ANNUAL REPORT 2018

#Milestones
in Future Mobility

BMW GROUP

THE NEXT 100 YEARS

MINI

Rolls-Royce Motor Cars Limited

We are inventing the mobility of the future, in which we think and work in new ways. We invite you to learn more about how we see the future today.

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MILESTONES IN FUTURE MOBILITY

Our Annual Report is also available in digital form under: www.annual-report2018.bmwgroup.com

The figures for fuel consumption, CO_2 emissions and power consumption are calculated based on the measurement methods stipulated in the current version of Regulation (EU) 715 / 2007. This information is based on a vehicle with basic equipment in Germany; ranges take into account differences in wheel and tire size selected as well as optional equipment and can change based on configuration. Fuel consumption and CO_2 emissions information are available on page 108.

The figures have been calculated based on the new WLTP test cycle and adapted to NEDC for comparison purposes. In these vehicles, different figures than those published here may apply for the assessment of taxes and other vehicle-related duties which are (also) based on CO_2-emissions. These figures are provisional.

For further details of the official fuel consumption figures and official specific CO_2 emissions of new cars, please refer to the “Manual on fuel consumption, CO_2 emissions and power consumption of new cars”, available at www.dat.de/co2/.

TO OUR SHAREHOLDERS

1

BMW GROUP IN FIGURES

Key non-financial performance indicators

→ 01

	2014	2015	2016	2017	2018	Change in %
GROUP						
Workforce at year-end[1]	116,324	122,244	124,729	129,932	**134,682**	3.7
AUTOMOTIVE SEGMENT						
Deliveries[2]	2,117,965	2,247,485	2,367,603	2,463,526	**2,490,664**	1.1
Fleet emissions in g CO_2/km[3]	130	127	124	128[4]	**128**	–
MOTORCYCLES SEGMENT						
Deliveries	123,495	136,963	145,032	164,153	**165,566**	0.9

Further non-financial performance figures

→ 02

	2014	2015	2016	2017	2018	Change in %
AUTOMOTIVE SEGMENT						
Deliveries						
BMW[2]	1,811,719	1,905,234	2,003,359	2,088,283	**2,125,026**	1.8
MINI	302,183	338,466	360,233	371,881	**361,531**	–2.8
Rolls-Royce	4,063	3,785	4,011	3,362	**4,107**	22.2
Total[2]	**2,117,965**	**2,247,485**	**2,367,603**	**2,463,526**	**2,490,664**	**1.1**
Production volume						
BMW[5]	1,838,268	1,933,647	2,002,997	2,123,947	**2,168,496**	2.1
MINI	322,803	342,008	352,580	378,486	**368,685**	–2.6
Rolls-Royce	4,495	3,848	4,179	3,308	**4,353**	31.6
Total[5]	**2,165,566**	**2,279,503**	**2,359,756**	**2,505,741**	**2,541,534**	**1.4**
MOTORCYCLES SEGMENT						
Production volume						
BMW	133,615	151,004	145,555	185,682	**162,687**	–12.4
FINANCIAL SERVICES SEGMENT						
New contracts with retail customers	1,509,113	1,655,961	1,811,157	1,828,604	**1,908,640**	4.4

[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 (2014: 275,891 units, 2015: 282,000 units, 2016: 316,200 units, 2017: 384,124 units, 2018: 459,581 units).
[3] EU-28.
[4] Adjusted value based on planned conversion to WLTP (Worldwide Harmonised Light Vehicles Test Procedure).
[5] Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2014: 287,466 units, 2015: 287,755 units, 2016: 305,726 units, 2017: 396,749 units, 2018: 491,872 units).

Key financial performance indicators

→ 03

	2014	2015	2016	2017	2018	Change in %
GROUP						
Profit before tax[1] in € million	8,707	9,224	9,665	10,675	9,815	–8.1
AUTOMOTIVE SEGMENT						
Revenues[1] in € million	75,173	85,536	86,424	85,742	85,846	0.1
EBIT margin[1] in % (change in %pts)	9.6	9.2	8.9	9.2	7.2	–2.0
RoCE[1] in % (change in %pts)	61.7	72.2	74.3	77.7	49.8	–27.9
MOTORCYCLES SEGMENT						
EBIT margin[1] in % (change in %pts)	6.7	9.1	9.0	9.1	8.1	–1.0
RoCE[1] in % (change in %pts)	21.8	31.6	33.0	34.0	28.4	–5.6
FINANCIAL SERVICES SEGMENT						
RoE in % (change in %pts)	19.4	20.2	21.2	18.1	14.8	–3.3

Further financial performance figures

→ 04

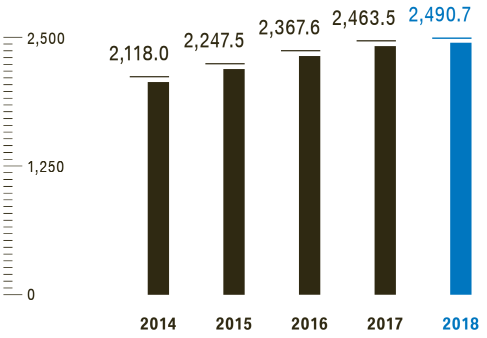
in € million	2014	2015	2016	2017	2018	Change in %
Total capital expenditure[2]	6,100	5,890	5,823	7,112	8,013	12.7
Depreciation and amortisation	4,170	4,659	4,806	4,822	5,113	6.0
Free cash flow Automotive segment	3,481	5,404	5,792	4,459	2,713	–39.2
Group revenues[1]	**80,401**	**92,175**	**94,163**	**98,282**	**97,480**	**–0.8**
Automotive[1]	75,173	85,536	86,424	85,742	85,846	0.1
Motorcycles[1]	1,679	1,990	2,069	2,272	2,173	–4.4
Financial Services	20,599	23,739	25,681	27,567	28,165	2.2
Other Entities	7	7	6	7	6	–14.3
Eliminations[1]	–17,057	–19,097	–20,017	–17,306	–18,710	–8.1
Group profit before financial result (EBIT)[1]	**9,118**	**9,593**	**9,386**	**9,899**	**9,121**	**–7.9**
Automotive[1]	7,244	7,836	7,695	7,888	6,182	–21.6
Motorcycles[1]	112	182	187	207	175	–15.5
Financial Services	1,756	1,981	2,184	2,194	2,190	–0.2
Other Entities	71	169	–17	14	–27	–
Eliminations[1]	–65	–575	–663	–404	601	–
Group profit before tax (EBT)[1]	**8,707**	**9,224**	**9,665**	**10,675**	**9,815**	**–8.1**
Automotive[1]	6,886	7,523	7,916	8,717	6,977	–20.0
Motorcycles[1]	107	179	185	205	169	–17.6
Financial Services	1,723	1,975	2,166	2,207	2,161	–2.1
Other Entities	154	211	170	80	–45	–
Eliminations[1]	–163	–664	–772	–534	553	–
Group income taxes[1]	**–2,890**	**–2,828**	**–2,755**	**–2,000**	**–2,575**	**–28.8**
Profit from continuing operations	**5,817**	**6,396**	**6,910**	**8,675**	**7,240**	**–16.5**
Loss from discontinued operations	–	–	–	–	–33	–
Group net profit[1]	**5,817**	**6,396**	**6,910**	**8,675**	**7,207**	**–16.9**
Earnings per share[1] in €	**8.83/8.85**	**9.70/9.72**	**10.45/10.47**	**13.07/13.09**	**10.82/10.84**	**–17.2/–17.2**
Pre-tax return on sales[1, 3] in % (change in %pts)	**10.8**	**10.0**	**10.3**	**10.9**	**10.1**	**–0.8**

[1] Prior year figures adjusted due to first-time application of IFRS 15, see note 6 to the Group Financial Statements.
[2] Expenditure for capitalised development costs, other intangible assets and property, plant and equipment.
[3] Group profit before tax as a percentage of Group revenues.

BMW Group deliveries of automobiles[1]

→ 05

in 1,000 units

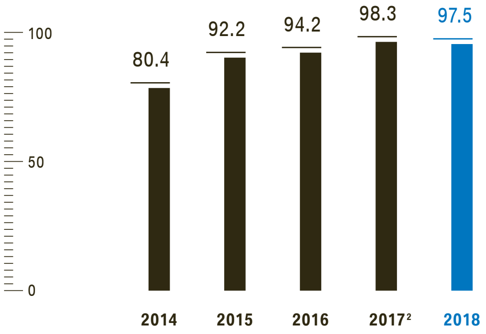


[1] Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2014: 275,891 units, 2015: 282,000 units, 2016: 316,200 units, 2017: 384,124 units, 2018: 459,581 units).

BMW Group revenues

→ 07

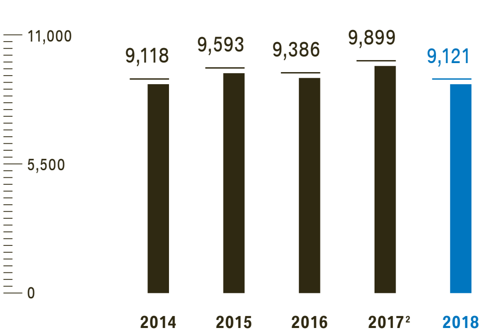
in € billion



BMW Group profit before financial result (EBIT)

→ 06

in € million

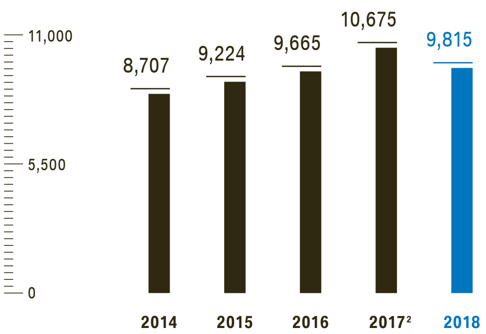


[2] Prior year figures adjusted due to first-time application of IFRS 15, see note 6 to the Group Financial Statements.

BMW Group profit before tax

→ 08

in € million



REPORT OF THE SUPERVISORY BOARD

STATEMENT OF THE CHAIRMAN OF THE BOARD OF MANAGEMENT

BMW AG STOCK AND CAPITAL MARKETS IN 2018

Norbert Reithofer
Chairman of the Supervisory Board

Dear Shareholders,

In the course of 2018, our company had to tackle a variety of challenges within its business environment. However, we were able to master them and achieve a good result, despite the adversities. At the same time, the Group is systematically laying the foundations for long-term success going forward. The continuous expansion of our range of electrified vehicles is one good example of this strategy. Particularly in these times of fundamental change, the BMW Group maintains a leading position in the automotive industry, shaping technological transformation with determination, passion and professional excellence.

Monitoring and advisory activities of the Supervisory Board

In our capacity as Supervisory Board, we provided the Board of Management with in-depth advice on matters relating to the management and further development of the BMW Group and monitored the Board of Management's running of the business, both continuously and thoroughly. The full Supervisory Board met five times in the course of the year, including one two-day meeting, and on each occasion deliberated in detail with the Board of Management on the Group's performance. In addition to these meetings, the Board of Management provided us with information on matters of particular significance. Furthermore, the Chairman of the Supervisory Board was in frequent contact with the Chairman of the Board of Management, as was the Chairman of the Audit Committee with the Chief Financial Officer, in order to deal with current topics as they arose.

The Chairman of the Supervisory Board also held individual discussions with representatives of various investors as well as with a shareholders' association. Topics of these consultations included the treatment of strategy by the Supervisory Board, the involvement of the Supervisory Board in sustainability issues and the new compensation system for the Board of Management.

The work of the Supervisory Board focused in particular on the strategic development of the BMW Group's business models against the backdrop of digitalisation, drivetrain electrification and other key trends. We also debated exhaustively on the challenges posed by trade conflicts, the imminent Brexit crisis and supply distortions resulting from the difficulties encountered by some of our competitors in converting to the new European WLTP testing cycle.

In its regular reports on the BMW Group's current situation, the Board of Management provided us with information about new vehicle models, delivery volume trends and market developments in the Automotive and Motorcycles segments as well as new and total business volumes in the Financial Services segment, in each case highlighting any planning variances. The Board of Management also presented us with the latest workforce figures and reported on economic developments in key markets.

The status reports also included information on other current transactions and projects of key importance, which the Supervisory Board considered in detail. These topics included important cooperation projects such as the joint venture with Great Wall Motor, in particular regarding the production of all-electric MINI vehicles in China, the joint venture with Daimler in the field of mobility services and collaboration in the field of autonomous driving. The Supervisory Board also discussed the possible introduction of driving bans for certain diesel-powered vehicles in individual cities in Europe and the future prospects of diesel engines in general. Furthermore, the Board of Management reported on the temporary market disruptions caused by discount campaigns initiated by competitors in the run-up to the introduction of the new WLTP measurement procedures. It informed the Supervisory Board about the increased extent of statutory and non-statutory warranty measures as well as major vehicle recalls. International trade conflicts, trade risks and their impact on the BMW Group were repeatedly the subject of the status reports provided.

In addition to the status reports, the Supervisory Board focused on a number of specific areas in greater detail. For example, the Board of Management reported on the current status and strategy of Group financing. Further topics focused on were market developments and business performance in North America, in the course of which trade risks and financial challenges in the region were also addressed. Moreover, the Board of Management reported in detail on the current status of and the overall strategy regarding the BMW brand.

The Supervisory Board discussed the current situation and strategy regarding the Group's direct operations and joint ventures in China. In particular, the Board of Management described its plans to expand local production through the BMW Brilliance Automotive Ltd. joint venture (BBA) and its intention to increase its stake in BBA. The Supervisory Board supports the Board of Management's strategically significant plan to increase the BMW Group's stake in BBA's share capital by 25 percentage points to 75 % by 2022 and gave its approval for the transaction.

The Board of Management explained the current status of the customer ecosystem to the Supervisory Board and provided an outlook on the further development of the Digital Services and Mobility Services business fields. In the process, questions of data sovereignty and data security regarding data collected within the Group's vehicles were also a topic of debate. Furthermore, the Supervisory Board discussed the Group's global added value strategy across the production network and the criteria influencing the decision to locate the planned new production site in Eastern Europe.

The Supervisory Board held lengthy discussions with the Board of Management regarding the current status of the Strategy NUMBER ONE > NEXT and the decisions taken in previous months to implement it. In particular, the Board of Management discussed recent changes in the market environment (such as customs duty increases, restrictive trade policies and Brexit scenarios) and explained how the current strategy enables the BMW Group to respond to the respective challenges. Among other matters, strategies regarding the electrification of the product range, drivetrain technology and digitalisation as well as autonomous driving were presented in detail. The Supervisory Board emphatically supports the continued implementation of the Strategy NUMBER ONE > NEXT.

We also deliberated intensively on the BMW Group's forecasts for the period from 2019 to 2024. In this context, the Board of Management addressed the volatile nature of global economic and political conditions and their influence on planning. Risk scenarios and their possible effects on long-term planning were also presented. After thorough review, the Supervisory Board approved the BMW Group's long-term corporate plan. Based on this plan, the Board of Management presented the annual budget for the financial year 2019, which we also discussed at great length.

We also gave lengthy consideration to the business performance, risk situation and strategy of the Financial Services segment. The strategy for the further development of the MINI brand and cooperation with the Chinese company Great Wall Motor in this respect were also the subject of our deliberations. In addition, the Board of Management reported on the current status of diversity concepts for the Company.

The Supervisory Board examined the structure and the level of compensation paid to the members of the Board of Management. In this context, we took into account trends in business performance, executive manager compensation and the remuneration of the workforce in Germany over time. Based on comparative studies conducted by an external compensation consultant, we concluded that the compensation of the members of the Board of Management is commensurate. Detailed information on the compensation of Board of Management members is provided in the Compensation Report.

The new compensation system in place since the beginning of 2018 was approved by the Annual General Meeting in May 2018. The structure of compensation systems for members of the Board of Management and reporting thereon is currently the subject of draft amendments to the German Stock Corporation Act and the German Corporate Governance Code. For this reason, we have decided not to make any changes to the compensation system for the BMW Group's Board of Management decided on as recently as 2017, but to await the results of the above-mentioned reforms.

We also discussed corporate governance within the BMW Group and the application of the recommendations contained in the German Corporate Governance Code. In December, the Board of Management and the Supervisory Board issued their Declaration of Compliance with the German Corporate Governance Code. We comply with all of the recommendations of the current version of the Code with only one exception (the use of model tables for Board of Management compensation). The wording of the Declaration of Compliance is shown in the Corporate Governance Report.

We also reviewed existing targets for the composition of the Supervisory Board and the competence profile set out for its members. We concluded that the composition of the Supervisory Board at 31 December 2018 was in line with the targets stipulated in the diversity concept, the competency profile and other composition targets. We have decided to continue using the competency profile and the targets for the composition of the Supervisory Board for the financial year 2019.

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

We reviewed the efficiency of our work in the Supervisory Board, having prepared the related discussion at the full Supervisory Board meeting on the basis of a questionnaire. Overall, the work of the Supervisory Board was deemed efficient. No significant need for change was identified. Average attendance at the five Supervisory Board meetings was 94 %. An individualised overview of attendance at meetings of the Supervisory Board and its committees for the financial year 2018 has been published on the BMW Group's website. All members of the Supervisory Board attended more than half of the meetings of the Supervisory Board and those committees to which they belonged during their term of office in the financial year 2018.

Description of Presiding Board activities and committee work

The Supervisory Board has established a Presiding Board and four committees. Committee chairpersons reported in detail on Presiding Board and committee work at the subsequent meetings of the full Supervisory Board. A detailed description of the duties, composition and working procedures of the Presiding Board and the committees is provided in the Corporate Governance Report.

The Presiding Board convened four times during the year under report. Assuming no committee was responsible, the focus of our activities was on preparing the detailed agenda for the meetings of the full Supervisory Board. Together with the Board of Management and senior heads of department, we prepared the various items on the agenda for Supervisory Board meetings in a thorough manner and made suggestions for reports to be submitted to the full Supervisory Board.

The Audit Committee held five meetings and three telephone conference calls during the financial year 2018. In the course of those conference calls, together with the Board of Management we examined and discussed the Quarterly Financial Reports prior to their publication. Representatives of the external auditors were present when discussing the Half-Year Financial Report.

The meeting of the Audit Committee held in February 2018 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 (KPMG) be re-elected as Company and Group auditor at the Annual General Meeting 2018, the Audit Committee obtained a Declaration of Independence from KPMG and, in this context, also considered the scope of non-audit 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 fees proposed by KPMG for the audits of the year-end Company and Group Financial Statements 2018 and for the review of the Half-Year Financial Report were deemed appropriate. Subsequent to the Annual General Meeting held in May 2018, the Audit Committee therefore appointed KPMG for the relevant engagements and specified audit focus areas.

During the year under report, the Audit Committee again dealt intensively with the topic of compliance in the BMW Group. In his regular report, the Chairman of the Compliance Committee provided us with a summary of ongoing compliance-related proceedings. He also explained the results of a voluntary external audit of the BMW Group’s compliance management system in the context of antitrust law with the aim of verifying its appropriateness. On this basis, the Compliance Committee submitted a concept to develop the Compliance Management System, which was confirmed by the Board of Management. The Audit Committee discussed the concept at length and supports the corresponding further development of the Compliance Management System.

The Committee received continuous and detailed information on the status of the internal investigations and the EU Commission’s investigation into the antitrust allegations in connection with the former working groups of several German automobile manufacturers. A representative of the law firm engaged by the company also regularly took part in the discussions.

The Board of Management reported to the Audit Committee on engine control software for certain earlier model versions of two vehicle types, which, in the BMW Group’s opinion, was originally developed correctly, but later fitted with a software module not intended for this type of vehicle. The BMW Group attributes the software error to a manual, human error in an update and not to a deliberate manipulation of the engine control and exhaust gas cleaning systems. The Board of Management also explained this process at the Annual General Meeting in 2018. The Public Prosecution Office Munich delivered a decision on 25 February 2019 regarding notice of a fine of €8.5 million due to a minor offence. The investigation of the Public Prosecution Office found no evidence of use of a deactivation device in emissions testing, fraud, or deliberate statutory violations. The Company has accepted the penalty.

Furthermore, the Audit Committee dealt with the main results of the audits conducted by Group Internal Audit and with further audit planning. The Audit Committee also discussed risk management and the assessment of current risks. Other topics included the internal control system, export control and the report on major legal disputes.

The Audit Committee continued to make preparations for the change in external auditor for the financial year 2019 in line with plan. It also regularly examined the non-audit services provided by the current auditor. An independent auditor engaged to conduct the mandatory audit of over-the-counter derivative transactions confirmed the effectiveness of the system that BMW AG currently employs to ensure compliance with regulatory requirements.

The Audit Committee concurred with the decision of the Board of Management to raise the Company's share capital in accordance with Article 4 (5) of the Articles of Incorporation (Authorised Capital 2014) by €521,500 and, in conjunction with the Employee Share Programme, to issue a corresponding number of new non-voting bearer shares of preferred stock.

The Personnel Committee convened four times during the financial year 2018 and held two telephone conferences. In particular, it dealt with the change in the Board of Management for the Purchasing and Supplier Network and prepared the relevant decisions of the Supervisory Board. The Personnel Committee also discussed issues relating to the compensation of the Board of Management and gave members of the Board of Management their approval to accept mandates outside the Group in a number of cases.

The Nomination Committee convened twice during the financial year 2018. At those meetings, we deliberated on succession planning for shareholder representatives and made recommendations for proposed nominations of candidates for election to the Supervisory Board at the Annual General Meetings 2018 and 2019, taking into account the composition targets previously decided upon by the Supervisory Board.

The Mediation Committee, which is prescribed by law, did not need to convene during the financial year 2018.

Composition of the Board of Management

Pieter Nota was appointed to the Board of Management with effect from 1 January 2018. He succeeded Dr Ian Robertson as member of the Board of Management responsible for Sales and Brand BMW, Aftersales BMW Group.

On 24 July 2018, the Supervisory Board resolved to revoke the appointment of Markus Duesmann as a member of the Board of Management and release him from his duties for the remaining term of his contract. Mr Duesmann had previously informed the Chairman of the Supervisory Board of his intention to move to the management board of a competitor. The Purchasing and Supplier Network headed by Mr Duesmann was temporarily taken over by Oliver Zipse, member of the Board of Management responsible for Production. With effect from 1 October 2018, the Supervisory Board appointed Dr Andreas Wendt to the Board of Management as member with responsibility for Purchasing and Supplier Network. Previously, he was head of the largest German BMW Group plant in Dingolfing.

Composition of the Supervisory Board, the Presiding Board and the Supervisory Board's committees

Dr Robert Lane resigned from the Supervisory Board with effect from the end of the Annual General Meeting 2018. He resigned his mandate in mutual agreement with the Company. We wish to thank Dr Lane for his valuable contributions and steadfast cooperation during his nine years on the Supervisory Board. The Annual General Meeting elected the former Chairman of the Board of Management of BASF SE, Dr Kurt Bock, as new member of the Supervisory Board. The Supervisory Board members Professor Reinhard Hüttl, Dr Karl-Ludwig Kley and Professor Dr Renate Köcher were re-elected as members of the Supervisory Board.

The composition of the Presiding Board and the committees of the Supervisory Board remained unchanged during the financial year. 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

The Company and Group Financial Statements of the Company for the financial year 2018 were audited by KPMG AG Wirtschaftsprüfungsgesellschaft. KPMG also conducted a review of the abridged Interim Group Financial Statements and Interim Group Management Report for the six-month period ended 30 June 2018. The results of the review were presented to the Audit Committee by representatives of KPMG AG. 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 for the year ended 31 December 2018 and the Combined Management Report – as authorised for issue by the Board of Management on 19 February 2019 – were audited by KPMG AG and given an unqualified audit opinion.

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

The financial statements for the financial year 2018, the Combined Management Report, the reports of the external auditors and the Board of Management's profit distribution proposal were made available to all members of the Supervisory Board in a timely manner.

The Audit Committee carefully examined and discussed these documents at its meeting held on 27 February 2019. The Audit Committee reviewed in detail the key audit matters raised in the auditor's report of the Company and Group Financial Statements and the related audit procedures performed by the independent auditor.

At its meeting held on 15 March 2019, the full Supervisory Board discussed in depth the draft of the Company and Group Financial Statements submitted by the Board of Management. In both meetings, the Board of Management gave a detailed explanation of the financial reports it had prepared. Representatives of the external auditor were also present at both meetings. They reported on the main findings of their audit, explained the key audit matters in the audits of the Company and Group Financial Statements and answered additional questions of members of the Supervisory Board.

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

Based on a thorough examination conducted 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 Supervisory Board, no objections were raised. The Group and Company Financial Statements of BMW AG for the financial year 2018 prepared by the Board of Management were approved at the Supervisory Board meeting held on 15 March 2019. The financial statements have therefore been adopted.

The Supervisory Board also examined the proposal of the Board of Management to use the unappropriated profit to pay a 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 have therefore approved it.

Furthermore, in conjunction with the presentation of the Sustainable Value Report, the Audit Committee and the Supervisory Board reviewed the separate non-financial report of BMW AG (Company and Group) at 31 December 2018, which has been drawn up by the Board of Management. The audit firm PricewaterhouseCoopers GmbH has performed a "limited assurance" review of these reports and issued an unqualified statement thereon. The documents were carefully examined by the Audit Committee at its meeting on 27 February 2019 and by the Supervisory Board at its meeting on 15 March 2019. The Board of Management provided an in-depth explanation of the reports at both meetings. Representatives of the auditors attended both meetings, reported on significant findings and answered additional questions raised by members of the Supervisory Board. The Supervisory Board acknowledged and approved the separate non-financial report (Company and Group) drawn up by the Management Board.

Expression of appreciation by the Supervisory Board

We wish to express our appreciation to the members of the Board of Management and the entire workforce of the BMW Group worldwide for their dedication, their ideas and their achievements during the financial year 2018, which form the bedrock of the enduring success and sustainability of our Company – both now and in the future.

Munich, 15 March 2019

On behalf of the Supervisory Board

Yours

Norbert Reithofer
Chairman of the Supervisory Board

Harald Krüger
Chairman of the Board of Management

Dear Shareholders,

On behalf of the Board of Management and our nearly 135,000 associates worldwide, I would like to thank you for joining the BMW Group on its journey into the future.

Tech company in the premium mobility sector

Individual mobility, in all its facets, remains our core competence. We are reminded, time and again, that long-term success demands fresh thinking and bold action.

Digitalisation is changing every industry and every aspect of our lives. We have set ourselves a clear goal: to be a leading tech company for premium mobility by 2025 – and we are developing our business model in this direction. Our Strategy NUMBER ONE > NEXT has three main approaches: profitability, growth and future – all of them geared towards our customers' ever-evolving needs and desires.

iNEXT – a building block for the future

We are moving autonomous driving forward with a combination of enthusiasm and sound judgement. Safety is for us an absolute priority in this area. In 2021, we will release the BMW iNEXT, a vehicle that brings together several future technologies: a futuristic interior, full connectivity and an electric range of up to 700 km. This marks the beginning of highly automated driving. At the same time, we are also testing autonomous driving with a fleet of 500 iNEXT vehicles in urban settings.

Mobility services from a single source

We are creating new mobility offerings and digital services that will enable customers to bring their digital world into the car. Combining our mobility services in a joint venture with the Daimler Group will allow us to offer customers a single source for all their mobility needs with a single touch.

Uncertainty is part of our business

2018 was a challenging year for our industry, due to trade conflicts and the uncertainty surrounding Brexit: vehicle sales declined across the globe for the first time since the global economic and financial crisis.

Volatile markets, tough competition and various operating conditions in different countries are all part of our business. The BMW Group has had to overcome difficult hurdles many times in its history. In such moments, we have always stayed the course with a steady hand at the wheel.

WLTP systematically implemented

A current example of this is the switch to the new WLTP test procedure in Germany and Europe. We implemented the new requirements in our vehicles systematically and early. That is how we operate as a company. We will also continue to meet ambitious targets to reduce CO_2 emissions in Europe and the rest of the world.

Eighth consecutive sales record

Because customers around the world value our cars and motorcycles so much, the BMW Group was able to post record sales for the eighth consecutive year. The BMW Group has been number one in the global premium segment for the past 15 years. Our brands BMW, Rolls-Royce and BMW Motorrad achieved new all-time highs, while MINI reported its second-highest sales result ever.

For the first time, BMW M GmbH broke through the 100,000 unit sales mark with its M and M Performance models.

Despite tough headwinds, second-best result in our history

Group earnings before tax and annual net profit were both the second-highest in our history. As previously announced, earnings before tax were moderately lower than last year's record figure.

With an EBIT margin of 7.2 percent in the Automotive segment, we exceeded our adjusted target. This figure only partially includes our China business, as is usual. The Group EBT margin of 10.1 percent was above our 10 percent target for the eighth consecutive year. Once again, our financial services business made a significant contribution to the Group result.

Dear Shareholders, your company is on a very solid footing and possesses considerable financial strength. This means we can continue to invest in new technologies, services and our locations as our springboard to the future.

Systematic electrification for emissions-free driving

The future belongs to electric mobility – there is no doubt in my mind about that. But it's certainly not a sprint, it's a marathon. By late 2019, we aim to have half a million electrified BMW Group vehicles on the roads.

The trend is clear: in Europe, no other manufacturer sells more electrified vehicles than the BMW Group. Between 2015 and 2018, sales of our electric models and plug-in hybrids increased more than fourfold.

We are also number one worldwide in registrations of plug-in hybrid vehicles. This technology not only gives our customers access to electric driving, it is also a quick and pragmatic way to improve air quality in cities. Studies show that plug-in hybrids with an electric range of at least 60 km are driven in electric mode just as often as pure-electric models.

And there's more coming on the electric side: 2019 will bring plug-in hybrid variants of the new BMW 3 Series, X5 and 7 Series. The X3 will also be available for the first time with a hybrid drive train. These will be joined by the first fully electric MINI and, in 2020, by the first fully electric BMW – the iX3.

By the end of 2020, we will have more than ten new and revised models with an electrified drive train. Thanks to flexible vehicle architectures, our plants will be able to build different drive types.

The heart of an electric vehicle is the electric motor and the battery. We produce both the electric drive and the high-voltage battery in-house. In the summer, we will open the new BMW Group Battery Cell Competence Centre in Munich, where we will develop so-called build-to-print prototypes. For production of base cells, we will be working with the world's largest manufacturer of automotive battery cells, CATL, from China, and with Northvolt in a European consortium.

Dear Shareholders,

Your Company is innovative, profitable and versatile. This year, the Board of Management and Supervisory Board will propose a dividend of 3.50 euros per share of common stock and 3.52 euros per share of preferred stock. This is the second-highest dividend the company has ever paid in its history. BMW AG associates in Germany will also benefit from the company's positive performance through our profit-sharing programme.

The current business and political environment remains complex and challenging, overshadowed by uncertainty. That is not going to change any time soon. But we do not shy away from such challenges. This is what spurs us to give our best and search for new and innovative solutions. It also applies in our competition with both new and established companies.

At the BMW Group, we continue to navigate our own course. Our aim remains to be both a driving force and an innovator, able to lead individual mobility into a new era for our customers: one that is sustainable, connected and autonomous.

Above all, we are committed to focusing all our efforts on bringing the EBIT margin in the Automotive segment back within our target range of 8 to 10 percent.

We aim to ensure that your Company remains an attractive investment as we move towards the future.

Yours

Harald Krüger
Chairman of the Board of Management

BMW AG STOCK AND CAPITAL MARKETS IN 2018

Political uncertainties unsettle capital markets

BMW AG stock outperforms sector

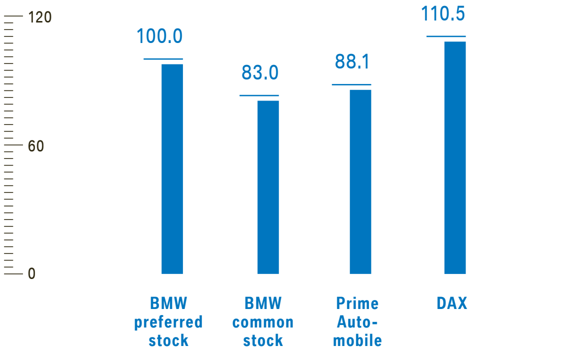
Ratings remain at top level

→ www.bmwgroup.com/ir

Numerous political uncertainties unsettled capital markets over the course of 2018 and dampened the mood on stock markets. In particular, global trade disputes and political uncertainties in Europe dominated stock market developments and negatively impacted investor sentiment. Since the introduction of higher customs tariffs on goods traded between China and the USA on 6 July 2018, the American-Chinese trade dispute had a particularly negative effect on global stock exchanges and therefore also on auto stocks worldwide.

Development of BMW AG stock compared to stock market indices since 30 December 2013
→ 09

in %

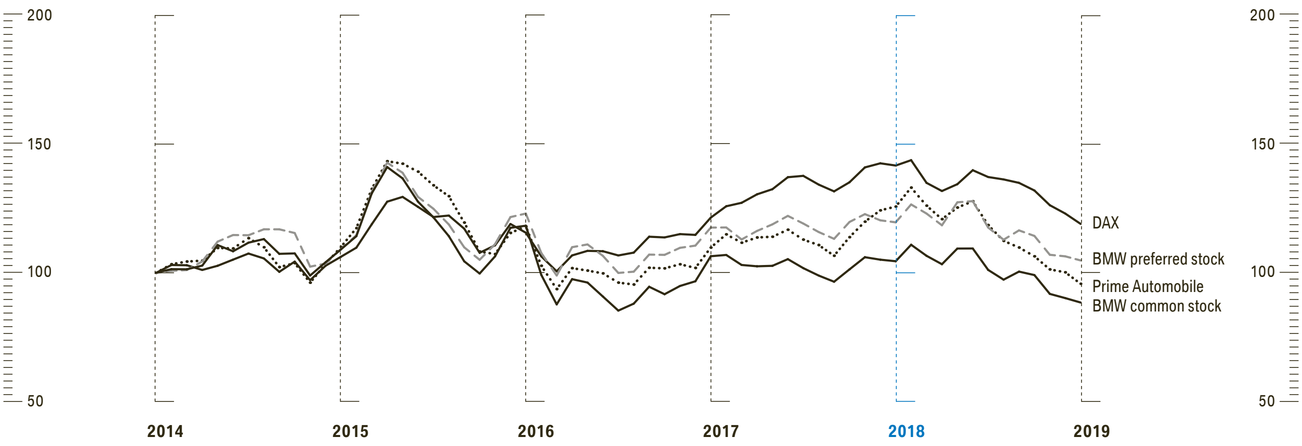


Negative impact on capital markets in 2018

At the beginning of the 2018 stock exchange year, markets benefited initially from the prospect of robust global growth and an easing of political tensions on the Korean peninsula. Accordingly, the German stock index (DAX) recorded an all-time high of 13,560 points in January 2018. Subsequently, however, stock market developments were negatively affected by the results of parliamentary elections in Italy and the intensification of the trade dispute between China and the USA. Initial fears were confirmed at the beginning of the third quarter when higher tariffs were introduced in July on goods traded between China and the USA. Uncertain prospects of a rapprochement in the trade dispute caused prices to fluctuate more widely as the year progressed, resulting in a generally volatile market environment. Alongside the US-China trade conflict, American import duties on steel and aluminium coming from the European Union (EU) also caused uncertainty as from the end of the second quarter. Moreover, there were discussions regarding a potential increase in US import duties on European automobile imports which had a dampening effect on stock markets. A meeting between US President Trump and

BMW AG development of stock
→ 10

Index: December 2013 = 100



Source: Reuters.

European Commission President Juncker at the end of July, which raised hopes of a possible rapprochement in the trade dispute, seemed to ease the situation and helped drive up share prices temporarily. However, renewed rumours of tariff hikes between the EU and the US in November again caused market unease. In addition to trade policy issues, the budget debate in Italy as well as discussions regarding the potential repercussions of Brexit darkened the mood on capital markets during the fourth quarter. Towards the end of the year, market sentiment was influenced by the US Federal Reserve's (Fed) monetary policies. A further rise in the key interest rate prior to the year-end caused share prices to fall once again.

The DAX closed the stock exchange year at 10,559 points, down 18.3 % compared to the end of 2017 (12,918 points). Compared to its high for the year (13,560 points), the DAX lost 22.1 % in value by the end of the year.

The EURO STOXX 50 fared slightly better than the DAX, finishing the year 14.3 % lower at 3,001 points.

From May onwards, the Prime Automobile Index was significantly weaker on account of the factors referred to above. Higher upfront expenditure by automotive companies for future technologies and possible trade conflicts between the USA and China on the one hand and the USA and Europe on the other dampened market sentiment. The transition to a new emissions standard (Worldwide Harmonised Light Vehicle Test Procedure, WLTP) led to delivery bottlenecks for some automobile manufacturers. These developments were also reflected in the prices of auto stocks. As a result, the sector index fell by 27.2 % over the course of the year, closing at 1,228 points.

BMW stock initially bucked the downward trend in the first quarter of 2018. Since the second quarter, however, BMW stock partially succumbed to the general sector trend and also registered price losses. Despite the challenging conditions currently facing the automobile industry, which also resulted in the BMW Group adjusting its outlook for the year in September, BMW stock nevertheless outperformed the market as a whole in the third quarter. Uncertainties in the fourth quarter, exacerbated by fears of a disorderly Brexit and an escalation in the trade disputes between the USA and China and the USA and Europe, exerted downward pressure on share prices. Accordingly, BMW stock closed the year with a performance similar to that of the DAX. BMW common stock finished the year at €70.70, down by 18.6 % since the beginning of the year. BMW preferred stock performed similarly to BMW common stock, finishing the year at €62.10, 16.8 % lower than the closing price recorded one year earlier.

Although affected by the generally unfavourable market environment, BMW stock held its value relatively well, particularly in comparison with the sector index.

At the end of 2018, with a market capitalisation of some €46 billion, the BMW Group remained among the ten most valuable German enterprises listed on the stock market.

Ratings remain at top level

The BMW Group continues to be the best-rated carmaker in Europe.

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

Since December 2013, BMW AG has had a long-term rating of A+ (stable outlook) and a short-term rating of A-1 from the rating agency Standard & Poor's. This represents the highest rating currently given by Standard & Poor's to a European car manufacturer. In January 2017, Moody's raised its long-term rating for BMW AG from A2 (positive outlook) to A1 (stable outlook). The P-1 short-term rating was confirmed.

The assessment of both rating agencies reflects the attractive product launches that are part of the current model offensive, the excellent positioning of the BMW Group with respect to the challenges faced by the automobile industry and a strong operating performance. BMW AG's solid capital structure and prudent financial approach also underpins the dependable financial profile and excellent creditworthiness of the BMW Group as a whole. Consequently, the Company not only has good access to international capital markets, but also benefits from attractive refinancing conditions.

Employee Share Programme

For more than 40 years, BMW AG has enabled its employees to participate in its success. Since 1989, this participation has taken the form of an Employee Share Programme. In 2018, a total of 521,524 shares of preferred stock were issued to employees under the terms of this programme.

In this context, and with the approval of the Supervisory Board, in 2018 the Board of Management increased BMW AG's share capital by €521,500 from €657,600,600 to €658,122,100 by issuing 521,500 new non-voting shares of preferred stock. This increase was implemented on the basis of Authorised Capital 2014 contained 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 2019. In addition, 24 shares of preferred stock were repurchased via the stock market or were acquired as a result of cancelled employee purchases relating to the previous year.

Dividend below previous year

The Board of Management and the Supervisory Board are proposing to the Annual General Meeting to use BMW AG's unappropriated profit of €2,303 million (2017: €2,630 million) for the payment of a dividend of €3.50 per share of common stock (2017: €4.00) and a dividend of €3.52 per share of preferred stock (2017: €4.02). The payout ratio for 2018 therefore stands at 32.0 % (2017: 30.3 %*).

* Prior year figures adjusted due to first-time application of IFRS 15, see note 6 to the Group Financial Statements.

BMW AG stock

→ 11

	2018	2017	2016	2015	2014
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	**70.70**	86.83	88.75	97.63	89.77
High	**96.26**	90.83	92.25	122.60	95.51
Low	**69.86**	77.71	65.10	75.68	77.41
PREFERRED STOCK					
Number of shares in 1,000	**56,127**	55,605	55,114	54,809	54,500
Stock exchange price in €[1]					
Year-end closing price	**62.10**	74.64	72.70	77.41	67.84
High	**82.50**	78.89	74.15	92.19	74.60
Low	**60.70**	67.29	56.53	58.96	59.08
KEY DATA PER SHARE IN €					
Dividend					
Common stock	**3.50**[2]	4.00	3.50	3.20	2.90
Preferred stock	**3.52**[2]	4.02	3.52	3.22	2.92
Earnings per share of common stock[3]	**10.82**	13.07[5]	10.45	9.70	8.83
Earnings per share of preferred stock[4]	**10.84**	13.09[5]	10.47	9.72	8.85
Free cash flow Automotive segment	**4.12**	6.78	8.81	8.23	5.30
Equity	**88.26**	82.30[5]	72.08	65.11	57.03

[1] Xetra closing prices.
[2] Proposed by management.
[3] Weighted average number of shares for the year.
[4] Stock weighted according to dividend entitlements.
[5] Prior year figures adjusted due to first-time application of IFRS 15, see note 6 to the Group Financial Statements.

Intensive communication with capital markets continued

The BMW Group continued to inform investors, analysts and rating agencies throughout 2018 with regular quarterly and year-end financial reports. The comprehensive information package provided for capital market participants included numerous one-on-one and group meetings, dedicated socially responsible investment (SRI) roadshows for investors using sustainability criteria in their investment decisions, and roadshows as well as conferences for debt investors and credit analysts. Topics discussed included business model developments, digitalisation and other technological trends in the automobile industry as well as the relevance of alternative drivetrain systems. Apart from participating in various conferences and roadshows, product presentations and a technology workshop were held for analysts and investors in Munich during the course of the year. Further information on the BMW Group's capital market communications is available at → **www.bmwgroup.com/ir**.

COMBINED MANAGEMENT REPORT

2

GENERAL INFORMATION AND GROUP PROFILE

Over 140,000 electrified vehicles delivered

Increasing R&D expenditure secures future business

Customer in focus with innovative offerings

High investments in the flexibility of the production network

ORGANISATION AND BUSINESS MODEL

→ www.bmwgroup.com/company

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

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

Bayerische Motoren Werke Aktiengesellschaft (BMW AG), based in Munich, Germany, is the parent company of the BMW Group. The general purpose of the Company is the production and sale of engines, engine-equipped vehicles, related accessories and products of the machinery and metal-working industry as well as the rendering of services related to the aforementioned items. The BMW Group is sub-divided into the Automotive, Motorcycles and Financial Services operating segments. The segment Other Entities primarily comprises holding companies and Group financing companies. The BMW Group operates on a global scale and is represented in more than 140 countries worldwide. At the end of the reporting period, the BMW Group employed a workforce of 134,682 people.

Founded in 1916 as Bayerische Flugzeugwerke AG (BFW), Bayerische Motoren Werke G.m.b.H. came into being in 1917 before finally becoming Bayerische Motoren Werke Aktiengesellschaft (BMW AG) in 1918. The BMW Group comprises BMW AG 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.

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

In 2016, the BMW Group presented its Strategy NUMBER ONE > NEXT. At the heart of Strategy NUMBER ONE > NEXT is a commitment to future-oriented activity with the development of products, brands and services in the premium segment for individual mobility. New technologies such as alternative drivetrains, digitalisation and connectivity are further key areas of focus. Furthermore, the strategy emphasises the increasing importance of a customer-oriented approach.

Presentation of segments

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

Automotive segment

The core BMW brand caters to a very broad array of customer requirements, ranging from fuel-efficient and innovative models fitted with Efficient Dynamics to outstanding high-performance BMW M vehicles. A wide range of plug-in hybrid vehicles is also available and being continuously expanded. At the same time, the BMW Group continues to redefine the meaning of premium with its BMW i models. With an even greater focus on innovation and sustainability, BMW i embodies the vehicle of the future, with electric drivetrains, connectivity, intelligent lightweight construction, exceptional design and newly developed mobility services.

The MINI brand is an icon that promises superior driving fun in the premium small car segment. Rolls-Royce is the ultimate marque in the ultra-luxury segment with a tradition stretching back over more than 100 years. Rolls-Royce Motor Cars specialises in bespoke customer experiences and offers the highest level of both quality and service.

The global sales network of the automobile business currently comprises around 3,500 BMW, 1,600 MINI and 140 Rolls-Royce dealerships. Within Germany, sales are conducted through branches of the BMW Group and independent authorised dealerships. Sales outside Germany are handled primarily by subsidiary companies and by independent import companies in some markets.

Motorcycles segment

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

Financial Services segment

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

The segment also supports the BMW Group's dealership organisation, for example by financing dealership vehicle inventories.

Research and Development

A major factor in the success of the BMW Group is its consistent focus on the future. A long tradition of innovation is an integral part of its corporate philosophy. Shaping individual mobility and finding innovative solutions today for the needs of tomorrow is a key driving force. Research and development (R&D) are therefore of key importance for the BMW Group as a premium supplier and ensure its long-term economic success.

As part of its Strategy NUMBER ONE > NEXT, the BMW Group is focusing on the topics of electric mobility, digitalisation and autonomous driving. When developing new technologies, the emphasis is always on creating added benefit for customers. Anticipating the needs and wishes of customers in all fields of technology and implementing developments in a way that adds value for the customer are also key prerequisites for the Group's success going forward. The BMW Group summarises the major trends of individual mobility in the term D+ACES (Design, Autonomous, Connected, Electrified, Services).

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

1. **Design**
   The BMW Group sees design as the characteristic combination of aesthetics and technology. Outstanding design involves focusing keenly on the requirements of customers and anticipating their wishes, enabling the BMW Group to continue finding ideal solutions for the (mobility) needs of its customers. As a premium provider, the BMW Group not only aspires to meeting its customers' requirements, but also to exceeding their expectations in every respect. A groundbreaking design underlines the distinctive character of each new vehicle and thus strengthens all of the Group's brands.

2. **Autonomous**
   Since 2018, the BMW Group has pooled its considerable development expertise in the fields of state-of-the-art driver assistance systems and highly or fully autonomous driving at its own development centre. During the final phase of development, some 1,800 people will be working there. The clear aim is to create an open platform for highly and fully automated driving that will serve as an industry standard going forward. Today already, the BMW Group offers driver assistant systems for partially automated driving. With the BMW iNEXT, the Group will offer highly automated driving for the first time from 2021.

3. **Connected**
   Digital change is of great significance for the automobile industry. One of the most important effects of digitalisation is that the vehicle itself becomes the focal point of the customer's digital experience. The BMW Group recognised customer trends at an early stage and, with BMW Connected and a growing range of digital offerings, it is well prepared to meet demand arising in this field. This is not merely developing and integrating new technologies and services for the vehicle. The focus is very much on customers and their aspirations for modern-day mobility. Digital services that the customer is used to should be available seamlessly and without restriction – both inside and outside the vehicle.

   The option of using BMW Group services almost anywhere and at any time is the basic prerequisite for offering a range of digital services geared solely to customers and their personal needs. These include, for example, the availability of personalised and context-based information within the vehicle.

   For customers, the experience begins before purchasing the vehicle, for example through virtual reality options that offer new ways to configure the vehicle and explore products interactively. The customer can also be kept in the loop while waiting for the new vehicle to be manufactured, thus ensuring greater involvement in the production process from an early stage. The BMW ConnectedDrive Store enables customers to reserve new services at any time for a specified period. The BMW Intelligent Personal Assistant has been available in BMW vehicles since March 2019.

   Autonomous driving, electrification and ever-greater connectivity will open up opportunities for completely new experiences and ways to shape travel in the future. At the same time, however, those opportunities will also change people's wishes and lifestyles. Precisely this development is supported by the BMW Group's intelligent platform, which will enable drivers to switch seamlessly and without restrictions from one vehicle to the next with just one customer profile, across each vehicle's life cycle. Moreover, in future all products and services relating to individual mobility will be bundled here and gradually developed to form a comprehensive digital ecosystem.

Alongside automated driving, systematically enhancing the scope of connectivity on the road to a digital, emission-free future is one of the key areas in which the BMW Group is helping transform the mobility sector with its Strategy NUMBER ONE > NEXT.

4. Electrified

Another topic of strategic importance for the BMW Group is the continuous optimisation of the energy efficiency of its automobiles and motorcycles, including the electrified vehicles manufactured for the BMW, MINI, Rolls Royce and BMW Motorrad brands. Under the term Efficient Dynamics, the BMW Group has been successfully working for years on reducing fuel consumption and vehicle emissions through the development of highly efficient combustion engines, the electrification of drivetrains, intelligent lightweight construction, improved aerodynamics and coordinated energy management in vehicles.

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

As an important pillar of the BMW brand, vehicles equipped with plug-in hybrid drivetrains represent a good alternative product offering for customers. All plug-in models are equipped with a smart energy management system that ensures ideal interaction between the combustion engine and the electric motor. The option to drive fully electrically, added efficiency gained through electric assistance features, and the spontaneous response characteristics provided by the additional electric drivetrain lead to a new harmony of driving pleasure and sustainability. The flexibility of the technologies used makes it possible to extend the broad range of models fitted with plug-in hybrid drivetrains as required.

With its MINI Electric, MINI is reinterpreting the urban tradition of the brand for the electric age and reinventing individual mobility for the city. The market launch of the MINI* brand's first plug-in hybrid in 2017 was followed by the presentation of the all-electric MINI Electric Concept at the IAA Cars in the same year. The series launch of all-electric MINI vehicles is scheduled to begin in 2019.

* Fuel consumption and CO_2 emissions information are available on page 108.

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

5. Services

The BMW Group aims to be the leading provider of premium mobility services going forward. To achieve this goal, it is essential to have a clear understanding of the needs of customers worldwide. This knowledge is the basis for providing an attractive, comprehensive range of services. These include easy-to-use, digitally supported mobility services that also feature bring-and-collect services or help customers find free parking spaces in urban environments.

At 31 December 2018, over 15,000 people at 16 locations in five countries were working in the BMW Group's global research and innovations network.

Year-on-year, research and development expenditure rose significantly to €6,890 million (2017: €6,108 million; +12.8 %). The R&D expenditure ratio stood at 7.1 % (2017: 6.2 %). The ratio of capitalised development costs to total research and development expenditure (capitalisation ratio) stood at 43.3 % for the period under report (2017: 39.7 %). Amortisation of capitalised development costs totalled €1,414 million (2017: €1,236 million; 14.4 %). Further information on R&D expenditure is provided in the "Report on Economic Position (Results of Operations)" and in → note 9 to the Group Financial Statements.

→ see note 9

In 2018, numerous awards and prizes once again underscored the BMW Group's high level of innovative expertise, particularly in design, the use of innovative technologies as well as the intelligent connectivity of drivers, vehicles and environment.

Cooperation Agreements and Partnerships

In order to secure the success of the business in the long term, the BMW Group enters into specific cooperation agreements and partnerships with companies both from the automotive sector but also with technology leaders in other industries. Against a backdrop of rapid technological change, the aim of collaborating with external partners is to combine expertise in order to bring innovations to customers within the shortest time possible.

The BMW Group and Daimler AG are merging their mobility services in a new joint venture in order to achieve dynamic growth in a highly competitive environment. In this way, both companies are promoting the vision of pure electric and autonomous on-demand mobility simultaneously. The aim is to further expand existing offerings in the areas of car-sharing, ride-hailing, parking, charging und multimodality and to interlock even more closely with one another in the long term. The new mobility offering is to be accessible, intuitive and aligned towards the needs of the user. The newly founded company seeks to increase the quality of urban life and to prepare the way for a world with autonomous vehicles.

To coincide with the 15th anniversary of BBA, the joint venture announced extensive investments in new and existing plant structures in order to cover future market requirements. The BMW Group intends to increase its stake in BBA from 50 to 75 %. During an anniversary celebration, the BMW Group signed an agreement to that effect with its partner Brilliance China Automotive Holdings Ltd. (CBA). The contractual term of the joint venture, which is due to end in 2028, is to be extended up to 2040. After approval by the Annual General Meeting of CBA on 18 January 2019, the agreement is also subject to regulatory approvals.

Additionally, the BMW Group signed an agreement with the Chinese manufacturer Great Wall Motor Company Limited for the production of electric MINI vehicles in China in a 50-50 joint venture. In addition to electric MINI Vehicles, the joint venture, Spotlight Automotive Limited, will also produce electric vehicles for Great Wall Motor. The formal establishment of the new company remains subject to approval from the relevant Chinese authorities. Together with the planned increase of share in BBA, the BMW Group is significantly expanding its presence in China and underscoring its local engagement.

Sustainability

The BMW Group is a pioneer of sustainability not only within the automotive industry, but across other sectors, too. Long-term thinking and responsible action have long been the foundations of the BMW Group's distinct identity and its economic success. As early as 1973, the BMW Group was among the first to appoint an environmental officer in the automobile sector. Today, the Sustainability Board, comprising all members of the Board of Management, sets the strategic direction along with binding targets. Since 2001, the BMW Group has been committed to the United Nations Environment Programme, the UN Global Compact and the Cleaner Production Declaration.

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

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

Since 1995, the BMW Group has cut the CO_2 emissions of its new vehicles sold in Europe[1] by more than 42 %. Average CO_2 emissions in Europe[1] in 2018 amounted to 128 g CO_2/km (adjusted value for 2017: 128 g CO_2/km)[2]. In 2018, more than 140,000 electrified vehicles were sold within one year for the first time.

[1] EU-28

[2] Value according to planned conversion to WLTP

With effect from September 2018, all vehicles in the EU are required to be approved in accordance with the new WLTP testing cycle. However, the calculation of CO_2 fleet emissions by the EU Commission will not be converted to WLTP until 2021. Therefore, for reporting purposes up to and including 2020, WLTP fleet emissions must be translated back to the previously applicable values calculated in accordance with the outgoing New European Driving Cycle (NEDC). Due to the changed test conditions used for WLTP purposes, values for emissions are higher when translated back to a NEDC basis (NEDC-correlated). In order to ensure comparability, CO_2 fleet emissions for 2017 (122 g CO_2/km according to NEDC) were converted to a correlated NEDC value of 128 g CO_2/km under WLTP test conditions and published in the Quarterly Report to 30 June 2018. The conversion to WLTP at the BMW Group went according to plan.

The BMW Group has set itself the goal of being a leader in the use of renewable energy in production and the value chain. In 2018, 79 % (2017: 81 %) of the BMW Group's bought-in electricity worldwide came from renewable sources. In view of increasingly complex supplier relationships, it is important for the BMW Group to work together with suppliers to increase transparency and resource efficiency along the supply chain. The BMW Group requires suppliers to comply with environmental and social standards across the value chain.

The BMW Group attaches great importance to training and developing its workforce. In 2018, investment in training and development programmes across the Group amounted to €373 million (2017: €349 million). In addition, 1,656 trainees were hired worldwide. A total of 4,964 young people are currently undergoing vocational training or participating in internal programmes to develop young talent.

Social engagement is also an integral part of the BMW Group's understanding of its corporate responsibility. For several years now, the BMW Group has firmly supported intercultural exchange. In partnership with the UN Alliance of Civilizations, the BMW Group presents the Intercultural Innovation Award for exemplary projects in this field. Since 2011, the Company has presented the "BMW Group Award for Social Commitment" every year to employees who have made an exceptional contribution through their outstanding volunteer work.

The Group addresses current social challenges, primarily where its strengths make it the most effective. The main focus here is on problem-solving approaches that are internationally applicable and have a tangible long-term impact according to the principle of "helping people to help themselves". For this purpose, the BMW Group works together with the BMW Foundation Herbert Quandt.

BMW Foundation Herbert Quandt

In 1959, Herbert Quandt secured the independence of BMW AG, thus laying the foundation for the successful development of the BMW Group. In recognition of his entrepreneurial achievements, in 1970 BMW AG established the "BMW Stiftung Herbert Quandt", which has meanwhile been renamed the "BMW Foundation Herbert Quandt" with expanded endowment capital. With its Responsible Leadership programmes, a global network and impact-oriented investments, the BMW Foundation Herbert Quandt supports the sustainable development goals of the United Nations' Agenda 2030.

Further information on the topics of sustainability and human resources within the BMW Group is available in the sections Sustainability and Workforce, respectively, of the Group Management Report and in the Sustainable Value Report 2018 published on the Company's website at → www.bmwgroup.com/svr.

Production Network

The production network comprises a total of 31 locations in 15 countries, whereby 20 of the 31 locations are BMW Group plants. Three locations belong to the BMW Brilliance Automotive joint venture in China. Eight production sites are operated by partners or contract manufacturers. The same standards of quality, safety and sustainability apply at all locations within the BMW Group's production network worldwide.

Locations	Country	Products
BMW GROUP PLANTS		
Araquari	Brazil	BMW 3 Series, BMW X1, BMW X3, BMW X4
Berlin	Germany	BMW motorcycles, Maxi-Scooters, car brake discs
Chennai	India	BMW 3 Series, BMW 5 Series, BMW 6 Series, BMW 7 Series, BMW X1, BMW X3, BMW X4, BMW X5, MINI Countryman
Dingolfing	Germany	BMW 3 Series, BMW 4 Series, BMW 5 Series, BMW 6 Series, BMW 7 Series, BMW 8 Series, BMW M Chassis and drivetrain components Components for electric mobility Rolls-Royce bodywork, pressed parts
Eisenach	Germany	Toolmaking, outer body parts for Rolls-Royce, aluminium tanks for BMW Motorrad
Hams Hall	United Kingdom	Petrol engines for BMW, MINI BMW i8 plug-in hybrid engines Core engine parts
Landshut	Germany	Lightweight construction components, electric drivetrain systems and special engines
Leipzig	Germany	BMW 1 Series, BMW 2 Series, BMW i, BMW M
Manaus	Brazil	Motorcycles
Munich	Germany	BMW 3 Series, BMW 4 Series, BMW M Petrol and diesel engines, high-performance engines for M models Core engine parts
Oxford	United Kingdom	MINI Hatch, MINI Clubman
Rayong	Thailand	BMW 3 Series, BMW 5 Series, BMW 7 Series, BMW X1, BMW X3, BMW X4, BMW X5 Motorcycles
Regensburg	Germany	BMW 1 Series, BMW 2 Series, BMW 3 Series, BMW 4 Series, BMW X1, BMW X2, BMW M
Rosslyn	South Africa	BMW 3 Series, BMW X3
San Luis Potosí[1]	Mexico	BMW 3 Series
Spartanburg	USA	BMW X3, BMW X4, BMW X5, BMW X6, BMW X7, BMW M
Steyr	Austria	Petrol and diesel engines for BMW and MINI Core engine parts High-performance engines for M models
Swindon	United Kingdom	Pressed parts and bodywork components
Wackersdorf	Germany	Distribution centre for parts and components Cockpit assembly Processing of carbon fibre components
Rolls-Royce Manufacturing Plant Goodwood	United Kingdom	Rolls-Royce Phantom[2], Ghost, Wraith, Dawn, Cullinan[2]

[1] 2018 only pre-series production, plant opens in 2019.
[2] Fuel consumption and CO_2 emissions information are available on page 108.

The plants in Shenyang (China) are operated by the joint venture BMW Brilliance Automotive (BBA). The Shenyang site comprises the Dadong and Tiexi automobile plants. Tiexi also has an engine plant with a foundry and a battery factory.

Locations	Country	Products
JOINT VENTURE BMW BRILLIANCE AUTOMOTIVE HOLDINGS LTD.		
Dadong (Shenyang)	China	BMW 5 Series, BMW X3
Tiexi (Shenyang)	China	BMW 1 Series, BMW 2 Series, BMW 3 Series, BMW X1
Tiexi (Shenyang)	China	Petrol engines, production of core engine parts

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

Locations	Country	Products
PARTNER PLANTS		
Jakarta	Indonesia	BMW 3 Series, BMW 5 Series, BMW 7 Series, BMW X1, BMW X3, BMW X5, MINI Countryman
Cairo	Egypt	BMW 3 Series, BMW 5 Series, BMW 7 Series, BMW X1, BMW X3, BMW X5, BMW X6
Kaliningrad	Russia	BMW 3 Series, BMW 5 Series, BMW 7 Series, BMW X1, BMW X3, BMW X4, BMW X5, BMW X6
Kulim	Malaysia	BMW 1 Series, BMW 3 Series, BMW 5 Series, BMW 6 Series, BMW 7 Series, BMW X1, BMW X3, BMW X4, BMW X5, MINI Countryman

The BMW Group also awards production contracts to external partners for specific types of vehicle as well as motorcycles. During the period under report, Magna Steyr Fahrzeugtechnik produced the BMW 5 Series Sedan and BMW Z4 in Graz (Austria). Moreover, various MINI models and the BMW X1 were assembled at VDL Nedcar in Born (Netherlands). BMW motorcycles and scooters were also manufactured by the partner companies TVS Motor Company in Hosur (India) and Loncin Motor Co., Ltd in Chongqing (China).

Locations	Country	Products
CONTRACT PRODUCTION		
Born	Netherlands	MINI Hatch, MINI Convertible, MINI Countryman, BMW X1
Chongqing	China	Scooter
Graz	Austria	BMW 5 Series, BMW Z4
Hosur	India	Motorcycles

BMW Group locations worldwide

→ 12

43
↗ Sales subsidiaries and Financial Services locations worldwide

31
↗ Production and assembly plants

16
↗ Research and development locations

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 San Luis Potosí², Mexico
BMW Group plant Spartanburg, USA
◪ BMW Brilliance Automotive, China (joint venture – 3 plants)

□ Partner plants outside Europe

Partner plant, Chongqing, China
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, China, and BMW Group Designworks Studio Shanghai, China
BMW Group Technology Office, Shanghai, China
BMW Group Engineering China, Beijing, China
BMW Group Engineering Japan, Tokyo, Japan
BMW Group Engineering USA, Woodcliff Lake, USA
BMW Technology, Chicago, USA

Sales subsidiaries and Financial Services locations worldwide

¹ Sales locations only.
² 2018 only pre-series production, plant opens in 2019.

BMW Group locations in Europe

→ 13

■ Production in Europe

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

□ Partner plants in Europe

- Partner plant, Born, Netherlands
- Partner plant, Graz, Austria

▲ Research and development network in Europe

- BMW Group Research and Innovation Centre (FIZ), Munich, Germany
- BMW Group Research and Technology, Munich, Germany
- BMW Group Autonomous Driving Campus, Unterschleißheim, Germany
- BMW Group Designworks, Munich, Germany
- BMW Car IT, Munich, Germany
- BMW Group Lightweight Construction and Technology Center, Landshut, Germany
- BMW Group Diesel Competence Centre, Steyr, Austria

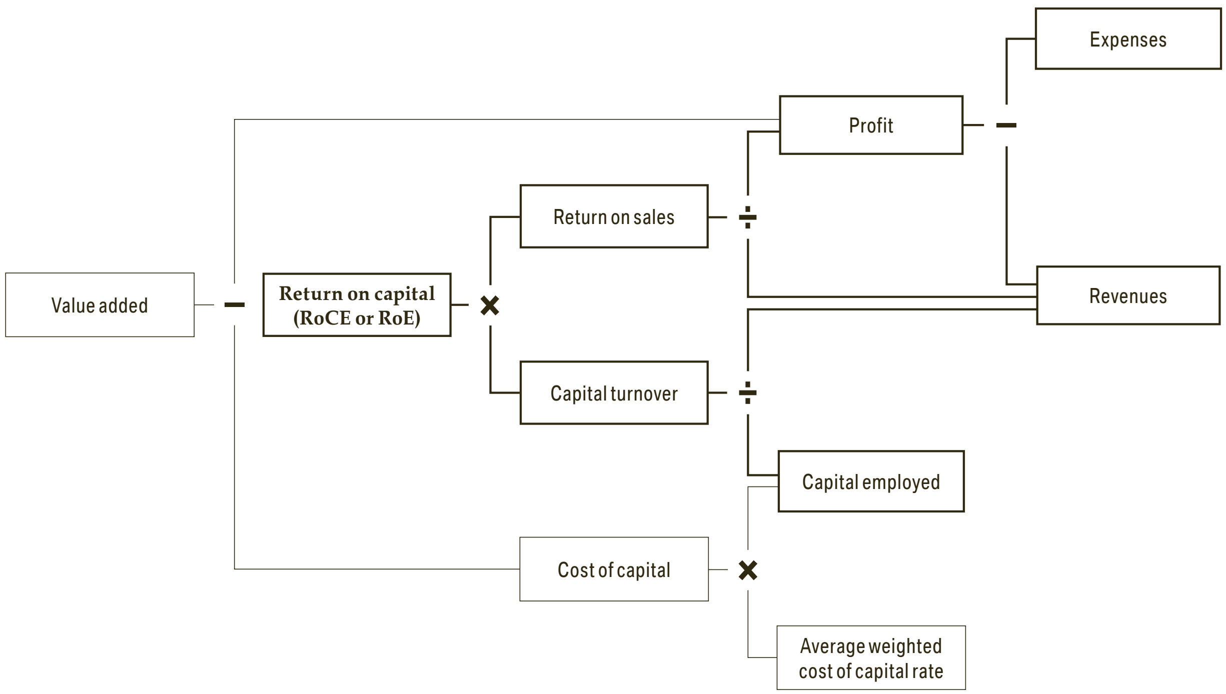
Sales subsidiaries and Financial Services locations Europe

MANAGEMENT SYSTEM

The business management system applied by the BMW Group follows a value-based approach that focuses on profitability, consistent growth, value enhancement for capital providers and job security. Capital is considered to be employed profitably when the amount of profit generated sustainably exceeds the cost of equity and debt capital. In this way, the desired degree of corporate autonomy is also secured in the long term.

The BMW Group's internal management system is based on a multi-layered structure. Operating management occurs primarily at segment level. In order to manage long-term corporate performance and assess strategic issues, additional key performance indicators are taken into account within the management system at Group level. In this context, value added serves as one of several indicators for the contribution made to enterprise value during the financial year. This approach is made operational at both Group and segment level through key financial and non-financial performance indicators (value drivers). The link between value added and the relevant value drivers is shown in a simplified form below.

BMW Group – value drivers
→ 14



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

Management of operating performance at segment level

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

Automotive segment

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

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

Return on capital employed*

→ 15

	Profit before financial result in € million		Average capital employed in € million		Return on capital employed in %	
	2018	2017	2018	2017	2018	2017
Automotive	6,182	7,888	12,420	10,147	49.8	77.7

* Prior year figures adjusted due to first-time application of IFRS 15, see note 6 to the Group Financial Statements.

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

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

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

Motorcycles segment

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

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

Return on capital employed*

→ 16

	Profit before financial result in € million		Average capital employed in € million		Return on capital employed in %	
	2018	2017	2018	2017	2018	2017
Motorcycles	175	207	616	609	28.4	34.0

* Prior year figures adjusted due to first-time application of IFRS 15, see note 6 to the Group Financial Statements.

In view of its increasing strategic importance, the Motorcycles segment adopted the operating return on sales (EBIT margin: segment-related profit/loss before financial result as a percentage of segment revenues) as a key performance indicator with effect from the financial year 2017. The long-term target range is between 8 and 10 %. Used in combination with the number of motorcycle deliveries as a non-financial value driver, the segment can exert a greater influence on the development of RoCE.

Financial Services segment

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

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

Return on equity

→ 17

	Profit before tax in € million		Average equity capital in € million		Return on equity in %	
	2018	2017	2018	2017	2018	2017
Financial Services	2,161	2,207	14,630	12,167	14.8	18.1

Strategic management at Group level

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

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

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

= **earnings amount – (cost of capital rate × capital employed)**

Value added Group*

→ 18

in € million	Earnings amount 2018	Earnings amount 2017	Cost of capital (equity + debt capital) 2018	Cost of capital (equity + debt capital) 2017	Value added Group 2018	Value added Group 2017
BMW Group	**10,086**	10,978	**7,298**	6,804	**2,788**	4,174

* Prior year figures adjusted due to first-time application of IFRS 15, see note 6 to the Group Financial Statements.

Capital employed comprises the average amount of Group equity employed during the year as a whole, the financial liabilities of the Automotive and Motorcycles segments, and pension provisions. The earnings amount corresponds to Group profit before tax, adjusted for interest expense incurred in conjunction with the pension provision and on the financial liabilities of the Automotive and Motorcycles segments (earnings before interest expense and taxes). The cost of capital is the minimum rate of return expected by capital providers in return for the capital employed. Since capital employed comprises an equity capital (e.g. share capital) and a debt capital element (e.g. bonds), the overall cost of capital rate is determined on the basis of the weighted average rates for equity and debt capital, measured using standard market procedures. The pre-tax average weighted cost of capital for the BMW Group in 2018 was 12 %, unchanged from the previous year.

Value-based project management

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

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

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

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

REPORT ON ECONOMIC POSITION

Automobile and motorcycle deliveries reach record levels

Business performance impacted by various factors

Group profit before tax down moderately

€ 9,815 million

↙ –8.1 %

GENERAL AND SECTOR-SPECIFIC ENVIRONMENT

General economic environment

The global economy grew by 3.7 % in 2018, similar to the previous year. Despite political uncertainties, all regions saw economic growth, albeit with varying degrees of strength. While momentum slowed in Europe and China, economic output in the USA grew at a significantly faster pace than in 2017, thereby bolstering the growth of global gross domestic product.

The eurozone economy continued to grow. At around 1.9 %, however, the increase was below the previous year's rate. Key economies in the region remained on growth course, with economic output up in Germany (+1.5 %), France (+1.6 %), Italy (+1.0 %) and Spain (+ 2.5 %). Increased investment activity, rising exports and robust domestic demand from both private consumers and the state contributed to the positive economic development. Within this favourable environment, the unemployment rate continued to fall and is now at its lowest level since 2008. As a result of the related rise in inflation, the European Central Bank (ECB) decided to phase out its securities purchase programme by December 2018 and to reinvest only principal repayments from maturing securities.

Economic performance in the United Kingdom was dominated by continuing uncertainty regarding the terms of Brexit and hence the country's future relationship with the EU. Despite a further slight decline in the unemployment rate, private consumer sentiment declined further. Similarly, the public sector had only a limited degree of leverage to counter the overall slowdown in market momentum. As a consequence, economic growth in the reporting period slowed for the fourth year in succession to stand at 1.3 %. The situation was exacerbated by the Bank of England raising its benchmark interest rates in an attempt to hold down price inflation.

GDP in the USA rose for the ninth consecutive year in 2018, growing by 2.9 % on the back of strong domestic demand. Alongside increased household spending encouraged by the tax reform, government-related demand also increased considerably. Consumer sentiment within private households was shored up by a historically low unemployment rate of less than 4 % and rising wages. Corporate investments and industrial production also grew robustly. Strong economic growth combined with an inflation rate of 2.4 % provided impetus for the Fed to raise interest rates over the course of 2018.

Economic growth in China came in at 6.6 % in 2018, slightly down on the previous year. Demand from private households remained at a similarly high level to previous years. By contrast, the willingness of companies to invest fell significantly, reflected in a growth rate of only 5.9 % in 2018. This outcome was a desired development and in line with the government's intended transformation of the Chinese economy to one of sustainable economic growth and greater financial market stability. Over the course of the year, however, tariff increases imposed by the USA on Chinese products exacerbated the factors holding down the domestic economy, causing the Chinese government to undertake fiscal measures to prevent the economy from slowing too quickly.

In Japan, the growth rate for 2018 fell sharply to 0.8 %, mainly due to a significant decline in private consumer spending. In addition, various natural catastrophes temporarily curtailed production. Furthermore, demand for capital goods only increased moderately, with the growth rate almost halved compared to one year earlier. The export sector slowed down in 2018 after a strong previous year.

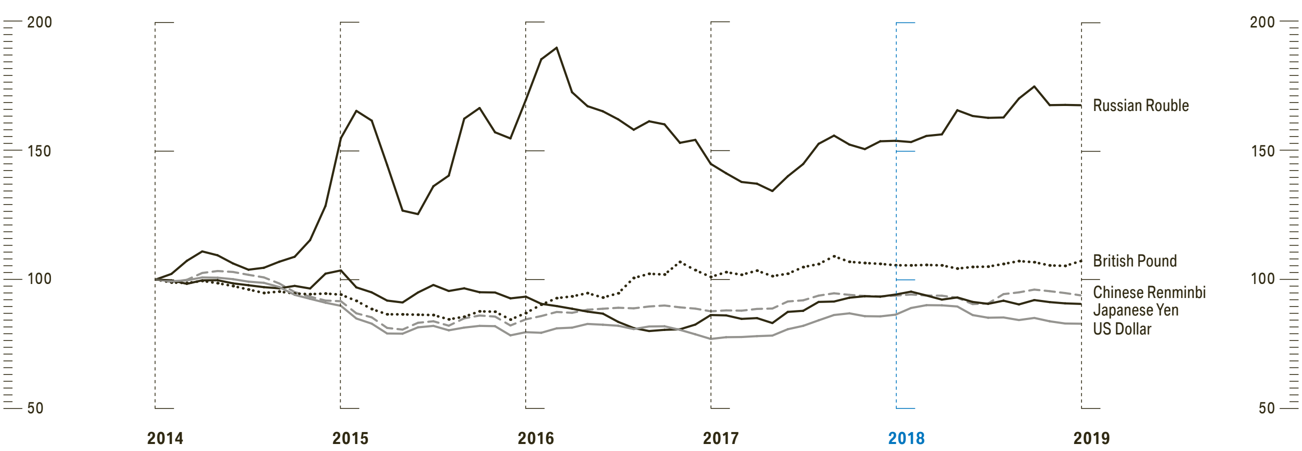
Emerging markets remained on a stable growth course with GDP up overall against the previous year, including rises in Russia (+ 2.3 %), Brazil (+1.3 %) and India (+ 7.3 %). The upward trend in Russia was driven by a number of sectors. Investment and industrial production increased markedly. Domestic consumer spending was at a similar level to the previous year. The positive trend benefited from a further drop in unemployment. Economic recovery in Brazil remained sluggish. Although private consumer spending developed positively in 2018, the country's high unemployment rate was only reduced slightly. Government spending also increased. The Indian economy grew at a steady rate. Apart from strong growth in private spending, the manufacturing sector also made a positive contribution.

Currency markets

The US dollar/euro exchange rate fluctuated between 1.13 and 1.25 US dollars to the euro during 2018, finishing the twelve-month period at an average rate of 1.18 US dollars to the euro. As previously announced, the US Federal Reserve continued to raise key interest rates during the period under report. With effect from the end of the year, the ECB discontinued its purchases of securities, sending out the first clear signals that its highly expansionary monetary policy is coming to an end.

Exchange rates compared to the euro
→ 19

Index: December 2013 = 100



Source: Reuters.

The British pound's fluctuations against the euro reflected the progress of difficult negotiations towards an orderly Brexit. The value of the British currency fell temporarily to 0.91 pounds to the euro before finishing the year at an average rate of 0.89 pounds to the euro.

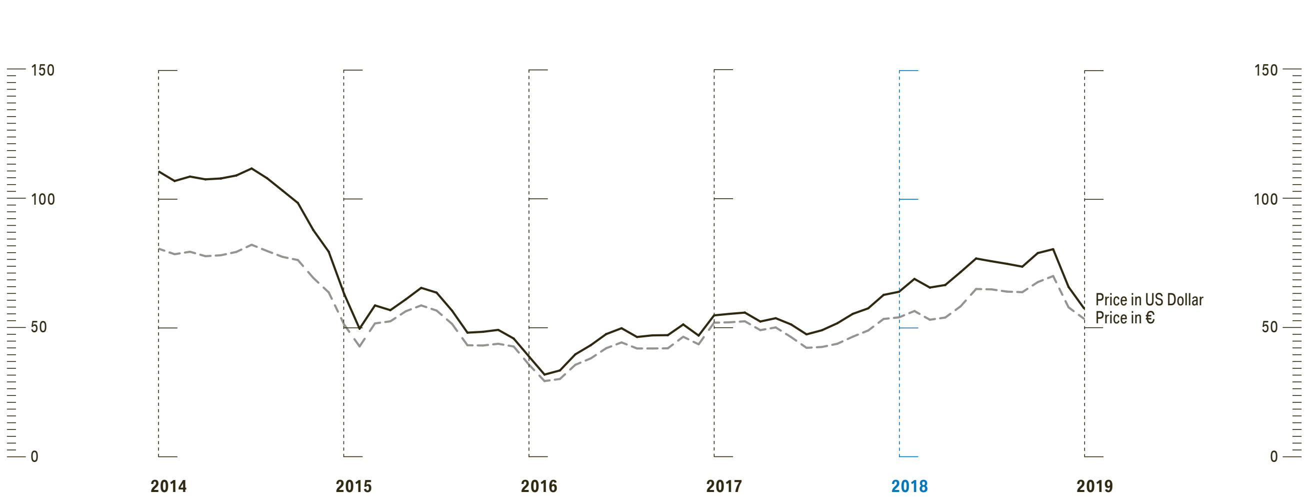
The Chinese renminbi continued to lose value compared to the previous year, recording an average exchange rate of 7.81 renminbi to the euro for the twelve-month period. The Japanese yen also continued to depreciate year-on-year with an average exchange rate of 130 yen to the euro during the year under report.

The currencies of major emerging economies fell during 2018. The Russian rouble and the Brazilian real lost 12 % and 20 % respectively against the euro. The Indian rupee depreciated by 10 % against the euro.

Oil price trend

→ 20

Price per barrel of Brent Crude

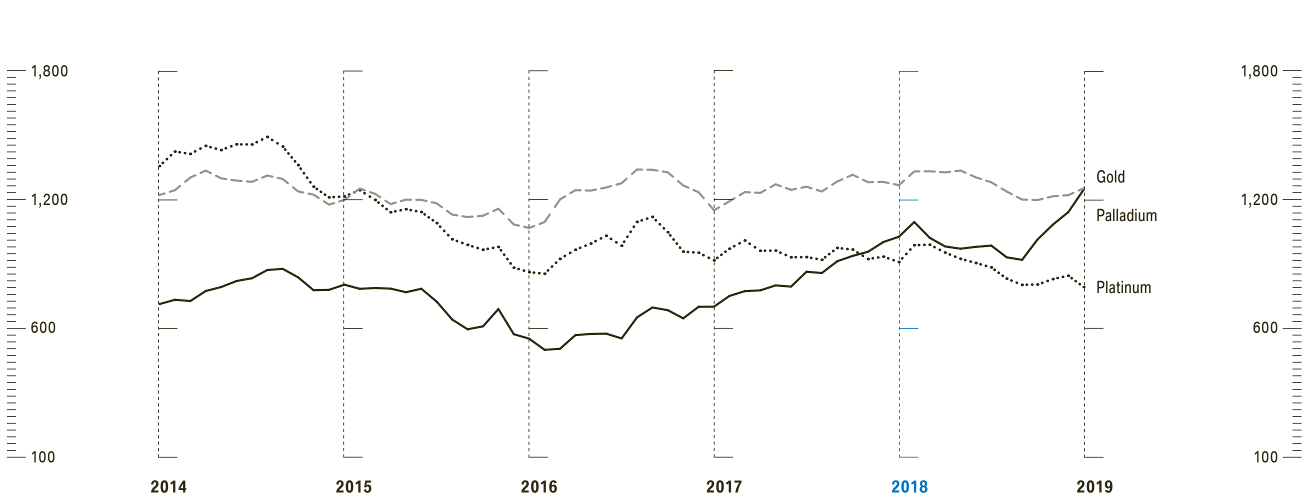


Source: Reuters.

Precious metals price trend

→ 21

Price in US Dollar



Source: Reuters.

Energy and raw materials prices

Steel markets experienced some sharp price rises during 2018, especially in the USA. The US Administration increased tariffs on steel by 25 %, making this particular raw material more expensive for the domestic market. In addition, the price of coking coal went up by around 10 %. Moreover, both the USA and the EU continued to apply protectionist measures on steel products from various countries.

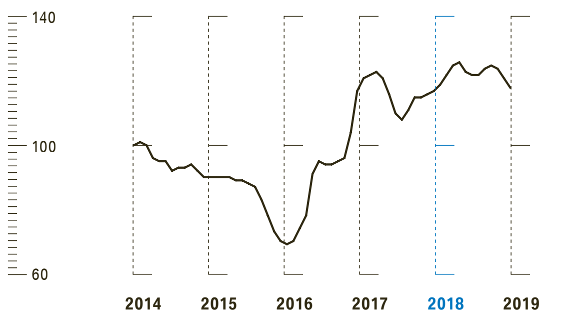
Prices for precious and non-ferrous metals fell markedly overall towards the end of 2018. Only palladium, which is mainly used in petrol engines, saw a price increase.

Prices for lithium and cobalt, which are used as raw materials in batteries, were highly volatile during 2018. Whereas multi-year highs were still being recorded in the first half of the year, prices fell sharply during the second six-month period.

On oil markets, concerns regarding a state bankruptcy in Venezuela and the reintroduction of export sanctions against Iran fuelled fears of a possible under-supply. Overall, the average price per barrel rose significantly from 54 US dollars to 72 US dollars year-on-year. WTI, the benchmark for crude oil in the USA, followed a similar trend, with an average price of around 65 US dollars per barrel for the year as a whole.

Steel price trend
→ 22

Index: January 2014 = 100



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

International automobile markets

The upward trend of the previous years on international automotive markets failed to continue in 2018, with registration figures for passenger cars and light commercial vehicles falling worldwide by 2.2 % to 85.8 million vehicles. New registration figures fell for the first time in years in China (23.1 million units; – 6.3 %) and were flat in both the USA (17.3 million units; + 0.3 %) and Japan (5.1 million units; + 0.7 %).

Overall, European automobile markets finished at the previous year's level (15.6 million units; 0.0 %). A look at individual markets, however, shows a mixed picture for registrations. While Spain (1.3 million units; + 7.0 %) and France (2.2 million units; + 3.0 %) again saw year-on-year growth, new registrations were down in Italy (1.9 million units; – 3.3 %) and Germany (3.4 million units; – 0.2 %). The automobile market in the UK continues to suffer from uncertainties related to the progress of Brexit, with registrations down by 6.8 % to 2.4 million units.

Vehicle registrations in major emerging markets rose for the second year in succession in 2018. Russia recorded growth of 10.3 % to 1.6 million units. New registrations in Brazil went up by 12.1 % (2.1 million units).

International motorcycle markets

Motorcycle markets in the 250 cc plus class generally performed well during 2018. The number of new registrations worldwide increased 3.1 % year-on-year. European markets in particular developed well, growing at an overall rate of 7.4 %. Germany registered growth of 8.6 %. Increases in new registrations were also recorded in Italy (+ 6.3 %) and Spain (+16.3 %). The French motorcycle market was 6.0 % up on the previous year. The US market continued to perform weakly and contracted by 4.5 %.

International interest rate environment and development of pre-owned vehicle prices

The global economy continued to grow robustly in 2018. With the exception of the Fed, major central banks supported this development with their continued expansionary approach.

The ECB's policy of monetary expansion remained largely unchanged. The volume of bond purchases was reduced from €30 billion to €15 billion in October 2018 and the purchase programme definitively ended with effect from the end of the year.

After a weak first six-month period, the UK economy recorded stronger-than-expected growth during the second half of 2018. In August, the Bank of England (BoE) decided to raise key interest rates in view of solid growth figures and to counter inflationary pressures.

Despite the trade dispute with China, the US Federal Reserve maintained its strategy of normalising monetary policy during 2018. Over the course of the year, it resolved on four occasions to raise the benchmark interest rate, in each case by 0.25 %, taking it to a range of 2.25 – 2.50 %.

The Chinese economy lost a certain amount of momentum in 2018. Despite the trade dispute with the USA, the People's Bank of China (PBOC) retained its interest rate policy and left the benchmark interest rate unchanged.

The pace of economic growth in Japan slowed during 2018, partly due to the numerous natural disasters. With inflation well below the target rate of 2 %, the Japanese central bank decided to retain its highly expansionary monetary policy.

In some European countries, in particular Germany and to some extent in Southern Europe, diesel engines were the subject of political debate in 2018. In Germany, the first driving bans were imposed on older diesel vehicles. Although markets for pre-owned cars in the premium segment reacted across the board with price decreases for diesels, only a small number of the affected vehicles remain in the BMW Group's portfolio. By contrast, prices for petrol vehicles in the premium segment remained stable.

In the UK, the market for pre-owned premium vehicles was slightly down on previous years. North American markets developed positively. So far, markets in Asia have been largely unaffected by discussions about types of engine.

OVERALL ASSESSMENT BY MANAGEMENT

Overall assessment of business performance

Despite challenging conditions and volatility on international markets, the BMW Group can look back on an overall positive business performance in 2018. Despite some downward trends in figures in the past financial year, the BMW Group's results of operations, financial position and net assets are all indicative of the enterprise's solid financial condition. Overall, despite the various economic challenges, business developed in line with management's revised expectations. This assessment also takes into account events after the end of the reporting period.

COMPARISON OF FORECASTS FOR 2018 WITH ACTUAL RESULTS IN 2018

The following section provides information on the key financial and non-financial performance indicators for the Group and its segments, which is used as the basis for the internal management of the BMW Group.

As part of the analysis of operations and the financial condition of the BMW Group, forecasts made the previous year for the financial year 2018 are compared with the actual outcomes in 2018.

In an ad hoc announcement issued on 25 September 2018, the BMW Group reported on its decision to revise its forecast for the financial year 2018 in light of a new assessment. The main reasons given for the revision are stated below:

- The BMW Group implemented the requirements of the WLTP regulations at an early stage. However, the industry-wide shift to the new WLTP test cycle resulted in significant supply distortions on several European markets and unexpectedly intense competition. In line with its flexible production and sales strategy, the BMW Group responded to these circumstances by reducing its volume planning with a clear focus on earnings quality.

- Increased goodwill and warranty measures resulted in significantly higher additions to provisions in the Automotive segment.

- In addition, continuing international trade conflicts were aggravating the market situation and feeding uncertainty. These circumstances resulted in greater-than-expected distortions in demand and unexpected pressure on pricing in several markets.

Against this background, the BMW Group adjusted its outlook for the financial year 2018 as follows:

- In the Automotive segment, revenues are forecast to be slightly lower than the previous year (previously: slight year-on-year increase).

- The EBIT margin in the Automotive segment is expected to be at least 7 % (previously: 8 to 10 %).

- Group profit before tax is expected to show a moderate year-on-year decrease (previously: in line with the previous year).

These circumstances had a significant impact on Group profit before tax and the EBIT margin of the Automotive segment both in the third quarter and in the fourth quarter.

The BMW Group remains fully committed to its goal of spearheading the transformation of the industry. It continues to strive for sustained high profitability as the cornerstone of its Strategy NUMBER ONE > NEXT. In addition to continuing the current product rollout, ongoing cost and efficiency measures will also be intensified.

Group

Profit before tax: moderate decrease

At €9,815 million, Group profit before tax in 2018 was the second-best figure in the company's history and moderately down on the previous year's record level (2017: €10,675* million; – 8.1 %). In the Annual Report 2017 it was expected that profit before tax would remain at the previous year's level. The factors described above had a dampening effect on the BMW Group's earnings performance during the twelve-month period under report.

* Prior year figures have been adjusted due to the first-time application of IFRS 15, see note 6 to the Group Financial Statements.

Group profit before tax fell moderately and was thus in line with adjusted expectations, as revised in the Quarterly Report to 30 September 2018.

Workforce at year-end: slight increase

In the period under report, the size of the workforce increased slightly by 3.7 % to 134,682 employees (2017: 129,932 employees). Projects relating to vehicle electrification and autonomous driving were the main reason for the workforce increase. Operating growth at segment level and the expansion of financial and mobility services also contributed to the higher headcount.

As foreseen in the outlook for the financial year 2018, there was a slight increase in the size of the workforce, which was thus in line with expectations.

Automotive segment

Deliveries to customers: slight increase

In 2018, the BMW Group delivered a record number of vehicles to customers for the eighth year in succession. Despite significant ongoing political and economic uncertainties due to trade disputes, regulatory requirements and the unclear outcome of the Brexit negotiations, deliveries of BMW, MINI and Rolls-Royce brand vehicles worldwide increased slightly by 1.1 % to 2,490,664[1] units (2017: 2,463,526[1] units). Favourable market conditions in Asia had a positive impact on automobile deliveries. In Europe, volume figures matched the previous year's high level despite fewer deliveries in the UK and Italy. In the Americas region, the BMW Group recorded a slight increase in the number of deliveries.

Deliveries of the core BMW brand in 2018 totalled 2,125,026[1] units (2017: 2,088,283[1] units; +1.8 %), thereby setting a new volume record. MINI remained slightly below the previous year's record figure and, with 361,531 units, achieved its second highest number of deliveries to date (2017: 371,881 units; – 2.8 %). Rolls-Royce Motor Cars achieved a new record level of 4,107 units (2017: 3,362 units; + 22.2 %).

As foreseen in the outlook for the financial year 2018, Automotive segment deliveries increased slightly and were therefore in line with expectations.

Fleet carbon dioxide (CO_2) emissions[2]: in line with previous year's level

CO_2 emissions from fleet vehicles delivered in Europe in 2018 amounted to 128 g CO_2/km (adjusted value for 2017: 128 g CO_2/km; 0.0 %) and were therefore in line with the previous year. This was achieved despite a further decline in the share of diesel vehicles and also thanks to the significant growth in deliveries of electrified models. The original forecast had foreseen a slight decrease.

[3] Prior year figures have been adjusted due to the first-time application of IFRS 15, see note 6 to the Group Financial Statements.

[1] Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2018: 459,581 units, 2017: 384,124 units).

[2] EU-28.

Revenues: in line with previous year's level

At €85,846 million, segment revenues were in line with the previous year's level (2017: €85,742[3] million; + 0.1 %), whereby the translation of foreign currencies had a negative impact, particularly in the first quarter. The various adverse factors described above also held down revenues.

In the Quarterly Report to 30 September 2018, the original forecast for segment revenues was revised from a slight increase to a slight decrease. Thanks to the slightly higher number of vehicles delivered, actual revenues were in line with the previous year's level and therefore exceeded the most recent forecast.

Going forward, the BMW Group intends to place greater emphasis on the quality of earnings in its management of the business. Given that the EBIT margin already takes account of revenues, segment revenues will no longer be reported as one of the key performance indicators going forward.

EBIT margin: at least 7%

The EBIT margin (profit before financial result divided by revenues) came in at 7.2 % (2017: 9.2[3] %; – 2.0 percentage points). As forecast in the Quarterly Report to 30 September 2018, the EBIT margin exceeded 7 % and was therefore in line with revised expectations. In the Annual Report 2017 an EBIT margin in the range of 8 to 10 % was originally expected.

Return on capital employed: significant decrease

The Automobile segment's RoCE in 2018 fell to 49.8 % (2017: 77.7[3] %; – 27.9 percentage points), mainly reflecting earnings developments. The main reasons for the decrease were higher investments in the electrification of the BMW Group's vehicle fleet, digitalisation and the expansion and rejuvenation of the model portfolio as well as the expansion of the production network. However, the long-term target RoCE for the Automotive segment was well above the minimum target of 26 %.

As foreseen in the outlook for the financial year 2018, the RoCE decreased significantly, in line with expectations.

Motorcycles segment

Deliveries to customers: in line with previous year's level
In 2018, deliveries of motorcycles reached a new record level of 165,566 units (2017: 164,153 units; + 0.9 %).

In the Quarterly Report to 31 March 2018, a slight increase was forecast for the full twelve-month period. Due to the limited availability of products in conjunction with various model changes, deliveries in 2018 were only in line with the previous year's level. The original forecast in the Annual Report 2017 expected a solid increase in deliveries of motorcycles.

EBIT margin in target range of between 8 and 10%
The EBIT margin in the Motorcycles segment (profit before financial result divided by revenues) came in at 8.1 % (2017: 9.1[1] %; –1.0 percentage points). As foreseen for the financial year 2018, the EBIT margin was within the target range of between 8 and 10 % and therefore in line with expectations.

Return on capital employed: moderate decrease
The return on capital employed (RoCE) for the Motorcycles segment in 2018 was 28.4 %, moderately down on the previous year's level (2017: 34.0[1] %; – 5.6 percentage points). In the original forecast in the Annual Report 2017, a slight increase was expected. The most recent forecast in the Quarterly Report to 30 September 2018 still assumed that RoCE would be in line with the previous year's level. The shortfall was attributable to the ramp-up situation in the segment due to various model changes. The long-term target RoCE of 26 % for the Motorcycles segment was surpassed.

Financial Services segment

Return on equity slightly below previous year's level
As expected in the Annual Report 2017, the return on equity generated by the Financial Services segment in 2018 was slightly lower than one year earlier at 14.8 % (2017: 18.1 %; – 3.3 percentage points). The decrease was due to more stringent regulatory requirements for equity capital. Nevertheless, the internal RoE target of at least 14 % was achieved.

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

BMW Group comparison of 2018 forecasts with actual outcomes 2018

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	Forecast for 2018 in 2017 Annual Report	Forecast revision during the year		Actual outcome in 2018
GROUP				
Profit before tax	in line with last year's level	Q3: moderate decrease	€ million	9,815 (– 8.1 %) moderate decrease
Workforce at year-end	slight increase			134,682 (+ 3.7 %) slight increase
AUTOMOTIVE SEGMENT				
Deliveries to customers[2]	slight increase		units	2,490,664 (+ 1.1 %) slight increase
Fleet emissions[3]	slight decrease		g CO_2 / km	128 (0.0 %) in line with last year's level
Revenues	slight increase	Q3: slight decrease	€ million	85,846 (+ 0.1 %) in line with last year's level
EBIT margin	between 8 and 10	Q3: at least 7	%	7.2 (– 2.0 %pts)
Return on capital employed	significant decrease		%	49.8 (– 27.9 %pts) significant decrease
MOTORCYCLES SEGMENT				
Deliveries to customers	solid increase	Q1: slight increase	units	165,566 (+ 0.9 %) in line with last year's level
EBIT margin	between 8 and 10		%	8.1 (– 1.0 %pts)
Return on capital employed	slight increase	Q1: in line with last year's level	%	28.4 (– 5.6 %pts) moderate decrease
FINANCIAL SERVICES SEGMENT				
Return on equity	slight decrease		%	14.8 (– 3.3 %pts) slight decrease

[1] Prior year figures adjusted due to first-time application of IFRS 15, see note 6 to the Group Financial Statements.
[2] Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2018: 459,581 units).
[3] EU-28.

REVIEW OF OPERATIONS

Automotive Segment

Deliveries rise to new record level

The BMW Group delivered 2,490,664* BMW, MINI and Rolls-Royce brand vehicles worldwide in 2018, thereby setting a new record for the eighth year in succession (2017: 2,463,526* units; +1.1 %), comprising 2,125,026* BMW (2017: 2,088,283* units; +1.8 %), 361,531 MINI (2017: 371,881 units; – 2.8 %) and 4,107 Rolls-Royce (2017: 3,362 units; + 22.2 %) brand vehicles.

Asia and Americas slightly up, Europe at previous year's level

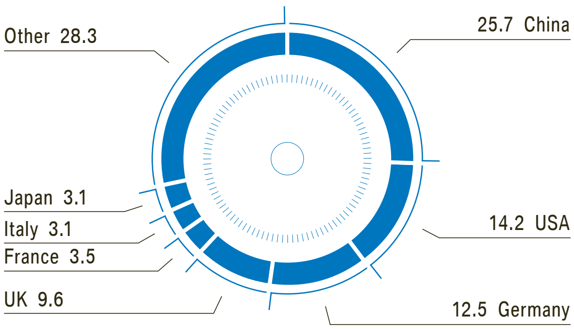
The BMW Group continued to grow its business in Asia in 2018, recording a 3.3 % increase in deliveries of BMW, MINI and Rolls-Royce brand vehicles to a total of 876,614* units (2017: 848,826* units). In China, sales figures developed positively, mainly due to a strong second half-year, rising to 640,803* units (2017: 595,020* units; + 7.7 %).

In Europe, the BMW Group's sales performance was dampened by various factors, including the diesel debate in some countries. Nevertheless, with deliveries of 1,098,523 units of its three brands, the BMW Group came very close to the previous year's high level (2017: 1,101,760 units; – 0.3 %). Deliveries in Germany increased by 4.9 % to 310,441 units (2017: 295,805 units). In the UK, volumes fell slightly year-on-year to 238,308 units (2017: 241,674 units; –1.4 %), not least due to the ongoing uncertainty about the outcome of the Brexit negotiations.

On the American continent, market conditions were characterised by intense competition and fluctuations in demand, in some cases on a high scale. Nevertheless, the BMW Group increased deliveries in the region by 1.5 % to 457,715 units (2017: 451,136 units). Business in the USA remained at the previous year's level, with 355,993 units delivered (2017: 353,819 units; + 0.6 %).

BMW Group – key automobile markets 2018
→ 24

as a percentage of deliveries



BMW Group deliveries of vehicles by region and market
→ 25

in 1,000 units	2018	2017	2016	2015	2014
Europe	1,098.5	1,101.8	1,092.2	1,000.4	914.6
thereof Germany	310.4	295.8	298.9	286.1	272.3
thereof UK	238.3	241.7	252.2	231.0	205.1
Americas	457.7	451.1	460.4	495.9	482.3
thereof USA	356.0	353.8	366.5	405.7	397.0
Asia*	876.6	848.8	747.3	685.8	658.4
thereof China*	640.8	595.0	516.8	464.1	456.7
Other markets	57.9	61.8	67.7	65.4	62.7
Total*	**2,490.7**	**2,463.5**	**2,367.6**	**2,247.5**	**2,118.0**

* Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2018: 459,581 units, 2017: 384,124 units, 2016: 316,200 units, 2015: 282,000 units, 2014: 275,891 units).

BMW* deliveries rise to new record level

In 2018, BMW brand deliveries rose to 2,125,026 units (2017: 2,088,283; +1.8 %), reaching a new record high for the eighth year in succession. The BMW 5 Series, the BMW 6 Series and the X Family all made major contributions to this result. Moreover, the fleet of electrified vehicles is continually gaining in significance.

At 199,980 units, deliveries of the BMW 1 Series were almost at their previous year's level (2017: 201,968 units; –1.0 %). Now nearing the end of its model life cycle, deliveries of the BMW 3 Series were down on the previous year, in line with expectations (366,475 units; 2017: 409,005 units; –10.4 %). The new BMW 3 Series Sedan celebrated its world première in autumn 2018, amid great acclaim from customers and media alike. Deliveries of the BMW 5 Series rose significantly by 10.2 % to 382,753 units (2017: 347,313 units). The BMW 6 Series benefited from the new Gran Turismo model and achieved a volume of 26,606 units worldwide (2017: 11,052 units).

The BMW X family again enjoyed high demand in 2018. Worldwide deliveries of 792,605 X units represented a significant 12.1 % increase year-on-year (2017: 706,741 units). The BMW X3 made an important contribution to this performance, with deliveries up by more than one third to 201,637 units (2017: 146,395 units; + 37.7 %). Now coming to the end of its life cycle, BMW X5 deliveries fell short of the previous year, in line with expectations (155,575 units; 2017: 180,905 units; –14.0 %). The successor to the X5 has been available since November 2018 and will generate additional impetus from 2019 onwards.

Deliveries of BMW vehicles by model variant*

→ 26

in units	2018	2017	Change in %	Proportion of BMW sales volume 2018 in %
BMW 1 Series	199,980	201,968	–1.0	9.4
BMW 2 Series	152,215	181,113	–16.0	7.2
BMW 3 Series	366,475	409,005	–10.4	17.2
BMW 4 Series	109,887	133,104	–17.4	5.2
BMW 5 Series	382,753	347,313	10.2	18.0
BMW 6 Series	26,606	11,052	–	1.3
BMW 7 Series	56,037	64,311	–12.9	2.6
BMW 8 Series	923	–	–	–
BMW X1	286,827	286,743	0.0	13.5
BMW X2	67,576	–	–	3.2
BMW X3	201,637	146,395	37.7	9.5
BMW X4	45,950	52,167	–11.9	2.2
BMW X5	155,575	180,905	–14.0	7.3
BMW X6	35,040	40,531	–13.5	1.6
BMW i	37,545	33,676	11.5	1.8
BMW total	**2,125,026**	**2,088,283**	**1.8**	**100.0**

* Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2018: 459,581 units, 2017: 384,124 units).

MINI achieves second-best year

2018 was the second-best year in MINI's history. Worldwide deliveries totalled 361,531 units (2017: 371,881 units; –2.8 %). Deliveries of the MINI Countryman increased by almost one fifth to 99,750 units (2017: 84,888 units; +17.5 %). The MINI Hatch (3- and 5-door) achieved a volume of 182,189 units (2017: 194,070 units; –6.1 %).

Deliveries of MINI vehicles by model variant

→ 27

in units	2018	2017	Change in %	Proportion of MINI sales volume 2018 in %
MINI Hatch (3- and 5-door)	182,189	194,070	–6.1	50.4
MINI Convertible	32,356	33,351	–3.0	8.9
MINI Clubman	47,236	59,572	–20.7	13.1
MINI Countryman	99,750	84,888	17.5	27.6
MINI total	**361,531**	**371,881**	**–2.8**	**100.0**

Rolls-Royce with record deliveries

In 2018, Rolls-Royce Motor Cars marked its best year in over 100 years of corporate history with 4,107 deliveries worldwide (2017: 3,362 units; +22.2 %). The Rolls-Royce Phantom* (830 units; 2017: 235 units) and the new Rolls-Royce Cullinan* (544 units), the latter of which has been available to customers since November 2018, contributed substantially to this performance.

Deliveries of Rolls-Royce vehicles by model variant

→ 28

in units	2018	2017	Change in %
Phantom*	830	235	–
Ghost	958	1,098	–12.8
Wraith / Dawn	1,775	2,029	–12.5
Cullinan*	544	–	–
Rolls-Royce total	**4,107**	**3,362**	**22.2**

Delivery target of 140,000 electrified automobiles achieved

The BMW Group succeeded in reaching its target of delivering more than 140,000 electrified vehicles in the financial year 2018, underlining its leading position worldwide in terms of combined deliveries of all-electric and plug-in hybrid vehicles and as market leader in Europe.

With a total of 142,617 units, deliveries of BMW Group electrified vehicles rose by more than a third in 2018 (2017: 103,080 units; +38.4 %). Deliveries of BMW i and BMW plug-in hybrid models increased by one third to 129,398 units in the year under report (2017: 97,281 units; +33.0 %). With a total of 91,853 units, BMW plug-in hybrids made an important contribution to this performance (2017: 63,605 units; +44.4 %). Deliveries of the electrified MINI Countryman*, available since June 2017, totalled 13,219 units during the year under report (2017: 5,799 units).

Deliveries of electrified models

→ 29

in units	2018	2017	Change in %
BMW i	37,545	33,676	11.5
BMW iPerformance	91,853	63,605	44.4
MINI Electric	13,219	5,799	–
Total	**142,617**	**103,080**	**38.4**

* Fuel consumption and CO_2 emissions information are available on page 108.

Production reaches new all-time high

A new production volume record of 2,541,534[1] units (2017: 2,505,741[1] units; +1.4 %) was set during the year under report, comprising 2,168,496[1] BMW (2017: 2,123,947[1] units; + 2.1 %), 368,685 MINI (2017: 378,486 units; – 2.6 %) and 4,353 Rolls-Royce brand vehicles (2017: 3,308 units; + 31.6 %).

Vehicle production of the BMW Group by plant

→ 30

in units	2018	2017	Change in %	Proportion of production in %
Spartanburg	356,749	371,316	– 3.9	14.0
Dingolfing	328,862	376,580	– 12.7	12.9
Regensburg	319,592	338,259	– 5.5	12.7
Leipzig	244,248	246,043	– 0.7	9.6
Oxford	234,501	223,817	4.8	9.2
Munich	157,799	196,455	– 19.7	6.2
Rosslyn	50,224	53,105	– 5.4	2.0
Rayong	15,612	21,084	– 26.0	0.6
Chennai	10,956	8,952	22.4	0.4
Araquari	7,752	12,768	– 39.3	0.3
Goodwood	4,353	3,308	31.6	0.2
San Luis Potosí[2]	308	–	–	–
Tiexi (BBA)[3]	299,939	269,309	11.4	11.8
Dadong (BBA)[3]	191,888	127,440	50.6	7.6
Born (VDL Nedcar)[4]	211,660	168,969	25.3	8.3
Graz (Magna Steyr)[4]	64,431	50,272	28.2	2.5
Partner plants	42,660	38,064	12.1	1.7
Group	**2,541,534**	**2,505,741**	**1.4**	**100.0**

[1] Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2018: 491,872 units, 2017: 396,749 units).
[2] 2018 only pre-series production, plant opens in 2019.
[3] Joint Venture BMW Brilliance Automotive Ltd., Shenyang.
[4] Contract production.

The BMW Group’s production system is based on the Strategy NUMBER ONE > NEXT and is ideally prepared for the future. The system is characterised by unique flexibility, outstanding efficiency and robust processes, enabling the BMW Group to respond rapidly to changing market situations and fluctuations in regional demand. This level of manufacturing expertise gives the Group a crucial competitive edge and makes a key contribution to its overall profitability.

Its production network leverages innovative technologies from the fields of digitalisation and Industry 4.0, standardised modules and intelligent mixed manufacturing methods. The production system ensures consistent premium quality and enables a high level of customisation for customers. MINI buyers, for example, can optionally design selected components to suit their individual tastes.

To ensure full capacity utilisation of its production network in the long term and to be capable of responding rapidly and flexibly to changing customer requirements, the BMW Group pursues the strategy of integrating the production of all-electric and plug-in hybrid vehicles in its existing manufacturing system. In 2018, the Group produced electrified vehicles at ten different locations worldwide. In the future, every BMW Group production plant in Europe will also manufacture electrified vehicles.

German plants play leading role within network

Overall, the Group's German manufacturing plants in Munich, Dingolfing, Regensburg and Leipzig again produced over one million vehicles in 2018.

At the same time, important innovations are being further developed and tested at these plants. Moreover, they are playing a key role in integrating e-mobility throughout the BMW Group's production network. In 2018 alone, more than €1 billion were invested in the Group's German production sites for continuous modernisation projects and to prepare them for electric mobility.

The technologies used in making electric drivetrain components and batteries are developed at the prototype construction centre in Munich. The Dingolfing and Landshut plants play a leading role as centres of competence for the production of electric drivetrain systems. Electric motors for the BMW Group's electrified vehicles are also produced at these plants. The batteries required are produced at the three battery factories in Dingolfing (Germany), Spartanburg (USA) and Shenyang (China). In Thailand, the BMW Group works closely with a partner that manufactures batteries for electrified vehicles produced locally.

The ability to produce electric drivetrain systems, batteries and prototypes for battery cells in-house gives the BMW Group a decisive competitive edge that enables it to secure valuable knowledge of new technologies, gain important system expertise and leverage cost advantages.

In the future, the Group intends to concentrate its battery cell expertise in an in-house competence centre. The aim is to continue developing the technology and to fully analyse and understand the value-added processes of the battery cell. The competence centre is due to be opened in 2019.

Worldwide network for conventional drivetrain production

The engine manufacturing plants in Munich, Hams Hall (UK), Steyr (Austria) and Shenyang (China) supply both diesel and petrol engines for the production network. The BMW Group's largest engine plant in Steyr also serves as the development centre for diesel engines worldwide. In Steyr, more than 700 technicians and engineers are working on making the drivetrains of the future generate even fewer emissions and operate more efficiently and powerfully with the help of state-of-the-art testing and measuring technology.

International production network

By expanding its international production network, the BMW Group follows global market developments with the aim of ensuring a balanced distribution of added value. In 2018, the Group announced the construction of a new plant in Hungary in order to increase capacity in its global production network in the long term.

In 2018, the Group's largest plant in Spartanburg (USA) began producing the first BMW X7 and the new BMW X4 and BMW X5 models. The plant, which specialises in the BMW X Series ranging from the X3 to the X7, produces a total of five different models for the world market.

Due to the high global demand for these models, the plants in Dadong (China) and Rosslyn (South Africa) have also been producing the BMW X3 since 2018. Previously, the Rosslyn plant had produced the BMW 3 Series for over 35 years. The new BMW Group plant in San Luis Potosí (Mexico) will take over these capacities going forward. The first BMW 3 Series Sedans have already been successfully produced there as pre-series models. The plant in Mexico is due to be officially opened in mid-2019.

In 2018, the BMW Group celebrated the 15th anniversary of the successful BMW Brilliance Automotive (BBA) joint venture in Shenyang (China). A total of six BMW models are manufactured at the two BBA plants in Dadong and Tiexi. The BMW X2 will become the seventh model in 2019.

Motorcycles Segment

Motorcycle deliveries increase

Deliveries of motorcycles reached a new record level of 165,566 units in 2018 (2017: 164,153 units; +0.9 %), marking the eighth successive year of growth.

Effect of model change felt particularly in Europe

The model change in the mid-class segment had a particularly significant impact on the European market, causing motorcycle deliveries to fall slightly by 3.3 % to 98,144 units in 2018 (2017: 101,524 units). At 23,824 units, deliveries to customers in Germany were down year-on-year (2017: 26,664 units; –10.7 %). Italy saw a slight decrease, with deliveries falling to 14,110 units (2017: 14,430 units; –2.2 %). By contrast, volumes remained similar to the previous year's level in Spain (11,124 units; 2017: 11,193 units; –0.6 %) and France (16,615 units; 2017: 16,607 units; 0.0 %). In the USA, BMW Motorrad reported a slight increase of 2.2 % to 13,842 units despite difficult market conditions (2017: 13,546 units).

Motorcycle production down year-on-year due to model changes

A total of 162,687 motorcycles rolled off BMW Motorrad's production lines at five locations during the year under report (2017: 185,682 units; –12.4 %). Since July 2018, BMW Motorrad scooters have also been manufactured by BMW Motorrad's partner Loncin Motor Co., Ltd in Chongqing, China.

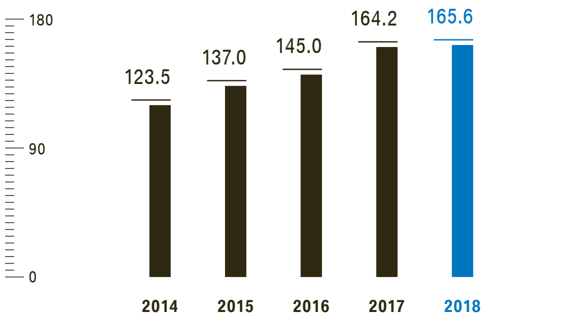
Eight new models introduced

BMW Motorrad presented a total of eight new models at the international motorcycle trade shows in Cologne (INTERMOT) and Milan (EICMA), comprising the R 1250 GS, R 1250 GS Adventure, R 1250 RT, R 1250 R, R 1250 RS, C 400 GT, F 850 GS Adv. and S 1000 RR. In the case of the third generation of the S 1000 RR, BMW Motorrad's customers can now select a BMW M package for the first time. The R 1250 models are also equipped with new engines that generate more power, especially at lower speeds, and help improve energy efficiency.

BMW Group deliveries of motorcycles

→ 31

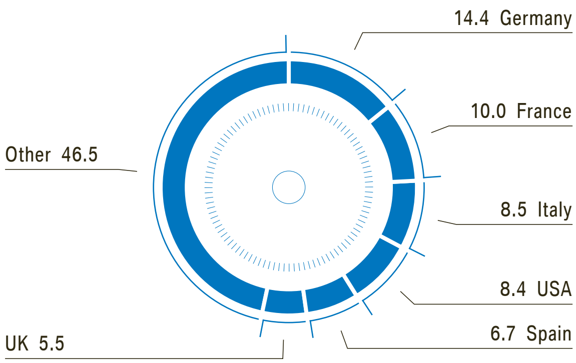
in 1,000 units



BMW Group – key motorcycle markets 2018

→ 32

as a percentage of sales volume



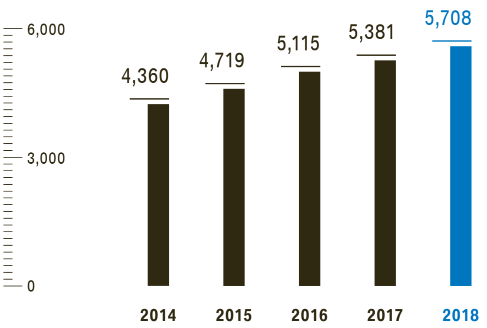
Financial Services Segment

Continued growth for Financial Services

As in the previous year, the Financial Services segment continued to perform very well within a highly competitive market environment and therefore remained firmly on growth course. In balance sheet terms, business volume grew by 6.8 % to stand at €133,210 million (2017: €124,719 million). The contract portfolio under management at 31 December 2018 comprised 5,708,032 contracts and therefore grew solidly by 6.1 % year-on-year (2017: 5,380,785 contracts).

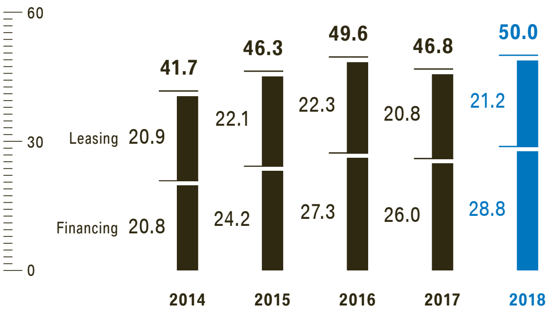
Contract portfolio of Financial Services segment
→ 33

in 1,000 units



BMW Group new vehicles financed or leased by Financial Services segment*
→ 34

in %



* Until 2015 excluding Rolls-Royce.

Slight growth in new business

Credit financing and leasing business with retail customers remain key elements in the success of the Financial Services segment. During the period under report, 1,908,640 new credit financing and leasing contracts were concluded with customers, slightly up (+4.4 %) on the previous year (2017: 1,828,604 contracts). A slight increase in new contracts was recorded for both credit financing (+4.3 %) and leasing business (+4.5 %). Overall, leasing accounted for 33.1 % and credit financing for 66.9 % of new business.

The proportion of new BMW Group vehicles either leased or financed by the Financial Services segment in the financial year 2018 amounted to 50.0 %, 3.2 percentage points up on the previous year (2017: 46.8 %)*, mainly due to growth in credit financing in China.

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

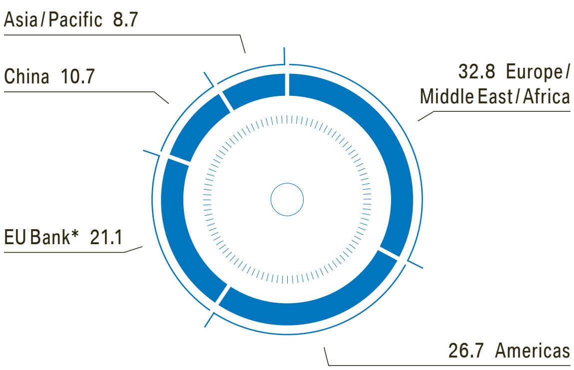
In the pre-owned financing and leasing business for BMW and MINI, the segment recorded a slight increase in the number of new contracts signed in the period under report, up by 2.2 % to 396,610 contracts (2017: 387,937 contracts).

The total volume of new credit financing and leasing contracts concluded with retail customers during the twelve-month period under report amounted to €55,817 million, slightly higher than one year earlier (2017: €55,049 million; +1.4 %) and despite negative exchange rate effects.

The total portfolio of financing and leasing contracts with retail customers developed positively again in 2018, with a solid increase of 6.3 % year-on-year. In total, 5,235,207 contracts were in place with retail customers at 31 December 2018 (2017: 4,926,228 contracts) in the Financial Services segment. The China region recorded the fastest growth rate of all regions, significantly growing its contract portfolio by 25.6 % year-on-year. The Europe/Middle East/Africa region (+7.0 %), the EU Bank* region (+6.2 %) and the Americas region (+2.2 %) also registered solid or slight year-on-year growth respectively, whereas the Asia/Pacific region saw a slight decrease in its contract portfolio (–2.5 %).

Contract portfolio retail customer financing of Financial Services segment 2018
→ 35

in % per region



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

Slight growth in fleet business

The BMW Group is one of Europe's foremost leasing and full-service providers. The Financial Services segment's fleet management business, under the brand name Alphabet, offers leasing and financing arrangements as well as specific services to commercial customers. The number of fleet contracts rose by 3.0 % during the financial year 2018. At 31 December 2018, the segment was thus managing a portfolio of 700,080 fleet contracts (2017: 679,895 contracts).

Decrease in multi-brand financing

Multi-brand financing in the Financial Services segment registered a significant drop (–13.5 %) in new business in 2018, with the number of new contracts falling to 136,283 contracts (2017: 157,626 contracts). The total portfolio comprised 401,007 contracts at 31 December 2018, slightly lower than one year earlier (2017: 406,813 contracts; –1.4 %). The reason for the decline was a stronger focus on the Group's own brands within this line of business.

Solid year-on-year growth in dealership financing

The total volume of dealership financing continued to grow during the financial year 2018, standing at €20,438 million at the end of the reporting period (2017: €19,161 million; +6.7 %).

Deposit business volume up on previous year

Customer deposits represent an important source of refinancing for the Financial Services segment. The volume of deposits stood at €14,359 million at the end of the reporting period, representing a solid increase over one year earlier (2017: €13,572 million; +5.8 %).

Growth in insurance brokerage business

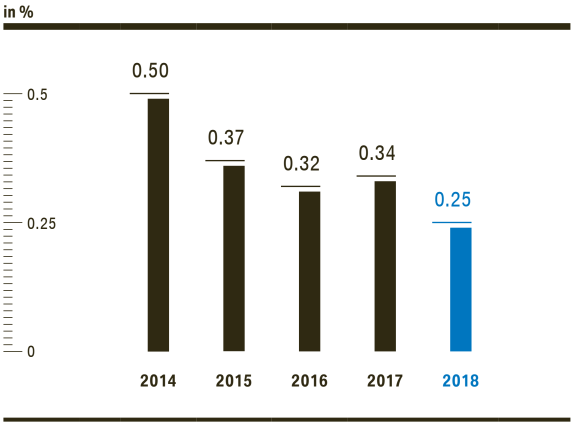
With an increase of 3.2 % in 2018, the number of newly brokered insurance contracts grew to 1,381,093 contracts (2017: 1,337,652 contracts). At 31 December 2018, the total number of brokered insurance contracts stood at 3,906,550 (2017: 3,649,362 contracts; +7.0 %).

Risk profile

Despite ongoing political and economic uncertainties, such as the diesel debate in European countries concerning higher levels of emissions from diesel vehicles as well as Brexit and trade conflicts, the risk profile across the Financial Services segment's total portfolio remained stable at a low level.

Development of credit loss ratio

→ 36



The risk profile of the segment's credit financing portfolio also remained stable at a low level. The credit loss ratio on the total credit portfolio amounted to 0.25 % at 31 December 2018, and therefore below the previous year's level (2017: 0.34 %).

Proceeds generated from the sale of BMW and MINI brand vehicles again rose slightly in the financial year 2018 due to volume and mix effects. Market values stabilised in North America. By contrast, the European pre-owned vehicle market experienced a downward trend, in line with expectations, mainly in the wake of the diesel engine debate.

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

Research and Development

→ www.bmwgroup.com/innovation

In 2018 the research and development division at the BMW Group faced a series of challenges, which were successfully met. Firstly, as part of the model offensive, the Company developed new vehicles and vehicle concepts. Secondly, it played a key role in advancing the technologies that will drive tomorrow's world, such as autonomous driving, battery research and electric mobility as well as software development and connectivity. Moreover, the transition to the new WLTP testing cycle was successfully completed during the course of the year.

Autonomous Driving Campus working at full speed

In May 2018, the BMW Group celebrated the official opening of its Autonomous Driving Campus in Unterschleißheim near Munich. On 23,000 square metres of office space, the BMW Group is rapidly developing state-of-the-art driver assistance systems as well as highly and fully automated driving technology. The campus has created many new jobs, particularly for IT specialists and software developers in the fields of artificial intelligence, machine learning and data analysis.

At the end of 2018, around 1,300 experts from the BMW Group as well as from external partners such as Fiat Chrysler Automobiles, Intel and Mobileye were already working in Unterschleißheim. On campus, the associates actively practise an open, agile way of working (Large Scale Scrum – LeSS), enabling the teams to tackle the high complexity of their tasks more quickly and with greater efficiency. This approach enables the BMW Group to focus keenly on developing new key technologies such as artificial intelligence and driving simulation.

Driver assistance and autonomous driving continue to play key roles in the BMW Group's forward-oriented strategy. During the year under report, a total of 80 vehicles were deployed to test the new technologies on highways and in urban environments across Europe, the USA and China.

Substantial expansion of R&D activities in China

As part of its corporate strategy, the BMW Group took a number of decisive steps in 2018 in the field of research and development to secure the future of the enterprise as a whole. China is playing an increasingly significant role for the BMW Group as a driver of innovation and future mobility.

Following the R&D centre in Shenyang, the BMW Group opened a new location in Beijing in May 2018, where topics such as requirements management, testing and validation as well as the development of systems and services are now handled. In June, the BMW Group added a third location – Shanghai – to its Chinese R&D network. The R&D centre in Shanghai will focus on autonomous driving, digital services and futuristic design and expand existing collaboration arrangements with leading high-tech companies. The R&D team comprises over 200 technical specialists and designers. The two new locations are intended to bolster the BMW Group's local innovative strength in China.

Furthermore, in May 2018 the BMW Group became the first international automotive manufacturer to obtain a test licence for autonomous driving within China. Level 4 functions (fully automated driving) are being trialled by a test fleet comprising the latest models of the current BMW 7 Series on approximately six kilometres of designated test routes in the Chinese city of Shanghai. The development team, which is made up of more than 60 experts, is currently collecting data that reflect urban traffic in all its complexity. These data will serve as the basis for developing machine learning algorithms capable of depicting highly automated driving strategies.

Purchasing and Supplier Network

Ensuring access to resources in a volatile environment

With its globally oriented organisation, the Purchasing and Supplier Network ensures access to all necessary external resources in an environment that remains highly volatile. Activities include the procurement and quality assurance of production materials, raw materials, capital goods and services as well as the manufacturing of vehicle components produced in-house. External suppliers are selected systematically according to the criteria of quality, innovation, flexibility and cost. In 2018, procurement activities focused on components for the fast-growing percentage of electrified vehicles.

Connecting procurement markets

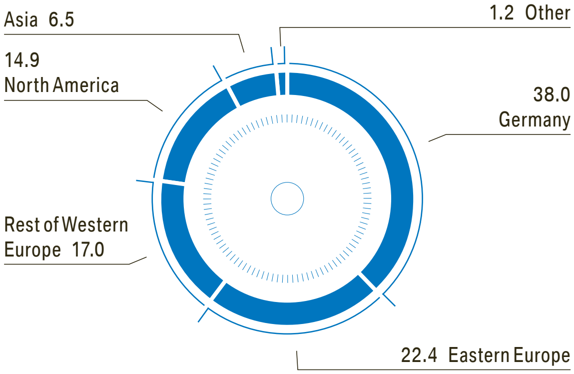
The BMW Group remains committed to its strategy of maintaining a regional balance with regard to growth in delivery, production and purchasing volumes. The strategy makes an important contribution to natural hedging against currency fluctuations. The global distribution of purchasing volumes for production materials and raw materials is closely linked to production volumes in the BMW Group's global plant network. Global distribution remained largely stable in the financial year 2018.

Global trade policy influences purchasing

Global trade policy is increasingly influencing the BMW Group's purchasing activities as well as its globally interlinked supply chains. With its purchasing strategy, the Group is pursuing the goal of increasing its own competitiveness and at the same time contributing towards cutting customs costs. This is achieved, for example, through localisation in free trade areas with minimum requirements in terms of local value creation and through the intelligent controlling of material flows within a global network. The BMW Group's purchasing function also works to ensure the greatest possible flexibility to allow for short-term changes in trade policy.

Regional mix of BMW Group purchase volumes 2018
→ 37

in %, basis: production material



Sales and Marketing

→ www.bmwgroup.com/brands

The BMW Group's sales and distribution network currently comprises some 3,500 BMW, 1,600 MINI and 140 Rolls-Royce dealerships worldwide. Sales are conducted via independent authorised distributors, branch offices of the BMW Group, subsidiaries, and independent import companies in some markets.

BMW i remains on road to success

The BMW i offers not only trendsetting vehicle concepts but also connected mobility services and a new understanding of premium, which is determined in particular by sustainability. The all-electric BMW i3* has meanwhile established itself as one of the most successful electric vehicles in its segment. With a cell capacity increased to 120 ampere hours (Ah) and a current gross energy content of 42.2 kilowatt hours (kWh), a new generation of high-voltage batteries is helping the BMW i3* and its sporty sister model the BMW i3s* to extend its reach by about 30 % to travel longer distances of up to 260 km. The entire production chain is supplied with green energy for both of these models and they are also 95 % recyclable.

* Fuel consumption and CO_2 emissions information are available on page 108.

Since its market launch in 2014, the BMW i8 has been one of the best-selling hybrid sports cars. Launched in 2018, the new BMW i8 Roadster* offers an emotional combination of electric mobility and the experience of open-top driving. Apart from its remarkable design, pioneering technologies and sustainable mobility concept, it stands above all for the driving pleasure typically epitomised by BMW.

In addition to its BMW i vehicles, in 2018 the BMW Group successfully offered a range of six BMW plug-in hybrid models and one MINI plug-in* worldwide. The BMW Group is committed to providing flexible platforms where customers have the free choice of drivetrain system depending on their personal preference. The advantage for the BMW Group lies in its flexible response to uncertain demand developments and the best possible utilisation of plant capacity.

As a systems provider, BMW i provides its customers with solutions that go far beyond the vehicle itself: BMW i 360° ELECTRIC and ChargeNow are comprehensive service offerings for charging both at home and away from home. Energy services such as grid integration for electric vehicles and battery storage applications are also available. Additional offerings include charging technologies such as inductive charging as well as charging infrastructure projects such as the super-fast charging network Ionity.

Digitisation promotes individual mobility

In line with its Strategy NUMBER ONE > NEXT, the BMW Group is increasingly investing in digital services. The aim is to develop and successfully operate new digital business models with a rigorously customer-oriented approach. This enables the BMW Group to additionally differentiate itself and underscores the attractiveness of its vehicle portfolio. A directly accessible customer base makes it possible to disseminate offers of new products and services, which customers can also benefit from after purchasing their vehicles. Currently, the range of digital offerings is focused on the areas MyCar (e.g. remote access to vehicle functions such as air conditioning), MyJourney (e.g. real-time traffic information and parking services), MyLife (e.g. music streaming services) and MyAssistant (BMW Intelligent Personal Assistant). The level of interest in digital services has grown steadily in recent years.

BMW broadens model range

During the year under report, BMW launched a total of five new models and also introduced two model revisions as well as two new variants of BMW M vehicles worldwide. The new BMW X2 went on sale at dealerships in March 2018, followed by the i8 Roadster* in May. The new X4 became available to customers in July. The fourth generation of the successful BMW X5 model and the new BMW 8 Series Coupé were both launched in November. The Active Tourer and Gran Tourer models of the BMW 2 Series both underwent model revisions in the year under report, and BMW M GmbH added the M2 and M5 Competition as well as the M3 CS* variants to its portfolio.

Highest-ever number of deliveries for BMW M

The year 2018 was the most successful in the history of BMW M GmbH. The main contributors to BMW M deliveries in the High Performance segment, apart from the M2*, were again the BMW M3 and M4 models as well as the new BMW M5*. Within the Performance segment, the new BMW X3 M40i* accounted for the majority of deliveries. The strong demand at BMW M also led to growth in BMW M certified dealerships. During 2018, their number grew to more than 1,000 certified dealerships worldwide.

Apart from the M vehicles, BMW M GmbH also offers special driving safety training courses under the brand name BMW Driving Experience. During the financial year 2018, more than 25,000 participants completed training courses in Germany alone. Demand for the training courses also grew internationally. Accordingly, the international network partner of BMW M was expanded to include China and South Africa. Altogether, the BMW Driving Experience trained around 105,000 participants at international training locations in 2018.

MINI achieves second-best year

In 2018, due to external factors, the MINI brand was unable to quite match the high level of deliveries seen the previous year. In particular, a changed competitive environment caused by the conversion to the new WLTP testing cycle played a decisive role. Uncertainty also arose from ongoing trade disputes. In several markets, this led to considerable sales disruptions and unexpectedly fierce competition. Nevertheless, MINI managed to increase its share for small and compact cars in the premium segment compared to the previous year in more than 60 % of its markets.

The second generation of the MINI Countryman in particular remains a cornerstone of the MINI brand. Deliveries increased significantly year-on-year, with the highly successful plug-in hybrid model making a key contribution. Moreover, the MINI Convertible was one of the best-selling vehicles of its kind in a competitive market. Demand for the John Cooper Works models also remained high, with a new record share of total MINI deliveries.

Rolls-Royce Cullinan* successfully takes to the road

Launched in November 2018, the new Cullinan* is the first Rolls-Royce to exhibit outstanding driving characteristics both on and off the road. At its world première in May and the press event in October, the Cullinan* was extremely well received by customers and international media representatives alike. The top-of-the-range model, the Rolls-Royce Phantom*, which has been on the market since the beginning of 2018, is extremely popular and contributed significantly to the record year for Rolls-Royce Motor Cars. At Rolls-Royce Motor Cars, the term bespoke refers to equipment configurations with which the vehicles are highly individualised in accordance with customer requirements. The result is the creation of unique vehicles that make a major contribution to the company's success and secure Rolls-Royce Motor Cars an outstanding position in the luxury segment.

Enhancement and customisation of the services business

The BMW Group's services business again recorded significant growth in the year under report. In order to achieve this, continuous investments are being made in a sustainable, flexible, global logistics network that can optimally supply customers with spare parts, accessories and lifestyle products on a worldwide basis.

* Fuel consumption and CO_2 emissions information are available on page 108.

In these times of digitalisation, the focus is on the mobility and service requirements of premium customers. Using digitalised channels such as BMW Connected, customers are able to view their vehicle status and also make use of functions outside the vehicle. Offers and interactions connected with services, maintenance and repairs can therefore be synchronised via all customer channels (physically, online or via the vehicle).

Since 2018, MINI Yours Customized has enabled its customers to personalise their interior products via 3D printing and order them directly online. This service was given the German Innovation Award in the category "Excellence in Business to Consumer".

BMW Intelligent Personal Assistant

In September 2018, the BMW Group introduced the Intelligent Personal Assistant, which has been available in the first vehicles and in the Connected app as from March 2019. It explains the workings of the vehicle to the customer and enables access to functions and information by voice control. The assistant supports drivers, learns their preferences and knows their preferred settings, such as seat heating or frequently used navigation destinations. The abilities of the self-learning personal assistant are supported by artificial intelligence and continuously enhanced.

BMW enters Formula E

In December 2018, at the beginning of the fifth season, BMW i Andretti Motorsport entered the ABB FIA Formula E Championship as a works team. The drivetrain of the racing car was developed in close collaboration with the engineers of BMW i and BMW Motorsport and embodies the technology transfer between motor racing and series development like no other motorsport project before it. Apart from its sporting commitment, BMW i remains an official partner of Formula E and, within the scope of this partnership, provides the support vehicle fleet, including the BMW i8 Coupé* as a safety car for the races.

Workforce

→ www.bmwgroup.com

Slight increase in workforce

At 31 December 2018, the BMW Group had a worldwide workforce of 134,682 employees, a slight increase (+3.7%) compared to the end of previous financial year (2017: 129,932 employees). The increase was partly attributable to the further expansion of the global production network. Moreover, in conjunction with the implementation of the Group's Strategy NUMBER ONE > NEXT, a growing number of experts continued to be hired in future-oriented fields such as artificial intelligence and autonomous driving, electric mobility, smart production and logistics, as well as data analysis, software architecture, agile software development and innovative drivetrain systems.

BMW Group employees

→ 38

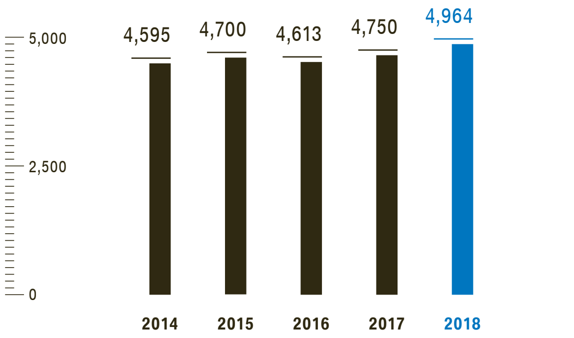
	31.12.2018	31.12.2017	Change in %
Automotive	121,994	117,664	3.7
Motorcycles	3,709	3,506	5.8
Financial Services	8,860	8,645	2.5
Other	119	117	1.7
Group	**134,682**	**129,932**	**3.7**

Realignment of dual vocational training

The realignment of the dual vocational training system launched in the previous year moved to the implementation phase during 2018. At the start of training in 2018, three new training profiles were introduced at the German plant locations, namely for IT applications development, IT systems integration, and electronics for automation technology. Moreover, a new training programme was established with twelve dual courses of study, in which recruits can acquire a bachelor's degree in STEM subjects (science, technology, engineering and mathematics). At the same time, new teaching content was added to existing job profiles and appropriate technical equipment acquired. Measures were also initiated at international locations to restructure fields of expertise, focusing on automation technology, robotics and additive manufacturing processes. The total number of apprentices and participants in development programmes for young talent increased slightly to 4,964 (2017: 4,750; +4.5%).

BMW Group apprentices at 31 December

→ 39



High level of investment in employee qualification

Spending on training and development increased to €373 million year-on-year (2017: €349 million; +6.9%). By training its workforce in areas such as electric mobility, robotics, data analysis and artificial intelligence, the BMW Group is creating an important foundation for the future success of its Strategy NUMBER ONE > NEXT. Managers are also closely involved in training and are prepared in the areas of transformation process design and leadership in agile organisations.

Combined Management Report

Report on Economic Position
Review of Operations
→ Workforce
→ Sustainability

BMW Group remains a highly attractive employer

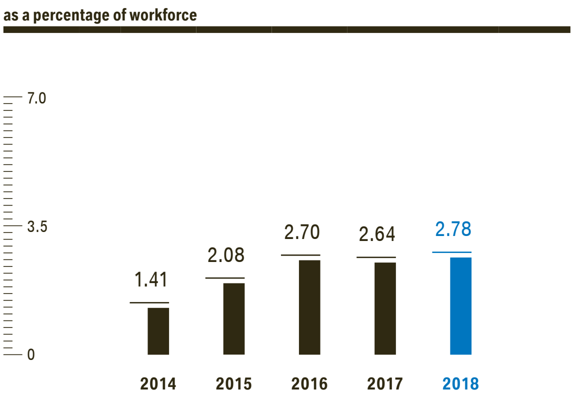
In 2018, the BMW Group was once again ranked among the world's most attractive employers. In the latest "World's Most Attractive Employers" rankings published by the agency Universum, the BMW Group was once again named the most attractive automotive company in the world.

In the period under report, BMW Group China was also named the most attractive employer in the automotive industry in both the local Universum Students Survey and the Zhaopin Most Attractive Employer Award.

The Group also came out top again in Trendence's Young Professional Barometer Germany. In the Trendence Graduate Study Germany, the BMW Group retained first place in the business management and engineering target groups and improved its position for the IT target group, where it moved into second place. It also improved its rankings in the Universum study "Young Professionals Germany", finishing first, second and third in the categories Business, Engineering and IT respectively. Based on the overall results of studies across all sectors, the BMW Group remained one of the world's highest-ranked companies in 2018.

Employee attrition rate at BMW AG*

→ 40



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

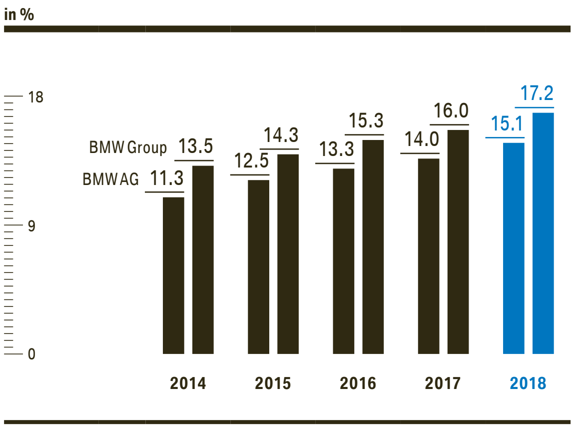
Diversity as a competitive factor

Diversity is a key factor in ensuring the BMW Group's continued competitiveness. Emphasis is placed on the three aspects of gender, cultural background and age/experience. The aim is to ensure equal opportunities for all employees and at the same time utilise and promote the diversity of the Group's workforce. To achieve this end, a broad array of measures was implemented within the BMW Group during 2018. Further information on this topic is also provided in the Sustainable Value Report 2018. → www.bmwgroup.com/svr

The proportion of women in the workforce as a whole, as well as in management functions and young talent development programmes, increased during the financial year under report. The percentage of women in the total BMW Group workforce rose to 19.9 % (BMW AG: 16.5 %), above the internal target range of 15 to 17 %. The number of women in management functions rose to 17.2 % across the BMW Group (BMW AG: 15.1 %). In the year under report, female representation in the BMW Group's trainee and student programmes stood at 44 % and 28 % respectively.

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

→ 41



*Since 2017 including maternity leave.

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

Sustainability

→ www.bmwgroup.com/responsibility

In order to secure its future existence, the BMW Group consistently integrates sustainability in its business model. The Company sees global challenges such as climate change and urbanisation as opportunities to drive innovation. In its constant endeavours, the BMW Group concentrates on three main fields:

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

Further information on sustainability within the BMW Group and related topics is provided in the Sustainable Value Report 2018, which is published online at → www.bmwgroup.com/svr.

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

The Sustainable Value Report is published together with the Annual Report and is drawn up in accordance with the "Comprehensive" option of the standards of the Global Reporting Initiative (GRI). This is the highest level of transparency set out in the GRI standards, in which all relevant information and indicators of the aspects identified as material are reported on. The Sustainable Value Report is drawn up subject to a limited assurance engagement in accordance with IASE 3000 (International Standard on Assurance Engagements 3000 (Revised): "Assurance Engagements other than Audits or Reviews of Historical Financial Information").

Based on the requirements of the German CSR Directive Implementation Act, BMW AG has been required since the financial year 2017 to publish a non-financial declaration at both Company and Group level. The declaration is published jointly for BMW AG and the BMW Group as a separate combined non-financial report within the Sustainable Value Report.

The separate combined non-financial report is available online within the Sustainable Value Report 2018 at → www.bmwgroup.com/svr.

Stakeholder dialogues and materiality analysis as basis for sustainability management

The BMW Group is in continual dialogue with a large number of stakeholders, both in Germany and abroad. Stakeholder feedback provides the BMW Group with a clear picture of how current trends are changing the business environment and is incorporated in the strategic considerations of the Company. For example, in the course of 2018, stakeholder dialogue events on the topics of urban mobility and digitalisation were held in Los Angeles, Melbourne, Shenzhen, Rotterdam and Berlin.

As part of a regular materiality analysis, 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 results of the materiality analysis are described in greater detail in the Sustainable Value Report 2018.

Top rankings in sustainability ratings

The BMW Group again achieved top rankings in prestigious sustainability ratings in 2018, thereby underlining its leading position as a sustainable enterprise. In the Dow Jones Sustainability Indices (DJSI) rating, the BMW Group is the only German automobile maker to have been included once again in the two indices "World" and "Europe" and has been continuously represented since the indices were established in 1999. In the CDP rating (formerly the Carbon Disclosure Project), the Group achieved the category "Leadership" with a rating of A– in the year under report. Furthermore, the Group was again listed in the British FTSE4Good Index in 2018.

Fleet CO_2 emissions at previous year's level

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 and electrification are contributing to a continual reduction in CO_2 emissions. The electrification of the fleet continued to make progress in 2018. Due to the expansion of the model range, deliveries of electrified BMW Group vehicles in 2018 increased significantly and, at 142,617 units, surpassed the previously announced target of 140,000 units. Efficient Dynamics and electrification form the basis for future compliance with statutory CO_2 and fuel consumption limits going forward. The BMW Group has reduced the CO_2 emissions of its newly sold vehicles in Europe by approximately 42 % between 1995 and 2018.

In 2018, the BMW Group's fleet of new vehicles sold in Europe (EU-28) had an average fuel consumption of 4.9 litres of diesel and 6.0 litres of petrol per 100 km respectively. CO_2 emissions averaged 128 g/km (adjusted value for 2017: 128 g/km). Despite a further decline in the share of diesel vehicles, the figure was in line with the previous year, also thanks to a significant growth in deliveries of electrified models.

Clean production

In 2018, at 2.12 MWh per vehicle produced, the BMW Group slightly reduced the amount of energy consumed in the production process compared with the previous year (2017: 2.17 MWh; – 2.3 %). This was mainly due to the use of a new painting technology at various locations, such as at the Munich plant, and the installation of LED lighting throughout the entire production network.

Through measures to boost energy efficiency and the purchase and in-house generation of electricity from renewable sources at BMW Group manufacturing sites, production-related CO_2 emissions fell by 2.4 % to 0.40 tonnes per vehicle produced in the year under report compared with the previous year (2017: 0.41 tonnes).

In 2018, at 2.39 m^3 per vehicle produced, water consumption was slightly higher than the previous year's level (2017: 2.22 m^3; + 7.7 %). This was mainly due to above-average temperatures at the sites, which had a direct impact on water consumption. The non-recyclable waste from production processes rose to 4.27 kg per vehicle produced during the reporting period (2017: 3.86 kg; + 10.6 %). This was mainly due to a change in the structure of the waste disposal companies at the Shenyang site. As a result, specific waste streams, such as sludge from the wastewater treatment plant, could not be recycled in the year under report. Additionally, the high moisture content from household waste at the plant in Rosslyn, South Africa hindered recycling.

Sustainability along the value chain

Sustainability criteria also play a key role in the selection and assessment of suppliers. The BMW Group has therefore comprehensively integrated sustainability management in its purchasing processes. This also includes greater transparency, which results from close collaboration between the Group and its suppliers. The BMW Group is also involved in initiatives aimed at standardising sustainability requirements and establishing verification mechanisms for critical raw materials.

Sustainability in human resources policies

In 2018, the BMW Group continued to consolidate its position as one of the most attractive employers worldwide. Its leading role in terms of sustainability contributes significantly to the high degree of employee loyalty within the BMW Group and is one of the reasons for the low staff attrition rate. This enables the BMW Group to maintain a low level of personnel recruitment expenditure. Further information is provided in the section Workforce.

Social engagement

Social engagement is firmly anchored in the BMW Group's understanding of its corporate role. As a globally operating company, the BMW Group assumes responsibility and is concerned with current social challenges. Its commitment focuses on long-term solutions that are internationally applicable and have a long-term impact according to the principle of "helping people to help themselves". In doing so, the company concentrates on its core competencies, such as intercultural understanding, social inclusion and the conservation of resources.

RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

Results of operations

Deliveries of BMW, MINI and Rolls-Royce brand vehicles during the financial year 2018 increased slightly by 1.1% year-on-year to 2,490,664 units. The figure includes 459,581 units (2017: 384,124 units) manufactured by the joint venture BMW Brilliance Automotive Ltd., Shenyang.

BMW Group condensed income statement

→ 42

in € million	2018	2017*	Change in %
Revenues	97,480	98,282	–0.8
Cost of sales	–78,924	–78,329	–0.8
Gross profit	**18,556**	**19,953**	**–7.0**
Selling and administrative expenses	–9,558	–9,560	–
Other operating income and expenses	123	–494	–
Profit before financial result	**9,121**	**9,899**	**–7.9**
Financial result	694	776	–10.6
Profit before tax	**9,815**	**10,675**	**–8.1**
Income taxes	–2,575	–2,000	–28.8
Profit from continuing operations	**7,240**	**8,675**	**–16.5**
Loss from discontinued operations	–33	–	–
Net profit	**7,207**	**8,675**	**–16.9**
Earnings per share of common stock in €	10.82	13.07	–17.2
Earnings per share of preferred stock in €	10.84	13.09	–17.2

in %	2018	2017*	Change in %pts
Pre-tax return on sales	10.1	10.9	–0.8
Post-tax return on sales	7.4	8.8	–1.4
Gross margin	19.0	20.3	–1.3
Effective tax rate	26.2	18.7	7.5

* Prior year figures adjusted due to first-time application of IFRS 15, see note 6 to the Group Financial Statements.

The BMW Group had a worldwide workforce of 134,682 employees at the end of the reporting period (31 December 2017: 129,932 employees).

Gross profit for the twelve-month period under report fell moderately year-on-year. A combination of higher research and development expenses, intense competition and currency effects more than offset the positive effect of the growth in vehicle deliveries. The currency impact was mainly attributable to changes in the exchange rates of the US dollar, Chinese renminbi, Russian rouble and Australian dollar against the euro. The net amount reported for other operating income and expenses had a positive effect. Profit before tax for the year ended 31 December 2018 was moderately down on the previous year.

Due to currency effects, BMW Group revenues remained at a similar level to the previous year. Adjusted for currency factors, revenues grew slightly on the back of higher delivery volumes and a good financing portfolio performance. The positive impact of volume growth was held down by intense competition on the markets. The unexpectedly high level of competition was due in particular to the reaction of competitors to the early implementation of WLTP regulations. Trade conflicts and uncertainties also exacerbated the situation and had an unfavourable impact on selling prices.

Group revenues by region were as follows:

BMW Group revenues by region

→ 43

in %	2018	2017*
Europe	46.1	46.0
Asia	30.9	30.2
Americas	20.2	20.8
Other regions	2.8	3.0
Group	**100.0**	**100.0**

BMW Group cost of sales

→ 44

in € million	2018	2017*	Change in %
Manufacturing costs	43,262	43,442	– 0.4
Cost of sales relating to financial services business	23,383	22,932	2.0
thereof interest expense relating to financial services business	2,051	1,801	13.9
Research and development expenses	5,320	4,920	8.1
thereof amortisation of capitalised development costs	1,414	1,236	14.4
Service contracts, telematics and roadside assistance	2,234	2,081	7.4
Warranty expenses	1,729	2,097	–17.5
Other cost of sales	2,996	2,857	4.9
Cost of sales	**78,924**	**78,329**	**0.8**

The Group's cost of sales were in line with the previous year. Higher research and development expenses as well as higher cost of sales relating to financial services business were offset by positive currency effects. Inter-segment eliminations reduced the Group's warranty expense for the year.

BMW Group performance indicators relating to research and development expenses

→ 45

in %	2018	2017*	Change in %pts
Research and development expenses as a percentage of revenues	5.5	5.0	0.5
Research and development expenditure ratio	7.1	6.2	0.9
Capitalisation rate	43.3	39.7	3.6

*Prior year figures adjusted due to first-time application of IFRS 15, see note 6 to the Group Financial Statements.

Due to a continuation of the product initiative, vehicle electrification and development work on autonomous driving, research and development expenses amounted to €5,320 million (2017: €4,920 million), a solid increase over the previous year. As a result, total research and development expenditure – comprising research costs, non-capitalised development costs and capitalised development costs (excluding amortisation thereon) – amounted to €6,890 million in the year under report (2017: €6,108 million). The higher level of capitalised development costs was mainly related to the production start of new models, modules and architectures.

At €9,558 million, selling and administrative expenses were similar to one year earlier.

Depreciation and amortisation on property, plant and equipment and intangible assets recorded in cost of sales and in selling and administrative expenses totalled €5,113 million (2017: €4,822 million).

The net amount of other operating income and expenses improved significantly from negative €494 million to positive €123 million, mainly due to lower allocations to provisions for litigation.

Profit before financial result (EBIT) fell by €778 million to €9,121 million (2017: €9,899 million).

The financial result dropped by €82 million to €694 million and was therefore significantly down on the previous year, partly due to a €107 million deterioration in the result from equity accounted investments. The main factors here were the €183 million positive earnings effect in the previous year arising on the sale of shares in HERE International B.V., Amsterdam, offset by a €107 million improvement in the earnings contribution from BMW Brilliance Automotive Ltd. on the back of higher volumes. The financial result for the financial year 2018 was also influenced by the change in other financial result. The previous year's figure contained the positive effect of fair value measurement gains on commodity derivatives totalling €236 million. As a result of the first-time application of IFRS 9, most of these effects – without the adjustment to comparative figures – are now recognised directly in equity. Unlike the result from equity accounted investments and the other financial result, both the result on investments and the net interest result had a positive impact on earnings in the financial year under report. The result on investments included a gain of €209 million arising in conjunction with the revaluation of the DriveNow companies.

Overall, profit before tax decreased moderately to €9,815 million (2017: €10,675 million).

The income tax expense for the year amounted to €2,575 million (2017: €2,000 million).

Results of operations by segment

BMW Group revenues by segment

→ 46

in € million	2018	2017[1]	Change in %	Currency adjusted change[2] in %
Automotive	85,846	85,742	0.1	2.2
Motorcycles	2,173	2,272	–4.4	–1.4
Financial Services	28,165	27,567	2.2	4.5
Other Entities	6	7	–14.3	–7.6
Eliminations	–18,710	–17,306	–8.1	11.1
Group	**97,480**	**98,282**	**–0.8**	**1.2**

BMW Group profit / loss before tax by segment

→ 47

in € million	2018	2017[1]	Change in %
Automotive	6,977	8,717	–20.0
Motorcycles	169	205	–17.6
Financial Services	2,161	2,207	–2.1
Other Entities	–45	80	–
Eliminations	553	–534	–
Group	**9,815**	**10,675**	**–8.1**

BMW Group margins by segment

→ 48

in %	2018	2017[1]	Change in %pts
Automotive			
Gross profit margin	16.2	19.1	–2.9
EBIT margin	7.2	9.2	–2.0
Motorcycles			
Gross profit margin	20.0	20.9	–0.9
EBIT margin	8.1	9.1	–1.0

[1] Prior year figures adjusted due to first-time application of IFRS 15, see note 6 to the Group Financial Statements.
[2] The adjustment for exchange rate factors is calculated by applying the relevant current exchange rates to the prior year figures.

Automotive segment
Automotive segment revenues remained at a similar level to the previous year due to currency factors. Adjusted for currency factors, they rose slightly, partially as a result of higher delivery volumes. Despite the volume growth achieved, market competition intensified to an unexpectedly high level, mainly reflecting the reaction of competitors to the early implementation of WLTP regulations. Trade conflicts and other uncertainties also exacerbated the situation and had an unfavourable impact on selling prices. The segment's cost of sales went up slightly year-on-year, with higher research and development expenses as well as raw materials costs contributing to the increase. Additions to provisions in connection with goodwill and warranty measures also had an effect on cost of sales. Warranty expenses include the accrued expense for vehicle recall actions, the cost of which is expected to exceed amounts previously recognised. In this context, a figure of €793 million was allocated to the warranty provision, partially in connection with the exhaust gas recirculation cooler. The lower volume of ongoing warranty expenditure compared with the previous year had a positive impact.

At €7,880 million, selling and administrative expenses were similar to one year earlier.

The net amount of other operating income and expenses improved from negative €525 million to positive €134 million in the year under report, mainly due to lower allocations to provisions for litigation.

At €795 million, the Automotive segment's financial result was slightly down on the previous year, influenced by the factors described above for the Group.

Profit before tax for the year was significantly lower than one year earlier.

Motorcycles segment
Motorcycles segment revenues decreased slightly year-on-year, mainly due to the ramp-up situation caused by multiple model changes and compounded by a combination of product mix and currency effects.

Profit before tax for the twelve-month period was significantly lower than one year earlier.

Financial Services segment
Despite unfavourable foreign currency translation effects, Financial Services segment revenues rose slightly year-on-year on the back of portfolio growth.

Cost of sales relating to financial services business increased by €555 million (2017: €23,986 million).

The net amount of other operating income and expenses deteriorated from negative €17 million to negative €82 million. The decline was mainly due to higher expenses for litigation.

The segment's risk profile remained stable during the financial year 2018. Whereas price levels on the North American pre-owned vehicle market improved slightly, residual values for pre-owned vehicles in Germany dropped slightly, mainly because of the debate on diesel bans in a number of cities.

Profit before tax in the Financial Services segment was slightly down on the previous year, primarily due to negative foreign currency translation effects.

Other Entities segment/Eliminations
Profit before tax in the Other Entities segment fell significantly year-on-year. Among other things, higher administrative expenses arising in connection with the adjustment to the existing pension obligation in the UK (Guaranteed Minimum Pension) had a negative impact. In addition, lower market interest rates caused the net interest result to deteriorate. Inter-segment eliminations increased Group profit before tax by €553 million in the financial year 2018, a year-on-year improvement of €1,087 million. This was mainly due to the positive impact of reversals in conjunction with the strong portfolio growth of prior years for leased products and the favourable effect of lower margin eliminations in 2018.

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 2018 and 2017, classified according to operating, investing and financing activities. Cash and cash equivalents in the cash flow statements correspond to the amounts disclosed in the balance sheet.

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

BMW Group cash flows

→ 49

in € million	2018	2017	Change
Cash inflow (+) / outflow (–) from operating activities	5,051	5,909	–858
Cash inflow (+) / outflow (–) from investing activities	–7,363	–6,163	–1,200
Cash inflow (+) / outflow (–) from financing activities	4,296	1,572	2,724
Effects of exchange rate and changes in composition of Group	–44	–159	115
Change in cash and cash equivalents	**1,940**	**1,159**	**781**

The decrease in cash inflow from the Group's operating activities was due to the lower net profit for the year and higher working capital. The lower increase in receivables from financial services compared to the previous year had an offsetting effect.

The higher level of cash outflow from the Group's investing activities mainly reflects a rise in investments in intangible assets and property, plant and equipment, increased expenditure for investment assets (primarily relating to the acquisition of the DriveNow companies) and lower proceeds from the disposal of investment assets. The decreased level of investments in marketable securities and investment funds had an offsetting effect.

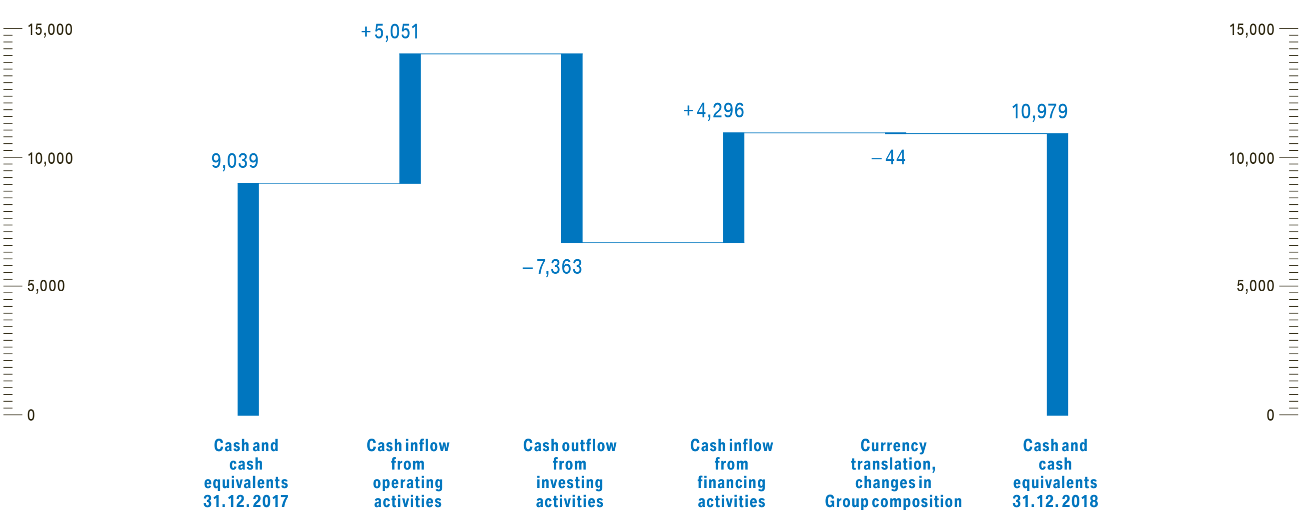
The increase in cash inflow from the Group's financing activities resulted mainly from the issue of bonds and from new loans taken up. The repayment of commercial paper had an offsetting effect.

The cash outflow from investing activities exceeded the cash inflow from operating activities by €2,312 million in the financial year 2018. In the previous year, the shortfall had been lower at €254 million.

BMW Group change in cash and cash equivalents

→ 50

in € million



Free cash flow for the Automotive segment was as follows:

Free cash flow Automotive segment

→ 51

in € million	2018	2017	Change
Cash inflow (+) / outflow (–) from operating activities	9,352	10,848	–1,496
Cash inflow (+) / outflow (–) from investing activities	–6,769	–6,544	–225
Adjustment for net investment in marketable securities and investment funds	130	155	–25
Free cash flow Automotive segment	**2,713**	**4,459**	**–1,746**

The decrease in cash inflow from the Automotive segment's operating activities was mainly due to a combination of lower net profit for the year and higher working capital. Cash outflow from investing activities was influenced in particular by higher disbursements for investments in intangible assets and property, plant and equipment.

In the Automotive segment, net financial assets comprised the following:

Net financial assets Automotive segment

→ 52

in € million	2018	2017	Change
Cash and cash equivalents	8,631	7,157	1,474
Marketable securities and investment funds	4,321	4,336	–15
Intragroup net financial assets	7,694	9,774	–2,080
Financial assets	**20,646**	**21,267**	**–621**
Less: external financial liabilities*	–1,158	–1,480	322
Net financial assets Automotive segment	**19,488**	**19,787**	**–299**

* Excluding derivative financial instruments.

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

Net cash flows for the Financial Services segment

→ 53

in € million	2018	2017	Change
Cash inflow (+) / outflow (–) from operating activities	–6,790	–6,384	–406
Cash inflow (+) / outflow (–) from investing activities	130	937	–807
Cash inflow (+) / outflow (–) from financing activities	6,793	4,334	2,459
Net	**133**	**–1,113**	**1,246**

The increase in cash outflow from the Financial Services segment's operating activities was mainly due to the lower net profit for the year. The decrease in cash inflow from investing activities was largely attributable to cash proceeds received in the previous year from the disposal of investments and other business units (€970 million). Cash inflow from financing activities was mainly driven by new loans raised and an increase in asset-backed securities financing.

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

The overall objective of Group financing is to ensure the solvency of the BMW Group at all times, focusing on three areas:

1. The ability to act through permanent access to strategically important capital markets

2. Autonomy through the diversification of refinancing instruments and investors

3. Focus on value through the optimisation of financing costs

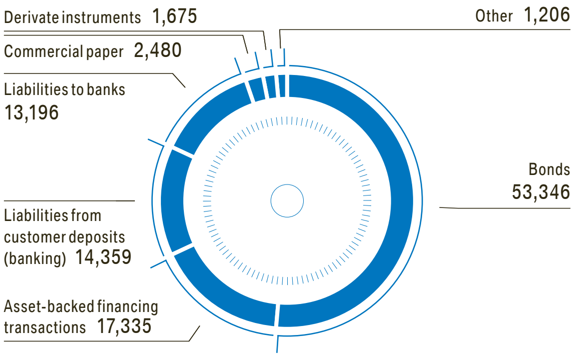
Financing measures undertaken at corporate level ensure access to liquidity for the Group's operating subsidiaries at standard market conditions and consistent credit terms. Funds are acquired in line with a target liability structure, comprising a balanced mix of financing instruments. The use of longer-term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

On account of its good ratings and the high level of acceptance it enjoys on capital markets, the BMW Group was again able to refinance operations at favourable conditions on debt capital markets during the financial year 2018. In addition to bonds, loan notes and private placements, the Group also issued commercial paper. As in previous years, all issues were in high demand, not only from private investors but also in particular from institutional investors. In addition, retail customer and dealership financing receivables as well as rights and obligations from leasing contracts are securitised in the form of asset-backed securities (ABS) financing arrangements. Specific banking instruments, such as the customer deposits used by the Group's own banks in Germany and the USA, are also employed for financing purposes. In addition, loans are taken from international banks.

BMW Group composition financial liabilities

→ 54

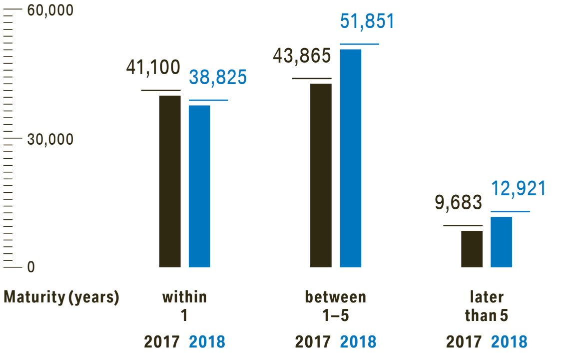
in € million



BMW Group financial liabilities by maturity

→ 55

in € million



In 2018, the BMW Group issued four euro benchmark bonds on the European capital market with a total issue volume of €7.3 billion, as well as bonds on the US capital market with a total issue volume of US$ 7 billion. Bonds were also issued in British pounds, Canadian dollars and Chinese renminbi for a total amount of €1.8 billion. Private placements totalling €4.1 billion were also issued.

A total of nine public ABS transactions were executed in 2018, including three in the USA, two in China and one each in Germany, France, Canada and the UK with a total volume equivalent to €5.9 billion. Further funds were also raised via new ABS conduit transactions in Japan, the UK, Germany, Canada, Australia and the USA amounting to €2.7 billion. Other transactions remain in place in Germany, Switzerland, South Korea, South Africa and Australia, amongst others.

The following table provides an overview of amounts utilised at 31 December 2018 in connection with the BMW Group's money and capital market programmes:

Programme	Programme framework	Amount utilised*
in € billion		
Euro Medium Term Notes	50.0	36.6
Australian Medium Term Notes	1.5	–
Commercial Paper	13.1	2.4

* Measured at exchange rates at the relevant transaction dates.

At 31 December 2018, liquidity remained at a solid level of €16.3 billion.

The BMW Group also has access to a syndicated credit line, which was newly agreed upon in July 2017. The syndicated credit line of €8 billion has a minimum term up to July 2023 and is being made available by a consortium of 44 international banks. The credit line was not being utilised at 31 December 2018.

→ see notes 31, 35 and 39

Further information with respect to financial liabilities is provided in → notes 31, 35 and 39 to the Group Financial Statements.

Net assets

BMW Group condensed balance sheet at 31 December

→ 56

in € million	Group 2018	Group 2017[1]	Change in %	Currency adjusted change[2] in %	Proportion of balance sheet total in % 2018
ASSETS					
Intangible assets	10,971	9,464	15.9	15.8	5.2
Property, plant and equipment	19,801	18,471	7.2	6.7	9.5
Leased products	38,572	36,257	6.4	4.6	18.5
Investments accounted for using the equity method	2,624	2,769	–5.2	–5.2	1.3
Other investments	739	690	7.1	6.0	0.4
Receivables from sales financing	86,783	80,434	7.9	7.2	41.4
Financial assets	7,685	10,334	–25.6	–26.0	3.7
Deferred and current tax	2,956	3,559	–16.9	–19.2	1.4
Other assets	11,816	9,115	29.6	29.6	5.7
Inventories	13,047	12,707	2.7	2.7	6.2
Trade receivables	2,546	2,667	–4.5	–4.5	1.2
Cash and cash equivalents	10,979	9,039	21.5	21.8	5.3
Assets held for sale	461	–	–	–	0.2
Total assets	**208,980**	**195,506**	**6.9**	**6.1**	**100.0**
EQUITY AND LIABILITIES					
Equity	58,088	54,107	7.4	7.6	27.8
Pension provisions	2,330	3,252	–28.4	–28.6	1.1
Other provisions	11,854	11,999	–1.2	–2.0	5.7
Deferred and current tax	2,964	3,281	–9.7	–14.4	1.4
Financial liabilities	103,597	94,648	9.5	8.2	49.6
Trade payables	9,669	9,731	–0.6	–1.0	4.6
Other liabilities	20,416	18,488	10.4	9.7	9.8
Liabilities in conjunction with assets held for sale	62	–	–	–	0.0
Total equity and liabilities	**208,980**	**195,506**	**6.9**	**6.1**	**100.0**

[1] Prior year figures adjusted due to first-time application of IFRS 15, see note 6 to the Group Financial Statements.
[2] The adjustment for exchange rate factors is calculated by applying the relevant current exchange rates to the prior year figures.

The balance sheet total of the BMW Group increased solidly compared to 31 December 2017.

Intangible assets were significantly higher than one year earlier, mainly due to the increase in capitalised development costs.

Property, plant and equipment rose solidly compared to the previous financial year, with investments in the X5 and X7 models as well as in the 3 Series in particular contributing to the increase.

Leased products also went up solidly year-on-year on the back of portfolio growth in various countries, including Germany and France. Adjusted for currency factors, leased products increased slightly.

Receivables from sales financing increased solidly over the twelve-month period, mainly due to larger credit financing volumes in the USA, the UK and China. A total of 1,277,207 new credit financing contracts were signed during the financial year 2018. Compared to the end of the previous financial year, the contract portfolio under management grew by 7.0 % to 3,889,344 contracts.

Financial assets decreased significantly compared to 31 December 2017, mainly due to changes in the volume of currency derivatives and their fair value measurement. Lower fair values as well as a change in the volume of commodity derivatives also contributed to this development.

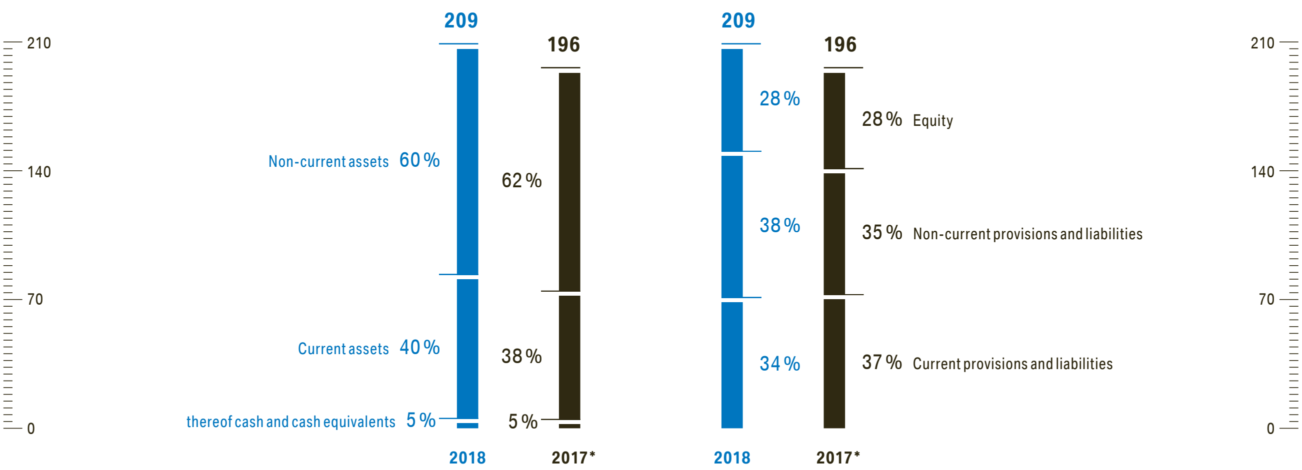
Other assets were significantly higher than one year earlier. The increase was attributable, among other items, to the higher volume of return right assets for future leased vehicles in conjunction with the introduction of IFRS 15, higher receivables from companies in which an investment is held and an increase in prepayments. Further information relating to IFRS 15 is provided in → note 6 to the Group Financial Statements.

→ see note 6

Balance sheet structure – Group

→ 57

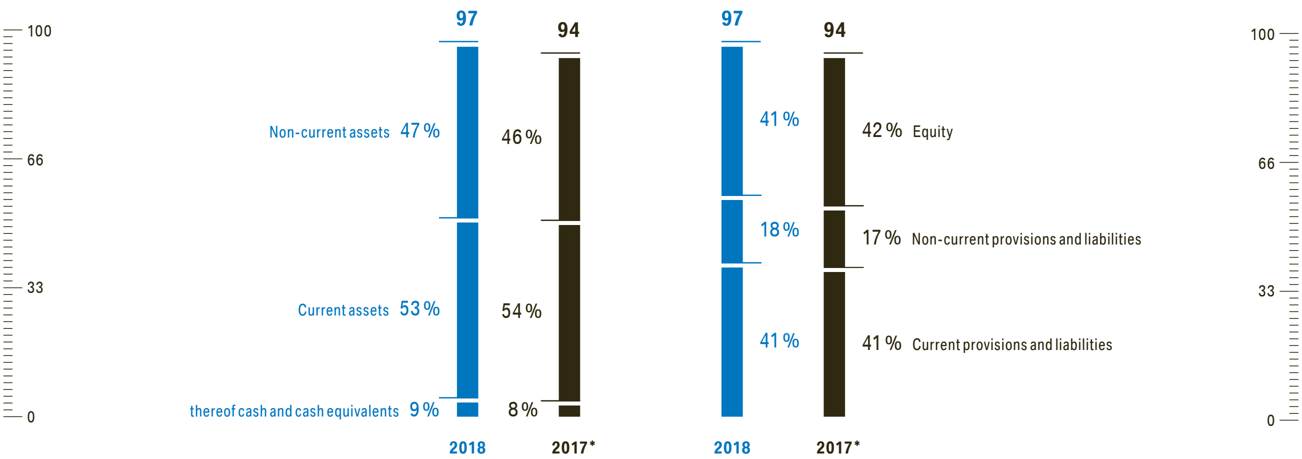
Balance sheet total in € billion



Balance sheet structure – Automotive segment

→ 58

Balance sheet total in € billion



* Prior year figures adjusted due to first-time application of IFRS 15, see note 6 to the Group Financial Statements.

Group equity rose by €3,981 million to €58,088 million, increased primarily by the profit of €7,117 million attributable to shareholders of BMW AG and decreased by the dividend payment of €2,630 million.

BMW Group equity ratio

→ 59

in %	31.12.2018	31.12.2017*	Change in %pts
Group	27.8	27.7	0.1
Automotive segment	41.0	42.0	–1.0
Financial Services segment	10.2	10.7	–0.5

* Prior year figures adjusted due to first-time application of IFRS 15, see note 6 to the Group Financial Statements.

Pension provisions decreased significantly compared to the end of the financial year 2017. Higher discount rates and lower inflation expectations in Germany and the UK as well as a revision of mortality tables in the UK contributed to this development.

Financial liabilities increased solidly compared to the end of the previous year, mainly due to the issue of new long-term bonds.

The significant increase in other liabilities includes the effect of higher return right liabilities for future leased vehicles in conjunction with the introduction of IFRS 15. Further information is provided in → note 6 to the Group Financial Statements.

→ see note 6

The line items "Assets held for sale" and "Liabilities in connection with assets held for sale" relate to the discontinued operations of the DriveNow companies. Further information is provided in → note 2 to the Group Financial Statements.

→ see note 2

Overall, the results of operations, financial position and net assets position of the BMW Group remained stable during the year under report.

Value added statement

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

Net valued added by the BMW Group remained at a high level in the financial year 2018.

BMW Group value added statement

→ 60

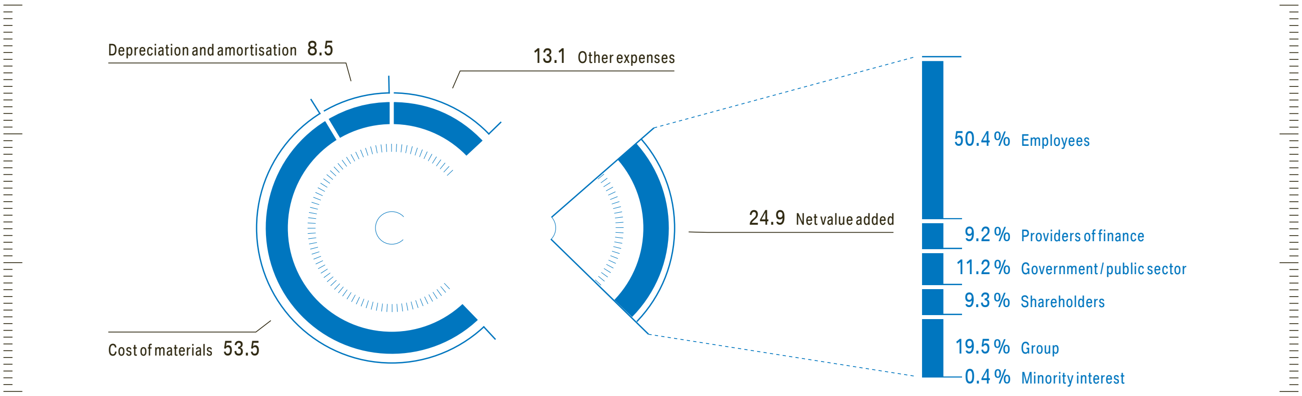
	2018 in € million	2018 in %	2017[1] in € million	2017[1] in %	Change in %
WORK PERFORMED					
Revenues	97,480	98.2	98,282	98.2	–0.8
Financial income	989	1.0	1,123	1.1	–11.9
Other income	774	0.8	720	0.7	7.5
Total output	**99,243**	**100.0**	**100,125**	**100.0**	**–0.9**
Cost of materials[2]	53,132	53.5	51,043	51.0	4.1
Other expenses	12,924	13.1	15,630	15.6	–17.3
Bought-in costs	**66,056**	**66.6**	**66,673**	**66.6**	**–0.9**
Gross value added	**33,187**	**33.4**	**33,452**	**33.4**	**–0.8**
Depreciation and amortisation of total tangible, intangible and investment assets	8,441	8.5	8,455	8.4	–0.2
Net value added	**24,746**	**24.9**	**24,997**	**25.0**	**–1.0**
ALLOCATION					
Employees	12,479	50.4	12,052	48.2	3.5
Providers of finance	2,283	9.2	2,066	8.3	10.5
Government / public sector	2,777	11.2	2,204	8.9	26.0
Shareholders	2,303	9.3	2,630	10.5	–12.4
Group	4,814	19.5	5,959	23.8	–19.2
Minority interest	90	0.4	86	0.3	4.7
Net value added	**24,746**	**100.0**	**24,997**	**100.0**	**–1.0**

[1] Prior year figures adjusted due to first-time application of IFRS 15, see note 6 to the Group Financial Statements.
[2] 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 2018

→ 61

in %



COMMENTS ON FINANCIAL STATEMENTS OF BMW AG

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

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

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

Business environment and review of operations

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

BMW AG develops, manufactures and sells automobiles and motorcycles as well as spare parts and accessories manufactured in-house, by foreign subsidiaries and by external suppliers, and performs services related to these products. Sales activities are carried out primarily through branches, subsidiaries, independent dealerships and importers. In 2018, BMW AG increased automobile deliveries by 25,782 units to 2,519,897 units. This figure includes 490,582 units relating to series sets supplied to the joint venture BMW Brilliance Automotive Ltd., Shenyang, an increase of 93,833 units over the previous year.

At 31 December 2018, BMW AG employed a workforce of 89,842 people (31 December 2017: 87,940 people).

Results of operations

BMW AG Income Statement

→ 62

in € million	2018	2017
Revenues	78,355	79,215
Cost of sales	– 63,841	– 62,817
Gross profit	**14,514**	**16,398**
Selling expenses	– 4,078	– 3,958
Administrative expenses	– 2,803	– 2,733
Research and development expenses	– 5,859	– 5,168
Other operating income and expenses	1,026	– 303
Result on investments	2,344	1,081
Financial result	–1,452	– 541
Income taxes	– 872	–1,563
Profit after income tax	**2,820**	**3,213**
Other taxes	–19	–16
Net profit	**2,801**	**3,197**
Transfer to revenue reserves	– 498	– 567
Unappropriated profit available for distribution	**2,303**	**2,630**

Despite the higher number of deliveries, revenues were 1.1 % lower than in the previous financial year. The decrease was mainly due to exchange-rate effects, selling price adjustments and the change in the valuation method used to measure provisions for warranties, goodwill and product guarantees. In geographical terms, the decrease mainly related to Europe and the USA. Revenues totalled €78,355 million (2017: €79,215 million), of which Group internal revenues accounted for €58,707 million (2017: €59,736 million) or 74.9 % (2017: 75.4 %).

Cost of sales increased by 1.6 % to €63,841 million, mostly due to the higher number of deliveries and the rise in cost of materials. The change in the valuation method used for provisions for warranties, goodwill and product guarantees had an offsetting effect. Gross profit decreased by €1,884 million to €14,514 million.

Selling and administrative expenses went up overall year-on-year, partly reflecting the impact of the larger workforce as well as higher expenses for selling and marketing obligations.

Research and development expenses related mainly to new vehicle models in conjunction with the continued product offensive (including the new 3 Series and X models), expenses for the development of reference architectures and drivetrain systems as well as higher expenditure for the electrification of vehicles and autonomous driving. Compared to the previous year, research and development expenses increased by 13.4 %.

The net amount of other operating income and expenses improved by €1,329 million to a net positive amount of €1,026 million. The year-on-year change resulted mainly from the reversal of provisions for warranty, goodwill and product guarantees due to the changed valuation method as well as to lower allocations or higher reversals to provisions for litigation and liability risks.

Results on investments benefited from higher income arising under profit transfer arrangements with Group companies. By contrast, the financial result deteriorated year-on-year by €911 million, mainly due to higher interest expenses for pension liabilities and expenses incurred for the corresponding plan assets as well as an impairment loss recognised on the investment in SGL Carbon SE, Wiesbaden.

The expense for income taxes relates primarily to current tax for the financial year 2018.

After deducting the expense for taxes, the Company reported a net profit of €2,801 million, compared to €3,197 million in the previous year.

Financial and net assets position

BMW AG Balance Sheet at 31 December

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in € million	2018	2017
ASSETS		
Intangible assets	252	288
Property, plant and equipment	11,976	11,455
Investments	3,559	3,676
Tangible, intangible and investment assets	**15,787**	**15,419**
Inventories	4,811	4,643
Trade receivables	947	766
Receivables from subsidiaries	8,570	7,641
Other receivables and other assets	3,595	2,827
Marketable securities	4,080	4,185
Cash and cash equivalents	6,542	4,218
Current assets	**28,545**	**24,280**
Prepayments	535	483
Surplus of pension and similar plan assets over liabilities	668	1,290
Total assets	**45,535**	**41,472**
EQUITY AND LIABILITIES		
Subscribed capital	658	658
Capital reserves	2,177	2,153
Revenue reserves	10,103	9,605
Unappropriated profit available for distribution	2,303	2,630
Equity	**15,241**	**15,046**
Registered profit-sharing certificates	28	29
Pension provisions	214	139
Other provisions	7,824	8,469
Provisions	**8,038**	**8,608**
Liabilities to banks	545	965
Trade payables	5,560	5,619
Liabilities to subsidiaries	12,670	8,187
Other liabilities	285	333
Liabilities	**19,060**	**15,104**
Deferred income	**3,168**	**2,685**
Total equity and liabilities	**45,535**	**41,472**

Capital expenditure on intangible assets and property, plant and equipment in the year under report totalled €2,975 million (2017: €2,628 million), up by 13.2 % compared to the previous year. Depreciation and amortisation amounted to €2,470 million (2017: €2,350 million).

The carrying amount of investments decreased to €3,559 million (2017: €3,676 million), mainly as a result of an impairment loss of €119 million (2017: reversal of impairment losses of €70 million) recognised on the investment in SGL Carbon SE, Wiesbaden in order to reduce its carrying amount to the lower market value.

At €4,811 million (2017: €4,643 million), inventories were higher than one year earlier due to an increase in goods for resale.

Receivables from subsidiaries, most of which relate to intragroup financing receivables, rose to €8,570 million (2017: €7,641 million).

The increase in other receivables and other assets to €3,595 million (2017: €2,827 million) was mainly due to higher receivables from companies with which an investment relationship exists and to higher tax receivables.

Equity increased by €195 million to €15,241 million. The equity ratio changed from 36.3 % to 33.5 %, mainly due to the increased balance sheet total.

In order to secure pension obligations, cash funds totalling €550 million were transferred to BMW Trust e.V., Munich, in conjunction with a Contractual Trust Arrangement (CTA), to be invested in plan assets. Plan assets are offset against the related guaranteed obligations. The resulting surplus of assets over liabilities is reported in the BMW AG balance sheet on the line item Surplus of pension and similar plan assets over liabilities.

Provisions for pensions increased from €139 million to €214 million, after offsetting of pension liabilities with pension assets.

Other provisions decreased year on year, mainly due to a change in the valuation method used for provisions for warranties, goodwill and product guarantees as well as to a reduction in litigation and liability risks. Additions to provisions for selling and marketing obligations had an offsetting effect.

Liabilities to banks decreased by €420 million, mainly as a result of the repayment of project-related loans.

The increase in liabilities to subsidiaries in the amount of €4,483 million was mainly due to intragroup refinancing.

Deferred income increased by €483 million to €3,168 million and included mainly amounts for services still to be performed relating to service and maintenance contracts.

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

Cash and cash equivalents increased by €2,324 million to €6,542 million, mainly due to the surplus from operating activities and as a result of the higher level of financial liabilities to subsidiaries. The repayment of loans as well as the payment of the dividend for the previous financial year had an offsetting effect.

Risks and opportunities

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

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

Outlook

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

KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, has issued an unqualified audit opinion on the financial statements of BMW AG, of which the balance sheet and the income statement are presented here. The BMW AG financial statements for the financial year 2018 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

Growth in deliveries planned

EBIT margin in the range of 6 to 8 %

Business environment remains volatile

OUTLOOK

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

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

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

Assumptions used in the outlook

The following outlook relates to a forecast period of one year and is based on the composition of the BMW Group during that time. The outlook takes account of all information available at the time of reporting, and any 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 2019 and reflect its most recent status. Along with other inputs, they represent a consensus of opinions of leading organisations, such as economic research institutes and banks. The basis and principal assumptions of the forecast are set out below:

In the UK, the ongoing uncertainties in connection with the Brexit negotiations are impairing the reliability of forecasts drawn up by businesses. This applies to the BMW Group as well, which could be further adversely affected due to the necessary preparations. Notwithstanding these difficulties, the assumption is that the UK will leave the EU in an orderly manner.

The BMW Group also anticipates that trade tensions between the USA and China will continue to be a source of uncertainty. The Group also assumes that trade between the EU and the USA will not be subject to additional tariffs.

The BMW Group and Daimler AG are merging their mobility services in a new joint venture. Following approval by the antitrust authorities, the agreement between the two companies was concluded with effect from 31 January 2019. It is currently assumed that the impact on earnings during the forecast period will be of minor significance.

Economic outlook

Global economic growth is currently forecast at just over 3 % in 2019. At the same time, the outlook for the global economy remains exposed to an array of uncertainties. These include above all the exit negotiations between the EU and the UK as well as the future foreign trade policy of the US administration. In the event of unfavourable developments, global growth could be significantly affected. The debt situation of Chinese companies as well as the high level of national debt in Japan and some eurozone countries could also jeopardise stability on financial markets. Last but not least, the global economy could also be negatively impacted by excessively restrictive monetary policies imposed by the Fed in the USA and the ECB in Europe. Further information on political and global economic risks is also available in the section Risks and Opportunities.

Gross domestic product in the eurozone is only expected to grow by around 1.5 % in 2019. Germany's economy should see growth on a similar scale (+1.4 %). The growth prospects of other member states in the eurozone are expected to be on the modest side. France (+1.4 %) and Italy (+ 0.7 %) are likely to see an increase in GDP over the outlook period. Based on an expected growth rate of 2.2 %, the Spanish economy is set to grow faster than the eurozone average.

The UK's economic performance in the outlook period will be influenced significantly by the progress of EU exit negotiations. The lack of planning certainty continues to weigh on companies and private households alike. Consequently, GDP growth of only 1.4 % is forecast for 2019. Uncertainty remains at a high level.

Economic momentum in the USA is expected to weaken only slightly compared with the previous year. The high employment rate, combined with the ongoing economic stimulus from the tax reform, should continue to have a positive impact on economic activity in 2019, as a result of which the economy is expected to grow by 2.4 %. The US Federal Reserve will most likely continue pursuing a moderately restrictive monetary policy. Unexpected developments, in particular in US domestic policy, could result in a less favourable outlook.

In China, reducing overcapacities and strengthening domestic consumption will continue to have priority in 2019. Against this backdrop, GDP is still forecast to rise by 6.2 %. Achieving a balance between short-term measures aimed at stabilising the economy and restructuring the Chinese economy on a long-term basis will remain the government's most difficult task. Therefore, the risk of a significant economic downturn in China cannot be entirely ruled out.

The Japanese economy is forecast to grow by only 1.0 % in 2019. Demand for capital goods as well as domestic consumer spending could help drive growth. The weak yen is also likely to bolster exports.

Emerging markets could see growth on a par with the previous year, with economic expansion predicted for India (+ 7.3 %), Russia (+1.4 %) and Brazil (+ 2.4 %).

Currency markets
Currencies of particular importance for the international operations of the BMW Group are the US dollar, the Chinese renminbi, the Japanese yen and the British pound. All of these currencies are expected to remain volatile in 2019.

The US economy is likely to remain strong in 2019, potentially giving the US Federal Reserve more scope for further interest rates hikes. The Fed has announced, however, that it will take a more cautious approach in 2019 than in previous years. After ending its securities purchasing programme, the ECB indicated the possibility of an interest rate increase in the third quarter 2019 at the earliest, which would mean a departure from its highly expansive monetary policy. In this context, the euro could gradually appreciate in value against the US dollar over the course of 2019.

The economic links between the USA and China suggest that the Chinese renminbi is likely to develop relatively synchronously to the US dollar. For this reason, the renminbi is expected to depreciate slightly against the euro in 2019.

The value of the British pound is currently being determined to a large extent by the progress of Brexit negotiations. Accordingly, the most likely scenario is a volatile sideways movement of the pound against the euro.

The Japanese central bank's highly expansionary monetary policy is unlikely to change in 2019, so that the euro/yen exchange rate will probably follow a sideways trend. However, it cannot be ruled out that the euro will appreciate slightly against the yen.

The currencies of numerous emerging markets could come under pressure against the US dollar and the euro, due to the continuing normalisation of monetary policies in the USA and Europe, which could result in capital outflows from emerging markets. This applies in particular to countries such as Russia, Brazil and India.

International automobile markets
After a weaker performance in 2018, a reversal of this trend in 2019 is not expected for registrations on international automobile markets (85.5 million units; – 0.3 %).

Europe's automobile markets are forecast to see a slight increase (15.8 million units; +1.0 %), with contributions to growth coming particularly from Germany (3.5 million units; +1.9 %). In France (2.2 million units; – 0.3 %) and Italy (1.9 million units; – 0.2 %), automobile markets are likely to contract slightly in 2019. For the UK, registration forecasts are also negative (2.3 million units; – 2.3 %).

The USA is unlikely to maintain a sustainable recovery in 2019 after the previous year's dip. Based on current forecasts, the downward trend in US registrations is likely to continue (17.0 million units; –1.6 %).

Additionally, the forecast for China is a decrease of 0.6 % in passenger car registrations to 23.0 million units. The downward trend on the Japanese automobile market is set to continue in 2019 (5.0 million units; – 2.4 %).

Registrations in Russia are expected to rise by around 8.4 % in 2019 to 1.8 million units on the back of economic recovery. In Brazil, registration figures are also expected to increase by 11.6 % to 2.3 million units in the current year.

International motorcycle markets
The BMW Group expects the world's motorcycle markets in the 250 cc plus class to grow slightly in 2019. In Europe, the upward trend is expected to continue in the major markets of Germany, France, Italy and Spain. Conversely, the US motorcycle market is forecast to see a slight fall in new registrations in 2019.

International interest rate environment
A moderate slowdown is predicted for the global economy in 2019. The main reasons for slower growth are the weaker impact of fiscal incentives in the USA accompanied by tighter monetary policies in many emerging markets. Unemployment in many industrialised countries is at a low level.

In view of significantly increasing economic risks, low inflation and political pressure to maintain loose monetary policies, the ECB is not expected to raise its benchmark interest rate from the current record low of zero per cent until the economic climate has brightened.

The uncertainty surrounding the ongoing Brexit negotiations will continue to weigh on the UK economy in 2019. The Bank of England's monetary policy over the coming months will be geared to managing the economic impact of the Brexit negotiations.

The US Federal Reserve is likely to pursue a more restrictive monetary policy again in 2019.

In China, fiscal policy will focus on safeguarding the country's financial stability. In order to bolster the economy in the event of an aggressive trade war, the Chinese central bank could reduce the minimum reserve ratio and cut taxes further.

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

Expected consequences for the BMW Group

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

In view of increasingly unpredictable political developments, actual economic performance in some regions may deviate from expected trends and outcomes. Potential sources of political unpredictability include policies affecting trade and customs tariffs, security developments and possible further international trade conflicts.

Outlook for the BMW Group

Application of International Financial Reporting Standard IFRS 16 (Leases) is mandatory with effect from 1 January 2019. Comparative figures for the year 2018 are required to be adjusted accordingly. In order to ensure a transparent presentation of changes in key financial performance indicators, the outlook shows values adjusted in accordance with IFRS 16 as well as the actual values reported for 2018. With regard to key financial performance indicators for 2019, the outlook is based on values for 2018 adjusted in accordance with IFRS 16. Further information on IFRS 16 is provided in → note 5 to the Group Financial Statements.

→ see note 5

Group

Profit before tax: significant decrease expected

Competition on international automobile markets is set to remain fierce in 2019. Furthermore, political and economic developments in Europe remain increasingly uncertain. Above all, this is due to the currently unforeseeable impact of Brexit. In addition, it is difficult to predict how trade tensions between the USA and the EU on the one hand and the USA and China on the other are likely to develop. Volatilities on international currency and raw materials markets could also have a negative impact on Group profit before tax. Further information is provided in the macroeconomic risks and opportunities section of the Risks and Opportunities Report.

The BMW Group holds a leading position among competitors in various new fields of technology, including digitalisation and autonomous driving. Given its firm intention to expand in these areas, investments in future-oriented projects will remain at a high level. The BMW Group also plans to electrify drivetrain systems across its entire model portfolio. Additional challenges are likely to arise in the future as a consequence of new regulatory measures. The production network will also be further expanded during the outlook period. Due to these external challenges and the upfront expenditure necessary to secure future operations, the Group's pre-tax profit is expected to decrease significantly (2018 adjusted: €9,627 million).

Workforce size at year-end expected at previous year's level

In connection with the projects referred to above, the need for suitably qualified staff across the BMW Group will remain high during the current year. According to current estimates, the size of the workforce is expected to remain at the previous year's level (2018: 134,682 employees).

Automotive segment

Deliveries to customers: slight increase expected

The BMW Group expects a further year-on-year increase in deliveries of BMW, MINI and Rolls-Royce brand vehicles and aims to occupy a leading position in the global premium segment again in 2019. Balanced growth in major sales regions will help to compensate for volatilities in individual markets. Assuming economic conditions do not deteriorate, deliveries to customers are forecast to rise slightly to a new high (2018: 2,490,664[1] units).

The BMW 8 Series Coupé launched in November 2018 and the new X5 models are expected to contribute to sustained growth. Moreover, in autumn 2018 the BMW Group announced the launching of numerous new models during the first quarter of 2019. These include the seventh generation of the BMW 3 Series Sedan, the new BMW 8 Series Convertible and the new BMW X7 and Z4 models. Other new models will follow over the course of 2019. The Rolls-Royce Cullinan[2], which has been available to customers since November 2018, is expected to stimulate demand and make an important contribution to the success of the Company.

Fleet CO_2 emissions[3]: slight decrease expected

Given that the effects of the conversion to WLTP and the further course of the diesel debate are difficult to assess, any forecast for 2019 is subject to a particularly high degree of uncertainty. Nevertheless, the BMW Group aims to reduce its average fleet CO_2 emissions slightly for the year 2019 (2018: 128 g CO_2/km).

EBIT margin in target range between 6 and 8 % expected

Against the background of the challenges referred to above, an EBIT margin within a range of 6 to 8 % is expected for the Automotive segment – the core business of the BMW Group – for the 2019 financial year (2018: 7.2 %).

Return on capital employed: significant decrease expected

As stated in the Annual Report 2017, the use of return on capital employed (RoCE) as a performance indicator was due to be reviewed, partly in connection with the introduction of IFRS 16 (Leases). The review confirmed the significance of RoCE as a key performance indicator, in particular with a view to managing profitability and capital efficiency. The use of this indicator is also closely linked to the Group's project-oriented management logic.

[1] Includes the joint venture BMW Brilliance Automotive, Shenyang Ltd. (2018: 459,581 units).

[2] Fuel consumption and CO_2 emissions information are available on page 108.

[3] EU-28

The Automotive segment's RoCE is expected to drop significantly in 2019 (2018: 49.8 %). The decrease is partly due to the introduction of IFRS 16 (Leases). Further reasons are higher investments in the electrification of the vehicle fleet, digitalisation, the expansion and rejuvenation of the model portfolio and the expansion of the production network. Furthermore, the segment's earnings trend is likely to have a dampening effect on RoCE. However, the long-term target RoCE of at least 26 % for the Automotive segment will be surpassed.

Motorcycles segment

Deliveries to customers: solid increase expected

The BMW Group expects business in the Motorcycles segment to develop positively in the current year. Business is predicted to benefit from the extensive measures taken to rejuvenate the segment's product range in the previous year as well as from the array of new models presented at international motorcycle trade fairs in autumn 2018. The addition of the mid-class C 400 GT Scooter has also expanded the segment's product range designed for the urban environment. Overall, a solid increase in deliveries of BMW motorcycles to customers is forecast for 2019 (2018: 165,566 units).

EBIT margin in target range between 8 and 10 % expected

The EBIT margin in the Motorcycles segment in 2019 is forecast to lie within the target range between 8 and 10 % (2018: 8.1 %).

Return on capital employed: solid increase expected

Due to the product initiatives described above, the Motorcycles segment is expected to generate a solid year-on-year increase in RoCE in 2019 (2018: 28.4 %). The long-term target RoCE of 26 % for the Motorcycles segment will therefore be surpassed.

Financial Services segment

Return on equity expected at previous year's level

The BMW Group forecasts a stable business performance for the Financial Services segment in the financial year 2019. The return on equity is expected to remain at the previous year's level (2018: 14.8 %).

Overall assessment by Group management

Business is expected to be more volatile in the financial year 2019. While numerous new automobile and motorcycle models as well as an expanded range of individual mobility-related services will provide additional momentum, the various challenges described above are likely to have an offsetting impact. Research and development expenses will remain at a high level in view of future-oriented projects. Accordingly, Group profit before tax is forecast to decrease significantly. Automobiles segment deliveries to customers should increase slightly and reach a new record level. At the same time, fleet carbon dioxide emissions are forecast to drop slightly. The Group's targets are to be met with a workforce size at the previous year's level. The Automotive segment's EBIT margin in 2019 is expected to lie within the range of between 6 and 8 %. A significant decrease is forecast for the RoCE of the Automobiles segment. The RoE for the Financial Services segment should remain at the previous year's level. However, both performance indicators will be above their long-term targets of 26 % (RoCE) and 14 % (RoE[1]) respectively. Deliveries to customers in the Motorcycles segment are forecast to show a solid increase, with an EBIT margin within the target range of between 8 and 10 % and the RoCE also showing a solid increase on the previous year.

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

Growing uncertainty, particularly with regard to political developments – such as Brexit and international trade and customs policies – may cause economic developments in many regions to deviate from expected trends and outcomes. This would also have a significant impact on the business performance of the BMW Group.

BMW Group key performance indicators

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		2018 reported	2018[2] adjusted	2019 Outlook[3]
GROUP				
Profit before tax	€ million	9,815	9,627	significant decrease
Workforce at year-end		134,682	–	in line with last year's level
AUTOMOTIVE SEGMENT				
Deliveries to customers[4]	units	2,490,664	–	slight increase
Fleet emissions[5]	g CO_2 / km	128	–	slight reduction
EBIT margin	%	7.2	–	between 6 and 8
Return on capital employed	%	49.8	–	significant decrease
MOTORCYCLES SEGMENT				
Deliveries to customers	units	165,566	–	solid increase
EBIT margin	%	8.1	–	between 8 and 10
Return on capital employed	%	28.4	–	solid increase
FINANCIAL SERVICES SEGMENT				
Return on equity	%	14.8	–	in line with last year's level

[1] Adjusted with effect from the financial year 2018.
[2] Adjusted in accordance with IFRS 16.
[3] Based on adjusted outlook.
[4] Including the joint venture BMW Brilliance Automotive Ltd., Shenyang (2018: 459,581 units).
[5] EU-28.

RISKS AND OPPORTUNITIES

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

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

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

Risk management system

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

Risk management in the BMW Group

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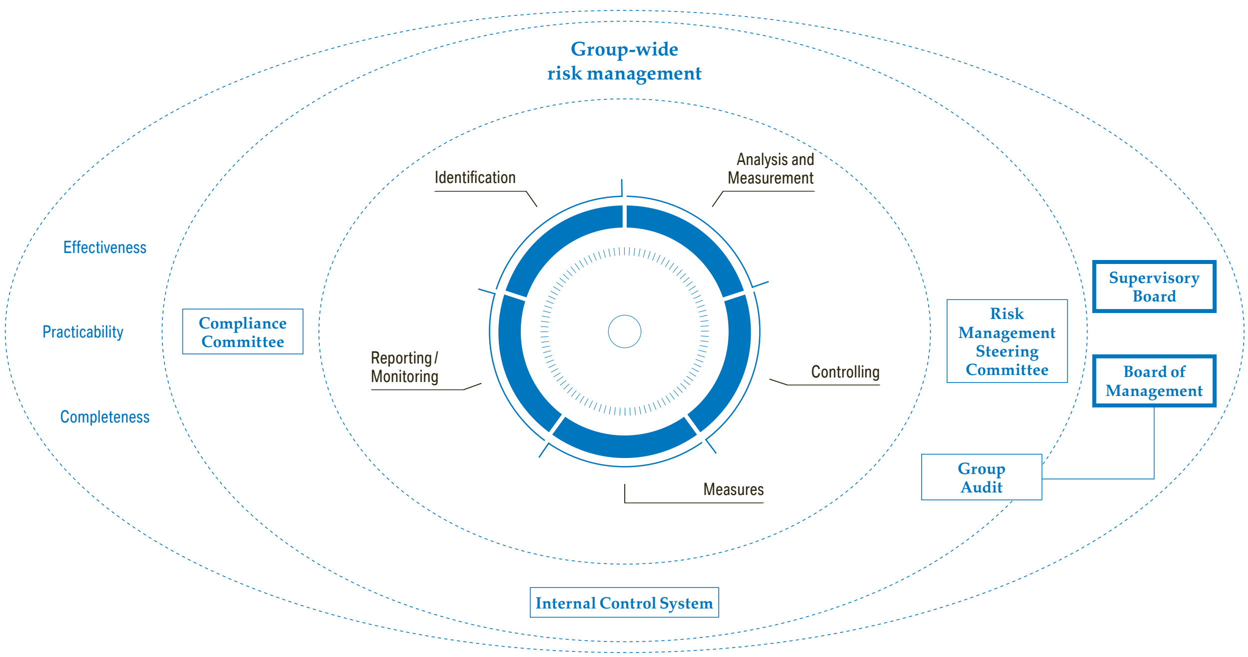

The Group risk management system is organised formally as a decentralised, company-wide network and is steered by a centralised risk management function. Every BMW Group division is represented within the risk management organisation by Network Representatives. This formal structure reinforces the network's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

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

During 2018, the risk management system focused on two main areas. Firstly, generic risk models were developed for all aspects of the business with a view to ensuring that recurring individual risks are better assessed. These risk models were validated by measuring specific risks.

Secondly, procedures to ensure that all risk scenarios are considered were further tightened. Instead of quantifying risks by means of a single-point estimate based on the net loss and probability of occurrence, risks are assessed using the loss distribution approach based on expected and worst-case values, thereby enabling better comparability of risk categories for both internal and external reporting purposes.

Risk management process

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

Significant risks reported from within the network are firstly presented for review to the Risk Management Steering Committee, chaired by Group Controlling. After review, the risks are reported to the Board of Management and the Supervisory Board. Risks are classified according to their potential impact on earnings and risk-bearing capacity. The expected risk and worst-case amounts are assessed in each case net of risk mitigation measures.

Overall risk assessment is performed in conjunction with the calculation of risk-bearing capacity. For this purpose, worst-case risks are aggregated using a value-at-risk model, taking correlation effects into account and compared with the asset cushion. The segment's risk-bearing capacity is regularly controlled through an integrated limit system for the various risk categories.

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

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

In order to comply with the CSR Directive Implementation Act, a review of risks with impact on non-financial aspects referred to in the law was conducted as part of the reporting process for the Group's Non-Financial Declaration. Significant risks within the meaning of the law are those relating to business activities, business relationships and products and services of the BMW Group which are highly likely to have a serious adverse impact. No significant risks were identified during the review. The Group's Non-Financial Declaration is provided in the Sustainable Value Report 2018, which is available on the Internet at → **www.bmwgroup.com/svr**.

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

Risk measurement

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

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

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

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

The risk amount is the basis for the classification of risk levels at the BMW Group. These have been revised as part of the further development of the risk management system. The risk amount corresponds to the average earnings impact, taking into account probability of occurrence and risk mitigation measures.

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

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

Opportunity management system and opportunity identification

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

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

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

Risks and opportunities

The following table provides an overview of all risks and opportunities and indicates their significance for the BMW Group. Overall, no risks which could threaten the continued existence of the BMW Group were identified either at the balance sheet date or at the date on which the Group Financial Statements were drawn up.

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

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

* Prior year classifications have been amended in line with the revision of the risk modelling described in the "Risk management system" section and the revision of the measurement of risk amount described in the "Risk measurement" section. In the case of risks for which prior year amounts have been reclassified, risk amounts have been classified to a higher level than reported in the Annual Report 2017.

Macroeconomic risks and opportunities

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

In view of the political events of recent years, global economic developments continue to be subject to a high degree of uncertainty, in particular with respect to potential barriers to global trade. A reorientation of US economic policy, changes within the EU and possible economic agendas by parties in EU countries that are critical of globalisation and could therefore jeopardise stability could lead to more restrictive trade practices in the coming years.

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

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

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

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

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

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

Strategic and sector risks and opportunities

Changes in legislation and regulatory requirements

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

At present, the BMW Group sees increasingly restrictive vehicle emissions regulations, particularly for conventional drivetrain systems, not only in the world's major markets (Europe, North America and China), but also in other markets such as India and Brazil. In particular, the combination of newly introduced measurement procedures to reflect standard driving cycles (WLTP) and Real Driving Emissions (RDE) tests to reflect actual emissions on the road on the one hand, and significantly lower emissions thresholds on the other, pose major challenges to the automotive sector. The BMW Group is addressing this risk with its Efficient Dynamics concept and is playing a pioneering role in reducing both fuel consumption and emissions within the premium segment. One area of focus of the BMW Group is the systematic electrification of all brands and model series. The product range has been increasingly expanded with electric drivetrain systems in BMW i vehicles since 2013 and with plug-in-hybrid technologies since 2015. These technologies have contributed to the fulfilment of legal standards and requirements with regard to vehicle emissions.

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

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

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

* Fuel consumption and CO_2 emissions information are available on page 108.

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

Intense competition, particularly in Western Europe, the USA and China, is a potential cause for lower demand and for fluctuations in the regional distribution and composition of demand for BMW, MINI and Rolls-Royce brand vehicles and for mobility services. Greater competition could put pressure on selling prices and margins. The BMW Group successfully completed the conversion to the new WLTP test procedure in 2018. Markets in Europe were nevertheless subject to a high degree of distortion on the supply side and pressure on selling prices as a result of the conversion. Changes in customer behaviour can also be brought about by changes in attitudes, values, environmental factors, and fuel or energy prices. In order to determine price and margin risks, a scenario approach is used. The BMW Group's flexible sales and production processes enable risks to be reduced and newly arising opportunities in market and product segments to be taken.

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

New opportunities are continuously being sought to create even greater added value for customers than currently expected, and thereby to realise significant opportunities with respect to sales growth and pricing. Further development of the product and mobility portfolio and expansion in growth regions offer the most important medium- to long-term growth opportunities for the BMW Group. Continued growth depends above all on the ability to develop innovative products and services and bring them to market. In this context, the BMW Group will focus on developing autonomous driving and on expanding mobility services via the planned joint venture with the Daimler Group. If the negative impact of the current competitive situation is reduced more quickly than expected, additional opportunities will arise for the BMW Group. Compared to the assumptions made in the outlook, the BMW Group expects these opportunities to have no significant earnings impact over the two-year assessment period.

Risks and opportunities relating to operations

Risks and opportunities relating to production and technologies

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

Production stoppages and downtimes due to fire, machine and tooling breakdowns, IT disruptions, damage to infrastructure, power failures, transportation and logistical disruptions represent risks which the BMW Group addresses through appropriate precautions.

Production structures and processes are designed from the outset with measures to minimise potential damage and the probability of occurrence. The interchangeability of production facilities, preventative maintenance and management of spare parts across sites play an important role within the production network. Risk is also reduced through flexible working hour models and working time accounts as well as the ability to build individual split models or engine types with a high degree of flexibility – either additionally or alternatively – at plants of the BMW Group, depending on requirements. These various features enable customer wishes to be met appropriately and allow any backlogs caused by temporary interruptions in production to be made up within a short to medium time frame. Other measures worthy of mention include the technical fire protection and anti-flooding measures undertaken at the San Luis Potosí plant in Mexico. Risks arising from business interruptions due to fire in production facilities or at suppliers are also appropriately covered with insurance companies of good credit standing. Measures taken in connection with the current challenges posed by Brexit include building up adequate levels of safety stocks and increasing flexibility along the supply chain.

In order to meet high standards in product quality and achieve favourable external ratings (e.g. for product safety), reduce statutory and non-statutory warranty obligations and keep down follow-up costs arising from other changes in planning assumptions, it may be necessary to incur a higher level of expenditure than originally forecast. If warranty expenses, including provisions for recalls, were to exceed the amounts previously recognised and expected, higher allocations to provisions in connection with goodwill and warranty measures would have a negative impact on the BMW Group. Such an allocation, for example, to the warranty provision was made in 2018, among other things in connection with the exhaust gas recirculation cooler. In addition, availability of products may be limited, particularly at the start of production for new vehicle projects. These risks are mitigated through regular audits and the continual improvement of quality management, which ensures the high standard of quality. The BMW Group also recognises appropriate accounting provisions for statutory and non-statutory warranty obligations. These reduce the risk to earnings, as they are already taken into account in the outlook. It cannot be ruled out, however, that damages could arise that are either not covered or not fully covered by provisions.

Further information on risks related to provisions for statutory and non-statutory warranty obligations is provided in → note 33 to the Group Financial Statements. → see notes 33

The BMW Group sees opportunities in production processes and technology fields primarily through the competitive edge gained from mastering new and complex technologies. Opportunities could arise as a result of further technological innovations related to products or processes, as well as from organisational changes which improve efficiency or increase competitiveness of the BMW Group. The early integration of WLTP-related requirements into production and sales planning systems, for instance, enabled the BMW Group to offer its fleet customers the usual product range without interruption. Given the long lead times in developing new products and processes, additional opportunities are not expected to have a significant impact on earnings during the outlook period.

Risks and opportunities relating to purchasing

Purchasing risks relate primarily to supply risks caused by the failure of a supplier as well as risks associated with the quality of bought-in parts. Production problems incurred by suppliers could lead to increased expenditure for the BMW Group through to interruptions in production and a corresponding reduction in sales. The increasing complexity of the supplier network, especially at the level of lower tier suppliers, whose operations can only be indirectly influenced by the BMW Group, is a further potential cause of downtimes at supplier locations. The increased threat of cyberattacks along the supplier chain also give cause for a more critical assessment of the risk situation, in this case in anticipation of future potential risks relating to security of supply and the protection of internal know-how. If purchasing risks were to materialise, they could have a high earnings impact over the two-year assessment period. The risk amount attached to purchasing risks is classified as high.

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

The BMW Group pays particular attention to the quality of 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 result that the cost of materials could exceed levels accounted for in the outlook. By monitoring and developing global supplier markets, the BMW Group continuously strives to optimise its competitiveness by working together with the world’s best product and service providers.

Within the Purchasing and Supplier Network, opportunities arise above all in the area of global sourcing through increased efficiency and the use of innovations developed by suppliers, which can lead to a broader range of products. Making full use of location-specific cost factors, in particular through local supplier structures in close proximity to new and existing BMW Group production plants and the introduction of new, innovative production technologies, could lead to lower cost of materials for the BMW Group. One goal of the BMW Group is to manufacture battery cells in Europe and to establish the relevant value chain for cell production. In order to secure the BMW Group’s electrification strategy, a contract was signed with CATL (Contemporary Amperex Technology) for the supply of battery cells. The plant is currently under construction in Thuringia. Integration of previously unidentified innovations from the supplier market in the Group’s product range could provide a further source of opportunities. The BMW Group offers innovative suppliers numerous possibilities for creating specific contractual arrangements which are attractive for those developing innovative solutions. At regular intervals, the BMW Group honours its most inventive suppliers with the Supplier Innovation Award. The BMW Group expects these opportunities to have no significant earnings impact over the assessment period as compared to the assumptions made in the outlook.

Risks and opportunities relating to sales and marketing
In order to sell its products and services, the BMW Group employs a global sales network, comprising primarily independent dealerships, branches, subsidiaries and importers. Any threat to the continued activities of parts of the sales network would entail risks for the BMW Group. The occurrence of sales and marketing risks is associated with a low earnings impact over the two-year assessment period. The risk level is classified as low. New developments in the field of digital communication and connectivity in particular offer new opportunities for the BMW Group's brands. Since 2017 BMW CarData has made it possible to provide customised service offers to BMW drivers based on data from the vehicle. If customers wish to use a specific service and actively consent to the release of their telematics data, requesting companies receive the data they need for the service in encrypted form via BMW's secure backend database. This information provides the basis for customised, data-based and innovative service options. Additional opportunities could arise if new sales channels contribute to greater brand reach to customer groups than currently envisaged in the outlook. Digital communication and connectivity enable consumers to be reached on a more targeted and individualised basis, thus strengthening long-term relationships and brand loyalty. This can lead to a more intense product and brand experience for customers, which could result in higher sales volume and have a positive impact on revenues and earnings. The BMW Group invests in advanced marketing concepts in order to intensify customer relationships. The BMW Group estimates the earnings impact as insignificant over the two-year assessment period as compared to the assumptions made in the outlook.

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

In addition to cyberattacks 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 information, data and systems. Direct consequences include expenditure required to limit the immediate damage and to restore systems promptly. Negative impacts on revenue due to the non-availability of products and services or disruptions in the production of components or vehicles are also possible. A further indirect result could be reputational damage.

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

With the advance of digitalisation, the BMW Group is improving the customer experience and its existing lines of business. At the same time, new digital business segments are emerging, which are mainly focused on information technology. The development and provision of digital services for customers, increased vehicle connectivity and autonomous driving solutions are opening up new opportunities. Through BMW ConnectedDrive and BMW CarData the range of services and apps on offer to customers is constantly being expanded and updated. Starting in March 2019, the BMW Intelligent Personal Assistant will provide customers with an intelligent, digital character that enables voice access to functions and information. The BMW Group expects these opportunities to have no significant earnings impact over the assessment period as compared to the assumptions made in the outlook.

Financial risks and risks relating to the use of financial instruments

Currency risks and opportunities

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

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

Risks and opportunities relating to raw materials

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

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

Liquidity risks

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

Based on the experience of the financial crisis, a minimum liquidity concept has been drawn up, which is rigorously adhered to and continuously developed. Use of the "matched funding principle" to finance the Financial Services segment's operations eliminates liquidity risks to a large extent. Solvency is assured at all times throughout the BMW Group by maintaining a liquidity reserve and by the broad diversification of refinancing sources. Regular measurement and monitoring ensure that cash inflows and outflows for the various maturities and currencies offset each other. This approach is incorporated in the BMW Group's target liquidity concept. The liquidity position is monitored continuously and managed through Group-wide planning of financial requirements and funding. A diversified refinancing strategy reduces dependency on any specific type of instrument. Moreover, the BMW Group's solid financial and earnings position results in high credit ratings from internationally recognised rating agencies.

Further information on risks in conjunction with financial instruments is provided in → note 39 to the Group Financial Statements.

→ see note 39

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

Future pension payments are discounted on the basis of market yields on high-quality corporate bonds. These yields are subject to market fluctuation and therefore influence the level of pension obligations. Changes in other parameters, such as rises in inflation and longer life expectancy, also impact pension obligations and payments. Regulatory requirements can influence the amount of pension obligations. The BMW Group's pension obligations are mainly held in external pension funds or trust arrangements and the related assets legally separated from those of the Group. The amount of funds required to finance pension payments out of operations in the future is substantially reduced by the fact that the Group's pension obligations are mainly settled out of pension fund assets. The pension assets of the BMW Group comprise interest-bearing securities, equities, real estate and other investment classes. Assets held by pension funds and trust arrangements are monitored continuously and managed on a risk-and-return basis. Diversification of investments also helps to mitigate risk. In order to reduce fluctuations in pension funding shortfalls, investments are structured to match the timing of pension payments and the expected development of pension obligations. Remeasurements on the liability and fund asset sides are recognised net of deferred taxes in other comprehensive income and hence directly in equity (within revenue reserves). Further information on risks in conjunction with pension provisions is provided in → note 32 to the Group Financial Statements.

→ see notes 32

Risks and opportunities relating to the Financial Services segment
The categories of risk relating to financial services comprise credit and counterparty risk, residual value risk, interest rate risk, operational risks and liquidity risk. Evaluation of liquidity risk for the Financial Services segment is included in the liquidity risk category for the Group as a whole. The segment's total risk exposure was covered at all times during the 2018 financial year by the available risk-covering assets. As a result, the Financial Services segment's risk-bearing capacity was assured at all times.

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

Initial and continuous creditworthiness testing is an important aspect of the BMW Group's credit risk management. For this reason, every borrower's creditworthiness is tested for all credit financing and lease contracts entered into by the BMW Group. Opportunities can arise when the managed portfolio presents itself over time better than as was estimated at the provision of the credit. An intense management of the purchase process and the securities evaluation as well as the development of macroeconomic factors can strengthen the opportunities. 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 material credit standing of the borrower, but also of qualitative factors such as past reliability in business relations. Changes in the creditworthiness of customers arising during the credit term are covered by risk provisioning procedures. The credit risk of the individual customers is quantified on a monthly basis and, depending on the outcome, taken into account within the risk provisioning system. Macroeconomic developments are currently subject to a higher degree of volatility. If developments are more favourable than assumed in the outlook, credit losses may be reduced, leading to a positive earnings impact.

Residual value risks and opportunities relating to the Financial Services segment

Risks and opportunities arise in conjunction with leasing contracts if the market value of a leased vehicle at the end of the contractual term of a lease differs from the residual value estimated at the inception of the lease and factored into the lease payments. A residual value risk exists if the expected market value of the vehicle at the end of the contractual term is lower than its estimated residual value at the date the contract is entered into. If residual value risks were to materialise, they could have a high earnings impact from the Group's perspective over the two-year assessment period. A high earnings impact would then arise for the affected Financial Services and Automotive segments. The risk amount is classified as high for the Group as a whole. Opportunities can arise out of a positive deviation from the original residual value forecast. The BMW Group classifies potential residual value opportunities as significant. Each vehicle's estimated residual value is calculated on the basis of historical external and internal data. This estimation provides the expected market value of the vehicle at the end of the contractual period. Developments on pre-owned car markets represent an important factor. In 2018, diesel engines were again the subject matter of political discussions in the European region. Pre-owned car markets in the premium segment responded here with price declines for diesel vehicles. As part of the management of residual value risks, the net present value of risk costs is calculated at contract inception. Market developments are observed throughout the contractual period and the risk assessment updated.

Interest rate risks and opportunities relating to the Financial Services segment

Interest rate risks in the Financial Services segment relate to potential losses caused by changes in market interest rates. These can arise when fixed interest rate periods do not match for assets and liabilities recognised in the balance sheet. If interest rate risks were to materialise, they could have a medium earnings impact over the two-year assessment period. The risk amount is classified as medium. The BMW Group classifies potential interest rate opportunities compared to the outlook as significant. Interest rate risks in the Financial Services business are managed by matching maturities for refinancing and by employing interest-rate derivatives. If the relevant recognition criteria are fulfilled, derivatives used by the BMW Group are accounted for as hedging instruments. Further information on risks in conjunction with financial instruments is provided in → note 39 to the Group Financial Statements.

→ see notes 39

Operational risks in the Financial Services segment

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

Legal risks

The BMW Group is exposed to various legal risks, not least as a result of its global operations. Legal risks may result from non-compliance with laws or other legal requirements or from legal disputes with business partners or other market participants. If legal risks were to materialise, they could have a high earnings impact over the two-year assessment period. The risk amount attached to significant identified legal risks is classified as medium. However, it cannot be ruled out that new legal risks, as yet unforeseen, could materialise that could have a high earnings impact for the BMW Group.

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

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

Possible risks for the BMW Group related to competition and antitrust law cannot in detail be predicted or quantified at present. Further information on current developments with regard to identified antitrust risks and contingent liabilities can be found in → note 38 to the Group Financial Statements.

→ see note 38

The BMW Group recognises appropriate levels of provision for lawsuits. In addition, a part of these risks is insured where this makes business sense. Such items are reported as contingent liabilities. It cannot be ruled out, however, that damages could arise that are either not covered or not fully covered by insurance policies or provisions or reported as contingent liabilities. In accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), the required information is not provided if the BMW Group concludes that disclosure of the information could seriously prejudice the outcome of the relevant legal proceedings. Further information on contingent liabilities is provided in → note 38 to the Group Financial Statements.

→ see notes 38

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 overall risk level for the BMW Group as a whole has increased slightly compared to the previous year, while there has been no significant change in the opportunity situation. Exposure to risks in the individual risk categories remains essentially stable.

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 as well as 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 status as a going concern. As in the previous year, identified risks are considered to be manageable, but could – like the opportunities – have an impact on the underlying key performance indicators, which could then, as a result, deviate from the outlook if they were to materialise. The BMW Group's financial position is stable and cash needs are currently covered by available liquidity and credit lines.

INTERNAL CONTROL SYSTEM* RELEVANT FOR ACCOUNTING AND FINANCIAL REPORTING PROCESSES

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

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

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

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

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

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

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

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

DISCLOSURES RELEVANT FOR TAKEOVERS* AND EXPLANATORY COMMENTS

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

Composition of subscribed capital

The subscribed capital (share capital) of BMW AG amounted to €658,122,100 at 31 December 2018 (2017: €657,600,600) and, in accordance with Article 4 no. 1 of the Articles of Incorporation, is subdivided into 601,995,196 shares of common stock (91.47 %) (2017: 601,995,196; 91.54 %) and 56,126,904 shares of non-voting preferred stock (8.53 %) (2017: 55,605,404; 8.46 %), each with a par value of €1. The Company's shares are issued to bearer.

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

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

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

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

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

Restrictions on voting rights or the transfer of shares

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

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

Contractual holding period arrangements also apply to shares of common stock acquired by Board of Management members and certain senior department heads in conjunction with the share-based remuneration programmes (Compensation Report of the Corporate Governance section; → note 41 of the Group Financial Statements).

→ see note 41

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	25.6[2]
AQTON SE, Bad Homburg v. d. Höhe, Germany	9.0	16.6[3]
AQTON Verwaltung GmbH, Bad Homburg v. d. Höhe, Germany		16.6[4]
AQTON GmbH & Co. KG für Automobilwerte, Bad Homburg v. d. Höhe, Germany	16.6	
Susanne Klatten, Germany	0.2	20.7[5]
Susanne Klatten Beteiligungs GmbH, Bad Homburg v. d. Höhe, Germany	20.7	

[1] Based on voluntary notifications provided by the listed shareholders as at 31 December 2018.
[2] Controlled entities, of which 3 % or more are attributed: AQTON SE, AQTON Verwaltung GmbH, AQTON GmbH & Co. KG für Automobilwerte.
[3] Controlled entities, of which 3 % or more are attributed: AQTON Verwaltung GmbH, AQTON GmbH & Co. KG für Automobilwerte.
[4] Controlled entities, of which 3 % or more are attributed: AQTON GmbH & Co. KG für Automobilwerte.
[5] Controlled entities, of which 3 % or more are attributed: Susanne Klatten Beteiligungs GmbH.

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

Shares with special rights which confer control rights

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

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

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

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

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

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

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

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

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

In accordance with Article 4 no. 5 of the Articles of Incorporation, the Board of Management is authorised, with the approval of the Supervisory Board, to increase for cash contributions BMW AG's share capital during the period until 14 May 2019 by up to €3,132,883 for the purposes of an Employee Share Programme by issuing new non-voting shares of preferred stock, which carry the same rights as existing non-voting preferred stock (Authorised Capital 2014). Subscription rights of existing shareholders are excluded. No conditional capital is in place at the reporting date.

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

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

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

- A cooperation agreement concluded with Peugeot SA relating to 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 regarding the impact of the change of control on the cooperation arrangements are not resolved during the subsequent discussion process.

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

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

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

- On the basis of a Business Combination Agreement concluded on 28 March 2018, BMW AG and Daimler AG have established five operating joint ventures in the areas of car sharing, ride hailing, parking, charging and multimodality, into which BMW has contributed a number of businesses, including DriveNow, Parkmobile, Digital Charging Solutions and ReachNow. The Framework Joint Venture Agreement entitles Daimler AG and BMW AG (principals) each to initiate a bidding process in the event that (i) a shareholder or third party notifies the other principal pursuant to § 33 WpHG that voting rights, including those attributed pursuant to § 34 WpHG, have reached the threshold of 50 % or pursuant to § 20 AktG that a shareholding of more than 50 % exists, or (ii) a shareholder or a third party holds more than 50 % of the voting rights or shares in the other principal, including those attributed pursuant to § 30 WpHG (iii) a shareholder or third party entered into a domination agreement with the other principal, who is the dominated entity. Such a bidding process is required to be carried out for each of the above-mentioned business divisions as well as for the special-purpose entity holding the relevant trademark rights, whereby the highest bidding principal for the respective business division or special-purpose entity wins the relevant bid.

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

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

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

- The development collaboration agreement between BMW AG, FCA US LLC and FCA Italy S.p.A., relating to the development of technologies used in automated vehicles, may be terminated by any of the contractual parties if certain competitors in the technology sector acquire and subsequently hold at least 30 % of the voting shares of the other contractual party.

- BMW AG has agreed with Great Wall Motor Company Limited to establish the joint venture Spotlight 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 the other party is merged with another legal entity. The termination of the joint venture agreement may result in the sale of the shares to the other joint venture partner or in the liquidation of the joint venture entity.

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.

Fuel consumption and CO_2 emissions information

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Model	Fuel consumption in l/100 km (combined)	CO_2 emissions in g/km (combined)	Electric power consumption in kWh/100 km (combined)
BMW			
BMW M2 Competition	10.0 – 9.8	227 – 224	–
BMW M3	9.1	209	–
BMW M3 CS	8.5	198	–
BMW M5 / Competition	10.8 – 10.7	246 – 243	–
BMW X3 M40i	9.1	207 – 206	–
MINI			
MINI Cooper SE Countryman ALL4	2.5 – 2.4	56 – 55	13.7 – 13.2
ROLLS-ROYCE			
Cullinan	15	341	–
Phantom	14.5 – 14.4	330 – 328	–
BMW ELECTRIFIED MODELS			
BMW i3 (120 Ah) with pure electric drive BMW eDrive	–	0	13.1
BMW i3s (120 Ah) with pure electric drive BMW eDrive	–	0	14.6 – 14.0
BMW i8 Coupé	1.8	42	14.0
BMW i8 Roadster	2.0	46	14.5

GROUP FINANCIAL STATEMENTS

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BMW GROUP INCOME STATEMENT STATEMENT OF COMPREHENSIVE INCOME

Income Statements for Group and Segments

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in € million	Note	Group 2018	Group 2017*	Automotive (unaudited supplementary information) 2018	Automotive (unaudited supplementary information) 2017*	Motorcycles (unaudited supplementary information) 2018	Motorcycles (unaudited supplementary information) 2017*
Revenues	8	97,480	98,282	85,846	85,742	2,173	2,272
Cost of sales	9	–78,924	–78,329	–71,918	–69,402	–1,738	–1,798
Gross profit		**18,556**	**19,953**	**13,928**	**16,340**	**435**	**474**
Selling and administrative expenses	10	–9,558	–9,560	–7,880	–7,927	–263	–256
Other operating income	11	774	720	810	675	4	4
Other operating expenses	11	–651	–1,214	–676	–1,200	–1	–15
Profit / loss before financial result		**9,121**	**9,899**	**6,182**	**7,888**	**175**	**207**
Result from equity accounted investments	24	632	739	632	739	–	–
Interest and similar income	12	397	201	567	325	–	–
Interest and similar expenses	12	–386	–412	–533	–530	–6	–2
Other financial result	13	51	248	129	295	–	–
Financial result		**694**	**776**	**795**	**829**	**–6**	**–2**
Profit / loss before tax		**9,815**	**10,675**	**6,977**	**8,717**	**169**	**205**
Income taxes	14	–2,575	–2,000	–1,853	–3,418	–45	–63
Profit / loss from continuing operations		**7,240**	**8,675**	**5,124**	**5,299**	**124**	**142**
Loss from discontinued operations		–33	–	–33	–	–	–
Net profit / loss		**7,207**	**8,675**	**5,091**	**5,299**	**124**	**142**
Attributable to minority interest		90	86	30	22	–	–
Attributable to shareholders of BMW AG	31	**7,117**	**8,589**	**5,061**	**5,277**	**124**	**142**
Basic earnings per share of common stock in €	15	10.82	13.07				
Basic earnings per share of preferred stock in €	15	10.84	13.09				
Dilutive effects		–	–				
Diluted earnings per share of common stock in €	15	10.82	13.07				
Diluted earnings per share of preferred stock in €	15	10.84	13.09				

Statement of Comprehensive Income for Group

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in € million	Note	2018	2017*
Net profit		**7,207**	**8,675**
Remeasurement of the net defined benefit liability for pension plans	32	935	693
Deferred taxes		–217	–218
Items not expected to be reclassified to the income statement in the future		**718**	**475**
Marketable securities (at fair value through other comprehensive income)		–30	39
Financial instruments used for hedging purposes		–1,381	1,914
Costs of hedging		–620	–
Other comprehensive income from equity accounted investments		–157	–30
Deferred taxes		674	–597
Currency translation foreign operations		192	–1,171
Items that can be reclassified to the income statement in the future		**–1,322**	**155**
Other comprehensive income for the period after tax	19	**–604**	**630**
Total comprehensive income		**6,603**	**9,305**
Total comprehensive income attributable to minority interests		90	86
Total comprehensive income attributable to shareholders of BMW AG	31	**6,513**	**9,219**

* Prior year figures adjusted due to first-time application of IFRS 15, see note 6 to the Group Financial Statements.

	Financial Services (unaudited supplementary information)		Other Entities (unaudited supplementary information)		Eliminations (unaudited supplementary information)		
	2018	2017	2018	2017	2018	2017*	
	28,165	27,567	6	7	–18,710	–17,306	Revenues
	–24,541	–23,986	–	–	19,273	16,857	Cost of sales
	3,624	**3,581**	**6**	**7**	**563**	**–449**	**Gross profit**
	–1,352	–1,370	–79	–27	16	20	Selling and administrative expenses
	42	96	126	130	–208	–185	Other operating income
	–124	–113	–80	–96	230	210	Other operating expenses
	2,190	**2,194**	**–27**	**14**	**601**	**–404**	**Profit / loss before financial result**
	–	–	–	–	–	–	Result from equity accounted investments
	12	12	1,178	1,110	–1,360	–1,246	Interest and similar income
	–14	–10	–1,145	–986	1,312	1,116	Interest and similar expenses
	–27	11	–51	–58	–	–	Other financial result
	–29	**13**	**–18**	**66**	**–48**	**–130**	**Financial result**
	2,161	**2,207**	**–45**	**80**	**553**	**–534**	**Profit / loss before tax**
	–508	1,840	–36	–19	–133	–340	Income taxes
	1,653	**4,047**	**–81**	**61**	**420**	**–874**	**Profit / loss from continuing operations**
	–	–	–	–	–	–	Loss from discontinued operations
	1,653	**4,047**	**–81**	**61**	**420**	**–874**	**Net profit / loss**
	60	64	–	–	–	–	Attributable to minority interest
	1,593	**3,983**	**–81**	**61**	**420**	**–874**	**Attributable to shareholders of BMW AG**
							Basic earnings per share of common stock in €
							Basic earnings per share of preferred stock in €
							Dilutive effects
							Diluted earnings per share of common stock in €
							Diluted earnings per share of preferred stock in €

BMW GROUP BALANCE SHEET AT 31 DECEMBER 2018

		Group			Automotive (unaudited supplementary information)		Motorcycles (unaudited supplementary information)	
in € million	Note	2018	1.1.2018[1]	31.12.2017[2]	2018	2017[2]	2018	2017[2]
ASSETS								
Intangible assets	21	10,971	9,464	9,464	10,472	8,981	95	57
Property, plant and equipment	22	19,801	18,471	18,471	19,372	18,050	399	388
Leased products	23	38,572	36,257	36,257	–	–	–	–
Investments accounted for using the equity method	24	2,624	2,769	2,769	2,624	2,769	–	–
Other investments		739	690	690	4,843	4,985	–	–
Receivables from sales financing	25	48,109	48,475	48,321	–	–	–	–
Financial assets	26	1,010	2,369	2,369	216	1,302	–	–
Deferred tax	14	1,590	1,965	1,993	3,043	2,857	–	–
Other assets	28	2,026	1,630	1,630	5,085	3,671	33	32
Non-current assets		**125,442**	**122,090**	**121,964**	**45,655**	**42,615**	**527**	**477**
Inventories	29	13,047	12,707	12,707	12,462	12,103	568	580
Trade receivables	30	2,546	2,663	2,667	2,287	2,354	167	160
Receivables from sales financing	25	38,674	32,087	32,113	–	–	–	–
Financial assets	26	6,675	7,949	7,965	4,988	5,578	–	–
Current tax	27	1,366	1,566	1,566	618	714	–	–
Other assets	28	9,790	7,485	7,485	22,016	23,124	2	5
Cash and cash equivalents		10,979	9,039	9,039	8,631	7,157	12	8
Assets held for sale	2	461	–	–	461	–	–	–
Current assets		**83,538**	**73,496**	**73,542**	**51,463**	**51,030**	**749**	**753**
Total assets		**208,980**	**195,586**	**195,506**	**97,118**	**93,645**	**1,276**	**1,230**
EQUITY AND LIABILITIES								
Subscribed capital	31	658	658	658				
Capital reserves	31	2,118	2,084	2,084				
Revenue reserves	31	56,121	50,993	50,815				
Accumulated other equity	31	–1,338	37	114				
Equity attributable to shareholders of BMW AG	31	**57,559**	**53,772**	**53,671**				
Minority interest		529	436	436				
Equity		**58,088**	**54,208**	**54,107**	**39,778**	**39,361**	**–**	**–**
Pension provisions	32	2,330	3,252	3,252	2,089	2,405	64	69
Other provisions	33	5,776	5,632	5,632	5,363	5,175	70	101
Deferred tax	14	1,806	2,166	2,157	1,016	1,456	–	–
Financial liabilities	35	64,772	53,521	53,548	1,017	832	–	–
Other liabilities	36	5,299	5,045	5,045	7,549	6,506	506	487
Non-current provisions and liabilities		**79,983**	**69,616**	**69,634**	**17,034**	**16,374**	**640**	**657**
Other provisions	33	6,078	6,367	6,367	5,436	5,710	101	99
Current tax	34	1,158	1,124	1,124	933	874	–	–
Financial liabilities	35	38,825	41,097	41,100	879	947	–	–
Trade payables	37	9,669	9,731	9,731	8,360	8,516	348	355
Other liabilities	36	15,117	13,443	13,443	24,636	21,863	187	119
Liabilities in conjunction with assets held for sale	2	62	–	–	62	–	–	–
Current provisions and liabilities		**70,909**	**71,762**	**71,765**	**40,306**	**37,910**	**636**	**573**
Total equity and liabilities		**208,980**	**195,586**	**195,506**	**97,118**	**93,645**	**1,276**	**1,230**

[1] The opening balance sheet figures have been adjusted, based on the first-time application of IFRS 15 and IFRS 9, see notes 6 and 7.
[2] Prior year figures adjusted due to first-time application of IFRS 15, see note 6 to the Group Financial Statements.

in € million	Financial Services (unaudited supplementary information) 2018	2017	Other Entities (unaudited supplementary information) 2018	2017	Eliminations (unaudited supplementary information) 2018	2017[2]
ASSETS						
Intangible assets	403	425	1	1	–	–
Property, plant and equipment	30	33	–	–	–	–
Leased products	46,427	44,285	–	–	–7,855	–8,028
Investments accounted for using the equity method	–	–	–	–	–	–
Other investments	1	2	6,660	7,160	–10,765	–11,457
Receivables from sales financing	48,109	48,321	–	–	–	–
Financial assets	138	176	695	1,089	–39	–198
Deferred tax	483	442	28	130	–1,964	–1,436
Other assets	3,562	3,082	33,956	26,628	–40,610	–31,783
Non-current assets	**99,153**	**96,766**	**41,340**	**35,008**	**–61,233**	**–52,902**
Inventories	17	24	–	–	–	–
Trade receivables	91	152	1	1	–	–
Receivables from sales financing	38,674	32,113	–	–	–	–
Financial assets	1,325	1,531	460	1,163	–98	–307
Current tax	79	55	669	797	–	–
Other assets	5,484	5,331	48,775	45,963	–66,487	–66,938
Cash and cash equivalents	1,985	1,856	351	18	–	–
Assets held for sale	–	–	–	–	–	–
Current assets	**47,655**	**41,062**	**50,256**	**47,942**	**–66,585**	**–67,245**
Total assets	**146,808**	**137,828**	**91,596**	**82,950**	**–127,818**	**–120,147**
EQUITY AND LIABILITIES						
Subscribed capital						
Capital reserves						
Revenue reserves						
Accumulated other equity						
Equity attributable to shareholders of BMW AG						
Minority interest						
Equity	**14,919**	**14,740**	**20,683**	**18,102**	**–17,292**	**–18,096**
Pension provisions	49	72	128	706	–	–
Other provisions	343	356	–	–	–	–
Deferred tax	4,611	4,302	22	38	–3,843	–3,639
Financial liabilities	19,170	17,819	44,624	35,095	–39	–198
Other liabilities	36,333	28,835	1,168	198	–40,257	–30,981
Non-current provisions and liabilities	**60,506**	**51,384**	**45,942**	**36,037**	**–44,139**	**–34,818**
Other provisions	532	549	9	9	–	–
Current tax	208	233	17	17	–	–
Financial liabilities	25,705	24,853	12,339	15,607	–98	–307
Trade payables	950	849	11	11	–	–
Other liabilities	43,988	45,220	12,595	13,167	–66,289	–66,926
Liabilities in conjunction with assets held for sale	–	–	–	–	–	–
Current provisions and liabilities	**71,383**	**71,704**	**24,971**	**28,811**	**–66,387**	**–67,233**
Total equity and liabilities	**146,808**	**137,828**	**91,596**	**82,950**	**–127,818**	**–120,147**

BMW GROUP CASH FLOW STATEMENT

in € million	Group 2018	Group 2017[1]
Net profit	**7,207**	8,675
Loss from discontinued operations	**33**	–
Current tax	**2,220**	2,558
Income taxes paid	**–1,972**	–2,301
Interest received[2]	**170**	125
Other interest and similar income / expenses[2]	**–199**	65
Depreciation and amortisation of tangible, intangible and investment assets	**5,113**	4,822
Other non-cash income and expense items	**111**	–249
Result from equity accounted investments	**–632**	–739
Gain / loss on disposal of tangible and intangible assets and marketable securities	**–34**	–43
Change in deferred taxes	**355**	–559
Change in leased products	**–1,693**	–1,134
Change in receivables from sales financing	**–5,670**	–7,440
Changes in working capital	**–573**	166
Change in inventories	–357	–1,293
Change in trade receivables	112	45
Change in trade payables	–328	1,414
Change in provisions	**–82**	752
Change in other operating assets and liabilities	**697**	1,211
Cash inflow / outflow from operating activities	**5,051**	**5,909**
Total investment in intangible assets and property, plant and equipment	**–7,777**	–7,112
Proceeds from subsidies for intangible assets and property, plant and equipment	**21**	–
Proceeds from the disposal of intangible assets and property, plant and equipment	**107**	30
Expenditure for investment assets	**–164**	–142
Acquisitions of subsidiaries and other business units	**–209**	–
Proceeds from the disposal of investment assets and other business units	**623**[5]	267
Proceeds from the sale of subsidiaries and other business units	**–**	969
Investments in marketable securities and investment funds	**–3,725**	–4,041
Proceeds from the sale of marketable securities and investment funds	**3,761**	3,866
Cash inflow / outflow from investing activities	**–7,363**	**–6,163**
Payments into equity	**25**	38
Payment of dividend for the previous year	**–2,630**	–2,324
Intragroup financing and equity transactions	**–**	–
Interest paid[2]	**–136**	–165
Proceeds from non-current financial liabilities[3]	**30,762**	23,955
Repayment of non-current financial liabilities[3]	**–22,564**	–16,801
Change in other financial liabilities[4]	**–1,161**	–3,131
Cash inflow / outflow from financing activities	**4,296**	**1,572**
Effect of exchange rate on cash and cash equivalents	**–19**	**–223**
Effect of changes in composition of Group on cash and cash equivalents	**–25**	**64**
Change in cash and cash equivalents	**1,940**	**1,159**
Cash and cash equivalents as at 1 January	**9,039**	7,880
Cash and cash equivalents as at 31 December	**10,979**	**9,039**

[1] Prior year figures adjusted due to first-time application of IFRS 15, see note 6 to the Group Financial Statements.
[2] Interest relating to financial services business is classified as revenues / cost of sales.
[3] Proceeds / Repayment of bonds are recognised under Proceeds / Repayment of non-current financial liabilities. Prior year figures adjusted accordingly.
[4] The change in commercial paper is recognised under change in other financial liabilities. Prior year figures adjusted accordingly.
[5] Includes dividends received from investment assets amounting to €384 million (2017: €258 million).

	Automotive (unaudited supplementary information)		Financial Services (unaudited supplementary information)	
	2018	2017[1]	2018	2017
Net profit	5,091	5,299	1,653	4,047
Loss from discontinued operations	33	–	–	–
Current tax	1,886	2,699	308	–114
Income taxes paid	–1,751	–1,896	–299	–315
Interest received[2]	170	125	–	–
Other interest and similar income / expenses[2]	–165	89	1	–5
Depreciation and amortisation of tangible, intangible and investment assets	4,982	4,699	34	35
Other non-cash income and expense items	83	25	33	46
Result from equity accounted investments	–632	–739	–	–
Gain / loss on disposal of tangible and intangible assets and marketable securities	–35	–41	1	–2
Change in deferred taxes	–71	909	28	–1,872
Change in leased products	–	–	–1,783	–1,855
Change in receivables from sales financing	–	–	–5,670	–7,440
Changes in working capital	–758	78	176	161
Change in inventories	–390	–1,179	7	–20
Change in trade receivables	59	43	60	19
Change in trade payables	–427	1,214	109	162
Change in provisions	344	1,069	–13	225
Change in other operating assets and liabilities	175	–1,468	–1,259	705
Cash inflow / outflow from operating activities	**9,352**	**10,848**	**–6,790**	**–6,384**
Total investment in intangible assets and property, plant and equipment	–7,618	–6,972	–13	–15
Proceeds from subsidies for intangible assets and property, plant and equipment	18	–	3	–
Proceeds from the disposal of intangible assets and property, plant and equipment	105	28	2	2
Expenditure for investment assets	–145	–482	–	–
Acquisitions of subsidiaries and other business units	–209	–	–	–
Proceeds from the disposal of investment assets and other business units	1,210	1,037	2	1
Proceeds from the sale of subsidiaries and other business units	–	–	–	969
Investments in marketable securities and investment funds	–3,692	–3,810	–63	–231
Proceeds from the sale of marketable securities and investment funds	3,562	3,655	199	211
Cash inflow / outflow from investing activities	**–6,769**	**–6,544**	**130**	**937**
Payments into equity	25	38	–	–
Payment of dividend for the previous year	–2,630	–2,324	–	–
Intragroup financing and equity transactions	2,099	567	5,097	4,315
Interest paid[2]	–136	–165	–	–
Proceeds from non-current financial liabilities[3]	1	–	12,940	11,937
Repayment of non-current financial liabilities[3]	–410	–48	–12,071	–7,608
Change in other financial liabilities[4]	–2	73	827	–4,310
Cash inflow / outflow from financing activities	**–1,053**	**–1,859**	**6,793**	**4,334**
Effect of exchange rate on cash and cash equivalents	**–31**	**–82**	**–4**	**–141**
Effect of changes in composition of Group on cash and cash equivalents	**–25**	**–**	**–**	**64**
Change in cash and cash equivalents	**1,474**	**2,363**	**129**	**–1,190**
Cash and cash equivalents as at 1 January	7,157	4,794	1,856	3,046
Cash and cash equivalents as at 31 December	**8,631**	**7,157**	**1,985**	**1,856**

The reconciliation of liabilities from financing activities is presented in note 35.

BMW GROUP STATEMENT OF CHANGES IN EQUITY

in € million	Note	Subscribed capital	Capital reserves	Revenue reserves
31 December 2017 (as originally reported)	31	**658**	**2,084**	**51,256**
Effect from the first-time application of IFRS 15		–	–	– 441
31 December 2017 (adjusted according to IFRS 15)		**658**	**2,084**	**50,815**
Effects from the first-time application of IFRS 9		–	–	178
1 January 2018 (adjusted according to IFRS 9)		**658**	**2,084**	**50,993**
Net profit		–	–	7,117
Other comprehensive income for the period after tax		–	–	718
Comprehensive income at 31 December 2018		**–**	**–**	**7,835**
Dividend payments		–	–	– 2,630
Subscribed share capital increase out of Authorised Capital		–	–	–
Premium arising on capital increase relating to preferred stock		–	34	–
Other changes		–	–	– 77
31 December 2018	31	**658**	**2,118**	**56,121**

in € million	Note	Subscribed capital	Capital reserves	Revenue reserves
1 January 2017 (as originally reported)	31	**657**	**2,047**	**44,445**
Effects from the first-time application of IFRS 15		–	–	– 409
1 January 2017 (adjusted according to IFRS 15)		**657**	**2,047**	**44,036**
Net profit*		–	–	8,589
Other comprehensive income for the period after tax		–	–	475
Comprehensive income at 31 December 2017 (adjusted according to IFRS 15)*		**–**	**–**	**9,064**
Dividend payments		–	–	– 2,300
Subscribed share capital increase out of Authorised Capital		1	–	–
Premium arising on capital increase relating to preferred stock		–	37	–
Other changes*		–	–	15
31 December 2017*	31	**658**	**2,084**	**50,815**

* Prior year figures adjusted due to first-time application of IFRS 15, see note 6 to the Group Financial Statements.

Accumulated other equity							
Translation differences	Securities	Derivative financial instruments	Costs of hedging	Equity attributable to shareholders of BMW AG	Minority interest	Total	
–1,494	**93**	**1,515**	**–**	**54,112**	**436**	**54,548**	**31 December 2017 (as originally reported)**
–	–	–	–	–441	–	–441	Effect from the first-time application of IFRS 15
–1,494	**93**	**1,515**	**–**	**53,671**	**436**	**54,107**	**31 December 2017 (adjusted according to IFRS 15)**
–	–82	–	5	101	–	101	Effects from the first-time application of IFRS 9
–1,494	**11**	**1,515**	**5**	**53,772**	**436**	**54,208**	**1 January 2018 (adjusted according to IFRS 9)**
–	–	–	–	7,117	90	**7,207**	Net profit
168	–12	–906	–572	–604	–	**–604**	Other comprehensive income for the period after tax
168	**–12**	**–906**	**–572**	**6,513**	**90**	**6,603**	**Comprehensive income at 31 December 2018**
–	–	–	–	–2,630	–	**–2,630**	Dividend payments
–	–	–	–	–	–	**–**	Subscribed share capital increase out of Authorised Capital
–	–	–	–	34	–	**34**	Premium arising on capital increase relating to preferred stock
–	–	–51	–2	–130	3	**–127**	Other changes
–1,326	**–1**	**558**	**–569**	**57,559**	**529**	**58,088**	**31 December 2018**

Accumulated other equity							
Translation differences	Securities	Derivative financial instruments	Costs of hedging	Equity attributable to shareholders of BMW AG	Minority interest	Total	
–171	**52**	**78**	**–**	**47,108**	**255**	**47,363**	**1 January 2017 (as originally reported)**
–	–	–	–	–409	–	–409	Effects from the first-time application of IFRS 15
–171	**52**	**78**	**–**	**46,699**	**255**	**46,954**	**1 January 2017 (adjusted according to IFRS 15)**
–	–	–	–	8,589	86	**8,675**	Net profit*
–1,323	41	1,437	–	630	–	**630**	Other comprehensive income for the period after tax
–1,323	**41**	**1,437**	**–**	**9,219**	**86**	**9,305**	**Comprehensive income at 31 December 2017 (adjusted according to IFRS 15)***
–	–	–	–	–2,300	–	**–2,300**	Dividend payments
–	–	–	–	1	–	**1**	Subscribed share capital increase out of Authorised Capital
–	–	–	–	37	–	**37**	Premium arising on capital increase relating to preferred stock
–	–	–	–	15	95	**110**	Other changes*
–1,494	**93**	**1,515**	**–**	**53,671**	**436**	**54,107**	**31 December 2017***

NOTES TO THE GROUP FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES AND POLICIES

01
Basis of preparation

The consolidated financial statements of Bayerische Motoren Werke Aktiengesellschaft (BMW Group Financial Statements or Group Financial Statements) at 31 December 2018 have been drawn up in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Union (EU), and the supplementary requirements of § 315 a (1) of the German Commercial Code (HGB). The Group Financial Statements and Combined Management Report will be submitted to the operator of the electronic version of the German Federal Gazette and can be obtained via the Company Register website. Bayerische Motoren Werke Aktiengesellschaft, which has its seat at Petuelring 130, Munich, is registered in the Commercial Register of the District Court of Munich under the number HRB 42243.

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

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

In order to provide a better insight into the results of operations, financial position and net assets of the BMW Group, and going beyond the requirements of IFRS 8 (Operating Segments), the Group Financial Statements also include income statements and balance sheets for the Automotive, Motorcycles, Financial Services and Other Entities segments. The Group Cash Flow Statement is supplemented by the statements of cash flows for the Automotive and Financial Services segments. This supplementary information is unaudited. Inter-segment transactions relate primarily to internal sales of products, the provision of funds for Group companies and the related interest. These items are eliminated in the relevant "Eliminations" columns. A description of the nature of the business and the major operating activities of the BMW Group's segments is provided in → note 45 ("Explanatory notes to segment information").

→ see note 45

On 19 February 2019, the Board of Management granted approval for publication of the Group Financial Statements.

02
Group reporting entity and consolidation principles

The BMW Group Financial Statements include BMW AG and all material subsidiaries over which BMW AG – either directly or indirectly – exercises control. This also includes 58 structured entities, consisting of asset-backed securities entities and special-purpose funds.

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

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

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

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

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

In the case of a joint operation, the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Assets, liabilities, revenues and expenses of a joint operation are recognised proportionately in the Group Financial Statements on the basis of the BMW Group entity's rights and obligations (proportionate consolidation). Together with SGL Carbon SE, companies of the BMW Group were previously party to joint operations for the manufacture of carbon fibres and carbon fibre fabrics used in vehicle production. In November 2017, an agreement was signed with SGL Carbon SE concerning that entity's gradual acquisition of the BMW Group's 49 % shareholding. Accordingly, between the beginning of 2018 and the end of 2020 at the latest, SGL Carbon SE will become the sole owner of the hitherto joint operations. As a consequence of the transaction, the joint operations are no longer consolidated proportionately in the BMW Group Financial Statements and are no longer consolidated entities with effect from the financial year 2018. SGL Composites LLC continues to be held as an investment.

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

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

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

The following changes took place in the Group reporting entity in the financial year 2018:

	Germany	Foreign	Total
Included at 31 December 2017	21	187	**208**
Included for the first time in 2018	2	22	**24**
No longer included in 2018	–	15	**15**
Included at 31 December 2018	**23**	**194**	**217**

The BMW Group previously operated the joint ventures DriveNow GmbH & Co. KG and DriveNow Verwaltungs GmbH (DriveNow) together with Sixt SE, Pullach. DriveNow offers car-sharing services in major German cities and abroad. In January 2018, the BMW Group signed an agreement with Sixt SE for the complete acquisition of the shares in DriveNow.

Following approval by the antitrust authorities and with effect from 9 March 2018, the BMW Group acquired the remaining 50 % of the shares of the DriveNow companies together with their subsidiaries for a purchase price of €209 million. The purchase price was settled by the transfer of cash funds. The acquisition expands the BMW Group's strategic options for the further development of mobility services.

DriveNow GmbH & Co. KG and DriveNow Verwaltungs GmbH and their foreign subsidiaries DriveNow Austria GmbH, DriveNow UK Limited, DriveNow Sverige AB, DriveNow Belgium S.p.r.l. and DriveNow Italy S.r.l. have been fully consolidated since the first quarter of 2018.

DriveNow's equity prior to the acquisition stood at a negative amount of €2 million. As a result of the step acquisition, the shares already held by BMW were remeasured to their fair value, giving rise to a gain of €209 million, which is included in the result on investments. The fair value of shares already held amounts to €209 million.

The following table shows the purchase price allocation:

in € million	Fair values at acquisition date
IDENTIFIED ASSETS	
Intangible assets	111
Trademarks	22
Trade receivables	9
Other receivables	7
Inventories	1
Cash and cash equivalents	5
IDENTIFIED LIABILITIES	
Provisions	16
Trade payables	5
Deferred tax liabilities	34
Other liabilities	3
Total identified net assets	**97**
GOODWILL CALCULATION	
Consideration transferred (purchase price)	418
Total identified net assets	97
Goodwill	**321**

On 28 March 2018, the BMW Group signed an agreement with Daimler – subject to anti-trust approval – regarding the merger of certain business units that provide mobility services. DriveNow is part of this agreement and is therefore accounted for as a discontinued operation.

Assets and liabilities totalling €461 million and €62 million respectively are reported as discontinued operations at 31 December 2018. These items are disclosed separately in the Group Balance Sheet and allocated to the Automotive segment. The loss after tax from discontinued operations for the financial year 2018 amounted to €33 million. This amount is also disclosed separately in the Income Statements for the Group and Segments.

Following approval by the antitrust authorities and with effect from 31 January 2019, the BMW Group has now completed the agreement with the Daimler Group regarding the merger of certain business units that provide mobility services. Existing on-demand mobility offerings in the areas of car sharing, ride-hailing, parking, charging and multi-modality will be combined and strategically expanded. The BMW Group and the Daimler Group each hold equal shares in the joint ventures that comprise the mobility services referred to above.

As a result of the merger, the investments in the companies previously held by BMW will be remeasured to their fair value. This will give rise to a one-off positive effect on Group earnings in the region of between €100 million and €300 million. Due to the fact that the transaction was completed shortly after the BMW Group's year-end, the work on opening balance sheets at the merger date and the calculation of the final purchase prices have not yet been finalised. For this reason, the final purchase prices cannot yet be determined definitively. Similarly, purchase price allocations have not yet been finalised. The disclosures made should be regarded as provisional since no further information is available at present.

In December 2017, BMW AG, Audi AG, Ingolstadt, and Daimler AG, Stuttgart, signed agreements to sell shares in THERE Holding B.V. (THERE) to Robert Bosch Investment Nederland B.V., Boxtel, and to Continental Automotive Holding Netherlands B.V., Maastricht. Each of these two parties acquired 5.9 % of the shares, which were sold in equal parts by BMW AG, Audi AG and Daimler AG. The transactions were completed during the first quarter of 2018. The sale does not have a significant impact on the results of operations, financial position and net assets of the BMW Group.

The other changes to the Group reporting entity do not have a material impact on the results of operations, financial position and net assets of the Group.

03
Foreign currency translation and measurement

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

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

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

	Closing rate		Average rate	
1 Euro =	31.12.2018	31.12.2017	2018	2017
British Pound	0.89	0.89	0.88	0.88
Chinese Renminbi	7.87	7.80	7.81	7.63
Japanese Yen	125.77	134.93	130.36	126.68
Korean Won	1,271.07	1,281.41	1,298.78	1,276.47
Russian Rubel	79.72	69.04	74.07	65.91
South African Rand	16.45	14.81	15.62	15.04
US-Dollar	1.14	1.20	1.18	1.13

Argentina has fulfilled the definition of a hyperinflationary economy since 1 July 2018. For this reason, IAS 29 (Financial Reporting in Hyperinflationary Economies) is being applied for the BMW subsidiary in Argentina with effect from the financial year 2018. The price indices published by the Federación Argentina de Consejos Profesionales de Ciencias Económicas (FACPCE) are used to adjust non-monetary assets and liabilities and items in the income statement. The resulting effects are not significant for the BMW Group and for this reason prior year figures have not been adjusted.

04
Accounting policies, assumptions, judgements and estimations

Revenues from contracts with customers include in particular revenues from the sale of products and leased assets as well as from services. Revenue is recognised when control is transferred to the dealership or retail customer. This is usually the case at the point in time when the risks and rewards of ownership are transferred. In the case of services, control is transferred over time. Revenues are stated net of settlement discount, bonuses and rebates as well as interest and residual value subsidies. Variable consideration components, such as bonuses and interest subsidies, are measured at the expected value and, in the case of multi-component contracts, allocated to all performance obligations unless directly attributable to the sale of a vehicle. The consideration arising from these sales usually falls due for payment immediately or within 30 days. In exceptional cases, a longer payment may also be agreed.

Consideration for the rendering of services to customers usually falls due for payment at the beginning of a contract and is deferred as a contract liability under deferred income. The deferred amount is released over the service period and recognised as revenue in the income statement. Reflecting the fact that expenses are incurred over the period in which services are rendered, deferred income is released on the basis of the expected cost trend. If the sale of products includes a determinable amount for services (multiple-component contracts), the related revenues are deferred and recognised as income in the same way.

Revenues from the sale of vehicles, for which repurchase arrangements are in place, are not recognised immediately in full. Instead, revenues are either recognised proportionately or the difference between the sales and repurchase price recognised in instalments over the term of the contract depending on the nature of the agreement. This includes in particular revenues from vehicle sales, where it is expected that vehicles will return to the Group as leased vehicles in the subsequent period. In this case, assets and liabilities relating to rights of return are recognised.

Revenues also include lease rentals and interest income from financial services. Income from lease instalments arising on operating leases is recognised on a straight-line over the lease term. Interest income arising on finance leases as well as on retail customer and dealership financing is recognised using the effective interest method and reported as interest income on loan financing within revenues.

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

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

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

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

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

For the purpose of the impairment test, the carrying amount of an asset (or a cash-generating unit) is compared with the recoverable amount. The first step of the impairment test is to determine the value in use. If the value in use is lower than the carrying amount, the next step is to determine the fair value less costs to sell and compare the amount so determined with the asset's carrying amount. If the fair value is lower than the carrying amount, an impairment loss is recognised, reducing the carrying amount to the higher of the asset's value in use or fair value less 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, but no higher than the amortised acquisition or manufacturing 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 expectations.

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

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

in %	2018	2017
Automotive	12.0	12.0
Motorcycles	12.0	12.0
Financial Services	13.4	13.4

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

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. Financing costs are not included in acquisition or manufacturing cost unless they are directly attributable to the asset. The carrying amount of items of depreciable property, plant and equipment is written down according to scheduled usage-based depreciation – as a general rule on a straight-line basis – over the useful lives of the assets. Depreciation is recorded as an expense in the income statement.

The following useful lives are applied throughout the BMW Group:

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

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

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

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

Group products recognised by BMW Group entities as **leased products** under operating leases are measured at manufacturing cost, including any initial direct costs. All other leased products are measured at acquisition cost. All leased products are depreciated over the period of the lease using the straight-line method down to their expected residual value. Where the recoverable amount of a lease exceeds the asset's carrying amount, changes in residual value expectations are recognised by adjusting scheduled depreciation prospectively over the remaining term of the lease. If the recoverable amount is lower than the asset's carrying amount, an impairment loss is recognised for the shortfall. A test is carried out at each balance sheet date to determine whether an impairment loss recognised in prior periods no longer exists or has decreased. In such 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 and estimations are required regarding future residual values, since these represent a significant part of future cash inflows. Relevant factors to be considered include the trend in market prices and demand on the pre-owned vehicle market. The assumptions are based on internally available historical data and current market data as well as on forecasts of external institutions. Furthermore, assumptions are regularly validated by comparison with external data.

Investments accounted for using the equity method are measured – provided no impairment has been recognised – at cost of investment adjusted for the Group's share of earnings and changes in equity capital.

The Group's **financial assets** include in particular other investments, receivables from sales financing, marketable securities and investment funds, derivative financial assets, trade receivables and cash and cash equivalents. Non-derivative financial assets are accounted for on the basis of the settlement date.

Depending on the business model and the structure of contractual cash flows, financial assets are classified as measured at amortised cost, at fair value through comprehensive income or at fair value through profit or loss. The category "at fair value through comprehensive income" at the BMW Group comprises mainly marketable securities and investment funds used for liquidity management purposes. Selected marketable securities and investment fund, money market funds within cash and cash equivalents as well as convertible bonds are recognised at fair value through profit or loss, as their contractual cash flows do not solely represent payments of principal and interest.

The market values of financial instruments measured at fair value are determined on the basis of market information available at the balance sheet date, such as quoted prices or using appropriate measurement methods, in particular the discounted cash flow method.

Items reported under **other investments** within the scope of IFRS 9 are measured at fair value through profit or loss. Investments in subsidiaries, joint arrangements and associated companies that are not material to the BMW Group and which do not fall within the scope of IFRS 9 are also included in other investments.

Receivables from sales financing are measured at amortised cost using the effective interest rate method. This also includes receivables arising on vehicle finance leases.

With the exception of operating lease and trade receivables, the BMW Group applies the general approach described in IFRS 9 to determine **impairment** of financial assets. Under the general approach, loss allowances are measured on initial recognition on the basis of the expected 12-month credit loss (stage 1). If the credit loss risk at the end of the reporting period has increased significantly since initial recognition, the impairment allowance is measured on the basis of lifetime expected credit losses (stage 2 – general approach). The BMW Group applies the simplified approach described in IFRS 9 to operating lease and trade receivables, whereby the amount of the loss allowance is measured subsequent to the initial recognition of the receivable on the basis of lifetime expected credit losses (stage 2 – simplified approach). For the purposes of allocating an item to stage 2, it is irrelevant whether the credit risk of the asset concerned has increased significantly since initial recognition. In the case of credit-impaired assets which had not been credit-impaired at the time they were acquired or originated, an impairment allowance is recognised at an amount equal to lifetime expected credit losses (stage 3). This is the case regardless of whether the general or simplified approach is applied. As a general rule, the BMW Group assumes that a receivable is in default if it is more than 90 days overdue or if there are objective indications of insolvency. Credit-impaired assets are identified as such on the basis of this definition of default. In the case of stage 3 assets, interest income is calculated on the asset's carrying amount less any impairment loss. Loss allowances on receivables from sales financing are determined primarily on the basis of past experience with credit losses, current data on overdue receivables, rating classes and scoring information. Forward-looking information (for instance forecasts of key performance indicators) is also taken into account if, based on past experience, such indicators show a substantive correlation to actual credit losses.

The measurement of the change in default risk is based on a comparison of the default risk at the date of initial recognition and at the end of the reporting period. The default risk at the end of each reporting period is determined on the basis of credit checks, current key economic indicators and any overdue payments. Loss allowances on trade receivables are determined primarily on the basis of information relating to overdue amounts. In the case of marketable securities and investment funds, the BMW Group usually applies the option not to allocate financial assets with a low default risk to different stages. Accordingly, assets with an investment grade rating are always allocated to stage 1. The loss allowance on these assets is calculated using the input factors available on the market, such as ratings and default probabilities.

The BMW Group writes off financial assets when it has no reasonable expectation of recovering the amounts concerned. This may be the case, for instance, if the debtor is deemed not to have sufficient assets or other sources of income to service the debt.

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. All derivative financial instruments are measured at their fair value. Fair values are determined on the basis of valuation models. Observable market price, tenor and currency basis spreads are taken into account in the measurement of derivative financial instruments. Furthermore, the Group's own credit risk and that of counterparties is taken into account on the basis of credit default swap values for market contracts with matching terms.

The BMW Group applies the option to recognise the credit risks arising from the fair values of a group of derivative financial assets and liabilities on the basis of their total net amount. Portfolio-based valuation adjustments (credit valuation adjustments and debit valuation adjustments) to the individual derivative financial assets and financial liabilities are allocated using the relative fair value approach (net method).

Where hedge accounting is applied, changes in fair value are recognised in the income statement in sundry other financial result 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. Fair value hedges are mainly used to hedge interest rate risks relating to bonds, other financial liabilities and receivables from sales financing. Cross currency basis spreads are not designated as part of the hedging relationship in the case of interest rate hedges accounted for as fair value hedges. Accordingly, changes in the market value of such instruments are recorded as costs of hedging within accumulated other equity. Amounts recorded in equity are reclassified to the income statement over the term of the hedging relationship.

The time values of option transactions and the interest component of forward currency contracts are not designated as part of the hedging relationship in the case of currency hedges accounted for as cash flow hedges. Changes in the market value of such components are recorded as costs of hedging on a separate line within accumulated other equity. Amounts accumulated in other equity from currency hedges are reclassified to cost of sales when the related hedged item is recognised in profit or loss.

In the case of raw materials hedges that are accounted for as cash flow hedges, the hedging instruments are designated in full as part of the hedging relationship. As an exception to this general rule, the interest component of raw materials derivative instruments redesignated in conjunction with the first-time application of IFRS 9 was not designated as part of the hedging relationship. Changes in the fair value of this component are recorded as costs of hedging on a separate line within accumulated other equity. Amounts recorded in accumulated other equity are included in the carrying amount of inventories on initial recognition.

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

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

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

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

Cash and cash equivalents comprise mainly cash on hand and cash at bank with an original term of up to three months. With the exception of money market funds, cash and cash equivalents are measured at amortised cost.

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

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

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

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

Past service cost arises 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.

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

Other provisions are recognised when the BMW Group has a present legal or factual obligation towards a third party arising from past events, the settlement of which is probable, and when the amount of the obligation can be reliably estimated. Provisions with a remaining 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 manufacturer warranties prescribed by law, the BMW Group offers various further standard (assurance-type) warranties depending on the product and sales market. No provisions are recognised for additionally purchased service packages that are treated as separate performance obligations.

Provisions for statutory and non-statutory warranties are recognised at the point in time when control over the goods is transferred to the dealership or retail customer or when a new category of warranty is introduced. With respect to the level of the provision, estimations are made in particular based on past experience of damage claims and processes. Future potential repair costs and price increases per product and market are also taken into account. Provisions for warranties for all companies of the BMW Group are adjusted regularly to take account of new information, with the impact of any changes recognised in the income statement. Further information is provided in → note 33. Similar estimates are also made in conjunction with the measurement of expected reimbursement claims.

→ see note 33

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

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

Related party disclosures comprise information on associated companies, joint ventures and non-consolidated subsidiaries as well as individuals which have the ability to exercise a controlling or significant influence over the financial and operating policies of the BMW Group. This includes all persons in key positions of the Company, as well as close members of their families or intermediary entities. In the case of the BMW Group, this also applies to members of the Board of Management and the Supervisory Board. Details relating to these individuals and entities are provided in → note 40 and in the list of investments disclosed in → note 46.

→ see note 40 and 46

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

The share-based remuneration programme for Board of Management members and senior heads of department entitles BMW AG to elect whether to settle its commitments in cash or with shares of BMW AG common stock. Based on the decision to settle in cash, the share-based remuneration programmes for Board of Management members and senior heads of department are accounted for as cash-settled, share-based remuneration programmes. Further information on share-based remuneration programmes is provided in → note 41.

→ see not 41

05
Financial reporting rules

(a) Standards and Revised Standards significant for the BMW Group applied for the first time in the financial year 2018:

Standard / Interpretation		Date of issue by IASB	Date of mandatory application IASB	Date of mandatory application EU
IFRS 15	Revenue from Contracts with Customers	28.5.2014 11.9.2015 12.4.2016	1.1.2018	1.1.2018
IFRS 9	Financial Instruments	24.7.2014	1.1.2018	1.1.2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	8.12.2016	1.1.2018	1.1.2018

Changes due to the new accounting standards IFRS 15 and IFRS 9 are described in → notes 6 and 7.

→ see note 6 and 7

The Interpretation IFRIC 22 clarifies that when a non-monetary asset or liability denominated in a foreign currency is recognised, any payments or receipt of advance consideration should be based on the exchange rate prevailing at the date of payment. This situation is relevant in individual cases within the BMW Group.

(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 16	Leases	13.1.2016	1.1.2019	1.1.2019

The new Standard IFRS 16 (Leases) sets out a new approach to accounting for leases by **lessees.** While under IAS 17, the accounting treatment of a lease was determined on the basis of the transfer of risks and rewards incidental to ownership of the asset, in the future, each lease arrangement will, as a general rule, be accounted for by the lessee in a similar way to finance leases.

The BMW Group will use the grandfather clause available for existing leases and apply the available exemptions regarding the recognition of short-term leases and low-value leasing assets. The new Standard will be applied for the first time using the modified retrospective method. Intragroup leasing arrangements are not reflected in the internal management system or in internal reporting pursuant to IFRS 16 and therefore, in accordance with IFRS 8, do not result in any changes in the presentation of segment information. IFRS 16 has not been adopted prior to the mandatory application date.

The impact on the BMW Group's results of operations, financial position and net assets is currently being analysed as part of a Group-wide implementation project. A new IT system has been introduced to account for right-of-use assets and lease liabilities in the future. At the date of initial adoption, the balance sheet total is expected to increase by approximately €2.3 billion as a result of leases previously classified as operating leases. The reclassification results in a slight decline in the equity ratio. For a small number of contracts, the carrying amount of a right-of-use asset will be determined as if IFRS 16 had been applied from the inception of the lease. After offsetting deferred tax effects amounting to €13 million, this results in a reduction of approximately €32 million in Group revenue reserves at 1 January 2019. In subsequent periods, the BMW Group expects a slightly positive impact on profit before financial result and on cash inflows/outflows from operating activities and a slightly negative impact on cash inflows/outflows from financing activities.

In conjunction with the adoption of IFRS 16, the methods used to account for leases as a **lessor** have also been reviewed, resulting in a change of accounting policy as described below with effect from the financial year 2019. The change in accounting policy will be applied retrospectively, with comparative figures restated. In this context, it will be necessary to restate the opening balance sheet as at 1 January 2018 and figures for the financial year 2018.

As a result of the revised definition of initial direct costs contained in IFRS 16, the BMW Group will change the timing of income statement recognition for volume-dependent bonuses relating to Financial Services segment sales promotions. Rather than being spread over the term of the underlying lease, in future these costs will be recognised as an expense in full in the period in which the entitlement to the bonus arises. This results in a retrospective decrease in Group revenue reserves at 1 January 2018 of €101 million, after offset of deferred tax amounting to €44 million (31 December 2018: reduction of revenue reserves of €113 million, after offset of deferred tax amounting to €49 million).

The first-time application of IFRS 16 with effect from 1 January 2019, in conjunction with IFRS 15, will also require the BMW Group to account for finance leases concluded with retail customers via the Financial Services segment in accordance with the requirements applicable to manufacturers or dealers. For this reason, in future, revenues and cost of sales arising on the sale of vehicles which will subsequently be leased to customers under finance lease arrangements will be recognised at a later date. Revenues and cost of sales relating to vehicle sales will no longer be recognised at the time of sale, but rather at the commencement date of the lease. Revenues will be recognised on the basis of the leased asset's fair value, reduced by any unguaranteed residual value of vehicles that are expected to be returned to the Group. Cost of sales will also be reduced for unguaranteed residual values. In addition, initial direct costs incurred by the Financial Services segment will be recognised at Group level as cost of sales. Overall, this results in a retrospective decrease in Group revenue reserves as at 1 January 2018 of €15 million, after offset of deferred tax amounting to €4 million (31 December 2018: decrease of revenue reserves of €146 million, after offset of deferred tax amounting to €44 million). The adoption of these requirements will not have a material impact on the accounting in the Automotive and Financial Services segments.

The following table provides an overview of the expected effects on revenue reserves from the first-time application of IFRS 16 and the related change in the methods used to account for leases as a lessor:

in € million	Change	Impact on revenue reserves 1.1.2018	After-tax earnings impact 2018	Impact on revenue reserves 1.1.2019	Segment
Lessee	Measurement of right-of-use assets as if IFRS 16 had been applied from the inception of the contract	–	–	–32	Automotive
Lessor	First-time application of requirements applicable to finance leases of manufacturers or dealers	–15	–131	–146	Eliminations
Lessor	Changes in timing of income statement recognition of volume-dependent bonuses	–101	–12	–113	Financial Services
	Total impact	**–116**	**–143**	**–291**	

Other financial reporting standards issued by the IASB and not yet applied are not expected to have any significant impact on the BMW Group Financial Statements.

06
First-time application of IFRS 15

The new Standard **IFRS 15 (Revenue from Contracts with Customers)** assimilates the numerous 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.

In accordance with the transitional provisions contained in IFRS 15, the BMW Group has applied the new requirements for revenue from contracts with customers in the 2018 financial year using the full retrospective option. For this reason, the opening balance sheet at 1 January 2017, the figures reported for the previous year and the balance sheet at 31 December 2017 have been adjusted and made comparable. The exemption provision, allowing contracts fulfilled prior to 1 January 2017 not to be newly assessed in accordance with IFRS 15, has been applied. The impact of applying the exemption is classified as insignificant due to the fact that it only affects the BMW Group in a few individual cases.

Revenue recognition from contracts with customers is based on a five-stage model. 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, results in the earlier recognition of intragroup eliminations. The adoption of IFRS 15 results in a retrospective decrease in Group equity at 1 January 2017 amounting to €498 million, after offset of deferred tax amounting to €239 million (31 December 2017: reduction of revenue reserves by €553 million, after offset of deferred tax amounting to €192 million). The lower amount of deferred tax at 31 December 2017 results from the reduction of the US federal corporate tax rate with effect from 1 January 2018. The earlier date for consolidating intragroup transactions also results in the recognition of assets and liabilities relating to rights of return, causing other current assets and other current liabilities to increase. The impact on earnings in the financial year 2018 was not significant.

In accordance with IFRS 15, costs incurred for sales promotion measures in the Automotive segment, such as sales support or residual value subsidies, are required to be treated as variable components of consideration and therefore have the effect of reducing revenue. Variable consideration is measured on the basis of the amount of consideration to which the BMW Group expects to be entitled. Some of these costs were previously reported as cost of sales. The change in classification in the income statement results in a decrease in both revenues and cost of sales. For the financial year 2017, the retrospective reclassification recorded by the Automotive segment amounted to €2.9 billion, which did not, however, have a significant impact at Group level.

If the sale of products includes a determinable amount for services (multiple-component contracts), the related revenues are deferred and recognised as income over time. Variable consideration to be received for multi-component contracts is allocated across all service obligations unless it is directly attributable to the sale of the vehicle. As a result of the change in accounting policy for multi-component contracts with variable consideration components, changes in the allocation of transaction prices result for the Automotive segment in higher amounts being recognised for vehicle sales and a lower level of amounts deferred for service contracts. The shift in the timing of revenue recognition resulted in a retrospective increase in Group revenue reserves at 1 January 2017 of €89 million, after offset of deferred tax amounting to €38 million (31 December 2017: increase in Group revenue reserves of €112 million, after offset of deferred tax amounting to €42 million). The impact on earnings in the financial year 2018 was not significant.

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

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

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

The following tables show the impact on the balance sheets at 1 January 2017 and 31 December 2017, as well as on the income statement, statement of comprehensive income and cash flow statement for the financial year 2017:

BMW Group change in presentation of balance sheet at 1 January 2017

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in € million	As originally reported	Adjustment IFRS 15	Adjusted according to IFRS 15
ASSETS			
Total non-current assets	**121,671**	**222**	**121,893**
thereof investments accounted for using the equity method	2,546	2	2,548
thereof deferred tax	2,327	226	2,553
thereof other assets	1,595	– 6	1,589
Total current assets	**66,864**	**1,509**	**68,373**
thereof other assets	5,087	1,509	6,596
Total assets	**188,535**	**1,731**	**190,266**
EQUITY AND LIABILITIES			
Total equity	**47,363**	**– 409**	**46,954**
thereof equity attributable to shareholders of BMW AG	47,108	– 409	46,699
thereof revenue reserves	44,445	– 409	44,036
Total non-current provisions and liabilities	**73,183**	**– 100**	**73,083**
thereof other provisions	5,039	155	5,194
thereof deferred tax	2,795	26	2,821
thereof other liabilities	5,357	– 281	5,076
Total current provisions and liabilities	**67,989**	**2,240**	**70,229**
thereof other provisions	5,879	37	5,916
thereof other liabilities	10,198	2,203	12,401
Total equity and liabilities	**188,535**	**1,731**	**190,266**

BMW Group change in presentation of balance sheet at 31 December 2017

→ 70

in € million	As originally reported	Adjustment IFRS 15	Adjusted according to IFRS 15
ASSETS			
Total non-current assets	**121,901**	**63**	**121,964**
thereof investments accounted for using the equity method	2,767	2	2,769
thereof deferred tax	1,927	66	1,993
thereof other assets	1,635	–5	1,630
Total current assets	**71,582**	**1,960**	**73,542**
thereof other assets	5,525	1,960	7,485
Total assets	**193,483**	**2,023**	**195,506**
EQUITY AND LIABILITIES			
Total equity	**54,548**	**–441**	**54,107**
thereof equity attributable to shareholders of BMW AG	54,112	–441	53,671
thereof revenue reserves	51,256	–441	50,815
Total non-current provisions and liabilities	**69,888**	**–254**	**69,634**
thereof other provisions	5,437	195	5,632
thereof deferred tax	2,241	–84	2,157
thereof other liabilities	5,410	–365	5,045
Total current provisions and liabilities	**69,047**	**2,718**	**71,765**
thereof other provisions	6,313	54	6,367
thereof other liabilities	10,779	2,664	13,443
Total equity and liabilities	**193,483**	**2,023**	**195,506**

BMW Group change in presentation of income statement for the period 1 January to 31 December 2017

→ 71

in € million	As originally reported	Adjustment IFRS 15	Adjusted according to IFRS 15
Revenues	98,678	–396	98,282
Cost of sales	–78,744	415	–78,329
Gross profit	19,934	19	19,953
Profit / loss before financial result	9,880	19	9,899
Profit / loss before tax	10,655	20	10,675
Income taxes	–1,949	–51	–2,000
Net profit / loss	8,706	–31	8,675
Attributable to shareholders of BMW AG	8,620	–31	8,589
Basic earnings per share of common stock in €	13.12	–0.05	13.07
Basic earnings per share of preferred stock in €	13.14	–0.05	13.09
Diluted earnings per share of common stock in €	13.12	–0.05	13.07
Diluted earnings per share of preferred stock in €	13.14	–0.05	13.09

BMW Group change in presentation of statement of comprehensive income for the period 1 January to 31 December 2017

→ 72

in € million	As originally reported	Adjustment IFRS 15	Adjusted according to IFRS 15
Net profit	8,706	–31	8,675
Total comprehensive income	9,336	–31	9,305
Total comprehensive income attributable to shareholders of BMW AG	9,250	–31	9,219

BMW Group change in presentation of cash flow statement for the period 1 January to 31 December 2017

→ 73

in € million	As originally reported	Adjustment IFRS 15	Adjusted according to IFRS 15
Net profit	8,706	–31	8,675
Change in provisions	696	56	752
Change in deferred taxes	–609	50	–559
Other	–2,884	–75	–2,959
Cash inflow/outflow from operating activities	**5,909**	**–**	**5,909**

The effects of the first-time application of IFRS 15 on equity are shown in the Statement of Changes in Equity.

07
First-time application of IFRS 9

The new requirements contained in IFRS 9 (Financial Instruments) relating to the classification and measurement of financial instruments were applied retrospectively by the BMW Group in the financial year 2018. The available exemption not to adjust comparative information for previous periods was applied. Accordingly, only the opening balance sheet at 1 January 2018 was adjusted. Apart from a small number of exceptions, the requirements for hedge accounting were applied prospectively in the financial year 2018. The one exception to this is hedge accounting for the fair value of a portfolio against interest rate risk, for which the requirements of IAS 39 continue to be applied. Information on accounting in accordance with IFRS 9 is provided in the Accounting Policies section in → note 4.

→ see note 4

Prior to the adoption of IFRS 9, financial instruments were accounted for in accordance with IAS 39. In accordance with those requirements, the Group's financial assets were allocated to either cash funds or to the categories "loans and receivables", "available-for-sale", "held for trading" or "fair value option". Financial liabilities were allocated to the categories "financial liabilities at fair value through profit or loss" or "other financial liabilities". On initial recognition, financial instruments accounted for in accordance with IAS 39 were measured at fair value, whereby transaction costs were taken into account except in the case of financial instruments allocated to the category "at fair value through profit or loss". Subsequent to initial recognition, available-for-sale financial assets, held-for-trading financial instruments and financial assets for which the fair value option was applied were measured at their fair value. Financial assets that were classified as loans and receivables and financial liabilities (with the exception of derivative financial instruments) were subsequently measured at amortised cost using the effective interest method.

The IAS 39 impairment model was based on a regular determination of whether objective evidence indicated that impairment had already occurred. For the purposes of assessing possible impairment, all available information, such as market conditions and prices as well as the length of time and the scale of the decline in value were taken into account.

The rules for hedge accounting contained in IAS 39 required an effectiveness test to be performed for corresponding hedging relationships, based on fixed ranges, in order to demonstrate the retrospective effectiveness of the hedge. It was not permitted under IAS 39 to designate all risk components separately.

The following table shows the reconciliation of the categories and carrying amounts of financial instruments as well as the impact on Group equity of the first-time application of IFRS 9.

BMW Group reclassification of financial instruments at 1 January 2018

→ 74

	Category		Carrying amount	
in € million	**IAS 39**	**IFRS 9**	**IAS 39**	**IFRS 9**
FINANCIAL ASSETS				
Other investments	Available-for-sale	Fair value through profit or loss	366	395
	Fair value option		29	
Receivables from sales financing	Loans and receivables	At amortised cost	80,434	80,562
Financial assets				
Derivative instruments				
Cash flow hedges	Hedge accounting	Hedge accounting	2,187	2,187
Fair value hedges	Hedge accounting	Hedge accounting	814	814
Other derivative instruments	Held for trading	Fair value through profit or loss	1,340	1,340
Marketable securities and investment funds	Available-for-sale	Fair value through profit or loss		790
		Fair value directly through equity	5,447	3,919
		At amortised cost		730
Loans to third parties	Loans and receivables	At amortised cost	112	112
	Fair value option	Fair value through profit or loss	2	2
Credit card receivables	Loans and receivables	At amortised cost	248	240
Other	Loans and receivables	At amortised cost	184	184
Cash and cash equivalents	Cash	At amortised cost	9,039	8,407
		Fair value through profit or loss		632
Trade receivables	Loans and receivables	At amortised cost	2,667	2,663
Other assets				
Receivables from subsidiaries	Loans and receivables	At amortised cost	276	276
Receivables from companies in which an investment is held	Loans and receivables	At amortised cost	1,334	1,334
Collateral assets	Cash	At amortised cost	219	219
	Available-for-sale	Fair value directly through equity	97	97
Other assets	Loans and receivables	At amortised cost	1,108	1,108
Total financial assets			**105,903**	**106,011**
FINANCIAL LIABILITIES				
Financial liabilities	Other liabilities	At amortised cost	94,648	94,618
Trade payables	Other liabilities	At amortised cost	9,731	9,731
Other liabilities	Other liabilities	At amortised cost	6,822	6,822
Total financial liabilities			**111,201**	**111,171**
Total impact on equity				

Differences through		Equity effects				
new measurement category	change of evaluation measurement	Deferred taxes	Accumulated other equity	Revenue reserves	Note	
						FINANCIAL ASSETS
–	–	–	–76	76	a)	Other investments
–	–	–	–	–	b)	
–	128	–35	–	93	c)	Receivables from sales financing
						Financial assets
						Derivative instruments
–	–	–	–	–		Cash flow hedges
–	–	–	5	–5	d)	Fair value hedges
–	–	–	–	–		Other derivative instruments
–	–	–	–2	2	e)	Marketable securities and investment funds
–	–	–	2	–2	f)	
–8	–	2	–6	–	g)	
–	–	–	–	–		Loans to third parties
–	–	–	–	–	b)	
–	–8	2	–	–6	c)	Credit card receivables
–	–	–	–	–		Other
–	–	–	–	–		Cash and cash equivalents
–	–	–	–	–	h)	
–	–4	1	–	–3	c)	Trade receivables
						Other assets
–	–	–	–	–		Receivables from subsidiaries
–	–	–	–	–		Receivables from companies in which an investment is held
–	–	–	–	–		Collateral assets
–	–	–	–	–		
–	–	–	–	–		Other assets
–8	**116**	**–30**	**–77**	**155**		**Total financial assets**
						FINANCIAL LIABILITIES
–	–30	7	–	23	d)	Financial liabilities
–	–	–	–	–		Trade payables
–	–	–	–	–		Other liabilities
–	**–30**	**7**	**–**	**23**		**Total financial liabilities**
			–77	**178**		**Total impact on equity**

The impact of the various changes arising in conjunction with the first-time application of IFRS 9 is explained below:

(a) Financial investments in equity instruments were reclassified to the category "at fair value through profit or loss". There was no difference between carrying amounts pursuant to IAS 39 and fair values at 1 January 2018.

(b) Selected non-current marketable securities and loans to third parties, for which the fair value option available under IAS 39 was previously used, were reclassified to the category "at fair value through profit or loss" because their contractual cash flows do not solely represent payments of principal and interest on the principal amount outstanding. There was no difference between carrying amounts pursuant to IAS 39 and fair values at 1 January 2018.

(c) Adjustment of impairment allowances in accordance with the new requirements of IFRS 9.

(d) The new accounting requirements for interest rate hedges reduce the carrying amount of financial liabilities designated as hedged items within a hedge relationship by €30 million and increase accumulated other equity by €5 million. At the date of adoption of the new requirements, revenue reserves increased by €18 million, after offset of deferred tax.

(e) Specific investments in debt instruments were reclassified to the category "at fair value through profit or loss" because their contractual cash flows do not solely represent payments of principal and interest on the principal amount outstanding.

(f) Adjustment of the amount and presentation of impairment allowances in accordance with the new requirements of IFRS 9.

(g) Specific listed bonds were reclassified to the category "at amortised cost". At the date of first-time application of IFRS 9, the BMW Group uses a business model for these bonds, the objective of which is to collect contractual cash flows that solely represent payments of principal and interest on the principal amount outstanding. The market value of these instruments at 31 December 2018 amounted to €680 million (31 December 2017: €738 million). If the reclassification to other comprehensive income had not taken place in the period under report, a fair value loss of €2 million would have been recognised through other comprehensive income.

(h) Some of the money market funds with a fixed net asset value were reclassified from cash to the category "at fair value through profit or loss". They do not meet the criteria for measurement at amortised cost in accordance with IFRS 9 because their contractual cash flows do not solely represent payments of principal and interest on the principal amount outstanding. There was no difference between carrying amounts pursuant to IAS 39 and fair values at 1 January 2018.

The following table shows the adjustments made to impairment allowances in the Group Balance Sheet as a result of the first-time application of IFRS 9.

BMW Group reconciliation of impairment allowances

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in € million	Impairment allowances 31.12.2017 IAS 39	Adjustment to impairment allowance due to IFRS 9	Impairment allowances 1.1.2018 IFRS 9
Receivables from sales financing	–1,147	128	–1,019
Credit card receivables	–10	–8	–18
Trade receivables	–56	–4	–60
Marketable securities and investment funds	–	–2	–2
Total	**–1,213**	**114**	**–1,099**

NOTES TO THE INCOME STATEMENT

Interest income on loan financing includes interest calculated on the basis of the effective interest method totalling €3,623 million. This interest income is not reported separately in the income statement as it is not significant compared to total Group revenues.

08
Revenues

Revenues by activity comprise the following:

in € million	2018	2017*
Sales of products and related goods	68,194	69,417
Sales of products previously leased to customers	10,467	10,208
Income from lease instalments	9,691	9,816
Interest income on loan financing	3,744	3,720
Revenues from service contracts, telematics and roadside assistance	1,640	1,737
Other income	3,744	3,384
Revenues	**97,480**	**98,282**

* Prior year figures adjusted due to first-time application of IFRS 15, see note 6.

Revenues recognised from contracts with customers in accordance with IFRS 15 totalled €82,024 million (2017: €82,894 million).

An analysis of revenues by segment is shown in the segment information provided in → note 45. Revenues from the sale of products and related goods are generated primarily in the Automotive segment and, to a lesser extent, in the Motorcycles segment. Revenues from sales of products previously leased to customers, income from lease instalments and interest income on loan financing are allocated to the Financial Services segment. Other income relates mainly to the Automotive segment and the Financial Services segment.

→ see note 45

The major part of revenues expected to arise from the Group's order book at the end of the reporting period relates to the sale of vehicles. Revenues resulting from those sales will be recognised in the short term. The services included in vehicle sale contracts that will be recognised as revenues in subsequent years represent only an insignificant portion of expected revenues. Accordingly, use has been made of the practical expedient contained in IFRS 15.121, permitting an entity not to disclose information on a quantitative basis due to the short-term nature of items and the lack of informational value of such disclosures.

09
Cost of sales

Cost of sales comprises:

in € million	2018	2017*
Manufacturing costs	43,262	43,442
Cost of sales relating to financial services business	23,383	22,932
thereof: Interest expense relating to financial services business	2,051	1,801
Research and development expenses	5,320	4,920
Expenses for service contracts, telematics and roadside assistance	2,234	2,081
Warranty expenditure	1,729	2,097
Other cost of sales	2,996	2,857
Cost of sales	**78,924**	**78,329**

* Prior year figures adjusted due to first-time application of IFRS 15, see note 6.

Cost of sales is reduced by public-sector subsidies in the form of reduced taxes on assets and reduced consumption-based taxes amounting to €88 million (2017: €61 million).

Expenses for impairment losses for receivables from sales financing recognised in the income statement for the financial year 2018 amounted to €142 million. Because the impairments are of minor importance compared to the total Group cost of sales, a separate disclosure has not been provided in the income statement.

Research and development expenditure was as follows:

in € million	2018	2017
Research and development expenses	5,320	4,920
Amortisation	–1,414	–1,236
New expenditure for capitalised development costs	2,984	2,424
Total research and development expenditure	**6,890**	**6,108**

10
Selling and administrative expenses

Selling and administrative expenses relate mainly to expenses for marketing, personnel and IT.

11
Other operating income and expenses

Other operating income and expenses comprise the following items:

in € million	2018	2017
Exchange gains	185	282
Income from the reversal of provisions	216	138
Income from the reversal of impairment losses and write-downs	15	8
Gains on the disposal of assets	96	80
Sundry operating income	262	212
Other operating income	**774**	**720**
Exchange losses	–135	–246
Expense for additions to provisions	–193	–580
Expense for impairment losses and write-downs	–48	–29
Sundry operating expenses	–275	–359
Other operating expenses	**–651**	**–1,214**
Other operating income and expenses	**123**	**–494**

Income from the reversal of and expenses for the recognition of impairment allowances and write-downs relate mainly to impairment allowances on receivables.

Impairment losses recognised on receivables from contracts with customers amounted to €47 million (2017: €29 million).

The expense for additions to provisions includes litigation and other legal risks. Income from the reversal of provisions includes legal disputes that have been concluded.

12
Net interest result

in € million	2018	2017
Other interest and similar income	397	201
thereof from subsidiaries:	8	9
Interest and similar income	**397**	**201**
Expense relating to interest impact on other long-term provisions	–91	–66
Net interest expense on the net defined benefit liability for pension plans	–62	–81
Other interest and similar expenses	–233	–265
thereof subsidiaries:	–2	–2
Interest and similar expenses	**–386**	**–412**
Net interest result	**11**	**–211**

13
Other financial result

in € million	2018	2017
Income from investments in subsidiaries and participations	278	14
thereof from subsidiaries:	9	13
Expenses from investments in subsidiaries and participations	–122	–
Result on investments	**156**	**14**
Income (+) and expenses (–) from financial instruments	–105	234
Sundry other financial result	**–105**	**234**
Other financial result	**51**	**248**

14
Income taxes

Taxes on income of the BMW Group comprise the following:

in € million	2018	2017*
Current tax expense	2,220	2,558
Deferred tax expense (+) / deferred tax income (–)	355	– 558
thereof relating to temporary differences	641	– 502
thereof relating to tax loss carryforwards and tax credits	– 286	– 56
Income taxes	**2,575**	**2,000**

* Prior year figures adjusted due to first-time application of IFRS 15, see note 6.

Current tax expense includes tax income of €16 million (2017: €104 million) relating to prior periods.

The tax expense was reduced by €41 million (2017: €91 million) as a result of utilising tax loss carryforwards, for which deferred assets had not previously been recognised and in conjunction with previously unrecognised tax credits and temporary differences.

The tax expense resulting from the change in the valuation allowance on deferred tax assets relating to tax losses available for carryforward and temporary differences amounted to €24 million (2017: €67 million).

Deferred taxes are determined on the basis of tax rates which are currently applicable or expected to apply in the relevant national jurisdictions when the amounts are recovered. After taking account of an average municipal trade tax multiplier rate (Hebesatz) of 428.0 % (2017: 425.0 %), the underlying income tax rate for Germany was as follows:

in %	2018	2017
Corporate tax rate	15.0	15.0
Solidarity surcharge	5.5	5.5
Corporate tax rate including solidarity surcharge	15.8	15.8
Municipal trade tax rate	15.0	14.9
German income tax rate	**30.8**	**30.7**

Deferred taxes for non-German entities are calculated on the basis of the relevant country-specific tax rates. These range in the financial year 2018 between 9.0 % and 45.0 % (2017: between 9.0 % and 45.0 %).

Changes in tax rates resulted in a deferred tax expense of €90 million (2017: deferred tax income of €796 million). The principal reason for this development in the previous year was the reduction in the US federal corporate income tax rate from 35.0 % to 21.0 % with effect from 1 January 2018.

The difference between the expected tax expense based on the underlying tax rate for Germany and actual tax expense is explained in the following **reconciliation**:

in € million	2018	2017*
Profit before tax	9,815	10,675
Tax rate applicable in Germany	30.8 %	30.7 %
Expected tax expense	**3,023**	**3,277**
Variances due to different tax rates	– 359	–1,026
Tax increases (+) / tax reductions (–) as a result of non-deductible expenses and tax-exempt income	141	58
Tax expense (+) / benefits (–) for prior years	–16	–104
Other variances	– 214	– 205
Actual tax expense	**2,575**	**2,000**
Effective tax rate	26.2 %	18.7 %

* Prior year figures adjusted due to first-time application of IFRS 15, see note 6.

In the previous year, variances due to different tax rates were influenced in particular by the reduction in the US federal corporate income tax rate, which was required to be taken into account in the measurement of deferred taxes as of 31 December 2017. This resulted in a reduction in the tax expense of €977 million.

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.

Other variances comprise various reconciling items, including the Group's share of earnings of companies accounted for using the equity method.

The allocation of deferred tax assets and liabilities to **balance sheet line items** at 31 December is shown in the following table:

in € million	Deferred tax assets		Deferred tax liabilities	
	2018	2017*	2018	2017*
Intangible assets	22	18	3,077	2,593
Property, plant and equipment	171	88	359	195
Leased products	487	473	5,210	4,655
Other investments	3	3	20	10
Sundry other assets	1,185	613	3,254	3,629
Tax loss carryforwards and capital losses	891	608	–	–
Provisions	5,323	5,192	29	78
Liabilities	2,570	2,415	620	428
Eliminations	3,180	3,222	981	706
	13,832	12,632	13,550	12,294
Valuation allowances on tax loss carryforwards and capital losses	–498	–502	–	–
Netting	–11,744	–10,137	–11,744	–10,137
Deferred taxes	1,590	1,993	1,806	2,157
Net	–	–	216	164

* Prior year figures adjusted due to first-time application of IFRS 15, see note 6.

Tax **loss carryforwards** – for the most part usable without restriction – amounted to €2,045 million (2017: €928 million). This includes an amount of €542 million (2017: €548 million), for which a valuation allowance of €185 million (2017: €186 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 2018 amounting to €234 million (2017: €131 million). Deferred tax assets are recognised on the basis of management's assessment that there is material evidence that the entities will generate future taxable profits, against which deductible temporary differences can be offset.

Capital losses available for carryforward in the United Kingdom which do not relate to ongoing operations decreased to €1,841 million (2017: €1,854 million) due to currency factors. As in previous years, deferred tax assets recognised on these tax losses – amounting to €313 million at the end of the reporting period (2017: €315 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 €1,457 million (2017: €1,000 million).

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

in € million	2018[1]	2017[2]
Deferred taxes at 1 January (assets (–) / liabilities (+))	201	268
Deferred tax expense (+) / income (–) recognised through income statement	355	–558
Change in deferred taxes recognised directly in equity	–457	815
thereof relating to fair value gains and losses on financial instruments and marketable securities recognised directly in equity	–677	591
thereof relating to the remeasurements of net liabilities for defined benefit pension plans	222	181
thereof from currency translation	–2	43
Exchange rate impact and other changes	117	–361
Deferred taxes at 31 December (assets (–) / liabilities (+))	**216**	**164**

[1] The figures at 1.1.2018 adjusted due to first-time application of IFRS 9, see note 7.
[2] Prior year figures adjusted due to first-time application of IFRS 15, see note 6.

Deferred taxes are not recognised on retained profits of €48.2 billion (2017: €42.8 billion) of foreign subsidiaries, as it is intended to invest these profits to maintain and expand the business volume of the relevant companies. No computation was made of the potential impact of income taxes on the grounds of proportionality.

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

15
Earnings per share

		2018	2017[1]
Net profit attributable to the shareholders of BMW AG	€ million	7,117.4	8,589.0
Profit attributable to common stock	€ million	6,514.5	7,867.6
Profit attributable to preferred stock	€ million	602.9	721.4
Average number of common stock shares in circulation	number	601,995,196	601,995,196
Average number of preferred stock shares in circulation	number	55,605,380	55,114,290
Basic/diluted earnings per share of common stock	€	10.82	13.07
Basic/diluted earnings per share of preferred stock	€	10.84	13.09
Dividend per share of common stock	€	3.50[2]	4.00
Dividend per share of preferred stock	€	3.52[2]	4.02

[1] Prior year figures adjusted due to first-time application of IFRS 15, see note 6.
[2] 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.

Basic/diluted earnings per share from continuing operations amounted to €10.87 per share of common stock and €10.89 per share of preferred stock.

16
Personnel expenses

The income statement includes personnel expenses as follows:

in € million	2018	2017*
Wages and salaries	10,249	9,938
Pension and welfare expenses	1,387	1,295
Social insurance expenses	843	819
Personnel expenses	**12,479**	**12,052**

* Distribution to wages and salaries and pension and welfare expenses adjusted in previous year figures.

Personnel expenses include €45 million (2017: €54 million) of costs relating to workforce measures. The total pension expense for defined contribution plans of the BMW Group amounted to €122 million (2017: €105 million). Employer contributions paid to state pension insurance schemes totalled €645 million (2017: €630 million).

The average number of employees during the year was:

	2018	2017
Employees	123,337	119,611
thereof at proportionately-consolidated entities	–	182
Apprentices and students gaining work experience	8,228	7,913
thereof at proportionately-consolidated entities	–	1
Average number of employees	**131,565**	**127,524**

The number of employees at the end of the reporting period is disclosed in the Combined Management Report.

17
Fee expense for the Group auditor

The fee expense pursuant to § 314 (1) no. 9 HGB recognised in the financial year 2018 for the Group auditor and its network of audit firms amounted to €24 million (2017: €25 million) and consists of the following:

in € million	2018	2017
Audit of financial statements	**17**	**17**
thereof KPMG AG Wirtschafts-prüfungsgesellschaft, Berlin	5	5
Other attestation services	**3**	**4**
thereof KPMG AG Wirtschafts-prüfungsgesellschaft, Berlin	2	3
Tax advisory services	**2**	**2**
thereof KPMG AG Wirtschafts-prüfungsgesellschaft, Berlin	–	–
Other services	**2**	**2**
thereof KPMG AG Wirtschafts-prüfungsgesellschaft, Berlin	–	1
Fee expense	**24**	**25**
thereof KPMG AG Wirtschafts-prüfungsgesellschaft, Berlin	7	9

Services provided by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, during the financial year 2018 on behalf of BMW AG and subsidiaries under its control relate to the audit of the financial statements, other attestation services, tax advisory services and other services.

The audit of financial statements comprises mainly the audit of the Group financial statements and Company financial statements of BMW AG and its subsidiaries, and, in accordance with current requirements, all work related thereto, including the review of the Group Interim Financial Statements.

Other attestation services include mainly project-related audits, comfort letters as well as legally prescribed, contractually agreed or voluntarily commissioned attestation work.

Tax advisory services were performed particularly in conjunction with tax compliance.

Other services include mainly IT consulting, benchmark analyses as well as advisory work relating to production processes.

18
Government grants and government assistance

Income from asset-related and performance-related grants, amounting to €29 million (2017: €30 million) and €83 million (2017: €112 million) respectively, was recognised in the income statement in 2018.

These amounts relate mainly to public sector grants aimed at the promotion of regional structures as well as to subsidies received for plant expansions.

NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

19
Disclosures relating to the statement of comprehensive income

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

in € million	2018	2017
Remeasurement of the net defined benefit liability for pension plans	935	693
Deferred taxes	–217	–218
Items not expected to be reclassified to the income statement in the future	**718**	**475**
Marketable securities (at fair value through other comprehensive income)	**–30**	**39**
thereof gains / losses arising in the period under report	–1	83
thereof reclassifications to the income statement	–29	–44
Financial instruments used for hedging purposes	**–1,381**	**1,914**
thereof gains / losses arising in the period under report	–333	2,017
thereof reclassifications to the income statement	–1,048	–103
Costs of hedging	**–620**	**–**
thereof gains / losses arising in the period under report	–973	–
thereof reclassifications to the income statement	353	–
Other comprehensive income from equity accounted investments	**–157**	**–30**
Deferred taxes	**674**	**–597**
Currency translation foreign operations	**192**	**–1,171**
Items that can be reclassified to the income statement in the future	**–1,322**	**155**
Other comprehensive income for the period after tax	**–604**	**630**

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

	2018			2017		
in € million	Before tax	Deferred taxes	After tax	Before tax	Deferred taxes	After tax
Remeasurement of the net defined benefit liability for pension plans	935	–217	718	693	–218	475
Marketable securities (at fair value through other comprehensive income)	–30	18	–12	39	2	41
Financial instruments used for hedging purposes	–1,381	436	–945	1,914	–568	1,346
Costs of hedging	–620	187	–433	–	–	–
Other comprehensive income from equity accounted investments	–157	33	–124	–30	–31	–61
Currency translation foreign operations	192	–	192	–1,171	–	–1,171
Other comprehensive income	**–1,061**	**457**	**–604**	**1,445**	**–815**	**630**

Other comprehensive income arising from equity accounted investments is reported in the Statement of Changes in Equity within currency translation differences with an amount of € –24 million (2017: € –152 million), within financial instruments used for hedging purposes with an amount of €39 million (2017: €91 million) and within costs of hedging with an amount of € –139 million (2017: € – million).

NOTES TO THE BALANCE SHEET

20
Analysis of changes in Group tangible, intangible and investment assets 2018

	Acquisition and manufacturing cost					
in € million	1.1.2018	Translation differences	Additions	Reclassi-fications	Disposals	31.12.2018
Development costs	12,965	–	2,984	–	959	**14,990**
Goodwill	385	–	–	–	–	**385**
Other intangible assets	1,750	12	161	–	125	**1,798**
Intangible assets	**15,100**	**12**	**3,145**	**–**	**1,084**	**17,173**
Land, titles to land, buildings, including buildings on third party land	11,088	75	277	372	82	**11,730**
Plant and machinery	36,833	201	2,888	1,119	2,852	**38,189**
Other facilities, factory and office equipment	2,799	20	294	60	183	**2,990**
Advance payments made and construction in progress	2,525	18	1,409	–1,551	6	**2,395**
Property, plant and equipment	**53,245**	**314**	**4,868**	**–**	**3,123**	**55,304**
Leased products	**44,143**	**735**	**18,421**	**–**	**16,956**	**46,343**
Investments accounted for using the equity method	**2,769**	**–**	**547**	**–**	**692**	**2,624**
Investments in non-consolidated subsidiaries	438	3	8	–	5	**444**
Participations	820	9	115	–	6	**938**
Non-current marketable securities	28	–	–	–	–	**28**
Other investments	**1,286**	**12**	**123**	**–**	**11**	**1,410**

[1] Including assets under construction of €2,017 million.
[2] Including €74 million recognised through the income statement

Analysis of changes in Group tangible, intangible and investment assets 2017

	Acquisition and manufacturing cost					
in € million	1.1.2017[1]	Translation differences	Additions	Reclassi-fications	Disposals	31.12.2017
Development costs	11,484	–	2,424	–	943	**12,965**
Goodwill	386	–1	–	–	–	**385**
Other intangible assets	1,530	–37	286	–	29	**1,750**
Intangible assets	**13,400**	**–38**	**2,710**	**–**	**972**	**15,100**
Land, titles to land, buildings, including buildings on third party land	10,940	–299	271	228	52	**11,088**
Plant and machinery	35,924	–681	2,123	1,027	1,560	**36,833**
Other facilities, factory and office equipment	2,674	–91	314	70	168	**2,799**
Advance payments made and construction in progress	2,255	–97	1,694	–1,325	2	**2,525**
Property, plant and equipment	**51,793**	**–1,168**	**4,402**	**–**	**1,782**	**53,245**
Leased products	**45,595**	**–3,047**	**18,281**	**–**	**16,686**	**44,143**
Investments accounted for using the equity method	**2,548**	**–**	**639**	**–**	**418**	**2,769**
Investments in non-consolidated subsidiaries	501	–8	74	–	129	**438**
Participations	710	–7	118	–	1	**820**
Non-current marketable securities	28	–	–	–	–	**28**
Other investments	**1,239**	**–15**	**192**	**–**	**130**	**1,286**

[1] Including first-time consolidation and changes in accordance with IFRS 15.
[2] Including assets under construction of €2,010 million.
[3] Including €3 million recognised through the income statement and €76 million directly in equity.

	Depreciation and amortisation							Carrying amount	
	1.1.2018	Translation differences	Current year	Reclassi-fications	Value adjustments[2]	Disposals	31.12.2018	31.12.2018	31.12.2017
Development costs	4,556	–	1,414	–	–	956	**5,014**	**9,976**	8,409
Goodwill	5	–	–	–	–	–	**5**	**380**	380
Other intangible assets	1,075	5	195	–	–	92	**1,183**	**615**	675
Intangible assets	**5,636**	**5**	**1,609**	**–**	**–**	**1,048**	**6,202**	**10,971**	**9,464**
Land, titles to land, buildings, including buildings on third party land	4,966	29	348	–	–	33	**5,310**	**6,420**	6,122
Plant and machinery	27,838	154	2,886	–	–	2,767	**28,111**	**10,078**	8,995
Other facilities, factory and office equipment	1,970	17	270	–	–	175	**2,082**	**908**	829
Advance payments made and construction in progress	–	–	–	–	–	–	**–**	**2,395[1]**	2,525
Property, plant and equipment	**34,774**	**200**	**3,504**	**–**	**–**	**2,975**	**35,503**	**19,801**	**18,471**
Leased products	**7,886**	**113**	**3,328**	**–**	**–**	**3,556**	**7,771**	**38,572**	**36,257**
Investments accounted for using the equity method	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,624**	**2,769**
Investments in non-consolidated subsidiaries	189	2	–	–	–	–	**191**	**253**	249
Participations	408	–1	–	–	73	–	**480**	**458**	412
Non-current marketable securities	–1	–	–	–	1	–	**–**	**28**	29
Other investments	**596**	**1**	**–**	**–**	**74**	**–**	**671**	**739**	**690**

	Depreciation and amortisation							Carrying amount	
	1.1.2017[1]	Translation differences	Current year	Reclassi-fications	Value adjustments[3]	Disposals	31.12.2017	31.12.2017	31.12.2016
Development costs	4,263	–	1,236	–	–	943	**4,556**	**8,409**	7,221
Goodwill	5	–	–	–	–	–	**5**	**380**	364
Other intangible assets	928	–16	191	–	–	28	**1,075**	**675**	572
Intangible assets	**5,196**	**–16**	**1,427**	**–**	**–**	**971**	**5,636**	**9,464**	**8,157**
Land, titles to land, buildings, including buildings on third party land	4,786	–115	337	–5	–	37	**4,966**	**6,122**	6,154
Plant and machinery	27,092	–531	2,820	5	–	1,548	**27,838**	**8,995**	8,832
Other facilities, factory and office equipment	1,952	–62	238	–	–	158	**1,970**	**829**	721
Advance payments made and construction in progress	–	–	–	–	–	–	**–**	**2,525[2]**	2,253
Property, plant and equipment	**33,830**	**–708**	**3,395**	**–**	**–**	**1,743**	**34,774**	**18,471**	**17,960**
Leased products	**7,801**	**–379**	**3,633**	**–**	**–**	**3,169**	**7,886**	**36,257**	**37,789**
Investments accounted for using the equity method	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,769**	**2,546**
Investments in non-consolidated subsidiaries	192	–3	–	–	–	–	**189**	**249**	308
Participations	484	–	–	–	–76	–	**408**	**412**	226
Non-current marketable securities	2	–	–	–	–3	–	**–1**	**29**	26
Other investments	**678**	**–3**	**–**	**–**	**–79**	**–**	**596**	**690**	**560**

21
Intangible assets

Intangible assets mainly comprise capitalised development costs on vehicle, module and architecture projects as well as subsidies for tool costs, licences, purchased development projects, software and purchased customer lists.

Other intangible assets include a brand-name right amounting to €41 million (2017: €41 million) which is allocated to the Automotive segment and is not subject to scheduled amortisation since its useful life is deemed to be indefinite. Intangible assets also include goodwill of €33 million (2017: €33 million) allocated to the Automotive cash-generating unit (CGU) and goodwill of €347 million (2017: €347 million) allocated to the Financial Services CGU.

Intangible assets amounting to €41 million (2017: €41 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 2018.

As in the previous year, no financing costs were recognised as a cost component of intangible assets in 2018.

22
Property, plant and equipment

No impairment losses were recognised in 2018, as in the previous year.

As in the previous year, no financing costs were recognised as a cost component of property, plant and equipment in 2018.

Property, plant and equipment include a total of €89 million (2017: €94 million) relating to land and buildings, for which economic ownership is attributable to the BMW Group (finance leases). The principal leases are held by BMW AG, have a carrying amount of €70 million (2017: €78 million) and run for periods up to 2030 at the latest. The leases 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	31.12.2018	31.12.2017
Total of future minimum lease payments		
due within one year	18	19
due between one and five years	75	73
due later than five years	85	100
	178	192
Interest portion of the future minimum lease payments		
due within one year	9	10
due between one and five years	26	32
due later than five years	38	40
	73	82
Present value of future minimum lease payments		
due within one year	9	9
due between one and five years	49	41
due later than five years	47	60
	105	110

23
Leased products

Minimum lease payments of non-cancellable operating leases amounting to €18,880 million (2017: €17,982 million) fall due as follows:

in € million	31.12.2018	31.12.2017
within one year	8,980	8,586
between one and five years	9,863	9,383
later than five years	37	13
Minimum lease payments	**18,880**	**17,982**

Contingent rents of €92 million (2017: €52 million), based principally on the distance driven, were recognised in income. The agreements have, in part, extension and purchase options.

Impairment losses amounting to €235 million (2017: €148 million) were recognised on leased products in 2018 as a consequence of changes in residual value expectations. Income from the reversal of impairment losses amounted to €92 million (2017: € – million).

24
Investments accounted for using the equity method

Investments accounted for using the equity method comprise the joint venture BMW Brilliance Automotive Ltd. (BMW Brilliance), until 9 March 2018 the joint ventures DriveNow GmbH & Co. KG and DriveNow Verwaltungs GmbH (DriveNow), the joint venture IONITY Holding GmbH & Co. KG (IONITY) and the interest in the associated company THERE Holding B.V. (THERE).

BMW Brilliance produces mainly BMW brand models for the Chinese market and also has engine manufacturing facilities, which supply the joint venture's two plants with petrol engines.

The BMW Group intends to increase its stake in the BMW Brilliance joint venture from 50 % to 75 %. On 11 October 2018, the BMW Group signed an agreement with its joint venture partner, a wholly owned subsidiary of Brilliance China Automotive Holdings Ltd. (CBA), to acquire an additional 25 % shareholding in BMW Brilliance. The two partners agreed on a purchase price of an equivalent of €3.6 billion. The contractual term of the joint venture, which would currently expire in 2028, is to be extended to 2040 as part of the agreement. The prerequisite for the extension is the acquisition of the additional shares as agreed. The agreement was approved at the CBA shareholders' meeting on 18 January 2019 and remains subject to the approval of the relevant authorities. The transaction is scheduled to close in 2022. The closing will result in BMW Brilliance being fully consolidated in the BMW Group Financial Statements and is expected to result in the recognition of a significant valuation gain in the financial year in which the transaction closes.

The BMW Group previously maintained the joint ventures DriveNow GmbH & Co. KG and DriveNow Vewaltungs GmbH together with Sixt SE, Pullach. DriveNow offers car-sharing services in major German cities and abroad. Following approval by the antitrust authorities and with effect from 9 March 2018, the agreement with SIXT regarding the full acquisition of shares in DriveNow by the BMW Group was completed. The total valuation for DriveNow amounts to €418 million. Further information relating to this transaction is provided in → note 2 to the Group Financial Statements.

→ see note 2

In the financial year 2017, the BMW Group, Daimler AG, Stuttgart (Daimler AG), the Ford Motor Company and the Volkswagen Group, each with equal shareholdings, founded the joint venture IONITY Holding GmbH & Co. KG. IONITY's business model envisages the construction and operation of high-performance charging stations for battery electric vehicles in Europe. The plan is to build some 400 fast-charging stations by 2020 in order to support electric mobility on long-haul routes and thereby establish the market.

In the financial year 2015, BMW AG, Daimler AG and AUDI AG, Ingolstadt (Audi AG) jointly acquired the mapping and location-based services business (HERE Group) of Nokia Corporation, Helsinki. HERE's digital maps are laying the foundations for the next generation of mobility and location-based services, providing the basis for new assistance systems and, ultimately, fully automated driving.

In December 2016, THERE signed contracts relating to the sale of shares in HERE International B.V., Amsterdam (HERE). The sale of 15 % of the shares to Intel Holdings B.V., Schiphol-Rijk, was completed in January 2017. The sale of the shares resulted in a loss of control, as defined by IFRS 10, at the level of THERE. Since THERE continues to have a significant influence over HERE, the latter has been included since then in THERE's consolidated financial statements as an associated company using the equity method. The loss of control and the subsequent deconsolidation of HERE and its subsidiaries led to a positive earnings effect at the level of THERE. The BMW Group portion amounted to €183 million, which was recognised in the result from equity accounted investments in the financial year 2017.

In December 2017, BMW AG, Audi AG and Daimler AG signed contracts for the sale of shares in THERE. Stakes of 5.9 % each were sold to Robert Bosch Investment Nederland B.V., Boxtel, and Continental Automotive Holding Netherlands B.V., Maastricht, whereby the sale was executed in equal parts by BMW AG, Audi AG and Daimler AG. Closure of these transactions did not have a significant effect on earnings in the financial year 2018.

Capital increases were made at the level of THERE in June and November 2018, with BMW AG participating with an amount of €31 million on each occasion. As a result, BMW AG's stake in THERE increased in steps by 0.2 % to 29.6 %.

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

in € million	BMW Brilliance 2018	BMW Brilliance 2017[1]	THERE 2018	THERE 2017	DriveNow 2018	DriveNow 2017	IONITY 2018	IONITY 2017
DISCLOSURES RELATING TO THE INCOME STATEMENT								
Revenues	17,766	14,627	–	71[2]	14	71	–	–
Scheduled depreciation	636	637	–	–	–	–	1	–
Profit / loss before financial result	1,922	1,620	–1	–1	–6	–17	–18	–12
Interest income	62	46	–	–	–	–	–	–
Interest expenses	–	–	–	–	–	–	–	–
Income taxes	535	454	–	–	–	–	3	2
Profit / loss after tax	1,561	1,338	–337	362	–6	–17	–15	–10
thereof from continuing operations	1,561	1,338	–337	–151	–	–	–	–
thereof from discontinued operations	–	–	–	513	–	–	–	–
Other comprehensive income	–250	–121	–7	2	–	–	–	–
Total comprehensive income	1,311	1,217	–344	364	–6	–17	–15	–10
Dividends received by the Group	384	258	–	–	–	–	–	–

[1] Prior year figures adjusted due to first-time application of IFRS 15, see note 6.
[2] Revenues relate only to the month of January up to the time of loss of control of HERE.

in € million	BMW Brilliance 2018	BMW Brilliance 2017[1]	THERE 2018	THERE 2017	DriveNow 2018	DriveNow 2017	IONITY 2018	IONITY 2017
DISCLOSURES RELATING TO THE BALANCE SHEET								
Non-current assets	6,714	5,910	1,763	1,906	–	–	48	4
Current assets	6,570	5,211	2	289	–	26	110	46
thereof cash and cash equivalents	2,937	2,617	2	289	–	9	102	45
Equity	5,926	5,382	1,764	2,195	–	4[2]	149	40
Non-current financial liabilities	71	–	–	–	–	–	–	–
Non-current provisions and liabilities	1,193	960	–	–	–	–	3	–
Current provisions and liabilities	6,094	4,779	1	–	–	22	6	10
thereof current financial liabilities	81	6	–	–	–	–	–	–
RECONCILIATION OF AGGREGATED FINANCIAL INFORMATION								
Assets	13,284	11,121	1,765	2,195	–	26	158	50
Provisions and liabilities	7,358	5,739	1	–	–	22	9	10
Net assets	5,926	5,382	1,764	2,195	–	4	149	40
Group's interest in net assets	2,963	2,691	522	732	–	2[3]	37	10
Eliminations	–898	–666	–	–	–	–	–	–
Carrying amount	2,065	2,025	522	732	–	2	37	10

[1] Prior year figures adjusted due to first-time application of IFRS 15, see note 6.
[2] Corresponds to the consolidated equity capital provided by the shareholders of DriveNow GmbH & Co. KG and its subsidiaries.
[3] The share of the BMW Group on net assets at 31 December 2017 amounted to 52.8 %. Due to the allocation of voting power within decision-making bodies of the two entities, operations remain subject to joint control.

25
Receivables from sales financing

Receivables from sales financing comprise the following:

in € million	31.12.2018	31.12.2017
Credit financing for retail customers and dealerships	66,521	62,401
Finance lease receivables	20,262	18,033
Receivables from sales financing	**86,783**	**80,434**

Unguaranteed residual values amount to €1,392 million (2017: €1,240 million*).

* Prior year figure has been adjusted.

Impairment allowances on receivables from sales financing in accordance with IFRS 9, which only arise within the Financial Services segment, developed in the financial year 2018 as follows:

	Stage 1	Stage 2		Stage 3	
in Mio. €		General	Simplified		Total
Impairment allowances at 1 January 2018	365	192	12	450	1,019
Reclassification to Stage 1	3	–20	–	–4	–21
Reclassification to Stage 2	–7	79	–	–21	51
Reclassification to Stage 3	–4	–23	–1	138	110
Derecognition and origination of receivables	59	–10	1	–17	33
Write off of receivables	–3	–20	–1	–105	–129
Changes in risk parameters	4	1	–1	26	30
Other changes	–54	–24	2	15	–61
Impairment allowances at 31 December 2018	**363**	**175**	**12**	**482**	**1,032**

The impairment allowances according to IAS 39 in the financial year 2017 developed as follows:

in € million	specific item basis	group basis	Total
Impairment allowances at 1 January 2017	943	469	**1,412**
Allocated (+) / reversed (–)	143	2	**145**
Utilised	–337	–8	**–345**
Exchange rate impact and other changes	–48	–17	**–65**
Impairment allowances at 31 December 2017	**701**	**446**	**1,147**

Impairment allowances include €113 million (2017: €105 million) on credit-impaired receivables relating to finance leases.

The estimated fair value of vehicles held as collateral for credit-impaired receivables at the end of the reporting period totalled €506 million. The carrying amount of assets held as collateral and taken back as a result of payment default amounted to €42 million (2017: €45 million).

Finance leases are analysed as follows:

in € million	31.12.2018	31.12.2017
Gross investment in finance leases		
due within one year	6,811	6,122
due between one and five years	15,480	13,772
due later than five years	24	21
	22,315	**19,915**
Present value of future minimum lease payments		
due within one year	6,238	5,655
due between one and five years	14,001	12,358
due later than five years	23	20
	20,262	**18,033**
Unrealised interest income	**2,053**	**1,882**

26
Financial assets

Financial assets comprise:

in € million	31.12.2018	31.12.2017
Marketable securities and investment funds	5,316	5,447
Derivative instruments	1,977	4,341
Credit card receivables	244	248
Loans to third parties	20	114
Other	128	184
Financial assets	**7,685**	**10,334**
thereof non-current	1,010	2,369
thereof current	6,675	7,965

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

in € million	31.12.2018	31.12.2017
Fixed income securities	4,359	4,662
Stocks and other equity capital instruments	–	534
Other debt securities	957	251
Marketable securities and investment funds	**5,316**	**5,447**

In 2017, stocks and other equity capital instruments related entirely to investment funds. In accordance with IFRS 9, these assets are required to be classified as debt capital instruments and are therefore reported as other debt securities with effect from the financial year 2018.

The contracted maturities of debt securities are as follows:

in € million	31.12.2018	31.12.2017
Fixed income securities		
due within three months	787	628
due later than three months	3,572	4,034
Other debt securities		
due within three months	957	251
due later than three months	–	–
Debt securities	**5,316**	**4,913**

Allowances for impairment and credit risk

Receivables relating to credit card business comprise the following:

in € million	31.12.2018	31.12.2017
Gross carrying amount	262	258
Allowance for impairment	–18	–10
Net carrying amount	**244**	**248**

27
Income tax assets

Income tax assets totalling €1,366 million (2017: €1,566 million) include claims amounting to €222 million (2017: €364 million), which are expected to be settled after more than one year. Claims may be settled earlier than this depending on the timing of proceedings.

28
Other assets

Other assets comprise:

in € million	31.12.2018	31.12.2017*
Return right assets for future leased products	3,261	1,962
Prepayments	2,167	2,018
Receivables from companies in which an investment is held	1,916	1,334
Other taxes	1,747	1,537
Receivables from subsidiaries	295	276
Collateral assets	293	316
Expected reimbursement claims	933	847
Sundry other assets	1,204	825
Other assets	**11,816**	**9,115**
thereof non-current	2,026	1,630
thereof current	9,790	7,485

* Prior year figures adjusted due to first-time application of IFRS 15, see note 6.

Prepayments relate mainly to prepaid interest, commission paid to dealerships and amounts paid in advance to contract manufacturers. Prepayments of €1,227 million (2017: €1,136 million) have a maturity of less than one year.

Collateral assets comprise mainly customary collateral (banking deposits) arising on the sale of receivables.

29 Inventories

Inventories comprise the following:

in € million	31.12.2018	31.12.2017
Finished goods and goods for resale	10,592	10,436
Work in progress, unbilled contracts	1,208	1,125
Raw materials and supplies	1,247	1,146
Inventories	**13,047**	**12,707**

Out of the total amount recognised for inventories at 31 December 2018, inventories measured at net realisable value amounted to €680 million (2017: €673 million[1]). Write-downs to net realisable value amounting to €54 million (2017: €36 million[1]) were recognised in 2018, reversal of impairment losses amounted to €22 million (2017: €6 million).

[1] Prior year figure has been adjusted.

The expense recorded in conjunction with inventories during the financial year 2018 amounted to €58,079 million (2017: €55,969 million).

30 Trade receivables

Trade receivables comprise the following:

in € million	31.12.2018	31.12.2017
Gross carrying amount	2,600	2,723
Allowance for impairment	–	–56
Allowances for impairment of stage 2 – simplified procedure	–20	–
Allowances for impairment of stage 3	–34	–
Net carrying amount	**2,546**	**2,667**

Impairment allowances on trade receivables according to IFRS 9 developed during the financial year 2018 as follows:

in € million	2018
Balance at 1 January*	60
Allocated (+)	21
Reversed (–)	–26
Utilised	–1
Exchange rate impact and other changes	–
Balance at 31 December	**54**

* The difference between the closing balance at 31 December 2017 and the opening balance at 1 January 2018 corresponds to the adjustment recorded in accordance with IFRS 9.

The impairment allowances according to IAS 39 in the financial year 2017 developed as follows:

	2017		
	Allowance for impairment recognised on a		
in € million	specific item basis	group basis	Total
Balance at 1 January	46	11	**57**
Allocated (+) / reversed (–)	8	–2	**6**
Utilised	–4	–1	**–5**
Exchange rate impact and other changes	–1	–1	**–2**
Balance at 31 December*	**49**	**7**	**56**

* The difference between the closing balance at 31 December 2017 and the opening balance at 1 January 2018 corresponds to the adjustment recorded in accordance with IFRS 9.

In the case of trade receivables, collateral is generally held in the form of vehicle documents and bank guarantees so that the risk of bad debt loss is very limited.

Expenses for impairment losses and income from the reversal of impairment losses is not significant in relation to total Group expenses and is therefore not reported separately in the income statement.

31
Equity

Number of shares issued

	Preferred stock		Common stock	
	2018	2017	2018	2017
Shares issued / in circulation at 1 January	55,605,404	55,114,404	601,995,196	601,995,196
Shares issued in conjunction with Employee Share Programme	521,524	491,114	–	–
Less: shares repurchased and re-issued	24	114	–	–
Shares issued / in circulation at 31 December	56,126,904	55,605,404	601,995,196	601,995,196

All Company stock is issued to bearer and each share has a par value of €1.00. Preferred stock, to which no voting rights are attached, bear an additional dividend of €0.02 per share.

In 2018, a total of 521,524 shares of preferred stock was sold to employees at a reduced price of €46.26 per share in conjunction with the Company's Employee Share Programme. These shares are entitled to receive dividends for the first time with effect from the financial year 2019.

Issued share capital increased by €0.5 million as a result of the issue to employees of 521,500 new shares of non-voting preferred stock. BMW AG is authorised up to 14 May 2019 to issue 5 million shares of non-voting preferred stock amounting to nominal €5.0 million. At the end of the reporting period, 3.1 million of these amounting to nominal €3.1 million remained available for issue.

In addition, 24 previously issued shares of preferred stock were acquired and re-issued to employees.

Capital reserves
Capital reserves include premiums arising from the issue of shares and totalled €2,118 million (2017: €2,084 million). The change related to the share capital increase arising in conjunction with the issue of shares of preferred stock to employees amounting to €34 million.

Revenue reserves
Revenue reserves comprise the non-distributed earnings of companies consolidated in the Group Financial Statements. In addition, remeasurements of the net defined benefit obligation for pension plans are also presented in revenue reserves.

It is proposed that the unappropriated profit of BMW AG for the financial year 2018 amounting to €2,303 million according to HGB be utilised as follows:

- Distribution of a dividend of 3.52 per share of preferred stock (€196 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 amounts recognised directly in equity resulting from the translation of the financial statements of foreign subsidiaries, changes in the fair value of derivative financial instruments and marketable securities, costs of hedging recognised directly in equity as well the related deferred taxes.

Further information regarding the transition effects recognised directly in equity on the first-time application of IFRS 15 and IFRS 9 is provided in → notes 6 and 7.

→ see notes 6 and 7

Capital management disclosures

The BMW Group's objectives with regard to capital management are to safeguard over the long-term the Group's ability to continue as a going concern and to provide an adequate return to shareholders.

The capital structure is managed in order to meet needs arising from changes in economic conditions and the risks of the underlying assets.

The BMW Group is not subject to any unified external minimum equity capital requirements. Within the Financial Services segment, however, there are a number of individual entities which are subject to equity capital requirements of relevant regulatory banking authorities.

In order to manage its capital structure, the BMW Group uses various instruments, including the amount of dividends paid to shareholders and share buybacks. Moreover, the BMW Group actively manages debt capital, carrying out funding activities with a target debt structure in mind. A key aspect in the selection of financial instruments is the objective to achieve matching maturities for the Group's financing requirements. In order to reduce non-systematic risk, the BMW Group uses a variety of financial instruments available on the world's capital markets to achieve diversification.

The capital structure at the end of the reporting period was as follows:

in € million	31.12.2018	31.12.2017*
Equity attributable to shareholders of BMW AG	57,559	53,671
Proportion of total capital	35.7 %	36.2 %
Non-current financial liabilities	64,772	53,548
Current financial liabilities	38,825	41,100
Total financial liabilities	103,597	94,648
Proportion of total capital	64.3 %	63.8 %
Total capital	**161,156**	**148,319**

* Prior year figures adjusted due to first-time application of IFRS 15, see note 6.

The equity ratio attributable to shareholders of BMW AG increased during the financial year by 7.2 %, primarily reflecting the increase in revenue reserves.

32
Pension provisions

In the case of defined benefit plans, the BMW Group is required to pay the benefits it has granted to present and past employees. Defined benefit plans may be covered by provisions or pension assets. In Germany, pension entitlements are mostly covered by assets transferred to BMW Trust e.V., Munich, in conjunction with a Contractual Trust Arrangement (CTA). Funded plans also exist in the UK, the USA, Switzerland, Belgium and Japan. In the meantime, most of the defined benefit plans have been closed to new entrants.

The assumptions stated below, which depend on the economic situation in the relevant country, are used to measure the defined benefit obligation of each pension plan. In Germany, the so-called "pension entitlement trend" (Festbetragstrend) remained at 2.0 %. The following weighted average values have been used for Germany, the UK and other countries:

	Germany		United Kingdom		Other	
in %	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Discount rate	1.91	1.79	2.69	2.34	3.66	3.13
Pension level trend	1.62	1.82	2.25	2.44	–	–
Weighted duration of all pension obligations in years	20.2	20.8	19.0	21.3	17.2	18.3

The following mortality tables are applied in countries, in which the BMW Group has significant defined benefit plans:

Germany	Mortality Table 2018 G issued by Prof. K. Heubeck (with invalidity rates reduced by 70 %)
United Kingdom	S2PA tables and S2PA light tables with weightings

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	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Present value of defined benefit obligations	11,542	11,641	8,277	9,594	1,428	1,475	21,247	22,710
Fair value of plan assets	9,721	9,604	8,167	8,908	1,049	965	18,937	19,477
Effect of limiting net defined benefit asset to asset ceiling	–	–	–	–	3	3	3	3
Carrying amounts at 31 December	**1,821**	**2,037**	**110**	**686**	**382**	**513**	**2,313**	**3,236**
thereof pension provision	1,823	2,037	125	702	382	513	2,330	3,252
thereof assets	–2	–	–15	–16	–	–	–17	–16

Numerous **defined benefit plans** exist within the BMW Group.

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

Germany
Both employer- and employee-funded benefit plans exist in Germany. Benefits paid in conjunction with these plans comprise old-age retirement pensions as well as invalidity and surviving dependents' benefits.

The defined benefit plans have been closed to new entrants. Defined contribution plans with a minimum rate of return, comprising employer- and employee-funded components, continue to exist. The fact that the plan involves a minimum rate of return means that the defined contribution entitlements are classified in accordance with IAS 19 as defined benefit plans. In the case of defined benefit plans involving the payment of a pension, the amount of benefits to be paid is determined by multiplying a fixed amount by the number of years of service.

The assets of the German pension plans are invested by BMW Trust e.V., Munich, in accordance with a CTA. The representative bodies of this entity are the Board of Directors and the Members' General Meeting. BMW Trust e.V., Munich, currently has seven members and three members of the Board of Directors elected by the Members' General Meeting. The Board of Directors is responsible for investments, drawing up and deciding on investment guidelines as well as monitoring compliance with those guidelines. The members of the association can be BMW Group employees, senior executives and members of the Board of Management. 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
Defined benefit plans exist in the United Kingdom which are closed for all plan participants. Vested benefits remain in place. New benefits are covered by contributions made to a defined contribution plan.

The pension plans are administered by BMW Pension Trustees Limited, Farnborough, and BMW (UK) Trustees Limited, Farnborough, both trustee companies which act independently of the BMW Group. BMW (UK) Trustees Limited, Farnborough, is represented by ten trustees and BMW Pension Trustees Limited, Farnborough, by five trustees. A minimum of one third of the trustees must be elected by plan participants. The trustees represent the interests of plan participants and decide on investment strategies. Funding contributions to the funds are determined in agreement with the BMW Group.

The **change in the net defined benefit obligation for pension plans** can be derived as follows:

in € million	Defined benefit obligation	Plan assets	Total	Effect of limitation of the net defined benefit asset to the asset ceiling	Net defined benefit liability
1 January 2018	22,710	–19,477	**3,233**	3	**3,236**
EXPENSE/INCOME					
Current service cost	508	–	**508**	–	**508**
Interest expense (+)/income (–)	475	–413	**62**	–	**62**
Past service cost	59	–	**59**	–	**59**
Gains (–) or losses (+) arising from settlements	–	–10	**–10**	–	**–10**
REMEASUREMENTS					
Gains (–) or losses (+) on plan assets, excluding amounts included in interest income	–	999	**999**	–	**999**
Gains (–) or losses (+) arising from changes in financial assumptions	–1,274	–	**–1,274**	–	**–1,274**
Gains (–) or losses (+) arising from changes in demographic assumptions	–416	–	**–416**	–	**–416**
Gains (–) or losses (+) arising from experience adjustments	–264	–	**–264**	–	**–264**
Changes in the limitation of the net defined benefit asset to the asset ceiling	–	–	**–**	–	**–**
Transfers to fund	–	–658	**–658**	–	**–658**
Employee contributions	73	–73	**–**	–	**–**
Pensions and other benefits paid	–632	689	**57**	–	**57**
Translation differences and other changes	8	6	**14**	–	**14**
31 December 2018	**21,247**	**–18,937**	**2,310**	**3**	**2,313**
thereof pension provision					**2,330**
thereof assets					**–17**

in € million	Defined benefit obligation	Plan assets	Total	Effect of limitation of the net defined benefit asset to the asset ceiling	Net defined benefit liability
1 January 2017	22,899	–18,315	**4,584**	3	**4,587**
EXPENSE/INCOME					
Current service cost	581	–	**581**	–	**581**
Interest expense (+)/income (–)	489	–408	**81**	–	**81**
Past service cost	–2	–	**–2**	–	**–2**
Gains (–) or losses (+) arising from settlements	–212	–	**–212**	–	**–212**
REMEASUREMENTS					
Gains (–) or losses (+) on plan assets, excluding amounts included in interest income	–	–590	**–590**	–	**–590**
Gains (–) or losses (+) arising from changes in financial assumptions	322	–	**322**	–	**322**
Gains (–) or losses (+) arising from changes in demographic assumptions	–152	–	**–152**	–	**–152**
Gains (–) or losses (+) arising from experience adjustments	–134	–	**–134**	–	**–134**
Changes in the limitation of the net defined benefit asset to the asset ceiling	–	–	**–**	–	**–**
Transfers to fund	–	–1,165	**–1,165**	–	**–1,165**
Employee contributions	86	–86	**–**	–	**–**
Pensions and other benefits paid	–619	637	**18**	–	**18**
Translation differences and other changes	–548	450	**–98**	–	**–98**
31 December 2017	**22,710**	**–19,477**	**3,233**	**3**	**3,236**
thereof pension provision					**3,252**
thereof assets					**–16**

Past service cost in the financial year 2018 results mainly from the estimated effects of a court order made in October 2018 in the UK. The court ruling related to gender equality in state-guaranteed minimum pension (GMP) plans and requires existing pension entitlements to be adjusted.

The gains arising from changes in demographic assumptions relate mainly to revised mortality tables in the United Kingdom. The revision of German mortality tables had an offsetting effect.

Depending on the cash flow profile and risk structure of the pension obligations involved, pension plan assets are invested in a diversified portfolio.

Plan assets in Germany, the UK and other countries comprised the following:

	Germany		United Kingdom		Other		Total	
in € million	2018	2017	2018	2017	2018	2017	2018	2017
COMPONENTS OF PLAN ASSETS								
Equity instruments	1,565	1,682	407	478	172	222	2,144	2,382
Debt instruments	5,604	5,668	5,774	6,354	552	469	11,930	12,491
thereof investment grade	3,402	3,231	5,224	5,734	518	434	9,144	9,399
thereof mixed funds (funds without a rating)	–	–	–	–	–	–	–	–
thereof non-investment grade	2,202	2,437	550	620	34	35	2,786	3,092
Real estate funds	–	–	–	–	93	93	93	93
Money market funds	–	–	221	191	47	42	268	233
Absolute return funds	–	–	–	51	–	–	–	51
Other	–	–	–	–	15	5	15	5
Total with quoted market price	**7,169**	**7,350**	**6,402**	**7,074**	**879**	**831**	**14,450**	**15,255**
Debt instruments	1,009	935	270	404	1	1	1,280	1,340
thereof investment grade	307	198	–	–	–	–	307	198
thereof mixed funds (funds without a rating)	702	737	216	404	–	–	918	1,141
thereof non-investment grade	–	–	54	–	1	1	55	1
Real estate	325	240	678	662	36	–	1,039	902
Cash and cash equivalents	12	16	–	10	1	1	13	27
Absolute return funds	669	708	605	617	65	47	1,339	1,372
Other	537	354	212	141	67	86	816	581
Total without quoted market price	**2,552**	**2,253**	**1,765**	**1,834**	**170**	**135**	**4,487**	**4,222**
31 December	**9,721**	**9,603**	**8,167**	**8,908**	**1,049**	**966**	**18,937**	**19,477**

Employer contributions to plan assets are expected to amount to €526 million in the coming year.

The BMW Group is exposed to **risks** arising both from defined benefit plans and defined contribution plans with a minimum return guarantee. The discount rates used to calculate pension obligations are subject to market fluctuation and therefore influence the level of the obligations. Furthermore, changes in other actuarial parameters, such as expected rates of inflation, also have an impact on pension obligations. In order to reduce currency exposures, a substantial portion of plan assets is either invested in the same currency as the underlying plan or hedged by means of currency derivatives. As part of the internal reporting procedures and for internal management purposes, financial risks relating to the pension plans are reported using a value-at-risk approach by reference to the pension deficit. The investment strategy is also subject to regular review together with external consultants, with the aim of ensuring that investments are structured to match the timing of pension payments and the expected development of pension obligations. In this way, fluctuations in pension funding shortfalls are reduced.

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

	Germany		United Kingdom		Other	
in %	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Current employees	65.9	66.6	–	23.9	77.3	78.5
Pensioners	29.3	28.3	48.5	45.0	18.8	17.8
Former employees with vested benefits	4.8	5.1	51.5	31.1	3.9	3.7
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 to aggregate sensitivities to a limited extent. Since the change in obligation follows a non-linear pattern, estimates made on the basis of the specified sensitivities are only possible with this restriction. The calculation of sensitivities using ranges other than those specified could result in a disproportional change in the defined benefit obligation.

		Change in defined benefit obligation			
		31.12.2018		31.12.2017	
		in € million	in %	in € million	in %
	increase of 0.75 %	−2,652	−12.5	−3,055	−13.5
Discount rate	decrease of 0.75 %	3,334	15.7	3,878	17.1
	increase of 0.25 %	597	2.8	712	3.1
Pension level trend	decrease of 0.25 %	−567	−2.7	−672	−3.0
	increase of 1 year	770	3.6	856	3.8
Average life expectancy	decrease of 1 year	−779	−3.7	−855	−3.8
	increase of 0.25 %	156	0.7	162	0.7
Pension entitlement trend	decrease of 0.25 %	−147	−0.7	−155	−0.7

In the UK, the sensitivity analysis for the pension level trend also takes account of restrictions due to caps and floors.

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Other provisions

Other provisions changed during the year as follows:

in € million	1.1.2017*	Translation differences	Additions	Reversal of discounting	Utilised	Reversed	31.12.2018	thereof due within one year
Statutory and non-statutory warranty obligations, product guarantees	5,074	85	1,959	59	–2,019	–	**5,158**	**1,367**
Obligations for personnel and social expenses	2,782	1	1,827	–	–1,761	–30	**2,819**	**1,861**
Other obligations	2,523	–10	653	–	–454	–625	**2,087**	**1,310**
Other obligations for ongoing operational expenses	1,620	34	694	–	–481	–77	**1,790**	**1,540**
Other provisions	**11,999**	**110**	**5,133**	**59**	**–4,715**	**–732**	**11,854**	**6,078**

* Prior year figures adjusted due to first-time application of IFRS 15, see note 6.

Depending on when claims occur, it is possible that the BMW Group may be called upon to fulfil the warranty or guarantee obligations over the whole period of the warranty or guarantee. Expected reimbursement claims at 31 December 2018 amounted to €933 million (2017: €847 million).

Provisions for obligations for personnel and social expenses comprise mainly performance-related remuneration components, early retirement part-time working arrangements and employee long-service awards.

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

Other obligations for ongoing operational expenses include in particular expected payments for bonuses and other price deductions.

Income from the reversal of other provisions amounting to €516 million (2017: €322 million) is recorded in cost of sales and in selling and administrative expenses.

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Income tax liabilities

Current income tax liabilities totalling €1,158 million (2017: €1,124 million) include €96 million (2017: €68 million) which are expected to be settled after more than twelve months. Liabilities may be settled earlier than this depending on the timing of proceedings.

35 Financial liabilities

Financial liabilities of the BMW Group comprise the following:

in € million	31.12.2018 Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Bonds	9,762	32,592	10,992	**53,346**
Asset-backed financing transactions	5,732	11,603	–	**17,335**
Liabilities from customer deposits (banking)	10,961	3,289	109	**14,359**
Liabilities to banks	8,678	3,293	1,225	**13,196**
Commercial paper	2,480	–	–	**2,480**
Derivative instruments	646	915	114	**1,675**
Other	566	159	481	**1,206**
Financial liabilities	**38,825**	**51,851**	**12,921**	**103,597**

in € million	31.12.2017 Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Bonds	11,132	25,887	7,861	**44,880**
Asset-backed financing transactions	6,037	10,818	–	**16,855**
Liabilities from customer deposits (banking)	10,144	3,296	132	**13,572**
Liabilities to banks	8,440	3,170	1,048	**12,658**
Commercial paper	4,461	–	–	**4,461**
Derivative instruments	373	544	173	**1,090**
Other	513	150	469	**1,132**
Financial liabilities	**41,100**	**43,865**	**9,683**	**94,648**

Liabilities related to financing activities can be reconciled as follows:

in € million	1.1.2018	Cash inflows / outflows	Changes due to the acquisition or disposal of companies	Changes due to exchange rate factors	Changes in fair values	Other changes	31.12.2018
Bonds	44,880	7,784	–	707	–33	8	**53,346**
Asset-backed financing transactions	16,855	288	–	192	–	–	**17,335**
Liabilities from customer deposits (banking)	13,572	557	–	227	–	3	**14,359**
Liabilities to banks	12,658	679	–	–141	–	–	**13,196**
Commercial paper	4,461	–2,021	–	40	–	–	**2,480**
Financial liabilities towards companies in which an investment is held	739	–210	–	–	–	–	**529**
Liabilities from finance lease contracts	114	–9	–	–	–	–	**105**
Other (excluding interest payable)	604	–31	–	38	–	15	**626**
Liabilities relating to financing activities	**93,883**	**7,037**	**–**	**1,063**	**–33**	**26**	**101,976**

in € million	1.1.2017	Cash inflows / outflows	Changes due to the acquisition or disposal of companies	Changes due to exchange rate factors	Changes in fair values	Other changes	31.12.2017
Bonds	44,421	2,687	–	–1,901	–328	1	**44,880**
Asset-backed financing transactions	16,474	1,338	–	–957	–	–	**16,855**
Liabilities from customer deposits (banking)	13,512	656	–	–596	–	–	**13,572**
Liabilities to banks	14,892	–1,579	–	–655	–	–	**12,658**
Commercial paper	3,852	953	–	–344	–	–	**4,461**
Financial liabilities towards companies in which an investment is held	615	124	–	–	–	–	**739**
Liabilities from finance lease contracts	127	–13	–	–	–	–	**114**
Other (excluding interest payable)	684	–143	151	–88	–	–	**604**
Liabilities relating to financing activities	**94,577**	**4,023**	**151**	**–4,541**	**–328**	**1**	**93,883**

Bonds comprise:

Issuer	Interest	Issue volume in relevant currency (ISO-Code)	Weighted average maturity period (in years)	Weighted average nominal interest rate (in %)
BMW Finance N.V.	variable	EUR 6,100 million	2.1	0.0
	variable	USD 130 million	1.3	2.8
	variable	GBP 20 million	2.0	1.2
	fixed	EUR 21,150 million	6.3	1.0
	fixed	JPY 19,100 million	5.8	0.4
	fixed	NOK 2,400 million	3.8	1.8
	fixed	CNY 2,300 million	3.0	4.3
	fixed	SEK 1,750 million	5.0	1.8
	fixed	HKD 1,342 million	4.7	2.1
	fixed	GBP 1,150 million	5.8	1.5
	fixed	USD 300 million	4.0	2.5
	fixed	AUD 290 million	6.9	3.3
BMW US Capital, LLC	variable	USD 3,608 million	2.8	2.5
	variable	EUR 500 million	3.0	0.0
	variable	NZD 30 million	3.0	2.0
	fixed	USD 13,450 million	5.7	2.7
	fixed	EUR 2,500 million	7.6	1.0
	fixed	HKD 334 million	3.0	2.0
	fixed	GBP 300 million	5.0	2.0
	fixed	AUD 130 million	3.5	2.8
BMW Canada Inc.	variable	CAD 500 million	2.6	2.7
	fixed	CAD 1,400 million	3.9	2.0
Other	variable	GBP 1,175 million	2.2	1.1
	variable	SEK 500 million	3.0	0.3
	fixed	KRW 120,000 million	3.0	2.6
	fixed	CNY 8,000 million	3.0	4.4
	fixed	INR 8,000 million	2.5	8.0
	fixed	NOK 1,000 million	10.0	3.3
	fixed	GBP 850 million	4.6	1.6

The following details apply to commercial paper:

Issuer	Issue volume in relevant currency (ISO-Code)	Weighted average maturity period (in days)	Weighted average nominal interest rate (in %)
BMW Finance N.V.	EUR 2,030 million	140	– 0.3
BMW International Investment B.V.	GBP 350 million	59	0.9
BMW India Financial Services Private Ltd.	INR 4,500 million	44	7.9

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Other liabilities

Other liabilities comprise the following items:

in € million	31.12.2018 Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Deferred income	2,771	4,260	453	**7,484**
Refund liabilities for future leased products	4,311	–	–	**4,311**
Bonuses and sales aides	2,940	–	–	**2,940**
Other taxes	945	–	–	**945**
Advance payments from customers	736	175	–	**911**
Deposits received	560	280	10	**850**
Payables to other companies in which an investment is held	781	–	–	**781**
Social security	76	26	–	**102**
Payables to subsidiaries	92	–	–	**92**
Sundry	1,905	87	8	**2,000**
Other liabilities	**15,117**	**4,828**	**471**	**20,416**

in € million	31.12.2017* Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Deferred income	2,284	3,954	428	**6,666**
Refund liabilities for future leased products	2,807	–	–	**2,807**
Bonuses and sales aides	3,097	–	–	**3,097**
Other taxes	934	–	–	**934**
Advance payments from customers	934	122	–	**1,056**
Deposits received	505	346	5	**856**
Payables to other companies in which an investment is held	744	–	–	**744**
Social security	75	23	–	**98**
Payables to subsidiaries	129	–	–	**129**
Sundry	1,934	160	7	**2,101**
Other liabilities	**13,443**	**4,605**	**440**	**18,488**

* Prior year figures adjusted due to first-time application of IFRS 15, see note 6.

Sundry other liabilities include mainly commission payable and credit balances on customers' accounts.

Other liabilities include contract liabilities relating to contracts with customers amounting to €4,985 million (31 December 2017: €4,820 million).

An amount of €2,134 million (2017: €2,294 million) was released from contract liabilities in the financial year and recognised as revenues from contracts with customers.

Deferred income comprises the following items:

in € million	31.12.2018 Total	31.12.2018 thereof due within one year	31.12.2017* Total	31.12.2017* thereof due within one year
Deferred income relating to service contracts	3,826	1,534	3,659	1,228
Deferred income from lease financing	2,764	1,092	2,361	973
Grants	337	27	332	28
Other deferred income	557	118	314	55
Deferred income	**7,484**	**2,771**	**6,666**	**2,284**

* Prior year figures adjusted due to first-time application of IFRS 15, see note 6.

Deferred income relating to service contracts comprises service and repair work as well as telematics services and roadside assistance agreed to be part of the sale of a vehicle (in some cases multi-component arrangements). Deferred income from lease financing relates primarily to down payments on leases.

Grants comprise mainly public sector funds to 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 in the income statement over the useful lives of the assets to which it relates.

37
Trade payables

As in the previous year, trade payables are due within one year.

OTHER DISCLOSURES

38
Contingent liabilities and other financial commitments

Contingent liabilities

The following contingent liabilities existed at the balance sheet date:

in € million	31.12.2018	31.12.2017
Investment subsidies	275	399
Litigation	125	204
Guarantees	14	10
Other	351	203
Contingent liabilities	**765**	**816**

Other contingent liabilities comprise mainly risks relating to taxes and customs duties.

The BMW Group determines its best estimate of contingent liabilities on the basis of the information available at the reporting date. This assessment may change over time and is adjusted regularly on the basis of new information and circumstances. A part of the risks is covered by insurance.

In June 2016, Germany's Federal Cartel Agency conducted searches at various carmakers and suppliers, including BMW AG, in relation to the purchase of steel. The respective investigations have not yet been completed. More extensive disclosures pursuant to IAS 37.86 cannot be provided at present.

In July 2017, cartel allegations against five German car manufacturers appeared in the press. Internal investigations were initiated by the BMW Group and have not yet been completed. In October 2017, the European Commission began an inspection at the BMW Group, and in September of the current financial year opened formal proceedings pertaining to specific matters. A number of class actions were brought in the USA and Canada. Possible risks for the BMW Group can neither be foreseen in detail nor quantified at present. Further disclosures pursuant to IAS 37.86 cannot be provided at present.

Regulatory authorities have ordered the BMW Group to recall various vehicle models in conjunction with airbags supplied by the Takata group of companies. Provision for the costs involved has been recognised within warranty provisions. In addition to the risks already covered by warranty provisions, it cannot be ruled out that further BMW Group vehicles will be affected by future recall actions. Further disclosures pursuant to IAS 37.86 cannot be provided at present.

Other financial commitments

In addition to liabilities, provisions and contingent liabilities, other financial commitments consist in particular of rental and leasing contracts for buildings, property, machinery, tools, offices and other facilities. Contracts have terms of up to 121 years and include in part renewal and purchase options or price adjustments in the form of index-linked or graduated rent, for example to compensate inflation.

In the financial year 2018, an expense of €483 million (2017: €430 million) was recognised for payments on operating leases.

Total minimum future lease payments from non-cancellable rental contracts by maturity is as follows:

in € million	31.12.2018	31.12.2017
due within one year	468	446
due between one and five years	1,310	1,179
due later than five years	916	849
Other financial obligations	**2,694**	**2,474**

In addition, the following commitments exist for the BMW Group at the end of the reporting period:

in € million	31.12.2018	31.12.2017
Purchase commitments for property, plant and equipment	3,486	4,137
Purchase commitments for intangible assets	1,554	1,804

39
Financial instruments

The carrying amounts of financial instruments are assigned to IFRS 9 categories* in the following table.

in € million	31.12.2018		
	At amortised cost	At fair value through other comprehensive income	At fair value through profit or loss
ASSETS			
Other investments	–	–	429
Receivables from sales financing	86,783	–	–
Financial assets			
Derivative instruments			
Cash flow hedges	–	–	840
Fair value hedges	–	–	654
Other derivative instruments	–	–	483
Marketable securities and investment funds	675	3,671	970
Loans to third parties	17	–	3
Credit card receivables	244	–	–
Other	128	–	–
Cash and cash equivalents	10,094	–	885
Trade receivables	2,546	–	–
Other assets			
Receivables from subsidiaries	295	–	–
Receivables from companies in which an investment is held	1,916	–	–
Collateral assets	293	–	–
Other	1,444	–	–
Total	**104,435**	**3,671**	**4,264**
LIABILITIES			
Financial liabilities			
Bonds	53,346	–	–
Liabilities to banks	13,196	–	–
Liabilities from customer deposits (banking)	14,359	–	–
Commercial paper	2,480	–	–
Asset-backed financing transactions	17,335	–	–
Derivative instruments			
Cash flow hedges	–	–	697
Fair value hedges	–	–	556
Other derivative instruments	–	–	422
Other	1,206	–	–
Trade payables	9,669	–	–
Other liabilities			
Payables to subsidiaries	92	–	–
Payables to other companies in which an investment is held	781	–	–
Other	5,665	–	–
Total	**118,129**	**–**	**1,675**

* The carrying amounts of cash flow hedges and fair value hedges are categorised as at fair value through profit or loss for the sake of clarity. Receivables from sales financing are shown including finance leases.

For the financial year 2017, items are allocated by category in accordance with the requirements of IAS 39* as applied in that year:

in € million	31.12.2017 Cash funds	Loans and receivables	Available for sale	Fair value option	Other liabilities	Held for trading
ASSETS						
Other investments	–	–	366	29	–	–
Receivables from sales financing	–	80,434	–	–	–	–
Financial assets						
Derivative instruments						
Cash flow hedges	–	–	–	–	–	2,187
Fair value hedges	–	–	–	–	–	814
Other derivative instruments	–	–	–	–	–	1,340
Marketable securities and investment funds	–	–	5,447	–	–	–
Loans to third parties	–	112	–	2	–	–
Credit card receivables	–	248	–	–	–	–
Other	–	184	–	–	–	–
Cash and cash equivalents	9,039	–	–	–	–	–
Trade receivables	–	2,667	–	–	–	–
Other assets						
Receivables from subsidiaries	–	276	–	–	–	–
Receivables from companies in which an investment is held	–	1,334	–	–	–	–
Collateral assets	219	–	97	–	–	–
Other	–	1,108	–	–	–	–
Total	**9,258**	**86,363**	**5,910**	**31**	**–**	**4,341**
LIABILITIES						
Financial liabilities						
Bonds	–	–	–	–	44,880	–
Liabilities to banks	–	–	–	–	12,658	–
Liabilities from customer deposits (banking)	–	–	–	–	13,572	–
Commercial paper	–	–	–	–	4,461	–
Asset-backed financing transactions	–	–	–	–	16,855	–
Derivative instruments						
Cash flow hedges	–	–	–	–	–	190
Fair value hedges	–	–	–	–	–	571
Other derivative instruments	–	–	–	–	–	329
Other	–	–	–	–	1,132	–
Trade payables	–	–	–	–	9,731	–
Other liabilities						
Payables to subsidiaries	–	–	–	–	129	–
Payables to other companies in which an investment is held	–	–	–	–	744	–
Other	–	–	–	–	5,949	–
Total	**–**	**–**	**–**	**–**	**110,111**	**1,090**

* The carrying amounts of cash flow hedges and fair value hedges are categorised as held for trading for the sake of clarity. Receivables from sales financing are shown including finance leases.

The following table shows the fair values and carrying amounts of financial assets and liabilities that are measured at cost or amortised cost and whose carrying amounts differ from their fair value. For some balance sheet items, fair value corresponds to the carrying amount due to their short maturity.

in € million	31.12.2018 Fair value	31.12.2018 Carrying amount	31.12.2017 Fair value	31.12.2017 Carrying amount
Receivables from sales financing	90,445	86,783	83,853	80,434
Bonds	53,831	53,346	45,566	44,880
Asset-backed financing transactions	17,443	17,335	17,005	16,855
Liabilities from customer deposits (banking)	14,374	14,359	13,588	13,572
Liabilities to banks	13,277	13,196	12,724	12,658

At 31 December 2018 the financial assets and liabilities measured at fair value according to IFRS 9 are classified as follows in the measurement levels in accordance with IFRS 13.

in € million	31.12.2018 Level hierarchy in accordance with IFRS 13 Level 1	Level 2	Level 3
Marketable securities, investment funds and collateral assets	4,641	–	–
Other investments	164	–	265
Cash equivalents	–	885	–
Loans to third parties	–	–	3
Derivative instruments (assets)			
Interest rate risks	–	1,069	–
Currency risks	–	713	–
Raw material market price risks	–	191	–
Other risks	–	–	4
Derivative instruments (liabilities)			
Interest rate risks	–	923	–
Currency risks	–	409	–
Raw materials market price risks	–	343	–

The classification of financial assets and liabilities measured at fair value according to IAS 39 to measurement levels in accordance with IFRS 13 at 31 December 2017 was as follows:

in € million	31.12.2017 Level hierarchy in accordance with IFRS 13 Level 1	Level 2	Level 3
Marketable securities, investment funds and collateral assets – available-for-sale	5,544	–	–
Other investments – available-for-sale / fair value option	284	–	105
Cash equivalents	–	–	–
Loans to third parties	–	–	2
Derivative instruments (assets)			
Interest rate risks	–	1,797	–
Currency risks	–	2,008	–
Raw material market price risks	–	534	–
Other risks	–	–	2
Derivative instruments (liabilities)			
Interest rate risks	–	778	–
Currency risks	–	221	–
Raw materials market price risks	–	91	–

The allocation to measurement levels at 31 December 2018 takes account of the reclassifications of financial instruments made in conjunction with the first-time application of IFRS 9 see → note 7. There were no reclassifications within the level hierarchy either in the financial year 2017 or in the financial year 2018.

→ see note 7

Where the fair value was required for a financial instrument for disclosure purposes, the discounted cash flow method was used, taking account of the BMW Group's own credit risk; for this reason, the fair values calculated can be allocated to Level 2. Financial instruments recognised at fair value for which no market price is available are allocated to Level 3. Fair values are determined in accordance with the following table:

in € million	Fair value 31.12.2018	Valuation method	Input Parameter
Unquoted equity instruments	265	Last financing round	Price per share
		Milestone analysis (quantitative and qualitative factors)	Company performance
			Contractual rights by share class
Convertible bonds	3	Income-based approach	Expected Company performance
			Risk adequate discounted interest rate
Options on unquoted equity instruments	4	Last financing round	Price per share
		Milestone analysis (quantitative and qualitative factors)	Company performance
		Consideration of exercise price	Contractual rights by share class
			Exercise price

Level 3 financial assets relate mainly to investments in a venture capital fund. The private equity companies are valued on the basis of their net asset value which is determined using relevant information that is not available in the public domain. The fund manager assesses the underlying individual companies in accordance with the guidelines for international private equity and venture capital valuations (IPEV). An increase in input parameters would normally also lead to a similar increase in valuation.

The balance sheet carrying amount of Level 3 financial instruments developed as follows:

in € million	Unquoted equity instruments	Convertible bonds	Options on unquoted equity instruments	Financial Instruments Level 3
1 January 2018*	111	2	2	115
Additions	103	3	–	106
Disposals	–4	–2	–	–6
Gains (+)/losses (–) recognised in accumulated other equity	–	–	–	–
Gains (+)/losses (–) recognised in the income statement	45	–	2	47
Currency translation differences	10	–	–	10
31 December 2018	**265**	**3**	**4**	**272**

* Opening balance adjusted due to first-time application of IFRS 9.

in € million	Unquoted equity instruments	Convertible bonds	Options on unquoted equity instruments	Financial Instruments Level 3
1 January 2017	–	–	–	–
Additions	103	2	–	105
Disposals	–	–	–	–
Gains (+)/losses (–) recognised in accumulated other equity	8	–	–	8
Gains (+)/losses (–) recognised in the income statement	–	–	3	3
Currency translation differences	–6	–	–1	–7
31 December 2017	**105**	**2**	**2**	**109**

Offsetting of financial instruments

Derivative financial instruments of the BMW Group are subject to legally enforceable master netting agreements or similar contracts. However, receivables and payables relating to derivative financial instruments are not netted due to non-fulfilment of the stipulated criteria. Offsetting would have the following impact on the carrying amounts of derivatives:

in € million	31.12.2018		31.12.2017	
	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	**1,977**	**1,675**	4,341	1,090
Gross amount of derivatives which can be offset in case of insolvency	**–913**	**–913**	–835	–835
Net amount after offsetting	**1,064**	**762**	3,506	255

Gains and losses on financial instruments

The following table shows the net gains and losses arising on financial instruments in the financial year 2018 pursuant to IFRS 9:

in € million	2018
Financial instruments measured at fair value through profit or loss	–150
Financial assets measured at amortised cost	203
Financial liabilities measured at amortised cost	155

Interest income from financial assets measured at amortised cost relates mainly to interest income from loan financing which is reported as revenues. Interest income and interest expense from financial assets at fair value through other comprehensive income amounted to €58 million and €47 million respectively. ⌐

Interest expenses from financial liabilities measured at amortised cost amounted to €1.8 billion.

The following table shows the net gains and losses arising on financial instruments in the financial year 2017 pursuant to IAS 39:

in € million	2017
Held for trading	
Gains / losses from the use of derivative instruments	961
Fair value option	
Gains / losses on investments measured at fair value through profit and loss	3
Available-for-sale	
Gains and losses on sale and fair value measurement of marketable securities held for sale (including investments in subsidiaries and participations measured at cost)	48
Net income from participations and investments in subsidiaries	14
Accumulated other equity	
Balance at 1 January	52
Total change during the year	41
thereof recognised in the income statement during the period under report	–44
Balance at 31 December	93
Loans and receivables	
Impairment losses / reversals of impairment losses	–162
Other income / expenses	–94
Other liabilities	
Income / expenses	162

Credit risk

The BMW Group is exposed to counterparty credit risks if contractual partners, for example a retail customer or a dealership, are unable or only partially able to meet their contractual obligations. Information on the management of credit risk for receivables from financial services is provided in the Combined Management Report (see section Report on Outlook, Risks and Opportunities).

Notwithstanding the existence of collateral accepted, the carrying amount of financial assets (with the exception of derivative financial instruments) generally represents the maximum credit risk. In addition, the credit risk is increased by additional unutilised loan commitments for credit card business and dealership financing. Total credit risk in these two lines of business amounts to €1,148 million (2017: €1,217 million) and €29,403 million (2017: €27,953 million) respectively.

In the case of all relationships underlying non-derivative financial instruments, in order to minimise the credit risk and depending on the nature and amount of exposure, collateral is required, credit information and references obtained or historical data based on the existing business relationship, in particular payment behaviour, reviewed.

In the case of trade receivables, customers are regularly assessed with regard to their credit risk. Depending on contractual status, necessary measures, such as dunning procedures, are initiated in good time.

The credit risk relating to cash deposits and derivative financial instruments is minimised by the fact that the Group only enters into such contracts with parties of first-class credit standing.

Within the financial services business, items financed for retail customers and dealerships (such as vehicles, facilities and property) 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. Items previously held as collateral that are subsequently acquired relate mainly to vehicles. These assets can usually be converted into cash at short notice through the dealership organisation. Creditworthiness testing is an important aspect of the BMW Group's credit risk management. Every borrower's creditworthiness is tested for all credit financing and lease contracts entered into by the BMW Group. In the case of retail customer financing, creditworthiness is assessed using validated scoring systems integrated into the acquisition process. In the area of dealership financing, creditworthiness is assessed by means of ongoing credit monitoring and an internal rating system that takes account not only of the material credit standing of the borrower, but also of qualitative factors such as past reliability in business relations.

The credit risk on trade receivables is assessed mainly on the basis of information relating to overdue amounts. The gross carrying amounts of these receivables are allocated at 31 December 2018 in accordance with IFRS 9 to overdue ranges used for management purposes as follows:

in € million	31.12.2018
Not overdue	2,066
1 – 30 days overdue	375
31 – 60 days overdue	34
61 – 90 days overdue	29
More than 90 days overdue	96
Total	**2,600**

At 31 December 2017 trade receivables existed that were overdue but for which no impairment allowance was recognised in accordance with IAS 39. The overdue amounts can be grouped in the following ranges:

in € million	31.12.2017
1 – 30 days overdue	187
31 – 60 days overdue	43
61 – 90 days overdue	19
91 – 120 days overdue	25
More than 120 days overdue	75
Balance at 31 December	**349**

Receivables from financial services (including credit card business receivables) are allocated to internally defined rating categories based on credit risk. The related gross carrying amounts in accordance with IFRS 9 were allocated at 31 December 2018 as follows:

	Stage 1	Stage 2		Stage 3		
in € million		General	Simplified		Total	Expected credit loss
Gross carrying amount of financial assets with good credit ratings	79,597	751	420	–	**80,768**	269
Gross carrying amount of financial assets with medium credit ratings	4,382	1,059	52	–	**5,493**	189
Gross carrying amount of financial assets with poor credit ratings	187	605	37	987	**1,816**	592
Total	**84,166**	**2,415**	**509**	**987**	**88,077**	**1,050**

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 25, 26 and 30.

→ see notes 25, 26 and 30

Liquidity risk

The following table shows the maturity structure of expected contractual cash flows (undiscounted) for financial liabilities:

in € million	31.12.2018 Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Bonds	10,789	34,196	11,546	**56,531**
Asset-backed financing transactions	6,942	11,710	–	**18,652**
Liabilities to banks	9,848	3,804	900	**14,552**
Liabilities from customer deposits (banking)	11,010	3,368	107	**14,485**
Trade payables	9,669	–	–	**9,669**
Commercial paper	2,478	–	–	**2,478**
Derivative instruments	976	1,180	81	**2,237**
Other financial liabilities	20	318	454	**792**
Total	**51,732**	**54,576**	**13,088**	**119,396**

in € million	31.12.2017 Maturity within one year	Maturity between one and five years	Maturity later than five years	Total
Bonds	11,735	27,201	8,285	**47,221**
Asset-backed financing transactions	7,087	10,901	–	**17,988**
Liabilities to banks	9,546	3,656	771	**13,973**
Liabilities from customer deposits (banking)	10,225	3,418	130	**13,773**
Trade payables	9,731	–	–	**9,731**
Commercial paper	4,463	–	–	**4,463**
Derivative instruments	466	637	111	**1,214**
Other financial liabilities	110	191	451	**752**
Total	**53,363**	**46,004**	**9,748**	**109,115**

The cash flows from non-derivative liabilities comprise principal repayments and the related interest. The amounts disclosed for derivative instruments comprise only cash flows relating to derivatives that have a negative fair value at the balance sheet date. At 31 December 2018 credit commitments to dealerships which had not been called upon at the end of the reporting period amounted to €9,010 million (2017: €8,812 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 covered by a variety of instruments placed on the world's financial markets, with the aim to minimise risk by matching maturities with financing requirements and in alignment with a dynamic target debt structure.

As a further reduction of risk, a syndicated credit line totalling €8 billion (2017: €8 billion) from a consortium of international banks is available to the BMW Group. Intragroup cash flow fluctuations are balanced out by the use of daily cash pooling arrangements.

Further information is provided in the "Results of Operations, Financial Position and Net Assets" section and in the "Risks and Opportunities" section of the Combined Management Report.

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 though natural hedging which arises when the values or cash flows of non-derivative financial instruments have matching maturities and amounts (netting). Derivative financial instruments are used to reduce the risk remaining after netting.

Currency, interest rate and raw materials price risks of the BMW Group are managed at a corporate level.

Further information is provided in the "Report on outlook, risks and opportunities" section of the Combined Management Report.

Currency risks
As an enterprise with worldwide operations, the BMW Group conducts business in a variety of currencies, from which currency risks arise. In order to hedge currency risks, the BMW Group holds, as at 31 December 2018, derivative financial instruments mostly in the form of forward currency contracts and currency swaps.

As part of the implementation of the risk management strategy, the extent to which risk exposures should be hedged is decided at regular intervals and the corresponding hedging ratio defined. The economic relationship between the hedged item and the hedging instrument is based essentially on the fact that they are denominated in the same currency and have the same maturities.

The BMW Group measures currency risk using a cash-flow-at-risk model. The analysis of currency risk in this model is based on the planned foreign currency transactions or "exposures". At the end of the reporting period, the currency exposure – in each case for the following year – was as follows:

in € million	31.12.2018	31.12.2017*
Currency exposure	28,407	29,203

* Prior year figure adjusted, due to the fact that entire currency risk is shown, not just of the significant currencies.

This exposure is 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 showing the impact of potential exchange rate fluctuations on operating cash flows on the basis of probability distributions. Volatilities and correlations serve as the main input factors to determine the relevant probability distributions.

The potential negative impact on earnings is calculated at the reporting date for each currency for the following financial year on the basis of current market prices and exposures with a confidence level of 95 %. The risk mitigating effect of correlations between the various currencies is taken into account when the risks are aggregated.

The following table shows the potential negative impact for the BMW Group for the following year resulting from unfavourable changes in exchange rates, measured on the basis of the cash-flow-at-risk approach.

in € million	31.12.2018	31.12.2017*
Cash flow at risk	431	581

* Prior year figure adjusted, due to the fact that entire currency risk is considered, not just of the significant currencies.

Interest rate risk
Interest rate risks arise when funds are borrowed and invested with differing fixed-rate periods or differing terms. At the BMW Group, all items subject to, or bearing, interest are exposed to interest rate risk and can therefore affect both the assets and liabilities side of the balance sheet.

The fair values of the Group's interest rate portfolios were as follows at the end of the reporting period:

in € million	31.12.2018	31.12.2017*
Fair values of interest rate portfolios	60,356	60,790

* Prior year figure adjusted, due to the fact that entire interest rate risk is shown, not just of the significant interest rate portfolios.

Interest rate risk is managed through the use of interest rate derivatives. As part of the implementation of the risk management strategy, interest rate risks are monitored and managed at regular intervals. The interest rate contracts used for hedging purposes comprise mainly swaps, which, if hedge accounting is applied, are accounted for as fair value hedges. The economic relationship between the hedged item and the hedging instrument is based on the fact that the main parameters of the hedged item and the related hedging instrument, such as start date, term and currency, are the same.

For selected fixed-interest assets, part of the interest rate risk is hedged on a portfolio basis. In this case, swaps are used as the hedging instrument. Hedge relationships are terminated and redesignated on a monthly basis at the end of each reporting period, thereby taking account of the constantly changing content of each portfolio.

The BMW Group applies a value-at-risk approach throughout the Group for internal reporting purposes and to manage interest rate risk. This approach is based on a historical simulation in which the potential future fair value losses of the interest rate portfolios are compared across the Group with expected amounts on the basis of a holding period of 250 days and a confidence level of 99.98 %. The risk mitigating effect of correlations between the various portfolios is taken into account when the risks are aggregated.

The following table shows for interest-rate-sensitive exposures of the BMW Group the potential fair value fluctuation compared with the expected value, measured on the basis of the value-at-risk approach:

in € million	31.12.2018	31.12.2017*
Value at risk	1,123	1,180

* Prior year figure adjusted due to the fact that the entire interest rate risk is considered, not just the significant interest rate portfolios.

Raw materials price risk

The BMW Group is exposed to market price risks on raw materials. In order to hedge these risks, the Group mainly used forward commodity contracts. As part of the implementation of the risk management strategy, the extent to which risk exposures should be hedged is decided at regular intervals and the corresponding hedging ratio defined.

The economic relationship between the hedged item and the hedging instrument is based essentially on the fact that they have the same basis and term. The BMW Group designates only the commodity price index-linked raw material surcharge as a hedged item. Other price components contained in the contract are not designated as being part of the hedge relationship as no effective hedging instruments exist for these components.

The starting point for analysing raw materials price risk is to identify planned purchases of raw materials or components containing raw materials, the so-called "exposure". At each reporting date, the exposure for the following financial year amounted to:

in € million	31.12.2018	31.12.2017
Raw material price exposures	4,174	3,969

This exposure is 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 showing the impact of potential raw materials market price fluctuations on 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 calculated at the reporting date for each raw materials category for the following financial year on the basis of current market prices and exposure with a confidence level of 95 %. The risk mitigating effect of correlations between the various categories of raw materials is taken into account when the risks are aggregated.

The following table shows the potential negative impact for the BMW Group resulting from fluctuations in prices across all categories of raw materials, measured on the basis of the cash-flow-at-risk approach. The risk at each reporting date for the following financial year was as follows:

in € million	31.12.2018	31.12.2017
Cash flow at risk	327	409

Disclosures on hedging measures

The following disclosures on hedging measures include derivatives of fully consolidated companies before offset of deferred tax.

The nominal amounts of hedging instruments at 31 December 2018 were as follows:

in € million	Maturity within one year	Maturity between one and five years	Maturity later than five years
Currency risks	17,159	9,097	–
Interest rate risks	4,619	24,295	12,027
Raw material price risks	1,526	2,109	32
Nominal amounts of hedging intruments	**23,304**	**35,501**	**12,059**

The average hedging rates of hedging instruments used by the BMW Group at 31 December 2018 were as follows:

Currency risks	Average hedging rates
EUR / CNY	8.26
EUR / USD	1.17
EUR / GBP	0.79
EUR / KRW	1,288.91
EUR / JPY	125.29

Raw material price risks	Average hedging rates
Aluminium (EUR / t)	1,797
Lead (EUR / t)	1,784
Copper (EUR / t)	5,279
Palladium (EUR / oz)	745
Platinum (EUR / oz)	945

The following table provides information on the nominal amounts, carrying amounts and fair value changes of contracts designated as hedging instruments:

		Fair Values		
in € million	Nominal amounts	Assets	Liabilities	Change in fair value of designated components
Cash Flow Hedges				
Currency risks	26,256	651	363	121
Raw material price risks	3,667	189	334	–453
Fair Value Hedges				
Interest rate risks	52,580	654	556	27

The following table summarises key information on hedged items for each risk category and shows the balances of designated components within accumulated other equity:

	Fair Values			Balances in accumulated other equity	
in € million	Assets	Liabilities	Change in value of hedged items	Continuing hedge relationships	Terminated hedge relationships
Cash Flow Hedges					
Currency risks	–	–	–119	941	–1
Raw material price risks	–	–	453	–262	–
Fair Value Hedges					
Interest rate risks	8,930	49,846	–33	–	–

The accumulated amount of hedge-related fair value adjustments is €15 million for assets and €243 million for liabilities.

Hedge relationships give rise to following effects:

in € million	Change of designated components in other comprehensive income	Costs of hedging in other comprehensive income	Hedge ineffectiveness recognised in income statement
Cash Flow Hedges			
Currency risks	–931	–614	–
Raw material price risks	–497	12	–
Fair Value Hedges			
Interest rate risks	–	–19	–6

Designated components and costs of hedging within accumulated other equity changed as follows:

	Currency risks		Interest rate risk	Raw materials price risk	
in € million	Designated component	Costs of hedging	Costs of hedging	Designated component	Costs of hedging
Opening balance at 1 January 2018	1,875	–	6	235	–
Change in fair value during the reporting period	120	–966	–20	–453	14
Reclassification to profit or loss					
for continuing hedge relationships	–987	319	1	–	–
for terminated hedge relationships	–68	33	–	7	–
Reclassification to acquisition costs for inventories	–	–	–	–51	–2
Closing balance at 31 December 2018	940	–614	–13	–262	12

Changes in fair value include additional effects from the application of the modified closing rate method.

The following section shows disclosures relevant for hedging instruments used in the financial year 2017 in accordance with IAS 39.

Cash flow hedges

The impact of cash flow hedges on accumulated other equity was as follows:

in € million	2017
Balance at 1 January	78
Total changes during the year	1,437
thereof reclassified to the income statement	–103
Balance at 31 December	**1,515**

No effects were recognised in financial result in the financial year 2017 in connection with forecasting errors and resulting overhedging. Gains due to the ineffective portion of cash flow hedges amounting to €17 million were recognised in financial result. No effects were recognised in financial result in the financial year 2017 in connection with forecasting errors relating to cash flow hedges for commodities. Losses attributable to the ineffective portion of cash flow hedges amounting to €1 million were recognised in financial result.

At 31 December 2017, the BMW Group held derivative financial instruments (mainly forward currency contracts) in order to hedge currency risks attached to future or existing transactions. These derivative instruments were intended to hedge forecast sales denominated in a foreign currency over the coming 32 months. It was expected that €336 million of net gains, recognised in equity at 31 December 2017, would be reclassified to profit and loss in the financial year 2018.

Furthermore, the BMW Group held no derivative financial instruments at 31 December 2017 which were designated as cash flow hedges to hedge against interest rate risks.

At 31 December 2017, the BMW Group held derivative financial instruments, mainly commodity swaps, with terms of up to 46 months to hedge raw materials price risks. It was expected that €55 million of net gains, recognised in equity at 31 December 2017 would be reclassified to profit and loss in the financial year 2018.

Fair value hedges

The following table shows gains and losses from fair value hedge relationships on hedging instruments and hedged items in the financial year 2017:

in € million	31.12.2017
Gains / losses on hedging instruments designated as part of a fair value hedge relationship	–335
Gains / losses from hedged items	328
Ineffectiveness of fair value hedges	**–7**

40 Related party relationships

Transactions of Group entities with related parties were carried out without exception in the normal course of business of each of the parties concerned and at market conditions.

A significant proportion of the BMW Group's transactions with related parties relates to the joint venture BMW Brilliance Automotive Ltd.

	Supplies and services performed		Supplies and services received		Receivables at 31 December		Payables at 31 December	
in € million	2018	2017	2018	2017	2018	2017	2018	2017
BMW Brilliance Automotive Ltd.	7,691	5,946	99	63	1,829	1,333	772	739

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 Health AG, Bad Homburg v.d.H., as well as sole shareholder of DELTON Logistics S.à r.l., Grevenmacher, which, via its subsidiaries, performed logistic-related services for the BMW Group during the financial year 2018. In addition, the companies acquired vehicles from the BMW Group, mainly by way of leasing.

Stefan Quandt, Germany, is also the indirect majority shareholder of SOLARWATT GmbH, Dresden. Cooperation arrangements are in place between BMW Group and SOLARWATT GmbH, Dresden, within the field of electric mobility. The focus of this cooperation is on the provision of complete photovoltaic solutions for rooftop systems and carports to BMW i customers. In 2018, SOLARWATT GmbH, Dresden, acquired vehicles from the BMW Group by way of leasing.

Susanne Klatten, Germany, is a shareholder and member of the Supervisory Board of BMW AG and also a shareholder and Deputy Chairwoman of the Supervisory Board of ALTANA AG, Wesel. In 2018, ALTANA AG, Wesel, acquired vehicles from the BMW Group, mainly by way of leasing.

Susanne Klatten, Germany, is also the sole shareholder and Chairwoman of the Supervisory Board of UnternehmerTUM GmbH, Garching. In 2018, the BMW Group bought in services from UnternehmerTUM GmbH, Garching, mainly in the form of consultancy and workshop services.

In addition, Susanne Klatten, Germany, and Stefan Quandt, Germany, are indirectly sole shareholders of Entrust Datacard Corp., Shakopee, Minnesota. Stefan Quandt is also a member of the supervisory board of this entity. In 2018, Entrust Datacard Corp., Shakopee, Minnesota, acquired vehicles from the BMW Group by way of leasing.

Seen from the perspective of BMW Group entities, the volume of transactions with the above-mentioned entities was as follows:

	Supplies and services performed		Supplies and services received		Receivables at 31 December		Payables at 31 December	
in € thousand	2018	2017	2018	2017	2018	2017	2018	2017
DELTON Health AG (formerly DELTON AG)	3,536	3,393	23,386	29,816	34	94	–	4,464
DELTON Logistics S.à r.l.	–	–	–	–	–	–	2,235	–
SOLARWATT GmbH	22	36	1	–	1	5	–	–
ALTANA AG	2,322	2,421	341	296	401	360	5	36
UnternehmerTUM GmbH	58	27	1,527	1,435	–	–	367	255
Entrust Datacard Corp.	103	106	–	–	2	5	–	–

Apart from vehicle leasing and financing contracts at usual conditions, companies of the BMW Group concluded no further transactions with members of the Board of Management or Supervisory Board of BMW AG. This also applies to close members of the families of those persons.

BMW Trust e.V., Munich, administers assets on a trustee basis to secure obligations relating to pensions in Germany and is therefore a related party of the BMW Group in accordance with IAS 24. This entity has no assets of its own. It had no income or expenses during the period under report. BMW AG bears expenses on an immaterial scale and performs services for BMW Trust e.V., Munich.

For disclosures relating to key management personnel, please see → note 43 and the Compensation Report.

→ see note 43

41
Share-based remuneration

The BMW Group provides three share-based programmes: the Employee Share Programme for entitled employees of the BMW Group, a share-based remuneration programme for members of the Board of Management and a share-based remuneration programme for senior heads of department of BMW AG.

As part of the Employee Share Programme, non-voting shares of preferred stock in BMW AG were granted in 2018 to qualifying employees at favourable conditions (see → note 31 for the number and price of issued shares). The holding period for these shares is up to 31 December 2021. In the financial year 2018, the BMW Group recorded a personnel expense of €10 million (2017: €10 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 31

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. This compensation component was revised for financial years from 2018 onwards.

Members of the Board of Management continue to receive a cash compensation for the specific purpose of investment after tax and contributions in BMW AG common stock. For financial years from 2018 onwards, the investment component corresponds to 45 % of the gross bonus. Shares of common stock purchased in this way by Board members are required to be held for a period of four years. At the end of the holding period, Board members receive from BMW AG, for every three shares of common stock held, either one additional share of common stock or the cash equivalent, to be decided at BMW AG's discretion. In the event of death or invalidity, special rules apply for early payment of share-based remuneration components based on the target amounts. Insofar the service contract is prematurely terminated and the Company has an extraordinary right of termination, or if the Board member resigns without the Company's agreement, entitlements to amounts as yet unpaid relating to share-based remuneration are forfeited. With effect from the financial year 2012, qualifying senior heads of department are also entitled to select a share-based remuneration component, which is largely comparable to the share-based remuneration arrangements for Board of Management members.

The share-based remuneration component is measured at its fair value at each balance sheet date between grant and settlement date, and on the settlement date. The amounts are recognised as personnel expense on a straight-line basis over the vesting period and reported in the balance sheet as a provision.

The cash-settlement 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 2018).

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 2018 was €4,745,518 (2017: €6,301,785).

The total expense recognised in 2018 for the share-based remuneration component of current and former Board of Management members and senior heads of department was €609,890 (2017: €1,642,936).

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 €1,919,680 (2017: €2,311,946), based on a total of 22,245 shares (2017: 25,694 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 2018.

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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 2018 of the BMW Group and is also available to shareholders on the BMW Group website at → www.bmwgroup.com.

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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 expensed for the financial year 2018 in accordance with IFRS comprised the following:

in € million	2018	2017
Compensation to members of the Board of Management	**28.8**	40.2
Fixed remuneration	8.2	7.7
Variable remuneration	20.3	31.7
thereof Performance Cash Plan	5.3	–
Share-based remuneration component	0.3	0.8
Allocation to pension provisions	**3.4**	3.1
Benefits in conjunction with the termination of board activity	**3.9**	0.9
Compensation to members of the Supervisory Board	**5.6**	5.6
Fixed compensation and attendance fees	2.0	2.0
Variable compensation	3.6	3.6
Total expense	**41.7**	**49.8**
thereof due within one year	**30.7**	45.9

With effect from the financial year 2018, variable cash compensation includes a multi-year and future-oriented Performance Cash Plan.

The total remuneration of former members of the Board of Management and their dependants amounted to €9.2 million (2017: €6.7 million).

Pension obligations to current members of the Board of Management are covered by provisions amounting to €19.7 million (2017: €22.0 million), determined in accordance with IAS 19. Pension obligations to former members of the Board of Management and their surviving dependants, also determined in accordance with IAS 19, amounted to €91.0 million (2017: €90.1 million).

The compensation arrangements applicable for members of the Supervisory Board for the financial year 2018 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 at customary conditions, no advances or loans were granted to members of the Board of Management and the Supervisory Board of BMW AG or its subsidiaries, nor were any contingent liabilities entered into on their behalf.

Further details 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

45
Explanatory notes to segment information

Information on reportable segments

For the purposes of presenting segment information, the activities of the BMW Group are divided into operating segments in accordance with IFRS 8 (Operating Segments). The segmentation follows the internal management and reporting system and takes account of the organisational structure of the BMW Group based on the various products and services of the reportable segments.

The activities of the BMW Group are broken down into the operating segments Automotive, Motorcycles, Financial Services and Other Entities.

Within the Automotive segment the BMW Group develops, manufactures, assembles and sells automobiles and off-road vehicles, under the brands BMW, MINI and Rolls-Royce as well as spare parts, accessories and mobility services. BMW and MINI brand products are sold in Germany through branches of BMW AG and by independent, authorised dealerships. Sales outside Germany are handled mainly by subsidiary companies and by independent import companies in some markets. Rolls-Royce brand vehicles are sold in the USA as well as in China, Korea, Italy and Russia via subsidiary companies and elsewhere by independent, authorised dealerships.

Activities relating to the development, manufacture, assembly and sale of motorcycles as well as spare parts and accessories are reported in the Motorcycles segment.

Automobile leasing, fleet business, multi-brand business, retail and dealership financing, customer deposit business and insurance activities are the main activities allocated to the Financial Services segment.

Holding and Group financing companies are reported in the Other Entities segment. This segment also includes the operating companies BMW (UK) Investments Ltd. and Bavaria Lloyd Reisebüro GmbH, which are not allocated to one of the other segments.

Internal management and reporting

Segment information is prepared as a general rule in conformity with the accounting policies adopted for preparing and presenting the Group Financial Statements. Exceptions to this general principle are the treatment of inter-segment guarantees, 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 receivables and investments in subsidiaries for which no impairment losses have been recognised. A further exception is the treatment of intragroup buyback arrangements between the Automotive and Financial Services segments. Inter-segment receivables and payables, provisions, income, expenses and profits are eliminated upon consolidation. Inter-segment revenues are based on market prices. Centralised functions are included in the segments concerned. Expenses for centralised administrative functions allocated to the Financial Services segment are not settled in cash.

The role of “chief operating decision maker” with respect to resource allocation and performance assessment of the reportable segment is embodied in the full Board of Management. For this purpose, different measures of segment performance as well as segment assets are taken into account in the operating segments.

The Automotive and Motorcycles segments are managed on the basis of return on capital employed (RoCE). The relevant measure of segment 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 success of the Financial Services segment is measured on the basis of return on equity (RoE). Profit before tax therefore represents the relevant measure of segment earnings. The measure of segment assets in the Financial Services segment corresponds to net assets, defined as total assets less total liabilities.

The success of the Other Entities segment is assessed on the basis of profit or loss before tax. The corresponding measure of segment assets used to manage the Other Entities segment is total assets less asset-side income tax items and intragroup investments.

Segment information by operating segment is as follows:

in € million	Automotive 2018	Automotive 2017*	Motorcycles 2018	Motorcycles 2017*	Financial Services 2018	Financial Services 2017
SEGMENT INFORMATION BY OPERATING SEGMENT						
External revenues	68,947	70,152	2,176	2,270	26,355	25,857
Inter-segment revenues	16,899	15,590	–3	2	1,810	1,710
Total revenues	**85,846**	**85,742**	**2,173**	**2,272**	**28,165**	**27,567**
Segment result	6,182	7,888	175	207	2,161	2,207
Result from equity accounted investments	632	739	–	–	–	–
Capital expenditure on non-current assets	7,853	6,972	147	125	24,608	25,024
Depreciation and amortisation on non-current assets	4,982	4,699	97	88	9,962	9,992

in € million	Automotive 31.12.2018	Automotive 31.12.2017*	Motorcycles 31.12.2018	Motorcycles 31.12.2017	Financial Services 31.12.2018	Financial Services 31.12.2017
Segment assets	13,836	11,223	618	618	14,919	14,740
Investments accounted for using the equity method	2,624	2,769	–	–	–	–

* Prior year figures adjusted due to first-time application of IFRS 15, see note 6.

SEGMENT INFORMATION BY OPERATING SEGMENT

	Other Entities		Reconciliation to Group figures		Group	
	2018	2017	2018	2017*	2018	2017*
External revenues	2	3	–	–	97,480	98,282
Inter-segment revenues	4	4	−18,710	−17,306	–	–
Total revenues	**6**	**7**	**−18,710**	**−17,306**	**97,480**	**98,282**
Segment result	−45	80	1,342	293	9,815	10,675
Result from equity accounted investments	–	–	–	–	632	739
Capital expenditure on non-current assets	–	–	−6,174	−6,728	26,434	25,393
Depreciation and amortisation on non-current assets	–	–	−6,600	−6,324	8,441	8,455

	Other Entities		Reconciliation to Group figures		Group	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017*	31.12.2018	31.12.2017*
Segment assets	84,512	75,121	95,095	93,804	208,980	195,506
Investments accounted for using the equity method	–	–	–	–	2,624	2,769

Write-downs on inventories to their net realisable value amounting to €54 million (2017: €36 million[1]) were recognised by the Automotive segment in the financial year 2018. The reversal of impairment losses increased the segment result of the Automotive segment by an amount of €22 million (2017: €6 million).

[1] Prior year figure has been adjusted.

The result of the Financial Services segment was negatively impacted by impairment losses totalling €302 million (2017: €215 million) recognised on leased products. Income from the reversal of impairment losses on leased products amounted to €118 million (2017: €11 million).

The Other Entities' segment result includes interest and similar income amounting to €1,178 million (2017: €1,110 million) and interest and similar expenses amounting to €1,145 million (2017: €986 million).

The information disclosed for capital expenditure and depreciation and amortisation relates to non-current property, plant and equipment, intangible assets and leased products.

The total of the segment figures can be reconciled to the corresponding Group figures as follows:

in € million	2018	2017*
Reconciliation of segment result		
Total for reportable segments	8,473	10,382
Financial result of Automotive segment	795	829
Financial result of Motorcycles segment	–6	–2
Elimination of inter-segment items	553	–534
Group profit before tax	**9,815**	**10,675**
Reconciliation of capital expenditure on non-current assets		
Total for reportable segments	32,608	32,121
Elimination of inter-segment items	–6,174	–6,728
Total Group capital expenditure on non-current assets	**26,434**	**25,393**
Reconciliation of depreciation and amortisation on non-current assets		
Total for reportable segments	15,041	14,779
Elimination of inter-segment items	–6,600	–6,324
Total Group depreciation and amortisation on non-current assets	**8,441**	**8,455**

in € million	31.12.2018	31.12.2017*
Reconciliation of segment assets		
Total for reportable segments	113,885	101,702
Non-operating assets – Automotive	48,639	47,933
Liabilities of Automotive segment not subject to interest	34,643	34,489
Non-operating assets – Motorcycles	45	40
Liabilities of Motorcycles segment not subject to interest	613	572
Total liabilities – Financial Services segment	131,889	123,088
Non-operating assets – Other Entities segment	7,084	7,829
Elimination of inter-segment items	–127,818	–120,147
Total Group assets	**208,980**	**195,506**

* Prior year figures adjusted due to first-time application of IFRS 15, see note 6.

The reconciliation of segment figures to the corresponding total Group figures shows the elimination of inter-segment items. Revenues with other segments result mainly from the sale of vehicles, for which the Financial Services segment has concluded a financing or lease contract. Eliminations of inter-segment items in the reconciliation to the Group profit before tax, capital expenditure, depreciation and amortization mainly result from the sale of vehicles in the Automotive segment, which are subsequently accounted for as leased vehicles in the Financial Services segment.

In the reconciliation of segment assets to Group assets, eliminations relate mainly to intragroup financing balances.

In the information by region, external sales are based on the location of the customer. Revenues with major customers were not material overall. The information disclosed for non-current assets relates to property, plant and equipment, intangible assets and leased products. Eliminations disclosed for non-current assets relate to leased products.

Information by region in € million	External revenues		Non-current assets	
	2018	2017*	2018	2017*
Germany	13,596	14,299	34,883	31,678
China	19,008	18,268	90	85
USA	16,088	16,726	21,361	20,766
Rest of Europe	31,415	30,925	15,526	14,807
Rest of Asia	11,071	11,400	1,508	1,588
Rest of the Americas	3,606	3,689	3,435	2,941
Other regions	2,696	2,975	396	355
Eliminations	–	–	–7,855	–8,028
Group	**97,480**	**98,282**	**69,344**	**64,192**

* Prior year figures adjusted due to first-time application of IFRS 15, see note 6.

LIST OF INVESTMENTS AT 31 DECEMBER 2018

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List of investments at 31 December 2018

The List of Investments of BMW AG pursuant to § 285 and § 313 HGB is presented below. Disclosures for equity and earnings and for investments are not made if they are of "minor significance" for the results of operations, financial position and net assets of BMW AG pursuant to § 286 (3) sentence 1 no. 1 HGB and § 313 (3) sentence 4 HGB. It is also shown in the list which subsidiaries apply the exemptions available in § 264 (3) and § 264 b HGB with regard to the publication of annual financial statements and the drawing up of a management report and/or notes to the financial statements (footnotes 5 and 6). The Group Financial Statements of BMW AG serve as exempting consolidated financial statements for these companies.

Affiliated companies (subsidiaries) of BMW AG at 31 December 2018

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Companies	Equity in € million	Profit / loss in € million	Capital investment in %
DOMESTIC[1]			
BMW Beteiligungs GmbH & Co. KG, Munich[6]	5,497	–13	100
BMW INTEC Beteiligungs GmbH, Munich[3, 6]	3,558	–	100
BMW Bank GmbH, Munich[3]	1,988	–	100
BMW Finanz Verwaltungs GmbH, Munich	326	1	100
BMW Verwaltungs GmbH, Munich[3, 6]	153	–	100
Parkhaus Oberwiesenfeld GmbH, Munich	–	–	100
Alphabet Fuhrparkmanagement GmbH, Munich[4]	–	–	100
Alphabet International GmbH, Munich[4, 5, 6]	–	–	100
BMW High Power Charging Beteiligungs GmbH, Munich[4, 6]	–	–	100
DriveNow GmbH & Co. KG, Munich[11]	–	–	100
BMW Hams Hall Motoren GmbH, Munich[4, 5, 6]	–	–	100
BMW Fahrzeugtechnik GmbH, Eisenach[3, 5, 6]	–	–	100
BMW Anlagen Verwaltungs GmbH, Munich[3, 6]	–	–	100
Bürohaus Petuelring GmbH, Munich	–	–	100
Bavaria Wirtschaftsagentur GmbH, Munich[3, 5, 6]	–	–	100
BAVARIA-LLOYD Reisebüro GmbH, Munich	–	–	100
Rolls-Royce Motor Cars GmbH, Munich[4, 5, 6]	–	–	100
BMW Vermögensverwaltungs GmbH, Munich	–	–	100
BMW Vertriebszentren Verwaltungs GmbH, Munich	–	–	100
BMW M GmbH Gesellschaft für individuelle Automobile, Munich[3, 5, 6]	–	–	100
DriveNow Verwaltungs GmbH, Munich[11]	–	–	100
LARGUS Grundstücks-Verwaltungsgesellschaft mbH, Munich	–	–	100
FOREIGN[2]			
Europe[12]			
BMW Holding B.V., The Hague	17,761	2,106	100
BMW International Holding B.V., Rijswijk[10]	7,971	58	100
BMW Österreich Holding GmbH, Steyr	3,064	838	100
BMW (UK) Holdings Ltd., Farnborough	1,889	385	100
BMW España Finance S.L., Madrid	1,020	22	100
BMW Financial Services (GB) Ltd., Farnborough	1,014	269	100
BMW Motoren GmbH, Steyr	963	176	100
BMW (Schweiz) AG, Dielsdorf	895	55	100
BMW International Investment B.V., The Hague	588	9	100
BMW (UK) Manufacturing Ltd., Farnborough	561	105	100

BMW Finance S.N.C., Guyancourt	476	57	100
BMW Italia S.p.A., San Donato Milanese	388	61	100
BMW Belgium Luxembourg S.A. / N.V., Bornem	316	16	100
BMW (UK) Ltd., Farnborough	304	84	100
ALPHABET (GB) Ltd., Farnborough	284	64	100
BMW France S.A.S., Montigny-le-Bretonneux	225	27	100
BMW Financial Services Scandinavia AB, Sollentuna	222	11	100
BMW i Ventures SCS SICAV-RAIF, Senningerberg	218	43	100
BMW Iberica S.A., Madrid	213	19	100
BMW Finance N.V., The Hague	205	19	100
Rolls-Royce Motor Cars Ltd., Farnborough	195	71	100
BMW Russland Trading OOO, Moscow	157	75	100
BMW Austria Leasing GmbH, Salzburg	156	20	100
Alphabet Nederland B.V., Breda[10]	129	29	100
BMW Austria Bank GmbH, Salzburg	128	16	100
BMW Vertriebs GmbH, Salzburg	123	19	100
Alphabet Belgium Long Term Rental NV, Aartselaar	101	2	100
APD Industries plc, Birmingham	–	–	100
BMW Malta Ltd., Floriana	–	–	100
Alphabet UK Ltd., Glasgow	–	–	100
BMW Austria GmbH, Salzburg	–	–	100
Bavaria Reinsurance Malta Ltd., Floriana	–	–	100
BMW Finanzdienstleistungen (Schweiz) AG, Dielsdorf	–	–	100
BMW Bank OOO, Moscow	–	–	100
BMW Financial Services Belgium S.A. / N.V., Bornem	–	–	100
BMW Northern Europe AB, Stockholm	–	–	100
Alphabet España Fleet Management S.A.U., Madrid	–	–	100
BMW Norge AS, Fornebu	–	–	100
BMW Financial Services B.V., Rijswijk	–	–	100
Swindon Pressings Ltd., Farnborough	–	–	100
BMW Services Ltd., Farnborough	–	–	100
BMW Financial Services Polska Sp. z o.o., Warsaw	–	–	100
Alphabet Italia Fleet Management S.p.A., Rome	–	–	100
Alphabet Austria Fuhrparkmanagement GmbH, Salzburg	–	–	100
Alphabet France Fleet Management S.N.C., Rueil-Malmaison	–	–	100
BMW Retail Nederland B.V., The Hague	–	–	100
BMW Hellas Trade of Cars A.E., Kifissia	–	–	100
Alphabet Fuhrparkmanagement (Schweiz) AG, Dielsdorf	–	–	100
BMW Financial Services (Ireland) DAC, Dublin	–	–	100
BMW Portugal Lda., Porto Salvo	–	–	100
BMW Financial Services Denmark A / S, Copenhagen	–	–	100
BMW Nederland B.V., Rijswijk	–	–	100
BMW Amsterdam B.V., Amsterdam	–	–	100
BMW Automotive (Ireland) Ltd., Dublin	–	–	100
BMW Distribution S.A.S., Vélizy-Villacoublay	–	–	100
Park Lane Ltd., Farnborough	–	–	100
BMW Renting (Portugal) Lda., Porto Salvo	–	–	100
Alphabet France S.A.S., Rueil-Malmaison	–	–	100
Oy BMW Suomi AB, Helsinki	–	–	100
BMW Services Belgium N.V., Bornem	–	–	100
BMW Czech Republic s.r.o., Prague[11]	–	–	100
BMW Roma S.r.l., Rome	–	–	100
BMW Danmark A / S, Copenhagen	–	–	100
BMW Den Haag B.V., The Hague	–	–	100

BMW Madrid S.L., Madrid	–	–	100
Alphabet Polska Fleet Management Sp. z o.o., Warsaw	–	–	100
BMW Slovenská republika s.r.o., Bratislava[11]	–	–	100
Société Nouvelle WATT Automobiles S.A.R.L., Rueil-Malmaison	–	–	100
BMW Milano S.r.l., Milan	–	–	100
Alphabet Luxembourg S.A., Leudelange	–	–	100
BMW (UK) Investments Ltd., Farnborough	–	–	100
DriveNow Sverige AB, Sollentuna[11]	–	–	100
DriveNow Austria GmbH, Vienna[11]	–	–	100
BMW Coordination Center V.o.F., Bornem	–	–	100
BiV Carry I SCS, Senningerberg	–	–	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
DriveNow Belgium S.p.r.l., Brussels[11]	–	–	100
DriveNow Italy S.r.l., Milan[11]	–	–	100
DriveNow UK Ltd., London[11]	–	–	100
Bavarian Sky S.A., Compartment German Auto Loans 4, Luxembourg[13]	–	–	0
Bavarian Sky S.A., Compartment German Auto Loans 5, Luxembourg[13]	–	–	0
Bavarian Sky S.A., Compartment German Auto Loans 6, Luxembourg[13]	–	–	0
Bavarian Sky S.A., Compartment German Auto Loans 7, Luxembourg[13]	–	–	0
Bavarian Sky S.A., Compartment German Auto Loans 8, Luxembourg[13]	–	–	0
Bavarian Sky S.A., Compartment A, Luxembourg[13]	–	–	0
Bavarian Sky S.A., Compartment B, Luxembourg[13]	–	–	0
Bavarian Sky Europe S.A. Compartment A, Luxembourg[13]	–	–	0
Bavarian Sky Europe S.A., Compartment Swiss Auto Leases 2, Luxembourg[13]	–	–	0
Bavarian Sky FTC, Compartment French Auto Leases 2, Paris[13]	–	–	0
Bavarian Sky FTC, Compartment French Auto Leases 3, Paris[13]	–	–	0
Bavarian Sky UK 1 plc, London[13]	–	–	0
Bavarian Sky UK 2 plc, London[13]	–	–	0
Bavarian Sky UK A Ltd., London[13]	–	–	0
Bavarian Sky UK B Ltd., London[13]	–	–	0
The Americas			
BMW (US) Holding Corp., Wilmington, Delaware	4,991	2,599	100
BMW Manufacturing Co. LLC, Wilmington, Delaware	1,817	270	100
Financial Services Vehicle Trust, Wilmington, Delaware	1,530	340	100
BMW Bank of North America Inc., Salt Lake City, Utah	1,445	164	100
BMW Canada Inc., Richmond Hill, Ontario	513	134	100
BMW US Capital LLC, Wilmington, Delaware	228	–35	100
BMW Financial Services NA LLC, Wilmington, Delaware	190	85	100
BMW do Brasil Ltda., Joinville	175	–24	100
BMW of North America LLC, Wilmington, Delaware	–116	2,670	100
BMW Financeira S.A. Credito, Financiamento e Investimento, São Paulo	–	–	100
BMW de Mexico S.A. de C.V., Mexico City	–	–	100
BMW Financial Services de Mexico S.A. de C.V. SOFOM, Mexico City	–	–	100
BMW of Manhattan, Inc., Wilmington, Delaware	–	–	100
BMW SLP, S.A. de C.V., Villa de Reyes	–	–	100
BMW de Argentina S.A., Buenos Aires	–	–	100
BMW Insurance Agency Inc., Wilmington, Delaware	–	–	100
BMW Leasing de Mexico S.A. de C.V., Mexico City	–	–	100
BMW Leasing do Brasil S.A., São Paulo	–	–	100
Rolls-Royce Motor Cars NA LLC, Wilmington, Delaware	–	–	100

BMW Consolidation Services Co. LLC, Wilmington, Delaware	–	–	100
BMW Acquisitions Ltda., São Paulo	–	–	100
BMW Manufacturing Indústria de Motos da Amazônia Ltda., Manaus	–	–	100
SB Acquisitions LLC, Wilmington, Delaware	–	–	100
BMW Auto Leasing LLC, Wilmington, Delaware	–	–	100
BMW Facility Partners LLC, Wilmington, Delaware	–	–	100
BMW FS Securities LLC, Wilmington, Delaware	–	–	100
BMW FS Funding Corp., Wilmington, Delaware	–	–	100
BMW Manufacturing LP, Woodcliff Lake, New Jersey	–	–	100
BMW FS Receivables Corp., Wilmington, Delaware	–	–	100
BMW Receivables 1 Inc., Richmond Hill, Ontario	–	–	100
BMW Receivables Ltd. Partnership, Richmond Hill, Ontario	–	–	100
BMW Receivables 2 Inc., Richmond Hill, Ontario	–	–	100
BMW Extended Service Corp., Wilmington, Delaware	–	–	100
BMW Vehicle Lease Trust 2016-2, Wilmington, Delaware[13]	–	–	0
BMW Vehicle Lease Trust 2017-1, Wilmington, Delaware[13]	–	–	0
BMW Vehicle Lease Trust 2017-2, Wilmington, Delaware[13]	–	–	0
BMW Vehicle Lease Trust 2018-1, Wilmington, Delaware[13]	–	–	0
BMW Vehicle Lease Trust 2017-A, Wilmington, Delaware[13]	–	–	0
BMW Vehicle Owner Trust 2016-A, Wilmington, Delaware[13]	–	–	0
BMW Vehicle Owner Trust 2018-A, Wilmington, Delaware[13]	–	–	0
BMW Floorplan Master Owner Trust Series 2018-1, Wilmington, Delaware[13]	–	–	0
BMW Canada 2015-A, Richmond Hill, Ontario[13]	–	–	0
BMW Canada 2018-A, Richmond Hill, Ontario[13]	–	–	0
BMW Canada Auto Trust 2016, Richmond Hill, Ontario[13]	–	–	0
BMW Canada Auto Trust 2017-1, Richmond Hill, Ontario[13]	–	–	0
BMW Canada Auto Trust 2018-1, Richmond Hill, Ontario[13]	–	–	0
Africa			
BMW (South Africa) (Pty) Ltd., Pretoria	719	63	100
BMW Financial Services (South Africa) (Pty) Ltd., Midrand	149	4	100
SuperDrive Investments (RF) Ltd., Cape Town[13]	–	–	0
Asia			
BMW Automotive Finance (China) Co. Ltd., Beijing	2,107	248	58
BMW China Automotive Trading Ltd., Beijing	557	480	100
BMW Financial Services Korea Co. Ltd., Seoul	530	47	100
BMW Japan Finance Corp., Tokyo	482	62	100
BMW Japan Corp., Tokyo	337	93	100
Herald International Financial Leasing Co., Ltd., Tianjin	197	13	58
BMW Korea Co. Ltd., Seoul	173	27	100
BMW India Financial Services Private Ltd., Gurgaon, Haryana	123	7	100
BMW (Thailand) Co. Ltd., Bangkok	108	87	100
BMW Manufacturing (Thailand) Co. Ltd., Rayong	–	–	100
BMW Malaysia Sdn Bhd, Kuala Lumpur	–	–	51
BMW Leasing (Thailand) Co. Ltd., Bangkok	–	–	74
BMW China Services Ltd., Beijing	–	–	100
BMW Holding Malaysia Sdn Bhd, Kuala Lumpur	–	–	100
BMW India Private Ltd., Gurgaon	–	–	100
BMW Asia Technology Centre Sdn Bhd, Kuala Lumpur	–	–	100
BMW Asia Pte. Ltd., Singapore	–	–	100
PT BMW Indonesia, Jakarta	–	–	100
BMW Asia Pacific Capital Pte Ltd., Singapore	–	–	100
BMW Credit (Malaysia) Sdn Bhd, Kuala Lumpur	–	–	100
BMW Lease (Malaysia) Sdn Bhd, Kuala Lumpur	–	–	100

BMW Tokyo Corp., Tokyo	–	–	100
2015-1 ABL, Tokyo[13]	–	–	0
2015-2 ABL, Tokyo[13]	–	–	0
2016-1 ABL, Tokyo[13]	–	–	0
2016-2 ABL, Tokyo[13]	–	–	0
2017-1 ABL, Tokyo[13]	–	–	0
2017-2 ABL, Tokyo[13]	–	–	0
2017-3 ABL, Tokyo[13]	–	–	0
2018-1 ABL, Tokyo[13]	–	–	0
2018-2 ABL, Tokyo[13]	–	–	0
2018-3 ABL, Tokyo[13]	–	–	0
Bavarian Sky Korea 2nd Asset Securitization Speciality Company, Seoul[13]	–	–	0
Bavarian Sky Korea 3rd Asset Securitization Speciality Company, Seoul[13]	–	–	0
Bavarian Sky China 2017-2, Beijing[13]	–	–	0
Bavarian Sky China 2017-3, Beijing[13]	–	–	0
Bavarian Sky China 2018-1, Beijing[13]	–	–	0
Bavarian Sky China 2018-2, Beijing[13]	–	–	0
Oceania			
BMW Australia Finance Ltd., Mulgrave	403	27	100
BMW Australia Ltd., Melbourne	179	53	100
BMW Financial Services New Zealand Ltd., Auckland	–	–	100
BMW New Zealand Ltd., Auckland	–	–	100
BMW Sydney Pty. Ltd., Sydney	–	–	100
BMW Melbourne Pty. Ltd., Melbourne	–	–	100
BMW Australia Trust 2011-2, Mulgrave[13]	–	–	0
Bavarian Sky Australia Trust A, Mulgrave[13]	–	–	0

BMW AG's non-consolidated companies at 31 December 2018

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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
Blitz 18-353 GmbH, Munich	–	–	100
Blitz 18-354 GmbH, Munich	–	–	100
BMW Car IT GmbH, Munich[4]	–	–	100
BMW i Ventures GmbH, Munich	–	–	100
Digital Charging Solutions GmbH, Munich	–	–	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 (UK) Pensions Services Ltd., Hams Hall	–	–	100
BMW Bulgaria EOOD, Sofia	–	–	100
BMW Car Club Ltd., Farnborough	–	–	100
BMW Drivers Club Ltd., Farnborough	–	–	100
BMW Group Benefit Trust Ltd., Farnborough	–	–	100

BMW i Ventures B.V., The Hague	–	–	100
BMW Manufacturing Hungary Kft., Vecsés	–	–	100
BMW Merger S.R.L., Bukarest	–	–	100
BMW Merger, distribucija motornih vozil, d.o.o., Ljubljana	–	–	100
BMW Motorsport Ltd., Farnborough	–	–	100
BMW Russland Automotive OOO, Kaliningrad	–	–	100
Cobalt Holdings Ltd., Basingstoke	–	–	100
Cobalt Telephone Technologies Ltd., Basingstoke	–	–	100
Content4all B.V., Amsterdam	–	–	100
John Cooper Garages Ltd., Farnborough	–	–	100
John Cooper Works Ltd., Farnborough	–	–	100
OOO BMW Leasing, Moscow	–	–	100
Park-line Aqua B.V., The Hague	–	–	100
Park-line B.V., The Hague	–	–	100
Park-line Holding B.V., The Hague	–	–	100
Park-Mobile (UK) Ltd., Basingstoke	–	–	100
Parkmobile Belgium BvBa, Antwerp	–	–	100
Parkmobile Benelux B.V., Amsterdam	–	–	100
Parkmobile Group B.V., Amsterdam	–	–	100
Parkmobile Group Holding B.V., Amsterdam	–	–	100
Parkmobile Hellas S.A., Athens	–	–	60
Parkmobile International B.V., Amsterdam	–	–	100
Parkmobile International Holding B.V., Amsterdam	–	–	100
Parkmobile Licenses B.V., Amsterdam	–	–	100
Parkmobile Ltd., Basingstoke	–	–	100
Parkmobile Software B.V., Amsterdam	–	–	100
ParkNow Austria GmbH, Vienna	–	–	100
ParkNow France S.A.S., Versailles	–	–	100
ParkNow Suisse S.A., Bulle	–	–	100
RingGo (GB) Ltd., Basingstoke	–	–	100
U.T.E. Alphabet España-Bujarkay, Sevilla	–	–	90
The Americas			
217-07 Northern Boulevard Corp., Wilmington, Delaware	–	–	100
BMW Experience Centre Inc., Richmond Hill, Ontario	–	–	100
BMW i Ventures Inc., Wilmington, Delaware	–	–	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 Corp., Wilmington, Delaware	–	–	100
Designworks / USA Inc., Newbury Park, California	–	–	100
Digital Charging Solution Corp., Atlanta, Georgia	–	–	100
MINI Business Innovation LLC, Wilmington, Delaware	–	–	100
Mini Urban X Accelerator SPV LLC, Wilmington, Delaware	–	–	100
Parkmobile Electronic Parking Solutions Canada Inc., Vancouver	–	–	100
Parkmobile Montgomery County LLC, Baltimore, Maryland	–	–	100
Parkmobile USA Inc., Atlanta, Georgia	–	–	100
Parkmobile LLC, Wilmington, Delaware	–	–	100
ParkNow 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			
THEPSATRI Co. Ltd., Bangkok[9]	–	–	49
BMW Financial Services Singapore Pte Ltd., Singapore	–	–	100
BMW Philippines Corp., Manila	–	–	70
BMW India Foundation, Gurgaon	–	–	100
BMW Hong Kong Services Ltd., Hongkong	–	–	100
BMW Insurance Services Korea Co. Ltd., Seoul	–	–	100
BMW Mobility Services Ltd., Sichuan Tianfu New Area (Chengdu Section)	–	–	100
BMW Finance (United Arab Emirates) Ltd., Dubai	–	–	100
BMW Middle East Retail Competency Centre DWC-LLC, Dubai	–	–	100
BMW India Leasing Private Ltd., Gurgaon	–	–	100
Herald Hezhong (Beijing) Automotive Trading Co. Ltd., Beijing	–	–	100
BMW Financial Services Hong Kong Ltd., Hongkong	–	–	51
Oceania			
Parkmobile International (Australia) Pty. Ltd., Sydney	–	–	100

BMW AG's associated companies, joint ventures and joint operations at 31 December 2018

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Companies	Equity in € million	Profit/loss in € million	Capital investment in %
Associated companies – equity accounted			
DOMESTIC			
IONITY Holding GmbH & Co. KG, Munich[8]	149	–15	25
FOREIGN			
BMW Brilliance Automotive Ltd., Shenyang[8]	5,926	1,561	50
Joint operations – proportionately consolidated entities			
FOREIGN			
THERE Holding B.V., Amsterdam[8]	1,764	–337	29.6
Not equity accounted or proportionately consolidated entities			
DOMESTIC[7]			
Encory GmbH, Unterschleißheim	–	–	50
Digital Energy Solutions GmbH & Co. KG, Munich	–	–	50
The Retail Performance Company GmbH, Munich	–	–	50
PDB – Partnership for Dummy Technology and Biomechanics GbR, Gaimersheim	–	–	20
FOREIGN[7]			
Bavarian & Co. Ltd., Incheon	–	–	20
BMW Albatha Finance PSC, Dubai	–	–	40
BMW Albatha Leasing LLC, Dubai	–	–	40
BMW AVTOTOR Holding B.V., Amsterdam	–	–	50
Critical TW S.A., Porto	–	–	51
DSP Concepts Inc., Dover, Delaware	–	–	20
IP Mobile N.V., Brussels	–	–	25
Rever Moto Inc., Wilmington, Delaware	–	–	20
Stadspasparkeren B.V., Deurne	–	–	30

BMW AG's participations at 31 December 2018

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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	–	–	17.8
IVM Industrie-Verband Motorrad GmbH & Co. Dienstleistungs KG, Essen	–	–	18.9
Joblinge gemeinnützige AG Berlin, Berlin	–	–	9.8
Joblinge gemeinnützige AG Leipzig, Leipzig	–	–	16.7
Joblinge gemeinnützige AG München, Munich	–	–	6.2
Racer Benchmark Group GmbH, Landsberg am Lech	–	–	9.1
SGL Carbon SE, Wiesbaden	–	–	18.3
FOREIGN[7]			
Gios Holding B.V., Oss	–	–	12.0
SGL Composites LLC, Dover, Delaware	–	–	49.0

[1] The amounts shown for the German subsidiaries correspond to the annual financial statements drawn up in accordance with German accounting requirements (HGB).
[2] The amounts shown for the foreign subsidiaries correspond to the annual financial statements drawn up in accordance with uniform IFRS rules. Equity and earnings not denominated in euro are translated into euro using the closing exchange rate at the balance sheet date.
[3] Profit and Loss Transfer Agreement with BMW AG.
[4] Profit and Loss Transfer Agreement with a subsidiary of BMW AG.
[5] Exemption from drawing up a management report applied in accordance with § 264 (3) and § 264 b HGB.
[6] Exemption from publication of financial statements applied in accordance with § 264 (3) and § 264 b HGB.
[7] These entities are neither consolidated nor accounted for using the equity method due to their overall immateriality for the Group Financial Statements.
[8] The amounts shown for entities accounted for using the equity method and for proportionately consolidated entities correspond to the annual financial statements drawn up in accordance with uniform IFRS rules. Equity not denominated in euro is translated into euro using the closing exchange rate at the balance sheet date, earnings are translated using the average rate.
[9] Including power to appoint representative bodies.
[10] Exemption pursuant to Article 2:403 of the Civil Code of the Netherlands (Burgerlijk Wetboek).
[11] First-time consolidation.
[12] Deconsolidation in the financial year 2018: BMW Malta Finance Ltd., St. Julians.
[13] Control on basis of economic dependence.

Munich, 19 February 2019

Bayerische Motoren Werke
Aktiengesellschaft

The Board of Management

Harald Krüger

Milagros Caiña Carreiro-Andree

Klaus Fröhlich

Pieter Nota

Dr. Nicolas Peter

Peter Schwarzenbauer

Dr.-Ing. Andreas Wendt

Oliver Zipse

CORPORATE GOVERNANCE

4

STATEMENT ON CORPORATE GOVERNANCE

Good corporate governance – acting in accordance with the principles of responsible management aimed at increasing the value of the business on a sustainable basis – is an essential requirement for the BMW Group embracing all areas of the business. Corporate culture within the BMW Group is founded on transparent reporting and communication, corporate governance in the interest of all stakeholders, trustful cooperation both of the Board of Management and the Supervisory Board as well as among employees, and compliance with applicable law. The Board of Management and Supervisory Board report in this statement on important aspects of corporate governance pursuant to §§ 289 f, § 315 d HGB and section 3.10 of the German Corporate Governance Code (GCGC).

Information on the Company's Governing Constitution

The designation BMW Group comprises Bayerische Motoren Werke Aktiengesellschaft (BMW AG) and its group entities. BMW AG is a stock corporation (Aktiengesellschaft) within the meaning of the German Stock Corporation Act (Aktiengesetz) and has its registered office in Munich, Germany. It has three representative bodies: the Annual General Meeting, the Supervisory Board and the Board of Management. The duties and powers of those bodies derive from the Stock Corporation Act and the Articles of Incorporation of BMW AG. Shareholders, as the owners of the business, exercise their rights at the Annual General Meeting. The Annual General Meeting decides in particular on the utilisation of unappropriated profit, the ratification of the acts of the members of the Board of Management and the Supervisory Board, the appointment of the external auditor, changes to the Articles of Incorporation and certain capital measures, and elects the shareholders' representatives to the Supervisory Board. The Board of Management is responsible for managing the Company and is monitored and advised by the Supervisory Board. The Supervisory Board appoints the members of the Board of Management and can, for an important reason, revoke an appointment at any time. The Board of Management informs the Supervisory Board and reports to it regularly, promptly and comprehensively, in line with the principles of conscientious and faithful accountability and in accordance with the law and the reporting duties determined by the Supervisory Board. The Board of Management requires the approval of the Supervisory Board for certain major business proceedings. The Supervisory Board is not, however, authorised to undertake management measures itself.

The close interaction between Board of Management and Supervisory Board in the interests of the Company as described above is also known as a "two-tier board structure".

Declaration of the Board of Management and the Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft regarding the recommendations of the "Government Commission on the German Corporate Governance Code" Pursuant to § 161 German Stock Corporation Act

The Board of Management and the 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 the last Declaration was issued in December 2017, BMW AG has complied with all the recommendations published officially in the Federal Gazette on 24 April 2017 (Code version dated 7 February 2017) with the exception – as previously reported – of section 4.2.3 sentence 9 and section 4.2.5 sentences 5 and 6.

2. In future, BMW AG will comply with all the recommendations published officially in the Federal Gazette on 24 April 2017 (Code version dated 7 February 2017), with the exception of section 4.2.5 sentences 5 and 6.

3. It is recommended in section 4.2.3 sentence 9 of the Code that subsequent amendments to performance targets or comparison parameters for variable remuneration components relating to the Board of Management shall be excluded. As previously reported, this recommendation was deviated from on a one-time basis in order to implement the new compensation system with effect from the financial year 2018, rather than with effect from the financial year 2020. Accordingly, it was necessary to cancel the targets previously set for the variable remuneration components for the financial years 2018 and 2019 and replace them for the financial year 2018 onwards with targets based on the new compensation system. The recommendation will, however, be complied with again in the future.

4. It is recommended in section 4.2.5 sentences 5 and 6 of the Code that specified information pertaining to management board compensation be disclosed in a Compensation Report. These recommendations have not been and will not be complied with, due to uncertainties as to whether the additional disclosure of this information and the use of model tables would add to the desired transparency and understandability of the BMW Group's Compensation Report in accordance with generally applicable financial reporting requirements (see section 4.2.5 sentence 3 of the Code).

Furthermore, in its draft revision of the Code dated 25 October 2018 (published on 6 November 2018), the Government Commission on the German Corporate Governance Code has now proposed to delete the aforementioned recommendation, as the planned amendment to the German Stock Corporation Act to implement the second EU Shareholder Rights Directive contains comprehensive and detailed requirements for compensation reports, thus obviating the need for recommendations in the Code. The corresponding amendments to the Code are due to be made in the course of the financial year 2019. Continuity of reporting is therefore a further argument for not using the model tables as a one-off solution in the BMW Group's Compensation Report for the financial year 2018 prior to the new statutory reporting requirements coming into force.

Munich, December 2018

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
Mandates
- ▬ Deutsche Telekom AG (since 17 May 2018)

Milagros Caiña Carreiro-Andree (*1962)
Human Resources, Industrial Relations Director

Markus Duesmann (*1969)
Purchasing and Supplier Network
(until 24 July 2018)

Klaus Fröhlich (*1960)
Development
Mandates
- ▬ E.ON SE (since 9 May 2018)
- — HERE International B.V. (until 28 February 2018)

Pieter Nota (*1964)
Sales and Brand BMW, Aftersales BMW Group

Dr. Nicolas Peter (*1962)
Finance
Mandates
- — BMW Brilliance Automotive Ltd. (Deputy Chairman)

Peter Schwarzenbauer (*1959)
MINI, Rolls-Royce, BMW Motorrad, Customer Engagement and Digital Business Innovation BMW Group
Mandates
- ▬ Scout24 AG
- — Rolls-Royce Motor Cars Limited (Chairman)

Dr.-Ing. Andreas Wendt (*1958)
Purchasing and Supplier Network
(since 1 October 2018)
Mandates
- — Pöttinger Landtechnik GmbH (Chairman, until 29 October 2018)

Oliver Zipse (*1964)
Production
Mandates
- — BMW (South Africa) (Pty) Ltd. (Chairman)
- — BMW Motoren GmbH (Chairman)

General Counsel:
Dr. Jürgen Reul

▬ Membership of other statutory supervisory boards.
— Membership of equivalent national or foreign boards of business enterprises.

MEMBERS OF THE SUPERVISORY BOARD

Dr.-Ing. Dr.-Ing. E.h. Norbert Reithofer (*1956)
Member since 2015
Chairman
Former Chairman of the Board of Management of BMW AG

Mandates
— Siemens Aktiengesellschaft
— Henkel AG & Co. KGaA (Shareholders' Committee)

Manfred Schoch[1] (*1955)
Member since 1988
Deputy Chairman
Chairman of the European and General Works Council
Industrial Engineer

Stefan Quandt (*1966)
Member since 1997
Deputy Chairman
Entrepreneur

Mandates
— DELTON Health AG (Chairman)
— DELTON Technology SE (Chairman, since 19 November 2018)
— 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 E.ON SE and of the Deutsche Lufthansa Aktiengesellschaft

Mandates
— E.ON SE (Chairman)
— Deutsche Lufthansa Aktiengesellschaft (Chairman)
— Verizon Communications Inc. (until 3 May 2018)

Christiane Benner[2] (*1968)
Member since 2014
Second Chairman of IG Metall

Mandates
— Continental AG (Deputy Chairman, since 1 March 2018)

Dr. rer. pol. Kurt Bock (*1958)
Member since 17 May 2018
Former Chairman of the Board of Management of BASF SE

Mandates
— Fresenius Management SE
— Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft (since 25 April 2018)

Franz Haniel (*1955)
Member since 2004
Entrepreneur

Mandates
— DELTON Health AG (Deputy Chairman, until 31 December 2018)
— Franz Haniel & Cie. GmbH (Chairman)
— Heraeus Holding GmbH
— TBG AG

Ralf Hattler[3] (*1968)
Member since 2017
Head of Purchasing Indirect Goods and Services, Raw Material, Production Partner

[1] Employee representatives (company employees).
[2] Employee representatives (union representatives).
[3] Employee representatives (members of senior management).
— Membership of other statutory supervisory boards.
— Membership of equivalent national or foreign boards of business enterprises.

Dr.-Ing. Heinrich Hiesinger (*1960)
Member since 2017
Former Chairman of the Board of Management of thyssenkrupp AG

Mandates
- ━ thyssenkrupp Elevator AG (Chairman, until 6 July 2018)
- ━ thyssenkrupp Steel Europe AG (Chairman, until 6 July 2018)
- — thyssenkrupp (China) Ltd. (Chairman, until 6 July 2018)

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

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
- ━ Infineon Technologies AG
- ━ Nestlé Deutschland AG
- ━ Robert Bosch GmbH

Dr. h.c. Robert W. Lane (*1949)
Member since 2009 until 17 May 2018
Former Chairman and Chief Executive Officer of Deere & 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 supervisory boards

Mandates
- ━ Deutsche Post AG
- ━ Springer Nature AG & Co. KGaA (since 23 April 2018)
- — Johnson Controls International plc (since 7 March 2018)
- — Russell Reynolds Associates Inc. (since 19 January 2019)

[1] Employee representatives (company employees).
[2] Employee representatives (union representatives).
[3] Employee representatives (members of senior management).
━ Membership of other statutory supervisory boards.
— Membership of equivalent national or foreign boards of business enterprises.

Dr. Dominique Mohabeer[1] (*1963)
Member since 2012
Member of the Works Council, Munich

Brigitte Rödig[1] (*1963)
Member since 2013
Member of the Works Council, Dingolfing

Jürgen Wechsler[2] (*1955)
Member since 2011
Former Regional Head of IG Metall Bavaria

Mandates
- Schaeffler AG (Deputy Chairman)
- Siemens Healthcare GmbH (Deputy Chairman)

Werner Zierer[1] (*1959)
Member since 2001
Chairman of the Works Council, Regensburg

[1] Employee representatives (company employees).
[2] Employee representatives (union representatives).
[3] Employee representatives (members of senior management).
━ Membership of other statutory supervisory boards.
— Membership of equivalent national or foreign boards of business enterprises.

COMPOSITION AND WORK PROCEDURES OF THE BOARD OF MANAGEMENT OF BMW AG AND ITS COMMITTEES

The Board of Management manages the enterprise under its own responsibility, acting in the best 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 also responsible for ensuring that all provisions of law and internal regulations are complied with. Further details on compliance within the BMW Group are available 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 benefit of the enterprise. They may undertake ancillary activities, particularly supervisory board mandates outside the BMW Group, only with the prior approval of the Supervisory Board's Personnel Committee. Individual members of the Board of Management of BMW AG are required to disclose any conflicts of interest to the Supervisory Board without delay and inform the other members of the Board of Management accordingly.

When a new member is appointed to the Board of Management, the BMW Corporate Governance Officer is required to inform that new member of the framework conditions under which their 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 developing 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 basic policy level relating to the Group's automobile product strategies and product projects, inasmuch as these are relevant for all of the Group's 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 procedure approved by the Board of Management contain a plan for the allocation of divisional responsibilities among the individual Board members. These terms of procedure 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 the required information pertaining to major transactions and developments within their sphere 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 makes its decisions at meetings which are convened, coordinated and headed by the Chairman of the Board of Management. Generally, two to three Board meetings were held per month during the financial year 2018.

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 particular meeting are entitled to vote in writing, by fax or by telephone. Votes cast by telephone 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 based on 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 procedure 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 of 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.

The Operations Committee generally meets every two weeks. At these meetings, decisions are reached concerning automobile product projects, based on the strategic orientation and decision-making framework stipulated at Board of Management meetings. The Operations Committee has three members who are entitled to vote at meetings, namely the Board member for Development (who also chairs the meetings), the Board member for Production and the Board member responsible for Purchasing and the Supplier Network. Up to 28 February 2018, the Board member for Sales and Brand BMW and Aftersales BMW Group as well as the Board member for MINI, Rolls-Royce, BMW Motorrad, Customer Engagement and Digital Business Innovation BMW were also members of the Operations Committee. If the committee chairman is not present or unable to attend, meetings are chaired by the Board member for Production. The Head of Corporate Quality as well as the Head of Maturity Management, Sign Off and Product Validation participate in Operations Committee meetings in an advisory capacity.

The full Board usually convenes up to twice a year in its function as Sustainability Board in order to define strategy and use of resources 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 corporate issues affecting executive managers of the BMW Group, either in their entirety or individually (such as potential candidates for executive management or nominations for senior management positions). This committee has, firstly, an advisory and preparatory role (e.g. in connection with fundamental issues relating to human resources policies, such as compensation systems and planning, personnel development and tools for assessing performance) and secondly the function of a decision-making body (e.g. the appointment of senior executives).

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 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. In addition, further participants can be invited when needed for special topics. 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. Normally, the Committee for Executive Management Matters convenes between five and ten times a year.

The Board of Management is represented by its Chairman in its dealings with the Supervisory Board. The Chairman of the Board of Management maintains regular contact with the Chairman of the Supervisory Board and keeps him informed of all important matters. The Supervisory Board has passed a resolution specifying the information and reporting duties of the Board of Management. As a general rule, in the case of reports required by law, the Board of Management submits its reports to the Supervisory Board in writing. To the greatest extent possible, documents required as a basis for taking decisions are sent to the members of the Supervisory Board in good time prior to the relevant meeting. Regarding transactions of fundamental importance, the Supervisory Board has resolved that its specific approval is required. Whenever necessary, the Chairman of the Board of Management obtains the approval of the Supervisory Board and ensures that reporting duties to the Supervisory Board are complied with. The Chairman is supported by all members of the Board of Management in the fulfilment of these tasks. The fundamental principle followed when reporting to the Supervisory Board is that the information should be provided regularly, comprehensively and without delay regarding all significant matters relating to planning, business performance, risk exposures, risk management and compliance, as well as any major variances between actual business development and plans and targets, and the relevant reasons.

COMPOSITION AND WORK PROCEDURES OF THE SUPERVISORY BOARD OF BMW AG AND ITS COMMITTEES

BMW AG's Supervisory Board is composed of ten shareholder representatives (elected by the Annual General Meeting) and ten employee representatives (elected in accordance with the Co-Determination Act). The ten Supervisory Board members representing employees comprise seven Company employees, including one executive staff representative, and three members elected following nomination by unions. The Supervisory Board has the task of advising and supervising the Board of Management in its management of the BMW Group. It is involved in all decisions of fundamental importance for the BMW Group. The Supervisory Board appoints the members of the Board of Management and decides upon the level of compensation they receive. The Supervisory Board can revoke appointments for important reasons.

The Supervisory Board holds a minimum of two meetings per calendar half-year. Normally, five plenary meetings are held per calendar year. One meeting each year is planned to extend to several days and is used, among other things, to enable an in-depth exchange on strategic and technological matters. The main topics of meetings in the period under report are summarised in the Report of the Supervisory Board. Shareholder representatives and employee representatives generally prepare Supervisory Board meetings separately and occasionally with members of the Board of Management. Members of the Supervisory Board are specifically legally bound to maintain secrecy with respect to confidential reports they receive and confidential discussions in which they partake.

The Chairman of the Supervisory Board coordinates work within the Supervisory Board, convenes and chairs its meetings, handles the external affairs of the Supervisory Board and represents it before the Board of Management.

The Supervisory Board is quorate if all members have been invited to the meeting and at least half the members of whom it is required to comprise participate in the vote. A resolution relating to an agenda item not included in the invitation is only valid if none of the members of the Supervisory Board who were 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 members of the Board of Management 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 if it also results in a tie.

In practice, resolutions are regularly passed by the Supervisory Board and its committees at meetings. Supervisory Board members who are not present can submit their vote via another Supervisory Board member in written, fax or electronic form. This rule also applies for the second vote of the Chairman of the Supervisory Board. The Chairman of the Supervisory Board can also grant a period of time in which all members not present at a meeting may retrospectively vote. In special cases, resolutions may also be passed outside of meetings, in particular in writing, by fax or by electronic means. Resolutions and meetings are recorded in minutes, which are signed by the relevant Chairman.

Following its meetings, the Supervisory Board is generally shown 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.

All members of the Supervisory Board of BMW AG take care to ensure that they have sufficient time to perform their mandate. If members of the Supervisory Board of BMW AG are also members of the management board of a listed company, they may not accept more than three mandates on non-BMW Group supervisory boards of listed companies or in other bodies with comparable requirements.

The Supervisory Board regularly assesses the efficiency of its activities. To this end, shared discussion is conducted within the Supervisory Board and individual meetings held with the Chairman, prepared on the basis of a questionnaire sent in advance, which is drawn up by the Supervisory Board.

Members of the Supervisory Board of BMW AG are obliged to act in the best interest of the organisation as a whole. They may not pursue personal interests in their decisions or take advantage of business opportunities intended to benefit the BMW Group.

Members of the Supervisory Board are obliged to inform the Supervisory Board of any conflicts of interest, in particular those resulting from a consulting or executive role with clients, suppliers, lenders or other business partners, so that the Supervisory Board can report to the shareholders at the Annual General Meeting on its treatment of the issue. Material and non-temporary conflicts of interest of a Supervisory Board member result in a termination of mandate.

In proposing candidates for election as members of the Supervisory Board, care is taken that the Supervisory Board collectively has the required knowledge, skills and expertise to perform its tasks appropriately.

→ The Supervisory Board has stated specific targets for its composition, agreed to a diversity concept and determined a competency profile.

→ see section "Composition targets for the Supervisory Board"

Members of the Supervisory Board are responsible for undertaking any training required for the performance of their duties. The Company provides them with appropriate assistance therein.

→ Taking into account the specific circumstances of the BMW Group and the number of Board members, the Supervisory Board has set up a Presiding Board and four committees: the Personnel Committee, the Audit Committee, the Nomination Committee and the Mediation Committee. These serve to raise the efficiency of the Supervisory Board's work and facilitate handling of complex issues. Establishment and function of a mediation committee is prescribed by law. Committee chairpersons report in detail on committee work at each plenary meeting of the Supervisory Board.

→ see "Overview of Supervisory Board committees and their composition"

Composition of the Presiding Board and the committees is based on legal requirements, the Articles of Incorporation, rules of procedure and corporate governance principles, while taking into particular account the expertise of Board members.

According to the rules of procedure, the Chairman of the Supervisory Board is, by virtue of this function, member and Chairman of the Presiding Board, the Personnel Committee and the Nomination Committee.

→ see Report of the Supervisory Board for the number of meetings during the year 2018

→ The number of meetings held by the Presiding Board and committees depends on requirements. The Presiding Board, the Personnel Committee and the Audit Committee generally hold several meetings in the course of the year.

In line with the rules of procedure for the activities of the plenum, the Supervisory Board has set out procedural rules for the Presiding Board and committees. Committees are quorate only when all members participate. Committee resolutions are passed by a simple majority, unless otherwise stipulated by law.

Members of the Supervisory Board may not delegate their duties to others. However, the Supervisory Board, the Presiding Board and the committees may call on experts and informed persons to attend meetings and advise on specific matters.

The Supervisory Board, the Presiding Board and committees also meet without the Board of Management when necessary.

BMW AG ensures that the Supervisory Board and its committees are appropriately equipped to carry out their duties. This includes providing a central Supervisory Board office to support the chairpersons in their coordination work.

In accordance with rules of procedure, the Presiding Board comprises the Chairman of the Supervisory Board and Deputies. The Presiding Board prepares Supervisory Board meetings to the extent that the subject matter does not fall within the remit of a committee. This includes, for example, preparing the annual Declaration of Compliance with the German Corporate Governance Code and assessment of Supervisory Board efficiency.

The Personnel Committee prepares decisions of the Supervisory Board with regard to the appointment and, where applicable, removal of members of the Board of Management and, together with the full Supervisory Board and the Board of Management, ensures long-term succession planning. The Personnel Committee also prepares decisions of the Supervisory Board with regard to Board of Management compensation and the regular review of the compensation system for the Board of Management. In conjunction with resolutions taken by the Supervisory Board regarding the compensation of the Board of Management, the Personnel Committee is responsible for drawing up, amending and revoking employment contracts or, when necessary, to prepare and conclude other relevant contracts with members of the Board of Management. In certain cases, the Personnel Committee is also authorised to grant the necessary approval of a business transaction on behalf of the Supervisory Board. This includes cases of providing loans to members of the Board of Management or Supervisory Board, certain contractual arrangements with members of the Supervisory Board, taking into account related parties, as well as ancillary activities of members of the Board of Management, in particular acceptance of non-BMW Group supervisory board mandates.

The Audit Committee deals in particular with the supervision of the financial reporting process, effectiveness of the internal control system, the risk management system, as well as the performance of Supervisory Board duties in connection with audits pursuant to § 32 of the German Securities Trading Act (WpHG). It also oversees the audit of financial statements, auditor independence and any additional work performed by the auditor. It prepares the proposal for the election of the auditor at the Annual General Meeting, makes a relevant recommendation, issues the audit engagement and agrees on additional areas of audit focus as well as the auditor's fee. The Audit Committee prepares the Supervisory Board's resolution relating to the Company and Group Financial Statements and discusses interim reports with the Board of Management prior to publication. Additionally, the Audit Committee deals with the non-financial reporting, prepares the audit of the Supervisory Board and the engagement of an external auditor and issues the audit engagement. Furthermore, the Audit Committee deals with the supervision of the internal audit system and compliance as well as the audit and supervision of any needs for action related to possible violations of duties by members of the Board of Management in preparation of a resolution in the Supervisory Board. 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 procedure	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 procedure	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, as well as the performance of Supervisory Board duties in connection with audits pursuant to § 32 of the German Securities Trading Act (WpHG) — supervision of external audit, in particular auditor independence and additional work performed by external auditor — preparation of proposals for election of external auditor at Annual General Meeting, engagement (recommendation) of external auditor and compliance of audit engagement, determination of additional areas of audit emphasis and fee agreements with external auditor — preparation of Supervisory Board's resolution on Company and Group Financial Statements — discussion of interim reports with Board of Management prior to publication — preparation of the Supervisory Board's audit of the non-financial reporting, preparation of the selection of the auditor for non-financial reporting and engagement of the auditor — supervision of internal audit system and compliance as well as the audit and supervision of any needs for action related to possible violations of duties by members of the Board of Management in preparation of a resolution in the Supervisory Board — 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 procedure	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 procedure	Norbert Reithofer[1] Susanne Klatten Karl-Ludwig Kley Stefan Quandt (In line with the recommendations of the German Corporate Governance Code, the Nomination Committee comprises only shareholder representatives.)
MEDIATION COMMITTEE	
— proposal to Supervisory Board if resolution for appointment of Board of Management member has not been carried by the necessary two-thirds majority of Supervisory Board members' votes — committee required by law	Norbert Reithofer Manfred Schoch Stefan Quandt Stefan Schmid (In accordance with statutory requirements, the Mediation Committee comprises the Chairman and Deputy Chairman of the Supervisory Board and one member each selected by shareholder representatives and employee representatives.)

[1] Chair.
[2] (Independent) financial expert within the meaning of §§ 100 (5) and 107 (4) AktG, no. 5.3.2 GCGC.

Board of Management succession planning, diversity concept

The Supervisory Board, in collaboration with the Personnel Committee and the Board of Management, ensures long-term succession planning. In their assessment of candidates for Board of Management positions, the underlying suitability criteria applied by the Supervisory Board are expertise in the relevant function, outstanding leadership qualities, proven track record and knowledge of the Company. The Supervisory Board has adopted a diversity concept for the composition of the Board of Management which is also aligned with recommendations of the German Corporate Governance Code. In considering which individuals would best complement the Board of Management, the Supervisory Board also takes diversity into account. The criteria diversity is taken by the Supervisory Board to encompass in particular different, mutually complementary profiles, professional and life experiences also at the international level and an appropriate gender representation. In reaching its decisions, the Supervisory Board also considers the following:

— The members of the Board of Management should have a long-standing track record of management experience, ideally with experience in different professional fields.

— At least two members should have international management experience.

— At least two members of the Board of Management should have a technical background.

— The Board of Management should collectively have extensive experience in the fields of development, production, sales and marketing, finances and human resources.

— The Supervisory Board has stipulated a target for the proportion of women on the Board of Management. This is outlined in the section “Disclosures pursuant to the Act on Equal Gender Participation”. The Board of Management reports to the Personnel Committee and the Supervisory Board at regular intervals on the proportion and development of women in senior management positions, in particular at executive levels.

— In accordance with the recommendation of the German Corporate Governance Code, the Supervisory Board has set a standard age limit for Board of Management membership. This aims at a retirement age of 60. Consideration is also given to achieving an appropriate age mix within the Board of Management.

When selecting an individual for a particular Board of Management position, the Supervisory Board decides in the best interests of the Group and after due consideration of all relevant circumstances. The Personnel Committee takes into account the diversity concept described above when selecting candidates, in order to ensure that the Board of Management has a diverse composition. In the Supervisory Board’s opinion, the composition of the Board of Management as at 31 December 2018 is in line with the defined diversity concept. In particular, the Board of Management has one female member and the various work, educational and life experiences of the members of the Board of Management complement each other. For ease of comparison with the diversity concept, the curricula vitae of members of the Board of Management are available on the Internet.

Composition objectives of the Supervisory Board, competency profile, diversity concept

The Supervisory Board is to be composed in such a way that its members collectively possess the knowledge, skills and experience required to properly perform its tasks.

To this end, the Supervisory Board of BMW AG has approved the following objectives for its composition, including a competency profile. These objectives also describe the concept for achieving diversity in the composition of the Supervisory Board (diversity concept):

— Four members of the Supervisory Board should if possible have international experience or specialist knowledge of one or more non-German markets important to the BMW Group.

- The Supervisory Board should include if possible seven members who have acquired in-depth knowledge and experience within the BMW Group, though no more than two former members of the Board of Management.

- Three of the shareholder representatives in the Supervisory Board should if possible be entrepreneurs or persons who have previous experience in the management or supervision of another medium or large-sized company.

- Three members of the Supervisory Board should if possible be persons from the fields of business, science or research who have experience in areas relevant to the BMW Group, for example chemistry, energy supply, information technology, or who have specialist knowledge in fields relevant for the future of the BMW Group, for example customer requirements, mobility, resources or sustainability.

- When seeking qualified individuals for the Supervisory Board whose specialist skills and leadership qualities are most likely to strengthen the Board as a whole, consideration is also to be given to diversity. When preparing nominations, the extent to which the work of the Supervisory Board benefits from diversified professional and personal backgrounds (including international aspects) and from an appropriate gender representation is also to be taken into account. It is the joint responsibility of all those participating in the nomination and election process to ensure that qualified women are considered for Supervisory Board membership.

- Of the 20 members of the Supervisory Board at least 12 should be independent members within the meaning of section 5.4.2 of the German Corporate Governance Code, including at least six as representatives of the Company's shareholders.

- Two independent members of the Supervisory Board should have expert knowledge of accounting or auditing.

- No persons carrying out directorship functions or advisory tasks for important competitors of the BMW Group may belong to the Supervisory Board. In compliance with applicable law, members of the Supervisory Board are to take care that no persons will be nominated for election for whom a significant, non-temporary conflict of interests could arise due to other activities and functions carried out by them outside the BMW Group, in particular advisory activities or directorships with customers, suppliers, creditors or other business partners.

- An age limit for membership of the Supervisory Board of 70 years is generally to be applied. In exceptional cases, members may remain on the Board until the end of the next Annual General Meeting after reaching the age of 73, in order to fulfil legal requirements or to facilitate smooth succession in the case of key roles or specialist qualifications.

- As a general rule, members of the Supervisory Board should not hold office for longer than until the end of the Annual General Meeting at which the resolution is passed ratifying the member's activities for the 14th financial year after the beginning of the member's first period of office. This excludes the financial year in which the first period of office began. This rule does not apply to natural persons who either directly or indirectly hold significant investments in the Company. In the Company's interest, deviation from the general maximum period is possible, for instance in order to work towards another composition target, in particular diversity of gender and technical, professional and personal backgrounds.

The time schedule set by the Supervisory Board for achieving the above-mentioned composition targets is the period up to 31 December 2019. The nomination committee of the Supervisory Board already takes into account the composition targets in its selection of potential candidates as representatives of the shareholders. This enables diversity in the composition of the Supervisory Board and ensures that the Supervisory Board collectively possesses the knowledge, skills and experience required to properly perform its duties. Proposals for nomination made by the Supervisory Board to the Annual General Meeting – insofar as they apply to shareholder Supervisory Board members – should take account of these objectives in such a way that they can be achieved with the support of the appropriate resolutions of the Annual General Meeting. The Annual General Meeting is not bound by proposed nominations for election. The voting freedom of employees in the vote for the employee members of the Supervisory Board is also protected. Under the rules stipulated by the German Co-Determination Act, the Supervisory Board does not have the right to nominate employee representatives for election. The objectives which the Supervisory Board has set itself with regard to its composition are therefore not intended to be instructions to those entitled to vote or restrictions on their voting freedom.

In the Supervisory Board's opinion, its composition as at 31 December 2018 fulfilled the composition objectives detailed above. For ease of comparison with composition targets, brief curricula vitae of the current members of the Supervisory Board are available on the Company's website at → www.bmwgroup.com. Information relating to members' practised professions and mandates in other statutory supervisory boards and equivalent national or foreign company boards, including the length of periods of service on the Supervisory Board, is provided in the section Statement on Corporate Governance. Based on this information, it is evident that the Supervisory Board of BMW AG is highly diversified, with significantly more than the targeted four members having international experience or specialist knowledge with regard to one or more of the non-German markets important to the BMW Group. In-depth knowledge and experience from within the Company are provided by seven employee representatives, as well as the Chairman of the Supervisory Board. Only one previous Board of Management member holds office in the Supervisory Board. At least four members of the Supervisory Board have experience in managing another company. The Supervisory Board also has three entrepreneurs as members. Most of the members of the Supervisory Board – including employee representatives – have experience in supervising another medium-sized or large company. Moreover, more than three members of the Supervisory Board have experience and specialist knowledge in subjects relevant for the future of the BMW Group, such as customer requirements, mobility, resources, sustainability and information technology. For the purpose of assessing the independence of its members, the Supervisory Board follows the recommendations of the German Corporate Governance Code. In the opinion of the Supervisory Board, neither ownership of a substantial shareholding in the Company, or office as an employee representative, or previous membership of the Board of Management, rules out independence of a Supervisory Board member. A substantial and not merely temporary conflict of interests within the meaning of section 5.4.2 of the German Corporate Governance Code does not apply to any of the Supervisory Board members. Employees holding office in the Supervisory Board are protected by applicable law when performing their duties. All other Supervisory Board members have a sufficient degree of economic independence from the Company. Business with entities in which the members of the Supervisory Board carry out a significant function is conducted on an arm's length basis. The Supervisory Board has therefore concluded that all of its members are independent. At the end of the reporting period these are: Dr.-Ing. Norbert Reithofer, Manfred Schoch, Stefan Quandt, Stefan Schmid, Dr. Karl-Ludwig Kley, Christiane Benner, Dr. Kurt Bock, Franz Haniel, Ralf Hattler, Dr.-Ing. Heinrich Hiesinger, Prof. Dr. Reinhard Hüttl, Susanne Klatten, Prof. Dr. Renate Köcher, Horst Lischka, Willibald Löw, Simone Menne, Dr. Dominique Mohabeer, Brigitte Rödig, Jürgen Wechsler and Werner Zierer. At least three members meet the requirements of an independent financial expert. These are Dr. Kurt Bock, Dr. Karl-Ludwig Kley and Simone Menne. At the end of the reporting period, the Supervisory Board had six female members (30 %), comprising three shareholder representatives and three employee representatives. The Supervisory Board has 14 male members (70 %), comprising seven shareholder representatives and seven employee representatives. The Company therefore complies with the statutory gender quota of at least 30 % female members applicable in Germany since 1 January 2016. At present, no member of the Supervisory Board is older than 70 years.

DISCLOSURES PURSUANT TO THE ACT ON EQUAL GENDER PARTICIPATION – TARGETS FOR THE PROPORTION OF WOMEN ON THE BOARD OF MANAGEMENT AND AT EXECUTIVE MANAGEMENT LEVELS I AND II

The Act on Equal Participation of Women and Men in Executive Positions in the Private and the Public Sector ("Act on Equal Gender Participation") was passed into German law in 2015.

In accordance with this legislation, the Supervisory Board of BMW AG is required to set a target for the proportion of women on its Board of Management and a time frame for meeting this target. Likewise, the Board of Management of BMW AG is required to establish targets for the two executive management levels below the Board of Management. As its target for the Board of Management for the time frame from 1 January 2017 to 31 December 2020, the Supervisory Board has stipulated that the Board of Management should continue to have at least one female member. Assuming that the Board of Management continues to comprise eight members, this would correspond to a proportion of at least 12.5 %. At 31 December 2018, the Board of Management had one female member (12.5 %). The Supervisory Board considers it desirable to increase the proportion of women on the Board of Management and fully supports the Board of Management's endeavours to increase the proportion of women at the highest executive management levels within the BMW Group.

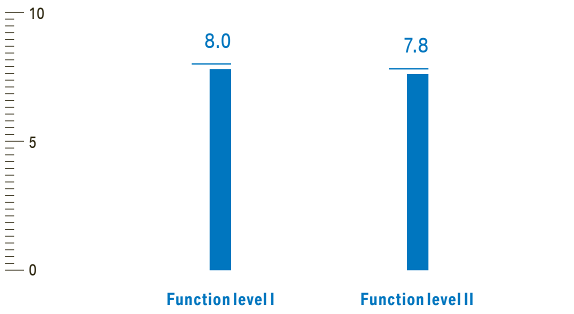
For the time frame from 1 January 2017 to 31 December 2020, the Board of Management has set a target range of 10.2 % to 12.0 % for the first level of executive management and 8 % to 10 % for the second. At 31 December 2018, the proportion of women within the first executive management level stood at 8.0 % and at 7.8 % within the second.

Management level is defined in terms of functional level and follows a comprehensive job evaluation system based on Mercer.

Proportion of female executives within management / function levels I and II at BMW AG

→ 80

in %



Diversity contributes to greater competitiveness and innovation at the BMW Group. Working together in mixed, complementary teams raises performance levels and increases customer focus. Promoting an appropriate gender ratio is seen as an essential component of the BMW Group's diversity concept. Further increasing the proportion of women therefore remains an objective of the Board of Management.

The proportion of women in the workforce as a whole increased again during the financial year under report, as a result of long-term measures, dialogue and information events. Further information on the topic of diversity within the BMW Group can be found in the section "Workforce".

INFORMATION ON CORPORATE GOVERNANCE PRACTICES APPLIED BEYOND MANDATORY REQUIREMENTS

Core values and Principles of Action
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 and → www.ohchr.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 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. In 2018 we published the BMW Codex on Human Rights and Working Conditions, which supplements the Declaration on Human Rights and Working Conditions from 2010. The Codex is based on a diligence process, which allows the BMW Group to identify relevant aspects and define measures. It reinforces attention to the consideration of human rights and clarifies how the BMW Group promotes human rights and implements the ILO Core Labour Conventions globally in its business activity.

The complete text of the UN Global Compact and the recommendations of the ILO and other relevant information can be found at → www.unglobalcompact.org and → www.ilo.org. The Joint Declaration on Human Rights and Working Conditions in the BMW Group can be found at → www.bmwgroup.com under the menu items "Downloads" and "Responsibility".

For the BMW Group, worldwide compliance of these fundamental principles and rights is self-evident. Since 2005 employees' awareness of this issue has therefore been raised by means of regular internal communications and training on recent developments in this area. The "Compliance Contact" helpline and the BMW Group SpeakUP Line are available to employees wishing to raise queries or complaints relating to human rights issues. With effect from 2016, human rights have been incorporated as an integral component of the BMW Group's worldwide Compliance Management System, representing a further step in the systematic implementation of the UN Guiding Principles on Business and Human Rights.

Further information on social responsibility towards employees can be found in the section "Workforce".

Sustainable business management can only be effective, however, if it covers the entire value-added chain. That is why the BMW Group not only sets high standards for itself, but also expects its suppliers and partners to meet the ecological and social standards it sets and strives continually to improve the efficiency of processes, measures and activities. For instance, we consistently require our dealers and importers to comply with ecological and social standards on a contractual basis. Moreover, corresponding criteria are embedded throughout the entire purchasing system – including in enquiries to suppliers, in the sector-wide OEM Sustainability Questionnaire, in our purchasing terms and in our evaluation of suppliers – in order to promote sustainability aspects in line with the BMW Group Sustainability Standard. The BMW Group expects suppliers to ensure that the BMW Group's sustainability criteria are also adhered to by their sub-suppliers. A spot check of supplier facilities is conducted with sustainability audits and assessments. In 2017, the Human Rights Contact Supply Chain was established for reporting of sustainability infringements in the supply chain. Purchasing terms and conditions and other information relating to purchasing can be found in the publicly available section of the BMW Group Partner Portal at → https://b2b.bmw.com.

We also work in close partnership with our suppliers and promote their commitment to sustainability.

COMPLIANCE IN THE BMW GROUP

Responsible and lawful conduct is fundamental to the success of the BMW Group. It is an integral part of our corporate culture and the reason why customers, shareholders, business partners and the general public place their trust in us. The Board of Management and the employees of the BMW Group are obliged to act responsibly and in compliance with applicable laws and regulations. The BMW Group also expects its business partners to conduct themselves in the same manner.

In order to protect itself systematically against legal and reputational risks, the Board of Management created a Compliance Committee several years ago, mandated to establish a Compliance Management System throughout the BMW Group.

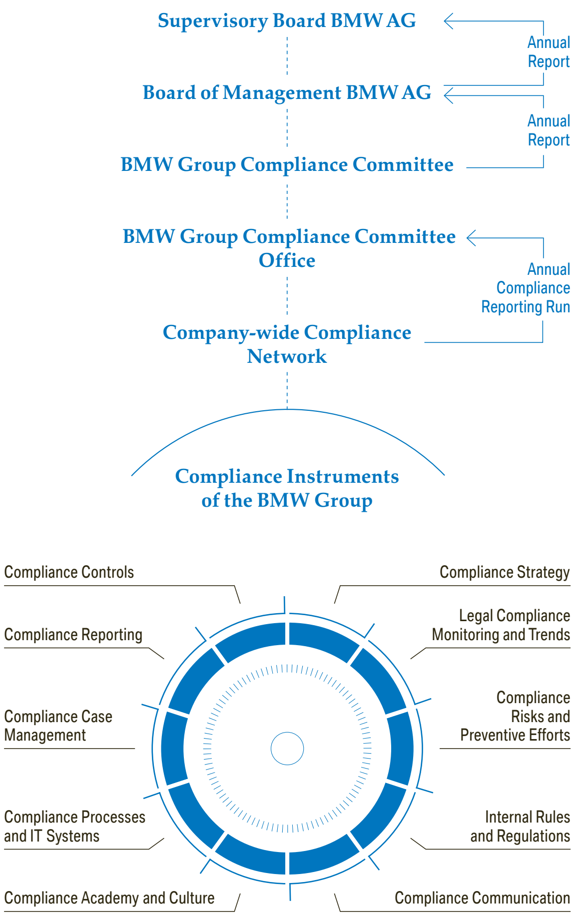
The BMW Group Compliance Management System consists of a coordinated set of instruments and topics designed to ensure that the BMW Group, its representative bodies, its managers and staff act in a lawful manner. Particular emphasis is placed on measures to ensure compliance with antitrust legislation and avoid the risk of corruption or money laundering.

The BMW Group Compliance Committee comprises the heads of the following departments: Legal Affairs, Corporate and Governmental Affairs, Corporate Audit, Group Reporting, Organisational Development and Corporate Human Resources. It manages and monitors activities necessary to avoid non-compliance with the law, including, for example, legal monitoring, internal compliance regulations, communications and training activities, complaint and case management, compliance reporting, compliance controls and following through with sanctions in cases of non-compliance.

The BMW Group Compliance Committee reports regularly to the Board of Management on all compliance-related issues, including the progress made in refining the BMW Group Compliance Management System, details of investigations performed, known infringements of the law, sanctions imposed and corrective/preventative measures implemented. This also ensures that the Board of Management is immediately notified of any cases of particular significance.

BMW Group Compliance Management System

→ 81



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.

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 as well as relevant proceedings both on a regular and a case-by-case basis as the need arises.

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 19 employees and is allocated in organisational terms to the Chairman of the Board of Management.

The BMW Group Compliance Committee Office is supported by local compliance functions, especially in connection with operational implementation of compliance topics. Installation of 77 local compliance functions was completed in 2018. Their activities follow a standardised management process with clearly defined tasks and responsibilities. The heads of these functions serve as the Compliance Officer for the respective organisational unit.

The various elements of the BMW Group Compliance Management System are shown in the diagram on the previous page and are applicable to all BMW Group organisational units worldwide. The BMW Group Legal Compliance Code forms the core of the Group's Compliance Management System, spelling out the Board of Management's commitment to compliance as a joint responsibility ("tone from the top"). The Code also explains the significance of legal compliance and provides an overview of the various areas of relevance for the BMW Group. It is available both as a printed brochure in German and English and for download. In addition, translations into 11 other languages are available in the BMW Group intranet.

The BMW Group Legal Compliance Code is 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. The BMW Group Policy "Antitrust Compliance" establishes 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 that is updated annually. In 2018, this was further refined to create a Compliance Risk and Performance Management Concept, which supports the recognition of compliance risks and the identification of appropriate preventative IT measures. Through the function Compliance Coordination in the Financial Services segment the specific Compliance risks of the segment are taken into consideration. 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 around 240 compliance responsibles with 77 local compliance functions.

Training plays an important role in reinforcing compliance in the corporate culture. In 2018, training management for online training in Compliance Essentials and Antitrust Compliance, both available in German and English, was switched to a central training platform. These training modules must be repeated by the required target groups every two years and include a final test. Successful completion of the test is confirmed by a certificate.

More than 44,000 managers and staff worldwide have so far received training in the basic principles of compliance and are in possession of a valid training certificate. Successful completion of the training programme 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 and repeat it every two years. In this way, the BMW Group ensures nearly full training coverage for its managers in compliance matters.

Online training in antitrust compliance was restructured in 2018. This training is also mandatory for managers and staff whose functions or assignments expose them to antitrust risks. A total of 22,000 managers and associates worldwide have so far completed antitrust compliance training and currently hold a valid certificate.

Additional classroom training was also offered for key compliance topics. The main emphasis here was on providing training in antitrust law for employees who participate in meetings with competitors or work with suppliers or sales partners.

Additional compliance coaching was also implemented for international sales and financial service companies 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 functions. In 2018, market coaching was conducted in Australia, Austria, Brazil, Canada, China, Denmark, France, Germany, Italy, the Netherlands, New Zealand, Russia, Singapore, Sweden, Switzerland, Thailand and the US.

Any member of staff with questions or concerns relating to compliance is expected to discuss these matters with their managers and with the relevant departments within the BMW Group: in particular with 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. Non-employees may also use this reporting system. This communication may remain anonymous, if preferred.

Employees also have the opportunity to submit information about possible breaches of the law within the Company – anonymously and confidentially – via the BMW Group SpeakUP Line. The BMW Group SpeakUP Line is available in a total of 34 languages and can be reached via local toll-free numbers in all countries where BMW Group employees are engaged in activities.

All 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 legal departments or the Works Council may be called upon to assist in the investigation process.

Various internal channels and means of communication, including newsletters, employee newspapers and intranet portals, are used to keep BMW Group employees fully up-to-date with the instruments and measures used by the Compliance Management System. The central communications channel is the compliance website within the BMW Group's intranet, where employees can find compliance-related information and 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 situations. A group-wide communications campaign was implemented in 2018 to boost employee awareness of the importance of creating a culture of transparency and trust.

Managers were the main focus of additional training on the topic of compliance culture, including how to be a good role model, management style and dealing with contradictions and crises.

In addition to these communication measures, appropriate IT systems also support BMW Group employees with the assessment, approval and documentation of compliance-relevant matters.

For example, since 2017, all exchange activities with competitors must be documented and approved in a special compliance IT system. All employees have access to IT tools to help them verify the legal admissibility of and document benefits, especially in connection with corporate hospitality.

The BMW Group also uses an IT-based Business Relations Compliance programme aimed at ensuring the reliability of its business relations. Relevant business partners are checked and evaluated with a view to identifying potential compliance risks. These procedures are particularly relevant for relations with sales partners and service providers, such as agencies and consultants. Depending on the results of the evaluation, appropriate measures – such as communication measures, training and possible monitoring – are implemented to manage compliance risks.

The IT system used to verify customer integrity has been expanded and has so far been introduced in 56 organisational units under enhanced anti-money laundering measures.

Through the group-wide reporting system, compliance responsibles across all organisational units of the BMW Group report on compliance-relevant issues to the Compliance Committee on a regular basis, and, if necessary, also 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 sanctions and corrective/preventative measures implemented.

Compliance with and implementation of the compliance rules and processes 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, a BMW Group Compliance Spot Check, a sample test specifically designed to identify potential corruption risks, was carried out in 2018. Antitrust Compliance Validation was another new measure introduced in 2018 to identify and audit possible antitrust risks at the Company. Compliance control activities are coordinated by the BMW Group Panel Compliance Controls. Any necessary follow-up measures are organised by the BMW Group Compliance Committee Office.

Managers, 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, to convey the values it embodies and make employees aware of legal risks. Managers must, at regular intervals and on their own initiative, verify compliance with the law and communicate with staff on this issue. It is important to signal to employees that they take compliance risks seriously and that relevant information is extremely valuable. In their dealings with staff members, managers remain open to discussion and listen to differing opinions. Any indication of non-compliance with the law must be rigorously investigated.

It is essential for compliance in the BMW Group that employees are aware of and comply with applicable legal 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.

The BMW Group is committed to respecting internationally recognised human rights, as set out in the ten principles of the UN Global Compact and the ILO Core Labour Conventions. The Company's due diligence process is geared towards the UN Guiding Principles on Business and Human Rights, focusing on topics and areas of activity where it can leverage its influence as a commercial enterprise.

The BMW Group stated its position clearly back in 2005, with the Joint Declaration on Human Rights and Working Conditions at the BMW Group, which was updated in 2010. This was followed by systematic introduction and continuous upgrading of measures to protect human rights. These measures, which were already firmly established within the organisation, were integrated into the BMW Group's group-wide Compliance Management System in 2016. A group-wide human rights compliance assessment was conducted in 2017. In the year under review, the BMW Group published its Code on Human Rights and Working Conditions, which clarifies how the Joint Declaration on Human Rights and Working Conditions at the BMW Group from 2010 should be implemented. The Code confirms the BMW Group's commitment to human rights and outlines how the Company promotes human rights and implements the core labour standards of the ILO.

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.

To ensure that the BMW Group complies with regulations relating to insider information, the Board of Management appointed an Ad-hoc Committee back in 1994, consisting of representatives of various specialist departments, whose members determine whether information displays the characteristics of publishable insider information and handle the publication and legal notices required by law. All persons who perform duties on behalf of BMW AG and have access to insider information are included in an insider list and informed of the duties arising from insider rules.

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 41 to the Group Financial Statements).

→ see note 41

The share-based remuneration programme for qualifying heads of department, introduced with effect for financial years beginning after 1 January 2012, is closely based on the programme for Board of Management members and is aimed at rewarding a long-term, entrepreneurial approach to running the business on a sustainable basis.

Under the terms of the programme, participants give a commitment to invest an amount equivalent to 20 % of their performance-based bonus in BMW common stock and to hold the shares so acquired for a minimum of four years. In return for this commitment, BMW AG pays 100 % of the investment amount as a net subsidy. Once the four-year holding period requirement has been fulfilled, the participants receive – for each three common stock shares held and at the Company's option – one further share of common stock or the equivalent amount in cash.

Under the terms of the Employee Share Programme, in 2017 employees were entitled to acquire packages of 7, 12 or 17 shares of non-voting preferred stock with a discount of €20.00 (2017: €20.00) per share compared to the market price (average closing price in Xetra trading during the period from 5 to 8 November 2018: €66.26). 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 521,524 (2017: 491,114) shares of preferred stock were acquired by employees under the programme in 2018; 521,500 (2017: 491,000) of these shares were drawn from Authorised Capital 2014, the remainder were acquired via the stock exchange or as a result of cancelled employee purchases relating to the previous year. Every year the Board of Management of BMW AG decides whether the scheme is to be continued. Further information is provided in → notes 31 and 41 to the Group Financial Statements.

→ see notes 31 and 41

COMPENSATION REPORT (PART OF THE COMBINED MANAGEMENT REPORT)

The following section describes the principles governing the compensation of the Board of Management for financial years from 2018 onwards. A description of the stipulations set out in the statutes relating to the compensation of the Supervisory Board is also provided. In addition to explaining the system of compensation, details of components of compensation are also provided with figures. Furthermore, the compensation of each individual member of the Board of Management and the Supervisory Board for the financial year 2018 is disclosed with its component parts.

1. Board of Management compensation

Responsibilities

The full Supervisory Board is responsible for determining and regularly reviewing Board of Management compensation. The preparation for these tasks is undertaken by the Supervisory Board's Personnel Committee.

Principles of compensation

The compensation system for the Board of Management at BMW AG is designed to encourage a management approach focused on the sustainable development of the BMW Group. A further principle of the compensation system at the BMW Group is that of consistency. This means that compensation systems for the Board of Management, senior management and employees of BMW AG are composed of similar elements. The Supervisory Board performs an annual review to ensure that all Board of Management compensation components are appropriate, individually and in total, and do not encourage the Board of Management to take inappropriate risks for the BMW Group. At the same time, the compensation model used for the Board of Management needs to be attractive for highly qualified executives in a competitive environment.

The compensation of members of the Board of Management is determined by the full Supervisory Board on the basis of performance criteria and after taking into account any remuneration received from Group companies. The principal performance criteria are the tasks and exercise of mandate of the member of the Board of Management, the economic situation as well as the performance and future prospects of the BMW Group. The Supervisory Board sets ambitious and relevant parameters as the basis for variable compensation. It also ensures that variable components based on multi-year criteria take account of both positive and negative developments and that the overall incentive is on the long term. As a general rule, targets and comparative parameters may not be changed retrospectively. In connection with the revised compensation system for the Board of Management (see the section Revised Board of Management compensation system for financial years from 2018 onwards), the targets originally set for the variable compensation components for the financial years 2018 and 2019 were revoked exceptionally and replaced by the more ambitious targets stipulated in the new compensation system applicable from 2018 onwards. The Supervisory Board reviews the appropriateness of the compensation system annually. In preparation, the Personnel Committee also consults remuneration studies. In order to check that the compensation system is in line with peers, the Supervisory Board compares compensation paid by other DAX companies. For a vertical view, it compares Board compensation with the salaries of executive managers and with the average salaries of employees of BMW AG based in Germany, also with regard to the development over time. Recommendations made by an independent external remuneration expert and suggestions made by investors and analysts are also considered in the consultative process.

Revised Board of Management compensation system for financial years from 2018 onwards

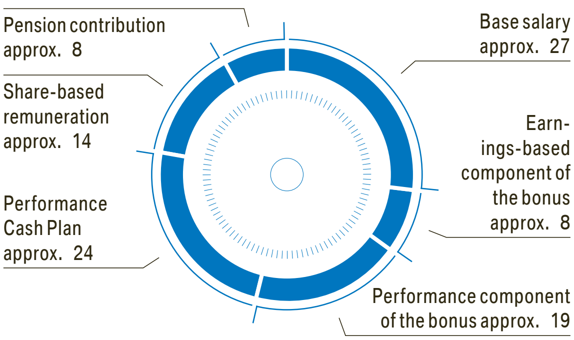
In December 2017, the Supervisory Board resolved to revise the compensation system for financial years from 2018 onwards. A focus was to align the remuneration structure even more strongly on sustainable corporate development. The base salary, which had remained at the same level since 1 January 2012, was raised. The bonus was revised, both in terms of its structure and the target setting. Target values for the parameters Group net profit and post-tax return on sales used to determine the earnings-related bonus were adjusted in line with the Group's current business plan and revised. A new multi-year and future-oriented component was introduced in the form of a performance cash plan, in order to further strengthen the long-term orientation of the compensation system. The overall upper limits are unchanged. The changes apply to all members of the Board of Management for financial years with effect from 1 January 2018.

Compensation system, compensation components
Board of Management compensation comprises fixed and variable cash elements as well as a share-based component. The compensation components are described in more detail below. Retirement benefits remained unchanged in the revised compensation system applicable from 1 January 2018.

Overview of compensation system for financial year 2018: simplified depiction of allocation to cash benefits (target compensation) and pension contribution[1]

→ 82

in %

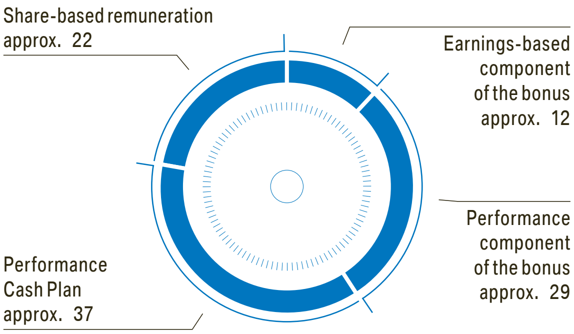


[1] Simplified depiction of target amounts for the variable cash remuneration of the Chairman of the Board of Management. Excludes other remuneration. Based on the assumption that the share price remains unchanged for the calculation of the matching component.

Overview of compensation system: simplified depiction of variable remuneration (target compensation)[2]

→ 83

in %



[2] Simplified depiction of target amounts for the variable cash remuneration of the Chairman of the Board of Management. Excludes basic salary, other remuneration and pension contribution. Based on the assumption that the share price remains unchanged for the calculation of the matching component.

Fixed remuneration
Fixed remuneration consists of a base salary, which is paid monthly, and fringe benefits (other remuneration elements such as the use of Company cars, insurance premiums and contributions towards security systems). With effect from the financial year 2018, the base salary is €0.8 million p.a. for a Board member during the first period of office, €0.95 million p.a. for a Board member from the second period of office or the fourth year of mandate and €1.8 million p.a. for the Chairman of the Board of Management.

Variable remuneration
The variable remuneration of the Board of Management comprises three components:

- bonus
- Performance Cash Plan and
- share-based remuneration

Payment of a discretionary additional bonus is not foreseen. An upper limit has been set for each component of variable remuneration (see Overview of compensation system and compensation components).

Bonus
In the case of 100 % target achievement, the bonus comprises an earnings-related component of 30 % and performance-related component of 70 %. The target bonus (100 %) is €0.85 million p.a. for a Board member during the first period of office, €1.0 million p.a. from the second period of office or the fourth year of mandate and €1.8 million p.a. for the Chairman of the Board of Management. For all Board members, the upper limit of the bonus is set at 180 % of the relevant target bonus.

In order to calculate the earnings-related component, an earnings factor is determined on the basis of the target parameters and multiplied by 30 % of the target bonus amount. The level of the earnings-related component depends on the degree to which the targets set by the Supervisory Board for Group net profit and post-tax return on sales are achieved. The degree of achievement is expressed in an earnings factor. The underlying measurement values are determined in advance for a period of three financial years and may not be changed retrospectively. The earnings factor is capped at a maximum of 1.8.

An earnings factor of 1.0 would give rise to a earnings-related component of €0.255 million for a Board member in the first period of office, €0.3 million from the second period of office or the fourth year of mandate and €0.54 million for the Chairman of the Board of Management. The earnings factor is 1.0, for instance, in the event of a Group net profit of €5.3 billion and a post-tax return on sales of 5.6 %. If the Group net profit were below €3 billion or the post-tax return on sales below 3 %, the earnings factor would be zero. In this case, an earnings-related component would not be paid. The maximum value of the earnings factor is reached in the event of a Group net profit of €11 billion and a post-tax return on sales of 9 %. In exceptional circumstances, for instance major acquisitions or disposals, the Supervisory Board may adjust the earnings factor.

The performance-related component is calculated using a performance factor which the Supervisory Board sets for each member of the Board of Management and which is multiplied by 70 % of the target bonus amount. The Supervisory Board sets the performance factor on the basis of a detailed evaluation of the contribution made by Board members to sustainable and long-term business development over a period of at least three financial years. The evaluation by the Supervisory Board is based on predefined criteria that take into account the Group's long-term success, the interests of shareholders, the interests of employees and social responsibility.

The criteria include in particular innovation (economic and ecological, for example in the reduction of carbon dioxide emissions), the Group's market position compared to its competitors, customer focus, ability to adapt, leadership, corporate culture, promotion of compliance and integrity, contribution to the Group's attractiveness as an employer, progress in implementing the diversity concept, and activities that foster corporate social responsibility. The individual performance factor lies between zero and a maximum of 1.8.

Bonus overview

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EARNINGS COMPONENT BONUS	+	PERFORMANCE COMPONENT	=	TOTAL
Earnings factor x 0.3 of target amount Basis for earnings factor: — Group net profit — Group post-tax return on sales — Value between 0 and 1.8		Performance factor x 0.7 of target amount Basis for performance factor: — Contribution to sustainable and long-term business development over a period of at least three financial years — Qualitative, mainly non-financial parameters — Value between 0 and 1.8		— Cash payment — Capped at 180 % of target amount

Performance Cash Plan

With effect from the financial year 2018, variable cash compensation includes a multi-year and future-oriented Performance Cash Plan (PCP). The PCP is calculated at the end of a three-year evaluation period, by multiplying a predefined target amount by a factor that is based on multi-year target achievement (the PCP factor). PCP entitlements are paid in cash. The PCP target amount (100 %) amounts to €0.85 million p.a. for a Board member in the first period of office, €0.95 million p.a. from the second period of office or the fourth year of mandate and €1.6 million p.a. for the Chairman of the Board of Management. The maximum amount that can be paid to a Board member is capped at 180 % of the PCP target amount p.a.

The PCP evaluation period comprises three years, the grant year and the two subsequent years. The PCP is paid out after the end of the three-year evaluation period.

In order to determine the PCP factor, a multi-year earnings factor is multiplied by a multi-year performance factor. The PCP factor is capped at a maximum of 1.8.

In order to determine the multi-year earnings factor, an earnings factor is calculated for each year of the three-year evaluation period and an average is then calculated for the evaluation period. As for the earnings-related component of the bonus, the earnings factor for each individual year within the evaluation period is determined on the basis of Group net profit and post-tax return on sales for the relevant year. The maximum earnings factor is 1.8. The underlying measurement values are determined in advance for a period of three financial years and may not be changed retrospectively.

In addition to the multi-year earnings factor, the Supervisory Board also determines a multi-year performance factor after the end of the evaluation period. To this end, the Supervisory Board takes account of in particular the business development during the evaluation period, the forecast trend in the business development for subsequent years, the Board member's individual contribution to profitability and the status of compliance within the Board member's area of responsibility. The multi-year performance factor can be between 0.9 and 1.1.

Performance Cash Plan overview

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TARGET AMOUNT	x	PCP FACTOR	=	CASH PAYMENT
				— Cash payment at end of evaluation period — Capped at 180 % of target amount

PCP factor overview

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MULTI-YEAR EARNINGS FACTOR	x	MULTI-YEAR PERFORMANCE FACTOR	=	PCP FACTOR
— Average earnings factor — Based on Group net profit and Group post-tax return on sales — Value between 0 and 1.8		Measurement based on multi-year performance factor: — Trend in business development — Status of compliance in each Board member's area of responsibility — Individual contribution to profitability — Forecast trend in business development — Value between 0.9 and 1.1		

Members of the Board of Management receive advance payments out of the Performance Cash Plan 2018 and the Performance Cash Plan 2019 in the years 2019 and 2020. At the end of evaluation period, the advance payment will be set off or refunded, depending on the amount then determined. The advance payment for each year is €0.5 million for a Board member in the first period of office and €0.6 million from the second period of office or the fourth year of mandate. For the Chairman of the Board of Management the amount is €0.9 million p.a.

Share-based remuneration

Members of the Board of Management receive a cash compensation (investment component) for the specific purpose of investment after tax and contributions in BMW AG common stock. For financial years from 2018 onwards, the investment component corresponds to 45% of the gross bonus. Shares of common stock purchased in this way by Board members are required to be held for a period of four years.

At the end of the holding period, Board members receive from the Company, as previously, for every three shares of common stock held, either one additional share of common stock or the cash equivalent, to be decided at the Company's discretion (matching component). Upper limits have been defined for both the investment component and the matching component (see Overview of compensation system and compensation components).

Other

In the event of death or invalidity, special rules apply for early payment of performance cash plans and share-based remuneration components based on the target amounts. Insofar the service contract is prematurely terminated and the Company has an extraordinary right of termination, or if the Board member resigns without the Company's agreement, entitlements to amounts as yet unpaid relating to performance cash plans and share-based remuneration are forfeited.

A one-year post-contractual non-competition clause has been agreed with Board members under specified circumstances. During that one-year period, the former Board member is entitled to receive monthly compensation equivalent to 60% of his or her previous monthly basic remuneration, reduced by any amount of other income exceeding 40% of the basic remuneration. The Company may unilaterally waive the requirement to comply with the post-contractual non-competition clause.

Overview of compensation system and compensation components

Component	Parameter / measurement base
BASE SALARY P.A.	
	Member of the Board of Management: — €0.80 million (1st period of office) — €0.95 million (from 2nd period of office or 4th year of mandate) Chairman of the Board of Management: — €1.80 million
VARIABLE REMUNERATION	
Bonus (sum of earnings-related bonus and performance-related bonus)	Target amount p.a. (at 100 % target achievement): — €0.85 million (1st period of office) — €1.0 million (from 2nd period of office or 4th year of mandate) — €1.8 million (Chairman of the Board of Management) — Capped at 180 % of target amount, see section Remuneration caps
a) Earnings-related bonus (at 100 % target achievement corresponds to 30 % of target amount)	— Formula: 30 % target amount x earnings factor — Base amount p.a. (30 % target amount per bonus): — €0.255 million (1st period of office) — €0.30 million (from 2nd period of office or 4th year of mandate) — €0.54 million (Chairman of the Board of Management) — Quantitative criteria fixed in advance for a period of three financial years — Earnings factor is derived from Group net profit and Group post-tax return on sales — The earnings factor is 1.0 in the event of a Group net profit of €5.3 billion and a post-tax return on sales of 5.6 % — Earnings factor may not exceed 1.8 — Maximum amount of earnings-related bonus p.a.: — €0.459 million (1st period of office) — €0.54 million (from 2nd period of office or 4th year of mandate) — €0.972 million (Chairman of the Board of Management)
b) Performance-related bonus (at 100 % target achievement corresponds to 70 % of target amount)	— Formula: 70 % target amount x performance factor — Base amount p.a. (70 % target amount per bonus): — €0.595 million (1st period of office) — €0.70 million (from 2nd period of office or 4th year of mandate) — €1.26 million (Chairman of the Board of Management) — Primarily qualitative, non-financial criteria, expressed in terms of a performance factor aimed at measuring the Board member's contribution to the sustainable and long-term development and the future viability of the Company over a period of at least three financial years — Criteria for the performance factor include: innovation (economic and ecological, for example in the reduction of carbon dioxide emissions), the Group's market position compared to its competitors, customer focus, ability to adapt, leadership, corporate culture, promotion of compliance and integrity, contribution to the Group's attractiveness as an employer, progress in implementing the diversity concept, and activities that foster corporate social responsibility — Performance factor may not exceed 1.8 — Maximum amount of performance-related bonus p.a.: — €1.071 million (1st period of office) — €1.26 million (from 2nd period of office or 4th year of mandate) — €2.268 million (Chairman of the Board of Management)

Component	Parameter / measurement base
VARIABLE REMUNERATION	
Performance Cash Plan	Target amount p.a. (at 100 % target achievement): — €0.85 million (1st period of office) — €0.95 million (from 2nd period of office or 4th year of mandate) — €1.6 million (Chairman of the Board of Management) — 3-year evaluation period — Capped at 180 % of target amount, see section Remuneration caps — Formula: PCP factor x target amount — PCP factor: multi-year earnings factor x multi-year performance factor — PCP factor may not exceed 1.8
a) Multi-year earnings factor	— Earnings factor for each year of three-year evaluation period derived from Group net profit and Group post-tax return on sale — Earnings factor for each year may not exceed 1.8 — Average for evaluation period calculated
b) Multi-year performance factor	— Determined by Supervisory Board at end of evaluation period — Criteria include in particular the trend in business development during the evaluation period, the forecast trend in business development, individual contribution to profitability and the status of compliance within the Board member's area of responsibility — Multi-year performance factor can be between 0.9 and 1.1
Share-based remuneration programme	— Requirement for Board of Management members to invest an amount of 45 % of the gross bonus after tax and contributions in BMW AG common stock — Requirement for Board of Management members to hold the acquired shares of common stock for four years
a) Cash remuneration component (investment component)	— Earmarked cash remuneration amounting to 45 % of the gross bonus — Cash remuneration p.a. at 100 % target achievement of the bonus: — €0.3825 million (1st period of office) — €0.45 million (from 2nd period of office or 4th year of mandate) — €0.81 million (Chairman of the Board of Management) — Maximum remuneration, see section Remuneration caps
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 — Maximum remuneration, see section Remuneration caps
OTHER REMUNERATION	
	Contractual agreement, main points: non-cash benefits from use of Company car, insurance premiums, contributions towards security systems

Overview of compensation system and compensation components onwards

RETIREMENT AND SURVIVING DEPENDANTS' BENEFITS

Model	Principal features
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 Chairman of the Board of Management: €500,000

REMUNERATION CAPS (MAXIMUM REMUNERATION)

			Share-based compensation programme		
in € p. a.	Bonus	Performance Cash Plan	Cash compensation for share acquisition	Monetary value of matching component	Total*
Member of the Board of Management in the first period of office	1,530,000	1,530,000	688,500	344,500	4,925,000
Member of the Board of Management in the second period of office or from fourth year of mandate	1,800,000	1,710,000	810,000	405,000	5,500,000
Chairman of the Board of Management	3,240,000	2,880,000	1,458,000	729,000	9,850,000

* Including base salary, other fixed remuneration elements and pension contribution. The overall cap is lower than the sum of the maximum amounts for each of the individual components.

Retirement benefits

With effect from 1 January 2010, the provision of retirement benefits for members of the Board of Management was changed to a defined contribution system with a guaranteed minimum return. Retirement benefits remain unchanged as part of the new compensation system applicable for financial years from 2018 onwards, as they are appropriate and in line with customary market practice.

If a mandate is terminated, the defined contribution system provides, in the case of death or invalidity, for amounts accumulated on individual pension accounts to be paid out as a one-off amount or in instalments. Former members of the Board of Management are entitled to receive the retirement benefit at the earliest upon reaching the age of 60, or in the case of entitlements awarded after 1 January 2012, upon reaching the age of 62.

The amount of the benefits to be paid is determined on the basis of the amount accrued in each Board member's individual pension savings account. The amount on this account results from annual contributions paid in, plus interest earned depending on the type of investment.

If a member of the Board of Management with a vested entitlement dies prior to the commencement of benefit payments, a surviving spouse or registered partner, or otherwise surviving children – in the latter case depending on their age and education – are entitled to receive benefits as surviving dependants.

In the case of death or invalidity, a minimum benefit is payable based on the number of contributions possible up to the age of 60 (subject to maximum of ten contributions).

The annual contribution paid by the Company is €350,000 for a Board member 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 instalment payments. 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 not provided.

In the event of the death of a member of the Board of Management during the service contract term, the base remuneration for the month of death and a maximum of three further calendar months are paid to entitled surviving dependants.

Board of Management members who retire immediately after their service on the Board are entitled to acquire vehicles and other BMW Group products and services at conditions that also apply to BMW pensioners and to lease BMW Group vehicles in accordance with the guidelines applicable to senior heads of 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

Mr Duesmann left the Board of Management Board at the end of 24 July 2018 and was released from his duties for the remaining term of his service contract (until the end of 30 September 2019), with remuneration continuing to be paid until that date. For the period from 25 July 2018 to 31 December 2018, he received a base remuneration of €0.348 million and other remuneration of €0.015 million. The bonus for this period amounts to €0.324 million, the proportionate cash remuneration component of the share-based remuneration programme (investment component) amounts to €0.146 million. The proportionate share-based remuneration component of the share-based remuneration programme (matching component) has a provisional monetary value of €0.025 million; the provisional number of matching shares is 295 (calculated in each case at the grant date). The final number of matching shares is determined when the requirement to invest in BMW AG common stock has been fulfilled. The Company paid a proportionate pension contribution of €0.152 million. The base remuneration from 1 January 2019 to 30 September 2019 amounts to €0.6 million. The pension contribution for this period amounts to €0.263 million. The expense for these and other entitlements relating to the service contract for the financial years 2019 and 2020 amounts to €3.0 million.

In accordance with the recommendation of the German Corporate Governance Code, Board of Management service contracts provide for severance pay to be paid to the Board member in the event of premature termination by the Company without important reason, the amount of which is limited to a maximum of two years' compensation (severance payment cap). If the remaining term of the contract is less than two years, the severance payment is reduced proportionately. For these purposes, annual compensation comprises the basic remuneration, the target bonus amount and the target PCP amount for the last full financial year before termination.

No commitments or agreements exist for payment of compensation in the event of early termination of a Board member's mandate due to a change of control or a takeover offer. No members of the Board of Management received any payments or relevant commitment from third parties in 2018 on account of their activities as members of the Board of Management.

Remuneration caps

The Supervisory Board has stipulated upper limits for all variable remuneration components and for the remuneration of Board of Management members in total. The upper limits are shown in the table Overview of compensation system and compensation components. The overall upper limits (caps) have not changed in conjunction with the revised compensation system for financial years from 2018 onwards.

Total compensation of the Board of Management for the financial year 2018 (2017)

The total compensation of the current members of the Board of Management of BMW AG for the financial year 2018 amounted to €24.0 million (2017: €40.3 million), of which €8.2 million (2017: €7.7 million) relates to fixed components including other remuneration. Variable components amounted to €15.0 million (2017: €31.7 million) and the share-based remuneration component amounted to €0.8 million (2017: €0.9 million).

	2018		2017	
in € million	Amount	Proportion in %	Amount	Proportion in %
Fixed compensation	8.2	34.2	7.7	19.1
Variable cash compensation	15.0	62.5	31.7	78.7
Share-based compensation component*	0.8	3.3	0.9	2.2
Total compensation	**24.0**	**100.0**	**40.3**	**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 2018 (2017)[1]

	Fixed compensation			Variable cash compensation			
in € or number of matching shares	Base salary	Other compensation	Total	Bonus	Share-based compensation component (investment component)	Performance Cash Plan 2018–2020[2]	Total
Harald Krüger	1,800,000	22,392	1,822,392	2,332,800	1,049,760	–	3,382,560
	(1,500,000)	(21,464)	(1,521,464)	(5,566,500)	(1,113,276)	(–)	(6,679,776)
Milagros Caiña Carreiro-Andree	950,000	74,964	1,024,964	1,296,000	583,200	–	1,879,200
	(900,000)	(75,775)	(975,775)	(3,247,125)	(649,440)	(–)	(3,896,565)
Markus Duesmann[5]	451,613	41,039	492,652	420,338	189,152	–	609,490
	(750,000)	(102,468)	(852,468)	(2,783,250)	(556,663)	(–)	(3,339,913)
Klaus Fröhlich	950,000	64,033	1,014,033	1,296,000	583,200	–	1,879,200
	(750,000)	(65,883)	(815,883)	(2,783,250)	(556,638)	(–)	(3,339,888)
Pieter Nota	800,000	90,369	890,369	1,101,600	495,720	–	1,597,320
	(–)	(–)	(–)	(–)	(–)	(–)	(–)
Nicolas Peter	800,000	38,612	838,612	1,101,600	495,720	–	1,597,320
	(750,000)	(92,250)	(842,250)	(2,783,250)	(556,638)	(–)	(3,339,888)
Peter Schwarzenbauer	950,000	51,777	1,001,777	1,296,000	583,200	–	1,879,200
	(900,000)	(40,954)	(940,954)	(3,247,125)	(649,440)	(–)	(3,896,565)
Andreas Wendt[6]	200,000	13,029	213,029	275,400	123,930	–	399,330
	(–)	(–)	(–)	(–)	(–)	(–)	(–)
Oliver Zipse	900,000	24,994	924,994	1,231,200	554,040	–	1,785,240
	(750,000)	(25,752)	(775,752)	(2,783,250)	(556,638)	(–)	(3,339,888)
Total[7]	7,801,613	421,209	8,222,822	10,350,938	4,657,922	–	15,008,860
	(7,200,000)	(441,704)	(7,641,704)	(26,440,875)	(5,288,173)	(–)	(31,729,048)

[1] Remuneration for the financial year 2017 was paid in accordance with the compensation system applicable for that year, at which stage arrangements for base remuneration, variable remuneration and target amounts were structured differently.
[2] New variable remuneration components from the financial year 2018. Payment to be made for the first time after the end of the first three-year evaluation period 2018 to 2020.
[3] 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 41 to the Group Financial Statements for a description of the accounting treatment of the share-based remuneration component.
[4] Value of benefits granted for work performed on the Board of Management during the financial year 2018 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.
[5] Member of the Board of Management until 24 July 2018.
[6] Member of the Board of Management since 1 October 2018.
[7] Disclosures for the previous year include amounts relating to a member of the Board of Management who left office with effect from the end of the financial year 2017.

For financial years from 2018 onwards, a new variable compensation component was introduced in the form of the Performance Cash Plan. The PCP is paid out after the end of the relevant three-year evaluation period. In the case of PCP for the financial year 2018, this covers the financial years 2018 to 2020. Due to the fact that the criteria for the evaluation period 2018 to 2020 have not yet been fully met, it is not included in variable compensation for the financial year 2018.

The expense of the PCP for the financial year 2018 recognised in accordance with IAS 19 amounted to €5.3 million.

An expense of €3.4 million (2017: €3.1 million) was recognised in the financial year 2018 for current members of the Board of Management for the period after the end of their service relationship. This relates to the expense for allocations to pension provisions in accordance with IAS 19.

Total benefits paid to former members of the Board of Management and their surviving dependants for the financial year 2018 amounted to €9.2 million (2017: €6.7 million). This includes the above-mentioned payments to Mr Duesmann.

Pension obligations to former members of the Board of Management and their surviving dependants are covered by pension provisions amounting to €91.0 million (2017: €90.1 million), recognised in accordance with IAS 19.

	Share-based compensation component (matching component)[3]		Compensation Total	Total value of benefits allocated in financial year[4]
	Number	Monetary value		
Harald Krüger	1,981	171,158	5,376,110	5,293,109
	(2,017)	(181,490)	(8,382,730)	(8,295,070)
Milagros Caiña Carreiro-Andree	1,181	102,038	3,006,202	2,985,294
	(1,263)	(113,645)	(4,985,985)	(4,915,446)
Markus Duesmann[5]	383	33,091	1,135,233	1,102,142
	(1,083)	(97,448)	(4,289,829)	(4,192,381)
Klaus Fröhlich	1,100	95,040	2,988,273	2,893,233
	(1,008)	(90,700)	(4,246,471)	(4,155,771)
Pieter Nota	1,004	86,746	2,574,435	2,487,689
	(–)	(–)	(–)	(–)
Nicolas Peter	935	80,784	2,516,716	2,435,932
	(1,008)	(90,700)	(4,272,838)	(4,182,138)
Peter Schwarzenbauer	1,181	102,038	2,983,015	2,941,756
	(1,263)	(113,645)	(4,951,164)	(4,837,519)
Andreas Wendt[6]	277	21,645	634,004	612,359
	(–)	(–)	(–)	(–)
Oliver Zipse	1,045	90,288	2,800,522	2,710,234
	(1,008)	(90,700)	(4,206,340)	(4,115,640)
Total[7]	9,087	782,828	24,014,510	23,461,748
	(9,913)	(891,973)	(40,262,725)	(39,608,356)

Share-based component of the individual members of the Board of Management for the financial year 2018 (2017)[1]

in €	Expense in 2018 in accordance with HGB and IFRS	Provision at 31.12.2018 in accordance with HGB and IFRS[2]
Harald Krüger	**30,821**	**458,341**
	(54,038)	(515,677)
Milagros Caiña Carreiro-Andree	**46,218**	**268,257**
	(63,120)	(303,169)
Markus Duesmann[3]	**78,614**	**121,745**
	(41,001)	(43,131)
Klaus Fröhlich	**–19,097[4]**	**254,591**
	(162,436)	(273,688)
Pieter Nota	**23,661**	**23,661**
	(–)	(–)
Nicolas Peter	**51,812**	**80,987**
	(29,175)	(29,175)
Peter Schwarzenbauer	**32,264**	**354,125**
	(186,278)	(382,640)
Andreas Wendt[5]	**1,632**	**1,632**
	(–)	(–)
Oliver Zipse	**29,002**	**222,771**
	(122,484)	(193,769)
Total[6]	**274,927**	**1,786,110**
	(800,435)	(2,215,688)

[1] The share-based remuneration component (matching component) for the financial year 2017 was calculated in accordance with the compensation system applicable for that year.
[2] Provisional number or provisional monetary value calculated on the basis of the closing price of BMW common stock in the Xetra trading system on 28 December 2018 (€70.70) (fair value at reporting date).
[3] Member of the Board of Management until 24 July 2018.
[4] Amount based on the revaluation of share price at balance sheet date.
[5] Member of the Board of Management since 1 October 2018.
[6] Disclosures for the previous year include amounts relating to a member of the Board of Management who left office with effect from the end of the financial year 2017.

Pension entitlements

in €	Service cost in accordance with IFRS for the financial year 2018[1]	Service cost in accordance with HGB for the financial year 2018[1]	Defined Benefit Obligation IFRS	Defined Benefit Obligation HGB
Harald Krüger	**504,831**	**509,486**	**5,753,913**	**5,753,776**
	(505,281)	(510,702)	(5,558,607)	(5,558,200)
Milagros Caiña Carreiro-Andree	**354,224**	**357,468**	**2,561,031**	**2,560,943**
	(355,527)	(359,275)	(2,347,166)	(2,346,906)
Klaus Fröhlich	**353,119**	**356,382**	**2,660,630**	**2,660,630**
	(353,136)	(356,949)	(2,373,842)	(2,373,842)
Pieter Nota	**350,000**	**350,000**	**350,276**	**350,041**
	(–)	(–)	(–)	(–)
Nicolas Peter	**353,119**	**356,382**	**2,004,567**	**2,004,567**
	(350,000)	(350,000)	(1,757,459)	(1,757,454)
Peter Schwarzenbauer	**353,119**	**356,382**	**2,188,161**	**2,188,159**
	(354,117)	(357,918)	(1,893,252)	(1,893,216)
Andreas Wendt[2]	**132,500**	**132,500**	**1,886,766**	**1,886,766**
	(–)	(–)	(–)	(–)
Oliver Zipse	**353,289**	**356,550**	**2,298,444**	**2,298,405**
	(353,536)	(357,339)	(2,071,748)	(2,071,560)
Total[3]	**2,754,201**	**2,775,150**	**19,703,788**	**19,703,287**
	(3,136,302)	(3,059,645)	(21,987,289)	(21,072,823)
Markus Duesmann[4]	**617,548**	**620,741**	**1,521,226**	**1,521,192**
	(355,840)	(359,521)	(1,020,053)	(1,018,857)

[1] Service cost differs due to the different valuation bases used to measure pension obligations for HGB purposes (expected settlement amount) and for IFRS purposes (present value of the performance-based pension obligation).
[2] Member of the Board of Management since 1 October 2018.
[3] Disclosures for the previous year include amounts relating to a member of the Board of Management who left office with effect from the end of the financial year 2017.
[4] Member of the Board of Management until 24 July 2018.

2. Supervisory Board compensation

Responsibilities, provisions of 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 provisions valid for the financial year under report were resolved by shareholders at the Annual General Meeting on 14 May 2013 and are set out in Article 15 of BMW AG's Articles of Incorporation, which are available at → www.bmwgroup.com within the section "Company" (menu items "Company Portrait" and "Corporate Governance") as well as in "BMW Group Download Centre".

Compensation principles, compensation components

The Supervisory Board of BMW AG receives a fixed compensation component as well as an earnings-related compensation component, which is oriented toward sustainable growth. The earnings-related component is based on average earnings per share of common stock for the remuneration year and the two preceding financial years.

The fixed and earnings-related components in combination are intended to ensure that the compensation of Supervisory Board members is appropriate in relation to the tasks of Supervisory Board members and the Company's financial condition and also takes account of the Company's performance over several years.

In accordance with the Articles of Incorporation, each member of BMW AG's Supervisory Board receives, in addition to the reimbursement of reasonable expenses, a fixed amount of €70,000, payable at the end of the year, as well as earnings-related compensation of €170 for each full €0.01 by which the average amount of (undiluted) earnings per share (EPS) of common stock reported in the Group Financial Statements for the remuneration year and the two preceding financial years exceed a minimum amount of €2.00, payable after the Annual General Meeting held in the following year. An upper limit corresponding to twice the amount of the fixed compensation is in place for the earnings-related compensation. The limit for a member of the Supervisory Board with no additional compensation-relevant function is therefore set at €140,000.

With fixed compensation elements and an earnings-related compensation component oriented toward sustainable growth, the compensation structure in place for BMW AG's Supervisory Board complies with the recommendation on supervisory board compensation contained in section 5.4.6 paragraph 2 sentence 2 of the German Corporate Governance Code, in the version dated 7 February 2017.

The German Corporate Governance Code also recommends in section 5.4.6 paragraph 1 sentence 2 that the exercising of chair and deputy chair positions in the Supervisory Board as well the chair and membership of committees should also be considered in the compensation.

Accordingly, the Articles of Incorporation of BMW AG stipulate that the Chairman of the Supervisory Board shall receive three times the amount and each Deputy Chairman shall receive twice the amount of the remuneration of a Supervisory Board member. Each chairman of the Supervisory Board's committees receives twice the amount and each member of a committee receives one-and-a-half times the amount of the remuneration of a Supervisory Board member, provided the relevant committee convened for meetings on at least three days during the financial year. If a member of the Supervisory Board exercises more than one of the functions referred to above, the compensation is measured only on the basis of the function that is remunerated with the highest amount.

In addition, each member of the Supervisory Board receives an attendance fee of €2,000 for each full meeting of the Supervisory Board (Plenum) which the member has attended, payable at the end of the financial year. Attendance at more than one meeting on the same day is not remunerated separately.

The Company also reimburses to each member of the Supervisory Board reasonable expenses and any value-added tax arising on the member's remuneration. The amounts disclosed below are net amounts.

In order to perform his duties, the Chairman of the Supervisory Board has the use of an office, with administrative support, as well as access to the BMW car service.

Total compensation of the Supervisory Board for the financial year 2018

In accordance with Article 15 of the Articles of Incorporation, the compensation of the Supervisory Board for activities during the financial year 2018 totalled €5.6 million (2017: €5.6 million). This includes fixed compensation of €2.0 million (2017: €2.0 million) and variable compensation of €3.6 million (2017: €3.6 million). The earnings-related compensation for the financial year 2018 was capped at the maximum amount stipulated in the Articles of Incorporation.

	2018		2017	
in € million	Amount	Proportion in %	Amount	Proportion in %
Fixed compensation	2.0	35.7	2.0	35.7
Variable compensation	3.6	64.3	3.6	64.3
Total compensation	**5.6**	**100.0**	**5.6**	**100.0**

Supervisory Board members did not receive any further compensation or benefits from the BMW Group for advisory or agency services personally rendered.

Compensation of the individual members of the Supervisory Board for the financial year 2018 (2017)

in €	Fixed compensation	Attendance fee	Variable compensation	Total
Norbert Reithofer (Chairman)	210,000	10,000	420,000	640,000
	(210,000)	(10,000)	(420,000)	(640,000)
Manfred Schoch (Deputy Chairman)[1]	140,000	10,000	280,000	430,000
	(140,000)	(10,000)	(280,000)	(430,000)
Stefan Quandt (Deputy Chairman)	140,000	10,000	280,000	430,000
	(140,000)	(10,000)	(280,000)	(430,000)
Stefan Schmid (Deputy Chairman)[1]	140,000	8,000	280,000	428,000
	(140,000)	(10,000)	(280,000)	(430,000)
Karl-Ludwig Kley (Deputy Chairman)	140,000	10,000	280,000	430,000
	(140,000)	(10,000)	(280,000)	(430,000)
Christiane Benner[1]	70,000	8,000	140,000	218,000
	(70,000)	(6,000)	(140,000)	(216,000)
Kurt Bock[2]	43,656	8,000	87,312	138,968
	(–)	(–)	(–)	(–)
Franz Haniel	70,000	8,000	140,000	218,000
	(70,000)	(10,000)	(140,000)	(220,000)
Ralf Hattler	70,000	10,000	140,000	220,000
	(70,000)	(10,000)	(140,000)	(220,000)
Heinrich Hiesinger	70,000	10,000	140,000	220,000
	(44,785)	(6,000)	(89,570)	(140,355)
Reinhard Hüttl	70,000	10,000	120,000[4]	200,000
	(70,000)	(10,000)	(109,780)	(189,780)
Susanne Klatten	70,000	8,000	140,000	218,000
	(70,000)	(10,000)	(140,000)	(220,000)
Renate Köcher	70,000	10,000	140,000	220,000
	(70,000)	(10,000)	(140,000)	(220,000)
Robert W. Lane[3]	26,532	2,000	53,065	81,597
	(70,000)	(8,000)	(140,000)	(218,000)
Horst Lischka[1]	70,000	10,000	140,000	220,000
	(70,000)	(10,000)	(140,000)	(220,000)
Willibald Löw[1]	70,000	10,000	140,000	220,000
	(70,000)	(10,000)	(140,000)	(220,000)
Simone Menne	70,000	8,000	140,000	218,000
	(70,000)	(8,000)	(140,000)	(218,000)
Dominique Mohabeer[1]	70,000	10,000	140,000	220,000
	(70,000)	(10,000)	(140,000)	(220,000)
Brigitte Rödig[1]	70,000	10,000	140,000	220,000
	(70,000)	(10,000)	(140,000)	(220,000)
Jürgen Wechsler[1]	70,000	8,000	140,000	218,000
	(70,000)	(8,000)	(140,000)	(218,000)
Werner Zierer[1]	70,000	10,000	140,000	220,000
	(70,000)	(10,000)	(140,000)	(220,000)
Total[5]	1,820,188	188,000	3,620,377	5,628,565
	(1,820,188)	(188,000)	(3,610,156)	(5,618,344)

[1] These employee representatives have – in line with the guidelines of the Deutscher Gewerkschaftsbund – requested that their remuneration be paid into the Hans Böckler-Stiftung.
[2] Member of the Supervisory Board since 17 May 2018.
[3] Member of the Supervisory Board until 17 May 2018.
[4] Due to the requirements of his employer, Prof. Dr. Hüttl has waived his Supervisory Board compensation until further notice, to the extent that such compensation exceeds the amount of €200,000 (excluding value added tax) p.a.
[5] Disclosures for the previous year include amounts relating to a member of the Supervisory Board who left office during the financial year 2017.

3. Other

Apart from vehicle lease and financing contracts entered into on customary market conditions, no advances or loans were granted to members of the Board of Management and the Supervisory Board by BMW AG or its subsidiaries, nor were any contingent liabilities entered into on their behalf.

RESPONSIBILITY STATEMENT BY THE COMPANY'S LEGAL REPRESENTATIVES

Statement pursuant to § 117 No. 1 of the Securities Trading Act (WpHG) in conjunction with § 297 (2) sentence 4 and § 315 (1) sentence 5 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, 19 February 2019

Bayerische Motoren Werke
Aktiengesellschaft

The Board of Management

Harald Krüger

Milagros Caiña Carreiro-Andree
Klaus Fröhlich

Pieter Nota
Dr. Nicolas Peter

Peter Schwarzenbauer
Dr.-Ing. Andreas Wendt

Oliver Zipse

INDEPENDENT AUDITOR'S REPORT

To Bayerische Motoren Werke Aktiengesellschaft, Munich

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the consolidated financial statements of Bayerische Motoren Werke Aktiengesellschaft, Munich, and its subsidiaries (the Group or BMW Group), which comprise the consolidated balance sheet as at 31 December 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of Bayerische Motoren Werke Aktiengesellschaft (hereinafter referred to as the "group management report") for the financial year from 1 January to 31 December 2018. In accordance with German legal requirements we have not audited the content of the corporate governance statement which is included in the section "Corporate Governance Statement (Section 289 f HGB)" of the group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315 e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2018, and of its financial performance for the financial year from 1 January to 31 December 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the corporate governance statement mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and EU Audit Regulation No 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) [Institute of Public Auditors in Germany]. Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Valuation of residual values of leased products
Please refer to note 4 "accounting policies as well as assumptions, judgements and estimates" in the notes to the consolidated financial statements, for "Leased products" please refer to note 23.

The financial statement risk

BMW Group leases vehicles to end customers as part of operating leases. As at the reporting date, the value of leased products amounted to EUR 38,572 million.

The key estimated value for the purposes of subsequent measurement is the expected residual value at the end of the lease term.

The estimation of future residual values is subject to judgement and is complex due to the large number of assumptions to be made and the amount of data incorporated in the determination. For the residual value forecasts, BMW Group uses internally available data on historical values, current market data as well as forecasts from external market research institutes.

There is a risk for the financial statements that the residual values expected for the end of the lease terms are not appropriately assessed and the impairment losses or reversal of impairment losses required for the leased products are not recognised in sufficient amounts.

Our audit approach

By means of inquiries, inspecting internal calculation methods and analysing the disposal proceeds of vehicles, among other methods, we obtained an understanding of the development of leased products, the underlying residual value risks and business processes for the identification, management, monitoring and measurement of residual value risks.

We reviewed the appropriateness and effectiveness of the internal control system, particularly in relation to the determination of expected residual values. This included the audit of the compliance of the relevant IT systems as well as the interfaces implemented therein by our IT specialists.

In addition, we evaluated the appropriateness of the forecasting methods, the model assumptions as well as the parameters used for the determination of the residual values based on the validations carried out by BMW Group. For this purpose, we inquired with BMW Group's experts responsible for the management and monitoring of residual value risks and inspected the internal analysis on residual value developments and residual value forecasts as well as the validation results. Furthermore, we evaluated the processes for processing external forecast values from market research institutes. We ensured the computational accuracy of the forecast values by verifying key calculation steps.

Our observations

The methods and processes for determining the expected residual values of the leased products underlying the valuation are appropriate. The assumptions and parameters incorporated in the forecast model for the residual value are appropriate as a whole.

Valuation of receivables from sales financing
Please refer to note 4 "accounting policies as well as assumptions, judgements and estimates" in the notes to the consolidated financial statements, for "Receivables from sales financing" please refer to note 25.

The financial statement risk

BMW Group offers end customers, dealerships and importers various financing models for vehicles and other assets. In this regard, current and non-current receivables from sales financing totalling EUR 86,783 million were recognised as at the reporting date. Impairment losses amounting to EUR 1,032 million were recognised on these receivables as at the reporting date.

Impairment losses have been determined on the basis of expected credit losses since financial year 2018. This method takes into account probabilities of default and loss given default, estimates of the amount receivable in the event of default, setting criteria for the transfer between stages for determining a significant change in the default risk of borrowers, assumptions on future cash flows and macroeconomic scenarios, the determination of which is subject to considerable judgement and estimation uncertainties in each case.

There is a risk for the financial statements that the creditworthiness of dealerships, importers and end customers is assessed incorrectly, the risk provisioning parameters are derived incorrectly and an impairment loss required on receivables from sales financing is not recognised or not recognised in a sufficient amount.

Our audit approach

By means of inquiries, inspecting internal calculation methods and analysis, among other methods, we obtained a comprehensive understanding of the development of credit portfolios, the associated counterparty-related risks and the business processes for the identification, management, monitoring and measurement of counterparty credit risks.

We also assessed the methodology for determining the expected loss on a yearly basis or for the remaining term to maturity, default rates and the credit exposure in the event of default and for determining and presenting the 'transfer between stages' of receivables based on significant changes in the credit risk of a borrower.

We also audited the appropriateness and effectiveness of the internal control system in relation to the risk classification procedures as well as the derivation of the significant rise in credit risk from changes in risk classification. In addition, we evaluated the relevant IT systems and internal processes. The audit included a review by our IT specialists of the appropriateness of the systems concerned and associated interfaces to ensure the completeness of data as well as the audit of automated controls for data processing.

A key component of our audit was to assess the appropriateness of the risk classification procedures, transfer between stages and the risk provisioning parameters used, which are derived based on historical default probabilities and loss given default by taking account of the anticipated effects of future trends in relevant macroeconomic criteria. We also analysed the validations of parameters that are regularly conducted. To assess the default risk, we also used purposive sampling of individual cases to verify that the attributes for assignment to the respective risk categories were suitably available and the impairment losses had been calculated using the parameters defined for these risk categories. In addition we assessed loans for correct risk classification based on random samples.

Our observations

The risk provisioning methodology, internal processes and the assumptions and risk parameters used for the determination of receivables from sales financing are suitable for the early identification of credit risks and determining impairment losses in accordance with the applicable financial reporting standards.

Valuation of provisions for statutory and non-statutory warranty obligations and product guarantees

Please refer to note 4 "accounting policies as well as assumptions, judgements and estimates" in the notes to the consolidated financial statements, for "Other provisions" please refer to note 33.

The financial statement risk

Provisions for statutory and non-statutory warranty obligations and product guarantees are included in the consolidated financial statements of BMW Group as a significant component in 'Other provisions'. The provisions for statutory and non-statutory warranty obligations and product guarantees amounted to EUR 5,158 million as at 31 December 2018.

BMW Group is responsible for the legally prescribed product liability and the warranty in the respective sales market. Moreover, additional warranties are granted to differing extents. In order to assess the liabilities arising from warranty, guarantee and goodwill for vehicles sold, information on the type and volume of damages arising and on remedial measures is recorded and evaluated at vehicle model level. The expected amount of obligations arising from warranty claims is extrapolated from costs of the past and provided for. For specific or anticipated individual circumstances, for example recalls, additional provisions are set aside provided they have not already been taken into account. The determination of provisions is associated with unavoidable estimation uncertainties, is complex and is subject to a high degree of risk of change, depending on factors such as detected deficiencies becoming known and claims made by vehicle owners.

There is a risk for the financial statements that the valuation of provisions for statutory and non-statutory warranty obligations and product guarantees is not appropriate.

Our audit approach

In order to evaluate the appropriateness of the valuation method used for the determination of the provisions for statutory and non-statutory warranty obligations and product guarantees including the assumptions and parameters, through discussions with the departments responsible, we primarily obtained an understanding of the process for determining the assumptions and parameters. We audited the appropriateness and effectiveness of controls to determine the assumptions and parameters. With the involvement of our IT specialists, we reviewed the IT systems utilised to verify their appropriateness.

We compared the amount of provisions from the prior year with expenses selected according to risk and which actually arose for damage claims, as well as with technical measures, in order to arrive at a conclusion on the forecast accuracy.

Based on a deliberate sample of vehicle models, the computational accuracy of the valuation model used across the Group including a tool for rate-based planning was verified with the support of our actuaries. The measurement parameters included therein, such as cost components, were reconciled with actual costs. We evaluated the assumptions concerning the extent to which the historical values are representative for the expected damage susceptibility, for the expected value of damage per vehicle in terms of material and labour cost and for the anticipated claim.

Our observations

The method for the valuation of provisions for statutory and non-statutory warranty obligations and product guarantees is appropriate and has been applied consistently. The measurement parameters and assumptions applied are appropriate as a whole.

Other Information

Management is responsible for the other information. The other information comprises:

- the corporate governance statement and
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and group management report and our auditor's report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

Management is responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315 e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315 e (1) HGB.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

- evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor for the financial year from 1 January to 31 December 2018 at the annual general meeting on 17 May 2018. We were engaged by the Audit Committee of the Supervisory Board on 7 June 2018. Taking into account the transitional provisions of Article 41 (2) of the EU Audit Regulation, we have been the group auditor of Bayerische Motoren Werke Aktiengesellschaft for more than 30 consecutive years.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Mr Andreas Feege.

Munich, 27 February 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

Sailer	Feege
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

OTHER INFORMATION

5

BMW GROUP TEN-YEAR COMPARISON

		2018	2017[1]	2016	2015
DELIVERIES					
Automobiles	units	**2,490,664**	2,463,526	2,367,603	2,247,485
Motorcycles[2]	units	**165,566**	164,153	145,032	136,963
PRODUCTION VOLUME					
Automobiles	units	**2,541,534**	2,505,741	2,359,756	2,279,503
Motorcycles[2]	units	**162,687**	185,682	145,555	151,004
FINANCIAL SERVICES					
Contract portfolio	contracts	**5,235,207**	5,380,785	5,114,906	4,718,970
Business volume (based on balance sheet carrying amounts)	€ million	**133,210**	124,719	123,394	111,191
INCOME STATEMENT					
Revenues	€ million	**97,480**	98,282	94,163	92,175
Gross profit margin	%	**19.0**	20.3	19.9	19.7
Earnings before financial result	€ million	**9,121**	9,899	9,386	9,593
Earnings before tax	€ million	**9,815**	10,675	9,665	9,224
Return on sales (earnings before tax / revenues)	%	**10.1**	10.9	10.3	10.0
Income taxes	€ million	**2,575**	2,000	2,755	2,828
Effective tax rate	%	**26.2**	18.7	28.5	30.7
Net profit for the year	€ million	**7,207**	8,675	6,910	6,396
BALANCE SHEET					
Non-current assets	€ million	**125,442**	121,964	121,671	110,343
Current assets	€ million	**83,538**	73,542	66,864	61,831
Capital expenditure (excluding capitalised development costs)	€ million	**5,029**	4,688	3,731	3,826
Capital expenditure ratio (capital expenditure / revenues)	%	**5.2**	4.8	4.0	4.2
Equity	€ million	**58,088**	54,107	47,363	42,764
Equity ratio	%	**27.8**	27.7	25.1	24.8
Non-current provisions and liabilities	€ million	**79,983**	69,634	73,183	63,819
Current provisions and liabilities	€ million	**70,909**	71,765	67,989	65,591
Balance sheet total	€ million	**208,980**	195,506	188,535	172,174
CASH FLOW STATEMENT					
Cash and cash equivalents at balance sheet date	€ million	**10,979**	9,039	7,880	6,122
Free cash flow Automotive segment	€ million	**2,713**	4,459	5,792	5,404
PERSONNEL					
Workforce at year-end[3]		**134,682**	129,932	124,729	122,244
Personnel cost per employee	€	**101,178**	100,760	99,575	97,136
DIVIDEND					
Dividend total	€ million	**2,303**	2,630	2,300	2,102
Dividend per share of common stock / preferred stock	€	**3.50[4] / 3.52[4]**	4.00 / 4.02	3.50 / 3.52	3.20 / 3.22

[1] Prior year figures adjusted due to first-time application of IFRS 15, see note 6 to the Group Financial Statements.
[2] Excluding Husqvarna, deliveries up to 2013: 59,776 units; production up to 2013: 59,426 units.
[3] Figures exclude dormant employment contracts, employees in the non-work phases of pre-retirement part-time arrangements and low wage earners.
[4] Proposal by management.

2014	2013	2012	2011	2010	2009	
						DELIVERIES
2,117,965	1,963,798	1,845,186	1,668,982	1,461,166	1,286,310	Automobiles
123,495	115,215	106,358	104,286	98,047	87,306	Motorcycles[2]
						PRODUCTION VOLUME
2,165,566	2,006,366	1,861,826	1,738,160	1,481,253	1,258,417	Automobiles
133,615	110,127	113,811	110,360	99,236	82,631	Motorcycles[2]
						FINANCIAL SERVICES
4,359,572	4,130,002	3,846,364	3,592,093	3,190,353	3,085,946	Contract portfolio
96,390	84,347	80,974	75,245	66,233	61,202	Business volume (based on balance sheet carrying amounts)
						INCOME STATEMENT
80,401	76,059	76,848	68,821	60,477	50,681	Revenues
21.2	20.1	20.2	21.1	18.1	10.5	Gross profit margin
9,118	7,978	8,275	8,018	5,111	289	Earnings before financial result
8,707	7,893	7,803	7,383	4,853	413	Earnings before tax
10.8	10.4	10.2	10.7	8.0	0.8	Return on sales (earnings before tax / revenues)
2,890	2,564	2,692	2,476	1,610	203	Income taxes
33.2	32.5	34.5	33.5	33.1	49.2	Effective tax rate
5,817	5,329	5,111	4,907	3,243	210	Net profit for the year
						BALANCE SHEET
97,959	86,193	81,305	74,425	67,013	62,009	Non-current assets
56,844	52,184	50,530	49,004	43,151	39,944	Current assets
4,601	4,967	4,151	2,720	2,312	2,383	Capital expenditure (excluding capitalised development costs)
5.7	6.5	5.4	4.0	3.8	4.7	Capital expenditure ratio (capital expenditure / revenues)
37,437	35,600	30,606	27,103	23,930	19,915	Equity
24.2	25.7	23.2	22.0	21.7	19.5	Equity ratio
58,288	51,643	52,834	49,113	46,100	45,119	Non-current provisions and liabilities
59,078	51,134	48,395	47,213	40,134	36,919	Current provisions and liabilities
154,803	138,377	131,835	123,429	110,164	101,953	Balance sheet total
						CASH FLOW STATEMENT
7,688	7,671	8,370	7,776	7,432	7,767	Cash and cash equivalents at balance sheet date
3,481	3,003	3,809	3,166	4,471	1,456	Free cash flow Automotive segment
						PERSONNEL
116,324	110,351	105,876	100,306	95,453	96,230	Workforce at year-end[3]
92,337	89,869	89,161	84,887	83,141	72,349	Personnel cost per employee
						DIVIDEND
1,904	1,707	1,640	1,508	852	197	Dividend total
2.90 / 2.92	2.60 / 2.62	2.50 / 2.52	2.30 / 2.32	1.30 / 1.32	0.30 / 0.32	Dividend per share of common stock / preferred stock

GLOSSARY – EXPLANATION OF KEY FIGURES

Asset-backed financing transactions
A form of corporate financing involving the sale of receivables to a financing company.

Bond
A securitised debt instrument in which the issuer certifies its obligation to repay the nominal amount at the end of a fixed term and to pay a fixed or variable rate of interest.

Business volume in balance sheet terms
The sum of the balance sheet line items "Leased products" and "Receivables from sales financing" (current and non-current), as reported in the balance sheet for the Financial Services segment.

Capital expenditure ratio
Investments in property, plant and equipment and other intangible assets (excluding capitalised development costs) as a percentage of Group revenues.

Capitalisation rate
Capitalised development costs as a percentage of research and development expenditure.

Cash flow
Liquid funds generated (cash inflows) or used (cash outflows) during a reporting period.

Cash flow at risk
Similar to "value at risk" (see definition below).

Cash flow hedge
A hedge against exposures to the variability in forecasted cash flows, particularly in connection with exchange rate fluctuations.

Commercial paper
Short-term debt instruments with a term of less than one year which are usually sold at a discount to their face value.

Consolidation
The process of combining separate financial statements of Group entities into Group Financial Statements, depicting the financial position, net assets and results of operations of the Group as a single economic entity.

Credit default swap (CDS)
Financial swap agreements, under which creditors of securities (usually bonds) pay premiums to the seller of the CDS to hedge against the risk that the issuer of the bond will default. As with credit default insurance agreements, the party receiving the premiums gives a commitment to compensate the bond creditor in the event of default.

Earnings per share (EPS)
Basic earnings per share are calculated for common and preferred stock by dividing the net profit after minority interests, as attributable to each category of stock, by the average number of shares in circulation. Earnings per share of preferred stock are computed on the basis of the number of preferred stock shares entitled to receive a dividend in each of the relevant financial years.

EBIT
Abbreviation for "Earnings Before Interest and Taxes", equivalent in the BMW Group income statement to "Profit/loss before financial result".

EBIT margin
Profit/loss before financial result as a percentage of revenues.

Effective tax rate
The effective tax rate is calculated by dividing the income tax expense by the Group profit before tax.

Equity ratio
Equity capital as a percentage of the balance sheet total.

Fair value
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair value hedge
A hedge against exposures to fluctuations in the fair value of a balance sheet item.

Goodwill
Goodwill corresponds to the consideration paid to acquire an entity, less the fair value of the separate assets acquired and liabilities assumed. The buyer is willing to pay the additional amount in return for future expected earnings.

Gross margin
Gross profit as a percentage of Group revenues.

Liquidity
Cash and cash equivalents as well as marketable securities and investment funds.

Post-tax return on sales
Group net profit as a percentage of Group revenues.

Pre-tax return on sales
Group profit/loss before tax as a percentage of Group revenues.

Research and development expenditure
The sum of research and non-capitalised development cost and capitalised development cost (not including the associated scheduled amortisation).

Research and development expenditure ratio
Research and development expenditure as a percentage of Group revenues.

Return on capital employed (RoCE)
RoCE in the Automotive and Motorcycles segments is measured on the basis of relevant segment profit before financial result and the average amount of capital employed in the segment concerned. Capital employed corresponds to the sum of all current and non-current operational assets, less liabilities that do not incur interest.

Return on equity (RoE)
RoE in the Financial Services segment is calculated as segment profit before taxes, divided by the average amount of equity capital attributable to the Financial Services segment.

Value at risk
A measure of the potential maximum loss in value of an item during a set time period, based on a specified probability.

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Analyst and Investor Conference

7 May 2019
Quarterly Report to 31 March 2019

16 May 2019
Annual General Meeting

1 August 2019
Quarterly Report to 30 June 2019

6 November 2019
Quarterly Report to 30 September 2019

2020

18 March 2020
Annual Report 2019

18 March 2020
Annual Accounts Press Conference

19 March 2020
Analyst and Investor Conference

6 May 2020
Quarterly Report to 31 March 2020

14 May 2020
Annual General Meeting

5 August 2020
Quarterly Report to 30 June 2020

4 November 2020
Quarterly Report to 30 September 2020

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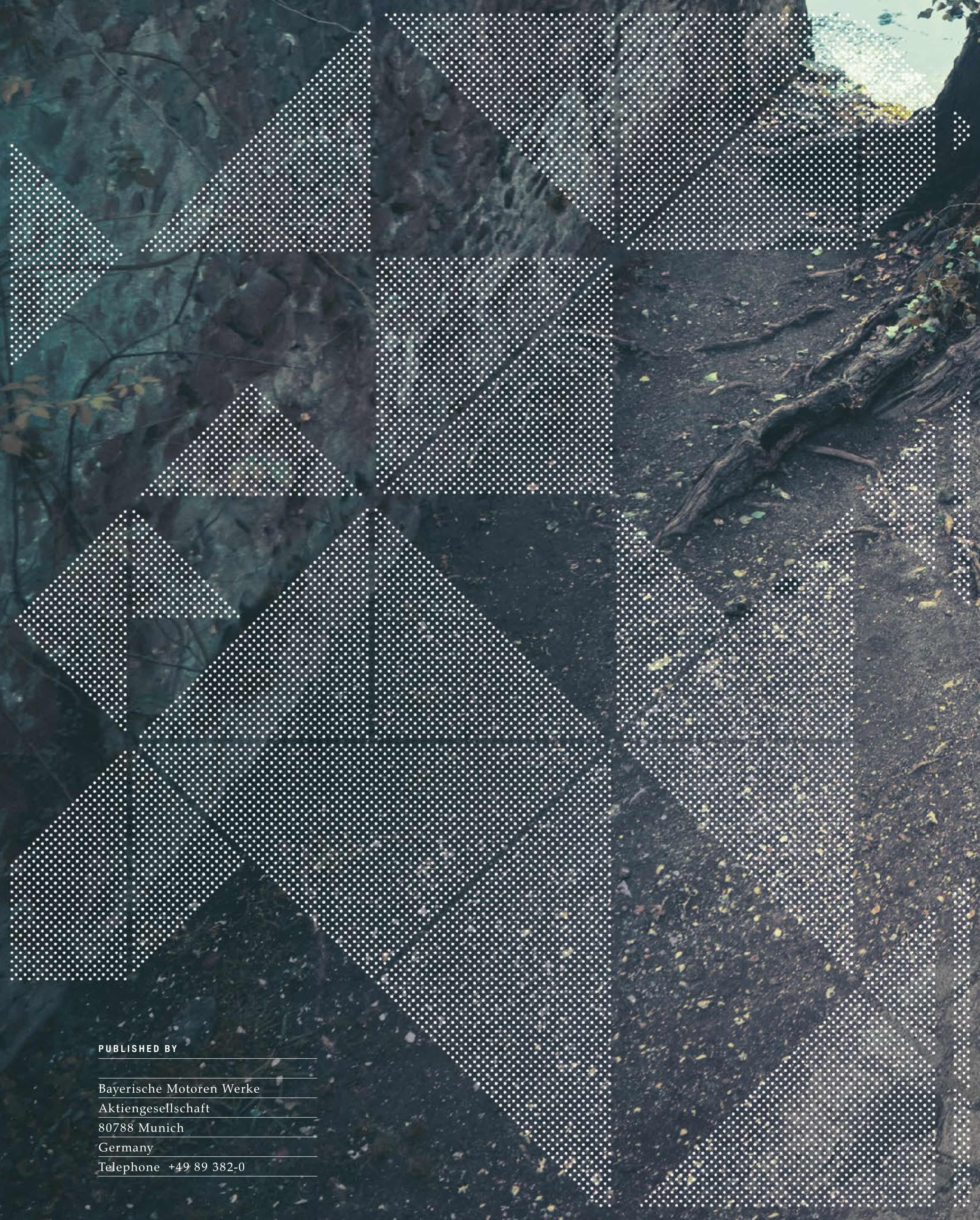

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