 2.0 %.

Based on the measurement principles contained in IAS 19, the following balance sheet **carrying amounts** apply to the Group's pension plans:

	Germany		United Kingdom		Other		Total	
in € million	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Present value of defined benefit obligations	11,641	11,112	9,594	10,311	1,475	1,476	22,710	22,899
Fair value of plan assets	9,604	8,643	8,908	8,714	965	958	19,477	18,315
Effect of limiting net defined benefit asset to asset ceiling	–	–	–	–	3	3	3	3
Carrying amounts at 31 December	**2,037**	**2,469**	**686**	**1,597**	**513**	**521**	**3,236**	**4,587**
thereof pension provision	2,037	2,469	702	1,597	513	521	3,252	4,587
thereof assets	–	–	–16	–	–	–	–16	–

Numerous **defined benefit plans** exist within the BMW Group.

The most significant of the BMW Group's pension plans are described below.

Germany

Both employer- and employee-funded benefit plans exist in Germany. Benefits paid in conjunction with these plans comprise old-age retirement pensions as well as invalidity and surviving dependants' benefits.

The defined benefit plans have been closed to new entrants. With effect from 1 January 2014, new employees receive a defined contribution entitlement with a minimum rate of return. In addition, employees are given the option of transferring deferred remuneration to a "deferred remuneration retirement plan". The fact that the plan involves a minimum rate of return means that both the defined contribution entitlement and the deferred remuneration retirement plan are classified in accordance with IAS 19 as defined benefit plans. In the case of defined benefit plans involving the payment of a pension, the amount of benefits to be paid is determined by multiplying a fixed amount by the number of years of service.

The assets of the German pension plans are administered by BMW Trust e.V., Munich, in accordance with a CTA. The representative bodies of this entity are the Board of Directors and the Members' General Meeting. BMW Trust e.V., Munich, currently has seven members and three members of the Board of Directors elected by the Members' General Meeting. The Board of Directors is responsible for investments, drawing up and deciding on investment guidelines as well as monitoring compliance with those guidelines. The members of the association can be employees, senior executives and members of the Board of Directors. An ordinary Members' General Meeting takes place once every calendar year, and deals with a range of matters, including receiving and approving the association's annual report, ratifying the activities of the Board of Directors and adopting changes to the association's statutes.

United Kingdom

In the United Kingdom, the BMW Group has defined benefit plans, which are primarily employer-funded combined with employee-funded components based on the conversion of employee remuneration. These plans are subject to statutory minimum funding requirements. Benefits paid in conjunction with these plans comprise old-age retirement pensions as well as invalidity and surviving dependants' benefits. On 30 September 2017, the defined benefit plans were closed for all plan participants, with vested benefits remaining in place. New benefits will be covered by contributions made to a defined contribution plan.

The pension plans are administered by BMW Pension Trustees Limited, Hams Hall, and BMW (UK) Trustees Limited, Hams Hall, both trustee companies which act independently of the BMW Group. BMW (UK) Trustees Limited, Hams Hall, is represented by nine trustees, and BMW Pension Trustees Limited, Hams Hall, by five trustees. A minimum of one third of the trustees must be elected by plan participants. The trustees represent the interests of plan participants and decide on investment strategies. Funding contributions are determined in agreement with the BMW Group.

The **change in the net defined benefit liability for pension plans** can be derived as follows:

in € million	Defined benefit obligation	Plan assets	Total	Limitation of the net defined benefit asset to the asset ceiling	Net defined benefit liability
1 January 2017	22,899	–18,315	**4,584**	3	**4,587**
EXPENSE/INCOME					
Current service cost	581	–	**581**	–	**581**
Interest expense (+)/income (–)	489	–408	**81**	–	**81**
Past service cost	–2	–	**–2**	–	**–2**
Gains (–) or losses (+) arising from settlements	–212	–	**–212**	–	**–212**
REMEASUREMENTS					
Gains (–) or losses (+) on plan assets, excluding amounts included in interest income	–	–590	**–590**	–	**–590**
Gains (–) or losses (+) arising from changes in financial assumptions	322	–	**322**	–	**322**
Gains (–) or losses (+) arising from changes in demographic assumptions	–152	–	**–152**	–	**–152**
Gains (–) or losses (+) arising from experience adjustments	–134	–	**–134**	–	**–134**
Changes in the limitation of the net defined benefit asset to the asset ceiling	–	–	**–**	–	**–**
Transfers to fund	–	–1,165	**–1,165**	–	**–1,165**
Employee contributions	86	–86	**–**	–	**–**
Pensions and other benefits paid	–619	637	**18**	–	**18**
Translation differences and other changes	–548	450	**–98**	–	**–98**
31 December 2017	**22,710**	**–19,477**	**3,233**	**3**	**3,236**
thereof pension provision					**3,252**
thereof assets					**–16**

in € million	Defined benefit obligation	Plan assets	Total	Limitation of the net defined benefit asset to the asset ceiling	Net defined benefit liability
1 January 2016	19,926	–16,930	**2,996**	3	**2,999**
EXPENSE/INCOME					
Current service cost	557	–	**557**	–	**557**
Interest expense (+)/income (–)	557	–479	**78**	–	**78**
Past service cost	–171	–	**–171**	–	**–171**
Gains (–) or losses (+) arising from settlements	–8	–	**–8**	–	**–8**
REMEASUREMENTS					
Gains (–) or losses (+) on plan assets, excluding amounts included in interest income	–	–1,836	**–1,836**	–	**–1,836**
Gains (–) or losses (+) arising from changes in financial assumptions	4,093	–	**4,093**	–	**4,093**
Gains (–) or losses (+) arising from changes in demographic assumptions	–40	–	**–40**	–	**–40**
Gains (–) or losses (+) arising from experience adjustments	–118	–	**–118**	–	**–118**
Changes in the limitation of the net defined benefit asset to the asset ceiling	–	–	**–**	–	**–**
Transfers to fund	–	–827	**–827**	–	**–827**
Employee contributions	85	–85	**–**	–	**–**
Pensions and other benefits paid	–643	676	**33**	–	**33**
Translation differences and other changes	–1,339	1,166	**–173**	–	**–173**
31 December 2016	**22,899**	**–18,315**	**4,584**	**3**	**4,587**
thereof pension provision					**4,587**
thereof assets					**–**

Allocations to pension plans in the financial year 2017 include a transfer from plan assets for pre-retirement part-time working arrangements to plan assets for pension plans amounting to €353 million.

Gains on plan settlements resulted from the closure of defined benefit plans in the UK. Vested benefits from these plans will be increased in line with inflation in the future. Compensation amounting to €140 million was paid in conjunction with the closure of the plans. The net gain arising on plan settlement amounted to €72 million.

Depending on the cash flow profile and risk structure of the pension obligations involved, pension plan assets are invested in various investment classes.

Plan assets in Germany, the UK and other countries comprised the following:

	Germany		United Kingdom		Other		Total	
in € million	2017	2016	2017	2016	2017	2016	2017	2016
COMPONENTS OF PLAN ASSETS								
Equity instruments	1,682	1,726	478	611	222	235	2,382	2,572
Debt instruments	5,668	5,439	6,354	6,071	469	458	12,491	11,968
thereof investment grade	3,231	3,752	5,734	5,564	434	422	9,399	9,738
thereof non-investment grade	2,437	1,687	620	507	35	36	3,092	2,230
Real estate funds	–	–	–	–	93	25	93	25
Money market funds	–	–	191	26	42	11	233	37
Absolute return funds	–	–	51	82	–	–	51	82
Other	–	–	–	–	5	5	5	5
Total with quoted market price	**7,350**	**7,165**	**7,074**	**6,790**	**831**	**734**	**15,255**	**14,689**
Debt instruments	935	543	404	408	1	3	1,340	954
thereof investment grade	198	195	–	2	–	1	198	198
thereof mixed funds (funds without a rating)	737	348	404	179	–	–	1,141	527
thereof non-investment grade	–	–	–	227	1	2	1	229
Real estate	240	183	662	697	–	123	902	1,003
Cash and cash equivalents	16	17	10	9	1	1	27	27
Absolute return funds	708	419	617	745	47	46	1,372	1,210
Other	354	316	141	65	86	51	581	432
Total without quoted market price	**2,253**	**1,478**	**1,834**	**1,924**	**135**	**224**	**4,222**	**3,626**
31 December	**9,603**	**8,643**	**8,908**	**8,714**	**966**	**958**	**19,477**	**18,315**

Employer contributions to plan assets are expected to amount to €573 million in the coming year.

The BMW Group is exposed to **risks** arising both from defined benefit plans and defined contribution plans with a minimum return guarantee. The discount rates used to calculate pension obligations are subject to market fluctuation and therefore influence the level of the obligations. Furthermore, changes in other actuarial parameters, such as expected rates of inflation, also have an impact on pension obligations. In order to reduce currency exposures, a substantial portion of plan assets is either invested in the same currency as the underlying plan or hedged by means of currency derivatives. As part of the internal reporting procedures and for internal management purposes, financial risks relating to the pension plans are reported using a value-at-risk approach by reference to the pension deficit. The investment strategy is also subject to regular review together with external consultants, with the aim of ensuring that investments are structured to match the timing of pension payments and the expected development of pension obligations. In this way, fluctuations in pension funding shortfalls are reduced.

The defined benefit obligation relates to current employees, pensioners and former employees with vested benefits as follows:

in %	Germany 31.12.2017	Germany 31.12.2016	United Kingdom 31.12.2017	United Kingdom 31.12.2016	Other 31.12.2017	Other 31.12.2016
Current employees	66.6	67.3	23.9	26.7	78.5	79.1
Pensioners	28.3	27.8	45.0	43.1	17.8	17.5
Former employees with vested benefits	5.1	4.9	31.1	30.2	3.7	3.4
Defined benefit obligation	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

The sensitivity analysis provided below shows the extent to which changes in individual factors at the end of the reporting period influence the defined benefit obligation.

It is only possible, however, to aggregate sensitivities to a limited extent. Since the change in obligation follows a non-linear pattern, estimates made on the basis of the specified sensitivities are only possible with this restriction. The calculation of sensitivities using ranges other than those specified could result in a disproportional change in the defined benefit obligation.

		Change in defined benefit obligation			
		31.12.2017		31.12.2016	
		in € million	in %	in € million	in %
	increase of 0.75 %	–3,055	–13.5	–2,939	–12.8
Discount rate	decrease of 0.75 %	3,878	17.1	4,031	17.6
	increase of 0.25 %	712	3.1	747	3.3
Pension level trend	decrease of 0.25 %	–672	–3.0	–713	–3.1
	increase of 1 year	856	3.8	853	3.7
Average life expectancy	decrease of 1 year	–855	–3.8	–854	–3.7
	increase of 0.25 %	162	0.7	165	0.7
Pension entitlement trend	decrease of 0.25 %	–155	–0.7	–158	–0.7

In the UK, the sensitivity analysis for the pension level trend also takes account of restrictions due to caps and floors.

31
Other provisions

Other provisions changed during the year as follows:

in € million	1.1.2017	Translation differences	Additions	Reversal of discounting	Utilised	Reversed	31.12.2017	thereof due within one year
Statutory and non-statutory warranty obligations, product guarantees	4,813	–307	2,221	43	–1,875	–70	4,825	1,300
Obligations for personnel and social expenses	2,191	–19	2,261	–	–1,624	–27	2,782	1,933
Other obligations	2,200	–81	1,110	–	–459	–247	2,523	1,738
Other obligations for ongoing operational expenses	1,714	–119	755	–	–614	–116	1,620	1,342
Other provisions	**10,918**	**–526**	**6,347**	**43**	**–4,572**	**–460**	**11,750**	**6,313**

Depending on when claims occur, it is possible that the BMW Group may be called upon to fulfil the warranty or guarantee obligations over the whole period of the warranty or guarantee. Expected reimbursement claims at 31 December 2017 amounted to €847 million (2016: €779 million).

Provisions for obligations for personnel and social expenses comprise mainly performance-related remuneration components, early retirement part-time working arrangements and employee long-service awards.

Provisions for other obligations cover numerous specific risks and uncertain obligations, in particular for litigation and liability risks.

Other obligations for ongoing operational expenses include in particular expected payments for bonuses and other price deductions.

Income from the reversal of other provisions amounting to €322 million (2016: €480 million) is recorded in cost of sales and in selling and administrative expenses.

32
Income tax liabilities

Current income tax liabilities totalling €1,124 million (2016: €1,074 million) include liabilities of €68 million (2016: €33 million) which are expected to be settled after more than twelve months. Liabilities may be settled earlier than this depending on the timing of proceedings.

33
Financial liabilities

Financial liabilities of the BMW Group comprises the following:

in € million	31.12.2017 Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Bonds	11,132	25,887	7,861	**44,880**
Asset-backed financing transactions	6,037	10,818	–	**16,855**
Liabilities from customer deposits (banking)	10,144	3,296	132	**13,572**
Liabilities to banks	8,440	3,170	1,048	**12,658**
Commercial paper	4,461	–	–	**4,461**
Derivative instruments	373	544	173	**1,090**
Other	513	150	469	**1,132**
Financial liabilities	**41,100**	**43,865**	**9,683**	**94,648**

in € million	31.12.2016 Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Bonds	9,242	25,496	9,683	**44,421**
Asset-backed financing transactions	6,765	9,709	–	**16,474**
Liabilities from customer deposits (banking)	10,063	3,316	133	**13,512**
Liabilities to banks	10,251	3,997	644	**14,892**
Commercial paper	3,852	–	–	**3,852**
Derivative instruments	1,656	1,496	179	**3,331**
Other	497	130	622	**1,249**
Financial liabilities	**42,326**	**44,144**	**11,261**	**97,731**

Customer deposit liabilities arise in the BMW Group's own banks, notably in Germany and the USA, which offer deposit and investment products.

Liabilities related to financing activities can be reconciled as follows:

in € million	1.1.2017	Cash inflows/ outflows	Changes due to the acquisition or disposal of companies	Changes due to exchange rate factors	Changes in fair values	Other changes	31.12.2017
Bonds	44,421	2,687	–	–1,901	–328	1	44,880
Asset-backed financing transactions	16,474	1,338	–	–957	–	–	16,855
Liabilities from customer deposits (banking)	13,512	656	–	–596	–	–	13,572
Liabilities to banks	14,892	–1,579	–	–655	–	–	12,658
Commercial paper	3,852	953	–	–344	–	–	4,461
Financial liabilities towards companies in which an investment is held	615	124	–	–	–	–	739
Other (excluding interest payable)	811	–156	151	–88	–	–	718
Liabilities relating to financing activities	**94,577**	**4,023**	**151**	**–4,541**	**–328**	**1**	**93,883**

Bonds comprise:

Issuer	Interest	Issue volume in relevant currency (ISO-Code)	Weighted average maturity period (in years)	Weighted average nominal interest rate (in %)
	variable	EUR 6,519 million	2.1	0.0
	variable	GBP 220 million	1.1	0.6
	variable	USD 40 million	2.0	2.1
	fixed	AUD 490 million	5.9	3.8
	fixed	USD 300 million	4.0	2.6
	fixed	CNH 1,300 million	3.0	4.3
	fixed	EUR 17,450 million	6.8	1.5
	fixed	GBP 1,900 million	6.2	2.3
	fixed	HKD 1,842 million	4.2	2.0
	fixed	JPY 19,100 million	5.8	0.4
	fixed	NOK 2,400 million	3.8	1.9
BMW Finance N.V.	fixed	SEK 1,750 million	5.0	1.9
	variable	EUR 1,500 million	3.0	0.1
	variable	NZD 30 million	3.0	1.9
	variable	USD 958 million	3.9	1.4
	fixed	AUD 130 million	3.5	2.8
	fixed	EUR 2,500 million	7.6	3.2
	fixed	GBP 300 million	5.0	2.0
	fixed	HKD 334 million	3.0	2.0
	fixed	JPY 30,000 million	3.0	0.2
BMW US Capital, LLC	fixed	USD 9,270 million	6.1	2.1
	variable	CAD 300 million	3.0	2.2
BMW Canada Inc.	fixed	CAD 1,850 million	4.2	2.0
	variable	AUD 500 million	3.0	2.5
	variable	GBP 925 million	1.8	0.8
	fixed	CNY 2,000 million	3.0	3.3
	fixed	INR 8,000 million	2.0	8.0
	fixed	GBP 250 million	4.5	1.1
Other	fixed	KRW 380,000 million	3.6	2.7

The following details apply to commercial paper:

Issuer	Issue volume in relevant currency (ISO-Code)	Weighted average maturity period (in days)	Weighted average nominal interest rate (in %)
BMW Finance N.V.	EUR 1,125 million	60	– 0.4
BMW International Investment B.V.	GBP 450 million	59	0.5
BMW US Capital, LLC	USD 3,325 million	22	1.4
BMW India Financial Services Private Ltd.	INR 4,500 million	155	7.1

34
Other liabilities

Other liabilities comprise the following items:

in € million	31.12.2017 Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Deferred income	2,427	4,276	471	**7,174**
Advance payments from customers	934	122	–	**1,056**
Other taxes	934	–	–	**934**
Deposits received	505	346	5	**856**
Payables to other companies in which an investment is held	744	–	–	**744**
Payables to subsidiaries	129	–	–	**129**
Social security	75	23	–	**98**
Other	5,031	160	7	**5,198**
Other liabilities	**10,779**	**4,927**	**483**	**16,189**

in € million	31.12.2016 Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Deferred income	2,599	4,238	419	**7,256**
Advance payments from customers	847	130	–	**977**
Other taxes	807	–	–	**807**
Deposits received	501	387	5	**893**
Payables to other companies in which an investment is held	615	–	–	**615**
Payables to subsidiaries	99	–	–	**99**
Social security	71	21	–	**92**
Other	4,659	147	10	**4,816**
Other liabilities	**10,198**	**4,923**	**434**	**15,555**

Sundry other liabilities include mainly bonuses for services already performed as well as sales promotions, commission payable and credit balances on customers' accounts.

Deferred income comprises the following items:

in € million	31.12.2017 Total	31.12.2017 thereof due within one year	31.12.2016 Total	31.12.2016 thereof due within one year
Deferred income relating to service contracts	4,167	1,371	4,412	1,474
Deferred income from lease financing	2,361	973	2,241	1,037
Grants	332	28	382	30
Other deferred income	314	55	221	58
Deferred income	**7,174**	**2,427**	**7,256**	**2,599**

Deferred income relating to service contracts comprises service and repair work as well as telematics services and roadside assistance agreed to as part of the sale of a vehicle (in some cases multi-component arrangements). Deferred income from lease financing relates primarily to down payments on leases.

Grants comprise mainly public sector funds to support regional structures and which have been invested in the production plants in Brazil, Mexico, Leipzig and Berlin. The grants are partly subject to holding periods for the assets concerned of up to five years and/or minimum employment figures. Grant income is recognised in the income statement over the useful lives of the assets to which they relate.

35 Trade payables

Trade payables have the following maturities:

in € million	31.12.2017	31.12.2016
Maturity within one year	9,731	8,512
Maturity between one and five years	–	–
Maturity later than five years	–	–
Trade payables	**9,731**	**8,512**

OTHER DISCLOSURES

36
Contingent liabilities and other financial commitments

Contingent liabilities

The following contingent liabilities existed at the balance sheet date:

in € million	31.12.2017	31.12.2016
Investment subsidies	399	26
Litigation	204	199
Guarantees*	10	11
Other	203	249
Contingent liabilities	**816**	**485**

* Prior year's figure has been adjusted.

Other contingent liabilities comprise mainly risks relating to taxes and customs duties.

The BMW Group determines its best estimate of contingent liabilities on the basis of information available at the reporting date. This assessment may change over time and is adjusted regularly on the basis of new information and circumstances. A part of risks is covered by insurance.

In June 2016, Germany's Federal Cartel Agency conducted searches at various carmakers and suppliers, including BMW AG, in relation to the purchase of steel. The respective official investigations have not yet been completed. Further disclosures pursuant to IAS 37.86 cannot be provided at present.

In July 2017, cartel allegations against five German car manufacturers appeared in the press. The BMW Group subsequently launched an internal investigation, which has not yet been completed. In October 2017, the European Commission began an inspection at the BMW Group. A number of class action lawsuits were brought in the USA and Canada. Possible risks for the BMW Group cannot be quantified at present; further disclosures pursuant to IAS 37.86 cannot be provided at present.

Regulatory agencies have ordered the BMW Group to recall various vehicle models in connection with airbags supplied by the Takata group of companies. Provision for the costs involved has been recognised within warranty provisions. In addition to the risks already covered by warranty provisions, it cannot be ruled out that further BMW Group vehicles will be affected by future recall actions. Further disclosures pursuant to IAS 37.86 cannot be provided at present.

Other financial commitments

In addition to liabilities, provisions and contingent liabilities, other financial commitments consist in particular of rental and leasing contracts for buildings, property, machinery, tools, offices and other facilities. Contracts have a term of between one and 84 years and include in part renewal and purchase options or price adjustments in the form of index-linked or graduated rent, for example to compensate inflation.

In 2017, an expense amounting to €430 million (2016: €432 million) was recognised for payments on operating leases.

The total minimum future leasing payments from uncancellable rental contracts and operating leases is represented by maturity as follows:

in € million	31.12.2017	31.12.2016
due within one year	446	447
due between one and five years	1,179	1,102
due later than five years	849	895
Other financial obligations	**2,474**	**2,444**

In addition, the following commitments exist for the BMW Group at the reporting date:

in € million	31.12.2017	31.12.2016
Purchase commitments for property, plant and equipment	4,137	3,141
Purchase commitments for intangible assets	1,804	1,363

37
Financial instruments

The carrying amounts of financial instruments are assigned to IAS 39 categories and cash funds as follows:*

in € million	Cash funds 31.12.2017	Cash funds 31.12.2016	Loans and receivables 31.12.2017	Loans and receivables 31.12.2016	Available for sale 31.12.2017	Available for sale 31.12.2016
ASSETS						
Other investments	–	–	–	–	366	534
Receivables from sales financing	–	–	80,434	78,260	–	–
Financial assets						
Derivative instruments						
Cash flow hedges	–	–	–	–	–	–
Fair value hedges	–	–	–	–	–	–
Other derivative instruments	–	–	–	–	–	–
Marketable securities and investment funds	–	–	–	–	5,447	5,287
Loans to third parties	–	–	112	129	–	–
Credit card receivables	–	–	248	287	–	–
Other	–	–	184	145	–	–
Cash and cash equivalents	9,039	7,880	–	–	–	–
Trade receivables	–	–	2,667	2,825	–	–
Other assets						
Receivables from subsidiaries	–	–	276	422	–	–
Receivables from companies in which an investment is held	–	–	1,334	1,217	–	–
Collateral receivables	219	287	–	–	97	100
Other	–	–	1,108	1,124	–	–
Total	**9,258**	**8,167**	**86,363**	**84,409**	**5,910**	**5,921**
LIABILITIES						
Financial liabilities						
Bonds	–	–	–	–	–	–
Liabilities to banks	–	–	–	–	–	–
Liabilities from customer deposits (banking)	–	–	–	–	–	–
Commercial paper	–	–	–	–	–	–
Asset-backed financing transactions	–	–	–	–	–	–
Derivative instruments						
Cash flow hedges	–	–	–	–	–	–
Fair value hedges	–	–	–	–	–	–
Other derivative instruments	–	–	–	–	–	–
Other	–	–	–	–	–	–
Trade payables	–	–	–	–	–	–
Other liabilities						
Payables to subsidiaries	–	–	–	–	–	–
Payables to other companies in which an investment is held	–	–	–	–	–	–
Other	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**

* The carrying amounts of cash flow and fair value hedges are allocated to the category "Held for trading" for the sake of clarity.

Fair value option		Other liabilities		Held for trading		
31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	
						ASSETS
29	26	–	–	–	–	Other investments
–	–	–	–	–	–	Receivables from sales financing
						Financial assets
						Derivative instruments
–	–	–	–	2,187	1,758	Cash flow hedges
–	–	–	–	814	949	Fair value hedges
–	–	–	–	1,340	1,215	Other derivative instruments
–	–	–	–	–	–	Marketable securities and investment funds
2	–	–	–	–	–	Loans to third parties
–	–	–	–	–	–	Credit card receivables
–	–	–	–	–	–	Other
–	–	–	–	–	–	Cash and cash equivalents
–	–	–	–	–	–	Trade receivables
						Other assets
–	–	–	–	–	–	Receivables from subsidiaries
–	–	–	–	–	–	Receivables from companies in which an investment is held
–	–	–	–	–	–	Collateral receivables
–	–	–	–	–	–	Other
31	**26**	**–**	**–**	**4,341**	**3,922**	**Total**
						LIABILITIES
						Financial liabilities
–	–	44,880	44,421	–	–	Bonds
–	–	12,658	14,892	–	–	Liabilities to banks
–	–	13,572	13,512	–	–	Liabilities from customer deposits (banking)
–	–	4,461	3,852	–	–	Commercial paper
–	–	16,855	16,474	–	–	Asset-backed financing transactions
						Derivative instruments
–	–	–	–	190	1,694	Cash flow hedges
–	–	–	–	571	870	Fair value hedges
–	–	–	–	329	767	Other derivative instruments
–	–	1,132	1,249	–	–	Other
–	–	9,731	8,512	–	–	Trade payables
						Other liabilities
–	–	129	99	–	–	Payables to subsidiaries
–	–	744	615	–	–	Payables to other companies in which an investment is held
–	–	5,949	5,535	–	–	Other
–	**–**	**110,111**	**109,161**	**1,090**	**3,331**	**Total**

The following table shows the fair values and carrying amounts of financial assets and liabilities that are measured at cost or amortised cost and whose carrying amounts differ from their fair value. For some balance sheet items it is assumed, due to their generally short maturity, that their fair value corresponds to the carrying amount.

in € million	31.12.2017 Fair value	31.12.2017 Carrying amount	31.12.2016 Fair value	31.12.2016 Carrying amount
Receivables from sales financing	83,853	80,434	81,621	78,260
Bonds	45,566	44,880	45,140	44,421
Liabilities to banks	12,724	12,658	14,942	14,892
Liabilities from customer deposits (banking)	13,588	13,572	13,545	13,512
Asset-backed financing transactions	17,005	16,855	16,556	16,474

Fair value measurement of financial instruments

The following interest rate curves were used to discount financial instruments at 31 December 2017:

	ISO Code				
in %	EUR	USD	GBP	JPY	CNY
Interest rate for six months	– 0.33	1.82	0.86	– 0.08	4.87
Interest rate for one year	– 0.26	1.88	0.65	0.03	4.71
Interest rate for five years	0.32	2.24	1.04	0.12	4.74
Interest rate for ten years	0.91	2.40	1.29	0.33	4.88

Interest rates taken from interest rate curves were adjusted, where necessary, to take account of the credit quality and risk of the underlying financial instrument.

Commodity derivatives were measured on the basis of the following quoted market prices:

Raw material		31.12.2017	31.12.2016
Copper	USD/t	7,212.25	5,537.00
Aluminium	USD/t	2,258.75	1,695.13
Palladium	USD/oz	1,057.00	680.96
Platinum	USD/oz	925.00	903.50
Coking coal	USD/t	265.00	230.00
Iron ore	USD/t	72.40	79.65

Financial instruments measured at fair value are allocated to different measurement levels in accordance with IFRS 13. This includes financial instruments that are

1. measured at their fair values in an active market for identical financial instruments (Level 1),

2. measured at their fair values in an active market for comparable financial instruments or using measurement models whose main input factors are based on observable market data (Level 2), or

3. using input factors not based on observable market data (Level 3).

The following table shows the amounts allocated to each measurement level at the end of the reporting period:

	31.12.2017		
	Level hierarchy in accordance with IFRS 13		
in € million	Level 1	Level 2	Level 3
Marketable securities, investment funds and collateral assets – available-for-sale	5,544	–	–
Other investments – available-for-sale / fair value option	284	–	105
Loans to third parties	–	–	2
Derivative instruments (assets)			
Interest rate risks	–	1,797	–
Currency risks	–	2,008	–
Raw materials price risks	–	534	–
Other risks	–	–	2
Derivative instruments (liabilities)			
Interest rate risks	–	778	–
Currency risks	–	221	–
Raw materials price risks	–	91	–

	31.12.2016		
	Level hierarchy in accordance with IFRS 13		
in € million	Level 1	Level 2	Level 3
Marketable securities, investment funds and collateral assets – available-for-sale	5,387	–	–
Other investments – available-for-sale / fair value option	213	–	–
Loans to third parties	–	–	–
Derivative instruments (assets)			
Interest rate risks	–	1,933	–
Currency risks	–	1,842	–
Raw materials price risks	–	147	–
Other risks	–	–	–
Derivative instruments (liabilities)			
Interest rate risks	–	1,402	–
Currency risks	–	1,479	–
Raw materials price risks	–	450	–

As in the previous year, there were no reclassifications within the level hierarchy during the financial year 2017.

In situations where a fair value was required for disclosure purposes only, this was determined using the discounted cash flow method and taking account of the BMW Group's own credit risk. For this reason, the fair values calculated can be allocated to Level 2.

Financial instruments recognised at fair value for which no market price is available are allocated to Level 3. Fair values are determined in accordance with the following table:

in € million	Fair value 31.12.2017	Valuation method	Input Parameter
Unquoted equity instruments	105	Last financing round	Price per share
		Milestone analysis (quantitative and qualitative factors)	Company performance
			Contractual rights by share class
Convertible bonds	2	Last financing round	Price per share
		Milestone analysis (quantitative and qualitative factors)	Company performance
			Contractual rights by share class
Options on unquoted equity instruments	2	Last financing round	Price per share
		Milestone analysis (quantitative and qualitative factors)	Company performance
		Consideration of exercise price	Contractual rights by share class
			Exercise price

Level 3 financial assets relate to investments within a private equity fund that was newly established during the financial year under report. Private equity companies are valued on the basis of net asset value, which is determined using relevant information that is not available in the public domain. The fund manager assesses the underlying individual companies in accordance with the guidelines for international private equity and venture capital valuations (IPEV). Detailed listing and quantification of potential sensitivities of the input parameters is not considered meaningful in view of the valuation methodology applied. An increase in input parameters would generally also lead to a similar increase in valuation.

The balance sheet carrying amount of Level 3 financial instruments developed as follows:

in € million	Unquoted equity instruments	Convertible bonds	Options on unquoted equity instruments	Financial Instruments Level 3
1. January 2017	–	–	–	–
Additions	103	2	–	105
Disposals	–	–	–	–
Gains (+)/losses (–) recognised in accumulated other equity	8	–	–	8
Gains (+)/losses (–) recognised in the income statement	–	–	3	3
Currency translation differences	– 6	–	–1	– 7
31. December 2017	**105**	**2**	**2**	**109**

No Level 3 financial instruments existed at the end of the previous financial year.

Offsetting of financial instruments

In the BMW Group, offsetting of financial assets and liabilities relating to derivative financial instruments is generally to be considered. No offsetting is recognised in the financial statements, however, as the necessary criteria are not met. Since legally enforceable master netting agreements or similar contracts are in place, actual offsetting would be possible in principle, for instance in the case of insolvency. Offsetting would have the following impact on the carrying amounts of derivatives:

in € million	31.12.2017 Reported on assets side	31.12.2017 Reported on equity and liabilities side	31.12.2016 Reported on assets side	31.12.2016 Reported on equity and liabilities side
Balance sheet amounts as reported	4,341	1,090	3,922	3,331
Gross amount of derivatives which can be offset in case of insolvency	–835	–835	–1,169	–1,169
Net amount after offsetting	3,506	255	2,753	2,162

Gains and losses on financial instruments

The following table shows the net gains and losses arising for each of the categories of financial instrument defined by IAS 39:

in € million	2017	2016
Held for trading		
Gains / losses from the use of derivative instruments	961	1,265
Fair value option		
Gains / losses on investments measured at fair value through profit and loss	3	–
Available-for-sale		
Gains and losses on sale and fair value measurement of marketable securities held for sale (including investments in subsidiaries and participations measured at cost)	48	–155
Net income from participations and investments in subsidiaries	14	13
Accumulated other equity		
Balance at 1 January	52	24
Total change during the year	41	28
thereof recognised in the income statement during the period under report	–44	–39
Balance at 31 December	93	52
Loans and receivables		
Impairment losses / reversals of impairment losses	–162	–210
Other income / expenses	–94	–38
Other liabilities		
Income / expenses	162	586

Gains/losses from the use of derivatives relate primarily to fair value gains or losses arising on stand-alone derivatives.

In the case of financial instruments for which the fair value option is applied, no significant changes in fair values arose in the financial year 2017 or on an accumulated basis which were attributable to changes in the default risk. Such credit-risk related changes in fair values are calculated as a general rule by deducting changes relating to the market risk from the change in fair value.

Net interest expenses from interest rate and interest rate/currency swaps amounted to €108 million (2016: €120 million).

No impairment losses were recorded in the income statement during the year under report (2016: €76 million) on available-for-sale marketable securities reported as investments for which value changes are recognised directly in equity. Reversals of impairment losses on marketable securities reported as investments amounting to €67 million (2016: € – million) were recognised directly in equity.

The disclosure of interest income resulting from the unwinding of discount on future expected receipts applies at BMW Group only where assets have been discounted as part of the process of determining impairment losses of financial assets. Due to the assumption that the major part of income that is subsequently recovered is received within one year, the discounted interest is considered insignificant and is not taken into account in determining impairment losses.

Cash flow hedges

The impact of cash flow hedges on accumulated other equity is shown as follows:

in € million	2017	2016
Balance at 1 January	78	–1,337
Total changes during the year	1,437	1,415
thereof reclassified to the income statement	–103	550
Balance at 31 December	**1,515**	**78**

Fair value gains and losses recognised on derivatives and recorded initially in accumulated other equity are reclassified to cost of sales when the derivatives mature.

No effects were recognised in financial result in 2017 in connection with forecasting errors and resulting overhedging (2016: losses of €2 million). Gains due to the ineffective portion of cash flow hedges amounting to €17 million were recognised in financial result (2016: losses of €11 million). As in the previous year, no effects were recognised in financial result in connection with forecasting errors relating to cash flow hedges for commodities. Losses attributable to the ineffective portion of cash flow hedges amounting to €1 million were recognised in financial result (2016: gains of €17 million).

At 31 December 2017, the BMW Group held derivative financial instruments (mainly forward currency contracts) in order to hedge currency risks attached to future or existing transactions. These derivative instruments are intended to hedge forecast sales denominated in a foreign currency over the coming 32 months (2016: 44 months). The income statement impact of the hedged cash flows will be recognised as a general rule in the same periods in which external revenues are recognised. It is expected that €336 million of net gains, recognised in equity at the end of the reporting period, will be reclassified to profit and loss in the new financial year (2016: net losses of €113 million).

As in the previous year, the BMW Group held no derivative financial instruments at 31 December 2017 which were designated as cash flow hedges to hedge against interest rate risks.

At 31 December 2017, the BMW Group held derivative financial instruments, mainly commodity swaps, with terms of up to 46 months (2016: 58 months) to hedge raw materials price risks. The income statement impact of the hedged cash flows will be recognised as a general rule in the same periods in which the derivative instruments mature. It is expected that €55 million of net gains, recognised in equity at the end of the reporting period, will be reclassified to profit and loss in the new financial year (2016: net losses of €94 million).

Fair value hedges

The following table shows gains and losses from fair value hedge relationships on hedging instruments and hedged items:

in € million	31.12.2017	31.12.2016
Gains / losses on hedging instruments designated as part of a fair value hedge relationship	–335	–158
Gains / losses from hedged items	328	134
Ineffectiveness of fair value hedges	**–7**	**–24**

The difference between the gains/losses on hedging instruments, mainly interest rate swaps and combined interest rate/currency swaps, and the results recognised on the underlying hedged items represents the ineffective portion of fair value hedges.

Credit risk

Notwithstanding the existence of collateral, the carrying amounts of financial assets generally take account of the maximum credit risk arising from the possibility that counterparties will not be able to fulfil their contractual obligations. The maximum credit risk for irrevocable credit commitments amounts to €1,217 million for the credit card business (2016: €1,461 million) and €27,953 million (2016: €27,494 million) for dealership financing.

In the case of all relationships underlying primary financial instruments, in order to minimise the credit risk and depending on the nature and amount of exposure, collateral is required, credit information and references obtained or historical data based on the existing business relationship, in particular payment behaviour, reviewed.

Within the financial services business, in the retail customer and dealership areas, financed items, for example vehicles, equipment and property, serve as first-ranking collateral with a recoverable value. Security is also put up in the form of collateral asset pledges, asset assignment and first-ranking mortgages, supplemented where appropriate by warranties and guarantees. If an item previously accepted as collateral is acquired, it undergoes a multi-stage process of repossession and disposal in accordance with the legal situation prevailing in the relevant market. As the assets involved are mainly vehicles, they can be converted into cash at any time through the dealership organisation.

Impairment losses are recorded as soon as credit risks are identified on individual financial assets, using a methodology specifically designed by the BMW Group. More detailed information regarding this methodology is provided in the section on accounting policies → note 4.

→ see note 4

Creditworthiness testing is an important aspect of the BMW Group's credit risk management. Every borrower's creditworthiness is tested for all credit financing and lease contracts entered into by the BMW Group. In the case of retail customer financing, creditworthiness is assessed using validated scoring systems integrated into the acquisition process. In the area of dealership financing, creditworthiness is assessed by means of ongoing credit monitoring and an internal rating system that takes account not only of the material credit standing of the borrower, but also of qualitative factors such as past reliability in business relations.

The credit risk relating to derivative financial instruments is minimised by the fact that the Group only enters into such contracts with parties of first-class credit standing. The general credit risk on derivative financial instruments utilised by the BMW Group is therefore considered to be insignificant.

A concentration of credit risk with particular borrowers or groups of borrowers has not been identified in conjunction with financial instruments.

Further disclosures relating to credit risk – in particular with regard to the amounts of impairment losses recognised – are provided in the explanatory notes to the relevant categories of receivables in → notes 23, 24 and 28.

→ see notes 23, 24 and 28

Liquidity risk

The following table shows the maturity structure of expected contractual cash flows (undiscounted) for financial liabilities:

in € million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
	31.12.2017			
Bonds	11,735	27,201	8,285	**47,221**
Asset-backed financing transactions	7,087	10,901	–	**17,988**
Liabilities to banks	9,546	3,656	771	**13,973**
Liabilities from customer deposits (banking)	10,225	3,418	130	**13,773**
Trade payables	9,731	–	–	**9,731**
Commercial paper	4,463	–	–	**4,463**
Derivative instruments	466	637	111	**1,214**
Other financial liabilities	110	191	451	**752**
Total	**53,363**	**46,004**	**9,748**	**109,115**

in € million	Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
	31.12.2016			
Bonds	9,954	26,766	10,089	**46,809**
Asset-backed financing transactions	7,161	9,938	–	**17,099**
Liabilities to banks	11,238	4,234	558	**16,030**
Liabilities from customer deposits (banking)	10,140	3,446	133	**13,719**
Trade payables	8,512	–	–	**8,512**
Commercial paper	3,853	–	–	**3,853**
Derivative instruments	1,983	2,395	187	**4,565**
Other financial liabilities	72	178	601	**851**
Total	**52,913**	**46,957**	**11,568**	**111,438**

The cash flows comprise principal repayments and the related interest. The amounts disclosed for derivative instruments comprise only cash flows relating to derivatives that have a negative fair value at the balance sheet date. At 31 December 2017, irrevocable credit commitments to dealerships which had not been called upon at the end of the reporting period amounted to €8,812 million (2016: €9,194 million).

Solvency is assured at all times by managing and monitoring the liquidity situation on the basis of a rolling cash flow forecast. The resulting funding requirements are secured by a variety of instruments placed on the world's financial markets, with the aim to minimise risk by matching maturities with financing requirements and in alignment with a dynamic target debt structure. The BMW Group enjoys favourable access to capital markets as a result of its continued solid financial position and a diversified refinancing strategy. This is supported by the longstanding long- and short-term ratings issued by Moody's and Standard & Poor's.

Depending on financing requirements and market conditions, the BMW Group issues commercial paper and corporate bonds in various currencies. Asset-backed securities also continue to be issued in various currencies. Refinancing is supplemented by customer deposits at the Group's own banks and loans from international banks.

As a further reduction of risk, a syndicated credit line totalling €8 billion (2016: €6 billion) assured by a consortium of international banks is available to the BMW Group. Intra-group cash flow fluctuations are balanced out by the use of daily cash pooling arrangements.

Market risks
The principal market risks to which the BMW Group is exposed are currency risk, interest rate risk and raw materials price risk.

Protection against such risks is provided in the first instance through natural hedging which arises when the values of non-derivative financial instruments have matching maturities and amounts (netting). Derivative financial instruments are used to reduce the risk remaining after netting. Financial instruments are used exclusively to hedge underlying positions or planned transactions.

The scope of action, responsibilities, financial reporting procedures and control mechanisms used for financial instruments are set out in detailed internal guidelines. This includes, in particular, a clear separation of duties between trading and processing of transactions. Currency, interest rate and raw materials price risks of the BMW Group are managed at a corporate level.

Further information is provided in the "Report on outlook, risks and opportunities" section of the Combined Management Report.

Currency risks
As an enterprise with worldwide operations, the BMW Group conducts business in a variety of currencies, from which currency risks arise. Since a significant portion of Group revenues is generated outside the euro currency region and procurement of production materials and funding is also carried out on a worldwide basis, currency risk is an extremely important factor for Group earnings.

In order to hedge currency risks, the BMW Group holds, as at 31 December 2017, derivative financial instruments mostly in the form of forward currency contracts.

A description of the management of this risk is provided in the Combined Management Report. The BMW Group measures currency risk using a cash-flow-at-risk model.

The starting point for analysis of currency risk in this model are the planned foreign currency transactions or "exposures". At the end of the reporting period, the main exposures for the relevant coming year were as follows:

in € million	31.12.2017	31.12.2016
Euro / Chinese Renminbi	10,160	10,467
Euro / British Pound	4,425	4,785
Euro / Korean Won	2,460	1,926
Euro / Japanese Yen	1,618	1,510
Euro / US Dollar	1,152	3,319

These exposures are compared to all hedges that are in place. The net cash flow surplus represents an uncovered risk position. The cash-flow-at-risk approach involves allocating the impact of potential exchange rate fluctuations to operating cash flows on the basis of probability distributions. Volatilities and correlations serve as input factors to determine the relevant probability distributions.

The potential negative impact on earnings is calculated at the reporting date for each currency for the following financial year on the basis of current market prices and exposures with a confidence level of 95 % and a holding period of up to one year. The risk mitigating effect of correlations between the various currencies is taken into account when the risks are aggregated.

The following table shows the potential negative impact for the BMW Group resulting from unfavourable changes in exchange rates, measured on the basis of the cash-flow-at-risk approach. The impact for the main currencies, in each case for the following financial year, is as follows:

in € million	31.12.2017	31.12.2016
Euro / Chinese Renminbi	193	249
Euro / British Pound	154	134
Euro / Japanese Yen	98	70
Euro / US Dollar	50	278
Euro / Korean Won	35	30

Currency risk for the BMW Group is concentrated on the currencies referred to above.

Interest rate risks

The BMW Group's financial management involves the use of standard financial instruments such as short-term deposits, investments in variable and fixed-income securities as well as securities funds. The BMW Group is therefore exposed to risks resulting from changes in interest rates.

Interest rate risks arise when funds are borrowed and invested with differing fixed-rate periods or differing terms. All items subject to interest are exposed to interest rate risk. Interest rate risks can affect either side of the balance sheet.

The fair values of the Group's interest rate portfolios for the five main currencies were as follows at the end of the reporting period:

in € million	31.12.2017	31.12.2016
Euro	28,374	28,063
US Dollar	15,454	14,340
British Pound	5,262	5,708
Chinese Renminbi	4,326	3,124
Japanese Yen	691	571

Interest rate risks can be managed by the use of interest rate derivatives. The interest rate contracts used for hedging purposes comprise mainly swaps, which, if hedge accounting is applied, are accounted for as fair value hedges. A description of the management of interest rate risks is provided in the Combined Management Report.

As stated there, the BMW Group applies a value-at-risk approach throughout the Group for internal reporting purposes and to manage interest rate risks. This is based on an advanced historical simulation, in which the potential future fair value losses of the interest rate portfolios compared to expected amounts are measured throughout the Group on the basis of a holding period of 250 days and a confidence level of 99.98 %. Through the aggregation, risk reduction effects are identified which are due to correlations between the various portfolios.

The following table shows for interest-rate-sensitive exposures of the BMW Group the potential fair value fluctuation compared with the expected value, measured on the basis of the value-at-risk approach:

in € million	31.12.2017	31.12.2016
Euro	557	532
US Dollar	504	545
British Pound	253	244
Chinese Renminbi	29	16
Japanese Yen	19	14

Raw material price risk

The BMW Group is exposed to the risk of price fluctuations for raw materials. A description of the management of these risks is provided in the Combined Management Report.

The starting point for the analysis of raw materials price risk are planned purchases of raw materials or components containing raw materials, i.e. the exposure. At the reporting date exposures for the following financial year amounted to:

in € million	31.12.2017	31.12.2016
Raw material price exposures	3,969	3,150

These exposures are compared to all hedges that are in place. The net cash flow surplus represents an uncovered risk position. The cash-flow-at-risk approach involves allocating the impact of potential fluctuations in raw material prices to operating cash flows on the basis of probability distributions. Volatilities and correlations serve as input factors to determine the relevant probability distributions.

The potential negative impact on earnings is calculated at the reporting date for each raw materials category for the following financial year on the basis of current market prices and exposure with a confidence level of 95 % and a holding period of up to one year. The risk mitigating effect of correlations between the various categories of raw materials is taken into account when the risks are aggregated.

The following table shows the potential negative cost impact for the BMW Group resulting from fluctuations in prices across all categories of raw materials, measured on the basis of the cash-flow-at-risk approach. The risk at the reporting date for the following financial year was as follows:

in € million	31.12.2017	31.12.2016
Cash flow at risk	409	135

38
Related parties

Transactions of Group entities with related parties were carried out without exception in the normal course of business of each of the parties concerned and at market conditions.

A significant proportion of the BMW Group's transactions with related parties relates to the joint venture BMW Brilliance Automotive Ltd.

	Supplies and services performed		Supplies and services received		Receivables at 31 December		Payables at 31 December	
in € million	2017	2016	2017	2016	2017	2016	2017	2016
BMW Brilliance Automotive Ltd.	5,946	5,316	63	50	1,333	1,215	739	615

Business relationships of the BMW Group with other associated companies and joint ventures as well as with non-consolidated subsidiaries are small in scale.

Stefan Quandt, Germany, is a shareholder and Deputy Chairman of the Supervisory Board of BMW AG. He is also the sole shareholder and Chairman of the Supervisory Board of DELTON AG, Bad Homburg v.d.H., which, via its subsidiaries, performed logistic-related services for the BMW Group during the financial year 2017. In addition, companies of the DELTON Group acquired vehicles from the BMW Group by way of leasing.

Stefan Quandt, Germany, is also the indirect majority shareholder of SOLARWATT GmbH, Dresden. A cooperation exists between BMW Group and SOLARWATT GmbH, Dresden, within the field of electric mobility. The focus of the cooperation is the provision of complete photovoltaic solutions for rooftop systems and carports to BMW i customers. In 2017, SOLARWATT GmbH, Dresden, acquired vehicles from the BMW Group by way of leasing.

Susanne Klatten, Germany, is a shareholder and member of the Supervisory Board of BMW AG and also a shareholder and Deputy Chairwoman of the Supervisory Board of ALTANA AG, Wesel. In 2017, ALTANA AG, Wesel, acquired vehicles from the BMW Group, mainly by way of leasing.

Susanne Klatten, Germany, is also the sole shareholder and Chairwoman of the Supervisory Board of UnternehmerTUM GmbH, Garching. In 2017, the BMW Group bought in services from UnternehmerTUM GmbH, Garching, mainly in the form of consultancy and workshop services.

In addition, Susanne Klatten, Germany, and Stefan Quandt, Germany, are indirectly sole shareholders of Entrust Datacard Corp., Shakopee, Minnesota. Stefan Quandt is also a member of the supervisory board of this entity. In 2017, Entrust Datacard Corp., Shakopee, Minnesota, acquired vehicles from the BMW Group by way of leasing.

Seen from the perspective of BMW Group entities, the volume of transactions with the above-mentioned entities was as follows:

in € thousand	Supplies and services performed 2017	Supplies and services performed 2016	Supplies and services received 2017	Supplies and services received 2016	Receivables at 31 December 2017	Receivables at 31 December 2016	Payables at 31 December 2017	Payables at 31 December 2016
DELTON AG	3,393	3,546	29,816	22,554	94	64	4,464	1,331
SOLARWATT GmbH	36	309	–	–	5	1	–	–
ALTANA AG	2,421	2,690	296	458	360	337	36	50
UnternehmerTUM GmbH	27	29	1,435	1,227	–	–	255	585
Entrust Datacard Corp.	106	97	–	–	5	5	–	–

Apart from vehicle leasing and financing contracts at usual conditions, companies of the BMW Group concluded no further transactions with members of the Board of Management or Supervisory Board of BMW AG. This also applies to close members of the families of those persons.

BMW Trust e.V., Munich, administers assets on a trustee basis to secure obligations relating to pensions in Germany and is therefore a related party of the BMW Group in accordance with IAS 24. This entity has no assets of its own. It had no income or expenses during the period under report. BMW AG bears expenses on an immaterial scale and performs services for BMW Trust e.V., Munich.

For disclosures relating to key management personnel, please see → note 41 and the Compensation Report.

→ see note 41

39
Share-based remuneration

The BMW Group provides three share-based programmes: the Employee Share Programme for entitled employees of the BMW Group, a share-based remuneration programme for members of the Board of Management and a share-based remuneration programme for senior heads of department of BMW AG.

As part of the Employee Share Programme, non-voting shares of preferred stock in BMW AG were granted in 2017 to qualifying employees at favourable conditions (see → note 29 for the number and price of issued shares). The holding period for these shares is up to 31 December 2020. In the financial year 2017, the BMW Group recorded a personnel expense of €10 million (2016: €7 million) for the Employee Share Programme, corresponding to the difference between the market price and the reduced price of the shares of preferred stock purchased by employees. The Board of Management reserves the right to decide anew each year with respect to an Employee Share Programme.

→ see note 29

For financial years beginning after 1 January 2011, BMW AG has added a share-based remuneration component to the existing compensation system for Board of Management members.

Each member of the Board of Management is required to invest 20 % of his or her total bonus after tax in shares of BMW AG common stock, which are recorded in a custodian account of the member concerned (annual tranche). Each annual tranche is subject to a holding period of four years. On completion of the holding period, BMW AG grants one additional share of BMW AG common stock for every three held or pays the equivalent amount in cash (share-based remuneration component). Separate rules apply in the case of death or invalidity of a Board of Management member or early termination of the contractual relationship before fulfilment of the holding period.

With effect from the financial year 2012, qualifying senior heads of department are also entitled to select a share-based remuneration component, which is largely comparable to the share-based remuneration arrangements for Board of Management members.

The share-based remuneration component is measured at its fair value at each balance sheet date between grant and settlement date, and on the settlement date. The amounts are recognised as personnel expense on a straight-line basis over the vesting period and reported in the balance sheet as a provision.

The cash-settlement for the share-based remuneration component is measured at its fair value at the balance sheet date (based on the closing price of BMW AG common stock on the Xetra system at 31 December 2017).

The total carrying amount of the provision for the share-based remuneration component of current and former Board of Management members and senior heads of department at 31 December 2017 was €6,301,785 (2016: €5,473,219).

The total expense recognised in 2017 for the share-based remuneration component of current and former Board of Management members and senior heads of department was €1,642,936 (2016: €1,443,227).

The fair value of the programmes for Board of Management members and senior heads of department at the date of grant of the share-based remuneration components was €2,311,946 (2016: €1,950,853), based on a total of 25,694 shares (2016: 21,201 shares) of BMW AG common stock or a corresponding cash-based settlement measured at the relevant market share price on the grant date.

Further details on the remuneration of the Board of Management are provided in the Compensation Report for the financial year 2017.

40
Declaration with respect to the Corporate Governance Code

The Board of Management and the Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft have issued the prescribed Declaration of Compliance pursuant to § 161 of the German Stock Corporation Act. It is reproduced in the Annual Report 2017 of the BMW Group and is also permanently available to shareholders on the BMW Group website at → www.bmwgroup.com/ir.

41 Compensation of members of the Board of Management and Supervisory Board

The total compensation of the current members of the Board of Management and the Supervisory Board of BMW AG expensed for the financial year 2017 in accordance with IFRS comprised the following:

in € million	2017	2016
Compensation to members of the Board of Management	**40.2**	37.6
Fixed remuneration	7.7	7.8
Variable remuneration	31.7	29.0
Share-based remuneration component	0.8	0.8
Allocation to pension provisions	**3.1**	2.8
Benefits in conjunction with the termination of an employment relationship	**0.9**	1.1
Compensation to members of the Supervisory Board	**5.6**	5.4
Fixed compensation and attendance fees	2.0	2.0
Variable compensation	3.6	3.4
Total expense	**49.8**	**46.9**
thereof due within one year	**45.9**	43.3

The total remuneration of former members of the Board of Management and their dependants amounted to €6.7 million (2016: €6.5 million).

Pension obligations to current members of the Board of Management are covered by provisions amounting to €22.0 million (2016: €23.6 million), determined in accordance with IAS 19 (Employee Benefits). Pension obligations to former members of the Board of Management and their surviving dependants, also determined in accordance with IAS 19, amounted to €90.1 million (2016: €86.4 million).

The compensation systems for members of the Supervisory Board include no stock options, value appreciation rights comparable to stock options or other stock-based compensation components. Apart from vehicle lease and financing contracts at customary conditions, no advances or loans were granted to members of the Board of Management and the Supervisory Board of BMW AG or its subsidiaries, nor were any contingent liabilities entered into on their behalf.

Further details on the remuneration of current members of the Board of Management and the Supervisory Board can be found in the Compensation Report, which is part of the Combined Management Report.

42 Events after the end of the reporting period

No events have occurred since the end of the financial year which could have a major impact on the results of operations, financial position and net assets of BMW AG and the BMW Group.

SEGMENT INFORMATION

43

Explanatory notes to segment information

Information on reportable segments

For the purposes of presenting segment information, the activities of the BMW Group are divided into operating segments in accordance with IFRS 8 (Operating Segments). The segmentation follows the internal management and reporting system and takes account of the organisational structure of the BMW Group based on the various products and services of the reportable segments.

The activities of the BMW Group are broken down into the operating segments Automotive, Motorcycles, Financial Services and Other Entities.

Within the Automotive segment the BMW Group develops, manufactures, assembles and sells automobiles and off-road vehicles, under the brands BMW, MINI and Rolls-Royce as well as spare parts, accessories and mobility services. BMW and MINI brand products are sold in Germany through branches of BMW AG and by independent, authorised dealerships. Sales outside Germany are handled mainly by subsidiary companies and by independent import companies in some markets. Rolls-Royce brand vehicles are sold in the USA, China, Korea, Italy and Russia via subsidiary companies and elsewhere by independent, authorised dealerships.

Activities relating to the development, manufacture, assembly and sale of motorcycles as well as spare parts and accessories are reported in the Motorcycles segment.

Automobile leasing, fleet business, multi-brand business, retail and dealership financing, customer deposit business and insurance activities are the main activities allocated to the Financial Services segment.

Holding and Group financing companies are reported in the Other Entities segment. This segment also includes operating companies BMW Services Ltd., BMW (UK) Investments Ltd. and Bavaria Lloyd Reisebüro GmbH, which are not allocated to one of the other segments.

Internal management and reporting

Segment information is prepared as a general rule in conformity with the accounting policies adopted for preparing and presenting the Group Financial Statements. Exceptions to this general principle are the treatment of inter-segment warranties, the earnings impact of which is allocated to the Automotive and Financial Services segments on the basis used internally to manage the business, and cross-segment impairment losses on investments in subsidiaries. Inter-segment receivables and payables, provisions, income, expenses and profits are eliminated upon consolidation. Inter-segment sales take place at market prices.

The role of "chief operating decision maker" with respect to resource allocation and performance assessment of the reportable segment is embodied in the full Board of Management. For this purpose, different measures of segment performance as well as segment assets are taken into account in the operating segments.

The Automotive and Motorcycles segments are managed on the basis of return on capital employed (RoCE). The relevant measure of segment earnings is therefore profit before financial result. Capital employed is the corresponding measure of segment assets used to assess allocation of resources and comprises all current and non-current operational assets after deduction of liabilities used operationally which are not subject to interest (e.g. trade payables).

The success of the Financial Services segment is measured on the basis of return on equity (RoE). Profit before tax therefore represents the relevant measure of segment earnings. The measure of segment assets in the Financial Services segment corresponds to net assets, defined as total assets less total liabilities.

The success of the Other Entities segment is assessed on the basis of profit or loss before tax. The corresponding measure of segment assets used to manage the Other Entities segment is total assets less asset-side income tax items and intragroup investments.

Segment information by operating segment is as follows:

in € million	Automotive 2017	Automotive 2016	Motorcycles 2017	Motorcycles 2016	Financial Services 2017	Financial Services 2016
SEGMENT INFORMATION BY OPERATING SEGMENT						
External revenues	70,546	67,977	2,272	2,062	25,857	24,122
Inter-segment revenues	18,035	18,447	11	7	1,710	1,559
Total revenues	**88,581**	**86,424**	**2,283**	**2,069**	**27,567**	**25,681**
Segment result	7,863	7,695	207	187	2,207	2,166
Result from equity accounted investments	738	441	–	–	–	–
Capital expenditure on non-current assets	6,972	5,699	125	114	25,024	25,105
Depreciation and amortisation on non-current assets	4,699	4,702	88	75	9,992	9,606

in € million	Automotive 31.12.2017	Automotive 31.12.2016	Motorcycles 31.12.2017	Motorcycles 31.12.2016	Financial Services 31.12.2017	Financial Services 31.12.2016
Segment assets	11,072	9,411	618	600	14,740	11,049
Investments accounted for using the equity method	2,767	2,546	–	–	–	–

SEGMENT INFORMATION BY OPERATING SEGMENT

Other Entities 2017	Other Entities 2016	Reconciliation to Group figures 2017	Reconciliation to Group figures 2016	Group 2017	Group 2016	
3	2	–	–	98,678	94,163	External revenues
4	4	–19,760	–20,017	–	–	Inter-segment revenues
7	**6**	**–19,760**	**–20,017**	**98,678**	**94,163**	**Total revenues**
80	170	298	–553	10,655	9,665	Segment result
–	–	–	–	738	441	Result from equity accounted investments
–	–	–6,728	–6,756	25,393	24,162	Capital expenditure on non-current assets
–	–	–6,324	–6,271	8,455	8,112	Depreciation and amortisation on non-current assets

Other Entities 31.12.2017	Other Entities 31.12.2016	Reconciliation to Group figures 31.12.2017	Reconciliation to Group figures 31.12.2016	Group 31.12.2017	Group 31.12.2016	
75,121	75,363	91,932	92,112	193,483	188,535	Segment assets
–	–	–	–	2,767	2,546	Investments accounted for using the equity method

Write-downs on inventories to their net realisable value amounting to €27 million (2016: €101 million) were recognised by the Automotive segment in the financial year 2017. The write-downs recorded in the previous year related mainly to accidents and natural disasters.

Financial Services segment result was negatively impacted by impairment losses totalling €215 million (2016: €384 million) recognised on leased products. Income from the reversal of impairment losses on leased products totalled €11 million (2016: €211 million).

The Other Entities' segment result includes interest and similar income amounting to €1,110 million (2016: €1,250 million) and interest and similar expenses amounting to €986 million (2016: €1,006 million). The segment result includes no impairment losses on other investments (2016: €18 million).

The information disclosed on capital expenditure and depreciation and amortisation relates to non-current property, plant and equipment, intangible assets and leased products.

The total of the segment figures can be reconciled to the corresponding Group figures as follows:

in € million	2017	2016
Reconciliation of segment result		
Total for reportable segments	10,357	10,218
Financial result of Automotive segment and Motorcycles segment	826	219
Elimination of inter-segment items	–528	–772
Group profit before tax	**10,655**	**9,665**
Reconciliation of capital expenditure on non-current assets		
Total for reportable segments	32,121	30,918
Elimination of inter-segment items	–6,728	–6,756
Total Group capital expenditure on non-current assets	**25,393**	**24,162**
Reconciliation of depreciation and amortisation on non-current assets		
Total for reportable segments	14,779	14,383
Elimination of inter-segment items	–6,324	–6,271
Total Group depreciation and amortisation on non-current assets	**8,455**	**8,112**

in € million	31.12.2017	31.12.2016
Reconciliation of segment assets		
Total for reportable segments	101,551	96,423
Non-operating assets – Other Entities segment	7,829	7,432
Total liabilities – Financial Services segment	123,088	126,679
Non-operating assets – Automotive and Motorcycles segments	48,193	45,923
Liabilities of Automotive and Motorcycles segments not subject to interest	35,212	33,858
Elimination of inter-segment items	–122,390	–121,780
Total Group assets	**193,483**	**188,535**

In the information by region, external sales are based on the location of the customer. Revenues with major customers were not material overall. The information disclosed for non-current assets relates to property, plant and equipment, intangible assets and leased products. Eliminations disclosed for non-current assets relate to leased products.

Information by region in € million	External revenues 2017	External revenues 2016	Non-current assets 2017	Non-current assets 2016
Germany	13,553	13,776	31,678	29,741
China	18,295	16,619	85	23
USA	17,110	16,000	20,766	23,249
Rest of Europe	31,473	30,544	14,807	13,910
Rest of Asia	11,434	10,466	1,588	1,439
Rest of the Americas	3,838	3,507	2,941	2,628
Other regions	2,975	3,251	355	261
Eliminations	–	–	–8,028	–7,345
Group	**98,678**	**94,163**	**64,192**	**63,906**

LIST OF INVESTMENTS AT 31 DECEMBER 2017

44 List of investments at 31 December 2017

The List of Investments of BMW AG pursuant to § 285 and § 313 HGB is presented below. Disclosures for equity and earnings and for investments are not made if they are of "minor significance" for the results of operations, financial position and net assets of BMW AG pursuant to § 286 (3) sentence 1 no. 1 HGB and § 313 (3) sentence 4 HGB. It is also shown in the list which subsidiaries apply the exemptions available in § 264 (3) and § 264 b HGB with regard to the publication of annual financial statements and the drawing up of a management report and/or notes to the financial statements (footnotes 5 and 6). The Group Financial Statements of BMW AG serve as exempting consolidated financial statements for these companies.

Affiliated companies (subsidiaries) of BMW AG at 31 December 2017

→ 65

Companies	Equity in € million	Profit/loss in € million	Capital investment in %
DOMESTIC[1,12]			
BMW Beteiligungs GmbH & Co. KG, Munich[6]	5,289	– 5	100
BMW INTEC Beteiligungs GmbH, Munich[3,6]	3,558	–	100
BMW Bank GmbH, Munich[3]	1,988	–	100
BMW Finanz Verwaltungs GmbH, Munich	326	1	100
BMW Verwaltungs GmbH, Munich[3,6]	153	–	100
Alphabet International GmbH, Munich[4,5,6]	–	–	100
Alphabet Fuhrparkmanagement GmbH, Munich[4]	–	–	100
Parkhaus Oberwiesenfeld GmbH, Munich	–	–	100
BMW Hams Hall Motoren GmbH, Munich[4,5,6]	–	–	100
BMW High Power Charging Beteiligungs GmbH, Munich[4,6,11]	–	–	100
LARGUS Grundstücks-Verwaltungsgesellschaft mbH, Munich	–	–	100
BMW Vertriebszentren Verwaltungs GmbH, Munich	–	–	100
BMW Fahrzeugtechnik GmbH, Eisenach[3,5,6]	–	–	100
BMW Anlagen Verwaltungs GmbH, Munich[3,6]	–	–	100
Bürohaus Petuelring GmbH, Munich	–	–	100
Bavaria Wirtschaftsagentur GmbH, Munich[3,5,6]	–	–	100
BAVARIA-LLOYD Reisebüro GmbH, Munich	–	–	51
Rolls-Royce Motor Cars GmbH, Munich[4,5,6]	–	–	100
BMW Vermögensverwaltungs GmbH, Munich	–	–	100
BMW M GmbH Gesellschaft für individuelle Automobile, Munich[3,5,6]	–	–	100
FOREIGN[2]			
Europe[12]			
BMW Holding B.V., The Hague	16,655	1,959	100
BMW International Holding B.V., Rijswijk[10]	7,913	15	100
BMW Österreich Holding GmbH, Steyr	3,026	824	100
BMW (UK) Holdings Ltd., Farnborough	1,489	413	100
BMW España Finance S.L., Madrid	999	110	100
BMW Financial Services (GB) Ltd., Farnborough	894	261	100
BMW Motoren GmbH, Steyr	879	172	100
BMW (Schweiz) AG, Dielsdorf	794	45	100
BMW Malta Ltd., Floriana	728	29	100
BMW (UK) Manufacturing Ltd., Farnborough	603	94	100
BMW Coordination Center V.o.F., Bornem	594	2	100

BMW Finance S.N.C., Guyancourt	419	56	100
BMW Italia S.p.A., San Donato Milanese	360	15	100
BMW (UK) Ltd., Farnborough	330	77	100
BMW Belgium Luxembourg S.A./N.V., Bornem	298	22	100
ALPHABET (GB) Ltd., Farnborough	244	50	100
BMW France, Montigny-le-Bretonneux	223	23	100
BMW Financial Services Scandinavia AB, Sollentuna	218	11	100
BMW Iberica S.A., Madrid	210	19	100
BMW Finance N.V., The Hague	154	20	100
BMW Austria Leasing GmbH, Salzburg	136	13	100
Rolls-Royce Motor Cars Ltd., Farnborough	135	24	100
Alphabet Nederland B.V., Breda[10]	131	41	100
BMW Russland Trading OOO, Moscow	130	150	100
BMW i Ventures SCS SICAV-RAIF, Senningerberg[11]	115	–3	100
BMW Austria Bank GmbH, Salzburg	115	12	100
Alphabet Belgium Long Term Rental NV, Aartselaar	113	17	100
BMW International Investment B.V., The Hague	107	7	100
BMW Vertriebs GmbH, Salzburg	102	27	100
Bavaria Reinsurance Malta Ltd., Floriana	–	–	100
APD Industries plc, Farnborough	–	–	100
BMW Austria Ges.m.b.H., Salzburg	–	–	100
Alphabet UK Ltd., Glasgow	–	–	100
BMW Bank OOO, Moscow	–	–	100
Alphabet España Fleet Management S.A.U., Madrid	–	–	100
BMW Finanzdienstleistungen (Schweiz) AG, Dielsdorf	–	–	100
BMW Northern Europe AB, Stockholm	–	–	100
BMW Financial Services Belgium S.A./N.V., Bornem	–	–	100
Swindon Pressings Ltd., Farnborough	–	–	100
BMW Financial Services (Ireland) DAC, Dublin	–	–	100
BMW Financial Services B.V., Rijswijk	–	–	100
BMW Norge AS, Fornebu	–	–	100
Alphabet France Fleet Management S.N.C., Rueil-Malmaison	–	–	100
BMW Services Ltd., Farnborough	–	–	100
Alphabet Italia Fleet Management S.p.A., Rome	–	–	100
BMW Portugal Lda., Porto Salvo	–	–	100
Alphabet Austria Fuhrparkmanagement GmbH, Salzburg	–	–	100
BMW Retail Nederland B.V., Delft	–	–	100
BMW Hellas Trade of Cars A.E., Kifissia	–	–	100
Alphabet Fuhrparkmanagement (Schweiz) AG, Dielsdorf	–	–	100
BMW Nederland B.V., Rijswijk	–	–	100
BMW Financial Services Polska Sp. z o.o., Warsaw	–	–	100
BMW Automotive (Ireland) Ltd., Dublin	–	–	100
Alphabet France SAS, Rueil-Malmaison	–	–	100
BMW Amsterdam B.V., Amsterdam	–	–	100
Alphabet Polska Fleet Management Sp. z o.o., Warsaw	–	–	100
BMW Financial Services Denmark A/S, Copenhagen	–	–	100
Park Lane Ltd., Farnborough	–	–	100
BMW Distribution S.A.S., Montigny-le-Bretonneux	–	–	100
BMW Services Belgium N.V., Bornem	–	–	100
BMW Renting (Portugal) Lda., Porto Salvo	–	–	100
BMW Roma S.r.l., Rome	–	–	100
BMW Danmark A/S, Copenhagen	–	–	100
Oy BMW Suomi AB, Helsinki	–	–	100
BMW Den Haag B.V., The Hague	–	–	100

BMW Madrid S.L., Madrid	–	–	100
BMW Milano S.r.l., San Donato Milanese	–	–	100
Société Nouvelle WATT Automobiles SARL, Rueil-Malmaison	–	–	100
Alphabet Luxembourg S.A., Leudelange	–	–	100
BMW (UK) Investments Ltd., Farnborough	–	–	100
BMW Malta Finance Ltd., Floriana	–	–	100
BiV Carry I SCS, Senningerberg[11]	–	–	100
BMW (UK) Capital plc, Farnborough	–	–	100
Riley Motors Ltd., Farnborough	–	–	100
BMW Central Pension Trustees Ltd., Farnborough	–	–	100
Triumph Motor Company Ltd., Farnborough	–	–	100
BLMC Ltd., Farnborough	–	–	100
Bavarian Sky FTC, Pantin[14]	–	–	0
Bavarian Sky UK 1 PLC, London[14]	–	–	0
Bavarian Sky UK A Limited, London[14]	–	–	0
Bavarian Sky S.A., Compartment German Auto Loans 3, Luxembourg[14]	–	–	0
Bavarian Sky S.A., Compartment German Auto Loans 4, Luxembourg[14]	–	–	0
Bavarian Sky S.A., Compartment German Auto Loans 5, Luxembourg[14]	–	–	0
Bavarian Sky S.A., Compartment German Auto Loans 6, Luxembourg[14]	–	–	0
Bavarian Sky S.A., Compartment German Auto Loans 7, Luxembourg[14]	–	–	0
Bavarian Sky S.A., Compartment German Auto Leases 4, Luxembourg[14]	–	–	0
Bavarian Sky S.A., Compartment A, Luxembourg[14]	–	–	0
Bavarian Sky S.A., Compartment B, Luxembourg[14]	–	–	0
Bavarian Sky Europe S.A. Compartment A, Luxembourg[14]	–	–	0
Bavarian Sky Europe S.A., Luxembourg[14]	–	–	0
The Americas			
BMW Financial Services NA, LLC, Wilmington, Delaware	2,444	2,320	100
BMW (US) Holding Corp., Wilmington, Delaware	2,280	220	100
BMW Manufacturing Co., LLC, Wilmington, Delaware	1,431	303	100
BMW Bank of North America, Inc., Salt Lake City, Utah	1,358	121	100
Financial Services Vehicle Trust, Wilmington, Delaware	1,135	247	100
BMW US Capital, LLC, Wilmington, Delaware	333	41	100
BMW do Brasil Ltda., São Paulo	226	10	100
BMW SLP, S.A. de C.V., Villa de Reyes	187	–84	100
BMW of North America, LLC, Wilmington, Delaware	–288	–679	100
BMW Extended Service Corporation, Wilmington, Delaware	–	–	100
Rolls-Royce Motor Cars NA, LLC, Wilmington, Delaware	–	–	100
BMW Auto Leasing, LLC, Wilmington, Delaware	–	–	100
BMW Facility Partners, LLC, Wilmington, Delaware	–	–	100
BMW FS Securities LLC, Wilmington, Delaware	–	–	100
BMW FS Funding Corp., Wilmington, Delaware	–	–	100
BMW Manufacturing LP, Woodcliff Lake, New Jersey	–	–	100
BMW FS Receivables Corp, Wilmington, Delaware	–	–	100
SB Acquisitions, LLC, Wilmington, Delaware	–	–	100
BMW Consolidation Services Co., LLC, Wilmington, Delaware	–	–	100
BMW Acquisitions Ltda., São Paulo	–	–	100
BMW Leasing de Mexico S.A. de C.V., Mexico City	–	–	100
BMW Insurance Agency, Inc., Wilmington, Delaware	–	–	100
BMW Manufacturing Indústria de Motos da Amazônia Ltda., Manaus	–	–	100
BMW Leasing do Brasil, S.A., São Paulo	–	–	100
BMW de Argentina S.A., Buenos Aires	–	–	100
BMW Financial Services de Mexico S.A. de C.V. SOFOM, Mexico City	–	–	100
BMW de Mexico, S.A. de C.V., Mexico City	–	–	100

BMW Financeira S.A. Credito, Financiamento e Investimento, São Paulo	–	–	100
BMW Receivables 2 Inc., Richmond Hill, Ontario	–	–	100
BMW Receivables Limited Partnership, Richmond Hill, Ontario	–	–	100
BMW Receivables 1 Inc., Richmond Hill, Ontario	–	–	100
BMW of Manhattan, Inc., Wilmington, Delaware	–	–	100
BMW Canada Inc., Richmond Hill, Ontario	–	–	100
BMW Vehicle Lease Trust 2015-2, Wilmington, Delaware[14]	–	–	0
BMW Vehicle Lease Trust 2016-1, Wilmington, Delaware[14]	–	–	0
BMW Vehicle Lease Trust 2016-2, Wilmington, Delaware[14]	–	–	0
BMW Vehicle Lease Trust 2017-1, Wilmington, Delaware[14]	–	–	0
BMW Vehicle Lease Trust 2017-2, Wilmington, Delaware[14]	–	–	0
BMW Vehicle Lease Trust 2016-A, Wilmington, Delaware[14]	–	–	0
BMW Vehicle Lease Trust 2017-A, Wilmington, Delaware[14]	–	–	0
BMW Vehicle Owner Trust 2014-A, Wilmington, Delaware[14]	–	–	0
BMW Vehicle Owner Trust 2016-A, Wilmington, Delaware[14]	–	–	0
BMW Floorplan Master Owner Trust, Wilmington, Delaware[14]	–	–	0
BMW Canada 2015-A, Richmond Hill, Ontario[14]	–	–	0
BMW Canada Auto Trust 2015, Richmond Hill, Ontario[14]	–	–	0
BMW Canada Auto Trust 2016, Richmond Hill, Ontario[14]	–	–	0
BMW Canada Auto Trust 2017-1, Richmond Hill, Ontario[14]	–	–	0
Africa			
BMW (South Africa) (Pty) Ltd., Pretoria	721	54	100
BMW Financial Services (South Africa) (Pty) Ltd., Midrand	167	– 6	100
Bavarian Sky South Africa (RF) Ltd., Johannesburg[14]	–	–	0
SuperDrive Investments (RF) Limited, Cape Town[14]	–	–	0
Asia			
BMW Automotive Finance (China) Co., Ltd., Beijing	1,860	289	58
BMW China Automotive Trading Ltd., Beijing	799	752	100
BMW Financial Services Korea Co., Ltd., Seoul	475	68	100
BMW Japan Finance Corp., Chiba	414	63	100
BMW Japan Corp., Tokyo	280	0	100
BMW Korea Co., Ltd., Seoul	214	16	100
BMW India Financial Services Private Ltd., Gurgaon	122	10	100
BMW (Thailand) Co., Ltd., Bangkok	114	88	100
BMW Manufacturing (Thailand) Co., Ltd., Rayong	106	63	100
Herald International Financial Leasing Co., Ltd., Tianjin[11]	–	–	100
BMW Malaysia Sdn Bhd, Kuala Lumpur	–	–	51
BMW Asia Pte. Ltd., Singapore	–	–	100
BMW Leasing (Thailand) Co., Ltd., Bangkok	–	–	74
BMW India Private Ltd., Gurgaon	–	–	100
BMW China Services Ltd., Beijing	–	–	100
BMW Asia Technology Centre Sdn Bhd, Kuala Lumpur	–	–	100
BMW Holding Malaysia Sdn Bhd, Kuala Lumpur	–	–	100
PT BMW Indonesia, Jakarta	–	–	100
BMW Asia Pacific Capital Pte Ltd., Singapore	–	–	100
BMW Credit (Malaysia) Sdn Bhd, Kuala Lumpur	–	–	100
BMW Tokyo Corp., Tokyo	–	–	100
BMW Lease (Malaysia) Sdn Bhd, Kuala Lumpur	–	–	100
Bavarian Sky Korea Auto Receivable 1 Pte. Ltd., Singapore[14]	–	–	0
Bavarian Sky Korea 2016-1, Seoul[14]	–	–	0
Bavarian Sky Korea 2017-1, Seoul[14]	–	–	0
Bavarian Sky China 2016-1, Beijing[14]	–	–	0

Bavarian Sky China 2016-2, Beijing[14]	–	–	0
Bavarian Sky China 2017-1, Beijing[14]	–	–	0
Bavarian Sky China 2017-2, Beijing[14]	–	–	0
Bavarian Sky China 2017-3, Beijing[14]	–	–	0
2014-2 ABL, Tokyo[14]	–	–	0
2015-1 ABL, Tokyo[14]	–	–	0
2015-2 ABL, Tokyo[14]	–	–	0
2016-1 ABL, Tokyo[14]	–	–	0
2016-2 ABL, Tokyo[14]	–	–	0
2017-1 ABL, Tokyo[14]	–	–	0
2017-2 ABL, Tokyo[14]	–	–	0
2017-3 ABL, Tokyo[14]	–	–	0
Oceania			
BMW Australia Finance Ltd., Mulgrave	380	13	100
BMW Australia Ltd., Melbourne	134	15	100
BMW Financial Services New Zealand Ltd., Auckland	–	–	100
BMW New Zealand Ltd., Auckland	–	–	100
BMW Sydney Pty. Ltd., Sydney	–	–	100
BMW Melbourne Pty. Ltd., Melbourne	–	–	100
BMW Australia Trust, Mulgrave, Victoria[14]	–	–	0

BMW AG's non-consolidated companies at 31 December 2017

→ 66

Companies	Equity in € million	Profit/loss in € million	Capital investment in %
DOMESTIC[7]			
Alphabet Fleetservices GmbH, Munich	–	–	100
BMW i Ventures GmbH, Munich	–	–	100
Automag GmbH, Munich	–	–	100
Digital Charging Solutions GmbH, Munich	–	–	100
BMW Car IT GmbH, Munich[4]	–	–	100
ParkNow GmbH, Munich	–	–	100
PM Parking Ventures GmbH, Munich	–	–	100
FOREIGN[7]			
Europe			
Alphabet Insurance Services Polska Sp. z o.o., Warsaw	–	–	100
BMW (GB) Ltd., Farnborough	–	–	100
BMW (P + A) Ltd., Farnborough	–	–	100
BMW (UK) Pensions Services Ltd., Hams Hall	–	–	100
BMW Car Club Ltd., Farnborough	–	–	100
BMW Drivers Club Ltd., Farnborough	–	–	100
BMW Group Benefit Trust Ltd., Farnborough	–	–	100
BMW i Ventures B.V., The Hague	–	–	100
BMW Motorsport Ltd., Farnborough	–	–	100
Cobalt Holdings Ltd., Basingstoke	–	–	100
Cobalt Telephone Technologies Ltd., Basingstoke	–	–	100
Content4all BV, Amsterdam	–	–	100
John Cooper Garages Ltd., Farnborough	–	–	100
John Cooper Works Ltd., Farnborough	–	–	100
OOO BMW Leasing, Moscow	–	–	100

BMW Russland Automotive OOO, Kaliningrad	–	–	100
Park-line Aqua B.V., The Hague	–	–	100
Park-line B.V., The Hague	–	–	100
Park-line Holding B.V., The Hague	–	–	100
Parkmobile International Holding B.V., Utrecht	–	–	100
Parkmobile International B.V., Utrecht	–	–	100
Parkmobile (UK) Ltd., Basingstoke	–	–	100
Parkmobile Belgium BvBa, Antwerpen	–	–	100
Parkmobile Benelux B.V., Amsterdam	–	–	100
ParkNow France SAS, Versailles	–	–	100
Parkmobile Group BV, Amsterdam	–	–	100
Parkmobile Group Holding BV, Amsterdam	–	–	100
Parkmobile Hellas SA, Athens	–	–	60
Parkmobile Licenses B.V., Amsterdam	–	–	100
Parkmobile Ltd., Basingstoke	–	–	100
Parkmobile Software BV, Amsterdam	–	–	100
ParkNow Suisse SA, Bulle	–	–	100
U.T.E. Alphabet España-Bujarkay, Sevilla	–	–	90
The Americas			
217-07 Northern Boulevard Corporation, Wilmington, Delaware	–	–	100
BMW Experience Centre Inc., Richmond Hill, Ontario	–	–	100
BMW i Ventures, LLC, Wilmington, Delaware	–	–	100
BMW i Ventures, Inc., Wilmington, Delaware	–	–	100
BMW Leasing de Argentina S.A., Buenos Aires	–	–	100
BMW Operations Corp., Wilmington, Delaware	–	–	100
BMW Technology Corporation, Wilmington, Delaware	–	–	100
Designworks/USA, Inc., Newbury Park, California	–	–	100
MINI Business Innovation, LLC, Wilmington, Delaware	–	–	100
Mini Urban X Accelerator SPV, LLC, Wilmington, Delaware	–	–	100
ReachNow, LLC, Wilmington, Delaware	–	–	100
Parkmobile Montgomery County, LLC, Baltimore, Maryland[13]	–	–	65
Parkmobile, LLC, Wilmington, Delaware[13]	–	–	65
Parkmobile USA, Inc., Atlanta, Georgia	–	–	100
Parkmobile Electronic Parking Solutions Canada, Inc., Vancouver	–	–	100
Toluca Planta de Automoviles, S.A. de C.V., Mexico City	–	–	100
Africa			
BMW Automobile Distributors (Pty) Ltd., Midrand	–	–	100
BPF Midrand Property Holdings (Pty) Ltd., Midrand	–	–	100
Multisource Properties (Pty) Ltd., Midrand	–	–	100
Asia			
BMW Finance (United Arab Emirates) Ltd., Dubai	–	–	100
BMW Financial Services Hong Kong Limited, Hong Kong	–	–	51
BMW Hong Kong Services Limited, Hong Kong	–	–	100
BMW Financial Services Singapore Pte Ltd., Singapore	–	–	100
BMW India Leasing Pvt. Ltd., Gurgaon	–	–	100
BMW India Foundation, Gurgaon	–	–	100
BMW Insurance Services Korea Co. Ltd., Seoul	–	–	100
BMW Philippines Corp., Manila	–	–	70
Herald Hezhong (Beijing) Automotive Trading Co., Ltd., Beijing	–	–	100
THEPSATRI Co., Ltd., Bangkok[9]	–	–	49
Oceania			
Parkmobile International (Australia) Pty. Ltd., Sydney	–	–	100

BMW AG's associated companies, joint ventures and joint operations at 31 December 2017

→ 67

Companies	Equity in € million	Profit/loss in € million	Capital investment in %
Joint ventures – equity accounted			
DOMESTIC			
DriveNow GmbH & Co. KG, Munich[8]	42	–2	50
DriveNow Verwaltungs GmbH, Munich[8]	–	–	50
IONITY Holding GmbH & Co. KG, Munich[8]	39	–11	25
FOREIGN			
BMW Brilliance Automotive Ltd., Shenyang[8]	5,377	1,337	50
Associated companies – equity accounted			
FOREIGN			
THERE Holding B.V., Amsterdam[8]	2,195	362	33
Joint operations – proportionately consolidated entities			
DOMESTIC			
SGL Automotive Carbon Fibers GmbH & Co. KG, Munich[8]	52	9	49
FOREIGN			
SGL Automotive Carbon Fibers, LLC, Dover, Delaware[8]	41	2	49
Not equity accounted or proportionately consolidated entities			
DOMESTIC[7]			
Encory GmbH, Unterschleißheim	–	–	50
Digital Energy Solutions GmbH & Co. KG, Munich	–	–	50
The Retail Performance Company GmbH, Munich	–	–	50
Abgaszentrum der Automobilindustrie GbR, Weissach	–	–	25
PDB – Partnership for Dummy Technology and Biomechanics GbR, Gaimersheim	–	–	20
FOREIGN[7]			
BMW Albatha Leasing LLC, Dubai	–	–	40
BMW Albatha Finance PSC, Dubai	–	–	40
BMW AVTOTOR Holding B.V., Amsterdam	–	–	50
Stadspasparkeren B.V., Deurne	–	–	30
IP Mobile N.V., Brussels	–	–	25
DSP Concepts, Inc., Dover, Delaware	–	–	20
Bavarian & Co. Ltd., Incheon	–	–	20

BMW AG's participations at 31 December 2017

→ 68

Companies	Equity in € million	Profit/loss in € million	Capital investment in %
DOMESTIC[7]			
Deutsches Forschungszentrum für Künstliche Intelligenz GmbH, Kaiserslautern	–	–	4.6
GSB Sonderabfall-Entsorgung Bayern GmbH, Baar-Ebenhausen	–	–	3.1
Hubject GmbH, Berlin	–	–	17.8
IVM Industrie-Verband Motorrad GmbH & Co. Dienstleistungs KG, Essen	–	–	18.9
Joblinge gemeinnützige AG Berlin, Berlin	–	–	9.8
Joblinge gemeinnützige AG Leipzig, Leipzig	–	–	16.7
Joblinge gemeinnützige AG München, Munich	–	–	6.2
RA Rohstoffallianz GmbH i.L., Berlin	–	–	10.5
Racer Benchmark Group GmbH, Landsberg am Lech	–	–	9.1
SGL Carbon SE, Wiesbaden	–	–	18.3
FOREIGN[7]			
Gios Holding B.V., Oss	–	–	12.0

[1] The amounts shown for the German subsidiaries correspond to the annual financial statements drawn up in accordance with German accounting requirements (HGB).
[2] The amounts shown for the foreign subsidiaries correspond to the annual financial statements drawn up in accordance with uniform IFRS rules. Equity and earnings not denominated in euro are translated into euro using the closing exchange rate at the balance sheet date.
[3] Profit and Loss Transfer Agreement with BMW AG.
[4] Profit and Loss Transfer Agreement with a subsidiary of BMW AG.
[5] Exemption from drawing up a management report applied in accordance with § 264 (3) and § 264 b HGB.
[6] Exemption from publication of financial statements applied in accordance with § 264 (3) and § 264 b HGB.
[7] These entities are neither consolidated nor accounted for using the equity method due to their overall immateriality for the Group Financial Statements.
[8] The amounts shown for entities accounted for using the equity method and for proportionately consolidated entities correspond to the annual financial statements drawn up in accordance with uniform IFRS rules. Equity not denominated in euro is translated into euro using the closing exchange rate at the balance sheet date, earnings are translated using the average rate.
[9] Including power to appoint representative bodies.
[10] Exemption pursuant to Article 2:403 of the Civil Code of the Netherlands (Burgerlijk Wetboek).
[11] First-time consolidation.
[12] Deconsolidation in the financial year 2017: BMW Osaka Corp., Tokyo, MITEC Mikroelektronik Mikrotechnik Informatik GmbH, Munich (merger).
[13] 100 % acquisition on 3 January 2018.
[14] Control on basis of economic dependence.

Munich, 15 February 2018

Bayerische Motoren Werke
Aktiengesellschaft

The Board of Management

Harald Krüger

Milagros Caiña Carreiro-Andree

Markus Duesmann

Klaus Fröhlich

Pieter Nota

Dr. Nicolas Peter

Peter Schwarzenbauer

Oliver Zipse

CORPORATE GOVERNANCE

4

STATEMENT ON CORPORATE GOVERNANCE

Good corporate governance – acting in accordance with the principles of responsible management aimed at increasing the value of the business on a sustainable basis – is an essential requirement for the BMW Group embracing all areas of the business. Corporate culture within the BMW Group is founded on transparent reporting and communication, corporate governance in the interest of all stakeholders, trustful cooperation both of the Board of Management and the Supervisory Board as well as among employees, and compliance with applicable law. The Board of Management and Supervisory Board report in this statement on important aspects of corporate governance pursuant to §§ 289 f, § 315 d HGB and section 3.10 of the German Corporate Governance Code (GCGC).

Information on the Company's Governing Constitution

The designation BMW Group comprises Bayerische Motoren Werke Aktiengesellschaft (BMW AG) and its group entities. BMW AG is a stock corporation (Aktiengesellschaft) within the meaning of the German Stock Corporation Act (Aktiengesetz) and has its registered office in Munich, Germany. It has three representative bodies: the Annual General Meeting, the Supervisory Board and the Board of Management. The duties and powers of those bodies derive from the Stock Corporation Act and the Articles of Incorporation of BMW AG. Shareholders, as the owners of the business, exercise their rights at the Annual General Meeting. The Annual General Meeting decides in particular on the utilisation of unappropriated profit, the ratification of the acts of the members of the Board of Management and the Supervisory Board, the appointment of the external auditor, changes to the Articles of Incorporation and certain capital measures, and elects the shareholders' representatives to the Supervisory Board. The Board of Management is responsible for managing the Company and is monitored and advised by the Supervisory Board. The Supervisory Board appoints the members of the Board of Management and can, for an important reason, revoke an appointment at any time. The Board of Management informs the Supervisory Board and reports to it regularly, promptly and comprehensively, in line with the principles of conscientious and faithful accounting and in accordance with the law and the reporting duties determined by the Supervisory Board. The Board of Management requires the approval of the Supervisory Board for certain major transactions. The Supervisory Board is not, however, authorised to undertake management measures itself.

The close interaction between Board of Management and Supervisory Board in the interests of the Company as described above is also known as a "two-tier board structure".

Declaration of the Board of Management and of the Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft with respect to the recommendations of the "Government Commission on the German Corporate Governance Code" pursuant to § 161 German Stock Corporation Act

The Board of Management and Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft ("BMW AG") declare the following regarding the recommendations of the "Government Commission on the German Corporate Governance Code":

1. Since issuance of the last Declaration in December 2016, BMW AG has complied with all of the recommendations published officially on 12 June 2015 in the Federal Gazette (Code version dated 5 May 2015), with the exception – as previously reported – of section 4.2.5 sentences 5 and 6.

2. BMW AG will in future comply with all of the recommendations published officially on 24 April 2017 in the Federal Gazette (Code version dated 7 February 2017), with the exception of section 4.2.3 sentence 9 and section 4.2.5 sentences 5 and 6.

3. It is recommended in section 4.2.3 sentence 9 of the Code that subsequent amendments to performance targets or comparison parameters for variable remuneration components be excluded. BMW AG remains committed to this principle. A one-off departure from the recommendation is, however, planned for the financial year 2018 in conjunction with the implementation of a new remuneration system for the Board of Management: in order to implement the new remuneration system with effect from the coming financial year 2018 – rather than with effect from the financial year 2020 – it is intended to cancel the targets previously set for the variable remuneration components for the financial years 2018 and 2019 and to replace them for the financial year 2018 onwards with targets based on the target system specified in the new remuneration system.

4. It is recommended in section 4.2.5 sentences 5 and 6 of the Code that specified information pertaining to management board compensation be disclosed in the Compensation Report. These recommendations have not been and will not be complied with, due to uncertainties as to whether the supplementary use of model tables – particularly in view of the transition from one remuneration system to a new system – would be instrumental in making the BMW AG's Compensation Report transparent and generally understandable in accordance with generally applicable financial reporting requirements (see section 4.2.5 sentence 3 of the Code).

Munich, December 2017

Bayerische Motoren Werke
Aktiengesellschaft

On behalf of the Supervisory Board	On behalf of the Board of Management
Dr.-Ing. Dr.-Ing. E. h. Norbert Reithofer Chairman	Harald Krüger Chairman

MEMBERS OF THE BOARD OF MANAGEMENT

Harald Krüger (*1965)
Chairman

Milagros Caiña Carreiro-Andree (*1962)
Human Resources, Industrial Relations Director

Markus Duesmann (*1969)
Purchasing and Supplier Network

Klaus Fröhlich (*1960)
Development
Mandates
— HERE International B.V. (until 28 February 2018)

Pieter Nota (*1964)
Sales and Brand BMW, Aftersales BMW Group
(since 1 January 2018)

Dr. Nicolas Peter (*1962)
Finance
Mandates
— BMW Brilliance Automotive Ltd. (Deputy Chairman)
— BMW Nederland B.V. (until 14 February 2017)

Dr. Ian Robertson (HonDSc) (*1958)
Sales and Brand BMW,
Aftersales BMW Group
(until 31 December 2017)
Mandates
— Weybourne Limited (from 3 January 2017 until 19 October 2017)
— Weybourne Group Limited
— Weybourne Investments Holdings (until 19 October 2017)
— Weybourne Management Limited

Peter Schwarzenbauer (*1959)
MINI, Rolls-Royce, BMW Motorrad,
Customer Engagement and
Digital Business Innovation BMW Group
Mandates
▬ Scout24 AG (since 8 June 2017)
— Rolls-Royce Motor Cars Limited (Chairman)

Oliver Zipse (*1964)
Production
Mandates
— BMW (South Africa) (Pty) Ltd. (Chairman)
— BMW Motoren GmbH (Chairman)

General Counsel:
Dr. Jürgen Reul

▬ Membership of other statutory supervisory boards.
— Membership of equivalent national or foreign boards of business enterprises.

MEMBERS OF THE SUPERVISORY BOARD

Dr.-Ing. Dr.-Ing. E.h. Norbert Reithofer (*1956)
Member since 2015
Chairman
Former Chairman of the Board of Management of BMW AG
Mandates
— Siemens Aktiengesellschaft
— Henkel AG & Co. KGaA (Shareholders' Committee)

Manfred Schoch[1] (*1955)
Member since 1988
Deputy Chairman
Chairman of the European and General Works Council
Industrial Engineer

Stefan Quandt (*1966)
Member since 1997
Deputy Chairman
Entrepreneur
Mandates
— DELTON AG (Chairman)
— AQTON SE (Chairman)
— Entrust Datacard Corp.

Stefan Schmid[1] (*1965)
Member since 2007
Deputy Chairman
Chairman of the Works Council, Dingolfing

Dr. jur. Karl-Ludwig Kley (*1951)
Member since 2008
Deputy Chairman
Chairman of the Supervisory Board of the E.ON SE and of the Deutsche Lufthansa Aktiengesellschaft
Mandates
— E.ON SE (Chairman)
— Deutsche Lufthansa Aktiengesellschaft (Chairman, since 25 September 2017)
— Verizon Communications Inc. (until 3 May 2018)

Christiane Benner[2] (*1968)
Member since 2014
Second Chairman of IG Metall

Franz Haniel (*1955)
Member since 2004
Entrepreneur
Mandates
— DELTON AG (Deputy Chairman)
— Franz Haniel & Cie. GmbH (Chairman)
— Heraeus Holding GmbH
— TBG Limited

Ralf Hattler[3] (*1968)
Member since 2017
Head of Purchasing Indirect Goods and Services, Raw Material, Production Partner

Dr.-Ing. Heinrich Hiesinger (*1960)
Member since 11 May 2017
Chairman of the Board of Management of thyssenkrupp AG
Mandates
— thyssenkrupp Elevator AG (Chairman)
— thyssenkrupp Steel Europe AG (Chairman)
— thyssenkrupp (China) Ltd. (Chairman)

[1] Employee representatives (company employees).
[2] Employee representatives (union representatives).
[3] Employee representatives (members of senior management).
— Membership of other statutory supervisory boards.
— Membership of equivalent national or foreign boards of business enterprises.

Prof. Dr. rer. nat. Dr. h.c. Reinhard Hüttl (*1957)
Member since 2008
Chairman of the Executive Board
of Helmholtz-Zentrum Potsdam
Deutsches GeoForschungsZentrum – GFZ
University Professor

**Prof. Dr. rer. nat. Dr.-Ing. E.h.
Henning Kagermann** (*1947)
Member from 2010 until 11 May 2017
President of acatech – Deutsche Akademie der Technikwissenschaften e.V.
Mandates
━ Deutsche Bank AG
━ Deutsche Post AG
━ Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München

Susanne Klatten (*1962)
Member since 1997
Entrepreneur
Mandates
━ ALTANA AG (Deputy Chairman)
━ SGL Carbon SE (Chairman)
— UnternehmerTUM GmbH (Chairman)

Prof. Dr. rer. pol. Renate Köcher (*1952)
Member since 2008
Director of Institut für Demoskopie Allensbach Gesellschaft zum Studium der öffentlichen Meinung mbH
Mandates
━ Allianz SE (until 3 May 2017)
━ Infineon Technologies AG
━ Nestlé Deutschland AG
━ Robert Bosch GmbH

Dr. h.c. Robert W. Lane (*1949)
Member since 2009
Former Chairman and Chief Executive Officer of Deere & Company
Mandates
— General Electric Company (until 8 October 2017)

Horst Lischka[2] (*1963)
Member since 2009
General Representative of IG Metall Munich
Mandates
━ KraussMaffei Group GmbH
━ MAN Truck & Bus AG
━ Städtisches Klinikum München GmbH

Willibald Löw[1] (*1956)
Member since 1999
Chairman of the Works Council, Landshut

Simone Menne (*1960)
Member since 2015
Former Member of Management of Boehringer Ingelheim Gruppe
Mandates
━ Deutsche Post AG

[1] Employee representatives (company employees).
[2] Employee representatives (union representatives).
[3] Employee representatives (members of senior management).
━ Membership of other statutory supervisory boards.
— Membership of equivalent national or foreign boards of business enterprises.

Dr. Dominique Mohabeer[1] (*1963)
Member since 2012
Member of the Works Council, Munich

Brigitte Rödig[1] (*1963)
Member since 2013
Member of the Works Council, Dingolfing

Jürgen Wechsler[2] (*1955)
Member since 2011
Regional Head of IG Metall Bavaria

Mandates

- Schaeffler AG (Deputy Chairman)
- Siemens Healthcare GmbH (Deputy Chairman)

Werner Zierer[1] (*1959)
Member since 2001
Chairman of the Works Council, Regensburg

[1] Employee representatives (company employees).
[2] Employee representatives (union representatives).
[3] Employee representatives (members of senior management).
━ Membership of other statutory supervisory boards.
— Membership of equivalent national or foreign boards of business enterprises.

COMPOSITION AND WORK PROCEDURES OF THE BOARD OF MANAGEMENT OF BMW AG AND ITS COMMITTEES

The Board of Management manages the enterprise under its own responsibility, acting in the interests of the BMW Group with the aim of achieving sustainable growth in value. The interests of shareholders, employees and other stakeholders are also taken into account in the pursuit of this aim.

The Board of Management determines the strategic orientation of the enterprise, agrees upon it with the Supervisory Board and ensures its implementation. The Board of Management is responsible for ensuring that all provisions of law and internal regulations are complied with. Further details about compliance within the BMW Group can be found in the Corporate Governance section of the Annual Report. The Board of Management is also responsible for ensuring that appropriate risk management and risk controlling systems are in place throughout the Group.

During their period of employment for BMW AG, members of the Board of Management are bound by a comprehensive non-competition clause. They are required to act in the enterprise's best interests and may not pursue personal interests in their decisions or take advantage of business opportunities intended for the enterprise. They may only undertake ancillary activities, in particular supervisory board mandates outside the BMW Group, with the approval of the Supervisory Board's Personnel Committee. Each member of the Board of Management of BMW AG is obliged to disclose conflicts of interest to the Supervisory Board without delay and inform the other members of the Board of Management accordingly.

Following the appointment of a new member to the Board of Management, the BMW Group Corporate Governance Officer informs the new member of the framework conditions under which the Board member's duties are to be carried out – in particular those enshrined in the BMW Group's Corporate Governance Code – as well as the duty to cooperate when a transaction or event triggers reporting requirements or requires the approval of the Supervisory Board.

The Board of Management consults and takes decisions as a collegiate body in meetings of the Board of Management, the Sustainability Board, the Operations Committee and the Committee for Executive Management Matters. At its meetings, the Board of Management defines the overall framework for business strategies and the use of resources, takes decisions regarding the implementation of strategies and deals with issues of particular importance to the BMW Group. The full Board also takes decisions at a basic policy level relating to the Group's automobile product strategies and product projects inasmuch as these are relevant for all brands. The Board of Management and its committees may, as required and depending on the subject matters being discussed, invite non-voting advisers to participate at meetings.

Terms of reference approved by the Board of Management contain a planned allocation of divisional responsibilities between the individual Board members. These terms of reference also incorporate the principle that the full Board of Management bears joint responsibility for all matters of particular importance and scope. In addition, members of the Board of Management manage the relevant portfolio of duties under their responsibility, whereby case-by-case rules can be put in place for cross-divisional projects. Board members continually provide the Chairman of the Board of Management with all information regarding major transactions and developments within their area of responsibility. The Chairman of the Board of Management coordinates cross-divisional matters with the overall targets and plans of the BMW Group, involving other Board members to the extent that divisions within their area of responsibility are affected.

In the financial year 2017, the Board of Management made its decisions at meetings generally held on a weekly basis which were convened, coordinated and headed by the Chairman of the Board of Management.

At the request of the Chairman, decisions can also be taken outside of Board meetings if none of the Board members object to this procedure. A meeting is quorate if all Board of Management members are invited to the meeting in good time. Members unable to attend any meeting are entitled to vote in writing, by fax or by telephone. Votes cast by phone must be subsequently confirmed in writing. Except in urgent cases, matters relating to a division for which the responsible Board member is not present will only be discussed and decided upon with that member's consent.

Unless stipulated otherwise by law or in BMW AG's statutes, the Board of Management makes decisions on the basis of a simple majority of votes cast at meetings. Outside of Board meetings, decisions are taken on the basis of a simple majority of Board members. In the event of a tied vote, the Chairman of the Board of Management has the casting vote. Any changes to the Board's terms of reference must be passed unanimously. A Board meeting may only be held if more than half of the Board members are present.

In the event that the Chairman of the Board of Management is not present or is unable to attend a meeting, the member of the Board responsible for Finance will represent him.

Minutes are taken of all meetings and the Board of Management's resolutions and signed by the Chairman. Decisions taken by the Board of Management are binding for all employees.

The rules relating to meetings and resolutions taken by the full Board of Management are also applicable for its committees.

Members of the Board of Management not represented in a committee are provided with the agendas and minutes of committee meetings. Committee matters are dealt with in full Board meetings if the committee considers it necessary or at the request of a member of the Board of Management.

A secretariat for Board of Management matters has been established to assist the Chairman and other Board members with the preparation and follow-up work connected with Board meetings.

At meetings of the Operations Committee (generally held every two weeks), decisions are reached in connection with automobile product projects, based on the strategic orientation and decision framework stipulated at Board of Management meetings. The Operations Committee comprises the Board of Management member responsible for Development (who also chairs the meetings), together with the Board members responsible for the following areas: Purchasing and Supplier Network; Production; Sales and Brand BMW, Aftersales BMW Group (until 28 February 2018); and MINI, Rolls-Royce, BMW Motorrad, Customer Engagement and Digital Business Innovation BMW Group (until 28 February 2018). If the committee chairman is not present or unable to attend a meeting, the member of the Board responsible for Production represents him. Resolutions taken at meetings of the Operations Committee are made online.

The full Board usually convenes up to twice a year in its function as Sustainability Board in order to define strategy with regard to sustainability and decide upon measures to implement that strategy. The Head of Corporate Affairs and the Representative for Sustainability and Environmental Protection participate in these meetings in an advisory capacity.

The Board's Committee for Executive Management Matters deals with enterprise-wide issues affecting executive managers of the BMW Group, either in their entirety or individually (such as the executive management structure, potential candidates for executive management, nominations for or promotions to senior management positions). This committee has, on the one hand, an advisory and preparatory role (e.g. making suggestions for promotions to the two remuneration groups below Board level and preparing decisions to be taken at Board meetings with regard to human resources principles with the emphasis on executive management issues) and a decision-making function on the other (e.g. deciding on appointments to senior management positions and promotions to higher remuneration groups or the wording of human resources principles decided on by the full Board). The Committee has two members who are entitled to vote at meetings, namely the Chairman of the Board of Management (who also chairs the meetings) and the Board member responsible for Human Resources. The Head of Human Resources Management and Services as well as the Head of Human Resources Executive Management also participate in these meetings in an advisory function. At the request of the Chairman, resolutions may also be passed outside of committee meetings by casting votes in writing, by fax or by telephone if the other member entitled to vote does not object immediately. The Committee for Executive Management Matters convenes up to six times a year.

The Board of Management is represented by its Chairman in its dealings with the Supervisory Board. The Chairman of the Board of Management maintains regular contact with the Chairman of the Supervisory Board and keeps him informed of all important matters. The Supervisory Board has passed a resolution specifying the information and reporting duties of the Board of Management. As a general rule, in the case of reports required by law, the Board of Management submits its reports to the Supervisory Board in writing. To the extent possible, documents required as a basis for taking decisions are sent to the members of the Supervisory Board in good time before the relevant meeting. Regarding transactions of fundamental importance, the Supervisory Board has resolved that a specific approval from the Supervisory Board is required. Whenever necessary, the Chairman of the Board of Management obtains the approval of the Supervisory Board and ensures that reporting duties to the Supervisory Board are complied with. In order to fulfil these tasks, the Chairman is supported by all members of the Board of Management. The fundamental principle followed when reporting to the Supervisory Board is that the latter should be kept informed regularly, without delay and comprehensively of all significant matters relating to planning, business performance, risk exposures, risk management and compliance, as well as any major variances between actual business development and plans and targets, and the relevant reasons.

COMPOSITION AND WORK PROCEDURES OF THE SUPERVISORY BOARD OF BMW AG AND ITS COMMITTEES

BMW AG's Supervisory Board is composed of ten shareholder representatives (elected by the Annual General Meeting) and ten employee representatives (elected in accordance with the Co-Determination Act). The ten Supervisory Board members representing employees comprise seven Company employees, including one executive staff representative, and three members elected following nomination by unions. The Supervisory Board has the task of advising and supervising the Board of Management in its management of the BMW Group. It is involved in all decisions of fundamental importance for the BMW Group. The Supervisory Board appoints the members of the Board of Management and decides upon the level of compensation they receive. The Supervisory Board can revoke appointments for important reasons.

The Supervisory Board holds a minimum of two meetings per calendar half-year. Normally, five plenary meetings are held per calendar year. One meeting each year is planned to extend to several days and is used, among other things, to enable an in-depth exchange on strategic and technological matters. The main topics of meetings in the period under report are summarised in the Report of the Supervisory Board. Shareholder representatives and employee representatives generally prepare Supervisory Board meetings separately and occasionally with members of the Board of Management. Members of the Supervisory Board are specifically legally bound to maintain secrecy with respect to confidential reports they receive and confidential discussions in which they partake.

The Chairman of the Supervisory Board coordinates work within the Supervisory Board, convenes and chairs its meetings, handles the external affairs of the Supervisory Board and represents it before the Board of Management.

The Supervisory Board is quorate if all members have been invited to the meeting and at least half the members of whom it is required to comprise participate in the vote. A resolution relating to an agenda item not included in the invitation is only valid if none of the members of the Supervisory Board who were not present at the meeting object to the resolution and if a minimum of two-thirds of the members are present.

Resolutions of the Supervisory Board are generally passed by a simple majority. The German Co-determination Act contains specific legal requirements with regard to majorities and technical procedures, particularly with regard to the appointment and removal of management Board members and the election of Chairman or Deputy Chairman of the Supervisory Board. In the event of a tied vote in the Supervisory Board, the Chairman of the Supervisory Board has two votes in a renewed vote, assuming it also results in a tie.

In practice, resolutions are regularly passed by the Supervisory Board and its committees at meetings. Supervisory Board members who are not present can submit their vote via another Supervisory Board member in written, fax or electronic form. This rule also applies for the second vote of the Chairman of the Supervisory Board. The Chairman of the Supervisory Board can also grant a period of time in which all members not present at a meeting may retrospectively vote. In special cases, resolutions may also be passed outside of meetings, in particular in writing, by fax or by electronic means. Resolutions and meetings are recorded in minutes, which are signed by the relevant Chairman.

Following its meetings, the Supervisory Board generally requests information on new vehicle models in the form of a short presentation.

Following the election of a new Supervisory Board member, the Corporate Governance Officer informs the new member of the main framework for performing duties, in particular the BMW Group Corporate Governance Code and individual contributions required in circumstances which trigger reporting obligations or are subject to Supervisory Board approval.

Members of the Supervisory Board of BMW AG take care to ensure that they have sufficient time to perform their mandate. If members of the Supervisory Board of BMW AG are also members of the management board of a listed company, they may not accept more than three mandates on non-BMW Group supervisory boards of listed companies or in other bodies with comparable requirements.

The Supervisory Board regularly assesses the efficiency of its activities. To this end, shared discussion is conducted within the Supervisory Board and individual meetings held with the Chairman, prepared on the basis of a questionnaire sent in advance, which is drawn up by the Supervisory Board.

Members of the Supervisory Board of BMW AG are obliged to act in the best interest of the organisation as a whole. They may not pursue personal interests in their decisions or take advantage of business opportunities intended to benefit the BMW Group.

Members of the Supervisory Board are obliged to inform the Supervisory Board of any conflicts of interest, in particular those resulting from a consulting or executive role with clients, suppliers, lenders or other business partners, so that the Supervisory Board can report to the shareholders at the Annual General Meeting on its treatment of the issue. Material and non-temporary conflicts of interest of a Supervisory Board member result in a termination of mandate.

In proposing candidates for election as members of the Supervisory Board, care is taken that the Supervisory Board collectively has the required knowledge, skills and expertise to perform its tasks appropriately.

→ The Supervisory Board has stated specific targets for its composition, agreed to a diversity concept and determined a competency profile.

→ see section "Composition targets for the Supervisory Board"

Members of the Supervisory Board are responsible for undertaking any training required for the performance of their duties. The Company provides them with appropriate assistance therein.

→ Taking into account the specific circumstances of the BMW Group and the number of Board members, the Supervisory Board has set up a Presiding Board and four committees: the Personnel Committee, the Audit Committee, the Nomination Committee and the Mediation Committee. These serve to raise the efficiency of the Supervisory Board's work and facilitate handling of complex issues. Establishment and function of a mediation committee is prescribed by law. Committee chairpersons report in detail on committee work at each plenary meeting of the Supervisory Board.

→ see "Overview of Supervisory Board committees and their composition"

Composition of the Presiding Board and the committees is based on legal requirements, the Articles of Incorporation, rules of procedure and corporate governance principles, while taking into particular account the expertise of Board members.

According to the rules of procedure, the Chairman of the Supervisory Board is, by virtue of this function, member and Chairman of the Presiding Board, the Personnel Committee and the Nomination Committee.

→ see Report of the Supervisory Board for the number of meetings during the year 2017

→ The number of meetings held by the Presiding Board and committees depends on requirements. The Presiding Board, the Personnel Committee and the Audit Committee generally hold several meetings in the course of the year.

In line with the rules of procedure for the activities of the plenum, the Supervisory Board has set out procedural rules for the Presiding Board and committees. Committees are quorate only when all members participate. Committee resolutions are passed by a simple majority, unless otherwise stipulated by law.

Members of the Supervisory Board may not delegate their duties to others. However, the Supervisory Board, the Presiding Board and the committees may call on experts and informed persons to attend meetings and advise on specific matters.

The Supervisory Board, the Presiding Board and committees also meet without the Board of Management when necessary.

BMW AG ensures that the Supervisory Board and its committees are appropriately equipped to carry out their duties. This includes providing a central Supervisory Board office to support the chairpersons in their coordination work.

In accordance with rules of procedure, the Presiding Board comprises the Chairman of the Supervisory Board and Deputies. The Presiding Board prepares Supervisory Board meetings to the extent that the subject matter does not fall within the remit of a committee. This includes, for example, preparing the annual Declaration of Compliance with the German Corporate Governance Code and assessment of Supervisory Board efficiency.

The Personnel Committee prepares decisions of the Supervisory Board with regard to the appointment and, where applicable, removal of members of the Board of Management and, together with the full Supervisory Board and the Board of Management, ensures long-term succession planning. The Personnel Committee also prepares decisions of the Supervisory Board with regard to Board of Management compensation and the regular review of the compensation system for the Board of Management. In conjunction with resolutions taken by the Supervisory Board regarding the compensation of the Board of Management, the Personnel Committee is responsible for drawing up, amending and revoking employment contracts or, when necessary, to prepare and conclude other relevant contracts with members of the Board of Management. In certain cases, the Personnel Committee is also authorised to grant the necessary approval of a business transaction on behalf of the Supervisory Board. This includes cases of providing loans to members of the Board of Management or Supervisory Board, certain contractual arrangements with members of the Supervisory Board, taking into account related parties, as well as ancillary activities of members of the Board of Management, in particular acceptance of non-BMW Group supervisory board mandates.

The Audit Committee deals in particular with the supervision of the financial reporting process, effectiveness of the internal control system, the risk management system, internal audit system and compliance as well as the performance of Supervisory Board duties in connection with audits pursuant to § 32 of the German Securities Trading Act (WpHG). It also oversees the audit of financial statements, auditor independence and any additional work performed by the auditor. It prepares the proposal for the election of the auditor at the Annual General Meeting, makes a relevant recommendation, issues the audit engagement and agrees on additional areas of audit focus as well as the auditor's fee. The Audit Committee prepares the Supervisory Board's resolution relating to the Company and Group Financial Statements and discusses interim reports with the Board of Management prior to publication. Additionally, the Audit Committee deals with the non-financial reporting, prepares the audit of the Supervisory Board and the engagement of an external auditor and issues the audit engagement. The Audit Committee also decides on the Supervisory Board's agreement on the use of Authorised Capital 2014 (Article 4 no. 5 of the Articles of Incorporation) and on amendments to the Articles of Incorporation which only affect its wording.

In line with the recommendations of the German Corporate Governance Code, the Chairman of the Audit Committee is independent, and not a former Chairman of the Board of Management, and has special knowledge and experience in the application of financial reporting standards and internal control procedures. He also fulfils the requirement of being a financial expert as defined by § 100 (5) and § 107 (4) AktG.

The Nomination Committee is charged with the task of finding suitable candidates for election to the Supervisory Board as shareholder representatives and to propose them to the Supervisory Board for election at the Annual General Meeting. In line with the recommendations of the German Corporate Governance Code, the Nomination Committee is exclusively composed of shareholder representatives.

The establishment and composition of a mediation committee are prescribed by the German Co-determination Act. The Mediation Committee has the task of making proposals to the Supervisory Board if a resolution for the appointment of a member of the Board of Management has not been carried by the necessary two-thirds majority of members' votes. In accordance with statutory requirements, the Mediation Committee comprises the Chairman and the Deputy Chairman of the Supervisory Board, one member selected by shareholder representatives and one by employee representatives.

Overview of Supervisory Board committees and their composition

Principal duties, basis for activities	Members
PRESIDING BOARD	
— preparation of Supervisory Board meetings to the extent that the subject matter to be discussed does not fall within the remit of a committee — activities based on terms of reference	Norbert Reithofer[1] Manfred Schoch Stefan Quandt Stefan Schmid Karl-Ludwig Kley
PERSONNEL COMMITTEE	
— preparation of decisions relating to the appointment and revocation of appointment of members of the Board of Management, the compensation and the regular review of the Board of Management's compensation system — conclusion, amendment and revocation of employment contracts (in conjunction with the resolutions taken by the Supervisory Board regarding the compensation of the Board of Management) and other contracts with members of the Board of Management — decisions relating to the approval of ancillary activities of Board of Management members, including acceptance of non-BMW Group supervisory mandates as well as the approval of transactions requiring Supervisory Board approval by dint of law (e.g. loans to Board of Management or Supervisory Board members) — set up in accordance with the recommendation contained in the German Corporate Governance Code, activities based on terms of reference	Norbert Reithofer[1] Manfred Schoch Stefan Quandt Stefan Schmid Karl-Ludwig Kley
AUDIT COMMITTEE	
— supervision of the financial reporting process, the effectiveness of the internal control system, the risk management system, internal audit arrangements and compliance as well as the performance of Supervisory Board duties in connection with audits pursuant to § 32 of the German Securities Trading Act (WpHG) — supervision of external audit, in particular auditor independence and additional work performed by external auditor — preparation of proposals for election of external auditor at Annual General Meeting, engagement of external auditor and compliance of audit engagement, determination of additional areas of audit emphasis and fee agreements with external auditor — preparation of Supervisory Board's resolution on Company and Group Financial Statements — discussion of interim reports with Board of Management prior to publication — preparation of the Supervisory Board's audit of the non-financial reporting, preparation of the selection of the auditor for non-financial reporting and engagement of the auditor — decision on approval for utilisation of Authorised Capital 2014 — amendments to Articles of Incorporation only affecting wording — establishment in accordance with the recommendation contained in the German Corporate Governance Code, activities based on terms of reference	Karl-Ludwig Kley[1,2] Norbert Reithofer Manfred Schoch Stefan Quandt Stefan Schmid
NOMINATION COMMITTEE	
— identification of suitable candidates (male / female) as shareholder representatives on the Supervisory Board to be put forward for inclusion in the Supervisory Board's proposals for election at the Annual General Meeting — establishment in accordance with the recommendation contained in the German Corporate Governance Code, activities based on terms of reference	Norbert Reithofer[1] Susanne Klatten Karl-Ludwig Kley Stefan Quandt (In line with the recommendations of the German Corporate Governance Code, the Nomination Committee comprises only shareholder representatives.)
MEDIATION COMMITTEE	
— proposal to Supervisory Board if resolution for appointment of Board of Management member has not been carried by the necessary two-thirds majority of Supervisory Board members' votes — committee required by law	Norbert Reithofer Manfred Schoch Stefan Quandt Stefan Schmid (In accordance with statutory requirements, the Mediation Committee comprises the Chairman and Deputy Chairman of the Supervisory Board and one member each selected by shareholder representatives and employee representatives.)

[1] Chair.
[2] (Independent) financial expert within the meaning of §§ 100 (5) and 107 (4) AktG, no. 5.3.2 GCGC.

Board of Management succession planning, diversity concept

The Supervisory Board, in collaboration with the Personnel Committee and the Board of Management, ensures long-term succession planning. In their assessment of candidates for Board of Management positions, the underlying suitability criteria applied by the Supervisory Board are expertise in the relevant function, outstanding leadership qualities, proven track record and knowledge of the Company. The Supervisory Board has adopted a diversity concept for the composition of the Board of Management, which is also aligned with recommendations of the German Corporate Governance Code. In considering which individuals would best complement the Board of Management, the Supervisory Board also takes diversity into account. The criteria diversity is taken by the Supervisory Board to encompass in particular different, mutually complementary profiles, professional and life experiences also at the international level and an appropriate gender representation. In reaching its decisions, the Supervisory Board also considers the following:

— The members of the Board of Management should have a long-standing track record of management experience, ideally with experience in different professional fields.

— At least two members should have international management experience.

— At least two members of the Board of Management should have a technical background.

— The Board of Management should collectively have extensive experience in the fields of development, production, sales and marketing, finances and human resources.

— The Supervisory Board has stipulated a target for the proportion of women on the Board of Management. This is outlined in the section “Disclosures pursuant to the Act on Equal Gender Participation”. The Board of Management reports to the Personnel Committee and the Supervisory Board at regular intervals on the proportion and development of women in senior management positions, in particular at executive levels.

— In accordance with the recommendation of the German Corporate Governance Code, the Supervisory Board has set a standard age limit for Board of Management membership. This aims at a retirement age of 60. Consideration is also given to achieving an appropriate age mix within the Board of Management.

When selecting an individual for a particular Board of Management position, the Supervisory Board decides in the best interests of the Group and after due consideration of all relevant circumstances. The Personnel Committee takes into account the diversity concept described above when selecting candidates, in order to ensure that the Board of Management has a diverse composition. In the Supervisory Board’s opinion, the composition of the Board of Management as at 31 December 2017 is in line with the defined diversity concept. For ease of comparison with the diversity concept, the curricula vitae of members of the Board of Management are available on the internet. In particular, the Board of Management has one female member and the various work, educational and life experiences of the members of the Board of Management complement each other.

Composition objectives of the Supervisory Board, competency profile, diversity concept

The Supervisory Board is to be composed in such a way that its members collectively possess the knowledge, skills and experience required to properly perform its tasks.

To this end, the Supervisory Board of BMW AG has approved the following objectives for its composition, including a competency profile. These objectives also describe the concept for achieving diversity in the composition of the Supervisory Board (diversity concept):

— Four members of the Supervisory Board should if possible have international experience or specialist knowledge of one or more non-German markets important to the BMW Group.

- The Supervisory Board should include if possible seven members who have acquired in-depth knowledge and experience within the BMW Group, though no more than two former members of the Board of Management.

- Three of the shareholder representatives in the Supervisory Board should if possible be entrepreneurs or persons who have previous experience in the management or supervision of another medium or large-sized company.

- Three members of the Supervisory Board should if possible be persons from the fields of business, science or research who have experience in areas relevant to the BMW Group, for example chemistry, energy supply, information technology, or who have specialist knowledge in fields relevant for the future of the BMW Group, for example customer requirements, mobility, resources or sustainability.

- When seeking qualified individuals for the Supervisory Board whose specialist skills and leadership qualities are most likely to strengthen the Board as a whole, consideration is also to be given to diversity. When preparing nominations, the extent to which the work of the Supervisory Board benefits from diversified professional and personal backgrounds (including international aspects) and from an appropriate gender representation is also to be taken into account. It is the joint responsibility of all those participating in the nomination and election process to ensure that qualified women are considered for Supervisory Board membership.

- Of the 20 members of the Supervisory Board at least 12 should be independent members within the meaning of section 5.4.2 of the German Corporate Governance Code, including at least six as representatives of the Company's shareholders.

- Two independent members of the Supervisory Board should have expert knowledge of accounting or auditing.

- No persons carrying out directorship functions or advisory tasks for important competitors of the BMW Group may belong to the Supervisory Board. In compliance with applicable law, members of the Supervisory Board are to take care that no persons will be nominated for election for whom a significant, non-temporary conflict of interests could arise due to other activities and functions carried out by them outside the BMW Group, in particular advisory activities or directorships with customers, suppliers, creditors or other business partners.

- An age limit for membership of the Supervisory Board of 70 years is generally to be applied. In exceptional cases, members may remain on the Board until the end of the next Annual General Meeting after reaching the age of 73, in order to fulfil legal requirements or to facilitate smooth succession in the case of key roles or specialist qualifications.

- As a general rule, members of the Supervisory Board should not hold office for longer than until the end of the Annual General Meeting at which the resolution is passed ratifying the member's activities for the 14th financial year after the beginning of the member's first period of office. This excludes the financial year in which the first period of office began. This rule does not apply to natural persons who either directly or indirectly hold significant investments in the Company. In the Company's interest, deviation from the general maximum period is possible, for instance in order to work towards another composition target, in particular diversity of gender and technical, professional and personal backgrounds.

The time schedule set by the Supervisory Board for achieving the above-mentioned composition targets is the period up to 31 December 2018. The nomination committee of the Supervisory Board already takes into account the composition targets in its proposal of potential candidates as representatives of the shareholders. This enables diversity in the composition of the Supervisory Board and ensures that the Supervisory Board collectively possesses the knowledge, skills and experience required to properly perform its duties. Proposals for nomination made by the Supervisory Board to the Annual General Meeting – insofar as they apply to shareholder Supervisory Board members – should take account of these objectives in such a way that they can be achieved with the support of the appropriate resolutions of the Annual General Meeting. The Annual General Meeting is not bound by proposed nominations for election. The voting freedom of employees in the vote for the employee members of the Supervisory Board is also protected. Under the rules stipulated by the German Co-Determination Act, the Supervisory Board does not have the right to nominate employee representatives for election. The objectives which the Supervisory Board has set itself with regard to its composition are therefore not intended to be instructions to those entitled to vote or restrictions on their voting freedom.

In the Supervisory Board's opinion, its composition as at 31 December 2017 fulfilled the composition objectives detailed above. For ease of comparison with composition targets, brief curricula vitae of the current members of the Supervisory Board are available on the Company's website at → www.bmwgroup.com. Information relating to members' practised professions and mandates in other statutory supervisory boards and equivalent national or foreign company boards, including the length of periods of service on the Supervisory Board, is provided in the section Statement on Corporate Governance. Based on this information, it is evident that the Supervisory Board of BMW AG is highly diversified, with significantly more than the targeted four members having international experience or specialist knowledge with regard to one or more of the non-German markets important to the BMW Group. In-depth knowledge and experience from within the Company are provided by seven employee representatives, as well as the Chairman of the Supervisory Board. Only one previous Board of Management member holds office in the Supervisory Board. At least four members of the Supervisory Board have experience in managing another company. The Supervisory Board also has three entrepreneurs as members. Most of the members of the Supervisory Board – including employee representatives – have experience in supervising another medium-sized or large company. Moreover, more than three members of the Supervisory Board have experience and specialist knowledge in subjects relevant for the future of the BMW Group, such as customer requirements, mobility, resources, sustainability and information technology. For the purpose of assessing the independence of its members, the Supervisory Board follows the recommendations of the German Corporate Governance Code. In the opinion of the Supervisory Board, neither ownership of a substantial shareholding in the Company, or office as an employee representative, or previous membership of the Board of Management, rules out independence of a Supervisory Board member. A substantial and not merely temporary conflict of interests within the meaning of section 5.4.2 of the German Corporate Governance Code does not apply to any of the Supervisory Board members. Employees holding office in the Supervisory Board are protected by applicable law when performing their duties. All other Supervisory Board members have a sufficient degree of economic independence from the Company.

Business with entities, in which the members of the Supervisory Board carry out a significant function, is conducted on an arm's length basis. The Supervisory Board has therefore concluded that all of its members are independent. These are: Dr.-Ing. Norbert Reithofer, Manfred Schoch, Stefan Quandt, Stefan Schmid, Dr. Karl-Ludwig Kley, Christiane Benner, Franz Haniel, Ralf Hattler, Dr.-Ing. Heinrich Hiesinger, Prof. Dr. Reinhard Hüttl, Susanne Klatten, Prof. Dr. Renate Köcher, Dr. Robert W. Lane, Horst Lischka, Willibald Löw, Simone Menne, Dr. Dominique Mohabeer, Brigitte Rödig, Jürgen Wechsler and Werner Zierer. At least two members meet the requirements of an independent financial expert. These are Dr. Karl-Ludwig Kley and Simone Menne. At the end of the reporting period, the Supervisory Board had six female members (30 %), comprising three shareholder representatives and three employee representatives. The Supervisory Board has 14 male members (70 %), comprising seven shareholder representatives and seven employee representatives. The Company therefore complies with the statutory gender quota of at least 30 % female members applicable in Germany since 1 January 2016. At present, no member of the Supervisory Board is older than 70 years.

DISCLOSURES PURSUANT TO THE ACT ON EQUAL GENDER PARTICIPATION – TARGETS FOR THE PROPORTION OF WOMEN ON THE BOARD OF MANAGEMENT AND AT EXECUTIVE MANAGEMENT LEVELS I AND II

The Act on Equal Participation of Women and Men in Executive Positions in the Private and the Public Sector ("Act on Equal Gender Participation") was passed into German law in 2015.

In accordance with this legislation, the Supervisory Board of BMW AG is required to set a target for the proportion of women on its Board of Management and a time frame for meeting this target. Likewise, the Board of Management of BMW AG is required to establish targets for the two executive management levels below the Board of Management and a time frame for attaining these targets. As its target for the Board of Management for the time frame from 1 January 2017 to 31 December 2020, the Supervisory Board has stipulated that the Board of Management should continue to have at least one female member. Assuming that the Board of Management continues to comprise eight members, this would correspond to a proportion of at least 12.5 %. At 31 December 2017, the Board of Management had one female member (12.5 %). The Supervisory Board considers it desirable to increase the proportion of women on the Board of Management and fully supports the Board of Management's endeavours to increase the proportion of women at the highest executive management levels within the BMW Group.

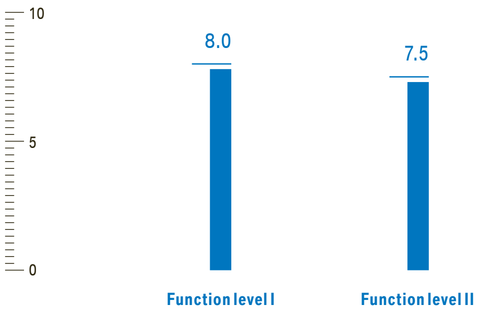
For the time frame from 11 January 2017 to 31 December 2020, the Board of Management has set a target range of 10.2 % to 12.0 % for the first level of executive management and 8.0 % to 10.0 % for the second. At 31 December 2017, the proportion of women within the first executive management level stood at 8.0 % and at 7.5 % within the second.

Management level is defined in terms of functional level and follows a comprehensive job evaluation system based on Mercer.

Proportion of female executives within management / function levels I and II at BMW AG

→ 69

in %



Diversity contributes to greater competitiveness and innovation at the BMW Group. Working together in mixed, complementary teams raises performance levels and increases customer focus. Promoting an appropriate gender ratio is seen as an essential component of the BMW Group's diversity concept. Increasing the proportion of women therefore remains an objective of the Board of Management.

The proportion of women in the workforce as a whole increased again during the financial year under report, as a result of long-term measures, dialogue and information events. Further information on the topic of diversity within the BMW Group can be found in the section "Workforce".

INFORMATION ON CORPORATE GOVERNANCE PRACTICES APPLIED BEYOND MANDATORY REQUIREMENTS

Core values
Within the BMW Group, the Board of Management, the Supervisory Board and the employees base their actions on five core values which are the cornerstone of the success of the BMW Group:

Responsibility
We take consistent decisions and commit to them personally. This allows us to work freely and more effectively.

Appreciation
We reflect on our actions, respect each other, offer clear feedback and celebrate success.

Transparency
We acknowledge concerns and identify inconsistencies in a constructive way. We act with integrity.

Trust
We trust and rely on each other. This is essential if we are to act swiftly and achieve our goals.

Openness
We are excited by change and open to new opportunities. We learn from our mistakes.

Social responsibility towards employees and along the supplier chain

The BMW Group stands by its social responsibilities. Our corporate culture combines the drive for success with openness, trust and transparency. We are well aware of our responsibility towards society. Socially sustainable human resource policies and compliance with social standards are based on various internationally recognised guidelines. The BMW Group is committed to the OECD's guidelines for multinational companies and the contents of the ICC Business Charter for Sustainable Development. Details of the contents of these guidelines and other relevant information can be found at → www.oecd.org and → www.iccwbo.org. The Board of Management signed the United Nations Global Compact in 2001 and, in 2005, together with employee representatives, issued a "Joint Declaration on Human Rights and Working Conditions in the BMW Group". This Joint Declaration was reconfirmed in 2010. With the signature of these documents, we have given our commitment to abide worldwide by internationally recognised human rights and with the fundamental working standards of the International Labour Organization (ILO). These include in particular freedom of employment, the principle of non-discrimination, freedom of association and the right to collective bargaining, the prohibition of child labour, appropriate remuneration, regulated working times and compliance with work and safety regulations. The complete text of the UN Global Compact and the recommendations of the ILO and other relevant information can be found at → www.unglobalcompact.org and → www.ilo.org. The Joint Declaration on Human Rights and Working Conditions in the BMW Group can be found at → www.bmwgroup.com under the menu items "Downloads" and "Responsibility".

For the BMW Group, worldwide compliance of these fundamental principles and rights is self-evident. Since 2005 employees' awareness of this issue has therefore been raised by means of regular internal communications and training on recent developments in this area. The "Compliance Contact" helpline and the BMW Group SpeakUP Line are available to employees wishing to raise queries or complaints relating to human rights issues. With effect from 2016, human rights have been incorporated as an integral component of the BMW Group's worldwide Compliance Management System, representing a further step in the systematic implementation of the UN Guiding Principles on Business and Human Rights.

Further information on social responsibility towards employees can be found in the section "Workforce".

Sustainable business management can only be effective, however, if it covers the entire value-added chain. That is why the BMW Group not only sets high standards for itself, but also expects its suppliers and partners to meet the ecological and social standards it sets and strives continually to improve the efficiency of processes, measures and activities. For instance, we consistently require our dealers and importers to comply with ecological and social standards on a contractual basis. Moreover, corresponding criteria are embedded throughout the entire purchasing system – including in enquiries to suppliers, in the sector-wide OEM Sustainability Questionnaire, in our purchasing terms and in our evaluation of suppliers – in order to promote sustainability aspects in line with the BMW Group Sustainability Standard. The BMW Group expects suppliers to ensure that the BMW Group's sustainability criteria are also adhered to by their sub-suppliers. A spot check of supplier facilities is conducted with sustainability audits and assessments. In 2017, the Human Rights Contact Supply Chain was established for reporting of sustainability infringements in the supply chain. Purchasing terms and conditions and other information relating to purchasing can be found in the publicly available section of the BMW Group Partner Portal at → https://b2b.bmw.com.

We also work in close partnership with our suppliers and promote their commitment to sustainability.

COMPLIANCE IN THE BMW GROUP

Responsible and lawful conduct is fundamental to the success of the BMW Group. It is an integral part of our corporate culture and the reason why customers, shareholders, business partners and the general public place their trust in us. The Board of Management and all employees of the BMW Group are obliged to act responsibly and in compliance with applicable laws and regulations. The BMW Group expects its competitors and business partners to do the same.

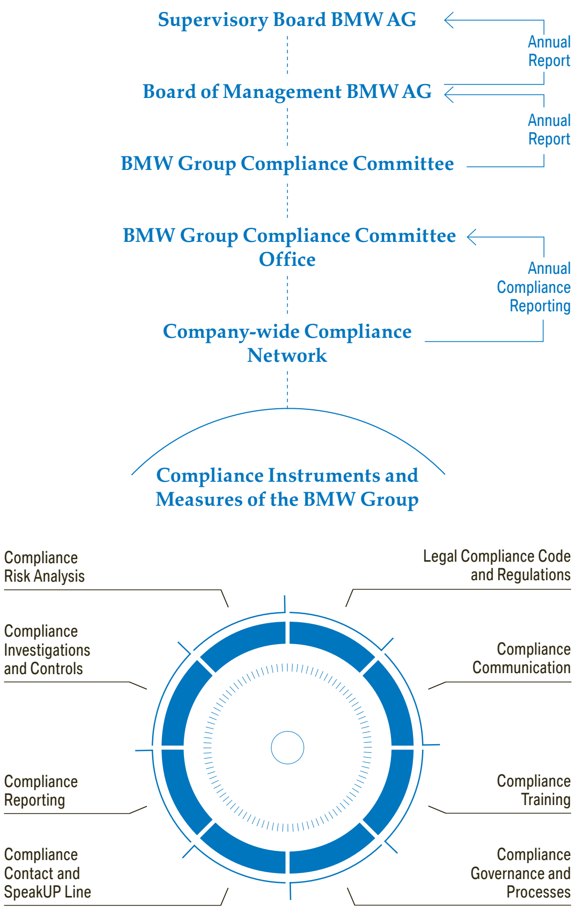
In order to protect itself systematically against compliance-related and reputational risks, the Board of Management created a Compliance Committee several years ago and mandated the establishment of a Compliance Management System within the BMW Group.

The BMW Group Compliance Management System consists of a programme of instruments and measures, employed to ensure that the BMW Group, its representative bodies, its managers and staff act in a lawful manner. Particular emphasis is placed on measures to avoid risks relating to antitrust legislation, corruption and money laundering.

The BMW Group Compliance Committee comprises the heads of the following departments: Legal Affairs, Corporate and Governmental Affairs, Corporate Audit, Group Reporting, Organisational Development and Corporate Human Resources. It manages and monitors activities necessary to avoid violations of the law. These include communication and training measures, compliance controls and subsequent sanctions in cases of non-compliance.

The BMW Group Compliance Committee reports regularly to the Board of Management on all compliance-related issues, including the progress made in refining the BMW Group Compliance Management System, details of investigations performed, known infringements of the law, sanctions imposed and corrective or preventative measures implemented. This also ensures that the Board of Management is immediately notified of any cases of particular significance.

BMW Group Compliance Management System
→ 70



The Board of Management keeps track of and analyses compliance-related developments and trends on the basis of the Group's compliance reporting and advice from the BMW Group Compliance Committee. Measures to improve the Compliance Management System are initiated on the basis of identified requirements.

The Chairman of the BMW Group Compliance Committee reports to the Audit Committee of the Supervisory Board on the current status of compliance activities within the BMW Group, both on a regular and a case-by-case basis.

The decisions taken by the BMW Group Compliance Committee are drafted in concept, and implemented operationally, by the BMW Group Compliance Committee Office. The BMW Group Compliance Committee Office comprises 14 employees and reports organisationally to the Chairman of the Board of Management.

The BMW Group Compliance Committee Office is supported by local compliance functions, especially in connection with operational implementation of compliance topics. Establishment of 72 local compliance functions was completed in 2017. Their activities follow a standardised management process with clearly defined tasks and responsibilities. The heads of these functions serve as the Compliance Officer for the respective organisational unit.

The various elements of the BMW Group Compliance Management System are shown in the diagram on the previous page and are applicable to all BMW Group organisational units worldwide. The BMW Group Legal Compliance Code forms the core of the Group's Compliance Management System, in which the Board of Management affirms its joint commitment to compliance ("tone from the top"). The Code also explains the significance of legal compliance and provides an overview of the various areas of relevance for the BMW Group. It is available both as a printed brochure and for download in German and English. In addition, translations into nine other languages are available in the BMW Group intranet.

The BMW Group Legal Compliance Code is supplemented by a range of internal policies, guidelines and instructions, which in part reflect applicable legal requirements. The BMW Group Policy "Corruption Prevention" and the BMW Group Instruction "Corporate Hospitality and Gifts" deserve particular mention: these documents explain lawful handling of gifts and benefits and define appropriate assessment criteria and approval procedures. The BMW Group Policy "Antitrust Compliance" establishes binding rules of conduct for all employees across the BMW Group to prevent unlawful restriction of competition. In response to the entry into force of the EU's Fourth Anti-Money-Laundering Directive, specific anti-money-laundering rules have been revised or introduced locally in 13 organisational units.

Compliance measures are determined and prioritised on the basis of a group-wide compliance risk assessment that is updated annually. Measures are realised with the aid of a regionally structured compliance management team, covering all parts of the BMW Group and oversees a network of more than 210 compliance responsibles with 72 local compliance functions.

More than 41,000 managers and staff worldwide have received training in essential compliance matters since the introduction of the BMW Group Compliance Management System. The training material is available on an Internet-based training platform in German and English and includes a final test. Successful completion of the training programme, which is documented by a certificate, is mandatory for all BMW Group managers. Appropriate human resources processes are in place to ensure that all newly recruited managers and promoted staff undergo compliance training. In this way, the BMW Group ensures full training coverage for its managers in compliance matters.

In addition to basic learning, training for specific target groups is also provided on special compliance issues, such as antitrust compliance. Since 2011, a total of more than 24,000 managers and staff whose functions or specific tasks involve exchange with competitors have completed online training in antitrust compliance.

Additional classroom training has also been provided to make employees who participate in meetings with competitors or work with suppliers or sales partners sufficiently aware of antitrust risks. In 2017, over 1,900 managers and staff attended these face-to-face training sessions.

Additional compliance coaching has also been implemented for international sales and financial service units in local markets. These multi-day classroom seminars strengthen the awareness in selected organisational units and enhance cooperation between the central BMW Group Compliance Committee Office and the local compliance functions. In 2017, market coaching was conducted in Australia, Belgium, China, Ireland, the Netherlands, Austria, Poland, Switzerland, Thailand, the UK and the US.

The BMW Group held its first global Compliance Conference in 2017. The event was attended by around 120 Compliance Officers and staff with compliance-related responsibilities from roughly 50 organisational units. The main focus was on strengthening the compliance network and sharing ideas on current and future compliance topics.

Any member of staff with questions or concerns relating to compliance may discuss these matters with their managers and with the relevant departments within the BMW Group, in particular Legal Affairs, Corporate Audit and Corporate Security. The BMW Group Compliance Contact serves as a further point of contact for both employees and external partners for any questions regarding compliance. Communication with the BMW Compliance Contact may remain anonymous, if preferred.

Employees also have the opportunity to submit information about possible compliance violations within the company – anonymously and confidentially – via the BMW Group SpeakUP Line. The BMW Group SpeakUP Line is available in a total of 34 languages and can be reached via local toll-free numbers in all countries in which BMW Group employees are in operation.

All compliance-related queries and concerns are documented and processed by the BMW Group Compliance Committee Office using an electronic Case Management System. If necessary, Corporate Audit, Corporate Security, the legal departments or the Works Council may be consulted to assist with investigations.

Various internal channels and means of communication, including newsletters, employee newspapers and intranet portals, are used to keep BMW Group employees fully up-to-date with the instruments and measures employed by the Compliance Management System. The central communications channel is the compliance website within the BMW Group intranet, where employees can find compliance-related information, training materials and where they can access trainings in both German and English. The website contains a special service area where various practical tools are made available to employees to help them deal with typical compliance-related situations. A group-wide communications campaign was launched in 2017 to boost employee awareness of the importance of creating a culture of transparency and trust.

In addition to these communications measures, appropriate IT systems also support BMW Group employees with the assessment, approval and documentation of compliance-relevant matters.

For example, since 2017, all exchanges with competitors must be documented and approved in a special compliance IT system. All employees can also use IT tools to verify legal admissibility and documentation of benefits, especially in connection with corporate hospitality.

The BMW Group also uses an IT-based Business Relations Compliance programme aimed at ensuring the reliability of its business relations. Relevant business partners are checked and evaluated with a view to identifying potential compliance risks. These procedures are particularly relevant for relations with sales partners and service providers, such as agencies and consultants. Depending on the results of the evaluation, appropriate measures are taken to prevent compliance risks, such as communication measures, training and possible monitoring.

As part of expanded anti-money-laundering measures, an IT system has been developed to verify customer integrity and introduced in around 30 organisational units.

Through the group-wide compliance reporting system, compliance responsibles throughout the BMW Group provide information on compliance-relevant issues to the Compliance Committee on a regular basis, and, if necessary, on an ad hoc basis. This includes reporting on the compliance status of the relevant organisational units, on identified legal risks or incidences of non-compliance, as well as sanctions and corrective or preventative measures implemented.

Observation and implementation of compliance rules and processes are audited regularly by Corporate Audit and subject to control checks by Corporate Security and the BMW Group Compliance Committee Office. As part of its regular activities, Corporate Audit carries out on-site audits. The BMW Group Compliance Committee also engages Corporate Audit to perform compliance-specific checks. In addition, two BMW Group Compliance spot checks – sample tests specifically designed to identify potential corruption and antitrust risks – were carried out in 2017. Compliance control activities are coordinated by the BMW Group Panel Compliance Controls. Any necessary follow-up measures are organised by the BMW Group Compliance Committee Office.

Managers have a particular responsibility and role model function with regard to preventing infringements. Managers throughout the BMW Group acknowledge this principle by signing a written declaration and undertaking to inform their staff of the content and significance of the Legal Compliance Code, to convey the values it embodies and make employees aware of legal risks. Managers must, at regular intervals and on their own initiative, verify compliance with the law and communicate with staff on this issue. They signal to employees that they take compliance risks seriously and that relevant information is extremely valuable. In their dealings with staff members, managers remain open to discussion and listen to differing opinions. Any indication of non-compliance with the law must be rigorously investigated.

It is essential for compliance in the BMW Group that employees are aware of and comply with applicable legal requirements. The BMW Group does not tolerate any violations of the law by its employees. Culpable violations of the law result in employment law-related sanctions and may lead to personal liability of relevant employees.

The BMW Group is committed to respecting internationally recognised human rights, in particular as set out in the ten principles of the UN Global Compact and the ILO Core Labour Conventions. The Company's due diligence process is aligned with the UN Guiding Principles on Business and Human Rights, focusing on topics and areas of activity where it can leverage its influence as a commercial enterprise.

The BMW Group clarified its position back in 2005, with the Joint Declaration on Human Rights and Working Conditions at the BMW Group. This was followed by systematic introduction and continuous upgrading of measures to protect human rights. These measures, which were already firmly established within the organisation, were integrated into the BMW Group's group-wide Compliance Management System in 2016. A group-wide human rights compliance assessment was conducted in 2017.

Compliance is also an important factor in safeguarding the future of the BMW Group workforce. With this in mind, the Board of Management and the national and international employee representative bodies of the BMW Group have agreed on a binding set of Joint Principles for Lawful Conduct. In doing so, all parties involved made a commitment to the principles contained in the BMW Group Legal Compliance Code and to trustful cooperation in matters relating to compliance. Employee representatives are therefore regularly consulted in the process of refining compliance measures within the BMW Group.

To ensure that the BMW Group complies with regulations relating to insider information, the Board of Management established an Ad-hoc Committee back in 1994, consisting of representatives of various specialist departments, whose members determine whether information displays the characteristics of insider information, which is required to be disclosed, and handle the publication and legal notices required by law. All persons who perform duties on behalf of BMW AG through which they have access to insider information are included on an insider list and informed of the duties arising from insider rules.

Reportable securities transactions ("Managers' transactions")

Pursuant to Article 19 of the EU Market Abuse Regulation (MAR), members of the Board of Management and the Supervisory Board and any persons closely related to those members are required to give notice to BMW AG and the Federal Agency for the Supervision of Financial Services (BaFin) of transactions with equity or debt instruments of BMW AG or with related derivatives or other financial instruments, if the total sum of such transactions reaches or exceeds an amount of €5,000 during any given calendar year. BMW AG publishes such information without delay and communicates it to the Companies Register for archiving. Notice of publication is issued to the Federal Agency for the Supervision of Financial Services. Securities transactions notified to BMW AG during the financial year 2017 are also reported on the Company's website.

Share-based compensation programmes for employees and members of the Board of Management

Three share-based remuneration schemes were in place at BMW AG during the year under report, namely the Employee Share Programme (under which entitled employees of BMW AG have been able to participate in the enterprise's success since 1989 in the form of non-voting shares of preferred stock), a share-based remuneration programme for Board of Management members, and a share-based remuneration programme for senior heads of department (relating in both cases to shares of common stock). The share-based remuneration programme for Board of Management members is described in detail in the Compensation Report (see also the "Share-based remuneration" section in the Compensation Report and → note 39 to the Group Financial Statements).

→ see note 39

The share-based remuneration programme for qualifying heads of department, introduced with effect for financial years beginning after 1 January 2012, is closely based on the programme for Board of Management members and is aimed at rewarding a long-term, entrepreneurial approach to running the business on a sustainable basis.

Under the terms of the programme, participants give a commitment to invest an amount equivalent to 20 % of their performance-based bonus in BMW common stock and to hold the shares so acquired for a minimum of four years. In return for this commitment, BMW AG pays 100 % of the investment amount as a net subsidy. Once the four-year holding period requirement has been fulfilled, the participants receive – for each three common stock shares held and at the Company's option – one further share of common stock or the equivalent amount in cash.

Under the terms of the Employee Share Programme, in 2017 employees were entitled to acquire packages of between seven and 17 shares of non-voting preferred stock with a discount of €20.00 (2016: €22.72) per share compared to the market price (average closing price in Xetra trading during the period from 8 to 13 November 2017: €75.05). All employees of BMW AG and its (directly or indirectly) wholly owned German subsidiaries (if agreed to by the directors of those entities) were entitled to participate in the programme. Employees were required to have been in an uninterrupted employment relationship with BMW AG or the relevant subsidiary for at least one year at the date on which the allocation for the year was announced. Shares of preferred stock acquired in conjunction with the Employee Share Programme are subject to a blocking period of four years, starting from 1 January of the year in which the employees acquired the shares. A total of 491,114 (2016: 305,018) shares of preferred stock were acquired by employees under the programme in 2017; 491,000 (2016: 305,000) of these shares were drawn from Authorised Capital 2014, the remainder were acquired via the stock exchange or as a result of cancelled employee purchases relating to the previous year. Every year the Board of Management of BMW AG decides whether the scheme is to be continued. Further information is provided in → notes 29 and 39 to the Group Financial Statements.

→ see notes 29 and 39

COMPENSATION REPORT (PART OF THE COMBINED MANAGEMENT REPORT)

The following section describes the principles governing the compensation of the Board of Management for the financial year 2017 and, in its revised form, for financial years from 2018 onwards. A description of the stipulations set out in the statutes relating to the compensation of the Supervisory Board is also provided. In addition to explaining the system of compensation, details of components of compensation are also provided with figures. Furthermore, the compensation of each individual member of the Board of Management and the Supervisory Board for the financial year 2017 is disclosed with its component parts.

1. Board of Management compensation

Responsibilities
The full Supervisory Board is responsible for determining and regularly reviewing Board of Management compensation. The preparation for these tasks is undertaken by the Supervisory Board's Personnel Committee.

Principles of compensation
The compensation system for the Board of Management at BMW AG is designed to encourage a management approach focused on the sustainable development of the BMW Group. A further principle of the remuneration system at BMW Group is that of consistency. This means that compensation systems for the Board of Management, senior management and employees of BMW AG are composed of similar elements. The Supervisory Board performs an annual review to ensure that all Board of Management compensation components are appropriate, individually and in total, and do not encourage the Board of Management to take inappropriate risks for the BMW Group. At the same time, the compensation model for the Board of Management needs to be attractive for highly qualified executives in a competitive environment.

The compensation of members of the Board of Management is determined by the full Supervisory Board on the basis of performance criteria and after taking into account any remuneration received from Group companies. The principal performance criteria are the tasks and exercise of mandate of the member of the Board of Management, the economic situation and the performance and future prospects of the BMW Group. The Supervisory Board sets ambitious and relevant parameters as the basis for variable compensation. It also ensures that variable components based on multi-year criteria take account of both positive and negative developments and that the overall incentive is on the long term. As a general rule, targets and comparative parameters may not be changed retrospectively. In conjunction with the revised compensation system for the Board of Management (see the section "Revised Board of Management compensation system for financial years from 2018 onwards"), the targets originally set for the variable compensation components for the financial years 2018 and 2019 were revoked exceptionally and replaced by the more ambitious targets stipulated in the new compensation system. The Supervisory Board reviews the appropriateness of the compensation system annually. In preparation, the Personnel Committee also consults remuneration studies. In order to check that the compensation system is in line with peers, the Supervisory Board compares compensation paid by other DAX companies. For a vertical view, it compares Board compensation with the salaries of executive managers and with the average salaries of employees of BMW AG based in Germany, also with regard to the development over time. Recommendations made by an independent external remuneration expert and suggestions made by investors and analysts are also considered in the consultative process.

Compensation system, compensation components up to the financial year 2017
The compensation of the Board of Management comprises both fixed and variable elements as well as a share-based component. Provisions are also in place for retirement and surviving dependants' entitlements.

Fixed remuneration
Fixed remuneration consists of a base salary, which is paid monthly, and fringe benefits (other remuneration elements such as the use of company cars, insurance premiums and contributions towards security systems). Members of the Board of Management are also entitled to purchase vehicles and other products and services of the BMW Group at conditions that also apply for employees.

The base salary of members of the Board of Management remained unchanged in 2017 from the previous year. The base salary is €0.75 million p.a. for a Board member during the first period of office, €0.9 million p.a. for a Board member from the second period of office or the fourth year of mandate and €1.5 million p.a. for the Chairman of the Board of Management.

Variable remuneration
The variable remuneration of Board of Management members comprises variable cash remuneration and a share-based remuneration component.

Variable cash remuneration, in particular bonuses
Variable cash remuneration consists of a bonus and a cash component for investment in BMW AG common stock equivalent to 20 % of a Board member's total bonus after taxes, which the Board member receives from the Company along with the related taxes and social insurance. Furthermore, up to 31 December 2017, the Supervisory Board could, in justified cases, stipulate the payment of a discretionary additional bonus.

The bonus comprises two components, each equally weighted: an earnings-related bonus and a performance-related bonus. The target bonus (100 %) for a Board of Management member in the first period of office is €1.5 million p.a. in total for the two components of variable compensation and €1.75 million p.a. from the second period of office or the fourth year of mandate. For the Chairman of the Board of Management the amount is €3 million p.a. The bonus is capped for all Board of Management members at 200 % of the respective target bonus.

The earnings-related bonus is based on Group net profit and post-tax return on sales, which are combined in a single earnings factor, and – up to the financial year 2017 – on the dividend (common stock). The earnings-related bonus is derived from a target amount defined for each member of the Board of Management multiplied by the earnings factor and the dividend factor. In exceptional circumstances, for instance major acquisitions or disposals, the Supervisory Board may adjust the earnings-related bonus.

An earnings factor and dividend factor of 1.0 would give rise to an earnings-related bonus of €0.75 million for a member of the Board of Management in the first period of office, €0.875 million from the second period of office or the fourth year of mandate and €1.5 million for the Chairman of the Board of Management. The earnings factor is 1.0 for example in the event of a Group net profit of €3.1 billion and a post-tax return on sales of 5.6 %. The dividend factor is 1.0 when the dividend paid on shares of common stock is between 101 and 110 cents. If the Group net profit were below €2 billion or the post-tax return on sales below 2 %, the earnings factor for 2017 would be zero. In this case, no earnings-related bonus would be payable.

The performance-related bonus is derived by multiplying the target amount set for each member of the Board of Management by a performance factor. The Supervisory Board sets the performance factor on the basis of a detailed assessment of the contribution made by members of the Board of Management to sustainable and long-term oriented business development. In setting the factor, consideration is given to performance and decisions over the previous three financial years, as well as strategic decisions affecting the future development of the business, the effectiveness and efficiency of measures taken in response to changing external conditions and other activities aimed at safeguarding the future viability of the business which cannot be directly measured in values. Accordingly, performance factor criteria include innovation (economic and ecological, for example the reduction of carbon dioxide emissions), customer focus, ability to adapt, leadership, corporate culture, promotion of compliance and integrity, contributions to the Group's attractiveness as an employer, progress in implementing the diversity concept and activities that foster corporate social responsibility. The target bonus and the criteria used to determine the earnings-related bonus are fixed in advance for a period of three financial years. During this time, as a general rule, target bonuses and the key criteria applied may not be amended retrospectively.

Share-based remuneration programme
The compensation system also includes a share-based remuneration programme, which is based on the amount of bonus paid. The system is aimed at creating further long-term incentives to encourage sustainable governance.

This programme specifies that each member of the Board of Management is required to invest in BMW AG common stock an amount equivalent to 20 % of the Board member's total bonus after taxes, which the Board member receives as an additional cash component from the Company with the related taxes and social insurance. As a general rule, the shares must be held for four years. Under a matching plan, at the end of the holding period the Board of Management members receive from the Company, for every three shares of common stock held, either one additional share of common stock or an equivalent cash amount, to be decided at the discretion of the Company (share-based remuneration component/matching component). Special rules apply in the case of death or invalidity of a Board of Management member or premature termination of the contractual relationship before fulfilment of the holding period.

Revised system of Board of Management compensation for financial years from 2018 onwards

In December 2017, the Supervisory Board resolved to revise the compensation system for financial years from 2018 onwards. A focus was to align the remuneration structure even more strongly with sustainable Company development. The base salary, which had remained at the same level since 1 January 2012, was raised. The bonus was revised, both in terms of its structure and target setting. Targets values for the parameters Group net income and post-tax return on sales used to determine the earnings-related bonus were adjusted in line with the Group's current business plan and revised. The dividend is no longer included as a parameter, thus ensuring that the earnings-related bonus is even more closely aligned to business performance. A new multi-year and future-oriented component was introduced in the form of a performance cash plan, in order to further strengthen the long-term orientation of the compensation system. The overall upper limits remain unchanged. The appropriateness of the planned levels of compensation was reviewed by an independent external compensation expert. The changes apply to all members of the Board of Management with effect from the financial year 2018. Service contracts of the Board of Management have been modified in agreement with Board members with effect from 1 January 2018.

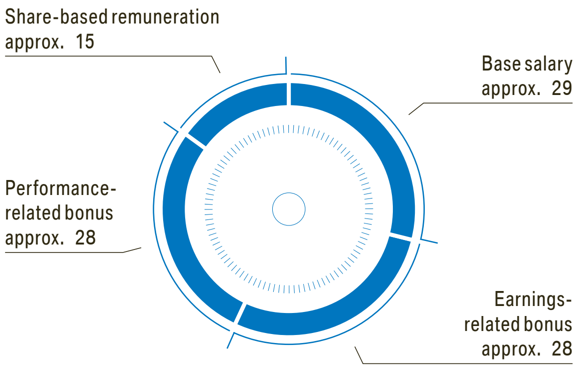
Compensation system, compensation components for financial years from 2018 onwards

As previously, Board of Management compensation comprises fixed and variable cash elements as well as a share-based component. The compensation components are described in more detail below. Retirement and surviving dependants' benefits remain unchanged in the new compensation system applicable from 1 January 2018.

Overview of compensation system financial year 2017: simplified depiction of split of cash remuneration (target remuneration)*

→ 71

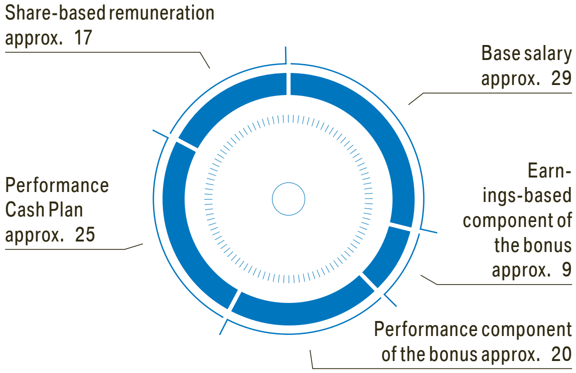
in %



Overview of compensation system financial year 2018: simplified depiction of split of cash remuneration (target remuneration)*

→ 72

in %



* Simplified depiction of target amounts for the cash remuneration of the Chairman of the Board of Management. Excludes other remuneration. Based on the assumption that the share price remains unchanged for the calculation of the matching component.

Fixed remuneration
Fixed remuneration consists, as before, of a base salary, which is paid monthly, and fringe benefits (other remuneration elements such as the use of company cars, the payment of insurance premiums and contributions towards security systems). From the financial year 2018, the base salary of Board of Management members amounts to €0.8 million p.a. during the first period of office, €0.95 million p.a. from the second period of office or the fourth year of mandate and €1.8 million p.a. for the Chairman of the Board of Management.

Variable remuneration
The variable remuneration of the Board of Management comprises in future three components:

- bonus,
- Performance Cash Plan and
- share-based remuneration.

The weighting of individual components included in the target is shown in the overview. The new compensation system does not include the option of paying a discretionary additional bonus. An upper limit has been set for each component of variable remuneration (see "Overview of compensation system and compensation components for financial years from 2018 onwards").

Bonus
The structure and target amounts of the previous bonus system have been revised and the weighting of the earnings-related and performance-related components included in the target changed. In future, for 100 % target achievement, the bonus will comprise an earnings-related component of 30 % and performance-related component of 70 %. Compared to the bonus payable in the previous compensation system, the target bonus (100 %) for a member of the Board of Management in the first period of office has been reduced for both components of the bonus to a total of €0.85 million p.a. and to a total of €1.0 million p.a. from the second period of office or the fourth year of mandate. In future, the bonus payable to the Chairman of the Board of Management will amount to €1.8 million p.a. The upper limit has been reduced for all Board members to 180 % of the respective target bonus.

In order to calculate the earnings-related component, an earnings factor is determined on the basis of the target parameters and multiplied by 30 % of the target bonus amount. The level of the earnings-related component depends on the degree to which the targets set by the Supervisory Board for Group net profit and post-tax return on sales are achieved. The degree of achievement is expressed in an earnings factor. The underlying measurement values are determined in advance for a period of three financial years and may not be changed retrospectively. The earnings factor is capped at a maximum value of 1.8.

An earnings factor of 1.0 would give rise to an earnings-related component of €0.255 million for a member of the Board of Management in the first period of office, €0.3 million from the second period of office or the fourth year of mandate, and €0.54 million for the Chairman of the Board of Management. The earnings factor is 1.0, for instance, in the event of Group net profit of €5.3 billion and a post-tax return on sales of 5.6 %. If the Group net profit were below €3 billion or the post-tax return on sales below 3 %, the earnings factor would be zero. In this case, an earnings-related component would not be paid. The maximum value of the earnings factor is reached in the event of a Group net profit of €11 billion and a post-tax return on sales of 9 %. As before, in exceptional circumstances, for instance major acquisitions or disposals, the Supervisory Board may adjust the earnings factor.

The performance-related component is calculated using a performance factor which the Supervisory Board sets for each member of the Board of Management and which is multiplied by 70 % of the target bonus amount. The Supervisory Board sets the performance factor on the basis of a detailed evaluation of the contribution made by Board members to sustainable and long-term business development over a period of at least three financial years. The evaluation by the Supervisory Board is based on predefined criteria that take into account the Group's long-term success, the interests of shareholders, the interests of employees and social responsibility.

The criteria correspond to the measurement values used previously for the performance bonus and include in particular innovation (economic and ecological, for example in the reduction of carbon dioxide emissions), the Group's market position compared to its competitors, customer focus, ability to adapt, leadership, corporate culture, promotion of compliance and integrity, contribution to the Group's attractiveness as an employer, progress in implementing the diversity concept, and activities that foster corporate social responsibility. The performance factor lies between zero and a maximum of 1.8.

Bonus overview
→ 73

EARNINGS COMPONENT BONUS	+	PERFORMANCE COMPONENT	=	TOTAL
Earnings factor x 0.3 of target amount Basis for earnings factor: — Group net profit — Group post-tax return on sales — Value between 0 – 1.8		Performance factor x 0.7 of target amount Basis for performance factor: — Contribution to sustainable and long-term business development over a period of at least three financial years — Qualitative, mainly non-financial parameters — Value between 0 – 1.8		— Cash payment — Capped at 180 % of target amount

Performance Cash Plan
With effect from the financial year 2018, variable cash compensation will include a multi-year and future-oriented Performance Cash Plan (PCP). The PCP is calculated at the end of a three-year evaluation period, by multiplying a predefined target amount by a factor that is based on multi-year target achievement (the PCP factor). PCP entitlements are paid in cash. The PCP target amount (100 %) amounts to €0.85 million p.a. for a Board member in the first period of office, €0.95 million p.a. for a Board member from the second period of office or the fourth year of mandate. The target amount for the Chairman of the Board of Management is €1.6 million p.a. The maximum amount that can be paid to a Board member is capped at 180 % of the PCP target amount p.a.

The PCP evaluation period comprises three years, the grant year and the two subsequent years. The PCP is paid out after the end of the three-year evaluation period.

In order to determine the PCP factor, a multi-year earnings factor is multiplied by a multi-year performance factor. The PCP factor is capped at a maximum value of 1.8.

In order to determine the multi-year earnings factor, an earnings factor is calculated for each year of the three-year evaluation period and an average is then calculated for the evaluation period. As for the earnings-related component of the bonus, the earnings factor for each individual year within the evaluation period is determined on the basis of Group net profit and post-tax return on sales for the relevant year. The maximum earnings factor is 1.8.

In addition to the multi-year earnings factor, the Supervisory Board also determines a multi-year performance factor after the end of the evaluation period. To this end, the Supervisory Board takes account in particular of the business development during the evaluation period, the forecast trend in the business development, the Board member's individual contribution to profitability and the status of compliance within the Board member's area of responsibility. The multi-year performance factor can be between 0.9 and 1.1.

Performance Cash Plan overview

→ 74

PCP FACTOR	x	TARGET AMOUNT	=	CASH PAYMENT
				— Cash payment at end of evaluation period — Capped at 180 % of target amount

PCP factor overview

→ 75

MULTI-YEAR EARNINGS FACTOR	x	MULTI-YEAR PERFORMANCE FACTOR	=	PCP FACTOR
— Average earnings factor — Based on Group net profit and Group post-tax return on sales — Value between 0 – 1.8		Measurement based on multi-year performance factor: — Trend in business development — Status of compliance in each Board member's area of responsibility — Individual contribution to profitability — Forecast trend in business development — Value between 0.9 – 1.1		

In accordance with a mutually agreed modification to their contracts with effect from 1 January 2018, Board members will receive advance payments out of the Performance Cash Plan 2018 and the Performance Cash Plan 2019 in the years 2019 and 2020. At the end of the evaluation period, the advance payment will be set off or reclaimed, depending on the amount then determined. The advance payment for each year will be €0.5 million for a member of the Board of Management in the first period of office and €0.6 million from the second period of office or the fourth year of mandate. For the Chairman of the Board of Management the amount is €0.9 million p.a.

Share-based remuneration

Members of the Board of Management continue to receive a cash compensation (investment component) for the specific purpose of investment after tax and contributions in BMW AG common stock. In future, the investment component will correspond to 45 % of the gross bonus. Shares of common stock purchased in this way by members of the Board of Management are to be held, as before, for a period of four years.

As before, at the end of the holding period, Board members receive from the Company, for every three shares of common stock held, either one additional share of common stock or the cash equivalent, to be decided at the Company's discretion (matching component). Upper limits have been defined for both the investment component and the matching component (see "Compensation system and compensation components for financial years from 2018 onwards").

Other

In the event of death or invalidity, special rules apply for early payment of performance cash plans and share-based remuneration components based on the target amounts. Insofar as the service contract is prematurely terminated and the Company has an extraordinary right of termination, or if the Board member resigns without the Company's agreement, entitlements to amounts as yet unpaid relating to performance cash plans and share-based remuneration are forfeited.

A one-year post-contractual non-competition clause has been agreed with Board members for specified cases. During that one-year period, the former Board member is entitled to receive monthly compensation equivalent to 60 % of his or her previous monthly basic remuneration, reduced by any amount of other income exceeding 40 % of the basic remuneration. The Company may unilaterally waive the requirement to comply with the post-contractual non-competition clause.

Retirement and surviving dependants' benefits

With effect already from 1 January 2010, the provision of retirement and surviving dependants' benefits for Board of Management members was changed to a defined contribution system with a guaranteed minimum return. Commitments previously made are in part subject to legal protection, therefore Board members appointed for the first time prior to 1 January 2010 were given the option to choose between the previous system and the new one. Retirement and surviving dependants' benefits remain unchanged as part of the new compensation system from 1 January 2018 onwards, as they are appropriate and in line with customary market practice.

In the event of termination of mandate, a member of the Board of Management appointed for the first time prior to 1 January 2010 has pension entitlements based on the older (defined benefit) pension plan. The entitlement to receive benefits under the defined benefit plan arises at the earliest on reaching the age of 60 or in the case of invalidity. The amount of the pension comprises a basic monthly amount of €8,000 plus an additional fixed amount. The fixed amount is €400 for each full year of service on the Board up to a maximum of 15 years. Pension payments are adjusted in line with the adjustment of civil servants' pensions following an increase of more than 5 % in the pay group B6 (excluding allowances) or in accordance with the Company Pension Act.

Overview of compensation system and compensation components for the financial year 2017

Component	Parameter / measurement base
BASE SALARY P.A.	
	Member of the Board of Management: — €0.75 million (1st period of office) — €0.90 million (from 2nd period of office or 4th year of mandate) Chairman of the Board of Management: — €1.50 million
VARIABLE REMUNERATION	
Bonus (sum of earnings-related bonus and performance-related bonus)	Target amount p.a. (at 100 % target achievement): — €1.50 million (1st period of office) — €1.75 million (from 2nd period of office or 4th year of mandate) — €3.00 million (Chairman of the Board of Management) — Capped at 200 % of target amount
a) Earnings-related bonus (at 100 % target achievement corresponds to 50 % of target amount)	— Quantitative criteria, fixed in advance for a period of three financial years — Formula: 50 % target amount x earnings factor x dividend factor (common stock) — Earnings factor is derived from Group net profit and Group post-tax return on sales — The earnings factor is 1.0, for instance in the event of a Group net profit of €3.1 billion and a post-tax return on sales of 5.6 %
b) Performance-related bonus (at 100 % target achievement corresponds to 50 % of target amount)	— Primarily qualitative, non-financial criteria, expressed in terms of a performance factor aimed at measuring the Board members' contribution to sustainable and long-term business development over a period of at least three financial years — Formula: 50 % target amount x performance factor — Criteria for the performance factor include: innovation (economic and ecological, for example in the reduction of carbon dioxide emissions), the Group's market position compared to its competitors, customer focus, ability to adapt, leadership, corporate culture, promotion of compliance and integrity, contribution to the Group's attractiveness as an employer, progress in implementing the diversity concept, and activities that foster corporate social responsibility
Possible special bonus payment	Payment possible in justified cases on basis of appropriateness, contractual basis, no entitlement
Share-based remuneration programme	— Requirement for Board of Management members to each invest an amount equivalent to 20 % of their total bonus (after tax) in BMW AG common stock
a) Cash compensation component	— Earmarked cash remuneration equivalent to the amount required to be invested in BMW AG shares, plus taxes and social insurance contributions
b) Share-based remuneration component (matching component)	— Once the four-year holding period requirement is fulfilled, Board of Management members receive for each three common stock shares held either – at the Company's option – one further share of common stock or the equivalent amount in cash
OTHER REMUNERATION	
	Contractual agreement, main points: use of Company cars, insurance premiums, contributions towards security systems

Overview of compensation system and compensation components for the financial year 2018 onwards

Component	Parameter / measurement base
BASE SALARY P.A.	
	Member of the Board of Management: — €0.80 million (1st period of office) — €0.95 million (from 2nd period of office or 4th year of mandate) Chairman of the Board of Management: — €1.8 million
VARIABLE REMUNERATION	
Bonus (sum of earnings component and performance component)	Target amount p.a. (at 100 % target achievement): — €0.85 million (1st period of office) — €1.0 million (from 2nd period of office or 4th year of mandate) — €1.8 million (Chairman of the Board of Management) — Capped at 180 % of target amount
a) Earnings-related bonus (at 100 % target achievement corresponds to 30 % of target amount)	— Quantitative criteria fixed in advance for a period of three financial years — Formula: 30 % target amount x earnings factor — Earnings factor is derived from Group net profit and Group post-tax return on sales — The earnings factor is 1.0 in the event of a Group net profit of €5.3 billion and a post-tax return on sales of 5.6 % — Earnings factor may not exceed 1.8
b) Performance component (at 100 % target achievement corresponds to 70 % of target amount)	— Primarily qualitative, non-financial criteria, expressed in terms of a performance factor aimed at measuring the Board member's contribution to the sustainable and long-term development and the future viability of the Company over a period of at least three financial years — Criteria for the performance factor include: innovation (economic and ecological, for example in the reduction of carbon dioxide emissions), the Group's market position compared to its competitors, customer focus, ability to adapt, leadership, corporate culture, promotion of compliance and integrity, contribution to the Group's attractiveness as an employer, progress in implementing the diversity concept, and activities that foster corporate social responsibility — Formula: 70 % target amount x performance factor — Performance factor may not exceed 1.8
Possible special bonus payments	No longer applicable
Performance Cash Plan	Target amount p.a. (at 100 % target achievement): — €0.85 million (1st period of office) — €0.95 million (from 2nd period of office or 4th year of mandate) — €1.6 million (Chairman of the Board of Management) — 3-year evaluation period — Capped at 180 % of target amount — Formula: PCP factor x target amount — PCP factor: multi-year earnings factor x multi-year performance factor — PCP factor may not exceed 1.8
a) Multi-year earnings factor	— Earnings factor for each year of three-year evaluation period derived from Group net profit and Group post-tax return on sale — Earnings factor for each year may not exceed 1.8 — Average for evaluation period calculated
b) Multi-year performance factor	— Determined by Supervisory Board at end of evaluation period — Criteria include in particular the trend in business development during the evaluation period, the forecast trend in business development, individual contribution to profitability and the status of compliance within the Board member's area of responsibility — Multi-year performance factor can be between 0.9 and 1.1
Share-based remuneration programme	— Requirement for Board of Management members to invest an amount of 45 % of the gross bonus after tax and contributions in BMW AG common stock
a) Cash remuneration component	— Earmarked cash remuneration amounting to 45 % of the gross bonus
b) Share-based remuneration component (matching component)	— Once the four-year holding period requirement is fulfilled, Board of Management members receive for each three common stock shares held either – at the Company's option – one further share of common stock or the equivalent amount in cash
OTHER REMUNERATION	
	Contractual agreement, main points: use of Company car, insurance premiums, contributions towards security systems

Overview of compensation system and compensation components for the financial year 2017

RETIREMENT AND SURVIVING DEPENDANTS' BENEFITS

Model	Principal features
a) Defined benefits (only applies to Board members appointed for the first time before 1 January 2010; based on legal right to receive the benefits already promised to them, this group of persons is entitled to opt between (a) and (b)	Pension of € 120,000 p. a. plus fixed amounts based on length of Company and Board service
b) Defined contribution system with guaranteed minimum rate of return	Pension based on amounts credited to individual savings accounts for contributions paid and interest earned, various forms of disbursement Pension contributions p. a.: Member of the Board of Management: € 350,000 – € 400,000 Chairman of the Board of Management: € 500,000

REMUNERATION CAPS (MAXIMUM REMUNERATION)

		Share-based compensation programme			
in € p. a.	Bonus	Cash compensation for share acquisition	Monetary value of matching component	Possible special bonus	Total*
Member of the Board of Management in the first period of office	3,000,000	700,000	700,000	1,000,000	4,925,000
Member of the Board of Management in the second period of office or from fourth year of mandate	3,500,000	800,000	800,000	1,200,000	5,500,000
Chairman of the Board of Management	6,000,000	1,400,000	1,400,000	1,500,000	9,850,000

* Including base salary, other fixed remuneration elements and pension contribution. The overall cap is lower than the sum of the maximum amounts for each of the individual components.

If a mandate is terminated, the new defined contribution system provides, in the case of death or invalidity, for amounts accumulated on individual pension accounts to be paid out as a one-off amount or in instalments. The option to receive payment as a lifelong pension or in a combined form only applies to entitlements arising before 2016. Former members of the Board of Management are entitled to receive the retirement benefit at the earliest upon reaching the age of 60, or in the case of entitlements awarded after 1 January 2012, upon reaching the age of 62.

The amount of the benefits to be paid is determined on the basis of the amount accrued in each Board member's individual pension savings account. The amount on this account results from annual contributions paid in, plus interest earned depending on the type of investment.

If a member of the Board of Management with a vested entitlement dies prior to the commencement of benefit payments, a surviving spouse or registered partner, or otherwise surviving children – in the latter case depending on their age and education – are entitled to receive benefits as surviving dependants.

In the case of death or invalidity, a minimum benefit is payable based on the number of annual contributions possible up to the age of sixty (up to a maximum of ten). Furthermore, in the case of a commitment made before 2016 and election of a lifelong pension, a 60 % widow's pension is paid following the death of a retired member of the Management Board. Pensions are increased annually by at least 1 %.

Depending on the length of membership in the Board of Management and previous activities, the annual contribution paid by the Company for each member of the Board of Management is between €350,000 and €400,000, and €500,000 for the Chairman of the Board of Management. The guaranteed minimum rate of return p.a. corresponds to the maximum interest rate used to calculate insurance reserves for life insurance policies (guaranteed interest on life insurance policies). When granting pension entitlements, the Supervisory Board considers the targeted level of pension provision in each case as well as the resulting expense for the BMW Group.

Overview of compensation system and compensation components for the financial year 2018 onwards

RETIREMENT AND SURVIVING DEPENDANTS' BENEFITS

Model	Principal features
a) Defined benefit (only applies to Board members appointed for the first time before 1 January 2010; based on legal right to receive the benefits already promised to them, this group of persons is entitled to opt between (a) and (b)	Pension of €120,000 p. a. plus fixed amounts based on length of Company and Board service
b) Defined contribution system with guaranteed minimum rate of return	Pension based on amounts credited to individual savings accounts for contributions paid and interest earned, various forms of disbursement Pension contributions p. a.: Member of the Board of Management: €350,000 – €400,000 Chairman of the Board of Management: €500,000

REMUNERATION CAPS (MAXIMUM REMUNERATION)

			Share-based compensation programme		
in € p. a.	Bonus	Performance Cash Plan	Cash compen-sation for share acquisition	Monetary value of matching component	Total*
Member of the Board of Management in the first period of office	1,530,000	1,530,000	688,500	344,500	4,925,000
Member of the Board of Management in the second period of office or from fourth year of mandate	1,800,000	1,710,000	810,000	405,000	5,500,000
Chairman of the Board of Management	3,240,000	2,880,000	1,458,000	729,000	9,850,000

* Including base salary, other fixed remuneration elements and pension contribution. The overall cap is lower than the sum of the maximum amounts for each of the individual components.

Contributions falling due under the defined contribution model are paid into an external fund in conjunction with a trust model that is also used to fund pension obligations to employees.

Income earned on an employed or a self-employed basis up to the age of 63 may be offset against pension entitlements. In addition, certain circumstances have been specified, in the event of which the Company no longer has any obligation to pay benefits. Transitional payments are no longer provided.

In the event of the death of a member of the Board of Management during the service contract term, the base salary for the month of death and a maximum of three further calendar months are paid to entitled surviving dependants.

Board of Management members who retire immediately after their service on the Board are entitled to acquire vehicles and other BMW Group products and services at conditions that also apply to BMW pensioners and to lease BMW Group vehicles in accordance with the guidelines applicable to senior heads of department. Retired Chairmen of the Board of Management are entitled to use a BMW Group vehicle as a company car on a similar basis to senior heads of department, and depending on availability and against payment, use BMW chauffeur services.

Termination benefits on premature termination of Board activities, benefits paid by third parties

In conjunction with the agreed early termination of Dr Robertson's Board of Management mandate with effect from 31 December 2017, the Company also agreed with Dr Robertson on an amendment to his service contract, which ends on 30 June 2018. For the period from the termination of his Board mandate through to 30 June 2018, he continues to receive fixed compensation totalling €0.45 million. During this time, Dr Robertson is supporting the Company as a BMW Group ambassador in the UK. An amount of €0.875 million, payable in 2018, was agreed to settle all further compensation entitlements for the remainder of the contractual period. The Company will make a final pension contribution of €0.2 million on behalf of Dr Robertson for the financial year 2018.

In accordance with the recommendation of the German Corporate Governance Code, Board of Management service contracts provide for severance pay to be paid to the Board member in the event of premature termination by the Company without important reason, the amount of which is limited to a maximum of two years' compensation (severance payment cap). If the remaining term of the contract is less than two years, the severance payment is reduced proportionately. For these purposes, annual compensation comprises the basic remuneration, the target bonus amount and the target PCP amount for the last full financial year before termination.

No commitments or agreements exist for payment of compensation in the event of early termination of a Board member's mandate due to a change of control or a takeover offer. No members of the Board of Management received any payments or relevant commitment from third parties in 2017 on account of their activities as members of the Board of Management.

Remuneration caps

The Supervisory Board has stipulated upper limits for all variable remuneration components and for the remuneration of Board of Management members in total. These upper limits are shown in the tables Overview of compensation system and compensation components for the financial year 2017 and Overview of compensation system and compensation components for financial years from 2018 onwards. The overall upper limits have not been changed in conjunction with the revised compensation system for financial years from 2018 onwards.

Total compensation of the Board of Management for the financial year 2017 (2016)

The total compensation of the current members of the Board of Management of BMW AG for the financial year 2017 amounted to €40.3 million (2016: €37.6 million), of which €7.7 million (2016: €7.8 million) relates to fixed components including other remuneration. Variable components amounted to €31.7 million (2016: €29.0 million) and the share-based remuneration component amounted to €0.9 million (2016: €0.8 million). As in the previous year, the option of paying a special bonus in 2017 was not exercised.

	2017		2016	
in € million	Amount	Proportion in %	Amount	Proportion in %
Fixed compensation	7.7	19.1	7.8	20.8
Variable cash compensation	31.7	78.7	29.0	77.1
Share-based compensation component*	0.9	2.2	0.8	2.1
Total compensation	**40.3**	**100.0**	**37.6**	**100.0**

* Matching component; provisional number or provisional monetary value calculated at grant date (date on which the entitlement became binding in law). The final number of matching shares is determined in each case when the requirement to invest in BMW AG common stock has been fulfilled.

Compensation of the individual members of the Board of Management for the financial year 2017 (2016)

in € or number of matching shares	Fixed compensation: Base salary	Fixed compensation: Other compensation	Fixed compensation: Total	Variable cash compensation	Share-based compensation component (matching component)[1]: Number	Share-based compensation component (matching component)[1]: Monetary value	Compensation Total	Total value of benefits allocated in financial year[2]
Harald Krüger	1,500,000	21,464	1,521,464	6,679,776	2,017	181,490	8,382,730	8,295,070
	(1,500,000)	(18,719)	(1,518,719)	(5,947,178)	(1,752)	(161,622)	(7,627,519)	(7,545,122)
Milagros Caiña Carreiro-Andree	900,000	75,775	975,775	3,896,565	1,263	113,645	4,985,985	4,915,446
	(900,000)	(74,461)	(974,461)	(3,469,214)	(1,097)	(101,198)	(4,544,873)	(4,443,675)
Markus Duesmann	750,000	102,468	852,468	3,339,913	1,083	97,448	4,289,829	4,192,381
	(187,500)	(13,929)	(201,429)	(743,403)	(288)	(21,629)	(966,461)	(944,832)
Klaus Fröhlich	750,000	65,883	815,883	3,339,888	1,008	90,700	4,246,471	4,155,771
	(750,000)	(57,311)	(807,311)	(2,973,589)	(876)	(80,811)	(3,861,711)	(3,780,900)
Nicolas Peter	750,000	92,250	842,250	3,339,888	1,008	90,700	4,272,838	4,182,138
	–	–	–	–	–	–	–	–
Ian Robertson[3]	900,000	17,158	917,158	3,896,565	1,263	113,645	4,927,368	4,914,391
	(900,000)	(18,735)	(918,735)	(3,469,214)	(1,097)	(101,198)	(4,489,147)	(4,483,005)
Peter Schwarzenbauer	900,000	40,954	940,954	3,896,565	1,263	113,645	4,951,164	4,837,519
	(862,500)	(32,689)	(895,189)	(3,345,313)	(1,058)	(97,601)	(4,338,103)	(4,240,502)
Oliver Zipse	750,000	25,752	775,752	3,339,888	1,008	90,700	4,206,340	4,115,640
	(750,000)	(114,694)	(864,694)	(2,973,589)	(876)	(80,811)	(3,919,094)	(3,838,283)
Total[4]	7,200,000	441,704	7,641,704	31,729,048	9,913	891,973	40,262,725	39,608,356
	(7,425,000)	(385,391)	(7,810,391)	(28,992,624)	(8,964)	(821,990)	(37,625,005)	(37,172,944)

[1] Provisional number or provisional monetary value calculated at grant date (date on which the entitlement became binding in law). The final number of matching shares is determined in each case when the requirement to invest in BMW AG common stock has been fulfilled. See note 39 to the Group Financial Statements for a description of the accounting treatment of the share-based compensation component.
[2] Value of benefits granted for work performed on the Board of Management during the financial year 2017 plus the amount falling due for payment in conjunction with a share-based remuneration component granted in a previous year and for which the holding period requirements were met.
[3] Member of the Board of Management until 31 December 2017.
[4] Disclosures for the previous year include amounts relating to members of the Board of Management who left office during the financial year 2016.

An expense of €3.1 million (2016: €2.8 million) was recognised in the financial year 2017 for current members of the Board of Management for the period after the end of their service relationship. This relates to the expense for allocations to pension provisions.

Total benefits paid to former members of the Board of Management and their surviving dependants for the financial year 2017 amounted to €6.7 million (2016: €6.5 million).

Pension obligations to former members of the Board of Management and their surviving dependants are covered by pension provisions amounting to €90.1 million (2016: €86.4 million), recognised in accordance with IAS 19.

Share-based component of the individual members of the Board of Management for the financial year 2017 (2016)

in €	Expense in 2017 in accordance with HGB and IFRS	Provision at 31.12.2017 in accordance with HGB and IFRS[1]
Harald Krüger	**54,038**	**515,677**
	(279,932)	(557,844)
Milagros Caiña Carreiro-Andree	**63,120**	**303,169**
	(15,276)	(284,247)
Markus Duesmann	**41,001**	**43,131**
	(2,130)	(2,130)
Klaus Fröhlich	**162,436**	**273,688**
	(76,878)	(111,253)
Nicolas Peter	**29,175**	**29,175**
	–	–
Ian Robertson[2]	**141,903**	**474,439**
	(68,865)	(435,753)
Peter Schwarzenbauer	**186,278**	**382,640**
	(95,615)	(196,362)
Oliver Zipse	**122,484**	**193,769**
	(61,370)	(71,285)
Total[3]	**800,435**	**2,215,688**
	(829,579)	(2,614,266)

[1] Provisional number or provisional monetary value calculated on the basis of the closing price of BMW common stock in the Xetra trading system on 29 December 2017 (€86.83) (fair value at reporting date)
[2] Member of the Board of Management until 31 December 2017.
[3] Disclosures for the previous year include amounts relating to members of the Board of Management who left office during the financial year 2016.

Pension entitlements

in €	Service cost in accordance with IFRS for the financial year 2017[1]	Service cost in accordance with HGB for the financial year 2017[1]	Present value of pension obligations (defined benefit plans), in accordance with IFRS[2]	Present value of pension obligations (defined benefit plans), in accordance with HGB[2]
Harald Krüger	**505,281**	**510,702**	**5,558,607**	**5,558,200**
	(507,444)	(510,811)	(4,764,941)	(4,763,838)
Milagros Caiña Carreiro-Andree	**355,527**	**359,275**	**2,347,166**	**2,346,906**
	(358,490)	(360,785)	(1,879,851)	(1,879,263)
Markus Duesmann	**355,840**	**359,521**	**1,020,053**	**1,018,857**
	(87,500)	(87,500)	(622,236)	(620,307)
Klaus Fröhlich	**353,136**	**356,949**	**2,373,842**	**2,373,842**
	(354,365)	(356,743)	(1,935,142)	(1,935,142)
Nicolas Peter	**350,000**	**350,000**	**1,757,459**	**1,757,454**
	(–)	(–)	(–)	(–)
Ian Robertson[3]	**508,865**	**407,941**	**4,965,162**	**4,052,788**
	(424,411)	(408,564)	(4,469,741)	(3,502,860)
Peter Schwarzenbauer	**354,117**	**357,918**	**1,893,252**	**1,893,216**
	(357,203)	(359,548)	(1,481,134)	(1,480,940)
Oliver Zipse	**353,536**	**357,339**	**2,071,748**	**2,071,560**
	(355,045)	(357,410)	(1,621,507)	(1,620,978)
Total[4]	**3,136,302**	**3,059,645**	**21,987,289**	**21,072,823**
	(2,634,212)	(2,849,067)	(23,630,940)	(21,425,612)

[1] Service cost differs due to the different valuation bases used to measure pension obligations for HGB purposes (expected settlement amount) and for IFRS purposes (present value of the defined benefit obligation).
[2] Based on a legal right to receive the benefits already promised to them, one member of the Board of Management appointed for the first time prior to 1 January 2010 was given the option of choosing between the previous defined benefit model and the new defined contribution model.
[3] Member of the Board of Management until 31 December 2017.
[4] Disclosures for the previous year include amounts relating to a member of the Board of Management who left office during the financial year 2016.

2. Supervisory Board compensation

Responsibilities, provisions of Articles of Incorporation

The compensation of the Supervisory Board is specified by resolution of the shareholders at the Annual General Meeting or in the Articles of Incorporation. The compensation provisions valid for the financial year under report were resolved by shareholders at the Annual General Meeting on 14 May 2013 and are set out in Article 15 of BMW AG's Articles of Incorporation, which can be viewed and/or downloaded at → www.bmwgroup.com/ir under the menu items "Facts about the BMW Group" and "Corporate Governance".

Compensation principles, compensation components

The Supervisory Board of BMW AG receives a fixed compensation component as well as an earnings-related compensation component, which is oriented toward sustainable growth. The earnings-related component is based on average earnings per share of common stock for the remuneration year and the two preceding financial years.

The fixed and earnings-related components in combination are intended to ensure that the compensation of Supervisory Board members is appropriate in relation to the tasks of Supervisory Board members and the Company's financial condition and also takes account of the Company's performance over several years.

In accordance with the Articles of Incorporation, each member of BMW AG's Supervisory Board receives, in addition to the reimbursement of reasonable expenses, a fixed amount of €70,000, payable at the end of the year, as well as earnings-related compensation of €170 for each full €0.01 by which the average amount of (undiluted) earnings per share (EPS) of common stock reported in the Group Financial Statements for the remuneration year and the two preceding financial years exceed a minimum amount of €2.00, payable after the Annual General Meeting held in the following year. An upper limit corresponding to twice the amount of the fixed compensation is in place for the Group performance-related compensation. The limit for a member of the Supervisory Board with no additional compensation-relevant function is therefore set at €140,000.

With fixed compensation elements and an earnings-related compensation component oriented toward sustainable growth, the compensation structure in place for BMW AG's Supervisory Board complies with the recommendation on supervisory board compensation contained in section 5.4.6 paragraph 2 sentence 2 of the German Corporate Governance Code, in the version dated 7 February 2017.

The German Corporate Governance Code also recommends in section 5.4.6 paragraph 1 sentence 2 that the exercising of chair and deputy chair positions in the Supervisory Board as well the chair and membership of committees should also be considered in the compensation.

Accordingly, the Articles of Incorporation of BMW AG stipulate that the Chairman of the Supervisory Board shall receive three times the amount and each Deputy Chairman shall receive twice the amount of the remuneration of a Supervisory Board member. Each chairman of the Supervisory Board's committees receives twice the amount and each member of a committee receives one-and-a-half times the amount of the remuneration of a Supervisory Board member, provided the relevant committee convened for meetings on at least three days during the financial year. If a member of the Supervisory Board exercises more than one of the functions referred to above, the compensation is measured only on the basis of the function that is remunerated with the highest amount.

In addition, each member of the Supervisory Board receives an attendance fee of €2,000 for each full meeting of the Supervisory Board (Plenum) which the member has attended, payable at the end of the financial year. Attendance at more than one meeting on the same day is not remunerated separately.

The Company also reimburses to each member of the Supervisory Board reasonable expenses and any value-added tax arising on the member's remuneration. The amounts disclosed below are net amounts.

In order to perform his duties, the Chairman of the Supervisory Board has the use of an office, with administrative support, as well as access to the BMW car service.

Total compensation of the Supervisory Board for the financial year 2017

In accordance with Article 15 of the Articles of Incorporation, the compensation of the Supervisory Board for activities during the financial year 2017 totalled €5.6 million (2016: €5.4 million). This includes fixed compensation of €2.0 million (2016: €2.0 million) and variable compensation of €3.6 million (2016: €3.4 million). The earnings-related compensation for the financial year 2017 was capped at the maximum amount stipulated in the Articles of Incorporation.

	2017		2016	
in € million	Amount	Proportion in %	Amount	Proportion in %
Fixed compensation	2.0	35.7	2.0	37.0
Variable compensation	3.6	64.3	3.4	63.0
Total compensation	**5.6**	**100.0**	**5.4**	**100.0**

Supervisory Board members did not receive any further compensation or benefits from the BMW Group for advisory or agency services personally rendered.

Compensation of the individual members of the Supervisory Board for the financial year 2017 (2016)

in €	Fixed compensation	Attendance fee	Variable compensation	Total
Norbert Reithofer (Chairmann)	210,000	10,000	420,000	640,000
	(210,000)	(10,000)	(390,660)	(610,660)
Manfred Schoch (Deputy Chairmann)[1]	140,000	10,000	280,000	430,000
	(140,000)	(10,000)	(260,440)	(410,440)
Stefan Quandt (Deputy Chairmann)	140,000	10,000	280,000	430,000
	(140,000)	(10,000)	(260,440)	(410,440)
Stefan Schmid (Deputy Chairmann)[1]	140,000	10,000	280,000	430,000
	(140,000)	(10,000)	(260,440)	(410,440)
Karl-Ludwig Kley (Deputy Chairmann)	140,000	10,000	280,000	430,000
	(140,000)	(8,000)	(260,440)	(408,440)
Christiane Benner[1]	70,000	6,000	140,000	216,000
	(70,000)	(10,000)	(130,220)	(210,220)
Franz Haniel	70,000	10,000	140,000	220,000
	(70,000)	(8,000)	(130,220)	(208,220)
Ralf Hattler	70,000	10,000	140,000	220,000
	(–)	(–)	(–)	(–)
Heinrich Hiesinger[2]	44,785	6,000	89,570	140,355
	(–)	(–)	(–)	(–)
Reinhard Hüttl	70,000	10,000	109,780[4]	189,780
	(70,000)	(10,000)	(130,220)	(210,220)
Henning Kagermann[3]	25,403	2,000	50,806	78,209
	(70,000)	(8,000)	(130,220)	(208,220)
Susanne Klatten	70,000	10,000	140,000	220,000
	(70,000)	(10,000)	(130,220)	(210,220)
Renate Köcher	70,000	10,000	140,000	220,000
	(70,000)	(10,000)	(130,220)	(210,220)
Robert W. Lane	70,000	8,000	140,000	218,000
	(70,000)	(8,000)	(130,220)	(208,220)
Horst Lischka[1]	70,000	10,000	140,000	220,000
	(70,000)	(10,000)	(130,220)	(210,220)
Willibald Löw[1]	70,000	10,000	140,000	220,000
	(70,000)	(10,000)	(130,220)	(210,220)
Simone Menne	70,000	8,000	140,000	218,000
	(70,000)	(10,000)	(130,220)	(210,220)
Dominique Mohabeer[1]	70,000	10,000	140,000	220,000
	(70,000)	(10,000)	(130,220)	(210,220)
Brigitte Rödig[1]	70,000	10,000	140,000	220,000
	(70,000)	(8,000)	(130,220)	(208,220)
Jürgen Wechsler[1]	70,000	8,000	140,000	218,000
	(70,000)	(8,000)	(130,220)	(208,220)
Werner Zierer[1]	70,000	10,000	140,000	220,000
	(70,000)	(10,000)	(130,220)	(210,220)
Total[5]	1,820,188	188,000	3,610,156	5,618,344
	(1,820,000)	(188,000)	(3,385,720)	(5,393,720)

[1] These employee representatives have – in line with the guidelines of the Deutsche Gewerkschaftsbund – requested that their remuneration be paid into the Hans Böckler-Stiftung.
[2] Member of Supervisory Board since 11 May 2017.
[3] Member of Supervisory Board until 11 May 2017.
[4] Due to the requirements of his employer, Prof. Dr. Hüttl has waived his Supervisory Board compensation until further notice, to the extent that this would exceed the amount of €200,000 (excluding value added tax) p.a. The share of the Supervisory Board compensation for the 2016 financial year, which exceeds this amount and should therefore be reimbursed, has been offset against the earnings-related component of Supervisory Board compensation for the 2017 financial year.
[5] Disclosures for the previous year include amounts relating to a member of the Supervisory Board who left office during the financial year 2016.

3. Other

Apart from vehicle lease and financing contracts entered into on customary market conditions, no advances or loans were granted to members of the Board of Management and the Supervisory Board by BMW AG or its subsidiaries, nor were any contingent liabilities entered into on their behalf.

RESPONSIBILITY STATEMENT BY THE COMPANY'S LEGAL REPRESENTATIVES

Statement pursuant to § 37y No. 1 of the Securities Trading Act (WpHG) in conjunction with § 297 (2) sentence 4 and § 315 (1) sentence 6 of the German Commercial Code (HGB)

"To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group."

Munich, 15 February 2018

Bayerische Motoren Werke
Aktiengesellschaft

The Board of Management

Harald Krüger

Milagros Caiña Carreiro-Andree

Markus Duesmann

Klaus Fröhlich

Pieter Nota

Dr. Nicolas Peter

Peter Schwarzenbauer

Oliver Zipse

INDEPENDENT AUDITOR'S REPORT

To Bayerische Motoren Werke Aktiengesellschaft, Munich

Report on the Audit of the Consolidated Financial Statements and the Group Management Report

Opinions

We have audited the consolidated financial statements prepared by Bayerische Motoren Werke Aktiengesellschaft, Munich, and its subsidiaries (Group or BMW Group, respectively), comprising the balance sheet for group, income statement for group and statement of comprehensive income for group, group statement of changes in equity, cash flow statement for group and the notes to the group financial statements including accounting principles and policies. In addition, we have audited the combined management report (subsequently referred to as group management report) for the financial year from 1 January to 31 December 2017. In accordance with the German legal requirements we have not audited the content of the statement on Corporate Governance which is included in section "Statement on Corporate Governance (§ 289 f HGB)" [Handelsgesetzbuch: German Commercial Code] of the group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315 e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017, and of its financial performance for the financial year from 1 January to 31 December 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the contents of the corporate governance statement mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Valuation of residual values of leased products
The "accounting principles and policies" are disclosed in the notes to the consolidated financial statements in note 4. Disclosure of "leased products" is provided in the notes to the consolidated financial statements in note 21.

Financial statement risk
BMW Group leases vehicles to end customers as part of operating leases. As at the reporting date, the value of leased products amounted to EUR 36,257 million.

The key estimated value for the purposes of subsequent measurement is the expected residual value at the end of the lease term.

The estimation of future residual values is subject to judgement and complex due to the large number of assumptions to be made and the amount of data incorporated in the determination. For the residual value forecasts, BMW Group uses internally available data on historical values, current market data as well as forecasts from external market research institutes.

There is a risk for the financial statements that the residual values expected for the end of the lease terms are not appropriately assessed and the impairment losses or reversal of impairment losses required for the leased products are not recognised in sufficient amounts.

Our audit approach
By means of inquiries, inspecting internal calculation methods and analysing the disposal proceeds of vehicles, among other methods, we obtained an understanding of the development of leased products, the underlying residual value risks as well as the business processes for the identification, management, monitoring and measurement of residual value risks.

We reviewed the appropriateness and effectiveness of the internal control system, particularly in relation to the determination of expected residual values. This included the audit of the compliance of the relevant IT systems as well as the implemented interfaces therein by our IT specialists.

In addition, we evaluated the appropriateness of the forecasting methods, the model assumptions as well as the parameters used for the determination of the residual values based on the validations carried out by BMW Group. For this purpose, we inquired with BMW Group's experts responsible for the management and monitoring of residual value risks and inspected the internal analysis on residual value developments and residual value forecasts as well as the validation results. Furthermore, we evaluated the processes for processing external forecast values from market research institute. We ensured the computational accuracy of the forecast values by verifying key calculation steps.

Our conclusions
The methods and processes for determining the expected residual values of the leased products underlying the valuation are appropriate. The assumptions and parameters incorporated in the forecast model for the residual value are appropriate as a whole.

Valuation of receivables from sales financing
The "accounting principles and policies" as well as the assumptions, judgements and estimations made are disclosed in the notes to the consolidated financial statements in note 4. Disclosure of "sales financing" is provided in the notes to the consolidated financial statements in note 23.

Financial statement risk
BMW Group offers end customers, dealerships and importers various financing models for vehicles and other assets. In this regard, current and non-current receivables from sales financing totalling EUR 80.434 million were recognised as at the reporting date. Impairment losses amounting to EUR 1,147 million were recognised on these receivables as at the reporting date.

The determination of impairment losses requires considerable judgement due to a number of value determinants such as risk classifications, the determination of default probabilities as well as loss rates.

There is a risk for the financial statements that the creditworthiness of the dealerships, importers and end customers, as well as any loss rates, is estimated incorrectly, the risk provisioning parameters are derived incorrectly and an impairment loss required on receivables from sales financing is not recognised or not recognised in a sufficient amount.

Our audit approach
By means of inquiries, inspecting internal calculation methods and analysis, among other methods, we obtained a comprehensive understanding of the development of credit portfolios, the associated counterparty-related risks and the business processes for the identification, management, monitoring and measurement of counterparty risks.

We audited the appropriateness and effectiveness of the internal control system in relation to the risk classification procedures. In addition, we evaluated the relevant IT systems and internal processes. The audit included a review by our IT specialists of the appropriateness of the systems concerned and associated interfaces to ensure the completeness of data as well as the audit of automated controls for data processing.

A key component of our audit was to assess the appropriateness of the risk classification procedures as well as the risk provisioning parameters used, which are derived from historical default probabilities and loss rates. We also analysed the validations of parameters that are regularly conducted. To assess the default risk, we also used purposive sampling of individual cases to verify that the attributes for assignment to the respective risk categories were suitably available and the impairment losses had been calculated using the parameters defined for these risk categories.

Our conclusions

The assumptions and parameters incorporated in the determination of receivables from sales financing are appropriate as a whole.

Valuation of provisions for statutory and non-statutory warranty obligations and product guarantees

The "accounting principles and policies" as well as the assumptions, judgements and estimations made are disclosed in the notes to the consolidated financial statements in note 4. Disclosure of "Other provisions" is provided in the notes to the consolidated financial statements in note 31.

Financial statement risk

Provisions for statutory and non-statutory warranty obligations and product guarantees are included in the consolidated financial statements of BMW Group as a significant component in "Other provisions". The provisions for statutory and non-statutory warranty obligations and product guarantees amounted to EUR 4,825 million on 31 December 2017.

BMW Group is responsible for the legally prescribed product liability and the warranty in the respective sales market. Moreover, additional warranties are granted to differing extents. In order to assess the liabilities arising from warranty, guarantee and goodwill for vehicles sold, information on the type and volume of damages arising and on remedial measures is recorded and evaluated at vehicle model level. The expected amount of obligations arising from warranty claims is extrapolated from costs of the past and provided for. For specific or anticipated individual circumstances, for example recalls, additional provisions are set aside provided they have not already been taken into account. The determination of provisions is associated with unavoidable estimation uncertainties, is complex and is subject to a high degree of risk of change, depending on factors such as detected deficiencies becoming known and claims made by vehicle owners.

There is a risk for the financial statements that the valuation of provisions for statutory and non-statutory warranty obligations and product guarantees is not appropriate.

Our audit approach

In order to evaluate the appropriateness of the valuation method used for the determination of the provisions for statutory and non-statutory warranty obligations and product guarantees including the assumptions and parameters, through discussions with the departments responsible, we primarily obtained an understanding of the process for determining the assumptions and parameters. We audited the appropriateness and effectiveness of controls to determine the assumptions and parameters. With the involvement of our IT specialists, we reviewed the IT systems utilised to verify their appropriateness.

We compared the amount of provisions from prior year with expenses selected according to risk and which actually arose for damage claims, as well as with technical measures, in order to arrive at a conclusion on the forecast accuracy.

Selecting specific vehicle models, the computational accuracy of the valuation model used across the Group including a tool for rate-based planning was verified with the support of our actuaries. The measurement parameters included therein, such as cost items, were reconciled with actual costs. We evaluated the assumptions concerning the extent to which the historical values are representative for the expected damage susceptibility, for the expected value of damage per vehicle in terms of material and labour cost and for the anticipated claim.

Our conclusions

The method for the valuation of provisions for statutory and non-statutory warranty obligations and product guarantees is appropriate and has been applied consistently. The measurement parameters and assumptions applied are appropriate as a whole.

Valuation for current income tax liabilities in relation to transfer pricing risks

The "accounting principles and policies" as well as the assumptions, judgements and estimations made are disclosed in the notes to the consolidated financial statements in note 4. Disclosure of "income tax liabilities" is provided in the notes to the consolidated financial statements in note 32.

Financial statement risk

In the consolidated financial statements of BMW Group, current income tax liabilities in the amount of EUR 1,124 million are reported as at 31 December 2017, which also include risks arising from transfer pricing.

The business operations of BMW Group in respect of the production and sale of vehicles require extensive cross-border relationships with affiliated companies. In this regard, the varying requirements under tax legislation as well as the specifications of the responsible tax authorities for the respective countries must be observed; the corresponding tax determinations are subject to review by the competent tax authorities over several years.

Transfer pricing is calculated by exercising judgement on the determination of the related parameters and requires discretionary interpretation of the prevailing-regulatory frameworks of countries concerned in respect of the transfer pricing utilised.

There is a risk for the financial statements that the current income tax liabilities in relation to transfer pricing were not measured at an appropriate amount.

Our audit approach

In order to audit the current income tax liabilities in relation to transfer pricing, we involved staff specialising in transfer pricing law and those specialising in national and international tax law.

Using inquiries, we obtained an understanding of the parameters set. We compared arm's length values with available benchmark studies, empirical values and the results of past tax audits, as well as with completed mutual agreement procedures. Furthermore, we inspected the correspondence with tax authorities related to concluded mutual agreement procedures and tax audits and evaluated whether their consideration in the determination of transfer pricing was appropriate.

For sales companies selected according to risk, we examined whether risks that had not previously been considered in the determination of the current income tax liabilities could be identified on the basis of the margins generated. We mathematically verified the income tax liabilities amount resulting from the difference between the margin and the arm's length values.

Our conclusions

The parameters underlying the measurement for current income tax liabilities in relation to transfer pricing risk are appropriate as a whole.

Other information

The legal representatives are responsible for the other information. Other information includes:

- the Statement on Corporate Governance and
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and group management report as well as our Independent Auditor's Report

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal controls as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 11 May 2017 for the financial year from 1 January to 31 December 2017 and on 22 June 2017 we were engaged by the audit committee of the supervisory board. Taking into consideration the Article 41 (1) EU APrVO we have been the group auditor of the Bayerische Motoren Werke Aktiengesellschaft without interruption for more than 30 years.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

Certified Public Auditor Responsible for the Engagement

The Certified Public Auditor responsible for the engagement is Andreas Feege.

Munich, 26 February 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

Sailer	Feege
Wirtschaftsprüfer	Wirtschaftsprüfer
[Certified Public Auditor]	[Certified Public Auditor]

OTHER INFORMATION

5

BMW GROUP TEN-YEAR COMPARISON

		2017	2016	2015	2014
DELIVERIES					
Automobiles	units	2,463,526	2,367,603	2,247,485	2,117,965
Motorcycles[1]	units	164,153	145,032	136,963	123,495
PRODUCTION VOLUME					
Automobiles	units	2,505,741	2,359,756	2,279,503	2,165,566
Motorcycles[1]	units	185,682	145,555	151,004	133,615
FINANCIAL SERVICES					
Contract portfolio	contracts	5,380,785	5,114,906	4,718,970	4,359,572
Business volume (based on balance sheet carrying amounts)	€ million	124,719	123,394	111,191	96,390
INCOME STATEMENT					
Revenues	€ million	98,678	94,163	92,175	80,401
Gross profit margin	%	20.2	19.9	19.7	21.2
Earnings before financial result	€ million	9,880	9,386	9,593	9,118
Earnings before tax	€ million	10,655	9,665	9,224	8,707
Return on sales (earnings before tax / revenues)	%	10.8	10.3	10.0	10.8
Income taxes	€ million	1,949	2,755	2,828	2,890
Effective tax rate	%	18.3	28.5	30.7	33.2
Net profit for the year	€ million	8,706	6,910	6,396	5,817
BALANCE SHEET					
Non-current assets	€ million	121,901	121,671	110,343	97,959
Current assets	€ million	71,582	66,864	61,831	56,844
Capital expenditure (excluding capitalised development costs)	€ million	4,688	3,731	3,826	4,601
Capital expenditure ratio (capital expenditure / revenues)	%	4.8	4.0	4.2	5.7
Equity	€ million	54,548	47,363	42,764	37,437
Equity ratio	%	28.2	25.1	24.8	24.2
Non-current provisions and liabilities	€ million	69,888	73,183	63,819	58,288
Current provisions and liabilities	€ million	69,047	67,989	65,591	59,078
Balance sheet total	€ million	193,483	188,535	172,174	154,803
CASH FLOW STATEMENT					
Cash and cash equivalents at balance sheet date	€ million	9,039	7,880	6,122	7,688
Free cash flow Automotive segment	€ million	4,459	5,792	5,404	3,481
PERSONNEL					
Workforce at year-end[2]		129,932	124,729	122,244	116,324
Personnel cost per employee	€	101,139	99,575	97,136	92,337
DIVIDEND					
Dividend total	€ million	2,630	2,300	2,102	1,904
Dividend per share of common stock / preferred stock	€	4.00[3] / 4.02[3]	3.50 / 3.52	3.20 / 3.22	2.90 / 2.92

[1] Excluding Husqvarna, deliveries up to 2013: 59,776 units; production up to 2013: 59,426 units.
[2] Figures exclude dormant employment contracts, employees in the non-work phases of pre-retirement part-time arrangements and low wage earners.
[3] Proposal by management.

	2013	2012	2011	2010	2009	2008
DELIVERIES						
Automobiles	1,963,798	1,845,186	1,668,982	1,461,166	1,286,310	1,435,876
Motorcycles[1]	115,215	106,358	104,286	98,047	87,306	101,685
PRODUCTION VOLUME						
Automobiles	2,006,366	1,861,826	1,738,160	1,481,253	1,258,417	1,439,918
Motorcycles[1]	110,127	113,811	110,360	99,236	82,631	104,220
FINANCIAL SERVICES						
Contract portfolio	4,130,002	3,846,364	3,592,093	3,190,353	3,085,946	3,031,935
Business volume (based on balance sheet carrying amounts)	84,347	80,974	75,245	66,233	61,202	60,653
INCOME STATEMENT						
Revenues	76,059	76,848	68,821	60,477	50,681	53,197
Gross profit margin	20.1	20.2	21.1	18.1	10.5	11.4
Earnings before financial result	7,978	8,275	8,018	5,111	289	921
Earnings before tax	7,893	7,803	7,383	4,853	413	351
Return on sales (earnings before tax / revenues)	10.4	10.2	10.7	8.0	0.8	0.7
Income taxes	2,564	2,692	2,476	1,610	203	21
Effective tax rate	32.5	34.5	33.5	33.1	49.2	6.0
Net profit for the year	5,329	5,111	4,907	3,243	210	330
BALANCE SHEET						
Non-current assets	86,193	81,305	74,425	67,013	62,009	62,416
Current assets	52,184	50,530	49,004	43,151	39,944	38,670
Capital expenditure (excluding capitalised development costs)	4,967	4,151	2,720	2,312	2,383	2,980
Capital expenditure ratio (capital expenditure / revenues)	6.5	5.4	4.0	3.8	4.7	5.6
Equity	35,600	30,606	27,103	23,930	19,915	20,273
Equity ratio	25.7	23.2	22.0	21.7	19.5	20.1
Non-current provisions and liabilities	51,643	52,834	49,113	46,100	45,119	41,526
Current provisions and liabilities	51,134	48,395	47,213	40,134	36,919	39,287
Balance sheet total	138,377	131,835	123,429	110,164	101,953	101,086
CASH FLOW STATEMENT						
Cash and cash equivalents at balance sheet date	7,671	8,370	7,776	7,432	7,767	7,454
Free cash flow Automotive segment	3,003	3,809	3,166	4,471	1,456	197
PERSONNEL						
Workforce at year-end[2]	110,351	105,876	100,306	95,453	96,230	100,041
Personnel cost per employee	89,869	89,161	84,887	83,141	72,349	75,612
DIVIDEND						
Dividend total	1,707	1,640	1,508	852	197	197
Dividend per share of common stock / preferred stock	2.60 / 2.62	2.50 / 2.52	2.30 / 2.32	1.30 / 1.32	0.30 / 0.32	0.30 / 0.32

GLOSSARY – EXPLANATION OF KEY FIGURES

Asset-backed financing transactions
A form of corporate financing involving the sale of receivables to a financing company.

Bond
A securitised debt instrument in which the issuer certifies its obligation to repay the nominal amount at the end of a fixed term and to pay a fixed or variable rate of interest.

Business volume in balance sheet terms
The sum of the balance sheet line items "Leased products" and "Receivables from sales financing" (current and non-current), as reported in the balance sheet for the Financial Services segment.

Capital expenditure ratio
Investments in property, plant and equipment and other intangible assets (excluding capitalised development costs) as a percentage of Group revenues.

Capitalisation rate
Capitalised development costs as a percentage of research and development expenditure.

Cash flow
Liquid funds generated (cash inflows) or used (cash outflows) during a reporting period.

Cash flow at risk
Similar to "value at risk" (see definition below).

Cash flow hedge
A hedge against exposures to the variability in forecasted cash flows, particularly in connection with exchange rate fluctuations.

Commercial paper
Short-term debt instruments with a term of less than one year which are usually sold at a discount to their face value.

Consolidation
The process of combining separate financial statements of Group entities into Group Financial Statements, depicting the financial position, net assets and results of operations of the Group as a single economic entity.

Credit default swap (CDS)
Financial swap agreements, under which creditors of securities (usually bonds) pay premiums to the seller of the CDS to hedge against the risk that the issuer of the bond will default. As with credit default insurance agreements, the party receiving the premiums gives a commitment to compensate the bond creditor in the event of default.

Earnings per share (EPS)
Basic earnings per share are calculated for common and preferred stock by dividing the net profit after minority interests, as attributable to each category of stock, by the average number of shares in circulation. Earnings per share of preferred stock are computed on the basis of the number of preferred stock shares entitled to receive a dividend in each of the relevant financial years.

EBIT
Abbreviation for "Earnings Before Interest and Taxes", equivalent in the BMW Group income statement to "Profit/loss before financial result".

EBIT margin
Profit/loss before financial result as a percentage of revenues.

Effective tax rate
The effective tax rate is calculated by dividing the income tax expense by the Group profit before tax.

Equity ratio
Equity capital as a percentage of the balance sheet total.

Fair value
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair value hedge
A hedge against exposures to fluctuations in the fair value of a balance sheet item.

Goodwill
Goodwill corresponds to the consideration paid to acquire an entity, less the fair value of the separate assets acquired and liabilities assumed. The buyer is willing to pay the additional amount in return for future expected earnings.

Gross margin
Gross profit as a percentage of Group revenues.

Liquidity
Cash and cash equivalents as well as marketable securities and investment funds.

Post-tax return on sales
Group net profit as a percentage of Group revenues.

Pre-tax return on sales
Group profit/loss before tax as a percentage of Group revenues.

Research and development expenditure
The sum of research and non-capitalised development cost and capitalised development cost (not including the associated scheduled amortisation).

Research and development expenditure ratio
Research and development expenditure as a percentage of Group revenues.

Return on capital employed (RoCE)
RoCE in the Automotive and Motorcycles segments is measured on the basis of relevant segment profit before financial result and the average amount of capital employed in the segment concerned. Capital employed corresponds to the sum of all current and non-current operational assets, less liabilities that do not incur interest.

Return on equity (RoE)
RoE in the Financial Services segment is calculated as segment profit before taxes, divided by the average amount of equity capital attributable to the Financial Services segment.

Value at risk
A measure of the potential maximum loss in value of an item during a set time period, based on a specified probability.

INDEX

O

P

R

S

T

INDEX OF GRAPHS

Finances

Sales volume and locations

Workforce

Sustainability

Further information

FINANCIAL CALENDAR

2018

21 March 2018
Annual Accounts Press Conference

22 March 2018
Analyst and Investor Conference

4 May 2018
Quarterly Report to 31 March 2018

17 May 2018
Annual General Meeting

2 August 2018
Quarterly Report to 30 June 2018

7 November 2018
Quarterly Report to 30 September 2018

2019

20 March 2019
Annual Report 2018

20 March 2019
Annual Accounts Press Conference

21 March 2019
Analyst and Investor Conference

7 May 2019
Quarterly Report to 31 March 2019

16 May 2019
Annual General Meeting

1 August 2019
Quarterly Report to 30 June 2019

6 November 2019
Quarterly Report to 30 September 2019

CONTACTS

Business and Finance Press

Telephone	+49 89 382-2 45 44
	+49 89 382-2 41 18
Fax	+49 89 382-2 44 18
E-mail	presse@bmwgroup.com

Investor Relations

Telephone	+49 89 382-3 16 84
	+49 89 382-2 53 87
Fax	+49 89 382-1 46 61
E-mail	ir@bmwgroup.com

The BMW Group on the Internet

Further information about the BMW Group is available online at → www.bmwgroup.com.
Investor Relations information is available directly at → www.bmwgroup.com/ir.
Information about the various BMW Group brands is available at → www.bmw.com, → www.mini.com and → www.rolls-roycemotorcars.com.

A further contribution towards preserving resources

The BMW Annual Report was printed on paper produced in accordance with the international FSC® Standard: the pulp is sourced from sustainably managed forests.

The corresponding CO_2 emissions were compensated by additional environmental and climate protection measures as part of a reforestation project in collaboration with Bergwaldprojekt e. V. (certificate number: DE-250-830816).

FSC www.fsc.org MIX Paper from responsible sources FSC C014340

carbon neutral natureOffice.com | DE-250-830816 print production

This version of the Annual Report is a translation from the German version. Only the original German version is binding.

PUBLISHED BY

Bayerische Motoren Werke
Aktiengesellschaft
80788 Munich
Germany
Telephone +49 89 382-0