ANNUAL REPORT 2016

A New Era Begins

BMW GROUP

THE NEXT 100 YEARS

Rolls-Royce Motor Cars Limited

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BMW GROUP IN FIGURES

Key non-financial performance indicators

→ 01

	2012	2013	2014	2015	2016	Change in %
BMW GROUP						
Workforce at year-end[1]	105,876	110,351	116,324	122,244	124,729	2.0
AUTOMOTIVE SEGMENT						
Sales volume[2]	1,845,186	1,963,798	2,117,965	2,247,485	2,367,603	5.3
Fleet emissions in g CO_2/km[3]	143	133	130	127	124	– 2.4
MOTORCYCLES SEGMENT						
Sales volume[4]	106,358	115,215	123,495	136,963	145,032	5.9

Further non-financial performance figures

→ 02

	2012	2013	2014	2015	2016	Change in %
AUTOMOTIVE SEGMENT						
Sales volume						
BMW[2]	1,540,085	1,655,138	1,811,719	1,905,234	2,003,359	5.2
MINI	301,526	305,030	302,183	338,466	360,233	6.4
Rolls-Royce	3,575	3,630	4,063	3,785	4,011	6.0
Total[2]	**1,845,186**	**1,963,798**	**2,117,965**	**2,247,485**	**2,367,603**	**5.3**
Production volume						
BMW[5]	1,547,057	1,699,835	1,838,268	1,933,647	2,002,997	3.6
MINI	311,490	303,177	322,803	342,008	352,580	3.1
Rolls-Royce	3,279	3,354	4,495	3,848	4,179	8.6
Total[5]	**1,861,826**	**2,006,366**	**2,165,566**	**2,279,503**	**2,359,756**	**3.5**
MOTORCYCLES SEGMENT						
Production volume[6]						
BMW	113,811	110,127	133,615	151,004	145,555	– 3.6
FINANCIAL SERVICES SEGMENT						
New contracts with retail customers	1,341,296	1,471,385	1,509,113	1,655,961	1,811,157	9.4

[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 (2012: 141,165 units, 2013: 198,542 units, 2014: 275,891 units, 2015: 282,000 units, 2016: 316,200 units).
[3] EU-28.
[4] Excluding Husqvarna, sales volume up to 2013: 59,776 units.
[5] Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2012: 150,052 units, 2013: 214,920 units, 2014: 287,466 units, 2015: 287,755 units, 2016: 305,726 units).
[6] Excluding Husqvarna, production up to 2013: 59,426 units.

Key financial performance indicators

→ 03

	2012	2013	2014	2015	2016	Change in %
BMW GROUP						
Profit before tax in € million	7,803	7,893	8,707	9,224	**9,665**	4.8
AUTOMOTIVE SEGMENT						
Revenues in € million	70,208	70,630	75,173	85,536	**86,424**	1.0
EBIT margin in % (change in %pts)	10.8	9.4	9.6	9.2	**8.9**	–0.3
RoCE in % (change in %pts)	73.7	63.0	61.7	72.2	**74.3**	2.1
MOTORCYCLES SEGMENT						
RoCE in % (change in %pts)	1.8	16.4	21.8	31.6	**33.0**	1.4
FINANCIAL SERVICES SEGMENT						
RoE in % (change in %pts)	21.2	20.0	19.4	20.2	**21.2**	1.0

Further financial performance figures

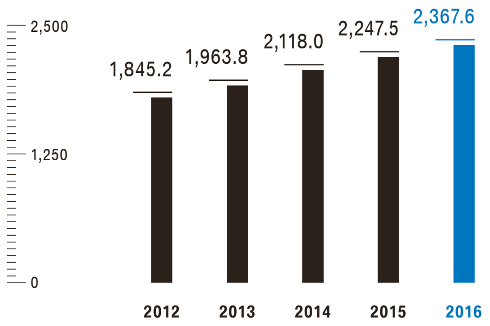
→ 04

in € million	2012	2013	2014	2015	2016	Change in %
Capital expenditure	5,240	6,711	6,100	5,890	**5,823**	–1.1
Depreciation and amortisation	3,541	3,741	4,170	4,659	**4,806**	3.2
Operating cash flow Automotive segment	9,167	9,964	9,423	11,836	**11,464**	–3.1
Revenues	**76,848**	**76,059**	**80,401**	**92,175**	**94,163**	**2.2**
Automotive	70,208	70,630	75,173	85,536	**86,424**	1.0
Motorcycles	1,490	1,504	1,679	1,990	**2,069**	4.0
Financial Services	19,550	19,874	20,599	23,739	**25,681**	8.2
Other Entities	5	6	7	7	**6**	–14.3
Eliminations	–14,405	–15,955	–17,057	–19,097	**–20,017**	–4.8
Profit before financial result (EBIT)	**8,275**	**7,978**	**9,118**	**9,593**	**9,386**	**–2.2**
Automotive	7,599	6,649	7,244	7,836	**7,695**	–1.8
Motorcycles	9	79	112	182	**187**	2.7
Financial Services	1,558	1,643	1,756	1,981	**2,184**	10.2
Other Entities	58	44	71	169	**–17**	–
Eliminations	–949	–437	–65	–575	**–663**	–15.3
Profit before tax	**7,803**	**7,893**	**8,707**	**9,224**	**9,665**	**4.8**
Automotive	7,170	6,561	6,886	7,523	**7,916**	5.2
Motorcycles	6	76	107	179	**185**	3.4
Financial Services	1,561	1,619	1,723	1,975	**2,166**	9.7
Other Entities	3	164	154	211	**170**	–19.4
Eliminations	–937	–527	–163	–664	**–772**	–16.3
Income taxes	**–2,692**	**–2,564**	**–2,890**	**–2,828**	**–2,755**	**2.6**
Net profit	**5,111**	**5,329**	**5,817**	**6,396**	**6,910**	**8.0**
Earnings per share in €	**7.75 / 7.77**	**8.08 / 8.10**	**8.83 / 8.85**	**9.70 / 9.72**	**10.45 / 10.47**	**7.7 / 7.7**

Sales volume of automobiles*

→ 05

in 1,000 units

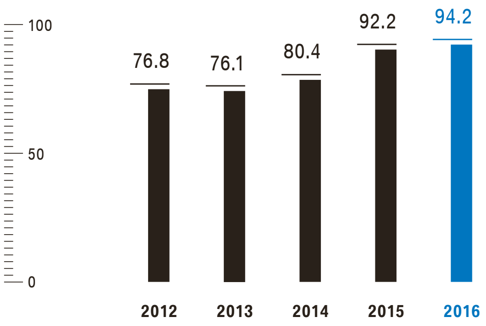


* Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2012: 141,165 units, 2013: 198,542 units, 2014: 275,891 units, 2015: 282,000 units, 2016: 316,200 units).

Revenues

→ 07

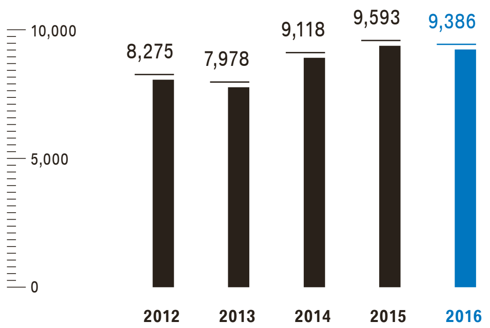
in € billion



Profit before financial result

→ 06

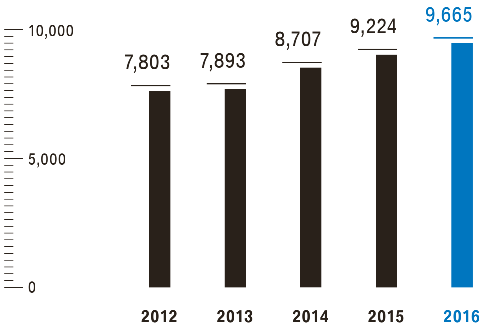
in € million



Profit before tax

→ 08

in € million



REPORT OF THE SUPERVISORY BOARD

STATEMENT OF THE CHAIRMAN OF THE BOARD OF MANAGEMENT

Norbert Reithofer
Chairman of the Supervisory Board

Dear Shareholders,

In 2016, BMW AG celebrated its 100th anniversary. Quite fittingly, the BMW Group finished its centenary year with record earnings. With its Strategy NUMBER ONE > NEXT, the BMW Group is moving forward with a sense of purpose into the challenging era of digitalisation and electrification and fully intends to continue playing an active role in shaping technological change within the automobile industry.

Main emphases of the Supervisory Board's monitoring and advisory activities

Throughout the financial year 2016, we performed the duties incumbent on the Supervisory Board in accordance with the law and the Articles of Association. We continuously monitored the Board of Management's governance of the business and provided advice on important projects and plans.

One of the main areas of emphasis with regard to reporting and our consultations in 2016 was the enhanced development of the BMW Group's corporate strategy. We also deliberated at length on succession planning for the Board of Management. Corporate planning was a further key area of focus. We discussed the current performance and financial position of the BMW Group at each of our five Supervisory Board meetings.

We carefully monitored the overall performance of the BMW Group, both at scheduled meetings and at other times as the situation required. The Board of Management informed us of all key sales and workforce figures on a regular basis. The Chairman of the Board of Management informed me personally and in a prompt manner regarding all important transactions and key projects.

Similarly, Dr Karl-Ludwig Kley, the Chairman of the Audit Committee, and Dr Friedrich Eichiner, member of the Board of Management responsible for Finance, consulted on matters directly, both at scheduled meetings and as the need arose.

At the beginning of the year, the Board of Management presented us with a summary of new and revised vehicle models scheduled for market launch in 2016.

The Board of Management reported to us regularly and comprehensively on the BMW Group's financial condition, providing information on sales volume developments, market competition issues relevant for the Automotive and Motorcycles segments, and changes in the size of the workforce. It also kept us informed of economic developments in the world's key regions and the prospects for business in each of them. The Board of Management provided us with regular updates on new business with retail customers and business volumes in the Financial Services segment, including explanations of variances against the forecast.

In its regular business status reports, the Board of Management kept us well informed regarding the progress of important current projects and transactions, which we then deliberated upon in greater detail. For example, the Board of Management briefed us on the BMW Group's collaboration with Mobileye and Intel aimed at developing technologies for highly and fully automated driving. It also provided information on the planned joint venture with other automobile manufacturers to establish a charging infrastructure for electric vehicles that is compatible with every brand. Other items reported on included the complete acquisition of the parking space service provider ParkMobile and the enlargement of the group of shareholders for the HERE mapping service. The Board of Management also informed us on the impact of an earthquake in Japan on security of supply for certain components.

We reviewed business developments on various key markets in some depth, particularly those in China and the USA. The referendum held in the United Kingdom on the country leaving the European Union prompted us to obtain an assessment from the Board of Management regarding possible future consequences for the BMW Group.

The Board of Management kept us up-to-date at all times on the further development of the Group's corporate strategy. Based on a thorough analysis of the changing environment in which the BMW Group operates, the Board of Management set out the strategic targets of Strategy NUMBER ONE > NEXT, which is designed to reconcile the need to ensure operational excellence, invest in forward-looking areas and maintain profitability at a stable level. After the various presentations, we discussed individual points of strategy with the Board of Management, including digitalisation, electric mobility and lightweight construction.

One Supervisory Board meeting was held in Goodwood, England, the headquarters and location of the Rolls-Royce Motor Cars manufacturing plant. In the course of this meeting we dealt with several topics, including a Board of Management report on product quality and customer satisfaction. The Board of Management described various existing and planned emissions requirements on key markets and presented measures designed to ensure compliance with those requirements, including the further electrification of the BMW Group's fleet of vehicles. Furthermore, the Board of Management explained the strategy and risk management measures in place for Group financing. While visiting the Rolls-Royce manufacturing plant, we gathered information on topics such as the implementation of individual customer requirements as a way of optimising customer orientation.

Corporate strategy and long-term corporate planning were considered in a meeting held over two days. In the first part of the meeting we discussed the Strategy NUMBER ONE > NEXT in great detail, including the implementation measures developed by the Board of Management.

The Board of Management elaborated on topics that included the measures adopted for defined key areas of technology, such as Efficient Dynamics NEXT.

Together with the Board of Management, we also debated at length on the topic of digitalisation in sales and production and the related requirements. After thorough deliberation, the members of the Supervisory Board approved the Strategy NUMBER ONE > NEXT.

We also took the opportunity to personally test-drive a variety of series vehicles on a test track, including the current BMW plug-in hybrid vehicles and other individual models currently being developed. In addition, selected vehicle models were presented and explained to us. In this context, the new brand strategy, a key element of Strategy NUMBER ONE > NEXT, was considered at length.

On the second day of the meeting, we focused on the long-term corporate plan for the years 2017–2022. The Board of Management also took the opportunity to point out various risk scenarios, such as a possible further tightening of emissions regulations. The long-term plan was approved after exhaustive analysis and consultation. We urged the Board of Management to maintain close control over fixed costs and profitability in order to secure the necessary levels of future investment.

The Board of Management reported to us comprehensively on the performance, risk situation and business strategies of the Financial Services segment. It also provided information on the current status of regulatory proceedings involving a locally based financial services company.

Towards the end of the year under report, we studied the annual budget for the financial year 2017 presented to us by the Board of Management. We carefully reviewed the opportunities and risks attached to the budget and discussed them thoroughly with the Board of Management.

In both the Personnel Committee and the full Supervisory Board, we examined not only the structure, but also the amounts of compensation paid to the various members of the Board of Management. In this context, we reviewed trends in business performance and board compensation over a period of several years. We also gave general consideration to the remuneration paid to executive managers and employees of BMW AG within Germany over the course of time. A compensation consultant, independent of both the Board of Management and BMW AG, was called upon to provide expert advice and assist us in our evaluation of DAX-related compensation studies. We concluded that the level of compensation paid to board members, including their pension entitlements, is appropriate and in keeping with other DAX-listed companies. The Supervisory Board therefore resolved not to propose any changes to the system of Board of Management compensation in 2016. Further information on the amounts of compensation paid to the members of the Board of Management is provided in the Compensation Report (see section "Statement on Corporate Governance").

Together with the Board of Management, we undertook an in-depth review of the corporate governance standards currently in place within the BMW Group as well as the rules set out in the German Corporate Governance Code. The latest Declaration of Compliance, issued in December 2016, is included in the Annual Report.

We also discussed with the Board of Management the probable impact of technological changes on future workforce requirements. We were informed about the range of measures implemented to incorporate Strategy NUMBER ONE > NEXT in the BMW Group's corporate culture and brought up to date on activities aimed at attracting young talent. The Board of Management also provided details of actual and planned additions to the workforce in defined growth areas.

The Board of Management also reported on the latest status of the BMW Group's diversity concept. The report presented figures for the percentage of female executives in the BMW Group, in particular the proportions in the two executive management levels below the Board of Management, the targets set, and the latest status of these two levels.

We again decided upon a target for the proportion of female members on the Board of Management, including a time frame for target attainment. As its target for the period from 1 January 2017 to 31 December 2020, we stipulated that the Board of Management should continue to have at least one female member. We consider it a key aim to increase the proportion of women on the Board of Management and fully support the Board's endeavours to increase the percentage of women employed at the highest executive management levels within the BMW Group. Moreover, we developed a diversity concept for the composition of the Board of Management.

The composition targets for the Supervisory Board, which represent the basis for a diversity concept, were not changed during the financial year 2016. Compliance with the composition targets set for 31 December 2016 was determined by way of self-assessment.

No conflicts of interest arose on the part of members of either of the two boards 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, are examined on a quarterly basis.

The Supervisory Board also assessed the efficiency of its own work with the aim of further improving its internal procedures and the work of its committees. With this point in mind, I also conducted individual discussions with the members of the Supervisory Board. The matter was also considered at a meeting of the full Supervisory Board. Additional topics for report were identified as part of the overall conclusion reached.

Each of the five Supervisory Board meetings during the financial year 2016 was attended on average by over 90 % of its members, a fact that can be tied in to the analysis of attendance fees for individual members disclosed in the Compensation Report. During their term of office in the period under report, none of the members of the Supervisory Board took part in only half or less than half of the meetings of the Supervisory Board, the Presiding Board or the committees to which any given member belongs.

Description of Presiding Board activities and committee work

The Supervisory Board has established a Presiding Board and four committees. The chairpersons of the various committees reported to the Supervisory Board in depth on any committee meetings held since the previous meeting of the full Supervisory Board. I brought the representatives of the shareholders up to date regarding the deliberations 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 four times during the year under report. Assuming no other committee was responsible, the Presiding Board prepared the detailed agenda for the meetings of the full Supervisory Board, including the careful preparation of topics on the basis of written and oral reports provided by members of the Board of Management and senior heads of department. We also stipulated further topics for full Supervisory Board meetings and made suggestions for reports submitted to the Supervisory Board.

The Audit Committee held four meetings and three telephone conference calls during the financial year 2016. In the course of those conference calls, together with the Board of Management we deliberated on the Quarterly Financial Reports prior to their publication. Representatives of the external auditors were present during the telephone conference call held in conjunction with the Half-year Financial Report.

The Audit Committee Meeting held in spring 2016 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 2016, we obtained a Declaration of Independence from KPMG AG Wirtschaftsprüfungsgesellschaft. We also considered the scope and composition of non-audit services, including tax advisory services provided by KPMG entities to the BMW Group. There were no indications of conflicts of interest, grounds for exclusion or lack of independence on the part of the auditor.

The fee proposals for the audit of the year-end Company and Group Financial Statements 2016 and the review of the Half-year Financial Report were deemed appropriate. Subsequent to the Annual General Meeting 2016, we therefore appointed KPMG AG Wirtschaftsprüfungsgesellschaft for the relevant engagements and specified audit focus areas.

As in previous years, the Head of Group Controlling reported during the financial year 2016 on the current risk profile of the BMW Group and provided an overview of the changes made to the risk management system in view of new internal and external requirements.

The Head of Group Financial Reporting informed us about the internal control system (ICS) underlying financial reporting and explained measures being taken to develop the system further. No material ICS weaknesses were identified which would jeopardise the system's effectiveness.

The BMW Group Compliance Committee chairman provided information on the current status of compliance within the Group as well as changes in the BMW Group Compliance Organisation aimed at strengthening local compliance management, including the next steps to be taken in this area.

The Head of Group Internal Audit reported on internal audit matters, including a description of the significant internal audit findings and the planned areas of focus on the industrial and financial services sides of the business.

On repeated occasions, the Audit Committee dealt with the new requirements for financial year-end audits, particularly the rules applying to non-audit-related services provided by the auditor and the procedure for changing the external auditor. In accordance with statutory requirements, we approved a list of non-audit-related services that may be provided by the external auditor. Furthermore, we performed our statutory duties in connection with the mandatory audit of over-the-counter trading with derivatives pursuant to § 20 of the Securities Trading Act (WpHG). An external auditor confirmed the effectiveness of the system that BMW AG currently employs to ensure compliance with regulatory requirements. Furthermore, in the Audit Committee we concurred with 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 €305,000 and, in conjunction with the Employee Share Programme, 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 five times during the financial year 2016. One of the principal duties of this committee is to prepare decisions of the full Supervisory Board relating to the composition of the Board of Management. In specific cases, we also gave our approval for members of the Board of Management to accept non-BMW Group mandates.

The Nomination Committee convened twice during the financial year 2016. At these meetings, we deliberated on succession planning for mandates of the shareholders' representatives and, taking account of the composition targets set, made one recommendation for a proposed nomination of a candidate for election at the Annual General Meeting 2017.

The statutory Mediation Committee was not required to convene during the financial year 2016.

Composition and organisation of the Board of Management

During the period under report, the composition of the Board of Management changed as part of the process of amicably agreed succession planning.

With effect from 1 October 2016, the Supervisory Board appointed Markus Duesman as member of the Board of Management. Mr Duesmann has many years of management experience in the automobile industry and has been with BMW AG since 2007. Most recently, he was head of powertrain and the related process chain within the development area. Mr Duesmann took over board responsibility for the Purchasing and Supplier Network from Dr Klaus Draeger, whose mandate ended on 30 September 2016.

With effect from 1 January 2017, we appointed Dr Nicolas Peter as member of the Board of Management. Dr Peter joined BMW AG in 1991 and most recently worked as head of the European sales region. He took over board responsibility for Finances from Dr Friedrich Eichiner, who retired from the Board of Management with effect from the end of 2016.

We would like to extend our special thanks to Dr Draeger and Dr Eichiner for their many years of dedicated work in the interests of the BMW Group, both in highly successful years and during the challenging period of the global financial and economic crisis. We equally wish to thank them for their personal contribution to the BMW Group's long-term success.

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

In 2016, the Annual General Meeting re-elected Simone Menne to the Supervisory Board for a term of five years. Ulrich Kranz resigned his mandate as executive staff representative with effect from the end of 2016. As elected substitute member, Ralf Hattler became a member of the Supervisory Board with effect from 1 January 2017. We thank Mr Kranz for the trusting and constructive working relationship within the Supervisory Board.

The composition of the Presiding Board and the committees of the Supervisory Board remained unchanged during the financial year 2016. The Corporate Governance Report contains a summary of the composition of the Supervisory Board and its committees.

Examination of financial statements and the profit distribution proposal

KPMG AG Wirtschaftsprüfungsgesellschaft conducted a review of the abridged Interim Group Financial Statements and Interim Group Management Report for the six-month period ended 30 June 2016. 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 Bayerische Motoren Werke Aktiengesellschaft for the year ended 31 December 2016 and the Combined Management Report – as authorised for issue by the Board of Management on 14 February 2017 – were audited by KPMG AG Wirtschaftsprüfungsgesellschaft and given an unqualified audit opinion.

KPMG AG Wirtschaftsprüfungsgesellschaft is the external auditor for BMW AG and the BMW Group. The Auditor's Report has been signed with effect from the financial year 2016 by Christian Sailer, as independent auditor (Wirtschaftsprüfer), and with effect from the financial year 2014 by Andreas Feege, as independent auditor (Wirtschaftsprüfer), responsible for the performance of the engagement.

The Financial Statements and the Combined Management Report, the long-form audit 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.

In a first step, the Audit Committee diligently examined and discussed these documents at a meeting held on 24 February 2017. The Supervisory Board subsequently examined the relevant drafts of the Board of Management at its meeting on 9 March 2017, 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 auditors attended both meetings, reported on significant findings and answered any additional questions raised by the members of the Supervisory Board. They confirmed that the risk management system established by the Board of Management is capable of identifying developments at an early stage that might impair the Company's going-concern status. They also confirmed that no material weaknesses in the internal control system and risk management system were found with regard to the financial reporting process. Similarly, they confirmed that they had not identified any issues in the course of their audit work that were inconsistent with the contents of the Declaration of Compliance issued jointly by the two boards.

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 Bayerische Motoren Werke Aktiengesellschaft for the financial year 2016 prepared by the Board of Management were approved at the Supervisory Board meeting held on 9 March 2017. The separate 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 €3.50 per share of common stock and €3.52 per share of non-voting preferred stock. We consider the proposal appropriate and therefore concur with it.

Expression of appreciation by the Supervisory Board

The Supervisory Board wishes to thank the members of the Board of Management and the entire staff of the BMW Group worldwide for their efforts and hard work, which contributed to the overall success of the BMW Group in its centenary year.

Pro-actively shaping change

The Group corporate culture, the spirit of innovation, and the passionate commitment of our workforce provide a strong foundation for taking on the challenges of the future. Building on this firm base, the BMW Group will continue to play a formative and leading role in shaping technological change, with the clear aim of emerging on the winning side.

Munich, 9 March 2017

On behalf of the Supervisory Board

Yours

Norbert Reithofer
Chairman of the Supervisory Board

Harald Krüger
Chairman of the Board of Management

Dear Shareholders,

A new era has begun for your company: in this, the first year of our "Next 100", we are embarking on a new age of individual mobility. Everything we do is for our customers. For them, we are creating a new kind of premium mobility geared entirely towards their individual needs, and which will continue to thrill and excite them moving ahead.

Our Vision Vehicles fascinate people the world over

2016 was our centenary year. And you could see the reports everywhere: "The BMW Group is not resting on its laurels – it is actively shaping the future." The response of many people when they saw our BMW, MINI, Rolls-Royce and BMW Motorrad Vision Vehicles for the first time, was unequivocally enthusiastic: "The BMW Group's Vision Vehicles are unlike anything we've seen before." I experienced this excitement myself in Munich, Beijing and Los Angeles. With our Vision Vehicles, we are providing a glimpse of mobility beyond 2030, when autonomous driving, connectivity, electro-mobility and services will be part of everyday life.

Becoming a tech company for premium mobility and premium services with Strategy NUMBER ONE > NEXT

With its bold, entrepreneurial spirit and ground-breaking innovations, the BMW Group has always shaped individual mobility – constantly evolving in the process. Through Strategy NUMBER ONE, we grew from a manufacturer of premium automobiles to a provider of premium mobility and mobility services. Strategy NUMBER ONE > NEXT maps out the company's further evolution towards a tech company for premium mobility and premium services. To achieve this, we will continue to expand our mobility services: DriveNow, ReachNow, ParkNow and ChargeNow.

Cooperation for faster technological breakthroughs

Our aspiration to be a technology leader in mobility is firmly anchored in Strategy NUMBER ONE > NEXT. To achieve this, we need to focus even more on a cooperative spirit. In the digital age, new players from the IT world are bringing their business model to the automotive sector – proving once again that individual mobility is an attractive field for future business.

Our acquisition, together with other German manufacturers, of map service HERE was followed by another important strategic decision in 2016: the BMW Group is joining forces with Intel and sensor specialist Mobileye to advance highly-automated and autonomous driving.

Autonomous driving opens up new possibilities for customers

Autonomous driving will be a key technology for the future of mobility, opening up totally new possibilities for our customers. Above all, people will be able to reclaim the time they previously spent behind the wheel concentrating on the traffic. With all our products and services, we offer various forms of mobility that generate individual excitement, creative space, are intuitive to use and, at the same time, fully integrated into our customers' lives. As the vehicle becomes more familiar with its owner, it offers tailored recommendations to make everyday life easier.

Semi-automated driving with the new BMW 7 Series and BMW 5 Series

The transition to fully-autonomous driving, from around 2030, will see responsibility shift from driver to machine in five stages. We already have around 8.5 million connected vehicles on the road today. Our customers are already benefitting from state-of-the-art driver assistance systems in the BMW 7 Series and the new BMW 5 Series. We are directing all our efforts towards the next technological leap, which will bring highly-automated driving and further future technologies to the road with the iNext in 2021.

Campus for highly-automated and autonomous vehicles

We are developing and testing highly-automated and autonomous vehicles at our new Research and Development Centre for Autonomous Driving near Munich. This was also decided as part of Strategy NUMBER ONE > NEXT.

Later this year, we will begin testing autonomous driving in city centres with a fleet of 40 computer-operated vehicles. Customer safety will naturally be our top priority.

Firmly on course for sustainable mobility

Alongside digitalisation, emission-free mobility is another huge task for our industry. By 2025, we expect around 15 to 25 per cent of BMW Group sales to be electrified vehicles. To achieve this, we continue to expand the share of electrified models across all our brands and series.

Demand will increase with more models and greater range – as shown by the example of our BMW i3 with its new 94-amp-hour battery. We delivered a total of more than 62,000 BMW i vehicles and BMW plug-in hybrids to customers in 2016. The BMW i3 is one of the leading electric vehicles available, while the BMW X5 is the top-selling plug-in hybrid. At our car-sharing service DriveNow, operated with Sixt SE, BMW i3s already make up 20 per cent of the European fleet. We see this as a great opportunity to make people, especially young people, excited about electric driving.

Our goal: to sell 100,000 electrified vehicles in 2017

Between the launch of the BMW i3 in 2013 and 2016, we sold more than 100,000 BMW i models and BMW plug-in hybrid models. In 2017, we intend to go one better: this year alone, we aim to deliver a further 100,000 electrified vehicles. Our customers can choose between seven different models.

The BMW Group is currently the world's most successful premium provider of plug-in hybrid vehicles. In 2017, we will release two more models: the BMW 5 Series iPerformance and the MINI Countryman. These will be followed in 2018 by the BMW i8 Roadster. A year later, we will launch an all-electric MINI and in 2020, an all-electric BMW X3.

We are creating common platforms and architectures for economical industrialisation of combustion engines with Efficient Dynamics technology and electrification across all brands and model series.

BMW Group remains the world's leading premium car company in 2016

In its centenary year 2016, the BMW Group continued its successful business development. For the sixth consecutive year, sales reached a new all-time high. With a solid increase of 5.3 per cent over the previous year, sales climbed to more than 2.3 million vehicles. The BMW Group therefore remains the leading car company in the global premium segment.

New all-time highs for BMW, MINI and BMW Motorrad brands

The BMW brand sold more than two million vehicles for the first time in a single year. Demand for the X models, the BMW 2 Series and the new BMW 7 Series was particularly strong. The MINI brand also achieved record sales of 360,233 vehicles; as did BMW Motorrad, with 145,032 motorcycles and scooters sold.

Rolls-Royce delivered 4,011 vehicles to customers and reported the second-best year in its 113-year history.

The BMW Group continues to benefit from its balanced distribution of sales across the world's three major market regions: Europe, Asia and the Americas. We are making targeted investments in our production network of 31 sites in 14 countries on five continents to enhance performance and flexibility.

The desirability of our brands and products is reflected in rankings and awards. The BMW Group was once again the highest-ranked automobile manufacturer in Fortune Magazine's 2017 "World's Most Admired Companies" and is the only German company in the top 50. With the "World Car Award" and "Best Car" for the BMW 7 Series and "Golden Steering Wheel" for the BMW i3, the BMW Group earned several of the world's top honours in 2016.

Targets met for financial year 2016

We achieved our goals for 2016. We succeeded despite increasing uncertainties in the political and economic environment and strong competition on the global auto markets.

The BMW Group posted record revenues of over 94.1 billion euros in 2016. Profit before tax also reached a new high of more than 9.6 billion euros.

EBT rose slightly – as forecast – by 4.8 per cent year-on-year. Annual net profit increased by 8.0 per cent to more than 6.9 billion euros. The EBIT margin in the Automotive segment stands at 8.9 per cent and therefore remains within our target range.

The company is also one of the leading financial services providers in the automotive sector. Our Financial Services division concluded more than 1.8 million new contracts with retail customers in 2016. For the first time, the segment Financial Services posted pre-tax earnings of more than 2.1 billion euros and therefore once again made a major contribution to the Group result.

Highly motivated associates are the key to our success

The company employed a total of 124,729 people at the end of 2016. This represents a slight year-on-year increase of 2.0 per cent. In addition to specialists in alternative drivetrains and automated driving, we are also recruiting experts for our financial services business and expansion in mobility services. The BMW Group continues to benefit from its status as a highly attractive employer, as shown in numerous rankings amongst engineering, IT and business graduates. This helps us attract the young talent we need to implement digitalisation in all our business segments.

In 2016, we once again invested more than 350 million euros in vocational and professional training for associates. The BMW Group is also training more than 4,600 young people. This reflects the company's sense of responsibility towards future generations.

On behalf of the Board of Management, as well as personally, I would like to thank all our associates worldwide for their dedication during the financial year 2016. I would also like to thank our business partners and suppliers, as well as the entire retail organisation. You all play a direct part in our success!

2017 model offensive

In the 2017 financial year, we will offer customers more than 20 new BMW, MINI and Rolls-Royce models. For BMW, a highlight for the current financial year will be the arrival of the most innovative BMW 5 Series of all time. This status has been confirmed by awards such as "Best Connected Car of the Year". Our 5 Series customers can choose from options ranging from a plug-in hybrid variant to the M Performance model. Our current MINI line-up is young and striking, with five models full of character that appeal to different target groups. The new MINI Countryman is our second spearhead in the fast-growing premium compact segment. Motorcycle fans can also look forward to new models this year with 14 market launches from BMW Motorrad.

Dear Shareholders,

We firmly believe that the diverse challenges of tomorrow's mobility open up new opportunities for further growth and technological progress which we will pursue in the interest of our customers. In doing so, we combine fresh thinking, operational excellence and profitability. For the past seven years, the EBIT margin in the Automotive segment has been within or above our target range of eight to ten per cent.

In early 2017, the rating agency Moody's upgraded our long-term credit rating to A1 – giving the BMW Group the best rating of any European automobile manufacturer and the second-highest worldwide. This financial stability forms the basis for our investments in the future.

It is only right that our shareholders share in our success. In the 101st year of BMW AG, the Board of Management and Supervisory Board will therefore propose to the Annual General Meeting the highest dividend in the history of the company for the financial year 2016, with a total payout of 2.3 billion euros. Associates of BMW AG in Germany will also share in the company's positive performance through our profit-sharing programme.

I would like to thank all of our shareholders and debt investors. You, dear shareholders and investors, accompany us as we embark upon a new age of mobility. With our strategy, we have shown you our roadmap for the future and we are consistently implementing the measures accordingly. Your commitment is a sign of your appreciation and trust. We will do everything in our power to ensure that BMW AG remains an attractive investment and a reliable and future-oriented company that justifies your trust.

Yours

Harald Krüger
Chairman of the Board of Management

COMBINED MANAGEMENT REPORT

2

GENERAL INFORMATION ON THE BMW GROUP

THE NEXT 100 YEARS – shaping the future

Distribution network enlarged

Digitalisation and connectedness consistently increased

→ www.bmwgroup.com/company

ORGANISATIONAL STRUCTURE AND BUSINESS MODEL

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

General information on the BMW Group

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

Organisational Structure and Business Model

Bayerische Motoren Werke Aktiengesellschaft (BMW AG), based in Munich, Germany, is the parent company of the BMW Group. The general purpose of the Corporation is the development, production and sale of engines, engine-equipped vehicles, related accessories and products of the machinery and metalworking industry as well as the rendering of services related to the aforementioned items. The BMW Group is sub-divided into the Automotive, Motorcycles, Financial Services and Other Entities segments (the latter primarily comprising holding companies and Group financing companies). The BMW Group operates on a global scale and is represented in more than 150 countries worldwide. At the end of the reporting period, the BMW Group employed a workforce of 124,729 people.

Originally founded in 1916 as Bayerische Flugzeugwerke AG (BFW), it emerged as Bayerische Motoren Werke G.m.b.H. in 1917, before finally becoming Bayerische Motoren Werke Aktiengesellschaft (BMW AG) in 1918. The BMW Group comprises BMW AG itself 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.

Under the motto "THE NEXT 100 YEARS", the BMW Group celebrated its centenary in March 2016, showcased by a major centenary event held in Munich. The four concept vehicles unveiled over the course of the year for the brands BMW, MINI, Rolls-Royce and BMW Motorrad provided visionary insights into the future of individual mobility. At the same time, the BMW Group also presented its Strategy NUMBER ONE > NEXT, which builds on the existing strategy and expands its contents on the basis of recent developments. At the heart of Strategy

NUMBER ONE > NEXT is a commitment to consistent future-oriented activity, focusing on developing products, brands and services for individual mobility in the premium segment. New technologies, digitalisation and connectedness as well as social responsibility are further areas of strategic focus.

The BMW Group is one of the most successful makers of passenger cars and motorcycles worldwide and among the largest industrial companies in Germany. With BMW, MINI and Rolls-Royce, the BMW Group owns three of the strongest premium brands in the automotive industry. The vehicles manufactured by the BMW Group set exceptionally high standards in terms of aesthetics, dynamics, technology and quality, and are the culmination of expertise in engineering and innovation. Its research and innovation network spans 13 locations in five countries. In addition to its strong position on international motorcycle markets, the BMW Group also offers its customers a successful range of financial services. In recent years, it has also established itself as a leading provider of premium services in the field of individual mobility.

→ see sections Workforce and Sustainability

→ Long-term thinking and responsible action have long been the cornerstones of the BMW Group's success. Ecological and social sustainability along the entire value-added chain, full responsibility for its products and a clear commitment to preserving resources are prime objectives firmly embedded in the BMW Group's corporate strategy. The BMW Group has ranked among the most sustainable companies in the automotive industry for many years.

→ see section Research and Development

→ BMW Group is also working on an integrated digital concept, Connected Drive, to bring together driver and vehicle. Through this service, the vehicle becomes an intelligent companion, digitally integrated and adapted to the individual needs of each user. The BMW iNEXT is scheduled to enter the market in 2021, electrically powered, autonomously driven and fully connected.

→ see sections Automotive segment and Sales and Marketing

→ The core BMW brand caters to a broad array of customer wishes, ranging from fuel-efficient and innovative models equipped with Efficient Dynamics through to efficient, high-performance BMW M vehicles, which help bring a touch of the flair of motorsport to the roads. At the same time, the BMW Group continues to push the boundaries of "premium" to new levels with its BMW i models. Designed to the core for even greater sustainability, the BMW i embodies the vehicle of the future – with its electric drivetrain, intelligent lightweight construction, exceptional design and newly developed range of mobility services.

The MINI brand is a veritable icon in the premium small car segment, offering unrivalled driving pleasure in its class. Rolls-Royce has a tradition in the ultra-luxury segment stretching back over more than 100 years.

The Automotive segment's worldwide distribution network currently consists of around 3,400 BMW, 1,580 MINI and 140 Rolls-Royce dealerships. In Germany, products and services are sold through BMW Group branches and by independent authorised dealers. Sales outside Germany are handled primarily by subsidiary companies and by independent import companies in a number of markets. The BMW i dealership and agency network currently covers more than 1,300 locations.

→ see section Motorcycles segment

→ The motorcycles business is also focused on the premium segment, with the model range currently comprising motorcycles for the Sport, Tour, Roadster, Heritage, Adventure and Urban Mobility segments. BMW Motorrad also offers a broad range of equipment options designed to enhance rider safety and comfort. The motorcycles business sales network is organised similarly to that of the automobile business. Currently, around 1,180 BMW Motorrad dealerships operate worldwide.

→ see section Financial Services segment

→ The BMW Group is also among the leading providers of financial services in the automobile sector, operating more than 50 entities and cooperation arrangements with local financial services providers and importers worldwide. Credit financing and the leasing of BMW Group brand cars and motorcycles to retail customers represent the segment's main line of business. It also provides customers with access to a wide range of insurance and banking products. Operating under the brand name "Alphabet", the BMW Group's international multi-brand fleet business provides fleet financing products and comprehensive management services for corporate car fleets in 19 countries. Within the multi-brand financing line of business, credit financing, leasing and other services are marketed to retail customers under the brand name "Alphera". Providing support to the dealership organisation, such as by financing dealership vehicle inventories, rounds off the segment's product range.

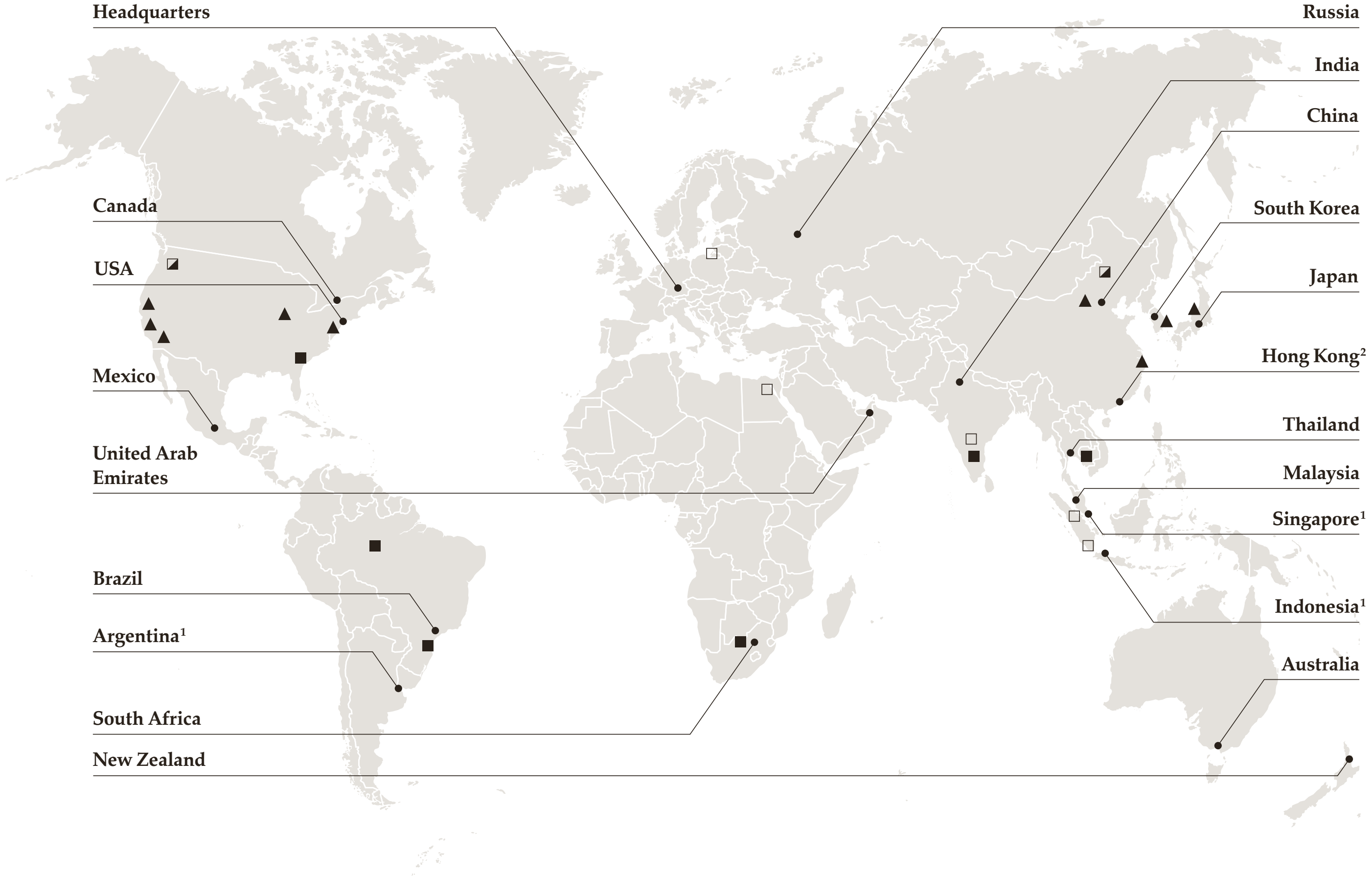
BMW Group locations worldwide

→ 09

43
↗ Sales subsidiaries and Financial Services locations worldwide

31
↗ Production and assembly plants

13
↗ Research and development locations



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

▲ **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, and BMW Group Designworks Studio 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

Sales subsidiaries and Financial Services locations worldwide

[1] Sales locations only.
[2] Financial Services only.

BMW Group locations in Europe

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■ **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, GB
BMW Group plant Oxford, GB
BMW Group plant Swindon, GB
Rolls-Royce Manufacturing Plant, Goodwood, GB

□ **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 Car IT, Munich, Germany
BMW Innovation and Technology Centre, Landshut, Germany
BMW Diesel Competence Centre, Steyr, Austria

Sales subsidiaries and Financial Services locations Europe

At the end of the reporting period, the Group's production network comprised a total of 31 locations in 14 countries. The 31 locations comprise 19 BMW Group manufacturing facilities, five plants belonging to joint ventures/operations, five partner plants and two contract production plants. The same quality, safety and sustainability standards are applicable 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 the production of components, pressed parts and tools and one supply centre.

Locations	Country	Products
BMW GROUP PLANTS		
Araquari	Brazil	BMW 3 Series, BMW X1, BMW X3, BMW X4
Berlin	Germany	BMW motorcycles, Maxi–Scooter, car brake discs
Chennai	India	BMW 1 Series, BMW 3 Series, BMW 5 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 M-models: BMW M5, BMW M6 Plug-in-hybrid vehicles: BMW 5 Series, BMW 7 Series 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 Production of core engine parts
Landshut	Germany	Components and electric drive systems
Leipzig	Germany	BMW 1 Series, BMW 2 Series M-models: BMW M2 Plug-in-hybrid vehicles: BMW 2 Series, BMW i8 Electric vehicles: BMW i3
Manaus	Brazil	Motorcycles
Munich	Germany	BMW 3 Series, BMW 4 Series M-models: BMW M4 Plug-in-hybrid vehicles: BMW 3 Series Petrol and diesel engines, high-performance engines for M-models Production of 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, MINI Countryman Motorcycles
Regensburg	Germany	BMW 1 Series, BMW 2 Series, BMW 3 Series, BMW 4 Series, BMW X1, BMW Z4 M-models: BMW M3, BMW M4
Rosslyn	South Africa	BMW 3 Series
Spartanburg	USA	BMW X3, BMW X4, BMW X5, BMW X6 M-models: BMW X5 M, BMW X6 M Plug-in-hybrid vehicles: BMW X5
Steyr	Austria	Petrol and diesel engines for BMW and MINI, Production of core engine parts High performance engines for M-models
Swindon	United Kingdom	Pressed parts and bodywork components
Wackersdorf	Germany	Distribution center 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 together with the joint venture partner, Brilliance China Automotive Holdings Ltd., manufacturing exclusively for the Chinese market. The Shenyang site comprises the Dadong and Tiexi automobile plants as well as an engine plant complete with foundry.

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

SGL Automotive Carbon Fibers (SGL ACF) is a joint operation of the BMW Group with the SGL Group. At the Moses Lake site in the US State of Washington, carbon fibres are produced for subsequent use in the production of carbon fibre fabrics in Wackersdorf.

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

The primary function of the four partner plants of the BMW Group is to serve nearby regional markets. During the year under report, BMW and MINI vehicles were also manufactured in Kaliningrad (Russia), Cairo (Egypt), Jakarta (Indonesia) and Kulim (Malaysia). In addition, BMW motorcycles were manufactured by the cooperation partner, TVS Motor Company, in Hosur (India).

Locations	Country	Products
PARTNER PLANTS		
Hosur	India	Motorcycles
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 7 Series, BMW X3, BMW X4, BMW X5, BMW X6
Kaliningrad	Russia	BMW 3 Series, BMW 5 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. During the period under report, various MINI models were produced by Magna Steyr Fahrzeugtechnik in Graz (Austria) and VDL Nedcar in Born (Netherlands).

Locations	Country	Products
CONTRACT PRODUCTION		
Born	Netherlands	MINI Hatch, MINI Convertible, MINI Countryman
Graz	Austria	MINI Countryman, MINI Paceman

MANAGEMENT SYSTEM

The business management system applied by the BMW Group follows a value-based approach, with a clear focus on achieving profitability, consistent growth, increasing the value of the business for capital providers and safeguarding jobs. Achieving the desired degree of corporate autonomy can only be ensured in the long term if available capital is profitably employed. The prerequisite for this is that the amount of profit generated sustainably exceeds the cost of 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 performance, for instance, is managed primarily at segment level. In order to manage long-term performance and assess strategic issues, additional key performance figures are taken into account at Group level. In this context, with effect from the beginning of the 2017 financial year, the pre-tax return on sales will be used as an additional indicator of earnings quality throughout the BMW Group. The contribution made to enterprise value during the financial year continues to be measured in terms of value added. This approach is translated into operational processes at both Group and segment level in the form of key financial and non-financial performance indicators (value drivers). The link between value added and the relevant value drivers is shown in a simplified form in the following diagram.

BMW Group – value drivers
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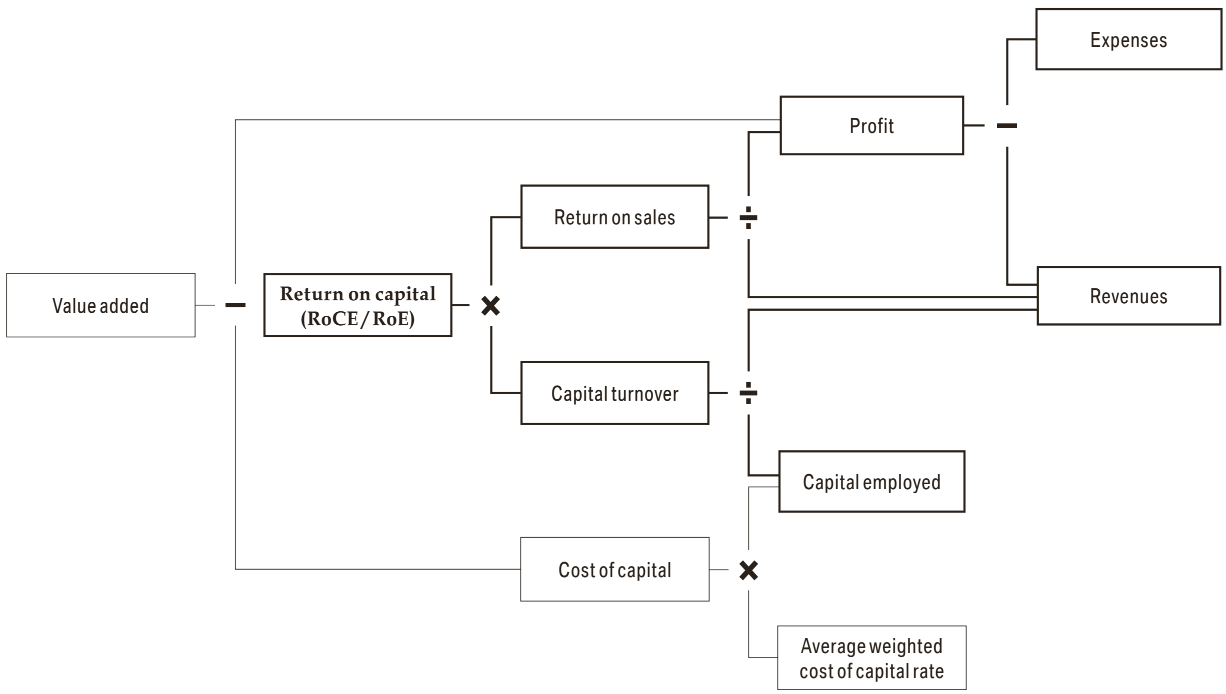

Due to the high level of aggregation involved, it is impractical to manage the business on the basis of value added. This key indicator therefore only serves for reporting purposes. Relevant value drivers which could have a significant impact on business performance and enterprise value are defined for 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-related decisions, the system incorporates a project-oriented control logic focused on value-based and return-based performance indicators, which therefore provide a sound basis for decision-making.

Management of operating performance at segment level

→ Operating performance at segment level is managed at its highest level on the basis of return on capital. Depending on the business model, the segments are measured on the basis of return on total capital or equity. Specifically, the return on capital employed (RoCE) is used for the Automotive and Motorcycles segments and the return on equity (RoE) for the Financial Services segment. As an overall reflection of profitability (return on sales) and capital efficiency (capital turnover), these key performance indicators provide a wide range of information into the factors driving segment performance and changes in the value of the business.

→ 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 profitability of capital employed and on operational business. RoCE is measured on the basis of segment profit before financial result and the average amount of capital employed in segment operations. 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

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	Profit before financial result in € million		Average capital employed in € million		Return on capital employed in %	
	2016	2015	2016	2015	2016	2015
Automotive	7,695	7,836	10,361	10,854	74.3	72.2

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 with varying degrees of detail, 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. Average CO_2 emissions for the fleet are also taken into account, due to its impact on ongoing development expenses and the significant long-term impact of regulatory requirements on Group performance. Fleet emissions corresponds to average CO_2 emissions of new cars sold in the EU-28 countries.

Managing the business on the basis of key value drivers makes it easier to identify the reasons for changes in RoCE and define suitable measures to drive its development.

Motorcycles segment

As with the Automotive segment, operating performance for the Motorcycles segment is managed on the basis of RoCE. Capital employed is measured 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

→ 13

	Profit before financial result in € million		Average capital employed in € million		Return on capital employed in %	
	2016	2015	2016	2015	2016	2015
Motorcycles	187	182	566	576	33.0	31.6

In view of the increasing strategic importance of the Motorcycles segment, the EBIT margin will be added as a key performance indicator with effect from the beginning of the 2017 financial year. 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 performance of the Financial Services segment is measured on the basis of return on equity. RoE is defined as segment profit before taxes, divided by the average amount of equity capital attributable to the Financial Services segment. The strategic RoE target for the Financial Services segment is at least 18 %.

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

Return on Equity

→ 14

	Profit before tax in € million		Average equity capital in € million		Return on equity in %	
	2016	2015	2016	2015	2016	2015
Financial Services	2,166	1,975	10,236	9,756	21.2	20.2

Strategic management at Group level

Strategic management and quantification of the financial impacts as part of the long-term corporate planning are performed primarily at Group level. The most significant performance indicators for these purposes 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 non-financial performance indicator.

Information provided by these two key performance indicators is reported with the performance indicators, pre-tax return on sales and value added. Value added, as a highly aggregated performance indicator, provides an insight into capital efficiency and the (opportunity) cost of capital required to generate Group profit. Value added corresponds to the amount of earnings over and above the cost of capital and gives an indication of whether the Group is meeting the minimum requirements for the rate of return expected by capital providers. A positive value added means that a company is generating more additional 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 2016	Earnings amount 2015	Cost of capital 2016	Cost of capital 2015	Value added Group 2016	Value added Group 2015
BMW Group	10,000	9,723	6,407	6,040	3,593	3,683

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 measure for these purposes 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 element (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 2016 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 for the BMW Group.

Project decisions are taken on the basis of calculations measured in terms of the cash flows each individual project is expected to generate. Calculations are made for the full term of a project, incorporating all future years in which the project is expected to generate cash flows. Project decisions are taken on the basis of net present value and 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 the value of the business. The internal rate of return of the project corresponds to the average return on capital employed in the project and, in terms of significance, is equivalent to the multi-year average RoCE for an individual project. It is therefore consistent with one of the key performance indicators.

The criteria used for taking decisions as well as the long-term impact on periodic earnings is documented for all project decisions and incorporated in the long-term Group forecast. This approach enables an analysis of the periodic reporting impact of project decisions on earnings and rates of return over the term of each project. The overall result is a cohesive controlling model.

REPORT ON ECONOMIC POSITION

Centenary year sees best Company performance

Record sales volumes for automobiles and motorcycles – expectations exceeded

Record results in operational segments

€ 9,665 million

↗ +4.8 %

Group profit before tax at record level

GENERAL AND SECTOR-SPECIFIC ENVIRONMENT

General economic environment

The global economy grew at a relatively stable pace in the face of external influences at a rate of 3.1 % in 2016. Against a background of multiple political uncertainties, global growth seems relatively robust. The eurozone continued to record moderate economic growth, helped among other factors by favourable conditions on the job market. Although the pace of the economy in China slowed, the decrease was only marginal. The USA recorded slight growth in 2016. By contrast, the emerging economies of Russia and Brazil contracted again in 2016, despite Russia benefiting from rising raw materials prices.

Gross domestic product (GDP) in the eurozone grew by 1.7 % year-on-year. The European Central Bank (ECB) continued to pursue its expansive monetary policies. Boosted by strong exports and robust domestic demand, the German economy grew by 1.8 %, its fastest rate for five years. France (+1.2 %) and Italy (+ 0.9 %) saw growth at similar levels to the previous year. In both countries, structural reforms designed to stimulate the economy remain in the implementation phase.

In the UK, the year 2016 was marked by the Brexit decision, the economic impact of which is expected to be felt from 2017 onwards. For the year under report, a robust GDP growth rate of 2.0 % was recorded. Political uncertainty did not have an adverse impact on household spending. The growth rate also benefited from falling unemployment. The increase in investments by companies was significantly lower than in previous years, while the rise in government spending was below average. Despite the massive devaluation of the British pound after the referendum, exports fell far short of matching the high growth rate recorded one year earlier.

The new strategic direction adopted for China's economy presented significant challenges for the country's government. In response to the stock market slump at the beginning of the year and fears that economic growth was set to slow down, the government imposed measures to stimulate the economy. The 6.7 % GDP growth rate in China for the full year was slightly down on the previous year, though within the pursued target range.

The US economy continued to show a solid performance, growing year-on-year by 1.6 %. The unemployment rate fell by 0.4 percentage points to 4.9 %. At the same time, however, domestic spending rose at a slightly lower rate than one year earlier. Exports only grew slightly as a result of the strong US dollar. In view of these developments and in anticipation of a rising inflation rate, the US Federal Reserve (Fed) raised its benchmark interest rate in December 2016.

The domestic economy in Japan was held down in particular by high debt levels and the appreciation of the yen in 2016. After a two-year downward trend, household spending increased, albeit at a moderate rate, while exports remained weak. Ultimately, only economic stimulus programmes prevented Japan from stagnating in 2016, with the GDP growth rate finishing at a modest 0.9 %.

Thanks to its economic reforms, India posted a GDP growth rate of 7.0 %, achieving growth of at least 7.0 % for the third year in succession. By contrast, Russia and Brazil failed once again to pull out of recession. Although industrial production picked up in Russia, domestic consumption fell sharply, causing economic output to fall overall (– 0.6 %). Brazil, however, recorded its second consecutive year of deep recession (– 3.4 %). Figures for consumption expenditure (household and public sector) and business investments dropped to new lows.

Currency markets

The British pound weakened significantly in the wake of the Brexit decision. Compared to its average rate of 0.78 to the euro during the first half of the year, it fell sharply during the second half of the year to 0.86 to the euro. The Bank of England reacted to increasing post-referendum uncertainty by lowering interest rates, thus contributing to the weakening of the pound.

The Chinese renminbi lost in value compared to the previous year, finishing with an average exchange rate for the year of 7.35 renminbi to the euro.

Despite volatility during the course of the year, the US dollar remained unchanged compared to the previous year at an average exchange rate of 1.11 to the euro in 2016. The Fed shifted only moderately from its expansionary monetary policies during the year under report.

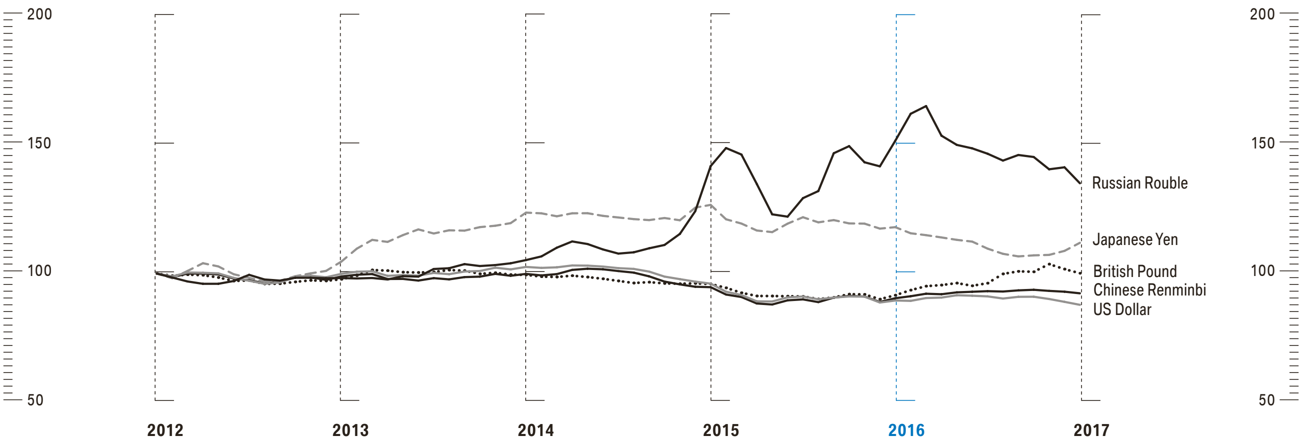
The Japanese yen appreciated by approximately 10 % in 2016, despite the expansion of money supply by the Bank of Japan. The average exchange rate for the year was 120.25 yen to the euro.

Currencies in emerging economies reflected a mixed picture. While the Brazilian real was down by approximately 4 % against the euro, the Russian rouble was up by approximately 9 % against the euro after a strong rally.

Exchange rates compared to the euro

→ 15

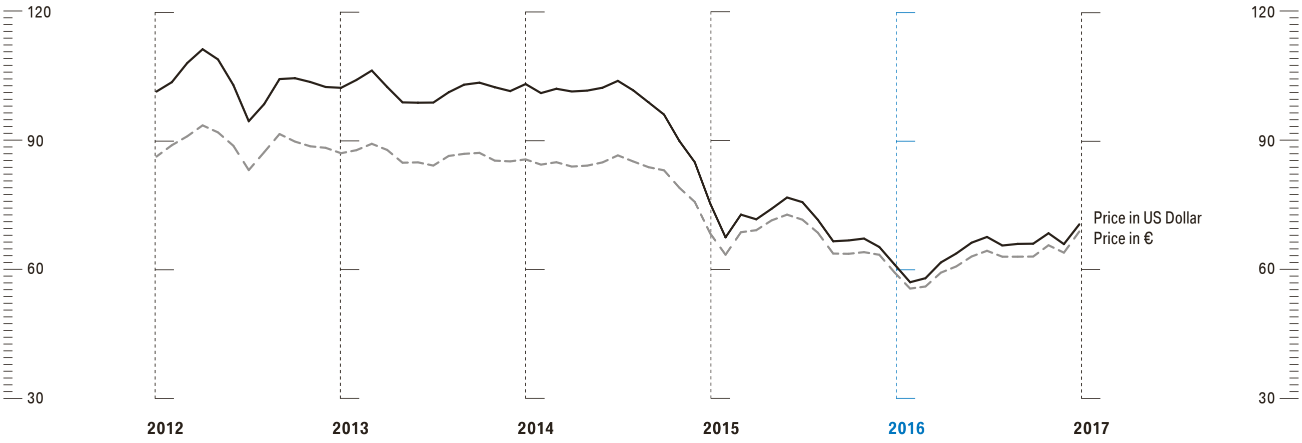
Index: December 2011 = 100



Source: Reuters.

Oil price trend
→ 16

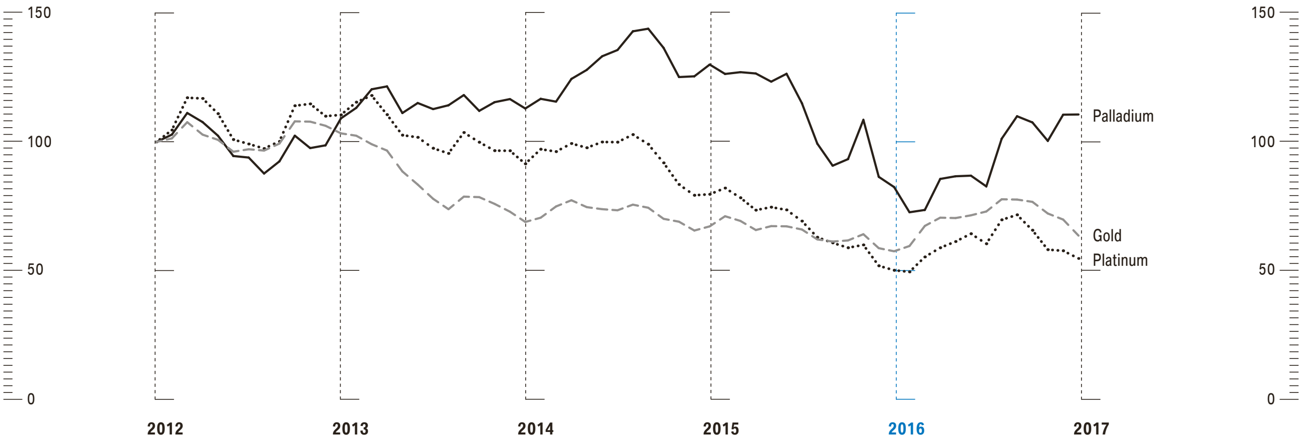
Price per barrel of Brent Crude



Source: Reuters.

Precious metals price trend
→ 17

Index: December 2011 = 100



Source: Reuters.

Raw materials prices

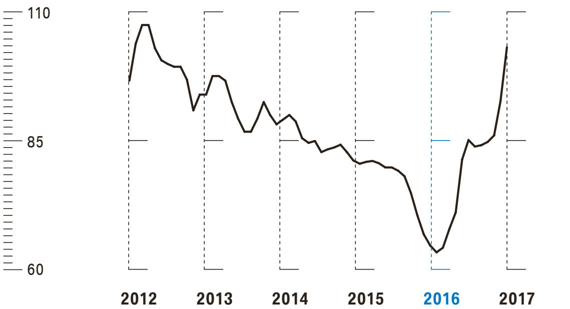
The price of Brent crude oil – the most relevant benchmark for Europe – fell at the beginning of the year for a short time to below the level of 30 US dollars per barrel. A subsequent volatile upward trend saw the price rise to a high of 57 US dollars per barrel, bolstered by the agreement reached by the Organisation of Petroleum Exporting Countries (OPEC) and Russia to cut back oil production. Despite these developments, the average price of Brent crude oil fell to 44 US dollars per barrel, compared to 52 US dollars per barrel in the previous year. WTI, the benchmark for crude oil in the USA, followed a similar trend.

After dropping to new lows at the turn of 2015/2016, precious metals prices stabilised in the course of 2016 at higher levels. The lower prices seen in preceding years have resulted in manufacturers reducing over-capacities, while at the same time demand has recovered.

Steel markets saw at times sharp price rises. During the course of the year, the USA and the EU imposed anti-dumping duties on Asian steel products, while the USA did likewise on European steel products. The situation was further exacerbated by the Chinese government's decision to cut working hours in coal-mines. The price of coal, an important cost factor in the production of steel, rose accordingly.

Steel price trend
→ 18

Index: January 2012 = 100



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

Automobile markets

The positive trend on international automobile markets seen in the previous year continued in 2016. Worldwide registrations of passenger cars and light commercial vehicles grew by 5.9 % to 87.4 million units. Strong momentum from China (24.1 million units; +17.4 %) and Europe (15.2 million units; + 6.6 %) made significant contributions to growth. By contrast, the USA recorded only a slight increase (17.6 million units; + 0.4 %).

Europe's automobile markets presented a mixed picture. After a strong performance in the previous year, the UK saw only comparatively low growth in the number of new registrations in 2016 (2.7 million units; + 2.3 %). The French automobile market was in even better shape than one year earlier, recording a 5.3 % increase to 2.0 million registrations, ahead of Germany's growth rate of 4.5 % (3.4 million units). Italy (1.8 million units; +16.2 %) and Spain (1.1 million units; +10.9 %) both recorded double-digit percentage increases.

Japan was unable to turn around the previous year's negative trend, with the market contracting by a further 1.6 % to 4.8 million units.

Automobile markets in major emerging economies continued to suffer from recession in 2016. Russia saw a 4.7 % drop to 1.2 million units, while registrations in Brazil slumped by nearly one third (– 32.2 %) to 1.7 million units.

Motorcycle markets

Since the beginning of the financial year 2016, market analysis has been expanded from the half-litre class (500 cc) to cover the entire 250 cc plus class. This follows BMW Motorrad's entrance with the entry-level G 310 R model into a new market segment within the 250 cc plus class.

Global motorcycle markets in the 250 cc plus class were flat year-on-year, mainly reflecting weaker performance in some overseas regions (+/– 0.0 %). The European market grew by 12.4 % overall, benefiting primarily from the significant recovery in Southern Europe. While the French market grew by an encouraging 6.7 %, markets in Germany, Italy and Spain all recorded double-digit increases, expanding by 13.9 %, 12.8 % and 23.5 % respectively. The US market finished 3.8 % down year-on-year.

Financial services markets

The global economy grew at a moderate pace in 2016, with conditions for financial services business generally tending to be favourable.

Interest levels remained low in the world's industrialised countries. The US Federal Reserve initially refrained from tightening its monetary policies, before finally deciding to raise the benchmark interest rate by 0.25 % in December.

In March 2016, the European Central Bank (ECB) resolved to broaden the scope of its expansionary monetary policies with a comprehensive package of measures to generate economic growth through more favourable lending conditions.

In a bid to prevent a severe economic downturn after the Brexit decision, the Bank of England lowered its reference interest rate in August and announced additional expansionary measures, including extending its bond purchasing programme.

High public-sector spending and expansionary monetary policies adopted by the Chinese central bank only partially absorbed the slowdown of the Chinese economy, resulting in a further normalisation of GDP growth over the course of the year. The Japanese central bank broadened the scope of its expansionary monetary policies in 2016 in order to stimulate the economy and reverse deflationary tendencies.

Prices in the premium segment of mainland Europe's pre-owned car markets rose slightly at the beginning of 2016, before settling at a similar level to the previous year in the course of the year. Pre-owned car market prices in the UK were slightly down year-on-year. Price levels remained stable on Asian markets. The slight downward trend continued in North America, despite a stronger performance during the summer months.

OVERALL ASSESSMENT BY MANAGEMENT

Overall assessment of business performance

The BMW Group can look back on a successful business performance in 2016, despite increased competition and growing uncertainties in the international environment. The overall picture was positive in terms of results of operations, financial position and net assets. Overall, management expectations for the period were therefore met. 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 used as the basis for managing the BMW Group and its segments. As part of the analysis of operations and the financial condition of the BMW Group, forecasts made the previous year for the financial year 2016 are compared with actual outcomes in 2016.

BMW Group

Profit before tax: slight increase

During the financial year 2016, the BMW Group continued to invest in innovative technologies and its production network to ensure future sustainability. The Group nevertheless remained on course in terms of earnings. With a Group profit before tax of €9,665 million (2015: €9,224 million; + 4.8 %), earnings reached a new high, despite the continuation of intensive competition on the world's automobile markets. In addition to an excellent sales volume performance, Group earnings also benefited from an improved financial result.

As foreseen in the outlook for the financial year 2016, the Group's profit before tax was slightly higher than one year earlier and therefore in line with expectations.

Workforce at year-end: slight increase

As at 31 December 2016, the BMW Group employed a workforce of 124,729 (2015: 122,244; + 2.0 %) worldwide. The slight company-wide increase was due to the need for additional qualified staff for the development of electric mobility and other technology fields and the growth of the financial services business. The systematic expansion of mobility services also contributed to the increase in the workforce size.

As foreseen in the outlook for the financial year 2016, there was a slight increase in the size of the BMW Group's workforce, in line with expectations.

Automotive segment

Deliveries to customers: solid increase

In 2016, the Automotive segment sold a record number of vehicles for the sixth year in succession. Dynamic market conditions, particularly in Europe, influenced automobile sales volumes more strongly than expected. Consumer spending in the UK in 2016 remained stable, despite the Brexit decision. The upward trend from the previous year in southern European countries also continued unbroken. Despite growing political and economic uncertainties in the international environment, deliveries to customers increased by a solid 5.3 % to a total of 2,367,603[1] BMW, MINI and Rolls Royce brand vehicles (2015: 2,247,485[1] units).

BMW, the Group's core brand, reported a solid 5.2 % increase to 2,003,359[1] units (2015: 1,905,234[1] units), taking it over the two-million-unit threshold for the first time in a single year. MINI also recorded solid growth, with deliveries to customers up by 6.4 % to 360,233 units (2015: 338,466 units). Rolls-Royce Motor Cars sold 4,011 units (2015: 3,785 units; + 6.0 %).

In the Annual Report 2015, the outlook for the full year 2016 had foreseen a slight increase in sales volume. The generally positive sentiment among consumers, especially in Europe, but also in Asia, helped the BMW Group to exceed its original forecast.

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

The fleet-wide deployment of Efficient Dynamics technologies – including drivetrain electrification – contributes to the efficient reduction of carbon dioxide emissions. CO_2 emissions produced by the vehicle fleet sold in Europe (EU-28) decreased slightly to 124 grams CO_2/km (2015: 127 grams CO_2/km; – 2.4 %) in the year under report.

As foreseen in the outlook for the full year 2016, fleet carbon emissions fell slightly and were therefore in line with forecast.

[1] Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2016: 316,200 units, 2015: 282,000 units).

[2] EU-28.

Revenues: slight increase
Automotive segment revenues edged up by 1.0% to a new record figure of €86,424 million (2015: €85,536 million), with currency exchange effects holding down the scale of the increase. The forecast of a slight rise in Automotive segment revenues made in the Annual Report 2015 therefore was 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 at 8.9% (2015: 9.2%; – 0.3 percentage points). As foreseen for the financial year 2016, the EBIT margin from automobile business was within the target range of between 8 and 10% and therefore in line with expectations.

Return on capital employed (RoCE): slight increase
The return on capital employed (RoCE) amounted to 74.3% (2015: 72.2%; + 2.1 percentage points). Amongst other factors, transactions with other segments and the expansion of business with service and Connected Drive contracts made positive contributions to RoCE for the Automotive segment.

The outlook for RoCE, which was already raised in the Quarterly Report to 30 June 2016 from a moderate decrease to a slight decrease, was once more exceeded. In the Annual Report 2015, a moderate decrease in RoCE was foreseen. The rate achieved by the Automotive segment in 2016 was therefore once again well above the minimum target of 26%.

Motorcycles segment

Deliveries to customers: solid increase
In a highly favourable market environment, most notably in Europe, BMW Motorrad reported a solid 5.9% increase, with 145,032 units sold (2015: 136,963 units). These figures benefited from unexpectedly good sales figures for Europe and Latin America.

The forecast increase, upgraded in the Quarterly Report to 30 June 2016 from slight to solid, was therefore realised. In the Annual Report 2015, only a slight increase in deliveries to customers had been foreseen for the Motorcycles segment.

Return on capital employed: slight increase
The Motorcycles segment generated a return on capital employed (RoCE) of 33.0% in the year under report (2015: 31.6%; +1.4 percentage points), slightly above the previous year, mainly reflecting effective working capital management and the improvement in earnings. The reported figures also benefited from the trend towards high-value models and the new brand strategy initiated in 2014.

The forecast RoCE, which had already been changed from a slight decrease to "at the previous year's level" in the Quarterly Report to 30 June 2016, was therefore once again exceeded. In the Annual Report 2015, a slight decrease in RoCE had been foreseen.

Financial Services segment

Return on equity: slight increase

Growth in business volumes and an improved risk profile in the Financial Services segment had a positive impact on segment return on equity (RoE) in 2016. At 21.2 %, the RoE was slightly higher than expected (2015: 20.2 %; +1.0 percentage point).

In the Annual Report 2015, RoE was forecast to be at the previous year's level. As expected, it remained ahead of the long-term target of 18 %.

The following overall picture arises for the key performance indicators used by the BMW Group and its segments:

Comparison of 2016 forecasts with actual outcomes 2016

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	Forecast for 2016 in 2015 Annual Report	Forecast revision during the year		Actual outcome in 2016
BMW GROUP				
Profit before tax	slight increase		€ million	9,665 (+ 4.8 %)
Workforce at year-end	slight increase			124,729 (+ 2.0 %)
AUTOMOTIVE SEGMENT				
Sales volume[1]	slight increase		units	2,367,603 (+ 5.3%)
Fleet emissions[2]	slight decrease		g CO_2 / km	124 (– 2.4 %)
Revenues	slight increase		€ million	86,424 (+ 1.0 %)
EBIT margin	target range between 8 and 10		%	8.9 (– 0.3 %pts)
Return on capital employed	moderate decrease	Q2: slight decrease	%	74.3 (+ 2.1 %pts)
MOTORCYCLES SEGMENT				
Sales volume	slight increase	Q2: solid increase	units	145,032 (+ 5.9%)
Return on capital employed	slight decrease	Q2: in line with last year's level	%	33.0 (+ 1.4 %pts)
FINANCIAL SERVICES SEGMENT				
Return on equity	in line with last year's level		%	21.2 (+ 1.0 %pts)

[1] Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2016: 316,200 units).
[2] EU-28.

REVIEW OF OPERATIONS

Automotive segment

Solid growth in deliveries to customers

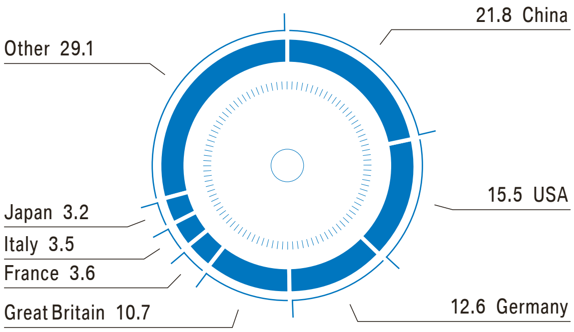
The BMW Group sold 2,367,603* BMW, MINI and Rolls-Royce brand vehicles worldwide in 2016, thereby setting a new record for the sixth year in succession (2015: 2,247,485* units; +5.3 %). The BMW brand recorded a solid 5.2 % increase to 2,003,359* units, thereby exceeding the two-million threshold for the first time (2015: 1,905,234* units). MINI also achieved a solid 6.4 % increase to 360,233 units (2015: 338,466 units). Rolls-Royce Motor Cars delivered 4,011 luxury automobiles to customers during the year under report (2015: 3,785 units; +6.0 %). A new all-time high was therefore not only recorded at Group level, but also for the BMW and MINI brands.

Dynamic growth in Europe and Asia, challenges on the US market

Within a generally favourable market environment, the BMW Group surpassed the one-million mark for sales of BMW, MINI and Rolls-Royce brand vehicles in Europe for the second year in succession in 2016 with 1,092,155 units sold (2015: 1,000,427 units; +9.2 %). Sales figures for Germany were up 4.5 % year-on-year to 298,928 units (2015: 286,098 units). Despite the Brexit decision, automobile business in Great Britain also developed positively during the year under report, with sales rising to a total of 252,205 units (2015: 230,982 units; +9.2 %). Sales volume growth was again recorded in Asia. Overall, sales of the Group's three brands in the region totalled 747,291* units (2015: 685,792* units; +9.0 %), including 516,785* units sold in China, 11.4 % more than one year earlier (2015: 464,086* units). Total sales of BMW, MINI and Rolls-Royce brand vehicles on the American continent were down year-on-year within a highly competitive market environment, falling by 7.2 % to 460,398 units (2015: 495,897 units). Sales in the USA fell by 9.7 % to 366,493 units (2015: 405,715 units).

BMW Group – key automobile markets 2016
→ 20

as a percentage of sales volume



BMW Group sales volume of vehicles by region and market
→ 21

in 1,000 units	2016	2015	2014	2013	2012
Europe	1,092.2	1,000.4	914.6	859.5	865.4
thereof Germany	298.9	286.1	272.3	259.2	287.4
thereof Great Britain	252.2	231.0	205.1	189.1	174.5
Americas	460.4	495.9	482.3	463.8	425.3
thereof USA	366.5	405.7	397.0	376.6	348.5
Asia*	747.3	685.8	658.4	578.7	493.4
thereof China*	516.8	464.1	456.7	391.7	327.3
Other markets	67.7	65.4	62.7	61.8	61.1
Total*	**2,367.6**	**2,247.5**	**2,118.0**	**1,963.8**	**1,845.2**

* Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2016: 316,200 units, 2015: 282,000 units, 2014: 275,891 units, 2013: 198,542 units, 2012: 141,165 units).

BMW* brand exceeds the two-million threshold, again taking a top position in the premium segment

The BMW brand exceeded the two-million threshold for the first time in 2016, selling 2,003,359 units.

The BMW 1 Series fell just short of its previous year's performance with a sales volume of 176,032 units in the year under report (2015: 182,158 units; – 3.4 %). By contrast, at 196,183 units, sales of the BMW 2 Series were nearly a quarter higher (2015: 157,144 units; + 24.8 %). Sales figures for the BMW 3 Series fell year-on-year to 411,844 units (2015: 444,338; – 7.3 %). Nearing the end of its life cycle, sales of the BMW 5 Series at 331,410 units narrowly missed the previous year's high figure (2015: 347,096 units; – 4.5 %). Worldwide sales of the new BMW 7 Series were over two thirds up on the previous year (61,514 units; 2015: 36,364 units; + 69.2 %).

The BMW X family remained extremely popular in 2016, with sales rising by more than one fifth worldwide to 644,992 units (2015: 527,319 units; + 22.3 %). Sales volume growth of the BMW X1 was particularly pronounced with a jump of 83.6 % to 220,378 units (2015: 120,011 units). The BMW X3 also saw a significant year-on-year rise in deliveries to customers (157,017 units; 2015: 137,810 units; +13.9 %). At 166,219 units, sales of the BMW X5 were only slightly lower than one year earlier (2015: 168,143 units; –1.1 %).

Sales volume of BMW vehicles by model variant*

→ 22

in units	2016	2015	Change in %	Proportion of BMW sales volume 2016 in %
BMW 1 Series	176,032	182,158	– 3.4	8.8
BMW 2 Series	196,183	157,144	24.8	9.8
BMW 3 Series	411,844	444,338	– 7.3	20.5
BMW 4 Series	133,272	152,390	–12.5	6.6
BMW 5 Series	331,410	347,096	– 4.5	16.5
BMW 6 Series	13,400	20,962	– 36.1	0.7
BMW 7 Series	61,514	36,364	69.2	3.1
BMW X1	220,378	120,011	83.6	11.0
BMW X3	157,017	137,810	13.9	7.8
BMW X4	58,055	55,050	5.5	2.9
BMW X5	166,219	168,143	–1.1	8.3
BMW X6	43,323	46,305	– 6.4	2.2
BMW Z4	5,432	7,950	– 31.7	0.3
BMW i	29,280	29,513	– 0.8	1.5
BMW total	**2,003,359**	**1,905,234**	**5.2**	**100.0**

* Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2016: 316,200 units, 2015: 282,000 units).

MINI sets new sales volume record

The MINI brand also set a new sales volume record in 2016 with a total of 360,233 units sold (2015: 338,466 units; + 6.4 %). Positive contributions to this performance came from the new Convertible (29,758 units; 2015: 14,145 units) and the new Clubman (63,509 units; 2015: 8,003 units). With 198,373 units sold, the MINI Hatch 3- and 5-door models fell short of the previous year's high level (2015: 221,982 units; – 10.6 %).

Sales volume of MINI vehicles by model variant

→ 23

in units	2016	2015	Change in %	Proportion of MINI sales volume 2016 in %
MINI Hatch (3- and 5-door)	198,373	221,982	– 10.6	55.1
MINI Convertible / Coupé / Roadster	30,050	20,004	50.2	8.3
MINI Clubman	63,509	8,003	–	17.6
MINI Countryman / Paceman	68,301	88,477	– 22.8	19.0
MINI total	**360,233**	**338,466**	**6.4**	**100.0**

Strong performance by Rolls-Royce

Rolls-Royce Motor Cars enjoyed the second-best year in its history, with 4,011 luxury automobiles delivered to customers (2015: 3,785 units; + 6.0 %). This performance includes an all-time quarterly high contribution of 1,386 units in the fourth quarter (2015: 1,181 units; + 17.4 %). A high proportion of these sales related to the new Rolls-Royce Dawn, of which 1,283 units were sold worldwide after its mid-year launch.

Sales volume of Rolls-Royce vehicles by model variant

→ 24

in units	2016	2015	Change in %
Phantom (incl. Coupé, Drophead Coupé, Extended Wheelbase)	389	488	– 20.3
Ghost	1,175	1,609	– 27.0
Wraith / Dawn	2,447	1,688	45.0
Rolls-Royce total	**4,011**	**3,785**	**6.0**

High capacity utilisation throughout production network

In 2016, buoyant customer demand and various new model start-ups resulted in high capacity utilisation throughout the BMW Group production network. At the same time, rapid progress was made in expanding the Group's international manufacturing locations. The production network currently comprises 31 locations in 14 countries worldwide.

New production records were set in 2016, with a total of 2,359,756* BMW, MINI and Rolls-Royce brand vehicles manufactured (2015: 2,279,503* units; + 3.5 %), comprising 2,002,997* BMW (2015: 1,933,647* units; + 3.6 %), 352,580 MINI (2015: 342,008 units; + 3.1 %) and 4,179 Rolls-Royce brand vehicles (2015: 3,848 units; + 8.6 %).

* Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2016: 305,833 units, 2015: 287,755 units).

Vehicle production of the BMW Group by plant

→ 25

in units	2016	2015	Change in %	Proportion of production in %
Spartanburg	411,171	400,904	2.6	17.4
Regensburg	346,291	304,509	13.7	14.7
Dingolfing	339,769	360,804	– 5.8	14.4
Leipzig	246,550	233,656	5.5	10.4
Munich	216,769	221,998	– 2.4	9.2
Oxford	210,971	201,206	4.9	8.9
Tiexi[1]	161,901	144,988	11.7	6.9
Dadong[1]	143,825	142,767	0.7	6.1
Rosslyn	63,117	71,353	–11.5	2.7
Rayong	17,844	8,928	99.9	0.7
Araquari	15,408	9,936	55.1	0.6
Chennai	8,568	7,716	11.0	0.4
Goodwood	4,179	3,848	8.6	0.2
Born (VDL Nedcar)[2]	87,609	57,019	53.6	3.7
Graz (Magna Steyr)[2]	53,528	82,655	– 35.2	2.3
Partner plants (Jakarta, Cairo, Kaliningrad, Kulim)	32,256	27,216	18.5	1.4
BMW Group	**2,359,756**	**2,279,503**	**3.5**	**100.0**

[1] Joint Venture BMW Brilliance Automotive Ltd., Shenyang.
[2] Contract production.

Flexibility, quality and efficiency are key characteristics of the Group's production system. Its great ability to adapt enables the BMW Group to respond rapidly to changing market situations and fluctuations in regional sales volumes by adapting production plans. Digitalisation, standardised modules and intelligent composite construction methods demonstrate the high performance of the Group's production network. At the same time, the production system offers customers an impressive level of individualisation, allowing changes in order specifications up to six days prior to delivery. The production expertise within the BMW Group thus gives it a crucial competitive advantage that contributes to the profitability and sustainable success of the Company.

Strong production base in Germany

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

In November 2016, the BMW Group began manufacturing the seventh generation of the BMW 5 Series at its Dingolfing assembly plant, which underwent numerous conversion and building measures to prepare for the new model. Dingolfing therefore remains the centre of competence for producing the top BMW model series.

Extensive expansion work is also progressing at the main plant in Munich. By mid-2017, a state-of-the-art painting line will be completed that meets the very highest standards in efficiency and economical use of resources. The new building is part of an extensive investment project that also includes the enlargement of the body-making section and vehicle assembly as well as parts of the logistics system.

In 2016, the BMW Group plant in Regensburg celebrated its 30th anniversary. The highly flexible plant manufactures eight different models on one line. During the reporting period, production volume was boosted to over 346,000 units, approximately 14 % up on the previous year.

The BMW Group plant in Leipzig produced over 29,000 BMW i model vehicles during the period under report. The BMW i3 is one of the three best-selling electric vehicles worldwide. In addition to the Munich plant, Leipzig is now the second BMW Group site to utilise electric trucks, powered exclusively by electricity generated via renewable sources, to transport its materials on public roads. In 2016, a total of 246,550 vehicles rolled off production lines in Leipzig, the highest figure to date for the plant.

Since its opening, some 160 engineers have been engaged in research at the Lightweight and Engineering Center in Landshut, designing innovative hi-tech materials and composite concepts for the vehicles of the future. The think tank, built near the production facilities, concentrates lightweight construction know-how at the Landshut plant.

The Wackersdorf Innovation Park is the logistical hub for materials management and just-in-sequence delivery to BMW Group assembly plants in ten different countries. For the first time, a fleet of ten self-driving Smart Transport robots is being used in Wackersdorf to transport components within the logistics centre. These self-driving transport robots are capable of driving freely within the logistics centre and transporting loads of up to 500 kilograms.

SGL Automotive Carbon Fibers (SGL ACF), the joint operation between the BMW Group and the SGL Group, is also based in Wackersdorf. In Moses Lake (USA), SGL ACF operates a carbon fibre production plant that is powered by hydroelectricity and supplies carbon fibres to the SGL ACF plant in Wackersdorf, where they are processed into textile cores.

During the year under report, the BMW Group plant in Eisenach commissioned a state-of-the-art servo tryout press. Eisenach is one of three BMW Group plants worldwide specialised in making pressing tools. Moreover, some 250 employees at the plant manufacture the majority of the outer body parts from sheet metal, aluminium and stainless steel for the Rolls-Royce plant in Goodwood (UK) as well as parts for BMW motorcycle production in Berlin.

Four engine production plants worldwide

In 2016, the joint venture BBA opened a new engine plant in Shenyang (China) to produce the latest generation of BMW TwinPower Turbo 3- and 4-cylinder petrol engines. The new light metal foundry, which was opened at the same time, is designed for sustainable production. Both the engine plant and the light metal foundry meet state-of-the-art production standards and supply the BMW Brilliance manufacturing plants in Dadong and Tiexi. The BMW Group now manufactures engines at a total of four locations: Munich (Germany), Hams Hall (UK), Steyr (Austria) and Shenyang (China).

The BMW Group's largest engine plant, located in Steyr, produces 3-, 4- and 6-cylinder diesel engines as well as 3-, 4- and 6-cylinder petrol engines. Engines made in Steyr are installed in more than half of all BMW vehicles and in over one third of all MINI vehicles. In September 2016, the development centre for diesel engines, which adjoins the manufacturing plant, took the first new, state-of-the-art engine testing facilities into service. The Steyr plant established a new production record of 1,261,449 engines in 2016.

The BMW Group develops and manufactures battery cell modules, high-voltage storage systems and electric motors at a total of five locations. The most important electric drivetrain technologies and components are developed at the prototype construction facility in Munich and produced at the Dingolfing and Landshut plants. The Dingolfing plant manufactures battery cell modules and installs them in high-voltage storage systems for the BMW i3, the BMW i8 and the Group's plug-in hybrid models. The electric motors and range extenders for the BMW i models are made at the Landshut plant. The Spartanburg plant in the USA produces and installs high-voltage storage systems for the BMW X5 iPerformance. The BBA joint venture plant in Shenyang is currently building a new centre for high-voltage storage systems.

Internationalisation of BMW production network progresses

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

In North America, expansion work has been continued at the BMW plant in Spartanburg (USA). In 2016, the plant set a new annual record, turning out over 411,000 units. In terms of production volume, the Spartanburg plant is therefore the largest in the BMW Group's network.

In San Luis Potosí (Mexico), preparations for constructing the new plant are running on schedule and a local training centre has already been opened at the site. The plant is due to commence operations in 2019.

In Europe, the British production cluster comprising the MINI assembly facility in Oxford, the pressing plant in Swindon and the engine manufacturing plant in Hams Hall is a key element in the BMW Group's production network. In order to secure greater capacity for forecast growth, the MINI 3-door model, the MINI Convertible and the MINI Countryman are also being produced for the BMW Group at the automotive manufacturer VDL NedCar in Born, the Netherlands.

Important work was carried out to convert and expand the Rolls-Royce manufacturing plant in Goodwood (UK) during the period under report. For future models, the BMW Group is investing in a new production system on one line at the plant. The new Technology and Logistics Centre in Bognor Regis, near Goodwood, was opened in January 2016.

In Rosslyn (South Africa), preparations are already underway for producing the next generation of the BMW X3. In May 2016, work began on the body-making facility, which is being enlarged by 50 %.

In Shenyang (China), the BBA plants in Dadong and Tiexi produced over 305,000 units, setting a new record in the process. Comprehensive expansion work at the Dadong plant has been continued. The extension will improve the flexibility of the plant and prepare it for the manufacture of future models.

The manufacturing sites in Chennai (India) and Rayong (Thailand) complete the BMW Group's international production network. In 2016, the plant in India produced the 50,000th BMW for the local market. The BMW plant in Thailand is the only facility within the production network that manufactures not only BMW and MINI automobiles, but also BMW motorcycles.

During the period under report, a total of 32,256 automobiles were produced at the Group's various partner plants, which mainly serve their regional markets.

Motorcycles segment

Solid sales volume growth for BMW Motorrad

The Motorcycles segment profited from a favourable market environment during the period under report, particularly in Europe and Latin America, thereby achieving a record sales volume performance for the sixth year in succession. Deliveries of BMW motorcycles to customers worldwide rose by a solid 5.9% to 145,032 units (2015: 136,963 units).

Dynamic growth in Europe

Sales of motorcycles in Europe grew by 7.5% to 87,983 units (2015: 81,834 units) year-on-year. These figures include 24,894 units sold in Germany (2015: 23,823 units; +4.5%), 12,300 units in Italy (2015: 11,150 units; +10.3%) and 13,350 units in France (2015: 12,550 units; +6.4%). Market conditions in the USA remained very difficult. The number of motorcycles sold dropped significantly to 13,730 units (2015: 16,501 units; –16.8%).

Internationalisation continues

Production of the G 310 R commenced at the Group's cooperation partner TVS Motor Company in India during the year under report. Operations at the Group's partner plant in Thailand were also ramped up. Following the takeover of production in Manaus (Brazil) in October 2016, for the first time, BMW Motorrad now operates its own manufacturing facilities at a location outside Europe.

Motorcycle production slightly down on previous year

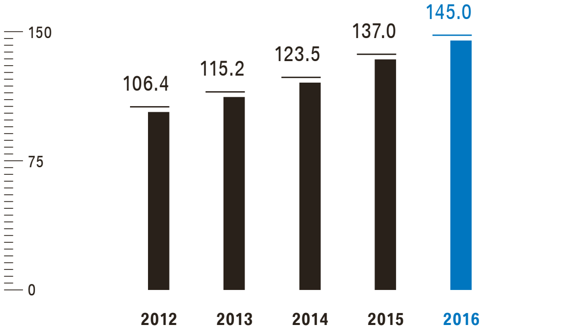
A total of 145,555 motorcycles rolled off production lines during the year under report (2015: 151,004 units; –3.6%). The slight drop was largely attributable to the higher number of new model production start-ups in the second half of 2016 compared to one year earlier.

Started in 2015, expansion work on the BMW Group plant in Berlin continued during the year under report. In addition to measures to increase production capacity, a state-of-the-art logistics centre is being built near the Berlin plant and scheduled to begin operations from the end of 2017.

BMW Group sales volume of motorcycles*

→ 26

in 1,000 units

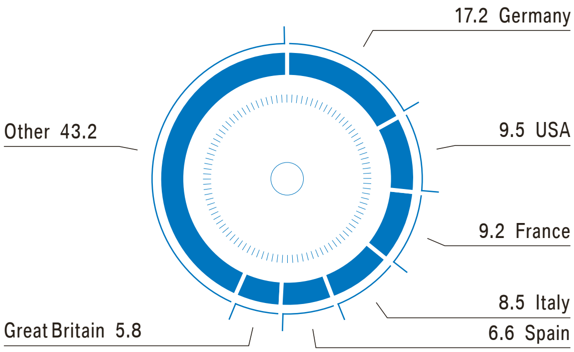


* Excluding Husqvarna, sales volume up to 5 March 2013: 59,776 units.

BMW Group – key motorcycle markets 2016

→ 27

as a percentage of sales volume



Financial Services segment

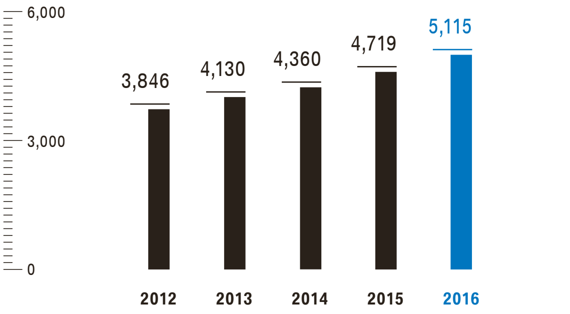
Financial services business continues to grow

As in the previous year, the Financial Services segment continued to perform well in 2016, despite the volatile market environment. In balance sheet terms, business volume grew by 11.0 % to €123,394 million (2015: €111,191 million). The contract portfolio under management at 31 December 2016 comprised 5,114,906 contracts and therefore grew 8.4 % year-on-year (2015: 4,718,970 contracts).

Contract portfolio of Financial Services segment

→ 28

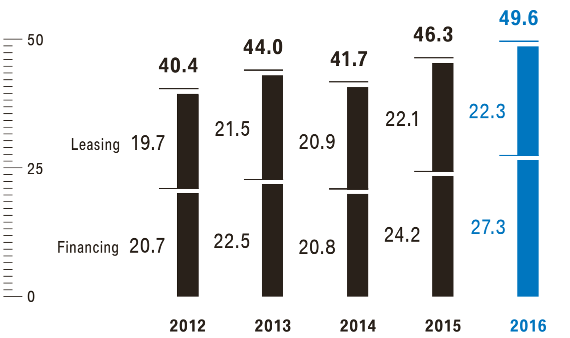
in 1,000 units



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

→ 29

in %



* Until 2015 excluding Rolls-Royce.

Growth in new business volumes

Credit financing and leasing business with retail customers remain a major factor for the success of the Financial Services segment. During the period from January to December 2016, 1,811,157 new credit financing and leasing contracts were concluded with customers, 9.4 % up on the previous year (2015: 1,655,961 contracts). This increase reflected a significant 11.1 % rise in credit financing and a solid 6.2 % rise in leasing contracts. Overall, leasing accounted for 34.2 % of new business (2015: 35.3 %), with credit financing at 65.8 % (2015: 64.7 %).

Almost every second new BMW Group vehicle (49.6 %) was leased or financed by the Financial Services segment in the financial year 2016, 3.3 percentage points more than one year earlier (2015: 46.3 %).*

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

In the BMW and MINI pre-owned vehicle financing and leasing lines of business, the number of new contracts signed by the segment increased significantly in 2016 (+10.5 %) to 361,928 contracts (2015: 327,391 contracts).

The total volume of new credit and leasing contracts concluded with retail customers during the twelve-month period under report grew by 9.3 % year-on-year to €55,327 million (2015: €50,606 million).

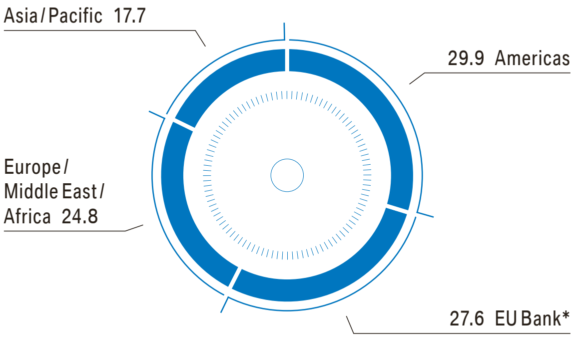
The increase in credit financing and leasing business with retail customers is reflected in the overall contract portfolio. A total of 4,703,417 contracts were in place with retail customers at 31 December 2016 (2015: 4,326,631 contracts; + 8.7 %). By region, Asia/Pacific continued to enjoy significant growth, recording an 18.0 % increase in the contract portfolio, mainly driven by greater demand in China. The Europe/Middle East/Africa region (+ 8.6 %), the Americas region (+ 7.1 %) and the EU Bank* region (+ 5.3 %) also recorded year-on-year growth.

* 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 2016

→ 30

in % per region



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

Fleet business expanded

The BMW Group is one of Europe's foremost leasing and full-service providers. The Financial Services segment's fleet management line of business offers leasing and financing arrangements as well as other fleet-related services to commercial customers under the brand name "Alphabet". The number of new contracts signed rose by 7.0 % during the financial year 2016. At 31 December 2016, the segment was thus managing a portfolio of 644,420 fleet contracts (2015: 602,303 contracts).

Decrease in multi-brand financing

Multi-brand financing saw a moderate decrease (– 5.9 %) in the number of new contracts signed in 2016, which fell to 153,297 (2015: 162,870 contracts). At 31 December 2016, the total portfolio comprised 466,436 contracts, in line with the previous year (2015: 470,150 contracts; – 0.8 %).

Dealer financing up year-on-year

The total volume of dealer financing increased in 2016, growing by 6.7 % to €18,307 million at the end of the reporting period (2015: €17,156 million).

Deposit business volume at previous year's level

Customer deposits provide an important source of refinancing for the Financial Services segment. The volume of deposits at the end of the reporting period stood at €13,512 million, in line with the previous year's level (2015: €13,509 million; +/– 0.0 %).

Growth in insurance business

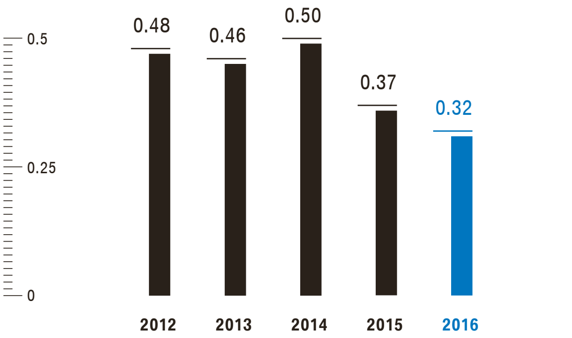
Demand for insurance products remained high in 2016, with the number of new insurance contracts signed rising by 4.6 % to 1,262,973 (2015: 1,207,196 contracts). At 31 December 2016, the contract portfolio comprised 3,411,872 contracts (2015: 3,200,742 contracts; + 6.6 %).

Risk profile improved

Despite ongoing political and economic uncertainties, including the UK's decision to leave the EU, the stable trend in the global economy during the year under report contributed to an improvement in the risk situation of the Financial Services segment's total portfolio. The risk profile for the segment's credit financing portfolio also improved slightly. The credit loss ratio on the total credit portfolio for the twelve-month period decreased to 0.32%, slightly down on the previous year's level (2015: 0.37%).

Development of credit loss ratio
→ 31

in %



Average sales proceeds per vehicle, generated from remarketing pre-owned BMW and MINI brand vehicles, reflected the marginally less favourable situation on international pre-owned markets, and were therefore slightly down on the previous year. Residual value losses on such vehicles rose moderately year-on-year, mainly due to greater competition in North America. Further information on the risk profile is provided in the section "Risks and Opportunities".

Research and Development

→ www.bmwgroup.com/innovation

Research and development are of central importance for the BMW Group as a premium manufacturer. As part of the Efficient Dynamics strategy, continual efforts are undertaken to improve energy efficiency and reduce emissions across the full range of automobiles and motorcycles. In line with its Connected Drive strategy, the BMW Group is engaged in work on the connectedness of driver, vehicle and the outside world. The Group seeks to take a leading position in the field of autonomous driving. At 31 December 2016, a total of 13,103 people at 13 locations in five countries worldwide were employed in the BMW Group's research and innovation network.

Research and development expenditure totalled €5,164 million during the year under report, in line with the previous twelve-month period (2015: €5,169 million; – 0.0%). At 5.5%, the research and development expenditure ratio was also practically identical to that of the preceding year (2015: 5.6%). The ratio of capitalised development costs to total research and development expenditure for the period (capitalisation ratio) was 40.5% (2015: 39.9%). Amortisation of capitalised development costs totalled €1,222 million (2015: €1,166 million; + 4.8%). Further information on research and development expenditure is provided in the "Report on Economic Position (Results of Operations)" and in → note 7 to the Group Financial Statements.

→ see note 7

Given the pace of technological change, collaboration in the field of research and development is customary in the automotive industry. The BMW Group also enters into collaboration arrangements with selected partners. The aim of these research and development activities, which may also include cross-sector cooperation, is to help find innovative solutions for individual mobility. The focus is on future-oriented technologies such as digitalisation and alternative drive systems.

Expertise in drivetrain technology

The BMW Group is consistently extending its portfolio of electrically powered vehicles. At the end of 2016, it included the BMW i3 all-electric, battery-powered vehicle, six plug-in hybrid vehicles for the global market, and an additional plug-in hybrid exclusively developed for the Chinese market.

In 2016, an additional version of the BMW i3 was launched, featuring significantly greater battery capacity. The vehicle is also available with or without a range extender. During the reporting year, plans were laid for both the first all-electric MINI and for an electrically powered BMW X3. In 2017, the new BMW 5 Series and the MINI Countryman are both due to be launched as plug-in hybrid versions. A roadster version of the BMW i8 has also been announced for 2018.

With its C-evolution, BMW Motorrad presented in 2016 the second edition of an all-electric "Maxi Scooter" with greatly improved range and higher top speed.

For the medium and long term, the BMW Group is also developing a fuel cell electric vehicle (FCEV). The fuel cell electric drive system, which converts hydrogen to electricity and steam, combines locally emission-free, electrically powered driving with the dynamic flair typical of the BMW brand, capability for covering long distances, and short refuelling times. Battery and fuel cell technology can be combined in one vehicle.

At the same time, the BMW Group continues to work on enhancing its existing range of highly efficient combustion engines. 2016 saw the launch of the new BMW 7 Series, featuring a newly developed inline 6-cylinder diesel engine that combines high performance with low fuel consumption. The BMW 1 and 2 Series M Performance models were presented with a new, powerful inline 6-cylinder petrol engine in 2016.

Driver assistance systems, highly and fully automated driving

The new BMW 5 Series offers drivers extensive support with a variety of assistance systems. It is fitted with a stereo camera as standard, which monitors the vehicle's environment together with optionally available radar and ultrasound sensors. New features in the BMW 5 Series include an avoidance assistant, a crossing-traffic warning, a lane-change assistant and a lane control assistant with active side collision protection, which monitors the driving lanes and developments next to the vehicle and actively supports the driver in the event of imminent collision with a corrective steering intervention.

With extended functions built into the optionally available Active Cruise Control (ACC) and the steering and lane control assistant, the BMW 5 Series represents a further step towards automated driving, including recognition of speed limits, which the optional Speed Limit Assist shows the driver. The assistance system supports the driver in keeping a correct distance at speeds up to 210 km/h as well as at accelerating and braking. These features offer drivers a significant benefit in terms of convenience, particularly at low speeds and in slow-moving traffic. The optional Remote Parking feature of the BMW 5 Series Sedan enables drivers to manoeuvre the vehicle into the tightest of parking spaces using a remote-control car key.

At the same time, the BMW Group is conducting research into highly automated systems that do not need to be permanently monitored by the driver and fully automated systems that no longer require the driver to monitor them at all. At the end of 2016, some 600 BMW Group employees were engaged in the development of highly automated driving technologies. Beginning in 2017, the BMW Group plans to concentrate its expertise in the field of vehicle connectivity and automated driving at one location.

BMW Connected digital platform presented

With BMW Connected, the BMW Group presented a comprehensive digital concept that facilitates individual mobility. Based on a flexible platform, BMW Connected seamlessly combines the vehicle with the digital life of the user through user devices such as smartphones. The functions of existing BMW ConnectedDrive apps will be integrated in BMW Connected. The security and anonymisation of data have the highest priority for the BMW Group, both internally and for its customers.

Digital connectivity has also become a key topic for the Group's motorcycles. With its optionally available "Intelligent Emergency Call", BMW Motorrad has announced that eCall for urgent help in case of emergency or accidents will also be added as a feature of its motorcycles as from 2017.

Next generation of the AirTouch virtual touchscreen

The BMW Group made further progress in the field of interaction between the driver and the vehicle during the year under report. Following up on BMW Gesture Control, which is already available for the new BMW 5 and 7 Series, in 2016 the Group presented its enhanced AirTouch system, which enables drivers to use simple gestures with an open hand to activate command fields on a large panorama screen on the dashboard. At the beginning of 2017, the BMW HoloActive Touch system was presented to the public for the first time. The innovative interface between driver and vehicle is similar to a virtual touchscreen, which is operated using finger gestures on a screen that appears to float freely in space.

Extreme lightweight construction in the BMW HP4

BMW Motorrad demonstrated with the exclusive BMW HP4 RACE experimental motorcycle how extreme lightweight construction can be realised based on carbon fibre technology. Among other features, this motorcycle, which is fit for racing, is equipped with a highly innovative frame structure made of pure carbon as well as carbon wheel-rims.

Numerous awards for innovations

The BMW Group won over 50 national and international awards during the year under report. Among other honours, the BMW 7 Series was named World Luxury Car at the renowned World Car Awards.

At the "International Engine of the Year Award", the most prestigious engine competition worldwide, the drivetrain of the BMW i8 was winner in the 1.4- to 1.8-litre category. At the Automotive Innovations Award, jointly awarded by the Center of Automotive Management and the auditing and consulting firm PricewaterhouseCoopers, BMW drivetrains were adjudged to be the most innovative conventional systems across all models.

The BMW i3 won the "Golden Steering Wheel" award in the "Alternative drives" category. In 2016, the BMW Group won numerous design awards, including the International Forum Design Awards for its Rolls-Royce Dawn, MINI Clubman, MINI Convertible, BMW M2, BMW X1 and BMW 7 Series.

Purchasing and Supplier Network

Charting a course in a volatile environment

Despite the increasingly volatile environment, the Purchasing and Supplier Network ensures that the Group is capable of flexibly responding to fluctuations in demand when purchasing production materials, raw materials, capital goods and services. The main focus is on high quality standards, innovation, a flexible and reliable supply structure and competitive costs.

Connecting procurement markets

Continually rising vehicle sales and production volumes outside Europe are also changing the regional distribution of purchasing volumes, for example due to the expansion of production capacities in the Group's plant in Spartanburg, USA, or the construction of the BMW Group plant in San Luis Potosí, Mexico, which is scheduled to begin production in 2019. The BMW Group remains committed to its strategy of maintaining a regionally balanced growth in sales volume, production and purchasing volumes. This strategy also makes an important contribution to natural hedging against currency risks.

Investments ensure expertise in productivity and technology

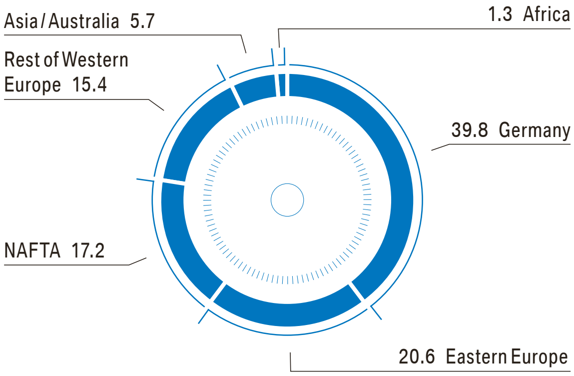
A further important area is the production of key components for BMW Group vehicles. Investments in state-of-the-art manufacturing facilities and efficient structures ensure the competitiveness of in-house component production.

During the period under report, the new Lightweight and Engineering Center was opened in Landshut, the Group's most important components plant. In future, research will be conducted at the centre on new materials, composite material concepts and production processes for future vehicle generations, encompassing a wide range of technologies.

Regional mix of BMW Group purchase volumes 2016

→ 32

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. Products and services are sold by independent authorised dealerships, BMW Group branches and subsidiaries, as well as independent importers in certain markets. The dealership and agency network for BMW i currently covers over 1,300 locations.

100th anniversary of BMW

In March 2016, the company celebrated its 100th anniversary with the slogan THE NEXT 100 YEARS. The anniversary year kicked off with a major centenary event in Munich for employees and the general public. The four vision vehicles of BMW, MINI, Rolls-Royce and BMW Motorrad, presented over the course of the year, provided the international public with a visionary glimpse into the future of individual mobility.

The BMW VISION NEXT 100 demonstrates how driving pleasure could look in the future. The MINI VISION NEXT 100 offers an individualised, continually available form of urban mobility. The Rolls-Royce VISION NEXT 100 provides an insight into the future world of highly customised automotive luxury. Future motorcycling pleasure with the BMW Motorrad VISION NEXT 100 promises unlimited freedom.

Digitalisation continued

In 2016, the BMW Group continued to digitalise its processes in both sales and marketing. The aim is to make customer contact possible at an earlier stage and provide individualised offers for vehicle sales and services. Moreover, online sales help to attract new customer groups. For example, at the end of 2015 a nationwide online pilot project began across the UK. Over the course of the year under report, the sale of new vehicles via the Internet established itself as a further sales channel to supplement on-location dealership sales. This method enables customers to purchase any BMW model online. The service covers all aspects of the purchase, including selecting the right model, fully customised vehicle configuration, financing and payment. It is even possible to trade in a used vehicle online. If required, customers can also receive personal advice from a vehicle specialist (BMW Product Genius) or take up direct contact with a dealer.

BMW i becoming further established

Under the brand name BMW i, the BMW Group offers a range of electric mobility solutions that include not only the vehicles, but also services such as journey planning using different modes of transport and charging of electric vehicles. Over 100,000 electric and electrified vehicles have been sold to customers since the BMW i brand was launched. BMW i vehicles are meanwhile available in 52 countries worldwide.

Since first going on sale in 2013, the BMW i3 has established itself as the front runner in its segment. Over 80 % of BMW i3 buyers are first-time customers for the BMW Group. Since summer 2016, the BMW i3 has been optionally available with a battery that provides 50 % more capacity and a range of around 300 kilometres in the European driving cycle.

The BMW i8 plug-in hybrid sports car continues to be the best-selling vehicle in its class since its market launch in 2014. The eDrive technology of the BMW i8 is also integrated in the new BMW iPerformance models of the 2, 3 and 7 Series as well as in the X5.

The global dealership and agency network for BMW i currently covers over 1,300 locations. In addition, BMW i models are offered via new channels, such as the Customer Interaction Center. Moreover, the Mobile Sales Advisor is now established as a core element of the sales model in six markets. The BMW i online store gives customers in the Netherlands, Belgium, Luxembourg, Austria and Italy the opportunity to order their BMW i3 via the Internet.

Under the name 360° ELECTRIC, BMW i provides a comprehensive range of products and services for both all-electric vehicles and plug-in hybrids worldwide. A new generation of the BMW i wallbox has been launched for quick, easy charging at home. It can now charge vehicles at up to three times the previous speed. While on the road, drivers can now use the BMW i service ChargeNow with over 65,000 charging points in 29 different countries.

Premium services for individual mobility

The BMW Group has been developing its range of mobility services under the brand NOW since 2011. In Europe, the USA and China, the BMW Group now offers its customers individually tailored solutions for urban mobility. The range includes car sharing, on-demand mobility such as DriveNow and ReachNow as well as parking and charging solutions such as ParkNow and ChargeNow.

The DriveNow premium car-sharing service, a joint venture between BMW AG and Sixt SE, now has over 750,000 customers in seven countries and is represented in eleven European cities. Around 20 % of DriveNow vehicles in Europe are electrically powered and the number is scheduled to grow. With Alphacity, the BMW Group also provides car-sharing services for companies.

In April 2016, the BMW Group launched ReachNow in Seattle (USA), a further development of car sharing. The ReachNow fleet in Seattle and Portland now comprises 800 BMW and MINI brand vehicles. Electrically powered BMW i3 vehicles make up 20 % of the fleet. In addition to Seattle and Portland, in November 2016 Brooklyn/New York became the third US city to launch ReachNow. Currently, membership amounts to more than 32,000 in the three cities. In December 2016, ReachNow began offering Ride in Seattle, its new mobility service, which enables members to order a vehicle optionally with a driver. In residential areas, Fleet Solutions offers the exclusive use of a fleet of premium vehicles that are permanently available on location. The ReachNow Reserve service makes it possible to book a specific vehicle for longer periods of between two and five days and have it delivered at the time and place of the customer's choice. Via ReachNow Share, MINI owners will be able in the future to rent out their vehicle when they do not need it themselves.

ParkNow is a comprehensive parking solution for Web, app and navigation systems. When parking on the street, payment is made cash-free via smartphone. When parking in multi-storey car parks, ParkNow provides support in finding, reserving, booking and paying for parking spaces. ParkNow was launched in Germany, Austria and France during the year under report.

With ChargeNow, the BMW Group provides easy access to a constantly growing network of public charging stations that currently includes over 65,000 charging points in 29 countries. Customers can locate the BMW i partner charging stations directly via the navigation system integrated in the vehicle, via the ChargeNow app or via the website. ChargeNow integrates the charging stations of various operators to form one large, expanding network.

BMW continues electrification strategy with iPerformance

In early 2016, BMW presented the first iPerformance model, the plug-in version of the 3 Series. With emissions of only 44 g CO_2/km and an electric range of up to 40 km, the iPerformance Sedan combines the driving dynamics of the 3 Series with the advantages of an electric drive system. A plug-in hybrid version of the current 7 Series was launched in July. With only 45 g CO_2/km, the efficient, powerful 4-cylinder engine sets new standards in the luxury segment. The BMW 2 Series Active Tourer is also available as an iPerformance model. With its 3-cylinder combustion engine and 100 kW/136 hp of power output and a 65 kW/88 hp electric motor, it emits 46 g CO_2/km.

The revised model of the BMW 3 Series Gran Turismo has been available since July 2016. The new modular engines and Connected Drive range of services combine the sporting flair typical of BMW with superb efficiency and a high level of connectedness. The BMW 1 Series and the 2 Series Convertible and Coupé models have also been available as M Performance versions since July 2016. In the course of the year, both the BMW X1 and the BMW 1 Series were launched in China. Since autumn 2016, the BMW M2 Coupé has been on sale in the compact high-performance sports car segment.

The first official information on the seventh generation of the new BMW 5 Series was published in mid-October 2016. The new 5 Series Sedan had its worldwide debut in Detroit in January 2017 and has been on sale since mid-February 2017. The success story of the BMW 5 Series in the sporty business class is being continued with this dynamic, efficient, innovative vehicle.

As the first concrete steps in implementing the Strategy NUMBER ONE > NEXT, numerous new concepts and innovations have been presented to the public, such as the BMW i8 Spyder, which celebrated its world premiere at the Consumer Electronics Show (CES) in Las Vegas, followed by the M Performance model of the BMW 7 Series at the Geneva International Motor Show. The China version of the BMW X1 was presented at the show in Beijing and the BMW Concept X2 at the Paris Motor Show (Mondial de l'Automobile).

MINI launches new convertible

The new MINI Convertible has been on the market since March 2016. The new model was launched featuring five different versions of the new generation of engines with MINI TwinPower Turbo technology. The sports version, the MINI John Cooper Works Convertible, became available in May. The new MINI Convertible keeps up the tradition of highly dynamic driving pleasure and continues to offer its owners the typical MINI go-kart feeling.

Rolls-Royce Dawn launched

The new Rolls-Royce Dawn has been available since mid-2016. The Dawn was first presented to the media in March 2016 amid high acclaim. The luxury convertible boasts a special in-house designed roof that reduces interior noise levels to a minimum. During the year under report and to celebrate the end of the vehicle's life cycle, a special edition of 50 Rolls-Royce Phantoms was built – the Phantom Zenith Collection.

Workforce

→ www.bmwgroup.com/careers

Slight increase in workforce

At 31 December 2016, the BMW Group employed a workforce of 124,729 worldwide, 2.0 % more than one year earlier (2015: 122,244 employees). The increase was primarily due to the expansion of the international production network and financial services business. Moreover, skilled workers and IT specialists were increasingly recruited for future-oriented areas, such as software architecture and development, artificial intelligence and autonomous driving.

BMW Group employees

→ 33

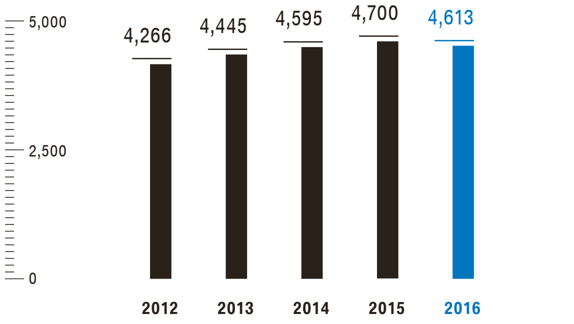
	31.12.2016	31.12.2015	Change in %
Automotive	112,869	111,410	1.3
Motorcycles	3,351	3,021	10.9
Financial Services	8,394	7,697	9.1
Other	115	116	– 0.9
BMW Group	**124,729**	**122,244**	**2.0**

Dual vocational training expanded worldwide

The BMW Group increased its international apprenticeship activities during the year under report, due amongst others to the higher number of apprentices employed at plants, for example in the USA and Thailand. The number of new entrants at German sites remained constant at 1,200 apprentices. At the end of the reporting period, 4,613 young people were engaged in vocational training and other training programmes designed to promote young talent within the BMW Group (2015: 4,700).

BMW Group apprentices at 31 December

→ 34



High level of investment to bolster employee skill sets

At €352 million, expenditure on basic and further training remained unchanged at a high level. By improving the skill sets of its workforce for example in electric mobility, hydrogen and fuel cell technology, lightweight construction and robot technology, the BMW Group is creating a solid foundation for future activities.

Highly attractive employer

The BMW Group retained its status as one of world's most attractive employers in 2016. 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.

The BMW Group came top in Trendence's "Young Professional Barometer Germany" for the fifth year in succession. It also improved its position again in the Trendence "Graduate Barometer Germany – IT Edition" for highly sought-after IT specialists, taking second place in 2016. In Universum's "Young Professionals Study Germany", the BMW Group took top spot in both the "Engineering" and "Business" categories and came third in the "IT" category, confirming the excellent results of the previous year. Overall, the BMW Group finished as the best-placed company in the study.

BMW supplementary benefit plan and centenary bonus

Demographic and economic conditions relevant for the provision of pension benefits are changing at an increasingly rapid pace. In 2016, the BMW Group therefore enhanced the Company pension plan to make it more sustainable and viable for the future. To mark the occasion of its centenary, nearly all employees of the BMW Group were awarded a one-time centenary bonus. BMW AG employees received the bonus mainly in the form of a starting contribution to the new BMW supplementary benefit plan, which serves as an additional component in the Company pension plan.

Diversity as a competitive factor

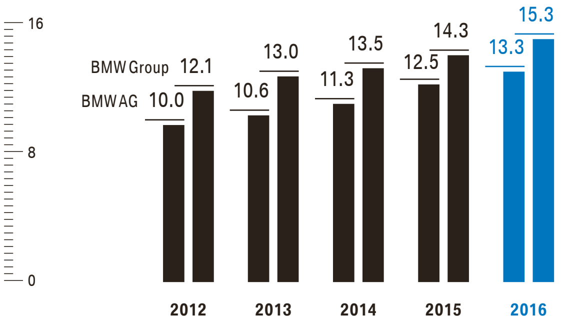
Diversity represents a key factor in ensuring the BMW Group's continued competitiveness going forward, focusing on the three aspects of gender, cultural background, and age/experience. The aim is to ensure equal opportunities for all employees. A variety of measures were implemented in 2016 to promote and benefit from diversity in the workforce.

The proportion of women in the workforce, management functions and young talent programmes continued to increase during the year under report. The percentage of women in the total BMW Group workforce rose to 18.7% (BMW AG: 15.8%), above the internal target range of 15 to 17%. The proportion of women in management positions rose to 15.3% for the BMW Group as a whole and 13.3% for BMW AG. Female representation in programmes for young employees and interns in the year under report was approximately 44% for trainee programmes and 29% for student training programmes.

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

→ 35

in %

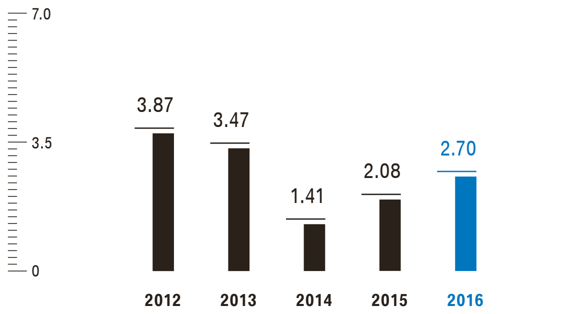


* Reporting on the proportion of women in management was changed in 2016 and is now based on the criterion "management function" rather than individual employee classification. Prior year figures have been adjusted accordingly.

At the same time, the workforce in Germany is becoming more international. Employees from over 100 countries work together successfully at the Munich site alone. Moreover, a balanced age structure in the workforce encourages an exchange between generations and plays a role in reducing the loss of know-how when employees retire.

Employee attrition rate at BMW AG*
→ 36

as a percentage of workforce



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

Sustainability

→ www.bmwgroup.com/responsibility

Economic success, the responsible use of resources and the assumption of social responsibilities form the basis for long-term growth within the BMW Group. The Group secures the future of its business model through sustainable activity. In promoting 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 in general

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

Further information on the subject of sustainability within the BMW Group and related topics is provided in the Sustainable Value Report 2016, published online at → www.bmwgroup.com. The Sustainable Value Report is drawn up in accordance with the Guidelines of the Global Reporting Initiative (GRI G4), the most widely used set of guidelines for sustainability reporting worldwide. The Sustainable Value Report corresponds to the "comprehensive" option, in which all relevant information and indicators of the aspects identified as essential are reported on. It will be published at the same time as the Annual Report 2016.

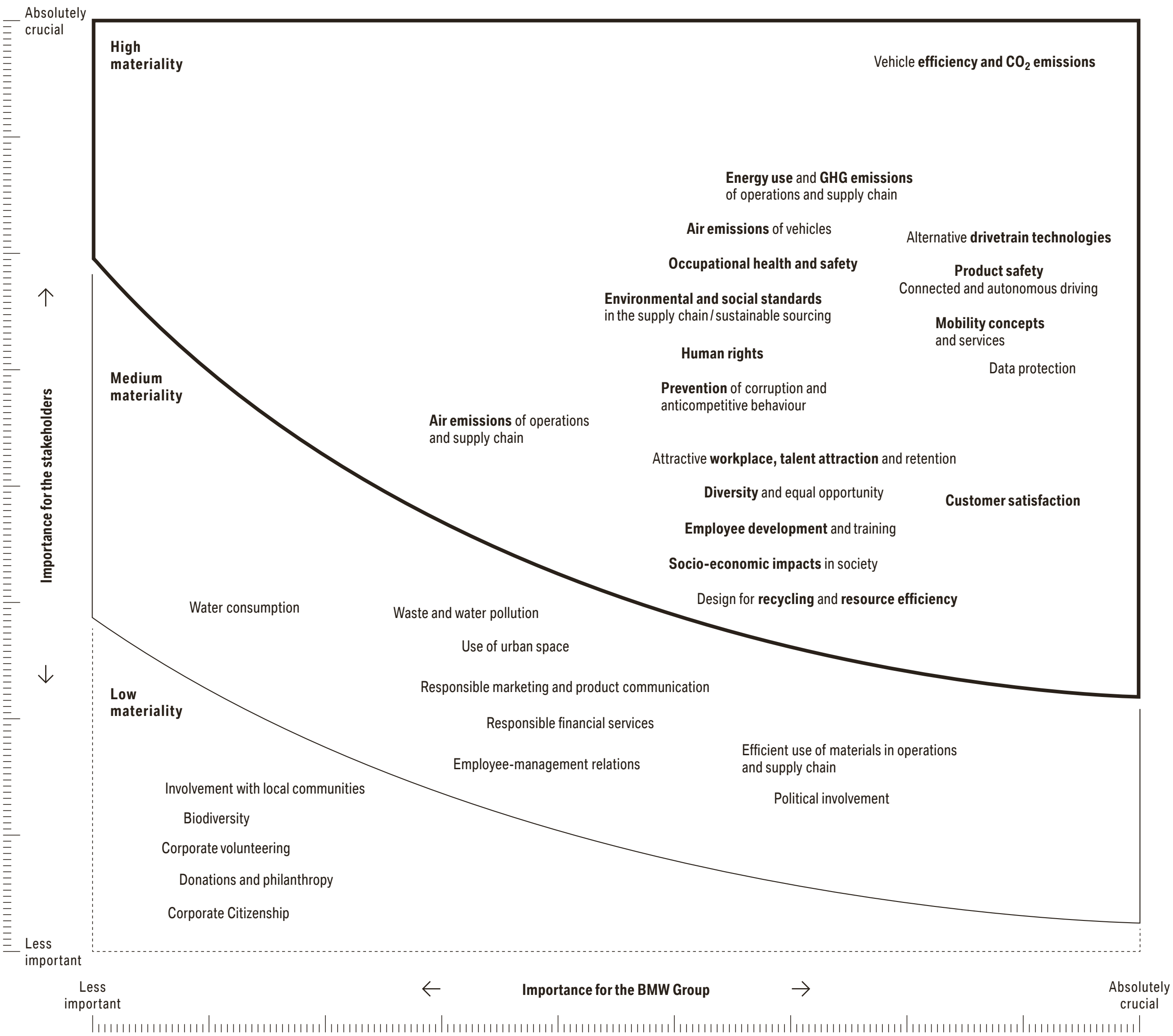
Social dialogue and materiality analysis as a basis for sustainability management

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 what role the BMW Group can play. For example, stakeholder dialogue events on the topic of urban mobility were held in Seattle, Boston, Madrid, Tokyo and Barcelona during the period under report.

In order to identify important 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 check the strategic direction of sustainability management. The materiality matrix is described in greater detail in the Sustainable Value Report 2016.

Materiality matrix

→ 37



Top rankings in sustainability ratings

The BMW Group again achieved top rankings in prestigious ratings on the topic of sustainability in 2016, thus maintaining its leading position as a sustainable automotive manufacturer. In the 2016 rating for the Dow Jones Sustainability Indices (DJSI), the BMW Group again headed the Automobiles sector and is therefore the only carmaker to have been listed consecutively since the inception of the index.

In the Carbon Disclosure Project (CDP), the Group achieved the best evaluation for its efforts in the field of climate protection. The BMW Group is therefore one of only two companies worldwide to have reached the highest category seven times in a row. Moreover, the BMW Group was again included in the British FTSE4Good Index in 2016.

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 helping to continually reduce CO_2 emission levels. The electrification of the fleet continued to progress in 2016. Due to the expansion of the model range, annual sales of electrified BMW vehicles increased strongly, surpassing the 62,000-unit mark in the course of 2016. These measures form the basis for complying with the legally stipulated CO_2 and fuel consumption limits going forward. Between 1995 and 2016, the average CO_2 emissions of the three brands sold by the BMW Group in Europe fell by 41.0%.

In 2016, 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 124 grams per km.

Clean production

Integrated sustainability management in production processes ensures the efficient use of resources. Since 2006, the consumption of resources and emissions per vehicle produced has been reduced by an average of 50.0%. The individual figures are as follows:

in %	2016
Energy consumption	–35.4%
Water consumption	–31.0%
Process wastewater	–48.8%
Non-recyclable waste	–81.5%
Solvent emissions	–54.6%
CO_2 emissions	–48.6%

In 2016, at 2.21 MWh per vehicle produced, the amount of energy consumed rose slightly compared with the previous year (2015: 2.19 MWh; +0.9%). The higher figure is due amongst others to the start-up of the new engine plant in Shenyang, China. In addition, the construction of a new, more efficient painting line in Munich made it necessary to run two painting lines in parallel for a certain period.

Despite the slight increase in the average amount of energy consumed per vehicle, the use of highly efficient, ecologically sustainable combined heat and power plants and electricity generated from renewable sources at production sites enabled the Company to reduce production-related CO_2 emissions per vehicle by a further 5.3% year-on-year to 0.54 tonnes during the period under report (2015: 0.57 tonnes).

Despite record temperatures and long, hot periods at some assembly plants in 2016, at 2.25 m^3 per vehicle produced, water consumption was in line with the previous year (2015: 2.24 m^3; +0.4%). At 0.42 m^3, the volume of process wastewater generated per vehicle produced fell by 6.7% (2015: 0.45 m^3). The volume of non-recyclable production waste was further reduced to 3.51 kg per vehicle produced during the year under report (2015: 4.00 kg; –12.3%). Solvent emissions were cut by 6.6% to 1.14 kg per vehicle produced during 2016 (2015: 1.22 kg).

Although energy and water consumption per vehicle produced rose slightly, both the use of resources and the production-related emissions fell by an average of 4.9% in 2016. However, the slight increase in energy and water consumption per vehicle produced gave rise to additional costs totalling €2.8 million. The reduction in resource consumption and production-related emissions per vehicle produced since 2006 corresponds to a cost saving of €155.3 million.

Sustainability along the value chain

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

Sustainability in human resources policies

In 2016, the BMW Group continued to consolidate its position as one of the most attractive employers worldwide. Its leading role in terms of sustainability is a key reason for the high degree of employee loyalty within the BMW Group and one of the reasons for the low staff attrition rate, enabling 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 long-term success and an example for the high level of employee identification with it are the personal engagement and the ideas brought forward by staff members, demonstrated by the €25.1 million saved in 2016 in conjunction with the idea management programme CREATE.

Social engagement

In 2016, the BMW Group contributed a total of €87.8 million for social engagement (2015: €39.1 million), including €70.4 million for donations (2015: €17.1 million). The significant increase in the Company's centenary year was mainly due to a donation to a BMW foundation.

RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

Results of operations

Once again, the BMW Group achieved year-on-year growth in revenues, sales volume and profit before tax in the financial year 2016. The number of BMW, MINI and Rolls-Royce brand cars sold rose by a solid 5.3 % to 2,367,603* units.

BMW Group Income Statement

→ 38

in € million	2016	2015	Change in %
Revenues	94,163	92,175	2.2
Cost of sales	–75,442	–74,043	–1.9
Gross profit	**18,721**	**18,132**	**3.2**
Selling and administrative expenses	–9,158	–8,633	–6.1
Other operating income	670	914	–26.7
Other operating expenses	–847	–820	–3.3
Profit before financial result	**9,386**	**9,593**	**–2.2**
Result from equity accounted investments	441	518	–14.9
Interest and similar income	196	185	5.9
Interest and similar expenses	–489	–618	20.9
Other financial result	131	–454	–
Financial result	279	–369	–
Profit before tax	**9,665**	**9,224**	**4.8**
Income taxes	–2,755	–2,828	2.6
Net profit	**6,910**	**6,396**	**8.0**

Profit before tax for the financial year 2016 was slightly up year-on-year. At 10.3 %, the pre-tax return on sales was similar to one year earlier (2015: 10.0 %).

BMW Group revenues increased slightly by 2.2 % year-on-year to reach €94,163 million (2015: €92,175 million). The primary drivers of this performance were the higher volume of BMW, MINI and Rolls-Royce brand vehicles sold and the growth in size of the Financial Services segment's contract portfolio. Continued fierce competition and negative currency factors held down the scale of revenue growth. The negative currency impact on revenues was mainly attributable to changes in the average exchange rates of the British pound, Chinese renminbi and South African rand against the euro. Group revenues by region were as follows:

BMW Group revenues by region

→ 39

in %	2016	2015
Europe (including Germany)	47.1	45.6
Asia (including China)	28.8	27.6
Americas (including USA)	20.7	23.3
Other regions	3.4	3.5
Group	**100.0**	**100.0**

*Includes the joint venture BMW Brilliance Automotive, Shenyang Ltd. (2016: 316,200 units, 2015: 282,000 units).

BMW Group cost of sales

→ 40

in € million	2016	2015	Change in %
Manufacturing costs	43,175	43,685	–1.2
Cost of sales relating to financial services business	20,723	19,449	6.6
thereof interest expense relating to financial services business	1,638	1,495	9.6
Research and development expenses	4,294	4,271	0.5
thereof amortisation of capitalised development costs	1,222	1,166	4.8
Warranty expenses	2,165	1,891	14.5
Service contracts, telematics and roadside assistance	2,018	1,771	13.9
Other cost of sales	3,067	2,976	3.1
Cost of sales	**75,442**	**74,043**	**1.9**

The Group's cost of sales was slightly higher than in the previous year, due to sales volume and portfolio factors. Cost of sales relating to financial services business rose by €1,274 million to €20,723 million, reflecting the increased portfolio size. Research and development expenses were at a similar level to the previous year in absolute terms and, with an expense ratio of 4.6%, also in relative terms. Total research and development expenditure – comprising research costs, non-capitalised development costs and capitalised development costs (excluding systematic amortisation thereon), amounted to €5,164 million in the year under report (2015: €5,169 million). As a result of the continuous expansion and revision of the BMW Group's various model series, research and development expenditure remains at a generally constant level. These factors resulted in a research and development expenditure ratio of 5.5% (2015: 5.6%) and a capitalisation ratio of 40.5% (2015: 39.9%).

Warranty expenses include the accrued expense for vehicle recall actions, the cost of which is expected to exceed amounts previously recognised. Accordingly, a further amount of €678 million was allocated to the warranty provision for various issues, including airbags supplied by the Takata group of companies, the ISOFIX attachment system used for child car seats, and costs relating to the provision of the network service for telematics (2G). Expenses relating to telematics and roadside assistance have increased, primarily due to the greater volume of service contracts and Connected Drive products.

Gross profit came in slightly higher (+3.2%) at €18,721 million, reflecting sales volume growth in the Automotive segment and increased business volumes in the Financial Services segment. The gross profit margin was 19.9% (2015: 19.7%).

Sales and administrative expenses rose by €525 million year-on-year to €9,158 million, resulting in an expense ratio of 9.7 % (2015: 9.4 %). The increase was due to a number of factors, including the larger workforce and higher expenses for IT projects.

Depreciation and amortisation on property, plant and equipment and intangible assets recorded in cost of sales and in selling and administrative expenses totalled €4,806 million (2015: €4,659 million). The slight increase compared to the previous year was mainly attributable to investments and capitalised development costs recorded in previous accounting periods.

The net amount of other operating income and expenses deteriorated from a net positive amount of €94 million to a negative amount of €177 million, mainly due to lower gains on the disposal of assets and higher expenses for provisions. A donation to a BMW foundation also increased other operating expenses.

Profit before financial result (EBIT) amounted to €9,386 million in the year under report (2015: €9,593 million), slightly down on the previous year, with the positive effect of greater volumes offset by higher expenses and lower other operating income.

The financial result was a net positive amount of €279 million, an improvement of €648 million compared to the previous year, mainly thanks to net gains on commodity derivatives on the one hand and lower losses on currency derivatives on the other. Interest and similar expenses improved by €129 million to a net negative amount of €489 million year-on-year, mainly reflecting lower interest expense on pension obligations and lower other refinancing costs. The result from equity accounted investments includes the Group's share of the results of the joint ventures BMW Brilliance Automotive Ltd. and the two DriveNow entities, DriveNow GmbH & Co. KG and DriveNow Verwaltungs GmbH. The figure also includes the Group's share of the result of the associated company THERE Holding B.V. Compared to the previous year, the result from equity accounted investments fell by €77 million to €441 million. This deterioration was primarily attributable to the inclusion of THERE Holding B.V., with a negative impact of €56 million, largely reflecting scheduled depreciation and amortisation on purchase price allocations on the one hand and transaction costs on the other. At €507 million, the contribution made by BMW Brilliance Automotive Ltd. was slightly down on the previous year (2015: €522 million), partly due to currency factors, including the fact that costs were incurred for model revisions of vehicles already adapted for the local market (BMW X1 and BMW 5 Series) as well as for the localisation of further products.

The result on investments for the year under report includes impairment losses on other investments totalling €192 million (2015: €25 million).

Profit before tax increased to €9,665 million (2015: €9,224 million), helped by a number of factors, including higher volumes and the improved financial result.

Income tax expense amounted to €2,755 million (2015: €2,828 million), corresponding to an effective tax rate of 28.5 % (2015: 30.7 %). The lower income tax expense was partly attributable to transfer pricing and the revaluation of tax-related items.

The post-tax return on sales was 7.3 % (2015: 6.9 %).

Results of operations by segment

Revenues by segment
→ 41

in € million	2016	2015	Change in %	Currency adjusted change* in %
Automotive	86,424	85,536	1.0	3.1
Motorcycles	2,069	1,990	4.0	5.6
Financial Services	25,681	23,739	8.2	9.9
Other Entities	6	7	–14.3	–14.3
Eliminations	–20,017	–19,097	–4.8	–
Group	**94,163**	**92,175**	**2.2**	**4.3**

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

Profit / loss before tax by segment
→ 42

in € million	2016	2015	Change in %
Automotive	7,916	7,523	5.2
Motorcycles	185	179	3.4
Financial Services	2,166	1,975	9.7
Other Entities	170	211	–19.4
Eliminations	–772	–664	–16.3
Group	**9,665**	**9,224**	**4.8**

Automotive segment
Automotive segment revenues grew slightly on the back of higher sales volumes, with currency factors holding revenue growth down. The gross profit margin increased slightly to 17.9 % year-on-year (2015: 17.7 %).

At €7,604 million, selling and administrative expenses were €385 million higher than the previous year. Administrative expenses increased due to a number of factors, including the larger workforce, a new allocation of expenses relating to internal activities, and higher expenses for IT projects. Overall, as a percentage of revenues, the expense ratio was 8.8 % (2015: 8.4 %).

The net negative amount of other operating income and expenses deteriorated by €70 million to €152 million, mainly due to lower gains on the disposal of assets and higher expenses for provisions. A donation to a BMW foundation also increased other operating expenses.

Due to the various factors described above, at €7,695 million (2015: €7,836 million), profit before financial result was slightly down on the previous year. The EBIT margin came in at 8.9 % (2015: 9.2 %). The main factors for the decrease were tougher competition and increased costs, partially countered by the positive impact of sales volume growth.

Overall, the Automotive segment reported a solid increase in pre-tax profit. This outcome was largely due to the improved financial result, which benefited from net gains on commodity derivatives, reduced refinancing costs and lower interest expense on pension obligations.

Motorcycles segment
Motorcycles segment revenues increased slightly compared to the previous year. The gross profit margin dropped from 22.5 % to 20.8 %, mainly due to higher expenses incurred in conjunction with the implementation of the segment's new strategy and the expansion of its model range. The increased workforce size is reflected in higher selling and administrative expenses. As a result of income from the reversal of write-downs, the Motorcycles segment recorded a slightly higher profit before tax than one year earlier.

Financial Services segment
The Financial Services segment revenues showed a solid growth on the back of a dynamic operating performance, clearly reflected in the upward trend of its contract portfolio.

Selling and administrative expenses in the segment went up by €130 million to €1,294 million, mainly due to the increased size of the workforce and greater expense for new IT projects.

Higher business volumes and a slightly improved credit risk situation contributed to the solid increase in the Financial Services segment's profit before tax.

Other Entities segment/Eliminations
Profit before tax in the Other Entities segment was significantly lower than one year earlier. The net positive result from other operating income and expenses fell from €192 million to €7 million year-on-year, mainly due to lower income from the reversal of provisions in 2016. The decrease was cushioned by the improvement in the net interest result, which was due to lower refinancing costs.

Inter-segment eliminations reduced Group profit before tax, partly reflecting higher eliminations triggered by the growth in new leasing business and the ensuing increase in leased products.

Financial position

The consolidated 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 2016 and 2015, classified into cash flows from 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

→ 43

in € million	2016	2015	Change
Cash inflow from operating activities	3,173	960	2,213
Cash outflow from investing activities	–5,863	–7,603	1,740
Cash inflow from financing activities	4,393	5,004	–611
Effects of exchange rate and composition of Group	55	73	–18
Change in cash and cash equivalents	**1,758**	**–1,566**	**3,324**

The increase in cash flows from the Group's operating activities was primarily attributable to the higher net profit for the year (€514 million), higher depreciation and amortisation (€312 million), provisions (€587 million) and the change in other operating assets and liabilities (€679 million).

The decrease in cash outflows from the Group's investing activities primarily reflects lower net investments in marketable securities and investment funds in connection with the Group's liquidity reserve (€1,369 million). The net outflow for these items comprises investments in marketable securities and investment funds on the one hand, and proceeds from the sale of marketable securities and investment funds on the other.

The Group's financing activities resulted in inflows and outflows in conjunction with bonds amounting to €967 million and €1,466 million respectively.

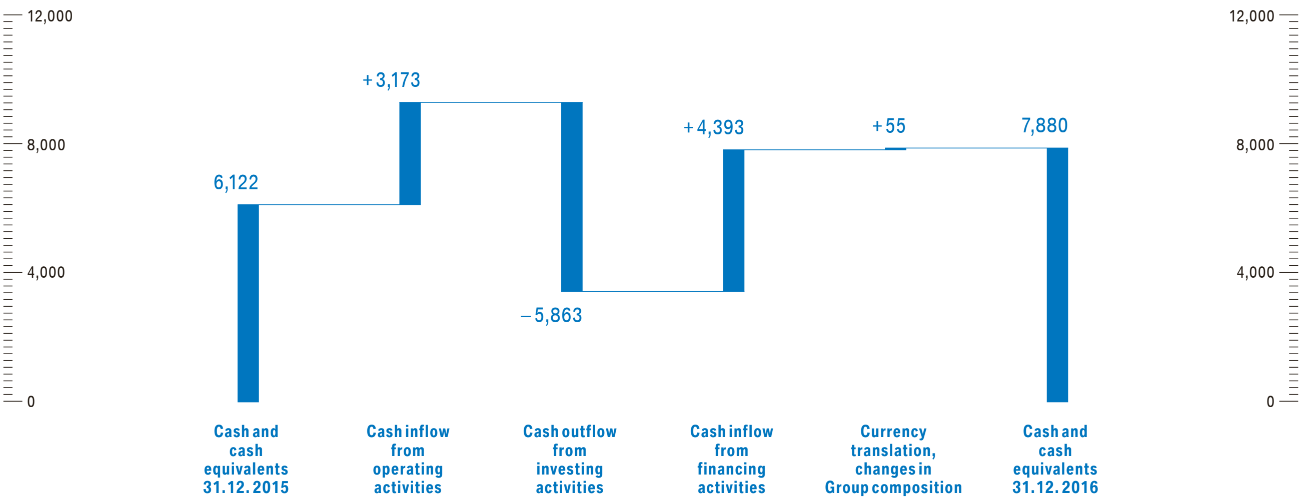
The cash outflow from investing activities exceeded the cash inflow from operating activities by €2,690 million in the financial year 2016. A similar constellation arose in the previous year, when the shortfall amounted to €6,643 million.

After adjustment for the effects of exchange rate fluctuations and changes in the composition of the BMW Group totalling a positive amount of €55 million (2015: €73 million), the various cash flows resulted in an increase in cash and cash equivalents of €1,758 million (2015: decrease of €1,566 million).

BMW Group Change in cash and cash equivalents

→ 44

in € million



Free cash flow for the Automotive segment was as follows:

in € million	2016	2015	Change
Cash inflow from operating activities	11,464	11,836	–372
Cash outflow from investing activities	–5,432	–7,524	2,092
Net investment in marketable securities and investment funds	–240	1,092	–1,332
Free cash flow Automotive segment	**5,792**	**5,404**	**388**

Cash outflows from operating activities in the Financial Services segment are driven primarily by cash flows relating to leased products and receivables from sales financing and totalled €9,844 million (2015: €10,351 million). The cash outflow from investing activities totalled €102 million (2015: €140 million). Cash inflows from financing activities went up by €1,573 million to €11,601 million, mainly influenced by the change in other financial liabilities.

Net financial assets of the Automotive segment comprise the following:

in € million	2016	2015	Change
Cash and cash equivalents	4,794	3,952	842
Marketable securities and investment funds	4,147	4,326	–179
Intragroup net financial assets	12,077	11,278	799
Financial assets	**21,018**	**19,556**	**1,462**
Less: external financial liabilities*	–1,498	–2,645	1,147
Net financial assets Automotive segment	**19,520**	**16,911**	**2,609**

* Excluding derivative financial instruments.

Refinancing
A broadly based range of instruments transacted on international money and capital markets is used to refinance worldwide operations. Close to all of the funds raised are used to finance the BMW Group's Financial Services business.

The overall objective of Group financing is to ensure the solvency of the BMW Group at all times. Achieving this objective is tackled in three strategic areas:

1. The ability to act at all times by assuring permanent access to strategically important capital markets
2. Autonomy through the diversification of refinancing instruments and investors
3. Focus on value by optimising financing costs

Financing measures undertaken centrally ensure access to liquidity for the Group's operating subsidiaries at market-based, consistent conditions. Funds are acquired with a view to achieving a desired structure for the composition of liabilities, comprising a finely tuned 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 the liquidity risk intrinsic to any large portfolio of contracts. This prudent approach to financing also bolsters BMW AG's ratings. Further information is provided in the section "Liquidity risks" within the "Report on Outlook, Risks and Opportunities".

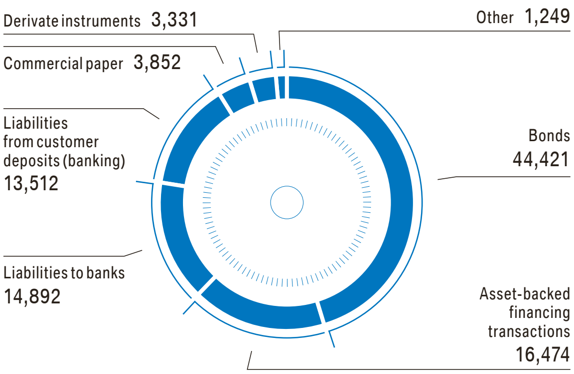
Apart from issuing commercial paper on the money market, the BMW Group's financing companies also issue bearer bonds. In addition, retail customer and dealer financing receivables on the one hand and leasing rights and obligations on the other are securitised in the form of asset-backed securities (ABS) financing arrangements. Financing instruments employed by the Group's in-house banks in Germany and the USA (e.g. customer deposits) are also used as a supplementary source of financing. Loans are also taken out with international banks.

Thanks to its excellent ratings and the high level of acceptance it receives on capital markets, the BMW Group was again able to refinance operations on debt capital markets during the financial year 2016. In addition to the issue of bonds and loan notes and private placements, commercial paper was also issued. Additional funds were raised via new securitised instruments and the prolongation of existing instruments. As in previous years, all issues were highly sought after by private and institutional investors alike.

BMW Group financial liabilities

→ 45

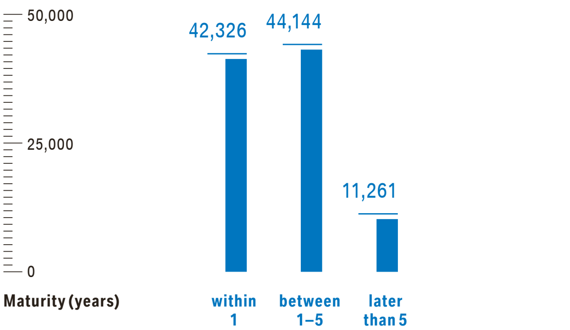
in € million



BMW Group financial liabilities

→ 46

in € million



In the course of 2016, the BMW Group issued four euro benchmark bonds on the European capital market with a total issue volume of €2.75 billion. For the first time, it also issued bonds on the US capital market with a total issue volume of US Dollar 6.25 billion. Bonds were also issued in British pounds, Chinese renminbi, Canadian and Australian dollars and Norwegian krone for a total amount €1.9 billion. Private placements totalling €4.3 billion were also issued.

Twelve public ABS transactions were executed in 2016, including three in the USA, two each in Germany, South Africa and China, and one each in Canada, South Korea and France, with a total volume equivalent to €7.3 billion. Further funds were also raised via new ABS conduit transactions in Japan and the USA totalling €1.4 billion. Other existing transactions remained in place in various countries, including Germany, Switzerland, the UK, South Korea, South Africa and Australia.

The following table provides an overview of amounts* utilised at 31 December 2016 in connection with the BMW Group's money and capital market programmes:

* Measured at exchange rates at 31.12.2016.

Programme	Programme framework	Amount utilised
in € billion		
Euro Medium Term Notes	50.0	34.4
Australian Medium Term Notes	1.7	0.3
Commercial Paper	13.8	3.9

At 31 December 2016, liquid funds stood at a solid level of €13.2 billion. The BMW Group also has access to a syndicated credit line of €6 billion, with a term up to October 2018. This credit line, provided by a consortium of 38 international banks, was not being utilised at the end of the reporting period.

→ see notes 29, 33 and 37

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

Net assets

BMW Group condensed balance sheet at 31 December

→ 47

in € million	Group 2016	2015	Change in %	Currency adjusted change in %	Proportion of balance sheet total in %
ASSETS					
Intangible assets	8,157	7,372	10.6	11.4	4.3
Property, plant and equipment	17,960	17,759	1.1	1.1	9.5
Leased products	37,789	34,965	8.1	7.3	20.0
Investments accounted for using the equity method	2,546	2,233	14.0	14.0	1.4
Other investments	560	428	30.8	30.5	0.3
Receivables from sales financing	78,260	70,043	11.7	12.3	41.5
Financial assets	9,770	8,843	10.5	9.9	5.2
Deferred and current tax	4,265	4,326	–1.4	–3.2	2.3
Inventories	11,841	11,071	7.0	7.0	6.3
Trade receivables	2,825	2,751	2.7	5.4	1.5
Other assets	6,682	6,261	6.7	6.2	3.5
Cash and cash equivalents	7,880	6,122	28.7	27.6	4.2
Total assets	**188,535**	**172,174**	**9.5**	**9.5**	**100.0**
EQUITY AND LIABILITIES					
Equity	47,363	42,764	10.8	13.6	25.1
Pension provisions	4,587	3,000	52.9	60.9	2.4
Other provisions	10,918	9,630	13.4	13.0	5.8
Deferred and current tax	3,869	3,557	8.8	3.9	2.1
Financial liabilities	97,731	91,683	6.6	5.5	51.8
Trade payables	8,512	7,773	9.5	10.5	4.5
Other liabilities	15,555	13,767	13.0	12.1	8.3
Total equity and liabilities	**188,535**	**172,174**	**9.5**	**9.5**	**100.0**

The balance sheet total of the BMW Group increased by a solid 9.5 % compared to 31 December 2015. The changes in individual balance sheet items caused by currency factors relate primarily to changes in the exchange rates of the US dollar, British pound, South African rand and Chinese renminbi against the euro.

The growth in business reported by the Financial Services segment is reflected in the significant increase in receivables from sales financing and a solid rise in the volume of leased products. A total of 1,811,157 new contracts were concluded with retail customers (leasing and credit financing) in 2016, 9.4 % more than one year earlier. The credit financing contract portfolio grew by 9.5 % to 3,022,904 contracts, with growth reported primarily in China and the USA. The lease contract portfolio increased by 7.3 % to stand at 1,680,513 contracts at 31 December 2016.

Inventories went up by a solid 7.0 % compared to the end of 2015, with most of the increase relating to finished goods, reflecting general business growth and stocking up in the various markets.

Cash and cash equivalents went up by €1,758 million, thus ensuring a solid level of liquid funds at 31 December 2016.

Balance sheet structure – Group

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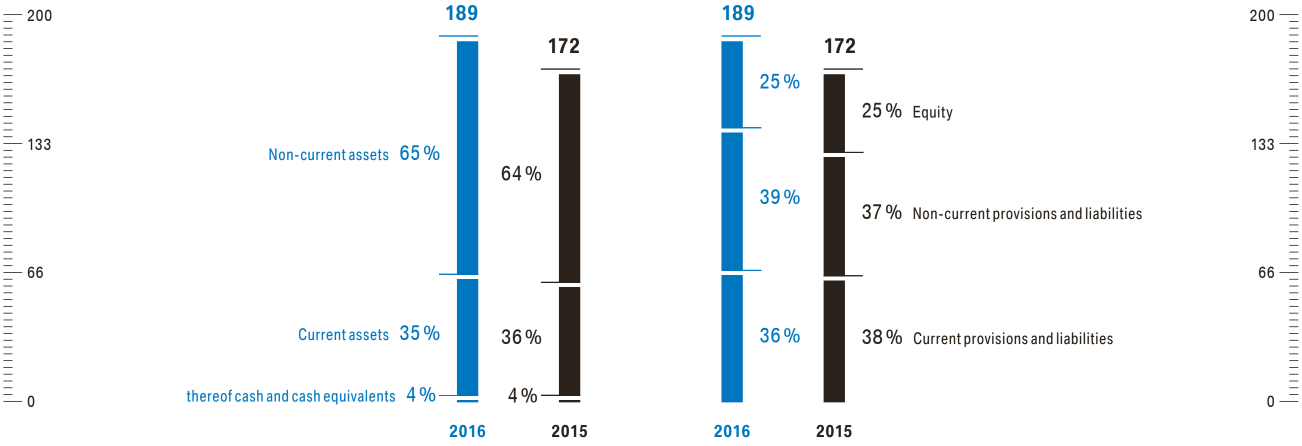
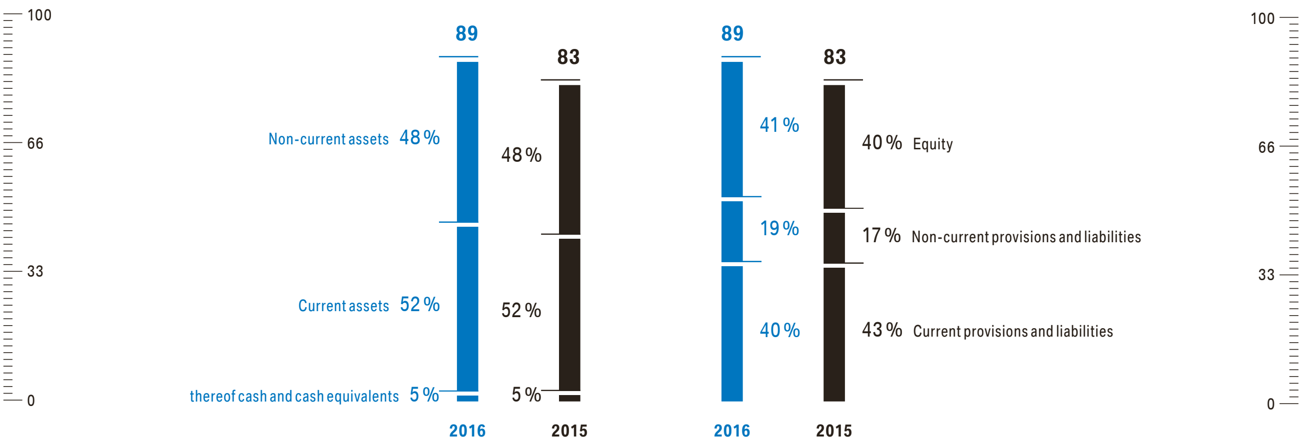
Total equity and liabilities in € billion



Balance sheet structure – Automotive segment

→ 49

Total equity and liabilities in € billion



Group equity rose by €4,599 million to €47,363 million. Equity increased year-on-year as a result of the net profit attributable to shareholders of BMW AG amounting to €6,863 million and fair value gains on derivative financial instruments amounting to €2,008 million. Decreases in equity arose in particular in connection with the dividend payment of €2,102 million and the negative impact of remeasurements of the net defined benefit liability for pension plans amounting to €1,858 million, the latter due mainly to lower discount rates applied in Germany and the UK.

The Group equity ratio at the end of the reporting period was 25.1% (31 December 2015: 24.8%). The equity ratio for the Automotive segment was 41.3% (31 December 2015: 40.1%) and that for the Financial Services segment stood at 8.0% (31 December 2015: 8.2%).

Pension provisions increased significantly compared to the end of the financial year 2015, mainly due to the lower discount factors applied in Germany and the UK.

Other provisions also increased significantly compared to 31 December 2015, mostly reflecting the higher level of warranty provisions for vehicle recall actions, the cost of which is expected to exceed amounts previously recognised. Accordingly, a further amount of €678 million was allocated to the warranty provision for various issues, including airbags supplied by the Takata group of companies, the ISOFIX attachment system used for child car seats, and costs relating to the provision of the network service for telematics (2G).

The year-on-year increase in financial liabilities was primarily attributable to the issue of bonds and higher liabilities to banks, in both cases securing favourable refinancing conditions on a long-term basis. In addition, new ABS transactions were concluded including the USA and Germany. Lower commercial paper volumes and the more favourable development of derivatives kept the increase in financial liabilities down.

The sharp rise in other liabilities reflects the increased scale of service contracts and Connected Drive products, advance payments received from leasing customers, and the expected higher level of payments due to dealerships and importers for bonuses, rebates and other price deductions.

The increase in trade payables mainly reflects higher production volumes.

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

Net valued added by the BMW Group in the financial year 2016 remained at a high level.

BMW Group value added statement

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	2016 in € million	2016 in %	2015 in € million	2015 in %	Change in %
WORK PERFORMED					
Revenues	94,163	98.4	92,175	98.8	
Financial income	875	0.9	200	0.2	
Other income	670	0.7	914	1.0	
Total output	**95,708**	**100.0**	**93,289**	**100.0**	**2.6**
Cost of materials*	50,279	52.5	51,145	54.8	
Other expenses	13,502	14.1	11,398	12.2	
Bought-in costs	**63,781**	**66.6**	**62,543**	**67.0**	**2.0**
Gross value added	**31,927**	**33.4**	**30,746**	**33.0**	**3.8**
Depreciation and amortisation of total tangible, intangible and investment assets	8,304	8.7	8,222	8.8	
Net value added	**23,623**	**24.7**	**22,524**	**24.2**	**4.9**
APPLIED TO					
Employees	11,535	48.8	10,870	48.3	6.1
Providers of finance	1,965	8.3	1,918	8.5	2.5
Government / public sector	3,213	13.7	3,340	14.8	–3.8
Shareholders	2,300	9.7	2,102	9.3	9.4
Group	4,563	19.3	4,267	19.0	6.9
Minority interest	47	0.2	27	0.1	74.1
Net value added	**23,623**	**100.0**	**22,524**	**100.0**	**4.9**

* 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 2016
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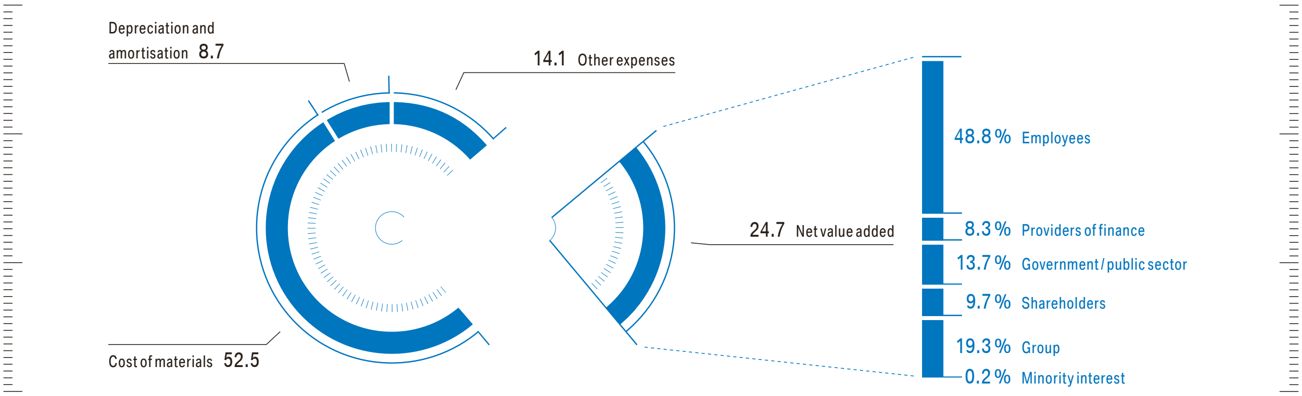
in %



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 are also relevant for 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 contained in the German Stock Corporation Act (AktG).

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

Differences between the accounting policies used in the BMW AG financial statements (prepared in accordance with HGB) and the BMW Group Financial Statements (prepared in accordance with IFRS) arise primarily 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 in the balance sheet and of income and expense items in the income statement.

The German Accounting Directive Implementation Act (BilRUG) was applied for the first time with effect from the beginning of the 2016 financial year. Comparative figures have not been restated where this gave rise to changes in the presentation of items in the balance sheet or income statement. Further information regarding the impact of BilRUG and the comparability of individual income statement line items for the financial year 2016 with those of the previous year is provided in the notes to the Financial Statements of BMW AG.

Business environment and review of operations

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

BMW AG develops, manufactures and sells cars 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 2016, BMW AG increased automobile sales volume by 80,359 units to 2,355,726 units. This figure includes 305,726 units relating to series sets supplied to the joint venture BMW Brilliance Automotive Ltd., Shenyang, an increase of 17,971 units over the previous year. At 31 December 2016, BMW AG employed a workforce of 85,754 people, 894 more than one year earlier.

Results of operations

BMW AG Income Statement

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in € million	2016*	2015
Revenues	75,350	72,384
Cost of sales	–60,946	–57,764
Gross profit	**14,404**	**14,620**
Selling expenses	–3,635	–3,427
Administrative expenses	–2,504	–2,610
Research and development expenses	–4,504	–4,758
Other operating income and expenses	–137	184
Result on investments	1,015	1,606
Financial result	–35	–1,043
Income taxes	–1,308	–1,782
Profit after income tax	**3,296**	**2,790**
Other taxes	–19	–49
Net profit	**3,277**	**2,741**
Transfer to revenue reserves	–977	–639
Unappropriated profit available for distribution	**2,300**	**2,102**

* German Accounting Directive Implementation Act (BilRUG) applied with effect from the beginning of the financial year 2016. Comparative figures for 2015 have not been adjusted.

As a consequence of the first-time application of the Financial Reporting Implementation Act (BilRUG) in 2016, the previous year's figures are only comparable to a limited extent with those of the financial year under report. In particular, the amounts reported for revenues, cost of sales, expenses by function, other operating income and expenses are affected by the new, extended definition of "revenues" and the necessary reclassification of expenses related to revenues.

Revenues increased by 4.1 % year-on-year, mainly reflecting higher sales volumes of the BMW X1 and BMW 7 Series. In geographical terms, most of the increase related to Asia and Europe. Sales to Group entities accounted for €56,412 million or 74.9 % of total revenues of €75,350 million.

Cost of sales increased by 5.5 % to €60,946 million, mostly due to the higher cost of materials. As a result, gross profit decreased by €216 million to €14,404 million.

Selling and administrative expenses increased overall year-on-year, partly reflecting the cost of the larger workforce and IT projects.

Research and development expenses related mainly to new vehicle models (including relevant expenses relating to the start-up of the new BMW 5 Series), the development of drive systems and work on other innovations. Compared to the previous year, research and development expenses decreased by 5.3 %.

The net amount of other operating income and expenses deteriorated by €321 million to a negative amount of €137 million, whereby the year-on-year decrease mainly reflected the reclassification of income from other services to the line item "Revenues" in conjunction with the first-time application of BilRUG. Higher income from the reversal of provisions and the lower expense for allocations to provisions, in particular for commodity and currency contract risks, worked in the opposite direction.

The result on investments was down on the previous year due to lower profit transfers from Group companies. By contrast, the financial result improved by €1,008 million, mainly due to the higher gains arising on the fair value measurement of designated plan assets and lower interest expenses for pensions. In the latter case, the improvement was attributable to a change in legislation concerning the methodology required to be applied to determine the discount factor for pension provisions.

The expense for income taxes relates primarily to current tax for the financial year 2016.

After deducting the expense for taxes, the Company reports a net profit of €3,277 million, compared to €2,741 million in the previous year.

Financial and net assets position

BMW AG Balance Sheet at 31 December

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in € million	2016*	2015
ASSETS		
Intangible assets	310	353
Property, plant and equipment	11,163	11,016
Investments	3,238	3,250
Tangible, intangible and investment assets	**14,711**	**14,619**
Inventories	4,260	4,267
Trade receivables	667	628
Receivables from subsidiaries	6,001	6,229
Other receivables and other assets	2,525	1,820
Marketable securities	3,846	3,911
Cash and cash equivalents	2,676	2,478
Current assets	**19,975**	**19,333**
Prepayments	430	303
Surplus of pension and similar plan assets over liabilities	1,183	722
Total assets	**36,299**	**34,977**
EQUITY AND LIABILITIES		
Subscribed capital	657	657
Capital reserves	2,127	2,107
Revenue reserves	9,038	8,061
Unappropriated profit available for distribution	2,300	2,102
Equity	**14,122**	**12,927**
Registered profit-sharing certificates	30	30
Pension provisions	93	82
Other provisions	7,606	7,617
Provisions	**7,699**	**7,699**
Liabilities to banks	995	1,343
Trade payables	5,030	4,500
Liabilities to subsidiaries	5,951	6,690
Other liabilities	406	239
Liabilities	**12,382**	**12,772**
Deferred income	**2,066**	**1,549**
Total equity and liabilities	**36,299**	**34,977**

* German Accounting Directive Implementation Act (BilRUG) applied with effect from the beginning of the financial year 2016. Comparative figures for 2015 have not been adjusted.

Capital expenditure on intangible assets and property, plant and equipment in the year under report totalled €2,346 million (2015: €2,748 million), down by 14.6 % compared to the previous year. Depreciation and amortisation amounted to €2,233 million (2015: €2,072 million).

At €3,238 million, the carrying amount of investments was similar to one year earlier (2015: €3,250 million). Further shares in SGL Carbon SE, Wiesbaden, were purchased during the financial year 2016. An impairment loss of €64 million (2015: €13 million) was recognised in the year under report, reflecting the decreased fair value in the investment in SGL Carbon SE at 31 December 2016.

At €4,260 million, inventories were practically identical to the end of the previous year (2015: €4,267 million).

Receivables from subsidiaries, most of which relate to intragroup financing receivables, decreased slightly by €228 million to €6,001 million.

The increase in other receivables and other assets to €2,525 million (2015: €1,820 million) was mainly attributable to higher receivables from companies with which an investment relationship exists. Tax receivables and genuine repurchase (repo) transactions in place at the end of the reporting period also increased year-on-year.

Liquidity within the BMW Group is managed centrally by BMW AG on the basis of a group-wide liquidity concept, which revolves around the strategy of concentrating a significant part of the Group's liquidity at the level of BMW AG. An important instrument used to achieve this aim is the cash pool headed by 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 went up by €198 million to €2,676 million. At the same time, intragroup refinancing volumes at the level of BMW AG were reduced.

Equity rose by €1,195 million to €14,122 million, taking the equity ratio from 37.0 % to 38.9 %.

In order to secure obligations resulting from pre-retirement part-time work arrangements and pension obligations, investments in fund assets totalling €490 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 "Surplus of pension and similar plan assets over liabilities".

Under the motto "THE NEXT 100 YEARS", almost all of the workforce received a special bonus in conjunction with the BMW AG's centenary anniversary. For the most part, the bonus was paid in the form of a starting contribution to a new defined contribution component of the BMW pension plan. In future, 10 % of the annual profit share payable by BMW AG will be paid into the plan, for which a minimum rate of return is guaranteed.

Pension provisions, net of designated plan assets, increased from €82 million to €93 million.

Other provisions were at a similar level to the previous year and comprise mainly obligations for personnel-related expenses, warranties, selling activities, litigation and liability risks as well as risks relating to commodity and currency contracts.

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

Deferred income went up by €517 million to €2,066 million and comprised mainly amounts relating to services still to be performed for service and maintenance contracts.

Risks and opportunities

BMW AG's performance is highly 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 entities on the basis of the relevant 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 "Internal Control System and Risk Management System Relevant for the Financial Reporting Process" section of the Combined Management Report.

Outlook

Due to its dominant role in the Group and its close ties with Group entities, expectations for BMW AG with respect to the Company's financial and non-financial performance indicators correspond largely to the BMW Group's outlook for the Automotive segment, which 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 2016 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 Company performance expected to continue in 2017

Automobile and motorcycle sales expected to reach new record levels

Outlook foresees increase in revenues and profit

World economy expected to grow despite risks

OUTLOOK

The report on outlook, risks and opportunities describes the expected development of the BMW Group, including the associated material 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. However, risks and opportunities are managed on the basis of a two-year assessment. The report on risks and opportunities therefore covers a period of two years.

The report on outlook, risks and opportunities contains forward-looking assertions based on the BMW Group's expectations and assessments, which are subject to uncertainty. As a result, actual outcomes can deviate, for example on account of political and economic developments – either positively or negatively – from the expectations described below. Further information can be found 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 period. The outlook takes account of all information known up to the date on which the financial statements were prepared for issue 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 2017 and reflect its most recent status. The basis for the preparation of and the principal assumptions used in the forecasts – which consider the consensus opinions of leading organisations, such as economic research institutes and banks – are set out below. The BMW Group's forecast is based on these assumptions.

The continuous forecasting process ensures that the BMW Group is ready to take advantage of opportunities as they arise and to react appropriately to unexpected risks. The principal risks and opportunities are described in detail in the section "Risks and Opportunities". The risks and opportunities discussed in that section 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 greater political uncertainty, the global economy is forecast to grow by around 3.4 % in 2017, slightly faster than in the preceding year. A number of factors make uncertainty likely to persist with regard to future economic and political developments. These include the negotiations between the UK and the EU following the Brexit vote and the future course of the new US administration. Moreover, the existing risks to financial stability due to high sovereign debt levels in Europe and Japan, more restrictive monetary policies in the USA and high levels of corporate debt in China have not diminished compared to the previous year. Further information on political and global economic risks can be found in the section "Risks and Opportunities".

Economic growth in the eurozone is forecast to slow down slightly to 1.5 % in 2017. Germany, Europe's largest economy, is expected to grow at a similar rate (+1.5 %). In macroeconomic terms, the prospects of the other eurozone countries are also expected to develop positively. GDP growth rates in France (+1.3 %) and Italy (+ 0.8 %) in 2017 are expected to be similar to the preceding year. The Spanish economy is forecast to grow by 2.4 % and therefore faster than the eurozone average. Greece also is expected to achieve growth of 1.7 %.

It is currently assumed that the UK government will give notice of its intention to leave the EU during the first half of 2017, thus triggering the start of official negotiations. Uncertainty regarding the future relationship is currently influencing both investment and consumer spending levels in the UK. As a result of the current situation, it is expected that the UK economy will see a distinct loss of momentum, with a significantly lower year-on-year growth rate of 1.2 %.

In China, economic growth is again predicted to weaken slightly in the current year, resulting in a growth rate of around 6.4 %. Reducing over-capacities in various industrial sectors and the controlled reduction of high debt levels will present the Chinese government with significant challenges in 2017. The risk of a significant economic downturn in China therefore cannot be ruled out.

Despite uncertainty regarding the country's future political and economic course, GDP in the USA is expected to grow faster in 2017 than in the preceding year (+ 2.3 %). The US Federal Reserve is likely to continue its policy of moderate interest rate rises in 2017. After decreasing in 2016, industrial production is predicted to grow significantly in 2017, with a positive impact on GDP growth.

According to forecasts, Japan can expect a GDP growth rate of 1.0 % in 2017, with rising exports potentially providing renewed economic momentum. An expected increase in domestic consumer spending could also help revive the Japanese economy.

The Indian economy is forecast to expand by 7.4 % in 2017, boosted by the gradual implementation of business-friendly structural reforms. After a number of years of deep recession, Russia (+1.2 %) and Brazil (+ 0.6 %) could return to growth in 2017, helped by rising raw materials prices.

Currency markets

Currencies of particular importance for the international operations of the BMW Group are the Chinese renminbi, the US dollar, the British pound and the Japanese yen. These major currencies could be subject to a significant degree of fluctuation again in 2017.

Given that the Chinese renminbi is likely to continue to move in the same direction as the US dollar in the short term, it is likely to appreciate slightly against the euro in 2017. If, however, the Chinese central bank decides to intervene in the currency markets, it could result in a relatively narrow fluctuation range.

A more restrictive monetary policy in the USA would boost the value of the US dollar against the euro. Continued economic recovery in the eurozone, combined with rising inflation, could prompt the ECB to implement a gradual reduction in government bond purchases. In that case, the loss in value of the euro against the US dollar would be less pronounced.

The uncertain political situation in the UK following the Brexit vote could lead to capital exports and encourage the Bank of England to retain its expansionary monetary policy. If the UK economy slows down at a more pronounced rate than expected in 2017, the Bank of England could adopt additional measures to increase the money supply. As a result, the British pound could either stabilise at its current level or continue to lose value in the short term.

The central bank in Japan could continue to pursue its highly expansionary monetary policy for the foreseeable future. This policy could result in the yen hardly changing in value against the euro or even losing in value, given that monetary policy in the eurozone is currently not expected to be expanded.

As US monetary policies continue to normalise, the currencies of numerous emerging economies are likely to remain under pressure in the short term. Countries that export raw materials and have current account and fiscal deficits, such as South Africa or Brazil, are most likely to be affected. Any increase in raw materials prices would generally have a positive impact on these economies.

Automobile markets

Overall, the world's automobile markets are forecast to grow by around 1.8 % to an estimated 89.0 million units in 2017. The US market is expected to grow by 0.3 % to 17.6 million units. The forecast for China points to an increase of around 5.7 % to some 25.5 million units. The country's interior provinces are expected to contribute significantly to growth as they catch up.

Despite the region's continued economic revival, automobile markets in Europe are not expected to grow significantly. The trend in Germany is expected to remain flat (3.4 million). Registrations in France are forecast to fall slightly (–1.7 %) to around 1.95 million units. After its strong performance in 2016, the Italian automobile market is expected to grow at a modest 0.7 % to around 1.86 million units.

The automobile market in Japan is likely to contract further in 2017. Registrations are forecast to be in the region of 4.7 million units and hence 1.6 % down on the previous year.

After dropping back in 2016, the automobile markets in the world's major emerging economies are expected to recover in 2017, with registrations predicted to grow by 4.1 % to 1.3 million units in Russia and by 3.0 % to 1.7 million units in Brazil.

Motorcycle markets

The world's motorcycle markets in the 250 cc plus class are forecast to grow slightly in 2017. In Europe, the positive trend is set to continue in the major markets of Germany, France, Italy and Spain. The BMW Group expects the US market to remain at the previous year's level during the current financial year.

Financial Services markets

The pace of global economic growth is expected to pick up slightly in 2017. With the exception of the USA, central banks in industrialised countries are likely to maintain their expansionary course.

The Fed is expected to continue raising interest rates in the course of 2017. The expansionary monetary policies of the ECB are likely to be continued in 2017, with a slightly reduced volume of monthly bond purchases.

The UK economy is expected to come under more pressure as a consequence of the Brexit vote. The Bank of England has already announced its intention to take appropriate measures as necessary.

Growth in China is set to cool further in 2017, with the Chinese central bank expected to implement a raft of measures to accompany the transformation process for the domestic economy.

Japan's central bank may have few tools left to stimulate the country's economy and rate of inflation. Public sector spending is therefore expected to increase as a means to kick-start growth.

Expected consequences for the BMW Group

Future developments on international automobile markets also have a direct impact on the BMW Group. Whereas competition is likely to intensify in contracting markets, new opportunities appear in growth regions. Sales volumes in some countries are likely to be significantly affected by challenges in the competitive environment. Europe's markets are not expected to maintain the pace of growth seen in 2016. Demand in the Americas region is likely to remain flat. Asia is expected to continue its upward trend.

Due to its global business model, the BMW Group is well placed at all times to exploit opportunities, including those arising at short notice. Coordination between the Group's sales and production networks also helps cushion the impact of unforeseeable developments in the various regions. Investments in markets important for the future are also a basis for further growth, while simultaneously expanding the global presence of the BMW Group. Thanks to its three strong brands – BMW, MINI and Rolls-Royce – the BMW Group is expected to remain on course for success during the current year.

Outlook for the BMW Group

BMW Group

Profit before tax: slight increase expected

Competition on international automobile markets is set to remain intense during the current year. The situation is likely to be exacerbated by political and macroeconomic uncertainties in Europe as well as the unforeseeable consequences of the Brexit decision in the UK. Moreover, the strategy of the new US administration regarding economic policy remains unclear. Further information is provided in the sections on political and economic risks in the section "Risks and Opportunities".

Nevertheless, the BMW Group intends to continue its growth course in 2017. New vehicles such as the new BMW 5 Series and the new MINI Countryman and new motorcycles such as the two R NineT models as well as services are expected to make a contribution to earnings growth. Investments in future-oriented projects, including vehicle electrification, digitalisation and the expansion of the production network, will, however, counteract the general upward trend. Overall, Group profit before tax is expected to increase slightly year-on-year (2016: €9,665 million).

Workforce size at year-end: slight increase expected

Based on current forecasts, the BMW Group's workforce is again expected to grow slightly in 2017 (2016: 124,729 employees). The main factors driving the expected increase will be projects aimed at securing the Group's future, growth of automobile and motorcycles business and the expansion of financial and mobility services.

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 achieve again in 2017 a leading position in the global premium segment. 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 (2016: 2,367,603[1] units) in 2017.

Important contributions to continued growth will come in particular from new models. The all-new BMW 5 Series Sedan has been available since mid-February 2017. The BMW 5 Series iPerformance and M Performance models followed in March. The BMW 5 Series iPerformance model as a plug-in hybrid is now available worldwide. The model revisions of the BMW 4 Series and the BMW M4 Coupé and Convertible were also launched in March. The new BMW 5 Series Touring is scheduled for launch in mid-June. The second generation of its highly successful MINI Countryman model was introduced in February. Towards the middle of year, a John Cooper Works and a plug-in hybrid will be added to the MINI Countryman range. Further new models are planned for the second half of 2017.

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

Fleet carbon dioxide emissions[2]: slight decrease expected

The BMW Group is continuing its efforts to reduce fuel consumption and carbon dioxide emissions. According to forecasts, carbon dioxide emissions for the vehicle fleet will decrease slightly during the outlook period, thus continuing the trend seen in previous years (2016: 124 grams CO_2/km).

[2] EU-28.

Revenues: slight increase expected

Automotive segment revenues are expected to rise slightly in line with sales volume. The Company expects that segment revenues will increase slightly in 2017 (2016: €86,424 million).

EBIT margin in target range between 8 and 10 % expected

An EBIT margin within a range of 8 to 10 % (2016: 8.9 %) remains the target for the Automotive segment.

Return on capital employed: slight decrease expected

Segment RoCE is forecast to decrease slightly (2016: 74.3 %). However, the long-term target RoCE of at least 26 % for the Automotive segment will be easily surpassed.

Motorcycles segment

Deliveries to customers: significant increase expected

The BMW Group expects the upward trend in the Motorcycles segment to continue. New models, including the R NineT Pure, the R NineT Racer, the K 1600 B and the G 310 GS were unveiled at international trade fairs held in autumn 2016. Together with updated versions of the R 1200 GS, the S 1000 R, the S 1000 RR, the K 1600 GT and the luxury GTL, the new models will expand the product portfolio significantly and appeal to new customer groups. Overall, deliveries of BMW motorcycles to customers are forecast to increase significantly year-on-year (2016: 145,032 units).

EBIT margin in target range between 8 and 10 % expected

With effect from the beginning of the financial year 2017, the EBIT margin will also serve as a key performance indicator for the Motorcycles segment. Accordingly, segment performance will also be managed based on the operating return on sales (EBIT margin) in future. Further information can be found in the description of the Group management system in the section "General Information on the BMW Group".

In this context, a target range of 8 to 10 % has also been set for the Motorcycles segment. The EBIT margin for the Motorcycles segment is expected to lie within this range in 2017 (2016: 9.0 %).

Return on capital employed expected at previous year's level

Segment RoCE in 2017 is forecast to be in line with the previous year (2016: 33.0 %). The long-term target RoCE of 26 % for the Motorcycles segment will therefore be surpassed.

Financial Services segment

Return on equity: slight decrease expected

According to forecasts, the Financial Services segment is likely to continue performing well in 2017. However, it is expected that regulatory requirements for equity capital will be tightened and the risk situation will normalise in the forecast period. The segment RoE is therefore expected to decrease slightly year-on-year (2016: 21.2 %). The target of at least 18 % is nevertheless likely to be exceeded again.

Overall assessment by Group management

Business is expected to develop positively in the financial year 2017. The introduction of numerous new automobile and motorcycle models as well as the expansion of individual mobility-related services give reason to expect that profitable growth will continue in the current year. Despite the many challenges described above, Group profit before tax is forecast to grow slightly. Based on the forecast of a slight increase in deliveries to customers, Automotive segment revenues are also expected to increase slightly in 2017. At the same time, a slight decrease in fleet carbon dioxide emissions is expected. The Group's targets are to be met with a slight rise in the workforce size. The Automotive segment's EBIT margin in 2017 is set to remain within the target range of between 8 and 10 %, while its RoCE is forecast to decrease slightly. A slight fall is also forecast for the RoE in the Financial Services segment. Both performance indicators will be above their long-term targets of 26 % (RoCE) and 18 % (RoE) respectively. Deliveries to customers in the Motorcycles segment are forecast to rise significantly, with an EBIT margin within the target range of between 8 and 10 % and RoCE at the previous year's level.

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

Key performance indicators

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		2016	2017 Outlook
BMW GROUP			
Profit before tax	€ million	9,665	slight increase
Workforce at year-end		124,729	slight increase
AUTOMOTIVE SEGMENT			
Sales volume[1]	units	2,367,603	slight increase
Fleet emissions[2]	g CO_2 / km	124	slight decrease
Revenues	€ million	86,424	slight increase
EBIT margin	%	8.9	between 8 and 10
Return on capital employed	%	74.3	slight decrease
MOTORCYCLES SEGMENT			
Sales volume	units	145,032	significant increase
EBIT margin	%	9.0	between 8 and 10
Return on capital employed	%	33.0	in line with last year's level
FINANCIAL SERVICES SEGMENT			
Return on equity	%	21.2	slight decrease

[1] Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2016: 316,200 units).
[2] EU-28.

RISKS AND OPPORTUNITIES

As a worldwide-leading manufacturer of premium cars and motorcycles and provider of premium financing and mobility services, the BMW Group is exposed to numerous uncertainties and changes. Making full use of the opportunities arising out of change is a fundamental aspect of the Group's corporate success. In order to achieve growth, drive profitability, boost efficiency and maintain sustainable levels of business going forward, the BMW Group consciously takes certain risks.

Management of opportunities and risks is a fundamental prerequisite for the Group's ability to react appropriately to changes in political, legal, technical or economic conditions. All identified opportunities and risks are addressed in the Outlook Report, if likely to materialise. The following sections focus on potential future developments or events, which could result in a positive deviation (opportunities) or a negative deviation (risk) from the BMW Group's outlook. As a general rule, the earnings impact of risks and opportunities is assessed separately, i.e. without off-setting.

Opportunities and risks are assessed as a general rule over a medium-term period of two years. As part of the risk management process, all potential risks of loss (individual and accumulated risks) that represent a threat to the company are monitored and managed. As a matter of principle, any risks capable of posing a threat to the going-concern status of the BMW Group are avoided. If there is no specific reference to a segment, opportunities and risks relate to the Automotive segment. The scope of entities covered by the report on risks and opportunities corresponds to the scope of consolidated entities included in the BMW Group Financial Statements.

Risk management system

The objective of the risk management system, and one of the key functions of risk reporting, is to identify, record and actively manage any internal or external risks that could pose a threat to the attainment of the Group's corporate targets. The risk management system covers all significant risks to the Group and any which could pose a threat to its going-concern status. In terms of structure, the responsibility for risk reporting lies with each individual employee and manager in their specific roles – and not with a centralised unit. Every employee and manager is required to report any risks identified via the relevant reporting channels. This requirement is set out in guidelines that apply throughout the Group.

Risk management in the BMW Group

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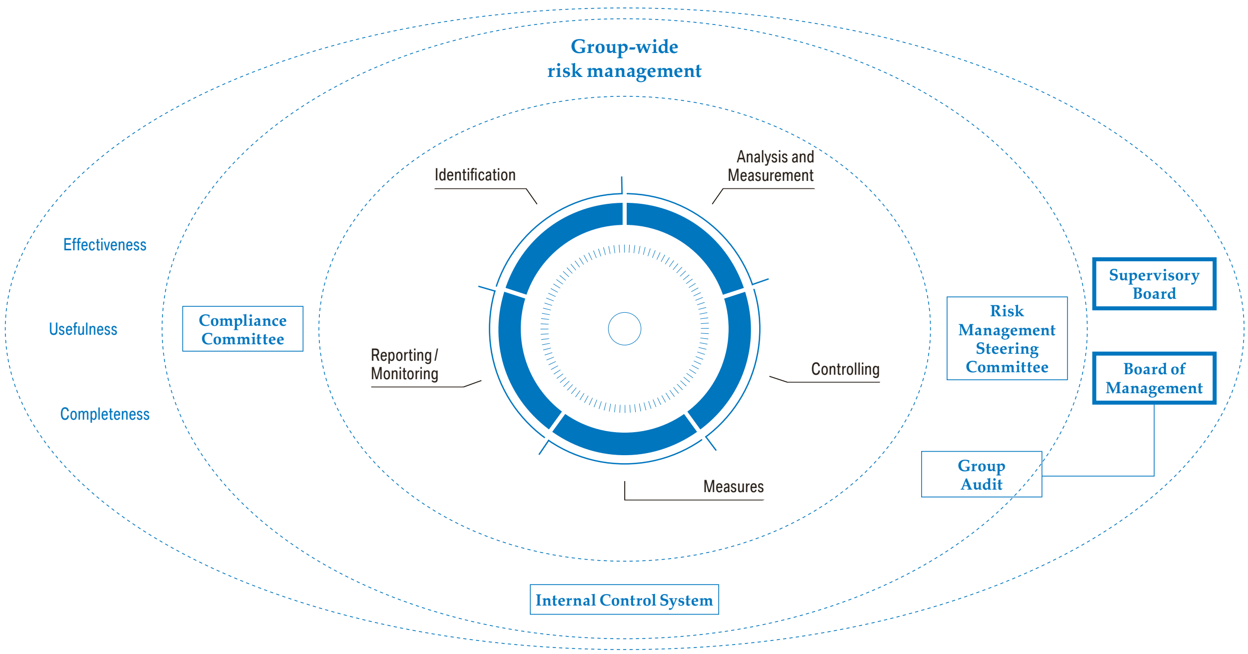

The Group risk management system comprises a decentralised network covering all parts of the business and is steered by a centralised risk management function. Each of the BMW Group's divisions is represented within the risk management network by so-called Network Representatives. The network is embedded within the formal organisational structure. This promotes its visibility and underlines the importance of risk management within the BMW Group. The duties, responsibilities and tasks of the centralised risk management unit and the Network Representatives are clearly described, documented and understood. Group risk management is geared towards meeting the following three criteria: effectiveness, usefulness and completeness.

In view of the dynamic growth of business of the BMW Group and the increasingly volatile environment in which it operates, one of the key areas considered in developing the risk management system has been the ability to assess the overall risk situation of the BMW Group. A risk-bearing capacity model has been developed for the BMW Group, based on the established controlling models used in the Financial Services segment as in the banking sector to ensure risk-bearing capacity. Using a limit control system to manage significant financial risks on a month-by-month basis, measures are in place to ensure that the asset cover, in the form of equity and forecast Group earnings for the next twelve months, always exceeds the prevailing risk situation and the risk level associated with the business strategy currently being pursued. These controls facilitate the early identification of developments which could pose a threat to the BMW Group's going-concern status. The results of the calculations of risk bearing capacity are incorporated in the assessment of the overall risk situation. The processes and methodologies used to report risks are regularly reviewed. During the financial year 2016, the risk catalogue introduced three years earlier was tested for effectiveness and revised as appropriate. Identified risks are aggregated into risk categories on the basis of the risk catalogue. Improved reporting channels ensure effective systematic risk control and earlier reporting of risks. Transparency of external reporting has also been increased, including the introduction of an additional sub-category "Market development" to the category "Sales and marketing", which enables a distinction to be made between market risks typical for the sector and operational risks relating to the BMW Group's specific sales network structure.

Risk management for the Group as a whole falls under the remit of the Risk Management Steering Committee, the Compliance Committee, the Internal Control System and the Group Internal Audit.

Risk management process

The risk management process applies throughout the Group and comprises the early identification and assessment of risks, comprehensive analysis and risk measurement, the coordinated use of suitable management tools and also the monitoring and evaluation of any measures taken.

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 which are significant or which threaten the Group's going-concern status are classified according to their potential to impact the Group's results of operations, financial position and net assets. The level of risk is then quantified in each case according to its probability of occurrence and the respective risk mitigation measures.

The risk management system is regularly examined by the Internal Audit. By sharing experiences with other companies on an ongoing basis, the BMW Group endeavours to incorporate new insights in the risk management system, thus ensuring continual improvement. Regular training and further development programmes as well as information events at the BMW Group, particularly within the risk management network, are invaluable ways of preparing those involved in the process for new or additional challenges.

In addition to comprehensive risk management, managing the business on a sustainable basis also constitutes one of the Group's core corporate principles. Any risks or opportunities relating to sustainability issues are examined and discussed by the Sustainability Committee. Resulting strategic options and measures for the BMW Group are put forward to the Sustainability Board, which includes the entire Board of Management. Risk aspects discussed are integrated within the Group-wide risk network. The overall composition of the Risk Management Steering Committee and the Sustainability Committee ensures that risk and sustainability management are closely coordinated.

Risk management procedures in place in the Financial Services segment also address regulatory issues and requirements, such as Basel III. Internal methods used to identify, measure, manage and monitor risks within the Financial Services segment comply with national and international standards. The adopted risk strategy, in combination with a set of strategic principles and guidelines, serves as the basis for risk management within the Financial Services segment. At the heart of the risk management process is 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 that the Group's risk-bearing capacity is not exceeded. All risks (defined as unexpected losses) must be covered at all times in line with risk appetite by an asset cushion in the form of equity capital. 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 taken into consideration. The segment's risk-bearing capacity is monitored regularly with the aid of an integrated limit system that also differentiates between the various risk categories.

Risk measurement

In order to determine which risks can be considered significant in relation to results of operations, financial position and net assets and to performance indicators of the BMW Group, risks are classified as high, medium or low. The impact of risks is measured and reported net of risk mitigation measures (net basis).

When a risk materialises, the overall impact on the results of operations, financial position and net assets is measured for the two-year assessment period and allocated according to the following categories:

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

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

The significance of risks for the BMW Group is determined on the basis of risk level. The measurement of risk level takes account of both earnings impact (net of appropriate countermeasures) and the likelihood of occurrence. The risk level is approximated in the case of risks measured on the basis of "value at risk" and "cash flow at risk" models. These approximations flow into the assessment of the significance of the risks, resulting in increased comparability between risk categories compared to the previous year.

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

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

Opportunity management system and opportunity identification

New opportunities regularly present themselves in the dynamic business environment in which the BMW Group operates. Macroeconomic trends and sector-specific and general business environment, including external regulations, suppliers, customers and competitors, are monitored on a continual basis. Identifying opportunities is an integral part of the process of developing strategies and drawing up forecasts for the BMW Group. The Group's product and service portfolio is continually reviewed on the strength of these analyses and new product projects, for example, presented to the Board of Management for consideration.

The continuous optimisation of important business processes and strict cost controls are essential to ensuring profitability and a high return on capital employed. Probable measures to increase profitability are incorporated in the outlook. One example is the implementation of modular-based production and common architectures, which enable a greater commonality between different models and product lines. This strategy contributes to improved profitability by reducing development costs and other investment on the series development of new vehicles. This supports economies of scale in production costs and increases production flexibility. Moreover, a more competitive cost basis opens up opportunities to engage in 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 in the categories "significant" and "insignificant".

Risks and opportunities

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

Overall, neither at the balance sheet date nor at the date on which the Group Financial Statements were prepared were any risks identified that could pose a threat to the going-concern status of the BMW Group.

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 in the following sections.

	Risk level	Change compared to prior year*	Opportunities	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	Medium	Stable	Insignificant	Stable
Market developments	High	Stable	Insignificant	Stable
Risks and opportunities relating to operations				
Production and technology	High	Stable	Insignificant	Stable
Purchasing	Medium	Stable	Insignificant	Stable
Sales and marketing	Low	Stable	Insignificant	Stable
Information, data protection and IT	High	Increased	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	–	–

* Prior-year classifications have been amended in line with the revision of the risk catalogue described in the section "Risk Management System" and the measurement of risk amount described in the section "Risk measurement".

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 ties can have highly unpredictable effects. Macroeconomic risks can lead to reduced purchasing power in the countries and regions involved and lead to reduced demand for the products and services offered by the BMW Group. If macroeconomic risks were to materialise, they could – due to sales volume fluctuations – have a high earnings impact over the two-year assessment period. Overall, the risk level attached to macroeconomic risks is 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.

Given the political events that have occurred during the financial year under report, future global economic developments are currently subject to a high degree of uncertainty, in particular with respect to potential barriers that could affect global trade. The outcome of the elections in the USA in November 2016, the planned exit of the UK from the EU and possible election wins for anti-globalisation parties in the EU in the coming years could result in higher tariff and non-tariff barriers to trade.

The possible introduction of trade barriers by the new US administration could have an adverse impact on the BMW Group's operations in the form of less favourable conditions for importing vehicles. Moreover, countermeasures by the USA's trading partners could slow down global economic growth and consequently have an adverse impact on the export of vehicles produced in the USA. The BMW Group's production strategy involves local production both in the USA and in other important trading regions. The strategy of 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 Brexit plan could have a long-term adverse impact on the BMW Group, particularly as a result of increased trade barriers in relation to the European single market. In the short and medium term, too, uncertainty regarding the outcome of the negotiations with the EU could lead to reduced customer spending and trigger further unfavourable currency effects. Unresolved structural problems in the eurozone, a potential increase in anti-globalisation political sentiment and a possible renewed economic downturn could potentially hold down growth prospects for the BMW Group. European integration with a unified economic and currency area remains an important pillar of economic stability in Europe.

The transition of the Chinese economy from an investment-driven to a consumer-driven market is likely to entail slower growth rates and greater instability on financial markets. If the Chinese economy were to grow at a significantly slower pace than expected, the consequence could 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 or Russia. Any renewed drop in raw material prices could result in lower demand from these countries. The threat of turmoil on the Chinese property, stock and banking markets and an overly rapid hike in interest rates by the US Federal Reserve 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 counters 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 across the BMW Group increase the ability to react quickly to regional economic developments.

Should the global economy develop significantly better than reflected in the outlook, macroeconomic opportunities could arise with a potentially favourable impact on the revenues and earnings of the BMW Group. Stronger Chinese growth, economy-boosting structural reforms within the eurozone, growth stimulus through infrastructure investment in the USA or more robust consumer spending by US households despite rising financing costs, could result in significantly stronger sales volume growth, reduced competitive pressures and improved 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

Abrupt introduction of tightened new laws and regulations represents a significant risk for the automobile industry, particularly in relation to emissions, safety and consumer protection, as well as taxes on vehicle purchases and use. Country- and sector-specific trade barriers can also change at short notice. Unfavourable developments in any of these areas can necessitate significantly higher levels of investment and ongoing expenses or influence customer behaviour. Risks from changes in legislation and regulatory requirements could have a low impact on earnings over the two-year assessment period. The risk level attached to these risks is classified as medium.

The BMW Group sees a clear move towards increasingly stringent vehicle emissions regulations, particularly for conventional drive systems, not only in the developed markets of Europe and North America, but also in emerging 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 counters this risk with its Efficient Dynamics concept and continues to play a pioneering role within the premium segment in reducing both fuel consumption and emissions. Electric drive systems are being built into a growing number of models, namely in BMW i vehicles since 2013 and – following the introduction of the X5 in 2015 – in models using plug-in-hybrid technologies, thus contributing to the BMW Group's effort to comply with statutory carbon emissions requirements.

Further risks can result from the tightening of existing import and export regulations. These lead primarily to additional expenses, but can also restrict the import and export of vehicles or parts. Increased taxes on high-value consumer goods have also been proposed in a number of regions. Taxes of this kind in major markets of the BMW Group, such as China, could have a negative impact on regional demand and margins on BMW Group vehicles in the automobile segments concerned.

Setting the regulatory framework for innovative mobility solutions and providing state-funded incentives are important prerequisites for developing mobility services and introducing product innovations, such as autonomous driving. If the necessary public measures are implemented globally at a faster pace than expected, opportunities will arise for the BMW Group to expand new business segments more quickly. Alternative mobility services, such as DriveNow, ChargeNow and ParkNow, could benefit from supportive regulatory measures, for example through systematic application in German cities of car-sharing legislation that comes into force in September 2017. Access restrictions for inefficient vehicles with lower environmental standards could provide a competitive advantage and hence an opportunity for BMW Group vehicles equipped with Efficient Dynamics technologies and for BMW i and iPerformance vehicles with alternative drive systems. The market acceptance and sales volumes of product innovations that are either planned for the future or have recently been launched could turn out to be greater than predicted in the outlook. Good examples of such opportunities are implementation of the 360° ELECTRIC portfolio in the field of electric mobility, achieving growth in the field of mobility services, and collaborating with Toyota on developing a hydrogen fuel cell system.

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, also enabling products and services to be offered to customers at lower prices. Further opportunities from changes in legislation and regulatory requirements compared to the outlook for the earnings performance of the BMW Group are classified as insignificant.

Market development

In addition to the potential impact of macroeconomic factors and sector-specific political framework conditions, it is also extremely difficult to predict the impact of increasingly fierce competition among established manufacturers and the emergence of new competitors. Unforeseen consumer preferences and changes in how brands are perceived 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 level is classified as high.

Fierce competition, particularly in Western Europe, the USA and China, is a potential reason for lower demand and for fluctuations in the regional distribution and composition of demand for vehicles and mobility services. Greater competition could potentially put pressure on selling prices and margins. Changes in customer behaviour can also be brought about by changes in public opinion, values, environmental issues and fuel or energy prices. Selling price and margin risks are measured using a scenario approach, based on a bottom-up survey of the key sales markets and an analysis of historical data. The BMW Group's flexible selling and production processes enable risks to be reduced and opportunities in market and product segments to be taken.

Local restrictions affecting product usage in specific sectors may limit BMW Group sales volumes in individual markets. In some urban areas, for instance, local measures have been or are being introduced which impose entry restrictions, road use charges or, in some situations, highly restrictive registration rules. These restrictions may affect local demand for the BMW Group vehicles affected and hence have negative repercussions on sales volume and margins. The BMW Group's endeavours to counter this risk include offering locally emission-free vehicles (such as the BMW i3), which benefit from state subsidies and exemption rules.

New opportunities are continuously being sought to create even greater added value for customers than currently expected, and thereby realise significant opportunities with respect to sales volumes and pricing. Further development of the product and mobility portfolio and expansion in growth regions are seen as the most important growth opportunities for the BMW Group in the medium to long term. 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 2016, including the establishment of new mobility services by ReachNow in North America and the expansion of the DriveNow offering introduced in additional European cities. Furthermore, vehicle-related services were brought onto the market. The new BMW 5 and

7 Series models, for instance, include the optional Driving Assistant Plus which, as a future-oriented product innovation, offers the comfort of partially autonomous driving. The BMW Group does not expect these opportunities to have a material 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 technology

Risks relating to production and technology often manifest themselves in the form of potential sources of production interruptions or additional expenses necessary to comply with quality standards under changed environmental conditions. If risks from the production and technology category were to materialise, they could have a high earnings impact over the two-year assessment period. The risk level attached to production and technology is classified as high.

Production stoppages and downtimes, in particular due to fire, but also to machinery and tooling-related breakdowns, IT disruptions, power failures, transportation and logistical disruptions, pose risks, against which the BMW Group has put suitable measures in place. Production structures and processes are designed from the outset with a view to minimising any potential damage and the probability of occurrence. The broad array of measures taken include technical fire protection solutions, land development measures including contingencies against flooding when facilities are expanded or new buildings added, the interchangeability of production facilities, preventative maintenance, the ability to manage spare parts across sites, and predictive planning of transportation alternatives. The risk level is also reduced by deploying flexible working hour models and working time accounts, but also as appropriate through split arrangements or by building engine types at additional sites. This makes it possible to recover quickly any backlog arising from production interruptions. Moreover, risks arising from interruptions and production downtime due to fire are also appropriately insured with insurance companies of good credit standing.

In order to attain the outstanding level of quality expected of the BMW Group's products and correspondingly high external ratings (e.g. for product safety) and reduce statutory and non-statutory warranty obligations, 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 the quality management system, which ensures a high standard of quality. The BMW Group also recognises appropriate accounting provisions for statutory and non-statutory warranty obligations. Such provisions reduce the risk to earnings, as they are already included in the outlook. Further information on risks in conjunction with provisions for statutory and non-statutory warranty obligations is provided in → note 31 to the Group Financial Statements.

→ see note 31

The BMW Group sees opportunities relating to production and technology primarily in the competitive edge accruing from mastering new and complex technologies. Opportunities could arise as a result of product- or process-related technological innovations, as well as from organisational changes designed to improve efficiency and increase competitiveness. In the field of lightweight construction, for example, carbon is being utilised in high volumes for the first time in the automobile industry for the production of the BMW i3. In 2015, the BMW Group then introduced carbon for the BMW 7 Series. This has generated competitive benefits in the form of lower fuel consumption and better driving dynamics through reduced vehicle weight. Given the long lead times involved in developing new products and processes, additional opportunities are expected to have insignificant impact on earnings during the forecast period.

Risks and opportunities relating to purchasing

Purchasing risks relate primarily to supply risks caused by the failure of a supplier to deliver as well as risks associated with the quality of bought-in parts. Production problems incurred by suppliers could have adverse consequences for the BMW Group, ranging from increased expenditure through to production interruptions and a corresponding reduction in sales volume. The increasingly complex nature 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. Purchasing risks, if materialised, could have a high earnings impact over the two-year assessment period. The risk level attached to purchasing risks is classified as medium.

Close cooperation between carmakers and automotive suppliers in the development and production of vehicles and the provision of services generates economic benefits, but also raises levels of dependency. Potential reasons for the failure of individual suppliers could include non-compliance with sustainability or quality standards, lack of financial strength on the part of a supplier, the occurrence of natural hazards, IT-related risks, fires or insufficient supply of raw materials. As part of the supplier pre-selection process, the BMW Group is careful to ensure compliance with the sustainability standards stipulated for the supplier network, including the requirement to comply with internationally recognised human rights and applicable labour and social standards. The principal tool for ensuring compliance with the BMW Group Sustainability Standard is a three-stage risk management system for sustainability. In addition, the technical and financial capabilities of suppliers – especially those supplying for modular-based production – are monitored. 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 safeguards. Fire risks at series suppliers are evaluated by means of questionnaires and selective site inspections. In order to minimise supply risks, the BMW Group works hard to reduce the input of raw materials or to use alternative raw materials as a substitute.

The BMW Group pays particular attention to the quality of the 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 consequence 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 increase its competitiveness by working together with the world's best product and service providers.

Within the Purchasing and Supplier Network opportunities emerge 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. Introduction of new and innovative production technologies and location-specific cost factors, in particular through local supplier structures in close proximity to new and existing BMW Group production plants, can lead to lower cost of materials for the BMW Group. The integration of previously unidentified innovations from the supplier market into the product range is 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 does not expect these opportunities to have a significant earnings impact over the two-year assessment period as compared to the assumptions made in the outlook.

Risks and opportunities relating to sales and marketing

The BMW Group employs a global sales network, primarily comprising independent dealers, branches, subsidiaries and importers to sell its products and services. Any threat to the continued activities of parts of the sales network would entail risks for the BMW Group. If sales and marketing risks were to materialise, they are likely to have low earnings impact over the two-year assessment period. The risk level is classified as low.

New opportunities for the BMW Group's brands are opening up in particular as a result of developments in the field of digital communication and connectivity. Additional opportunities could also arise if new sales channels contribute to greater brand reach to additional customer groups than currently envisaged in the forecast. Digital communication and connectivity enables consumers to be reached on a more targeted and individualised basis, thus strengthening long-term relationships and brand loyalty. The outcome is often 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. In 2016, for example, customers in the United Kingdom were able to access an online sales platform, enabling them to select, finance and buy their vehicle online. The BMW Group's brands are also present on numerous platforms, such as Facebook, YouTube and Twitter. 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

The advance of digitalisation across all areas of the business raises the need for increasingly stringent requirements for the confidentiality, integrity and availability of electronically processed data and in information technology (IT) in general. The increased threat of cybercrime has changed the risk exposure of the BMW Group. In addition to intellectual property theft, BMW Group must protect itself against attacks on data integrity and availability. At the same time, regulations covering the handling of personal data are also becoming more stringent, for example with the adoption of the EU General Data Protection Regulation by the European Parliament in April 2016. If information, data protection and IT risks were to materialise, they could have a high earnings impact over the two-year assessment period. Risk levels attached to these risks are classified as high.

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

Great importance is attached to protecting the confidentiality, integrity and availability of business information and employee and customer data, for instance against unauthorised access and misuse. Data security based on the International Standard ISO/IEC 27001 is an integral component of all business processes. As part of risk management procedures, data protection, information and IT risks are systematically documented, allocated appropriate measures by the departments responsible and regularly monitored in terms of threat level and risk mitigation. Regular analyses and controls and rigorous security management ensure an appropriate level of security. Despite regular testing and preventative security measures, it is impossible to eliminate risks completely in this area. All employees are required to treat carefully information such as confidential business, customer and employee data, to use securely information systems and handle risks with transparency. Group-wide requirements are documented in a comprehensive set of principles, guidelines and instructions, such as, for example, the Binding Corporate Rules for handling of employee data. Regular communication and information activities create a high degree of security and risk awareness among employees involved. Employees receive training to ensure compliance with the applicable requirements and in-house rules. The BMW Group protects its intellectual property as well as customer and employee data in cooperations and business partnerships by stipulating clear instructions with regard to 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 strict security measures. Technical data protection incorporates industry-wide standards and best practices. Responsibility for data and information protection lies for each Group entity with the Board of Management or relevant management team.

The use of information technology in new products and services, production or communication with customers opens up new opportunities. Under the slogan Industry 4.0, new approaches to production are being tested which could generate significant improvements in process and energy efficiency. The range of services and apps on offer to customers via BMW ConnectedDrive is constantly being expanded and updated. The purchase together with other companies of the firm HERE lays the foundation for the next generation of mobility and location-based services. For the automobile sector, it serves as the basis for new customer-oriented functions, such as innovative assistance systems through to fully automated driving. The BMW Group expects these opportunities to have an insignificant earnings impact over the two-year 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 revenue generation, 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 have 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 risk at both the 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. 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. Basis for the analysis of raw material price risk are 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) and non-ferrous metals (aluminium, copper, lead), and, to some extent, on steel and steel ingredients (iron ore, coke-coal) and energy (gas, electricity) are hedged using financial derivatives and supply contracts with fixed pricing arrangements.

Liquidity risks

The major part of the Financial Services segment's credit financing and lease business is refinanced on capital markets. Liquidity risks may be reflected in rising refinancing costs. They may also manifest themselves in 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 of incurring liquidity risk, including the risk of the BMW Group's rating being downgraded and any ensuing deterioration in financing conditions, 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 from transactions in varying maturity cycles and currencies offset each other. The relevant procedures are incorporated in the BMW Group's target liquidity concept. The liquidity position is monitored continuously and managed by means of a cash flow requirement and sourcing forecast system in place throughout the Group. A diversified refinancing strategy reduces dependency on any specific type of instrument. Moreover, the BMW Group's solid financial and earnings position results in the high creditworthiness ratings issued by 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 to the Group Financial Statements. If the relevant recognition criteria are fulfilled, derivatives used by the BMW Group as hedges are accounted for as hedging relationships. Further information on risks in conjunction with financial instruments is provided in → note 37 to 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 the nature and scale of 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 level relating to pension obligations is classified as medium. Within a favourable capital market environment, the return generated by 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 by reference to 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. Most of the BMW Group's pension obligations are managed in external pension funds or trust arrangements and the related assets are kept separate from those of the Group. The amount of funds required to finance pension payments out of operations in the future is therefore substantially reduced, since most of the Group's pension obligations are 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-yield 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 pattern 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 to the Group Financial Statements.

→ see note 30

Risks and opportunities relating to the Financial Services segment

The categories of risk relating to the provision of 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 2016 financial year by the available risk-covering assets, thus ensuring the Financial Services segment's risk-bearing capacity.

Credit and counterparty risks and opportunities

Credit and counterparty default risk arises within the Financial Services segment if a contractual partner (i.e. a customer or dealer) either becomes unable or only partially able to fulfil its contractual obligations, such 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 level is classified as medium. The BMW Group classifies potential opportunities in this area as significant.

As part of its credit and counterparty risk management system, the Financial Services segment uses a variety of 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 using a range of risk provisioning techniques to cover risks resulting from changes in customer creditworthiness. In this context, individual customers are 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 economies develop more favourably than assumed in the outlook, credit losses may be reduced, leading to a positive earnings impact.

Residual value risks and opportunities
Risks and opportunities arise in conjunction with lease 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 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 level is classified as medium for the Group as a whole. Opportunities can arise out of a positive deviation between the actual market 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 and used to estimate the expected market value of the vehicle at the end of the contractual period. As part of the process of managing residual value risks, a calculation is performed at the inception of each contract to determine the net present value of risk costs. Market developments are observed throughout the contractual period and the risk assessment updated.

Interest rate risks and opportunities
Interest rate risks in the Financial Services segment relate to potential losses caused by changes in market interest rates. They can arise when fixed interest rate periods for assets and liabilities recognised in the balance sheet do not match. If risks relating to interest rate risk were to materialise, they could have a medium earnings impact over the two-year assessment period. The risk level is classified as low. The BMW Group classifies potential interest rate opportunities as material.

Interest rate risks in the Financial Services line of business are managed by raising refinancing funds with matching maturities 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 to 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 the inappropriateness or failure of internal procedures (process risks), people (personnel-related risks), systems (infrastructure and IT risks) and external events (external risks). These four categories of risk also include related legal and reputation risks. The comprehensive recording and measurement of risk scenarios, loss events and countermeasures in the operational risk management system provides 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 level is classified as low.

Legal risks

Compliance with the law is a basic prerequisite for the success of the BMW Group. Current legislation provides the binding framework for the BMW Group's various business activities around the world. As a result of its worldwide operations, the BMW Group is exposed to a wide range of legal risks. If legal risks were to materialise, they could have a high earnings impact over the two-year assessment period. The risk level 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 growing international scope 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 that laws may be violated simply through lack of awareness. The BMW Group has established a Compliance Organisation aimed at ensuring that its representative bodies, managers and staff act lawfully at all times. Further information on the BMW Group's Compliance Organisation can be found in the section "Corporate Governance".

Like all internationally operating entities, the BMW Group is confronted with legal disputes relating in particular to warranty claims, product liability, infringements of protected rights and proceedings initiated by government agencies. Any of these matters could, amongst others, have an adverse impact on the Group's reputation. Such proceedings are typical for the sector and can arise as a consequence of realigning product or purchasing strategies to suit 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. The application of more rigorous consumer regulations or the stricter 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.

The BMW Group recognises appropriate levels of provision for lawsuits. 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. In other cases, the incurrence of expenses or losses may be considered unlikely. Such items are reported as contingent liabilities. It cannot be ruled out, however, that losses from damages could arise that are either not covered or not fully covered by insurance policies or provisions, or 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 to 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. The exposure to risks in the individual risk categories is essentially stable. In view of the growing importance of data and IT systems for its business, the BMW Group sees an increased need for protection in the area of information, data protection and IT systems. In view of these changes, the overall risk level for the BMW Group has increased slightly compared to the previous year. Overall, there has been no significant change in the opportunities situation 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 on 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 going-concern status. 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 forecasts 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* AND RISK MANAGEMENT SYSTEM RELEVANT FOR THE FINANCIAL REPORTING PROCESS

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

The internal control system in place throughout the BMW Group is aimed at ensuring the effectiveness of operations. It makes an important contribution towards ensuring compliance with the laws that apply to the BMW Group as well as providing assurance on the propriety and reliability of internal and external financial reporting. The internal control system is therefore a significant factor in the management of process risks. The principal features of the internal control system and the risk management system, as far as they relate to individual entity and Group financial reporting processes, are described below.

Information and communication

One component of the internal control system is that of "Information and Communication". It ensures that all the information needed to achieve the objectives set for the internal control system is made available to those responsible in an appropriate and timely manner. Information relevant for the various financial reporting processes – at BMW AG, other consolidated Group entities and for the BMW Group as a whole – is set out primarily in organisational manuals, internal and external financial reporting guidelines, accounting manuals and training documentation. This information, which can be accessed at all levels via the BMW Group's intranet system, provide the framework for ensuring that the relevant rules are applied consistently throughout the Group. The quality and relevance of these instructions are ensured by regular review as well as by continuous communication between the relevant departments.

Organisational measures

All financial reporting processes (including Group financial reporting processes) are structured in organisational terms in accordance with the principle of segregation of duties, thus making an important contribution to the early identification of errors and the prevention of potential wrongdoing. Regular comparison of internal forecasts and external financial reports, for example, improves the quality of financial reporting. Moreover, the internal audit department, in its capacity as a process-independent function, tests and assesses the effectiveness of the internal control system and proposes improvements where appropriate.

Controls

Extensive controls are carried out by managers and staff in all financial reporting processes at an individual entity and Group level, thus ensuring that legal requirements and internal guidelines are complied with and that all business transactions are properly executed. Controls are also carried out with the aid of IT applications, thus reducing the incidence of process risks. Moreover, the performance of controls on accounts deemed to be exposed to risk are subject to additional monitoring.

IT authorisations

All IT applications used in financial reporting processes throughout the BMW Group are subject to access restrictions, allowing only authorised persons to gain access to systems and data in a controlled environment. Access authorisations are allocated on the basis of the nature of the duties to be performed. In addition, IT processes are designed and authorisations allocated using the dual control principle, as a result of which, for instance, requests cannot be submitted and approved by the same person. Technical monitoring procedures and internal audits are also in place to ensure appropriate authorisation security throughout all IT systems.

Internal control training for employees

All employees are appropriately trained to carry out their duties and kept informed of any changes in regulations or processes that affect them. Managers and staff also have access to detailed best-practice descriptions relating to risks and controls in the various processes, thus increasing risk awareness at all levels. As a consequence, the internal control system can be evaluated regularly and further improved as necessary. Employees can, at any time and independently, deepen their understanding of control methods and design using an information platform that is accessible throughout the entire Group.

Evaluating the effectiveness of the internal control system

Responsibilities for ensuring the effectiveness of the internal control system in relation to individual entity and Group financial reporting processes are clearly defined and allocated to the relevant managers and are subject to internal audits (e.g. management self-audits, internal audit department findings). Data analysis tools are also employed to identify risks relating to business transactions. Continuous revision and further development ensures the effectiveness of the internal control system. Group entities are required to confirm regularly as part of their reporting duties that the internal control system is functioning properly. Effective measures are implemented whenever weaknesses are identified and reported.

DISCLOSURES RELEVANT FOR TAKEOVERS* AND EXPLANATORY COMMENTS

* Disclosures pursuant to § 289 (4) HGB and § 315 (4) HGB.

Composition of subscribed capital

The subscribed capital (share capital) of BMW AG amounted to €657,109,600 at 31 December 2016 (2015: €656,804,600) and, in accordance with Article 4 no. 1 of the Articles of Incorporation, is sub-divided into 601,995,196 shares of common stock (91.61 %) (2015: 601,995,196; 91.66 %) and 55,114,404 shares of non-voting preferred stock (8.39 %) (2015: 54,809,404; 8.34 %), 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 et seq. AktG, which carry a cumulative preferential right in terms of the allocation of profit and for which voting rights are excluded. These shares only confer voting rights 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 on 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 relating to this can be found above 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 subject as a general rule to a company-imposed blocking period of four years, measured from the beginning of the calendar year in which the shares are issued.

→ see note 39

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 to the Group Financial Statements).

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 2016.
[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 power percentages disclosed above may have changed subsequent to the stated date if these changes were not required to be reported to the Company. Due to the fact that the Company's shares are issued to bearer, the Company is generally only aware of changes in shareholdings 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.

System of control over 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 et seq. AktG in conjunction with § 31 of the German Co-Determination Act (MitbestG).

Amendments to the Articles of Incorporation must comply with § 179 et seq. AktG. All 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 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 given to 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, e.g. 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 to 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 determined by the opening auction on the date of trading of the stock in the Xetra trading system (or a successor system having a comparable function). Moreover, the Board of Management is authorised to use the acquired Company's own shares of non-voting preferred stock for all legally admissible purposes, specifically including the right to offer 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 on more than one occasion.

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 BMW AG's share capital during the period until 14 May 2019 by up to €4,145,383 for the purposes of an Employee Share Scheme by issuing new non-voting shares of preferred stock, which carry the same rights as existing non-voting preferred stock, in return for cash contributions (Authorised Capital 2014). Subscription rights of existing shareholders to the new shares are excluded. No conditional capital is in place at the reporting date.

Significant agreements entered into by the Company subject to control change clauses in the event of 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 allayed 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 either 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) with respect to trading activities with derivative financial instruments. Each of these agreements includes 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 materially 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 at the level of BMW AG (partially in the capacity of guarantor and partially in the capacity of borrower), if the EIB has reason to assume – after the change in control has taken place 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 stipulate 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 is 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 includes 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 are acquired by a third party, or if 25 % of such voting rights have been acquired by a third party if that third party is a competitor of the party that has not been affected by the acquisition of the voting rights. In the event of such acquisitions of voting rights by a third party, the non-affected shareholder has 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.

- The framework cooperation agreement entered into by BMW AG and Sixt SE amongst others, 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.

- 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 (e.g. 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).

- In accordance with the agreement between BMW AG, Daimler AG and AUDI AG pertaining to the acquisition of entities of the HERE Group and the related foundation of There Holding B.V., each contractual party is required to offer its shares in There Holding B.V. for sale to the other shareholders in the event of a change in control. If neither of the other two parties acquires these shares, these other parties are entitled to resolve that There Holding B.V. be dissolved.

- The development cooperation agreement between BMW AG, Intel Corporation and Mobileye Vision Technologies Ltd., relating to the development of technologies deployed 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.

BMW STOCK AND CAPITAL MARKETS IN 2016

→ www.bmwgroup.com/ir

Capital markets and BMW stock were both impacted by major political and economic uncertainties during the past year. Thanks to its consistent focus on the future and solid financials, the BMW Group continues to enjoy the best ratings in the European automobile sector and a high standing on international capital markets.

Political uncertainties weigh on stock markets

The stock market year 2016 was dominated by concerns relating to political developments. During the first half of the year, the approaching Brexit vote had a negative impact on international financial markets. Additionally, the US election on 8 November unsettled markets towards the year-end. Uncertainties regarding the economic situation in China also dampened investor sentiment. The active role of central banks over the course of the year tended to counteract these influences, so that many stock exchanges closed – at the end of a volatile year – higher than their previous year's level.

Development of BMW stock compared to stock market indices since 30 December 2011

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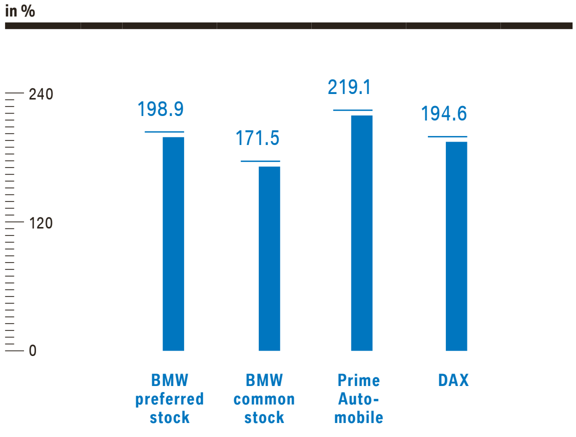

At the beginning of the year, speculation about the cooling of the Chinese economy had a negative impact on stock market indices worldwide. At 8,753 points, the German stock exchange (DAX) reached its low for the year on 11 February, 18.5 % down on its closing level on 31 December 2015. The ECB's decision to continue its expansionary monetary policies and, starting 8 June, to buy euro-denominated investment-grade corporate bonds, had a positive impact on investor sentiment. However, following the Brexit vote on 23 June and the uncertainties it triggered, indices around the world slumped again. During the summer months, stock markets proceeded to recover after the difficult first half year. The active role of the Bank of England was well received by investors. Reducing the reference interest rate to a record low of 0.25 % and the bank's decision to purchase GBP 60 billion worth of UK government bonds were interpreted as positive signals. Good labour market figures coming from the USA and the UK generated further gains over the summer. During the last three months of the year, the focus was on the US elections and the ECB's decision to extend its bond-buying programme until December 2017. Stock markets generally tended positively during this phase, with the consequence that the DAX – despite a turbulent start to the year – recorded a 6.9 % gain for the twelve-month period, closing at 11,481 points on 30 December 2016. The EURO STOXX 50 recorded a gain of 0.7 % in 2016, closing at 3,291 points on 30 December.

Development of BMW stock compared to stock market indices

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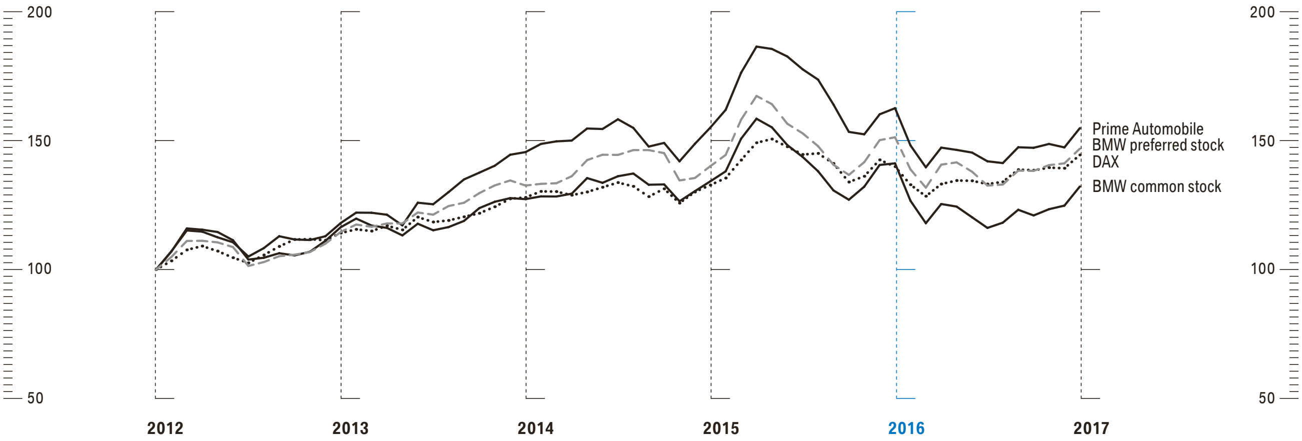
Index: December 2011 = 100



Source: Reuters.

The Prime Automobile Index lost about one third of its value towards the middle of the year, with subdued demand for automobile stocks. The index recovered during the second half of the year, finishing the reporting period at 1,506 points, 5.6 % below its closing level on 30 December 2015.

BMW common stock followed the downward trend for the sector index during the first half of the year, at one stage falling 33 % below its previous year's closing level. It performed significantly better during the second half of the year, closing at €88.75 (–9.1 %) thanks to strong gains. BMW preferred stock fell by 6.1 % in value compared to its closing price at the end of the previous year and stood at €72.70 at the end of the stock market year 2016. With a market capitalisation of approximately €57 billion, the BMW Group was among the ten most valuable German enterprises listed on the stock market.

Employee Share Programme

BMW AG has enabled its employees to participate in its success for more than 40 years. Since 1989, this participation has taken the form of an Employee Share Programme. A total of 305,029 shares of preferred stock were issued to employees as part of this programme in 2016.

In this context, and with the approval of the Supervisory Board, the Board of Management increased BMW AG's share capital by €305,000 from €656,804,600 to €657,109,600 by issuing 305,000 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 2017. In addition, 29 shares of preferred stock were bought back via the stock market.

Dividend increase proposed

Reflecting the strong earnings performance, the Board of Management and the Supervisory Board will propose to the Annual General Meeting to use BMW AG's unappropriated profit of €2,300 million (2015: €2,102 million) to pay a dividend of €3.50 for each share of common stock (2015: €3.20) and a dividend of €3.52 for each share of preferred stock (2015: €3.22), a pay-out ratio of 33.3 % for 2016 (2015: 32.9 %).

BMW stock

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	2016	2015	2014	2013	2012
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	88.75	97.63	89.77	85.22	72.93
High	92.25	122.60	95.51	85.42	73.76
Low	65.10	75.68	77.41	63.93	53.16
PREFERRED STOCK					
Number of shares in 1,000	55,114	54,809	54,500	54,260	53,994
Stock exchange price in €[1]					
Year-end closing price	72.70	77.41	67.84	62.09	48.76
High	74.15	92.19	74.60	64.65	49.23
Low	56.53	58.96	59.08	48.69	35.70
KEY DATA PER SHARE IN €					
Dividend					
Common stock	3.50[2]	3.20	2.90	2.60	2.50
Preferred stock	3.52[2]	3.22	2.92	2.62	2.52
Earnings per share of common stock[3]	10.45	9.70	8.83	8.08	7.77
Earnings per share of preferred stock[4]	10.47	9.72	8.85	8.10	7.79
Operating cash flow Automotive segment	17.45	18.02	14.35	15.19	13.98
Equity	72.08	65.11	57.03	54.25	46.66

[1] Xetra closing prices.
[2] Proposed by management.
[3] Annual average weighted amount.
[4] Stock weighted according to dividend entitlements.

Ratings remain at top level

The BMW Group continues to have the best ratings in the European automobile sector. 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, currently the highest rating given by Standard & Poor's to a European car manufacturer.

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

On 25 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 reaffirmed. The main reasons for the improved ratings were the forthcoming launches of attractive products, the good position of the BMW Group with regard to the challenges faced by the automobile industry, a consistently strong operating performance and a robust financing and capital structure.

The ratings underline the BMW Group's robust financial condition and excellent creditworthiness. Thanks to these attributes, it not only has good access to international capital markets, but also benefits from attractive refinancing conditions.

Intensive communication with capital markets continued

The BMW Group continued to inform analysts, investors, and rating agencies throughout 2016 with regular quarterly and year-end financial reports. The comprehensive information programme provided for relevant capital market participants also 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 new Strategy NUMBER ONE > NEXT, the profitability of future business models, digitalisation and other technological trends in the automobile industry, and the relevance of alternative drive systems. In addition to participating in various conferences and roadshows, a series of product presentations and a technology workshop were held for analysts and investors.

GROUP FINANCIAL STATEMENTS

3

BMW GROUP
INCOME STATEMENTS FOR GROUP AND SEGMENTS
STATEMENT OF COMPREHENSIVE INCOME FOR GROUP

Income Statements for Group and Segments

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in € million	Note	Group 2016	Group 2015	Automotive (unaudited supplementary information) 2016	Automotive (unaudited supplementary information) 2015	Motorcycles (unaudited supplementary information) 2016	Motorcycles (unaudited supplementary information) 2015
Revenues	6	94,163	92,175	86,424	85,536	2,069	1,990
Cost of sales	7	–75,442	–74,043	–70,973	–70,399	–1,639	–1,542
Gross profit		**18,721**	**18,132**	**15,451**	**15,137**	**430**	**448**
Selling and administrative expenses	8	–9,158	–8,633	–7,604	–7,219	–256	–239
Other operating income	9	670	914	616	689	27	–
Other operating expenses	9	–847	–820	–768	–771	–14	–27
Profit / loss before financial result		**9,386**	**9,593**	**7,695**	**7,836**	**187**	**182**
Result from equity accounted investments	22	441	518	441	518	–	–
Interest and similar income	10	196	185	260	327	–	–
Interest and similar expenses	10	–489	–618	–673	–762	–2	–3
Other financial result	11	131	–454	193	–396	–	–
Financial result		**279**	**–369**	**221**	**–313**	**–2**	**–3**
Profit / loss before tax		**9,665**	**9,224**	**7,916**	**7,523**	**185**	**179**
Income taxes	12	–2,755	–2,828	–2,475	–2,376	–53	–55
Net profit / loss		**6,910**	**6,396**	**5,441**	**5,147**	**132**	**124**
Attributable to minority interest		47	27	10	5	–	–
Attributable to shareholders of BMW AG	29	**6,863**	**6,369**	**5,431**	**5,142**	**132**	**124**
Basic earnings per share of common stock in €	13	10.45	9.70				
Basic earnings per share of preferred stock in €	13	10.47	9.72				
Dilutive effects		–	–				
Diluted earnings per share of common stock in €	13	10.45	9.70				
Diluted earnings per share of preferred stock in €	13	10.47	9.72				

Statement of Comprehensive Income for Group

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in € million	Note	2016	2015
Net profit		**6,910**	**6,396**
Remeasurement of the net defined benefit liability for pension plans	30	–1,858	1,413
Deferred taxes		529	–401
Items not expected to be reclassified to the income statement in the future		**–1,329**	**1,012**
Available-for-sale securities		40	–170
Financial instruments used for hedging purposes		2,008	–1,301
Other comprehensive income from equity accounted investments		43	71
Deferred taxes		–721	516
Currency translation foreign operations		–230	765
Items expected to be reclassified to the income statement in the future		**1,140**	**–119**
Other comprehensive income for the period after tax	17	**–189**	**893**
Total comprehensive income		**6,721**	**7,289**
Total comprehensive income attributable to minority interests		47	27
Total comprehensive income attributable to shareholders of BMW AG	29	**6,674**	**7,262**

Financial Services (unaudited supplementary information)		Other Entities (unaudited supplementary information)		Eliminations (unaudited supplementary information)		
2016	2015	2016	2015	2016	2015	
25,681	23,739	6	7	–20,017	–19,097	Revenues
–22,135	–20,586	–	–	19,305	18,484	Cost of sales
3,546	**3,153**	**6**	**7**	**–712**	**–613**	**Gross profit**
–1,294	–1,164	–30	–30	26	19	Selling and administrative expenses
35	46	110	238	–118	–59	Other operating income
–103	–54	–103	–46	141	78	Other operating expenses
2,184	**1,981**	**–17**	**169**	**–663**	**–575**	**Profit / loss before financial result**
–	–	–	–	–	–	Result from equity accounted investments
11	4	1,250	1,177	–1,325	–1,323	Interest and similar income
–24	–7	–1,006	–1,080	1,216	1,234	Interest and similar expenses
–5	–3	–57	–55	–	–	Other financial result
–18	**–6**	**187**	**42**	**–109**	**–89**	**Financial result**
2,166	**1,975**	**170**	**211**	**–772**	**–664**	**Profit / loss before tax**
–389	–528	–49	–73	211	204	Income taxes
1,777	**1,447**	**121**	**138**	**–561**	**–460**	**Net profit / loss**
37	21	–	1	–	–	Attributable to minority interest
1,740	**1,426**	**121**	**137**	**–561**	**–460**	**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 SHEETS FOR GROUP AND SEGMENTS AT 31 DECEMBER 2016

in € million	Note	Group 2016	Group 2015	Automotive (unaudited supplementary information) 2016	Automotive (unaudited supplementary information) 2015	Motorcycles (unaudited supplementary information) 2016	Motorcycles (unaudited supplementary information) 2015
ASSETS							
Intangible assets	19	8,157	7,372	7,705	6,899	46	48
Property, plant and equipment	20	17,960	17,759	17,566	17,416	365	313
Leased products	21	37,789	34,965	–	–	–	–
Investments accounted for using the equity method	22	2,546	2,233	2,546	2,233	–	–
Other investments		560	428	5,195	5,147	–	–
Receivables from sales financing	23	48,032	41,865	–	–	–	–
Financial assets	24	2,705	2,208	1,287	586	–	–
Deferred tax	12	2,327	1,945	4,310	4,114	–	–
Other assets	26	1,595	1,568	4,043	3,935	28	25
Non-current assets		**121,671**	**110,343**	**42,652**	**40,330**	**439**	**386**
Inventories	27	11,841	11,071	11,344	10,611	492	453
Trade receivables	28	2,825	2,751	2,502	2,453	144	139
Receivables from sales financing	23	30,228	28,178	–	–	–	–
Financial assets	24	7,065	6,635	4,862	4,859	–	–
Current tax	25	1,938	2,381	1,000	1,240	–	–
Other assets	26	5,087	4,693	21,561	19,907	2	–
Cash and cash equivalents		7,880	6,122	4,794	3,952	–	–
Current assets		**66,864**	**61,831**	**46,063**	**43,022**	**638**	**592**
Total assets		**188,535**	**172,174**	**88,715**	**83,352**	**1,077**	**978**
EQUITY AND LIABILITIES							
Subscribed capital	29	657	657				
Capital reserves	29	2,047	2,027				
Revenue reserves	29	44,445	41,027				
Accumulated other equity	29	–41	–1,181				
Equity attributable to shareholders of BMW AG	29	**47,108**	**42,530**				
Minority interest		255	234				
Equity		**47,363**	**42,764**	**36,624**	**33,460**	**–**	**–**
Pension provisions	30	4,587	3,000	2,911	1,770	83	45
Other provisions	31	5,039	4,621	4,570	4,141	103	136
Deferred tax	12	2,795	2,116	740	429	–	–
Financial liabilities	33	55,405	49,523	1,942	2,621	–	–
Other liabilities	34	5,357	4,559	6,530	5,545	442	401
Non-current provisions and liabilities		**73,183**	**63,819**	**16,693**	**14,506**	**628**	**582**
Other provisions	31	5,879	5,009	5,187	4,398	90	85
Current tax	32	1,074	1,441	770	810	–	–
Financial liabilities	33	42,326	42,160	1,481	3,211	–	–
Trade payables	35	8,512	7,773	7,483	6,856	303	263
Other liabilities	34	10,198	9,208	20,477	20,111	56	48
Current provisions and liabilities		**67,989**	**65,591**	**35,398**	**35,386**	**449**	**396**
Total equity and liabilities		**188,535**	**172,174**	**88,715**	**83,352**	**1,077**	**978**

Financial Services (unaudited supplementary information)		Other Entities (unaudited supplementary information)		Eliminations (unaudited supplementary information)		
2016	2015	2016	2015	2016	2015	
						ASSETS
405	424	1	1	–	–	Intangible assets
29	30	–	–	–	–	Property, plant and equipment
45,134	41,148	–	–	–7,345	–6,183	Leased products
–	–	–	–	–	–	Investments accounted for using the equity method
3	2	6,585	5,966	–11,223	–10,687	Other investments
48,032	41,865	–	–	–	–	Receivables from sales financing
221	236	1,780	1,985	–583	–599	Financial assets
389	222	263	205	–2,635	–2,596	Deferred tax
3,093	2,469	27,120	22,268	–32,689	–27,129	Other assets
97,306	**86,396**	**35,749**	**30,425**	**–54,475**	**–47,194**	**Non-current assets**
5	7	–	–	–	–	Inventories
178	158	1	1	–	–	Trade receivables
30,228	28,178	–	–	–	–	Receivables from sales financing
1,504	1,354	1,329	1,121	–630	–699	Financial assets
44	37	894	1,104	–	–	Current tax
5,417	4,540	44,782	45,379	–66,675	–65,133	Other assets
3,046	1,359	40	811	–	–	Cash and cash equivalents
40,422	**35,633**	**47,046**	**48,416**	**–67,305**	**–65,832**	**Current assets**
137,728	**122,029**	**82,795**	**78,841**	**–121,780**	**–113,026**	**Total assets**
						EQUITY AND LIABILITIES
						Subscribed capital
						Capital reserves
						Revenue reserves
						Accumulated other equity
						Equity attributable to shareholders of BMW AG
						Minority interest
11,049	**9,948**	**16,744**	**15,225**	**–17,054**	**–15,869**	**Equity**
77	55	1,516	1,130	–	–	Pension provisions
353	313	13	31	–	–	Other provisions
6,755	6,158	48	28	–4,748	–4,499	Deferred tax
17,718	16,030	36,328	31,471	–583	–599	Financial liabilities
29,413	23,613	601	835	–31,629	–25,835	Other liabilities
54,316	**46,169**	**38,506**	**33,495**	**–36,960**	**–30,933**	**Non-current provisions and liabilities**
599	518	3	8	–	–	Other provisions
255	223	49	408	–	–	Current tax
27,368	23,038	14,107	16,610	–630	–699	Financial liabilities
702	630	24	24	–	–	Trade payables
43,439	41,503	13,362	13,071	–67,136	–65,525	Other liabilities
72,363	**65,912**	**27,545**	**30,121**	**–67,766**	**–66,224**	**Current provisions and liabilities**
137,728	**122,029**	**82,795**	**78,841**	**–121,780**	**–113,026**	**Total equity and liabilities**

BMW GROUP
CASH FLOW STATEMENTS FOR GROUP AND SEGMENTS

	Group	
in € million	2016	2015
Net profit	6,910	6,396
Reconciliation between net profit and cash inflow / outflow from operating activities		
Current tax	2,670	2,751
Other interest and similar income / expenses	131	239
Depreciation and amortisation of other tangible, intangible and investment assets	4,998	4,686
Change in provisions	883	296
Change in leased products	– 2,526	– 3,299
Change in receivables from sales financing	– 8,368	– 6,637
Change in deferred taxes	85	77
Other non-cash income and expense items	–15	47
Gain / loss on disposal of tangible and intangible assets and marketable securities	– 4	–144
Result from equity accounted investments	– 441	– 518
Changes in working capital	–104	– 293
Change in inventories	– 749	298
Change in trade receivables	– 93	– 566
Change in trade payables	738	– 25
Change in other operating assets and liabilities	1,229	550
Income taxes paid	– 2,417	– 3,323
Interest received	142	132
Cash inflow / outflow from operating activities	**3,173**	**960**
Investment in intangible assets and property, plant and equipment	– 5,823	– 5,889
Proceeds from the disposal of intangible assets and property, plant and equipment	10	38
Expenditure for investments	– 338	– 746
Proceeds from the disposal of investments	140	215
Investments in marketable securities and investment funds	– 3,592	– 6,880
Proceeds from the sale of marketable securities and investment funds	3,740	5,659
Cash inflow / outflow from investing activities	**– 5,863**	**– 7,603**
Issue / buy-back of treasury shares	–	–
Payments into equity	20	23
Payment of dividend for the previous year	– 2,121	–1,917
Intragroup financing and equity transactions	–	–
Interest paid	–118	– 264
Proceeds from the issue of bonds	13,974	13,007
Repayment of bonds	–10,374	– 8,908
Proceeds from new non-current other financial liabilities	8,952	9,715
Repayment of non-current other financial liabilities	– 8,443	– 8,802
Change in current other financial liabilities	4,135	2,648
Change in commercial paper	–1,632	– 498
Cash inflow / outflow from financing activities	**4,393**	**5,004**
Effect of exchange rate on cash and cash equivalents	**17**	**73**
Effect of changes in composition of Group on cash and cash equivalents	**38**	**–**
Change in cash and cash equivalents	**1,758**	**–1,566**
Cash and cash equivalents as at 1 January	6,122	7,688
Cash and cash equivalents as at 31 December	**7,880**	**6,122**

[1] Interest relating to financial services business is classified as revenues / cost of sales.

Automotive (unaudited supplementary information)		Financial Services (unaudited supplementary information)		
2016	2015	2016	2015	
5,441	5,147	1,777	1,447	Net profit
				Reconciliation between net profit and cash inflow / outflow from operating activities
2,787	2,893	–117	–125	Current tax
283	302	12[1]	1[1]	Other interest and similar income / expenses
4,876	4,577	29	31	Depreciation and amortisation of other tangible, intangible and investment assets
970	128	139	172	Change in provisions
–	3	–3,532	–4,026	Change in leased products
–	–	–8,368	–6,637	Change in receivables from sales financing
–187	–369	275	579	Change in deferred taxes
11	316	11	5	Other non-cash income and expense items
–3	–138	–1	–5	Gain / loss on disposal of tangible and intangible assets and marketable securities
–441	–518	–	–	Result from equity accounted investments
–172	–337	50	46	Changes in working capital
–758	367	2	1	Change in inventories
–43	–541	–12	–15	Change in trade receivables
629	–163	60	60	Change in trade payables
–246	2,295	–283	–1,706	Change in other operating assets and liabilities
–1,997	–2,595	164	–133	Income taxes paid
142	132	–[1]	–[1]	Interest received
11,464	**11,836**	**–9,844**	**–10,351**	**Cash inflow / outflow from operating activities**
–5,699	–5,791	–10	–6	Investment in intangible assets and property, plant and equipment
9	38	–	–	Proceeds from the disposal of intangible assets and property, plant and equipment
–122	–823	–	–	Expenditure for investments
140	144	–	–	Proceeds from the disposal of investments
–3,196	–6,498	–396	–387	Investments in marketable securities and investment funds
3,436	5,406	304	253	Proceeds from the sale of marketable securities and investment funds
–5,432	**–7,524**	**–102**	**–140**	**Cash inflow / outflow from investing activities**
–	–	–	–	Issue / buy-back of treasury shares
20	23	–	–	Payments into equity
–2,121	–1,917	–	–	Payment of dividend for the previous year
–1,833	–2,840	6,191	5,913	Intragroup financing and equity transactions
–118	–264	–[1]	–[1]	Interest paid
–	–	870	429	Proceeds from the issue of bonds
–	–	–1,160	–773	Repayment of bonds
67	108	8,295	8,787	Proceeds from new non-current other financial liabilities
–520	–521	–7,215	–7,671	Repayment of non-current other financial liabilities
–720	–719	4,425	3,343	Change in current other financial liabilities
–	–	195	–	Change in commercial paper
–5,225	**–6,130**	**11,601**	**10,028**	**Cash inflow / outflow from financing activities**
10	**18**	**21**	**39**	**Effect of exchange rate on cash and cash equivalents**
25	**–**	**11**	**–**	**Effect of changes in composition of Group on cash and cash equivalents**
842	**–1,800**	**1,687**	**–424**	**Change in cash and cash equivalents**
3,952	5,752	1,359	1,783	Cash and cash equivalents as at 1 January
4,794	**3,952**	**3,046**	**1,359**	**Cash and cash equivalents as at 31 December**

BMW GROUP GROUP STATEMENT OF CHANGES IN EQUITY

in € million	Note	Subscribed capital	Capital reserves	Revenue
1 January 2016	29	**657**	**2,027**	**41,027**
Dividends paid		–	–	–2,102
Net profit		–	–	6,863
Other comprehensive income for the period after tax		–	–	–1,329
Comprehensive income 31 December 2016		**–**	**–**	**5,534**
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**

in € million	Note	Subscribed capital	Capital reserves	Revenue
1 January 2015	29	**656**	**2,005**	**35,621**
Dividends paid		–	–	–1,904
Net profit		–	–	6,369
Other comprehensive income for the period after tax		–	–	1,012
Comprehensive income 31 December 2015		**–**	**–**	**7,381**
Subscribed share capital increase out of Authorised Capital		1	–	–
Premium arising on capital increase relating to preferred stock		–	22	–
Other changes		–	–	–71
31 December 2015	29	**657**	**2,027**	**41,027**

	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**
	–	–	–	–2,102	–	**–2,102**	Dividends paid
	–	–	–	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**
	–	–	–	–	–	**–**	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**

	Accumulated other equity						
	Currency translation differences	Securities	Derivative financial instruments	Equity attributable to shareholders of BMW AG	Minority interest	Total	
	–723	**141**	**–480**	**37,220**	**217**	**37,437**	**1 January 2015**
	–	–	–	–1,904	–	**–1,904**	Dividends paid
	–	–	–	6,369	27	**6,396**	Net profit
	855	–117	–857	893	–	**893**	Other comprehensive income for the period after tax
	855	**–117**	**–857**	**7,262**	**27**	**7,289**	**Comprehensive income 31 December 2015**
	–	–	–	1	–	**1**	Subscribed share capital increase out of Authorised Capital
	–	–	–	22	–	**22**	Premium arising on capital increase relating to preferred stock
	–	–	–	–71	–10	**–81**	Other changes
	132	**24**	**–1,337**	**42,530**	**234**	**42,764**	**31 December 2015**

BMW GROUP NOTES TO THE GROUP FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES AND POLICIES

01 Basis of preparation

The consolidated financial statements of Bayerische Motoren Werke Aktiengesellschaft (BMW AG Group Financial Statements or Group Financial Statements) at 31 December 2016 have been drawn up in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Union (EU), and the supplementary requirements of § 315a (1) of the German Commercial Code (HGB). The Group Financial Statements 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 net assets, financial position and performance of the BMW Group, and going beyond the requirements of IFRS 8 (Operating Segments), the Group Financial Statements also include balance sheets and income statements 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 BMW Group's business and operating activities of segments is provided in → note 44 ("Explanatory notes to segment information").

→ see note 44

The Board of Management authorised the Group Financial Statements for issue on 14 February 2017.

02 Group reporting entity and consolidation principles

The BMW Group Financial Statements include BMW AG, all material subsidiaries including one special purpose securities fund and 40 structured entities, over which BMW AG – either directly or indirectly – exercises control. The structured entities are used exclusively in conjunction with the BMW Group's asset-backed financing arrangements.

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 all relevant contractual arrangements and other circumstances, and not just the structure and legal form of the entity. The ultimate classification may require the use of judgement. A new assessment is made whenever there is an indication of a change in the previous assessment regarding (joint) control.

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 its involvement with the entity and has the ability to influence those returns through its power over the entity.

An entity is classified as an associated company if BMW AG – either directly or indirectly – has the ability to exert significant influence over the entity's operating and financial policies. As a general rule, there is a rebuttable assumption that the Group has significant influence if it holds between 20 % and 50 % of the associated company'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 on the basis of a contractual agreement with a third party.

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, Wiesbaden, companies of the BMW Group are party to three joint operations that manufacture carbon fibres and carbon fibre cores used in vehicle production.

The BMW Group is also collaborating with Toyota Motor Corporation, Toyota City, to develop a sports car. This collaboration 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.

As a general rule, 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 2016:

	Germany	Foreign	Total
Included at 31 December 2015	21	157	**178**
Included for the first time in 2016	–	28	**28**
No longer included in 2016	–	7	**7**
Included at 31 December 2016	**21**	**178**	**199**

03
Foreign currency translation

The financial statements of consolidated companies which are drawn up 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”.

Foreign currency receivables and payables in the single entity accounts of BMW AG and subsidiaries 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 the subsequent realised gains and losses arising on settlement, are recognised in the income statement in accordance with the underlying substance of the relevant transactions.

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

	Closing rate		Average rate	
	31.12.2016	31.12.2015	2016	2015
US Dollar	1.06	1.09	1.11	1.11
British Pound	0.85	0.74	0.82	0.73
Chinese Renminbi	7.34	7.07	7.35	6.97
Japanese Yen	123.34	130.74	120.25	134.28
Korean Won	1,274.34	1,278.92	1,283.86	1,255.38

04
Accounting policies; assumptions, judgements and estimations

Revenues from the sale of products are recognised when the risks and rewards of ownership of the goods 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 contracts), are not immediately recognised. 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 periods necessary to match them with the related costs 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 interests, 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 and/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 and engine 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 probable that the development expenditure will generate future economic benefits. Capitalised development costs are amortised systematically over the estimated product life (usually four to eleven years) following the start of production.

Goodwill arises on first-time consolidation of an acquired business when the cost of acquisition exceeds the Group's share of the fair value of the individually identifiable assets acquired and liabilities and contingent liabilities assumed.

If there is any indication of **impairment of intangible assets**, or if an annual impairment test is required to be carried out (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 cannot be distinguished to a large degree 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 purposes 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 costs to sell.

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, capped at the level of rolled-forward amortised cost. Impairment losses on goodwill are not reversed.

As part of the process of assessing 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 BMW Group's expectations.

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

Cash flows of the Automotive and Motorcycles cash-generating units are discounted using a risk-adjusted pre-tax cost of capital (WACC). In the case of the Financial Services cash-generating unit, a sector-compatible pre-tax cost of equity capital is used. Calculations were based on the following discount factors:

in %	2016	2015
Automotive	12.0	12.0
Motorcycles	12.0	12.0
Financial Services	13.4	13.4

The risk-adjusted interest rates, calculated using a CAPM model, also take 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 conceivable changes to the assumptions used to determine the recoverable amount would result in the requirement to recognise an impairment loss.

All 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. As a general rule, borrowing 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 recording 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 uniform 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.

The use of judgement is required when the BMW Group enters into **lease arrangements**, in particular when assessing the transfer of economic ownership of a leased item.

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

Where Group products are recognised by BMW Group entities as **leased products** under operating leases, they are measured at manufacturing cost, plus 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. Changes in residual value expectations are recognised – in situations where the recoverable amount of the lease exceeds the asset's carrying amount – 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 these cases, the carrying amount of the asset is increased to the recoverable amount, at a maximum up to the amount of the asset's amortised cost. Assumptions need to be made regarding future residual values, given that they represent a significant portion of future cash inflows. In this context, internally available historical data, current market data and forecasts of external institutions are taken into account. The assumptions applied are regularly validated by comparison with external data.

Investments accounted for using the equity method are (except when the investment is impaired) measured at the Group's share of equity, taking account of fair value adjustments on acquisition.

Investments in **non-consolidated subsidiaries**, non-consolidated joint operations and interests in associated companies, joint ventures and participations not accounted for using the equity method, are reported as **other investments**, measured at their fair value. If this value is not available or cannot be determined reliably, they are measured at cost.

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 in the fair value 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. The related gains and losses are presented in the income statement line item "Other financial result". Related interest income and expenses are presented in the 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 computed using market information available at the balance sheet date, on the basis of prices quoted by the contract partners or using appropriate measurement methods, e.g. discounted cash flow models.

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.

An assessment is made on a regular basis whether there is any objective evidence that a financial asset or group of assets may be 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 length of time and the scale of the decline in value. In the case of equity capital instruments that are listed on a stock market, it is assumed that an item is impaired if its fair value falls significantly (more than 20 %) or on a prolonged basis (more than 5 % over nine months) below acquisition cost.

Receivables from sales financing are measured at amortised cost using the effective interest rate method. 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, current market data (such as the level of arrears), rating classes and scoring information. Specific allowances are recognised if there is objective evidence of impairment. In the retail customer credit financing and leasing lines of business, the existence of overdue balances or the incidence of similar events in the past are examples of such objective evidence. In the event of overdue receivables, allowances are always recognised individually based on the length of period of the arrears. In the case of dealership financing receivables, the allocation of the dealership to a corresponding rating category is also deemed to represent objective evidence of impairment. If there is no objective evidence of impairment, 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 impairment losses on receivables relating to the industrial side of the business is also, as far as possible, based on the same procedures applied to financial services business. The impairment losses 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, as a consequence of which there is a risk that the amounts calculated 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 to the model used to calculate fair values also takes account of tenor and currency basis spreads.

In addition, the Group's own default 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 its net exposure. Portfolio-based value adjustments to the individual financial assets and financial liabilities are allocated using the relative fair value approach (net method).

In those cases 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 subsequently in the income statement when the hedged item (usually external revenue) is recognised in the income statement. If, contrary to the normal case 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 immediately 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. Deferred tax assets also include claims to future tax reductions which arise from the expected usage of existing tax losses available for carryforward to the extent that future usage is probable. 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 some extent cannot be influenced by the BMW Group, the measurement of deferred tax assets is subject to uncertainty.

Current income taxes are computed throughout the BMW Group in accordance with tax legislation applicable in each relevant country. In situations where judgement was necessary to determine the amount of a tax exposure to be recognised in the financial statements, there is always a possibility that local tax authorities may reach a different conclusion.

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. Borrowing costs are not included in the acquisition or manufacturing cost of inventories.

Cash and cash equivalents, comprising mainly cash on hand and cash at bank with an original term of up to three months, are measured at fair 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 situation only arises if 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 scheduled depreciation/amortisation ceases. This does not apply, however, to items within the disposal group which are not covered by the measurement rules contained in IFRS 5. Simultaneously, 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 and similar obligations 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 an independent actuarial valuation which takes into account all relevant biometric factors.

In the case of externally 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. If the plan is externally funded, a liability is recognised under pension provisions where the obligation exceeds fund assets.

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

Net interest expense on the net obligation and/or net interest income on the net fund assets of defined benefit plans 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 where 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.

Remeasurements of the net liability arise from changes in the present value of the defined benefit obligation, the fair value of the plan assets or the asset ceiling. Reasons for remeasurements include changes in financial and demographic assumptions as well as changes in the detailed composition of beneficiaries. 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 obligation (legal or constructive) arising from past events, the settlement of which is probable and when a reliable estimate can be made of the amount of the obligation. Provisions with a remaining period 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 statutorily prescribed manufacturer warranties, the BMW Group also offers various categories of guarantee depending on the product and sales market concerned. 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. In order to determine the level of the provision, various factors are taken into consideration, including estimations based on past experience with the nature and amount of claims. The future level of potential repair costs and price increases per product and market are also taken into account. Provisions for warranties are adjusted regularly to take account of new circumstances and the impact of any changes recognised in the income statement. Specific and expected warranty items, such as vehicle recall actions, are also included. Similar estimates are also made in conjunction with the measurement of expected reimbursement claims, which, if recognised, are presented as separate assets.

The recognition and measurements of provisions for **litigation and liability risks** necessitates making assumptions regarding the probability of occurrence, the amount involved and the duration of the legal dispute. These assumptions, especially the assumption about the outcome of legal proceedings, are subject to a high degree of uncertainty.

If the recognition and measurement criteria relevant for provisions are not fulfilled and the outflow of resources to settle the matter is not probable, 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 for financial liabilities allocated to the category "financial liabilities 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 related individuals or entities which control the BMW Group or which are controlled by the BMW Group, unless such parties are already included in the Group Financial Statements of BMW AG as consolidated companies. Control is defined as ownership of more than one half of the voting power of BMW AG or the power to direct, by statute or agreement, the financial and operating policies of the management of the Group. In addition, the disclosure requirements also cover transactions with associated companies, joint ventures and individuals that have the ability to exercise significant influence over the financial and operating policies of the BMW Group. This also includes close relatives and intermediary entities. Significant influence over the financial and operating policies of the BMW Group is presumed when a party holds 20 % or more of the voting power of BMW AG. In addition, the requirements contained in IAS 24 relating to key management personnel and close members of their families or intermediary entities are also applied. In the case of the BMW Group, this applies to members of the Board of Management and the Supervisory Board. Non-consolidated subsidiaries, joint ventures and associated companies also qualify as related parties. Details relating to these entities are provided in the list of investments in → note 45.

→ see note 45

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 in the income statement (as personnel expense) over the vesting period, with a contra (credit) entry recorded 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 for such programmes is recognised in the income statement (as personnel expense) over the vesting period of the programmes and presented in the balance sheet as a provision.

The share-based remuneration programmes 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. Following 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 and applied for the first time in the financial year 2016:

Standard / Interpretation		Date of issue by IASB	Date of mandatory application IASB	Date of mandatory application EU
IAS 1	Presentation of Financial Statements (Initiative to Improve Disclosure Requirements – Amendments to IAS 1)	18.12.2014	1.1.2016	1.1.2016

The Amendments to **IAS 1 (Presentation of Financial Statements)** relate primarily to clarifications concerning the presentation of, and disclosures in, financial statements. The amendments emphasise the principle that it is only necessary to disclosure information if it is material for users of the financial statements, even in cases where specific disclosures in an IFRS are explicitly defined as minimum requirements.

In this context, the BMW Group has examined the contents of the Notes to the Group Financial Statements and the Combined Management Report and applied the principle of materiality in the Group Financial Statements for the year ended 31 December 2016, mainly by revising the presentation and eliminating redundancies.

(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	No

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 and its contractual cash flow characteristics ("Solely Payments of Principal and Interest" (SPPI) criterion). IFRS 9 also gives rise to a new model for determining impairment based on expected credit losses. Furthermore, the requirements for hedge accounting were revised with the aim of bringing the accounting treatment more into line with the reporting entity's risk management activities.

The impact of adoption of IFRS 9 on the Group Financial Statements is currently being investigated. Based on analyses to date, the accounting treatment for specific financial assets that do not comply with the stipulated cash flow criteria may have to be changed, by reclassifying them from the "measured at amortised cost" category to the "measured at fair value" category. Based on the current assessment, the change would only affect a limited volume of assets, with the consequence that the impact on measurement is not expected to be material.

Implementation of the new impairment model requires substantial modifications to existing processes and systems, especially for the Financial Services segment. These modifications have been stipulated centrally and implemented to a large extent at subsidiary level. The overall impact cannot be quantified reliably as yet, however, given that the procedures for providing data by the subsidiaries still requires validation and some of the major implementation aspects of the new standard – in particular the transfer criterion for impairment levels – are not expected to be definitively established until a later stage in the financial year 2017. Based on preliminary findings, significant changes to impairment amounts are not expected.

As far as the accounting for hedging relationships is concerned, analyses to date indicate that it will be possible to account for the majority of commodity hedging contracts using hedge accounting rules. 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. This approach to accounting for hedging relationships could significantly reduce the volatility in the amounts reported for financial result and Group earnings. The presentation of the cost of hedging in the income statement has not yet been definitively clarified. It is therefore possible that shifts could arise between the line items "Profit before financial result" and "Financial result".

IFRS 9 contains a requirement that it should be applied retrospectively for classification and measurement, whereas the new rules for hedge accounting are generally required to be applied prospectively. The BMW Group intends to apply the exception granted by the Standard not to restate comparatives for earlier periods for classification and measurement (including impairment).

The objective of the new Standard **IFRS 15 (Revenue from Contracts with Customers)** is to assimilate all the various 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 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.

Accounting for buyback arrangements and rights of return for vehicles sold, but which the Financial Services segment will subsequently lease to customers, will result in the earlier recognition of eliminations. The adoption of IFRS 15 will result in a one-time reduction in equity, which will be recognised retrospectively as of the date of the beginning of the first accounting period presented on the basis of the new requirements. The actual impact of adopting the new Standard will depend on the level of inventories of vehicles held by dealerships, the expected number of leases to be concluded and the amount of inter-segment profits requiring to be eliminated at the date of first-time adoption. Based on analyses to date and the assumptions applied, it is estimated that equity at 31 December 2016 will be reduced by €650 million. The impact in the period following first-time adoption and in subsequent periods is not expected to be significant.

In the case of multi-component contracts with variable consideration components, changes in the allocation of transaction prices will result in higher amounts being recognised for vehicle sales and a lower level of amounts deferred for service contracts. However, the shift in the timing of revenue recognition is not expected to have a significant impact at the date of first-time adoption or in subsequent periods.

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.

The BMW Group intends to apply the new Standard entirely retrospectively at the adoption date.

The new Standard **IFRS 16 (Leases)** stipulates a completely new approach to accounting for leases by lessees. Whereas 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 will be required to be accounted for as a general rule by the lessee in a similar way to finance leases. Recognition exemptions are available for short-term leases and for leasing assets with a low value.

The accounting requirements for lessors, particularly in relation to the requirement to classify leases, will remain largely unchanged.

Given that the BMW Group is still in a very early phase of considering the implications of introducing IFRS 16, the impact of the Standard on the Group Financial Statements from a lessee and lessor perspective cannot be wholly foreseen at present. Similarly, the transition method to be used on first-time adoption of the Standard has not yet been stipulated.

Early adoption of all of the new IFRS requirements is permitted. Currently, the BMW Group does not intend to adopt any of the new requirements early.

NOTES TO THE INCOME STATEMENT

06
Revenues

Revenues by activity comprise the following:

in € million	2016	2015
Sales of products and related goods	68,681	68,643
Income from lease instalments	9,507	8,965
Sales of products previously leased to customers	9,258	8,181
Interest income on loan financing	3,455	3,253
Other income	3,262	3,133
Revenues	**94,163**	**92,175**

An analysis of revenues by segment and region is shown in the segment information in → note 44.

→ see note 44

07
Cost of sales

Cost of sales comprises:

in € million	2016	2015
Manufacturing costs	43,175	43,685
Cost of sales relating to financial services business	20,723	19,449
thereof: Interest expense relating to financial services business	1,638	1,495
Research and development expenses	4,294	4,271
Warranty expenditure	2,165	1,891
Service contracts	1,435	1,325
Telematics and roadside assistance	583	446
Other cost of sales	3,067	2,976
Cost of sales	**75,442**	**74,043**

Warranty expenses include the accrued expense for vehicle recall actions, the cost of which is expected to exceed amounts previously recognised. Accordingly, a further amount of €678 million was allocated to the warranty provision for various issues, including airbags supplied by the Takata group of companies, the ISOFIX attachment system used for child car seats, and costs relating to the provision of the network service for telematics (2G).

Cost of sales is reduced by public-sector subsidies in the form of reduced taxes on assets and reduced consumption-based taxes amounting to €69 million (2015: €71 million).

Research and development expenditure was as follows:

in € million	2016	2015
Research and development expenses	4,294	4,271
Amortisation	–1,222	–1,166
New expenditure for capitalised development costs	2,092	2,064
Total research and development expenditure	**5,164**	**5,169**

08
Selling and administrative expenses

Selling expenses amounted to €6,030 million (2015: €5,758 million) and comprise mainly marketing, advertising and sales personnel costs.

Administrative expenses amounted to €3,128 million (2015: €2,875 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	2016	2015
Exchange gains	262	323
Income from the reversal of provisions	115	172
Income from the reversal of impairment losses and write-downs	51	27
Gains on the disposal of assets	46	173
Sundry operating income	196	219
Other operating income	**670**	**914**
Exchange losses	–249	–311
Expense for additions to provisions	–303	–192
Expense for impairment losses and write-downs	–28	–76
Sundry operating expenses	–267	–241
Other operating expenses	**–847**	**–820**
Other operating income and expenses	**–177**	**94**

Income from the reversal of impairment losses and expenses for the recognition of impairment losses relate primarily to impairment allowances on receivables.

10
Net interest result

in € million	2016	2015
Other interest and similar income	196	185
thereof from subsidiaries:	12	19
Interest and similar income	**196**	**185**
Expense relating to interest impact on other long-term provisions	–84	–72
Net interest expense on the net defined benefit liability for pension plans	–78	–123
Other interest and similar expenses	–327	–423
thereof to subsidiaries:	–4	–5
Interest and similar expenses	**–489**	**–618**
Net interest result	**–293**	**–433**

11
Other financial result

in € million	2016	2015
Income from investments in subsidiaries and participations	13	1
thereof from subsidiaries:	13	–
Impairment losses on investments in subsidiaries and participations	–192	–25
Result on investments	**–179**	**–24**
Income (+) and expenses (-) from financial instruments	310	–430
Sundry other financial result	**310**	**–430**
Other financial result	**131**	**–454**

12
Income taxes

Taxes on income comprise the following:

in € million	2016	2015
Current tax expense	2,670	2,751
Deferred tax expense	85	77
thereof relating to temporary differences	80	52
thereof relating to tax loss carryforwards and tax credits	5	25
Income taxes	**2,755**	**2,828**

Current tax expense includes tax income of €174 million (2015: tax expenses of €164 million) relating to prior periods.

The tax expense was reduced by €49 million (2015*: €41 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.

*Previous year's figures adjusted.

The change in the valuation allowance on deferred tax assets relating to tax losses available for carryforward and temporary differences resulted in a tax expense of €38 million (2015*: €82 million).

Deferred taxes are computed using enacted or planned tax rates which are 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 % (2015: 425.0 %), the underlying income tax rate for Germany was as follows:

in %	2016	2015
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, ranging in the financial year 2016 between 12.5 % and 45.0 % (2015: between 12.5 % and 46.9 %). Changes in tax rates resulted in a deferred tax expense of €70 million (2015: €36 million).

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	2016	2015
Profit before tax	9,665	9,224
Tax rate applicable in Germany	30.7 %	30.7 %
Expected tax expense	**2,967**	**2,832**
Variances due to different tax rates	–119	–119
Tax increases (+) / tax reductions (–) as a result of non-deductible expenses and tax-exempt income	78	42
Tax expense (+) / benefits (–) for prior years	–174	164
Other variances	3	–91
Actual tax expense	**2,755**	**2,828**
Effective tax rate	28.5 %	30.7 %

Tax increases as a result of non-deductible expenses and tax reductions due to tax-exempt income increased compared to one year earlier. As in the previous year, tax increases as a result of non-tax-deductible expenses were attributable primarily 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.

The line "Other variances" comprises various reconciling items, including the Group's share of taxes on the 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	2016	2015	2016	2015
Intangible assets	13	10	2,234	1,977
Property, plant and equipment	26	20	305	376
Leased products	467	367	6,987	6,260
Other investments	3	5	17	11
Sundry other assets	1,448	1,363	2,861	2,109
Tax loss carryforwards and capital losses	536	548	–	–
Provisions	4,966	4,187	184	178
Liabilities	2,760	2,654	298	478
Eliminations	3,481	3,281	797	715
	13,700	12,435	13,683	12,104
Valuation allowances on tax loss carryforwards and capital losses	–485	–502	–	–
Netting	–10,888	–9,988	–10,888	–9,988
Deferred taxes	**2,327**	**1,945**	**2,795**	**2,116**
Net	–	–	468	171

Tax loss carryforwards – for the most part usable without restriction – amounted to €637 million (2015: €468 million). This includes an amount of €464 million (2015: €345 million), for which a valuation allowance of €158 million (2015: €100 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 2016 amounting to €90 million (2015: €104 million). Deferred tax assets are recognised on the basis of management's assessment of whether it is probable that the relevant entities will generate sufficient 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 €1,926 million (2015: €2,234 million) due to currency factors. As in previous years, deferred tax assets recognised on these tax losses – amounting to €327 million at the end of the reporting period (2015: €402 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 €1,812 million (2015: €2,004 million).

Changes in deferred tax assets and liabilities during the reporting period can be summarised as follows:

in € million	2016	2015
Deferred taxes at 1 January (assets (–) / liabilities (+))	171	–87
Deferred tax expense (+) / income (–) recognised through income statement	85	77
Change in deferred taxes recognised directly in equity	163	–72
thereof relating to fair value gains and losses on financial instruments and marketable securities recognised directly in equity	724	–520
thereof relating to the remeasurements of net liabilities for defined benefit pension plans	–561	448
Exchange rate impact and other changes	49	253
Deferred taxes at 31 December (assets (–) / liabilities (+))	**468**	**171**

Deferred taxes recognised directly in equity in the financial year 2016 decreased by an additional €29 million (2015: increased by €43 million) on currency translation.

Deferred taxes are not recognised on retained profits of €38.7 billion (2015: €33.7 billion) of foreign subsidiaries, as it is intended to invest these profits to maintain and expand the business volume of the relevant companies. A computation was not made of the potential impact of income taxes on the grounds of disproportionate expense.

The tax returns of BMW Group entities are checked regularly by German and foreign tax authorities. Taking account of a variety of factors – including existing interpretations, commentaries and legal decisions taken relating to the various tax jurisdictions and the BMW Group's past experience – adequate provision has, to the extent identifiable and probable, been made for potential future tax obligations.

13
Earnings per share

		2016	2015
Net profit for the year after minority interest	€ million	6,862.9	6,369.4
Profit attributable to common stock	€ million	6,289.2	5,839.6
Profit attributable to preferred stock	€ million	573.7	529.8
Average number of common stock shares in circulation	number	601,995,196	601,995,196
Average number of preferred stock shares in circulation	number	54,809,375	54,499,460
Basic earnings per share of common stock	€	10.45	9.70
Basic earnings per share of preferred stock	€	10.47	9.72
Dividend per share of common stock	€	3.50*	3.20
Dividend per share of preferred stock	€	3.52*	3.22

* Proposal by management.

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. 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	2016	2015
Wages and salaries	9,581	8,887
Pension and welfare expenses	1,152	1,250
Social insurance expenses	802	733
Personnel expenses	**11,535**	**10,870**

Personnel expenses include €61 million (2015: €48 million) of costs incurred to adjust the workforce size. The total pension expense for defined contribution plans of the BMW Group amounted to €90 million (2015: €71 million). Employer contributions paid to state pension insurance schemes totalled €607 million (2015: €571 million).

The average number of employees during the year was:

	2016	2015
Employees	115,842	111,905
thereof at proportionately-consolidated entities	204	214
Apprentices and students gaining work experience	7,913	7,783
thereof at proportionately-consolidated entities	1	2
Average number of employees	**123,755**	**119,688**

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 2016 for the Group auditor and its network of audit firms amounted to €23 million (2015: €23 million) and consists of the following:

in € million	2016	2015
Audit of financial statements	**15**	**15**
thereof KPMG AG Wirtschafts-prüfungsgesellschaft, Berlin	4	4
Other attestation services	**5**	**4**
thereof KPMG AG Wirtschafts-prüfungsgesellschaft, Berlin	4	2
Tax advisory services	**2**	**3**
thereof KPMG AG Wirtschafts-prüfungsgesellschaft, Berlin	–	–
Other services	**1**	**1**
thereof KPMG AG Wirtschafts-prüfungsgesellschaft, Berlin	–	1
Fee expense	**23**	**23**
thereof KPMG AG Wirtschafts-prüfungsgesellschaft, Berlin	8	7

The fee expense shown for KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, relates only to services provided on behalf of BMW AG and its German subsidiaries.

16
Government grants and government assistance

Income from asset-related and performance-related grants, amounting to €31 million (2015: €33 million) and €126 million (2015: €132 million) respectively, were recognised in the income statement in 2016.

A large part of these amounts relate to public sector grants for the promotion of regional structures and to subsidies received for plant expansions.

NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

17
Disclosures relating to the statement of total comprehensive income

Other comprehensive income for the period after tax comprises the following:

in € million	2016	2015
Remeasurement of the net defined benefit liability for pension plans	–1,858	1,413
Deferred taxes	529	–401
Items not expected to be reclassified to the income statement in the future	**–1,329**	**1,012**
Available-for-sale securities	**40**	**–170**
thereof gains / losses arising in the period under report	79	–26
thereof reclassifications to the income statement	–39	–144
Financial instruments used for hedging purposes	**2,008**	**–1,301**
thereof gains / losses arising in the period under report	1,458	–2,619
thereof reclassifications to the income statement	550	1,318
Other comprehensive income from equity accounted investments	**43**	**71**
Deferred taxes	**–721**	**516**
Currency translation foreign operations	**–230**	**765**
Items expected to be reclassified to the income statement in the future	**1,140**	**–119**
Other comprehensive income for the period after tax	**–189**	**893**

Deferred taxes on components of other comprehensive income are as follows:

	2016			2015		
in € million	Before tax	Deferred taxes	After tax	Before tax	Deferred taxes	After tax
Remeasurement of the net defined benefit liability for pension plans	–1,858	529	–1,329	1,413	–401	1,012
Available-for-sale securities	40	–12	28	–170	53	–117
Financial instruments used for hedging purposes	2,008	–680	1,328	–1,301	459	–842
Other comprehensive income from equity accounted investments	43	–29	14	71	4	75
Currency translation foreign operations	–230	–	–230	765	–	765
Other comprehensive income	**3**	**–192**	**–189**	**778**	**115**	**893**

Other comprehensive income arising at the level of equity accounted investments is reported in the Statement of Changes in Equity within "Currency translation foreign operations" with a negative amount of €73 million (2015: positive amount of €90 million) and within "Financial instruments used for hedging purposes" with a positive amount of €87 million (2015: negative amount of €15 million).

NOTES TO THE BALANCE SHEET

18
Analysis of changes in Group tangible, intangible and investment assets 2016

	Acquisition and manufacturing cost					
in € million	1.1.2016[1]	Translation differences	Additions	Reclassi-fications	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.

Analysis of changes in Group tangible, intangible and investment assets 2015

	Acquisition and manufacturing cost					
in € million	1.1.2015[1]	Translation differences	Additions	Reclassi-fications	Disposals	31.12.2015
Development costs	9,341	–	2,064	–	883	**10,522**
Goodwill	369	–	–	–	–	**369**
Other intangible assets	1,445	15	146	–	152	**1,454**
Intangible assets	**11,155**	**15**	**2,210**	**–**	**1,035**	**12,345**
Land, titles to land, buildings, including buildings on third party land	9,806	164	240	295	75	**10,430**
Plant and machinery	32,770	551	1,954	1,362	1,168	**35,469**
Other facilities, factory and office equipment	2,517	47	218	34	215	**2,601**
Advance payments made and construction in progress	2,020	4	1,268	–1,691	4	**1,597**
Property, plant and equipment	**47,113**	**766**	**3,680**	**–**	**1,462**	**50,097**
Leased products	**36,969**	**1,738**	**18,011**	**–**	**14,452**	**42,266**
Investments accounted for using the equity method	**1,088**	**–**	**1,293**	**–**	**148**	**2,233**
Investments in non-consolidated subsidiaries	226	3	68	–	64	**233**
Participations	641	–	15	–	–	**656**
Non-current marketable securities	–	–	28	–	–	**28**
Other investments	**867**	**3**	**111**	**–**	**64**	**917**

[1] Including mergers.
[2] Including assets under construction of €1,187 million.

Depreciation and amortisation						Carrying amount		
1.1.2016[1]	Translation differences	Current year	Reclassi-fications	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**

Depreciation and amortisation						Carrying amount		
1.1.2015[1]	Translation differences	Current year	Reclassi-fications	Disposals	31.12.2015	31.12.2015	31.12.2014	
3,888	–	1,166	–	883	**4,171**	**6,351**	5,453	Development costs
5	–	–	–	–	**5**	**364**	364	Goodwill
763	11	175	–	152	**797**	**657**	682	Other intangible assets
4,656	**11**	**1,341**	**–**	**1,035**	**4,973**	**7,372**	**6,499**	**Intangible assets**
4,181	77	319	–	62	**4,515**	**5,915**	5,625	Land, titles to land, buildings, including buildings on third party land
23,841	390	2,795	–	1,150	**25,876**	**9,593**	8,930	Plant and machinery
1,902	43	204	–	208	**1,941**	**660**	613	Other facilities, factory and office equipment
6	–	–	–	–	**6**	**1,591**[2]	2,014	Advance payments made and construction in progress
29,930	**510**	**3,318**	**–**	**1,420**	**32,338**	**17,759**	**17,182**	**Property, plant and equipment**
6,804	**238**	**3,536**	**–**	**3,277**	**7,301**	**34,965**	**30,165**	**Leased products**
–	**–**	**–**	**–**	**–**	**–**	**2,233**	**1,088**	**Investments accounted for using the equity method**
62	2	12	–	–	**76**	**157**	164	Investments in non-consolidated subsidiaries
398	–	13	–	–	**411**	**245**	244	Participations
–	–	2	–	–	**2**	**26**	–	Non-current marketable securities
460	**2**	**27**	**–**	**–**	**489**	**428**	**408**	**Other investments**

19
Intangible assets

Intangible assets mainly comprise capitalised development costs on vehicle and engine 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 €42 million (2015: €48 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 due entirely to currency factors. This line item also includes goodwill of €33 million (2015: €33 million) allocated to the Automotive cash-generating unit (CGU) and goodwill of €331 million (2015: €331 million) allocated to the Financial Services CGU.

Intangible assets amounting to €42 million (2015: €48 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 2016.

As in the previous year, no borrowing costs were recognised as a cost component of intangible assets in 2016.

20
Property, plant and equipment

No impairment losses were recognised in 2016 (2015: €3 million).

As in the previous year, no borrowing costs were recognised as a cost component of property, plant and equipment in 2016.

Property, plant and equipment include a total of €107 million (2015: €110 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 €90 million (2015: €102 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	31.12.2016	31.12.2015
Total of future minimum lease payments		
due within one year	23	22
due between one and five years	73	69
due later than five years	127	99
	223	190
Interest portion of the future minimum lease payments		
due within one year	11	10
due between one and five years	36	32
due later than five years	50	27
	97	69
Present value of future minimum lease payments		
due within one year	12	12
due between one and five years	37	37
due later than five years	77	72
	126	121

21
Leased products

Minimum lease payments of non-cancellable operating leases amounting to €17,850 million (2015: €16,527 million) fall due as follows:

in € million	31.12.2016	31.12.2015
within one year	8,692	8,079
between one and five years	9,154	8,445
later than five years	4	3
Minimum lease payments	**17,850**	**16,527**

Contingent rents of €46 million (2015: €54 million), based principally on the distance driven, were recognised in income. The agreements have, in part, extension and purchase options.

Impairment losses amounting to €384 million (2015: €119 million) were recognised on leased products in 2016 as a consequence of changes in residual value expectations. No income was recognised in 2016 from the reversal of impairment losses (2015: €24 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) and the interest in the associated company THERE Holding B.V. (THERE).

BMW Brilliance (in which the BMW Group has a 50.0 % shareholding) 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.

DriveNow (in which the BMW Group has a 50.0 % shareholding) offers car-sharing services in major German cities and abroad.

In August 2015, BMW AG, Daimler AG, Stuttgart, and AUDI AG, Ingolstadt, agreed with Nokia Corporation, Helsinki, to acquire that entity's maps and location-based services business (HERE Group). The HERE Group's digital maps are fundamental for the next generation of mobility and location-based services, providing the basis for new assistance systems and, ultimately, fully autonomous driving.

THERE Holding B.V. and its wholly owned subsidiary, HERE International B.V. (until 28 January 2016: THERE Acquisition B.V.) were founded in connection with the acquisition. HERE International B.V. acquired all of the shares of the HERE Group. Via BMW International Holding B.V., the BMW Group has a 33.3 % shareholding in THERE Holding B.V. THERE acquired the HERE Group with effect from 4 December 2015. The total purchase price of €2.6 billion was financed by using capital contributions (€2.0 billion) and via bank loans taken up by HERE International B.V. (€0.6 billion). The BMW Group's share of the purchase price was approximately €0.67 billion.

THERE is included in the BMW AG Group Financial Statements as an associated company using the equity method and allocated for segment reporting purposes to the Automotive segment. In view of the proximity of the reporting date and on the grounds of immateriality, no fair value adjustments were recorded in conjunction with the at-equity carrying amount at 31 December 2015, at which stage the investment was accounted for at cost. During 2016, the Group's share of earnings was accounted for with one month's delay, which was caught up at 31 December 2016. The purchase price allocation was completed during the first quarter of 2016.

In December 2016, THERE Holding B.V. signed contracts for the sale of a total of 25 % of the shares of HERE International B.V. The contract relating to the sale of 15 % of the shares to Intel Holdings B.V., Schiphol-Rijk, was completed in January 2017. 10 % of the shares were sold to a consortium comprising NavInfo Co. Ltd., Beijing, Tencent Holdings Ltd., Shenzhen, and GIC Private Ltd., Singapore. After receipt of the approval of the relevant regulatory agencies, the transaction is expected to be completed during the first half of 2017.

Financial information relating to equity accounted investments is aggregated in the following tables:

in € million	BMW Brilliance 2016	BMW Brilliance 2015	THERE 2016	THERE 2015	DriveNow 2016	DriveNow 2015
DISCLOSURES RELATING TO THE INCOME STATEMENT						
Revenues	12,991	13,220	1,240	–	58	47
Scheduled depreciation	486	380	52	–	–	–
Profit / loss before financial result	1,328	1,399	–149	–	–15	–6
Interest income	30	40	1	–	–	–
Interest expenses	2	15	22	–	–	–
Income taxes	363	369	3	–	–	–
Other comprehensive income	30	150	–4	–	–	–
Total comprehensive income	1,061	1,081	–171	–	–15	–6
Dividends received by the Group	134	144	–	–	–	–

in € million	BMW Brilliance 2016	BMW Brilliance 2015	THERE 2016	THERE 2015	DriveNow 2016	DriveNow 2015
DISCLOSURES RELATING TO THE BALANCE SHEET						
Non-current assets	5,779	5,415	2,802	3,115	–	–
Cash and cash equivalents	2,106	1,663	209	96	20	23
Current assets	4,405	3,841	592	365	33	32
Equity	4,678	3,853	1,832	2,003	15[1]	20[1]
Non-current financial liabilities	–	–	525	598	–	–
Non-current provisions and liabilities	670	589	1,044	1,093	–	–
Current financial liabilities	87	641	73	48	–	–
Current provisions and liabilities	4,835	4,814	518	384	18	12
RECONCILIATION OF AGGREGATED FINANCIAL INFORMATION						
Assets	10,183	9,256	3,394	3,480	33	32
Provisions and liabilities	5,505	5,403	1,562	1,477	18	12
Net assets	4,678	3,853	1,832	2,003	15	20
Group's interest in net assets	2,339	1,927	611	668	10[2]	14[2]
Eliminations	–414	–376	–	–	–	–
Carrying amount	1,925	1,551	611	668	10	14

[1] Corresponds to the consolidated equity capital provided by the shareholders of DriveNow GmbH & Co. KG and its subsidiaries.
[2] The BMW Group holds 67.2 % (2015: 73.8 %) of the net assets at 31 December 2016. 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	31.12.2016	31.12.2015
Credit financing for retail customers and dealerships	61,602	52,915
Finance lease receivables	16,658	17,128
Receivables from sales financing	**78,260**	**70,043**

Non-guaranteed residual values that fall to the benefit of the lessor amounted to €118 million (2015: €165 million).

Impairment allowances

in € million	31.12.2016	31.12.2015
Gross carry amount of items with impairment allowances recognised on a specific-item basis	14,440	13,742
Impairment allowances recognised on a specific-item basis	–934	–963
thereof for finance lease receivables	–141	–174
Gross carrying amount of items with impairment allowances recognised on a group basis	52,951	44,473
Impairment allowances recognised on a group basis	–467	–530
Carrying amount without impairment allowances	12,270	13,321
Net carrying amount	**78,260**	**70,043**

Allowances on receivables from sales financing – which only arise within the Financial Services segment – developed as follows:

	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**

* Balance at 1 January adjusted due to deconsolidation of entities.

	2015		
	Allowance for impairment recognised on a		
in € million	specific item basis	group basis	Total
Balance at 1 January	1,000	515	**1,515**
Allocated (+) / reversed (–)	265	30	**295**
Utilised	–319	–22	**–341**
Exchange rate impact and other changes	17	7	**24**
Balance at 31 December	**963**	**530**	**1,493**

The estimated fair value of collateral received for receivables on which impairment losses were recognised totalled €30,542 million (2015: €26,992 million). 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 €153 million (2015: €40 million).

Finance leases are analysed as follows:

in € million	31.12.2016	31.12.2015
Gross investment in finance leases		
due within one year	5,921	5,974
due between one and five years	12,574	12,816
due later than five years	32	134
	18,527	18,924
Present value of future minimum lease payments		
due within one year	5,348	5,429
due between one and five years	11,278	11,572
due later than five years	32	127
	16,658	17,128
Unrealised interest income	**1,869**	**1,796**

24 Financial assets

Financial assets comprise:

in € million	31.12.2016	31.12.2015
Marketable securities and investment funds	5,287	5,261
Derivative instruments	3,922	3,030
Credit card receivables	287	272
Loans to third parties	129	133
Other	145	147
Financial assets	**9,770**	**8,843**
thereof non-current	2,705	2,208
thereof current	7,065	6,635

The amount by which the value of investment funds exceeds obligations for part-time working arrangements (€17 million; 2015: €12 million) is reported under other financial assets. Investment funds are held to secure obligations relating to pre-retirement part-time work arrangements. These funds are managed by BMW Trust e.V., Munich, as part of Contractual Trust Arrangements (CTA) and are therefore netted against the corresponding settlement arrears for pre-retirement part-time work arrangements.

Marketable securities and investment funds relate to available-for-sale financial assets and comprise:

in € million	31.12.2016	31.12.2015
Fixed income securities	4,449	4,356
Stocks	734	561
Other debt securities	104	344
Marketable securities and investment funds	**5,287**	**5,261**

The contracted maturities of debt securities are as follows:

in € million	31.12.2016	31.12.2015
Fixed income securities		
due within three months	780	699
due later than three months	3,669	3,657
Other debt securities		
due within three months	104	344
due later than three months	–	–
Debt securities	**4,553**	**4,700**

Allowances for impairment and credit risk
Receivables relating to credit card business comprise the following:

in € million	31.12.2016	31.12.2015
Gross carrying amount	296	280
Allowance for impairment	–9	–8
Net carrying amount	**287**	**272**

Allowances for impairment losses on receivables relating to credit card business developed as follows during the year under report:

	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**

	2015		
	Allowance for impairment recognised on a		
in € million	specific item basis	group basis	Total
Balance at 1 January	8	–	8
Allocated (+) / reversed (–)	7	–	7
Utilised	–8	–	–8
Exchange rate impact and other changes	1	–	1
Balance at 31 December	**8**	**–**	**8**

25
Income tax assets

Income tax assets totalling €1,938 million (2015: €2,381 million) include claims amounting to €351 million (2015: €519 million), which are expected to be settled after more than twelve months. Some of the claims may be settled earlier than this depending on the timing of proceedings.

26
Other assets

Other assets comprise:

in € million	31.12.2016	31.12.2015
Prepayments	1,914	1,527
Receivables from companies in which an investment is held	1,217	893
Other taxes	1,135	1,036
Expected reimbursement claims	779	711
Receivables from subsidiaries	422	716
Collateral receivables	387	412
Sundry other assets	828	966
Other assets	**6,682**	**6,261**
thereof non-current	1,595	1,568
thereof current	5,087	4,693

Prepayments relate mainly to prepaid interest and commission paid to dealerships. Prepayments of €1,018 million (2015: €795 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	31.12.2016	31.12.2015
Finished goods and goods for resale	9,684	8,969
Work in progress, unbilled contracts	1,157	1,098
Raw materials and supplies	1,000	1,004
Inventories	**11,841**	**11,071**

At 31 December 2016, inventories measured at their net realisable value amounted to €871 million (2015: €1,054 million). Write-downs to net realisable value amounting to €101 million (2015: €486 million) were recognised in 2016. The write-down recorded in the previous year resulted primarily from accidents and natural disasters.

The expense recorded in conjunction with inventories during the financial year 2016 amounted to €55,129 million (2015: €55,536 million).

28
Trade receivables

Trade receivables comprise the following:

in € million	31.12.2016	31.12.2015
Gross carrying amount	2,882	2,847
Allowance for impairment	–57	–96
Net carrying amount	**2,825**	**2,751**

The impairment allowance on trade receivables developed during the year under report as follows:

	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**

	2015		
	Allowance for impairment recognised on a		
in € million	specific item basis	group basis	Total
Balance at 1 January	76	7	**83**
Allocated (+) / reversed (–)	36	7	**43**
Utilised	–27	–1	**–28**
Exchange rate impact and other changes	–1	–1	**–2**
Balance at 31 December	**84**	**12**	**96**

Some trade receivables were overdue for which an impairment allowance was not recognised. Overdue balances are analysed into the following time windows:

in € million	31.12.2016	31.12.2015
1 – 30 days overdue	174	128
31 – 60 days overdue	23	20
61 – 90 days overdue	29	10
91 – 120 days overdue	17	15
More than 120 days overdue	64	22
Balance at 31 December	**307**	**195**

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 primarily attributable to the timing of receipts around the month-end. 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 extremely low.

29
Equity
Number of shares issued

Number of shares issued	Preferred stock 2016	Preferred stock 2015	Common stock 2016	Common stock 2015
Shares issued / in circulation at 1 January	54,809,404	54,499,544	601,995,196	601,995,196
Shares issued in conjunction with Employee Share Programme	305,029	309,944	–	–
Less: shares repurchased and re-issued	29	84	–	–
Shares issued / in circulation at 31 December	55,114,404	54,809,404	601,995,196	601,995,196

All of the 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, bears an additional dividend of €0.02 per share.

In 2016, a total of 305,029 shares of preferred stock was sold to employees at a reduced price of €44.14 per share in conjunction with the Company's Employee Share Programme. These shares are entitled to receive dividends with effect from the financial year 2017. 29 shares of preferred stock were bought back in 2016 via the stock exchange in conjunction with the Company's Employee Share Programme.

Issued share capital increased by €0.3 million as a result of the issue to employees of 305,000 shares of non-voting preferred stock. The number of authorised shares and the Authorised Capital of BMW AG amounted to 4.2 million shares and €4.2 million respectively at the end of the reporting period. The Company is authorised to issue 5 million shares of non-voting preferred stock amounting to nominal €5.0 million prior to 14 May 2019.

Capital reserves
Capital reserves include premiums arising from the issue of shares and totalled €2,047 million (2015: €2,027 million). The change related to the share capital increase arising in conjunction with the issue of shares of preferred stock to employees amounting to €20.1 million.

Revenue reserves
Revenue reserves comprise the post-acquisition and non-distributed earnings of consolidated companies. In addition, remeasurements of the net defined benefit liability for pension plans are also presented in revenue reserves.

A proposal will be made that the unappropriated profit of BMW AG for the financial year 2016 amounting to €2,300 million be utilised as follows:

— Distribution of a dividend of €3.52 per share of preferred stock (€193 million).

— Distribution of a dividend of €3.50 per share of common stock (€2,107 million).

The proposed distribution was not recognised as a liability in the Group Financial Statements.

Accumulated other equity
Accumulated other equity comprises all amounts recognised directly in equity resulting from the translation of the financial statements of foreign subsidiaries, the effects of recognising changes in the fair value of derivative financial instruments and marketable securities directly in equity and the related deferred taxes recognised directly in equity.

Capital management disclosures

The BMW Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in the long-term and to provide an adequate return to shareholders.

The BMW Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk profile of the underlying assets.

The BMW Group is not subject to any 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 set by relevant regulatory banking agencies.

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 pro-actively manages debt capital, determining levels of debt capital transactions with a target debt structure in mind. An important aspect of 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	31.12.2016	31.12.2015
Equity attributable to shareholders of BMW AG	47,108	42,530
Proportion of total capital	32.5%	31.7%
Non-current financial liabilities	55,405	49,523
Current financial liabilities	42,326	42,160
Total financial liabilities	97,731	91,683
Proportion of total capital	67.5%	68.3%
Total capital	**144,839**	**134,213**

The equity ratio attributable to shareholders of BMW AG increased during the financial year by 0.8 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 funded or unfunded, the latter sometimes covered by accounting provisions. Pension commitments in Germany are mostly covered by assets contributed to BMW Trust e.V., Munich, in conjunction with a contractual trust arrangement (CTA). The main other countries with funded plans were the UK, the USA, Switzerland, the Netherlands, Belgium and Japan.

In the meantime, most of the defined benefit plans have been closed to new entrants.

The assumptions stated below, all of 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 %	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Discount rate	1.80	2.51	2.51	3.58	3.70	3.83
Pension level trend	1.78	1.60	2.55	2.43	–	0.02
Weighted duration of all pension obligations in years	21.3	20.5	20.9	19.2	17.6	18.4

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	SP2 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	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Present value of defined benefit obligations	11,112	9,215	10,311	9,327	1,476	1,384	22,899	19,926
Fair value of plan assets	8,643	7,855	8,714	8,153	958	922	18,315	16,930
Effect of limiting net defined benefit asset to asset ceiling	–	–	–	–	3	3	3	3
Carrying amounts at 31 December	**2,469**	**1,360**	**1,597**	**1,174**	**521**	**465**	**4,587**	**2,999**
thereof pension provision	2,469	1,360	1,597	1,174	521	466	4,587	3,000
thereof assets	–	–	–	–	–	–1	–	–1

Numerous **defined benefit plans** are in place throughout the BMW Group.

Under the motto "THE NEXT 100 YEARS", almost all of the workforce received a special bonus in conjunction with the BMW Group's centenary anniversary. Depending on opportunities available in each country, the bonus was contributed to the relevant pension plan or paid to the recipient in a one-off amount.

The most significant of the BMW Group's pension plans are described below.

Germany
Both employer- and employee-funded benefit plans are in place in Germany. Benefits paid in conjunction with these plans comprise old-age retirement pensions as well as invalidity and surviving dependents' benefits. The Deferred Remuneration Retirement Plan is an employee-financed defined contribution plan with a minimum rate of return. The fact that the plan involves a minimum rate of return means that it is classified as a defined benefit plan. Employees have the option to waive payment of certain remuneration components in return for a future benefit. When the benefit falls due, it is paid on the basis of the higher of the value of the depot account or a guaranteed minimum amount. Defined benefit obligations also remain in Germany, for which benefits are determined either by multiplying a fixed amount by the number of years of service or on the basis of an employee's final salary.

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. Under the motto "THE NEXT 100 YEARS", this entitlement was enhanced by a special centenary bonus to employees, made in the form of a starting contribution to a new BMW supplementary benefit plan.

The assets of the German pension plans are administered by BMW Trust e.V., Munich, (German registered association) 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 Board of Directors members 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 recovery requirements. Benefits paid in conjunction with these plans comprise old-age retirement pensions as well as invalidity and surviving dependents' benefits. The defined benefit plans have been closed to new entrants, who, since 1 January 2014, are covered by 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 11 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. Recovery contributions to the funds 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 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 the discount factor	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					**–**

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 2015	20,462	–15,861	**4,601**	2	**4,603**
EXPENSE/INCOME					
Current service cost	494	–	**494**	–	**494**
Interest expense (+) / income (–)	591	–468	**123**	–	**123**
Past service cost	–9	–	**–9**	–	**–9**
Gains (–) or losses (+) arising from settlements	–	–	**–**	–	**–**
REMEASUREMENTS					
Gains (–) or losses (+) on plan assets, excluding amounts included in interest income	–	325	**325**	–	**325**
Gains (–) or losses (+) arising from changes in the discount factor	–1,181	–	**–1,181**	–	**–1,181**
Gains (–) or losses (+) arising from changes in demographic assumptions	–224	–	**–224**	–	**–224**
Gains (–) or losses (+) arising from experience adjustments	–429	–	**–429**	–	**–429**
Changes in the limitation of the net defined benefit asset to the asset ceiling	–	–	**–**	1	**1**
Transfers to fund	–	–872	**–872**	–	**–872**
Employee contributions	79	–79	**–**	–	**–**
Pensions and other benefits paid	–540	554	**14**	–	**14**
Translation differences and other changes	683	–529	**154**	–	**154**
31 December 2015	**19,926**	**–16,930**	**2,996**	**3**	**2,999**
thereof pension provision					**3,000**
thereof assets					**–1**

Past service cost results from a change in the defined benefit pension plan in Germany. In future, 12 monthly pension payments will be paid to all plan beneficiaries, with a guaranteed 1 % increase in pension entitlements for benefits awarded since 1999.

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	2016	2015	2016	2015	2016	2015	2016	2015
COMPONENTS OF PLAN ASSETS								
Equity instruments	1,726	1,807	611	1,340	235	224	2,572	3,371
Debt instruments	5,439	4,834	6,071	4,623	458	420	11,968	9,877
thereof investment grade	3,752	3,525	5,564	4,437	422	383	9,738	8,345
thereof non-investment grade	1,687	1,309	507	186	36	37	2,230	1,532
Real estate	–	–	–	–	25	20	25	20
Money market funds	–	–	26	255	11	19	37	274
Absolute return funds	–	–	82	33	–	–	82	33
Other	–	–	–	–	5	–	5	–
Total with quoted market price	**7,165**	**6,641**	**6,790**	**6,251**	**734**	**683**	**14,689**	**13,575**
Debt instruments	543	367	408	207	3	3	954	577
thereof investment grade	195	189	2	2	1	1	198	192
thereof mixed funds (funds without a rating)	348	178	179	–	–	–	527	178
thereof non-investment grade	–	–	227	205	2	2	229	207
Real estate	183	172	697	783	123	105	1,003	1,060
Cash and cash equivalents	17	17	9	24	1	–	27	41
Absolute return funds	419	376	745	705	46	34	1,210	1,115
Other	316	282	65	183	51	97	432	562
Total without quoted market price	**1,478**	**1,214**	**1,924**	**1,902**	**224**	**239**	**3,626**	**3,355**
31 December	**8,643**	**7,855**	**8,714**	**8,153**	**958**	**922**	**18,315**	**16,930**

Employer contributions to plan assets are expected to amount to €1,190 million in the coming year.

The BMW Group is exposed to **risks** arising from defined benefit plans on the one hand and defined contribution plans with a minimum return guarantee on the other. 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 on using a deficit-value-at-risk approach. The investment strategy is also subjected to regular review together with external consultants, with the aim of ensuring that investments are structured to coincide with the timing of pension payments and the expected pattern of pension obligations. Each of these measures helps to reduce fluctuations in pension funding shortfalls.

The defined benefit obligation relates to current employees, former employees with vested benefits and pensioners as follows:

in € million	Germany 31.12.2016	Germany 31.12.2015	United Kingdom 31.12.2016	United Kingdom 31.12.2015	Other 31.12.2016	Other 31.12.2015
Current employees	67.3	66.3	26.7	23.4	79.1	75.0
Pensioners	27.8	28.6	43.1	48.6	17.5	16.7
Former employees with vested benefits	4.9	5.1	30.2	28.0	3.4	8.3
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 obligations does not follow a 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 non-proportional change in the defined benefit obligation.

		Change in defined benefit obligation			
		31.12.2016		31.12.2015	
		in € million	in %	in € million	in %
Discount rate	increase of 0.75 %	−2,939	−12.8	−2,577	−12.9
	decrease of 0.75 %	4,031	17.6	3,253	16.3
Pension level trend	increase of 0.25 %	747	3.3	655	3.3
	decrease of 0.25 %	−713	−3.1	−610	−3.1
Average life expectancy	increase of 1 year	853	3.7	632	3.2
	decrease of 1 year	−854	−3.7	−633	−3.2
Pension entitlement trend	increase of 0.25 %	165	0.7	134	0.7
	decrease of 0.25 %	−158	−0.7	−128	−0.6

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	1.1.2016	Translation differences	Additions	Reversal of discounting	Utilised	Reversed	31.12.2016	thereof due within one year
Obligations for personnel and social expenses	1,939	5	1,705	1	–1,436	–23	2,191	1,661
Obligations for ongoing operational expenses	5,811	48	3,219	51	–2,313	–289	6,527	2,824
Other obligations	1,880	21	938	6	–362	–283	2,200	1,394
Other provisions	**9,630**	**74**	**5,862**	**58**	**–4,111**	**–595**	**10,918**	**5,879**

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 obligations for on-going operational expenses comprise primarily warranty obligations. Depending on when claims are made, it is possible that the BMW Group may be called upon to fulfil obligations over the whole period of the warranty or guarantee. Expected reimbursement claims at 31 December 2016 amounted to €779 million at the end of the reporting period (2015: €711 million). Also included are other provisions for expected payments for bonuses, rebates and other price deductions.

Provisions for other obligations cover numerous specific risks and obligations of uncertain timing and amount, in particular for litigation and liability risks.

Income from the reversal of other provisions amounting to €480 million (2015: €550 million) is recorded in cost of sales and in selling and administrative expenses.

32
Income tax liabilities

Current income tax liabilities totalling €1,074 million (2015: €1,441 million) include €33 million (2015: 485 €million), which is expected to be settled after more than twelve months. Some of the liabilities may be settled earlier than this depending on the timing of proceedings.

Current income tax liabilities of €1,074 million (2015: €1,441 million) comprise €269 million (2015: €288 million) for taxes payable and €805 million (2015: €1,153 million) for tax provisions.

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Financial liabilities

Financial liabilities include all liabilities of the BMW Group at the relevant balance sheet dates relating to financing activities. Financial liabilities comprise the following:

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 to banks	10,251	3,997	644	**14,892**
Liabilities from customer deposits (banking)	10,063	3,316	133	**13,512**
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**

in € million	31.12.2015 Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Bonds	10,124	23,283	6,912	**40,319**
Asset backed financing transactions	5,046	8,585	–	**13,631**
Liabilities to banks	9,030	3,194	496	**12,720**
Liabilities from customer deposits (banking)	9,719	3,657	133	**13,509**
Commercial paper	5,415	–	–	**5,415**
Derivative instruments	2,198	2,245	107	**4,550**
Other	628	325	586	**1,539**
Financial liabilities	**42,160**	**41,289**	**8,234**	**91,683**

Customer deposit liabilities arise in the BMW Group's banks, notably in Germany and the USA, which offer a range of investment products.

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 6,101 million	2.2	0.1
	variable	GBP 67 million	1.0	0.7
	variable	SEK 1,950 million	3.0	0.0
	fixed	AUD 690 million	5.4	4.0
	fixed	CHF 300 million	6.0	1.8
	fixed	CNH 300 million	3.0	4.2
	fixed	EUR 15,214 million	7.2	2.0
	fixed	GBP 2,700 million	5.2	2.5
	fixed	HKD 1,093 million	4.1	1.9
	fixed	JPY 49,100 million	3.7	0.4
	fixed	NOK 1,650 million	3.9	2.1
BMW Finance N. V.	fixed	SEK 1,750 million	5.0	1.9
	variable	EUR 1,500 million	3.2	0.0
	variable	GBP 250 million	1.8	0.7
	variable	NZD 30 million	3.0	2.9
	variable	USD 1,295 million	3.0	1.4
	fixed	AUD 130 million	3.8	2.8
	fixed	EUR 3,500 million	6.6	0.9
	fixed	GBP 300 million	5.0	2.0
	fixed	HKD 834 million	3.0	1.6
	fixed	JPY 30,000 million	3.0	0.2
	fixed	NZD 100 million	3.0	4.4
BMW US Capital, LLC	fixed	USD 8,210 million	6.2	2.3
	variable	CAD 500 million	2.7	0.9
BMW Canada Inc.	fixed	CAD 1,600 million	4.6	2.1
	variable	AUD 700 million	3.0	2.4
	fixed	CNY 2,000 million	3.0	3.3
	fixed	INR 3,500 million	5.0	10.3
Other	fixed	KRW 260,000 million	3.9	2.8

The following details apply to the commercial paper:

Issuer	Issue volume in relevant currency (ISO-Code)	Weighted average maturity period (in days)	Weighted average nominal interest rate (in %)
	EUR 380 million	76	–0.32
BMW Finance N. V.	GBP 300 million	74	0.37
BMW Malta Finance Ltd.	EUR 350 million	13	–0.30
BMW US Capital, LLC	USD 2,722 million	20	0.67
BMW India Financial Services Private Ltd.	INR 14,000 million	91	7.33

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Other liabilities

Other liabilities comprise the following items:

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**
Deposits received	501	387	5	**893**
Other taxes	807	–	–	**807**
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**

in € million	31.12.2015 Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Deferred income	2,399	3,640	215	**6,254**
Advance payments from customers	681	121	–	**802**
Deposits received	492	374	5	**871**
Other taxes	1,080	–	–	**1,080**
Payables to other companies in which an investment is held	107	–	–	**107**
Payables to subsidiaries	86	–	–	**86**
Social security	71	17	1	**89**
Other	4,292	176	10	**4,478**
Other liabilities	**9,208**	**4,328**	**231**	**13,767**

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	31.12.2016 Total	31.12.2016 thereof due within one year	31.12.2015 Total	31.12.2015 thereof due within one year
Deferred income relating to service contracts	4,412	1,474	3,910	1,397
Deferred income from lease financing	2,241	1,037	1,922	915
Grants	382	30	299	32
Other deferred income	221	58	123	55
Deferred income	**7,256**	**2,599**	**6,254**	**2,399**

Deferred income relating to service contracts arises in conjunction with service and repair work as well as telematics services and roadside assistance to be provided under commitments given at the time of the sale of a vehicle (multi-component arrangements). Deferred income from lease financing relates primarily to upfront lease payments.

Grants comprise primarily public sector funds to promote 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 over the useful lives of the assets to which they relate.

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Trade payables

Trade payables have the following maturities:

in Mio. €	31.12.2016	31.12.2015
Maturity within one year	8,512	7,701
Maturity between one and five years	–	72
Maturity later than five years	–	–
Trade payables	**8,512**	**7,773**

OTHER DISCLOSURES

36
Contingent liabilities and other financial commitments

Contingent liabilities

The following contingent liabilities existed at the balance sheet date:

in € million	31.12.2016	31.12.2015
Guarantees	67	93
Performance guarantees	–	–
Other	474	213
Contingent liabilities	**541**	**306**

Other contingent liabilities comprise mainly legal disputes as well as risks relating to taxes and customs duties.

Regulatory agencies have ordered the BMW Group to recall various vehicle models that are fitted with airbags supplied by the Takata group of companies. Provision for the costs involved has been recognised within warranty provisions. It cannot be ruled out, however, that further BMW Group vehicles will be affected by future recall actions. Further disclosures pursuant to IAS 37.86 cannot be provided at present in view of the fact that technical tests have not yet been completed.

In June 2016, Germany's Federal Cartel Agency conducted searches at various carmakers and suppliers, including the BMW AG, as part of an investigation into the purchase of steel in the automotive industry. The investigations have not yet been completed. More detailed information is currently not available.

The BMW Group determines its best estimate of contingent liabilities on the basis of the information available at the date of preparation of the Group Financial Statements. This assessment may change over time and is adjusted regularly on the basis of new information and circumstances. Some of the risks are insured. In accordance with IAS 37, the BMW Group does not disclose information relating to legal disputes and risks relating to taxes and customs duties, if such disclosures could be expected to prejudice seriously the position of the BMW Group or if disclosure is not practicable. From today's perspective, the BMW Group does not expect these proceedings to have a significant adverse impact on the results of operations, financial position or net assets of the Group.

Other financial obligations

In addition to liabilities, provisions and contingent liabilities, the BMW Group also has other financial commitments, primarily under rental and lease contracts for land, buildings, plant and machinery, tools, office and other facilities. These contracts run for periods of one to 85 years. Some of them contain extension and purchase options as well as price adjustment clauses, based on index-linked or graduated rentals, including adjustments for inflation.

In the financial year 2016, an amount of €432 million (2015: €315 million) was recognised as expense in conjunction with operating leases.

The total of future minimum payments under non-cancellable leases and rental contracts can be analysed by maturity as follows:

in € million	31.12.2016	31.12.2015
due within one year	447	371
due between one and five years	1,102	1,003
due later than five years	895	816
Other financial obligations	**2,444**	**2,190**

The following obligations also existed for the BMW Group at the end of the reporting period:

in € million	31.12.2016	31.12.2015
Purchase commitments for property plant and equipment	3,141	2,217
Purchase commitments for intangible assets	1,363	757

37 Financial instruments

The carrying amounts of financial instruments are assigned to IAS 39 categories and cash funds as follows:*

in € million	Cash funds		Loans and receivables		Available for sale	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
ASSETS						
Other investments	–	–	–	–	534	402
Receivables from sales financing	–	–	78,260	70,043	–	–
Financial assets						
Derivative instruments						
Cash flow hedges	–	–	–	–	–	–
Fair value hedges	–	–	–	–	–	–
Other derivative instruments	–	–	–	–	–	–
Marketable securities and investment funds	–	–	–	100	5,287	5,161
Loans to third parties	–	–	129	133	–	–
Credit card receivables	–	–	287	272	–	–
Other	–	–	145	147	–	–
Cash and cash equivalents	7,880	6,122	–	–	–	–
Trade receivables	–	–	2,825	2,751	–	–
Other assets						
Receivables from subsidiaries	–	–	422	716	–	–
Receivables from companies in which an investment is held	–	–	1,217	893	–	–
Collateral receivables	287	314	–	–	100	98
Other	–	–	1,124	1,050	–	–
Total	**8,167**	**6,436**	**84,409**	**76,105**	**5,921**	**5,661**
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		
31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	
						ASSETS
26	26	–	–	–	–	Other investments
–	–	–	–	–	–	Receivables from sales financing
						Financial assets
						Derivative instruments
–	–	–	–	1,758	830	Cash flow hedges
–	–	–	–	949	1,194	Fair value hedges
–	–	–	–	1,215	1,006	Other derivative instruments
–	–	–	–	–	–	Marketable securities and investment funds
–	–	–	–	–	–	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
26	**26**	**–**	**–**	**3,922**	**3,030**	**Total**
						LIABILITIES
						Financial liabilities
–	–	44,421	40,319	–	–	Bonds
–	–	14,892	12,720	–	–	Liabilities to banks
–	–	13,512	13,509	–	–	Liabilities from customer deposits (banking)
–	–	3,852	5,415	–	–	Commercial paper
–	–	16,474	13,631	–	–	Asset backed financing transactions
						Derivative instruments
–	–	–	–	1,694	2,535	Cash flow hedges
–	–	–	–	870	563	Fair value hedges
–	–	–	–	767	1,452	Other derivative instruments
–	–	1,249	1,539	–	–	Other
–	–	8,512	7,773	–	–	Trade payables
						Other liabilities
–	–	99	86	–	–	Payables to subsidiaries
–	–	615	107	–	–	Payables to other companies in which an investment is held
–	–	5,535	5,075	–	–	Other
–	**–**	**109,161**	**100,174**	**3,331**	**4,550**	**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. Based on the fact that maturities of some balance sheet items are generally short, it is assumed in this case that their fair value corresponds to the carrying amount.

in € million	31.12.2016 Fair value	31.12.2016 Carrying amount	31.12.2015 Fair value	31.12.2015 Carrying amount
Receivables from sales financing	81,621	78,260	72,309	70,043
Bonds	45,140	44,421	40,701	40,319
Liabilities to banks	14,942	14,892	12,783	12,720
Liabilities from customer deposits (banking)	13,545	13,512	13,543	13,509
Asset-backed financing transactions	16,556	16,474	13,611	13,631

Fair value measurement of financial instruments

The following interest rate structures were used to discount financial instruments at 31 December 2016:

in %	ISO Code EUR	USD	GBP	JPY	CNY
Interest rate for six months	– 0.23	1.21	0.60	– 0.20	2.94
Interest rate for one year	– 0.20	1.18	0.55	0.02	3.77
Interest rate for five years	0.08	1.98	0.87	0.08	4.44
Interest rate for ten years	0.67	2.37	1.25	0.23	4.85

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		31.12.2016	31.12.2015
Iron ore	USD / t	79.65	43.05
Coke / coal	USD / t	230.00	76.45
Aluminium	USD / t	1,695.13	1,507.00
Palladium	USD / oz	680.96	561.70

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:

in € million	31.12.2016 Level hierarchy in accordance with IFRS 13 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	–	–
Derivative instruments (assets)			
Interest rate risks	–	1,933	–
Currency risks	–	1,842	–
Raw materials price risks	–	147	–
Derivative instruments (liabilities)			
Interest rate risks	–	1,402	–
Currency risks	–	1,479	–
Raw materials price risks	–	450	–

in € million	31.12.2015 Level hierarchy in accordance with IFRS 13 Level 1	Level 2	Level 3
Marketable securities, investment funds and collateral assets – available-for-sale	5,259	–	–
Other investments – available-for-sale / fair value option	244	–	–
Derivative instruments (assets)			
Interest rate risks	–	1,939	–
Currency risks	–	1,086	–
Raw materials price risks	–	5	–
Derivative instruments (liabilities)			
Interest rate risks	–	1,352	–
Currency risks	–	2,136	–
Raw materials price risks	–	1,062	–

Other investments (available-for-sale) amounting to €347 million (2015: €184 million) are measured at amortised cost since quoted market prices are not available or cannot be determined reliably. These are therefore not included in the level hierarchy shown above. In addition, other investments amounting to €213 million (2015: €244 million) are measured at fair value since quoted market prices are available. These items are included in Level 1.

As in the previous year, there were no reclassifications within the level hierarchy during the financial year 2016.

In situations where a fair value was required to be measured for a financial instrument only for disclosure purposes, this was achieved using the discounted cash flow method and taking account of the BMW Group's own default risk. For this reason, the fair values calculated can be allocated to Level 2.

Offsetting of financial instruments

In the BMW Group, financial assets and liabilities relating to derivative financial instruments would normally be required to be offset. No offsetting takes place for accounting purposes, however, since 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	31.12.2016		31.12.2015	
	Reported on assets side	Reported on equity and liabilities side	Reported on assets side	Reported on equity and liabilities side
Balance sheet amounts as reported	3,922	3,331	3,030	4,550
Gross amount of derivatives which can be offset in case of insolvency	–1,169	–1,169	–1,285	–1,285
Net amount after offsetting	2,753	2,162	1,745	3,265

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	2016	2015
Held for trading		
Gains / losses from the use of derivative instruments	1,265	–717
Fair value option		
Gains / losses on investments measured at fair value through profit and loss	–	–2
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)	–155	129
Net income from participations and investments	13	1
Accumulated other equity		
Balance at 1 January	24	141
Total change during the year	28	–117
thereof recognised in the income statement during the period under report	–39	–144
Balance at 31 December	52	24
Loans and receivables		
Impairment losses / reversals of impairment losses	–210	–345
Other income / expenses	–38	–77
Other liabilities		
Income / expenses	586	32

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 2016 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 market-related changes in fair value from the overall change in fair value.

Net interest expenses from interest rate and interest rate/currency swaps amounted to €120 million (2015: €22 million).

Impairment losses of €76 million (2015: €13 million) were recognised in the income statement in 2016 on available-for-sale securities accounted for as participations, for which fair value changes had previously been recognised directly in equity. As in the previous year, no reversals of impairment losses on marketable securities occurred.

The disclosure of interest income resulting from the unwinding of interest on future expected receipts would normally only be relevant for the BMW Group where assets have been discounted as part of the process of determining impairment losses. However, as a result of the assumption that most of the income that is subsequently recovered is received within one year and the fact that the impact is not material, the BMW Group does not discount assets for the purposes of determining impairment losses.

Cash flow hedges

The impact of cash flow hedges on accumulated other equity is analysed as follows:

in € million	2016	2015
Balance at 1 January	–1,337	–480
Total changes during the year	1,415	–857
thereof reclassified to the income statement	550	1,318
Balance at 31 December	**78**	**–1,337**

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.

An amount of €2 million (2015: €8 million) attributable to forecasting errors (and the resulting over-hedging of currency exposures) was recognised as a loss in "Financial Result" in the year under report. Losses attributable to the ineffective portion of cash flow hedges amounting to €11 million were recognised in "Financial Result" (2015: gains of €9 million). As in the previous year, no gains or losses were recognised in "Financial Result" in 2016 in connection with forecasting errors relating to cash flow hedges for commodities. Gains attributable to the ineffective portion of cash flow hedges amounting to €17 million were recognised in "Financial Result" (2015: losses of €13 million).

At 31 December 2016, the BMW Group held derivative financial instruments (mainly forward currency contracts) in order to hedge currency risks attached to future or existing transactions/items. These derivative instruments are intended to hedge forecast sales denominated in a foreign currency over the coming 44 months (2015: 55 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 €113 million of net losses, recognised in equity at the end of the reporting period, will be reclassified to the income statement in the new financial year (2015: net losses of €623 million).

The BMW Group did not hold any derivative financial instruments at 31 December 2016, which had been designated at cash flow hedges to hedge against interest-rate risks.

At 31 December 2016, the BMW Group held derivative financial instruments (mostly commodity swaps) with terms of up to 58 months (2015: 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 €94 million of net losses, recognised in equity at the end of the reporting period, will be reclassified to the income statement in the new financial year (2015: net losses of €127 million).

Fair value hedges

The following table shows gains and losses on hedging instruments and hedged items which are deemed to be part of a fair value hedge relationship:

in € million	31.12.2016	31.12.2015
Gains/losses on hedging instruments designated as part of a fair value hedge relationship	–158	–269
Gains/losses from hedged items	134	276
Ineffectiveness of fair value hedges	**–24**	**7**

The difference between the gains/losses on hedging instruments (mostly interest rate swaps and combined interest rate/currency swaps) and the results recognised on hedged items represents the ineffective portion of fair value hedges.

Credit risk
Notwithstanding the existence of collateral accepted, the carrying amounts of financial assets generally take account of the maximum credit risk arising from the possibility that the counterparties will not be able to fulfil their contractual obligations. The maximum credit risk for irrevocable credit commitments relating to credit card business amounts to €1,461 million (2015: €2,011 million). The equivalent figure for dealership financing is €27,494 million (2015: €24,733 million).

In the case of performance relationships underlying non-derivative financial instruments, collateral will be required, information on the credit standing of the counterparty obtained or historical data based on the existing business relationship (i.e. payment patterns to date) reviewed in order to minimise the credit risk, all depending on the nature and amount of the exposure that the BMW Group is proposing to enter into.

Within the financial services business, the financed items (e.g. vehicles, equipment and property) in the retail customer and dealership lines of business serve as first-ranking collateral with a recoverable value. Security is also put up by customers 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. The assets involved are generally vehicles which can be converted into cash at any time via 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 purchasing 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 tangible situation 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 not considered to be significant.

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	31.12.2016 Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
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**
Derivative instruments	1,983	2,395	187	**4,565**
Commercial paper	3,853	–	–	**3,853**
Other financial liabilities	72	178	601	**851**
Total	**52,913**	**46,957**	**11,568**	**111,438**

in € million	31.12.2015 Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Bonds	10,774	24,241	7,230	**42,245**
Asset backed financing transactions	5,195	8,849	–	**14,044**
Liabilities to banks	9,464	3,485	405	**13,354**
Liabilities from customer deposits (banking)	9,805	3,990	133	**13,928**
Trade payables	7,701	72	–	**7,773**
Derivative instruments	2,564	3,366	174	**6,104**
Commercial paper	5,416	–	–	**5,416**
Other financial liabilities	261	372	570	**1,203**
Total	**51,180**	**44,375**	**8,512**	**104,067**

The cash flows shown comprise principal repayments and the related interest. The amounts disclosed for derivatives comprise only cash flows relating to derivatives that have a negative fair value at the balance sheet date. At 31 December 2016, irrevocable credit commitments to dealerships which had not been called upon at the end of the reporting period amounted to €9,194 million (2015: 7,552 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. The objective is to minimise risk by matching maturities for the Group's financing requirements within the framework of the target debt structure. The BMW Group has good access to capital markets as a result of its solid financial position and a diversified refinancing strategy. Depending on financing requirements and market conditions, the BMW Group issues commercial paper on the money markets, corporate bonds and asset-backed financial securities in various currencies. Customer deposits at the Group's in-house banks are also used as a supplementary source of financing.

These refinancing activities are underpinned by the longstanding long- and short-term ratings issued by Moody's and Standard & Poor's.

Also reducing liquidity risk, additional secured and unsecured lines of credit are in place with international banks, including a syndicated credit line totalling €6 billion (2015: €6 billion). Intra-group cash flow fluctuations are evened 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 only used to hedge underlying positions or forecast transactions.

The scope of permitted transactions, responsibilities, financial reporting procedures and control mechanisms used for financial instruments are set out in detailed internal guidelines. This includes, above all, a clear separation of duties between trading and processing. 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, business is conducted 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 the procurement of production materials and funding is also organised on a worldwide basis, the currency risk is an extremely important factor for Group earnings.

At 31 December 2016, derivative financial instruments, mostly in the form of forward currency contracts, were in place.

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 analysing currency risk with this model is the identification of forecast foreign currency transactions or "exposures". At the end of the reporting period, the principal exposures for the relevant coming year were as follows:

in € million	31.12.2016	31.12.2015
Euro / Chinese Renminbi	10,467	9,973
Euro / US Dollar	3,319	4,770
Euro / British Pound	4,785	5,396
Euro / Korean Won	1,926	1,985
Euro / Japanese Yen	1,510	1,162

In the next stage, 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 assess the relevant probability distributions.

The potential negative impact on earnings is computed for each currency for the following financial year on the basis of current market prices and exposures to a confidence level of 95 % and a holding period of up to one year. Correlations between the various currencies are taken into account when the risks are aggregated, thus reducing the overall risk.

The following table shows the potential negative impact for the BMW Group – measured on the basis of the cash-flow-at-risk approach – attributable to unfavourable changes in exchange rates. The impact for the principal currencies, in each case for the following financial year, is as follows:

in € million	31.12.2016	31.12.2015
Euro / Chinese Renminbi	249	163
Euro / US Dollar	278	48
Euro / British Pound	134	86
Euro / Korean Won	30	99
Euro / Japanese Yen	70	68

Currency risk for the BMW Group is concentrated on the currencies referred to above.

Interest rate risks

The BMW Group's financial management system 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 with differing fixed-rate periods or differing terms are borrowed and invested. All items subject to, or bearing, 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	31.12.2016	31.12.2015
Euro*	28,063	25,772
US Dollar	14,340	10,742
British Pound	5,708	4,220
Chinese Renminbi	3,124	1,006
Japanese Yen	571	536

* Previous year's figures adjusted.

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 Group-wide value-at-risk approach for internal reporting purposes and to manage interest rate risks. This is based on a state-of-the-art historical simulation, in which the potential future fair value losses of the interest rate portfolios are compared across the Group, with expected amounts measured on the basis of a holding period of 250 days and a confidence level of 99.98 %. Aggregation of these results creates a risk reduction effect due to correlations between the various portfolios.

In the following table the potential volumes of fair value fluctuations – measured on the basis of the value-at-risk approach – are compared with the expected value for the interest-rate-sensitive exposures of the BMW Group:

in € million	31.12.2016	31.12.2015
Euro*	532	475
US Dollar	545	449
British Pound	244	186
Chinese Renminbi	16	33
Japanese Yen	14	12

* Previous year's figures adjusted.

Raw materials 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 first step in the analysis of the raw materials price risk is to determine the volume of planned purchases of raw materials (and components containing those raw materials). These amounts, which represent the gross exposure, were as follows at each reporting date for the following financial year:

in € million	31.12.2016	31.12.2015
Raw materials price exposures	3,150	3,720

In the next stage, 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 materials prices to operating cash flows on the basis of probability distributions. Volatilities and correlations serve as input factors to assess the relevant probability distributions.

The potential negative impact on earnings is computed for each raw materials category for the following financial year on the basis of current market prices and exposure to a confidence level of 95 % and a holding period of up to one year. Correlations between the various categories of raw materials are taken into account when the risks are aggregated, thus reducing the overall risk.

The following table shows the potential negative impact for the BMW Group – measured on the basis of the cash-flow-at-risk approach – attributable to fluctuations in prices across all categories of raw materials.

The risk at each reporting date for the following financial year was as follows:

in € million	31.12.2016	31.12.2015
Cash flow at risk	135	155

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Related party relationship

Transactions of Group entities with related parties arise, without exception, in the normal course of the business of each of the parties concerned and are conducted on the basis of arm's length principles.

A significant proportion of the BMW Group's transactions with related parties relates to the joint venture BMW Brilliance Automotive Ltd. and the associated company THERE Holding B.V.

	Supplies and services performed		Supplies and services received		Receivables at 31 December		Payables at 31 December	
in € million	2016	2015	2016	2015	2016	2015	2016	2015
BMW Brilliance Automotive Ltd.	5,316	4,815	50	43	1,215	892	615	107
THERE Holding B.V.	–	–	58	7	–	–	9	3

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 2016. 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. Cooperation arrangements are in place between BMW AG and SOLARWATT GmbH, Dresden, within the field of electric mobility. The focus of this collaboration is on providing complete photovoltaic solutions for rooftop systems and carports to BMW i customers. SOLARWATT GmbH, Dresden, leased vehicles from the BMW Group in 2016.

Susanne Klatten, Germany, is a shareholder and member of the Supervisory Board of BMW AG and also a shareholder and Deputy Chairman of the Supervisory Board of ALTANA AG, Wesel. ALTANA AG, Wesel, acquired vehicles from the BMW Group during the financial year 2016, mostly in the form of lease contracts.

Susanne Klatten, Germany, is also the sole shareholder and Chairwoman of the Supervisory Board of UnternehmerTUM GmbH, Garching. During the financial year 2016, the BMW Group bought in services from UnternehmerTUM GmbH, Garching, primarily in the form of consultancy and workshop services.

Seen from the BMW Group's perspective, the transactions of BMW Group companies with the above-mentioned entities were as follows:

	Supplies and services performed		Supplies and services received		Receivables at 31 December		Payables at 31 December	
in € thousand	2016	2015	2016	2015	2016	2015	2016	2015
DELTON AG	3,546	3,617	22,554	22,818	64	37	1,331	2,476
SOLARWATT GmbH	309	287	–	3	1	7	–	–
ALTANA AG	2,690	2,764	458	324	337	312	50	–
UnternehmerTUM GmbH	29	–	1,227	769	–	–	585	276

Apart from vehicle leasing and credit financing contracts concluded on an arm's length basis, companies of the BMW Group have not entered into any contracts with members of the Board of Management or Supervisory Board of BMW AG. The same 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 and pre-retirement part-time working arrangements in Germany and is therefore a related party of the BMW Group in accordance with IAS 24. This entity, which is a registered association (eingetragener Verein) under German law, does not have any assets of its own. It did not have any 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 42 and the Compensation Report.

→ see note 42

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Share-based remuneration

Three share-based remuneration programmes are in place within the BMW Group, namely 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.

In the case of the Employee Share Programme, non-voting shares of preferred stock in BMW AG were granted to qualifying employees during the financial year 2016 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 2019. In the financial year 2016, the BMW Group recorded a personnel expense of €7 million (2015: €6 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 Board of Management member is required to invest 20 % of his/her total bonus (after tax) in shares of BMW AG common stock, which are recorded in a separate custodian account for each member concerned (annual tranche). Each annual tranche is subject to a holding period of four years. Once the holding period is fulfilled, BMW AG grants one additional share of BMW AG common stock for each three held or pays the equivalent amount in cash (share-based remuneration component). Special 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 heads of department are also entitled to opt for a share-based remuneration component, which, in most respects, is 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 itself. The appropriate 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 obligation 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 in Xetra trading at 31 December 2016).

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 2016 was €5,473,219 (2015: €4,989,668).

The total expense recognised in 2016 for the share-based remuneration component of current and former Board of Management members and senior heads of department was €1,443,227 (2015: €1,892,994).

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 €1,950,853 (2015: €1,605,147), based on a total of 21,201 shares (2015: 18,143 shares) of BMW AG common stock or a corresponding cash-based settlement measured at the relevant market share price prevailing on the grant date.

Further details on the remuneration of the Board of Management are provided in the Compensation Report for the financial year 2016.

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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 2016 of the BMW Group and is also available to shareholders on the BMW Group website at → www.bmwgroup.com/ir.

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Shareholdings of members of the Board of Management and Supervisory Board

The members of the Supervisory Board of BMW AG hold in total 27.99 % (2015: 43.00 %) of the issued common and preferred stock shares, of which 16.25 % (2015: 31.26 %) relates to Stefan Quandt, Germany, and 11.73 % (2015: 26.74 %) to Susanne Klatten, Germany. The differences compared to the previous year resulted almost entirely from the fact that the shares held by Johanna Quandt GmbH & Co. KG für Automobilwerte, Bad Homburg v.d. Höhe, are no longer attributed to Stefan Quandt and Susanne Klatten following the dissolution of the community of heirs. As at the end of the previous financial year, shareholdings of members of the BMW AG Board of Management account, in total, for less than 1 % of issued shares.

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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 for the financial year 2016 in accordance with IFRS amounted to €46.9 million (2015: €43.6 million) and comprised the following:

in € million	2016	2015
Compensation to members of the Board of Management	**37.6**	35.9
Fixed remuneration	7.8	7.7
Variable remuneration	29.0	27.1
Share-based remuneration component	0.8	1.1
Allocation to pension provisions	**2.8**	2.6
Benefits in conjunction with the termination of an employment relationship	**1.1**	–
Compensation to members of the Supervisory Board	**5.4**	5.1
Fixed compensation and attendance fees	2.0	2.0
Variable compensation	3.4	3.1
Total expense	**46.9**	**43.6**
thereof due within one year	**43.3**	39.9

The total remuneration of former members of the Board of Management and their dependants amounted to €6.5 million (2015: €8.0 million).

Pension obligations to current members of the Board of Management are covered by provisions amounting to €23.6 million (2015: €23.2 million), computed in accordance with IAS 19 (Employee Benefits). Pension obligations to former members of the Board of Management and their surviving dependants, also computed in accordance with IAS 19, amounted to €86.4 million (2015: €71.8 million).

The compensation systems for members of the Supervisory Board do not include any stock options, value appreciation rights comparable to stock options or any other stock-based compensation components. 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 of BMW AG or its subsidiaries, nor were any contingent liabilities entered into on their behalf.

Further details about 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.

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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

44
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). Operating segments are identified on the same basis that is used internally to manage and report on performance. The allocation also 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.

The Automotive segment develops, manufactures, assembles and sells cars 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 primarily by subsidiary companies and by independent import companies in a number of markets. Rolls-Royce brand vehicles are sold in the USA, China and Russia via subsidiary companies and elsewhere by independent, authorised dealerships.

The Motorcycles segment develops, manufactures, assembles and sells motorcycles as well as spare parts and accessories.

The principal lines of business of the Financial Services segment are car leasing, fleet business, multi-brand business, retail customer and dealership financing, customer deposit business and insurance activities.

Holding and Group financing companies are included in the Other Entities segment. This segment also includes operating companies – BMW Services Ltd., BMW (UK) Investments Ltd., Bavaria Lloyd Reisebüro GmbH, and MITEC Mikroelektronik Mikrotechnik Informatik 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. The only 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 in the column "Eliminations". Inter-segment sales take place at arm's length 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. In order to assist the decision-taking process, different measures of segment performance as well as segment assets have been set for the operating segments.

The performance of the Automotive and Motorcycles segments is managed on the basis of return on capital employed (RoCE). The relevant measure of segment results used is therefore profit before financial result. Capital employed is the corresponding measure of segment assets used to determine how to allocate 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 performance of the Financial Services segment is measured on the basis of return on equity (RoE), with profit before tax therefore representing the measure of segment result used. For this reason, the measure of segment assets in the Financial Services segment corresponds to net assets, defined as total assets less total liabilities.

The performance 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 2016	Automotive 2015	Motorcycles 2016	Motorcycles 2015	Financial Services 2016	Financial Services 2015
SEGMENT INFORMATION BY OPERATING SEGMENT						
External revenues	67,977	68,045	2,062	1,984	24,122	22,144
Inter-segment revenues	18,447	17,491	7	6	1,559	1,595
Total revenues	**86,424**	**85,536**	**2,069**	**1,990**	**25,681**	**23,739**
Segment result	7,695	7,836	187	182	2,166	1,975
Result from equity accounted investments	441	518	–	–	–	–
Capital expenditure on non-current assets	5,699	5,792	114	92	25,105	23,689
Depreciation and amortisation on non-current assets	4,702	4,559	75	69	9,606	8,686

in € million	Automotive 31.12.2016	Automotive 31.12.2015	Motorcycles 31.12.2016	Motorcycles 31.12.2015	Financial Services 31.12.2016	Financial Services 31.12.2015
Segment assets	9,411	10,024	600	557	11,049	9,948
Investments accounted for using the equity method	2,546	2,233	–	–	–	–

SEGMENT INFORMATION BY OPERATING SEGMENT

	Other Entities		Reconciliation to Group figures		Group	
	2016	2015	2016	2015	2016	2015
External revenues	2	2	–	–	94,163	92,175
Inter-segment revenues	4	5	–20,017	–19,097	–	–
Total revenues	**6**	**7**	**–20,017**	**–19,097**	**94,163**	**92,175**
Segment result	170	211	–553	–980	9,665	9,224
Result from equity accounted investments	–	–	–	–	441	518
Capital expenditure on non-current assets	–	–	–6,756	–5,672	24,162	23,901
Depreciation and amortisation on non-current assets	–	–	–6,271	–5,119	8,112	8,195

	Other Entities		Reconciliation to Group figures		Group	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Segment assets	75,363	71,709	92,112	79,936	188,535	172,174
Investments accounted for using the equity method	–	–	–	–	2,546	2,233

Write-downs on inventories to their net realisable value amounting to €101 million (2015: €486 million) were recognised by the Automotive segment in the financial year 2016. The write-down recorded in the previous year resulted primarily from accidents and natural disasters.

Impairment losses and fair value changes on other investments amounting to €174 million (2015: €17 million) relating to the Automotive segment and recognised in the financial result are not included in the segment result.

Financial Services segment result was negatively impacted by impairment losses totalling €384 million (2015: €406 million) recognised on leased products. Income from the reversal of impairment losses on leased products amounted to €211 million (2015: €81 million). No impairment losses were recognised on other financial assets in the year under report (2015: €3 million).

The Other Entities' segment result includes interest and similar income amounting to €1,250 million (2015: €1,177 million) and interest and similar expenses amounting to €1,006 million (2015: €1,080 million) as well as impairment losses on other investments totalling €18 million (2015: €7 million).

The information disclosed for capital expenditure and depreciation and amortisation relates to non-current property, plant and equipment, intangible assets and leased products.

Segment figures can be reconciled to the corresponding Group figures as follows:

in € million	2016	2015
Reconciliation of segment result		
Total for reportable segments	10,218	10,204
Financial result of Automotive segment and Motorcycles segment	219	–316
Elimination of inter-segment items	–772	–664
Group profit before tax	**9,665**	**9,224**
Reconciliation of capital expenditure on non-current assets		
Total for reportable segments	30,918	29,573
Elimination of inter-segment items	–6,756	–5,672
Total Group capital expenditure on non-current assets	**24,162**	**23,901**
Reconciliation of depreciation and amortisation on non-current assets		
Total for reportable segments	14,383	13,314
Elimination of inter-segment items	–6,271	–5,119
Total Group depreciation and amortisation on non-current assets	**8,112**	**8,195**

in € million	31.12.2016	31.12.2015
Reconciliation of segment assets		
Total for reportable segments	96,423	92,238
Non-operating assets – Other Entities segment	7,432	7,132
Total liabilities – Financial Services segment	126,679	112,081
Non-operating assets – Automotive and Motorcycles segments	45,923	41,932
Liabilities of Automotive and Motorcycles segments not subject to interest	33,858	31,817
Elimination of inter-segment items	–121,780	–113,026
Total Group assets	**188,535**	**172,174**

In the case of information by geographical region, external sales are based on the location of the customer's registered office. 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		Non-current assets	
	2016	2015	2016	2015
Germany	13,776	13,394	29,741	28,786
China	16,619	15,856	23	23
USA	16,000	18,155	23,249	21,000
Rest of Europe	30,544	28,617	13,910	13,099
Rest of Asia	10,466	9,582	1,439	1,197
Rest of the Americas	3,507	3,361	2,628	2,053
Other regions	3,251	3,210	261	121
Eliminations	–	–	–7,345	–6,183
Group	**94,163**	**92,175**	**63,906**	**60,096**

LIST OF INVESTMENTS AT 31 DECEMBER 2016

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List of investments at 31 December 2016

The List of Investments of BMW AG pursuant to § 285 and § 313 HGB is presented below. Figures for equity and earnings are not disclosed 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 or if financial statements for a company are not yet available. 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.

BMW AG's subsidiary at 31 December 2016

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Companies	Equity in € million	Profit/loss in € million	Capital investment in %
DOMESTIC[1]			
BMW Beteiligungs GmbH & Co. KG, Munich[6]	5,794	– 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	325	–1	100
BMW Verwaltungs GmbH, Munich[3, 6]	153	–	100
BMW Hams Hall Motoren GmbH, Munich[4, 5, 6]	–	–	100
BMW M GmbH Gesellschaft für individuelle Automobile, Munich[3, 5, 6]	–	–	100
MITEC Mikroelektronik Mikrotechnik Informatik GmbH, Munich[4, 6]	–	–	100
Alphabet International GmbH, Munich[4, 5, 6]	–	–	100
Alphabet Fuhrparkmanagement GmbH, Munich[4]	–	–	100
Rolls-Royce Motor Cars GmbH, Munich[4, 5, 6]	–	–	100
BMW Vermögensverwaltungs GmbH, Munich	–	–	100
BMW Fahrzeugtechnik GmbH, Eisenach[3, 5, 6]	–	–	100
BMW Anlagen Verwaltungs GmbH, Munich[3, 6]	–	–	100
BMW Vertriebszentren Verwaltungs GmbH, Munich	–	–	100
Parkhaus Oberwiesenfeld GmbH, Munich	–	–	100
Bürohaus Petuelring GmbH, Munich	–	–	100
LARGUS Grundstücks-Verwaltungsgesellschaft mbH, Munich	–	–	100
Bavaria Wirtschaftsagentur GmbH, Munich[3, 5, 6]	–	–	100
BAVARIA-LLOYD Reisebüro GmbH, Munich	–	–	51
FOREIGN[2]			
Europe[13]			
BMW Holding B.V., The Hague	14,696	1,180	100
BMW International Holding B.V., Rijswijk[11]	7,898	–	100
BMW Österreich Holding GmbH, Steyr	2,502	267	100
BMW Malta Ltd., Floriana	1,541	73	100
BMW Malta Finance Ltd., Floriana	1,366	48	100
BMW Motoren GmbH, Steyr	948	179	100
BMW Financial Services (GB) Ltd., Farnborough	881	282	100
BMW España Finance S.L., Madrid	775	14	100
BMW (UK) Holdings Ltd., Farnborough	749	460	100
BMW (UK) Manufacturing Ltd., Farnborough	723	136	100

BMW (Schweiz) AG, Dielsdorf	719	49	100
BMW Coordination Center V.o.F., Bornem	592	–	100
BMW France, Montigny-le-Bretonneux	374	39	100
BMW Finance S.N.C., Guyancourt	364	40	100
BMW Italia S.p.A., San Donato Milanese	345	35	100
BMW Iberica S.A., Madrid	302	24	100
BMW Belgium Luxembourg S.A. / N.V., Bornem	277	21	100
BMW (UK) Ltd., Farnborough	213	65	100
ALPHABET (GB) Ltd., Farnborough	202	36	100
BMW Financial Services Scandinavia AB, Sollentuna	180	12	100
Rolls-Royce Motor Cars Ltd., Farnborough	136	16	100
Alphabet Nederland B.V., Breda[11]	135	59	100
BMW Finance N.V., The Hague	134	8	100
BMW Austria Leasing GmbH, Salzburg	123	7	100
BMW Russland Trading OOO, Moscow	119	94	100
Alphabet Belgium Long Term Rental NV, Aartselaar	112	21	100
BMW International Investment B.V., 's-Gravenhage	104	156	100
BMW Austria Bank GmbH, Salzburg	103	6	100
APD Industries plc, Farnborough	–	–	100
BMW Financial Services Belgium S.A. / N.V., Bornem	–	–	100
BMW Austria Ges.m.b.H., Salzburg	–	–	100
Alphabet UK Ltd., Glasgow	–	–	100
Bavaria Reinsurance Malta Ltd., Floriana	–	–	100
BMW Vertriebs GmbH, Salzburg	–	–	100
BMW Bank OOO, Moscow	–	–	100
BMW Finanzdienstleistungen (Schweiz) AG, Dielsdorf	–	–	100
Swindon Pressings Ltd., Farnborough	–	–	100
BMW Sverige AB, Stockholm	–	–	100
BMW Financial Services (Ireland) DAC, Dublin	–	–	100
BMW Norge AS, Fornebu	–	–	100
Alphabet España Fleet Management S.A.U., Madrid	–	–	100
BMW Services Ltd., Farnborough	–	–	100
BMW Financial Services B.V., Rijswijk	–	–	100
Alphabet France Fleet Management S.N.C., Rueil-Malmaison	–	–	100
Alphabet France SAS, Rueil-Malmaison	–	–	100
BMW Retail Nederland B.V., Delft	–	–	100
BMW Hellas Trade of Cars A.E., Kifissia	–	–	100
BMW Financial Services Denmark A / S, Copenhagen	–	–	100
Alphabet Austria Fuhrparkmanagement GmbH, Salzburg	–	–	100
Alphabet Polska Fleet Management Sp. z o.o., Warsaw	–	–	100
Alphabet Fuhrparkmanagement (Schweiz) AG, Dielsdorf	–	–	100
BMW Portugal Lda., Porto Salvo	–	–	100
Alphabet Italia Fleet Management S.p.A., Rome	–	–	100
BMW Amsterdam B.V., Amsterdam	–	–	100
BMW Renting (Portugal) Lda., Porto Salvo	–	–	100
BMW Automotive (Ireland) Ltd., Dublin	–	–	100
Park Lane Ltd., Farnborough	–	–	100
BMW Services Belgium N.V., Bornem	–	–	100
BMW Roma S.r.l., Rome	–	–	100
BMW Financial Services Polska Sp. z o.o., Warsaw[12]	–	–	100
BMW Distribution S.A.S., Montigny-le-Bretonneux	–	–	100
BMW Danmark A / S, Copenhagen	–	–	100
BMW Nederland B.V., Rijswijk	–	–	100

BMW Den Haag B.V., The Hague	–	–	100
Oy BMW Suomi AB, Helsinki	–	–	100
BMW Madrid S.L., Madrid	–	–	100
BMW Milano S.r.l., San Donato Milanese	–	–	100
Alphabet Luxembourg S.A., Leudelange	–	–	100
Société Nouvelle WATT Automobiles SARL, Rueil-Malmaison	–	–	100
BMW (UK) Investments Ltd., Farnborough	–	–	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
The Americas			
BMW (US) Holding Corp., Wilmington, Delaware	2,339	667	100
BMW Bank of North America, Inc., Salt Lake City, Utah	1,545	148	100
BMW Manufacturing Co., LLC, Wilmington, Delaware	1,429	289	100
Financial Services Vehicle Trust, Wilmington, Delaware	1,007	– 49	100
BMW of North America, LLC, Wilmington, Delaware	558	353	100
BMW US Capital, LLC, Wilmington, Delaware	332	59	100
BMW Financial Services NA, LLC, Wilmington, Delaware	315	555	100
BMW SLP, S.A. de C.V., Villa de Reyes[12]	197	– 31	100
BMW do Brasil Ltda., São Paulo	–	–	100
BMW Financeira S.A. Credito, Financiamento e Investimento, São Paulo	–	–	100
BMW de Mexico, S.A. de C.V., Mexico D.F.	–	–	100
BMW de Argentina S.A., Buenos Aires	–	–	100
BMW Financial Services de Mexico S.A. de C.V. SOFOM, Mexico City	–	–	100
BMW Manufacturing Indústria de Motos da Amazônia Ltda., Manaus[12]	–	–	100
BMW Leasing do Brasil, S.A., São Paulo	–	–	100
BMW Insurance Agency, Inc., Wilmington, Delaware	–	–	100
BMW Leasing de Mexico S.A. de C.V., Mexico City	–	–	100
BMW Acquisitions Ltda., São Paulo	–	–	100
Rolls-Royce Motor Cars NA, LLC, Wilmington, Delaware	–	–	100
BMW Consolidation Services Co., LLC, Wilmington, Delaware	–	–	100
SB Acquisitions, LLC, Wilmington, Delaware	–	–	100
BMW Extended Service Corporation, 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
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

Africa			
BMW (South Africa) (Pty) Ltd., Pretoria	682	63	100
BMW Financial Services (South Africa) (Pty) Ltd., Midrand	177	5	100
Asia			
BMW Automotive Finance (China) Co., Ltd., Beijing	987	154	58
BMW China Automotive Trading Ltd., Beijing	535	160	100
BMW Japan Finance Corp., Chiba	384	66	100
BMW Financial Services Korea Co., Ltd., Seoul	320	54	100
BMW Japan Corp., Tokyo	310	151	100
BMW Korea Co., Ltd., Seoul	196	20	100
BMW (Thailand) Co., Ltd., Bangkok	108	83	100
BMW India Financial Services Private Ltd., Gurgaon	107	7	100
BMW Manufacturing (Thailand) Co., Ltd., Rayong	–	–	100
BMW Malaysia Sdn Bhd, Kuala Lumpur	–	–	51
BMW Asia Pte. Ltd., Singapore	–	–	100
BMW India Private Ltd., Gurgaon	–	–	100
BMW Leasing (Thailand) Co., Ltd., Bangkok	–	–	74
BMW China Services Ltd., Beijing	–	–	100
PT BMW Indonesia, Jakarta	–	–	100
BMW Asia Technology Centre Sdn Bhd, Kuala Lumpur	–	–	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
BMW Holding Malaysia Sdn Bhd, Kuala Lumpur	–	–	100
BMW Osaka Corp., Osaka	–	–	100
Oceania			
BMW Australia Finance Ltd., Mulgrave	394	–12	100
BMW Australia Ltd., Melbourne	194	20	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 AG's non-consolidated companies at 31 December 2016

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Companies	Equity in € million	Profit/loss in € million	Capital investment in %
DOMESTIC[7]			
Alphabet Fleetservices GmbH, Munich	–	–	100
Automag GmbH, Munich	–	–	100
Bavaria Betriebs-Gastronomie GmbH, Munich[4]	–	–	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., 's-Gravenhage	–	–	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
Park-line Aqua B.V., 's-Gravenhage	–	–	100
Park-line B.V., 's-Gravenhage	–	–	100
Park-line Holding B.V., 's-Gravenhage	–	–	100
Park-Mobile (UK) Limited, Basingstoke	–	–	100
Parkmobile Belgium BvBa, Antwerpen	–	–	100
Parkmobile Benelux B.V., Amsterdam	–	–	100
Parkmobile 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 Limited, Basingstoke	–	–	100
Parkmobile Software BV, Amsterdam	–	–	100
Parkmobile 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 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
ReachNow, LLC, Wilmington, Delaware	–	–	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 Financial Services Singapore Pte Ltd., Singapore	–	–	100
BMW India Leasing Pvt. Ltd., Gurgaon	–	–	100
BMW Insurance Services Korea Co. Ltd., Seoul	–	–	100
BMW Philippines Corp., Manila	–	–	70
Herald International Financial Leasing Co., Ltd., Tianjin	–	–	100
THEPSATRI Co., Ltd., Bangkok[9]	–	–	49

BMW AG's associated companies, joint ventures and joint operations at 31 December 2016

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Companies	Equity in € million	Profit/loss in € million	Capital investment in %
Joint ventures – equity accounted			
DOMESTIC			
DriveNow GmbH & Co. KG, Munich[8]	38	– 2	50
DriveNow Verwaltungs GmbH, Munich[8]	–	–	50
FOREIGN			
BMW Brilliance Automotive Ltd., Shenyang[8]	4,678	1,061	50
Associated companies – equity accounted			
FOREIGN			
THERE Holding B.V., Amsterdam[8]	2,003	–	33
Joint operations – proportionately-consolidated entities			
DOMESTIC			
SGL Automotive Carbon Fibers GmbH & Co. KG, Munich[8]	43	10	49
SGL Automotive Carbon Fibers Verwaltungs GmbH, Munich[8]	–	–	49
FOREIGN			
SGL Automotive Carbon Fibers, LLC, Dover, Delaware[8]	44	2	49
Not equity accounted or proportionately-consolidated entities			
DOMESTIC[1]			
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[1]			
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
Parkmobile International Holding BV, Utrecht[10]	–	–	18
Mini Urban X Accelerator SPV, LLC, Wilmington, Delaware	–	–	46
Bavarian & Co. Ltd., Incheon	–	–	20

BMW AG's participations at 31 December 2016

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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	-	-	16.7
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]			
Chargemaster Plc., Luton	-	-	1.5
Gios Holding B.V., Oss	-	-	12.0
JustPark Parking Limited, London	-	-	6.7
Parkopedia Ltd., Birmingham	-	-	10.6
Carbon, Inc., Wilmington, Delaware	-	-	1.1
ChargePoint, Inc., Wilmington, Delaware	-	-	3.6
Desktop Metal, Inc., Wilmington, Delaware	-	-	0.3
Life360, Inc., Dover, Delaware	-	-	3.3
Nauto, Inc., Dover, Delaware	-	-	1.1
Rever Moto, Inc., Wilmington, Delaware	-	-	16.9
RideCell, Inc., Wilmington, Delaware	-	-	18.6
Scoop Technologies, Inc., Wilmington, Delaware	-	-	9.1
Srividya Tech, Inc., Wilmington, Delaware	-	-	11.8
striVB Labs., Inc., Camden, Delaware	-	-	1.7
Turo, Inc., Dover, Delaware	-	-	0.9
Zendrive, Inc., Dover, Delaware	-	-	2.7
ZIRX Technologies, Inc., Dover, Delaware	-	-	2.6
Moovit App Global Ltd., St. Ness Ziona	-	-	1.2

[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] Significant influence.
[11] Exemption pursuant to Article 2:403 of the Civil Code of the Netherlands applied.
[12] First-time consolidation.
[13] First-time consolidation in the financial year 2016: BMW Leasing (GB) Ltd., Farnborough.

Munich, 14 February 2017

Bayerische Motoren Werke
Aktiengesellschaft

The Board of Management

Harald Krüger

Milagros Caiña Carreiro-Andree

Markus Duesmann

Klaus Fröhlich

Dr. Nicolas Peter

Dr. Ian Robertson (HonDSc)

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, fair and open cooperation between the Board of Management and the Supervisory Board as well as among employees, and compliance with existing laws. The Board of Management and Supervisory Board report in this statement on important aspects of corporate governance pursuant to §§ 289, 315 (5) 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) based on 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 authorities 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 specified capital measures, and elects the shareholders' representatives to the Supervisory Board. The Board of Management manages the enterprise under its own responsibility. Within this framework, it is monitored and advised by the Supervisory Board. The Supervisory Board appoints the members of the Board of Management and can, at any time, revoke an appointment for important reasons. The Board of Management keeps the Supervisory Board informed of all significant matters regularly, promptly and comprehensively, following the principles of conscientious and faithful accountability and in accordance with prevailing law and the reporting duties allocated to it 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 enterprise 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 2015, 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), as announced with the exception of section 4.2.5 sentences 5 and 6.

2. BMW AG will in future comply with all of the recommendations published officially on 12 June 2015 in the Federal Gazette (Code version dated 5 May 2015), with the exception of section 4.2.5 sentences 5 and 6.

3. 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 with respect to their interpretation and doubts as to whether the supplementary use of model tables 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 2016

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

Dr.-Ing. Klaus Draeger (*1956)
Purchasing and Supplier Network
(until 30 September 2016)
Mandates
━ TÜV SÜD AG (since 15 July 2016)

Markus Duesmann (*1969)
Purchasing and Supplier Network
(since 1 October 2016)
Mandates
— BMW Motoren GmbH (until 7 November 2016)

Dr. Friedrich Eichiner (*1955)
Finance
(until 31 December 2016)
Mandates
━ Allianz Deutschland AG (until 30 June 2016)
━ Allianz SE (since 4 May 2016)
━ FESTO Aktiengesellschaft
— BMW Brilliance Automotive Ltd. (Deputy Chairman, until 1 January 2017)
— FESTO Management Aktiengesellschaft

Klaus Fröhlich (*1960)
Development
Mandates
— HERE International B.V.

Dr. Nicolas Peter (*1962)
Finance
(since 1 January 2017)
Mandates
— BMW Brilliance Automotive Ltd. (Deputy Chairman, since 1 January 2017)

Dr. Ian Robertson (HonDSc) (*1958)
Sales and Marketing BMW,
Sales Channels BMW Group
Mandates
— Weybourne Limited (since 3 January 2017)
— Weybourne Group Limited (since 25 February 2016)
— Weybourne Investments Holdings (since 25 February 2016)
— Weybourne Management Limited (since 25 February 2016)

Peter Schwarzenbauer (*1959)
MINI, Motorrad, Rolls-Royce,
Aftersales BMW Group
Mandates
— 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.
- - - Other mandates.

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 (since 8 June 2016)

Mandates
- E.ON SE (Chairman, since 8 June 2016)
- Bertelsmann Management SE (until 9 May 2016)
- Bertelsmann SE & Co. KGaA (until 9 May 2016)
- Deutsche Lufthansa Aktiengesellschaft
- Verizon Communications Inc.

Christiane Benner[2] (*1968)
Member since 2014
Second Chairman of IG Metall

Mandates
- Robert Bosch GmbH

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 1 January 2017
Head of Indirect Purchasing

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

[1] Employee representatives (company employees).
[2] Employee representatives (union representatives).
[3] Employee representatives (members of senior management).
— (bold) Membership of other statutory supervisory boards.
— Membership of equivalent national or foreign boards of business enterprises.
- - - Other mandates.

Prof. Dr. rer. nat. Dr.-Ing. E.h. Henning Kagermann (*1947)
Member since 2010
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

Ulrich Kranz[3] (*1958)
Member from 2014 to 31 December 2016
Head of Product Line BMW i

Dr. h.c. Robert W. Lane (*1949)
Member since 2009
Former Chairman and Chief Executive Officer of Deere & Company

Mandates

– General Electric Company

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
Member of Management of Boehringer Ingelheim Gruppe, Finance (since 1 September 2016)

Mandates

— Delvag Luftfahrtversicherungs-AG (Chairman) (until 31 August 2016)
— Deutsche Post AG
— LSG Lufthansa Service Holding AG (Chairman) (until 31 December 2016)
— Lufthansa Cargo AG (until 31 December 2016)
— Lufthansa Technik AG (until 31 December 2016)
- - - FWB Frankfurter Wertpapierbörse (Exchange Council) (until 31 August 2016)
- - - Miles & More GmbH (Chairman Advisory Board) (until 31 August 2016)

[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.
- - - Other mandates.

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

COMPOSITION AND WORK PROCEDURES OF THE BOARD OF MANAGEMENT OF BMW AG AND ITS COMMITTEES

The Board of Management governs 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.

The Board of Management takes its decisions at meetings generally held on a weekly basis which are 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 Marketing BMW, Sales Channels BMW Group; and MINI, Motorcycles, Rolls-Royce, Aftersales BMW Group. 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-taking 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 dint of 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 stipulated specific transactions which require the approval of the Supervisory Board. 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 and budgeted figures.

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 has a quorum 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 in written, fax or electronic form via another Supervisory Board member. 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 (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 (see "Overview of Supervisory Board committees and their composition"). 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.

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.

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 (see "Report of the Supervisory Board" for details of the number of meetings held in 2016).

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 only have a quorum 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 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, including 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 § 20 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 points 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. 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 § 20 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 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 — 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 interest of the Group and after due consideration of all relevant circumstances.

Composition objectives of the Supervisory Board, 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 has approved the following concrete objectives for its composition, taking into account recommendations contained in the German Corporate Governance Code. 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 figures from the worlds of business, science or research who have experience in areas relevant to the BMW Group, e.g. chemistry, energy supply, information technology, or who have specialist knowledge in fields relevant for the future of the BMW Group, e.g. 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 would benefit 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 twelve 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 legislation, members of the Supervisory Board are to take care that no persons will be nominated for election with whom a serious, 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 should generally 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 2017. Proposals for nomination made by the Supervisory Board at 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 at the Annual General Meeting. The Annual General Meeting is not bound by nominations for election proposed by the Supervisory Board. The freedom of employees to 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 freedom to vote.

In the Supervisory Board's opinion, its composition as at 31 December 2016 fulfilled the composition objectives detailed above. In order to make it easier to assess the actual composition and 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 to mandates in other statutory supervisory boards and equivalent national or foreign company boards, including the length of their 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 very 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 enterprise 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, the fact that a member has a substantial shareholding in the Company, or holds office as an employee representative, or was previously a member of the Board of Management, does not rule out that he or she is independent. 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 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. At least three members meet the requirements for being designated as an independent financial expert. 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. The Supervisory Board does not currently have any members more than 70 years old.

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 and a time frame for attaining these targets with respect to the two executive management levels below the Board of Management. As its target for the Board of Management through to 31 December 2016, the Supervisory Board had stipulated that the Board of Management should continue to have at least one female member. This target was achieved: the Board of Management has one female member (12.5 %).

As its target for the proportion of women on 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 %. 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.

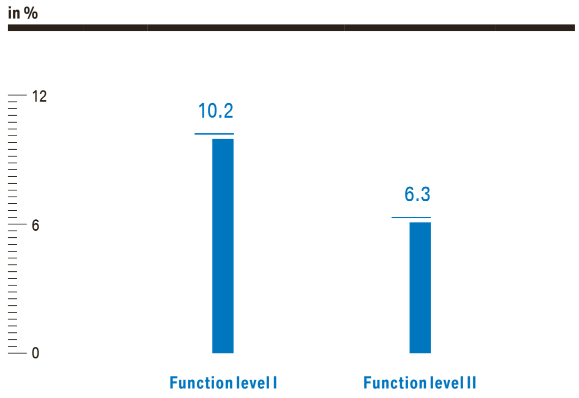
For the first target attainment time frame up to 31 December 2016, target ranges of 10 to 12 % and 6 to 8 % respectively were set by the Board of Management for the proportion of women to be represented in the first and second levels of executive management. On 31 December 2016, the proportion of women within the first and second executive management levels stood at 10.2 % and 6.3 % respectively. The targets were therefore achieved within the stipulated time frame.

For the next target attainment time frame, which has been selected to run to 31 December 2020, the Board of Management has set target ranges of 10.2 – 12 % for the first level of executive management and 8 – 10 % for the second.

Top management within the BMW Group is structured in terms of functions, following a consistent job evaluation system based on Mercer.

Proportion of female executives within management / function levels I and II at BMW AG

→ 65



Diversity contributes to greater competitiveness and innovation at BMW Group. Working together in mixed, complementary teams raises performance levels and helps sharpen the focus on the customer. The requirement of an appropriate gender balance is seen as an essential component of the BMW Group's diversity concept. Further increase in the proportion of women therefore remains an objective of the Board of Management.

During 2016, the proportion of women in both the workforce as a whole and in management positions increased, reflecting the positive impact 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. 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 the employees of the BMW Group are obliged to act responsibly and in compliance with applicable laws and regulations.

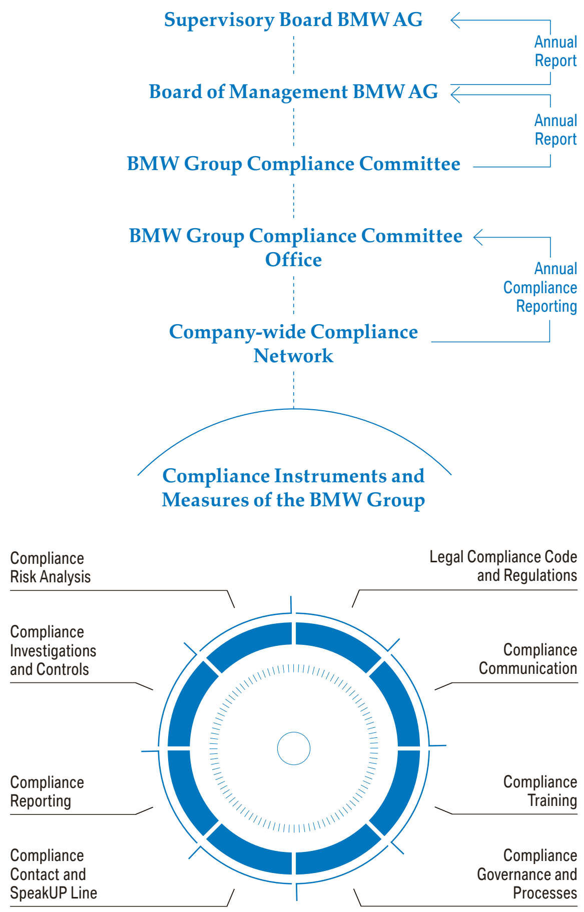
This principle has been embedded in BMW Group's internal rules of conduct for many years. In order to protect itself systematically against compliance-related and reputational risks, the Board of Management created a Compliance Committee several years ago, mandated to establish a worldwide Compliance Management System throughout the BMW Group.

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 non-compliance with the law. These activities include training, information and communication measures, compliance controls and following up 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/preventative measures implemented. This ensures that the Board of Management is immediately notified of any cases of particular significance.

BMW Group Compliance Management System

→ 66



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 13 employees and is allocated in organisational terms to the Chairman of the Board of Management.

The Chairman of the BMW Group Compliance Committee keeps the Audit Committee (which is part of the Supervisory Board) informed on the current status of compliance activities within the BMW Group, both on a regular and a case-by-case basis as the need arises.

The Board of Management keeps track of and analyses compliance-related developments and trends on the basis of the Group's compliance reporting and input from the BMW Group Compliance Committee. Measures to improve the Compliance Management System are initiated on the basis of identified requirements. In 2016, to strengthen local compliance management, local compliance functions were established at 69 BMW Group affiliated companies. Their activities follow a standardised management process with clearly defined tasks and responsibilities.

A coordinated set of instruments and measures is employed to ensure that the BMW Group, its representative bodies, its managers and staff act in a lawful manner. Particular emphasis is placed on compliance with antitrust legislation and the avoidance of corruption risks. Compliance measures are supplemented by a whole range of internal policies, guidelines and instructions, which in part reflect applicable legislation. The BMW Group Policy "Corruption Prevention" and the BMW Group Instruction "Corporate Hospitality and Gifts" deserve particular mention: these documents deal with lawful handling of gifts and benefits and define appropriate assessment criteria and approval procedures for specified actions. In 2016 a new BMW Group Policy "Antitrust Compliance", was introduced in 2016 to establish binding rules of conduct for all employees across the BMW Group to prevent unlawful restriction of competition.

Compliance measures are determined and prioritised on the basis of a group-wide compliance risk assessment covering all 340 organisational units and functions worldwide within the BMW Group. The assessment of compliance risks is updated annually. Measures are realised with the aid of a regionally structured compliance management team covering all parts of the BMW Group, which oversees a network of more than 210 Compliance Responsibles.

The various elements of the BMW Group Compliance Management System are shown in the diagram on the previous page and are applicable for all BMW Group organisational units worldwide. To the extent that additional compliance requirements apply to individual countries or specific lines of business, these are covered by supplementary compliance measures.

The BMW Group Legal Compliance Code is the cornerstone of the Group's Compliance Management System, spelling out the Board of Management's commitment to compliance as a joint responsibility ("tone from the top"). This document, which was revised and expanded in 2016, explains the significance of legal compliance and provides an overview of the various areas relevant 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.

Managers in particular bear a high degree of responsibility and must set a good example with regard to preventing infringements. Managers throughout the BMW Group acknowledge this principle by signing a written declaration, in which they also undertake to inform staff working for them of the content and significance of the Legal Compliance Code and make them aware of legal risks. Managers must, at regular intervals and on their own initiative, verify compliance with the law and communicate regularly with staff on this issue. Any indication of non-compliance with the law must be rigorously investigated.

More than 32,500 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 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 this basic training, more in-depth training is also provided to certain groups of staff on specific compliance issues. Since 2013, employees have been trained related to an extended Antitrust law training, targeting employees who come into contact with antitrust-related issues as a result of their functions within sales and marketing, purchasing, production or development. Around 16,900 employees have already completed this training. The relevant divisions also implemented and stepped up further antitrust compliance measures and processes in 2016 to make employees who participate in meetings with competitors or work with suppliers or sales partners sufficiently aware of antitrust risks.

Additional compliance coaching has also been implemented for international sales and financial service locations in local markets. These multi-day classroom seminars strengthen the understanding of compliance in selected organisational units and enhance cooperation between the central BMW Group Compliance Committee Office and decentralised compliance offices. In 2016, market coaching was conducted in Italy, Belgium, Austria, China and Japan.

In order to avoid legal risks, all members of staff are expected to discuss compliance 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 non-employees for any questions regarding compliance.

Employees also have the opportunity to submit information – anonymously and confidentially – via the BMW Group SpeakUP Line about possible breaches of the law within the company. 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 engaged in activities.

Compliance-related queries and concerns are documented and followed up by the BMW Group Compliance Committee Office using an electronic Case Management System. If necessary, Corporate Audit, Corporate Security, the Works Council and legal departments may be called upon to assist in the investigation process.

Through the group-wide reporting system, Compliance Responsibles throughout the BMW Group report 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 and incidences of non-compliance, as well as on corrective or preventative measures implemented.

Compliance with and implementation of the Legal Compliance Code are audited regularly by Corporate Audit and subjected 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, three BMW Group Compliance Spot Checks, sample tests specifically designed to identify potential corruption risks, were carried out in 2016. 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.

It is essential that employees are aware of and comply with applicable legal regulations. The BMW Group does not tolerate violations of the law by its employees. Culpable violations of the law result in employment-contract sanctions and may involve personal liability consequences for the employee involved.

To avoid this, BMW Group employees are kept fully up-to-date with the instruments and measures used by the Compliance Management System via various internal channels. As of 2014, all new staff receive a welcome email underscoring the BMW Group's special commitment to compliance when they join the company. The central means of communication is the Compliance website within the BMW Group's intranet, where employees can find compliance-related information and access training materials 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 matters. Since mid-2015, BMW Group employees have also had access to an IT system, which helps them verify legal admissibility and approve and document benefits, especially in connection with corporate hospitality.

In the same way that the BMW Group is committed to lawful and responsible conduct, it expects no less from its business partners. In 2012, the BMW Group developed a new 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 – such as communication measures, training and possible monitoring – are implemented to manage compliance risks. The Business Relations Compliance programme has already been introduced in 37 organisational units since its launch and, over the coming years, will be rolled out successively throughout the BMW Group's worldwide sales organisation. In 2016, the company also continued integrating compliance clauses to protect contractual relationships into dealer and importer contracts. An IT system to verify customer integrity was developed and introduced in 20 markets under expanded anti-money-laundering measures.

The BMW Group is committed to respecting internationally recognised human rights, in particular the UN Guiding Principles on Business and Human Rights, the ten principles of the UN Global Compact and the ILO Core Labour Conventions. The company focuses on topics and areas of activity where it can leverage its influence as a commercial enterprise.

The BMW Group underlined 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 upgrading of measures to protect human rights. Henceforth, these already established measures were integrated into the BMW Group's group-wide Compliance Management System in 2016.

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 all matters relating to compliance. Employee representatives are therefore regularly involved in the process of refining compliance measures within the BMW Group.

In the interest of investor protection and to ensure that the BMW Group complies with regulations relating to potential insider information, the Board of Management appointed an Ad-hoc Committee back in 1994, consisting of representatives of various specialist departments, whose members examine the relevance of issues for ad-hoc disclosure purposes. All persons working on behalf of the company who have access to insider information in accordance with existing rules have been, and continue to be, included in a corresponding, regularly updated 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 2016 are also reported on the Company's website.

Shareholdings of members of the Board of Management and the Supervisory Board

The members of the Supervisory Board of BMW AG hold in total 27.99 % of the Company's shares of common and preferred stock (2015: 43.00 %), of which 16.25 % (2015: 31.26 %) relates to Stefan Quandt, Germany, and 11.73 % (2015: 26.74 %) to Susanne Klatten, Germany. The change from the previous year is almost entirely due to shares held by Johanna Quandt GmbH & Co. KG für Automobilwerte no longer being attributed to Stefan Quandt and Susanne Klatten following the dissolution of the community of heirs. The shareholdings of the members of the Board of Management total less than 1 % of all issued shares.

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 2016 employees were entitled to acquire packages of between four and eleven shares of non-voting preferred stock with a discount of €22.72 (2015: €20.83) per share compared to the market price (average closing price in Xetra trading during the period from 4 to 9 November 2016: €66.86). 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 305,029 (2015: 309,944) shares of preferred stock were acquired by employees under the programme in 2016; 305,000 (2015: 309,860) of these shares were drawn from Authorised Capital 2014, the remainder were bought back via the stock exchange. 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

The following section describes the principles governing the compensation of the Board of Management and the stipulations set out in the statutes relating to the compensation of the Supervisory Board. In addition to explaining the compensation system, the components of compensation are also disclosed in absolute figures. Furthermore, the compensation of each member of the Board of Management and the Supervisory Board for the financial year 2016 is disclosed per individual member and analysed in 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 necessary 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. One further principle applied when designing remuneration systems at BMW is that of consistency at different levels. 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 carries out regular checks to ensure that all Board of Management compensation components are appropriate, both individually and in total, and do not encourage the Board of Management to take inappropriate risks on behalf of the BMW Group. At the same time, the compensation model used for the Board of Management needs to be sufficiently 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 nature of the tasks allocated to each 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 assessment criteria take account of both positive and negative developments and that the package as a whole encourages a long-term approach to business performance. Targets and other parameters may not be changed retrospectively. The Supervisory Board reviews the appropriateness of the compensation system annually. In preparation, the Personnel Committee also consults remuneration studies. The Supervisory Board reviews the appropriateness of the compensation system in horizontal terms by comparing compensation paid by other DAX companies and in vertical terms by comparing board compensation with the salaries of executive managers and with the average salaries of employees of BMW AG based in Germany, in both cases with regard to their various levels and to changes 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

The compensation of the Board of Management comprises both fixed and variable remuneration as well as a share-based component. Retirement and surviving dependants' benefit entitlements are also in place.

Fixed remuneration

Fixed remuneration consists of a base salary (paid monthly) and other remuneration elements, which comprise mainly the use of company and leased cars as well as the payment of insurance premiums, contributions towards security systems and an annual medical check-up. Members of the Board of Management are also entitled to purchase vehicles and other services of the BMW Group at conditions that also apply in each relevant case for employees.

The basic remuneration of members of the Board of Management was unchanged from the previous year, namely €0.75 million p. a. for a board member during the first term of office, €0.9 million p. a. for a board member from the second term of office or fourth year of office onwards 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 on the one hand and a share-based remuneration component on the other.

Variable cash remuneration, in particular bonuses

Variable cash remuneration consists of a cash bonus and share-based remuneration component equivalent to 20 % of a board member's total bonus after taxes, which the board member is required to invest in BMW AG common stock. Taxes and social insurance relating to the share-based remuneration are also borne by the Company. In justified cases, the

Supervisory Board also has the option of paying an additional special bonus.

The bonus comprises two components, each equally weighted, namely a corporate earnings-related bonus and a personal performance-related bonus. The target bonus (100 %) for a Board of Management member, for both components of variable compensation, totals €1.5 million p. a., rising to €1.75 million p. a. from the second term or fourth year of office onwards. The equivalent figure for the Chairman of the Board of Management is €3 million p. a. The bonus figure is capped for all Board of Management members at 200 % of the relevant target bonus.

The corporate earnings-related bonus is based on the BMW Group's net profit and post-tax return on sales (which are combined in a single earnings factor) and the level of the dividend (common stock). The corporate earnings-related bonus is derived by multiplying the target amount fixed for each member of the Board of Management by the earnings factor and by the dividend factor. In exceptional circumstances, for instance when there have been major acquisitions or disposals, the Supervisory Board may adjust the level of the corporate earnings-related bonus.

An earnings and dividend factor of 1.00 would give rise to an earnings-based bonus of €0.75 million for the financial year 2016 for a member of the Board of Management during the first period of office and one of €0.875 million during the second term of appointment or from the fourth year in office. The equivalent bonus for the Chairman of the Board of Management is €1.5 million. The earnings factor is 1.00 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 1.00 in the event that the dividend paid on the shares of common stock is between 101 and 110 cents. If the Group net profit were below €2 billion, or if the post-tax return on sales were less than 2 %, the earnings factor for the financial year 2016 would be zero. In this case, no corporate earnings-related bonus would be paid.

The personal 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 its assessment of the contribution of the relevant Board of Management member to sustainable and long-term oriented business development. In setting the factor, equal consideration is given to personal performance and decisions taken in previous planning periods, key decisions affecting the future development of the business and the effectiveness of measures taken in response to changing external conditions as well as other activities aimed at safeguarding the future viability of the business to the extent not included directly in the basis of measurement. Performance factor criteria include innovation (economic and ecological, e.g. reduction of carbon emissions), customer focus, ability to adapt, leadership accomplishments, shaping corporate culture and promoting integrity, contributions to the Company's attractiveness as an employer, progress in implementing the diversity concept, and activities that foster corporate social responsibility. The target bonus and the key figures used to determine the corporate earnings-related bonus are fixed in advance for a period of three financial years, during which time they may not be amended retrospectively.

Share-based remuneration programme

The compensation system includes a share-based remuneration programme, in which the level of share-based remuneration is based on the amount of bonus paid. The system is aimed at creating further long-term incentives to encourage sustainable governance.

This programme envisages a share-based remuneration component equivalent to 20 % of the board member's total bonus after taxes, which the board member is required to invest in BMW AG common stock. Taxes and social insurance relating to the share-based remuneration component are borne by the Company. As a general rule, the shares must be held for a minimum of four years. As part of a matching plan, at the end of the holding period the Board of Management members will normally receive from the Company either one additional share of common stock or an equivalent cash amount for three shares of common stock held, 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 early termination of the contractual relationship before fulfilment of the holding period.

Retirement and surviving dependants' benefits

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 with effect from 1 January 2010. However, given the fact that board members appointed for the first time prior to 1 January 2010 for the most part had a legal right to receive the benefits already promised to them, these board members were given the option to choose between the previous system and the new one.

In the event of the termination of mandate, Board of Management members appointed for the first time prior to 1 January 2010 are entitled to receive certain defined benefits in accordance with the rules of an older (defined benefit) pension plan. Under the defined benefit plan, the entitlement to retirement benefits arises at the earliest on reaching the age of 60 or in case of invalidity. The amount of the pension comprises a basic monthly amount of €10,000 plus a fixed amount. The fixed amount is made up of approximately €75 for each year of service in the Company before becoming a member of the Board of Management plus between €400 and €600 for each full year of service on the board (up to a maximum of 15 years). Pension payments are adjusted based on the rules applicable for the adjustment of civil servants' pensions, i.e. the pensions of members of the Board of Management are adjusted when the civil servants remuneration level B6 (excluding allowances) is increased by more than 5 % or in accordance with the Company Pension Act.

Overview of compensation system and compensation components

Component	Parameter / measurement base
BASIC COMPENSATION P. A.	
	Member of the Board of Management: — €0.75 million (first term of appointment) — €0.90 million (from second term of appointment onwards or fourth year in office) Chairman of the Board of Management: — €1.50 million
VARIABLE COMPENSATION	
Bonus	Target bonuses p. a. (if target is 100 % achieved): — €1.50 million (first term of appointment) — €1.75 million (from second term of appointment onwards or fourth year in office) — €3.00 million (Chairman of the Board of Management)
a) Corporate earnings-related bonus (corresponds to 50 % of target bonus if target is 100 % achieved)	— Quantitative criteria fixed in advance for a period of three financial years — Formula: 50 % of target bonus x earnings factor x dividend factor (common stock) — The earnings factor is derived from the Group net profit and the Group post-tax return on sales
b) Performance-related bonus (corresponds to 50 % of target bonus if target is 100 % achieved)	— Primarily qualitative criteria, expressed in terms of a performance factor aimed at measuring the board members' contribution to sustainable and long-term performance and the future viability of the business — Formula: 50 % of target bonus x performance factor — Criteria for the performance factor also include: innovation (economic and ecological, e.g. reduction of CO_2 emissions), customer orientation, ability to adapt, leadership accomplishments, corporate culture and promoting integrity, attractiveness as employer, progress in implementing the diversity concept and activities that foster corporate social responsibility
Special bonus payments	May be paid in justified circumstances on an appropriate basis, 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 COMPENSATION	
	Contractual agreement, main points: use of Company cars, insurance premiums, contributions towards security systems, medical check-up

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)

in € p. a.	Bonus	Share-based compensation programme: Cash compensation for share acquisition	Share-based compensation programme: Monetary value of matching component	Possible special bonus	Total*
Member of the Board of Management in the first term of appointment	3,000,000	700,000	700,000	1,000,000	4,925,000
Member of the Board of Management in the second term of appointment or from fourth year in office	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 basic remuneration, 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 entitlements which can be paid either (a) in case of death or invalidity as a one-off amount or in instalments, or (b) upon retirement – depending on the wish of the ex-board member concerned – in the form of a lifelong monthly pension, as a one-off amount, in instalments, or in a combined form (for instance a combination of a one-off payment and a proportionately reduced lifelong monthly pension). 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 arises 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 otherwise surviving children – in the latter case depending on their age and education – are entitled to receive benefits as surviving dependants. In case of invalidity or death, the minimum benefit promised is based on the number of annual contributions possible up to the age of sixty (up to a maximum of 10). In addition, following the death of a retired board member who has elected to receive a lifelong pension, 60 % of that amount is paid as a lifelong widow's pension. 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 to be paid amounts to between €350,000 and €400,000 for each member of the Board of Management 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.

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.

Board of Management members who retire immediately after their service on the board and who draw a retirement pension are entitled to purchase vehicles and BMW Group services at conditions that also apply for Company pensioners and to lease BMW Group vehicles in accordance with the guidelines applicable to senior heads of departments. 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 departments, 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 consensual early termination of Dr Eichiner's Board of Management mandate with effect from the expiry of 31 December 2016, the Company also reached an agreement with Dr Eichiner concerning an amendment to his service contract, which ends on 31 May 2017. For the period from the termination of his board mandate through to 31 May 2017, he continues to receive fixed compensation of €0.38 million. A payment of €0.75 million, payable in 2017, was agreed to settle all other compensation entitlements for the remainder of the contractual period. The Company will make a final pension contribution of €0.167 million on behalf of Dr Eichiner for the financial year 2017.

No commitments or agreements exist to pay compensation for early termination of a board member's mandate in the event of a change of control or a takeover offer. No members of the Board of Management received any payments or benefits from third parties in 2016 on account of their activities as members of the Board of Management.

Remuneration caps

The Supervisory Board has stipulated caps for variable remuneration components and for the remuneration of Board of Management members in total. The caps are shown in the table "Overview of compensation system and compensation components".

Total compensation of the Board of Management for the financial year 2016 (2015)

The total compensation of the current members of the Board of Management of BMW AG for the financial year 2016 amounted to €37.6 million (2015: €35.5 million), of which €7.8 million (2015: €7.7 million) relates to fixed components (including other remuneration). Variable components amounted to €29.0 million (2015: €27.1 million) and the share-based remuneration component to €0.8 million (2015: €0.7 million).

	2016		2015	
in € million	Amount	Proportion in %	Amount	Proportion in %
Fixed compensation	7.8	20.8	7.7	21.7
Variable cash compensation	29.0	77.1	27.1	76.3
Share-based compensation component*	0.8	2.1	0.7	2.0
Total compensation	**37.6**	**100.0**	**35.5**	**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 2016 (2015)

in € or number of matching shares	Fixed compensation			Variable cash compensation	Share-based compensation component (matching component)[1]		Compensation Total	Total value of benefits allocated in financial year[2]
	Basic compensation	Other compensation	Total		Number	Monetary value		
Harald Krüger	**1,500,000**	**18,719**	**1,518,719**	**5,947,178**	**1,752**	**161,622**	**7,627,519**	**7,545,122**
	(1,280,645)	(21,809)	(1,302,454)	(4,786,438)	(1,478)	(130,079)	(6,218,971)	(6,088,892)
Milagros Caiña Carreiro-Andree	**900,000**	**74,461**	**974,461**	**3,469,214**	**1,097**	**101,198**	**4,544,873**	**4,443,675**
	(825,000)	(74,717)	(899,717)	(3,058,588)	(1,014)	(89,242)	(4,047,547)	(3,958,305)
Klaus Draeger[3]	**675,000**	**29,440**	**704,440**	**2,601,910**	**823**	**75,922**	**3,382,272**	**3,404,174**
	(900,000)	(24,797)	(924,797)	(3,293,863)	(1,092)	(96,107)	(4,314,767)	(4,218,660)
Markus Duesmann[4]	**187,500**	**13,929**	**201,429**	**743,403**	**288**	**21,629**	**966,461**	**944,832**
	(–)	(–)	(–)	(–)	(–)	(–)	(–)	(–)
Friedrich Eichiner[5]	**900,000**	**25,413**	**925,413**	**3,469,214**	**1,097**	**101,198**	**4,495,825**	**4,492,451**
	(900,000)	(23,982)	(923,982)	(3,293,863)	(1,092)	(96,107)	(4,313,952)	(4,217,845)
Klaus Fröhlich	**750,000**	**57,311**	**807,311**	**2,973,589**	**876**	**80,811**	**3,861,711**	**3,780,900**
	(750,000)	(71,792)	(821,792)	(2,823,290)	(871)	(76,657)	(3,721,739)	(3,645,082)
Ian Robertson	**900,000**	**18,735**	**918,735**	**3,469,214**	**1,097**	**101,198**	**4,489,147**	**4,483,005**
	(900,000)	(14,501)	(914,501)	(3,293,863)	(1,092)	(96,107)	(4,304,471)	(4,208,364)
Peter Schwarzenbauer	**862,500**	**32,689**	**895,189**	**3,345,313**	**1,058**	**97,601**	**4,338,103**	**4,240,502**
	(750,000)	(31,101)	(781,101)	(2,823,311)	(936)	(82,377)	(3,686,789)	(3,604,412)
Oliver Zipse	**750,000**	**114,694**	**864,694**	**2,973,589**	**876**	**80,811**	**3,919,094**	**3,838,283**
	(475,806)	(44,089)	(519,895)	(1,791,119)	(457)	(48,602)	(2,359,616)	(2,311,014)
Total[6]	**7,425,000**	**385,391**	**7,810,391**	**28,992,624**	**8,964**	**821,990**	**37,625,005**	**37,172,944**
	(7,333,870)	(318,440)	(7,652,310)	(27,105,316)	(8,032)	(715,278)	(35,472,904)	(34,757,626)

[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 2016 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 30 September 2016.
[4] Member of the Board of Management since 1 October 2016.
[5] Member of the Board of Management until 31 December 2016.
[6] Disclosures for the previous year include amounts relating to a member of the Board of Management who left office during the financial year 2015.

In addition, an expense of €2.8 million (2015: €2.6 million) was recognised in the financial year 2016 for current members of the Board of Management for the period after the end of their service relationship, which 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 2016 amounted to €6.5 million (2015: €8.0 million).

Pension obligations to former members of the Board of Management and their surviving dependants are covered by pension provisions amounting to €86.4 million (2015: €71.8 million), recognised in accordance with IAS 19.

Share-based component of the individual members of the Board of Management for the financial year 2016 (2015)

in €	Expense in 2016 in accordance with HGB and IFRS	Provision at 31.12.2016 in accordance with HGB and IFRS[1]
Harald Krüger	**279,932**	**557,844**
	(166,581)	(369,498)
Milagros Caiña Carreiro-Andree	**15,276**	**284,247**
	(109,760)	(268,970)
Klaus Draeger[2]	**102,338**	**465,494**
	(90,275)	(497,690)
Markus Duesmann[3]	**2,130**	**2,130**
	(–)	(–)
Friedrich Eichiner[4]	**127,176**	**489,900**
	(133,415)	(497,259)
Klaus Fröhlich	**76,878**	**111,253**
	(34,245)	(34,375)
Ian Robertson	**68,865**	**435,753**
	(224,354)	(491,185)
Peter Schwarzenbauer	**95,615**	**196,362**
	(59,311)	(100,747)
Oliver Zipse	**61,370**	**71,285**
	(9,915)	(9,915)
Total[5]	**829,579**	**2,614,266**
	(1,106,057)	(2,959,655)

[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 30 December 2016 (88.75 €) (fair value at reporting date).
[2] Member of the Board of Management until 30 September 2016.
[3] Member of the Board of Management since 1 October 2016.
[4] Member of the Board of Management until 31 December 2016.
[5] Disclosures for the previous year include amounts relating to a member of the Board of Management who left office during the financial year 2015.

Pension entitlements

in €	Service cost in accordance with IFRS for the financial year 2016[5]	Service cost in accordance with HGB for the financial year 2016[5]	Present value of pension obligations (defined benefit plans), in accordance with IFRS[6]	Present value of pension obligations (defined benefit plans), in accordance with HGB[6]
Harald Krüger	**507,444**	**510,811**	**4,764,941**	**4,763,838**
	(175,287)	(358,331)	(3,993,819)	(3,992,702)
Milagros Caiña Carreiro-Andree	**358,490**	**360,785**	**1,879,851**	**1,879,263**
	(360,767)	(364,656)	(1,427,599)	(1,427,072)
Markus Duesmann[1]	**87,500**	**87,500**	**622,236**	**620,307**
	(–)	(–)	(–)	(–)
Friedrich Eichiner[2]	**189,754**	**407,706**	**6,856,658**	**5,622,284**
	(201,018)	(408,960)	(5,465,539)	(5,163,692)
Klaus Fröhlich	**354,365**	**356,743**	**1,935,142**	**1,935,142**
	(350,000)	(350,000)	(1,510,725)	(1,510,706)
Ian Robertson	**424,411**	**408,564**	**4,469,471**	**3,502,860**
	(448,139)	(411,555)	(3,279,690)	(2,968,379)
Peter Schwarzenbauer	**357,203**	**359,548**	**1,481,134**	**1,480,940**
	(360,305)	(364,312)	(1,081,408)	(1,081,155)
Oliver Zipse	**355,045**	**357,410**	**1,621,507**	**1,620,978**
	(221,667)	(221,667)	(1,188,313)	(1,187,721)
Total[3]	**2,634,212**	**2,849,067**	**23,630,940**	**21,425,612**
	(2,301,249)	(2,888,441)	(23,198,892)	(22,343,033)
Klaus Draeger[4]	**174,793**	**407,706**	**7,864,591**	**5,649,230**
	(184,066)	(408,960)	(5,251,799)	(5,011,606)

[1] Member of the Board of Management since 1 October 2016.
[2] Member of the Board of Management until 31 December 2016.
[3] Disclosures for the previous year include amounts relating to a member of the Board of Management who left office during the financial year 2015.
[4] Member of the Board of Management until 30 September 2016.
[5] 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).
[6] Based on a legal right to receive the benefits already promised to them, Board of Management members appointed for the first time prior to 1 October 2010 were given the option of choosing between the previous defined benefit model and the new defined contribution model.

2. Supervisory Board compensation

Responsibilities, regulation pursuant to Articles of Incorporation

The compensation of the Supervisory Board is specified either by a resolution of the shareholders at the Annual General Meeting or in the Articles of Incorporation. The compensation regulation valid for the financial year under report was resolved by shareholders at the Annual General Meeting on 14 May 2013 and is 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 a Company performance-related compensation component, which is oriented toward sustainable growth and based on a multi-year assessment. The Company performance-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 performance-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 business 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 a Company performance-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 Company 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 this combination of fixed compensation elements and a Company performance-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 (version dated 5 May 2015).

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 when determining the level of 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. Provided the relevant committee convened for meetings on at least three days during the financial year, 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. 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 of 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.

For performance of his duties, the Chairman of the Supervisory Board has the use of an office with administrative support, as well as the BMW car service.

Total compensation of the Supervisory Board for the 2016 financial year
In accordance with Article 15 of the Articles of Incorporation, the compensation of the Supervisory Board for activities during the financial year 2016 totalled €5.4 million (2015: €5.1 million). This amount includes fixed compensation of €2.0 million (2015: €2.0 million) and variable compensation of €3.4 million (2015: €3.1 million).

in € million	2016		2015	
	Amount	Proportion in %	Amount	Proportion in %
Fixed compensation	2.0	37.0	2.0	39.2
Variable compensation	3.4	63.0	3.1	60.8
Total compensation	**5.4**	**100.0**	**5.1**	**100.0**

Supervisory Board members did not receive any further compensation or benefits from the BMW Group for advisory and/or agency services personally rendered.

Compensation of the individual members of the Supervisory Board for the financial year 2016 (2015)

in €	Fixed compensation	Attendance fee	Variable compensation	Total
Norbert Reithofer (Chairman)	**210,000**	**10,000**	**390,660**	**610,660**
	(134,055)	(8,000)	(223,986)	(366,041)
Manfred Schoch (Deputy Chairman)[1]	**140,000**	**10,000**	**260,440**	**410,440**
	(140,000)	(10,000)	(233,920)	(383,920)
Stefan Quandt (Deputy Chairman)	**140,000**	**10,000**	**260,440**	**410,440**
	(140,000)	(10,000)	(233,920)	(383,920)
Stefan Schmid (Deputy Chairman)[1]	**140,000**	**10,000**	**260,440**	**410,440**
	(140,000)	(10,000)	(233,920)	(383,920)
Karl-Ludwig Kley (Deputy Chairman)	**140,000**	**8,000**	**260,440**	**408,440**
	(140,000)	(4,000)	(233,920)	(377,920)
Christiane Benner[1]	**70,000**	**10,000**	**130,220**	**210,220**
	(70,000)	(10,000)	(116,960)	(196,960)
Franz Haniel	**70,000**	**8,000**	**130,220**	**208,220**
	(70,000)	(10,000)	(116,960)	(196,960)
Reinhard Hüttl	**70,000**	**10,000**	**130,220**	**210,220**
	(70,000)	(10,000)	(116,960)	(196,960)
Henning Kagermann	**70,000**	**8,000**	**130,220**	**208,220**
	(70,000)	(10,000)	(116,960)	(196,960)
Susanne Klatten	**70,000**	**10,000**	**130,220**	**210,220**
	(70,000)	(10,000)	(116,960)	(196,960)
Renate Köcher	**70,000**	**10,000**	**130,220**	**210,220**
	(70,000)	(10,000)	(116,960)	(196,960)
Ulrich Kranz	**70,000**	**10,000**	**130,220**	**210,220**
	(70,000)	(10,000)	(116,960)	(196,960)
Robert W. Lane	**70,000**	**8,000**	**130,220**	**208,220**
	(70,000)	(10,000)	(116,960)	(196,960)
Horst Lischka[1]	**70,000**	**10,000**	**130,220**	**210,220**
	(70,000)	(8,000)	(116,960)	(194,960)
Willibald Löw[1]	**70,000**	**10,000**	**130,220**	**210,220**
	(70,000)	(10,000)	(116,960)	(196,960)
Simone Menne	**70,000**	**10,000**	**130,220**	**210,220**
	(44,685)	(8,000)	(74,662)	(127,347)
Dominique Mohabeer[1]	**70,000**	**10,000**	**130,220**	**210,220**
	(70,000)	(10,000)	(116,960)	(196,960)
Brigitte Rödig[1]	**70,000**	**8,000**	**130,220**	**208,220**
	(70,000)	(10,000)	(116,960)	(196,960)
Jürgen Wechsler[1]	**70,000**	**8,000**	**130,220**	**208,220**
	(70,000)	(8,000)	(116,960)	(194,960)
Werner Zierer[1]	**70,000**	**10,000**	**130,220**	**210,220**
	(70,000)	(10,000)	(116,960)	(196,960)
Total[2]	**1,820,000**	**188,000**	**3,385,720**	**5,393,720**
	(1,820,768)	(190,000)	(3,042,241)	(5,053,009)

[1] These employee representatives have – in line with the guidelines of the Deutsche Gewerkschaftsbund – requested that their remuneration be paid into the Hans Böckler Foundation.
[2] Figures for the previous year include the remuneration of members of the Supervisory Board who left office during the financial year of 2015.

3. Other

Apart from vehicle lease and financing contracts entered into on 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.

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, 14 February 2017

Bayerische Motoren Werke
Aktiengesellschaft

The Board of Management

Harald Krüger

Milagros Caiña Carreiro-Andree

Markus Duesmann

Klaus Fröhlich

Dr. Nicolas Peter

Dr. Ian Robertson (HonDSc)

Peter Schwarzenbauer

Oliver Zipse

BMW GROUP AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the Bayerische Motoren Werke Aktiengesellschaft, comprising the income statement for group and statement of comprehensive income for group, the balance sheet for group, cash flow statement for group, group statement of changes in equity and the notes to the group financial statements, together with the group management report for the business year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315 a Abs. 1 HGB [Handelsgesetzbuch "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315 a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with the German statutory requirements, and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Munich, 24 February 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Sailer	Feege
Wirtschaftsprüfer	Wirtschaftsprüfer

OTHER INFORMATION

5

BMW GROUP TEN-YEAR COMPARISON

		2016	2015	2014	2013
SALES VOLUME					
Automobiles	units	**2,367,603**	2,247,485	2,117,965	1,963,798
Motorcycles[1]	units	**145,032**	136,963	123,495	115,215
PRODUCTION VOLUME					
Automobiles	units	**2,359,756**	2,279,503	2,165,566	2,006,366
Motorcycles[1]	units	**145,555**	151,004	133,615	110,127
FINANCIAL SERVICES					
Contract portfolio	contracts	**5,114,906**	4,718,970	4,359,572	4,130,002
Business volume (based on balance sheet carrying amounts)[2]	€ million	**123,394**	111,191	96,390	84,347
INCOME STATEMENT					
Revenues	€ million	**94,163**	92,175	80,401	76,059
Gross profit margin[3]	%	**19.9**	19.7	21.2	20.1
Earnings before financial result	€ million	**9,386**	9,593	9,118	7,978
Earnings before tax	€ million	**9,665**	9,224	8,707	7,893
Return on sales (earnings before tax / revenues)	%	**10.3**	10.0	10.8	10.4
Income taxes	€ million	**2,755**	2,828	2,890	2,564
Effective tax rate	%	**28.5**	30.7	33.2	32.5
Net profit for the year	€ million	**6,910**	6,396	5,817	5,329
BALANCE SHEET					
Non-current assets	€ million	**121,671**	110,343	97,959	86,193
Current assets	€ million	**66,864**	61,831	56,844	52,184
Capital expenditure (excluding capitalised development costs)	€ million	**3,731**	3,826	4,601	4,967
Capital expenditure ratio (capital expenditure / revenues)	%	**4.0**	4.2	5.7	6.5
Equity	€ million	**47,363**	42,764	37,437	35,600
Equity ratio	%	**25.1**	24.8	24.2	25.7
Non-current provisions and liabilities	€ million	**73,183**	63,819	58,288	51,643
Current provisions and liabilities	€ million	**67,989**	65,591	59,078	51,134
Balance sheet total	€ million	**188,535**	172,174	154,803	138,377
CASH FLOW STATEMENT					
Cash and cash equivalents at balance sheet date	€ million	**7,880**	6,122	7,688	7,671
Operating cash flow Automotive segment[4]	€ million	**11,464**	11,836	9,423	9,964
PERSONNEL					
Workforce at year-end[5]		**124,729**	122,244	116,324	110,351
Personnel cost per employee	€	**99,575**	97,136	92,337	89,869
DIVIDEND					
Dividend total	€ million	**2,300**	2,102	1,904	1,707
Dividend per share of common stock / preferred stock	€	**3.50[6] / 3.52[6]**	3.20 / 3.22	2.90 / 2.92	2.60 / 2.62

[1] Excluding Husqvarna, sales volume up to 2013: 59,776 units; production up to 2013: 59,426 units.
[2] Amount computed on the basis of balance sheet figures: until 2007 from the Group balance sheet, from 2008 onwards from the Financial Services segment balance sheet.
[3] Research and development expenses included in cost of sales with effect from 2008.
[4] Figures are reported in the cash flow statement up to 2006 as cash inflow from operating activities of Industrial Operations.
[5] Figures exclude dormant employment contracts, employees in the non-work phases of pre-retirement part-time arrangements and low wage earners.
[6] Proposal by management.

2012	2011	2010	2009	2008	2007	
						SALES VOLUME
1,845,186	1,668,982	1,461,166	1,286,310	1,435,876	1,500,678	Automobiles
106,358	104,286	98,047	87,306	101,685	102,467	Motorcycles[1]
						PRODUCTION VOLUME
1,861,826	1,738,160	1,481,253	1,258,417	1,439,918	1,541,503	Automobiles
113,811	110,360	99,236	82,631	104,220	104,396	Motorcycles[1]
						FINANCIAL SERVICES
3,846,364	3,592,093	3,190,353	3,085,946	3,031,935	2,629,949	Contract portfolio
80,974	75,245	66,233	61,202	60,653	51,257	Business volume (based on balance sheet carrying amounts)[2]
						INCOME STATEMENT
76,848	68,821	60,477	50,681	53,197	56,018	Revenues
20.2	21.1	18.1	10.5	11.4	21.8	Gross profit margin[3]
8,275	8,018	5,111	289	921	4,212	Earnings before financial result
7,803	7,383	4,853	413	351	3,873	Earnings before tax
10.2	10.7	8.0	0.8	0.7	6.9	Return on sales (earnings before tax / revenues)
2,692	2,476	1,610	203	21	739	Income taxes
34.5	33.5	33.1	49.2	6.0	19.1	Effective tax rate
5,111	4,907	3,243	210	330	3,134	Net profit for the year
						BALANCE SHEET
81,305	74,425	67,013	62,009	62,416	56,619	Non-current assets
50,530	49,004	43,151	39,944	38,670	32,378	Current assets
4,151	2,720	2,312	2,383	2,980	2,933	Capital expenditure (excluding capitalised development costs)
5.4	4.0	3.8	4.7	5.6	5.2	Capital expenditure ratio (capital expenditure / revenues)
30,606	27,103	23,930	19,915	20,273	21,744	Equity
23.2	22.0	21.7	19.5	20.1	24.4	Equity ratio
52,834	49,113	46,100	45,119	41,526	33,469	Non-current provisions and liabilities
48,395	47,213	40,134	36,919	39,287	33,784	Current provisions and liabilities
131,835	123,429	110,164	101,953	101,086	88,997	Balance sheet total
						CASH FLOW STATEMENT
8,370	7,776	7,432	7,767	7,454	2,393	Cash and cash equivalents at balance sheet date
9,167	8,110	8,149	4,921	4,471	6,246	Operating cash flow Automotive segment[4]
						PERSONNEL
105,876	100,306	95,453	96,230	100,041	107,539	Workforce at year-end[5]
89,161	84,887	83,141	72,349	75,612	76,704	Personnel cost per employee
						DIVIDEND
1,640	1,508	852	197	197	694	Dividend total
2.50 / 2.52	2.30 / 2.32	1.30 / 1.32	0.30 / 0.32	0.30 / 0.32	1.06 / 1.08	Dividend per share of common stock / preferred stock

GLOSSARY

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.

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 expense ratio
Research and non-capitalised development costs 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.

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22 March 2017
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4 May 2017
Quarterly Report to 31 March 2017

11 May 2017
Annual General Meeting

3 August 2017
Quarterly Report to 30 June 2017

7 November 2017
Quarterly Report to 30 September 2017

2018

21 March 2018
Annual Report 2017

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

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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**.

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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-141-217903).

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