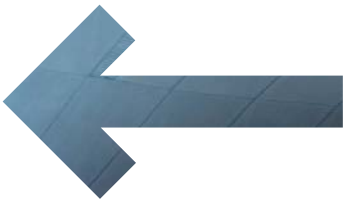
ANNUAL REPORT 2012



BMW GROUP

Rolls-Royce
Motor Cars Limited

A PORTRAIT OF THE COMPANY

Bayerische Motoren Werke G. m. b. H. came into being in 1917, having been founded in 1916 as Bayerische Flugzeugwerke AG (BFW); it became Bayerische Motoren Werke Aktiengesellschaft (BMW AG) in 1918.

The BMW Group – one of Germany's largest industrial companies – is one of the most successful car and motorcycle manufacturers in the world. With BMW, MINI and Rolls-Royce, the BMW Group owns three of the strongest premium brands in the automobile industry. The vehicles it manufactures set the highest standards in terms of aesthetics, dynamics, technology and quality, borne out by the Company's leading position in engineering and innovation. In addition to its strong position in the motorcycles market, the BMW Group also offers a successful range of financial services.

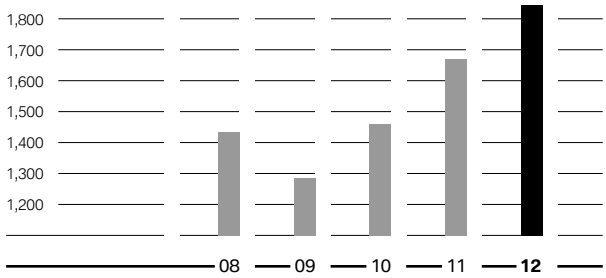
The course towards a successful future was set in 2007 with the adoption of Strategy Number ONE. The business was given a new strategic direction with an emphasis on profitability and long-term value growth. Our activities will remain firmly focused on the premium segments of the international car markets. Our mission statement up to the year 2020 is clearly defined: the BMW Group is the world's leading provider of premium products and premium services for individual mobility.

Long-term thinking and responsible action have long been the cornerstones of our success. Striving for ecological and social sustainability along the entire value-added chain, taking full responsibility for our products and giving an unequivocal commitment to preserving resources are prime objectives firmly embedded in our corporate strategy. For these reasons, the BMW Group has been the most sustainable company in the automotive industry for many years.

BMW Group in figures

Sales volume of automobiles*

in thousand units

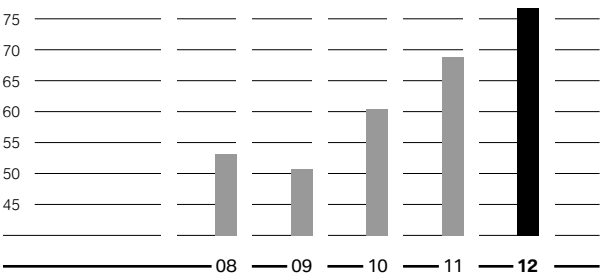


08	09	10	11	12
1,435.9	1,286.3	1,461.2	1,669.0	**1,845.2**

* Including automobiles from the joint venture BMW Brilliance.

Revenues

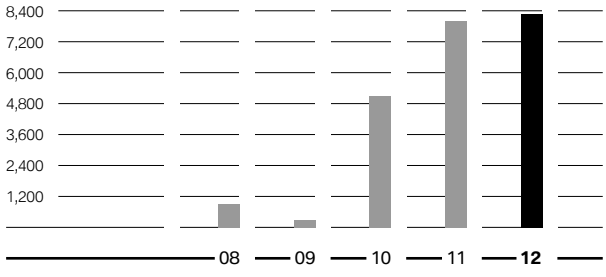
in € billion



08	09	10	11	12
53.2	50.7	60.5	68.8	**76.8**

Profit before financial result

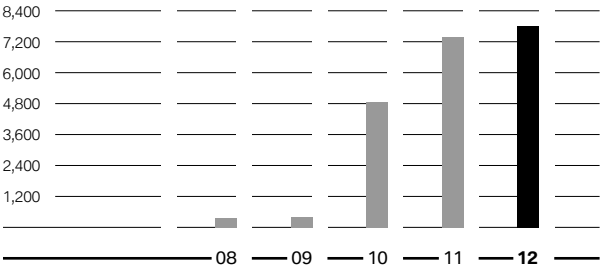
in € million



08	09	10	11	12
921	289	5,111	8,018	**8,300**

Profit before tax

in € million



08	09	10	11	12
351	413	4,853	7,383	**7,819**

BMW Group in figures

	2008	2009	2010	2011	**2012**	Change in %
Sales volume – Automobiles[1]						
BMW	1,202,239	1,068,770	1,224,280	1,380,384	**1,540,085**	11.6
MINI	232,425	216,538	234,175	285,060	**301,526**	5.8
Rolls-Royce	1,212	1,002	2,711	3,538	**3,575**	1.0
Total	**1,435,876**	**1,286,310**	**1,461,166**	**1,668,982**	**1,845,186**	**10.6**
Sales volume – Motorcycles						
BMW	101,685	87,306	98,047	104,286	**106,358**	2.0
Husqvarna	13,511	13,052	12,066	9,286	**10,751**	15.8
Total	**115,196**	**100,358**	**110,113**	**113,572**	**117,109**	**3.1**
Production – Automobiles[1]						
BMW	1,203,482	1,043,829	1,236,989	1,440,315	**1,547,057**	7.4
MINI	235,019	213,670	241,043	294,120	**311,490**	5.9
Rolls-Royce	1,417	918	3,221	3,725	**3,279**	12.0
Total	**1,439,918**	**1,258,417**	**1,481,253**	**1,738,160**	**1,861,826**	**7.1**
Production – Motorcycles						
BMW	104,220	82,631	99,236	110,360	**113,811**	3.1
Husqvarna	14,232	10,612	13,035	8,505	**11,473**	34.9
Total	**118,452**	**93,243**	**112,271**	**118,865**	**125,284**	**5.4**
Workforce at end of year[2]						
BMW Group	100,041	96,230	95,453	100,306	**105,876**	5.6
Financial figures						
in € million						
Revenues	53,197	50,681	60,477	68,821	**76,848**	11.7
Capital expenditure	4,204	3,471	3,263	3,692	**5,240**	41.9
Depreciation and amortisation	3,670	3,600	3,682	3,646	**3,541**	2.9
Operating cash flow[3]	4,471	4,921	8,149	8,110[4]	**9,167**	13.0
Profit before financial result	921	289	5,111	8,018	**8,300**	3.5
Profit before tax	351	413	4,853	7,383	**7,819**	5.9
Net profit	330	210	3,243	4,907	**5,122**	4.4

[1] Including automobiles from the joint venture BMW Brilliance.
[2] Figures exclude suspended contracts of employment, employees in the non-work phases of pre-retirement part-time arrangements and low income earners.
[3] Cash inflow from operating activities of the Automotive segment.
[4] Adjusted for reclassifications as described in note 42.

Chairman of the Supervisory Board

Despite the persisting sovereign debt c e eurozone and the volatile economic c ons prevailing in several of our major markets, the BM o finished yet another financial year w outstanding overall result.

In our capacity as Supervisory Board monitored the performance of the BMW Group and developments on specific markets th al year 2012. We duly advised the Board of Management in matters of governance and continuously supervised its running of the business with great diligence. In this endeavour we laid great store on an open, trusting and constructive exchange of information and opinions.

Main emphases of the Supervisory Board's monitoring and advisory activities We deliberated regularly on the current performance and financial position of the BMW Group in a total of five meetings. Other areas reported on and discussed extensively during the year were corporate strategy and planning, risk provision and risk management, and corporate governance. We also made decisions with respect to the composition of the Board of Management and the allocation of duties to Board of Management members. The Board of Management informed us regularly and promptly of sales performance, workforce developments and other significant matters, both at scheduled meetings and at other times as the need arose. In addition, the Chairman of the Board of Management, Dr. Reithofer, informed me directly about major business transactions and projects. Dr. Kley, the Chairman of the Supervisory Board's Audit Committee, regularly exchanged information with Dr. Eichiner, the Board of Management member responsible for Finance and Financial Reporting.

In its regular reports on the financial condition of the Group, the Board of Management provided us with detailed descriptions of sales volume performance and market developments for each of the Automotive and Motorcycles segments as well as the performance of Financial Services, including new business volumes and the development of vehicle residual values on key markets. The Board of Management also regularly reported on the Group's business activities in China, in particular on the sales situation there, the further expansion of production capacities at the BMW Brilliance joint venture's manufacturing sites in Dadong and Tiexi, and on engine production at the Foresight engine plant opened in Shenyang in April 2012. Furthermore, the Board of Management reported to us regularly on current earnings, profitability and major changes in the workforce size. Its business status reports also dealt with major current activities and projects, such as ongoing developments in the BMW Peugeot Citroën Electrification joint venture, the status of cooperation negotiations and agreements with Toyota in the fields of fuel cells, lightweight-construction, development of sports cars as well as in the field of battery technology research. After presentation of reports by the Board of Management, the two boards also discussed current challenges such as current economic developments and the increasing degree of regulation on a number of markets.

We again gave careful consideration to matters concerning the performance, management and future prospects of the Financial Services segment. One of the main focuses of reporting and discussion was the segment's financing model. The Board of Management described the current status of projects and the various measures employed to ensure access to financial resources, including, for example, the use of asset-backed securities and the expansion of BMW Bank GmbH in Europe.

One of the 2012 Supervisory Board meetings was held at the BMW plant in Leipzig, where we took the opportunity to obtain information on the use of carbon-fibre-reinforced plastics (CFRP) in the BMW i family of electrically powered vehicles and enquire into the state of preparations for production start-up later this year. In the new pressing plant specially constructed for this work, we were treated to a practical demonstration of how CFRP mats are processed to form CFRP components.

In preparation for our deliberations on the Long-term Business Forecast, the Board of Management explained the principles applied for planning global added value within the Group in the period up to 2024 as well as the targets set for the configuration and production capacities of the Group's plants during this period. Additionally, a raft of measures was presented designed to help limit the scale of investment expenditure to be incurred in connection with the expansion of production capacities.

Again in 2012, in both the Personnel Committee and the full Supervisory Board, we examined the compensation of Board of Management members for appropriateness. In doing so, we also evaluated compensation studies for the DAX and sought the expertise of an external compensation advisor who was independent of both the BMW Group and the members of the Board of Management. Adopting a proposal of the Personnel Committee, no changes were made to the Board of Management compensation system in 2012. The rules governing the purchase of vehicles and other Group products and the use of vehicles by Board of Management members were brought into line with those already in place for top-level department heads. Detailed information on the compensation of Board of Management members can be found in the Compensation Report (page 170 et seq.).

In the second half of the year we again convened for a two-day meeting primarily devoted to corporate and product strategy on the one hand and to the Long-term Business Forecast on the other.

In the first part of the meeting we discussed with the Board of Management the findings of its annual review of the Group's Strategy Number ONE. In light of current developments, this review included a renewed examination and assessment of the impact that could potentially arise from various crisis scenarios of varying intensity in regions significant for sales performance.

In its report, the Board of Management also considered the strategic planning of worldwide production capacities. In addition to the expansion of production capacities at the Spartanburg and Leipzig plants, the Board of Management also presented its plans for future production facility and capacity expansion at other locations. The Supervisory Board fully supports the Board of Management in its endeavours to exploit growth opportunities in specific regions, whilst at the same time maintaining a well-balanced distribution of sales and value added across the world's markets.

In conjunction with our deliberations on product strategy, the Board of Management and the Head of Design for the BMW Group presented and elaborated on selected vehicle projects. Furthermore, in a discussion with the head of the i product line, we were informed of the Group's current activities and the needs of customers in the field of electromobility and given an insight into some of the solutions arrived at so far, such as for the charging of batteries at home and on the road. At our request, other related service concepts currently being developed by the BMW Group were explained to us.

We also took a close look at the latest advances being made in the field of emission reduction and avidly discussed, together with the Board of Management both the technical and the entrepreneurial challenges that need to be mastered, particularly those ensuing from regulatory provisions or customer expectations with regard to urban mobility.

The Supervisory Board remains firm in its conviction that the strategic direction set by the Board of Management for the BMW Group is robust and sustainable.

In conjunction with vehicle presentations, Supervisory Board members also had the opportunity to drive a number of BMW, MINI and Rolls-Royce vehicles, including some BMW models equipped with hybrid and electric drive systems.

After concluding the Annual Strategy Review, the second part of the meeting included an in-depth discussion of the Long-term Business Forecast drawn up by the Board of Management for the years from 2013 to 2018 and, after thorough examination, we gave the required approval. The Board of Management elucidated changes in sales and financing volumes compared with the previous year's forecast and also explained the potential impact of volume and earnings risks associated with specific scenarios. We encouraged the Board of Management in its strategy of maintaining flexibility in terms of cost planning.

We also thoroughly examined the Annual Budget presented by the Board of Management in November 2012 for the financial year 2013 and discussed the impact of potential economic developments.

We concurred with the decision of the Board of Management to raise the share capital of the Company in accordance with Article 4 no. 5 of the Articles of Incorporation (Authorised Capital 2009) by €422,845 and to issue a corresponding number of new non-voting bearer shares of preferred stock, each with a par value of €1, at favourable conditions to employees.

The Board of Management and Supervisory Board jointly examined corporate governance within the BMW Group and issued a new Declaration of Compliance, the wording of which is included in the Corporate Governance Report (page 153). The BMW Group currently complies with the recommendations of the Government Commission on the German Corporate Governance Code (code version dated 15 May 2012, "Code") published on 15 June 2012 with one exception, namely the revised recommendation on the structure of supervisory board compensation contained in section 5.4.6 paragraph 2 sentence 2 of the Code ("If members of the Supervisory Board are promised performance-related compensation, it shall be oriented toward sustainable growth of the enterprise"). In this context, and following preparatory work carried out by the Presiding Board, we examined various models with the Board of Management with respect to the future compensation of the Supervisory Board. A proposed change to the Articles of Incorporation will be put to the shareholders at the 2013 Annual General Meeting.

With regard to its own composition, based on a detailed composition profile, the Supervisory Board decided upon specific appointment goals in 2010, which are discussed in detail in the Corporate Governance Report (page 164 et seq.). In 2012, in line with section 5.4.1 paragraph 2 of the Code, we set what we consider to be an appropriate target for the number of independent members in the Supervisory Board (at least twelve of which at least six should represent the shareholders). On the basis of a self-assessment of the full Supervisory Board and its individual members, we were able to conclude that the composition of the Supervisory Board at 31 December 2012 meets that target. No conflicts of interest arose during the year under report on the part of members of either the Supervisory Board or the Board of Management. Significant transactions with Supervisory Board members and other related parties as defined by IAS 24, including close relatives and intermediary entities, are scrutinised on a quarterly basis.

In conjunction with the joint examination of corporate governance, the Board of Management informed us (both in the Personnel Committee and in the full Supervisory Board) of the progress made in implementing the BMW Group's diversity concept, with its focus on gender, cultural background and age/experience. In this context, we obtained information from the Board of Management with regard to the proportion of, and changes in, management positions held by women, in particular at senior management level and at executive level below the Board of Management. We concluded that the Code's requirements for the promotion of diversity are also being complied with in terms of management functions, and concur with the Board of Management that, in addition to the efforts to improve gender diversity, even more should be done to promote cultural diversity and the international character of the workforce.

We endeavour to assess and improve continuously on the effectiveness of the work performed in the Supervisory Board and its committees, not least in consideration of the broader range of tasks for which the Supervisory Board now finds itself responsible. The Chairman of the Audit Committee and myself are therefore always pleased to receive comments and suggestions for improvement from Supervisory Board members. The formal examination of the Supervisory Board's efficiency is also treated once each year as a separate agenda point which is prepared by means of a questionnaire required to be completed by all Supervisory Board members.

Each of the five Supervisory Board meetings in 2012 was attended on average by over 90 % of its members, a fact that can be tied in to the analysis of attendance fees for individual members disclosed in the Compensation Report. No member of the Supervisory Board missed more than two meetings in his/her period of office during the year. Presiding Board and committee meetings were fully attended in the vast majority of cases (page 163).

Description of Presiding Board activities and committee work In order to work more efficiently and prepare complex issues and decisions more thoroughly, the Supervisory Board has established a Presiding Board and several committees. A description of the duties, composition and work procedures of these committees is provided in the Corporate Governance Report (page 160 et seq.).

The relevant committee chairmen provided timely and comprehensive accounts of the work of the Presiding Board and other committees to the full Supervisory Board, as did the chairman of the Nomination Committee to the shareholder representatives on the full Supervisory Board.

In a total of four meetings, the Presiding Board focused mainly on the preparation of topics for the meetings of the full Supervisory Board unless this fell under the remit of one of the committees. Complex issues, such as the Long-term Business Forecast and the Annual Strategic Review, were dealt with on the basis of written and oral reports provided by Board of Management members and senior department heads. In the case of financial planning, for example, we arranged for the Board of Management member responsible for Finances to brief us in advance on detailed aspects of the Long-term Business Forecast. The Head of Group Strategy and Planning, Environment provided us with facts, assumptions and principles relevant for global value added within the Group in the period up to 2024, including the targets and distribution of production capacities built into the forecasts, and discussed analyses from the Annual Strategy Review with us. The Presiding Board selected further topics for Supervisory Board meetings and made suggestions to the Board of Management regarding items to be included in its reports to the full Supervisory Board.

Two telephone conference calls were also conducted by the Presiding Board in conjunction with current activities and projects. In one of those conference calls, the Board of Management and the Head of Product and Brand Strategy reported on the current status of cooperation arrangements, in particular the planned extension of collaboration with Toyota Motor Corporation. In another telephone conference call, the Board of Management explained the plans to sell Husqvarna Motorcycles.

The Audit Committee held three meetings and three telephone conference calls during 2012. In accordance with the recommendation of the German Corporate Governance Code, we discussed each of the interim financial reports with the Board of Management prior to publication. Representatives of the external auditors were present for part of the time during the telephone conference call held to present the Interim Financial Report for the six-month period to 30 June 2012. The report had been subjected to review by the external auditors.

One meeting of the Audit Committee was primarily dedicated to preparing the Supervisory Board's meeting in spring 2012 at which the financial statements were examined. In order to prepare its recommendation

to the full Supervisory Board regarding the proposed election of external auditors at the Annual General Meeting 2012, the Audit Committee obtained a Declaration of Independence from the proposed external auditor. The Audit Committee also considered the scope and composition of non-audit services, including tax advisory services, provided by KPMG entities to the BMW Group. There were no indications of conflicts of interest or grounds for exclusion or lack of independence on the part of the auditor. The fee proposals for the audit of the year-end Company and Group Financial Statements 2012 and the review of the six-month Interim Financial Report were deemed appropriate by the Audit Committee. Subsequent to the Annual General Meeting 2012 the Audit Committee appointed the external auditor for the relevant engagements and, with due consideration to the suggestions made by the full Supervisory Board, specified audit focus areas. In relation to the audit of the Company Financial Statements, for example, this included the accounting treatment of commodity derivatives and in relation to the audit of the Group Financial Statements this included the measurement of interest rate derivatives.

The Head of Group Financial Reporting reported to the Audit Committee on risk management processes in place throughout the BMW Group, focusing on the internal control system (ICS) as the basis for financial reporting. We were also provided with a description of planned areas of action and further developments in this field.

The Audit Committee considered the set of measures undertaken by the Board of Management in 2012 to ensure that "compliance" as a concept is fully embedded in the principles of conduct valid for all Group employees. The Chairman of the BMW Group Compliance Committee reported to the Audit Committee on the current compliance situation, which, as in the previous year, was deemed satisfactory. The Audit Committee also enquired into the implementation of anti-corruption measures resolved in the previous year, the enlargement of the BMW Group Compliance Organisation -- in particular within the Financial Services segment -- and the results of sample testing carried out in Germany and abroad.

The Head of Group Internal Audit reported to us in the Audit Committee on the significant findings of audits conducted by Group Internal Audit and on the planned areas of focus on the industrial and financial services sides of the business.

The Personnel Committee convened four times during the financial year 2012. In preparation for a meeting of the full Supervisory Board, the Personnel Committee reviewed the compensation of Board of Management members (including pension benefits) for appropriateness in comparison with other DAX companies. Other specific issues relating to employment contracts were also addressed by the Personnel Committee. The Personnel Committee gave its approval in one case for a member of the Board of Management to accept a mandate for membership of the supervisory board of a non-BMW Group entity.

The Nomination Committee convened once during the financial year 2012, on which occasion it deliberated on proposals for candidates for the Supervisory Board elections at the 2013 Annual General Meeting, taking account of the composition objectives stipulated for the Supervisory Board.

The statutory Mediation Committee (§ 27 (3) of the Law on Worker Participation) was not required to convene during the financial year 2012.

Composition and organisation of the Board of Management We deliberated with the Board of Management on changes to the structure and allocation of portfolio responsibilities with the objective of making the best use of individual members' expertise and strengthening the overall responsibility of the Board of Management. In this context, it was decided to establish separate areas of responsibility for the BMW brand on the one hand and for the MINI brand, Rolls-Royce Motor Cars and motorcycles business on the other. The new

structure and allocation of responsibilities resolved by the Board of Management in agreement with the Supervisory Board is depicted in detail in the Corporate Governance Report (page 154). In view of the fact that Mr. Krüger was set to take over responsibility for the newly created board portfolio comprising MINI, Motorcycles, Rolls-Royce and Aftersales BMW Group, we appointed Milagros Caiña Carreiro-Andree as member of the Board of Management and as successor to Mr. Krüger with responsibility for Human Resources and as Industrial Relations Director with effect from 1 July 2012. The composition of the Board of Management team was otherwise unchanged during the financial year 2012. No decisions needed to be made in 2012 with respect to the reappointment of Board of Management members.

Composition of the Supervisory Board, the Presiding Board and Supervisory Board committees The mandate of Franz Oberländer as employee representative on the Supervisory Board ended on 31 May 2012 when he entered into retirement. On 1 June 2012 the Munich District Court appointed Dr. Dominique Mohabeer, member of the Works Council of BMW AG at the Munich site, to the position of employee representative on the Supervisory Board for the remaining term of office. As a result, the proportion of women in the Supervisory Board increased to 20 %, in line with the composition objectives set by the Supervisory Board.

Anton Ruf, executive staff representative on the Supervisory Board, retired on 31 October 2012, at which date he also ceased to be a member of the Supervisory Board. He was succeeded on 1 November 2012 by Oliver Zipse, Head of Brand and Product Strategies, who took over the role of executive staff representative on the Supervisory Board for the remaining term of office as elected substitute member. In view of a new management position he will have within the BMW Group from 1 April 2013 onwards, Mr. Zipse has resigned his mandate on the Supervisory Board with effect from 31 March 2013.

On 29 November 2012 the shareholder representatives in the Supervisory Board elected Susanne Klatten as a further member of the Nomination Committee. The composition of the Presiding Board and other committees of the Supervisory Board remained unchanged during the financial year 2012. The Corporate Governance Report includes an overview of the composition of the Supervisory Board and its committees (page 155 et seq., page 163).

Examination of financial statements and the profit distribution proposal KPMG AG Wirtschaftsprüfungsgesellschaft conducted a review of the abridged Interim Group Financial Statements and Interim Group Management Report for the six-month period ended 30 June 2012. The results of the review were also reported orally to the Audit Committee. No issues were identified that might indicate that the abridged Interim Group Financial Statements and Interim Group Management Report had not been prepared, in all material respects, in accordance with the applicable provisions.

The Group and Company Financial Statements of Bayerische Motoren Werke Aktiengesellschaft for the year ended 31 December 2012 and the Combined Group and Company Management Report – as authorised for issue by the Board of Management on 19 February 2013 – were audited by KPMG AG Wirtschaftsprüfungsgesellschaft and given an unqualified audit opinion.

The Financial Statements and Combined Group and Company Management Report, the long-form audit reports of the external auditors and the Board of Management's profit distribution proposal were made available to all members of the Supervisory Board in good time. At the meeting held on 1 March 2013 these documents were examined and discussed in detail by the Audit Committee. The Supervisory Board subsequently examined these documents at its meeting on 14 March 2013, after hearing the committee chairman's report on the meeting of the Audit Committee. In both meetings, the Board of Management gave a detailed explanation of the financial reports it had prepared. Representatives from KPMG attended both meetings,

reported on significant audit findings and answered any additional questions raised by the members of the Supervisory Board. The representatives of the external auditors confirmed that the risk management system established by the Board of Management is capable of identifying events or developments that might impair the going-concern status of the Company and that no material weaknesses in the internal control system and risk management system were found with regard to the financial reporting process. Similarly, the external auditors confirmed that they had not identified any facts in the course of their work that were inconsistent with the contents of the Declaration of Compliance issued jointly by the two boards. Based on own thorough examination by the Audit Committee and the full Supervisory Board, we concurred with the results of the external audit.

In accordance with the conclusion reached as a result of the examination by the Audit Committee and Supervisory Board, no objections were raised.

The Group and Company Financial Statements of Bayerische Motoren Werke Aktiengesellschaft for the financial year 2012 prepared by the Board of Management were approved at the Supervisory Board Meeting held on 14 March 2013. The separate financial statements have thus been adopted.

Both in the Audit Committee and in the full Supervisory Board, we examined the proposal of the Board of Management to use the unappropriated profit to pay a dividend of €2.50 per share of common stock and €2.52 per share of non-voting preferred stock. Taking account of the financial condition of the BMW Group, we consider the proposal appropriate and concur with it.

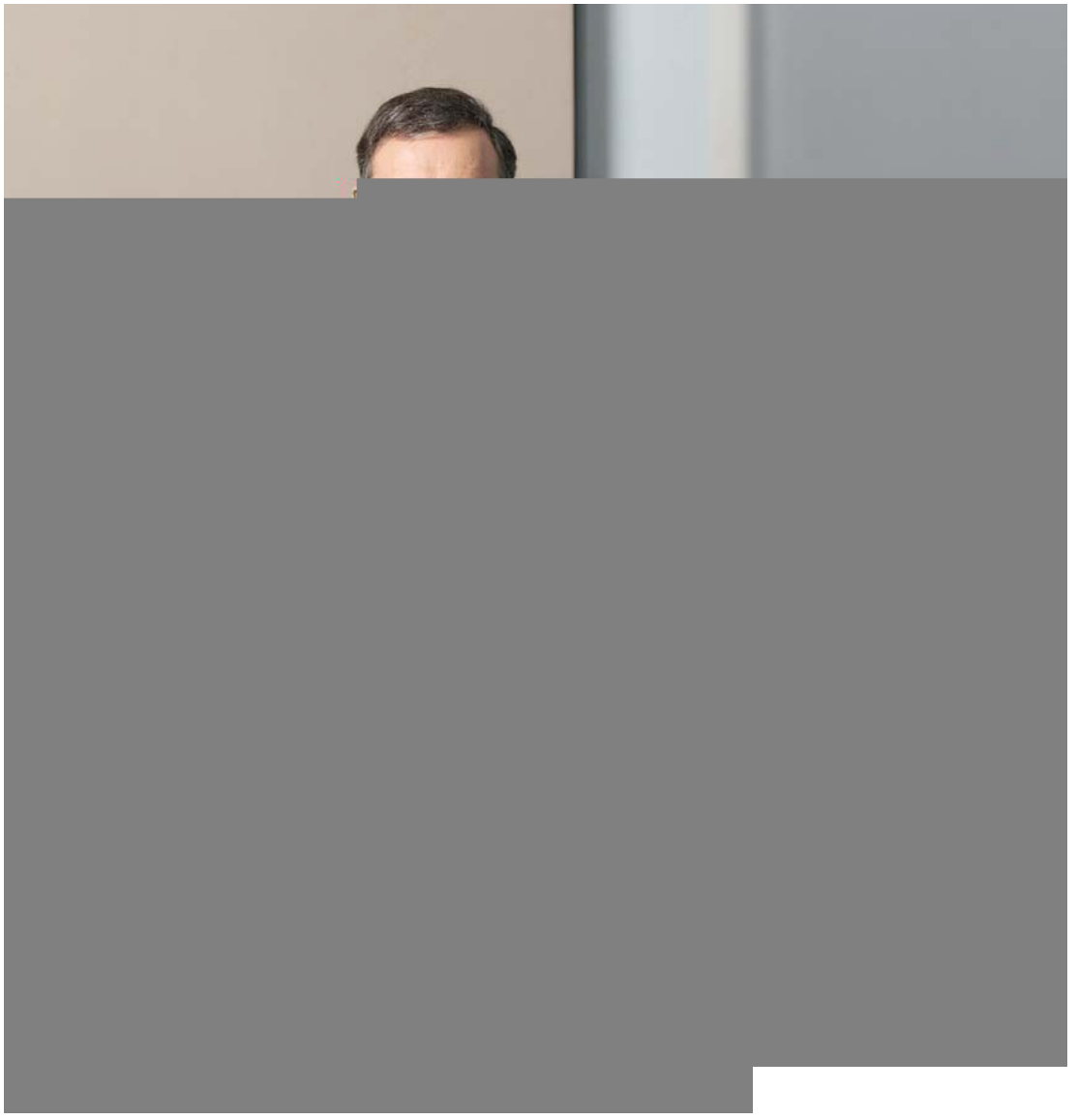
Expression of thanks by the Supervisory Board We would like to express our gratitude to the members of the Board of Management and all employees worldwide for their commitment and contribution to another set of excellent financial statements for the year ended 31 December 2012.

We also wish to extend a special word of thanks to Mr. Oberländer and Mr. Ruf, both of whom left the Supervisory Board in 2012 after many years of dedicated and constructive work in the Supervisory Board. In addition to achieving success in their chosen fields of activity, they spent most of their working lives diligently serving both the Company and the employees they represented.

Munich, 14 March 2013

On behalf of the Supervisory Board

Joachim Milberg
Chairman of the Supervisory Board



Chairman of the Board of Management

Your Company has once again demo[illegible]ed a strong performance with new sales volumes, revenues and earnings highs for the 2012 financi[illegible]r.

At the BMW Group, we look to the future and are prepared to go against the trend, if need be; we have the stamina to stick to our chosen path. For us, it is always the customer who comes first – that is why we offer innovative products and services and what makes us the world's top-selling premium car manufacturer. But we aim to do even better – which means continuing to grow at a profitable rate and acting in a responsible manner as a member of society.

Our actions are based on our tradition, our values and our Company's unique corporate culture and team spirit. At the BMW Group, we all share a passion for mobility. It is our common purpose to make individual mobility viable for the future, as the demands on cars continue to evolve. Our industry is in a period of transition – what we refer to as "iconic change". We are driving and shaping this technological shift towards sustainable mobility. It will require all our powers of innovation in the development of new products and attractive mobility services, as well as constant review of our structures and processes and how we work together.

2012 – the most successful year in the history of the Company. Our success is built on the desirability of our products. More than 1.84 million BMW, MINI and Rolls-Royce vehicles were delivered to customers in 2012, beating the previous year's record by more than 10 %. All three of our automobile brands set new records. In addition, more than 117,000 customers purchased a BMW or Husqvarna motorcycle. Our Financial Services business also continued to grow and contributed to the positive performance in sales figures.

Thanks to strong demand for our premium vehicles, revenues rose to more than €76.8 billion and profit before tax increased to around €7.8 billion in the 2012 financial year – both new highs for the Group. The net profit of more than €5.1 billion also represented a new record.

Our financial success allows us the necessary freedom to continue investing in our future. In 2012, our research and development expenses rose to more than €3.9 billion, mostly in connection with projects to secure our future growth.

Our figures for 2012 are the result of an outstanding collective performance. On behalf of the Board of Management, I would like to thank all of our employees for their efforts, determination and achievements in 2012. I would also like to thank our retail organisation, our suppliers and our business partners, who play such an important part in the Company's success.

Five years of Strategy Number ONE: interim targets for 2012 fulfilled. The success of the 2012 financial year is also the result of the long-term decisions we made as part of our Strategy Number ONE.

We presented our strategy to the public back in autumn 2007 – with a vision for the year 2020. The aim is to prepare the BMW Group for the future, as it faces a wide range of different challenges in a changing environment for individual mobility. Specific measures were implemented in the four strategic areas of "Growth", "Shaping the future", "Profitability" and "Access to technology and customers". We also set ourselves ambitious

interim targets for 2012, including much greater efficiency and higher profitability. For the Automotive segment, we defined an EBIT margin target of between 8 % and 10 %.

What have we achieved during the first five years of Number ONE?
– We have become more profitable, and doubled our profit before tax between 2007 and 2012. At the end of 2012, our EBIT margin in the Automotive segment was above our 8 % and 10 % target range.
– The price of BMW common stock climbed more than 70 % from the end of 2007 to the end of 2012, while Germany's DAX fell by 5.6 % over the same period.
– We have leveraged much more than the €6 billion in efficiency potential originally targeted.
– In 2007, Efficient Dynamics was already the best technology on the market for lowering fuel consumption and CO_2 emissions. Back then, we had 27 BMW and MINI models with 140 grams of CO_2 per kilometre or less. By the end of 2012, the BMW Group fleet included 73 models at or below this level.
Our core model series – the BMW 3 Series, the BMW 5 Series and the BMW 7 Series – are also available as full hybrids. Efficient Dynamics continues: we aim to reduce the CO_2 emissions of our vehicle fleet by at least another 25 % between 2008 and 2020.
– We have systematically expanded our global production network since 2007 – from 23 production facilities in twelve countries to 29 locations in 14 countries by the end of 2012. The most recent example is our new Tiexi plant in Shenyang, which we have been operating with our joint venture partner, Brilliance, since 2012. When we plan a site, we ensure that it sets new standards: Tiexi is the most sustainable vehicle plant in China today and one of the most advanced in the world.

Over the past five years, our strategy has proven robust, and shown the way forward under changing external conditions: during the global financial and economic crisis of 2008 and 2009, the BMW Group still showed a profit and paid a dividend. In 2010 and 2011, we steered our Company back on track for success – initially helped by an economic tailwind, but then maintaining our performance in a challenging and volatile environment in 2012.

This clearly shows that we have reached the first major milestone in our strategy. We have fulfilled all the interim targets of our Strategy Number ONE for the year 2012 – and, in some cases, exceeded them. We delivered on our promises. Today, the BMW Group is a stronger, more international and more future-oriented company than it was when we embarked on our Strategy Number ONE. Above all else, the BMW Group is an attractive investment – and I would like to thank you, our shareholders, for supporting us on this journey.

It is in all our interests that the BMW Group not only has a successful present, but, even more importantly, a promising future. For that reason, we are now working towards the next major milestone in our strategy.

Number ONE still our corporate compass – next milestone in 2016. In 2016, we will celebrate 100 years of BMW. By then, we aim to sell well over two million BMW, MINI and Rolls-Royce brand vehicles – with BMW Motorrad and Financial Services also continuing to contribute to our success. Profitability is, and will remain, the foundation upon which we build and shape our future.

In the 2013 financial year, we aim to continue on our successful course, targeting record sales at Group level. The main risks and uncertainties for our business stem from the volatility in our environment, the high level of public-sector debt and the uneven performance of the automobile markets.

We remain confident. In 2013, all three automobile brands and BMW Motorrad will bring new and revised models onto the market. In addition to that:

We are putting electromobility on the road. Late 2013 heralds a new era of premium mobility: we will launch the pure electric BMW i3, our solution for emissions-free driving in urban areas. At the same time, customers will be able to purchase their charging current from renewable energies.

Production of the BMW i family sets new standards for resource conservation and the use of innovative materials, such as carbon fibre, in automobile manufacturing. In 2012, the BMW Group was named industry leader in the Dow Jones Sustainability Index for the eighth consecutive year – and therefore remains the world's most sustainable car company.

At Bayerische Motoren Werke, we have a clear vision: to be a leader in the future development of individual mobility. We believe in the potential of electromobility – not least in order to meet ambitious CO_2 emissions reduction targets in the EU and worldwide. In this regard, we are collaborating with Toyota Motor Corporation in the field of sustainable mobility. In early 2013, we signed an agreement to establish cooperation on fuel cells, lightweight construction technologies and the development of a sports car.

Employees are our most important success factor. The most important requirement for a successful future is our motivated and dedicated employees – and, not least, our young talents. For this reason, we increased the number of apprentices in Germany by about 10 % last year. No fewer than 1,376 young people embarked on a career with the BMW Group at the start of the 2012 training year, and the total number of apprentices reached 4,266 at the end of 2012. Last year alone, we invested more than €280 million in vocational and professional training to provide our employees with the qualifications they need for technological change.

We are convinced that our investments in all areas today will enable your Company to be well positioned to face the future. We hope we can count on your continued trust and support as we move forward.

Yours

Norbert Reithofer
Chairman of the Board of Management

BMW Group finishes financial year with record figures
The BMW Group remained firmly on the road to success in 2012 with record figures. Despite an increasingly volatile market environment, sales of BMW, MINI and Rolls-Royce brand cars increased by 10.6 % to 1,845,186* units (2011: 1,668,982*), ensuring that the BMW Group retained pole position in the premium segment.

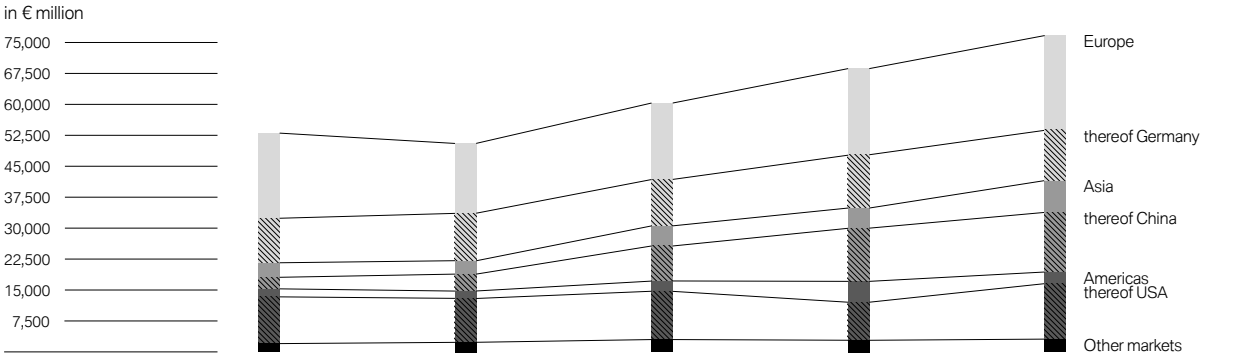
All three automobile brands performed exceedingly well, each contributing in their own measure towards this resounding success. Record sales volume figures were registered across the board with 1,540,085* BMW (2011: 1,380,384* units; +11.6 %), 301,526 MINI (2011: 285,060 units; +5.8 %) and 3,575 Rolls-Royce cars (2011: 3,538 units; +1.0 %) sold during the 12-month period. The new BMW 3 Series, 5 Series, 6 Series and BMW X models were particularly successful within a portfolio of models brimming with attractive cars. The MINI Countryman, the MINI Coupé and the new MINI Roadster also played an important role in making 2012 another highly successful year for the BMW Group.

Although the majority of motorcycle markets contracted considerably during the reporting period, our Motorcycles segment also broke its previous sales volume record. We handed over 117,109 BMW and Husqvarna motorcycles to customers in various markets worldwide, 3.1 % more than in the previous year (2011: 113,572 units). The number of BMW brand motorcycles sold in 2012 climbed by 2.0 % to 106,358 units (2011: 104,286 units). Husqvarna recorded a sales volume of 10,751 units (2011: 9,286 units; +15.8 %).

The Financial Services segment can also look back on a successful year. The number of new contracts signed with retail customers worldwide rose by 12.1 % to 1,341,296 for the 12-month period (2011: 1,196,610 contracts). The number of leasing and financing contracts in place with retail customers and dealerships totalled 3,846,364 units at the end of the reporting period (2011: 3,592,093 contracts; +7.1 %).

Revenues and earnings attain new heights
The dynamic rise in new car sales in 2012 enabled the BMW Group to attain new heights in terms of both revenues and earnings. Group revenues grew dynamically, rising by 11.7 % to reach €76,848 million for the year (2011: €68,821 million). Despite greater investment in technologies of the future, increased intensity of competition and higher personnel costs, earnings also climbed to new heights in 2012. EBIT rose to €8,300 million (2011: €8,018 million; +3.5 %) and earnings before tax improved by 5.9 % to €7,819 million (2011: €7,383 million). It should be noted that the previous year's figures include a positive exceptional factor of €524 million

BMW Group revenues by region



	08	09	10	11	12
Europe	31,432	28,425	29,788	33,815	**35,157**
— thereof Germany	10,739	11,436	11,207	12,859	**12,186**
Asia	6,320	7,364	13,384	17,768	**22,159**
— thereof China	2,763	4,039	8,444	11,591	**14,448**
Americas	13,294	12,433	14,168	14,287	**16,271**
— thereof USA	11,349	10,628	11,638	11,516	**13,447**
Other markets	2,151	2,459	3,137	2,951	**3,261**
Total	**53,197**	**50,681**	**60,477**	**68,821**	**76,848**

* Including automobiles from the joint venture BMW Brilliance.

arising on the reductions of provision for residual value and credit loss risks. Business with end-of-contract leasing vehicles gave rise to an exceptional gain of €124 million in 2012. Income tax expense for the year under report totalled €2,697 million (2011: €2,476 million; +8.9%), resulting in a slightly higher effective tax rate of 34.5% (2011: 33.5%). At €5,122 million, Group net profit marked a new record, surpassing the high level reached the previous year by 4.4% (2011: €4,907 million).

Automotive business also achieved new record figures in terms of both revenues and earnings. At €70,208 million, revenues were 11.0% up on the previous year (2011: €63,229 million). EBIT rose to €7,624 million (2011: €7,477 million; +2.0%), while segment profit before tax totalled €7,195 million (2011: €6,823 million; +5.5%).

In the Motorcycles segment revenues reflected the good sales volume performance and rose by 3.8% to €1,490 million. EBIT, however, was below that of the previous year (€9 million; –80.0%) due to the sale of Husqvarna Motorcycles. Segment profit before tax fell accordingly by 85.4% to €6 million.

The Financial Services segment remained on its growth course and made another excellent contribution to the BMW Group's performance in 2012. Segment revenues rose sharply (+11.7%) to €19,550 million (2011: €17,510 million). Segment EBIT, however, declined to €1,558 million (2011: €1,763 million; –11.6%), while profit before tax dropped to €1,561 million (2011: €1,790 million; –12.8%). Lower earnings for the segment must be seen in the light of the figure reported for the previous year, which included a positive exceptional factor of €439 million arising on the reduction of residual value and credit loss risks. Business with end-of-contract leasing vehicles gave rise to an exceptional gain of €124 million in 2012.

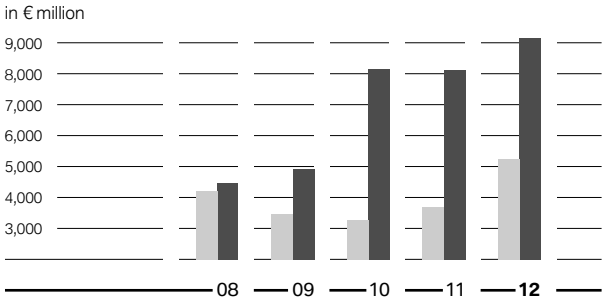
Increase in proposed dividend

In view of the very strong earnings performance for the year, the Board of Management and the Supervisory Board will propose to the Annual General Meeting to use BMW AG's unappropriated profit of €1,640 million (2011: €1,508 million) to pay a dividend of €2.50 for each share of common stock (2011: €2.30) and a dividend of €2.52 for each share of preferred stock (2011: €2.32). These figures correspond to a distribution rate of 32.0% for 2012 (2011: 30.7%).

Numerous model start-ups – level of investment raised

The volume of investment for intangible assets and property, plant and equipment rose to €5,240 million for 2012 and was therefore 41.9% above that of the previous year (2011: €3,692 million). During the year under report, investments in property, plant and equipment amounted to €4,028 million (2011: €2,598 million; +55.0%). Capitalised development costs totalled €1,089 million (2011: €972 million; +12.0%). The capitalisation ratio for development expenditure decreased compared to the previous year to 27.6% (2011: 28.8%). The capital expenditure ratio for the year rose to 6.8% of Group revenues (2011: 5.4%; +1.4 percentage points), close to the targeted level of 7%. As in previous years, capital expenditure was covered by operating cash flow[1].

BMW Group Capital expenditure and operating cash flow



	08	09	10	11	12
Capital expenditure	4,204	3,471	3,263	3,692	**5,240**
Operating cash flow[1]	4,471	4,921	8,149	8,110[2]	**9,167**

[1] Cash inflow from operating activities of the Automotive segment.
[2] Adjusted for reclassifications as described in note 42.

We again invested primarily in the introduction of new models such as the BMW 6 Series Gran Coupé, the derivatives of the BMW 3 Series, the MINI Roadster and the revised models of both the BMW 7 Series and the X1. Moreover, preparations for the manufacture of electric cars under the sub-brand BMW i progressed apace during the period under report.

BMW Group and Toyota Motor Corporation sign cooperation agreement

The BMW Group and the Toyota Motor Corporation (TMC) continue to work together in the field of sustainable mobility. The two entities signed a contract at the end of January 2013 with respect to cooperation in the fields of fuel cells, lightweight-construction technologies and the development of sports cars.

The BMW Group and TMC also signed an agreement on the joint research of lithium-air batteries, a post-lithium battery technology. With the signing of this agreement, the joint research on the next generation of lithium-ion

batteries initiated in March 2012 has now entered the second phase.

BMW Group incorporated BMW Peugeot Citroën Electrification

The BMW Group and PSA Peugeot Citroën mutually agreed to terminate cooperation in the BMW Peugeot Citroën Electrification joint venture. The BMW Group is taking over the company and will carry on with the work that has been begun. The decision of the two partners does not have any impact on the current engine-producing cooperation arrangements between PSA Peugeot Citroën and the BMW Group.

New strategy in Motorcycles segment

A new strategy developed for the Motorcycles segment means that the BMW Group will be concentrating in future solely on its BMW brand. Against this background, the takeover of Husqvarna Motorcycles has been agreed upon with Pierer Industrie AG, Austria. The transaction is due to be completed during the first six months of 2013, subject to approval by the Austrian merger control authorities.

General Economic Environment

Significant downturn in global economy
As expected, the global economy suffered a perceptible downturn in 2012. The source of the downward trend lay clearly in Europe, where economic output fell during the period under report in both the eurozone and the United Kingdom. By contrast, the US economy remained relatively stable throughout 2012 despite the fact that the growth rate was still down on the historic average. Growth rates in the major emerging markets fell short of expectations.

High sovereign debt levels in industrial countries continue to pose a structural risk for the worldwide economy. The future course of the debt crisis in Europe will depend partly on the course of action taken by policymakers, but also on the way the situation is perceived on the world's capital markets. In view of early elections in Italy, Spain's outstanding decision to apply for support from the European Stability Mechanism (ESM), discussions on a further debt cut for Greece and the performance of the French economy, renewed turbulence cannot be ruled out.

Economic performance is also being held down by high debt levels in the USA, Japan and the UK. The two political sides in the USA reached a compromise at the turn of the new year, reducing the looming threat of a drop in consumer spending due to tax increases and expenditure cuts in 2013 to approximately one third of the originally planned magnitude, equivalent to some 1.5 % of economic output. In December 2012, the newly elected government in Japan announced the initiation of further government-funded stimulus programmes, despite the high level of state debt.

Central banks worldwide have reacted to the risk of an impending economic downturn by continuing their expansive monetary policies on a massive scale. So far, however, only share and raw material prices have really benefited and been propped up at a high level. Despite these moves, there is still no sign of a genuine revival in demand in industrial countries.

The eurozone's economy contracted overall by 0.4 % in 2012. Germany was the only major country in the eurozone that managed to register any real growth (+ 0.7 %). France's gross domestic product (GDP) practically stagnated at a rate of + 0.1 %. By contrast, Italy (– 2.2 %) and Spain (– 1.4 %) slipped into recession. The UK economy – Europe's largest outside the eurozone – reached the previous year's level.

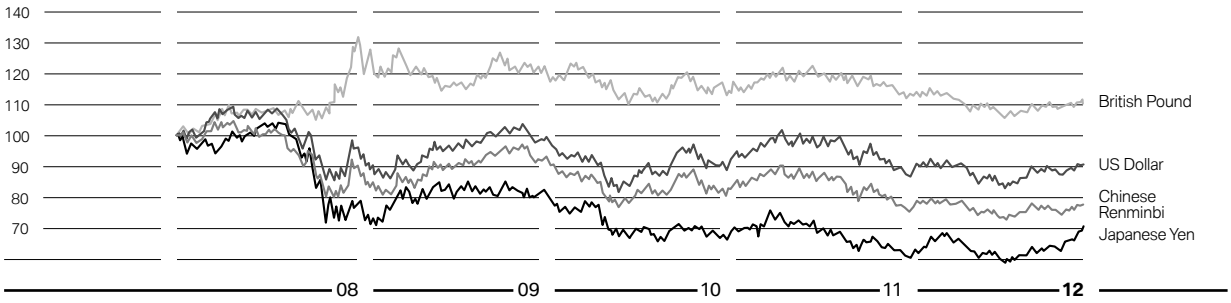
The USA recorded a growth rate of 2.2 % in 2012, thanks to the recovery of the employment and property markets. Despite uncertainties about possible fiscal changes in 2013, domestic demand remained stable up to the year-end.

The Japanese economy grew by 1.8 % as a result of the high level of investment and the production catch-up effect caused by the previous year's catastrophe. Even here, however, the growth rate slowed down sharply over the course of the year.

China, too, lost some momentum in 2012, growing by only 7.8 % compared to the previous year's 9.3 %, but nevertheless remained the most dynamic of the world's major economies. The growth rate in India fell from 6.9 % in 2011 to 5.1 % in 2012. The most pronounced slow-down was registered in Brazil, where growth dropped to 1.1 % and hence to a mere quarter of the previous year's rate (2011: + 4.4 %). Russia's GDP also grew more slowly than one year earlier (+ 3.4 %).

Exchange rates compared to the euro

(Index: 31 December 2007 = 100)



Source: Reuters

Exchange rates remain volatile, but only marginally changed on a year-end comparison

The world's currency markets were heavily influenced again in 2012 by the impact of the sovereign debt crisis. Although the US dollar exchange rate was practically unchanged on a year-end comparison (US dollar 1.30 to the euro), the escalation of the euro crisis in summer 2012 temporarily caused a sharp rise in the value of the US dollar.

Since the rate of the Chinese renminbi is more or less coupled to that of the US dollar, the volatility of the Chinese currency generally reflects that of the US dollar to the euro. A continuation of the gradual appreciation of the renminbi of 1 % to 2 % was also noticeable in 2012.

The British pound increased moderately in value against the euro and finished the year at GBP 0.81 to the euro, thus continuing to recover from its low point during the financial crisis. The Japanese yen fell to a rate of 114 yen to the euro, in advance of the expansionary monetary and fiscal policies expected to be adopted by the new government.

Higher prices for major raw materials

Political uncertainties regarding further developments in various conflicts in the Middle East kept the price of Brent oil – the most relevant for Europe – at a high level, namely US dollar 112 per barrel on average for the year. By contrast, the price of WTI oil – the most relevant parameter for the USA – was somewhat lower in 2012 (average price of US dollar 94 per barrel). The upshot was a further rise in energy prices, particularly in Europe. By contrast, the price of steel decreased worldwide, reflecting the economic downturn. Prices of non-ferrous and precious metals continued to be highly volatile, generally in an upward direction.

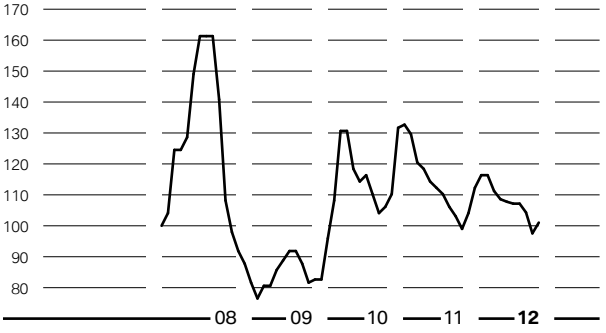
Car markets in 2012

The number of passenger cars and light commercial vehicles sold worldwide rose to 72.6 million units (+ 5.7 %) in 2012, primarily on the back of increased demand in the USA and China. This time, however, demand in the USA provided the strongest momentum, with the market growing by 13.4 % to 14.5 million units. After a period of exceptionally rapid growth in China, including several years of double-digit growth, the passenger car market expanded by a relatively moderate 9.4 % in 2012 to approximately 13.3 million units.

In Europe, the number of new registrations fell once again in 2012 (12.5 million units; – 7.8 %). The decrease in Germany was less pronounced, with new registrations down by 2.9 % to approximately 3.1 million units.

Steel price trend

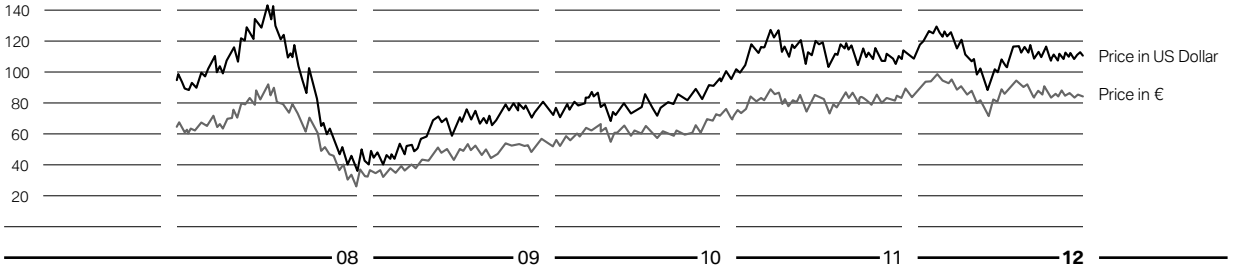
(Index: January 2008 = 100)



Source: Working Group for the Iron and Metal Processing Industry

Oil price trend

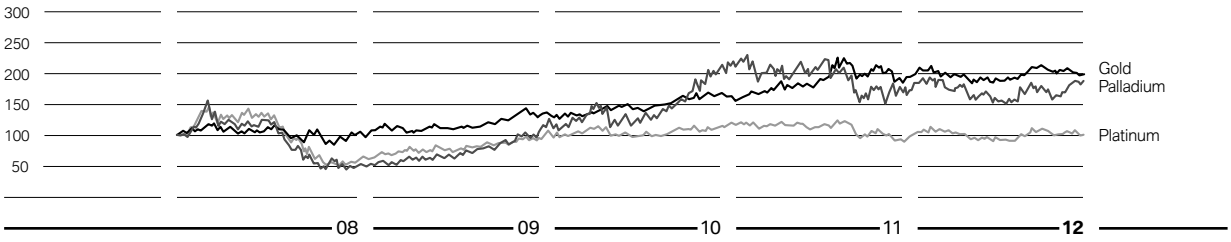
Price per barrel of Brent Crude



Source: Reuters

Precious metals price trend

(Index: 31 December 2007 = 100)



Source: Reuters

The percentage drops in France (– 14.0 %), Italy (– 20.0 %) and Spain (– 13.4 %) reached double figures in each case. Of the major car markets in Europe, only Great Britain was able to buck the trend, with the number of new vehicles registered up by 5.3 % to approximately 2 million units.

Japan's car market grew exceptionally strongly in 2012, jumping by 28 % to 5.2 million units, mainly due to economic revival in the wake of the Fukushima catastrophe in the previous year, manifested in a production catch-up effect and increased demand for spare parts.

The Russian market demonstrated its generally robust state of health with new registrations up by around 9 % to 2.7 million units. India's car market also continued to display an upward trend (2.8 million units; + 10 %). Brazil saw its car market climb by 3.4 % to 3.6 million units, largely due to the initiation of a new state-funded stimulus programme.

Motorcycle markets in 2012

International motorcycle markets in the 500 cc plus class continued to fare divergently in 2012. Overall this market segment contracted worldwide by 1 % compared to the previous year. In Europe (– 9 %), the impact of the sovereign debt crisis was felt most sharply in the region's southern countries, including sharp market downturns in Italy (– 20 %) and Spain (– 22 %). Great Britain (– 5 %) and France (– 2 %) recorded more moderate declines. In a contrasting trend, the 500 cc plus class market in Germany grew by 4 % compared to one year earlier. The corresponding segment in the USA also registered a moderate increase (+ 2 %) in the period under report. Brazil was 6 % up on the previous year. The motorcycle market in Japan continued to steer a course of recovery in 2012, growing strongly by 18 %.

The financial services market in 2012

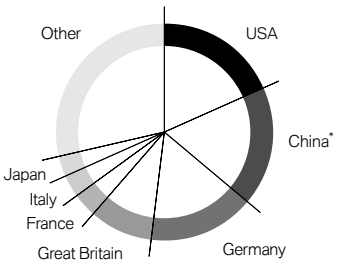
All of the world's major central banks adhered to their adopted course, ensuring that commercial banks had access to large volumes of liquidity. Marked rises in refinancing costs in a number of countries within the eurozone triggered various political measures that helped to stabilise the financial markets.

Price levels on international used car markets continued to develop inconsistently in 2012. While North America, Germany and Great Britain were largely stable, adverse economic developments in some southern European countries caused used car prices to fall in the region.

Despite the debt crisis in Europe and the resulting negative impact on unemployment figures, credit risk levels for retail, dealer and importer financing business did not worsen overall. By contrast, the situation in southern Europe continues to be difficult in the face of adverse economic conditions.

BMW Group – key automobile markets 2012

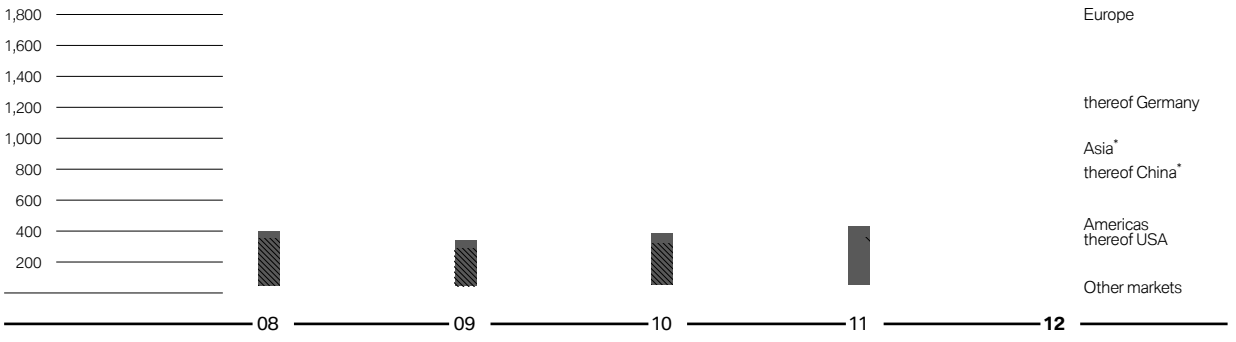
as a percentage of sales volume



USA	18.9	France	3.7
China*	17.7	Italy	3.3
Germany	15.6	Japan	3.1
Great Britain	9.5	Other	28.2

BMW Group sales volume of vehicles by region and market

in 1,000 units



while sales in Italy dropped to 60,520 units (–16.5 %) due to the impact of the sovereign debt crisis. By contrast, sales in the growing Russian market rose by almost one third to 40,230 units (+33.0 %).

BMW brand exceeds 1.5 million threshold for first time*

In addition to retaining the top position for the BMW brand in the premium segment as a whole, the BMW 1 Series, 5 Series and 6 Series each consolidated their leading positions in their respective segments of the market. The BMW X1 was again the best-selling model in its segment. The new BMW 3 Series Sedan, which has been on the market since February 2012, accelerated straight into first place in the mid-range segment.

The BMW 1 Series performed extremely well with sales up by 28.6 % on the previous year to 226,829 units. During the year ended 31 December 2012 we sold 406,752 units

Sales volume of BMW vehicles by model variant*

in units

	2012	2011	Change in %	Proportion of BMW sales volume 2012 in %
BMW 1 Series				
Three-door	**14,462**	20,328	28.9	
Five-door	**176,066**	111,898	57.3	
Coupé	**20,015**	24,357	17.8	
Convertible	**16,286**	19,835	17.9	
	226,829	**176,418**	**28.6**	**14.7**
BMW 3 Series				
Sedan	**294,045**	240,279	22.4	
Touring	**59,144**	72,054	17.9	
Coupé	**29,525**	39,332	24.9	
Convertible	**24,038**	32,799	26.7	
	406,752	**384,464**	**5.8**	**26.4**
BMW 5 Series				
Sedan	**280,504**	248,835	12.7	
Touring	**57,425**	61,215	6.2	
Gran Turismo	**21,087**	22,451	6.1	
	359,016	**332,501**	**8.0**	**23.3**
BMW 6 Series				
Coupé	**8,480**	2,937		
Convertible	**7,880**	6,459	22.0	
Gran Coupé	**6,833**	–	–	
	23,193	**9,396**	**–**	**1.5**
BMW 7 Series				
	59,184	**68,774**	**–13.9**	**3.9**
BMW X1				
	147,776	**126,429**	**16.9**	**9.6**
BMW X3				
	149,853	**117,944**	**27.1**	**9.7**
BMW X5				
	108,544	**104,827**	**3.5**	**7.1**
BMW X6				
	43,689	**40,822**	**7.0**	**2.8**
BMW Z4				
	15,249	**18,809**	**–18.9**	**1.0**
BMW total	**1,540,085**	**1,380,384**	**11.6**	**100.0**

* Including automobiles from the joint venture BMW Brilliance.

(+5.8 %) of the BMW 3 Series. Demand for the BMW 5 Series was also strong again in 2012, with sales up by 8.0 % to 359,016 units. Sales of the BMW 6 Series more than doubled in 2012 to reach 23,193 units (2011: 9,396 units). Only the BMW 7 Series (59,184 units; – 13.9 %) and the BMW Z4 (15,249 units; – 18.9 %) fell short of their previous year's sales volume figures.

The various models of the BMW X family also performed extremely well in 2012. The BMW X1 was handed over to 147,776 customers, an increase of 16.9 % on one year earlier. Even faster growth was achieved by the BMW X3, with sales volume of 149,853 units (+ 27.1 %). Sales of the BMW X5 and the BMW X6 totalled 108,544 units (+ 3.5 %) and 43,689 units (+ 7.0 %) respectively.

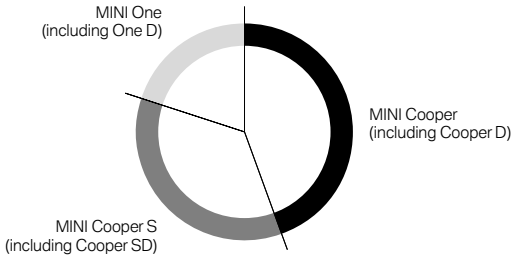
MINI brand with new record sales volume

MINI surpassed the sales volume threshold of 300,000 units for the first time in a single year by achieving a new record of 301,526 units (+ 5.8 %). Sales of the MINI Countryman rose sharply to 102,271 units (+14.9 %), while sales of the MINI Coupé practically tripled to 11,311 units (2011: 3,799 units). The new MINI Roadster recorded sales volume of 9,202 units in the period since its market launch. In a contrasting trend, however, sales were down on last year's levels for the MINI Hatch (131,569 units; – 4.1 %), the MINI Convertible (24,474 units; – 16.5 %) and the MINI Clubman (22,699 units; – 11.8 %).

The MINI brand continued to generate a very high-value product mix in 2012, with 44.5 % of customers opting for the MINI Cooper, 35.7 % for the MINI Cooper S and 19.8 % for the MINI One.

MINI brand cars in 2012 – analysis by model variant

as a percentage of total MINI brand sales volume



MINI Cooper (including Cooper D) — 44.5
MINI Cooper S (including Cooper SD) — 35.7
MINI One (including One D) — 19.8

Sales volume of MINI vehicles by model variant

in units

	2012	2011	Change in %	Proportion of MINI sales volume 2012 in %
MINI Hatch	**131,569**	**137,155**	**– 4.1**	**43.6**
MINI Convertible	**24,474**	**29,325**	**– 16.5**	**8.1**
MINI Clubman	**22,699**	**25,745**	**– 11.8**	**7.5**
MINI Countryman	**102,271**	**89,036**	**14.9**	**33.9**
MINI Coupé	**11,311**	**3,799**	**–**	**3.8**
MINI Roadster	**9,202**	**–**	**–**	**3.1**
MINI total	**301,526**	**285,060**	**5.8**	**100.0**

Sales volume of Rolls-Royce vehicles by model variant

in units

	2012	2011	Change in %
Rolls-Royce			
Phantom (including Phantom Extended Wheelbase)	**573**	537	6.7
Coupé (including Drophead Coupé)	**216**	281	23.1
Ghost	**2,786**	2,720	2.4
Rolls-Royce total	**3,575**	**3,538**	**1.0**

Rolls-Royce again records all-time high

Rolls-Royce Motor Cars remained market leader in the ultra-luxury segment in 2012. The new Phantom Series II models have been available since September and received a thoroughly positive response from customers. The brand's top model, the Phantom, was handed over to 573 customers (+6.7%) during the year under report. The Coupé (including Drophead Coupé) registered a 23.1% drop in sales to 216 units. Sales of the Rolls-Royce Ghost totalled 2,786 units, surpassing the previous year's already high figure by 2.4%.

Car production increased

Production of BMW, MINI and Rolls-Royce Motor Cars brand vehicles was increased by 7.1% to 1,861,826* units in 2012 in order to meet the continually growing demand for BMW Group vehicles. Of this total, 1,547,057* units (+7.4%) related to BMW, 311,490 units (+5.9%) to MINI and 3,279 units (–12.0%) to Rolls-Royce.

Production network running at full capacity

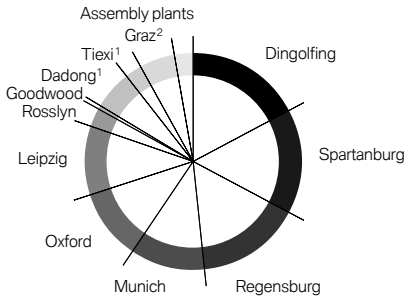
The BMW Group's production network was dominated in 2012 by numerous model start-ups, preparation work for the series production of the BMW i3 and continued expansion of its international sites. Despite these challenges, new production volume records were set. Its high degree of flexibility enabled the production network to even out regional sales volume fluctuations by adapting its production programme wherever necessary. For the second consecutive year we manufactured over one million vehicles at our German plants. Even so, the percentage of vehicles produced at plants outside Germany grew to over 46%.

The BMW plant in Munich saw the start-ups of the BMW ActiveHybrid 3 and the BMW 3 Series Touring in 2012. Employees from the Munich plant were also on hand to support the production start-ups of the new BMW 3 Series in other plants, such as at Tiexi in China and in Rosslyn in South Africa. Work is also in full swing to integrate a further model at the plant in Munich – the BMW 4 Series Coupé. At the same time, a record number of over 214,000 units were manufactured in Munich during the period under report. In summer, a family day attended by 80,000 employees and their families was held to celebrate 90 years of production and 60 years of automotive manufacture at the Munich plant.

Summer 2012 also saw the production start-up of the three-door BMW 1 Series in Regensburg. The new BMW 3 Series Sedan had already been integrated in the plant's production with equal success in March 2012. The range of vehicles manufactured at this plant includes the BMW 1 Series, the BMW 3 Series and the BMW Z4.

Vehicle production of the BMW Group by plant in 2012

in 1,000 units



Dingolfing	332.7	Rosslyn	45.7
Spartanburg	301.5	Goodwood	3.3
Regensburg	300.3	Dadong[1]	108.9
Munich	214.1	Tiexi[1]	41.1
Oxford	207.8	Graz (Magna Steyr)[2]	103.7
Leipzig	164.3	Assembly plants	38.4

[1] Joint venture BMW Brilliance
[2] Contract production

* Including automobiles from the joint venture BMW Brilliance.

built in Spartanburg as the latest member of the X Series family. For the first time, more than 300,000 vehicles were produced at the Spartanburg plant during a single year.

The production start-up of the new BMW 3 Series Sedan commenced at our plant in Rosslyn, South Africa, at the beginning of 2012. Among other improvements, the plant's IT and logistics infrastructure was renewed in advance, in order to accommodate a capacity of 90,000 units in the medium term and further raise the efficiency of the plant.

The assembly plants that mainly serve regional markets are also steadily growing. The BMW Group manufactured over 38,000 units at its production sites in Egypt, India, Indonesia, Malaysia, Russia and Thailand. The production start-up of new models such as the BMW X3 and the 3 Series Sedan has also begun successfully.

A further member of the BMW Group's production network is planned for Brazil, where the market shows great promise for the future. Following the receipt of approval from the Brazilian government at the beginning of 2013, we now plan to manufacture up to 30,000 vehicles there per annum.

Expansion of MINI and Rolls-Royce production

The British production triangle comprising the MINI plant in Oxford, the component plant in Swindon and engine production in Hams Hall is an important element of the BMW Group's production network. The focal point of MINI production is in Oxford, where not only the MINI Hatch, the Convertible and the Clubman are manufactured, but also the Coupé and the Roadster.

In order to secure further capacity for the intended growth of the MINI brand, the BMW Group entered into an agreement in 2012 with the Dutch VDL NedCar bv involving the contract production of MINI automobiles in the Netherlands as from 2014.

The MINI models Countryman and Paceman are already being produced under contract by the company Magna Steyr Fahrzeugtechnik in Austria. After the successful start-up of the MINI Paceman, over 100,000 vehicles were again produced at the plant for the BMW Group in 2012.

Capacity at the Rolls-Royce manufacturing plant in Goodwood, England, was also raised during the year under report. We enlarged both the production facilities and the paint shop in preparation for future models and to meet high demand, particularly for bespoke vehicles.

Engine production network becoming increasingly globalised

The engine production network is also constantly growing and, parallel to the vehicle manufacturing plant in Tiexi, the BMW Brilliance Automotive joint venture opened a new engine plant in Shenyang in 2012, which supplies the two Chinese carmaking plants with the latest generation of 4-cylinder combustion engines. The new engine plant, of which there are now four in the BMW Group's network, was opened after only a 12-month construction period. More than 42,000 engines were manufactured at the plant in 2012.

Due to the strong demand for 4-cylinder petrol-driven engines worldwide, engine-building capacities at the Munich plant were fully utilized, with a daily manufacture of up to 1,600 engines in 2012. Almost 388,000 engines were manufactured at the plant. The range of products manufactured at the Munich plant also includes 8- and 12-cylinder petrol engines as well as 6-cylinder diesel engines for the new M Performance models.

In future, the new BMW Efficient Dynamics family of engines will also be built there and the task of setting up production, logistics and assembly lines began during the year under report. The 3-cylinder engine is the first representative of a new modular engine that enables production to be managed with even greater flexibility. It will be produced in close cooperation with the engine plants in Hams Hall and Steyr.

The largest engine plant in the BMW Group in Steyr celebrated its 30th year of production in 2012. Preparations are currently underway for the start-up of the new generation of modular engines. In 2012 over one million (1,035,902) engines were produced in Steyr, bringing the total number of engines manufactured since commencement of series production at the plant to over 15 million. Currently BMW 4- and 6-cylinder diesel engines, 6-cylinder petrol engines and MINI diesel engines are manufactured in Steyr.

More than 3 million engines have been manufactured at the Hams Hall plant since production commenced in 2001, almost 400,000 (395,854) of which were built in 2012. Preparations for the production of future generations of engines at the plant also include the propulsion unit for the new BMW i8, which is scheduled to be produced exclusively in Hams Hall.

MOTORCYCLES SEGMENT

Record year for Motorcycles segment

The Motorcycles segment achieved its best sales volume to date in 2012, despite a difficult market environment. A total of 117,109 BMW and Husqvarna brand motorcycles was sold worldwide (+3.1 %). Sales of BMW brand motorcycles increased by 2.0 % to reach a new record of 106,358 units. In addition, a total of 10,751 Husqvarna brand motorcycles was handed over to customers (+15.8 %).

Sharp increase in motorcycle sales overseas

Motorcycle sales in the USA jumped by 20.6 % to 14,455 units in 2012. Even faster growth was achieved in Brazil, where sales volume of 7,446 units (+36.8 %) was recorded. 3,410 motorcycles were sold to customers in Japan (+22.4 %).

Continued market uncertainties in Europe were responsible for a decrease to 71,256 units (–5.1 %). Sales in Germany, by contrast, rose to 22,363 units, surpassing the previous year's already high figure by 5.9 %. Good sales performance was also recorded in France, with 11,441 motorcycles handed over to customers (+11.7 %). By contrast, sales volume in Great Britain (5,905 units; –5.9 %) fell short of the figure achieved one year earlier. The negative impact of the sovereign debt crisis on consumer spending was felt very clearly on the Spanish (5,317 units; –16.2 %) and Italian (11,403 units; –25.5 %) motorcycle markets.

Model offensive continued

The G 650 GS Sertão, the revised models of the S 1000 RR and the F 800 R, the special R 1200 GS Rallye model and the special K 1300 R and K 1300 S models all came onto the markets at the end of March 2012, in good time for the start of the motorcycle season. The market launch of the C 650 GT and C 600 SPORT scooters followed in July, initially in Europe. The new BMW F 700 GS and F 800 GS motorcycles were first presented in July 2012 and came onto the markets in September. The fifth generation of the successful R 1200 GS model, with its newly developed boxer engine, was showcased by BMW Motorrad at the INTERMOT International Motorcycle Exhibition in Cologne. The new BMW HP4 was also unveiled to the public for the first time in Cologne. This high-performance model, which is equipped with features and technical highlights that make it extremely agile and ensure an extremely dynamic riding performance, has been available since December 2012. A number of special models were presented during the EICMA International Motorcycle Fair in Milan and will become available to customers in 2013 to mark the 90th anniversary of BMW's motorcycle business. The C evolution – a close-to-production prototype of an electric scooter – was presented at the end of July and is expected to make its market debut in 2014.

The Husqvarna brand expanded its range of products with the launch of various new on-road bikes (TR 650 Strada, TR 650 Terra, Nuda 900 and 900R ABS) and off-road bikes (TE250R and TE310R).

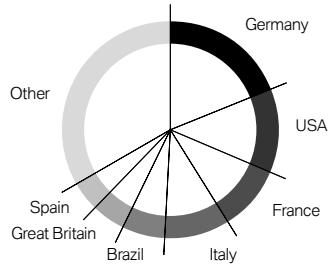
In January 2012, the BMW K 1600 GT won first prize in the International Bike Of The Year 2011 Awards. The K 1600 GT delighted the motorcycle press with its unique combination of comfort, performance and use of innovative technologies.

Motorcycle production increased

In total, 125,284 BMW and Husqvarna brand motorcycles were manufactured during the year under report (+5.4 %), with 113,811 BMW brand motorcycles built at the motorcycle plant in Berlin (+3.1 %) and 11,473 Husqvarna brand motorcycles built in Italy (+34.9 %).

BMW Group – key motorcycle markets 2012

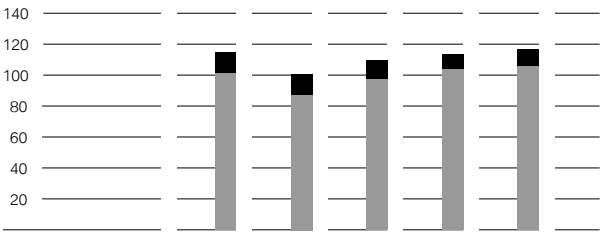
as a percentage of sales volume



Germany	19.1	Brazil	6.4
USA	12.3	Great Britain	5.0
France	9.8	Spain	4.5
Italy	9.7	Other	33.2

BMW Group sales volume of motorcycles

in 1,000 units



	08	09	10	11	12
BMW	101.7	87.3	98.0	104.3	**106.4**
Husqvarna	13.5	13.1	12.1	9.3	**10.7**
Total	115.2	100.4	110.1	113.6	**117.1**

FINANCIAL SERVICES SEGMENT

Financial Services segment remains on growth course

Despite fluctuations on international capital markets, the Financial Services segment achieved another good performance in 2012 with its attractive range of products and continued to grow. Overall 3,846,364 credit financing and lease contracts were in place with dealers and retail customers at the end of the reporting period (2011: 3,592,093 contracts; +7.1 %). In balance sheet terms, the segment's business volume rose by €5,729 million to €80,974 million (2011: €75,245 million; +7.6 %).

The Financial Services segment operates in more than 50 countries worldwide as partner to the sales organisation, with activities comprising the following six lines of business:

1. Lease and credit financing of BMW Group vehicles for retail customers
2. Lease and credit financing for fleet customers/fleet management
3. Multi-brand financing
4. Dealer financing
5. Insurance
6. Banking

Credit financing and the lease of BMW Group brand cars and motorcycles to retail customers is the largest line of business. The BMW Group operates its international multi-brand fleet business under the brand name "Alphabet International", providing mobility solutions in 19 countries. This includes first and foremost the financing of corporate car requirements as well as the comprehensive management of corporate car fleets. Within the multi-brand financing line of business, credit financing, leasing and other services are marketed to retail customers under the brand name "Alphera". The Financial Services segment also supports the dealer organisation by providing financing for inventories, real estate and equipment. The segment's range of products is rounded off by the provision of insurance and banking services.

Significant growth in new business

Credit and leasing business with retail customers saw further dynamic growth in 2012, with 1,341,296 new contracts signed worldwide, 12.1 % more than last year (2011: 1,196,610 contracts).

Double-digit growth rates were achieved in both lines of financing, with lease business up by 16.3 % and credit financing by 10.0 % compared to the previous year. Leasing accounted for 33.8 % of total new business, credit financing for 66.2 %.

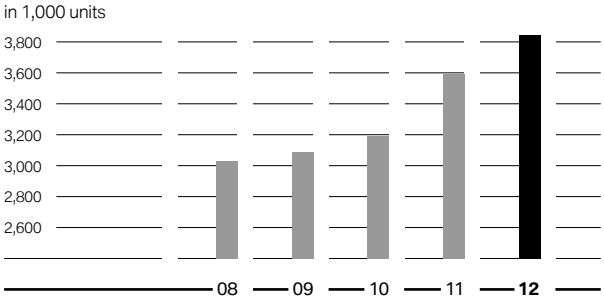
The proportion of new BMW Group cars leased and financed by the Financial Services segment was 40.4 %, marginally lower than one year earlier (2011: 41.1 %; – 0.7 percentage points).

In the used car financing line of business, a total of 303,490 new contracts were signed during 2012, marginally up (+ 0.6 %) on the previous year (2011: 301,539 contracts).

The total volume of all new credit and leasing contracts concluded with retail customers during the period under report amounted to €36,664 million, 15.4 % up on the preceding year (2011: €31,779 million).

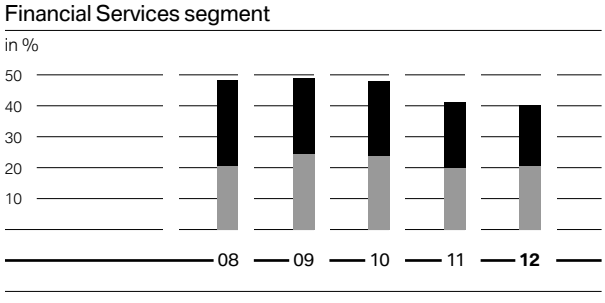
A total of 3,534,620 retail customer contracts was in place at 31 December 2012, 6.7 % more than one year earlier (2011: 3,311,809 contracts). All regions contributed to the increase in business volume, with the contract portfolio rising by 9.8 % in the Europe/Middle East region, 5.2 % in the Americas region and 1.1 % in the EU-Bank region. The sharpest increase was recorded in the Asia/Pacific region (+ 24.2 %).

Contract portfolio of Financial Services segment



	08	09	10	11	12
	3,032	3,086	3,190	3,592	**3,846**

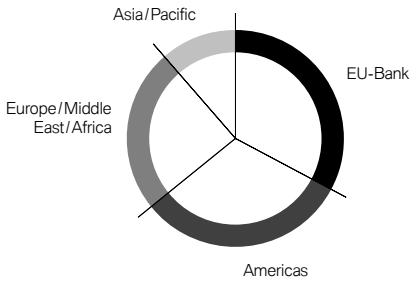
BMW Group new vehicles financed by Financial Services segment



	08	09	10	11	12
Financing	20.9	24.7	24.1	20.0	**20.7**
Leasing	27.6	24.3	24.1	21.1	**19.7**

Contract portfolio retail customer financing of Financial Services segment 2012

as a percentage by region



EU-Bank	32.8	Europe/Middle East/Africa	24.6
Americas	31.4	Asia/Pacific	11.2

Awards for quality of service
The BMW Group's Financial Services segment was again the recipient of numerous international awards in 2012. In the annual survey carried out by the market research institute J. D. Power and Associates, our Financial Services business in the USA came first for the ninth time in succession in the category "Dealer Financing Satisfaction Study℠". The award presented by this internationally renowned market research institute is acknowledgement of the high level of dealer satisfaction achieved with our leasing and financing products.

Expansion of BMW Bank continued in line with plan
Further progress was made in 2012 to expand the BMW Bank. With effect from August 2012, financial services business in France was integrated directly with the BMW Bank by means of a subsidiary. Financial Services business in Germany now covers entities in Germany, France, Italy, Portugal and Spain.

Strong growth for fleet business
Alphabet International, with its wide range of multi-brand products, is one of the top four fleet service providers in Europe. At the end of the reporting period, Alphabet was managing a portfolio of 502,397 fleet contracts, up 5.8 % on the previous year (2011: 474,717 contracts).

Multi-brand financing up sharply
Demand for multi-brand financing grew sharply in 2012 with a total of 163,945 new contracts signed (+17.3 %). At the end of the reporting period, the multi-brand financing line of business covered 417,408 contracts (2011: 370,999 contracts: +12.5 %).

Increased dealer financing volumes
The total volume of financing disbursed to the dealer organisation amounted to €12,669 million at 31 December 2012, an increase of 11.0 % compared to one year earlier (2011: €11,417 million).

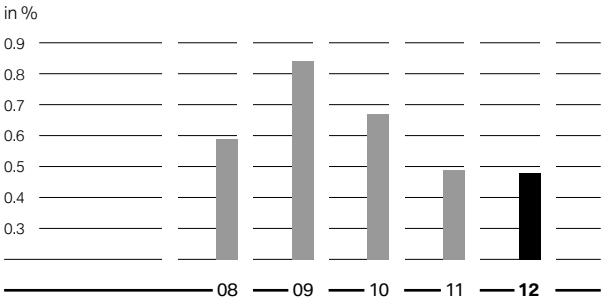
Deposit volume again higher than at the end of the previous year
Deposit business represents a significant component of the BMW Group's refinancing strategy. The Financial Services segment's deposit volume totalled €13,018 million (+8.1 %) at the end of the reporting period. By contrast, decreases were recorded for securities and credit card business, with the number of securities custodian accounts falling by 5.5 % to 23,042 and credit card contracts down by 2.4 % to 281,464.

Dynamic growth for insurance business
In addition to its leasing and financing products, the Financial Services segment also offers a wide range of insurance services relating to individual mobility. New business grew by 15.7 % to 979,776 contracts in 2012. The insurance contract portfolio expanded by 7.6 % compared to last year's figure to stand at 2,158,892 contracts (2011: 2,007,268 contracts).

Risk profile largely unchanged
The BMW Group's credit and residual value risk profile remained largely unchanged. The loss ratio on lending decreased further in the year under report, falling by one basis point from 0.49 % in 2011 to 0.48 %. Average losses on residual value risks also decreased slightly.

The Financial Services segment uses the value at risk (VaR) methodology to measure the amount of unexpected loss for major risk categories (credit, residual value and interest rate risks, operational risks and insurance business-related risks), based on a confidence level of 99.98 % and a holding period of one year.

Development of credit loss ratio



08	09	10	11	12
0.59	0.84	0.67	0.49	**0.48**

Losses are managed using an integrated limit system based on a limit determined and set at the beginning of each financial year by reference to available risk coverage equity. The stipulated limit was not exceeded in 2012, which means that the segment's risk-bearing capacity was ensured at all times (see also section "Risk Management").

RESEARCH AND DEVELOPMENT

Research and development expenditure increased

In 2012 our Research and Innovation network employed a workforce of more than 10,900 people based in 13 locations spread over five countries. Research and development expenditure for the year rose by 17.2 % to €3,952 million, mostly on projects aimed at securing the Group's future (2011: €3,373 million). The research and development ratio was 5.1 %, 0.2 percentage points higher than in the previous year (2011: 4.9 %). Further information on research and development activities is provided in note 9 to the Group Financial Statements.

New Efficient Dynamics engine family under development

Efficient Dynamics is one of the most effective strategies for reducing both fuel consumption and CO_2 emissions. During the period under report the efficiency of our combustion engines was further improved while maintaining or even boosting engine performance. Furthermore, full hybrid drive systems were developed for the BMW 3 Series and 7 Series and additional progress was made in the fields of energy management and lightweight construction.

In 2012 we presented a 1.5-litre engine based on the BMW TwinPower Turbo technology. This 3-cylinder engine is one of the first power units of the new Efficient Dynamics engine family. It is based on a standardised design principle and uses a higher number of common components both for petrol and diesel engines. It is thus possible to effectively develop 3-, 4- and 6-cylinder engines of varying capacities using one common technological concept.

Since 2011 we have been offering the ECO PRO Driving Experience Control, which enables drivers to select between various driving modes from sporty to highly economical. The latest ECO PRO mode is connected to the navigation system. With the help of navigation data, the vehicle anticipates the road ahead and provides the driver with information that promotes efficient driving. For instance, the vehicle's energy management system knows it is approaching a town and gives the driver an appropriate early warning. In combination with the ECO PRO coasting function, the engine is decoupled and the vehicle is then only slowed by the aerodynamic drag and rolling resistance. Consistent use of the ECO PRO mode can reduce fuel consumption significantly.

We have also made improvements to our hybrid technology and are currently offering BMW ActiveHybrid technology for the models BMW ActiveHybrid 7, BMW ActiveHybrid 5 and BMW ActiveHybrid 3. The power for the electrically driven features in these vehicles is largely generated by the Brake Energy Regeneration system.

Further progress was also made in the field of lightweight construction during the period under report. Current examples are bumper brackets made of aluminium and instrument panel supports of magnesium.

BMW ConnectedDrive: innovations for connected mobility

Connected Drive stands for forward-looking vehicle concepts and technologies. New functions demonstrate the innovation leadership of the BMW Group when it comes to the connectedness of the driver, the vehicle and the environment.

The latest generation of our navigation system is equipped with a three-dimensional graphic visualisation that includes additional functions as well as an optimised display and operating concept. The new dictation function with speech-text entry enables the driver to dictate texts for e-mails and SMS text messages. Moreover, in 2012 the BMW Group became the first carmaker worldwide to offer high-speed Internet functionality in a vehicle. The LTE standard forms the interface between the user's mobile end device and the Internet.

Since August 2012 the My BMW Remote app has also been available for smartphones with Android operating systems. My BMW Remote enables BMW owners to activate numerous practical functions of their vehicle remotely, such as doors to be locked and unlocked. In addition, users of BMW ConnectedDrive and MINI Connected now have new apps designed to enhance the range of information and entertainment available within the vehicle.

BMW i3 Concept Coupé and i8 Concept Spyder celebrate world premiere

In April 2012 the BMW i8 Concept Spyder celebrated its world premiere at the Shanghai Motor Show. In June we demonstrated the use of regenerative materials for vehicle interiors based on the BMW i3 Concept. The BMW i3 Concept Coupé was presented in Los Angeles in November. As well as providing an opportunity to preview the design of a model nearing series production, the complete connectedness of this vehicle with the outside world was in the spotlight.

In order to offer customers the BMW i3 and i8 complete with electricity from fully renewable sources, in 2012 the BMW Group entered into a strategic cooperation with NATURSTROM AG. In a further step towards the complete automation of CFRP production, cooperation arrangements with the aircraft manufacturer Boeing were announced in December 2012, the main points of which are research into the recycling of carbon fibres and the automation of production processes. We also entered into strategic partnerships during the year under report with a view to establishing efficient, customer-friendly wallboxes in the garages of BMW i3 and i8 owners.

Research project enables cars and motorcycles to communicate with each other

Numerous companies from the automotive and telecommunications industries, the government of the German state of Hesse and the city of Frankfurt am Main as well as various universities and scientific institutions have united in the research project "Sichere Intelligente Mobilität – Testfeld Deutschland (simTD)". Their joint aim is to test the functionality, suitability for everyday use and effectiveness of car-to-X communication for the first time under real conditions. After four years of research work, the field trial commenced in October 2012 with over 120 vehicles. The BMW Group is the only project partner taking part in the field trial with both cars and motorcycles. The simTD project is testing various driver assistance systems based on car-to-X communication methods for BMW Group cars and motorcycles. For example, traffic light systems can transmit information about their switching times to enable a driver assistance system to either pass on information regarding the optimum speed for a personal "green wave" or warn about the imminent danger of going through a red light (traffic light phase assistant). A specific transfer of data describing the traffic situation, the condition of the road surface and further factors makes it possible to relay early warnings of accidents (obstacle warning), traffic jams (end-of-jam warning) or the formation of black ice (road weather warning) from one vehicle to other motorists in the vicinity. Additionally, based on the vehicle data transferred, it is possible to calculate the risk of a collision, enabling warnings to be transmitted about the risk of collision at crossings (cross-traffic assistant). Further car-to-X functions in the simTD research project are the warning for emergency vehicles, the electronic brake light and the road sign assistant. Moreover, the test vehicles supply the data necessary to improve traffic management. In this way, traffic jams can be anticipated, CO_2 emissions can be reduced and waiting times at traffic lights minimised.

Numerous awards received once again for achievements in the field of development

Alongside the BMW 6 Series Convertible, the BMW 6 Series Coupé, the BMW 1 Series M Coupé and the BMW ActiveE, in January 2012 two of the Group's motorcycles, the BMW K 1600 GT/GTL and the BMW G 650 GS received the 2011 GOOD DESIGN™ Award. For over 60 years the world's oldest design award has been given to manufacturers and designers for especially innovative, visionary products, concepts and ideas. The awards are given according to the criteria of functionality and aesthetics and are supplemented by a contemporary ecological standard of sustainable design. In July the Group additionally received the GREEN GOOD DESIGN™ Award for the BMW i8 Concept, the BMW i3 Concept and the MINI Rocketman Concept. Criteria such as low energy consumption and reduced dependency on fossil fuels are particularly focused on.

In February 2012 the new BMW 6 Series Coupé received the iF Gold Award for outstanding design. The special prize is the highest award that the renowned International Forum Design can bestow. In addition, the BMW 1 Series, the BMW 1 Series M Coupé, the BMW 6 Series Convertible and the BMW G 650 GS motorcycle received iF Product Design Awards. The iF Design Award of the International Forum Design has established itself over the last 60 years or so as one of the most highly regarded seals of quality for outstanding design work.

When it came to the red dot awards, the BMW Group was proud to receive a total of eleven of these internationally coveted prizes, including two with the highest seal of quality "best of the best" for the BMW AirFlow 2 helmet and the Husqvarna Nuda 900R. The red dot award was also given to the BMW 6 Series Gran Coupé, the BMW 6 Series Coupé, the BMW M5, the BMW 1 Series M Coupé, the BMW C 600 SPORT, the BMW C 650 GT, the BMW K 1600 GT and the BMW G 650 GS. The BMW 3 Series Sedan also earned an Honourable Mention. The red dot award, which was first presented in 1955, is one of the world's most prestigious awards in the field of product design. With this award, the jury, which consists of 30 international design experts, honours extraordinary design achievements in a wide range of fields.

In October 2012 the jury of experts of the German Design Council announced the winner of the German Design Awards 2013. At this year's competition, the BMW 6 Series Convertible was among the winners in the Transportation and Public Space category. The BMW 1 Series and the Husqvarna Nuda 900R also received recognition. The two vehicles earned a Special Mention for their particularly outstanding design features. The 30-person jury of the German Design Award 2013 comprises design experts from commerce, science and the design industry. The competition pays tribute to innovative and international design trends.

The sixth generation of the BMW 3 Series received the internationally prestigious "Goldenes Lenkrad" automotive prize, which is already the fifth success for this series. The BMW 3 Series Sedan came out top in the medium- and luxury-class category. The award is given to the most convincing new car of the year on the market in each category.

With victories in four classes as well as four second and two third places in the "International Engine of the Year Award" we repeated the success of the previous year and simultaneously underscored our leading position as the dominant manufacturer in this competition. Winners in their classes were the 1.6-litre turbo engine of the MINI Cooper S, the 4-cylinder engine featuring BMW TwinPower Turbo technology that currently powers the new BMW 328i, the in-line 6-cylinder with M TwinPower Turbo engine from the BMW 1 Series M Coupé and the V8 propulsion unit under the bonnet of the BMW M3.

BMW crowns DTM comeback with all three titles

BMW Motorsport celebrated its first season back in the German Touring Car Masters (DTM) championship with a clean sweep in all three categories. Not only the drivers' title, but also the teams' and manufacturers' titles all went to BMW. With this triple success, BMW Motorsport can look back at a DTM season in which its three teams and six drivers greatly exceeded all expectations with the BMW M3 DTM. Apart from four victories, we also managed an additional seven placings.

PURCHASING

Purchasing and Supplier Network functions further enhanced

As the leading provider of premium automobiles, together with its partners the BMW Group operates the most efficient supply chain in the automotive industry. In today's volatile environment this means being able at all times to react swiftly and flexibly to fluctuations in demand while maintaining a consistently high quality of parts and competitive costs. Moreover, we have made it a key aim to promote our own innovative strengths and those of our suppliers to enhance our position as the leading provider of innovations in the premium segment.

In advance of the introduction of the BMW i3 in 2013 we drew up an extensive sustainability programme during the period under report, aimed at generating yet further improvements in the field of resource efficiency.

Numerous model start-ups during the reporting year

Numerous new models were launched in 2012 for the BMW, MINI and Rolls-Royce brands. BMW successfully launched six new derivatives of the 1, 3, 5 and 6 Series. MINI successfully introduced its Coupé, while Rolls-Royce Motor Cars brought its Phantom Series II onto the market. Particularly worthy of mention are the launch in 2012 of the BMW 6 Series Gran Coupé and the two hybrid vehicles, the BMW ActiveHybrid 3 and BMW ActiveHybrid 5. The BMW Group also introduced the extended-wheelbase version of the BMW 3 Series Sedan to the Chinese market and brought out revised versions of the BMW 7 Series and the X1 in order to satisfy rising demand in the fast-growing markets of China, India, Brazil and Russia.

Further internationalisation of procurement markets

The BMW Group continued to focus in 2012 on increasing the international scale of its purchasing activities. One example of this was the success achieved with the newly launched BMW 1 Series and 3 Series models. The opening of our new plant in Tiexi*, China, for instance, enabled us to significantly increase the volume of material purchased locally. This is a good example of how we are increasingly shifting added value along the supply chain and into our sales markets, thus helping us to hedge currency exposures. Multi-currency ordering also enables us to pay for purchasing volumes in the currency in which added value is generated.

High level of investment safeguards productivity and technology lead

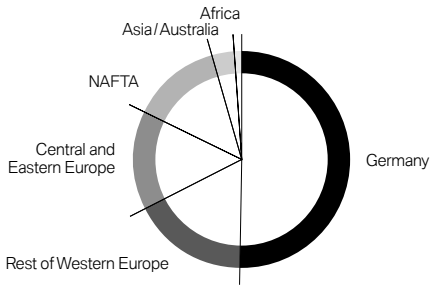
In addition to its purchasing, quality assurance and logistics functions, the BMW Group's Purchasing and Supplier team is also responsible for component production sites, an arrangement that is unique in the automotive industry. Regular comparative analyses help to guarantee that processes are efficient and effective. The sites concerned are regularly required to prove their competitiveness against external providers. The high level of efficiency achieved was again borne out in 2012 by the bestowal of numerous industry awards.

The significance of Landshut as the competence centre for lightweight construction and electromobility within the BMW Group was underlined by the commissioning of the production plant for ultra-lightweight carbon-fibre parts. The carbon fibre cores produced at the Wackersdorf plant are processed in Landshut to form CFRP body parts and subsequently delivered to the BMW plant in Leipzig, where production of the BMW i3 and BMW i8 will commence during the course of 2013. This investment in CFRP technology provides the basis for large-scale automated series production of carbon-fibre parts and is an important aspect of the BMW Group's long-term lightweight construction strategy. For the time being at least, the BMW Group is in a unique position within the automotive industry.

In addition to the manufacturing of carbon-fibre cores and cockpits for the BMW 1 Series and 3 Series, the Wackersdorf plant handles packaging and distribution of small parts for CKD/SKD production worldwide. As such, the plant constitutes a key element of the Group's logistics arrangements.

Regional mix of BMW Group purchase volumes 2012

in %, basis: production material



Germany	50.3	NAFTA	13.4
Rest of Western Europe	17.3	Asia/Australia	3.1
Central and Eastern Europe	14.8	Africa	1.1

* Joint venture BMW Brilliance

Sustainability within the value-added chains
Sustainability criteria are a fundamental part of our purchasing terms and conditions and supplier assessments. Among other requirements, we expect our suppliers to guarantee that sub-suppliers also comply with our exacting standards. Our Top Two position in the Supply Chain category of the Dow Jones Sustainability Index in 2012 is testament to the high standards we set. Further information on risk management procedures applied within the Purchasing and Supplier network is provided in the risk report.

SALES AND MARKETING

Sixth generation of the BMW 3 Series successfully launched
The new BMW 3 Series Sedan has been available on markets worldwide since February 2012. Now in its sixth generation, the latest model is again setting standards in its class and has received broad acclaim internationally from customers and the media alike. The BMW ActiveHybrid 5 came onto the market in March. The BMW M6 Convertible as well as the new M Performance models, M550d xDrive (as Sedan and Touring) have all been available since May. June saw the launch of the BMW 6 Series Gran Coupé, the first four-door Coupé in the brand's history, as well as those of the BMW X5 M50d, the BMW X6 M50d and the BMW X6 (the latter as a model revision). The BMW M 135i plus model revisions of the BMW 7 Series and the BMW X1 reached the showrooms in July. The extended-wheelbase version of the BMW 3 Series Sedan for China and the M6 Coupé became available in August. The new BMW 3 Series Touring and the new BMW 1 Series three-door version were introduced in September, the latter incorporating the xDrive four-wheel-drive system in a 1 Series vehicle for the first time. September also saw the launch of the BMW ActiveHybrid 3. The BMW Concept Active Tourer celebrated its world debut at this year's Automobile Show in Paris, providing an initial insight into a whole array of groundbreaking innovations.

MINI family grows
The MINI Roadster was introduced as the sixth member of the MINI family in March 2012. The brand's seventh model, the MINI Paceman, was presented in Paris, the world's first Sports Activity Coupé to appear in the premium compact segment.

The Countryman John Cooper Works became the sixth model to be sold under the umbrella of the sports-oriented John Cooper Works sub-brand. The MINI John Cooper Works GP, the fastest MINI ever built, celebrated its world debut in Paris. MINI customers can now choose between 43 different models.

Rolls-Royce Phantom Series II launched
Rolls-Royce Motor Cars launched the new Phantom Series II in September. As well as an enhancement to its timeless design, a whole host of technical innovations were incorporated in the Phantom Series II. Both customer and media reactions to the new series have been extremely positive. Rolls-Royce Motor Cars also expanded the scope of its Bespoke Programme for the Phantom family and for the Ghost.

Entire BMW Group brand spectrum now housed at the BMW Welt
In October 2012 the BMW Group presented its expanded brand exhibition at the BMW Welt, which now displays

the entire spectrum of BMW Group brands (BMW, BMW Motorrad, MINI, Rolls-Royce and Husqvarna Motorcycles) and sub-brands (BMW i, BMW M and MINI John Cooper Works). For the first time the BMW Group is now also presenting itself as a company in its own display area in the Double Cone, highlighting the role that our employees can play as company ambassadors.

In the BMW area, both design and technological aspects are showcased alongside the vehicles themselves. The BMW i presentation provides comprehensive information on the subject of electromobility. The BMW M area provides many insights into the world of motor sport. Visitors to the MINI area are welcomed with an array of surprising and unconventional ideas. The Rolls-Royce presentation is stylish and modern as befits the brand.

The BMW Motorrad area features besides motorcycles a Biker's Lodge, which serves as a platform for the motorcycle community. The Husqvarna brand focuses on the sporty nature of the off-road segment.

BMW

WORKFORCE

Workforce increased

The BMW Group's worldwide workforce grew to a total of 105,876 employees at 31 December 2012 (2011: 100,306 employees; +5.6 %). The major part of the increase was attributable to strong demand for cars on the one hand and the development of new technologies (such as electromobility) on the other.

Number of apprentices increased

1,376 young people started their vocational training with the BMW Group at the beginning of the new training year. In Germany alone, the BMW Group increased the number of apprentices by more than 10 % to 1,200. At the end of the reporting period, the BMW Group employed 4,266 apprentices worldwide (+9.4 %).

The BMW Group introduced a new training concept in Germany during the year under report, focusing on individual talents and strengths. Alongside the conventional training route, the BMW Group continues to offer training courses that can lead to entrance qualification for university. Our training programme at the Spartanburg plant in the USA, based on the principles of the German dual training system, proceeded into its second year. In cooperation with our joint venture partner, Brilliance Automotive, we also offer young people employed at the Shenyang site in China a comparable route for embarking on a professional career.

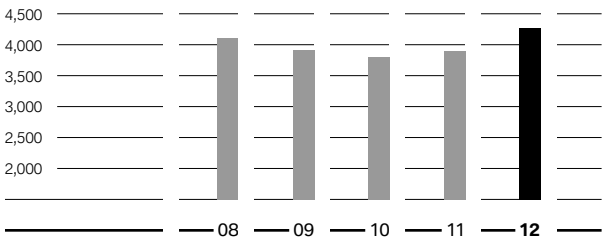
Increased investment for employee training

Expenditure on basic and further training rose by 14.6 % in the period under report to €282 million, indicative of the high pace of innovation within the enterprise. The range of courses on offer was expanded significantly, particularly for new technologies, but also in the field of healthcare. Further emphasis was placed on broadening the international scope of our training courses.

Greater promotion of young talent

A well-coordinated system of promoting talented employees has been adopted to ensure that the BMW Group remains competitive in the future. A potential career with the BMW Group is made even more attractive by offering bachelor, master and Ph.D. programmes to all academic target groups, thus combining technical training and practical experience with the provision of financial support. Internationally oriented programmes aimed at securing management-level staff supplement the promotion of talented young people in the BMW Group.

BMW Group apprentices at 31 December



08	09	10	11	12
4,102	3,915	3,798	3,899	**4,266**

BMW Group highly rated as an attractive employer

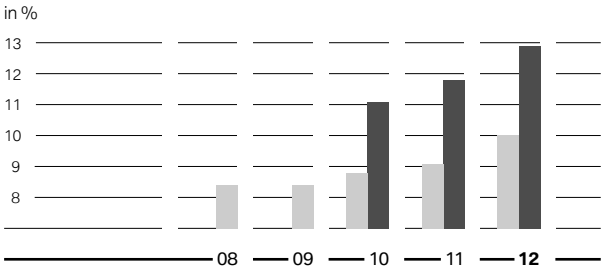
The BMW Group remains one of the most attractive employers in the world. This is based on numerous up-to-date studies and rankings tables. In the most recent edition of "The World's Most Attractive Employers" published by the Universum agency, the BMW Group asserted its position as the most attractive German employer, achieving top spot in both the engineering and business categories. We also came out on top among manufacturers in a student survey conducted in China by Trendence.

Similarly, we came first in that agency's German Young Professional Barometer 2012 across all sectors. The BMW Group was able to repeat the excellent results achieved a year ago in the Universum Professional Barometer Germany and took first place in the Business and Engineering categories as well as third place in the Information Technology category.

BMW Group employees

	31.12.2012	31.12.2011	Change in %
Automotive	**96,518**	91,517	5.5
Motorcycles	**2,939**	2,867	2.5
Financial Services	**6,295**	5,801	8.5
Other	**124**	121	2.5
BMW Group	**105,876**	**100,306**	**5.6**

Proportion of non-tariff female employees at BMW AG / BMW Group*

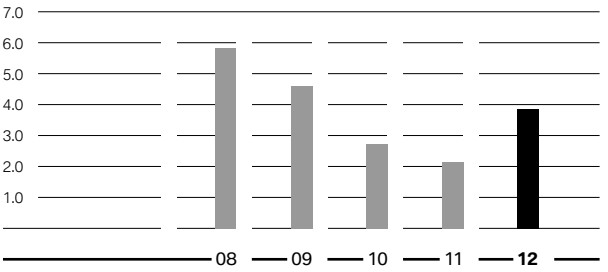


	08	09	10	11	12
BMW AG	8.4	8.4	8.8	9.1	**10.0**
BMW Group			11.1	11.8	**12.9**

* Percentage calculated for the BMW Group since 2010

Employee fluctuation ratio at BMW AG[1]

as a percentage of workforce



08	09	10	11	12
5.85[2]	4.59[2]	2.74	2.16	**3.87**

[1] Number of employees on unlimited employment contracts leaving the Company
[2] After implementation of previously reported measures to reduce the size of the workforce (voluntary employment contract termination agreements)

Diversity as a competitive factor
Social diversity is one of the principal components of our personnel and sustainability strategies. Diversity is encouraged throughout the BMW Group on the basis of the following criteria: gender, origin/cultural background and age/experience. The clear goal is to secure long-term success for the enterprise through the deployment of diverse and complementary talents.

The proportion of women in the workforce, in management positions and in training programmes for young talent was further increased during the year under report. Particularly good progress was made in the number of women in management positions, with the proportion rising to 12.9 % for the BMW Group and 10.0 % for BMW AG. Specific training and promotion programmes – for both women and men – have been expanded and rolled out worldwide as part of the strategy of bringing the proportion of women in management positions up to our target corridor of between 15 % and 17 % by the year 2020. Female representation in trainee programmes throughout the BMW Group is already above 35 %. Employees from 16 countries participated in the international trainee programme in 2012.

International awards for social engagement
For the first time in 2012, the BMW Group presented awards for the social commitment of its employees on a worldwide basis, thereby acknowledging the wide range of voluntary work they carry out for other people in their own free time. Out of numerous projects submitted from a total of 14 countries, awards were ultimately given to four outstanding projects spanning a broad spectrum of social engagement. They include an education centre for children in Peru, support for orphans in Panama, educational projects for children and youths in South Africa and initiatives for combating illiteracy in Ethiopia.

SUSTAINABILITY

Safeguarding the future of the BMW Group with sustainable business practices

Commercial success, the responsible use of resources and the assumption of social responsibility form the basis for long-term growth and a steady rise in corporate value. Sustainability is therefore a key element in our Strategy Number ONE.

The BMW Group's sustainability strategy is valid throughout the organisation and is incorporated in the Group Balanced Scorecard as a strategic corporate goal. In 2012 we again asserted our position as most sustainable premium provider in the field of individual mobility, a fact also confirmed by an independent source: in the Dow Jones Sustainability Index (DJSI) rankings published in September 2012, the BMW Group was listed as the most sustainable automobile manufacturer in the world for the eighth time in succession.

The Sustainability Board, which includes all members of the BMW Board of Management, continually develops the Group's sustainability strategy and manages sustainability initiatives group-wide. The Sustainability Board meets twice a year and is supported by the Sustainability Committee, comprising representatives from the various fields of responsibility. The principal task of this body is to ensure implementation of the sustainability strategy across the Group.

As well as paying due attention to social and ecological aspects in decision-making, the BMW Group's sustainability management strategy encompasses the systematic analysis of external framework conditions and a continual dialogue with our stakeholders. The stakeholder dialogues held in Berlin and San Francisco in 2012 provided us with important input for the further enhancement of our sustainability strategy.

Clean production: key milestone reached

The integration of environmental management in all production processes enables us to reduce our use of resources and minimise environmental impact. We see this as an ongoing process. At an early stage we set ourselves the goal of a 30 % reduction in average resource consumption and emissions per vehicle produced for the period 2006 to 2012, using the measurable parameters energy, water, process wastewater, non-recyclable waste and solvents. We also check the level of CO_2 emissions resulting from energy consumption. In actual fact, we improved efficiency by more than a third (35.7 %), thus surpassing our ambitious target.

A more detailed look at the fundamental parameters over the six-year period shows the following picture:

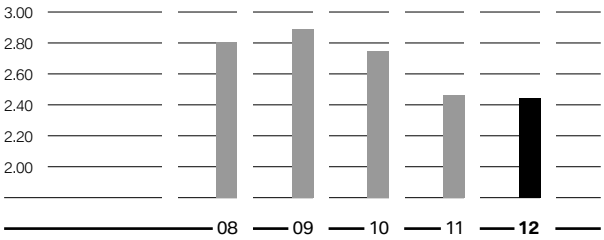
Energy consumption	**–26 %**
Water consumption	**–30 %**
Process wastewater	**–36 %**
Non-recyclable waste	**–65 %**
Solvent emissions	**–27 %**

During the same period the CO_2 emissions per vehicle produced also fell by 30 %. We have now set ourselves new targets to be reached by 2020: we aim to reduce resource consumption and emissions per vehicle produced by an average of 45 % compared to 2006.

Conserving resources in production

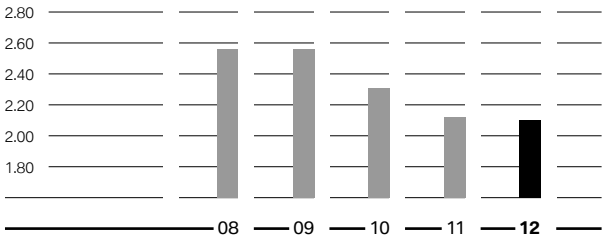
During the period under report, resource consumption and emissions per vehicle produced were reduced by an average of 11.6 %, equivalent to cost savings of more than €9 million on the previous year.

Energy consumed per vehicle produced



08	09	10	11	12
2.80	2.89	2.75	2.46	**2.44**

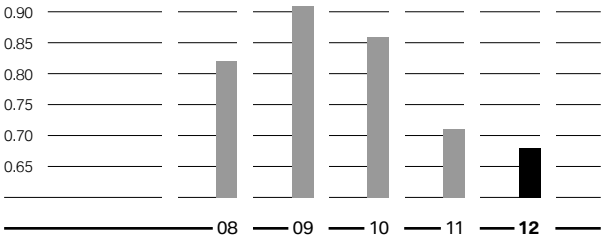
Water consumption per vehicle produced



08	09	10	11	12
2.56	2.56	2.31	2.12	**2.10**

CO_2 emissions per vehicle produced

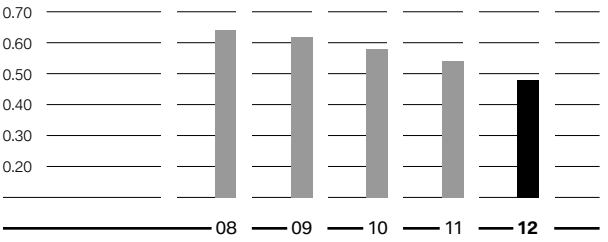
in t/vehicle



08	09	10	11	12
0.82	0.91	0.86	0.71	**0.68**

Process wastewater per vehicle produced

in m^3/vehicle



08	09	10	11	12
0.64	0.62	0.58	0.54	**0.48**

The high number of model start-ups, the increasing number of models being launched and the greater vertical range of manufacture, such as with CFRP, were the main challenges in our endeavours to improve energy efficiency. Expansion of our highly efficient and ecologically sustainable combined heat and power plants led to higher consumption due to conversion factors. Despite this fact we managed to reduce the energy consumed per vehicle produced in 2012 to 2.44 MWh (– 0.8 %). This improvement was achieved by means of a number of measures such as the use of waste heat from the paint shop at the Leipzig plant and the use of energy-efficient motors for cooling the computer centre at our Oxford plant. Greater energy efficiency and the use of electricity produced from regenerative sources helped to reduce the CO_2 emissions per vehicle produced by 4.2 % to 0.68 tonnes during the period under report.

The volume of water required per vehicle produced also fell to 2.10 m^3 (– 0.9 %) in 2012. The amount of process wastewater produced decreased by 11.1 % to 0.48 m^3 per vehicle produced. The conversion of the paint shop in Spartanburg to a water-free paint process and the reuse of water in the paint shops at the Dingolfing and Munich plants were the main contributing factors to this reduction.

The volume of non-recyclable production waste was reduced by a further 23.5 % to 6.11 kg per vehicle produced in 2012. The primary reason for the improvement was the conversion from waste disposal to recycling at all plants in the UK.

Solvent emissions increased slightly by 1.8 % to 1.68 kg per vehicle produced during the period under report, largely due to increased production volumes in China. New, eco-friendly painting processes will come on line at the Tiexi* plant by the end of 2013. The paint shop at the Dadong* plant is also scheduled for retrofitting with a view to minimising solvent emissions in years to come.

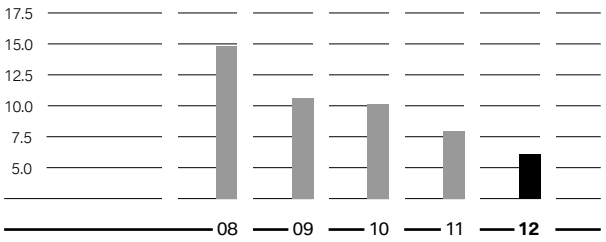
* Joint venture BMW Brilliance

Eco-friendly transportation solutions

The general increase in production volume combined with regional shifts in demand had an impact on the

Waste for disposal per vehicle produced

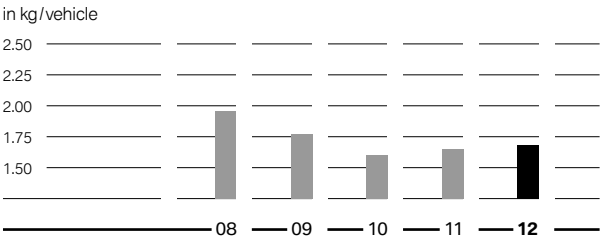
in kg/vehicle



08	09	10	11	12
14.84	10.63	10.09	7.99	**6.11**

Volatile organic compounds (VOC) per vehicle produced

in kg/vehicle



08	09	10	11	12
1.96	1.77	1.60	1.65	**1.68**

percentages of various modes of transportation used. The percentage of air freight used edged up to 1.2%. The percentage of sea freight also rose slightly to 79.2%. Rail transportation went up to 8.9%, whereas the amount of goods transported by road fell to 10.7%. Overall, 56.9% of all new vehicles left the Group's plants by rail (+3.8 percentage points).

Sustainability also demanded in supplier network

Sustainability aspects also play a key role in the selection and assessment of our suppliers. More information on this topic is available in the section "Purchasing".

Top position in premium segment for reduction of CO_2 emissions

Increasingly strict legislation governing vehicle emissions worldwide is presenting new challenges for the automotive industry. The BMW Group took measures at an early stage aimed at achieving significant reductions in the fuel consumption and emission levels of its vehicle fleet. Efficient Dynamics innovations are having a beneficial impact on the entire fleet and are subject to continual improvement. As from 2013 the electric drive systems in products of the sub-brand BMW i will be increasingly supplementing our range of models. With the growing use of electricity to power vehicles and the rise of hybrid technology, we will continue to play a major role in reducing CO_2 emissions and improving fuel economy. All of these factors taken together will enable us to meet applicable CO_2 and fuel consumption thresholds in the future.

Between 1995 and 2012 we reduced the CO_2 emissions levels of our newly sold cars in Europe by more than 30%. In 2012 the BMW Group's vehicle fleet recorded average fuel consumption of 5.0 litres of diesel/100 km, 6.3 litres of petrol/100 km and average CO_2 emissions of 138 g/km in Europe (EU-27). We also lead the field among German premium-segment manufacturers with CO_2 emissions of 143 g/km. In 2012 the BMW Group's fleet already included 34 models with emissions of less than 120 g CO_2/km. Our efficient technologies have given us a competitive edge, particularly in markets governed by a CO_2-based vehicle tax. It remains our goal to reduce the CO_2 emissions of our vehicle fleet by at least another 25% between 2008 and 2020.

Strategic orientation towards sustainable individual mobility of the future

We think the term "premium" will be increasingly defined by reference to sustainability in years to come. With our own BMW i sub-brand and the implementation of innovative car-sharing strategies, also with purely electrically powered vehicles under the DriveNow brand, we are consciously addressing changing needs in the field of individual mobility. Further information on this topic can be found in the sections "Research and Development" and "Sales and Marketing".

Overview of capital markets in 2012
BMW stock significantly outperformed the market as a whole within a generally volatile environment during 2012. Helped by the best ratings in the European automobile sector, the BMW Group was again able to refinance its operations at attractive conditions. The BMW Group was index leader in the Dow Jones Sustainability Index World for the eighth time in succession.

Stock markets record sharp gains despite debt crisis
The debt crisis in the eurozone once again had a significant impact on the performance of stock markets in 2012. In contrast to the previous year, the German stock index, the DAX, was able to avoid these negative influences, particularly towards the end of the year, and – against a background of high volatility – recorded its biggest gain since 2003.

After a good start to the year, the DAX reached more than 7,100 points in the first quarter. The initial failure to form a government in Greece and concerns about Spanish banks pushed down the DAX to its low for the year of 5,900 points in June. The European Central Bank's plan to purchase an unlimited volume of bonds initially provided a sharp boost to stock markets. By the time November came, however, increasing uncertainties caused by the "fiscal cliff" in the USA again took their toll on the DAX, pushing the index back under the mark of 7,000 points. After some substantial gains in the following weeks, the DAX registered its high for the year of 7,683 points on 19 December and finished the stock exchange year at 7,612 points, 29.1 % above its closing level at the end of the previous financial year.

The Prime Automobile Index developed similarly, closing at 976 points (+41.9 %) after putting on 288 points over a generally volatile twelve-month period. The EURO STOXX 50 index reached the level of 2,636 points on the last day of trading, thus achieving a gain of 13.8 % for the year as a whole.

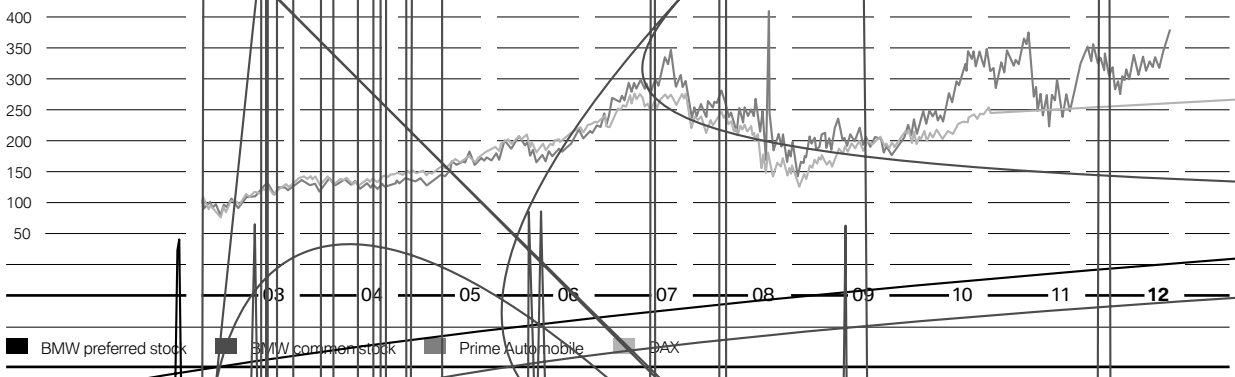
BMW stock was not fully able to entirely escape the influence of these stock exchange developments. After a good start to the year, BMW common stock registered its initial high for the year of €73.95 in March. The price slid back to approximately €53 over the course of the year, only then to complete a catch-up race to the actual high for the year of €74.00 on 28 December 2012. The price of BMW common stock finished the stock exchange year at €72.93. BMW preferred stock finished on 31 December 2012 at €48.76, thus gaining more than one-third in value over the year as a whole (+33.4 %). Both categories of BMW stock therefore outperformed the DAX in 2012.

At the beginning of January 2013, the BMW Group was presented with the Global Shareholder Value Award for the best performance in the automobile manufacturer category over a three-year period. This accolade was awarded by PriceWaterhouseCoopers in conjunction with Automotive News. In June 2012, the BMW Group had already won the European Shareholder Value Award for the best performance in the automobile manufacturer category over one- and three-year periods.

Employee Share Scheme
BMW AG has enabled its employees to participate in its success for more than 30 years. Since 1989 this participation has taken the form of an Employee Share Scheme. In total, 422,905 shares of preferred stock were issued to employees in 2012 as part of this scheme.

In accordance with a resolution taken by the Board of Management on 20 November 2012 and with the approval of the Supervisory Board, the share capital was increased by €422,845 from €655,566,568 to

Development of BMW stock compared to stock exchange indices
(Index: 30 December 2002 = 100)



BMW stock

	2012	2011	2010	2009	2008
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	**72.93**	51.76	58.85	31.80	21.61

2012, the BMW Group received the SAM Group's Sustainability Award for its commitment to sustainability. The BMW Group was also included in the British FTSE4Good Index again in 2012.

In the Global 500 Ranking of the Carbon Disclosure Project (CDP) published in September, the BMW Group achieved its best performance to date. With a score of 99 out of a possible 100 points, we were crowned Sector Leader and were in the TOP 3 of all participating companies. As a result of this performance, the BMW Group is listed in the CDP's Carbon Disclosure Leadership Index (CDLI) and the Carbon Performance Leadership Index (CPLI).

Regular communication with capital markets

In addition to information provided in quarterly and year-end financial reports, interested parties such as analysts, institutional investors, and rating agencies are kept informed of developments in one-to-one discussions and in roadshows, sometimes attended by members of the Board of Management. A second Capital Markets Day was held in China and attracted a great deal of interest.

As in previous years, dialogue with capital markets was supplemented by SRI (Socially Responsible Investment) roadshows and participation in conferences held for investors with investment strategies based on sustainability criteria. These events were used to keep investors and analysts informed of our sustainability-oriented activities. Debt IR roadshows were also held to communicate specifically with credit analysts and debt capital investors.

The scope of information available to private investors in the "Investor Relations" section of the BMW Group website was also expanded and complemented by a dedicated app. The Investor Relations team again handled a great many inquiries from private investors regarding BMW stock and bonds.

The BMW Group's investor relations activities again received praise in the renowned Extel Survey conducted by Thomson Reuters (first place in the automobile sector) and in specialist publications such as Institutional Investor and IR Magazine.

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

Shares with special rights which confer control rights

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

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

The shares issued in conjunction with the Employee Share Scheme are shares of non-voting preferred stock which are transferred solely and directly to employees. Like all other shareholders, employees exercise their control rights over these shares on the basis of relevant legal provisions and the Company's Articles of Incorporation.

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

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

Amendments to the Articles of Incorporation must comply with § 179 et seq. AktG. All amendments must be decided upon by the shareholders at the Annual General Meeting (§ 119 (1) no. 5, § 179 (1) AktG). The Supervisory Board is authorised to approve amendments to the Articles of Incorporation which only affect its wording (Article 14 no.3 of the Articles of Incorporation); it is also authorised to change Article 4 of the Articles of Incorporation in line with the relevant utilisation of Authorised Capital 2009. Resolutions are passed at the Annual General Meeting by simple majority of shares unless otherwise explicitly required by binding provisions of law or, when a majority of share capital is required, by simple majority of shares represented in the vote (Article 20 of the Articles of Incorporation).

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

The Board of Management is authorised to buy back shares and sell repurchased shares in situations specified in § 71 AktG, e.g. to avert serious and imminent damage to the Company and/or to offer shares to persons employed or previously employed by BMW AG or one of its affiliated companies. In accordance with Article 4 no. 5 of the Articles of Incorporation, the Board of Management is authorised – with the approval of the Supervisory Board – to increase BMW AG's share capital during the period until 13 May 2014 by up to €3,201,945 for the purposes of an Employee Share Scheme by issuing new non-voting shares of preferred stock, which carry the same rights as existing non-voting preferred stock, in return for cash contributions (Authorised Capital 2009). Existing shareholders may not subscribe to the new shares. No conditional capital is in place at the reporting date.

Significant agreements entered into by the Company subject to control change clauses in the event of a takeover bid

The BMW AG is party to the following major agreements which contain provisions for 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, 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 members of the Supervisory Board.
- A cooperation agreement concluded with Peugeot SA relating to the joint development and production of a new family of small (1 to 1.6 litre) petrol-driven engines entitles each of the cooperation partners to give extraordinary notification of termination in the event of a competitor acquiring control over the other contractual party and if any concerns of the other contractual party concerning the impact of the change of control on the cooperation arrangements are not allayed during the subsequent discussion process.
- BMW AG acts as guarantor for all obligations arising from the joint venture agreement relating to BMW Brilliance Automotive Ltd. in China. 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 the other party is merged with another legal entity. The termi-

nation 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) with respect to trading activities with derivative financial instruments. Each of these agreements includes an extraordinary right of termination which triggers the immediate settlement of all current transactions in the event that the creditworthiness of the party involved is materially weaker following a direct or indirect acquisition of beneficially owned equity capital which confers the power to elect a majority of the Supervisory Board of a contractual party or any other ownership interest that enables the acquirer to exercise control over a contractual party or which constitutes a merger or a transfer of net assets.
- Financing agreements in place with the European Investment Bank (EIB) entitle the EIB to request early repayment of the loan in the event of an imminent or actual change in control at the level of BMW AG (partially in the capacity of guarantor and partially in the capacity of borrower), if the EIB has reason to assume – after the change of control has taken place or 30 days after it has requested to discuss the situation – that the change in control could have a material adverse effect, or, in all but two cases as an additional alternative, if the borrower refuses to hold such discussions. A change in control of BMW AG arises if one or more individuals take over or lose control of BMW AG, with control being defined in the above-mentioned financing agreements as (i) holding or having control over more than 50 % of the voting rights, (ii) the right to stipulate the majority of the members of the Board of Management or Supervisory Board, (iii) the right to receive more than 50 % of dividends payable, or, in all but two cases as an additional alternative (iv) other comparable controlling influence over BMW AG.
- BMW AG is party to an agreement with SGL Carbon SE, Wiesbaden, relating to the joint ventures SGL Automotive Carbon Fibers LLC, Delaware, USA and SGL Automotive Carbon Fibers GmbH & Co. KG, Munich. The agreement includes call and put rights in case – directly of indirectly – 50 % or more of the voting rights relating to the relevant other shareholder of the joint ventures are acquired by a third party, or if 25 % of such voting rights have been acquired by a third party if that third party is a competitor of the party that has not been affected by the acquisition of the voting rights. In the event of such acquisitions of voting rights by a third party, the non-affected shareholder has the right to purchase the shares of the joint ventures from the affected shareholder or to require the affected party to acquire the other shareholder's shares.
- An engine supply agreement between BMW AG and Toyota Motor Europe SA relating to the sale of diesel engines entitles each of the contractual parties to give extraordinary notification of termination in the event that one of the contractual parties merges with another company or is taken over by another company.

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

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

Group Internal Management System
Taking into account the interests and expectations of capital providers is an important aspect of value-based management within the BMW Group. Only companies generating profits on a sustainable basis that exceed the cost of equity and debt capital employed are capable of ensuring long-term growth, an increase in value for capital providers, jobs and, ultimately, corporate autonomy.

The BMW Group's internal management system is multi-layered. The principal key financial performance indicator at Group level is value added. Business is managed at segment level on the basis of segment-specific rates of return. The system is complemented by value-based and return-based performance indicators measured in conjunction with project decisions.

Value added as top-level key financial performance indicator
Value added reflects the amount of earnings over and above the cost of capital, and gives an indication of whether the Group is meeting the minimum requirements for the rate of return expected by capital providers. A positive value added means that a company is creating more additional value than the cost of capital and it is therefore an important measure of financial success.

Value added Group = earnings amount cost of capital
= earnings amount (cost of capital rate × capital employed)

in € million	Earnings amount		Cost of capital (EC + DC)		Value added Group	
	2012	2011	**2012**	2011	**2012**	2011
BMW Group	**8,128**	7,637	**4,221**	3,575	**3,907**	4,062

Capital employed comprises Group equity, the financial liabilities of the Automotive and Motorcycles segments and pension provisions. Value added is determined on the basis of the average level of capital employed for a particular year, measured as the average capital employed at the beginning of the year, at quarter-ends and at the end of the year.

In line with employed capital, earnings for RoCE purposes corresponds to Group earnings before tax and interest expense incurred in conjunction with the pension provision and on the financial liabilities of the Automotive and Motorcycles segments (earnings before interest and taxes).

The cost of capital rate is the minimum rate of return expected by capital providers in return for the capital employed by the Group. Since capital employed comprises an equity capital element (e.g. share capital) and a debt capital element (e.g. bonds), the overall cost of capital rate is determined on the basis of the weighted average rates for equity and debt capital.

The cost of equity capital corresponds to the minimum rate of return expected by an equity capital provider investing in BMW stock. This minimum rate of return is determined using the Capital Asset Pricing Model (CAPM) and corresponds to the interest rate on long-term, risk-free securities (e.g. German federal bonds) plus a risk premium for the specific risk involved in investing in BMW AG.

The cost of debt capital is calculated on the basis of the average interest rates relevant for long-term financial liabilities and pension obligations.

For the purposes of measuring the average cost of capital rate, equity and debt cost rates are weighted on the basis of a notional ratio derived from fixed, targeted market values for equity and debt capital. Stability in managing the business over time is ensured by keeping the cost of capital rate within a pre-defined range and by refraining from revising it unless there have been significant changes in circumstances.

Cost of capital rate (before tax)
in %

	2012	2011
BMW Group	**12**	12

The return on capital employed for the Group (RoCE Group) is also important, as – in addition to providing the basis for measuring value added – the RoCE also gives an indication of how efficiently the Group has employed funds made available by capital providers in a particular year.

$$\text{RoCE Group} = \frac{\text{Profit before interest expense and tax}}{\text{Capital employed}}$$

Segments managed based on capital rates of return
Complementing the value added approach taken to manage business at Group level, segments are managed on the basis of rates of return on capital. RoCE is used as a rate-of-return indicator for the Automotive and Motorcycles segments. As is common practice in the banking sector, the performance of the Financial Services segment is measured on the basis of the return on equity (RoE).

$$\text{RoCE Automotive and Motorcycles} = \frac{\text{Profit before financial result}}{\text{Capital employed}}$$

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

The RoCE measured for the Automotive and Motorcycles segments is an indicator of the profitability of operations. It is measured as the ratio of the segment profit before financial result and the average amount of capital employed in operations. 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). Based on the Group's cost of capital as a minimum rate of return and comparisons with competitive market values, the long-term target RoCE for the Automotive and Motorcycles segments has been set at a minimum of 26 %.

Capital employed by Automotive segment
in € million

RoE for the Financial Services segment is defined as segment profit before taxes divided by the average amount of equity capital allocated to the segment. The target is a sustainable return on equity of at least 18 %.

Value management used to control projects
Operations of the Automotive and Motorcycles segments are shaped to a large extent by project work, which have a substantial influence on future performance. Project decisions are therefore a crucial component of value-based management for the BMW Group.

Decisions are taken on the basis of project calculations measured in terms of the cash flows a project is expected to generate. Calculations are made for the full term of a project, i.e. for all years in which cash flows are expected to arise. Project decisions are taken on the basis of the capital value and internal rate of return calculated for the project. These two measures are consistent with the performance indicators employed in the Group's financial target system.

The capital 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 capital value enhances value added and therefore results in an increase in the value of the business. The internal rate of return corresponds to the average RoCE of a project over its entire term. It therefore provides a basis for assessing the extent to which a project will be able to help the segment achieve its targeted RoCE.

Project calculations are supplemented by a standardised assessment of opportunities and risks. The criteria used for taking decisions as well as the long-term impact of periodic earnings is documented for all project decisions and incorporated in the long-term Group forecast. This system enables an analysis of the periodic reporting impact of project decisions on earnings and rates of return over the term of each project. The overall result is a self-contained controlling model.

Earnings performance
The BMW Group continued on its successful course in 2012 and posted another record year. The number of BMW, MINI and Rolls-Royce brand cars sold rose by 10.6 % to 1,845,186 units, enabling the BMW Group to retain pole position at the head of the premium segment.

The BMW Group recorded a net profit of €5,122 million (2011: €4,907 million) for the financial year 2012. The post-tax return on sales was 6.7 % (2011: 7.1 %). Earnings per share of common and preferred stock were €7.77 and €7.79 respectively (2011: €7.45 and €7.47 respectively).

Group revenues rose by 11.7 % to €76,848 million (2011: €68,821 million), reflecting in particular the expan-

Group Income Statement
in € million

	2012	2011
Revenues	**76,848**	68,821
Cost of sales	**–61,354**	54,276
Gross profit	**15,494**	**14,545**
Selling and administrative expenses	**–7,007**	6,177
Other operating income	**829**	782
Other operating expenses	**–1,016**	1,132
Profit before financial result	**8,300**	**8,018**
Result from equity accounted investments	**271**	162
Interest and similar income	**753**	763
Interest and similar expenses	**–913**	943
Other financial result	**–592**	617
Financial result	**–481**	635
Profit before tax	**7,819**	**7,383**
Income taxes	**–2,697**	2,476
Net profit	**5,122**	**4,907**

sion and rejuvenation of the model portfolio, dynamic growth in Asia and the Americas and revenues of the ICL Group (2011: consolidated with effect from 30 September 2011). Adjusted for exchange rate factors, the increase was 7.1 %. Revenues from the sale of BMW, MINI and Rolls-Royce brand cars climbed by 11.3 % on the back of higher sales volumes. Motorcycles business revenues were 3.6 % up on the previous year. Revenues generated with Financial Services operations rose by 13.8 %. Revenues attributable to "Other Entities" amounted to €2 million (2011: €1 million).

Revenues generated by the BMW Group in the Africa, Asia and Oceania regions increased overall by 22.7 %. The figure includes China, where revenues jumped by 24.6 % thanks to the growth of business on this market. Revenues in Europe (excluding Germany) and the Americas region grew by 9.6 % and 13.9 % respectively. By contrast, revenues generated in Germany fell by 5.2 %.

Cost of sales went up by €7,078 million to €61,354 million, partly influenced by expenditure for future technologies. Gross profit improved by 6.5 % to €15,494 million, giving a gross profit margin of 20.2 % (2011: 21.1 %).

The gross profit margin recorded by the Automotive segment was 19.5 % (2011: 20.7 %) and that of the Motorcycles segment was 17.0 % (2011: 15.9 %). The gross profit margin of the Financial Services segment fell from 14.3 % to 13.1 %.

Research and development costs increased by 10.6 % to €3,993 million, mostly due to activities related to the electrification of the future product range. As a percentage of revenues, the research and development ratio remained stable at 5.2 %. Research and development expense includes amortisation of capitalised development costs amounting to €1,130 million (2011: €1,209 million). Total research and development expenditure amounted to €3,952 million (2011: €3,373 million). This figure comprises research costs, non-capitalised development costs, capitalised development costs and systematic amortisation of capitalised development costs. The research and development expenditure ratio for 2012 was therefore 5.1 % (2011: 4.9 %). The proportion of development costs recognised as assets in 2012 was 27.6 % (2011: 28.8 %).

Selling expenses went up as a result of volume rises and inclusion of the ICL Group for the full year. The increase in administrative expenses was attributable to the higher number of employees on the one hand and increased non-personnel costs on the other. Overall, selling and administrative expenses rose by 13.4 % compared to the previous year and represented 9.1 % (2011: 9.0 %) of revenues.

Depreciation and amortisation on property, plant and equipment and intangible assets recorded in cost of sales and in selling and administrative expenses amounted to €3,541 million (2011: €3,646 million).

The net expense reported for other operating income and other operating expenses amounted to €187 million, an improvement of €163 million compared to the previous year. The main reason for the change was the lower level of allocations to provisions.

As a result of the progress made, the profit before financial result amounted to €8,300 million (2011: €8,018 million).

The financial result was a net expense of €481 million, which represented an improvement of €154 million compared to the previous year (2011: net expense of €635 million). This includes the result from equity accounted investments totalling €271 million (2011: €162 million), comprising the Group's share of results from interests in the joint venture BMW Brilliance Automotive Ltd., Shenyang, the joint ventures with the SGL Carbon Group, the two new DriveNow entities as well as the joint venture BMW Peugeot Citroën Electrification B.V., the Hague, up to the date of the termination of joint venture arrangements.

Other financial result was positively impacted in 2012 by improved market values on commodity derivatives and negatively impacted by impairment losses on investments. Overall, other financial result improved from a net expense of €617 million in 2011 to a net expense of €592 million in 2012.

Taking all these factors into consideration, the profit before tax improved to €7,819 million (2011: €7,383 million). The figure for the previous year included an exceptional gain of €524 million arising on the reduction of allowances/provisions for residual value and bad debt risks. Business with end-of-contract leasing vehicles gave rise to an exceptional gain of €124 million in 2012. The pre-tax return on sales was 10.2 % (2011: 10.7 %).

Revenues by segment

in € million

	2012	2011
Automotive	**70,208**	63,229
Motorcycles	**1,490**	1,436
Financial Services	**19,550**	17,510
Other Entities	**5**	5
Eliminations	**–14,405**	13,359
Group	**76,848**	**68,821**

Profit / loss before tax by segment

in € million

	2012	2011
Automotive	**7,195**	6,823
Motorcycles	**6**	41
Financial Services	**1,561**	1,790
Other Entities	**–6**	168
Eliminations	**–937**	1,103
Group	**7,819**	**7,383**

Income tax expense for the year totalled €2,697 million (2011: €2,476 million), giving an effective tax rate of 34.5 % (2011: 33.5 %). Tax increases as a result of non-deductible expenses relate mainly to the impact of non-recoverable withholding taxes on intra-group dividends and transfer price issues.

Revenues of the Automotive segment grew by 11.0 % to €70,208 million (2011: €63,229 million) due to increased sales volumes. The strong sales volume performance is also reflected in the profit before tax figure, which despite higher personnel and non-personnel expenses, improved from €6,823 million in 2011 to €7,195 million in 2012.

In the Motorcycles segment, the number of BMW and Husqvarna brand motorcycles sold increased by 3.1 %, while segment revenues rose by 3.8 %. The pre-tax segment result fell by €35 million to €6 million. This deterioration includes the negative impact of the planned sale of the Husqvarna Group entities to Pierer Industrie AG. For further information see note 32 of the Group Financial Statements.

Financial Services segment revenues grew by 11.7 % to €19,550 million. The pre-tax segment result fell by €229 million to €1,561 million (2011: €1,790 million). The previous year's result included exceptional income of €439 million arising on the reduction of provisions for residual value and bad debt risks. Business with end-of-contract leasing vehicles gave rise to an exceptional gain of €124 million in 2012.

The Other Entities segment recorded a pre-tax loss of €6 million compared to one of €168 million in the previous year. The main reason for the improvement in earnings is the lower expense for allocations to provisions in 2012.

Inter-segment eliminations down to the level of profit before tax gave rise to a net expense of €937 million (2011: net expense of €1,103 million).

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 2011 and 2012, classified into cash flows from operating, investing and financing activities. Cash and cash equivalents in the cash flow statements correspond to the amount 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 financial activities are based on actual payments and receipts.

The BMW Group used various sources of funds for internal financing purposes. In addition to the issue of interest-bearing debt, cash funds are also allocated internally in line with business requirements, including the use of dividends and similar transactions. In this context, it is possible that cash funds may be transferred from one segment to another. Up to the first quarter 2012, these cash inflows and outflows were reported in the Cash Flow Statements of the Automotive and Financial Services segments as part of cash flows from operating activities. Due to the increasing importance of inter-segment transactions, the method of presentation was changed with effect from the second quarter 2012. Intragroup inter-segment dividends and similar transactions are now reported as part of cash flows from financing activities. The reclassification from operating activities to financing activities resulted in the previous year in an increase in the operating cash flow. The pre-

* Previous year's figures adjusted

vious year's figures were adjusted accordingly (impact in 2011 on the Automotive segment: increase in operating cash flow of €1,033 million/Financial Services segment: €411 million).

The Group's operating activities generated a positive cash flow of €5,076 million (2011: €5,713 million), which includes net profit for the year of €5,122 million (2011: €4,907 million). Changes in working capital resulted in a net cash inflow of €1,755 million (2011: net cash outflow of €1,615 million), reflecting stable inventory levels on the one hand and a reduction in trade receivables on the other. The increase in receivables from sales financing and leased products resulted in a cash outflow from operating activities of €5,409 million (2011: €3,216 million).

The cash outflow for investing activities amounted to €5,433 million, (2011: €5,499 million) and was thus 1.2 % lower than one year earlier. Investment in property, plant and equipment and intangible assets resulted in a cash outflow of €5,236 million (2011: €3,679 million), while disbursements for financial assets amounted to €171 million (2011: €543 million).

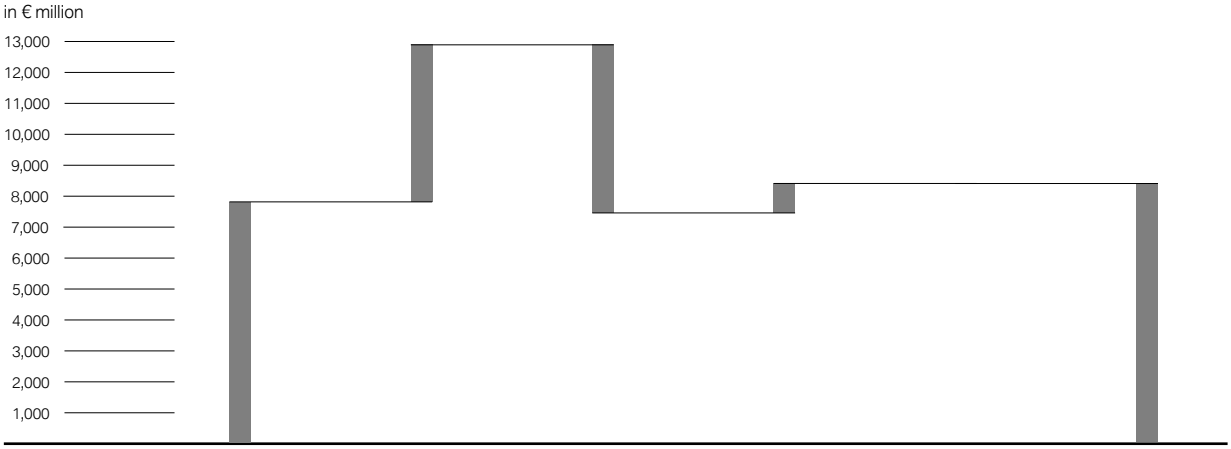
Cash inflow from financing activities totalled €952 million (2011: €87 million). Proceeds from the issue of bonds amounted to €7,977 million (2011: €5,899 million), compared with an outflow of €6,727 million (2011: €5,333 million) for the repayment of bonds. Dividend payments made in 2012 totalled €1,516 million, of which €1,508 million was disbursed by BMW AG and €8 million by a subsidiary to minority shareholders. The change in other financial liabilities and commercial paper gave rise to a cash inflow of €1,301 million (2011: €439 million).

The cash outflow for investing activities exceeded cash inflow from operating activities in 2012 by €357 million. In the previous year, there had been a surplus of €214 million.

After adjustment for the effects of exchange-rate fluctuations and changes in the composition of the BMW Group for a net negative amount of €1 million (2011: net positive amount of €43 million), the various cash flows resulted in an increase in cash and cash equivalents of €594 million (2011: €344 million).

The cash flow statement for the Automotive segment shows that the cash inflow from operating activities exceeded the cash outflow for investing activities by €3,637 million (2011: €2,385 million). Adjusted for net investments in marketable securities amounting to €172 million (2011: €781 million), mainly in conjunction with strategic liquidity planning, the surplus of the cash inflow from operating activities over the cash outflow for investing activities was €3,809 million (2011: €3,166 million).

Change in cash and cash equivalents



Cash and cash equivalents 31.12.2011	Cash inflow from operating activities	Cash outflow from investing activities	Cash inflow from financing activities	Currency translation, changes in Group composition	Cash and cash equivalents 31.12.2012
7,776	**+5,076**	**–5,433**	**+952**	**–1**	**8,370**

Free cash flow of the Automotive segment can be analysed as follows:

The cash outflow for operating activities of the Financial Services segment is influenced primarily by cash flows relating to leased products and receivables from sales financing and totalled €4,192 million in 2012 (2011: €1,897 million). Cash outflow for investing activities totalled €32 million (2011: cash inflow of €204 million).

Refinancing

Operating cash flow provides a solid financial basis for the BMW Group. We are also able to call on a broadly based range of instruments to refinance our worldwide operations via international money and capital markets. Almost all of the funds raised are used to finance the BMW Group's Financial Services business.

Apart from issuing commercial paper on the money market, the BMW Group's financing companies also issue bearer bonds. In addition, retail customer and dealer financing receivables on the one hand and leasing rights and obligations on the other are securitised in the form of asset-backed securities (ABS) financing arrangements. Financing instruments employed by our banks in Germany and the USA (e.g. customer deposits) are also used as a supplementary source of financing. Owing to the increased use of international money and capital markets to raise funds, the scale of funds raised in the form of loans from international banks is relatively small.

As in previous years, operations were refinanced in 2012 at an attractive level. Thanks to the best rating in the European automobile industry and the high level of acceptance it enjoys on capital markets, the BMW Group's refinancing activities were not affected by financial market volatility in 2012. In addition to the issue of bonds and loan notes on the one hand and private placements

European capital markets. Bonds were also issued in Canadian dollars, British pounds, Norwegian krone, Indian rupees, South Korean won and other currencies for a total amount of €5.1 billion.

A total of eight ABS transactions were executed in 2012, including two public transactions in the USA and one each in Germany and South Africa with a total volume equivalent to €2.3 billion. Further funds were also raised via new ABS conduit transactions in Japan, Australia and the UK totalling €1.7 billion.

The regular issue of commercial paper also strengthens our financial base. The following table provides an overview of existing money and capital market programmes of the BMW Group at 31 December 2012:

Programme	Amount utilised
Euro Medium Term Notes	€25.5 billion
Commercial paper	€4.7 billion

The BMW Group's liquidity position is extremely robust, with cash funds totalling €11.0 billion on hand at 31 December 2012. A syndicated credit line of €6 billion is also in place. The credit line, which is being made available at attractive conditions by a consortium of 39 international banks, has a term up to October 2017 and can be extended by one year.

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

Net assets position

The Group balance sheet total increased by €8,421 million to stand at €131,850 million at 31 December 2012. Adjusted for changes in exchange rates, the balance sheet total increased by 7.5 %.

The main factors behind the increase on the assets side of the balance sheet were receivables from sales financing (7.2 %), property, plant and equipment (14.2 %), leased products (5.9 %) and financial assets (24.0 %). By contrast, trade receivables went down by 22.6 % thanks to proactive receivables management. Inventories increased marginally (0.9 %) compared to the previous year.

On the equity and liabilities side of the balance sheet, the increase related to equity (12.2 %), pension provisions (81.6 %), trade payables (20.5 %), non-current financial liabilities (4.0 %) and other provisions (8.7 %). Deferred tax liabilities (7.1 %) and current other liabilities (3.3 %) decreased.

At €5,207 million, the carrying amount of intangible assets was €31 million lower than at the end of the previous year. Within intangible assets, capitalised development costs decreased by €41 million to €4,347 million. Development costs recognised as assets during the year under report totalled €1,089 million (+12.0 %) and were therefore higher than one year earlier. The proportion of research and development costs recognised as assets was 27.6 % (2011: 28.8 %). The corresponding amortisation expense was €1,130 million (2011: €1,209 million). Goodwill was unchanged from the previous year and stood at €369 million.

Property, plant and equipment rose sharply to €13,341 million. Capital expenditure of €4,028 million was 55.0 % higher than in the previous year (2011: €2,598 million). The main focus was on product investments for production start-ups and infrastructure improvements. Depreciation on property, plant and equipment totalled €2,298 million. Total capital expenditure on intangible assets and property, plant and equipment as a percentage of revenues increased to 6.8 % (2011: 5.4 %).

Leased products climbed by €1,356 million or 5.9 % as a result of increased business volumes. Adjusted for exchange rate factors, the increase was 6.1 %.

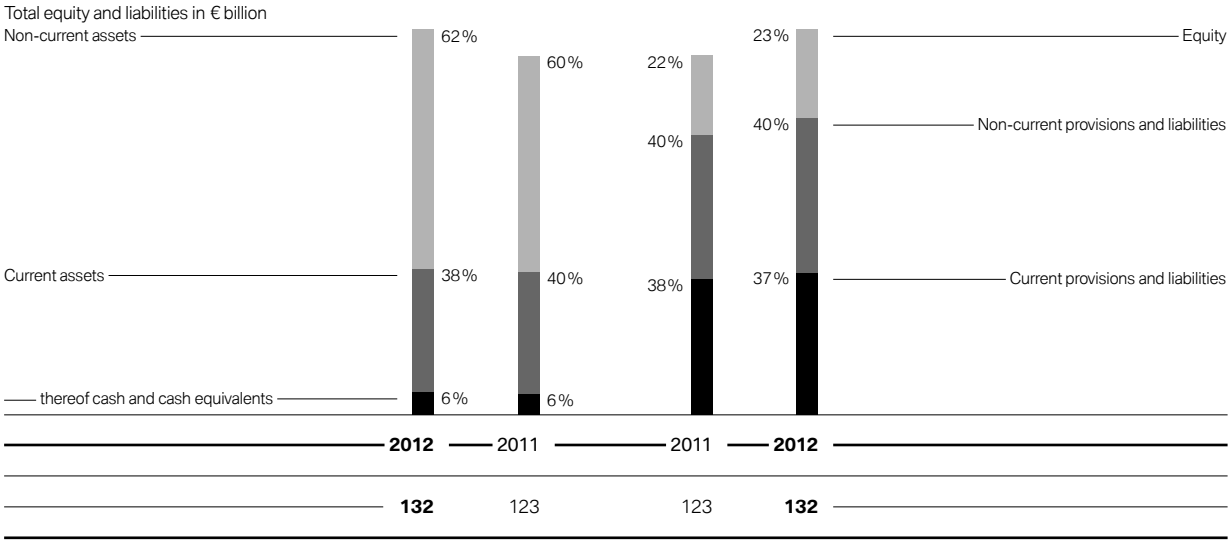
Receivables from sales financing increased by 7.2 % to €52,914 million due to higher business volumes. Of this amount, customer and dealer financing accounted for €40,650 million (6.1 %) and finance leases for €12,264 million (11.0 %).

Compared to the end of the previous financial year, inventories went up only marginally by €87 million (+0.9 %) to €9,725 million. Adjusted for exchange rate factors, the increase was 1.3 %.

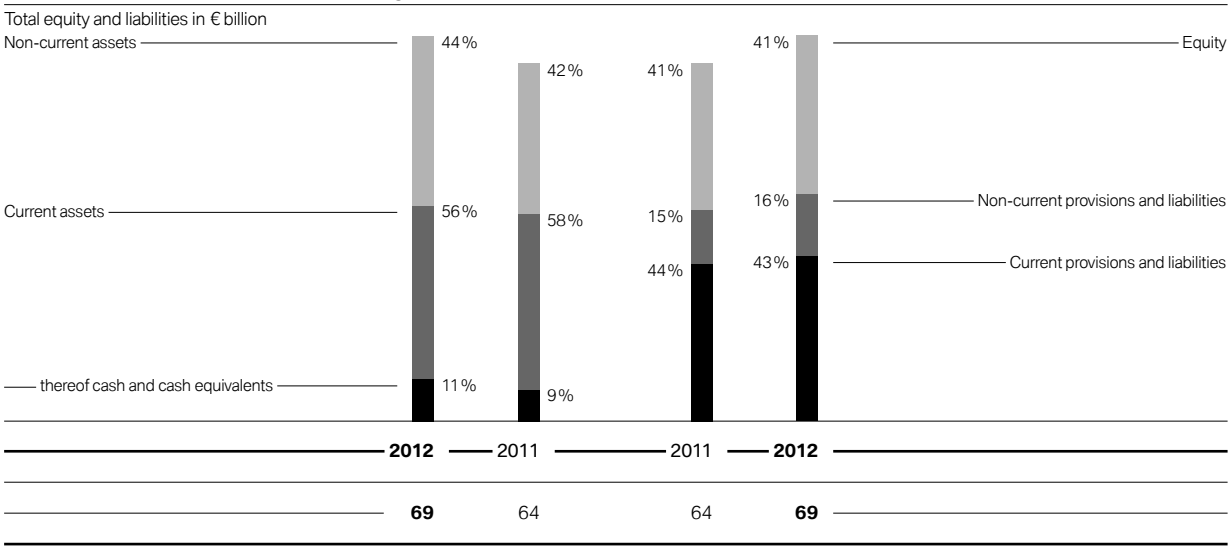
Financial assets went up by 24.0 % to €6,760 million, largely due to higher levels of marketable securities and investment fund shares as well as increases in fair values of currency derivatives.

Liquid funds went up by 9.1 % to €11,025 million and comprise cash and cash equivalents, marketable securities and investment fund shares (the last two items reported as financial assets).

Balance sheet structure – Group



Balance sheet structure – Automotive segment



Cash and cash equivalents went up by €594 million to €8,370 million.

On the equity and liabilities side of the balance sheet, equity rose overall by €3,299 million (+12.2 %) to €30,402 million. The main reason for the increase was the profit attributable to shareholders of BMW AG totalling €5,096 million. Translation differences arising on currency translation reduced equity by €123 million. Deferred taxes on items recognised directly in equity increased equity by €49 million. Actuarial losses on pension obligations mainly due to lower interest rates caused Group equity to reduce by €1,881 million. Changes in fair value gains and losses of derivative financial instruments (€1,302 million) and marketable securities (€214 million) had a positive impact on equity. Income

and expenses relating to equity accounted investments and recognised directly in equity, net of deferred tax, increased equity by €82 million. The dividend payment decreased equity by €1,508 million. Minority interests went up by €42 million. Other changes amounted to €7 million.

A portion of the Authorised Capital created at the Annual General Meeting held on 14 May 2009 in conjunction with the Employee Share Scheme was used during the financial year under report to issue shares of preferred stock to employees, thereby increasing subscribed capital to €656 million. An amount of €18 million was transferred to capital reserves in conjunction with this share capital increase. The equity ratio of the BMW Group improved overall by 1.1 percentage points to 23.1 %. The equity ratio of the Automotive segment was 40.9 % (2011: 41.1 %) and that of the Financial Services segment was 8.6 % (2011: 8.7 %).

Pension provisions increased by 81.6 % to €3,965 million mainly as a result of lower discount factors used in Germany, the UK and the USA. In the case of pension plans with fund assets, the fair value of fund assets is offset against the defined benefit obligation.

Current and non-current other provisions increased by €542 million to €6,795 million.

Current and non-current financial liabilities went up by €1,530 million to €69,507 million. Within financial liabilities, there were increases in bonds (+4.5 %), customer deposits (banking) (+8.1 %) and liabilities to banks (+12.9 %). By contrast, liabilities for commercial paper decreased by €901 million.

Trade payables amounted to €6,433 million and were thus 20.5 % higher than one year earlier, mainly attributable to the expansion of business operations.

Other liabilities increased by 2.6 % to €10,196 million.

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

Compensation report

The compensation of the Board of Management comprises both a fixed and a variable component. Benefits are also payable – primarily in the form of pension benefits – at the end of members' mandates. Further details, including an analysis of remuneration by each individual, are disclosed in the Compensation Report, which can be found in the section "Statement on Corporate Governance". The Compensation Report is a sub-section of the Combined Group and Company Management Report.

Events after the end of the reporting period

No events have occurred after the balance sheet date which could have a major impact on the earnings performance, financial position and net assets of the BMW Group.

Value added statement

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

Net valued added by the BMW Group in 2012 rose by 6.8 % to €18,975 million. The increase over the previous year was attributable to the higher level of revenues.

The bulk of the net value added (45.0 %) is applied to employees. The proportion applied to providers of finance fell to 10.7 %, mainly due to the lower refinancing costs on international capital markets for the financial services side of the business. The government/public sector (including deferred tax expense) accounted for 17.3 %. The proportion of net value added applied to shareholders, at 8.7 %, was higher than in the previous year. Minority interests take a 0.1 % share of net value added. The remaining proportion of net value added (18.2 %) will be retained in the Group to finance future operations.

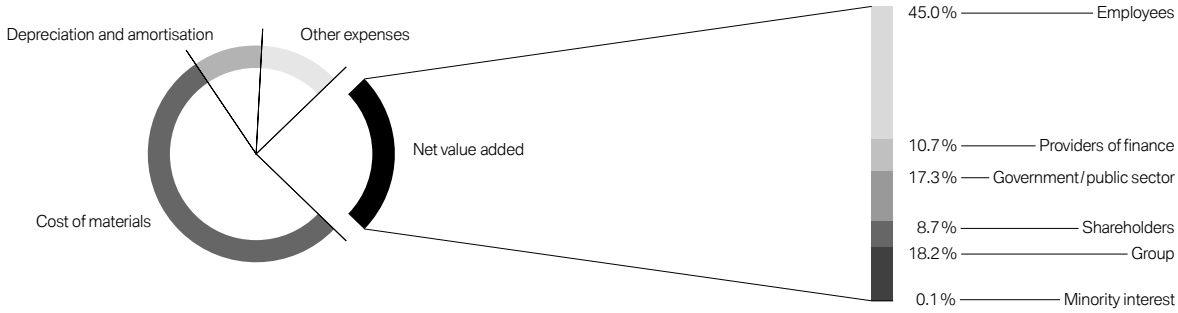
BMW Group value added statement

	2012 in € million	2012 in %	2011 in € million	2011 in %	Change in %
Work performed					
Revenues	**76,848**	**99.3**	68,821	99.5	
Financial income	**–270**	**–0.4**	490	0.6	
Other income	**829**	**1.1**	782	1.1	
Total output	**77,407**	**100.0**	**69,203**	**100.0**	**11.9**
Cost of materials*	**41,304**	**53.4**	36,753	53.1	
Other expenses	**9,173**	**11.8**	7,261	10.5	
Bought-in costs	**50,477**	**65.2**	**44,014**	**63.6**	**14.7**
Gross value added	**26,930**	**34.8**	**25,189**	**36.4**	**6.9**
Depreciation and amortisation	**7,955**	**10.3**	7,424	10.7	
Net value added	**18,975**	**24.5**	**17,765**	**25.7**	**6.8**
Applied to					
Employees	**8,535**	**45.0**	7,739	43.6	10.3
Providers of finance	**2,030**	**10.7**	2,149	12.1	5.5
Government/public sector	**3,288**	**17.3**	2,970	16.7	10.7
Shareholders	**1,640**	**8.7**	1,508	8.5	8.8
Group	**3,456**	**18.2**	3,373	19.0	2.5
Minority interest	**26**	**0.1**	26	0.1	
Net value added	**18,975**	**100.0**	**17,765**	**100.0**	**6.8**

* 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 2012

in %



Net value added	24.5	Depreciation and amortisation	10.3
Cost of materials	53.4	Other expenses	11.8

Key performance figures

		2012	2011
Gross margin	%	**20.2**	21.1
EBITDA margin	%	**15.4**	16.9
EBIT margin	%	**10.8**	11.7
Pre-tax return on sales	%	**10.2**	10.7
Post-tax return on sales	%	**6.7**	7.1
Pre-tax return on equity	%	**28.8**	30.9
Post-tax return on equity	%	**18.9**	20.5
Equity ratio Group	%	**23.1**	22.0
Automotive	%	**40.9**	41.1
Financial Services	%	**8.6**	8.7
Coverage of intangible assets, property, plant and equipment by equity	%	**163.9**	160.2
Return on capital employed			
Group	%	**23.1**	25.6
Automotive	%	**75.0**	77.3
Motorcycles	%	**1.8**	10.2
Return on equity			
Financial Services	%	**21.2**	29.4
Cash inflow from operating activities	€ million	**5,076**	5,713
Cash outflow from investing activities	€ million	**–5,433**	5,499
Coverage of cash outflow from investing activities by cash inflow from operating activities	%	**93.4**	103.9
Free cash flow of Automotive segment	€ million	**3,809**	3,166*
Net financial assets Automotive segment	€ million	**13,327**	12,287

* Previous year's figure adjusted

Comments on Financial Statements of BMW AG

The financial statements of BMW AG are drawn up in accordance with the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

BMW AG develops, manufactures and sells cars and motorcycles manufactured by itself, foreign subsidiaries and Magna Steyr. Sales activities are carried out through the Company's own branches, independent dealers, subsidiaries and importers. The number of cars manufactured at German and foreign plants in 2012 rose by 7.1 % to 1,861,826 units. At 31 December 2012, BMW AG had 74,571 employees, 2,941 more than one year earlier.

Sales volume went up again in 2012, as a result of which revenues grew by 6.9 % compared to the previous year. The most significant increase was recorded in Asia. Sales to Group sales companies accounted for €43.9 billion or approximately 74.7 % of total revenues of €58.8 billion. The increase in cost of sales was slightly less pronounced than the increase in revenues. As a consequence, gross profit increased by €866 million to €12.6 billion.

Research and development expenses were 17.3 % higher than in the previous year, driven primarily by activities related to the electrification of the future product range.

The increase in net other operating income and expenses in 2012 was attributable mainly to exceptional factors in 2011 (income from retrospective changes to transfer prices and from the reversal of warranty provisions) and lower expenses for allocations to onerous commodity and currency hedging contracts in 2012.

The financial result improved by €566 million, mainly as a result of the positive impact of fair value changes in designated plan assets for pension and other long-term personnel-related provisions and the offsetting negative effect of impairment losses recognised on financial assets.

The profit from ordinary activities increased from €4,037 million to €4,797 million.

The expense for income taxes relates primarily to current tax for the financial year 2012, and is lower than in the previous year mainly as a result of a reduced amount of expense recorded in conjunction with provisions for tax field audit risks.

After deducting the expense for taxes, the Company reports a net profit of €3,131 million (2011: €1,970 million).

Capital expenditure on intangible assets and property, plant and equipment amounted to €2,776 million (2011: €2,032 million), an increase of 36.6 % over the previous year. The main focus was on product investments for production start-ups and infrastructure improvements. Depreciation and amortisation amounted to €1,613 million (2011: €1,578 million).

Investments went up from €2,823 million to €3,094 million, mainly as a result of transfers to capital reserves at the level of BMW Bank GmbH, Munich, and the acquisition of shares in BMW Finance S.N.C., Guyancourt, which were subsequently contributed to BMW Bank. An impairment loss of €143 million was recognised in 2012 on the investment in SGL Carbon SE, Wiesbaden.

At €3,749 million, inventories remained at a similar level to the previous year despite the expansion of business operations during the year.

Cash and cash equivalents rose by €1,754 million to €4,618 million, reflecting good earnings, the concentration of liquidity at the level of BMW AG and a reduction in investments in marketable securities in favour of liquid funds. Financial receivables from subsidiaries decreased.

Equity rose by €1,642 million to €9,864 million and the equity ratio improved from 29.9 % to 30.9 %.

In order to secure obligations resulting from pre-retirement part-time work arrangements and a part of the Company's pension obligations, assets have been transferred to BMW Trust e.V., Munich, in conjunction with Contractual Trust Arrangements (CTA), on a trustee basis. The assets concerned comprise mainly holdings in investment fund assets and a receivable resulting from a so-called "Capitalisation Transaction" (Kapitalisierungsgeschäft). Fund assets are offset against the related guaranteed obligations. The resulting surplus of assets over liabilities is reported in the BMW AG balance sheet on the line "Surplus of pension and similar plan assets over liabilities".

Pension provisions, net of designated plan assets, decreased from €84 million to €56 million.

External liabilities to banks and financing via subsidiaries increased in 2012.

BMW AG Balance Sheet at 31 December

in € million

	2012	2011
Assets		
Intangible assets	**178**	161
Property, plant and equipment	**7,806**	6,679
Investments	**3,094**	2,823
Tangible, intangible and investment assets	**11,078**	**9,663**
Inventories	**3,749**	3,755
Trade receivables	**858**	729
Receivables from subsidiaries	**6,297**	5,827
Other receivables and other assets	**2,061**	1,479
Marketable securities	**2,514**	3,028
Cash and cash equivalents	**4,618**	2,864
Current assets	**20,097**	**17,682**
Prepayments	**118**	120
Surplus of pension and similar plan assets over liabilities	**672**	43
Total assets	**31,965**	**27,508**
Equity and liabilities		
Subscribed capital	**656**	655
Capital reserves	**2,053**	2,035
Revenue reserves	**5,515**	4,024
Unappropriated profit available for distribution	**1,640**	1,508
Equity	**9,864**	**8,222**
Registered profit-sharing certificates	**32**	32
Pension provisions	**56**	84
Other provisions	**7,406**	7,651
Provisions	**7,462**	**7,735**
Liabilities to banks	**1,408**	911
Trade payables	**3,900**	2,940
Liabilities to subsidiaries	**8,451**	6,923
Other liabilities	**800**	741
Liabilities	**14,559**	**11,515**
Deferred income	**48**	4
Total equity and liabilities	**31,965**	**27,508**

BMW AG Income Statement

in € million

	2012	2011
Revenues	**58,805**	55,007
Cost of sales	**–46,252**	43,320
Gross profit	**12,553**	**11,687**
Selling expenses	**–3,684**	3,381
Administrative expenses	**–1,701**	1,410
Research and development expenses	**–3,573**	3,045
Other operating income and expenses	**703**	670
Result on investments	**598**	181
Financial result	**–99**	665
Profit from ordinary activities	**4,797**	**4,037**
Extraordinary income	**–**	29
Income taxes	**–1,635**	2,073
Other taxes	**–31**	23
Net profit	**3,131**	**1,970**
Transfer to revenue reserves	**–1,491**	462
Unappropriated profit available for distribution	**1,640**	**1,508**

KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, 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 2012 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.

Internal Control System* and explanatory comments

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

Information and communication

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

Organisational measures

All financial reporting processes (including Group financial reporting processes) are structured in organisational terms in accordance with the principle of segregation of duties. These structures allow errors to be identified at an early stage and prevent potential wrongdoing. Regular comparison of internal forecasts and external financial reports improves the quality of financial reporting. The internal audit department serves as a process-independent function, testing and assessing the effectiveness of the internal control system and proposing improvements when appropriate.

Controls

Extensive controls are carried out by management in all financial reporting processes at an individual entity and Group level, thus ensuring that legal requirements and internal guidelines are complied with and that all business transactions are properly executed. Controls are also carried out with the aid of IT applications, thus reducing the incidence of process risks.

IT authorisations

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

Internal control training for employees

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

Evaluating the effectiveness of the internal control system

Responsibilities for ensuring the effectiveness of the internal control system in relation to individual entity and Group financial reporting processes are clearly defined and allocated to the relevant managers and process owners. The BMW Group assesses the design and effectiveness of the internal control system on the basis of internal review procedures (e.g. management self-audits, internal audit findings). Audits performed at regular intervals show that the internal control system in place throughout the BMW Group is both appropriate and effective. Continuous revision and further development of the internal control system ensures its continued effectiveness. Group entities are required to confirm regularly as part of their reporting duties that the internal control system is functioning properly. Effective measures are implemented whenever weaknesses are identified and reported.

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

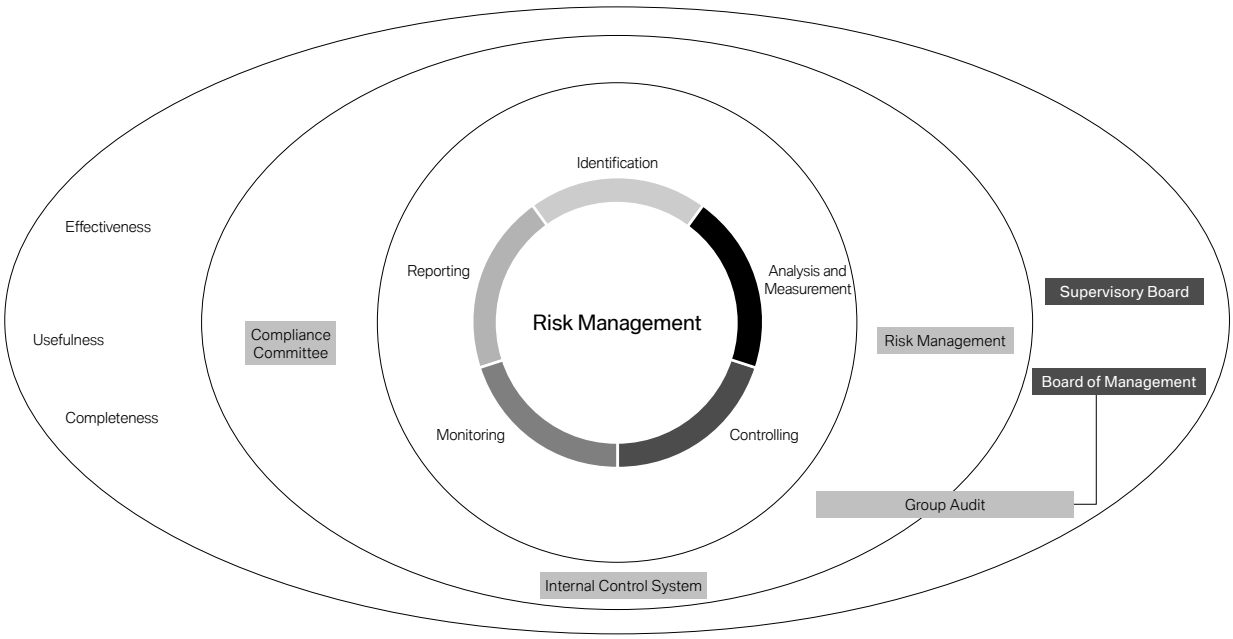
Risk management within the BMW Group
The growing internationalisation of business activities, the increasing pressure of competition and the rapid pace of technological change entail opportunities and risks for the BMW Group. Making full use of the opportunities that present themselves is the basis for our corporate success and reflected in our Strategy Number ONE (see section "Outlook for the BMW Group in 2013"). In order to achieve growth, profitability, efficiency and sustainable levels of business in the future, the BMW Group consciously exposes itself to a wide variety of risks. Managing risks is a fundamental prerequisite for being able to deal successfully with the constant flow of changes in the relevant political, legal, technical and economic landscapes.

Risk management is a permanent process for the BMW Group, covering all aspects of the Group's business worldwide. Its key elements are the early identification, analysis and measurement of opportunities and risks, the coordinated use of suitable management tools and monitoring. Although managed from the centre, the risk management system is based on a decentralised structure, supported by a network of risk managers. This approach raises awareness and encourages a balanced approach to risks at all levels throughout the organisation. The risk management network is formally embedded in the organisational structure of the BMW Group. Duties, responsibilities and tasks are assigned to the network. The integration of risk management functions in the overall management of the enterprise serves to improve transparency and underlines the importance of risk management within the BMW Group. The risk management process is geared towards meeting the criteria effectiveness, usefulness and completeness. Seamless coordination with the Compliance Committee, the Internal Control System and the Group Internal Audit is also ensured.

Risks identified at a decentralised level are initially reported to a steering committee. Risks deemed by that committee to be significant or potentially capable of jeopardising the entity's going-concern status are reported to the Board of Management and the Supervisory Board, classified on the basis of the potential scale of impact on earnings and cash flows on the one hand and qualitative criteria on the other. The risk is quantified, taking account of the probability of occurrence and risk mitigation measures.

Decisions are reached after consideration of detailed project analyses that show both potential risks and potential opportunities. In conjunction with the Group's monthly and long-term forecasting systems, opportunities and risks attached to specific business activities are evaluated and used as the basis for implementing measures to mitigate risks and achieve targets. Important success factors – such as financial market developments or the competitive situation – are monitored continuously to ensure that unfavourable developments are identified at an early stage and appropriate countermeasures implemented.

Risk Management within the BMW Group



The risk management system is tested regularly by the Internal Audit. By regularly sharing experiences with other companies, the BMW Group ensures that new insights flow into the risk management system, thus contributing to continual improvement. Regular basic and further training as well as information events are invaluable ways of preparing people for new or additional requirements with regard to the processes in which they are involved.

Managing the business on a sustainable basis is a core corporate strategy (see "Sustainability" section in the Combined Group and Company Management Report). Opportunities and risks related to sustainability issues are discussed in a sustainability committee. Strategic options and measures open to the BMW Group are put forward to the Sustainability Board, to which all members of the Board of Management belong. The emergence of new risks is also monitored closely throughout the group-wide risk network. The close ties between steering and sustainability committees ensure that risk and sustainability management are closely coordinated.

The principal risk factors facing the BMW Group are described below. Additional disclosures on risks relating to financial instruments are provided in note 41 of the Group Financial Statements.

Political and global economic risks

The ever-growing complexity and intensity of worldwide competition is constantly increasing the danger of incalculable chain reactions and their consequences. General anxiety regarding the stability of the finance system and further developments in the sovereign debt crisis currently constitute risk factors for business performance. The slow-down of economic momentum in China, political instability in the Middle East and parts of Asia as well as market regulations in various countries pose further risks.

The escalation of political tension, terrorist activities, natural disasters or possible pandemics could all have a negative impact on the world economy and international capital markets that can lead to a scarcity of raw materials and the possible breakdown of material or parts deliveries. The BMW Group counters these risks primarily by internationalising its purchasing, sales and production structures in order to reduce the potential impact of risk exposures in individual countries.

Strategic and sector-specific risks

The car manufacturing industry worldwide is faced with the constant challenge of having to reduce fuel consumption and emissions and raise safety standards at the same time. These requirements are increasingly accompanied by rules governing individual mobility in metropolitan areas. Changing regulations and rising fuel and energy prices also influence customer behaviour. One of the main risks the industry faces is the possible threat of short-term tightening of laws and regulations that can trigger the requirement for significantly higher levels of investment. In some cases, changes in customer behaviour are not only brought on by new regulations, but also through changes of opinion, values and environmental issues. Among other factors, global climate change is having an effect on legislation, regulations and consumer behaviour. In order to meet structural changes in the demand for individual mobility that no longer necessarily means actually owning a vehicle, we are offering corresponding mobility services, such as the DriveNow car-sharing model.

With its Efficient Dynamics concept, the BMW Group has a pioneering role in reducing both fuel consumption and emissions and fulfilling legal rules and requirements at the same time. In addition, the BMW Group is investing in the development of sustainable drive technologies and materials, with the aim of providing highly efficient vehicles for individual mobility in the premium segment well into the future.

Risks emanating from statutory requirements to take back and recycle end-of-life vehicles are minimised by ensuring that "designing for recycling" is fully considered during the product development stage. All efforts are taken to ensure that the raw materials gained from recycling end-of-life vehicles can be reused in the production process. Statutory risks stemming from vehicle recycling in various markets are minimised by means of a specialised in-house team working in conjunction with regional managers.

Medium- and long-term targets have already been put in place in Europe, North America, Japan, China and other countries to reduce fuel consumption and CO_2 emissions. Europe has set a target of achieving an average of 130 g CO_2/km for all new vehicles by 2015. The EU Regulation defines rules for CO_2 emissions based on the weight of each particular vehicle. For the BMW Group this means a target of under 140 g CO_2/km per vehicle. In the USA fuel economy targets have now been defined up to the year 2025. Beginning with a gradual reduction for 2012 models, the new car fleets of all manufacturers are to achieve an average emission value of 250 g CO_2/mile (155 g CO_2/km) by model year 2016 and an average value of 163 g CO_2/mile (101 g CO_2/km) by

model year 2025. Japan has also set ambitious targets for reducing fuel consumption. Authorities in China are currently discussing new, stricter regulations to tighten up the existing individual vehicle fuel consumption rules for the years 2013 to 2015.

The broader market introduction of alternative drive systems means new challenges and additional investment for the automotive industry. At the same time we also see this as an opportunity to put our technological expertise and innovative strengths to use. Greater fuel economy and the reduction of emissions are fundamental parameters that we automatically include when designing new products.

In the short and medium term we will achieve greater fuel economy by electrifying the drivetrain and developing comprehensive hybrid systems. We are also working on solutions for sustainable mobility in densely populated areas. Large-scale field trials with the MINI E have been carried out in the UK, Germany, France, the USA, China and Japan. A test fleet of BMW ActiveE electric cars based on the BMW 1 Series Coupé has been on the road since 2011. The extensive knowledge gained from the trials will be used in the series development of the BMW Group's electric cars. The BMW i3 will come onto the market at the end of 2013 as the first series-produced electric car made by the BMW Group for the metropolitan regions of the world.

Not only the safety of our customers, but that of all other road users is an essential component of our product responsibility. The BMW Group analyses the entire process chain from accident prevention to post-crash applications, such as the extended emergency call integrated in Connected Drive, which is a unique innovation. In order to minimise injury and damage caused by accidents we are employing both active and passive safety technologies. Active safety measures such as suspension regulation and driver assistance systems make an essential contribution to the prevention of accidents.

Our enhanced technology in passive vehicle safety has also led to the latest BMW 3 Series and 5 Series sedans achieving top marks in consumer tests worldwide, thereby setting new standards in their classes.

Moreover, the BMW Group is already researching topics for which we are only likely to receive answers in the longer term. These include, for instance, safety questions that may only present themselves when a far greater number of hybrid and electric cars are on the road.

Operational risks

Production

Production interruptions represent a major risk for the BMW Group, due to the potential scale of their impact. Apart from hazards posed by the elements (such as fire or flooding), power supply and IT breakdowns, production interruptions can also be caused by logistical problems (such as the failure of a supplier to deliver). Precautionary measures are therefore incorporated in production and logistics structures to make provision for such eventualities, both in terms of likelihood of occurrence and loss impact. These measures include the use of firewalls, sprinkler systems and auxiliary power supplies.

The flexible nature of our production network and working time models also generally help to reduce operational risks. The assessment of both environmental and social risks when selecting new production sites is also an important factor in minimising risk. Risks arising from business interruption and loss of production due to acts of God are insured up to economically

supplier risk evaluation questionnaires and external sustainability audits. In addition to managing risk, we are also constantly on the alert to identify opportunities, including options for using resources more efficiently.

The risk of certain suppliers suffering capacity bottlenecks rose during the period under report, mainly reflecting the growth in volumes that needed to be handled in 2012. Material supplies were nevertheless fully assured at all times by means of appropriate early-intervention measures.

Sales and marketing

The regional spread of sales, the composition of the model mix, and hence the volume of related services, is constantly changing. Sales and production processes within the BMW Group are flexible enough to allow new opportunities to be exploited at short notice. We also offer new and attractive services whenever changes in demand patterns warrant it.

Personnel

As an attractive employer, for many years we have enjoyed a favourable position in the intense competition for qualified technical and management staff. Having a satisfied and motivated workforce is a key factor for success. Training programmes for new employees recruited from specific target groups and attractive personnel development programmes make it easier to recruit and further the careers of highly qualified staff and protect the Group from the risk of know-how drift.

Demographic change will have a lasting impact on conditions prevailing on employment markets, giving rise to risks and opportunities that are likely to affect businesses to an increasing degree in the coming years. We see demographic change as one of our main challenges and we are taking a proactive approach to softening the impact it is likely to have on operational processes. Our key focus is on creating an optimal working environment for the future, promoting and maintaining the workforce's ability to perform with the appropriate set of skills, increasing employees' awareness of health issues and the development of individual employee working life-time models aimed at retaining a motivated workforce in the long term.

We encourage diversity within the BMW Group's workforce. Heterogeneous teams comprising men and women from a variety of cultural backgrounds and differing age groups are often more productive and show greater innovative skill.

Risks relating to pension obligations

Risks arise for the BMW Group in conjunction with obligations relating to defined-benefit pension plans. Pension obligations to employees under such plans are measured on the basis of actuarial reports. Future pension payments are discounted by reference to market yields on high-quality corporate bonds. These yields are subject to market fluctuation and influence the level of pension obligations. Furthermore, changes in other parameters, such as rising inflation, also have an impact on pension obligations.

Most of the BMW Group's pension obligations are administered in external pension funds and the assets of those funds kept separate from Company assets. As a consequence, the level of funds required to finance pension payments out of operations will be substantially reduced in the future, since most of the Group's pension obligations are settled out of pension fund assets. In the case of the UK pension fund, the risk of the rising life expectancy of pensioners has also been hedged. The pension assets of the BMW Group comprise interest-bearing securities with a high level of creditworthiness, equities, property and other investment classes. Pension fund assets are monitored continuously and managed from a risk-and-yield perspective. Risk is reduced by ensuring a broad spread of investments which are structured to coincide with the timing of pension payments and the expected pattern of pension obligations. In their own way, each of these measures helps to reduce fluctuations in pension funding shortfalls.

Information, data protection and IT risks

We attach great importance to protecting individual rights, business secrets, innovation and process information from unauthorised access, damage and/or misuse. The protection of information and data is an integral component of our business processes and based on International Security Standard ISO/IEC 27001. Staff, process design and information technology each play a role in our comprehensive risk and security concept.

The requirement to apply uniform standards across the Group is embedded in the BMW Group's core principles and documented in detailed working instructions. These instructions require employees to handle all information (such as customer and employee data) appropriately, ensure that information systems are properly

used and that risks pertaining to information technology (IT risks) are dealt with transparently. Regular communication, awareness-raising activities and training measures (e.g. online training on information and data protection issues) create a high degree of security and risk awareness among the employees involved. Employees also receive training from the Group's Compliance Organisation to ensure compliance with legal and regulatory requirements.

Potential IT and data protection risks resulting from the use of information technology and the processing of information are monitored on a regular basis and managed by the departments responsible.

The technical data protection procedures used primarily involve process-specific security measures. Standard activities such as virus scanners, firewall systems, access controls at both operating system and application level, internal testing procedures and the regular backing up of data are also employed. A security network is in place group-wide to ensure that stipulated requirements are complied with. A high level of protection is afforded by regular analyses, detailed up-front controls (such as compliance with mandatory data protection requirements) and rigorous security management (for instance in the form of our centralised Security Operation Centre, which is responsible for monitoring internal network traffic). The IT data protection and security strategy adopted in 2011 has not only tightened security within the BMW Group, it also helps to identify IT risks and enables appropriate action to be taken. At the same time, the Group's data protection strategy was adopted and a set of data protection rules published, which apply for all of the Group's employees.

In the case of cooperation arrangements and business partner relationships we protect our intellectual property as well as customer and employee data by stipulating clear instructions with regard to data protection and the use of information technology. Information underlying key areas of expertise is subject to particularly stringent security measures.

Financial risks and those relating to the provision of financial services

Currency risks

The sale of vehicles outside the eurozone gives rise to exchange risks. The BMW Group's currency risk in 2012 was dominated by the US dollar, the Chinese renminbi, the British pound, the Russian rouble and the Japanese yen. Foreign currency risks are determined for forecast exposures measured using cash flow-at-risk models and scenario analyses. Operational currency management is based on the results provided by these tools.

The BMW Group manages currency risks both at a strategic (medium and long term) and at an operating level (short and medium term). In the medium and long term, foreign exchange risks are managed by "natural hedging", in other words by increasing the volume of purchases denominated in foreign currency or increasing the volume of local production. In this context, the expansion of the plant in Spartanburg, USA, and the opening of the BMW Brilliance joint venture's new plant in Tiexi in 2012 at the Shenyang site, China, are helping to reduce foreign exchange risks in two major sales markets.

For operating purposes (short and medium term), currency risks are hedged on the financial markets. Hedging transactions are entered into only with financial partners of good credit standing. A description of the methods applied for risk measurement and hedging is provided in the notes to the Group Financial Statements. Counterparty risk management procedures are carried out continuously to monitor the creditworthiness of business partners.

Raw material risks

The availability of specific groups of raw materials and changes in raw materials prices both represent significant risks for the BMW Group. In order to safeguard the supply of production materials and reduce cost risks, commodities markets are closely monitored and analysed.

Financial derivatives are employed to hedge against price risks arising for precious metals (i.e. platinum, palladium and rhodium) and non-ferrous metals (i.e. aluminium, copper and lead) and, to some extent, steel and steel ingredients such as iron ore. Medium and long-term purchase contracts with fixed pricing arrangements for raw materials such as steel and plastics are also in place. A description of the methods applied for risk measurement and hedging is provided in the notes to the Group Financial Statements.

Changes in the price of crude oil (as a basic ingredient in many of our components) have an indirect impact on our production costs. Crude oil prices (and exchange

rates) also influence fuel prices, which, in turn, directly influence the purchasing behaviour of our customers. The BMW Group counters this by developing and selling efficient and economical engines and by developing alternative drive technologies.

Liquidity risks

Good liquidity management ensures the BMW Group's solvency at all times. Were strategic and sector-specific risks, operational risks and financial risks to occur, this could have an adverse impact on the Group's liquidity.

A target liquidity concept was put in place several years ago, drawing on the experience gained during the financial crisis, and is adhered to rigorously. As well as maintaining a liquidity reserve, access to liquid funds by Group entities is ensured by a broad diversification of refinancing sources. The liquidity position is monitored continuously at a separate entity level and managed by means of a cash flow requirements and sourcing forecast system in place throughout the Group. Liquidity risks can arise in the form of rising refinancing costs on the one hand and restricted access to funds on the other. Most of the Financial Services segment's credit financing and lease business is refinanced on capital markets. The BMW Group has good access to financial markets thanks to its excellent creditworthiness and, as in previous years, was able to raise funds at good conditions in 2012, reflecting a diversified refinancing strategy and the solid liquidity base of the BMW Group. Internationally recognised rating agencies have confirmed the BMW Group's strong creditworthiness. There is a general risk that ratings could be downgraded, in which case the cost of refinancing conditions would increase; at present this risk is deemed to be low.

Risks relating to Financial Services

The main categories of risk relating to the provision of financial services are credit and counterparty risk, residual value risk, interest rate risk, liquidity risk and operational risk. In order to evaluate and manage these risks, a variety of internal methods has been developed based on regulatory environment requirements (such as Basel II) and which comply with national and international standards.

A set of strategic principles and rules derived from regulatory requirements serves as the basis for risk management within the Financial Services segment. At the heart of the risk management process is a clear division into front- and back-office activities and a comprehensive internal control system.

In order to ensure that the segment is capable of bearing the risks to which it is exposed (i.e. its "risk-bearing capacity"), we monitor the segment's total exposure to major risks. This involves measuring unexpected losses using a variety of value-at-risk techniques adapted to each relevant risk category. These losses are aggregated (after factoring in correlation effects) and compared with resources available to cover risks (i.e. equity). The segment's risk-bearing capacity is monitored continuously with the aid of an integrated limit system which also differentiates between the various risk categories. The segment's total risk exposure was covered at all times during the past year by the available risk-coverage volumes.

Use of the "matched funding principle" to finance the Financial Services segment's operations eliminates liquidity risks to a large extent. Regular measurement and monitoring ensure that cash inflows and outflows from transactions in varying maturity cycles and currencies will offset each other. The relevant procedures are incorporated in the BMW Group's target liquidity concept.

Interest rate risks relate to potential losses caused by changes in market interest rates and can arise when fixed interest rate periods for assets and liabilities recognised in the balance sheet do not match. Interest-rate risks in the Financial Services line of business are managed by raising refinancing funds with matching maturities and by employing interest rate derivatives. For risk management purposes, all interest-related asset or liability exposures are aggregated on a cash flow basis taking account of subsequent changes, e.g. in the case of early termination of a contract. Interest rate risks are managed on the basis of a value-at-risk approach and stipulated limits. Limits are set using a benchmark-oriented approach that focuses on interest rate arrangements contained in the original contracts. Compliance with prescribed limits is tested regularly. Sensitivity analyses and stress scenarios showing the potential impact of interest rate changes on earnings are also used as tools to manage interest rate risks. These interest rate positions are aggregated for the BMW Group as a whole and measured with a value-at-risk methodology and taking other Group positions into account (structured as far as possible on a risk-neutral basis).

Credit risks arise in conjunction with lending to retail customers and major corporate customers, the latter relating primarily to the dealer, fleet and importer financing/leasing lines of business. Counterparty default risk, by contrast, refers to the risk that banks or financial institutes with which financial instruments have been transacted are unable to meet their payment obligations.

Lending to retail customers is largely based on automated scoring techniques. In the case of major corporate customers, creditworthiness is checked using internal rating models, which take account of financial statement data and supplementary qualitative evaluations. Customer creditworthiness is tested at least once a year and revised accordingly. The approval for lending to major corporate customers is primarily based on a standardised method of measuring the value of the vehicle(s) or other object(s) serving as collateral. The recoverability of the value of items accepted as collateral is regularly reviewed, measured and evaluated with a view to assessing the impact on the level of risk not covered by collateral.

In order to minimise risk from lending, we employ standardised instruments such as subsequent security, additional collateral, retention of vehicle documents or higher upfront payments. In addition, the levels of authority and responsibility of those involved in the lending process are clearly defined. Local, regional and centralised credit audits are also regularly performed by Internal Audit to check compliance with lending approval and authorisation rules procedures as well as the processes and IT systems involved.

We continue to develop standardised credit decision processes for the BMW Group worldwide. The focus here is on improving the quality of credit applications, the Group's rating methodology and procedures used to select employees within the worldwide credit and counterparty risk network.

In the case of vehicles which remain with the Financial Services segment at the end of a contract (leases and credit financing arrangements with option of return), there is a residual value risk if the residual value calculated at the inception of the contract is not recovered when the vehicle is sold (residual value risk). Residual values are calculated uniformly throughout the BMW Group in accordance with mandatory guidelines. For risk management purposes, the expected risk-free residual value of a vehicle is measured on the basis of external and internal information. These amounts are checked regularly and adjusted as appropriate. Residual values of vehicles on used car markets are continuously monitored and reported on. In addition to internal information, our assessments also take account of external market data. The BMW Group strives to mitigate effectively against declining residual values by actively managing the life cycles of current models, optimising reselling processes on international markets and implementing targeted price and volume measures. Potential losses are measured by comparing forecasted market values and contractual residual values by model and market.

The scope of procedures applied to manage operational risks is based on Basel II requirements. This includes identifying and measuring potential risk scenarios, computing and monitoring key risk indicators on an ongoing basis, the systematic recording of loss claims and a range of coordinated measures aimed at mitigating risk. Both qualitative and quantitative aspects are taken into account in the decision-making process. The latter is backed up by various system-based solutions, all of which follow the principles of operational risk management, such as the segregation of duties, dual control, documentation and transparency. In addition, both the effectiveness and efficiency of the internal control system are tested regularly.

Legal risks

Acting responsibly and complying with the law are the basic prerequisites for our success. Current legislation provides the binding framework for our wide range of activities around the world. The growing international scale of operations of the BMW Group, the complexity of the business world and the whole gamut of complex legal regulations increase the risk of laws being broken, simply because they are not known or fully understood.

The BMW Group has established a Compliance Organisation aimed at ensuring that its representative bodies, managers and staff act in a lawful manner at all times. Further information on the BMW Group's Compliance Organisation can be found in the section "Corporate Governance".

Like all enterprises, the BMW Group is, or could be, confronted with the risk of legal disputes relating, among other things, to warranty claims, product liability, infringement of protected rights or proceedings initiated by government agencies. Any of these matters could

have an adverse impact on the Group's reputation. Such proceedings are typical for the sector or arise as a consequence of realigning our product or purchasing strategy to suit changed market conditions. Particularly in the US market, class action lawsuits and product liability risks can give rise to substantial financial consequences and cause reputational damage. The BMW Group recognises appropriate levels of provision for lawsuits. A part of these risks, especially where the American market is concerned, is insured where this makes business sense. Some risks, however, cannot be assessed in full or cannot be assessed at all. It cannot be ruled out that losses from damages could arise which are not, or which are not fully, covered by insurance policies or provisions.

The high quality of our products, which is ensured by regular quality audits and ongoing improvement measures, helps to reduce this risk. In comparison with competitors, this can give rise to benefits and opportunities for the BMW Group.

The BMW Group is not currently involved in any court or arbitration proceedings which could have a significant impact on its financial condition.

Changes in the regulatory environment may impair our sales volume, revenues and earnings performance in specific markets or economic regions. Further details are provided in the section "Strategic and sector-specific risks".

The assessments contained in the "Outlook" section are based on the forecasts made by BMW AG for the years 2013 and 2014 and reflect the most recent status. The basis of preparation of our forecasts, which take account of consensual opinions of leading organisations, such as banks and economic research institutes, is set out below. These assumptions flow into the targets set for the segments.

Our continuous forecasting process ensures that the BMW Group is always ready to take advantage of opportunities as they arise. The principle risks facing the business are described in detail in the risk report.

Economic outlook for 2013

The global economy is expected to stabilise at a slower growth rate of approximately 2 % in 2013. However, in view of burgeoning public-sector debt in Europe, the USA and Japan, substantial over-capacities in China and conflict hot spots in the Middle East, the outlook is overshadowed by a number of major risks.

Output in the eurozone is set to stagnate in 2013 at the previous year's level. The German economy, the largest in Europe, is forecast to grow again in 2013, albeit at the modest rate of 0.7 %. The French economy is expected to remain flat for the time being, a prediction fraught with major uncertainty in view of the prevailing risks. Based on forecasts, Italy's gross domestic product (GDP) is set to contract by approximately 1.0 %. In Spain the downward trend is likely to continue, with economic output down by a further 1.6 %. A growth rate of 0.9 % is predicted for the UK, Europe's largest market outside the eurozone.

Again this year the recovery in the USA looks set to continue and growth in the region is predicted to run at around 2.0 %. The looming tax rises and expenditure cuts previously planned for the turn of the financial year 2013 were reduced. However, the negative impact on purchasing power should be offset by growing vitality on the job and property markets. Overall, however, growth is likely to remain at roughly the previous year's level and the US economy is set to continue its upward trend.

The performance of the Japanese economy in 2013 will depend largely on the policymaking skills of the newly elected government. Having slipped back into recession at the end of 2012, Japan is at best likely to achieve only modest growth of some 0.8 % in 2013, even with the help of generous expansionary monetary and fiscal policies.

The Chinese economy is likely to gather pace again in the course of the current year. Positive early indicators as well as the announcement made by the Chinese government of further programmes to stimulate the economy give reason to believe that GDP in China will rise by 8.0 %. High property price levels and over-capacities in the construction and heavy industries sector, could, however, hold down the growth rate in the region.

The economies of India and Brazil are expected to grow by 6.0 % and 3.5 % respectively. Russia's GDP is likely to expand by about 3.4 %, roughly in line with the previous year.

Fluctuations on currency markets

High public-sector debt in Europe, the USA and Japan are likely to cause continued fluctuations on the world's currency markets. The US dollar/euro exchange rate is expected to average out at previous year's levels. The Chinese renminbi will probably remain coupled to the US dollar, with only minor fluctuations between the two currencies. The budget situation and greater expansionary monetary policies in Japan could cause the Japanese yen to drop further in value. The British pound is forecast to appreciate modestly against the euro, assuming the UK can maintain stable economic growth.

Car markets in 2013

Taken as a whole, the world's car markets are expected to grow by some 4.0 % in the current year to a total of 75.5 million units. High demand for replacement vehicles after a number of weak years should boost volumes sold in the USA by approximately 2.1 % to 14.8 million units.

The Chinese passenger car market is forecast to grow by approximately 8.5 % to 14.4 million units. The regional spread of sales in China is likely to shift increasingly inland, away from the coast towards the interior provinces, which are now entering a catch-up phase.

The downward trend seen in Europe in recent years is set to continue, with the market as a whole contracting by 1.8 % to 12.3 million units. Following a period of drastic decreases, however, the market could well now consolidate at approximately this level. Sales volumes

are forecast to remain flat in Germany, France and Spain and decrease marginally in the UK and Italy.

The car market in Japan could see a drop of 4 % to 5.0 million units as the catch-up effect begins to wane.

A growth rate of around 10 % is forecast for the Russian car market in 2013, which would entail a volume of some 3.0 million units. Demand for cars in India is predicted to rise by 7 % to 2.9 million units in 2013. The corresponding figures for Brazil are 9 % and 3.95 million units respectively.

Motorcycle markets in 2013
Overall, we expect the world's motorcycle markets in the 500 cc plus class to grow slightly in 2013. In Europe, however, the negative trend is quite likely to continue, with only the German market looking set to remain stable. Modest growth is forecast for the USA and Japan. The motorcycle market in Brazil is also likely to continue expanding, even if not quite as dynamically as in recent years.

The financial services market in 2013
The forecast of moderate growth for the global economy in the current year is likely to be achieved – among other factors – on the back of looser monetary policies in the USA, China and some growth markets. Downbeat economic prospects will probably ensure that inflationary pressures in industrialised countries do not rise further. We are assuming that the world's major central banks continue their expansionary monetary policies throughout the current year. Both the European Central Bank (ECB) and the US Reserve Bank have announced their intention to keep interest rates at their current low level during 2013. Refinancing conditions for the whole sector are likely to remain volatile for the foreseeable future given the pervading nervousness on the world's capital markets.

There is also unlikely to be any change in the divergent development of vehicle residual values over the course of 2013. The economic situation will remain particularly tense in southern Europe. At present, it is difficult to assess the extent to which the sovereign debt crisis will affect other European countries. For the time being, it seems reasonable to assume that used car markets outside Europe will remain more or less stable in average terms.

A similarly heterogeneous picture is also likely to apply for the credit risk situation over the course of 2013. Compared to the ongoing tenseness in southern Europe, the overall situation elsewhere is expected to improve marginally.

Outlook for the BMW Group in 2013
High public-sector debt levels and the prospect of consolidation in spending, particularly in Europe, remain a source of uncertainty in 2013. Other concerns for the global economy have been kindled by slower growth in China and political instability in a number of regions. The situation is exacerbated by the fact that greater volatility in forecasting parameters currently makes it more difficult for the BMW Group to predict future performance with any degree of accuracy.

Our answer to uncertainties in a volatile environment is to follow our Strategy Number ONE, which we have been actively implementing for several years now. The strategic aim we are pursuing is clearly reflected in the excellent figures reported for the past year and enables us to look forward with confidence to 2013. We intend to continue the success story with our strong brands, all of which enjoy a global presence. We will be aided in this endeavour by our attractive range of models and services, comprehensively designed to meet the needs of individual mobility. With our focus on "premium", as the world's leading provider we benefit to an exceptional extent from the high demand for premium segment vehicles.

We forecast that vehicle sales will again rise to new record levels in 2013, enabling the BMW Group to remain the world's foremost premium car manufacturer.

Demand for our models remains high, particularly for the BMW 1, 3, 5 and 6 Series and the BMW X family. The launches of the BMW 3 Series Touring on European markets and the BMW 3 Series Sedan (with xDrive four-wheel-drive system) in the USA have also driven sales momentum, right from the outset. Further impetus will come from the BMW X1, which is now also available in China and the USA. Our exceptionally strong sales performance in some parts of the world, such as in China and the

We will again be introducing numerous new and revised models to the market in 2013 and these will give a boost to sales. The new BMW 3 Series Gran Turismo will be launched in June to become the third body variant of the current model family and represent an innovative, fully autonomous concept within the highly successful BMW 3 Series model range. The M6 Gran Coupé, due to be launched in the same month, is the third body variant of the M6 sports car and combines high performance with elegant design. The new BMW 4 Series Coupé, which again sets standards in terms of design, dynamic performance and efficiency in the sporty medium-class coupé segment, is set to follow in September. At the end of the year, the BMW i3 will be launched as the first series-built electric vehicle made by the BMW Group for the metropolitan regions of the world.

The MINI brand continues to enjoy great popularity. In March, MINI will be adding a seventh vehicle to its family of models in the form of the Paceman. Rolls-Royce recently launched its new top model, the Phantom Series II. The Rolls-Royce Wraith celebrated its world premiere at the Geneva International Automobile Show.

We will continue giving careful consideration to achieving a balanced distribution in terms of global sales volumes. The BMW Group remains committed to the principle that "production follows the market". The opening of the new plant in Tiexi*, China, in 2012 is another important step in our unbroken endeavour to service this emerging market successfully. Production capacity in China currently stands at a total of 200,000 vehicles per year. In the medium term, we plan to increase the capacities of our two Chinese plants to produce up to 300,000 units per annum. We are already taking steps to ensure our ability to ultimately expand production volume on a flexible basis to accommodate up to 400,000 units per annum. Even with its high production levels, the new plant in Tiexi* is setting new standards in the field of emission reduction and efficient use of resources.

The BMW Group's global production capability has also been additionally strengthened by the expansion of the Spartanburg plant in the USA. Capacity here will be increased to manufacture up to 350,000 units by 2014.

* Joint venture BMW Brilliance

We also intend to bolster our presence in growth markets, such as Brazil. Following the receipt of approval from the Brazilian government at the beginning of 2013, we now plan to manufacture up to 30,000 vehicles there per annum.

Compared to the rest of the sector, our global production network is extremely flexible. Revised shift models, working-time accounts for employees and a whole range of other measures enable us to compensate for fluctuations in demand. High levels of capacity utilisation are an important factor in maintaining the Group's profitability.

The efficiency of our drive systems has enabled us to play a pioneering role in reducing fleet consumption and CO_2 emissions, whilst simultaneously enhancing the sporty and dynamic character of our vehicles.

The combustion engine is going to remain the world's foremost drive technology in the foreseeable future. We are therefore developing a new generation of combustion engines as part of our Efficient Dynamics initiative. In future we will be able to offer both petrol- and diesel-powered vehicles with three-, four- and six-cylinder engines of varying capacities. BMW's TwinPower Turbo Technology will be deployed, ensuring a high level of efficiency and enabling further improvements to be made across the fleet in terms of consumption and emissions. In combination with the electric-drive components of our ActiveHybrid or plug-in hybrid vehicles, this new generation of combustion engines will make a significant contribution towards attaining our consumption and emissions targets.

The completely newly developed electric vehicle, the BMW i3, is due to be launched at the end of 2013. This premium car of the future features an absolutely new drivetrain concept and the consistent use of CFRP in its design. The innovative BMW i3 is a striking demonstration of the BMW Group's expertise in the field of lightweight construction.

Connected Drive has been setting standards for many years now in the development of forward-looking concepts and technologies aimed at connecting driver, vehicle and surroundings. These innovations increase road safety levels, offer greater convenience and create new opportunities for information and entertainment.

The BMW Group continues to enjoy a solid financial base. Strong cash flows and straightforward access to capital markets also provide us with additional room to manoeuvre, which we are using to hone our leading competitive edge and pursue our declared strategy of ensuring that the BMW Group remains the world's leading provider of premium products and premium services. Group profit before tax in 2013 should be on a similar scale to that reported for 2012.

Automotive segment in 2013

We forecast that the Automotive segment will continue to perform well in 2013 on the back of strong sales volume growth. We intend to forge ahead with continued investment in innovation, future technologies and the consistent internationalisation of our production network. Assuming economic conditions remain stable, we forecast single-digit sales volume growth for the Group and hence a new record for the current year.

We are again striving to achieve an EBIT margin within the target corridor of between 8 % and 10 % and a RoCE above 26 %. Depending on political and economic developments, however, results may be above or below the targeted levels. The financial position of our Automotive segment is also set to remain very strong in 2013.

Motorcycles segment in 2013

Thanks to its attractive and extremely youthful model range, we forecast further growth in sales volume for the BMW brand in 2013, with impetus also being generated by the full availability of the Scooter and the new R 1200 GS. Increased sales volumes in 2013 should result in higher revenues and earnings, compared to the situation in 2012 where earnings were negatively impacted by one-off higher expenses incurred in realigning the Group's motorcycle business.

Financial Services segment in 2013

We expect the Financial Services segment to continue growing and deliver another strong performance in 2013. Despite the positive impact of various measures taken to ease the debt crisis in Europe, the situation in southern Europe remains tense and uncertain. We are actively reducing our exposure to risks in these countries by rigorously applying appropriate risk management procedures. Based on the segment's performance at the beginning of the year, we forecast a further increase in the contract portfolio and a RoE of at least 18 %.

Residual value risks are expected to develop differently from region to region, remaining stable in growth markets and a source of concern in southern Europe. We also expect a small decline in market prices in the USA, Great Britain and Germany. An improvement in the credit risk situation will have a positive effect on business performance.

Outlook for 2014

Assuming economic conditions remain stable, the BMW Group will continue to grow in 2014. The financial position should also be very solid. New models will provide a further boost to sales volumes, producing a correspondingly favourable impact on revenues and earnings. We expect the Automotive segment will again achieve an EBIT margin within the desired target corridor of between 8 % and 10 % and a RoCE above 26 %. The Financial Services segment should continue to grow apace and continue increasing the size of its contract portfolio. The RoE target for the segment will remain unchanged at 18 %. However, actual returns will partially depend on political and economic developments worldwide.

Income Statements for Group and Segments

in € million

	Note	Group		Automotive (unaudited supplementary information)	
		2012	2011	**2012**	2011
Revenues	8	**76,848**	68,821	**70,208**	63,229
Cost of sales	9	**–61,354**	54,276	**–56,525**	50,164
Gross profit		**15,494**	**14,545**	**13,683**	**13,065**
Selling and administrative expenses	10	**–7,007**	6,177	**–5,837**	5,260
Other operating income	11	**829**	782	**673**	528
Other operating expenses	11	**–1,016**	1,132	**–895**	856
Profit / loss before financial result		**8,300**	**8,018**	**7,624**	**7,477**
Result from equity accounted investments	12	**271**	162	**271**	164
Interest and similar income	13	**753**	763	**620**	680
Interest and similar expenses	13	**–913**	943	**–819**	889
Other financial result	14	**–592**	617	**–501**	609
Financial result		**–481**	**–635**	**–429**	**–654**
Profit / loss before tax		**7,819**	**7,383**	**7,195**	**6,823**
Income taxes	15	**–2,697**	2,476	**–2,458**	1,832
Net profit / loss		**5,122**	**4,907**	**4,737**	**4,991**
Attributable to minority interest	33	**26**	26	**24**	25
Attributable to shareholders of BMW AG	33	**5,096**	**4,881**	**4,713**	**4,966**
Earnings per share of common stock in €	16	**7.77**	7.45		
Earnings per share of preferred stock in €	16	**7.79**	7.47		
Dilutive effects		**–**			
Diluted earnings per share of common stock in €	16	**7.77**	7.45		
Diluted earnings per share of preferred stock in €	16	**7.79**	7.47		

* Includes impact of exceptional items relating to the sale of the Husqvarna Group.

Statement of Comprehensive Income for Group

in € million

	Note	**2012**	2011
Net profit		**5,122**	**4,907**
Available-for-sale securities		**214**	72
Financial instruments used for hedging purposes		**1,302**	801
Exchange differences on translating foreign operations		**–123**	168
Actuarial losses on defined benefit pension obligations, similar obligations and plan assets	34	**–1,881**	586
Deferred taxes relating to components of other comprehensive income		**49**	421
Other comprehensive income for the period (after tax) from equity accounted investments		**–82**	41
Other comprehensive income for the period after tax	19	**–357**	**–911**
Total comprehensive income		**4,765**	**3,996**
Total comprehensive income attributable to minority interests	33	**26**	26
Total comprehensive income attributable to shareholders of BMW AG	33	**4,739**	**3,970**

Motorcycles (unaudited supplementary information)		Financial Services (unaudited supplementary information)		Other Entities (unaudited supplementary information)		Eliminations (unaudited supplementary information)		
2012*	2011	**2012**	2011	**2012**	2011	**2012**	2011	
1,490	1,436	**19,550**	17,510	**5**	5	**–14,405**	13,359	Revenues
–1,236	1,207	**–16,984**	15,013	**–**		**13,391**	12,108	Cost of sales
254	**229**	**2,566**	**2,497**	**5**	**5**	**–1,014**	**–1,251**	**Gross profit**
–181	176	**–980**	719	**–18**	27	**9**	5	Selling and administrative expenses
8	2	**101**	74	**122**	249	**–75**	71	Other operating income
–72	10	**–129**	89	**–51**	246	**131**	69	Other operating expenses
9	**45**	**1,558**	**1,763**	**58**	**–19**	**–949**	**–1,248**	**Profit/loss before financial result**
–		**–**		**–**	2	**–**		Result from equity accounted investments
8	8	**5**	5	**1,792**	1,739	**–1,672**	1,669	Interest and similar income
–11	12	**–9**	15	**–1,758**	1,841	**1,684**	1,814	Interest and similar expenses
–		**7**	37	**–98**	45	**–**		Other financial result
–3	**–4**	**3**	**27**	**–64**	**–149**	**12**	**145**	Financial result
6	**41**	**1,561**	**1,790**	**–6**	**–168**	**–937**	**–1,103**	**Profit/loss before tax**
–22	12	**–545**	1,053	**5**	37	**323**	384	Income taxes
–16	**29**	**1,016**	**737**	**–1**	**–131**	**–614**	**–719**	**Net profit/loss**
–		**1**		**1**	1	**–**		Attributable to minority interest
–16	**29**	**1,015**	**737**	**–2**	**–132**	**–614**	**–719**	**Attributable to shareholders of BMW AG**
								Earnings per share of common stock in €
								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 €

Assets

in € million	Note	Group 2012	Group 2011	Automotive (unaudited supplementary information) 2012	Automotive (unaudited supplementary information) 2011
Intangible assets	21	**5,207**	5,238	**4,648**	4,682
Property, plant and equipment	22	**13,341**	11,685	**13,053**	11,444
Leased products	23	**24,468**	23,112	**128**	151
Investments accounted for using the equity method	24	**514**	302	**514**	281
Other investments	24	**548**	561	**4,789**	4,520
Receivables from sales financing	25	**32,309**	29,331	**–**	
Financial assets	26	**2,148**	1,702	**759**	287
Deferred tax	15	**2,001**	1,926	**2,219**	2,276
Other assets	28	**800**	568	**3,859**	3,139
Non-current assets		**81,336**	**74,425**	**29,969**	**26,780**
Inventories	29	**9,725**	9,638	**9,366**	9,309
Trade receivables	30	**2,543**	3,286	**2,305**	3,014
Receivables from sales financing	25	**20,605**	20,014	**–**	
Financial assets	26	**4,612**	3,751	**2,746**	2,307
Current tax	27	**966**	1,194	**775**	1,065
Other assets	28	**3,648**	3,345	**16,146**	15,333
Cash and cash equivalents	31	**8,370**	7,776	**7,484**	5,829
Assets held for sale	32	**45**		**–**	
Current assets		**50,514**	**49,004**	**38,822**	**36,857**
Total assets		**131,850**	**123,429**	**68,791**	**63,637**

Equity and liabilities

	Note	Group		Automotive (unaudited supplementary information)	

Motorcycles (unaudited supplementary information)		Financial Services (unaudited supplementary information)		Other Entities (unaudited supplementary information)		Eliminations (unaudited supplementary information)		Assets
2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	
72	56	**486**	499	**1**	1	**–**		Intangible assets
242	202	**46**	39	**–**		**–**		Property, plant and equipment
–		**28,060**	25,900	**–**		**–3,720**	2,939	Leased products
–		**–**		**–**	21	**–**		Investments accounted for using the equity method –
–		**7**	8	**5,761**	5,727	**–10,009**	9,694	Other investments
–		**32,309**	29,331	**–**		**–**		Receivables from sales financing
–		**126**	67	**1,730**	1,883	**–467**	535	Financial assets
–		**279**	216	**381**	373	**–878**	939	Deferred tax
–		**1,330**	1,185	**16,995**	15,384	**–21,384**	19,140	Other assets
314	**258**	**62,643**	**57,245**	**24,868**	**23,389**	**–36,458**	**–33,247**	**Non-current assets**
348	318	**11**	11	**–**		**–**		Inventories
114	128	**123**	143	**1**	1	**–**		Trade receivables
–		**20,605**	20,014	**–**		**–**		Receivables from sales financing
–		**813**	877	**1,480**	955	**–427**	388	Financial assets
–		**132**	78	**59**	51	**–**		Current tax
31	33	**3,573**	2,823	**30,285**	29,098	**–46,387**	43,942	Other assets
–	3	**797**	1,518	**89**	426	**–**		Cash and cash equivalents
45		**–**		**–**		**–**		Assets held for sale
538	**482**	**26,054**	**25,464**	**31,914**	**30,531**	**–46,814**	**–44,330**	**Current assets**
852	**740**	**88,697**	**82,709**	**56,782**	**53,920**	**–83,272**	**–77,577**	**Total assets**

Motorcycles (unaudited supplementary information)		Financial Services (unaudited supplementary information)		Other Entities (unaudited supplementary information)		Eliminations (unaudited supplementary information)		Equity and liabilities
2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	
								Subscribed capital
								Capital reserves
								Revenue reserves
								Accumulated other equity
								Equity attributable to shareholders of BMW AG
								Minority interest
–	**–**	**7,631**	**7,169**	**8,361**	**6,576**	**–13,695**	**–12,796**	**Equity**
29	44	**90**	52	**1,475**	1,276	**–**		Pension provisions
135	114	**173**	164	**30**	31	**–**		Other provisions
–		**4,777**	4,302	**5**	10	**–2,193**	1,932	Deferred tax
–		**14,174**	13,251	**23,613**	23,059	**–467**	535	Financial liabilities
246	383	**19,653**	17,172	**18**	27	**–19,907**	17,960	Other liabilities
410	**541**	**38,867**	**34,941**	**25,141**	**24,403**	**–22,567**	**–20,427**	**Non-current provisions and liabilities**
114	57	**289**	297	**235**	228	**3**	3	Other provisions
–		**136**	78	**77**	97	**–**		Current tax
–		**16,830**	16,160	**12,720**	13,141	**–427**	389	Financial liabilities
277	125	**474**	481	**13**	15	**–**		Trade payables
21	17	**24,470**	23,583	**10,235**	9,460	**–46,586**	43,968	Other liabilities
30		**–**		**–**		**–**		Liabilities in conjunction with assets held for sale
442	**199**	**42,199**	**40,599**	**23,280**	**22,941**	**–47,010**	**–44,354**	**Current provisions and liabilities**
852	**740**	**88,697**	**82,709**	**56,782**	**53,920**	**–83,272**	**–77,577**	**Total equity and liabilities**

BMW Group
Cash Flow Statements for Group and Segments

in € million	Note	Group 2012	Group 2011
Net profit		**5,122**	4,907
Reconciliation between net profit and cash inflow/outflow from operating activities			
Current tax		**2,908**	2,868
Other interest and similar income/expenses		**–4**	1
Depreciation and amortisation of other tangible, intangible and investment assets		**3,716**	3,654
Change in provisions		**446**	779
Change in leased products		**–1,421**	379
Change in receivables from sales financing		**–3,988**	2,837
Change in deferred taxes		**–211**	338
Other non-cash income and expense items		**407**	148
Gain/loss on disposal of tangible and intangible assets and marketable securities		**–16**	
Result from equity accounted investments		**–271**	162
Changes in working capital		**1,755**	1,615
Change in inventories		**–108**	1,715
Change in trade receivables		**744**	800
Change in trade payables		**1,119**	900
Change in other operating assets and liabilities		**–1,084**	1,175
Income taxes paid		**–2,462**	2,701
Interest received		**179**	213
Cash inflow/outflow from operating activities	42	**5,076**	**5,713**
Investment in intangible assets and property, plant and equipment		**–5,236**	3,679
Proceeds from the disposal of intangible assets and property, plant and equipment		**42**	53
Expenditure for investments		**–171**	543
Net cash in acquiring ICL Group		**–**	595
Proceeds from the disposal of investments		**107**	21
Cash payments for the purchase of marketable securities		**–1,265**	2,073
Cash proceeds from the sale of marketable securities		**1,090**	1,317
Cash inflow/outflow from investing activities	42	**–5,433**	**–5,499**
Issue / Buy-back of treasury shares		**–**	
Payments into equity		**19**	16
Payment of dividend for the previous year		**–1,516**	852
Intragroup financing and equity transactions		**–**	
Interest paid		**–102**	82
Proceeds from the issue of bonds		**7,977**	5,899
Repayment of bonds		**–6,727**	5,333
Change in other financial liabilities		**2,159**	191
Change in commercial paper		**–858**	248
Cash inflow/outflow from financing activities	42	**952**	**87**
Effect of exchange rate on cash and cash equivalents		**–14**	**–13**
Effect of changes in composition of Group on cash and cash equivalents	42	**13**	**56**
Change in cash and cash equivalents		**594**	**344**
Cash and cash equivalents as at 1 January		**7,776**	7,432
Cash and cash equivalents as at 31 December	42	**8,370**	**7,776**

[1] Adjusted for reclassifications as described in note 42.
[2] Interest relating to financial services business is classified as revenues / cost of sales.

Automotive (unaudited supplementary information)		Financial Services (unaudited supplementary information)		
2012	2011[1] (changed)	**2012**	2011[1] (changed)	
4,737	4,991	**1,016**	737	Net profit
				Reconciliation between net profit and cash inflow/outflow from operating activities
3,026	2,726	**–104**	86	Current tax
104	95	**–**[2]	10[2]	Other interest and similar income/expenses
3,679	3,564	**38**	20	Depreciation and amortisation of other tangible, intangible and investment assets
261	577	**–2**	156	Change in provisions
23	29	**–2,256**	1,311	Change in leased products
–		**–3,988**	2,837	Change in receivables from sales financing
–386	707	**497**	804	Change in deferred taxes
265	79	**–13**	9	Other non-cash income and expense items
–14		**–2**	1	Gain/loss on disposal of tangible and intangible assets and marketable securities
–271	164	**–**		Result from equity accounted investments
1,622	1,590	**18**	83	
–54	1,685	**–**	2	Change in inventories
–722	886	**19**	101	Change in trade receivables
954	981	**–1**	16	Change in trade payables
–1,937	887	**743**	846	Change in other operating assets and liabilities
–2,191	2,453	**–139**	171	Income taxes paid
249	234	**–**[2]	[2]	Interest received
9,167	**8,110**	**–4,192**	**–1,897**	**Cash inflow/outflow from operating activities**
–5,074	3,565	**–37**	25	Investment in intangible assets and property, plant and equipment
35	50	**7**	6	Proceeds from the disposal of intangible assets and property, plant and equipment
–384	1,201	**–**		Expenditure for investments
–	249	**–**	104	Net cash in acquiring ICL Group
65	21	**–**		Proceeds from the disposal of investments
–1,167	1,866	**–97**	113	Cash payments for the purchase of marketable securities

BMW Group
Group Statement of Changes in Equity

in € million	Note	Subscribed capital	Capital reserves	Revenue reserves	
				Pension obligations	Other revenue reserves
31 December 2010	33 —	**655**	**1,939**	**–1,785**	**24,277**
Dividends paid		–	–	–	852
Net profit		–	–	–	4,881
Other comprehensive income for the period after tax		–	–	419	–
Comprehensive income 31 December 2011		**–**	**–**	**–419**	**4,881**
Premium arising on capital increase relating to preferred stock		–	16	–	–
Other changes		–	–	–	–
31 December 2011	33 —	**655**	**1,955**	**–2,204**	**28,306**

in € million	Note	Subscribed capital	Capital reserves	Revenue reserves	
				Pension obligations	Other revenue reserves
31 December 2011	33 —	**655**	**1,955**	**–2,204**	**28,306**
Dividends paid		–	–	–	1,508
Net profit		–	–	–	5,096
Other comprehensive income for the period after tax		–	–	1,350	–
Comprehensive income 31 December 2012		**–**	**–**	**–1,350**	**5,096**
Subscribed share capital increase out of Authorised Capital		1	–	–	–
Premium arising on capital increase relating to preferred stock		–	18	–	–
Other changes		–	–	–	–
31 December 2012	33 —	**656**	**1,973**	**–3,554**	**31,894**

Accumulated other equity				Treasury shares	Equity attributable to shareholders of BMW AG	Minority interest	Total	
Translation differences	Securities	Derivative financial instruments	Pension obligations					
–1,064	**9**	**–127**	**–**	**–**	**23,904**	**26**	**23,930**	**31 December 2010**
–	–	–	–	–	852		**–852**	Dividends paid
–	–	–	–		4,881	26	**4,907**	Net profit
201	70	623	–	–	911		**–911**	Other comprehensive income for the period after tax
201	**–70**	**–623**	**–**	**–**	**3,970**	**26**	**3,996**	**Comprehensive income 31 December 2011**
–	–	–	–		16		**16**	Premium arising on capital increase relating to preferred stock
–	–	–	–	–		13	**13**	Other changes
–863	**–61**	**–750**	**–**	**–**	**27,038**	**65**	**27,103**	**31 December 2011**

Accumulated other equity				Treasury shares	Equity attributable to shareholders of BMW AG	Minority interest	Total	
Translation differences	Securities	Derivative financial instruments	Pension obligations					
–863	**–61**	**–750**	**–**	**–**	**27,038**	**65**	**27,103**	**31 December 2011**
–	–	–	–	–	1,508		**–1,508**	Dividends paid
–	–	–	–		5,096	26	**5,122**	Net profit
128	169	952	–	–	357		**–357**	Other comprehensive income for the period after tax
–128	**169**	**952**	**–**	**–**	**4,739**	**26**	**4,765**	**Comprehensive income 31 December 2012**
–	–	–	–		1		**1**	Subscribed share capital increase out of Authorised Capital
–	–	–	–		18		**18**	Premium arising on capital increase relating to preferred stock
7	–	–	–		7	16	**23**	Other changes
–984	**108**	**202**	**–**	**–**	**30,295**	**107**	**30,402**	**31 December 2012**

1 — Basis of preparation

The consolidated financial statements of Bayerische Motoren Werke Aktiengesellschaft (BMW Group Financial Statements or Group Financial Statements) at 31 December 2012 have been drawn up in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the EU. The designation "IFRSs" also includes all valid International Accounting Standards (IASs). All Interpretations of the IFRS Interpretations Committee (IFRICs) mandatory for the financial year 2012 are also applied.

The Group Financial Statements comply with § 315a of the German Commercial Code (HGB). This provision, in conjunction with the Regulation (EC) No. 1606/2002 of the European Parliament and Council of 19 July 2002, relating to the application of International Financial Reporting Standards, provides the legal basis for preparing consolidated financial statements in accordance with international standards in Germany and applies to financial years beginning on or after 1 January 2005.

The BMW Group and segment income statements are presented using the cost of sales method. The Group and segment balance sheets correspond to the classification provisions contained in IAS 1 (Presentation of Financial Statements).

In order to improve clarity, various items are aggregated in the income statement and balance sheet. These items are disclosed and analysed separately in the notes.

A Statement of Comprehensive Income is presented at Group level reconciling the net profit to comprehensive income for the year.

In order to provide a better insight into the net assets, financial position and performance of the BMW Group and going beyond the requirements of IFRS 8 (Operating Segments), the Group Financial Statements also include balance sheets and income statements for the Automotive, Motorcycles, Financial Services and Other Entities segments. The Group Cash Flow Statement is supplemented by statements of cash flows for the Automotive and Financial Services segments. This supplementary information is unaudited.

In order to facilitate the sale of its products, the BMW Group provides various financial services – mainly loan and lease financing – to both retail customers and dealers. The inclusion of the financial services activities of the Group therefore has an impact on the Group Financial Statements.

Inter-segment transactions – relating primarily to internal sales of products, the provision of funds and the related interest – are eliminated in the "Eliminations" column. Further information regarding the allocation of activities of the BMW Group to segments and a description of the segments is provided in note 48.

In conjunction with the refinancing of financial services business, a significant volume of receivables arising from retail customer and dealer financing is sold. Similarly, rights and obligations relating to leases are sold. The sale of receivables is a well-established instrument used by industrial companies. These transactions usually take the form of asset-backed financing transactions involving the sale of a portfolio of receivables to a trust which, in turn, issues marketable securities to refinance the purchase price. The BMW Group continues to "service" the receivables and receives an appropriate fee for these services. In accordance with IAS 27 (Consolidated and Separate Financial Statements) and Interpretation SIC-12 (Consolidation – Special Purpose Entities) such assets remain in the Group Financial Statements although they have been legally sold. Gains and losses relating to the sale of such assets are not recognised until the assets are removed from the Group balance sheet on transfer of the related significant risks and rewards. At €9.4 billion, the balance sheet value of assets sold at 31 December 2012 was unchanged from one year earlier.

In addition to credit financing and leasing contracts, the Financial Services segment also brokers insurance business via cooperation arrangements entered into with local insurance companies. These activities are not material to the BMW Group as a whole.

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

Bayerische Motoren Werke Aktiengesellschaft has its seat in Munich, Petuelring 130, and is registered in the Commercial Register of the District Court of Munich under the number HRB 42243.

All consolidated subsidiaries have the same year-end as BMW AG with the exception of BMW India Private Ltd., New Delhi, and BMW India Financial Services Private Ltd., New Delhi, both of whose year-ends are 31 March.

The Group Financial Statements, drawn up in accordance with § 315a HGB, and the Combined Group and Company Management Report for the financial year ended 31 December 2012 will be submitted to the operator of the electronic version of the German Federal Gazette and can be obtained via the Company Register website. Printed copies will also be made available on request. In addition the Group Financial Statements and the Combined Group and Company Management Report can be downloaded from the BMW Group website at www.bmwgroup.com/ir.

The Board of Management authorised the Group Financial Statements for issue on 19 February 2013.

2 – Consolidated companies

The BMW Group Financial Statements include, besides BMW AG, all material subsidiaries, four special purpose securities funds and 26 special purpose trusts (almost all used for asset-backed financing transactions).

The number of subsidiaries – including special purpose securities funds and other special purpose trusts – consolidated in the Group Financial Statements changed in 2012 as follows:

	Germany	Foreign	**Total**
Included at 31 December 2011	26	160	**186**
Included for the first time in 2012	1	13	**14**
No longer included in 2012	3	9	**12**
Included at 31 December 2012	**24**	**164**	**188**

51 subsidiaries (2011: 48), either dormant or generating a negligible volume of business, are not consolidated on the grounds that their inclusion would not influence the economic decisions of users of the Group Financial Statements. Non-inclusion of operating subsidiaries reduces total Group revenues by 0.9 % (2011: 0.7 %).

The joint ventures SGL Automotive Carbon Fibers GmbH & Co. KG, Munich, SGL Automotive Carbon Fibers Verwaltungs GmbH, Munich, and SGL Automotive Carbon Fibers LLC, Dover, DE, as well as BMW Brilliance Automotive Ltd., Shenyang, are accounted for using the equity method. Similarly, the joint ventures DriveNow GmbH & Co. KG, Munich, and DriveNow Verwaltungs GmbH, Munich, are accounted for using the equity method. In accordance with an agreement dated 24 October 2012, BMW Holding B.V., The Hague, acquired from Peugeot Citroën Automobiles S. A., Vélizy-Villacoublay, that entity's investment in BMW Peugeot Citroën Electrification B.V., The Hague, with effect from 30 November 2012 and the joint venture arrangements accordingly terminated. BMW Peugeot Citroën Electrification B.V., The Hague, and its subsidiary, BMW Peugeot Citroën Electrification GmbH, Munich, are not consolidated on the grounds of immateriality. Cirquent GmbH, Munich, which had previously been accounted for using the equity method, was sold in 2012. Four (2011: 18) participations are not consolidated using the equity method on the grounds of immateriality. They are included in the balance sheet in the line "Other investments", measured at cost less, where applicable, accumulated impairment losses.

A "List of Group Investments" pursuant to § 313 (2) HGB will be submitted to the operator of the electronic version of the German Federal Gazette. This list, along with the "List of Third Party Companies which are not of Minor Importance for the Group", will also be posted on the BMW Group website at www.bmwgroup.com/ir. The List of Group Investments, the List of Third Party Companies which are not of Minor Importance for the Group and the full list of consolidated companies are also posted as appendices on the BMW Group website.

PT BMW Indonesia, Jakarta, BMW China Services Ltd., Beijing, BMW India Financial Services Private Ltd., New

Delhi, BMW Osaka Corp., Osaka, BMW Receivables 1 Inc., Whitby, BMW Receivables 2 Inc., Whitby, and BMW Receivables Limited Partnership, Whitby, were consolidated for the first time in the financial year 2012.

The following mergers took place during the financial year 2012: Alphabet B.V., Rijswijk, with Alphabet Nederland B.V., Breda; Alphabet Belgium Short Term Rental N.V., Aartselaar, with Alphabet Belgium Long Term Rental N.V., Aartselaar; ETS Garcia S. A., Paris, with BMW France S. A., Montigny-le-Bretonneux; Alphabet Italia S. p. A., Milan with Alphabet Italia Fleet Management S. p. A., Rome; and Alphabet Fleet Services España S. L., Madrid, with Alphabet España Fleet Management S. A. U., Madrid. As a result of these mergers Alphabet B.V., Rijswijk, Alphabet Belgium Short Term Rental N.V., Aartselaar, ETS Garcia S. A., Paris, Alphabet Italia S. p. A., Milan, and Alphabet Fleet Services España S. L., Madrid, ceased to be consolidated companies. Furthermore, BMW Overseas Enterprises N.V., Willemstad, was wound up and ceased to be a consolidated company.

The group reporting entity also changed by comparison to the previous year as a result of the first-time consolidation of six special purpose trusts and one special purpose securities fund and the deconsolidation of three special purpose trusts and three special purpose securities funds.

3 — Consolidation principles

The equity of subsidiaries is consolidated in accordance with IFRS 3 (Business Combinations). IFRS 3 requires that all business combinations are accounted for using the acquisition method, whereby identifiable assets and liabilities acquired are measured at their fair value at acquisition date. An excess of acquisition cost over the Group's share of the net fair value of identifiable assets, liabilities and contingent liabilities is recognised as goodwill as a separate balance sheet line item and allocated to the relevant cash-generating unit (CGU). Goodwill of €91 million which arose prior to 1 January 1995 remains netted against reserves.

Receivables, payables, provisions, income and expenses and profits between consolidated companies (intragroup profits) are eliminated on consolidation.

Under the equity method, investments are measured at the BMW Group's share of equity taking account of fair value adjustments. Any difference between the cost of investment and the Group's share of equity is accounted for in accordance with the acquisition method. Investments in other companies are accounted for as a general rule using the equity method when significant influence can be exercised (IAS 28 Investments in Associates). As a general rule, there is a rebuttable assumption that the Group has significant influence if it holds between 20 % and 50 % of the associated company's voting power.

4 — Foreign currency translation

The financial statements of consolidated companies which are drawn up in a foreign currency are translated using the functional currency concept (IAS 21 The Effects of Changes in Foreign Exchange Rates) and the modified closing rate method. The functional currency of a subsidiary is determined as a general rule on the basis of the primary economic environment in which it operates and corresponds therefore usually to the relevant local currency. Income and expenses of foreign subsidiaries are translated in the Group Financial Statements at the average exchange rate for the year, and assets and liabilities are translated at the closing rate. Exchange differences arising from the translation of shareholders' equity are offset directly against accumulated other equity. Exchange differences arising from the use of different exchange rates to translate the income statement are also offset directly against accumulated other equity.

Foreign currency receivables and payables in the single entity accounts of BMW AG and subsidiaries are recorded, at the date of the transaction, at cost. At the end of the reporting period, foreign currency receivables and payables are translated at the closing exchange rate. The resulting unrealised gains and losses as well as the subsequent realised gains and losses arising on settle-

ment are recognised in the income statement in accordance with the underlying substance of the relevant transactions.

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

	Closing rate		Average rate	
	31.12.2012	31.12.2011	**2012**	2011
US Dollar	**1.32**	1.30	**1.29**	1.39
British Pound	**0.81**	0.84	**0.81**	0.87
Chinese Renminbi	**8.23**	8.17	**8.11**	9.00
Japanese Yen	**114.10**	100.15	**102.63**	111.00
Russian Rouble	**40.41**	41.69	**39.91**	40.88

5 – Accounting policies

The financial statements of BMW AG and of its subsidiaries in Germany and abroad have been prepared for consolidation purposes using accounting policies in accordance with IAS 27 (Consolidated and Separate Financial Statements).

Revenues from the sale of products are recognised when the risks and rewards of ownership of the goods are transferred to the dealer or customer, provided that the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and costs incurred or to be incurred in respect of the sale can be measured reliably. Revenues are stated net of settlement discount, bonuses and rebates. Revenues also include lease rentals and interest income earned in conjunction with financial services. Revenues from leasing instalments relate to operating leases and are recognised in the income statement on a straight line basis over the relevant term of the lease. Interest income from financial services and from customer and dealer financing are recognised using the effective interest method and reported as revenues within the line item "Interest income from financing". If the sale of products includes a determinable amount for subsequent services (multi-component contracts), the related revenues are deferred and recognised as income over the relevant service period. Amounts are normally recognised as income by reference to the pattern of related expenditure.

Profits arising on the sale of vehicles for which a Group company retains a repurchase commitment (buy-back contracts) are not recognised until such profits have been realised. The vehicles are included in inventories and stated at cost.

Cost of sales comprises the cost of products sold and the acquisition cost of purchased goods sold. In addition to directly attributable material and production costs, it also includes research costs and development costs not recognised as assets, the amortisation of capitalised development costs as well as overheads (including depreciation of property, plant and equipment and amortisation of other intangible assets relating to production) and write-downs on inventories. Cost of sales also includes freight and insurance costs relating to deliveries to dealers and agency fees on direct sales. Expenses which are directly attributable to financial services business and interest expense from financing the financial services business, including provisions for risk provisions and write-downs are reported in cost of sales.

In accordance with IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance), grants are not recognised until there is reasonable assurance that the conditions attached to them have been complied with and the grant will be received. They are recognised as income over the period necessary to match them with the related costs which they are intended to compensate.

Earnings per share are computed in accordance with IAS 33 (Earnings per Share). Undiluted earnings per share are calculated for common and preferred stock by dividing the net profit after minority interests, attributable to each category of stock, by the average

number of outstanding shares. [illegible] profit is accordingly allocated to the different ca[illegible]es of stock. The portion of the Group net profit f[illegible] year which is not being distribut[illegible] allo[illegible]ategory of stock based on the [illegible] shares. Profits available for d[illegible]n are [illegible]ed directly on t[illegible] basis of t[illegible]esoluti[illegible]d for common and pre[illegible]luted [illegible] per share woul[illegible] have to be dis[illegible]arate[illegible]

[illegible] which are expected to b[illegible]ed in shares are, in accordance wi[illegible] IFRS 2 (Share[illegible] Payments), measured at their fai[illegible] value at grant[illegible] The related expense is recognise[illegible] in the inco[illegible]nt (as personnel expense) ov[illegible] the vesting period, with a contra (credit) entry recorded against capital reserves.

Share-based remuneration programmes expected to be settled in cash are revalued to their fair value at each balance sheet date between the grant date and the settlement date (and on the settlement date itself). The expense for such programmes [illegible]ised in the income statement (as perso[illegible] expen[illegible]r the vesting period of the programm[illegible]d recogni[illegible] the balance sheet as a provision.

The share-based remu[illegible]on progr[illegible]e for Board of Management membe[illegible]s of department entitles BMW AG to [illegible]ethe[illegible] settle its commitments in cash or with shares o[illegible]W AG common stock. Following the decision to [illegible] in cash, this programme is accounted for as a [illegible]ettled share-based transaction.

Further information on share-based remuneration programmes is provided in note 18.

Purchased and internally-generated [illegible] are recognised as assets in accordance with IAS 38 (Intangible Assets), where it is probable that the use of the [illegible]onomic benefits and whe[illegible]osts of the ass[illegible]e determined reliably. [illegible]ets are measure[illegible]uisition and/or ma[illegible]at th[illegible] ful li[illegible] the [illegible]ion [illegible] men[illegible]angi[illegible]sets [illegible] over[illegible]ate[illegible] five [illegible]

[illegible] capitalised at manufacturing cost, to the extent that attributable costs can be m[illegible]red reliably and both technical feasibility and s[illegible]ful marketing are assured. It must also be prob[illegible] that the development expenditure will generate [illegible]e economic benefits. Capitalised [illegible]mpris[illegible]nditure that can [illegible]ute[illegible] to the d[illegible]lopment process, in[illegible]velop[illegible]ated o[illegible]heads. Capitalise[illegible]ent [illegible]mo[illegible]ed syste[illegible]atically ov[illegible]e[illegible]te[illegible] (u[illegible]ally four to eleven y[illegible]of [illegible]ion.

[illegible] of an a[illegible] [illegible]t of acc[illegible]n exceed [illegible]alue o[illegible]ividuall[illegible] [illegible]nd liab[illegible]nd conti[illegible]

[illegible]on-[illegible]e finite u[illegible]ves. They a[illegible]ognised [illegible]or manu[illegible]ng cost less s[illegible]uled [illegible]ased on [illegible]timated usef[illegible] [illegible]ty, plant a[illegible]quipment reflects the pattern of their usage a[illegible]generally computed using the straight-line method. [illegible]ponents of items of property, plant and equipmen[illegible] different useful lives are depreciated separately.

Systematic depreciation is based on the following useful lives, applied throughout the BMW Group:

in years	
Factory and office buildings, distribution facilities and residential buildings	8 to 50
Plant and machinery	4 to 21
Other equipment, factory and office equipment	3 to 10

For machinery used in multiple-shift operations, depreciation rates are increased to account for the additional utilisation.

The cost of internally constructed plant and equipment comprises all costs which are directly attributable to the manufacturing process and an appropriate proportion of production-related overheads. This includes production-related depreciation and an appropriate proportion of administrative and social costs.

As a general rule, borrowing costs are not included in acquisition or manufacturing cost. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are recognised as a part of the cost of that asset in accordance with IAS 23 (Borrowing Costs).

Non-current assets also include assets relating to . The BMW Group uses property, plant and equipment as lessee on the one hand and leases out vehicles produced by the Group and other brands as lessor on the other. IAS 17 (Leases) contains rules for determining, on the basis of risks and rewards, the economic owner of the assets. In the case of finance leases, the assets are attributed to the lessee and in the case of operating leases the assets are attributed to the lessor.

In accordance with IAS 17, assets lease[illegible]ance leases are measured at their fair valu[illegible]ep-tion of the lease or at the present valu[illegible]se payments [illegible]owe[illegible]sets are [illegible] the strai[illegible]ives or ov[illegible] lease pe[illegible]. The[illegible]s for futu[illegible]e instalme[illegible]nise[illegible]al liabi[illegible]

Whe[illegible]up pro[illegible]ts [illegible] Group entit[illegible] they [illegible]easured at manufacturing cost. All other lease[illegible]ducts are measured at acquisition cost. All lease[illegible]ducts are depreciated over the period of the le[illegible] the straight-line method down to their expected residual value. Changes in residual value expectations are recognised – in situations where the recoverable amount of the lease exceeds the carrying amount of the asset – by adjusting scheduled depreciation prospectively over the remaining term of the lease contract. If the recoverable amount is lower than the expected residual value, an impairment loss is recognised for the shortfall. A test is carried out at each balance sheet date to determine whether an impairment loss re[illegible]ised [illegible]r years no longer exists or has de[illegible]. In [illegible]ses, the carrying amount of the a[illegible]s increas[illegible]he recoverable amount. The hi[illegible] carrying a[illegible]t resulting [illegible] the reversal ma[illegible] however, [illegible]ed the roll[illegible] forward amorti[illegible]ost of the [illegible]t.

If there is any e[illegible] (except i[illegible]ories and deferred taxes), or if an annual impairm[illegible]est is required to be carried out – i.e. for intangib[illegible]ts not yet available for use, intangible asse[illegible] indefinite useful life and goodwill acquired as part of a business combination – an impairment test pursuant to IAS 36 (Impairment of Assets) is performed. Each individual asset is tested separately unless the asset generates cash flows that are largely independent of the cash flows from other assets or groups of assets (cash-generating units/CGUs). For the purposes of the impairment test, the asset's carrying amount is compared with its recoverable amount, the latter defined as the higher of the asset's fair value less costs to sell and its value in use. An impairment loss is recognised when the recoverable amount is lower than the asset's carrying amount. Fair value less costs to sell corresponds to the amount obtainable from the sal[illegible]et or groups of assets, le[illegible]s of [illegible]sposal. [illegible]e value in use corresp[illegible]ds to [illegible]esent [illegible]alue of fu[illegible]re cash flows expected to be de[illegible] from [illegible]n asset or groups of assets.

[illegible]e first step of the impairmen[illegible] is to d[illegible]mine [illegible]alue in use of an asset. If th[illegible] in use [illegible]an the carrying amoun[illegible] ass[illegible] its fair value less costs to sell are also determined. If the latter is also lower than the carrying amount of the asset, then an impairment loss is recorded, reducing the carrying amount to the higher of the asset's value in use or fair value less costs to sell. The value in use is determined on the basis of a present value computation. Cash flows used for the purposes of this calculation are

derived from long-term forecasts approved by management and which cover a planning period of six years. The long-term forecasts themselves are based on detailed forecasts drawn up at an operational level. For the purposes of calculating cash flows beyond the planning period, the asset's assumed residual value does not take growth into account. Forecasting assumptions are continually brought up to date and take account of economic developments and past experience. Cash flows of the Automotive and Motorcycles CGUs are discounted using a risk-adjusted pre-tax cost of capital (WACC) of 12.0 % (2011: 12.0 %). In the case of Financial S ices CGU, a sector-compatible pre-tax cost of eq apital of 13.4 % (2011: 12.7 %) is applied.

If t r a y recog e loss n er exists, impai t loss up to the the re erable unt, capp e level of forw amor cost. This ot apply to g rill evious gnised im nt losses on g are not re when the investment is impaired) measured at t up's share of equity taking account of fair value a n ac Investments accounted f equity m od comprise joint ventures and s sociate ompanies.

me n consolidated Group companies inter ociated companies not accounted for using th y method are reported as measured at cost or, if lower, at their fair value.

Participations are measured at their quoted market price or fair value. When, in individual cases, these values are not available or cannot be determined reliably, participations are measured at cost.

Non-current marketable securities are ured acc d-ing to the category of financial asset ich they are classified. No held-for-trading fina assets are included under this heading.

A is a contract that g a financial asset of one entity and a financial liability or equity instrument of another entity e the BM W Group becomes party to such to a c ct, the financial instrument is recognised either as a cial asset or as a financial liability.

are accounted for on the e set-tlement date. On initial recognition, they are measured at their fair value. Transaction costs are included in the fair value unless the financial assets are allocated to the category "financial assets measured at fair value through profit or loss".

Subsequent al recognition, available-for-sale and held-for-tradi ancial assets are measured at their fair value. W arket prices are not available, the fair or-sale financial a asured g appro valuation techn ques e. ounted n flow ana based on market informa avail-e at the ba sheet date.

lable-for assets includ -curre vest-nd investme his cate-g ude derivative i al a ich are not classified as "loans and receivables" or "held-to-maturity investments" or as items measured "at fair value through profit and loss".

Loans and receivables which are not held for trading and held-to-maturity financial investments with a fixed term are measured at amortised cost using the effective interest method. All financial assets for which published price quotations in an active market are not available and whose fair value cannot be determined reliably are required to be measured at cost.

In accordance with IAS 39 (Financial Instruments: Recognition and Measurement), assessments are made regularly as to whether there is any objective evidence that a financial asset or grou ay be impaired. Impairment losse rrying out an impairment test are recognised ense. Gains and losses on available-fo ial assets are recognised directly i ancial asset is disposed of or i paired, at which time the cumu recognised in equity is reclass or the period.

With the exceptio[illegible]erivative fina[illegible]ruments, all [illegible] and [illegible]ans and re[illegible]hich [illegible]held for tr[illegible]ll such items are [illegible]ured at an[illegible]tised co[illegible]eceiva[illegible]s with maturities [illegible]r one y[illegible] which [illegible] no or a l[illegible]wer-than-marke[illegible]rest r[illegible] are disc[illegible]ed. Appropriate impairment [illegible] ar[illegible]ecognise[illegible]ke account of all identifiable ri[illegible] com[illegible]vables from retail customer, dealer and lease financing.

Impairment losses on receivables relating to financial services business are recognised using a uniform methodology that is applied throughout the Group and meets the requirements of IAS 39. This methodology results in the recognition of impairment losses both on individual assets and on groups of assets. If there is objective evidence of impairment, the BMW Group recognises impairment losses on the basis of individual assets. Within the retail customer business, the existence of overdue balances or the incidence of similar events in the past are examples of such objective evidence. In the event of overdue receivables, impairment losses are always recognised individually based on the length of period of the arrears. In the case of dealer financing receivables, the allocation of the dealer to a corresponding rating category is also deemed to represent objective evidence of impairment. If there is no objective evidence of impairment, impairment losses are recognised on financial assets using a portfolio approach based on similar groups of assets. Company-specific loss probabilities and loss ratios, derived from historical data, are used to measure impairment losses on similar groups of assets.

The recognition of impairment losses on receivables relating to industrial business is also, as far as possible, based on the same procedures applied to financial services business.

Impairment losses (write-downs and allowances) on receivables are always recorded on separate accounts and derecognised at the same time the corresponding receivables are derecognised.

Items are presented as [illegible] to the extent that they relate to financing transactions.

[illegible]ed wit[illegible] hedging p[illegible]oses [illegible] to re[illegible]duce [illegible]t rate, fa[illegible]nd [illegible]ris[illegible]s and [illegible]fina[illegible]ts. All de[illegible]e financia[illegible]umen[illegible]h [illegible] currency [illegible]ombin[illegible]st/[illegible]ward curre[illegible]rwar[illegible]- [illegible] measured [illegible]ance w[illegible]S [illegible]r [illegible]respect[illegible] of [illegible] for [illegible] held. T[illegible] val[illegible] financial instruments are measured using market information and recognised valuation techniques. In those cases where hedge accounting is applied, changes in fair value are recognised either in income or directly in equity under accumulated other equity, depending on whether the transactions are classified as fair value hedges or cash flow hedges. In the case of fair value hedges, the results of the fair value measurement of the derivative financial instruments and the related hedged items are recognised in the income statement. In the case of fair value changes in cash flow hedges which are used to mitigate the future cash flow risk on a recognised asset or liability or on forecast transactions, unrealised gains and losses on the hedging instrument are recognised initially directly in accumulated other equity. Any such gains or losses are recognised subsequently in the income statement when the hedged item (usually external revenue) is recognised in the income statement. The portion of the gains or losses from fair value measurement not relating to the hedged item is recognised immediately in the income statement. If, contrary to the normal ca[illegible]hin the B[illegible]Group, hed[illegible] accounting cannot be a[illegible] the g[illegible]s or losses f[illegible] the fair value measureme[illegible]tive financial [illegible]struments are recognised i[illegible]ately in the inc[illegible] statement.

In accordance with IAS 1[illegible]uncon[illegible]s), [illegible] are recognised [illegible] temporar[illegible]ences betwe[illegible] and accounting bases of assets an[illegible] bil[illegible]s and c[illegible]onsolidation procedures. Defe[illegible] [illegible]s also inc[illegible]de claims to future tax reductions which [illegible] from the expected usage of existing tax losses av[illegible] for carryforward to the extent that futur[illegible]ble. Deferred taxes are computed usin[illegible] [illegible]ed tax rates which are expected to a[illegible] rele[illegible]al jurisdictions when the amou[illegible] recovered.

V

[illegible] 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 average manufacturing [illegible]t and net realisable value. Manufacturing cost co[illegible]es all costs which are directly attributable to the [illegible]ufacturing process and an appropriate proportio[illegible]roduction-related overheads. This incl[illegible] tion and an appr[illegible] and social cost[illegible]

Borrowing co[illegible] not [illegible] or manufact[illegible]

hand and cash [illegible] w[illegible]al [illegible] three months.

are presented [illegible]ely [illegible] balance sheet in acco[illegible]ance with IFR[illegible] the [illegible]ng amount of the rele[illegible]vant assets [illegible]ecov[illegible] principally through a s[illegible] [illegible]continuing use. This situation only arises if the assets can be sold immedia[illegible] in their present condition, the sale is expected to be completed within one year from the date of classifica[illegible]tion and the sale is highly probable. At the d[illegible] classification, property, plant and equipment [illegible]ngible assets and disposal groups which are bei[illegible]eld for sale are written down to the lower of their [illegible]ing amount and th[illegible] less c[illegible]ed-uled depreciation/[illegible]isation [illegible]his [illegible]ot [illegible] [illegible]osal g[illegible] which [illegible]asu[illegible]es co[illegible]ed [illegible] to [illegible] and similar obligations are rec[illegible]d using the projected unit credit method in accordance with IAS 19 (Employee Benefits). Under this method, not only obligations relating to known vested benefits at the reporting date are recognised, but also the effect of future increases in pensions and salaries. This involves taking account of various input factors which are evaluated on a prudent basis. The calculation is based on an independent actuarial valuation which takes into account all relevant biometric factors.

Actua[illegible]ins and lo[illegible] pensio[illegible]l similar obligations [illegible]sets are re[illegible]sed, net of defer[illegible] [illegible]serves). T[illegible] to m[illegible]lear tha[illegible] sified [illegible] income [illegible]

Th[illegible] the [illegible]ount [illegible] and the [illegible]om [illegible]n the [illegible] [illegible]an asse[illegible]are [illegible] [illegible] par[illegible] [illegible]l resu[illegible] All oth[illegible]s re[illegible] to allocat[illegible]o p[illegible]n p[illegible]visions are allocated to costs by funct[illegible]n the [illegible]tatement.

are [illegible]ognised when the BMW Group has a present obligation arising from past events, the settlement of which is probable and when a reliable estimate can be made of the amount of th[illegible]. [illegible]easurement is computed on the bas[illegible]ly a[illegible]out-able costs. Non-current provisions w[illegible]ainin[illegible] period of more than one year are di[illegible] to the present value of the expenditure[illegible]ttle[illegible] obligation at the end of t[illegible]eporti[illegible]

are [illegible]sured on fir[illegible]gni- [illegible] which cor[illegible]ds to the fa[illegible] the consideration given. T[illegible]ion o[illegible] account except for fina[illegible] category "financial liabilit[illegible] through profit or loss". Subsequen[illegible]tial[illegible] liabilities are – with the exception of derivative financial instruments – measured at amortised cost using the effective interest method. The BMW Group has no

liabilities are held for trading. Liabilities are recognised at the present value

6 – Assumptions, judgements and estimations

The preparation of the Group's Consolidated Financial Statements in accordance with IFRSs requires management to make estimates and assumptions that can affect the reported amounts of assets and liabilities, revenues and expenses and contingent liabilities. Judgements have to be made in particular when assessing whether the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee and, hence, the classification of leasing arrangements. Major items requiring assumptions and estimations are described below. The assumptions used are continuously checked for their validity. Actual amounts may differ from the assumptions and estimations. In the business environment, develop differently than the Group's expectations.

Estimations are required to assess the recoverable amount. If the recoverable amount of an asset is being tested at the level of a CGU, assumptions must be made with regard to future cash inflows and outflows, involving in particular assumptions regarding the forecasting period to be used and the determination of the rate that reflects current market assessments of the time value of money and the risks specific to the cash flow-generating asset, including assumptions about future economic developments, technological developments and competitive sector developments and environmental en[illegible].

The BMW Group [illegible] assumptions [illegible] required for leased products relates to their residual value since this represents a significant portion of future cash inflows. In order to estimate the level of prices likely to be achieved in the future, the BMW Group incorporates internally available historical data, current market data and forecasts of external institutions into its calculations. Internal back-testing is applied to validate future lease payments and disclosures [illegible] financial liabilities.

[illegible] estimations made. Further information [illegible] in note 23.

The bad debt risk relating [illegible] assessed [illegible] these portfolios are [illegible] series [illegible] the level of financing [illegible] and [illegible] information [illegible] in [illegible] 25.

[illegible] IAS 5 is [illegible] considered [illegible] probability [illegible] Group management is required to [illegible] comprehensive programme [illegible] differences [illegible] 49 [illegible] and [illegible] date of claim [illegible] with the buyer and [illegible] within one year. Further details and [illegible] found [illegible]

Estimations are required for the purposes of [illegible]

. In addition [illegible] prescribed [illegible] warranties, the BMW Group [illegible] offers various [illegible] guarantees depending [illegible] products and [illegible] concerned. Provisions [illegible] guarantees and warranty obligations are recognised [illegible] the beginning of a lease or sales contract when a [illegible] category [illegible] guarantee is into [illegible] are taken [illegible] consideration when estimating [illegible] including past experience with future [illegible] of claims as well as an assessment of future [illegible] repair and maintenance costs. Further information [illegible] provided in note 35.

In the event of involvement in [illegible] proceedings or when claims are brought against a Group [illegible]

[redacted] when an outflow of resources is probable and a reliable estimate can be made of the amount of the obligation. Management [redacted] the [redacted] involve [redacted] the d[redacted] reas[redacted], the re[redacted] litigation a[redacted] Further i[redacted]

The [redacted] assumptions [redacted] th regard to discount factors, salary trend[redacted] uctuation, the life expectancy of empl[redacted] expected rate of return on plan assets. Di[redacted] termined annually by reference to market yields at the end of the reporting period on high quality corporate bonds. A company-specific default risk is not taken into ac(.)-20Iacty
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7 — New financial reporting rules

(a) Financial reporting rules applied for the first time in the financial year 2012

The following revised Standard was applied for the first time in the financial year 2012.

Standard		Date of issue by IASB	Date of mandatory application IASB	Endorsed by the EU	Expected impact on BMW Group
IFRS 7	Disclosure Requirements in the Event of the Transfer of Financial Assets	7.10.2010	1.7.2011*	1.7.2011*	Insignificant

* Mandatory application in annual periods beginning on or after 1 July 2011.

(b) Financial reporting pronouncements issued by the IASB, but not yet applied

The following Standards, Revised Standards and Amendments issued by the IASB during previous accounting periods, were not mandatory for the period under report and were not applied in the financial year 2012:

Standard / Interpretation		Date of issue by IASB	Date of mandatory application IASB	Date of mandatory application EU	Expected impact on BMW Group
IFRS 1	Amendments with Respect to Fixed Transition Dates and Severe Inflation	20.12.2010	1.7.2011	1.1.2013	None
	Amendments relating to Government Loans at a Below Market Rate of Interest	13.3.2012	1.1.2013	No	None

Standard / Interpretation		Date of issue by IASB	Date of mandatory application IASB	Date of mandatory application EU	Expected impact on BMW Group
IFRS 7	Notes Disclosures: Offsetting of Financial Assets and Financial Liabilities	16.12.2011	1.1.2013	1.1.2013	Insignificant
IFRS 9	Financial Instruments	12.11.2009/ 28.10.2010/ 16.12.2011	1.1.2015	No	Significant in principle
IFRS 10	Consolidated Financial Statements	12.5.2011	1.1.2013	1.1.2014	Significant in principle
IFRS 11	Joint Arrangements	12.5.2011	1.1.2013	1.1.2014	Significant in principle
IFRS 12	Disclosure of Interests in Other Entities	12.5.2011	1.1.2013	1.1.2014	Significant in principle
	Changes in Transitional Regulations (IFRS 10, IFRS 11 and IFRS 12)	28.6.2012	1.1.2013	No	Significant in principle
	Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	31.10.2012	1.1.2014	No	Insignificant
IFRS 13	Fair Value Measurement	12.5.2011	1.1.2013	1.1.2013	Significant in principle
IAS 1	Changes to Presentation of Items in Other Comprehensive Income (OCI)	16.6.2011	1.7.2012	1.7.2012*	Significant in principle
IAS 12	Amendments to Deferred Taxes: Realisation of Underlying Assets	20.12.2010	1.1.2012	1.1.2013	Insignificant
IAS 19	Changes in Accounting for Employee Benefits, in particular for Termination Benefits and Pensions	16.6.2011	1.1.2013	1.1.2013	Significant in principle
IAS 27	Separate Financial Statements	12.5.2011	1.1.2013	1.1.2014	None
IAS 28	Investments in Associates and Joint Ventures	12.5.2011	1.1.2013	1.1.2014	None
IAS 32	Presentation Offsetting of Financial Assets and Financial Liabilities	16.12.2011	1.1.2014	1.1.2014	Insignificant
IFRIC 20	Stripping Costs in the Production Phase of a Mine	19.10.2011	1.1.2013	1.1.2013	None
	Annual Improvements to IFRS 2009 2011	17.5.2012	1.1.2013	No	Insignificant

* Mandatory application in annual periods beginning on or after 1 July 2012.

In November 2009 the IASB issued IFRS 9 (Financial Instruments: Disclosures) as the first part of its project to change the accounting treatment for financial instruments. This Standard marks the first of three phases of the IASB project to replace the existing IAS 39 (Financial Instruments: Recognition and Measurement). The first phase deals with financial assets. IFRS 9 amends the recognition and measurement requirements for financial assets, including various hybrid contracts. It applies a uniform approach to accounting for a financial asset either at amortised cost or fair value and replaces the various rules contained in IAS 39. Under the new rules, there will only be two, instead of four, measurement categories for financial instruments recognised on the assets side of the balance sheet. The new categorisation is based partly on the entity's business model and partly on the contractual cash flow characteristics of the financial assets.

In October 2010, additional rules for financial liabilities were added. The requirements for financial liabilities contained in IAS 39 remain unchanged with the exception of new requirements relating to an entity's own credit risk when it exercises the fair value option. IFRS 9 is mandatory for financial years beginning on or after 1 January 2015. The BMW Group will not apply IFRS 9 early. The impact of adoption of the Standard on the Group Financial Statements is currently being assessed.

In May 2011 the IASB issued three new Standards – IFRS 10 (Consolidated Financial Statements), IFRS 11 (Joint Arrangements), IFRS 12 (Disclosure of Interests in Other Entities) – as well as amendments to IAS 27 (Consolidated and Separate Financial Statements) and to IAS 28 (Investments in Associates) all relating to accounting for business combinations. The Standards are mandatory for the first time for annual periods beginning on or after 1 January 2013. Early adoption is permitted. The new Standards are required to be applied retrospectively. EU endorsement stipulates a later mandatory date (from 1 January 2014) due to increased implementation expense.

IFRS 10 replaces the consolidation guidelines contained in IAS 27 and SIC-12 (Consolidation – Special Purpose Entities). The requirements for separate financial statements remain unchanged in the revised version of IAS 27.

IFRS 10 introduces a uniform model which establishes control as the basis for consolidation – control of a subsidiary entity by a parent entity – and which can be applied to all entities. The control concept must therefore be applied both to parent-subsidiary relationships based on voting rights as well as to parent-subsidiary relationships arising from other contractual arrangements. Under the control concept established in IFRS 10, an investor controls another entity when it is exposed to or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

IFRS 11 supersedes IAS 31 (Interests in Joint Ventures) and SIC-13 (Jointly Controlled Entities – Non-Monetary Contributions by Ventures). This Standard sets out the requirements for accounting for joint arrangements and places the emphasis on the rights and obligations that arise from such arrangements. IFRS 11 distinguishes between two types of joint arrangements, namely joint operations and joint ventures, and therefore results in a change in the classification of joint arrangements. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. IFRS 11 requires joint operators to account for their share of assets and liabilities in the joint operation (and their share of income and expenses). Joint venturers are required to account for their investment using the equity method. The withdrawal of IAS 31 means the removal of the option to account for joint ventures using either the proportionate consolidation or the equity method. The equity method must be applied in accordance with amended IAS 28.

IFRS 12 sets out the requirements for disclosures relating to all types on interests in other entities, including joint arrangements, associated companies, structured entities and unconsolidated entities.

The amendments to the transitional regulations in IFRS 10, IFRS 11 and IFRS 12 have the objective of making it easier for entities to apply the Standards retrospectively. The amendments also restrict the requirement to disclose comparative amounts to the immediately preceding reporting period at the date of first-time application.

The BMW Group is currently investigating the impact on the Group Financial Statements of applying IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28. The removal of the option for accounting for joint ventures does not have any impact since the BMW Group accounts for joint ventures using the equity method. It is currently being investigated whether any joint ventures will be required to be reclassified as joint operations as a result of the introduction of IFRS 11. The BMW Group does not intend to adopt the Standard early.

In May 2011 the IASB published IFRS 13 (Fair Value Measurement). IFRS 13 defines the term fair value, sets

out the requirements for measuring fair value where another IFRS prescribes fair value measurement (or fair value disclosure) and stipulates uniform disclosure requirements with respect to fair value measurement. IFRS 13 is mandatory for financial years beginning on or after 1 January 2013. The Standard is required to be applied prospectively. Early adoption is permitted but will not be applied by the BMW Group. IFRS 13 is of relevance for the BMW Group in particular for the measurement of derivatives.

The IASB published IAS 1 (Presentation of Financial Statements) in June 2011. The amendments to IAS 1 require that items reported in accumulated other equity (other comprehensive income or OCI) are sub-divided into elements that will be "recycled" in the income statement and those which will not. Tax associated with items presented before tax are also required to be shown separately for each of the two groups of OCI items. The recognition of these items is regulated in separate Standards. The amendments to IAS 1 are mandatory for annual periods beginning on or after 1 July 2012. The amendments are required to be applied retrospectively. Early adoption is permitted but will not be applied by the BMW Group. It is not expected that the change in presentation of items in OCI will have a significant impact on the Group Financial Statements.

In June 2011 the IASB published amendments to IAS 19 (Employee Benefits), in particular in relation to post-retirement benefits and pensions. The main amendments involve the removal of the option to defer actuarial gains and losses (the so-called "corridor method") and the requirement to recognise actuarial gains and losses in OCI. The amended IAS 19 also requires plan assets to be discounted using the same rate that is applied to discount pension obligations. It also results in changes in the treatment of termination benefits and expands disclosure requirements compared to the previous IAS 19. The amended IAS 19 is mandatory for annual periods beginning on or after 1 January 2013. Early adoption is permitted. The BMW Group does not expect that the amendments to IAS 19 will have a significant impact on the Group Financial Statements, since the BMW Group does not apply the corridor method and actuarial gains and losses are already recognised in OCI. The BMW Group does not intend to adopt the Standard early.

The IASB has published various other Standards and Interpretations. None of these, whether adopted or not yet adopted by the BMW Group, will have a significant impact on the Group Financial Statements.

8 — Revenues

Revenues by activity comprise the following:

in € million	2012	2011
Sales of products and related goods	**58,039**	52,331
Income from lease instalments	**6,900**	5,628
Sale of products previously leased to customers	**6,399**	6,226
Interest income on loan financing	**2,954**	2,774
Other income	**2,556**	1,862
Revenues	**76,848**	**68,821**

An analysis of revenues by business segment and geographical region is shown in the segment information in note 48.

9 — Cost of sales

Cost of sales comprises:

in € million	2012	2011
Manufacturing costs	**37,648**	33,594
Research and development expenses	**3,993**	3,610
Warranty expenditure	**1,200**	918
Cost of sales directly attributable to financial services	**13,370**	11,723
Interest expense relating to financial services business	**1,819**	1,914
Expense for risk provisions and write-downs for financial services business	**798**	431
Other cost of sales	**2,526**	2,086
Cost of sales	**61,354**	**54,276**

Cost of sales include €15,987 million (2011: €14,068 million) relating to financial services business.

As in the previous year, manufacturing costs do not contain any impairment losses on intangible assets and property, plant and equipment. Cost of sales is reduced by public-sector subsidies in the form of reduced taxes on assets and reduced consumption-based taxes amounting to €45 million (2011: €47 million).

Total research and development expenditure, comprising research expenses, development costs not recognised as assets on the one hand and capitalised development costs and the scheduled amortisation thereof on the other, was as follows:

in € million	2012	2011
Research and development expenses	**3,993**	3,610
Amortisation	**–1,130**	1,209
New expenditure for capitalised development costs	**1,089**	972
Total research and development expenditure	**3,952**	**3,373**

10 — Selling and administrative expenses

Selling expenses amounted to €5,147 million (2011: €4,554 million) and comprise mainly marketing, advertising and sales personnel costs.

Administrative expenses amounted to €1,860 million (2011: €1,623 million) and comprise expenses for administration not attributable to development, production or sales functions.

11 — Other operating income and expenses

in € million	2012	2011
Exchange gains	385	535
Income from the reversal of provisions	114	71
Income from the reversal of impairment losses and write-downs	4	14
Gains on the disposal of assets	41	14
Sundry operating income	285	148
Other operating income	**829**	**782**
Exchange losses	–386	537
Expense for additions to provisions	–309	391
Expenses for impairment losses and write-downs	–22	36
Losses on the disposal of fixed assets	–38	17
Sundry operating expenses	–261	151
Other operating expenses	**–1,016**	**–1,132**
Other operating income and expenses	**–187**	**–350**

Other operating income includes public-sector grants of €19 million (2011: €13 million).

12 — Result from equity accounted investments

The profit from equity accounted investments amounted to €271 million (2011: €162 million) and includes the results from the BMW Group's interests in the joint ventures BMW Brilliance Automotive Ltd., Shenyang, SGL Automotive Carbon Fibers GmbH & Co. KG, Munich, SGL Automotive Carbon Fibers Verwaltungs GmbH, Munich, SGL Automotive Carbon Fibers LLC, Dover, DE, DriveNow GmbH & Co. KG, Munich, and DriveNow Verwaltungs GmbH, Munich. Similarly, the BMW Group's share of the joint venture BMW Peugeot Citroën Electrification B.V., The Hague, are also included in the result from equity accounted investments up to the date of termination of the joint venture arrangements.

13 — Net interest result

in € million	2012	2011
Expected return on plan assets relating to pension plans and pre-retirement part-time work arrangements	539	531
Other interest and similar income	214	232
—— thereof from subsidiaries: €19 million (2011: €13 million)		
Interest and similar income	**753**	**763**
Expense from reversing the discounting of pension obligations	–628	594
Expense from reversing the discounting of other long-term provisions	–74	110
Write-downs on marketable securities	–	4
Other interest and similar expenses	–211	235
—— thereof to subsidiaries: € 7 million (2011: € 5 million)		
Interest and similar expenses	**–913**	**–943**
Net interest result	**–160**	**–180**

The expected return on plan assets includes the expected income on assets used to secure obligations relating to pension plans and pre-retirement part-time work arrangements.

14 — Other financial result

in € million	2012	2011
Income from investments	5	1
—— thereof from subsidiaries: €1 million (2011: €1 million)		
Impairment losses on investments in subsidiaries and participations	–175	8
Income from reversal of impairment losses on investments in subsidiaries and participations	–	–
Result on investments	**–170**	**–7**
Losses and gains relating to financial instruments	–422	610
Sundry other financial result	**–422**	**–610**
Other financial result	**–592**	**–617**

The result on investments in 2012 was negatively impacted by an impairment loss recognised on investments amounting to €166 million.

The negative sundry other financial result was largely attributable to net fair value losses on stand-alone commodity and currency derivatives.

15 — Income taxes

Taxes on income comprise the following:

in € million	2012	2011
Current tax expense	2,908	2,868
Deferred tax income	–211	392
Income taxes	**2,697**	**2,476**

Current tax expense includes €128 million (2011: €201 million) relating to prior periods.

Deferred tax income of €724 million (2011: income of €352 million) is attributable to new temporary differences arising in 2012 and the reversal of temporary differences brought forward.

Tax expense was reduced by €5 million (2011: €12 million) as a result of utilising tax losses/tax credits brought forward for which deferred assets had not previously been recognised.

The change in the valuation allowance on deferred tax assets relating to tax losses available for carryforward and temporary differences resulted in a tax expense of €3 million (2011: expense of €6 million).

Deferred taxes are computed using enacted or planned tax rates which are expected to apply in the relevant national jurisdictions when the amounts are recovered.

A uniform corporation tax rate of 15.0 % plus solidarity surcharge of 5.5 % applies in Germany, giving a tax rate of 15.8 %. After taking account of an average municipal trade tax multiplier rate (Hebesatz) of 420.0 %, the municipal trade tax rate for German entities is 14.7 %. The overall income tax rate in Germany is therefore 30.5 %. All of these German tax rates are unchanged from the previous year. Deferred taxes for non-German entities are calculated on the basis of the relevant country-specific tax rates and remained in a range of between 12.5 % and 46.9 % in the financial year 2012. Changes in tax rates resulted in a deferred tax expense of €21 million in 2012 (2011: €36 million).

The actual tax expense for the financial year

The difference between the expected and actual tax expense is explained in the following :

in € million	2012	2011
Profit before tax	**7,819**	7,383
Tax rate applicable in Germany	**30.5%**	30.5%
Expected tax expense	**2,385**	**2,252**
Variances due to different tax rates	**–56**	70
Tax increases (+)/tax reductions ( ) as a result of non-taxable income and non-deductible expenses	**302**	59
Tax expense (+)/benefits ( ) for prior periods	**128**	201
Other variances	**–62**	34
Actual tax expense	**2,697**	**2,476**
Effective tax rate	**34.5%**	33.5%

Tax increases as a result of non-tax-deductible expenses relate mainly to the impact of non-recoverable withholding taxes on intragroup dividends and transfer price issues. Decreases in taxes due to tax-exempt income amounted to €89 million (2011: €104 million).

The net expense shown in the line "Tax expense/benefits for prior periods" relates primarily to appropriate provision recognised for tax field audit issues and is lower than the net expense reported in the previous year.

The line "Other variances" comprises p rily reco ciling items relating to the Group's sh results of equity accounted investments.

The allocation of deferred taxes tax asse liabilities to at 31 December the following table:

	Deferred tax assets		Deferred tax liabilities	
in € million	2012	2011	2012	2011
Intangible assets	**5**	2	**1,356**	1,341
Property, plant and equipment	**37**	44	**260**	273
Leased products	**441**	476	**5,837**	5,794
Investments	**11**	6	**11**	1
Other assets	**1,067**	1,098	**3,497**	3,186
Tax loss carryforwards	**923**	1,452	**–**	
Provisions	[illegible]	2,601	**60**	46
Liabilities	[illegible]	2,714	**350**	389
Eliminations	[illegible]	2,389	**626**	590
	11	**10,782**	**11,997**	**11,620**
Valuation allowance	[illegible]	509	[illegible]	
Netting	[illegible]	8,347	[illegible]	8,347
Deferre				
Net			[illegible]	[illegible]

before allowances totalled €9 llion (2011: €1,452 million). After valuation allowa f €492 million (2011: €509 million), their carrying unt stood at €431 million (2011: €943 million).

usable without restri de to €1.3 billion (2011: €2.6 billion). This includes an amount of €92 million (2011: €58 million), for which a valuation allowance of €27 million (2011: €17 million) was recognised on the

related deferred tax asset. For entiti[illegible]sses available for carryforward, a ne[illegible]rplus o[illegible]ed tax assets over deferred tax liabil[illegible]s reporte[illegible] De- [illegible] 2012 amounting to [illegible] million (20[illegible]68 mil- [illegible]erred tax assets ar[illegible]asis of m[illegible]ment's assess[illegible]bable that [illegible]evant enti[illegible] future taxab[illegible]ofits, agai[illegible]ich d[illegible]ary diffe[illegible]es can be[illegible]

ava[illegible]or carryforward i[illegible] United Kingdom which [illegible]elate to ongoi[illegible]s amounted to €2.0 b[illegible]t the end of the reporting period, unchanged f[illegible] year earlier. As in previous years, deferred tax asse[illegible]ised on these [illegible]x losses – amounting to €465 millio[illegible] 2012 after tax rate changes in 2012 (2011: €492 million) – were fully written down since they can only be utilised against future capital gains.

relates to the offs[illegible] tax assets and liabilities within individ[illegible] or tax groups to the extent that they relate to th[illegible] authorities.

Deferred taxes recogn[illegible] amounted to €1,222 million (20[illegible] m[illegible]n increase of €20 million (2011: [illegible]ed to the end of the previous year. T[illegible]des a reduction in deferred taxes recognised in conjunction with currency translation amounting to €3 million (2011: increase of €17 million).

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

in € million	2012	2011
Deferred taxes at 1 January	**1,347**	2,007
Deferred tax income/expense recognised through income statement	**–211**	392
Change in deferred taxes recognised directly in equity	**–23**	429
Exchange rate impact and other changes[1, 2]	**–74**	161
Deferred taxes at 31 December	**1,039**	**1,347**

[1] 2011: including €87 million resulting from the purchase of the ICL Group
[2] Including impact of first-time consolidations

Changes in deferred taxes include changes relating to items recognised either through the income statement or directly in equity as well as the impact of exchange rate and first-time consolidations. Net deferred liabilities decreased overall by €23 million (2011: €429 million). On the one hand they were increased by €498 million (2011: decreased by €274 million) due to the fair value measurement of derivative financial instruments and marketable securities, shown in the summary above in the line items "Other assets" and "Liabilities". They were reduced on the other hand by €521 million (2011: €155 million) due to changes in actuarial gains and losses on defined pension obligations and plan assets recognised directly in equity. These amounts are shown in the summary above in the line item "Provisions".

Deferred taxes are not recognised on retained profits of €24.8 billion (2011: €20.7 billion) of foreign subsidiaries, as it is intended to invest these profits to maintain and expand the business volume of the relevant companies. A computation was not made of the potential impact of income taxes on the grounds of disproportionate expense.

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

16 – Earnings per share

		2012	2011
Net profit for the year after minority interest	€ million	**5,096.2**	4,880.9
Profit attributable to common stock	€ million	**4,678.8**	4,483.9
Profit attributable to preferred stock	€ million	**417.4**	397.0
Average number of common stock shares in circulation	number	**601,995,196**	601,995,196
Average number of preferred stock shares in circulation	number	**53,571,312**	53,163,232
Earnings per share of common stock	€	**7.77**	7.45
Earnings per share of preferred stock	€	**7.79**	7.47
Dividend per share of common stock	€	**2.50**	2.30
Dividend per share of preferred stock	€	**2.52**	2.32

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 undiluted earnings per share.

17 – Other disclosures relating to the income statement

The income statement includes personnel expenses as follows:

in € million	2012	2011
Wages and salaries	**7,086**	6,399
Social security, retirement and welfare costs	**1,449**	1,340
thereof pension costs: €857 million (2011: €789 million)		
Personnel expenses	**8,535**	**7,739**

Personnel expenses include €59 million (2011: €70 million) of expenditure incurred to adjust the workforce size.

The average number of employees during the year was:

	2012	2011
Employees	**95,748**	91,168
Apprentices and students gaining work experience	**6,484**	5,942
	102,232	**97,110**

The number of employees at the end of the reporting period is disclosed in the Combined Group and Company Management Report.

The fee expense pursuant to § 314 (1) no. 9 HGB recognised in the financial year 2012 for the Group auditors amounted to €26 million (2011: €22 million) and consists of the following:

in € million	2012	2011
Audit of financial statements	**14**	13
thereof KPMG AG Wirtschaftsprüfungsgesellschaft	3	3
Other attestation services	**4**	2
thereof KPMG AG Wirtschaftsprüfungsgesellschaft	2	1
Tax advisory services	**6**	5
thereof KPMG AG Wirtschaftsprüfungsgesellschaft	3	3
Other services	**2**	2
thereof KPMG AG Wirtschaftsprüfungsgesellschaft	–	1
Fee expense	**26**	**22**
thereof KPMG AG Wirtschaftsprüfungsgesellschaft	8	8

The total fee comprises expenses recorded by BMW AG, Munich, and all consolidated subsidiaries.

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

18 — Share-based remuneration

The BMW Group operates three share-based remuneration schemes, namely the Employee Share Scheme (for entitled employees), share-based commitments to members of the Board of Management members and share-based commitments to senior heads of department.

In the case of the Employee Share Scheme, non-voting shares of preferred stock in BMW AG were granted to qualifying employees during the financial year 2012 at favourable conditions (see note 33 for the number and price of issued shares). The holding period for these shares is up to 31 December 2015. The BMW Group recorded a personnel expense of €5 million (2011: €5 million) for the Employee Share Scheme in 2012, 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 Scheme.

For financial years beginning after 1 January 2011, BMW AG added a share-based remuneration component to the compensation system for Board of Management members.

Each Board of Management member is required to invest 20 % of his/her total bonus (after tax) in shares of BMW AG common stock, which are recorded in a separate custodian account for each member concerned (annual tranche). Each annual tranche is subject to a holding period of four years (vesting period). Once the holding period is fulfilled, BMW AG grants one additional share of BMW AG common stock for each three held or, at its discretion, pays the equivalent amount in cash (share-based remuneration component) provided that the term of office has not been terminated before the end of the agreed contract period (except in the case of death or invalidity).

With effect from the financial year 2012, qualifying senior heads of department are also entitled to opt for a share-based remuneration component, which, in most respects, is comparable to the share-based remuneration arrangements for Board of Management members.

The share-based remuneration component is measured at its fair value at each balance sheet date between grant and settlement date, and on the settlement date itself. The appropriate amounts are recognised as personnel expense on a straight-line basis over the vesting period and reported in the balance sheet as a provision.

The cash-settlement obligation for the share-based remuneration component is measured at its fair value at the balance sheet date (based on the closing price of BMW AG common stock in Xetra trading at 31 December 2012).

The total carrying amount of the provision for the share-based remuneration component of Board of Management members and senior heads of department at 31 December 2012 was €657,276 (2011: €115,114).

The total expense recognised in 2012 for the share-based remuneration component of Board of Management members and senior heads of department was €542,162 (2011: €115,114).

The fair value of the two programmes at the grant date of the share-based remuneration components was €1,379,723 (2011: €668,854), based on a total of 22,915 shares (2011: 11,945 shares) of BMW AG common stock or a corresponding cash-based settlement measured at the relevant market shares price prevailing on the grant date.

Further details on the remuneration of the Board of Management are provided in the 2012 Compensation Report, which is part of the Combined Group and Company Management Report.

19 – Disclosures relating to total comprehensive income

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

in € million	2012	2011
Available-for-sale securities		
Gains/losses in the period	**174**	64
Amounts reclassified to income statement	**40**	8
	214	**–72**
Financial instruments used for hedging purposes		
Gains/losses in the period	**770**	733
Amounts reclassified to income statement	**532**	68
	1,302	**–801**
Exchange differences on translating foreign operations	**–123**	168
Actuarial losses on defined benefit pension obligations, similar obligations and plan assets	**–1,881**	586
Deferred taxes relating to components of other comprehensive income	**49**	421
Other comprehensive income for the period after tax from equity accounted investments	**82**	41
Other comprehensive income for the period after tax	**–357**	**–911**

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

in € million	2012			2011		
	Before tax	Deferred taxes	After tax	Before tax	Deferred taxes	After tax
Available-for-sale securities	**214**	**–45**	**169**	72	2	70
Financial instruments used for hedging purposes	**1,302**	**–437**	**865**	801	252	549
Exchange differences on translating foreign operations	**–123**	**–**	**–123**	168		168
Actuarial losses on defined benefit pension obligations, similar obligations and plan assets	**–1,881**	**531**	**–1,350**	586	167	419
Other comprehensive income relating to equity accounted investments	**111**	**–29**	**82**	66	25	41
Other comprehensive income	**-377**	**20**	**-357**	**–1,357**	**446**	**–911**

20 — Analysis of changes in Group tangible, intangible and investment assets 2012

Analysis of changes in Group tangible, intangible and investment assets 2011

	Acquisition and manufacturing cost						
in € million	1.1.2011[1]	Acquisition ICL Group	Translation differences	Additions	Reclassi-fications	Disposals	**31.12. 2011**
Development costs	9,147	–	–	972	–	1,727	**8,392**
Goodwill	116	258	–	–	–	–	**374**
Other intangible assets	796	153					

	Depreciation and amortisation								Carrying amount		
	1.1.2012[1]	Translation differences	Current year	Reclassifications	Changes not effecting net income	Disposals	Reversal of impairment losses	**31.12.2012**	**31.12.2012**	31.12.2011	
	4,004		1,130			993		**4,141**	**4,347**	4,388	Development costs
	5							**5**	**369**	369	Goodwill
	558	2	113	2		155		**516**	**491**	481	Other intangible assets
	4,567	**–2**	**1,243**	**2**	**–**	**1,148**	**–**	**4,662**	**5,207**	**5,238**	**Intangible assets**
	3,433	9	251			11		**3,664**	**4,502**	4,335	Land, titles to land, buildings, including buildings on third party land
	19,728	20	1,886			497		**21,097**	**5,705**	5,896	Plant and machinery
	1,706	9	161	2		74		**1,782**	**530**	463	Other facilities, factory and office equipment
	1							**1**	**2,604**[2]	991	Advance payments made and construction in progress
	24,868	**–38**	**2,298**	**–2**	**–**	**582**	**–**	**26,544**	**13,341**	**11,685**	**Property, plant and equipment**
	8,843	**–10**	**4,239**	**–**	**–**	**4,245**	**–**	**8,827**	**24,468**	**23,112**	**Leased products**
	–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**514**	**302**	**Investments accounted for using the equity method**
	90		9			41		**58**	**147**	132	Investments in non-consolidated subsidiaries
	72		166		68			**170**	**401**	429	Participations
								–	**–**		Non-current marketable securities
	162	**–**	**175**	**–**	**–68**	**41**	**–**	**228**	**548**	**561**	**Other investments**

	Depreciation and amortisation									Carrying amount		
	1.1.2011	Acquisition ICL Group	Translation differences	Current year	Reclassifications	Changes not effecting net income	Disposals	Reversal of impairment losses	**31.12.2011**	**31.12.2011**	31.12.2010	
	4,522			1,209			1,727		**4,004**	**4,388**	4,625	Development costs
	5								**5**	**369**	111	Goodwill
	501	10	4	113	8		78		**558**	**481**	295	Other intangible assets
	5,028	**10**	**4**	**1,322**	**8**	**–**	**1,805**	**–**	**4,567**	**5,238**	**5,031**	**Intangible assets**
	3,186	4	20	224	1		12		**3,423**	**4,335**	4,385	Land, titles to land, buildings, including buildings on third party land
	18,235		62	1,961	4		533		**19,729**	**5,896**	5,931	Plant and machinery
	1,731	8	9	139	13		177		**1,697**	**463**	412	Other facilities, factory and office equipment
	1								**1**	**991**[2]	699	Advance payments made and construction in progress
	23,153	**12**	**91**	**2,324**	**–8**	**–**	**722**	**–**	**24,850**	**11,685**	**11,427**	**Property, plant and equipment**
	7,361	**1,687**	**83**	**3,770**	**–**	**–**	**4,056**	**1**	**8,844**	**23,112**	**19,088**	**Leased products**
	–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**302**	**212**	**Investments accounted for using the equity method**
	82			8					**90**	**132**	169	Investments in non-consolidated subsidiaries
	4					68			**72**	**429**	8	Participations
									–	**–**		Non-current marketable securities
	86	**–**	**–**	**8**	**–**	**68**	**–**	**–**	**162**	**561**	**177**	**Other investments**

21 — Intangible assets

Intangible assets mainly comprise capitalised development costs on vehicle and engine projects as well as subsidies for tool costs, licences, purchased development projects, software and purchased customer bases. Amortisation on intangible assets is presented in cost of sales, selling expenses and administrative expenses.

In addition, intangible assets include a brand-name right amounting to €44 million (2011: €43 million), goodwill of €33 million (2011: €33 million) allocated to the Automotive cash-generating unit (CGU) and goodwill of €336 million (2011: €336 million) allocated to the Financial Services CGU.

Intangible assets amounting to €44 million (2011: €43 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 2012.

No borrowing costs were recognised as a cost component of intangible assets during the year under report.

An analysis of changes in intangible assets is provided in note 20.

22 — Property, plant and equipment

No borrowing costs were recognised as a cost component of property, plant and equipment during the year under report.

As in the previous year, there was no requirement to recognise impairment losses in 2012.

A break-down of the different classes of property, plant and equipment disclosed in the balance sheet and changes during the year are shown in the analysis of changes in Group tangible, intangible and investment assets in note 20.

Property, plant and equipment include a total of €46 million (2011: €45 million) relating to land and operational buildings used by BMW AG, BMW Tokyo Corp., BMW Osaka Corp., and BMW of North America LLC, for which economic ownership is attributable to the BMW Group due to the nature of the lease arrangements (finance leases). The leases to which BMW AG is party, with a carrying amount of €39 million (2011: €41 million) run for periods up to 2028 at the latest and contain price adjustment clauses as well as extension and purchase options. The asset leased by BMW Tokyo Corp. has a carrying amount of €3 million (2011: €– million) under a lease with a remaining term of 19 years. BMW Osaka Corp. is party to finance leases running until 2022 for operational buildings with a carrying amount of €2 million at 31 December 2012 (2011: €– million). The finance lease contract accounted for at the level of BMW of North America LLC has a remaining term of three years and includes a purchase option for the underlying asset which has a carrying amount of €1 million at 31 December 2012 (2011: €1 million).

Minimum lease payments of the relevant leases are as follows:

in € million	31.12.2012	31.12.2011
Total of future minimum lease payments		
due within one year	**5**	25
due between one and five years	**23**	171
due later than five years	**52**	49
	80	**245**
Interest portion of the future minimum lease payments		
due within one year	**3**	8
due between one and five years	**8**	47
due later than five years	**17**	17
	28	**72**
Present value of future minimum lease payments		
due within one year	**2**	17
due between one and five years	**15**	124
due later than five years	**35**	32
	52	**173**

The decrease in minimum lease payments is primarily due to the early termination of finance leases relating to the Hams Hall production plant.

23 — Leased products

The BMW Group, as lessor, leases out its own products and those of other manufacturers as part of its financial services business. Minimum lease payments of €12,797 million (2011: €11,658 million) from non-cancellable operating leases fall due as follows:

in € million	31.12.2012	31.12.2011
within one year	**6,215**	5,749
between one and five years	**6,570**	5,900
later than five years	**12**	9
Minimum lease payments	**12,797**	**11,658**

Contingent rents of €166 million (2011: €174 million), based principally on the distance driven, were recognised in income. Some of the agreements contain price adjustment clauses as well as extension and purchase options.

An analysis of changes in leased products is provided in note 20.

24 — Investments accounted for using the equity method and other investments

Investments accounted for using the equity method comprise the Group's investments in the joint ventures BMW Brilliance Automotive Ltd., Shenyang, SGL Automotive Carbon Fibers GmbH & Co. KG, Munich, SGL Automotive Carbon Fibers Verwaltungs GmbH, Munich, SGL Automotive Carbon Fibers LLC, Dover, DE, DriveNow GmbH & Co. KG, Munich, and DriveNow Verwaltungs GmbH, Munich. The joint venture BMW Peugeot Citroën Electrification B.V., The Hague, was terminated at the end of November 2012, with the consequence that only the Group's share of earnings up to the date of termination are included in the result from equity accounted investments. In contrast to the end of the previous year, the joint venture BMW Peugeot Citroën Electrification B.V., The Hague, is not included in the balance sheet at 31 December 2012.

The Group's share of results of joint ventures in 2012 and its accumulated interest in investments accounted for using the equity method are as follows:

in € million	31.12.2012	31.12.2011
Disclosures relating to the income statement		
Income	**3,516**	2,142
Expenses	**–3,245**	1,980
Profit	**271**	**162**
Disclosures relating to the balance sheet		
Non-current assets	**1,018**	636
Current assets	**991**	906
Equity	**663**	392
Non-current liabilities	**117**	126
Current liabilities	**1,229**	1,024
Balance sheet total	**2,009**	**1,542**

Capital commitments to the joint ventures SGL Automotive Carbon Fibers GmbH & Co. KG, Munich, and SGL Automotive Carbon Fibers LLC, Dover, DE, at 31 December 2012 totalled €95 million.

Other investments relate to investments in non-consolidated subsidiaries, interests in associated companies not accounted for using the equity method, participations and non-current marketable securities.

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Allowances for impairment on receivables from sales financing developed as follows during the year under report:

2012 in € million	Allowance for impairment recognised on a specific item basis	Allowance for impairment recognised on a group basis	Total
Balance at 1 January*	1,355	262	**1,617**
Allocated / reversed	298	113	**411**
Utilised	– 314	21	**–335**
Exchange rate impact and other changes	– 71	57	**–14**
Balance at 31 December	**1,268**	**411**	**1,679**

* including entities consolidated for the first time during the financial year

2011 in € million	Allowance for impairment recognised on a specific item basis	Allowance for impairment recognised on a group basis	Total
Balance at 1 January*	1,455	208	**1,663**
Allocated / reversed	233	67	**300**
Utilised	– 315	14	**–329**
Exchange rate impact and other changes	– 19	1	**–18**
Balance at 31 December	**1,354**	**262**	**1,616**

* including entities consolidated for the first time during the financial year

At the end of the reporting period, impairment allowances of €411 million (2011: €262 million) were recognised on a group basis on gross receivables from sales financing totalling €30,813 million (2011: €28,991 million). Impairment allowances of €1,268 million (2011: €1,354 million) were recognised at 31 December 2012 on a specific item basis on gross receivables from sales financing totalling €11,149 million (2011: €10,981 million).

Receivables from sales financing which were not overdue at the end of the reporting period amounted to €12,631 million (2011: €10,989 million). No impairment losses were recognised for these balances.

The estimated fair value of collateral received for receivables on which impairment losses were recognised totalled €21,649 million (2011: €19,916 million) at the end of the reporting period. This collateral related primarily to vehicles. The carrying amount of assets held as collateral and taken back as a result of payment default amounted to €37 million (2011: €41 million).

26 – Financial assets

Financial assets comprise:

in € million	31.12.2012	31.12.2011
Derivative instruments	**2,992**	2,358
Marketable securities and investment funds	**2,655**	2,330
Loans to third parties	**44**	23
Credit card receivables	**234**	249
Other	**835**	493
Financial assets	**6,760**	**5,453**
thereof non-current	**2,148**	1,702
thereof current	**4,612**	3,751

The increase in derivative instruments was primarily attributable to positive market price developments of currency derivatives.

The rise in marketable securities and investment funds reflects primarily an increase in the BMW Group's strategic liquidity reserve.

The amount by which the value of the investment funds exceeds obligations for pre-retirement part-time work arrangements (€57 million; 2011: €30 million) is reported under Other financial assets. Investment funds are held to secure these obligations. These funds are managed by BMW Trust e.V., Munich, as part of Contractual Trust Arrangements (CTA) and are therefore netted against the corresponding settlement arrears for pre-retirement part-time work arrangements.

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

in € million	31.12.2012	31.12.2011
Stocks	**52**	1
Fixed income securities	**2,566**	2,329
Other debt securities	**37**	
Marketable securities and investment funds	**2,655**	**2,330**

The contracted maturities of debt securities are as follows:

in € million	31.12.2012	31.12.2011
Fixed income securities		
due within three months	**161**	241
due later than three months	**2,405**	2,088
Other debt securities		
due within three months	**37**	
due later than three months	**–**	
Debt securities	**2,603**	**2,329**

Allowance for impairment and credit risk

Receivables relating to credit card business comprise the following:

in € million	31.12.2012	31.12.2011
Gross carrying amount	**247**	267
Allowance for impairment	**–13**	18
Net carrying amount	**234**	**249**

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

2012 in € million	Allowance for impairment recognised on a specific item basis	Allowance for impairment recognised on a group basis	**Total**
Balance at 1 January	18		**18**
Allocated/reversed	8		**8**
Utilised	13		**–13**
Exchange rate impact and other changes			**–**
Balance at 31 December	**13**	**–**	**13**

2011 in € million	Allowance for impairment recognised on a specific item basis	Allowance for impairment recognised on a group basis	**Total**
Balance at 1 January	15		**15**
Allocated/reversed	20		**20**
Utilised	18		**–18**
Exchange rate impact and other changes	1		**1**
Balance at 31 December	**18**	**–**	**18**

27 – Income tax assets

Income tax assets totalling €966 million (2011: €1,194 million) include claims amounting to €638 million (2011: €872 million) which are expected to be settled after more than 12 months. Some of the claims may be settled earlier than this depending on the timing of proceedings.

28 – Other assets

Other assets comprise:

in € million	31.12.2012	31.12.2011
Other taxes	**796**	740
Receivables from subsidiaries	**738**	714
Receivables from other companies in which an investment is held	**676**	393
Prepayments	**1,024**	945
Collateral receivables	**555**	292
Sundry other assets	**659**	829
Other assets	**4,448**	**3,913**
thereof non-current	**800**	568
thereof current	**3,648**	3,345

Receivables from subsidiaries include trade receivables of €189 million (2011: €129 million) and financial receivables of €549 million (2011: €585 million). They include €178 million (2011: €116 million) with a remaining term of more than one year.

Receivables from other companies in which an investment is held include €608 million (2011: €380 million) due within one year.

Prepayments of €1,024 million (2011: €945 million) relate mainly to prepaid interest, insurance premiums and commission paid to dealers. Prepayments of €572 million (2011: €609 million) have a maturity of less than one year.

Collateral receivables comprise mainly customary collateral (bank deposits) arising on the sale of receivables.

29 – Inventories

Inventories comprise the following:

in € million	31.12.2012	31.12.2011
Raw materials and supplies	**786**	704
Work in progress, unbilled contracts	**827**	908
Finished goods and goods for resale	**8,112**	8,026
Inventories	**9,725**	**9,638**

At 31 December 2012, inventories measured at their net realisable value amounted to €639 million (2011: €616 million) and are included in total inventories of €9,725 million (2011: €9,638 million). Write-downs to net realisable value amounting to €21 million (2011: €28 million) were recognised in 2012. There were no reversals of write-downs in the year under report (2011: €1 million).

30 — Trade receivables

Trade receivables amounting in total to €2,543 million (2011: €3,286 million) include €46 million due later than one year (2011: €37 million).

Allowance for impairment and credit risk

in € million	31.12.2012	31.12.2011
Gross carrying amount	**2,654**	3,387
Allowance for impairment	**–111**	101
Net carrying amount	**2,543**	**3,286**

Allowances on trade receivables developed as following during the year under report:

2012 in € million	Allowance for impairment recognised on a specific item basis	Allowance for impairment recognised on a group basis	**Total**
Balance at 1 January*	95	7	**102**
Allocated/reversed	20	1	**21**
Utilised	– 6	2	**–8**
Exchange rate impact and other changes	– 4		**–4**
Balance at 31 December	**105**	**6**	**111**

* including entities consolidated for the first time during the financial year

2011 in € million	Allowance for impairment recognised on a specific item basis	Allowance for impairment recognised on a group basis	**Total**
Balance at 1 January*	83	12	**95**
Allocated/reversed	18	2	**20**
Utilised	– 8	5	**–13**
Exchange rate impact and other changes	– 1	2	**–1**
Balance at 31 December	**94**	**7**	**101**

* including entities consolidated for the first time during the financial year

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

in € million	31.12.2012	31.12.2011
1 30 days overdue	**139**	140
31 60 days overdue	**55**	40
61 90 days overdue	**22**	22
91 120 days overdue	**15**	15
More than 120 days overdue	**16**	25
	247	**242**

Receivables that are overdue by between one and 30 days do not normally result in bad debt losses since the overdue nature of the receivables is primarily attributable to the timing of receipts around the month-end. In the case of trade receivables, collateral is generally held in the form of vehicle documents and bank guarantees so that the risk of bad debt loss is extremely low.

31 — Cash and cash equivalents

Cash and cash equivalents of €8,370 million (2011: €7,776 million) comprise cash on hand and at bank, all with an original term of up to three months.

32 – Assets held for sale and liabilities in conjunction with assets held for sale

In the fourth quarter of the financial year 2012 the Board of Management of BMW AG decided to realign its strategic direction for the Motorcycles segment in view of the changing nature of motorcycle markets, demographic developments and stricter environmental requirements. The BMW Group intends to broaden its product range, in particular in the fields of urban mobility and e-mobility, in order to open up future growth opportunities. In line with the decision to focus on the BMW Motorrad brand, and considering the declining size of the relevant markets, it is considered a sensible move to sell the Husqvarna Motorcycles brand.

In December 2012, BMW AG, Munich, and Pierer Industrie AG, Wels, reached agreement with regard to the sale of Husqvarna Motorcycles S.r.l., Cassinetta di Biandronno, and Husqvarna Motorcycles NA, LLC, Wilmington, DE, to Pierer Industrie AG, Wels. Subject to approval of the transaction by the Austrian Merger Control Authorities, the sale will be completed during the first half of 2013.

At 31 December 2012, the Husqvarna Group accordingly meets the criteria for classification as a "disposal group" in accordance with IFRS 5. The carrying amount of property, plant and equipment and intangible assets attributable to the Husqvarna Group has been written down to fair value less costs to sell. All assets of the Husqvarna Group are reported separately in the balance sheet on the line "Assets held for sale" within the Motorcycles segment. Similarly, its liabilities are reported separately in the balance sheet on the line "Liabilities in conjunction with assets held for sale" within the Motorcycles segment. The remeasurement of assets in accordance with IFRS 5 resulted in the recognition of an impairment loss of €13 million on property, plant and equipment which is reported in "Other operating expenses".

Assets held for sale comprise mainly inventories (€24 million), other assets (€10 million) and trade receivables (€11 million). Liabilities in conjunction with assets held for sale comprise mainly pension provisions (€2 million), other provisions (€7 million), trade payables (€16 million) and other liabilities (€3 million).

33 – Equity

Number of shares issued

	Preferred stock		Common stock	
	2012	2011	**2012**	2011
Shares issued / in circulation at 1 January	**53,571,372**	53,163,412	**601,995,196**	601,995,196
Shares issued in conjunction with Employee Share Scheme	**422,905**	408,140	**–**	–
less: shares repurchased and re-issued	**60**	180	**–**	–
Shares issued/in circulation at 31 December	**53,994,217**	53,571,372	**601,995,196**	601,995,196

At 31 December 2012 common stock issued by BMW AG was divided, as at the end of the previous year, into 601,995,196 shares of common stock with a par-value of €1. Preferred stock issued by BMW AG was divided into 53,994,217 shares (2011: 53,571,372 shares) with a par-value of €1. Unlike the common stock, no voting rights are attached to the preferred stock. All of the Company's stock is issued to bearer. Preferred stock bears an additional dividend of €0.02 per share.

In 2012, a total of 422,905 shares of preferred stock was sold to employees at a reduced price of €31.45 per share in conjunction with an Employee Share Scheme. These shares are entitled to receive dividends with effect from the financial year 2013. 60 shares of preferred stock were bought back via the stock exchange in conjunction with the Company's Employee Share Scheme.

Further information on share-based remuneration is provided in note 18.

Issued share capital increased by €0.4 million as a result of the issue to employees of 422,845 shares of non-voting preferred stock. The Authorised Capital of BMW AG amounted to €3.2 million at the end of the reporting period. The Company is authorised to issue shares of non-voting preferred stock amounting to nominal €5.0 million prior to 13 May 2014. The share premium of €18.2 million arising on the share capital increase in 2012 was transferred to capital reserves.

Capital reserves

Capital reserves include premiums arising from the issue of shares and totalled €1,973 million (2011: €1,955 million). The change related to the share capital

increase in conjunction with the issue of shares of preferred stock to employees.

Revenue reserves

Revenue reserves comprise the post-acquisition and non-distributed earnings of consolidated companies. In addition, actuarial gains and losses relating to defined benefit pension obligations, similar obligations and plan assets (as well as deferred taxes recognised directly in equity on these items) are also reported here, along with positive and negative goodwill arising on the consolidation of Group companies prior to 31 December 1994.

Revenue reserves increased during the year to €28,340 million. They were increased by the amount of the net profit attributable to shareholders of BMW AG for the financial year 2012 amounting to €5,096 million (2011: €4,881 million) and reduced by the payment of the dividend for 2011 amounting to €1,508 million (2011: €852 million). Actuarial losses relating to defined benefit pension obligations, similar obligations and plan assets (and related deferred taxes) reduced revenue reserves in 2012 by €1,350 million (2011: €419 million).

The unappropriated profit of BMW AG at 31 December 2012 amounts to €1,640 million and will be proposed to the Annual General Meeting for distribution. This amount includes €135 million relating to preferred stock. The amount proposed for distribution represents an amount of €2.52 per share of preferred stock and €2.50 per share of common stock. The proposed distribution must be authorised by the shareholders at the Annual General Meeting of BMW AG. It is therefore not recognised as a liability in the Group Financial Statements.

Accumulated other equity

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

Minority interests

Equity attributable to minority interests amounted to €107 million (2011: €65 million). This includes a minority interest of €26 million in the results for the year (2011: €26 million).

Capital management disclosures

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

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

In order to manage its capital structure, the BMW Group uses various instruments including the amount of dividends paid to shareholders and share buy-backs.

The BMW Group manages the structure of debt capital on the basis of a target debt ratio. An important aspect of the selection of financial instruments is the objective to achieve matching maturities for the Group's financing requirements. In order to reduce non-systematic risk, the BMW Group uses a variety of financial instruments available on the world's capital markets to achieve optimal diversification.

The capital structure at the end of the reporting period was as follows:

in € million	31.12.2012	31.12.2011
Equity attributable to shareholders of BMW AG	**30,295**	27,038
Proportion of total capital	**30.4%**	28.5%
Non-current financial liabilities	**39,095**	37,597
Current financial liabilities	**30,412**	30,380
Total financial liabilities	**69,507**	67,977
Proportion of total capital	**69.6%**	71.5%
Total capital	**99,802**	**95,015**

Equity attributable to shareholders of BMW AG increased during the financial year by 1.9 percentage points, mainly owing to the high net profit recorded for the year.

BMW AG's long-term and short-term ratings were raised by one level in April 2012 by the rating agency Standard & Poor's from A–/A-2 to A/A-1 with a stable outlook. This means that BMW AG currently enjoys the best ratings of all European car manufacturers.

The improved rating and outlook reflect the worldwide rise in demand for premium cars, the successful implementation of measures in conjunction with Strategy Number ONE and the stable financial position of the BMW Group.

	Moody's	Standard & Poor's
Non-current financial liabilities	A2	A
Current financial liabilities	P-1	A-1
Outlook	stable	stable

With their current long-term ratings of A (S&P) and A2 (Moody's), the agencies continue to confirm BMW AG's robust creditworthiness for debt with a term of more than one year. BMW AG's creditworthiness for short-term debt is also classified by the rating agencies as good, thus enabling it to obtain refinancing funds on competitive conditions.

34 – Pension provisions

Pension provisions are recognised as a result of commitments to pay future vested pension benefits and current pensions to present and former employees of the BMW Group and their dependants. Depending on the legal, economic and tax circumstances prevailing in each country, various pension plans are used, based generally on the length of service, final salary and remuneration structure of the employees involved. Due to similarity of nature, the obligations of BMW Group companies in the USA and of BMW (South Africa) (Pty) Ltd., Pretoria, for post-employment medical care are also disclosed as pension provisions in accordance with IAS 19.

Post-employment benefit plans are classified as either defined contribution or defined benefit plans. Under defined contribution plans, an enterprise pays fixed contributions into a separate entity or fund and does not assume any other obligations. The total pension expense for defined contribution plans of the BMW Group amounted to €47 million (2011: €40 million). Employer contributions paid to state pension insurance schemes totalled €444 million (2011: €400 million).

Under defined benefit plans, the enterprise is required to pay the benefits granted to present and past employees. Defined benefit plans may be funded or unfunded, the latter sometimes covered by accounting provisions. Pension commitments in Germany are mostly covered by assets contributed to a separate fund in conjunction with a Contractual Trust Arrangement (CTA). The main other countries with funded plans were the UK, the USA, Switzerland, the Netherlands, Belgium, South Africa and Japan. Obligations not covered by assets held by the fund are covered by pension provisions.

Pension obligations are computed on an actuarial basis at the level of the defined benefit obligation. The actuarial computation requires the use of estimates, based on assumptions relating to life expectancy and the parameters stated below that depend on the economic situation

in each particular country. The following weighted average values have been used for Germany, the UK and other countries:

31 December	Germany		United Kingdom		Other	
in %	**2012**	2011	**2012**	2011	**2012**	2011
Discount rate	**3.00**	4.75	**4.25**	4.75	**3.82**	4.57
Salary level trend	**3.18**	3.35	**3.50**	3.65	**3.57**	3.43
Pension level trend	**2.18**	2.35	**2.92**	3.09	**1.84**	1.59

The salary level trend refers to the expected rate of salary increase which is estimated annually depending on inflation and the career development of employees within the Group.

In the case of externally funded plans, the defined benefit obligation is offset against plan assets measured at their fair value. Where the plan assets exceed the pension obligations and the enterprise has a right of reimbursement or a right to reduce future contributions, the surplus amount is recognised as an asset in accordance with IAS 19 and presented within other financial assets. In the case of externally funded plans, a liability is recognised under pension provisions where the benefit obligation exceeds fund assets.

Actuarial gains or losses may result from increases or decreases in either the present value of the defined benefit obligation or the fair value of the plan assets. Causes of actuarial gains or losses include the effect of changes in the measurement parameters, changes in estimates caused by the actual development of risks impacting on pension obligations and differences between the actual and expected return on plan assets. Actuarial gains or losses are recognised directly in revenue reserves within equity. Past service cost arises when the BMW Group company introduces a defined benefit or changes the benefits payable under an existing plan.

Based on the measurement principles of IAS 19, the following [illegible] to the Group's pension plans:

31 December	Germany		United Kingdom		Other		Total	
in € million	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Present value of pension benefits covered by accounting provisions	**3**	2	**–**		**110**	93	**113**	95
Present value of funded pension benefits	**7,971**	5,616	**7,280**	6,676	**1,038**	825	**16,289**	13,117
Defined benefit obligations	**7,974**	5,618	**7,280**	6,676	**1,148**	918	**16,402**	13,212
Fair value of plan assets	**6,064**	5,178	**5,782**	5,376	**602**	485	**12,448**	11,039
Net obligation	**1,910**	440	**1,498**	1,300	**546**	433	**3,954**	2,173
Past service cost not yet recognised	**–**		**–**		**6**	6	**6**	6
Amount not recognised as an asset because of the limit in IAS 19.58	**–**		**–**		**4**	3	**4**	3
Balance sheet amounts at 31 December	**1,910**	**440**	**1,498**	**1,300**	**556**	**442**	**3,964**	**2,182**
thereof pension provision	**1,910**	440	**1,498**	1,300	**557**	443	**3,965**	2,183
thereof assets	**–**		**–**		**–1**	1	**–1**	1

Pension provisions relating to pension plans in other countries amounted to €557 million (2011: €443 million). This includes €447 million (2011: €350 million) relating to externally funded plans. The provision for pension-like obligations for post-employment medical care in the USA and South Africa amounts to €119 million (2011: €120 million) and is measured, similar to pension obligations, in accordance with IAS 19. In the case of post-employment medical care, it is assumed that the costs will increase on a long-term basis by 6 % p.a. (unchanged from the previous year). The expense for medical care obligations in the financial year 2012 was €12 million (2011: €9 million).

The in[illegible] from [illegible] for th[illegible] arial c[illegible] the U[illegible] The in[illegible] as no[illegible]lly offset [illegible] fu[illegible] assets in the[illegible]

The [illegible] sion asset ([illegible] claims or right to reduce future contri[illegible] funds) as disclosed in the balance sheet [illegible] as follows:

in € million	Germany 2012	Germany 2011	United Kingdom 2012	United Kingdom 2011	Other 2012	Other 2011	Total 2012	Total 2011
Balance sheet amounts at 1 January	**440**	85	**1,300**	1,202	**442**	275	**2,182**	1,562
Effect of first-time consolidation	**–**		**–**		**2**	1	**2**	1
Expense from pension obligations	**167**	189	**133**	113	**66**	47	**366**	349
Pension payments or transfers to external funds	**–277**	153	**–109**	101	**–71**	64	**–457**	315
–Actuarial gains ( ) and losses (+) on defined benefit obligations	**2,046**	18	**309**	376	**[illegible]**	135	**2,521**	493
–Actuarial gains ( ) and losses (+) on plan assets	**–466**	334	**–170**	328	**–3[illegible]**	31	**–669**	37
Employee contributions	**–**	3	**–**				**–**	3
Translation differences and other changes	**–**		**35**	38	**–1[illegible]**	14	**19**	52
Bal[illegible]	**1,910**	**440**	**1,498**	**1,300**	**55[illegible]**	**44[illegible]**		**2,182**
[illegible]hereof p[illegible]sion	**1,910**	440	**1,498**	1,300	**55[illegible]**	443	**3,9[illegible]**	[illegible],183
[illegible]hereof a[illegible]	**–**		**–**			1		1

[illegible]he de[illegible] benefit[illegible]ns of [illegible] BMW [illegible] gave rise [illegible] [illegible]ancial year 2012 of €366 million (2[illegible]349 mil[illegible]), comp[illegible]ing the following compone[illegible]s:

in € milli[illegible]	Germany 2012	Germany 2011	United Kingdom 2012	United Kingdom 2011	Other 2012	Other 2011	Total 2012	Total 2011
[illegible]	**148**	142	**71**	63	**48**	35	**267**	240
Expense from reversing the discounting of pension obligations	**264**	248	**321**	311	**43**	35	**628**	594
Past service cost	**2**	48	**1**	12	**–3**	1	**–**	37
Expected return on plan assets	**–247**	249	**–260**	249	**–22**	24	**–529**	522
Expense from pension obligations	**167**	**189**	**133**	**113**	**66**	**47**	**366**	**349**

The expense from reversing the discounting of pension obligations and the income from the expected return on plan assets are reported as part of the financial result. All other components of pension expense are included in the income statement under costs by function.

Depending on the cash flow profile and risk structure of the pension obligations involved, pension plan assets are invested in various investment classes, the most predominant one being bonds. The asset portfolio also includes equity instruments, property and alternative investments. The expected rate of return is derived on the basis of the specific investment strategy applied to each individual pension fund. This is determined on the basis of the rates of return from the individual investment classes taking account of costs and unplanned risks. This approach resulted in the following expected rates of return on plan assets (disclosed on the basis of weighted averages):

	Germany		United Kingdom		Other	
in %	**2012**	2011	**2012**	2011	**2012**	2011
Expected rate of return on plan assets	**4.75**	4.75	**4.75**	5.30	**4.48**	5.35

Compared to the expected return of €529 million (2011: €522 million), fund assets actually increased in the financial year 2012 by €1,198 million (2011: increase in fund assets of €485 million), giving rise to actuarial gains on fund assets of €669 million (2011: actuarial losses of €37 million). Actuarial losses on obligations amounted to €2,521 million in 2012 (2011: actuarial losses of €493 million) and related mainly to the lower discount rates used in Germany, the UK and the USA. At 31 December 2012, accumulated actuarial gains and losses arising on defined benefit pension and similar obligations and on plan assets totalled €4,976 million (2011: €3,095 million).

The level of the pension obligations differs depending on the pension system applicable in each country. Since the state pension system [illegible] only provides a low fixed amou[illegible] [illegible]its are largely organised i[illegible] for [illegible] [illegible]ny [illegible]ons on the one hand and a[illegible] em[illegible] in [illegible] b[illegible] individual on the other. T[illegible]ens[illegible] in t[illegible]K therefore contain contrib[illegible]s n[illegible] em[illegible]ee.

The [illegible] in Germany, the UK and oth[illegible] un[illegible]hanged as follows:

Germany

	Defined benefit obligation		Plan assets		Net obligation	
in € million	**2012**	2011	**2012**	2011	**2012**	2011
1 January	**5,618**	5,292	**–5,178**	5,207	**440**	85
Expense from pension obligations and expected return on plan assets	**414**	438	**–247**	249	**167**	189

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United Kingdom

	Defined benefit obligation		Plan assets		Net obligation	
in € million	**2012**	2011	**2012**	2011	**2012**	2011
1 January	**6,676**	6,014	**–5,376**	4,812	**1,300**	1,202
Expense from pension obligations and expected return on plan assets	**393**	362	**–260**	249	**133**	113
Payments to external funds	**–**		**–109**	101	**–109**	101
Employee contributions	**1**	1	**–1**	1	**–**	
Payments on account and pension payments	**–280**	276	**280**	276	**–**	
–Actuarial gains ( ) and losses (+)	**309**	376	**–170**	328	**139**	48
Translation differences and other changes	**181**	199	**–146**	161	**35**	38
31 December	**7,280**	**6,676**	**–5,782**	**–5,376**	**1,498**	**1,300**

Other

	Defined benefit obligation		Plan assets		Net obligation	
in € million	**2012**	2011	**2012**	2011	**2012**	2011
1 January	**918**	702	**–485**	436	**433**	266
Effect of first-time consolidation	**2**	4	**–**	3	**2**	1
Expense from pension obligations and expected return on plan assets	**88**	71	**–22**	24	**66**	47
Payments to external funds	**–**		**–67**	56	**–67**	56
Employee contributions	**4**	2	**–4**		**–**	
Payments on account and pension payments	**–22**	23	**18**	[illegible]	**–4**	5
–Actuarial gains ( ) and losses (+)	**166**	135	**–33**	31	**133**	166
Translation differences and other changes	**–8**	27	**–9**	13	**–17**	14
31 December	**1,148**	**918**	**–602**	[illegible]	**546**	**433**

in Germany, the UK and other countries comprised the following:

Components of plan assets

	Germany		United Kingdom		Other countries		Total	
in € million	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Equity instruments	**1,447**	1,384	**1,091**	1,055	**184**	211	**2,722**	2,650
Debt securities	**4,277**	3,556	**3,441**	2,927	**268**	183	**7,986**	6,666
Real estate	**84**	76	**532**	501	**64**	40	**680**	617
Other	**256**	162	**718**	893	**86**	51	**1,060**	1,106
31 December	**6,064**	**5,178**	**5,782**	**5,376**	**602**	**485**	**12,448**	**11,039**

A substantial portion of plan assets is invested in debt securities in order to minimise the effect of capital market fluctuations. Other investment classes, such as stocks and shares, serve to generate higher rates of return. This is necessary to cover risks (such as changes in morbidity tables) not taken into account in the actuarial assumptions applied. The financial risk of pension payments having to be made for longer than the calculated period is also hedged for pensioners in the UK by a so-called longevity hedge.

The present value of the defined benefit obligations and the fair values of fund assets – as well as the actuarial adjustments made for those two items – have developed as follows over the last five years:

in € million	**2012**	2011	2010	2009	2008
Defined benefit obligation	**16,402**	13,212	12,008	10,931	8,788
Fair value of plan assets	**12,448**	11,039	10,455	7,977	5,491
Net obligation	**3,954**	2,173	1,553	2,954	3,297
–Actuarial gains ( ) and losses (+) on defined benefit obligations	**2,521**	493	459	1,464	919
–Actuarial gains ( ) and losses (+) on plan assets	**–669**	37	227	289	868

Actuarial gains on benefit obligations, mostly attributable to experience adjustments, amounted to €279 million (2011: actuarial gains of €60 million). Experience adjustments relating to fund assets also resulted in actuarial gains of €669 million in the financial year under report (2011: actuarial losses of €23 million).

35 — Other provisions

Other provisions comprise the following items:

in € million	**31.12.2012**		31.12.2011	
	Total	thereof due within one year	Total	thereof due within one year
Obligations for personnel and social expenses	**1,719**	**1,234**	1,632	1,190
Obligations for ongoing operational expenses	**3,177**	**924**	2,953	1,023
Other obligations	**1,899**	**1,124**	1,668	891
Other provisions	**6,795**	**3,282**	**6,253**	**3,104**

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. Obligations for performance-related remuneration components are normally settled in the following financial year. Provisions for obligations for on-going operational expenses comprise primarily warranty obligations and comprise both statutorily prescribed manufacturer warranties and other guaranties offered by the BMW Group. Depending on when claims are made, it is possible that the BMW Group may be called upon to fulfil obligations over the whole period of the warranty or guarantee. Provisions for other obligations cover numerous specific risks and obligations of uncertain timing and amount, in particular for litigation and liability risks.

Other provisions changed during the year as follows:

in € million	1.1.2012*	–Translation differences	–Additions	–Reversal of discounting	–Utilised	–Reversed	**–31.12.2012**
Obligations for personnel and social expenses	1,632	3	1,346	1	– 1,226	31	**1,719**
Obligations for ongoing operational expenses	2,953	26	1,119	39	848	60	**3,177**
Other obligations	1,677	16	626	18	254	152	**1,899**
Other provisions	**6,262**	**–45**	**3,091**	**58**	**–2,328**	**–243**	**6,795**

* including entities consolidated for the first time during the financial year

Income from the reversal of other provisions amounting to €129 million (2011: €308 million) is included in costs by function in the income statement.

36 – Income tax liabilities

Current income tax liabilities totalling €1,482 million (2011: €1,363 million) include claims amounting to €806 million (2011: €807 million) which are expected to be settled after more than twelve months. Some of the liabilities may be settled earlier than this depending on the timing of proceedings.

Current tax liabilities of €1,482 million (2011: €1,363 million) comprise €438 million (2011: €122 million) for taxes payable and €1,044 million (2011: €1,241 million) for tax provisions. In 2012, tax provisions of €23 million were reversed (2011: €27 million).

37 – Financial liabilities

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

31 December 2012 in € million	Maturity within one year	Maturity between one and five years	Maturity later than five years	**Total**
Bonds	7,427	17,234	5,191	**29,852**
Liabilities to banks	4,595	4,232	657	**9,484**
Liabilities from customer deposits (banking)	10,076	2,942		**13,018**
Commercial paper	4,577			**4,577**
Asset backed financing transactions	2,097	7,212	102	**9,411**
Derivative instruments	865	903	22	**1,790**
Other	775	233	367	**1,375**
Financial liabilities	**30,412**	**32,756**	**6,339**	**69,507**

31 December 2011 in € million	Maturity within one year	Maturity between one and five years	Maturity later than five years	**Total**
Bonds	8,009	16,069	4,495	**28,573**
Liabilities to banks	2,983	5,166	249	**8,398**
Liabilities from customer deposits (banking)	8,928	3,090	23	**12,041**
Commercial paper	5,478			**5,478**
Asset backed financing transactions	3,152	6,233		**9,385**
Derivative instruments	999	1,456	24	**2,479**
Other	831	397	395	**1,623**
Financial liabilities	**30,380**	**32,411**	**5,186**	**67,977**

The BMW Group uses various short-term and long-term refinancing instruments on money and capital markets to finance its operations. This diversification enables it to obtain attractive market conditions.

The main instruments used are corporate bonds, asset-backed financing transactions, liabilities to banks and liabilities from customer deposits (banking).

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

Bonds comprise:

Issuer	Interest	Issue volume in relevant currency (ISO-Code)	Weighted average maturity period (in years)	Weighted average nominal interest rate (in %)
BMW Finance N.V., The Hague	variable	AUD 200 million	1.5	4.2
	variable	EUR 1,240 million	2.1	0.6
	variable	HKD 300 million	3.0	1.3
	variable	JPY 12,500 million	1.8	0.8
	variable	SEK 2,640 million	1.8	2.3
	variable	USD 530 million	1.7	0.9
	fixed	AUD 550 million	3.6	6.3
	fixed	CAD 125 million	2.0	2.2
	fixed	CHF 300 million	6.0	1.8
	fixed	EUR 13,357 million	6.0	4.0
	fixed	GBP 1,050 million	6.9	3.9
	fixed	HKD 836 million	3.0	2.0
	fixed	JPY 22,500 million	1.4	0.9
	fixed	NOK 6,850 million	3.2	3.8
	fixed	NZD 100 million	3.0	4.8
	fixed	SEK 1,000 million	3.0	3.8
BMW (UK) Capital plc, Bracknell	variable	EUR 100 million	3.0	0.2
	variable	JPY 18,900 million	5.0	0.2
	fixed	CHF 500 million	5.0	2.1
	fixed	GBP 300 million	8.0	5.0
	fixed	JPY 24,000 million	5.0	2.5
BMW US Capital, LLC, Wilmington, DE	variable	EUR 372 million	1.8	0.5
	variable	MXN 405 million	0.1	4.8
	variable	SEK 1,350 million	1.7	2.0
	variable	USD 355 million	1.7	0.9
	fixed	CHF 325 million	2.2	3.6
	fixed	EUR 3,250 million	2.2	4.1
	fixed	MXN 725 million	0.1	7.9
	fixed	NOK 1,500 million	2.9	2.4
	fixed	USD 795 million	4.6	5.3
BMW Australia Finance Ltd., Melbourne, Victoria	variable	EUR 202 million	1.4	0.2
	variable	SEK 600 million	2.8	1.4
	variable	USD 175 million	1.7	0.4
	fixed	AUD 230 million	3.0	6.3
	fixed	CHF 200 million	3.0	1.0
	fixed	JPY 11,000 million	2.0	0.5
	fixed	USD 100 million	2.5	1.1
Other	variable	JPY 29,200 million	2.5	0.4
	variable	ZAR 600 million	3.0	6.6
	fixed	INR 8,000 million	3.6	10.1
	fixed	CAD 2,275 million	3.6	2.8
	fixed	JPY 10,000 million	8.5	1.4
	fixed	KRW 100,000 million	3.0	3.9

31 December 2012 in € million	Maturity within one year	Maturity between one and five years	Maturity later than five years	**Total**
Other taxes	697	1	15	**713**
Social security	46	23	7	**76**
Advance payments from customers	603	65		**668**
Deposits received	355	91		

Deferred income comprises the following items:

in € million	31.12.2012 Total	31.12.2012 thereof due within one year	31.12.2011 Total	31.12.2011 thereof due within one year
Deferred income from lease financing	**1,743**	**791**	1,564	731
Deferred income relating to service contracts	**2,478**	**615**	2,203	570
Grants	**196**	**28**	223	35
Other deferred income	**95**	**62**	78	75
Deferred income	**4,512**	**1,496**	**4,068**	**1,411**

Deferred income relating to service contracts relates to service and repair work to be provided under commitments given at the time of the sale of a vehicle (multi-component arrangements). Grants comprise primarily public funds to promote regional structures and which have been invested in the production plants in Leipzig and Berlin. The grants are subject to holding periods for the assets concerned of up to five years and minimum employment figures. All conditions attached to the grants were complied with at 31 December 2012. In accordance with IAS 20, grant income is recognised over the useful lives of the assets to which they relate. Other deferred income includes primarily the effects of the initial measurement of financial instruments.

39 — Trade payables

31 December 2012 in € million	Maturity within one year	Maturity between one and five years	Maturity later than five years	**Total**
Trade payables	6,424	9		**6,433**

31 December 2011 in € million	Maturity within one year	Maturity between one and five years	Maturity later than five years	**Total**
Trade payables	5,295	43	2	**5,340**

The total amount of financial liabilities, other liabilities and trade payables with a maturity later than five years amounts to €6,702 million (2011: €5,488 million).

40 – Contingent liabilities and other financial commitments

Contingent liabilities

No provisions were recognised for the following contingent liabilities (stated at their nominal amount), since an outflow of resources is not considered to be probable:

in € million	31.12.2012	31.12.2011
Guarantees	6	16
Performance guarantees	–	23
Other	60	99
Contingent liabilities	**66**	**138**

Contingent liabilities relate entirely to non-group entities.

The usual commercial guarantees have been given in relation to the sale of Rover Cars and Land Rover activities.

Other financial obligations

In addition to liabilities, provisions and contingent liabilities, the BMW Group also has other financial commitments, primarily under lease contracts for land, buildings, plant and machinery, tools, office and other facilities. The leases run for periods of one to 46 years and in some cases contain extension and/or purchase options. In 2012 an amount of €296 million (2011: €208 million) was recognised as an expense in conjunction with operating leases. All of these amounts relate to minimum lease payments.

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

in € million	31.12.2012	31.12.2011
Nominal total of future minimum lease payments		
due within one year	320	297
due between one and five years	805	704
due later than five years	585	663
Other financial obligations	**1,710**	**1,664**

Other financial obligations include €19 million (2011: €10 million) in respect of non-consolidated subsidiaries and €2 million (2011: €1 million) for back-to-back operating leases.

Purchase commitments amounted to €3,010 million (2011: €1,654 million) for property, plant and equipment and to €440 million (2011: €186 million) for intangible assets.

41 — Financial instruments

The carrying amounts and fair values of financial instruments are assigned to IAS 39 categories and cash funds[1] as follows:

31 December 2012 in € million	Cash funds		Loans and receivables		Held-to-maturity investments	
	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount
Assets						
Other investments	–	–	–	–	–	–
Receivables from sales financing	–	–	54,374	52,914	–	–
Financial assets						
Derivative instruments						
Cash flow hedges	–	–	–	–	–	–
Fair value hedges	–	–	–	–	–	–
Other derivative instruments	–	–	–	–	–	–
Marketable securities and investment funds	–	–	–	–	–	–
Loans to third parties	–	–	44	44	–	–
Credit card receivables	–	–	234	234	–	–
Other	–	–	835	835	–	–
Cash and cash equivalents	8,370	8,370	–	–	–	–
Trade receivables	–	–	2,543	2,543	–	–
Other assets						
Receivables from subsidiaries	–	–	738	738	–	–
Receivables from companies in which an investment is held	–	–	676	676	–	–
Collateral receivables	398	398	–	–	–	–
Other	–	–	205	205	–	–
Total	**8,768**	**8,768**	**59,649**	**58,189**	**–**	**–**
Liabilities						
Financial liabilities						
Bonds	–	–	–	–	–	–
Liabilities to banks	–	–	–	–	–	–
Liabilities from customer deposits (banking)	–	–	–	–	–	–
Commercial paper	–	–	–	–	–	–
Asset backed financing transactions	–	–	–	–	–	–
Derivative instruments						
Cash flow hedges	–	–	–	–	–	–
Fair value hedges	–	–	–	–	–	–
Other derivative instruments	–	–	–	–	–	–
Other	–	–	–	–	–	–
Trade payables	–	–	–	–	–	–
Other liabilities						
Payables to subsidiaries	–	–	–	–	–	–
Payables to other companies in which an investment is held	–	–	–	–	–	–
Other	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**

[1] The carrying amounts of cash flow and fair value hedges are allocated to the category "Held for trading" for the sake of clarity.
[2] Carrying amount corresponds to fair value.

	Other liabilities		Available-for-sale	Fair value option	Held for trading
	Fair value	Carrying amount	Carrying amount[2]	Carrying amount[2]	Carrying amount[2]
Assets					
Other investments	–	–	548	–	–
Receivables from sales financing	–	–	–	–	–
Financial assets					
Derivative instruments					
Cash flow hedges	–	–	–	–	925
Fair value hedges	–	–	–	–	1,457
Other derivative instruments	–	–	–	–	610
Marketable securities and investment funds	–	–	2,655	–	–
Loans to third parties	–	–	–	–	–
Credit card receivables	–	–	–	–	–
Other	–	–	–	–	–
Cash and cash equivalents	–	–	–	–	–
Trade receivables	–	–	–	–	–
Other assets					
Receivables from subsidiaries	–	–	–	–	–
Receivables from companies in which an investment is held	–	–	–	–	–
Collateral receivables	–	–	157	–	–
Other	–	–	–	–	–
Total	**–**	**–**	**3,360**	**–**	**2,992**
Liabilities					
Financial liabilities					
Bonds	29,966	29,852	–	–	–
Liabilities to banks	9,484	9,484	–	–	–
Liabilities from customer deposits (banking)	13,098	13,018	–	–	–
Commercial paper	4,577	4,577	–	–	–
Asset backed financing transactions	9,369	9,411	–	–	–
Derivative instruments					
Cash flow hedges	–	–	–	–	701
Fair value hedges	–	–	–	–	320
Other derivative instruments	–	–	–	–	769
Other	1,375	1,375	–	–	–
Trade payables	6,433	6,433	–	–	–
Other liabilities					
Payables to subsidiaries	236	236	–	–	–
Payables to other companies in which an investment is held	1	1	–	–	–
Other	4,084	4,084	–	–	–
Total	**78,623**	**78,471**	**–**	**–**	**1,790**

31 December 2011 in € million	Cash funds		Loans and receivables		Held-to-maturity investments	
	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount
Assets						
Other investments	–	–	–	–	–	–
Receivables from sales financing	–	–	50,969	49,345	–	–
Financial assets						
Derivative instruments						
Cash flow hedges	–	–	–	–	–	–
Fair value hedges	–	–	–	–	–	–
Other derivative instruments	–	–	–	–	–	–
Marketable securities and investment funds	–	–	–	–	–	–
Loans to third parties	–	–	23	23	–	–
Credit card receivables	–	–	249	249	–	–
Other	–	–	493	493	–	–
Cash and cash equivalents	7,776	7,776	–	–	–	–
Trade receivables	–	–	3,286	3,286	–	–
Other assets						
Receivables from subsidiaries	–	–	714	714	–	–
Receivables from companies in which an investment is held	–	–	393	393	–	–
Collateral receivables	292					

	Other liabilities		Available-for-sale	Fair value option	Held for trading
	Fair value	Carrying amount	Carrying amount*	Carrying amount*	Carrying amount*
Assets					
Other investments	–	–	561	–	–
Receivables from sales financing	–	–	–	–	–
Financial assets					
Derivative instruments					
Cash flow hedges	–	–	–	–	281
Fair value hedges	–	–	–	–	1,230
Other derivative instruments	–	–	–	–	847
Marketable securities and investment funds	–	–	2,330	–	–
Loans to third parties	–	–	–	–	–
Credit card receivables	–	–	–	–	–
Other	–	–	–	–	–
Cash and cash equivalents	–	–	–	–	–
Trade receivables	–	–	–	–	–
Other assets					
Receivables from subsidiaries	–	–	–	–	–
Receivables from companies in which an investment is held	–	–	–	–	–
Collateral receivables	–	–	–	–	–
Other	–	–	–	–	–
Total	**–**	**–**	**2,891**	**–**	**2,358**
Liabilities					
Financial liabilities					
Bonds	28,686	28,573	–	–	–
Liabilities to banks	8,398	8,398	–	–	–
Liabilities from customer deposits (banking)	12,127	12,041	–	–	–
Commercial paper	5,478	5,478	–	–	–
Asset backed financing transactions	9,337	9,385	–	–	–
Derivative instruments					
Cash flow hedges	–	–	–	–	1,259
Fair value hedges	–	–	–	–	347
Other derivative instruments	–	–	–	–	873
Other	1,623	1,623	–	–	–
Trade payables	5,340	5,340	–	–	–
Other liabilities					
Payables to subsidiaries	178	178	–	–	–
Payables to other companies in which an investment is held	25	25	–	–	–
Other	4,497	4,497	–	–	–
Total	**75,689**	**75,538**	**–**	**–**	**2,479**

Fair value measurement of financial instruments

The fair values shown are computed using market information available at the balance sheet date, on the basis of prices quoted by the contract partners or using appropriate measurement methods, e.g. discounted cash flow models. In the latter case, amounts were discounted at 31 December 2012 on the basis of the following interest rates:

in %	EUR	USD	GBP	JPY
Interest rate for six months	0.10	0.21	0.49	0.16
Interest rate for one year	0.10	0.23	0.49	0.24
Interest rate for five years	0.77	0.84	1.03	0.30
Interest rate for ten years	1.61	1.82	1.92	0.84

Interest rates taken from interest rate curves were adjusted, where necessary, to take account of the credit quality and risk of the underlying financial instrument.

Derivative financial instruments are measured at their fair value. The fair values of derivative financial instruments are determined using measurement models, as a consequence of which there is a risk that the amounts calculated could differ from realisable market prices on disposal. Observable financial market price spreads (e.g. for liquidity risks) are taken into account in the measurement of derivative financial instruments, thus helping to minimise differences between the carrying amounts of the instruments and the amounts that can be realised on the financial markets on the disposal of those instruments.

Financial instruments measured at fair value are allocated to different measurement levels in accordance with IFRS 7. This includes financial instruments that are

1. measured at their fair values in an active market for identical financial instruments (level 1),
2. measured at their fair values in an active market for comparable financial instruments or using measurement models whose main input factors are based on observable market data (level 2) or
3. using input factors not based on observable market data (level 3).

The following table shows the amounts allocated to each measurement level at 31 December 2012:

31 December 2012		Level hierarchy in accordance with IFRS 7		
in € million		Level 1	Level 2	Level 3
Marketable securities, investment fund shares and collateral assets	available-for-sale	2,812	–	–
Other investments	available-for-sale	391	–	–
Derivative instruments (assets)				
Cash flow hedges		–	925	–
Fair value hedges		–	1,457	–
Other derivative instruments		–	610	–
Derivative instruments (liabilities)				
Cash flow hedges		–	701	–
Fair value hedges		–	320	–
Other derivative instruments		–	769	–

31 December 2011	Level hierarchy in accordance with IFRS 7		
in € million	Level 1	Level 2	Level 3
Marketable securities, investment fund shares and collateral assets available-for-sale	2,330	–	–
Other investments available-for-sale	419	–	–
Derivative instruments (assets)			
Cash flow hedges	–	281	–
Fair value hedges	–	1,230	–
Other derivative instruments	–	827	20
Derivative instruments (liabilities)			
Cash flow hedges	–	1,259	–
Fair value hedges	–	347	–
Other derivative instruments	–	873	–

Other investments (available-for-sale) amounting to €157 million (2011: €142 million) are measured at amortised cost since quoted market prices are not available or cannot be determined reliably. These are therefore not included in the level hierarchy shown above. In addition, other investments amounting to €391 million (2011: €419 million) are measured at fair value since quoted market prices are available. These items are included in Level 1. The option to an equity instrument classified to Level 3 in 2011 was converted to cash in 2012.

As in the previous year, there were no significant reclassifications within the level hierarchy during the financial year 2012.

Gains and losses on financial instruments

The following table shows the net gains and losses arising for each of the categories of financial instrument defined by IAS 39:

in € million	**2012**	2011
Held for trading		
Gains/losses from the use of derivative instruments	**–278**	565
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)	**–145**	13
Income from investments	**5**	1
Accumulated other equity		
Balance at 1 January	**–61**	9
Total change during the year	**169**	70
of which recognised in the income statement during the period under report	**40**	8
Balance at 31 December	**108**	61
Loans and receivables		
Impairment losses/reversals of impairment losses	**–440**	340
Other income/expenses	**–61**	101
Other liabilities		
Income/expenses	**–115**	91

Gains/losses from the use of derivatives relate primarily to fair value gains or losses arising on standalone derivatives.

Net interest income from interest rate and interest rate/currency swaps amounted to €111 million (2011: €57 million).

Impairment losses of €166 million (2011: €4 million) on available-for-sale marketable securities, for which fair value changes were previously recognised directly in equity, were recognised as expenses in 2012. No reversals of impairment losses on marketable securities were recognised directly in equity (2011: €2 million).

The disclosure of interest income resulting from the unwinding of interest on future expected receipts would normally only be relevant for the BMW Group where assets have been discounted as part of the process of determining impairment losses. However, as a result of the assumption that most of the income that is subsequently recovered is received within one year and the

fact that the impact is not material, the BMW Group does not discount assets for the purposes of determining impairment losses.

Cash flow hedges

The effect of cash flow hedges on accumulated other equity was as follows:

in € million	2012	2011
Balance at 1 January	**–750**	127
Total changes during the year	**952**	623
of which recognised in the income statement during the period under report	**532**	68
Balance at 31 December	**202**	**–750**

Fair value gains and losses recognised on derivatives and recorded initially in accumulated other equity are reclassified to cost of sales when the derivatives mature.

A net positive amount of €1 million (2011: net negative amount of €2 million) attributable to forecasting errors (and the resulting over-hedging of currency exposures) was recognised within the line item "Financial Result" in the financial year 2012. These forecasting errors, which all related to the year under report, arise primarily as a result of changes in sales forecasts in foreign currencies. In addition, cash flow hedges of raw materials gave rise to a net expense of €8 million (2011: €– million) from forecasting errors and net income of €67 million (2011: net expense of €52 million) from ineffectiveness, which were also recognised within the line item "Financial Result".

At 31 December 2012 the BMW Group held derivative instruments (mainly option and forward currency contracts) with terms of up to 72 months (2011: 54 months), as a general rule in order to hedge currency risks attached to future transactions. These derivative instruments are intended to hedge forecast sales denominated in a foreign currency over the coming 72 months. The income statement impact of the hedged cash flows will be recognised as a general rule in the same periods in which external revenues are recognised. It is expected that €26 million of net gains, recognised in equity at the end of the reporting period, will be recognised in the income statement in 2013.

At 31 December 2012 the BMW Group held derivative instruments (mostly interest rate swaps) with terms of up to 25 months (2011: 60 months) to hedge interest rate risks. These derivative instruments are intended to hedge interest rate risks arising on financial instruments with variable interest payments over the coming 25 months. The income statement impact of the hedged cash flows will be recognised as a general rule in the same periods over which the relevant interest rates are fixed. It is not expected that any net gains or net losses, recognised in equity at the end of the reporting period, will be reclassified to the income statement in 2013.

At 31 December 2012, the BMW Group held derivative instruments (mostly commodity swaps) with terms of up to 60 months (2011: 55 months) to hedge raw materials price risks attached to future transactions over the coming 60 months. The income statement impact of the hedged cash flows will be recognised as a general rule in the same period in which the derivative instrument matures. It is expected that €5 million of net gains, recognised in equity at the end of the reporting period, will be recognised in the income statement in 2013.

Fair value hedges

The following table shows gains and losses on hedging instruments and hedged items which are deemed to be part of a fair value hedge relationship:

in € million	31.12.2012	31.12.2011
Gains/losses on hedging instruments designated as part of a fair value hedge relationship	**127**	213
Gains/loss from hedged items	**–140**	225
Ineffectiveness of fair value hedges	**–13**	**–12**

The difference between the gains/losses on hedging instruments (mostly interest rate swaps) and the results recognised on hedged items represents the ineffective portion of fair value hedges.

Fair value hedges are mainly used to hedge the market prices of bonds, other financial liabilities and receivables from sales financing.

Bad debt risk

Notwithstanding the existence of collateral accepted, the carrying amounts of financial assets generally take account of the maximum credit risk arising from the possibility that the counterparties will not be able to fulfil their contractual obligations. The maximum credit risk for irrevocable credit commitments relating to credit card business amounts to €969 million (2011:

€1,031 million). The equivalent figure for dealer financing is €18,157 million (2011: €16,699 million).

In the case of performance relationships underlying non-derivative financial instruments, collateral will be required, information on the credit-standing of the counterparty obtained or historical data based on the existing business relationship (i.e. payment patterns to date) reviewed in order to minimise the credit risk, all depending on the nature and amount of the exposure that the BMW Group is proposing to enter into.

Within the financial services business, the financed items (e.g. vehicles, equipment and property) in the retail customer and dealer lines of business serve as first-ranking collateral with a recoverable value. Security is also put up by customers in the form of collateral asset pledges, asset assignment and first-ranking mortgages, supplemented where appropriate by warranties and guarantees. If an item previously accepted as collateral is acquired, it undergoes a multi-stage process of repossession and disposal in accordance with the legal situation prevailing in the relevant market. The assets involved are generally vehicles which can be converted into cash at any time via the dealer organisation.

Impairment losses are recorded as soon as credit risks are identified on individual financial assets, using a methodology specifically designed by the BMW Group. More detailed information regarding this methodology is provided in note 5 in the section on accounting policies.

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 customers, creditworthiness is assessed using validated scoring systems integrated into the purchasing process. In the area of dealer financing, creditworthiness is assessed by means of ongoing credit monitoring and an internal rating system that takes account not only of the tangible situation of the borrower but also of qualitative factors such as past reliability in business relations.

The credit risk relating to derivative financial instruments is minimised by the fact that the Group only enters into such contracts with parties of first-class credit standing. The general credit risk on derivative financial instruments utilised by the BMW Group is therefore not considered to be significant.

A concentration of credit risk with particular borrowers or groups of borrowers has not been identified in conjunction with financial instruments.

Further disclosures relating to credit risk – in particular with regard to the amounts of impairment losses recognised – are provided in the explanatory notes to the relevant categories of receivables in notes 25, 26 and 30.

Liquidity risk

The following table shows the maturity structure of expected contractual cash flows (undiscounted) for financial liabilities:

31 December 2012 in € million	Maturity within one year	Maturity between one and five years	Maturity later than five years	**Total**
Bonds	–8,482	–18,375	–5,071	**–31,928**
Liabilities to banks	–4,866	–4,469	–678	**–10,013**
Liabilities from customer deposits (banking)	–10,139	–3,028	–	**–13,167**
Commercial paper	–4,578	–	–	**–4,578**
Asset backed financing transactions	–2,170	–7,346	–137	**–9,653**
Derivative instruments	–1,146	–1,085	–1	**–2,232**
Trade payables	–6,424	–9	–	**–6,433**
Other financial liabilities	–787	–249	–424	**–1,460**
Total	**–38,592**	**–34,561**	**–6,311**	**–79,464**

31 December 2011 in € million	Maturity within one year	Maturity between one and five years	Maturity later than five years	**Total**
Bonds	–9,100	–17,430	–4,509	**–31,039**
Liabilities to banks	–3,197	–5,449	–268	**–8,914**
Liabilities from customer deposits (banking)	–8,968	–3,254	–24	**–12,246**
Commercial paper	–5,486			**–5,486**
Asset backed financing transactions	–3,191	–6,474		**–9,665**
Derivative instruments	–1,410	–2,218	–7	**–3,635**
Trade payables	–5,295	–43	–2	**–5,340**
Other financial liabilities	–847	–483	–488	**–1,818**
Total	**–37,494**	**–35,351**	**–5,298**	**–78,143**

The cash flows shown comprise principal repayments and the related interest. The amounts disclosed for derivatives comprise only cash flows relating to derivatives that have a negative fair value at the balance sheet date. Irrevocable credit commitments to dealers which had not been called upon at the end of the reporting period amounted to €6,044 million (2011: €5,764 million).

Solvency is assured at all times by managing and monitoring the liquidity situation on the basis of a rolling cash flow forecast. The resulting funding requirements are secured by a variety of instruments placed on the world's financial markets. The objective is to minimise risk by matching maturities for the Group's financing requirements within the framework of the target debt ratio. The BMW Group has good access to capital markets as a result of its solid financial position and a diversified refinancing strategy. This is underpinned by the longstanding long- and short-term ratings issued by Moody's and S & P.

Short-term liquidity is managed primarily by issuing money market instruments (commercial paper). In this area too, competitive refinancing conditions can be achieved thanks to Moody's and S & P short-term ratings of P-1 and A-1 respectively.

Also reducing liquidity risk, additional secured and unsecured lines of credit are in place with first-class international banks. Intragroup cash flow fluctuations are evened out by the use of daily cash pooling arrangements.

Market risks

The principal market risks to which the BMW Group is exposed are currency risk, interest rate risk and raw materials price risk.

Protection against such risks is provided in the first instance through natural hedging which arises when the values of non-derivative financial instruments have matching maturities and amounts (netting). Derivative financial instruments are used to reduce the risk remaining after netting. Financial instruments are only used to hedge underlying positions or forecast transactions.

The scope of permitted transactions, responsibilities, financial reporting procedures and control mechanisms used for financial instruments are set out in internal guidelines. This includes, above all, a clear separation of duties between trading and processing. Currency, interest rate and raw material price risks of the BMW Group are managed at a corporate level.

Further information is provided in the Combined Group and Company Management Report ("Risk management" section).

Currency risk

As an enterprise with worldwide operations, business is conducted in a variety of currencies, from which currency risks arise. Since a significant portion of Group revenues are generated outside the euro currency region and the procurement of production material and funding is also organised on a worldwide basis, the currency risk is an extremely important factor for Group earnings.

At 31 December 2012 derivative financial instruments were in place to hedge exchange rate risks, in particular for the currencies Chinese renminbi, US dollar, British pound, Japanese yen and Russian rouble. The currency hedging contracts comprise mainly option and forward currency contracts.

A description of the management of this risk is provided in the Combined Group and Company Management Report. The BMW Group measures currency risk using a cash-flow-at-risk model.

The starting point for analysing currency risk with this model is the identification of forecast foreign currency transactions or "exposures". At the end of the reporting period, the principal exposures for the relevant coming year were as follows:

in € million	31.12.2012	31.12.2011
Euro / Chinese Renminbi	**8,429**	7,114
Euro / US Dollar	**5,311**	4,281
Euro / British Pound	**3,206**	3,266
Euro / Japanese Yen	**1,585**	1,334
Euro / Russian Rouble	**1,638**	1,330

In the next stage, these exposures are compared to all hedges that are in place. The net cash flow surplus represents an uncovered risk position. The cash-flow-at-risk approach involves allocating the impact of potential exchange rate fluctuations to operating cash flows on the basis of probability distributions. Volatilities and correlations serve as input factors to assess the relevant probability distributions.

The potential negative impact on earnings is computed for each currency for the following financial year on the basis of current market prices and exposures to a confidence level of 95 % and a holding period of up to one year. Correlations between the various currencies are taken into account when the risks are aggregated, thus reducing the overall risk.

The following table shows the potential negative impact for the BMW Group – measured on the basis of the cash-flow-at-risk approach – attributable to unfavourable changes in exchange rates. The impact for the principal currencies, in each case for the following financial year, is as follows:

in € million	31.12.2012	31.12.2011
Euro / Chinese Renminbi	**246**	180
Euro / US Dollar	**163**	121
Euro / British Pound	**65**	182
Euro / Japanese Yen	**15**	23
Euro / Russian Rouble	**69**	97

Currency risk for the BMW Group is concentrated on the currencies referred to above.

Interest rate risk

The BMW Group's financial management system involves the use of standard financial instruments such as short-term deposits, investments in variable and fixed-income securities as well as securities funds. The BMW Group is therefore exposed to risks resulting from changes in interest rates.

These risks arise when funds with differing fixed-rate periods or differing terms are borrowed and invested. All items subject to, or bearing, interest are exposed to interest rate risk. Interest rate risks can affect either side of the balance sheet.

The fair values of the Group's interest rate portfolios for the three principal currencies were as follows at the end of the reporting period:

in € million	31.12.2012	31.12.2011
Euro	**12,736**	6,066
US Dollar	**10,489**	8,684
British Pound	**3,814**	3,278

Interest rate risks can be managed by the use of interest rate derivatives. The interest rate contracts used for hedging purposes comprise mainly swaps which are accounted for on the basis of whether they are designated as a fair value hedge or as a cash flow hedge. A description of the management of interest risk is provided in the Combined Group and Company Management Report.

As stated there, the BMW Group applies a group-wide value-at-risk approach for internal reporting purposes and to manage interest rate risks. This is based on a state-of-the-art historical simulation, in which the potential future fair value losses of the interest rate portfolios are compared across the Group with expected amounts measured on the basis of a holding period of 250 days and a confidence level of 99.98 %. Aggregation of these results creates a risk reduction effect due to correlations between the various portfolios. The methodology applied was refined during the year under report, primarily in order to take account of new regulatory requirements.

In the following table the potential volumes of fair value fluctuations – measured on the basis of the value-at-risk approach – are compared with the expected value for the interest rate relevant positions of the BMW Group for the three principal currencies:

in € million	**31.12.2012**	31.12.2011
Euro	**269**	38
US Dollar	**271**	24
British Pound	**44**	3

Raw materials price risk

The BMW Group is exposed to the risk of price fluctuations for raw materials. A description of the management of these risks is provided in the Combined Group and Company Management Report.

The first step in the analysis of the raw materials price risk is to determine the volume of planned purchases of raw materials (and components containing those raw materials). These amounts, which represent the gross exposure, were as follows at each reporting date for the following financial year:

in € million	**31.12.2012**	31.12.2011
Raw materials price exposures	**3,370**	3,300

In the next stage, these exposures are compared to all hedges that are in place. The net cash flow amount represents an uncovered risk position. The cash-flow-at-risk approach now applied – which should generate a more accurate picture than the sensitivity analysis approach previously used – involves allocating the impact of potential fluctuations in raw materials prices to operating cash flows on the basis of probability distributions. Volatilities and correlations serve as input factors to assess the relevant probability distributions.

The potential negative impact on earnings is computed for each raw material category for the following financial year on the basis of current market prices and exposure to a confidence level of 95 % and a holding period of up to one year. Correlations between the various categories of raw materials are taken into account when the risks are aggregated, thus reducing the overall risk.

The following table shows the potential negative impact for the BMW Group – measured on the basis of the cash-flow-at-risk approach – attributable to fluctuations in prices across all categories of raw materials. The risk at each reporting date for the following financial year was as follows:

in € million	**31.12.2012**	31.12.2011
Cash flow at risk	**350**	305

Other risks

A further exposure relates to the residual value risk on vehicles returned to the BMW Group at the end of lease contracts. The risk from financial instruments used in this context was not material to the Group in the past and/or at the end of the reporting period. A description of the management of this risk is provided in the Combined Group and Company Management Report. Information regarding the residual value risk from operating leases is provided in the section on accounting policies in note 5.

42 — Explanatory notes to the cash flow statements

The cash flow statements show how the cash and cash equivalents of the BMW Group and of the Automotive and Financial Services segments have changed in the course of the year as a result of cash inflows and cash outflows. In accordance with IAS 7 (Statement of Cash Flows), cash flows are classified into cash flows from operating, investing and financing activities.

Cash and cash equivalents included in the cash flow statement comprise cash in hand, cheques, and cash at bank, to the extent that they are available within three months from the end of the reporting period and are subject to an insignificant risk of changes in value.

The cash flows from investing and financing activities are based on actual payments and receipts. By contrast, the cash flow from operating activities is derived indirectly from the net profit for the year. Under this method, changes in assets and liabilities relating to operating activities are adjusted for currency translation effects and changes in the composition of the Group. The changes in balance sheet positions shown in the cash flow statement do not therefore agree directly with the amounts shown in the Group and segment balance sheets.

Cash inflows and outflows relating to operating leases, where the BMW Group is either lessee or lessor, are aggregated and shown on the line "Change in leased products" within cash flows from operating activities.

The net change in receivables from sales financing (including finance leases, where the BMW Group is either lessee or lessor) is also reported within cash flows from operating activities.

Income taxes paid and interest received are classified as cash flows from operating activities in accordance with IAS 7.31 and IAS 7.35. Interest paid is presented on a separate line within cash flows from financing activities. Dividends received in the financial year 2012 amounted to €4 million (2011: €1 million).

The BMW Group used various sources of funds for internal financing purposes. In addition to the issue of interest-bearing debt, cash funds are also allocated internally in line with business requirements, including the use of dividends and similar transactions. In this context, it is possible that cash funds may be transferred from one segment to another. Up to the first quarter 2012, these cash inflows and outflows were reported in the Cash Flow Statements of the Automotive and Financial Services segments as part of cash flows from operating activities. Due to the increasing importance of inter-segment transactions, the method of presentation was changed with effect from the second quarter 2012. Intragroup inter-segment dividends and similar transactions are now reported as part of cash flows from financing activities. The reclassification from operating activities to financing activities resulted in an increase in the operating cash flow. The previous year's figures were restated accordingly (impact in 2011: €1,033 million for the Automotive segment, €411 million for the Financial Services segment).

43 — Related party relationships

In accordance with IAS 24 (Related Party Disclosures), related individuals or entities which have the ability to control the BMW Group or which are controlled by the BMW Group, must be disclosed unless such parties are not already included in the Group Financial Statements as consolidated companies. Control is defined as ownership of more than one half of the voting power of BMW AG or the power to direct, by statute or agreement, the financial and operating policies of the management of the Group.

In addition, the disclosure requirements of IAS 24 also cover transactions with associated companies, joint ventures and individuals that have the ability to exercise significant influence over the financial and operating policies of the BMW Group. This also includes close relatives and intermediary entities. Significant influence

over the financial and operating policies of the BMW Group is presumed when a party holds 20 % or more of the voting power of BMW AG. In addition, the requirements contained in IAS 24 relating to key management personnel and close members of their families or intermediary entities are also applied. In the case of the BMW Group, this applies to members of the Board of Management and Supervisory Board.

In the financial year 2012, the disclosure requirements contained in IAS 24 affect the BMW Group with regard to business relationships with non-consolidated subsidiaries, joint ventures and associated companies as well as with members of the Board of Management and Supervisory Board of BMW AG.

The BMW Group maintains normal business relationships with non-consolidated subsidiaries. Transactions with these companies are small in scale, arise in the normal course of business and are conducted on the basis of arm's length principles.

Transactions of BMW Group companies with the joint venture, BMW Brilliance Automotive Ltd., Shenyang, all arise in the normal course of business and are conducted on the basis of arm's length principles. Group companies sold goods and services to BMW Brilliance Automotive Ltd., Shenyang, during 2012 for an amount of €2,962 million (2011: €1,729 million). At 31 December 2012, receivables of Group companies from BMW Brilliance Automotive Ltd., Shenyang, totalled €608 million (2011: €381 million). There were no payables from Group companies to BMW Brilliance Automotive Ltd., Shenyang, at the end of the reporting period (2011: €89 million). Group companies received goods and services from BMW Brilliance Automotive Ltd., Shenyang, during the financial year under report for an amount of €26 million (2011: €15 million).

All relationships of BMW Group entities with the joint ventures SGL Automotive Carbon Fibers GmbH & Co. KG, Munich, and SGL Automotive Carbon Fibers LLC, Dover, DE, arise in the normal course of business. All transactions with these entities were conducted on the basis of arm's length principles. At 31 December 2012 receivables of Group companies for loans disbursed to the joint ventures amounted to €68 million (2011: €61 million). Realised interest income earned on these intragroup loans in 2012 amounted to €2 million (2011: €1 million). Goods and services received by Group companies from the joint ventures during the period under report totalled €9 million (2011: €4 million). At 31 December 2012 payables of Group companies to the joint ventures amounted to €1 million (2011: €1 million).

Transactions of BMW Group companies with the joint venture, BMW Peugeot Citroën Electrification B.V., The Hague, all arose in the normal course of business and were conducted on the basis of arm's length principles. Up to the date of termination of the joint venture arrangements, Group companies sold goods and services to the joint venture amounting to €4 million (2011: €– million). During the first eleven months of the year, the joint venture sold goods and services to Group companies amounting to €82 million (2011: €– million).

All relationships of BMW Group companies with the joint ventures DriveNow GmbH & Co. KG, Munich, and DriveNow Verwaltungs GmbH, Munich, are conducted on the basis of arm's length principles. Transactions with these entities arise in the normal course of business and are small in scale.

The BMW Group maintains normal business relationships with associated companies. Transactions with these companies are small in scale, arise in the normal course of business and are conducted on the basis of arm's length principles.

Stefan Quandt is a shareholder and member of the Supervisory Board of BMW AG. He is also the sole shareholder and Chairman of the Supervisory Board of DELTON AG, Bad Homburg v. d. H., which, via its subsidiaries, performed logistic-related services for the BMW Group during the financial year 2012. In addition, companies of the DELTON Group acquired vehicles on the basis of arm's length principles from the BMW Group, mostly in the form of leasing contracts. These service and lease contracts, which are not material for the BMW Group, all arise in the normal course of business and are conducted on the basis of arm's length principles.

Susanne Klatten is a shareholder and member of the Supervisory Board of BMW AG and also a shareholder and Deputy Chairman of the Supervisory Board of Altana AG, Wesel. Altana AG, Wesel, acquired vehicles

from the BMW Group during the financial year 2012, mostly in the form of lease contracts. These contracts are not material for the BMW Group, arise in the course of ordinary activities and are made, without exception, on the basis of arm's length principles.

Apart from the transactions referred to above, companies of the BMW Group did not enter into any contracts with members of the Board of Management or Supervisory Board of BMW AG. The same applies to close members of the families of those persons.

BMW Trust e.V., Munich, administers assets on a trustee basis to secure obligations relating to pensions and pre-retirement part-time work arrangements in Germany and is therefore a related party of the BMW Group in accordance with IAS 24. This entity, which is a registered association (eingetragener Verein) under German law, does not have any assets of its own. It did not have any income or expenses during the period under report. BMW AG bears expenses on a minor scale and renders services on behalf of BMW Trust e.V., Munich.

44 – 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 2012 of the BMW Group and is also available to shareholders on the BMW Group website at www.bmwgroup.com/ir.

45 – Shareholdings of members of the Board of Management and Supervisory Board

The members of the Supervisory Board of BMW AG hold in total 27.63 % (2011: 27.65 %) of the issued common and preferred stock shares, of which 16.08 % (2011: 16.09 %) relates to Stefan Quandt, Bad Homburg v. d. H. and 11.55 % (2011: 11.56 %) to Susanne Klatten, Munich. As at the end of the previous financial year, shareholdings of members of the BMW AG Board of Management account, in total, for less than 1 % of issued shares.

46 – Compensation of members of the Board of Management and Supervisory Board

The compensation of current members of the Board of Management and Supervisory Board amounted to €36.4 million (2011: €32.1 million) and comprised the following:

in € million	2012	2011
Short-term employment benefits	**35.2**	31.0
Post-employment benefits	**1.2**	1.1
Compensation	**36.4**	**32.1**

The total compensation of the current Board of Management members for 2012 amounted to €31.4 million (2011: €27.3 million). This comprised fixed components of €7.5 million (2011: €4.7 million), variable components of €23.2 million (2011: €21.9 million) and a share-based compensation component totalling €0.7 million (2011: €0.7 million).

In addition, an expense of €1.2 million (2011: €1.1 million) was recognised for current members of the Board of Management for the period after the end of their employment relationship. This relates to the expense for allocations to pension provisions. Pension obligations to current members of the Board of Management are covered by pension provisions amounting to €29.4 million (2011: €19.0 million), computed in accordance with IAS 19 (Employee Benefits).

The remuneration of former members of the Board of Management and their dependants amounted to €3.8 million (2011: €3.7 million).

Pension obligations to former members of the Board of Management and their surviving dependants are fully

covered by pension provisions amounting to €61.2 million (2011: €51.6 million), computed in accordance with IAS 19.

The compensation of the members of the Supervisory Board for the financial year 2012 amounted to €4.5 million (2011: €4.5 million). This comprised fixed components of €1.6 million (2011: €1.6 million) and variable components of €2.9 million (2011: €2.9 million).

The compensation systems for members of the Supervisory Board do not include any stock options, value appreciation rights comparable to stock options or any other stock-based compensation components. Apart from vehicle lease contracts entered into on customary market conditions, no advances and loans were granted to members of the Board of Management and the Supervisory Board, 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 Group and Company Management Report.

47 — Application of exemptions pursuant to § 264 (3) and § 264b HGB

A number of companies and incorporated partnerships (as defined by § 264a HGB) which are consolidated subsidiaries of BMW AG and for which the Group Financial Statements of BMW AG represent exempting consolidated financial statements, apply the exemptions available in § 264 (3) and § 264b HGB with regard to the drawing up of a management report. The exemptions have been applied by:

- Bavaria Wirtschaftsagentur GmbH, Munich
- BMW Fahrzeugtechnik GmbH, Eisenach
- BMW Hams Hall Motoren GmbH, Munich
- BMW M GmbH Gesellschaft für individuelle Automobile, Munich
- Rolls-Royce Motor Cars GmbH, Munich

In addition, the following entities apply the exemption available in § 264 (3) and § 264b HGB with regard to publication:

- Bavaria Wirtschaftsagentur GmbH, Munich
- Alphabet International GmbH, Munich
- BMW Hams Hall Motoren GmbH, Munich
- BMW M GmbH Gesellschaft für individuelle Automobile, Munich
- BMW INTEC Beteiligungs GmbH, Munich
- BMW Verwaltungs GmbH, Munich
- Rolls-Royce Motor Cars GmbH, Munich

Explanatory notes to segment information

Information on reportable segments

For the purposes of presenting segment information, the activities of the BMW Group are divided into operating segments in accordance with IFRS 8 (Operating Segments). Operating segments are identified on the same basis that is used internally to manage and report on performance 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.

The Automotive segment develops, manufactures, assembles and sells cars and off-road vehicles, under the brands BMW, MINI and Rolls-Royce as well as spare parts and accessories. BMW and MINI brand products are sold in Germany through branches of BMW AG and by independent, authorised dealers. Sales outside Germany are handled primarily by subsidiary companies and, in a number of markets, by independent import companies. Rolls-Royce brand vehicles are sold in the USA via a subsidiary company and elsewhere by independent, authorised dealers.

The BMW Motorcycles segment develops, manufactures, assembles and sells BMW and Husqvarna brand motorcycles as well as spare parts and accessories.

The principal lines of business of the Financial Services segment are car leasing, fleet business, retail customer and dealer financing, customer deposit business and insurance activities.

Holding and Group financing companies are included in the Other Entities segment. This segment also includes operating companies – BMW Services Ltd., Bracknell, BMW (UK) Investments Ltd., Bracknell, Bavaria Lloyd Reisebüro GmbH, Munich, and MITEC Mikroelektronik Mikrotechnik Informatik GmbH, Dingolfing – which are not allocated to one of the other segments.

Eliminations comprise the effects of eliminating business relationships between the operating segments.

Internal management and reporting

Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the Group Financial Statements. The only exception to this general principle is the treatment of inter-segment warranties, the earnings impact of which is allocated to the Automotive and Financial Services segments on the basis used internally to manage the business. Inter-segment receivables and payables, provisions, income, expenses and profits are eliminated in the column “Eliminations”. Inter-segment sales take place at arm’s length prices.

The role of “chief operating decision maker” with respect to resource allocation and performance assessment of the reportable segment is embodied in the full Board of Management. In ordanage-ormninatio7ull

Segment information by operating segment is as follows:

Segment information by operating segment

	Automotive		Motorcycles	
in € million	**2012**	2011	**2012**	2011
External revenues	**57,499**	51,684	**1,478**	1,427
Inter-segment revenues	**12,709**	11,545	**12**	9
Total revenues	**70,208**	**63,229**	**1,490**	**1,436**
Segment result	**7,624**	7,477	**9**	45
Capital expenditure on non-current assets	**5,325**	3,728	**125**	88
Depreciation and amortisation on non-current assets	**3,437**	3,568	**69**	62

	Automotive		Motorcycles	
in € million	**31.12.2012**	31.12.2011	**31.12.2012**	31.12.2011
Segment assets	**10,864**	10,016	**405**	551

Financial Services		Other Entities		Reconciliation to Group figures		Group		
2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	
17,869	15,709	**2**	1	**–**		**76,848**	68,821	External revenues
1,681	1,801	**3**	4	**–14,405**	13,359	**–**		Inter-segment revenues
19,550	**17,510**	**5**	**5**	**–14,405**	**–13,359**	**76,848**	**68,821**	**Total revenues**
1,561	1,790	**–6**	168	**–1,369**	1,761	**7,819**	7,383	Segment result
15,988	13,493	**–**	1	**–2,901**	2,366	**18,537**	14,944	Capital expenditure on non-current assets
6,112	4,972	**–**		**–1,838**	1,186	**7,780**	7,416	Depreciation and amortisation on non-current assets

Financial Services		Other Entities		Reconciliation to Group figures		Group		
31.12.2012	31.12.2011	**31.12.2012**	31.12.2011	**31.12.2012**	31.12.2011	**31.12.2012**	31.12.2011	
7,631	7,169	**50,685**	47,875	**62,265**	57,818	**131,850**	123,429	Segment assets

The segment result of the Motorcycles segment was negatively impacted by an impairment loss of €13 million (2011: €– million) on property, plant and equipment in accordance with IFRS 5 and by an expense of €57 million (2011: €– million) for an allocation to provisions at 31 December 2012.

Interest and similar income of the Financial Services segment is included in the segment result and totalled €5 million in both 2011 and 2012. Interest and similar expenses of the Financial Services segment amounted to €9 million (2011: €15 million). The Other Entities segment result includes interest and similar income amounting to €1,792 million (2011: €1,739 million) and interest and similar expenses amounting to €1,758 million (2011: €1,841 million).

The result from equity accounted investments did not have any impact on the segment result of the Other Entities segment in 2012 (2011: negative impact of €2 million). The segment result is stated after an impairment loss on other investments amounting to €7 million (2011: €8 million).

Segment assets of the Other Entities segment at 31 December 2012 do not contain any investments accounted for using the equity method (2011: €21 million).

The information disclosed for capital expenditure and depreciation and amortisation relates to non-current property, plant and equipment, intangible assets and leased products.

Segment figures can be reconciled to the corresponding Group figures as follows:

in € million	**2012**	2011
Reconciliation of segment result		
Total for reportable segments	**9,188**	9,144
Financial result of Automotive segment and Motorcycles segment	**–432**	658
Elimination of inter-segment items	**–937**	1,103
Group profit before tax	**7,819**	**7,383**
Reconciliation of capital expenditure on non-current assets		
Total for reportable segments	**21,438**	17,310
Elimination of inter-segment items	**–2,901**	2,366
Total Group capital expenditure on non-current assets	**18,537**	**14,944**
Reconciliation of depreciation and amortisation on non-current assets		
Total for reportable segments	**9,618**	8,602
Elimination of inter-segment items	**–1,838**	1,186
Total Group depreciation and amortisation on non-current assets	**7,780**	**7,416**

in € million	**31.12.2012**	31.12.2011
Reconciliation of segment assets		
Total for reportable segments	**69,585**	65,611
Non-operating assets Other Entities segment	**6,097**	6,045
Operating liabilities Financial Services segment	**81,066**	75,540
Interest-bearing assets Automotive and Motorcycles segments	**36,323**	32,584
Liabilities of Automotive and Motorcycles segments not subject to interest	**22,051**	21,226
Elimination of inter-segment items	**–83,272**	77,577
Total Group assets	**131,850**	**123,429**

In the case of information by geographical region, external sales are based on the location of the customer's registered office. Revenues with major customers were not material overall. The information disclosed for non-current assets relates to property, plant and equipment, intangible assets and leased products. The reconciling item disclosed for non-current assets relates to leased products.

Information by region

	External revenues		Non-current assets	
in € million	**2012**	2011	**2012**	2011
Germany	**12,186**	12,859	**22,954**	21,519
USA	**13,447**	11,516	**11,195**	10,073
China	**14,448**	11,591	**15**	10
Rest of Europe	**22,971**	20,956	**9,887**	9,066
Rest of the Americas	**2,824**	2,771	**1,548**	1,345
Other	**10,972**	9,128	**1,137**	961
Eliminations	**–**	[illegible]	**3,720**	2,939
Group	**76,848**	[illegible]	**[illegible]016**	**40,035**

Munich, 19 February 2013

Aktiengesellschaft

The Board of Management

Dr.-Ing. Dr.-Ing. E. h. Norbert Reithofer

Frank-Peter Arndt

Milagros Caiña Carreiro-Andree

Dr.-Ing. Herbert Diess

Dr.-Ing. Klaus Draeger

Dr. Friedrich Eichiner

Harald Krüger

Dr. Ian Robertson (HonDSc)

Statement pursuant to § 37y No. 1 of the Securities Trading Act (WpHG) in conjunction with § 297 (2) sentence 3 and § 315 (1) sentence 6 of the German Commercial Code (HGB)

"To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group."

Munich, 19 February 2013

Aktiengesellschaft

The Board of Management

Dr.-Ing. Dr.-Ing. E. h. Norbert Reithofer

Frank-Peter Arndt

Milagros Caiña Carreiro-Andree

Dr.-Ing. Herbert Diess

Dr.-Ing. Klaus Draeger

Dr. Friedrich Eichiner

Harald Krüger

Dr. Ian Robertson (HonDSc)

BMW Group
Auditor's Report

We have audited the consolidated financial statements prepared by Bayerische Motoren Werke Aktiengesellschaft, comprising the income statement for group and statement of comprehensive income for group, the balance sheet for group, cash flow statement for group, group statement of changes in equity and the notes to the group financial statements and its report on the position of the Company and the Group for the business year from 1 January to 31 December 2012. The preparation of the consolidated financial statements and Group Management Report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB (Handelsgesetzbuch "German Commercial Code") are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group Management Report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group Management Report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and in the Group Management Report are examined primarily on a test basis within the framework of the audit. The audit also includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and Group Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a (1) HGB and g[illegible]d fair view [illegible]net assets, financial posit[illegible]d results of [illegible]rations of the Group in accord[illegible]ith thes[illegible]quirements. The Group Management [illegible]rt is c[illegible]istent with the consolidated financial s[illegible]en[illegible]d as a whole provides a suitable view [illegible] position and suitably presents the oppo[illegible]ies [illegible]s of future development.

Mun[illegible] March 2[illegible]

Wirtschaftsprüfungsgesellschaft

Prof. Dr. Schindler
Wirtschaftsprüfer

Huber-Straßer
Wirtschaftsprüferin

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 internal communication, a policy of corporate governance aimed at the interests of stakeholders, fair and open dealings between the Board of Management, the Supervisory Board and employees and compliance with the law. The Board of Management reports in this declaration, also on behalf of the Supervisory Board, on important aspects of corporate governance pursuant to § 289a HGB and section 3.10 of the German Corporate Governance Code (GCGC).

Information on the Company's Governing Constitution
The designation "BMW Group" comprises Bayerische Motoren Werke Aktiengesellschaft (BMW AG) and its group entities. BMW AG is a stock corporation (Aktiengesellschaft) based on the German Stock Corporation Act (Aktiengesetz) and has its registered office in Munich, Germany. It has three representative bodies: the Annual General Meeting, the Supervisory Board and the Board of Management. The duties and authorities of those bodies derive from the Stock Corporation Act and the Articles of Incorporation of BMW AG. Shareholders, as the owners of the business, exercise their rights at the Annual General Meeting. The Annual General Meeting also provides an opportunity to shareholders to engage in dialogue with the Board of Management and the Supervisory Board. 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 of the Supervisory Board, the appointment of the external auditor, changes to the Articles of Incorporation, specified capital measures and elects the shareholders' representatives to the Supervisory Board. The Board of Management manages the enterprise under its own responsibility. Within this framework, it is monitored and advised by the Supervisory Board. The Supervisory Board appoints the members of the Board of Management and can, at any time, revoke an appointment if there is an important reason. The Board of Management keeps the Supervisory Board informed of all significant matters regularly, promptly and comprehensively, following the principles of conscientious and faithful accountability and in accordance with prevailing law and the reporting duties allocated to it by the Supervisory Board. The Board of Management requires the approval of the Supervisory Board for certain major transactions. The Supervisory Board is not, however, authorised to undertake management measures itself.

In accordance with the requirements of the German Co-determination Act for companies that generally employ more than 20,000 people, the Supervisory Board of BMW AG is required to comprise ten shareholder representatives elected at the Annual General Meeting (Supervisory Board members representing equity or shareholders) and ten employees elected in accordance with the provisions of the Co-determination Act (Supervisory Board members representing employees). 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 close interaction between the Board of Management and the Supervisory Board in the interests of the enterprise as described above is also known as a "two-tier board structure".

Declaration of Compliance and the BMW Group Corporate Governance Code
Management and supervisory boards of companies listed in Germany are required by law (§ 161 German Stock Corporation Act) to report once a year whether the officially published and relevant recommendations issued by the "German Government Corporate Governance Code Commission", as valid at the date of the declaration, have been, and are being, complied with. Companies affected are also required to state which of the recommendations of the Code have not been or are not being applied, stating the reason or reasons. The full text of the declaration, together with explanatory comments, is shown on the following page of this Annual Report.

The Board of Management and the Supervisory Board approved the Group's own Corporate Governance Code based on the GCGC in previous years in order to provide interested parties with a comprehensive and standalone document covering the corporate governance practices applied by the BMW Group. A coordinator responsible for all corporate governance issues reports directly and on a regular basis to the Board of Management and Supervisory Board.

The Corporate Governance Code for the BMW Group, together with the Declaration of Compliance, Articles of Incorporation and other information, can be viewed and/or downloaded from the BMW Group's website at www.bmwgroup.com/ir under the menu items "Corporate Facts" and "Corporate Governance".

Declaration of the Board of Management and of the Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft with respect to the recommendations of the "Government Commission on the German Corporate Governance Code pursuant to § 161 German Stock Corporation Act

The Board of Management and Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft ("BMW AG") declare the following regarding the recommendations of the "Government Commission on the German Corporate Governance Code":

Since issuance of the last Declaration in December 2011, BMW AG has complied with all of the recommendations published officially on 2 July 2010 in the electronic Federal Gazette (Code version dated 26 May 2010).

BMW AG will comply with all of the recommendations published officially on 15 June 2012 in the electronic Federal Gazette (Code version dated 15 May 2012), with the exception of the amended recommendation contained in section 5.4.6 paragraph 2 sentence 2 ("If members of the Supervisory Board are promised performance-related compensation, it shall be oriented toward sustainable growth of the enterprise.").

The Articles of Incorporation of BMW AG provide for the members of the Supervisory Board to receive, in addition to a fixed compensation component, a performance-related compensation component which is subject to a cap and which is based on earnings per share of common stock in the past financial year. This regulation in the Articles of Incorporation, which was resolved by the shareholders at the Annual General Meeting in 2008, complied with the previous recommendation of the Government Commission contained in section 5.4.6 paragraph 2 sentence 1 ("Members of the Supervisory Board shall receive fixed as well as performance-related compensation.", Code version dated 26 May 2010).

The Board of Management and Supervisory Board will submit a proposal at the Annual General Meeting 2013 to amend the Articles of Incorporation with a view to chang the basis for Supervisory Board compensation. In line with the Code's revised recommendation on supervisory board compensation, the performance-relate sa tion component will in future take more one ncia year into account and will be oriented rd sustai able growth of the enterprise.

Munich, December 2012

Members of the Board of Management

Dr.-Ing. Dr.-Ing. E. h. Norbert Reithofer (born 1956)
Chairman

Mandates
— Henkel AG & Co. KGaA

Frank-Peter Arndt (born 1956)
Production

Mandates
— BMW Motoren GmbH (Chairman)
— TÜV Süd AG
— BMW (South Africa) (Pty) Ltd. (Chairman)
— Leipziger Messe GmbH

Milagros Caiña Carreiro-Andree (born 1962)
(since 01. 07. 2012)
Human Resources, Industrial Relations Director

Dr.-Ing. Herbert Diess (born 1958)
Purchasing and Supplier Network (until 31. 03. 2012)
Development (since 01. 04. 2012)

Dr.-Ing. Klaus Draeger (born 1956)
Development (until 31. 03. 2012)
Purchasing and Supplier Network (since 01. 04. 2012)

Dr. Friedrich Eichiner (born 1955)
Finance

Mandates
— Allianz Deutschland AG
— BMW Brilliance Automotive Ltd. (Deputy Chairman)

Harald Krüger (born 1965)
Human Resources, Industrial Relations Director
(until 30. 06. 2012)
MINI, Motorcycles, Rolls-Royce,
After Sales BMW Group (since 01. 04. 2012)

Mandates
— Rolls-Royce Motor Cars Limited (Chairman)
(since 01. 05. 2012)

Dr. Ian Robertson (HonDSc) (born 1958)
Sales and Marketing (until 31. 03. 2012)
Sales and Marketing BMW, Sales Channels
BMW Group (since 01. 04. 2012)

Mandates
— Rolls-Royce Motor Cars Limited (Chairman)
(until 30. 04. 2012)
— Dyson James Group Limited (since 20. 07. 2012)

General Counsel:
Dr. Dieter Löchelt

— Membership of other statutory supervisory boards
— Membership of equivalent national or foreign boards of business enterprises

Members of the Supervisory Board

Prof. Dr.-Ing. Dr. h. c. Dr.-Ing. E. h. Joachim Milberg (born 1943)
Chairman
Former Chairman of the Board of Management of BMW AG

Chairman of the Presiding Board, Personnel Committee and Nomination Committee; member of Audit Committee and the Mediation Committee

Mandates
— Bertelsmann Management SE (since 04. 05. 2012) (Deputy Chairman since 11. 05. 2012)
— Bertelsmann SE & Co. KGaA (Deputy Chairman)
— FESTO Aktiengesellschaft (Chairman)
— SAP AG (until 23. 05. 2012)
— Deere & Company
— FESTO Management Aktiengesellschaft (Chairman)

Manfred Schoch[1] (born 1955)
Deputy Chairman
Chairman of the European and General Works Council
Industrial Engineer

Member of the Presiding Board, Personnel Committee, Audit Committee and Mediation Committee

Stefan Quandt (born 1966)
Deputy Chairman
Entrepreneur

Member of the Presiding Board, Personnel Committee, Audit Committee, Nomination Committee and Mediation Committee

Mandates
— DELTON AG (Chairman)
— AQTON SE (Chairman)
— DataCard Corp.

Stefan Schmid[1] (born 1965)
Deputy Chairman
Chairman of the Works Council, Dingolfing

Member of the Presiding Board, Personnel Committee, Audit Committee and Mediation Committee

Dr. jur. Karl-Ludwig Kley (born 1951)
Deputy Chairman
Chairman of the Executive Management of Merck KGaA

Chairman of the Audit Committee and Independent Finance Expert; member of the Presiding Board, Personnel Committee and Nomination Committee

Mandates
— Bertelsmann Management SE (since 04. 05. 2012)
— Bertelsmann SE & Co. KGaA
— 1. FC Köln GmbH & Co. KGaA (Chairman)

Bertin Eichler[2] (born 1952)
Executive Member of the Executive Board of IG Metall

Mandates
— BGAG Beteiligungsgesellschaft der Gewerkschaften GmbH (Chairman)
— ThyssenKrupp AG (Deputy Chairman)

[1] Employee representatives (company employees).
[2] Employee representatives (union representatives).
[3] Employee representative (member of senior management).
— Membership of other statutory supervisory boards
— Membership of equivalent national or foreign boards of business enterprises

Franz Haniel (born 1955)
Engineer, MBA

Mandates
— DELTON AG (Deputy Chairman)
— Franz Haniel & Cie. GmbH (Chairman)
— Heraeus Holding GmbH
— Metro AG (Chairman)
— secunet Security Networks AG
— Giesecke & Devrient GmbH
— TBG Limited

Prof. Dr. rer. nat. Dr. h. c. Reinhard Hüttl (born 1957)
Chairman of the Executive Board of Helmholtz-Zentrum Potsdam Deutsches GeoForschungsZentrum – GFZ
University professor

Prof. Dr. rer. nat. Dr.-Ing. E. h. Henning Kagermann (born 1947)
President of acatech – Deutsche Akademie der Technikwissenschaften e. V.

Mandates
— Deutsche Bank AG
— Deutsche Post AG
— Franz Haniel & Cie GmbH (since 27. 11. 2012)
— Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München
— Nokia Corporation
— Wipro Limited

Susanne Klatten (born 1962)
Entrepreneur

Member of the Nomination Committee

Mandates
— ALTANA AG (Deputy Chairman)
— SGL Carbon SE (Deputy Chairman since 16. 08. 2012)
— UnternehmerTUM GmbH (Chairman)

Prof. Dr. rer. pol. Renate Köcher (born 1952)
Director of Institut für Demoskopie Allensbach Gesellschaft zum Studium der öffentlichen Meinung mbH

Mandates
— Allianz SE
— Infineon Technologies AG
— Nestlé Deutschland AG (since 25. 05. 2012)
— Robert Bosch GmbH (since 30. 03. 2012)

Dr. h. c. Robert W. Lane (born 1949)
Former Chairman and Chief Executive Officer of Deere & Company

Mandates
— General Electric Company
— Northern Trust Corporation
— Verizon Communications Inc.

Horst Lischka[2] (born 1963)
General Representative of IG Metall Munich

Mandates
— KraussMaffei GmbH
— MAN Truck & Bus AG

Willibald Löw[1] (born 1956)
Chairman of the Works Council, Landshut

Wolfgang Mayrhuber (born 1947)
Former Chairman of the Board of Management of Deutsche Lufthansa Aktiengesellschaft

Mandates
— Infineon Technologies AG (Chairman)
— Lufthansa Technik Aktiengesellschaft
— Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München
— Austrian Airlines AG
— HEICO Corporation
— UBS AG

[1] Employee representatives (company employees).
[2] Employee representatives (union representatives).
[3] Employee representative (member of senior management).
— Membership of other statutory supervisory boards
— Membership of equivalent national or foreign boards of business enterprises

Dr. Dominique Mohabeer[1] (born 1963)
(since 01. 06. 2012)
Member of the Works Council, Munich

Franz Oberländer[1] (born 1952)
(until 31. 05. 2012)
Member of the Works Council, Munich

Anton Ruf[3] (born 1953)
(until 31. 10. 2012)
Head of Development "Small Model Series"

Maria Schmidt[1] (born 1954)
Member of the Works Council, Dingolfing

Jürgen Wechsler[2] (born 1955)
Regional Head of IG Metall Bavaria
Mandates
— Schaeffler AG (Deputy Chairman)

Werner Zierer[1] (born 1959)
Chairman of the Works Council, Regensburg

Oliver Zipse[3] (born 1964)
(since 01. 11. 2012)
Head of Brand and Product Strategies

Composition and work procedures of the Board of Management of BMW AG and its committees

The Board of Management governs the enterprise under its own responsibility, acting in the interests of the BMW Group with the aim of achieving sustainable growth in value. The interests of shareholders, employees and other stakeholders are also taken into account in the pursuit of this aim.

The Board of Management determines the strategic orientation of the enterprise, agrees upon it with the Supervisory Board and ensures its implementation. The Board of Management is responsible for ensuring that all provisions of law and internal regulations are complied with. Further details about compliance within the BMW Group can be found in the "Corporate Governance" section of the Annual Report. The Board of Management is also responsible for ensuring that appropriate risk management and risk controlling systems are in place throughout the Group.

During their period of employment for BMW AG, members of the Board of Management are bound by a comprehensive non-competition clause. They are required to act in the enterprise's best interests and may not pursue personal interests in their decisions or take advantage of business opportunities intended for the enterprise. They may only undertake ancillary activities, in particular supervisory board mandates outside the BMW Group, with the approval of the Supervisory Board's Personnel Committee. Each member of the Board of Management of BMW AG is obliged to disclose conflicts of interest to the Supervisory Board without delay and inform the other members of the Board of Management accordingly.

Following the appointment of a new member to the Board of Management, the BMW Corporate Governance Officer informs the new member of the framework conditions under which the board member's duties are to be carried out – in particular those enshrined in the BMW Group's Corporate Governance Code – as well as the duty to cooperate when a transaction or event triggers reporting requirements or requires the approval of the Supervisory Board.

The Board of Management consults and takes decisions as a collegiate body in meetings of the Board of Management, the Sustainability Board, the Operations Committee and the Committee for Executive Management Matters. At its meetings, the Board of Management defines the overall framework for business strategies and the use of resources, takes decisions regarding the implementation of strategies and deals with issues of particular importance to the BMW Group. The full board also takes decisions at a basic policy level relating to the Group's automobile product strategies and product projects inasmuch as these are relevant for all brands. The Board of Management and its committees may, as required and depending on the subject matters being discussed, invite non-voting advisers to participate at meetings.

Terms of reference approved by the Board of Management contain a planned allocation of divisional responsibilities between the individual board members. These terms of reference also incorporate the principle that the full Board of Management bears joint responsibility for all matters of particular importance and scope. In addition, members of the Board of Management manage the relevant portfolio of duties under their responsibility, whereby case-by-case rules can be put in place for cross-divisional projects. Board members continually provide the Chairman of the Board of Management with all information regarding major transactions and developments within their area of responsibility. The Chairman of the Board of Management coordinates cross-divisional matters with the overall targets and plans of the BMW Group, involving other board members to the extent that divisions within their area of responsibility are affected.

The Board of Management takes its decisions at meetings generally held on a weekly basis which are convened, coordinated and headed by the Chairman of the Board of Management. At the request of the Chairman, decisions can also be taken outside of board meetings if none of the board members object to this procedure. A meeting is quorate if all Board of Management members are invited to the meeting in good time. Members unable to attend any meeting are entitled to vote in writing, by fax or by telephone. Votes cast by phone must be subsequently confirmed in writing. Except in urgent cases, matters relating to a division for which the responsible board member is not present will only be discussed and decided upon with that member's consent.

Unless stipulated otherwise by law or in BMW AG's statutes, the Board of Management makes decisions on the basis of a simple majority of votes cast at meetings. Outside of board meetings, decisions are taken on the basis of a simple majority of board members. In the event of a tied vote, the Chairman of the Board of Management has the casting vote. Any changes to the board's terms of reference must be passed unanimously. A board meeting may only be held if more than half of the board members are present.

In the event that the Chairman of the Board of Management is not present or is unable to attend a meeting, the

Member of the Board responsible for Finances will represent him.

Minutes are taken of all meetings and the Board of Management's resolutions and signed by the Chairman. Decisions taken by the Board of Management are binding for all employees.

The rules relating to meetings and resolutions taken by the full Board of Management are also applicable for its committees.

Members of the Board of Management not represented in a committee are provided with the agendas and minutes of committee meetings. Committee matters are dealt with in full board meetings if the committee considers it necessary or at the request of a member of the Board of Management.

The secretariat for Board of Management matters assists the Chairman and other board members with the preparation and follow-up work connected with board meetings.

At meetings of the Operations Committee (generally held three times a month), decisions are reached in connection with automobile product projects, based on the strategic orientation and decision framework stipulated at Board of Management meetings. The Operations Committee comprises the Board of Management member responsible for Development (who also chairs the meetings), together with the board members responsible for the following areas: Purchases and Supplier Network; Production; Sales and Marketing BMW, Sales Channels BMW Group; and MINI, Motorcycles, Rolls-Royce, Aftersales BMW Group. If the committee chairman is not present or unable to attend a meeting, the Member of the Board responsible for Production represents him. Resolutions taken at meetings of the Operations Committee are made online.

The full board usually convenes twice a year in its function as Sustainability Board in order to define strategy with regard to sustainability and decide upon measures to implement that strategy. The Head of Group Communication and the Group Representative for Sustainability and Environmental Protection participate in these meetings in an advisory capacity.

The Board's Committee for Executive Management Matters deals with enterprise-wide issues affecting executive managers of the BMW Group, either in their entirety or individually (such as the executive management structure, potential candidates for executive management, nominations for or promotions to senior management positions). This committee has, on the one hand, an advisory and preparatory role (e.g. making suggestions for promotions to the two remuneration groups below board level and preparing decisions to be taken at board meetings with regard to human resources principles with the emphasis on executive management issues) and a decision-taking function on the other (e.g. deciding on appointments to senior management positions and promotions to higher remuneration groups or the wording of human resources principles decided on by the full board). The Committee has two members who are entitled to vote at meetings, namely the Chairman of the Board of Management (who also chairs the meetings) and the board member responsible for Human Resources. The Head of Human Resources, Personnel Network and Human Resources International and the Head of Human Resources Senior Management also participate in an advisory function. At the request of the Chairman, resolutions may also be passed outside of committee meetings by casting votes in writing, by fax or by telephone if the other member entitled to vote does not object immediately. As a general rule, between five and ten meetings are held each year.

The Board of Management is represented by its Chairman in its dealings with the Supervisory Board. The Chairman of the Board of Management maintains regular contact with the Chairman of the Supervisory Board and keeps him informed of all important matters. The Supervisory Board has passed a resolution specifying the information and reporting duties of the Board of Management. As a general rule, in the case of reports required by dint of law, the Board of Management submits its reports to the Supervisory Board in writing. To the extent possible, documents required as a basis for taking decisions are sent to the members of the Supervisory Board in good time before the relevant meeting. Regarding transactions of fundamental importance, the Supervisory Board has stipulated specific transactions which require the approval of the Supervisory Board. Whenever necessary, the Chairman of the Board of Management obtains the approval of the Supervisory Board and ensures that reporting duties to the Supervisory Board are complied with. In order to fulfil these tasks, the Chairman is supported by all members of the Board of Management. The fundamental principle followed when reporting to the Supervisory Board is that the latter should be kept informed regularly, without delay and comprehensively of all significant matters relating to planning, business performance, risk exposures, risk management and compliance, as well as any major variances between actual and budgeted figures.

Composition and work procedures of the Supervisory Board of BMW AG and its committees

BMW AG's Supervisory Board, comprising ten shareholder representatives (elected by the Annual General Meeting) and ten employee representatives (elected by employees in accordance with the German Co-determination Act), has the task of advising and supervising the Board of Management in its governance 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 are to receive. The Supervisory Board can revoke appointments for important reasons.

Together with the Personnel Committee and the Board of Management, the Supervisory Board ensures that long-term successor planning is in place. In their assessment of candidates for a post on the Board of Management, the underlying criteria applied by the Supervisory Board for determining the suitability of candidates are their expertise in the relevant area of board responsibility, outstanding leadership qualities, a proven track record and an understanding of the BMW Group's business. The Supervisory Board takes diversity into account when assessing, on balance, which individual will best complement the Board of Management as a representative body of the Company. "Diversity" in the context of the decision process is understood by the Supervisory Board to encompass different, complementary individual profiles, work and life experiences, at both a national and international level, as well as appropriate representation of both genders. The Supervisory Board strives to ensure appropriate female representation on the Board of Management. The Board of Management reports accordingly to the Personnel Committee – at regular intervals and, on request, prior to personnel decisions being taken by the Supervisory Board – on the proportion of, and changes in, management positions held by women, in particular below senior executive level and at uppermost management level. When actually selecting an individual for a post on the Board of Management, the Supervisory Board decides in the best interests of the Company and after taking account of all relevant circumstances.

The Supervisory Board holds a minimum of two meetings in each of the first and second six-month periods of the calendar year. Normally, five plenary meetings are held per calendar year, as was the case in 2012. One meeting each year is planned to cover a number of days and is used, among other things, to enable an in-depth exchange on strategic and technological matters. The main emphases of meetings in 2012 are described in the Report of the Supervisory Board. As a general rule, the shareholder representatives and employee representatives prepare the Supervisory Board meetings separately and, if necessary, together with members of the Board of Management.

The Chairman of the Supervisory Board coordinates work within the Supervisory Board, chairs its meetings, handles the external affairs of the Supervisory Board and represents it in its dealings with the Board of Management.

The Supervisory Board is quorate if all members have been invited to the meeting and at least half of its members participate in the vote on a particular resolution. A resolution relating to an agenda item not included in the invitation is only valid if none of the members of the Supervisory Board who were not present at the meeting object to the resolution and a minimum of two-thirds of the members are present.

As a basic rule, resolutions are passed by the Supervisory Board by simple majority. The German Co-determination Act contains specific requirements with regard to majority voting and technical procedures, particularly with regard to the appointment and revocation of appointment of management board members and the election of a supervisory board chairman or deputy chairman. In the event of a tied vote in the Supervisory Board, the Chairman of the Supervisory Board has two votes in a renewed vote, even if this also results in a tied vote.

In practice, resolutions are taken by the Supervisory Board and its committees at the relevant meetings. A Supervisory Board member who is not present at a meeting can have his/her vote cast by another Supervisory Board member if an appropriate request has been made in writing, by fax or in electronic form. This rule also applies to the casting of the second vote by the Chairman of the Supervisory Board. The Chairman of the Supervisory Board can also accept the retrospective casting of votes by any members not present at a meeting if this is done within the time limit previously set. In special cases, resolutions may also be taken outside of meetings, i.e. in writing, by fax or by electronic means. Minutes are taken of each meeting and any resolutions made are signed by the Chairman of the Supervisory Board.

After its meetings, the Supervisory Board is generally provided information on new vehicle models in the form of a short presentation.

Following the election of a new Supervisory Board member, the BMW Corporate Governance Officer informs

the new member of the principal issues affecting his or her duties – in particular those enshrined in the BMW Group Corporate Governance Code – including the duty to cooperate when a transaction or event triggers reporting requirements or is subject to the approval of the Supervisory Board. New Supervisory Board members are also given the opportunity to become better acquainted with the business outside of Supervisory Board meetings by means of an information programme.

All members of the Supervisory Board of BMW AG are required 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 a total of three mandates on non-BMW Group supervisory boards of listed companies or in other bodies with comparable requirements.

The Supervisory Board examines the efficiency of its activities on a regular basis. Joint discussions are also held at plenum meetings, prepared on the basis of a questionnaire previously devised by and distributed to the members of the Supervisory Board. The Chairman of the Supervisory Board is open to suggestions for improvement at all times.

Each member of the Supervisory Board of BMW AG is bound to act in the enterprise's best interests. Members of the Supervisory Board may not pursue personal interests in their decisions or take advantage of business opportunities intended for the benefit of the enterprise.

Members of the Supervisory Board are obliged to inform the full Supervisory Board of any conflicts of interest which may result from a consultant or directorship function with clients, suppliers, lenders or other business partners, enabling the Supervisory Board to report to the shareholders at the Annual General Meeting on how it has dealt with such issues. Material conflicts of interest and those which are not merely temporary in nature result in the termination of the mandate of the relevant Supervisory Board member.

With regard to nominations for the election of members of the Supervisory Board, care is taken that the Supervisory Board in its entirety has the required knowledge, skills and expert experience to perform its tasks in a proper manner.

The Supervisory Board has set out specific targets for its own composition (see section "Composition targets for the Supervisory Board").

The members of the Supervisory Board are responsible for undertaking appropriate basic and further training measures such as that may be necessary to carry out the tasks assigned to them. The Company provides appropriate assistance to members of the Supervisory Board in this respect.

The ability of the Supervisory Board to supervise and advise the Board of Management independently is also assisted by the fact that the Supervisory Board is required, based on its own assessment, to have an appropriate number of independent members. Prof. Dr.-Ing. Dr. h. c. Dr.-Ing. E. h. Joachim Milberg is the only person on the Supervisory Board to have previously served on the Board of Management, of which he ceased to be a member in 2002. Supervisory Board members do not exercise directorships or similar positions or undertake advisory tasks for important competitors of the BMW Group.

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, namely the Personnel Committee, the Audit Committee, the Nomination Committee and the Mediation Committee (see Overview of Supervisory Board committees, meetings). Such committees serve to raise the efficiency of the Supervisory Board's work and facilitate the handling of complex issues. The establishment and function of a mediation committee is prescribed by law. The person chairing a committee reports in detail on its work at each plenum meeting.

The composition of the Presiding Board and the various committees is based on legal requirements, BMW AG's Articles of Incorporation, terms of reference and corporate governance principles. The expertise and technical skills of its members are also taken into account.

According to the relevant terms of reference, the Chairman of the Supervisory Board is, in this capacity, automatically a member of the Presiding Board, the Personnel Committee and the Nomination Committee, and also chairs these committees.

The number of meetings held by the Presiding Board and the committees depends on current requirements. The Presiding Board, the Personnel Committee and the Audit Committee normally hold several meetings in the course of the year (see Overview of Supervisory Board committees, meetings for details of the number of meetings held in 2012).

In line with the terms of reference for the activities of the plenum, the Supervisory Board has also set terms of reference for the Presiding Board and the various committees. The committees are only quorate if all members are present. Resolutions taken by the committees are passed by simple majority unless stipulated otherwise

by law. Minutes are also taken at the meetings and for the resolutions of the committees and the Presiding Board, and signed by the person chairing the particular meeting. This person also represents the committee in any dealings it may have with the Board of Management or third parties.

Members of the Supervisory Board may not delegate their duties. The Supervisory Board, the Presiding Board and committees may call on experts and other suitably informed persons to attend meetings to give advice on specific matters.

The Supervisory Board, the Presiding Board and the committees also meet without the Board of Management if necessary.

BMW AG ensures that the Supervisory Board and its committees are sufficiently equipped to carry out their duties. This includes the services provided by a centralised secretariat to support the chairmen in coordinating the work of the Supervisory Board.

In accordance with the relevant terms of reference, the Presiding Board comprises the Chairman of the Supervisory Board and board deputies. The Presiding Board prepares Supervisory Board meetings to the extent that the subject matter to be discussed 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 the Supervisory Board's efficiency examination.

The Personnel Committee prepares the decisions of the Supervisory Board with regard to the appointment and revocation of appointment of members of the Board of Management and, together with the full Supervisory Board and the Board of Management, ensures that long-term successor planning is in place. The Personnel Committee also prepares the decisions of the Supervisory Board with regard to the Board of Management's compensation and the Supervisory Board's regular review of the Board of Management's compensation system. In conjunction with the 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 service/employment contracts or, when necessary, other relevant contracts with members of the Board of Management. In specified cases, the Personnel Committee also has the authority to give the necessary approval for a particular transaction (instead of the Supervisory Board). This includes loans to members of the Board of Management or Supervisory Board, specified contracts with members of the Supervisory Board (in each case taking account of the consequences of related party transactions), as well as other activities of members of the Board of Management, including the acceptance of non-BMW Group supervisory board mandates.

The Audit Committee deals in particular with issues relating to the supervision of the financial reporting process, the effectiveness of the internal control system, the risk management system, internal audit arrangements and compliance. It also monitors the external audit, auditor independence and any additional work performed by the external auditor. It prepares the proposal for the election of the external auditor at the Annual General Meeting, makes a recommendation regarding the election of the external auditor, issues the audit engagement letter and agrees on points of emphasis 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 before publication. The Audit Committee also decides on the Supervisory Board's agreement to use the Authorised Capital 2009 (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 specific know-how and experience in applying financial reporting standards and internal control procedures. He also fulfils the requirements of being an independent 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 for inclusion in the Supervisory Board's proposals for election at the Annual General Meeting. In line with the recommendations of the German Corporate Governance Code, the Nomination Committee comprises only shareholder representatives.

The establishment and composition of a mediation committee are required 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 and one member each selected by shareholder representatives and employee representatives.

Overview of Supervisory Board Committees, Meetings

Principal duties, basis for activities	Members	Number of meetings 2012	Average attendance
Presiding Board			
– preparation of Supervisory Board meetings to the extent that the subject matter to be discussed does not fall within the remit of a committee – activities based on terms of reference	Joachim Milberg[1] Manfred Schoch Stefan Quandt Stefan Schmid Karl-Ludwig Kley	4 plus 2 telephone conferences	97 %
Personnel Committee			
– preparation of decisions relating to the appointment and revocation of appointment of members of the Board of Management, the compensation and the regular review of the Board of Management's compensation system – conclusion, amendment and revocation of employment contracts (in conjunction with the resolutions taken by the Supervisory Board regarding the compensation of the Board of Management) and other contracts with members of the Board of Management – decisions relating to the approval of ancillary activities of Board of Management members, including acceptance of non-BMW Group supervisory mandates as well as the approval of transactions requiring Supervisory Board approval by dint of law (e.g. loans to Board of Management or Supervisory Board members) – set up in accordance with the recommendation contained in the German Corporate Governance Code, activities based on terms of reference	Joachim Milberg[1] Manfred Schoch Stefan Quandt Stefan Schmid Karl-Ludwig Kley	4	95 %
Audit Committee			
– supervision of the financial reporting process, effectiveness of the internal control system, risk management system, internal audit arrangements and compliance – supervision of external audit, in particular auditor independence and additional work performed by external auditor – preparation of proposals for election of external auditor at Annual General Meeting, engagement of external auditor and compliance of audit engagement, determination of areas of audit emphasis and fee agreements with external auditor – preparation of Supervisory Board's resolution on Company and Group Financial Statements – discussion of interim reports with Board of Management prior to publication – decision on approval for utilisation of Authorised Capital 2009 – amendments to Articles of Incorporation only affecting wording – establishment in accordance with the recommendation contained in the German Corporate Governance Code, activities based on terms of reference	Karl-Ludwig Kley[1, 2] Joachim Milberg Manfred Schoch Stefan Quandt Stefan Schmid	3 plus 3 telephone conferences	97 %
Nomination Committee			
– identification of suitable candidates (male/female) as shareholder representatives on the Supervisory Board, to be put forward for inclusion in the Supervisory Board's proposals for election at the Annual General Meeting – establishment in accordance with the recommendation contained in the German Corporate Governance Code, activities based on terms of reference	Joachim Milberg[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.)	1	100 %
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	Joachim Milberg 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) AktG and § 107 (4) AktG

Composition objectives of the Supervisory Board
The Supervisory Board must be composed in such a way that its members as a group possess the knowledge, skills and experience required to properly complete its tasks. To this end, the Supervisory Board has formally specified the following concrete objectives regarding its composition, taking into account the recommendations contained in the German Corporate Governance Code:

- At least four of the members of the Supervisory Board should have international experience or specialist knowledge with regard to one or more of the non-German markets important to the Company.
- If possible, the Supervisory Board should include seven members who have acquired in-depth knowledge and experience from within the Company. The Supervisory Board should not, however, include more than two former members of the Board of Management.
- At least three of the shareholder representatives in the Supervisory Board should be entrepreneurs or persons who have already gained experience in the management or supervision of another medium-sized or large company.
- Ideally, three members of the Supervisory Board should be figures from the worlds of business, science or research who have gained experience in areas relevant to the BMW Group, e.g. chemistry, energy supply, information technology, or who have acquired specialist knowledge in subjects relevant for the future of the BMW Group, e.g. customer requirements, mobility, resources and sustainability.
- When seeking suitably qualified individuals for the Supervisory Board whose specialist skills and leadership qualities are most likely to strengthen the Board as a whole, consideration should also be given to diversity. When preparing nominations, the extent to which the work of the Supervisory Board would benefit from diversified professional and personal backgrounds (including international aspects) and from an appropriate representation of both genders should also be taken into account. In view of the proportion of women in the workforce at 31 December 2012 (BMW AG: 14.2 %; BMW Group 17.3 %), the Supervisory Board is of the opinion that a proportion of three female members out of a total of twenty members (15 %) is satisfactory as far as gender mix is concerned, but that an increase to at least four female members (20 %) would be desirable. The Supervisory Board therefore considers it appropriate that opportunities available in conjunction with selection procedures through to the end of the ordinary Annual General Meeting in 2015 should be used to maintain the current proportion of 20 % female representation. The Supervisory Board believes it is the joint responsibility of all persons and groupings participating in the nomination and election process to ensure that the Supervisory Board comprises an appropriate number of qualified women.
- At least twelve of the twenty members of the Supervisory Board should be independent members within the meaning of section 5.4.2 of the German Corporate Governance Code in the version dated 15 June 2012, including at least six members representing the Company's shareholders. Two independent members in 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 prevailing legislation, the members of the Supervisory Board will strive to ensure that no persons will be nominated for election with whom serious conflicts of interest could arise (other than temporarily) due to other activities and functions carried out by them outside the BMW Group; this includes in particular advisory activities or directorships with customers, suppliers, creditors or other business partners.
- As a general rule, the age limit for membership of the Supervisory Board should be set at 70 years. In exceptional cases, members may be allowed to remain on the Board up until the end of the Annual General Meeting following their 73rd birthday in order to fulfil legal requirements or to facilitate smooth succession in the case of persons with key roles or specialist qualifications.

The time schedule set by the Supervisory Board for achieving the above-mentioned composition targets is the Annual General Meeting in 2015, by which time elections will have taken place for all positions on the Supervisory Board. Future proposals for nomination made by the Supervisory Board at the Annual General Meeting – insofar as they apply to shareholder Supervisory Board members – should take account of these objectives in such a way that they can be achieved with the support of the appropriate resolutions at the Annual General Meeting. The Annual General Meeting is not bound by nominations for election proposed by the Supervisory Board. The freedom of employees to vote for the employee members of the Supervisory Board is also protected. Under the procedural rules stipulated by the German Co-Determination Act, the Supervisory Board does not have the right to nominate employee representatives for election. The objectives which the Supervisory Board has set itself with regard to its composition are therefore not intended to be instructions to

those entitled to vote or restrictions on their freedom to vote. More to the point, they reflect the composition which the current Supervisory Board believes should be striven for in future by those entitled to nominate and elect board members, in view of the advisory and supervisory needs of BMW AG's Supervisory Board.

In the Supervisory Board's opinion, its own composition at 31 December 2012 fulfils the composition objectives detailed above. Brief curricula vitae of the current members of the Supervisory Board can be found on the Company's website at www.bmwgroup.com.

Information on corporate governance practices applied beyond mandatory requirements

Core principles

Within the BMW Group, the Board of Management, the Supervisory Board and the employees base their actions on twelve core principles which are the cornerstone of the success of the BMW Group:

Customer focus

The success of our Company is determined by our customers. They are at the heart of everything we do. The results of all our activities must be valued in terms of the benefits they will generate for our customers.

Peak performance

We aim to be the best – a challenge to which all of us must rise. Each and every employee must be prepared to deliver peak performance. We strive to be among the elite, but without being arrogant. It is the Company and its products that count – and nothing else.

Responsibility

Every BMW Group employee has the personal responsibility for the Company's success. When working in a team, each employee must assume personal responsibility for his or her actions. We are fully aware that we are working to achieve the Company's goals. For this reason, we work together in the best interests of the Company.

Effectiveness

The only results that count for the Company are those which have a sustainable impact. In assessing leadership, we must consider the effectiveness of performance on results.

Adaptability

In order to ensure our long-term success we must adapt to new challenges with speed and flexibility. We therefore see change as an opportunity – adaptability is essential to be able to capitalise on it.

Frankness

As we strive to find the best solution, it is each employee's duty to express any opposing opinions they may have. The solutions we agree upon will then be consistently implemented by all those involved.

Respect, trust, fairness

We treat each other with respect. Leadership is based on mutual trust. Trust is rooted in fairness and reliability.

Employees

People make companies. Our employees are the strongest factor in our success, which means our personnel decisions will be among the most important we ever make.

Leading by example

Every manager must lead by example.

Sustainability

In our view, sustainability constitutes a lasting contribution to the success of the Company. This is the basis upon which we assume ecological and social responsibility.

Society

Social responsibility is an integral part of our corporate self-image.

Independence

We secure the corporate independence of the BMW Group through sustained profitable growth.

The core principles are also available at www.bmwgroup.com under the menu items "Responsibility" and "Employees".

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 a willingness to be open, trustworthy and transparent. We are well aware of our responsibility towards society. Our models for sustainable social responsibility towards employees and for ensuring compliance with international social standards are based on various internationally recognised guidelines. The BMW Group is committed to adhering to the OECD's guidelines for multinational companies and the contents of the ICC Business Charter for Sustainable Development. Details of the contents of these guidelines and other relevant information can be found at www.oecd.org and www.iccwbo.org. The Board of Management signed the United Nations Global Compact in 2001 and, in 2005,

together with employee representatives, issued a "Joint Declaration on Human Rights and Working Conditions in the BMW Group". This Joint Declaration was reconfirmed in 2010. With the signature of these documents, we have given our commitment to abide worldwide by internationally recognised human rights and with the fundamental working standards of the International Labour Organization (ILO). The most important of these are freedom of employment, the prohibition of discrimination, the freedom of association and the right to collective bargaining, the prohibition of child labour, the right to appropriate remuneration, regulated working times and compliance with work and safety regulations. The complete text of the UN Global Compact and the recommendations of the ILO and other relevant information can be found at www.unglobalcompact.org and www.ilo.org. The Joint Declaration on Human Rights and Working Conditions in the BMW Group can be found at www.bmwgroup.com under the menu item "Responsibility" (Services/downloads/topics: "Employees and Society").

Further information regarding employees is provided in the "Personnel" section of the Group Management Report.

It goes without saying that the BMW Group abides by these fundamental principles and rights worldwide. Employees have therefore been sensitised to this issue since 2005 by means of regular internal communications. Further training was provided again in 2012 on recent developments in this area. A dedicated helpline – the "Human Rights Contact" – is available to employees wishing to raise queries or complaints relating to human rights issues. The BMW Group also conducted its own "Human Rights Impact Assessment" in 2012 with a view to ensuring that human rights are respected throughout the organisation.

Activities can only be sustainable, however, if they encompass the entire value-added chain. That is why the BMW Group not only makes high demands of 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.

Sustainability criteria play an integral part in all aspects of our purchasing terms and conditions as well as for the purposes of evaluating suppliers. Potential suppliers must submit a full disclosure when completing BMW's modularly structured sustainability questionnaire, an inherent component of the acceptance procedure for potential new suppliers. The BMW Group also insists that its suppliers ensure that their sub-contractors comply with set standards. 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 foster close relations with our suppliers, providing encouragement and practical assistance to those interested in wishing to make progress in the area of sustainability.

Compliance in the BMW Group

Responsible and lawful conduct is fundamental to the success of the BMW Group. This approach is an integral part of our corporate culture and is the reason why customers, shareholders, business partners and the general public place their trust in us. The Board of Management and the employees of the BMW Group are obliged to act responsibly and in compliance with applicable laws and regulations.

This principle has been embedded in BMW's internal rules of conduct for many years. In order to ensure to protect itself systematically against compliance-related and reputational risks, the Board of Management created a Compliance Committee back in 2007, mandated to establish a worldwide Compliance Organisation throughout the BMW Group.

The BMW Group Compliance Committee comprises the heads of the following departments: Legal Affairs, Corporate and Governmental Affairs, Corporate Audit, Organisational Development and Corporate Human Resources. It manages and monitors activities necessary to avoid non-compliance with the law (Legal Compliance). These activities include training, information and communication measures, compliance controls and following up cases of non-compliance.

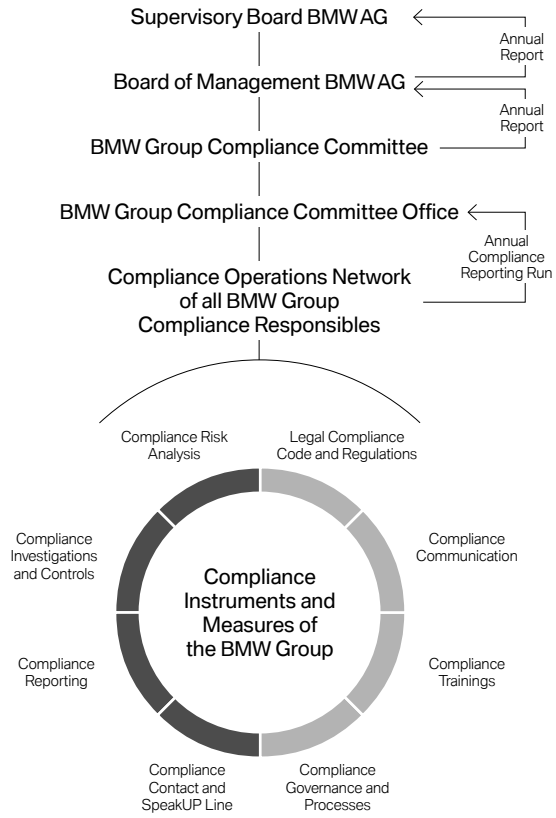
The BMW Group Compliance Committee reports regularly to the Board of Management on all compliance-related issues, including the progress made in developing the BMW Group Compliance Organisation, details of investigations performed, known infringements of the law, sanctions imposed and corrective/preventative measures implemented. 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 is allocated in organisational terms to the Chairman of the Board of Management.

The Chairman of the BMW Group Compliance Committee keeps the Audit Committee (i.e. a part of the Supervisory Board) informed on the current status of compliance activities within the BMW Group, both on a regular and a case-by-case basis as the need arises.

The Board of Management keeps track of and analyses compliance-related developments and trends on the basis of the Group's compliance reporting and input from the BMW Group Compliance Committee. Measures to improve compliance systems are initiated on the basis of identified requirements.

A coordinated set of instruments and measures are employed to ensure that the BMW Group, its representative bodies, its managers and its staff act in a lawful manner. Particular emphasis has been placed on compliance with antitrust legislation and the avoidance of corruption risks. Compliance measures are supplemented by a whole range of internal policies, guidelines and instructions, which in part reflect applicable legislation. The BMW Group Policy "Corruption Prevention" deserves particular mention: this document sets out the framework for dealing with gifts, hospitalities and other benefits in compliance with the law and defines appropriate value limits and approval procedures for specified actions.

BMW Group Compliance Organisation



Compliance measures are determined and prioritised on the basis of a group-wide compliance risk assessment covering 250 business units and functions worldwide within the BMW Group. The assessment of compliance risks is updated annually. Measures are realised with the aid of a regionally structured compliance management team covering all parts of the BMW Group and overseeing more than 200 Compliance Responsibles.

The various elements of the BMW Group Compliance Organisation are shown in the diagram on the left and are applicable for all BMW Group entities worldwide. To the extent that additional compliance requirements apply to individual countries or specific lines of business, these are covered by supplementary compliance measures.

The BMW Group Legal Compliance Code is the cornerstone of the Group's Compliance Organisation, spelling out the Board of Management's acknowledgement of the fact that compliance is a joint responsibility ("Tone from the Top"). This document, which explains the significance of legal compliance and provides an overview of the various areas relevant for the BMW Group, is available both as a printed brochure and to download in German and English. In addition, translations into eleven other languages are available (French, Italian, Japanese, Korean, Mandarin, Dutch, Polish, Portuguese, Russian, Spanish and Thai).

Managers in particular bear a high degree of responsibility and must set a good example in the process of preventing infringements. Managers throughout the BMW Group accept this principle by signing a written declaration, in which they also undertake to inform staff working for them of the content and significance of the Legal Compliance Code and to make staff aware of legal risks. Managers must, at regular intervals and on their own initiative, check compliance with the law and communicate regularly with staff on this issue. Any indication of non-compliance with the law must be rigorously investigated.

More than 16,500 managers and staff have received training worldwide in essential compliance matters since the introduction of the BMW Group Compliance Organisation. The training material is available on an internet-based training platform in German and English and includes a final test. Successful participation in

the training programme, which is documented by a certificate, is mandatory for all BMW Group managers. Appropriate processes are in place to ensure that all newly recruited managers and promoted staff undergo compliance training. In this way, the BMW Group ensures full training coverage for its managers in compliance matters.

In addition to this basic training, in-depth training is also provided to certain groups of staff on specific compliance issues. This includes a training programme (Compliance Advanced – Competition and Antitrust Law) aimed at employees who come into contact with antitrust-related issues as a result of their functions within sales, purchasing or development.

In order to avoid legal risks, all members of staff are expected to discuss matters with their managers and with the relevant departments within the BMW Group, in particular Legal Affairs, Corporate Audit and Corporate Security. As a further point of contact, the BMW Group Compliance Contact has also been set up both for employees and non-employees to answer any questions that may arise regarding compliance.

Employees also have the opportunity to submit information – anonymously and confidentially – via the BMW Group SpeakUP Line about possible breaches of the law within the company. The BMW Group SpeakUP Line is available in a total of 34 languages and can be reached via local free-of-charge telephone numbers in all of the countries in which BMW Group employees carry out activities.

Compliance-related queries and all matters to which attention has been drawn are documented and followed up by the BMW Group Compliance Committee Office using an electronic Case Management System. If necessary, Corporate Audit, Corporate Security, the Works Council and Legal Affairs may be called upon to assist in the investigation process.

A group-wide reporting system ensures the systematic recording of compliance-relevant information. Through this system, Compliance Responsibles throughout the BMW Group report on compliance-relevant issues to the Compliance Committee on a regular basis, and, if necessary, on an ad hoc basis. This includes reporting on the compliance status of the relevant entities, on identified legal risks and incidences of non-compliance as well as on corrective/preventative measures implemented.

Compliance with and the implementation of the Legal Compliance Code are audited regularly by Corporate Audit and subjected to control checks by Corporate Security and the BMW Group Compliance Committee Office. As part of its regular activities, Corporate Audit carries out on-site audits. The BMW Group Compliance Committee also engages Corporate Audit to perform compliance-specific tests. In addition, sample checks (BMW Group Compliance Spot Checks) specifically designed to identify potential risks of corruption are carried out. Compliance control activities are coordinated by the BMW Group Panel Compliance Controls established in 2011. Any necessary follow-up measures are organised by the BMW Group Compliance Committee Office.

It is essential that employees are aware of and comply with applicable legal regulations. The BMW Group does not tolerate violations of law by its employees. Culpable violations of law result in employment-contract sanctions and may involve personal liability consequences for the employee involved.

In order to avoid this, the BMW Group's employees are kept fully informed of the instruments and measures used by the Compliance Organisation via various internal channels. The central means of communication is the Compliance website within the BMW Group's intranet where employees can find compliance-related information and also have access to training materials in both German and English. Employees can use the website to access frequently asked questions (and answers) on compliance-related issues. The website contains a special service area where various practical tools and aids are made available to employees, which help them deal with typical compliance-related matters. BMW Group employees also have access on the website to an elec-

such as communication measures, training and possible monitoring – are implemented to manage compliance risks. The Business Relations Compliance programme was introduced in selected pilot markets in 2012 and, over the coming years, will be rolled out successively throughout the BMW Group's worldwide sales organisation.

Compliance is also an important factor in terms of safeguarding the future of the BMW Group's workforce. With this in mind, the Board of Management and the national and international employee representative bodies of the BMW Group signed a set of Joint Principles for Lawful Conduct in 2009. In doing so, all parties involved gave 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 developing compliance systems within the BMW Group.

In the interest of investor protection and in order to ensure that the BMW Group complies with regulations relating to potential insider information, as early as 1994 the Board of Management appointed an Ad-hoc Committee consisting of representatives of various specialist departments and whose members examine the relevance of issues for ad-hoc disclosure purposes. All persons working on behalf of the enterprise who have access to insider information in accordance with existing rules have been, and continue to be, included in a corresponding, regularly updated list and informed of the duties arising from insider rules.

Reportable securities transactions ("Directors Dealings")

Pursuant to § 15a of the German Securities Trading Act (WpHG), members of the Board of Management and the Supervisory Board and any persons related to those members, are required to give notice to BMW AG and the Federal Agency for the Supervision of Financial Services of transactions with BMW stock or related financial instruments if the total sum of such transactions exceeds an amount of €5,000 during any given calendar year. BMW AG gives notice of any transaction reported to it on its website at www.bmwgroup.com/ir and in its Annual Document pursuant to § 10 (1) of the German Securities Prospectus Act. No securities transactions pursuant to § 15a WpHG were notified to the Company during the 2012 financial year. The acquisition of financial instruments based on employment contracts or as a compensation component is excepted from the reporting requirement pursuant to § 15a WpHG.

Shareholdings of members of the Board of Management and the Supervisory Board

The members of the Supervisory Board of BMW AG hold in total 27.63 % of the Company's shares of common and preferred stock (2011: 27.65 %), of which 16.08 % (2011: 16.09 %) relates to Stefan Quandt, Bad Homburg v. d. H. and 11.55 % (2011: 11.56 %) to Susanne Klatten, Munich. The shareholding of the members of the Board of Management totals less than 1 % of the issued shares.

Share-based remuneration schemes for employees and Board of Management members

Three share-based remuneration schemes were in place at BMW AG during the year under report, namely the Employee Share Scheme (under which entitled employees of BMW AG participate in the enterprise's success), share-based commitments to members of the Board of Management members and share-based commitments to department heads (see also page 171 of the Compensation Report and note 18 to the Group Financial Statements).

As in the previous year, employees were able in 2012 under the terms of the Employee Share Scheme to acquire packages of between five and 20 shares of non-voting preferred stock with a discount of €12.50 per share compared to the market price (average closing price in Xetra trading during the period from 8 November to 14 November 2012: €43.95). All employees of BMW AG and its wholly owned German subsidiaries (if agreed to by the directors of those entities) were entitled to participate in the scheme. 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 Scheme are subject to a vesting period of four years, starting from 1 January of the year in which the employees acquired the shares. In total, 422,905 (2011: 408,140) shares of preferred stock were issued to employees in 2012, with 422,845 (2011: 407,960) drawn from the Authorised Capital 2009 and the remainder bought back via the stock exchange. Every year the Board of Management of BMW AG decides whether the scheme is to be continued. Further information is provided in notes 18 and 33 to the Group Financial Statements.

Compensation report

The following section describes the principles relating to the compensation of the Board of Management and the stipulations set out in the statutes relating to the compensation of the Supervisory Board. In addition to discussing the compensation system, the components of compensation are also disclosed in absolute figures. Furthermore, the compensation of each member of the Board of Management and the Supervisory Board for the financial year 2012 is disclosed by individual and analysed into components.

1. Management Board compensation

Responsibilities; approval by shareholders in 2012

The Supervisory Board is responsible for determining and regularly reviewing the Board of Management's compensation. The Personnel Committee plays a preparatory role in this process.

The compensation system applicable to the Board of Management was presented most recently for approval by shareholders at the Annual General Meeting on 16 May 2012 as part of a voluntary consultative process ("Say on Pay"). The compensation system was approved with a majority vote of 95.45 %.

Principles of compensation

The compensation system for the Board of Management at BMW AG is designed to encourage a management approach focused on sustainable development. One important principle applied when designing remuneration systems at BMW is that of consistency at different levels. In other words, compensation systems for the Board of Management, senior management and employees of BMW AG should all have a similar structure and contain similar components. The Supervisory Board carries out regular checks to ensure that all Board of Management compensation components are appropriate, both individually and in total, and do not encourage the Board of Management to take inappropriate risks for the BMW Group. At the same time, the compensation model used for the Board of Management should be attractive in the context of the competitive environment for highly qualified executives.

The compensation of members of the Board of Management is determined by the full Supervisory Board on the basis of performance criteria and after taking into account any remuneration received from Group companies. The principal performance criteria are the nature of the tasks allocated to each member of the Board of Management, the economic situation and the performance and future prospects of the BMW Group. The Supervisory Board sets demanding and relevant parameters as the basis for variable compensation. It also takes care to ensure that variable components based on multi-year assessment criteria take account of both positive and negative developments and that the package as a whole encourages a long-term approach to business performance. Targets and other parameters may not be changed retrospectively.

The Supervisory Board reviews the appropriateness of the compensation system annually. The Personnel Committee also makes use of remuneration studies. The Supervisory Board reviews the appropriateness of the compensation system in horizontal terms by comparing compensation paid by DAX companies and in vertical terms by comparing board compensation with the salaries of the two top levels of management below board level and with the average salaries of employees. Recommendations made by an independent external remuneration expert and suggestions made by investors and analysts are also considered in the consultative process.

Compensation system, compensation components

The compensation of the Board of Management comprises both fixed and variable remuneration as well as a share-based component. Retirement and surviving dependants' benefit entitlements are also in place.

Fixed compensation

Fixed remuneration consists of a base salary (paid monthly) and other remuneration elements. Other remuneration elements comprise mainly the use of company and lease cars as well as the payment of insurance premiums, contributions towards security systems and an annual medical check-up. Members of the Board of Management are also entitled to purchase vehicles and other services of the BMW Group at conditions that also apply in each relevant case for employees.

The basic remuneration of members of the Board of Management were set in 2011 for financial years beginning after 1 January 2012 at €750,000 p. a. (2011: €510,000) for a board member during the first period of office, at €900,000 p. a. (2011: €590,000) for a board member during the second period of office and at €1,500,000 p. a. (2011: €1,020,000) for the Chairman of the Board of Management.

Variable remuneration

The variable remuneration of Board of Management members comprises variable cash remuneration on the one hand and share-based remuneration components on the other.

Variable cash remuneration, in particular bonuses

Variable cash remuneration consists of a cash bonus and a share-based remuneration component equivalent

to 20 % of the board member's total bonus after taxes, which the board member is required to invest in BMW AG common stock. Taxes and social insurance relating to the share-based remuneration component are also borne by the Company. In substantiated cases, the Supervisory Board also has the option of paying an additional special bonus.

The bonus is made up of two components, each equally weighted, namely a corporate earnings-related bonus and a personal performance-related bonus. The target bonus (100 %) of a Board of Management member, for both components of the variable compensation, totals €1.5 million p. a. and €1.75 million p. a. with effect from the second term of appointment. The equivalent figure for the Chairman of the Board of Management is €3 million p. a. Upper limits for the amount of the bonus are in place for all Board of Management members (250 % of the relevant target bonus).

The corporate earnings-related bonus is based on the BMW Group's net profit and post-tax return on sales (which are combined in a single earnings factor) and the level of the dividend (common stock). The corporate earnings-related bonus is derived by multiplying the target amount fixed for each member of the Board of Management by the earnings factor and by the dividend factor. In exceptional circumstances, for instance when there have been major acquisitions or disposals, the Supervisory Board may adjust the level of the corporate earnings-related bonus.

An earnings and dividend factor of 1.00 gives rise to a corporate earnings-based bonus of €0.75 million for the relevant financial year for a member of the Board of Management during the first period of office and one of €0.875 million during the second period of office. The equivalent bonus for the Chairman of the Board of Management is €1.5 million. The earnings factor is 1.00 in the event of a Group net profit of €3.1 billion and a post-tax return on sales of 5.6 %. The dividend factor is 1.00 in the event that the dividend paid on the shares of common stock is between 101 and 110 cents. If the Group net profit is below €1 billion or if the post-tax return on sales is less than 2 %, the earnings factor will be zero. In these cases, no corporate earnings-related bonus will be paid. Based on the principle of consistency at all levels, this rule is also applicable in determining the corporate earnings-related variable compensation components of all managers and staff of BMW AG.

The personal performance-related bonus is derived by multiplying the target amount set for each member of the Board of Management by a performance factor. The Supervisory Board sets the performance factor on the basis of its assessment of the contribution of the relevant Board of Management member to sustainable and long-term oriented business development. In setting the factor, consideration is given equally to personal performance and decisions taken in previous forecasting periods, key decisions affecting the future development of the business and the effectiveness of measures taken in response to changing external conditions as well as other activities aimed at safeguarding the future viability of the business to the extent not included directly in the basis of measurement. Performance factor criteria include innovation (economic and ecological, e.g. reduction of CO_2 emissions), customer focus, ability to adapt, leadership accomplishments, contributions to the Company's attractiveness as an employer, progress in implementing the diversity concept and activities that foster corporate social responsibility. The target bonus and the key figures used to determine the corporate earnings-related bonus have been fixed for a period of three financial years, during which time they may not be amended retrospectively.

Share-based remuneration programme

The compensation system includes a share-based remuneration programme, in which the level of share-based remuneration is based on the amount of the bonus paid. The system is aimed at creating further long-term incentives to encourage sustainable governance.

This programme envisages a share-based remuneration component equivalent to 20 % of the board member´s total bonus after taxes, which the board member is required to invest in BMW AG common stock. Taxes and social insurance relating to the share-based remuneration component are also borne by the Company. As a general rule, the shares must be held for a minimum of four years. As part of a matching plan, the Board of Management members will, at the end of the holding period, receive from the Company either one additional share of common stock or an equivalent cash amount for three shares of common stock held, to be decided at the discretion of the Company (share-based remuneration component/matching component), unless the employment relationship was ended before expiry of the agreed contractual period (except where caused by death or invalidity). Special rules apply in the case of death or invalidity of a Board of Management member before fulfilment of the holding period.

Retirement and surviving dependants' benefits

The provision of retirement and surviving dependants' benefits for existing and future members of the Board of Management was changed to a defined contribution system with a guaranteed minimum return with effect from 1 January 2010. However, given the fact that board

members appointed for the first time prior to 1 January 2010 had a legal right to receive the benefits already promised to them, these board members were given the option to choose between the previous system and the new one.

In the event of the termination of mandate, Board of Management members appointed for the first time prior to 1 January 2010 are entitled to receive certain defined benefits in accordance with the old pension scheme rules. Pensions are paid to former members of the Board of Management who have either reached the age of 65 or, if their mandate was terminated earlier and not extended, to members who have either reached the age of 60 or who are unable to work due to ill-health or accident, or who have entered into early retirement in accordance with a special arrangement. The amount of the pension is unchanged from the previous year and comprises a basic monthly amount of €10,000 or €15,000 (Chairman of the Board of Management) plus a fixed amount. The fixed amount is made up of approximately €75 for each year of service in the Company before becoming a member of the Board of Management plus between €400 and €600 for each full year of service on the board (up to a maximum of 15 years). Pension payments are adjusted by analogy to the rules applicable for the adjustment of civil servants' pensions: the pensions of members of the Board of Management are adjusted when the civil servants remuneration level B6 (excluding allowances) is increased by more than 5 % or in accordance with the Company Pension Act.

When a mandate is terminated, the new defined contribution system provides entitlements which can be paid either (a) in the case of death or invalidity as a one-off amount or over a maximum of ten years or (b) on retirement – depending on the wish of the ex-board member concerned – in the form of a lifelong monthly pension, as a one-off amount, in a maximum of ten annual instalments, or in a combined form (e.g. a combination of a one-off payment and a proportionately reduced lifelong monthly pension). Pensions are paid to former members of the Board of Management who have either reached the statutory retirement age for the state pension scheme in Germany or, if their mandate had terminated earlier and had not been extended, to members who have either reached the age of 60 or are permanently unable to work, or who have entered into early retirement in accordance with a special arrangement. In addition, following the death of a retired board member who has elected to receive a lifelong pension, 60 % of that amount is paid as a lifelong widow's pension. Pensions are increased annually by an amount of at least 1 %.

The amount of the retirement pension to be paid is determined on the basis of the amount accrued in each board member's individual pension savings account. The amount on this account arises from annual contributions paid in plus interest earned depending on the type of investment.

The annual contribution to be paid amounts to €300,000 (2011: €270,000) for each member of the Board of Management and €525,000 (2011: €475,000) for the Chairman of the Board of Management. The contributions are credited, along with interest earned, to the personal savings accounts of board members in monthly amounts. 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).

In the case of invalidity or death, a minimum of the potential annual contributions will be paid until the person concerned would have reached the age of 60.

Contributions falling due under the defined contribution scheme 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 is offset against the pension entitlement. In addition, certain circumstances have been specified, in the event of which the Company no longer has any obligation to pay benefits. In such cases, no transitional payments will be made, either.

Board of Management members who retire immediately after their service on the board and who draw a retirement pension are entitled to purchase vehicles and other services of the BMW Group at conditions that also apply in each relevant case for pensioners and to lease BMW Group vehicles in accordance with the guidelines applicable to senior heads of departments.

Compensation claims, entitlements to receive amounts from third parties

If a board member's mandate is terminated early without important reason, there are no contractual commitments to pay compensation. Similarly, there are no commitments to pay compensation for early termination in the event of a change of control or a takeover offer.

No members of the Board of Management received any payments or benefits from third parties in 2012 on account of their activities as members of the Board of Management of BMW AG.

Overview of compensation system and compensation components

Component	Parameter / measurement base
Salary	
	Member of the Board of Management: – €0.75 million p. a. (first term of appointment) – €0.90 million p. a. (from second term of appointment onwards) Chairman of the Board of Management: – €1.50 million p. a.
Variable compensation	
Bonus	Target bonuses (if target is 100 % achieved): – €1.50 million p. a. (first term of appointment) – €1.75 million p. a. (from second term of appointment onwards) – €3.00 million p. a. (Chairman of the Board of Management) – Upper limit: 250 %
a) Corporate earnings-related bonus (corresponds to 50 % of target bonus if target is 100 % achieved)	– Quantitative criteria fixed in advance for a period of three financial years – Formula: 50 % of target bonus x earnings factor x dividend factor (common stock) – The earnings factor is derived from the Group net profit and the Group post-tax return on sales
b) Performance-related bonus (corresponds to 50 % of target bonus if target is 100 % achieved)	– Primarily qualitative criteria, expressed in terms of a performance factor aimed at measuring the board members contribution to sustainable and long-term performance and the future viability of the business – Formula: 50 % of target bonus x performance factor – Criteria for the performance factor also include: innovation (economic and ecological, e.g. reduction of CO_2 emissions), customer orientation, ability to adapt, leadership accomplishments and attractiveness as employer, progress in implementing the diversity concept and activities that foster corporate social responsibility
Special bonus payments	May be paid in justified circumstances on appropriate basis, contractual basis, no entitlement
Share-based remuneration programme	– Requirement for Board of Management members to each invest an amount equivalent to 20 % of their total bonus (after tax) in BMW AG common stock
a) Cash remuneration component	– Earmarked cash remuneration equivalent to the amount required to be invested in BMW AG shares, plus taxes and social insurance contributions
b) Share-based remuneration component (matching component)	– Once the four-year holding period requirement is fulfilled, Board of Management members receive for each three common stock shares held either at the Company's option one further share of common stock or the equivalent amount in cash, unless the employment relationship was ended before expiry of the agreed contractual period (except where caused by death or invalidity).
Other remuneration	
	Contractual agreement, main points: use of company cars, insurance premiums, contributions towards security systems, medical check-up
Compensation entitlements on termination of contract, compensation entitlements in event of change of control or takeover bid	
	No contractual entitlements
Retirement and surviving dependants' benefits	
Model	Principal features
a) Defined benefits (only applies to board members appointed for the first time before 1 January 2010; based on legal right to receive the benefits already promised to them, this group of persons is entitled to opt between (a) and (b))	Pension of €120,000 (Chairman: €180,000) p. a. plus fixed amounts based on length of Company and board service
b) Defined contribution system with guaranteed minimum rate of return	Pension based on amounts credited to individual savings accounts for contributions paid and interest earned Annual contribution for board member (Chairman) €300,000 (€525,000) Various forms of disbursement

Compensation of the Board of Management for the financial year 2012 (total)

With effect from 1 July 2012, the Board of Management was expanded by one to a total of eight members. The total compensation of the eight current members of the Board of Management of BMW AG for 2012 amounted to €31.4 million (2011: €27.3 million), of which €7.5 million (2011: €4.7 million) relates to fixed components (including other remuneration). These figures include the impact of the rise in basic remuneration resolved in 2011 for financial years commencing after 1 January 2012. Variable components amounted to €23.2 million (2011: €21.9 million) and share-based remuneration component to €0.7 million (2011: €0.7 million).

In addition, an expense of €1.2 million (2011: €1.1 million) was recognised in the financial year 2012 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 € million	**2012**		2011	
	Amount	Proportion in %	Amount	Proportion in %
Fixed compensation	**7.5**	**23.9**	4.7	17.2
Variable cash compensation	**23.2**	**73.9**	21.9	80.2
Share-based compensation component*	**0.7**	**2.2**	0.7	2.6
Total compensation	**31.4**	**100.0**	**27.3**	**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 2012 (2011)

in € or number of matching shares	Fixed compensation			Variable compensation	Share-based compensation component (matching component)[1]		**Compensation Total**	Expense for share-based compensation component in year under report in accordance with HGB and IFRS	Provision at 31.12.2012 for share-based remuneration component in accordance with HGB and IFRS[2]
	Basic compensation	Other compensation	Total		Number	Monetary value			
Norbert Reithofer	1,500,000	112,835	1,612,835	4,881,600	2,495	132,634	**6,627,069**	75,826	97,269
	(1,020,000)	(22,455)	(1,042,455)	(4,971,600)	(2,610)	(142,480)	(6,156,535)	(21,443)	(21,443)
Frank-Peter Arndt	900,000	27,336	927,336	2,847,600	1,455	77,348	**3,852,284**	70,099	88,856
	(590,000)	(22,081)	(612,081)	(2,900,100)	(1,522)	(87,302)	(3,599,483)	(18,757)	(18,757)
Milagros Caiña Carreiro-Andree[3]	375,000	11,526	386,526	1,220,400	514	35,569	**1,642,495**	6,248	6,248
	– ( )	– ( )	– ( )	– ( )	– ( )	– ( )	( )	(–)	( )
Herbert Diess	900,000	22,007	922,007	2,847,600	1,563	83,089	**3,852,696**	55,238	70,615
	(590,000)	(72,190)	(662,190)	(2,900,100)	(1,634)	(88,710)	(3,651,000)	(15,377)	(15,377)
Klaus Draeger	900,000	22,948	922,948	2,847,600	1,563	83,089	**3,853,637**	71,283	90,505
	(590,000)	(16,008)	(606,008)	(2,900,100)	(1,634)	(95,998)	(3,602,106)	(19,222)	(19,222)
Friedrich Eichiner	900,000	27,366	927,366	2,847,600	1,563	83,089	**3,858,055**	61,522	78,437
	(590,000)	(26,842)	(616,842)	(2,900,100)	(1,634)	(90,311)	(3,607,253)	(16,915)	(16,915)
Harald Krüger	900,000	19,036	919,036	2,847,600	1,455	77,348	**3,843,984**	37,608	47,532
	(518,333)	(20,148)	(538,481)	(2,520,325)	(1,323)	(73,347)	(3,132,153)	(9,924)	(9,924)
Ian Robertson	900,000	14,881	914,881	2,847,600	1,563	83,089	**3,845,570**	48,583	62,058
	(578,065)	(14,106)	(592,171)	(2,817,686)	(1,588)	(90,707)	(3,500,564)	(13,475)	(13,475)
Total	**7,275,000**	**257,935**	**7,532,935**	**23,187,600**	**12,171**	**655,255**	**31,375,790**	**426,407**	**541,520**
	(4,476,398)	(193,830)	(4,670,228)	(21,910,011)	(11,945)	(668,855)	(27,249,094)	(115,113)	(115,113)

[1] Provisional number or provisional monetary value calculated at grant date (date on which the entitlement became binding in law). The final number of matching shares is determined in each case when the requirement to invest in BMW AG common stock has been fulfilled. See note 18 to the Group Financial Statements for a description of the accounting treatment of the share-based compensation component.
[2] Monetary value calculated on the basis of the closing price of BMW common stock in the XETRA trading system on 28 December 2012 (€72.93) (fair value at reporting date).
[3] Member of the Board of Management since 1 July 2012

The amount paid to former members of the Board of Management and their dependants was €3.8 million (2011: €3.7 million). Pension obligations to former members of the Board of Management and their surviving dependants are fully covered by pension provisions amounting to €61.2 million (2011: €51.6 million), computed in accordance with IAS 19. The increase in the present value of defined benefit obligations for current Board of Management and pension obligations to former Board of Management members and their surviving dependants, measured in accordance with IFRS, was primarily attributable to interest rate factors.

2. Supervisory Board compensation

Responsibilities, regulation pursuant to Articles of Incorporation

The compensation of the Supervisory Board is determined by shareholders' resolution at the Annual General Meeting. The compensation regulation valid for the financial year 2012 was resolved by shareholders at the Annual General Meeting on 8 May 2008 and is set out in Article 15 of BMW AG's Articles of Incorporation, which can be viewed and/or downloaded at www.bmwgroup.com/ir under the menu items "Corporate Facts" and "Corporate Governance".

Compensation principles, compensation components

The Supervisory Board of BMW AG receives both fixed and corporate performance-related compensation. Earnings per share of common stock form the basis for corporate performance-related compensation.

In accordance with rules contained in BMW AG's Articles of Incorporation, each member of the Supervisory Board receives, in addition to the reimbursement of reasonable expenses, a fixed amount of €y s0(Tm00)TJ /4 (eac)-9(

tained in paragraph 2 of section 5.4.6 of the German Corporate Governance Code (version dated 26 May 2010). The Supervisory Board and Board of Management intend to submit a proposal to the Annual General Meeting 2013 to change Supervisory Board compensation for financial years beginning after 1 January 2013 by way of an amendment to the Articles of Incorporation. In line with the revised recommendation on supervisory board compensation contained in section 5.4.6 paragraph 2 sentence 2 of the Code (version dated 15 May 2012), the corporate performance-related compensation component will in future take more than one financial year into account and be oriented toward sustainable growth of the enterprise.

The German Corporate Governance Code also recommends that the exercising of chair and deputy chair positions in the Supervisory Board as well as the chair and membership of committees should also be considered when determining the level of compensation.

Accordingly, the Articles of Incorporation of BMW AG stipulate that the Chairman of the Supervisory Board shall receive three times the amount and each Deputy Chairman shall receive twice the amount of the remuneration of a Supervisory Board member. Provided the relevant committee convened for meetings on at least three days during the financial year, each chairman of the Supervisory Board's committees receives twice the amount and each member of a committee receives one and a half times the amount of the remuneration of a Supervisory Board member. If a member of the Supervisory Board exercises more than one of the functions referred to above, the compensation is measured only on the basis of the function which 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 be able to perform his duties, the Chairman of the Supervisory Board is provided with secretariat and chauffeur services.

Compensation of the Supervisory Board for the financial year 2012 (total)

In accordance with § 15 of the Articles of Incorporation, the compensation of the Supervisory Board for activities during the financial year 2012 amounted to €4.5 million (2011: €4.5 million). This includes fixed compensation of €1.6 million (2011: €1.6 million) and variable compensation of €2.9 million (2011: €2.9 million). As a result of the earnings per share of €7.77 (see note 16 to the Group Financial Statements) (2011: €7.45), the stipulated upper limits for Supervisory Board variable compensation were again applied for the financial year ended 31 December 2012.

in € million	**2012**		2011	
	Amount	Proportion in %	Amount	Proportion in %
Fixed compensation	**1.6**	**35.6**	1.6	35.6
Variable compensation	**2.9**	**64.4**	2.9	64.4
Total compensation	**4.5**	**100.0**	**4.5**	**100.0**

Supervisory Board members did not receive any further compensation or benefits from the BMW Group for advisory and agency services personally rendered.

Compensation of the individual members of the Supervisory Board for the financial year 2012 (2011)

in €	Fixed compensation	Attendance fee	Variable compensation	**Total**
Joachim Milberg (Chairman)	165,000	10,000	330,000	**505,000**
	(165,000)	(10,000)	(330,000)	(505,000)
Manfred Schoch (Deputy Chairman)[1]	110,000	10,000	220,000	**340,000**
	(110,000)	(10,000)	(220,000)	(340,000)
Stefan Quandt (Deputy Chairman)	110,000	10,000	220,000	**340,000**
	(110,000)	(10,000)	(220,000)	(340,000)
Stefan Schmid (Deputy Chairman)[1]	110,000	10,000	220,000	**340,000**
	(110,000)	(10,000)	(220,000)	(340,000)
Karl-Ludwig Kley (Deputy Chairman)	110,000	8,000	220,000	**338,000**
	(110,000)	(10,000)	(220,000)	(340,000)
Bertin Eichler[1]	55,000	10,000	110,000	**175,000**
	(55,000)	(8,000)	(110,000)	(173,000)
Franz Haniel	55,000	10,000	110,000	**175,000**
	(55,000)	(10,000)	(110,000)	(175,000)
Reinhard Hüttl	55,000	10,000	110,000	**175,000**
	(55,000)	(10,000)	(110,000)	(175,000)
Henning Kagermann	55,000	10,000	110,000	**175,000**
	(55,000)	(10,000)	(110,000)	(175,000)
Susanne Klatten	55,000	8,000	110,000	**173,000**
	(55,000)	(8,000)	(110,000)	(173,000)
Renate Köcher	55,000	8,000	110,000	**173,000**
	(55,000)	(10,000)	(110,000)	(175,000)
Robert W. Lane	55,000	6,000	110,000	**171,000**
	(55,000)	(8,000)	(110,000)	(173,000)
Horst Lischka[1]	55,000	10,000	110,000	**175,000**
	(55,000)	(10,000)	(110,000)	(175,000)
Willibald Löw[1]	55,000	10,000	110,000	**175,000**
	(55,000)	(10,000)	(110,000)	(175,000)
Wolfgang Mayrhuber	55,000	8,000	110,000	**173,000**
	(55,000)	(8,000)	(110,000)	(173,000)
Dr. Dominique Mohabeer[1, 2]	32,158	6,000	64,317	**102,475**
	– ( )	– ( )	– ( )	– ( )
Franz Oberländer[1, 3]	22,842	4,000	45,683	**72,525**
	(55,000)	(8,000)	(110,000)	(173,000)
Anton Ruf[4]	45,833	8,000	91,667	**145,500**
	(55,000)	(8,000)	(110,000)	(173,000)
Maria Schmidt[1]	55,000	8,000	110,000	**173,000**
	(55,000)	(10,000)	(110,000)	(175,000)
Jürgen Wechsler[1]	55,000	10,000	110,000	**175,000**
	(48,973)	(6,000)	(97,045)	(152,018)
Werner Zierer[1]	55,000	10,000	110,000	**175,000**
	(55,000)	(10,000)	(110,000)	(175,000)
Oliver Zipse[5]	9,167	2,000	18,333	**29,500**
	– ( )	– ( )	– ( )	– ( )
Total	**1,430,000**	**186,000**	**2,860,000**	**4,476,000**
	(1,423,973)	(184,000)	(2,847,045)	(4,455,018)

[1] These employee representatives have in line with the guidelines of the Deutsche Gewerkschaftsbund requested that their remuneration be paid into the Hans-Böckler-Foundation.
[2] Member of the Supervisory Board since 1 June 2012
[3] Member of the Supervisory Board until 31 May 2012
[4] Member of the Supervisory Board until 31 October 2012
[5] Member of the Supervisory Board since 1 November 2012

3. Other

Apart from vehicle lease contracts entered into on customary market conditions, no advances and loans were granted by the Company to members of the Board of Management and the Supervisory Board, nor were any contingent liabilities entered into on their behalf.

OTHER INFORMATION

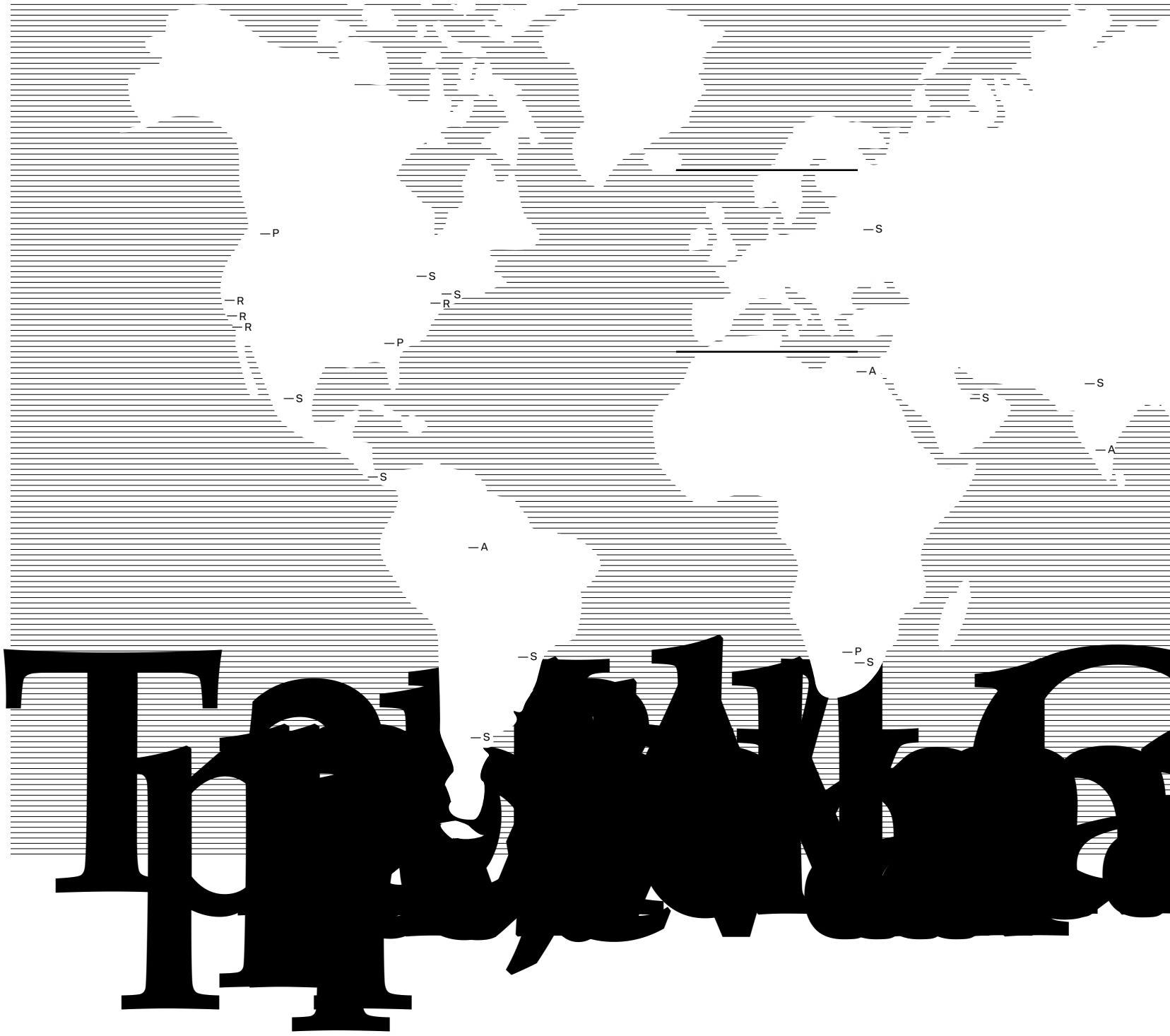
BMW Group Ten-year Comparison

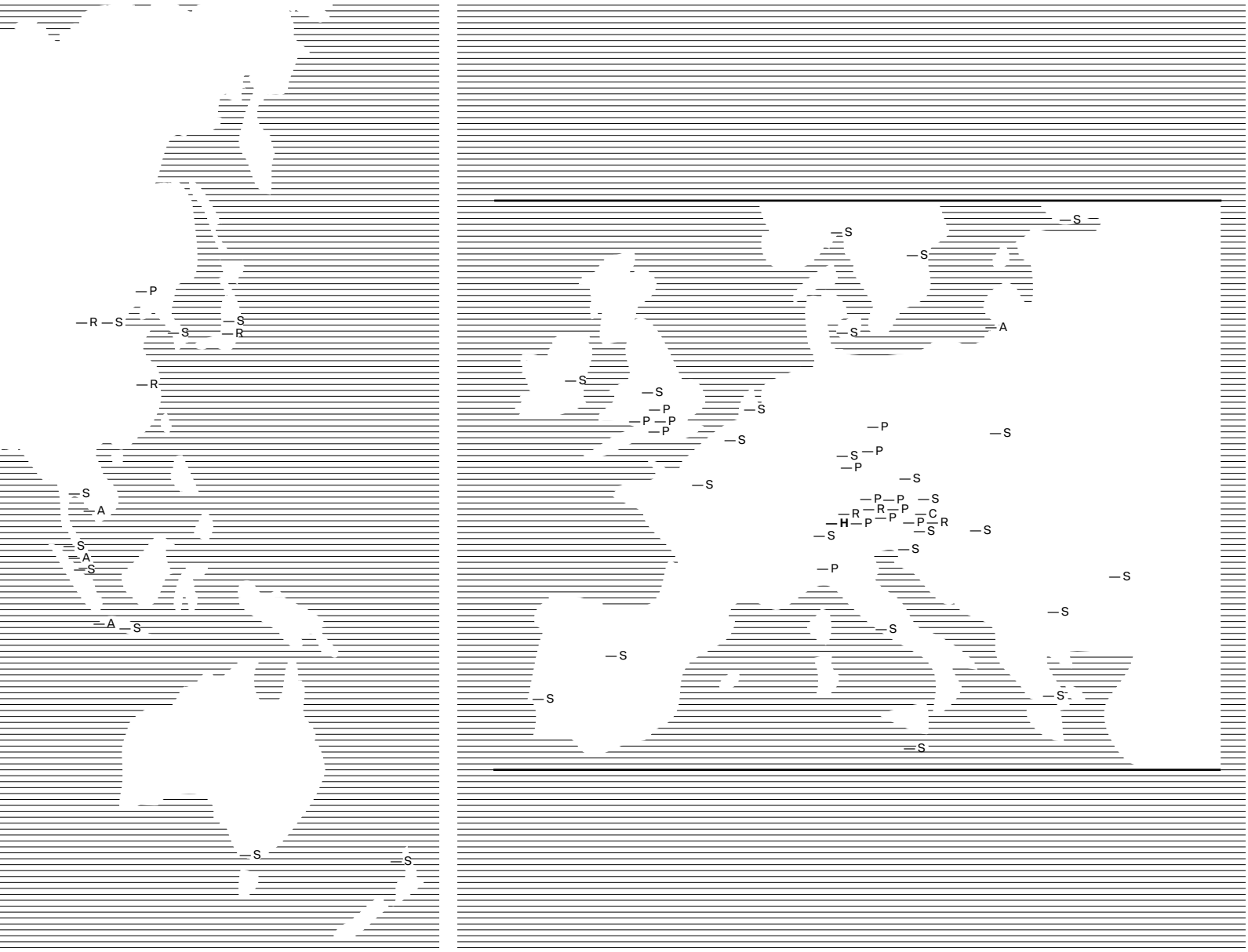
		2012	2011	2010	2009
Deliveries to customers					
Automobiles	units	**1,845,186**	1,668,982	1,461,166	1,286,310
Motorcycles[2]	units	**117,109**	113,572	110,113	100,358
Production					
Automobiles	units	**1,861,826**	1,738,160	1,481,253	1,258,417
Motorcycles	units	**125,284**	118,865	112,271	93,243
Financial Services					
Contract portfolio	contracts	**3,846,364**	3,592,093	3,190,353	3,085,946
Business volume (based on balance sheet carrying amounts)[3]	€ million	**80,974**	75,245	66,233	61,202
Income Statement					
Revenues	€ million	**76,848**	68,821	60,477	50,681
Gross profit margin Group[4]	%	**20.2**	21.1	18.1	10.5
Profit before financial result	€ million	**8,300**	8,018	5,111	289
Profit before tax	€ million	**7,819**	7,383	4,853	413
Return on sales (earnings before tax / revenues)	%	**10.2**	10.7	8.0	0.8
Income taxes	€ million	**2,697**	2,476	1,610	203
Effective tax rate	%	**34.5**	33.5	33.1	49.2
Net profit for the year	€ million	**5,122**	4,907	3,243	210
Balance Sheet					
Non-current assets	€ million	**81,336**	74,425	67,013	62,009
Current assets	€ million	**50,514**	49,004	43,151	39,944
Equity	€ million	**30,402**	27,103	23,930	19,915
Equity ratio Group	%	**23.1**	22.0	21.7	19.5
Non-current provisions and liabilities	€ million	**53,074**	49,113	46,100	45,119
Current provisions and liabilities	€ million	**48,374**	47,213	40,134	36,919
Balance sheet total	€ million	**131,850**	123,429	110,164	101,953
Cash Flow Statement					
Cash and cash equivalents at balance sheet date	€ million	**8,370**	7,776	7,432	7,767
Operating cash flow[5]	€ million	**9,167**	8,110[6]	8,149	4,921
Capital expenditure	€ million	**5,240**	3,692	3,263	3,471
Capital expenditure ratio (capital expenditure / revenues)	%	**6.8**	5.4	5.4	6.8
Personnel					
Workforce at the end of year[7]		**105,876**	100,306	95,453	96,230
Personnel cost per employee	€	**89,140**	84,887	83,141	72,349
Dividend					
Dividend total	€ million	**1,640**	1,508	852	197
Dividend per share of common stock / preferred stock	€	**2.50 / 2.52**	2.30 / 2.32	1.30 / 1.32	0.30 / 0.32

[1] Adjusted for new accounting treatment of pension obligations
[2] Excluding C1, sales volume to 2003: 32,859 units
[3] Amount computed on the basis of balance sheet figures: until 2007 from the Group balance sheet, from 2008 onwards from the Financial Services segment balance sheet
[4] Research and development costs included in cost of sales with the effect from 2008
[5] Figures are reported in the cash flow statement up to 2006 as cash inflow from operating activities of Industrial Operations and from 2007 as cash inflow from operating activities of the Automotive segment.
[6] Adjusted for reclassifications as described in note 42.
[7] Figures exclude dormant employment contracts, employees in the non-work phases of pre-retirement part-time arrangements and low wage earners.
[8] Adjustment to dividend due to buy-back of treasury shares

2008	2007	2006	2005	2004[1]	2003	
						Deliveries to customers
1,435,876	1,500,678	1,373,970	1,327,992	1,208,732	1,104,916	Automobiles
115,196	102,467	100,064	97,474	92,266	92,962	Motorcycles[2]
						Production
1,439,918	1,541,503	1,366,838	1,323,119	1,250,345	1,118,940	Automobiles
118,452	104,396	103,759	92,012	93,836	89,745	Motorcycles
						Financial Services
3,031,935	2,629,949	2,270,528	2,087,368	1,843,399	1,623,425	Contract portfolio
60,653	51,257	44,010	40,428	32,556	28,647	Business volume (based on balance sheet carrying amounts)[3]
						Income Statement
53,197	56,018	48,999	46,656	44,335	41,525	Revenues
11.4	21.8	23.1	22.9	23.2	22.7	Gross profit margin Group[4]
921	4,212	4,050	3,793	3,774	3,353	Profit before financial result
351	3,873	4,124	3,287	3,583	3,205	Profit before tax
0.7	6.9	8.4	7.0	8.1	7.7	Return on sales (earnings before tax/revenues)
21	739	1,250	1,048	1,341	1,258	Income taxes
6.0	19.1	30.3	31.9	37.4	39.3	Effective tax rate
330	3,134	2,874	2,239	2,242	1,947	Net profit for the year
						Balance Sheet
62,416	56,619	50,514	47,556	40,822	36,921	Non-current assets
38,670	32,378	28,543	27,010	26,812	24,554	Current assets
20,273	21,744	19,130	16,973	16,534	16,150	Equity
20.1	24.4	24.2	22.8	24.4	26.3	Equity ratio Group
41,526	33,469	31,372	29,509	26,517	22,090	Non-current provisions and liabilities
39,287	33,784	28,555	28,084	24,583	23,235	Current provisions and liabilities
101,086	88,997	79,057	74,566	67,634	61,475	Balance sheet total
						Cash Flow Statement
7,454	2,393	1,336	1,621	2,128	1,659	Cash and cash equivalents at balance sheet date
4,471	6,246	5,373	6,184	6,157	4,970	Operating cash flow[5]
4,204	4,267	4,313				

BMW Group Locations





— P **Production**

Berlin plant
Dingolfing plant
Eisenach plant
Goodwood plant, GB (headquarters of Rolls-Royce Motor Cars Limited)
Hams Hall plant, GB
Landshut plant
Leipzig plant
Munich plant
Oxford plant, GB
Regensburg plant
Rosslyn plant, South Africa
BMW Brilliance Automotive Ltd., Shenyang, China (joint venture with Brilliance China Automotive Holdings 3 plants)
Spartanburg plant, USA
Steyr plant, Austria
Swindon plant, GB
Wackersdorf plant
– BMW SGL joint venture (2 plants)
Husqvarna Motorcycles S. r. l., Cassinetta di Biandronno, Italy

— C **Contract production**

Magna Steyr Fahrzeugtechnik, Austria

— A **Assembly plants**

CKD production Cairo, Egypt
CKD production Chennai, India
CKD production Jakarta, Indonesia
CKD production Kaliningrad, Russia
CKD production Kulim, Malaysia
CKD production Manaus, Brazil
CKD production Rayong, Thailand

— S **Sales subsidiary markets / Locations Financial Services**

Argentina
Australia
Austria
Belgium
Brazil
Bulgaria
China
Canada
Czech Republic
Denmark
Dubai
Finland
France
Germany
Great Britain
Greece
Hungary
India
Indonesia*
Ireland
Italy
Japan
Malaysia
Malta
Mexico
Netherlands
New Zealand
Norway
Panama*
Poland
Portugal
Romania
Russia
Singapore
Slovakia
Slovenia
South Africa
South Korea
Spain
Sweden
Switzerland
Thailand
USA

* sales locations only

CFRP
Abbreviation for carbon-fibre reinforced polymer. CFRP is a composite material, consisting of carbon-fibres surrounded by a plastic matrix (resin). On a comparative basis, CFRP is approximately 50 % lighter than steel and 30 % lighter than aluminium.

Common stock
Stock with voting rights (cf. preferred stock).

Connected Drive
Under the term Connected Drive, the BMW Group already unites a unique portfolio of innovative features that enhance comfort, raise infotainment to new levels and significantly boost safety in BMW Group vehicles.

Cost of materials
Comprises all expenditure to purchase raw materials and supplies.

DAX
Abbreviation for "Deutscher Aktienindex", the German Stock Index. The index is based on the weighted market prices of the 30 largest German stock corporations (by stock market capitalisation).

Deferred taxes
Accounting for deferred taxes is a method of allocating tax expense to the appropriate accounting period.

Derivatives
Financial products, whose measurement is derived principally from market price, market price fluctuations and expected market price changes of the underlying instrument (e.g. indices, stocks or bonds).

DJSI World
Abbreviation for "Dow Jones Sustainability Index World". A family of indexes created by Dow Jones and the Swiss investment agency SAM Sustainability Group for companies with strategies based on a sustainability concept. The BMW Group has been one of the leading companies in the DJSI since 1999.

EBIT
Abbreviation for "Earnings Before Interest and Taxes". The profit before income taxes, minority interest and financial result.

EBITDA
Abbreviation for "Earnings Before Interest, Taxes, Depreciation and Amortisation". The profit before income taxes, minority interest, financial result and depreciation/amortisation.

Effectiveness
The degree to which offsetting changes in fair value or cash flows attributable to a hedged risk are achieved by the hedging instrument.

Efficient Dynamics
The aim of Efficient Dynamics is to reduce consumption and emissions whilst simultaneously increasing dynamics and performance. This involves a holistic approach to achieving optimum automobile potential, ranging from efficient engine technologies and lightweight construction to comprehensive energy and heat management inside the vehicle.

Equity ratio
The proportion of equity (= subscribed capital, reserves, accumulated other equity and minority interest) to the balance sheet total.

Free cash flow
Free cash flow corresponds to the cash inflow from operating activities of the Automotive segment less the cash outflow for investing activities of the Automotive segment adjusted for net investment in marketable securities.

Gross margin
Gross profit as a percentage of revenues.

IFRSs
International Financial Reporting Standards, intended to ensure global comparability of financial reporting and consistent presentation of financial statements. The IFRSs are issued by the International Accounting Standards Board and include the International Accounting Standards (IASs), which are still valid.

Indicator for water consumption

The indicators for water consumption refer to the production sites of the BMW Group. The water consumption includes the process water input for the production as well as the general water consumption, e.g. for sanitation facilities.

Operating cash flow

Cash inflow from the operating activities of the Automotive segment.

Preferred stock

Stock which receives a higher dividend than common stock, but without voting rights.

Production network

The BMW Group production network consists worldwide of 17 plants, seven assembly plants and one contract production plant. Within this network, the plants supply one another with systems and components and are all characterised by a high level of productivity, agility and flexibility.

Rating

Standardised evaluation of a company's credit standing which is widely accepted on the global capital markets. Ratings are published by independent rating agencies, e.g. Standard & Poor's or Moody's, based on their analysis of a company.

Return on sales

Pre-tax: Profit before tax as a percentage of revenues.
Post-tax: Profit as a percentage of revenues.

Risk management

An integral component of all business processes. Following enactment of the German Law on Control and Transparency within Businesses (KonTraG), all companies listed on a stock exchange in Germany are required to set up a risk management system. The purpose of this system is to identify risks at an early stage which could have a significant adverse effect on the assets, liabilities, financial position and results of operations, and which could endanger the continued existence of the Company. This applies in particular to transactions involving risk, errors in accounting or financial reporting and violations of legal requirements. The Board of Management is required to set up an appropriate system, to document that system and monitor it regularly with the aid of the internal audit department.

Sales locations

Sales locations include separate legal entities, non-separate entities and regional offices. In addition, 105 markets are serviced by 97 importers.

Subsidiaries

Subsidiaries are those enterprises which, either directly or indirectly, are under the uniform control of the management of BMW AG or in which BMW AG, either directly or indirectly

- holds the majority of the voting rights
- has the right to appoint or remove the majority of the members of the Board of Management or equivalent governing body, and in which BMW AG is at the same time (directly or indirectly) a shareholder
- has control (directly or indirectly) over another enterprise on the basis of a control agreement or a provision in the statutes of that enterprise.

Supplier relationship management

Supplier relationship management (SRM) uses focused procurement strategies to organise networked supplier relationships, optimise processes for supplier qualification and selection, ensure the application of uniform standards throughout the Group and create efficient sourcing and procurement processes along the whole value added chain.

Sustainability

Sustainability, or sustainable development, gives equal consideration to ecological, social and economic development. In 1987 the United Nations "World Commission on Environment and Development" defined sustainable development as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. The economic relevance of corporate sustainability to the BMW Group is evident in three areas: resources, reputation and risk.

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Index of Graphs

This version of the Annual Report is a translation from the German version. Only the original German version is binding.

Financial Calendar

Annual Accounts Press Conference	19 March 2013
Analyst and Investor Conference	20 March 2013
Quarterly Report to 31 March 2013	2 May 2013
Annual General Meeting	14 May 2013
Quarterly Report to 30 June 2013	1 August 2013
Quarterly Report to 30 September 2013	5 November 2013

Annual Report 2013	19 March 2014
Annual Accounts Press Conference	19 March 2014
Analyst and Investor Conference	20 March 2014
Quarterly Report to 31 March 2014	6 May 2014
Annual General Meeting	15 May 2014
Quarterly Report to 30 June 2014	5 August 2014
Quarterly Report to 30 September 2014	4 November 2014

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The BMW Group on the Internet

Further information about the BMW Group is available online at www.bmwgroup.com. Investor Relations information is available directly at www.bmwgroup.com/ir. Information about the various BMW Group brands is available at www.bmw.com, www.mini.com and www.rolls-roycemotorcars.com.

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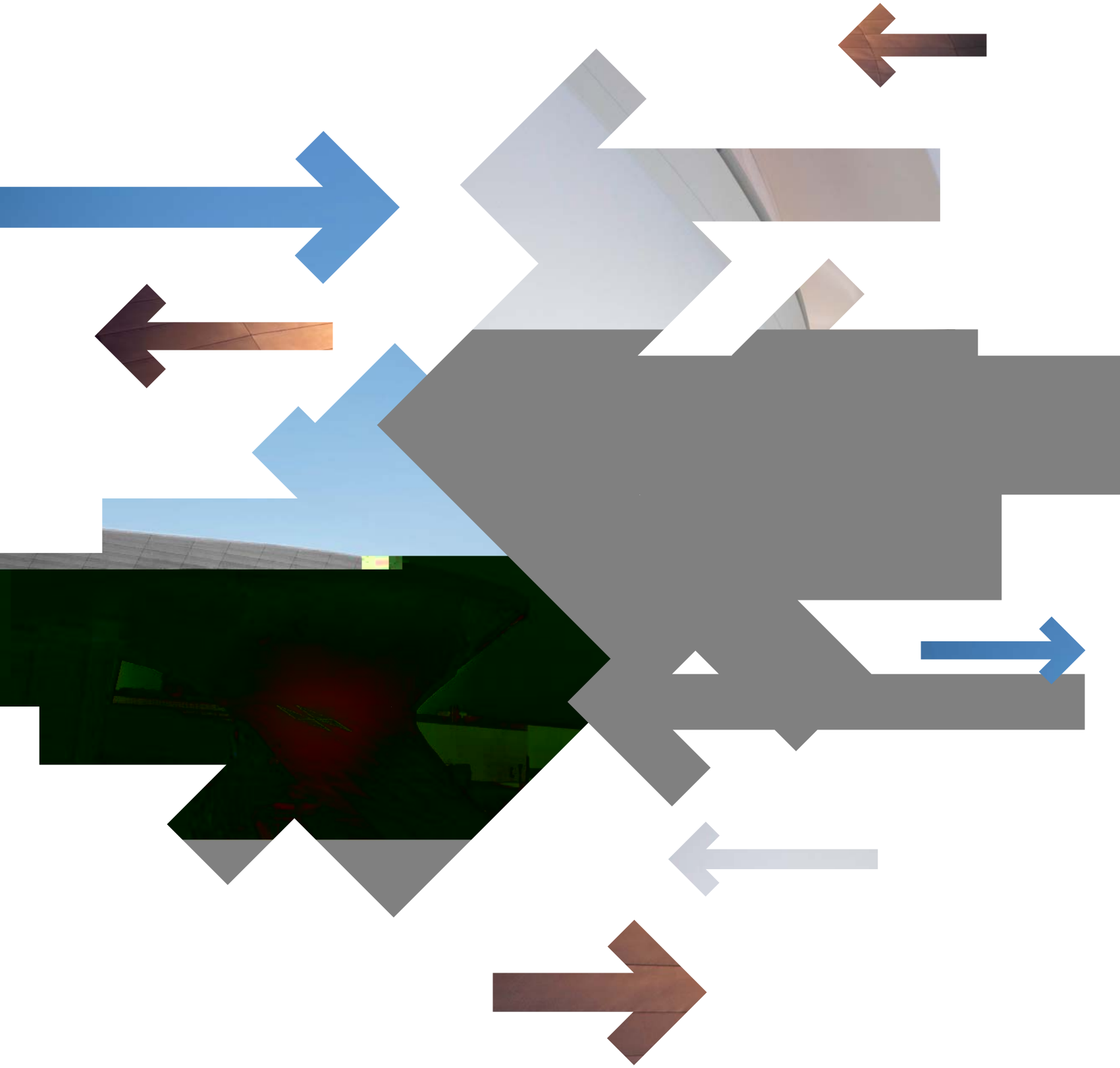

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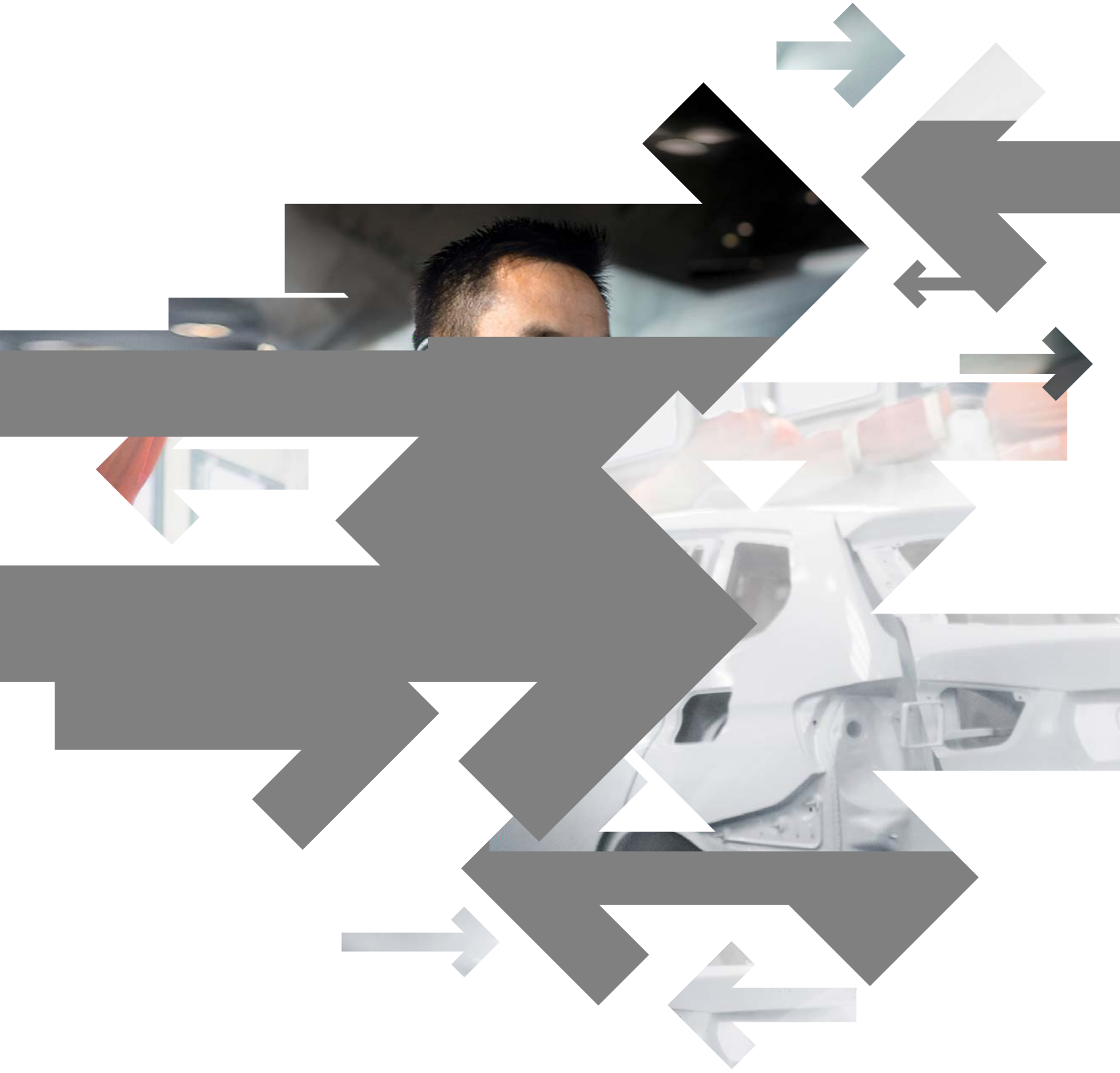
VIEWS

2012 — CONNECTING



BMW GROUP

Rolls-Royce
Motor Cars Limited

The BMW Group's global production network combines groundbreaking new approaches and production concepts to create an increasingly high-performance manufacturing organisation. Flexibility, efficiency and effectiveness are the primary targets. As the world's most sustainable car company, we have reduced resource consumption and emissions in this way by more than a third since 2006.

The mobility of the future will be determined not by premium products and premium services alone, but also by flexible and sustainable production.

Read how Clean Production brings together associates and partners from around the world.

United by premium standards.

Every year, "Views" as part of our Annual Report provides information on selected BMW Group topics. But more than that, our aim is to generate discussion and present our view of matters. Because it is important to us.

For the success of the BMW Group. For the society. For the future of mobility.

TALKING WITH OUR FUTURE.

We connect the ideas of today and tomorrow.

Recognising society's needs and thinking ahead.

> Dr. Norbert Reithofer talks to BMW Group apprentices about the future of individual mobility.

31 January 2013, Double cone at BMW Welt, Munich

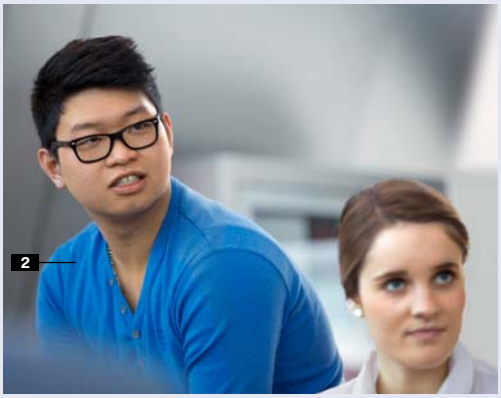
Dr. Norbert Reithofer

Carola Hensel

1

Dr. Norbert Reithofer

We have every reason to be confident about the future. We have great vehicles, a highly flexible production system and will be bringing innovative cars like the BMW i3 onto the market this year. Of course, we have to keep a close eye on developments in Europe and around the globe because of the increasing volatility worldwide. Our Strategy Number ONE will enable us to maintain our



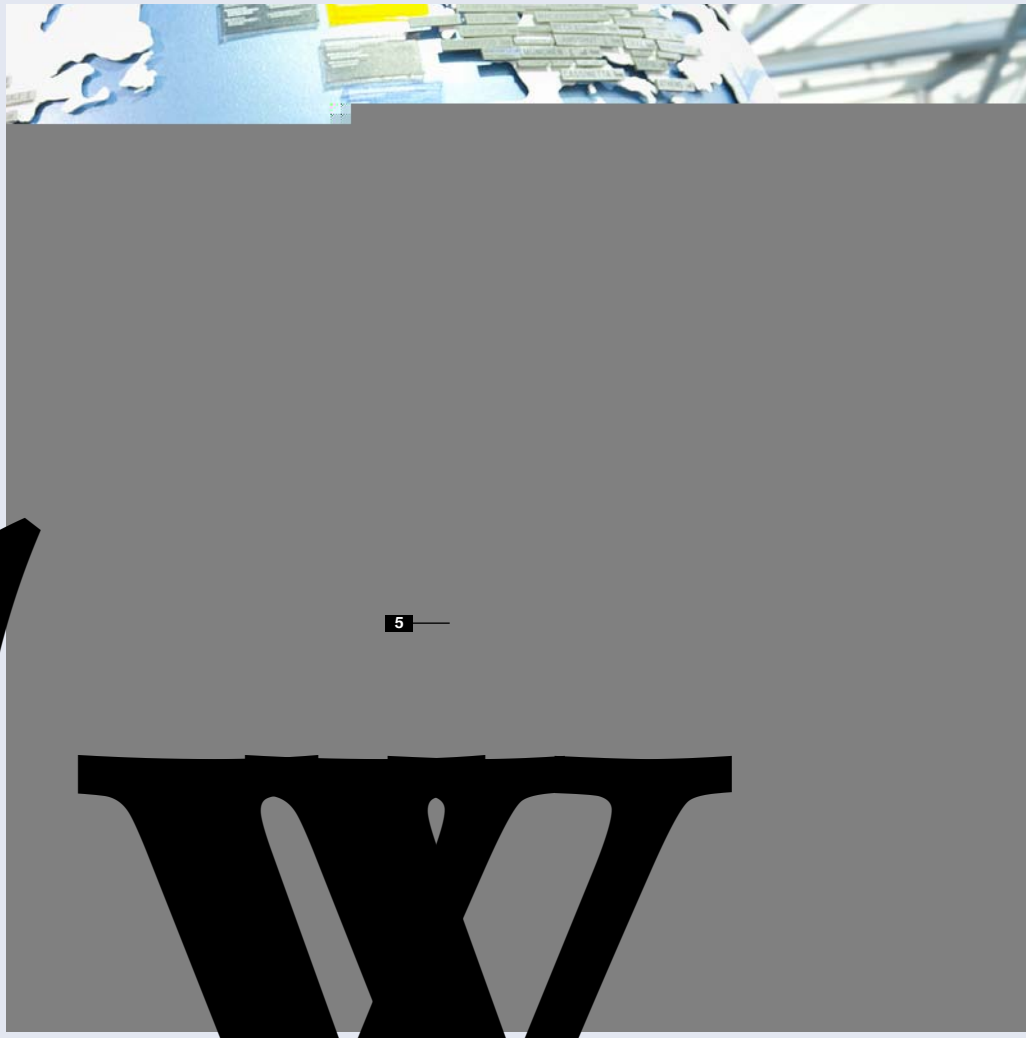
2

success. It is also important to keep costs under control – that is the only way we can steer successfully through crises and invest in the future.

3

"We

Dr. Norbert Reithofer



5

"W

Dr. Norbert Reithofer

6

Simon Huber

Dr. Norbert Reithofer

You have to look far into the future for that. We will be driving mostly combustion engines for many years to come. But those engines will have to be even more efficient in the future. We need new approaches, like the three-cylinder engine, as well as new technologies, such as electromobility. We have already made tremendous progress in reducing CO_2 emissions, but we cannot afford to take it easy. We will only be able to meet ambitious CO legislation in [illegible] efficient [illegible]

Albian Ib[illegible]

Dr. Norbert R[illegible]

I believe that everyone – individuals and companies alike – should contribute to greater sustainability. And that applies to us as an automobile company, in particular. With all our improvements in production, such as the reduction of energy and water consumption at our plants, the BMW i3 and the i8 capture exactly our direction.

Dr. Norbert Reithofer

Dr. Norbert Reithofer

orbert Reithof

r high sustainability standards apply to all our plants, wherever they are built. And we would certainly like to see young people go abroad to help set up the plant or develop the market, and gain wo

That is something

to anyone. I learn

my ti

of exper

and helps

Miriam Wittmann

Dr. Norbert Reithofer

Yes, I am sure we will. But we will have to keep on working hard to stay ahead. Highly motivated people and innovation are the key. That is what makes cars like the i3 and the 6 Series Gran Coupé so important. They are icons with a positive impact on all our vehicles.

Representing all BMW Group apprentices, seven young men and women interviewed Chairman of the Board of Management Dr. Norbert Reithofer about the future of the BMW Group:

[1] Carola Hensel, Munich
[2] Duc Huy Cao, Munich
[3] Miriam Wittmann, Munich
[4] Sebastian Forster, Munich
[5] Simon Huber, Dingolfing
[6] Albian Ibraimi, Munich
[7] Cennet Sahin, Munich

Contents

Key technical data, fuel consumption and CO_2 emission ratings for the presented vehicles referred to in this report can be found on page 85.

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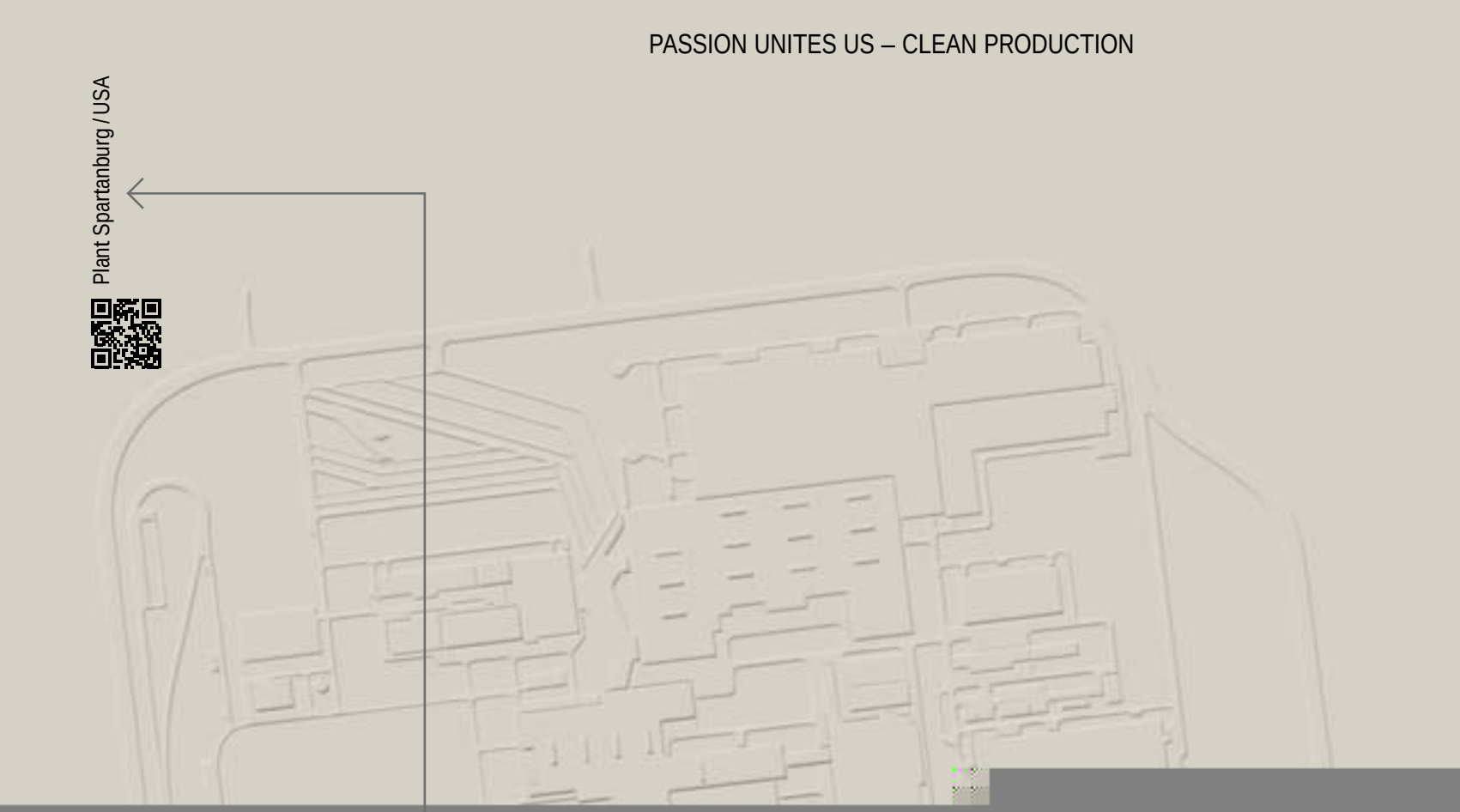
Plant Spartanburg / USA



LEIPZIG

Germany 51° 20' N, 12° 22' E

Evolution and revolution in automobile manufacturing

Plant Tiexi / China

Efficient paint shop

Utilises its own thermal energy

→ Page 16

Energy-optimised body shop

Lowers energy consumption and costs

→ Page 18

Intelligent energy supply

Anticipates energy price fluctuations and production data

→ Page 20

High-performance wind turbines

Generate 100 % renewable energy

→ Page 25

Leipzig plant profile

Construction:	**2005**
Vehicle production (2012):	**164,282**
BMW vehicles:	**BMW X1, 1 Series five-door, 1 Series Coupé, 1 Series Convertible, BMW i3 (from late 2013 onwards)**
Associates:	**over 3,000**
Plant grounds:	**229 ha**
New buildings for BMW i production:	**4 production halls**
Investment in BMW i production:	**€400 million**
Energy savings from current efficiency projects:	**6.4 GWh / year**

Path-breaking production solutions
developed by specialist project teams throughout the BMW Group's worldwide production network

Team Heat Recovery → Page 16

Robert Hache
Paint shop control technology

Sylvia Arlt
Paint shop installation planning

Olaf Merboth
Control of paint shop heating and electrical systems

Jeannine Sagner
BMW i assembly

Efficiency

Analysis

Joy

Pilot projects

Evolution

BMW GROUP PRODUCTION NETWORK

Ambition

Benchmark solutions

Know-how

Synergies

Team Production BMW i → Page 22

Revolution

Intelligent cooperation

Jürgen Laube
BMW i production project manager

Alexandra Pfeifer
BMW i assembly

Hanne Dinkel
Production control and structural planning

Veit Melzer
Building management, Leipzig plant

Mutual learning

Curiosity

Networking

Drive

Team Energy Efficiency → Page 18

Stefan Köhn
Energy and object management

Stefan Thalheim
Body shop control technology

Dr. Rainer Angerhöfer
Energy monitoring and management

Frank Böttger
Energy supply

Dialogue

Leadership

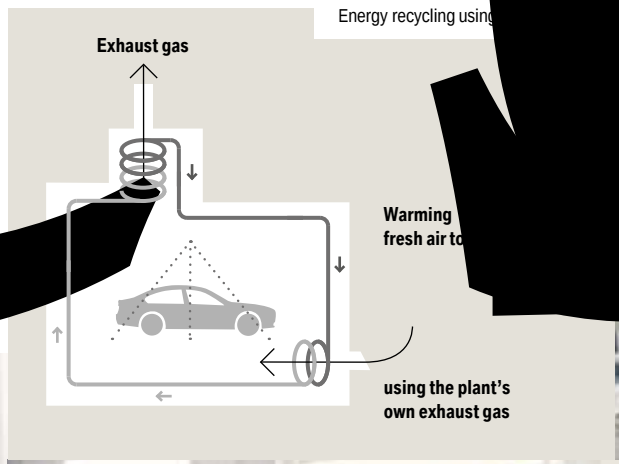
↑

[redacted] of the Leipzig pilot project, [redacted] on similar potential [redacted] duction network.

[redacted] 55 %

Paint shop heat recove[redacted]roject. Sylvia Arlt a[redacted] in rudimentary form a feat th[redacted]as eluded physicists [redacted] per-petual motion. On the roof of the paint shop, the proc[redacted] ed heat exchanger, which collects thermal energy fro[redacted] and [redacted]ck into the paint shop's drying plant as warm fresh air. A[redacted] capture all of the waste heat, it still reduces carbon d[redacted]es a year and lowers the amount of natural gas **previo**[redacted]gh to heat up to 100 households.

Energy recycling using [redacted]



A vehicle paint shop inevitably needs a substantial amount of heat for drying and exhaust air treatment. The Leipzig plant uses a heat exchanger to recover a significant percentage (far left).

ssil ene

Sylvia Arlt (left), installation planner at BMW plant Leipzig

◄◄ **Sylvia Arlt – Process engineer**

— responsible for the paint shop waste heat utilisation project

— has worked for the BMW Group production network since 2010

— "Free, climate-neutral energy from waste heat – for me, that's the most intelligent resource possible."

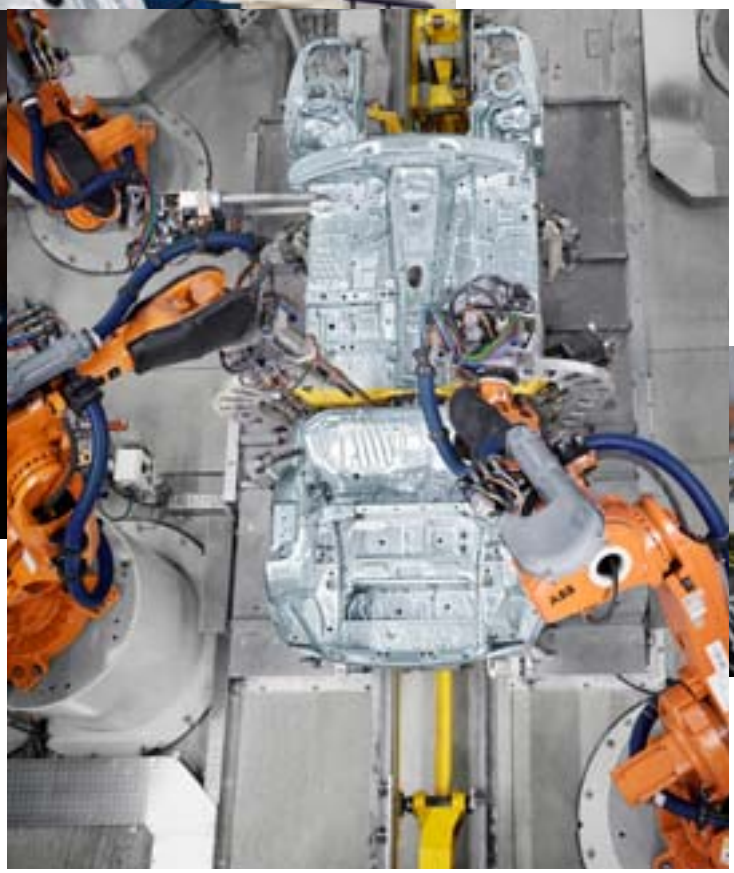
◄ **Robert Hache – Electrical engineer**

— responsible for paint shop control technology

— has worked for the BMW Group production network since 2003

— "Retrofitting a well-running paint shop is no trivial matter. The solution we have developed here will benefit other paint shops in the BMW production network."

— responsible for body shop control technology
— has worked for the BMW Group production network since 2005
— "It's hard to uncover energy reserves in an efficient plant, of course. But we still manage to find some."



Every stage in the body construction process was evaluated in detail by energy analysts – including welding robots (right), which assemble the car bodies in a fully automated process.

Intelligent robot control also lowers energy costs at the Tiexi plant. Page 54

Body shop energy efficiency project. Over a period of three years, the Leipzig plant's energy experts worked side-by-side with scientists, industrial partners and energy management consultants on the energy efficiency controlling project. They analysed the motion sequence of welding robots, simulated the flow configuration of the ventilation system and measured waste heat from compressors at the energy headquarters. The pilot project found that energy requirements could be reduced by almost a quarter in the body shop alone – with investments that would **pay for themselves within a year and a half**.

A plant only operates at full capacity in certain phases. In partial load operation, the new, more efficient heat pumps (right) are fully adequate.

Energy supply efficiency controlling project. In the final analysis, a vehicle plant is little more than a highly active organism that works and breathes, with some periods of rest and other periods where it operates at full tilt. The trick is to adjust its energy supply accordingly. Intelligent control systems developed at the Leipzig plant ensure that weather and production data, electricity prices and many other factors are evaluated to manage production and energy supply. This not only saves **five million kilowatt hours** of electricity **per year**, but also enables the power required to be used more efficiently and purchased more cheaply.

Similar energy efficiency projects are also in progress at the Munich Research and Innovation Centre (FIZ) and the BMW Group's Steyr plant.


BMW AG
Bau und Energie
Werk 07.10 Leipzig
Energiezentrale 90.0
Energet. Optimierung
Schaltschema Wärmeerzeugung
Kessel und KWK-Anlage

[redacted]

Jürg[redacted]roduction project manager

1

2

1 The entire production concept for the BMW i Series is designed for sustainability.

2 The four wind turbines reach almost 200 metres into the sky to harness power for the plant.

3 Structural planner Hanne Dinkel and production project manager Jürgen Laube with a model of a wind turbine.

Renewable energy for BMW i. When the first electric BMW i3 rolls off the assembly line at the Leipzig plant later this year, it will mark the beginning of a new era of automobile manufacturing: production of the BMW i3 and the BMW i8 is designed to be just as sustainable as the vehicles themselves. Thanks to totally new materials, technologies and manufacturing processes, production uses 70 per cent less water and 50 per cent less energy. The remaining electricity is generated by four 2.5 MW wind turbines located **directly on our plant grounds**.

4

↑

The carbon fibre used as a raw material for passenger cells is also produced using only renewable energy.

6

5

4 Before the start of series production, the team examines the first production prototype from Leipzig.

5 Formula for the future of electromobility: BMW i3.

6 At least as stable as steel and aluminium, but even lighter: a car roof made of high-performance carbon fibre.

8

7

7 Checking the details before production ramp-up.

8 Sustainable from the start: the first BMW i3 models.

Freedom for ideas. From the manufacture of carbon fibres using renewable hydrogen to highly efficient assembly at the Leipzig plant, we have taken a completely new approach to the entire BMW i Series production chain. Four new production halls were designed to meet the high standards required for American LEED certification. With its resource-efficient architecture and highly efficient production processes, the Leipzig plant sets new standards for automobile production. As a result, the pure electric BMW i3 and the BMW i8 hybrid sports car are already paragons of sustainability – **even before they drive their first mile**.

The start of production of the BMW i Series at the Leipzig plant marks a new chapter in automotive history: combining a totally new vehicle concept with revolutionary progress in clean production technology and sustainability to bring us closer to our goal of emission-free automobile production.

United by a shared vision.

Recycling Center (Zero Waste Center)

Gives waste a second life

→ Page 40

Hydrogen store

Supplies virtually emission-free fuel

→ Page 36

Spartanburg plant profile

Construction:	**1994**
Vehicle production (2012):	**301,519**
BMW vehicles:	**X3, X5, X6, X5 M, X6 M**
Associates:	**around 5,000**
Sustainable energy from landfill gases:	**around 50 %**
Reduction in CO_2 emissions:	**92,000 tons/year**

Energy headquarters

Burns environmentally friendly landfill gas – instead of natural gas

→ Page 32

Resource-efficient production using environmentally friendly energy sources and knowledge transfer with local institutions.

Partnership unites us.

BMW plant Spartanburg has not only grown dynamically, but also developed an extensive network. Through projects with local partners, we are able to continually reduce the plant's dependence on fossil fuels and enhance our flexibility and efficiency, as well as our sustainability balance sheet. The plant's capacity expansion to around 350,000 vehicles per year goes hand in hand with higher productivity and lower emissions per vehicle.

Scan the QR code to go directly to the online Annual Report for tablets.
http://annual-report2012.bmwgroup.com/spartanburg/

The State House in the heart of Columbia is home to the government of South Carolina.

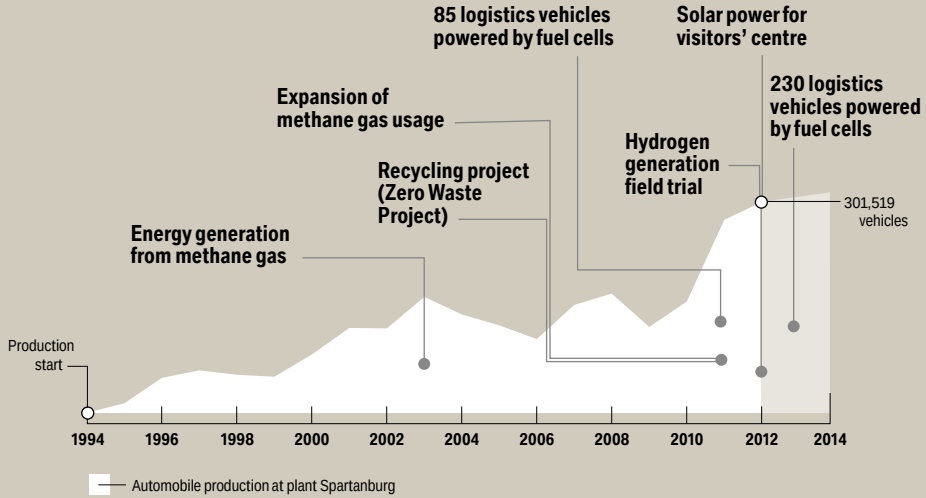
PARTNERSHIP UNITES US: BMW PLANT SPARTANBURG AND LOCAL PARTNERS IN SOUTH CAROLINA, USA

With a large number of research institutes, highly qualified skilled workers and active citizens, South Carolina is the ideal location for the BMW Group's US plant. In consultation with them, we continue to evolve and refine our plant.

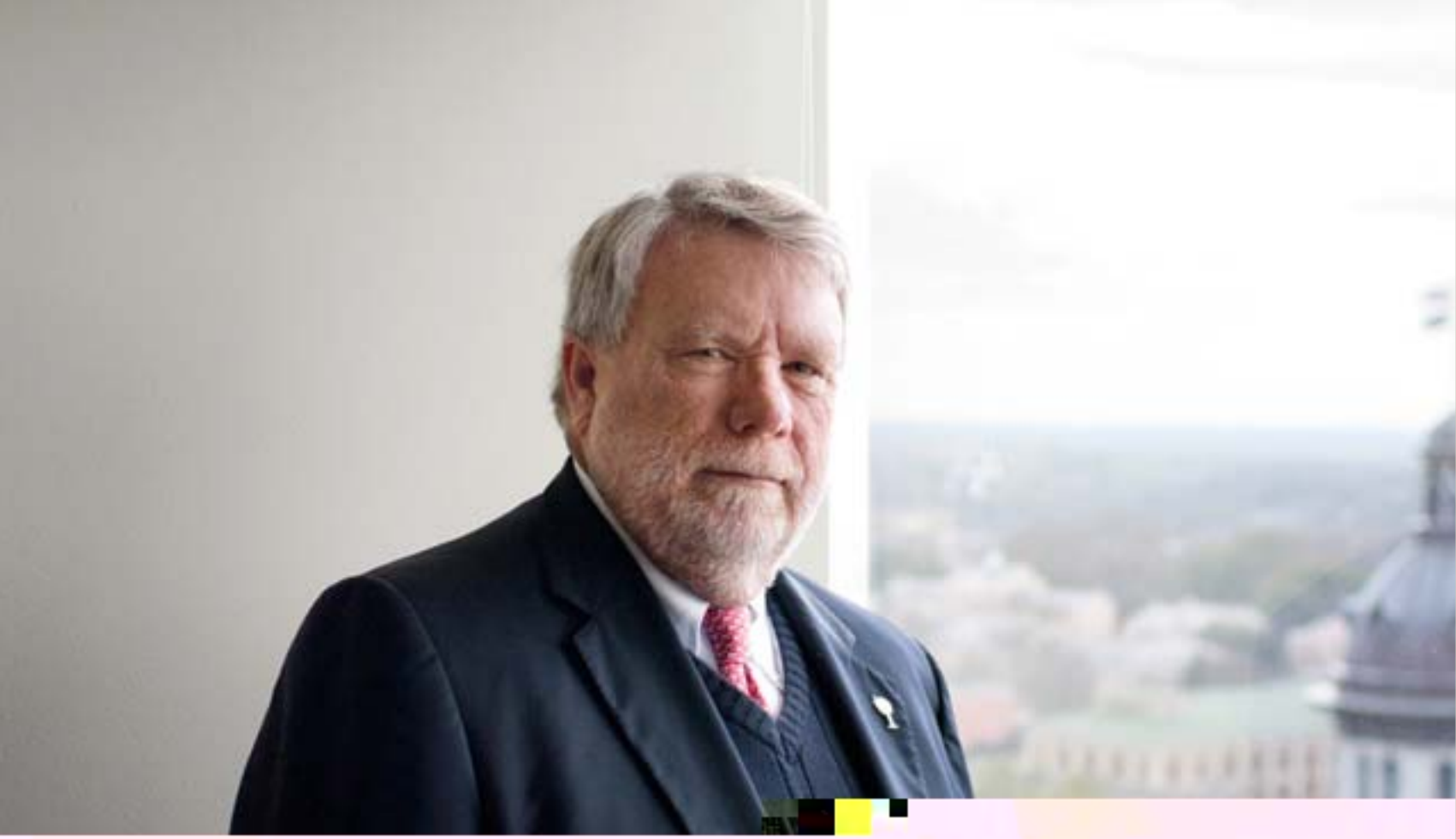
Three of the many local partners discuss their reasons and goals for collaboration:

CLEAN PRODUCTION MILESTONES AT BMW PLANT SPARTANBURG

The BMW Group was the first German premium automobile manufacturer to launch its own production operations in the US back in 1994. Since then, the number of pioneering Clean Production projects has continued to increase in line with our production figures.



The Spartanburg plant has plenty of room for ideas and sustainable innovations.



METHANE GAS SUPPL
SUSTAINABLE EN

t M. Hitt
olina Secretary of Commer

Our answer

THA SUPPLIES RGY

hil

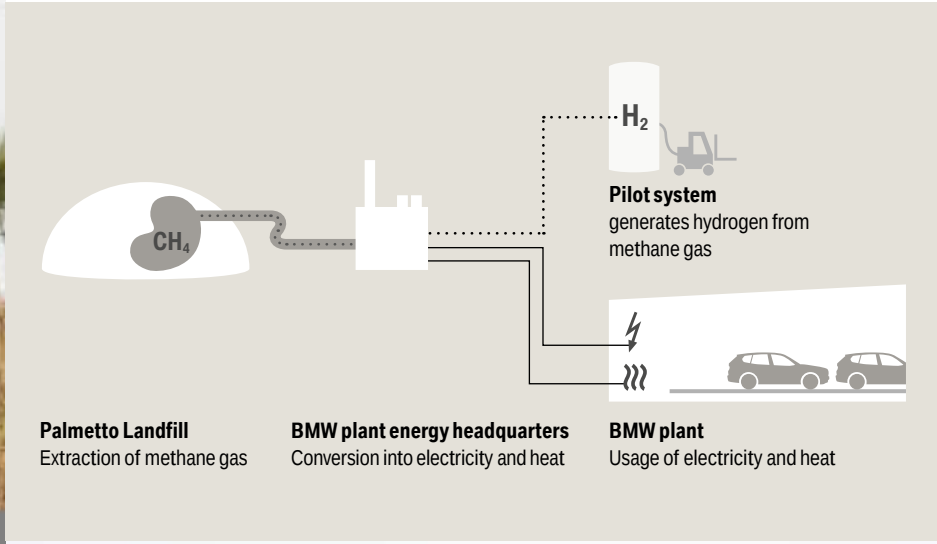
Energy manag

fi

Our challenge

METHANE GAS SUPPLIES SUSTAINABLE ENERGY

The plant obtains around half of its energy from waste landfill gases.



Microorganisms produce methane gas from old waste at the Palmetto Landfill. Wellheads extract the gas, which is then pumped to the Spartanburg plant through a 15-kilometre pipeline.

Beth Phillips and her co-workers at the energy headquarters convert the greenhouse gas into renewable electricity and heat. This spares the environment about 92,000 tons of greenhouse gas emissions annually – and saves the BMW Group almost seven million US dollars a year in energy costs.


SCRA

THE [illegible] FOR SUSTA[illegible] LOGISTICS

Russ[illegible]
Vice P[illegible] South C[illegible]

Our answer →

Our challenge


Cleve

HYDROGEN FOR SUSTAINABLE LOGISTICS

Forklift trucks and trailers powered by environment-friendly hydrogen.

The use of hydrogen in fuel cells generates only steam and heat.

Hydrogen provides the fuel for 85 fuel-cell vehicles, which not only operate emission-free, but are also much faster to refuel. Over the course of this year, the plant fleet will expand to 230 vehicles. At the same time, Cleve Beaufort and his co-workers are exploring how to obtain renewable hydrogen from methane gas at the Palmetto Landfill – a groundbreaking experiment that the US Department of Energy has classified as the most important of its kind.

2013

2011

plant vehicles powered by hydrogen-fed fuel cells

Hydrogen station

EASING THE B
LANDFILLS
CAROLINA

Shelley Ro
of the environmen

fi

Our answer

EASING THE BURDEN ON LANDFILLS AND THE S CAROLINA UNM

Production planne ta

Our challenge

EASING THE BURDEN ON LANDFILLS AND THE SOUTH CAROLINA ENVIRONMENT

The Zero Waste Project gives waste a second life.

tons of paper waste per month

tons of plastic waste per month

Where others see waste, Veronica Taylor and her co-worker, Wes Westbrooks, see valuable resources. They spent months analysing the amount of waste generated by the plant, training co-workers and finding suitable customers for everything left over from production, administration and even the canteen.

Finally, in August 2012, the last truck with reusable waste headed to the landfill. Since then, all waste has been collected, sorted and reused. With its zero waste policy, the Spartanburg plant is recognised as a pioneer nationwide.

Our plants also collaborate with one another, as well as local partners, on new approaches for resource-efficient vehicle production. In this way, Clean Production innovations become worldwide standards – and solutions become the new point of reference. Using this approach, we aim to lower resource consumption and emissions per vehicle produced by an ambitious 45 per cent from 2006 levels by 2020.

United by common standards.

Plant Leipzig / Germany

Plant Spartanburg / USA

TIEXI

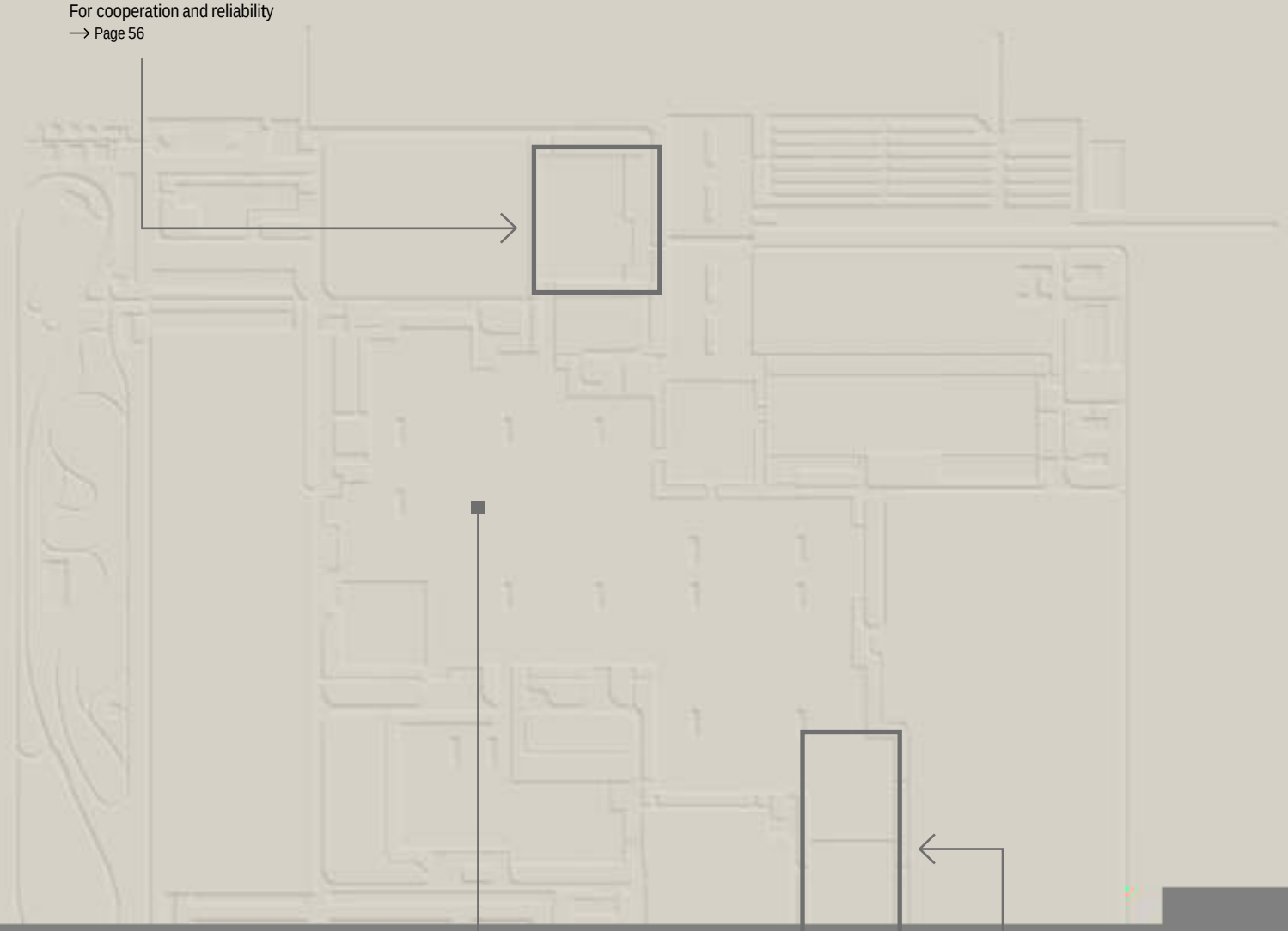
CHINA 41° 48' N, 123° 21' E

A leader in efficiency and sustainability

Regional suppliers

For cooperation and reliability

→ Page 56



Integrated production

For flexibility and climate protection

→ Page 54

High-speed servo press

For speed and efficiency

→ Page 50

Tiexi plant profile

Construction:	**2011 / 2012**
Vehicles per year (2013):	**100,000**
Vehicles per year (2015):	**200,000**
Associates:	**around 4,000**
Plant grounds:	**2.07 square kilometres**
Plant building:	**220,000 square metres**

Smart plant architecture. Highly efficient pressing machines. Local suppliers. The cleanest paint shop in the world – and almost five dozen other sustainability measures: the newest plant in the BMW Group production network sets a new global benchmark.

Know-how unites us.

The highest standards of sustainability in a highly dynamic market:
With the opening of its Tiexi plant in northern China, the BMW Group and its partner, Brilliance China Automotive, have built one of the most sustainable vehicle production sites in China and one of the best examples of environmentally conscious manufacturing worldwide. Here, in the world's largest automobile market, the company demonstrates how to deliver maximum productivity with unbeatably low environmental impact.

Scan the QR code to go directly to the online Annual Report for tablets.
http://annual-report2012.bmwgroup.com/tiexi/

g, en

The work day begins at what is currently China's most sustainable car pl

Rush hour in Shenyang,
a city which has rapidly grown to
eight million inhabitants.

↑

The Tiexi plant uses proven Clean Production technologies from many other BMW Group plants.

Two of around 4,000 experts: Sean Dempsey and Fiona Zhang

Fiona Zhang is amazed how quickly her country is catching up in the field of environmental protection. "What takes much longer, though, is changing people's mindset," explains the environmental expert. Nevertheless, she hopes to speed up progress here, too, through compulsory environmental training for all associates.

Sean Dempsey worked as an industrial engineer at the BMW plant in Rosslyn, South Africa, for 14 years. Almost two years ago, the environmental expert moved with his family from Rosslyn to Shenyang to assist with construction of the Tiexi plant. While his children are enjoying their very first experience of snow, Dempsey himself is relishing the unique challenge of "helping design and build a completely new production site."

The high-speed servo press is undeniably worthy of its name: while the press line itself works at record-breaking speed, a new equipment architecture also enables tools to be changed within minutes. In this way, body panels for totally different BMW models can be produced within a very short time.

– 67 %

production time at the press line

Six generators in the basement recapture some of the energy released by pressing processes. Overall, the new pressing machine cuts energy consumption by more than half.

– 60 %

energy consumption per work step

One of the fastest, most efficient press shops today.

Low-emission dry separation is used at the Leipzig plant, among others.

Every body part is re-examined at the end of the pressing process.

HIGH-SPEED SERVO PRESS

erts in the pressing

empsey on the high-speed servo press installed at the Tiexi plant

Resource-efficient production
through consistent best-practice implementation

LOGISTICS

100 % reusable packaging
for locally manufactured goods.

Container warehouses
on plant grounds and a rail link between port and plant reduce truck transportation.

Location of high-volume suppliers
on plant grounds reduces transportation distances.

PAINT SHOP

Dry separation
uses a stone dust-coated filter to eliminate paint mist and save water.

RoDip dip-painting
rotates the car body on its own axis in an immersion tank to apply corrosion protection.

Integrated Paint Process
using wet-on-wet cycles allows car bodies to be painted without applying primer.

BUILDING PLANNING

Highly efficient electric motors
supply the building with economical and efficient energy.

Integrated production
houses assembly, body shop and logistics under one roof. The building's limited exterior surface area helps optimise temperature regulation.

District heating plants and thermal insulation
contribute to low-resource energy usage and efficient temperature regulation.

BODY SHOP

Optimised robot control
reduces energy consumption by switching on and off as demand requires.

Cooled welding guns
save energy through warm water exchange between building and technology.

Employees and vehicles under one

In Tiexi, for the first time, assembly, body shop and logistics are all located in one production hall. Highly efficient heating and cooling technologies ensure resc efficient temperature c

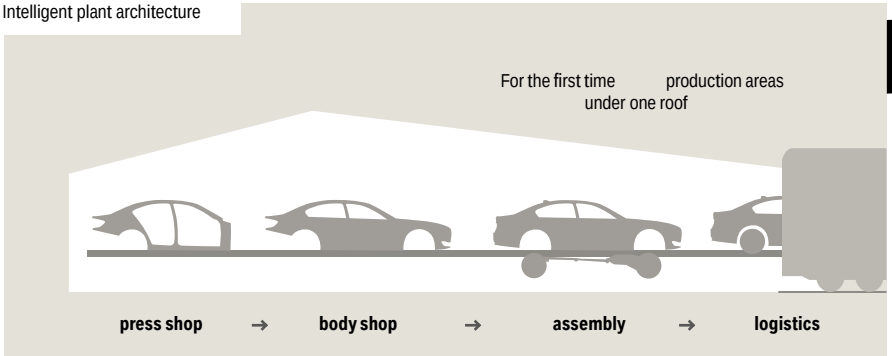
– 32 % CO_2 emi

through sustainable archi

355 latest- ion pr duction ro eld togeth body par e Tiexi plar Their w at will be use future t the plant. Th alre ert to an especi en ficient standby r a as they are no lon – lowering their pow umption by one quar

25 % electrical pov

Intelligent plant architecture



Sean Dempsey

INTEGRATED PRODUCTION

The Tiexi plant is already a model for others.

A network of local suppliers ensures that the Tiexi plant is supplied with parts in a reliable, fast and resource-efficient manner. Partners from the region were also involved in developing and building the production facilities. In a first for China, four suppliers with 500 associates currently operate directly on site at the plant.

For the first time in the BMW Group production network, only reusable packaging is used for local cargo handling. This means 100 per cent protection for products and material, and zero per cent waste.

100 % reusable packaging

for locally manufactured goods

Efficient logistics

Key suppliers are also located on-site at other BMW Group plants.

Material carriers deliver supplier parts directly to the assembly line just in time.

REGIONAL SUPPLIERS

an Du's company builds car seat

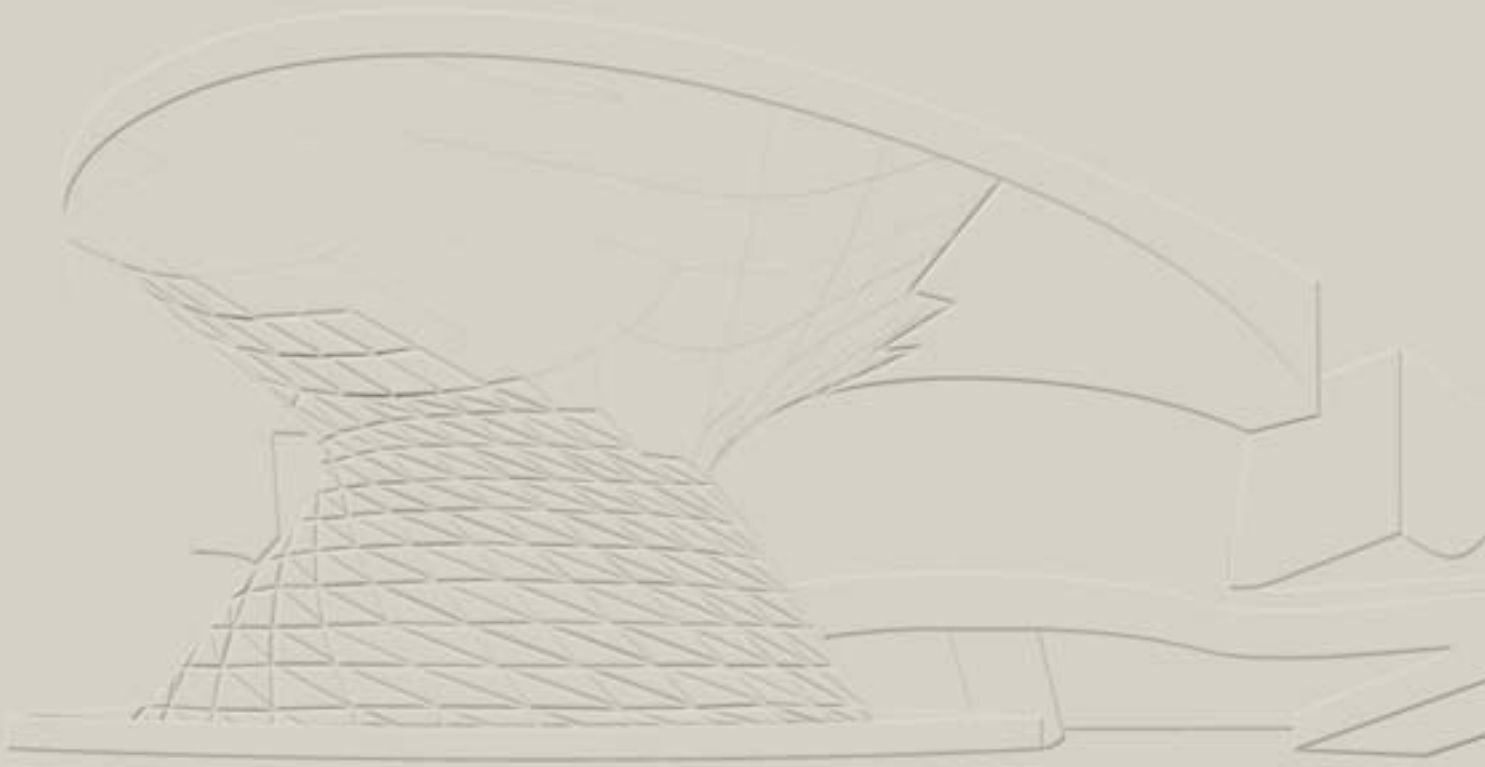
Fiona Zhang

Incorporating a large number of pioneering concepts from all over the world, the Tiexi plant is currently considered best practice. For us, however, it is just one more step on the road towards increasingly resource-friendly production of our vehicles. The BMW Group's global production network constantly generates new ideas for this. For one another and with one another.

United by common goals.

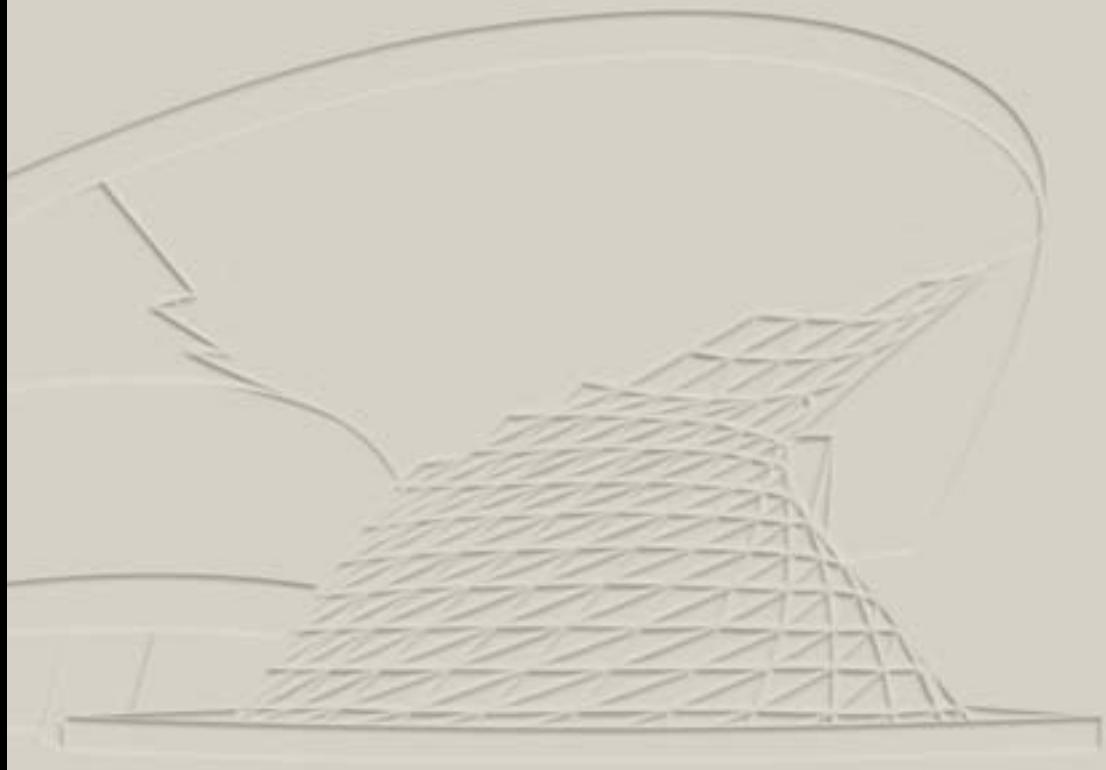
JOY BRINGS PEOPLE TOGETHER

Creating moments of sheer pleasure for our customers



# of sheer pleasure 2012

models presented to their new owners



to go directly to the online Annual Report for tablets.

Final preparations for the big moment – ten stages before presentation of a BMW 640d Gran Coupé

> 9 October 2012, BMW plant in Dingolfing

— 02

— 01

The new BMW 640d Gran Coupé receives a final polish. **Johannes Schütz [01]** smiles at his reflection in the gleaming paintwork. **Muhammet Asik [02]** checks that everything is exactly as it should be. He is proud of his role in bringing the vehicle to life.

Only a few more hours at the plant – Finishing touches at BMW Welt

> 9 October 2012, BMW plant in Dingolfing | 19 November 2012, BMW Welt vehicle storage facility

03 —

— 05

— 04

06 —

— 07

— 08

The car is only allowed to leave the plant once **Renate Hauer [03/04]** has performed an expert check of its technology. The final detail is complete when **Daileen Böhme [05]** mounts the BMW logo on the Gran Coupé. From that moment on, everything is ready for the customer.

The excitement grows as the new car arrives at BMW Welt. **Sascha Zahreddin [06/07]** is the man in charge of the finer details. Every inch of the car is carefully scrutinised one last time – until not a speck of dust remains. **[08]** The new BMW 640d Gran Coupé is now ready for its entrance and its ultimate premiere at BMW Welt.

— 10

09 —

Klaus Schulten [09] will get to see his new car for the first time in just a few moments. He took his time carefully choosing equipment options as well as the colour. Full of anticipation, he tries to catch a glimpse of his new car. **[10]** And then, there it is.

Moments of sheer pleasure for our customers – the fascination of the first encounter

> 20 November 2012, BMW Welt vehicle delivery

Attributes that [illegible] right away…

dynamic

[illegible]y

BMW [illegible] th, 20 N[illegible] 012

BMW 640d Gran Coupé

A design that perfectly combines sportiness with comfort, inside and out. For those who like to express their individuality.

› Resource-efficient production

- The BMW 640d Gran Coupé is produced at the BMW plant in Dingolfing.
- Almost 70 % of new vehicles leaving the Dingolfing plant are shipped by emission-friendly rail. As a result, over 100 fewer trucks are needed per day.

Scan the QR code to go directly to the BMW 640d Gran Coupé website.

What I am most looking

MINI Cooper Roadster

Powerful, aerodynamic and impressively agile. For those who like to combine adventure with comfort. With its spacious design, the new MINI Roadster is the perfect choice.

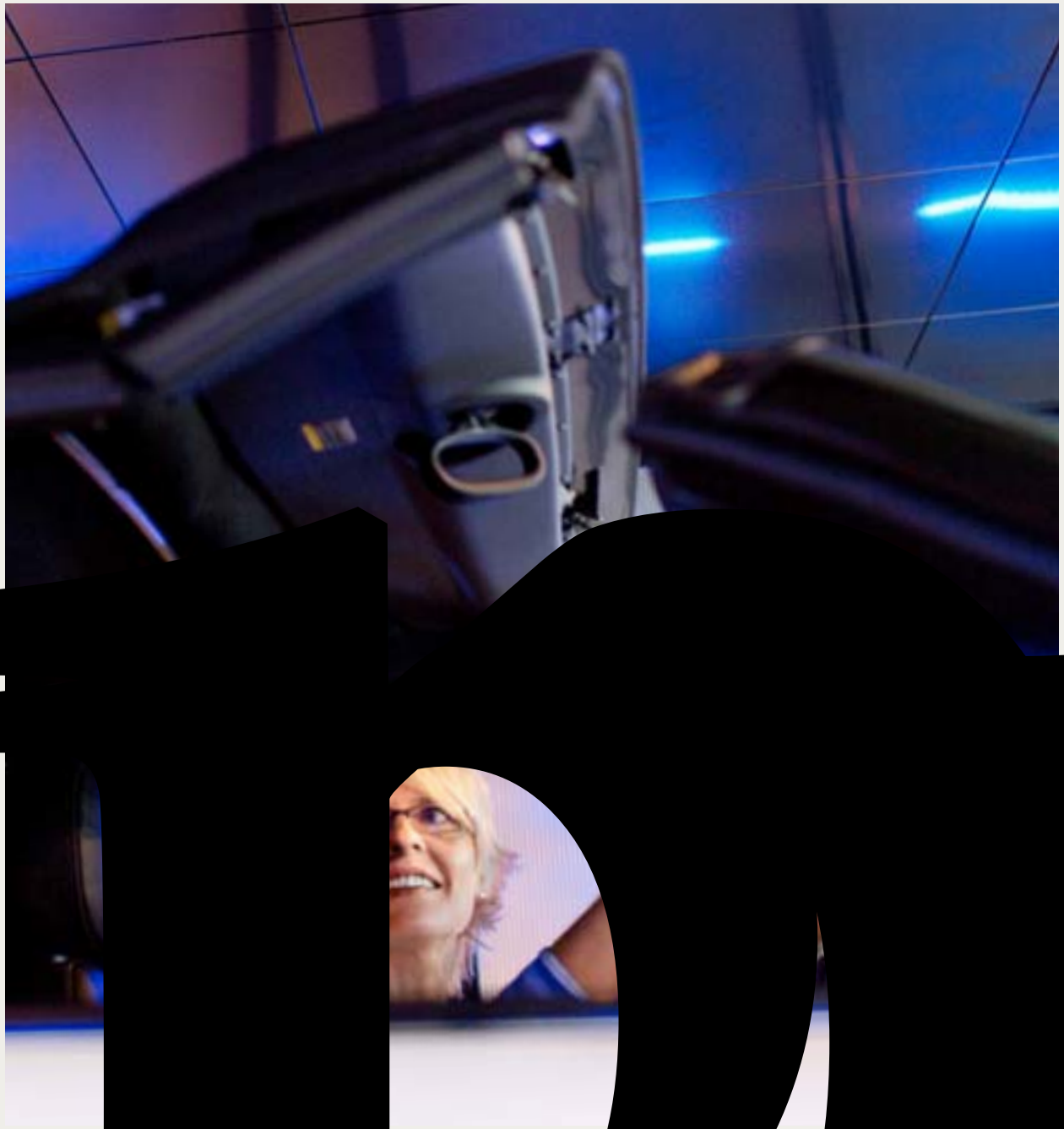
› Resource-efficient production

- The MINI Cooper Roadster is produced at the MINI plant in Oxford.
- Thanks to a new painting technology, the paint shop uses 8,000 MWh less energy and generates 1,600 tons less CO_2.

What I am most looking

fi

M ich, 6 December 2012



Scan the QR code to go directly to the MINI Cooper Roadster website.

ssed me right

g

Attributes that impressed me right away…

— powerful

— innovative

Attributes that impressed me right away…

— flexible

— convenient

November 2012

BMW X1 xDrive28i

The perfect car for anyone who likes to add their own personal touch and appreciates functional versatility.

› Resource-efficient production

- The BMW X1 xDrive28i is produced at the BMW plant in Leipzig.
- Heat recovery in the paint shop: reclaimed waste heat is reused at other stages of the production process. This lowers gas consumption and demand for electrical power by 32 %.

Scan the QR code to go directly to the BMW ActiveHybrid 5 website.

BMW [illegible] November 2012

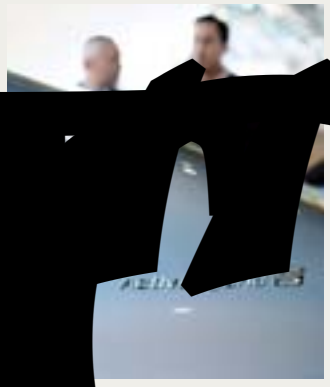
Attributes that impressed me right away . . .

—

—

—uncompromising

—environmentally friendly



am most looking fo… o…

BMW ActiveHybrid 5

With its highly intelligent drive concept, this hybrid is the right choice for anyone looking for an environmentally friendly car with the ideal dimensions of a sedan, but unwilling to compromise on dynamic performance.

› Resource-efficient production

— The BMW ActiveHybrid 5 is produced at the BMW plant in Dingolfing.

— The paint shop reconditions up to 40,000 litres of water per hour, which it then feeds back into the production processes.

Scan the QR code to go directly to the BMW C 650 GT website.

BMW C 650 GT

For sprints and long distances: the new Maxi-Scooter conveys an amazing feeling of freedom and independence. It is extremely economical and features many practical details, such as LED daytime running lights for added safety.

› Resource-efficient production

- The BMW C 650 GT is produced at the BMW plant in Berlin.
- Electrostatic coating of plastic parts significantly reduces emissions.

"I feel

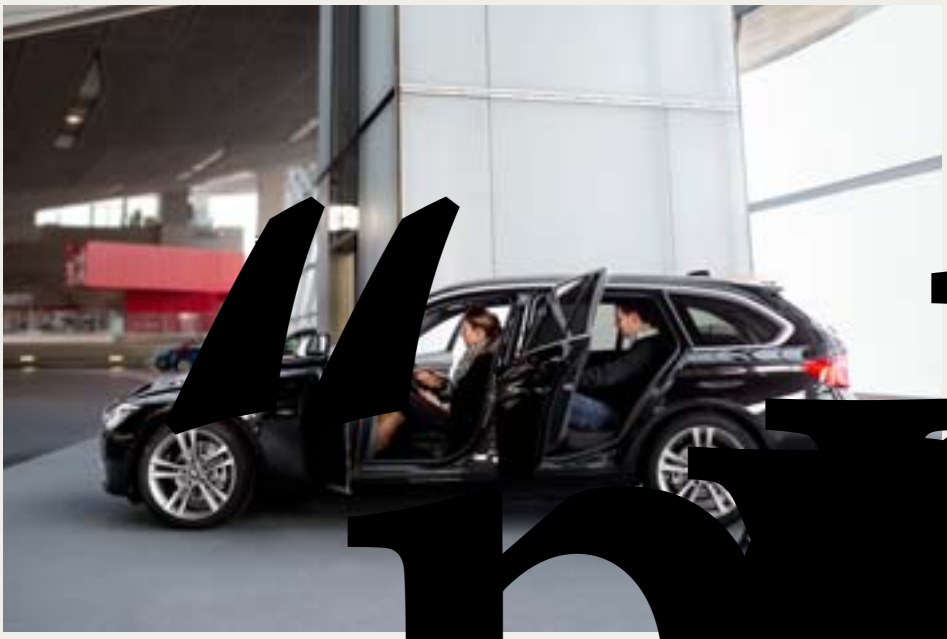
What I am mo ting

Attributes that impressed me righ

— comfortable

— outdo

Karl r Motorrad, Neufinsing near Munich, 5 December 2012



[redacted]

What we are mo[redacted]king forwar[redacted]

BMW 318d Touring

Consistently smart design for maximum flexibility. The authentic feel of the new BMW 318d Touring is also part of its appeal.

› Resource-efficient production

- The BMW 318d Touring is produced at the BMW plant in Munich.
- 99.8 % of the waste generated at the BMW plant in Munich is recycled.

Scan the QR code to go directly to the BMW 318d Touring website.

BM nich, 1

d us righ

harmonious — dependable

— smooth

ffi

Scan the QR code to go directly to the MINI John Cooper Works website.

d

ecem

Attributes that impressed me

— unusual

— clever

— likeable

What I am most looking forwa

Rolls-Royce Phantom Series II

A combination of the latest technology and engineering expertise with timeless, contemporary design: for all those who seek to redefine luxury.

› Resource-efficient production

- The Rolls-Royce Phantom Series II is produced at the Rolls-Royce plant in Goodwood.
- The Goodwood plant pursues a rigorous recycling and waste prevention policy. Parts are delivered in recyclable packaging to avoid waste.

Scan the QR code to go directly to the Rolls-Royce Phantom Series II website.

logne, 4 Fe

Attributes that impressed me right away…

— top-quality workmanship

— refined

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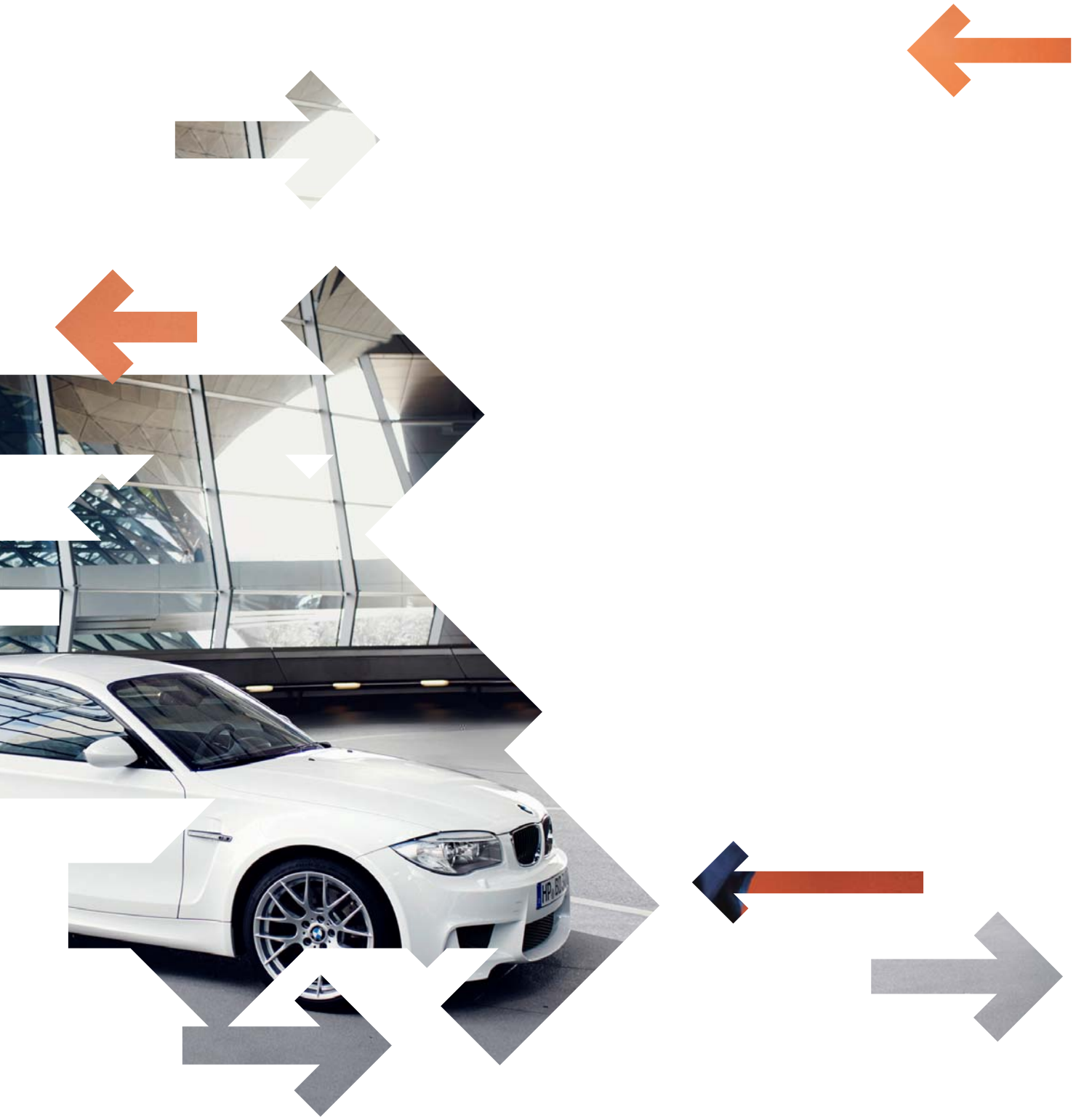

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